
The Chefs' Warehouse
CHEF : NASDAQ : US\$14.08
Buy | US\$18.00 Target

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DELIVERING PORTLAND AND SEATTLE; REITERATE BUY AND \$18 TARGET

Investment recommendation

We expect that CHEF will deliver an EPS growth CAGR of over 20% over the next few years and believe the company has considerable geographic growth opportunities to deliver years of growth well above the specialty food sector overall.

Investment highlights

- CHEF announces acquisition of Provvista Specialty Foods, providing entry into the Portland and Seattle markets.
- Provvista generated \$17M of sales last year, servicing over 500 customers with a broad specialty food offering that should be further enhanced under CHEF's ownership.
- No financial terms were disclosed in the announcement, but the acquisition price was likely \$5+ million and easily supported by the capital structure.
- The deal should certainly add to earnings in 2012, but we will await greater detail before adjusting our forecasts.
- We view the acquisition as a validation of the geographical growth strategy that is ideally accomplished through the acquisition of a quality local operator, thus providing the relationships, infrastructure and regional knowledge off which to build.
- We reiterate our BUY rating.

Valuation

At 15x F2012E EPS and 7.5x EBITDA forecast, we view the valuation as appropriate relative to peers and attractive relative to growth prospects. We continue to believe that consistent outperformance relative to the distribution sector can expand the valuation. We maintain our target of \$18, which is based on a multiple of 9.5x F2013E EBITDA.

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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
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- 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.

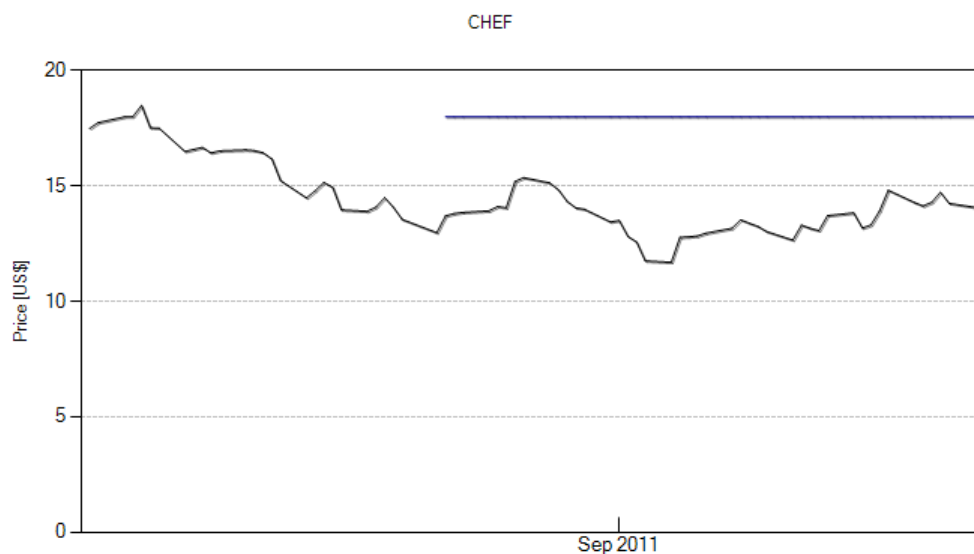
In addition, we strongly urge investors to review the complete set of risk factors that can be found in The Chefs' Warehouse's most recent regulatory filing.

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Site Visit:

An analyst has visited the issuer's material operations in Ridgefield, Connecticut. No payment or reimbursement was received from the issuer for the related travel costs.

Price Chart:*

— Market Price
— Target Price

Date	Analyst	Rating	Target Price	Date	Analyst	Rating	Target Price
1) 09/07/2011	Winkle	Buy	18.00				

*Price charts assume event 1 indicates initiation of coverage or the beginning of the measurement period.

Distribution of Ratings:

Global Stock Ratings
(as of 4 November 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	494	63.3%	36	36.4%
Speculative Buy	83	10.6%	46	68.7%
Hold	192	24.6%	10	18.2%
Sell	12	1.5%	1	16.7%
	781	100%		

Canaccord Ratings System:

BUY: The stock is expected to generate risk-adjusted returns of over 10% during the next 12 months.

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SELL: The stock is expected to generate negative risk-adjusted returns during the next 12 months.

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The Chefs' Warehouse	1A, 2, 3, 5, 7
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