

## The Chefs' Warehouse

CHEF : NASDAQ : US\$19.28

**BUY****Target: US\$24.00**

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### COMPANY STATISTICS:

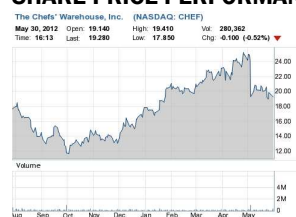
Shares Out diluted: 20.8  
 Market Cap (M): US\$401.8  
 52-week Range: 11.32 - 23.75  
 Avg. Daily Vol. (000s): 91.5  
 EV/EBITDA: 11.6

### EARNINGS SUMMARY:

FYE Dec	2010A	2011A	2012E	2013E
P/Sales:	1.2	1.0	0.9	0.8
P/E:	35.0	24.8	21.3	18.3

<b>Revenue (M):</b>	Q1	70.0	83.2	98.1A	-
	Q2	83.6	99.3	115.2	-
	Q3	84.9	101.7	116.2	-
	Q4	91.6	116.5	131.7	-
	Total	330.1	400.6	461.1	514.3
<b>EPS:</b>	Q1	0.07	0.12	0.13A	-
	Q2	0.15	0.20	0.24	-
	Q3	0.17	0.19	0.23	-
	Q4	0.17	0.26	0.31	-
	Total	0.55	0.78	0.91	1.05

### SHARE PRICE PERFORMANCE:



### COMPANY DESCRIPTION:

The Chefs' Warehouse was founded in 1985 and is a premier distributor of specialty food products with a focus on serving the specific needs of chefs who own and/or operate some of the nation's leading menu-driven independent restaurants, fine dining establishments, country clubs, hotels, caterers, culinary schools and specialty food stores in the United States.

All amounts in US\$ unless otherwise noted.

### Consumer & Retail -- Health, Wellness and Lifestyle

## EXPERIENCE ADDED TO THE CFO POSITION; MAINTAIN BUY AND \$24 TARGET

### Investment recommendation

We expect that CHEF will deliver an EPS CAGR approaching 20% over the next few years, and believe the company has considerable geographic growth and consolidation opportunities to enhance strong organic growth within its existing markets.

### Investment highlights

- CHEF announces appointment of John Austin as CFO. Notably, Mr. Austin was previously CFO of Performance Food Group, which was acquired by Blackstone in 2008.
- Mr. Austin had joined the Board prior to the IPO to lend his public company CFO experience to CHEF, and that experience will now be more fully utilized in the CFO slot. Mr. Austin has been replaced on the Board by Dominick Cerbone.
- We view the change as a natural maturation of the company as Mr. Austin has experience as a CFO of a larger former public food service distribution company with considerable M&A experience as well.

### Valuation

No change to our \$24 price target. The shares look attractive relative to its appropriate peers at 18x next year's EPS estimate and about 10x next year's EBITDA forecast.

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**VALUATION**

Valuation is appropriate, in our view. Shares trade at 18x our 2013 EPS forecast and 10x our forecasted EBITDA. While the valuation represents a significant premium to the traditional food distribution peer group multiples generally in the low teens on forward earnings and 7 to 8x EBITDA, the valuation is at a discount to its best and only real comparable peer from a standpoint of growth, United Natural Foods (UNFI : NASDAQ : \$50.81 | BUY). We view UNFI as the best comparison for CHEF given it also enjoys a naturally growing market, superior margins relative to most distributors (yet at 18% UNFI's gross margins are inferior to CHEF at 26%) and is the leader in its segment as is CHEF. We continue to argue that CHEF should trade at a premium to its distribution peers (as UNFI does) given its vastly superior margins, growth outlook and higher returns on invested capital.

We maintain our price target of \$24.00, reflecting 11x our 2013 EBITDA forecast and 22x our 2013 EPS estimate and the premium valuations of the specialty food peer group.

31 May 2012

**Figure 1: Historical and projected operating results**

Fiscal Year End - December

(in millions, except per-share data)

<i>Income Statement</i>	2011				2011	2012E				2012E	2013E
	Q1	Q2	Q3	Q4	FY	Q1A	Q2	Q3	Q4	FY	FY
<b>Revenue</b>	<b>83.2</b>	<b>99.3</b>	<b>101.7</b>	<b>116.5</b>	<b>400.6</b>	<b>98.1</b>	<b>115.2</b>	<b>116.2</b>	<b>131.7</b>	<b>461.1</b>	<b>514.3</b>
COGS	(61.1)	(73.0)	(75.1)	(85.5)	(294.7)	(72.0)	(84.6)	(85.3)	(96.6)	(338.5)	(377.6)
Gross Profit	22.0	26.3	26.6	31.0	105.9	26.0	30.6	30.9	35.0	122.6	136.8
Operating Expenses	(17.0)	(18.6)	(21.3)	(21.3)	(78.1)	(21.0)	(21.6)	(22.2)	(23.8)	(88.5)	(97.7)
Operating Income	5.1	7.7	5.3	9.7	27.8	5.1	9.0	8.8	11.3	34.1	39.1
<b>EBITDA</b>	<b>5.6</b>	<b>8.0</b>	<b>5.8</b>	<b>10.1</b>	<b>33.3</b>	<b>5.7</b>	<b>9.6</b>	<b>9.3</b>	<b>11.8</b>	<b>44.1</b>	<b>49.0</b>
Net Interest	(3.5)	(3.3)	(7.2)	(0.5)	(14.6)	(0.5)	(1.7)	(0.6)	(0.6)	(3.4)	(2.0)
Other expenses	0.1	0.0	0.0	(0.0)	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Pretax Income	1.7	4.4	(1.9)	9.2	13.3	4.5	7.3	8.2	10.7	30.7	37.1
Income Tax	(0.7)	(1.7)	0.7	(4.0)	(5.6)	(1.9)	(3.0)	(3.3)	(4.4)	(12.6)	(15.2)
Net Income	1.0	2.7	(1.2)	5.2	7.7	2.6	4.3	4.8	6.3	18.1	21.9
Average Shares	16.0	16.0	18.7	20.8	17.9	20.9	20.9	21.0	21.1	21.0	21.2
EPS	\$0.06	\$0.17	(\$0.06)	\$0.25	\$0.43	\$0.13	\$0.21	\$0.23	\$0.30	\$0.86	\$1.03
<b>Pro forma adjustments</b>											
GAAP Pretax income	1.7	4.4	(1.9)	9.2	13.3	4.5	7.3	8.2	10.7	30.7	37.1
SG&A	(0.8)	(0.7)	1.7	0.2	0.5	0.0	0.2	0.2	0.2	0.6	0.7
D&A	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest	3.0	2.9	6.7	0.0	12.7	0.0	1.0	0.0	0.0	1.0	0.0
<b>Adjusted EBITDA</b>	<b>4.8</b>	<b>7.3</b>	<b>7.5</b>	<b>10.3</b>	<b>29.9</b>	<b>5.7</b>	<b>9.8</b>	<b>9.5</b>	<b>12.0</b>	<b>44.7</b>	<b>49.7</b>
Adjusted pre-tax	4.2	6.9	6.6	9.4	27.0	4.5	8.5	8.3	10.9	32.3	37.7
Taxes	(1.6)	(2.7)	(2.6)	(3.9)	(10.8)	(1.9)	(3.5)	(3.4)	(4.5)	(13.3)	(15.5)
Adjusted net income	2.6	4.2	4.0	5.5	16.2	2.6	5.0	4.9	6.4	19.0	22.3
<b>Pro Forma EPS</b>	<b>\$0.12</b>	<b>\$0.20</b>	<b>\$0.19</b>	<b>\$0.26</b>	<b>\$0.78</b>	<b>\$0.13</b>	<b>\$0.24</b>	<b>\$0.23</b>	<b>\$0.31</b>	<b>\$0.91</b>	<b>\$1.05</b>
Shares outstanding	20.8	20.8	20.8	20.8	20.8	20.9	20.9	21.0	21.1	21.0	21.2
<b>Margin Analysis</b>											
<b>Gross Margin</b>	<b>26.5 %</b>	<b>26.5 %</b>	<b>26.2 %</b>	<b>26.6 %</b>	<b>26.4 %</b>	<b>26.6 %</b>	<b>26.6 %</b>	<b>26.6 %</b>	<b>26.6 %</b>	<b>26.6 %</b>	<b>26.6 %</b>
Warehousing and distribution	10.3 %	9.2 %	10.4 %	10.0 %	10.0 %	11.4 %	8.9 %	9.8 %	9.5 %	9.9 %	9.7 %
SG&A	9.3 %	9.1 %	10.1 %	7.9 %	9.0 %	9.3 %	8.8 %	8.2 %	7.7 %	8.4 %	8.3 %
Adjusted operating margin	5.2 %	7.1 %	6.9 %	8.5 %	7.1 %	5.2 %	8.0 %	7.7 %	8.7 %	7.5 %	7.7 %
<b>Adjusted EBITDA margin</b>	<b>5.8 %</b>	<b>7.4 %</b>	<b>7.4 %</b>	<b>8.8 %</b>	<b>7.5 %</b>	<b>5.8 %</b>	<b>8.5 %</b>	<b>8.2 %</b>	<b>9.1 %</b>	<b>9.7 %</b>	<b>9.7 %</b>
Pretax margin	2.0 %	4.4 %	-1.9 %	7.9 %	3.3 %	4.6 %	6.4 %	7.0 %	8.1 %	6.7 %	7.2 %
Adjusted net margin	3.1 %	4.2 %	3.9 %	4.7 %	4.1 %	2.7 %	4.4 %	4.2 %	4.9 %	4.1 %	4.3 %
Tax Rate	39.0%	39.0%	39.0%	41.5%	39.9%	41.6%	41.0%	41.0%	41.0%	41.1%	41.0%
<b>Growth (vs Year Ago)</b>											
Revenue	19 %	19 %	20 %	27 %	21 %	18 %	16 %	14 %	13 %	15 %	12 %
Operating	67 %	37 %	-15 %	50 %	29 %	0 %	17 %	64 %	16 %	23 %	15 %
Pro forma Pre-Tax Income	89 %	38 %	16 %	62 %	45 %	7 %	24 %	27 %	17 %	20 %	21 %
Pro forma Net Income	89 %	38 %	16 %	56 %	43 %	2 %	20 %	23 %	18 %	17 %	21 %
Pro forma EPS	87 %	36 %	15 %	55 %	42 %	2 %	19 %	22 %	16 %	16 %	16 %
<b>Ratio Analysis</b>											
Net debt	95.7	100.9	43.8	45.5	45.5	32.9	32.7	27.1	25.9	25.9	2.1
DSOs	39.6	37.1	37.6	38.4	38.4	39.9	37.1	37.6	38.4	38.4	38.4
Days Inventory	25.7	24.1	23.4	22.1	25.7	25.7	24.1	23.4	22.1	25.3	25.1
Inventory Turns	3.5	3.8	3.9	4.1	14.2	3.5	3.8	3.9	4.1	14.4	14.5
ROIC	25.2%	33.1%	20.6%	32.3%	23.8%	19.0%	31.2%	29.7%	34.7%	26.2%	27.9%
Return on Equity	nmf	nmf	nmf	nmf	nmf	74.7 %	38.1 %	35.0 %	38.3 %	37.4 %	24.6 %
Operating ROA	24.9%	32.2%	22.0%	37.0%	29.7%	19.3%	32.7%	31.0%	37.1%	30.2%	30.4%
Debt/Total Capital	85.8%	86.5%	70.8%	68.5%	71.7%	65.9%	64.1%	62.0%	59.8%	59.9%	34.8%
<b>Cash Flow Analysis</b>											
Operating cash flow	3.1	5.3	(1.9)	1.3	7.7	13.8	4.3	3.4	2.7	24.1	28.2
Free cash flow	2.7	4.8	(2.6)	0.6	5.6	13.1	3.6	2.7	2.0	21.5	25.6
EBITDA	5.6	8.0	7.7	12.0	33.3	7.6	11.5	11.2	13.8	44.1	49.0

Source: Company reports and Canaccord Genuity forecasts

**Investment risks**

Key risks that may impede the achievement of our forecasts and/or price target include the following:

**A rise in commodity prices:** While normally beneficial for food distributors, excessive commodity costs, which have been volatile over the last several years, could alter consumption behavior and lower consumer demand. Major products sold that have had their inputs fluctuate greatly are dairy, wheat, flour, and cooking oils. Additionally, rises in fuel costs could negatively impact CHEF's operations.

**Economic sensitivity:** Given CHEF's focus on higher end food service establishments, the company is exposures to potential sales volatility as consumer confidence and spending fluctuation. Recent concerns surrounding incremental economic weakness have impacted the performance of the shares.

**Competitive activity:** Despite its favorable positioning in specialty foods, competition in the food distribution industry is fierce and CHEF competes with larger food companies with greater resources. Market leaders include Sysco, U.S. Foodservices, Inc and United Natural Foods.

**Market concentration:** CHEF operations are concentrated in six markets, leaving the Company susceptible to economic downturns. As of the end of 2010, 66% of CHEF's total sales originated from the New York market.

**Acquisition and integration risk:** CHEF has made several acquisitions over its history and it remains a key growth initiative. The specialty foods distribution industry is highly fragmented and the Company has indicated plans for future acquisitions. Future acquisitions could strain management resources; result in sales disruptions or loss of key personnel and the company may not achieve expected cost reductions or distribution gains.

**Product recalls and/or food safety concerns:** CHEF products are ingested and any concern about food safety or quality can impair consumer confidence in the brands sold through CHEF. The risk of adverse health impacts is always present.

**Industry regulation:** CHEF's line of business is highly regulated at the federal, state and local levels, and its specialty food products and distribution operations require various licenses, permits and approvals. Suppliers are also subject to similar regulatory requirements and oversight. In addition, as a distributor of specialty food products, CHEF is subject to increasing governmental scrutiny of and public awareness regarding food safety and the sale, packaging and marketing of natural and organic products

**Weather:** Adverse weather conditions can significantly impact CHEF's ability to profitably and efficiently conduct its operations and, in severe cases, could result

in its trucks being unable to make deliveries or cause the temporary closure or the destruction of one or more of its distribution centers.

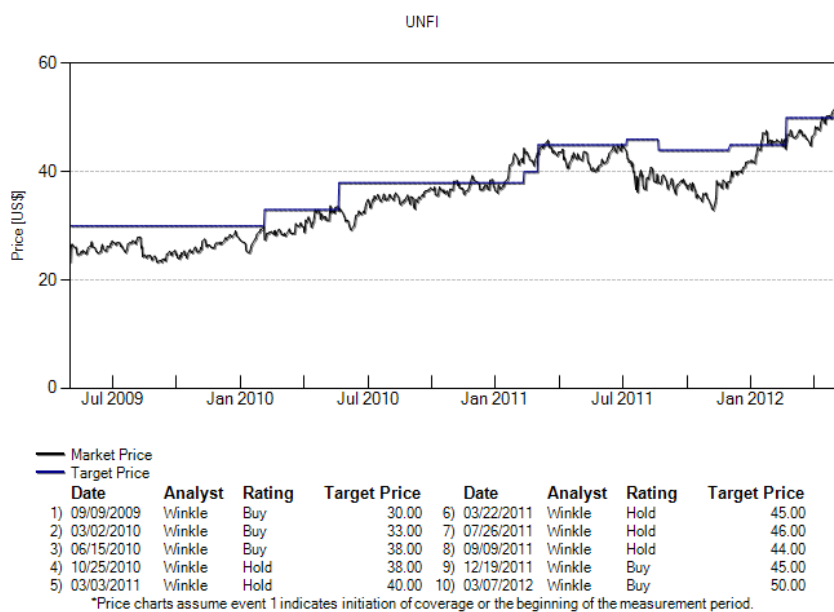
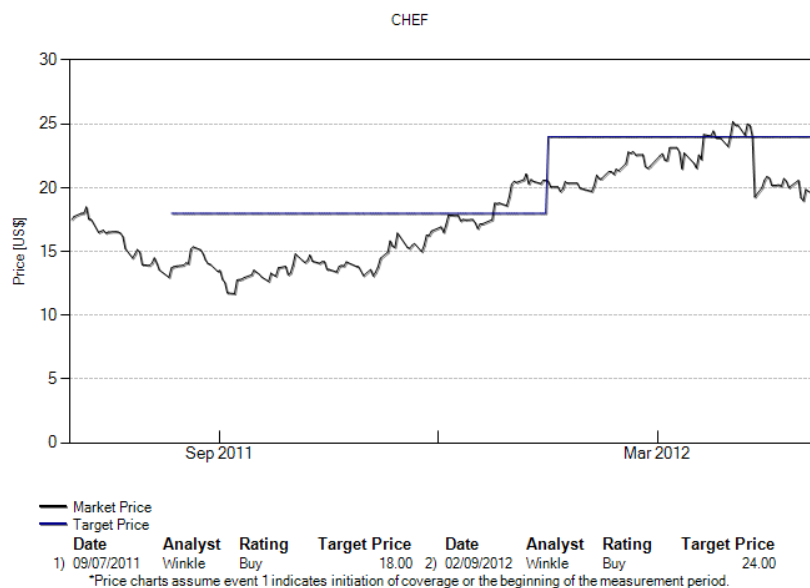
In addition, we strongly urge investors to review the complete set of risk factors that can be found in The Chefs' Warehouse's most recent regulatory filing.

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**Price Chart:\***

**Distribution of Ratings:**Global Stock Ratings  
(as of 2 April 2012)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	503	59.3%	31	31.0%
Speculative Buy	91	10.7%	74	73.6%
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Sell	22	2.6%	2	9.1%
	848	100%		

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Company	Disclosure
The Chefs' Warehouse	1A, 2, 3, 5, 7
United Natural Foods	5, 7

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