

The Chefs' Warehouse

CHEF : NASDAQ : US\$21.83

BUY
Target: US\$24.00

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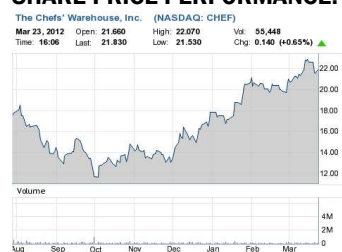
COMPANY STATISTICS:

Shares Out diluted: 20.8
Market Cap (M): US\$454.9
52-week Range: 11.32 - 23.75
Avg. Daily Vol. (000s): 91.5
EV/EBITDA: 10.9

EARNINGS SUMMARY:

FYE Dec		2010A	2011A	2012E	2013E
P/Sales:		1.4	1.1	1.0	0.9
P/E:		39.7	28.0	23.1	20.2
Revenue (M):					
	Q1	70.0	83.2	99.8	-
	Q2	83.6	99.3	119.1	-
	Q3	84.9	101.7	115.9	-
	Q4	91.6	116.5	121.4	-
Total		330.1	400.6	456.3	504.2
EPS:					
	Q1	0.07	0.12	0.18	-
	Q2	0.15	0.20	0.26	-
	Q3	0.17	0.19	0.24	-
	Q4	0.17	0.26	0.27	-
Total		0.55	0.78	0.95	1.08

SHARE PRICE PERFORMANCE:



Source: Interactive Data Corporation

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

A LONG-TERM GROWTH STORY, REITERATE BUY, \$24 PRICE TARGET

Investment recommendation

We expect that CHEF will deliver an EPS CAGR of over 20% during 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

- We hosted CHEF management for investor meetings that enhanced our expectations for significant long-term revenue and earnings growth.
- Geographical growth remains in its infancy as CHEF operates in just seven primary markets, which could quadruple over the long term through acquisitions in a highly fragmented sector.
- Next year's opening of a new distribution center in New York should create incremental category expansion opportunities in existing markets including produce, seafood and cut meats; while providing efficiencies that immediately generate a return on the investment.

Valuation

At 23x forward earnings and 11x forward EBITDA estimates, we view valuation as appropriate relative to peers and growth. Maintain \$24 price target on a multiple of 11x our F2013 EBITDA forecast.

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INVESTMENT THESIS

We believe CHEF is a best-in-class specialty foodservice distributor with a substantial growth opportunity lying ahead through a combination of internal growth and acquisitions as its segment of the industry is highly fragmented and scale undoubtedly offers advantages. Our thesis was further supported last week as we hosted the company for two days of investor meetings. While the current momentum is obvious in the financial results and the geographical growth opportunity has been illustrated with strategic acquisitions over the last several years into new markets, we believe that the expansion opportunities in existing markets are not fully appreciated. We suspect that the catalyst for new product categories will occur in early 2013 when the company opens a new distribution center in New York. The facility will provide immediate efficiencies for CHEF's largest market, but should also provide the capacity for expansion into large new categories, such as produce, seafood and cut meats. The category expansion opportunities could double the market opportunity for CHEF.

The geographical growth opportunity is clear with CHEF operating in just seven markets today. However, the magnitude of the opportunity is larger than we had anticipated with the company targeting more major markets as viable entries than we'd assumed. Essentially every NFL city with the exception of Green Bay (although nearby Milwaukee would be served out of a Chicago entry) is a target that could support a Chef's Warehouse entry. This implies more than a quadrupling of the current market presence (CHEF already operates in two non-NFL cities: Los Angeles and Las Vegas). With acquisition opportunities in numerous new markets, yet still opportunities for tuck-ins to existing markets, the opportunity for growth through industry consolidation is significant. Beyond the simple math of new market opportunities, the benefits of scale from a true national presence have yet to even be realized and CHEF is already delivering strong gross and EBITDA margins.

Given the inherent growth of specialty foods in all channels of distribution, CHEF's ability to grow market share in existing markets through a superior offering and infrastructure, along with growth opportunities through both geographic and category expansion, should deliver a long-term double-digit growth opportunity that is measured in decades. We reiterate our BUY rating and \$24 price target and confidently foresee an above-average growth rate that justifies the current valuation.

VALUATION

Valuation is appropriate, in our view. Shares trade at 23x our 2012 EPS forecast and 11x 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 7-8x EBITDA), the valuation is at a slight discount to its best and only real comparable peer from a standpoint of growth, United Natural Foods (UNFI : NASDAQ : \$47.12). 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, which reflects 11x our 2013 EBITDA forecast and 22x our 2013 EPS estimate, which is consistent with where CHEF currently trades on forward EBITDA and reflects the premium valuations of the specialty food peer group.

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.

26 March 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	Q1	Q2	Q3	Q4	FY	FY
Revenue	83.2	99.3	101.7	116.5	400.6	99.8	119.1	115.9	121.4	456.3	504.2
COGS	(61.1)	(73.0)	(75.1)	(85.5)	(294.7)	(73.4)	(87.3)	(85.1)	(88.9)	(334.7)	(369.7)
Gross Profit	22.0	26.3	26.6	31.0	105.9	26.5	31.8	30.8	32.5	121.6	134.4
Operating Expenses	(17.0)	(18.6)	(21.3)	(21.3)	(78.1)	(19.5)	(22.4)	(22.3)	(22.9)	(87.0)	(93.9)
Operating Income	5.1	7.7	5.3	9.7	27.8	7.0	9.4	8.5	9.6	34.5	40.6
EBITDA	5.6	8.0	5.8	10.1	33.4	7.5	9.9	9.0	10.1	44.3	50.3
Net Interest	(3.5)	(3.3)	(7.2)	(0.5)	(14.6)	(0.5)	(0.5)	(0.4)	(0.4)	(1.9)	(1.4)
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	6.4	9.0	8.1	9.2	32.7	39.2
Income Tax	(0.7)	(1.7)	0.7	(4.0)	(5.6)	(2.6)	(3.7)	(3.3)	(3.8)	(13.4)	(16.1)
Net Income	1.0	2.7	(1.2)	5.2	7.7	3.8	5.3	4.8	5.4	19.3	23.1
Average Shares	16.0	16.0	18.7	20.8	17.9	20.8	20.9	21.0	21.2	21.0	21.4
EPS	\$0.06	\$0.17	(\$0.06)	\$0.25	\$0.43	\$0.18	\$0.25	\$0.23	\$0.26	\$0.92	\$1.08
Pro forma adjustments											
GAAP Pretax income	1.7	4.4	(1.9)	9.2	13.3	6.4	9.0	8.1	9.2	32.7	39.2
SG&A	(0.8)	(0.7)	1.7	0.2	0.5	0.0	0.2	0.4	0.4	1.0	0.0
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	0.0	0.0	0.0	0.0	0.0
Adjusted EBITDA	4.8	7.3	7.5	10.3	29.9	7.5	10.1	9.4	10.5	45.3	50.3
Adjusted pre-tax	4.2	6.9	6.6	9.4	27.0	6.4	9.2	8.5	9.6	33.7	39.2
Taxes	(1.6)	(2.7)	(2.6)	(3.9)	(10.8)	(2.6)	(3.8)	(3.5)	(3.9)	(13.8)	(16.1)
Adjusted net income	2.6	4.2	4.0	5.5	16.2	3.8	5.4	5.0	5.7	19.9	23.1
Pro Forma EPS	\$0.12	\$0.20	\$0.19	\$0.26	\$0.78	\$0.18	\$0.26	\$0.24	\$0.27	\$0.95	\$1.08
Shares outstanding	20.8	20.8	20.8	20.8	20.8	20.8	20.9	21.0	21.2	21.0	21.4
Margin Analysis											
Gross Margin	26.5 %	26.5 %	26.2 %	26.6 %	26.4 %	26.5 %	26.7 %	26.6 %	26.8 %	26.6 %	26.7 %
Warehousing and distribution	10.3 %	9.2 %	10.4 %	10.0 %	10.0 %	10.0 %	8.9 %	9.8 %	9.5 %	9.5 %	9.4 %
SG&A	9.3 %	9.1 %	10.1 %	7.9 %	9.0 %	9.4 %	8.8 %	8.2 %	7.7 %	8.5 %	8.3 %
Adjusted operating margin	5.2 %	7.1 %	6.9 %	8.5 %	7.1 %	7.0 %	8.1 %	7.7 %	8.3 %	7.8 %	8.0 %
Adjusted EBITDA margin	5.8 %	7.4 %	7.4 %	8.8 %	7.5 %	7.5 %	8.5 %	8.1 %	8.7 %	9.9 %	10.0 %
Pretax margin	2.0 %	4.4 %	-1.9 %	7.9 %	3.3 %	6.4 %	7.5 %	7.0 %	7.6 %	7.2 %	7.8 %
Adjusted net margin	3.1 %	4.2 %	3.9 %	4.7 %	4.1 %	3.8 %	4.5 %	4.3 %	4.7 %	4.4 %	4.6 %
Tax Rate	39.0 %	39.0 %	39.0 %	41.5 %	39.9 %	41.0 %	41.0 %	41.0 %	41.0 %	41.0 %	41.0 %
Growth (vs Year Ago)											
Revenue	19 %	19 %	20 %	27 %	21 %	20 %	20 %	14 %	4 %	14 %	11 %
Operating	67 %	37 %	-15 %	50 %	29 %	37 %	23 %	60 %	-1 %	24 %	17 %
Pro forma Pre-Tax Income	89 %	38 %	16 %	62 %	45 %	52 %	34 %	29 %	3 %	25 %	20 %
Pro forma Net Income	89 %	38 %	16 %	56 %	43 %	47 %	29 %	25 %	4 %	22 %	20 %
Pro forma EPS	87 %	36 %	15 %	55 %	42 %	47 %	28 %	24 %	2 %	21 %	14 %
Ratio Analysis											
Net debt	95.7	100.9	43.8	45.5	45.5	32.3	32.2	25.0	20.5	20.5	(4.8)
DSOs	39.6	37.1	37.6	38.4	38.4	39.2	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	23.5	23.5
Inventory Turns	3.5	3.8	3.9	4.1	14.2	3.5	3.8	3.9	4.1	15.5	15.5
ROIC	25.2%	33.1%	20.6%	32.3%	23.8%	26.2%	31.9%	28.9%	31.3%	28.1%	30.5%
Return on Equity	nmf	nmf	nmf	nmf	nmf	103.4 %	44.4 %	32.8 %	31.7 %	39.4 %	25.3 %
Operating ROA	24.9%	32.2%	22.0%	37.0%	29.7%	26.3%	33.2%	29.7%	32.1%	30.8%	31.9%
Debt/Total Capital	85.8%	86.5%	70.8%	68.5%	71.7%	65.9%	64.1%	62.0%	59.7%	59.9%	34.6%
Cash Flow Analysis											
Operating cash flow	3.1	5.3	(1.9)	1.3	7.7	14.3	4.5	4.7	5.6	29.0	29.6
Free cash flow	2.7	4.8	(2.6)	0.6	5.6	13.7	3.8	4.0	4.9	26.4	27.0
EBITDA	5.6	8.0	5.8	10.1	33.4	7.5	9.9	9.0	10.1	44.3	50.3

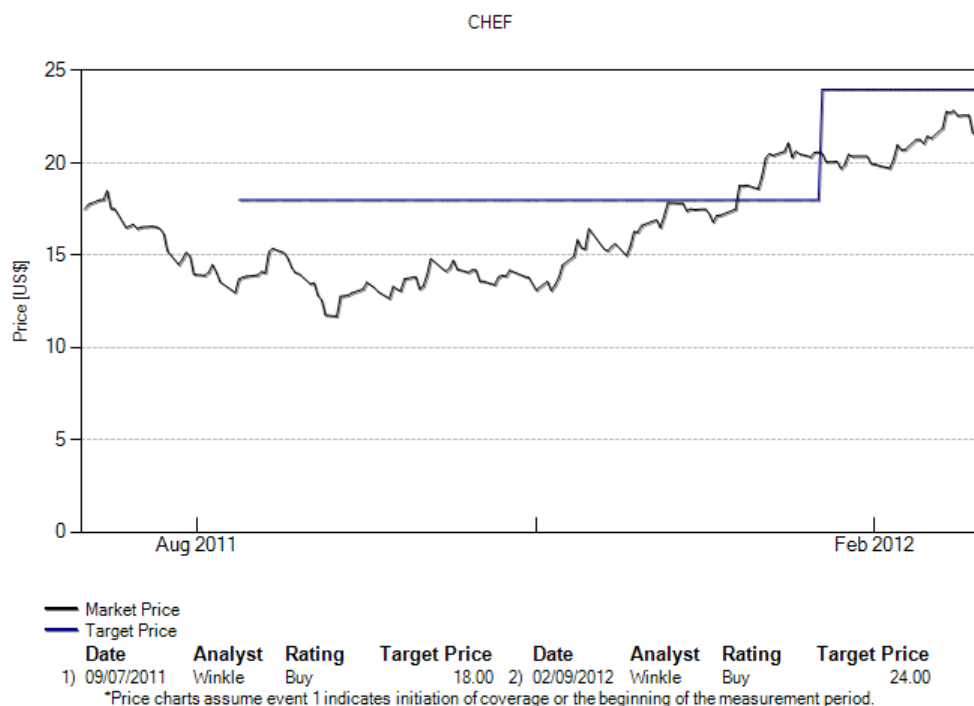
Source: Company reports and Canaccord Genuity estimates

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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:***Distribution of Ratings:**

Global Stock Ratings
(as of 2 March 2012)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	478	59.4%	33	33.7%
Speculative Buy	92	11.4%	71	70.7%
Hold	217	27.0%	15	18.4%
Sell	18	2.2%	13	16.7%
	805	100%		

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