

March 7, 2012

# Chefs' Warehouse

(CHEF-NASDAQ)

Food Retail

**Stock Rating:** Outperform  
**Industry Rating:** Market Perform

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## Conservative Guidance Excludes Additional Acquisitions

### Event

Last night, Chefs' Warehouse reported 4Q11 EPS of \$0.26 and total sales of \$116.5 million versus our EPS of \$0.26 and sales of \$117.1 million. The company also provided FY2012 guidance of: EPS (excluding duplicate rent, but factoring in a higher-than-expected tax rate) of \$0.91-\$0.96 (we are at \$0.96), and revenues of \$450-\$460 million – in line with our \$453 million estimate. Guidance does not reflect additional acquisitions and, as a result, is conservative, in our view. We therefore maintain our **OUTPERFORM** rating because we see upside to revenues and EPS and we continue to believe the company is well positioned to continue gaining share.

### Impact

Neutral.

### Forecasts

We introduce our 1Q12 EPS at \$0.14 and slightly lower our FY2012 estimate to \$0.96 from \$0.99. Consensus EPS for FY2012 is \$0.97.

### Valuation

CHEF is trading at a FY2012 EV/EBITDA of 12.5x and a P/E of 22.2x.

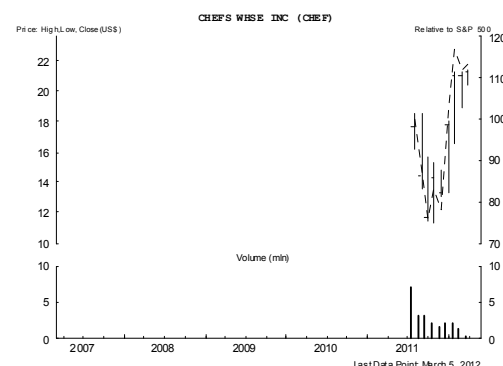
### Recommendation

We maintain our **OUTPERFORM** rating.

### Securities Info

<b>Price (6-Mar)</b>	<b>\$21.28</b>	<b>Target Price</b>	<b>\$16</b>
52-Wk High/Low	\$21/\$11	Dividend	—
Mkt Cap (mm)	\$443	Yield	—
Shs O/S (mm, BASIC)	20.8	Float O/S (mm)	10.0
Options O/S (mm)	45.3	ADVol (30-day, 000s)	74

### Price Performance



### Valuation/Financial Data

(FY-Dec.)	2010A	2011A	2012E	2013E
EPS Pro Forma	\$0.76	\$0.77	\$0.96↓	\$1.13↓
P/E			22.2x	18.8x
First Call Cons.		\$0.77	\$0.97	\$1.13
EPS GAAP	\$0.76	\$0.77	\$0.96	\$1.13
FCF	na	na	na	na
P/FCF			na	na
EBITDA (\$mm)	\$24	\$30	\$37	\$43
EV/EBITDA			12.9x	11.2x
Rev. (\$mm)	\$330	\$400	\$453	\$494
EV/Rev			1.1x	1.0x
<b>Quarterly EPS</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
2011A	\$0.13	\$0.20	\$0.19	\$0.26
2012E	\$0.14	\$0.26	\$0.25	\$0.31
<b>Quarterly EBITDA</b>	<b>1Q</b>	<b>2Q</b>	<b>3Q</b>	<b>4Q</b>
2011A	\$4.7	\$7.6	\$7.5	\$10.2
2012E	\$5.8	\$9.9	\$9.6	\$11.9
<b>Balance Sheet Data (23-Sep)</b>				
Net Debt (\$mm)	\$35		Total Debt/EBITDA	1.2x
Total Debt (\$mm)	\$45		EBITDA/IntExp	na
Net Debt/Cap.	54.9%		Price/Book	24.1x

Notes: All values in US\$.

Source: BMO Capital Markets estimates, Bloomberg, FactSet, Global Insight, Reuters, and Thomson Financial.

### Changes

**Annual EPS**  
 2012E \$0.99 to \$0.96  
 2013E \$1.16 to \$1.13

### Quarterly EPS

Q1/12E na to \$0.14  
 Q2/12E na to \$0.26  
 Q3/12E na to \$0.25  
 Q4/12E na to \$0.31

## Key Points

### Exhibit 1. CHEF Current Valuation

Chefs' Warehouse Current Valuation		
	2012E	2013E
Net Income	\$20.00	\$23.51
EPS	\$0.96	\$1.13
EBITDA	\$37	\$43
EBITDAR	\$46	\$52
Net Forward Debt	\$21	\$0
# Shares	21	21
Current Stock Price	\$21.28	\$21.28
Market Cap	\$443	\$443
EV	\$464	\$443
P/E	22.2x	18.9x
EV/EBITDA	12.5x	10.3x
EPS Growth	23.9%	17.6%

Source: Company reports, BMO Capital Markets estimates.

**We introduce our 1Q12 estimate at EPS of \$0.14 and EBITDA of \$5.8 million.** Our estimate assumes total sales increase 19.0% to \$98.7 million – driven by 9% organic sales growth, and we assume gross margins expand 50bp to 26.3%. We forecast operating expenses (excluding D&A) grow 20.8% to \$20.2 million, or a 30bp increase as a percentage of sales to 20.4% – leading to a 31bp improvement in operating margins to 5.3%, or \$5.2 million. This gets us to EBITDA of \$5.8 million, a 20bp expansion in margin to 5.9%. We assume interest expense of \$0.2 million, a 41.0% tax rate and 20.8 million shares outstanding, which gets us to EPS of \$0.14 – a 12.2% increase from 1Q11.

**In FY2012, our estimate for EPS decreases to \$0.96 from \$0.99. Consensus EPS is \$0.97. Our EBITDA estimate is \$37.1 million.** Our estimate assumes total sales increase 13.2% to \$453.2 million (vs. consensus of \$441.7 million), with gross margins improving 49bp to 26.8%. We forecast operating expenses (excluding D&A) grow 11.9% to \$84.3 million, a 21bp year over year improvement in margin – leading to a 65bp improvement in operating margins to 7.7%, or \$34.7 million. This gets us to EBITDA of \$37.1 million, a 70bp improvement in margin to 8.2%. We assume interest expense of \$0.8 million, a 41.0% tax rate and 20.8 million shares outstanding, which gets us to EPS of \$0.96.

**In 4Q11, CHEF reported an EPS of \$0.25, or \$0.26 when using a tax rate of 41.0%. Adjusted EPS was in line with our \$0.26 estimate and slightly higher than consensus of \$0.25.** Total sales increased 27.2% to \$116.5 million. Gross margins improved 64bp to 26.6%. Operating expenses (excluding D&A) grew 25.5% to \$20.8 million. Operating margins expanded 124bp to 8.3%, or \$9.7 million, while EBITDA margins expanded 88bp to 8.8%, or \$10.2 million. Interest expense came in at \$0.5 million. Using a 41% tax rate and 20.8 million shares outstanding gets us to EPS of \$0.26.

### Additional Takeaways

- In 4Q11, the organic growth rate optically appeared to have slowed sequentially – but we believe the deceleration was primarily a function of an ongoing shift in the composition of the top line. Specifically, the acquisition component of the 4Q top-line accelerated to reflect share gains within the Harry Wils acquisition as well as the more recent Provvista Specialty Foods acquisition. Organic case volume trends remain robust.
- Acquisitions and organic growth are expected to account for ~8% and ~9% of top-line growth respectively, while inflation is expected to remain flat.
- Operating expense margins should remain in the 19% range excluding duplicate rent.
- Product cost inflation was in the ~4.3% range in 4Q11, but after factoring in the mix shift (due to much stronger sales in dairy – a deflationary category in 4Q11) it was only 1.1%.
- FY2012 guidance reflects flat inflation.
- FY2012 guidance reflects \$4.40-\$4.50 fuel costs and the higher year-over-year fuel prices negatively impact EPS by \$0.02.
- If fuel costs were to climb to the \$5 range – EPS would be affected by an additional \$0.02.
- Engineered labor standards will be implemented at all facilities by 1Q12 with the exception of the new Miami facility. The company intends to implement engineered labor standards at Miami after 1Q12, with a Portland implementation scheduled shortly thereafter.

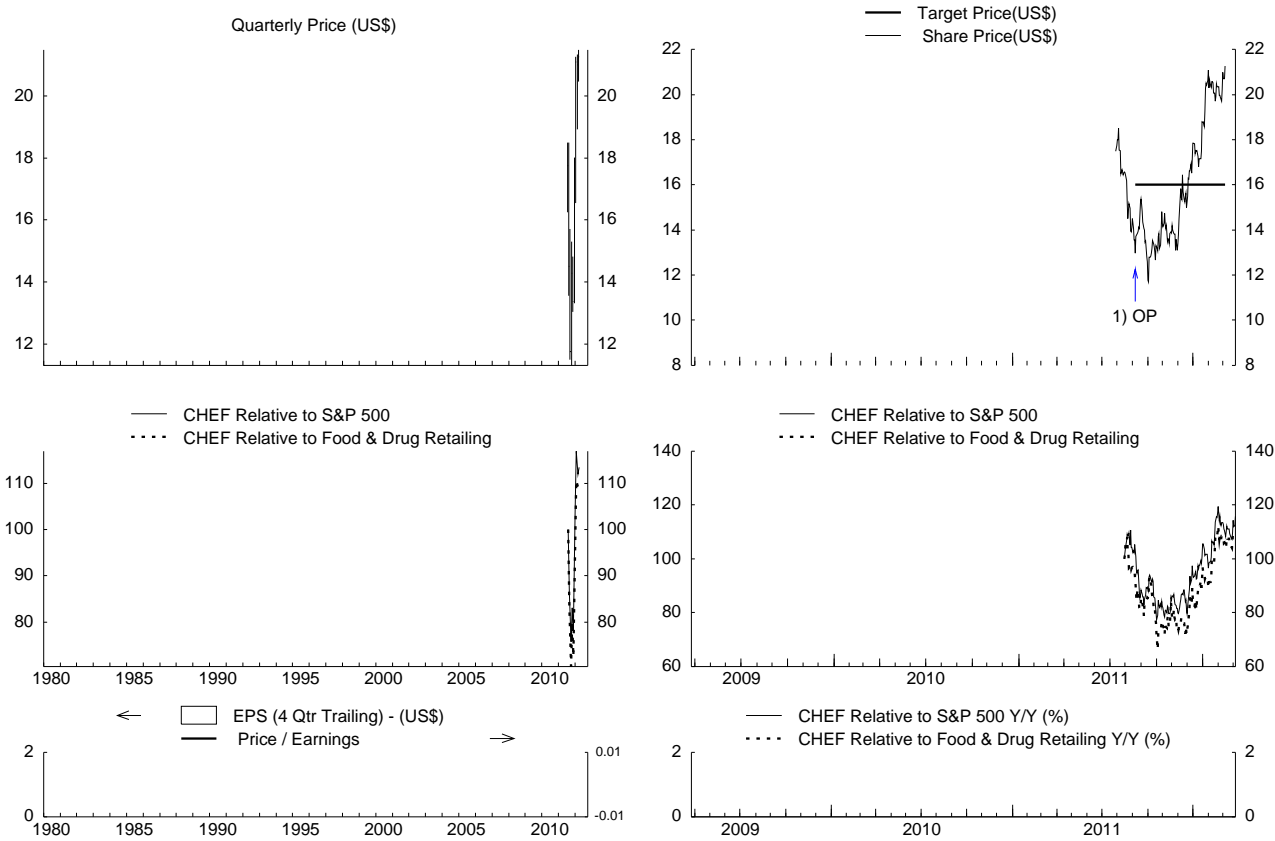
Chefs' Warehouse Income Statement															
	52 weeks 12/28/2007	52 weeks 12/26/2008	52 weeks 12/25/2009	52 weeks 12/24/2010	3/25/2011	6/24/2011			53 weeks 12/30/2011						
	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011E	1Q12E	2Q12E	3Q12E	4Q12E	2012E	2013E
Revenues	\$256.13	\$281.70	\$271.07	\$330.12	\$82.90	\$99.26	\$101.68	\$116.51	\$400.35	\$98.65	\$118.11	\$114.90	\$121.53	\$453.20	\$493.98
Cost of Goods	\$190.79	\$211.39	\$199.76	\$244.34	\$61.50	\$73.00	\$75.05	\$85.50	\$295.05	\$72.69	\$86.28	\$84.23	\$88.57	\$331.78	\$360.40
Gross Profit	\$65.35	\$70.32	\$71.31	\$85.78	\$21.40	\$26.26	\$26.63	\$31.01	\$105.30	\$25.96	\$31.83	\$30.67	\$32.96	\$121.42	\$133.58
D&A	\$1.94	\$1.99	\$1.92	\$2.10	\$0.60	\$0.39	\$0.43	\$0.51	\$1.93	\$0.61	\$0.61	\$0.61	\$0.61	\$2.44	\$2.44
Total Operating Expenses (Ex. D&A)	\$57.45	\$58.33	\$56.06	\$62.10	\$16.70	\$18.66	\$19.14	\$20.81	\$75.31	\$20.17	\$21.97	\$21.05	\$21.10	\$84.29	\$90.69
Total Operating Expenses (Incl. D&A)	\$59.39	\$60.31	\$57.98	\$64.21	\$17.30	\$19.05	\$19.57	\$21.32	\$77.24	\$20.78	\$22.58	\$21.66	\$21.71	\$86.73	\$93.13
Operating Income	\$5.96	\$10.00	\$13.33	\$21.57	\$4.10	\$7.20	\$7.06	\$9.70	\$28.06	\$5.18	\$9.26	\$9.00	\$11.25	\$34.69	\$40.45
EBITDA	\$7.90	\$11.99	\$15.25	\$23.68	\$4.70	\$7.60	\$7.491	\$10.207	\$29.99	\$5.79	\$9.87	\$9.61	\$11.86	\$37.13	\$42.89
Interest	\$3.52	\$3.24	\$2.82	\$4.04	\$0.40	\$0.42	\$0.51	\$0.53	\$1.85	\$0.20	\$0.20	\$0.20	\$0.20	\$0.80	\$0.68
Gain on Settlement	\$1.10														
Gain/Loss on Interest Rate Swap	-\$0.62	-\$1.12	\$0.66	\$0.91	\$0.40	\$0.00	\$0.00	\$0.00	\$0.40	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.07
Other					\$0.00			\$0.00							
Income Before Tax	\$2.92	\$5.65	\$11.17	\$18.44	\$4.10	\$6.79	\$6.56	\$9.17	\$26.61	\$4.98	\$9.06	\$8.80	\$11.05	\$33.89	\$39.84
Taxes	\$0.79	\$3.45	\$2.21	\$2.57	\$1.50	\$2.69	\$2.56	\$3.76	\$10.50	\$2.04	\$3.71	\$3.61	\$4.53	\$13.90	\$16.34
Net Income	\$2.14	\$2.20	\$8.96	\$15.87	\$2.60	\$4.10	\$4.00	\$5.41	\$16.11	\$2.94	\$5.34	\$5.19	\$6.52	\$20.00	\$23.51
Tax Rate	26.9%	61.1%	19.8%	13.9%	36.6%	39.6%	39.0%	41.0%	39.5%	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%
Diluted EPS	\$0.10	\$0.11	\$0.43	\$0.76	\$0.13	\$0.20	\$0.19	\$0.26	\$0.77	\$0.14	\$0.26	\$0.25	\$0.31	\$0.96	\$1.13
Diluted	20.77	20.77	20.77	20.77	20.67	20.83	20.83	20.84	20.79	20.84	20.84	20.84	20.84	20.84	20.84
Growth															
Sales		10.0%	-3.8%	21.8%	18.4%	18.7%	19.7%	27.2%	21.3%	19.0%	19.0%	13.0%	13.0%	13.2%	9.0%
Organic Sales growth		4.2%	-6.2%	10.9%	10.9%	13.0%	10.6%	8.8%	11.4%	9%	9%	9%	9%	3%	3%
Inflation - contribution to sales		n/a	-0.6%	7.8%	4.9%	3.3%	2.7%	1.1%	2.2%	0%	0%	0%	0%	3%	3%
Acquisitions - contribution to sales		5.8%	3.0%	3.1%	3.0%	2.0%	6.4%	10.0%	5.7%	10%	10%	4%	4%	3%	3%
Impact of extra week - contribution to sales								7.2%	2.0%						
Operating Expenses (Ex. D&A)		1.5%	-3.9%	10.8%	15.3%	19.3%	24.3%	25.5%	21.3%	20.8%	17.7%	10.0%	1.4%	11.9%	7.6%
Operating Expenses (Incl. D&A)		1.6%	-3.9%	10.7%	15.7%	18.1%	23.8%	23.2%	20.3%	20.1%	18.5%	10.7%	1.8%	12.3%	7.4%
Operating Income		67.9%	33.3%	61.8%	35.3%	24.1%	12.9%	49.6%	30.1%	26.3%	28.5%	27.5%	16.0%	23.6%	16.6%
EBITDA		51.7%	27.2%	55.3%	34.5%	20.4%	12.5%	41.5%	26.7%	23.2%	29.9%	28.3%	16.2%	23.8%	15.5%
Net Income		2.8%	308.1%	77.1%	69.0%	-8.7%	-9.3%	-0.6%	1.5%	13.1%	30.4%	29.9%	20.6%	24.1%	17.6%
EPS			308.1%	77.1%					1.4%					23.9%	17.6%
Margins															
Gross	25.5%	25.0%	26.3%	26.0%	25.8%	26.45%	26.19%	26.62%	26.30%	26.31%	26.95%	26.69%	27.12%	26.79%	27.0%
D&A	0.8%	0.7%	0.7%	0.6%	0.7%	0.4%	0.4%	0.4%	0.5%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%
Operating Expenses (Ex. D&A)				18.8%	20.1%	18.8%	18.8%	17.9%	18.8%	20.4%	18.6%	18.3%	17.4%	18.6%	18.4%
Operating Expenses (Incl. D&A)	23.2%	21.4%	21.4%	19.4%	20.9%	19.2%	19.2%	18.3%	19.3%	21.1%	19.1%	18.9%	17.9%	19.1%	18.9%
Operating Income	2.3%	3.6%	4.9%	6.5%	4.9%	7.3%	6.9%	8.3%	7.0%	5.3%	7.8%	7.8%	9.3%	7.7%	8.2%
EBITDA	3.1%	4.3%	5.6%	7.2%	5.7%	7.7%	7.4%	8.8%	7.5%	5.9%	8.4%	8.4%	9.8%	8.2%	8.7%
Tax	26.9%	61.1%	19.8%	13.9%	36.6%	39.6%	39.0%	41.0%	39.5%	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%
Net	0.8%	0.8%	3.3%	4.8%	3.1%	4.1%	3.9%	4.6%	4.0%	3.0%	4.5%	4.5%	5.4%	4.4%	4.8%
Change in Margins															
Gross		-55bp	134bp	-32bp	12bp	21bp	21bp	64bp	32bp	50bp	50bp	50bp	50bp	49bp	25bp
D&A		-5bp	0bp	-7bp	6bp	-20bp	-6bp	-36bp	-15bp	-11bp	12bp	11bp	6bp	6bp	-4bp
Operating Expenses (Ex. D&A)				18.8%	-55bp	10bp	69bp	-24bp	0bp	30bp	-20bp	-50bp	-50bp	-21bp	-24bp
Operating Expenses (Incl. D&A)		-178bp	-2bp	-194bp	-49bp	-11bp	63bp	-60bp	-16bp	19bp	-8bp	-39bp	-44bp	-16bp	-28bp
Operating Income		122bp	137bp	162bp	62bp	31bp	-42bp	124bp	47bp	31bp	58bp	89bp	94bp	65bp	53bp
EBITDA		117bp	137bp	155bp	68bp	11bp	-47bp	88bp	32bp	20bp	70bp	100bp	100bp	70bp	49bp
Net		-5bp	253bp	150bp	94bp	-124bp	-126bp	-130bp	-78bp	-15bp	39bp	59bp	72bp	39bp	35bp

Source: Company reports, BMO Capital Markets estimates.

Chefs' Warehouse Holdings Balance Sheet				
	12/28/07	12/26/08	12/25/09	12/24/10
	FY2007	FY2008	FY2009	FY2010
Cash & Equivalents	2.232	1.591	0.88	1.98
Accounts Receivable (net)	29.865	28.728	30.98	36.20
Inventory - Net of Reserve	17.819	16.449	15.29	16.44
Deferred Income Taxes	0.947	1.026	1.48	1.65
Other Current Assets & Prepaid Expenses	1.567	1.664	2.09	3.61
Total Current Assets	52.43	49.46	50.71	59.88
Net Property, Plant & Equipment	3.87	4.30	4.24	4.23
Deferred Income Taxes				
Capitalized Financing Fees				
Intangible Assets	2.33	6.80	9.47	12.11
Deferred Costs	0.35	0.89	0.06	2.36
Other LT Assets	3.94	3.06	1.45	4.09
Total Non-current Assets	10.49	15.04	15.23	22.79
TOTAL ASSETS	62.92	64.50	65.94	82.67
Current Debt	2.90	2.76	2.79	16.95
Original issue Discount				
Accounts Payable	24.41	18.79	19.29	23.56
Advances, Accrued Expenses	6.31	5.81	6.15	7.16
Taxes Payable other than Income				
Income Taxes Payable				
Total Current Liabilities	33.62	27.36	28.23	47.67
Long Term Debt, Net of Current Portion	33.082	37.323	29.928	82.58
Revolver				
Mezz Debt				
Term Note				
Original issue Discount				
Other (Deferred Rent)	1.63	3.04	2.45	1.23
Total Non-current Liabilities	34.71	40.36	32.37	83.81
TOTAL LIABILITIES	68.33	67.72	60.60	131.48
SHAREHOLDERS' EQUITY	(5.41)	(3.22)	5.33	(48.81)
TOTAL LIABILITIES & EQUITY	62.92	64.50	65.94	82.67

Source: Company reports, BMO Capital Markets estimates.

CHEFS WHSE INC (CHEF)



CHEF - Rating as of 28-Jul-11 = NR

Date	Rating Change	Share Price
1 6-Sep-11	NR to OP	\$13.56

Last Daily Data Point: March 5, 2012

## Important Disclosures

### Analyst's Certification

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Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

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Disclosure 9: BMO Capital Markets makes a market in this security.

### Methodology and Risks to Our Price Target/Valuation

**Methodology:** Our target price values CHEF at an FY12 EV/EBITDA of 9.5x and P/E of 16.7x.

**Risks:** Key risks to our CHEF price target include increased competition from traditional broadline operators or consolidation among other regional specialty distributors, deterioration in the national or New York economy as it relates to discretionary spending at restaurants, the success and completion of future acquisitions at fair prices, significant increases in raw material costs, and tainted product or product recall which could tarnish the company's image.

### Distribution of Ratings (December 30, 2011)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starmine Universe
Buy	Outperform	38.0%	10.3%	40.4%	40.7%	46.2%	56.2%
Hold	Market Perform	60.3%	9.6%	59.6%	56.3%	52.2%	39.4%
Sell	Underperform	1.7%	0.0%	0.0%	3.0%	1.6%	4.4%

\* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

\*\* Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

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### Ratings and Sector Key

We use the following ratings system definitions:

OP = Outperform - Forecast to outperform the market;

Mkt = Market Perform - Forecast to perform roughly in line with the market;

Und = Underperform - Forecast to underperform the market;

(S) = speculative investment;

NR = No rating at this time;

R = Restricted – Dissemination of research is currently restricted.

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