

COMPANY NOTE

Estimate Change

USA | Consumer | Retailing/Food & Drug Chains

May 4, 2012

Jefferies

The Chefs' Warehouse (CHEF) Deflation Nibbles at 1Q Profits

Key Takeaway

Sharp and sudden deflation in dairy took a small bite out of expected 1Q profits. Nevertheless, we believe the opportunity for Chefs' remains significant and its operational advantage is growing as the company continues to invest in efficiency-enhancing technology, as well as its differentiated sales force. Indeed, CHEF, we believe, has the potential to see significant growth in sales and EBITDA over the next 12-24 months.

Sharp dairy deflation takes a bite out of 1Q. The company indicated that dairy deflation cost it in excess of \$1mm in top line revenues, putting pressure on bottom line results. Indeed, CHEF reported in-line expenses even though they moved more boxes than expected during the quarter. This, in combination with the decision to end a customer relationship a year early, caused CHEF to reduce the top end of its expectations for FY12.

We are reducing 2Q12 to \$0.24, and FY12 to \$0.91, as we expect deflation in dairy will persist and that the company will continue to invest heavily in its business. Our decision to go to the lower end of guidance is driven by our belief management will focus on running the company to maximize growth over multiple years. Our research suggests that the current climate is presenting them with additional opportunities to capture customers and market share. As such, we believe that there is a chance that expenses will be higher as the company spends slightly in front of this growth on things like sales personnel. If we are indeed right about the potential, we view a decision to invest in the business as wise.

The acquisition pipeline remains very robust and the latest tuck-in in Las Vegas, Praml, should be nicely accretive. The company indicated that it intends to fold its current operations into the Praml facility and then bring in its warehouse management system. This will likely improve profitability significantly in the market and be nicely accretive by FY13 (\$0.05). Going forward, the company remains dedicated to expanding its presence, with particular attention to opportunities in markets such as, Dallas, Houston, Chicago, Boston and Philadelphia.

Valuation/Risks

Our PT of \$25 is approx. 23x our FY13 EPS estimate of \$1.07. Our DCF also places the value of the equity at about \$26. **Risks:** Near-term: economic downturn resulting in meaningful contraction in wealth, acquisition-related integration or technology/systems implementation and geographic concentration risk. Longer-term: Group purchasing organizations.

USD	Prev.	2010A	Prev.	2011A	Prev.	2012E	Prev.	2013E
Rev. (MM)	--	330.1	--	400.6	467.2	467.3	523.3	528.4
EV/Rev		1.4x		1.1x		1.0x		0.9x
EBITDA (MM)	--	22.5	--	31.0	37.5	37.3	43.3	43.5
EV/EBITDA		20.0x		14.5x		12.1x		10.3x
EPS								
Mar	--	--	--	0.12	0.15	0.13A	--	--
Jun	--	--	--	0.21	0.26	0.24	--	--
Sep	--	--	--	0.20	--	0.25	--	--
Dec	--	--	--	0.26	--	0.30	--	--
FY Dec	--	0.57	--	0.79	0.95	0.91	1.12	1.07
FY P/E		34.1x		24.6x		21.3x		18.1x

EPS: 2010 and 2011 reflect pro forma adjustments.

BUY

Price target \$25.00

Price \$19.42

Financial Summary

Net Debt (MM): \$43.7

Market Data

52 Week Range: \$27.26 - \$11.32

Total Entprs. Value (MM): \$449.6

Market Cap. (MM): \$405.9

Shares Out. (MM): 20.9

Float (MM): 10.8

Avg. Daily Vol.: 89,058

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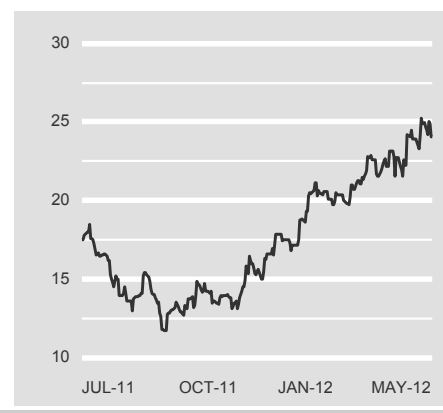
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Price Performance



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EQUITY RESEARCH AMERICAS

CHEF

Estimate Change

May 4, 2012

The Chefs' Warehouse**Buy: \$25 Price Target****Scenarios****Target Investment Thesis**

- Sales growth of 16% and 13% in FY12 and '13, from strong organic growth and acquisitions, but one less wk in '12.
- Slight gross margin expansion on mix and better gross margin management, offset by elevated input costs.
- Moderate operating expense leverage on higher sales and improving cost efficiencies, offset by increased investment.
- FY13 EPS: \$1.07; Target Multiple: ~23x; Target Price: \$25

Upside Scenario

- Stronger-than-expected organic sales as the company benefits from its IT initiatives; coupled with favorable macros.
- Better-than-expected gross profit as Chefs' is better able to manage account profitability; improving mix.
- Better-than-expected expense leverage on stronger sales and larger benefits from the warehouse management system rollout.
- FY13 EPS: \$1.15; Target Multiple: 25x; Target Price: \$29

Downside Scenario

- Deteriorating macros and contracting wealth lead to sales slowdown.
- Gross margin pressured by trade down and mix shift; competitor or industry pressure lowering pricing capabilities.
- Less operating expense leverage on lower sales; more limited benefits from warehouse and distribution initiatives.
- FY13 EPS: \$1.00; Target Multiple: 18x; Target Price: \$18

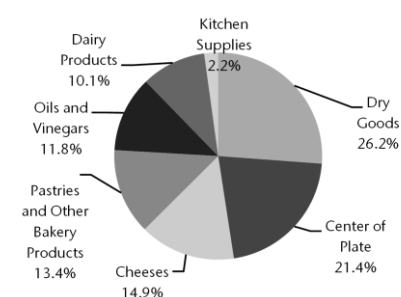
Long Term Analysis and Overview**Chefs' Current Footprint**

Source: Company Data

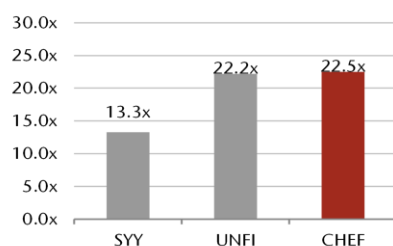
*Excludes Portland/Seattle market entered in Nov 2011

Long Term Financial Model Drivers

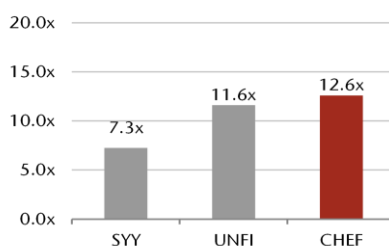
Organic Net Revenue Growth	10-12%
Gross Margin	26.7%
EBIT Margin	7.5-8.5%
Tax Rate	41%

FY10 Net Revenue By Product Category

Source: Company Data

Peer Group**Forward P/E (CY12)**

Source: Thomson, CapitalIQ

EV/ EBITDA (CY12)

Source: Thomson, CapitalIQ

Recommendation / Price Target

Ticker	Rec.	PT
CHEF	Buy	\$25
UNFI	Buy	\$53
SYY	NC	NC

Catalysts

- Better-than-expected organic sales driven by increased placements/customer and new customers.
- Better-than-expected benefits from the rollout of the company's warehouse management system to its other DCs.

Company Description

The Chefs' Warehouse, Inc. is one of the largest specialty food distributors in the U.S., largely serving upscale independent menu restaurants, fine hotels and clubs.

Quarter in Review

Chart 1: CHEF 1Q12 Review

	Y-O-Y Quarter Q1:11 PF	Current Quarter Q1:12A	Jefferies Estimate Q1:12E	Y-O-Y % Change	Actual vs. Estimated % Diff
Earnings Table					
Net Revenues	\$83,183	\$98,069	\$101,501	17.9%	-3.4%
Cost of Sales	\$61,148	\$72,020	\$74,614	17.8%	-3.5%
Gross Profit	\$22,035	\$26,049	\$26,887	18.2%	-3.1%
Operating Expenses	\$17,444	\$20,991	\$21,032	20.3%	-0.2%
EBIT (Operating)	\$4,591	\$5,058	\$5,856	10.2%	-13.6%
Non-Recurring Items	-	-	-	NM	NM
EBIT (Reported)	\$4,591	\$5,058	\$5,856	10.2%	-13.6%
EBIT (Operating)	\$4,591	\$5,058	\$5,856	10.2%	-13.6%
Plus: Depreciation & Amortization	\$322	\$606	\$354	88.2%	71.1%
EBITDA	\$4,913	\$5,664	\$6,210	15.3%	-8.8%
Interest Expense, Net	\$433	\$549	\$475	26.8%	15.6%
(Gain) / Loss on Fluctuation of Interest Rate Swap	(\$81)	-	-	NM	NM
Other	\$3	-	-	NM	NM
EBT	\$4,236	\$4,509	\$5,381	6.4%	-16.2%
Income Taxes	\$1,710	\$1,876	\$2,206	9.7%	-15.0%
Net Income (Loss) (Operating)	\$2,526	\$2,633	\$3,175	4.2%	-17.1%
Non-Recurring Items (Net of Taxes)	-	-	-	NM	NM
Net Income (Loss) Reported	\$2,526	\$2,633	\$3,175	4.2%	-17.1%
Disc Operations, Net of Taxes	-	-	-	NM	NM
Net Income (Reported) After Disc. Ops	\$2,526	\$2,633	\$3,175	4.2%	-17.1%
Diluted EPS (Operating)	\$0.12	\$0.13	\$0.15	3.9%	-17.3%
Diluted EPS (Reported)	\$0.12	\$0.13	\$0.15	3.9%	-17.3%
First Call Consensus	-	\$0.16	\$0.16	NM	-
Weighted Avg. Diluted Shares Outstanding	20,835	20,896	20,841	0.3%	0.3%
Growth Rates					
Net Revenues	18.8%	17.9%	22.0%		
Gross Profit	22.5%	18.2%	22.0%		
Operating Expenses	15.8%	20.3%	20.6%		
EBIT (Operating)	57.5%	10.2%	27.5%		
EBIT (Reported)	57.5%	10.2%	27.5%		
Depreciation & Amortization	1.9%	88.2%	10.0%		
EBITDA	52.1%	15.3%	26.4%		
Net Income (Operating)	78.1%	4.2%	23.2%		
Net Income (Reported)	78.1%	4.2%	23.2%		
Diluted EPS (Operating)	78.1%	3.9%	23.2%		
Diluted EPS (Reported)	78.1%	3.9%	23.2%		
Margin					
Gross Profit	26.5%	26.6%	26.5%	7 bp	7 bp
Operating Expenses (As % of Net Revenues)	21.0%	21.4%	20.7%	43 bp	68 bp
EBIT (Operating)	5.5%	5.2%	5.8%	-36 bp	-61 bp
EBIT (Reported)	5.5%	5.2%	5.8%	-36 bp	-61 bp
EBITDA	5.9%	5.8%	6.1%	-13 bp	-34 bp
Net Income (Operating)	3.0%	2.7%	3.1%	-35 bp	-44 bp
Net Income (Reported)	3.0%	2.7%	3.1%	-35 bp	-44 bp

Source: Jefferies, company data

Chart 2: CHEF Income Statement (\$ thousands, except per share data)

	2009A	2010PF					2011PF					2012E	2013E
	52 weeks Dec-09 364	Pro Forma 52 weeks Dec-10 364	Pro Forma	Pro Forma	Pro Forma	Pro Forma	Pro Forma	Q1:12A	Q2:12E	Q3:12E	Q4:12E	52 weeks Dec-12 364	52 weeks Dec-13 364
			Q1:11PF	Q2:11PF	Q3:11PF	Q4:11PF	53 weeks						
			Mar-11	Jun-11	Sep-11	Dec-11	Dec-11						
Net Revenues	\$271,072	\$330,118	\$83,183	\$99,255	\$101,681	\$116,513	\$400,632	\$98,069	\$119,695	\$120,582	\$128,992	\$467,339	\$528,419
Cost of Sales	\$199,764	\$244,340	\$61,148	\$73,000	\$74,651	\$85,499	\$294,298	\$72,020	\$87,914	\$88,528	\$94,527	\$342,989	\$387,553
Gross Profit	\$71,308	\$85,778	\$22,035	\$26,255	\$27,030	\$31,014	\$106,334	\$26,049	\$31,782	\$32,055	\$34,465	\$124,350	\$140,866
Operating Expenses	\$57,580	\$64,628	\$17,444	\$18,766	\$19,568	\$21,318	\$77,096	\$20,991	\$22,631	\$22,603	\$23,214	\$89,438	\$100,071
EBIT (Operating)	\$13,728	\$21,150	\$4,591	\$7,489	\$7,462	\$9,696	\$29,238	\$5,058	\$9,151	\$9,452	\$11,250	\$34,911	\$40,795
Non-Recurring Items	-	-	-	\$200	\$400	-	\$600	-	-	-	-	-	-
EBIT (Reported)	\$13,728	\$21,150	\$4,591	\$7,289	\$7,062	\$9,696	\$28,638	\$5,058	\$9,151	\$9,452	\$11,250	\$34,911	\$40,795
EBIT (Operating)	\$13,728	\$21,150	\$4,591	\$7,489	\$7,462	\$9,696	\$29,238	\$5,058	\$9,151	\$9,452	\$11,250	\$34,911	\$40,795
Plus: Depreciation & Amortization	\$1,520	\$1,388	\$322	\$460	\$429	\$511	\$1,722	\$606	\$600	\$600	\$575	\$2,381	\$2,667
EBITDA	\$15,248	\$22,538	\$4,913	\$7,949	\$7,891	\$10,207	\$30,960	\$5,664	\$9,751	\$10,052	\$11,825	\$37,292	\$43,462
Interest Expense, Net	\$3,212	\$2,490	\$433	\$417	\$505	\$528	\$1,883	\$549	\$600	\$700	\$700	\$2,549	\$2,600
(Gain) / Loss on Fluctuation of Interest Rate Swap	(\$658)	(\$910)	(\$81)	-	-	-	(\$81)	-	-	-	-	-	-
Other	-	-	\$3	-	-	\$3	\$6	-	-	-	-	-	-
EBT	\$11,174	\$19,570	\$4,236	\$7,072	\$6,957	\$9,165	\$27,430	\$4,509	\$8,551	\$8,752	\$10,550	\$32,362	\$38,195
Income Taxes	\$2,213	\$7,777	\$1,710	\$2,765	\$2,713	\$3,805	\$10,993	\$1,876	\$3,506	\$3,588	\$4,326	\$13,296	\$15,660
Net Income (Loss) (Operating)	\$8,961	\$11,793	\$2,526	\$4,307	\$4,244	\$5,360	\$16,437	\$2,633	\$5,045	\$5,164	\$6,225	\$19,067	\$22,535
Non-Recurring Items (Net of Taxes)	-	-	-	(\$122)	(\$5,429)	(\$150)	(\$5,701)	-	-	-	-	-	-
Net Income (Loss) Reported	\$8,961	\$11,793	\$2,526	\$4,185	(\$1,185)	\$5,210	\$10,736	\$2,633	\$5,045	\$5,164	\$6,225	\$19,067	\$22,535
Disc Operations, Net of Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Reported) After Disc. Ops	\$8,961	\$11,793	\$2,526	\$4,185	(\$1,185)	\$5,210	\$10,736	\$2,633	\$5,045	\$5,164	\$6,225	\$19,067	\$22,535
Deemed Dividend Accretion on Class A Units	(\$6,207)												
Deemed Dividend Paid to Class A Units	-												
Net Income (Loss) to Common Stockholders	\$2,754												
Diluted EPS (Operating)	NA	\$0.57	\$0.12	\$0.21	\$0.20	\$0.26	\$0.79	\$0.13	\$0.24	\$0.25	\$0.30	\$0.91	\$1.07
Diluted EPS (Reported)	NA	\$0.57	\$0.12	\$0.20	(\$0.06)	\$0.25	\$0.52	\$0.13	\$0.24	\$0.25	\$0.30	\$0.91	\$1.07
First Call Consensus					\$0.19	\$0.25	\$0.77	\$0.16	\$0.26	\$0.25	\$0.30	\$0.95	\$1.13
Weighted Avg. Diluted Shares Outstanding	NA	20,835	20,835	20,835	20,835	20,835	20,835	20,896	20,917	20,917	20,917	20,912	21,017
Growth Rates													
Net Revenues	-3.8%	NA	18.8%	18.7%	19.7%	27.2%	21.4%	17.9%	20.6%	18.6%	10.7%	16.7%	13.1%
Gross Profit	1.4%	NA	22.5%	19.7%	22.5%	30.4%	24.0%	18.2%	21.0%	18.6%	11.1%	16.9%	13.3%
Operating Expenses	-4.0%	NA	15.8%	13.4%	22.0%	25.6%	19.3%	20.3%	20.6%	15.5%	8.9%	16.0%	11.9%
EBIT (Operating)	32.5%	NA	57.5%	38.7%	24.0%	42.3%	38.2%	10.2%	22.2%	26.7%	16.0%	19.4%	16.9%
EBIT (Reported)	32.5%	NA	57.5%	35.0%	17.3%	42.3%	35.4%	10.2%	25.5%	33.8%	16.0%	21.9%	16.9%
Depreciation & Amortization	-6.5%	NA	1.9%	3.8%	13.5%	103.6%	24.1%	88.2%	30.4%	39.9%	12.5%	38.3%	12.0%
EBITDA	27.2%	NA	52.1%	36.0%	23.4%	44.4%	37.4%	15.3%	22.7%	27.4%	15.9%	20.5%	16.5%
Net Income (Operating)	308.1%	NA	78.1%	39.1%	21.0%	42.1%	39.4%	4.2%	17.1%	21.7%	16.1%	16.0%	18.2%
Net Income (Reported)	NM	NA	78.1%	35.1%	NM	38.2%	-9.0%	4.2%	20.6%	NM	19.5%	77.6%	18.2%
Diluted EPS (Operating)	NA	NA	78.1%	39.1%	21.0%	42.1%	39.4%	3.9%	16.7%	21.2%	15.7%	15.6%	17.6%
Diluted EPS (Reported)	NA	NA	78.1%	35.1%	NM	38.2%	-9.0%	3.9%	20.1%	NM	19.0%	76.9%	17.6%
Margin													
Gross Profit	26.3%	26.0%	26.5%	26.5%	26.6%	26.6%	26.5%	26.6%	26.6%	26.6%	26.7%	26.6%	26.7%
Operating Expenses (As % of Net Revenues)	21.2%	19.6%	21.0%	18.9%	19.2%	18.3%	19.2%	21.4%	18.9%	18.7%	18.0%	19.1%	18.9%
EBIT (Operating)	5.1%	6.4%	5.5%	7.5%	7.3%	8.3%	7.3%	5.2%	7.6%	7.8%	8.7%	7.5%	7.7%
EBIT (Reported)	5.1%	6.4%	5.5%	7.3%	6.9%	8.3%	7.1%	5.2%	7.6%	7.8%	8.7%	7.5%	7.7%
EBITDA	5.6%	6.8%	5.9%	8.0%	7.8%	8.8%	7.7%	5.8%	8.1%	8.3%	9.2%	8.0%	8.2%
Net Income (Operating)	3.3%	3.6%	3.0%	4.3%	4.2%	4.6%	4.1%	2.7%	4.2%	4.3%	4.8%	4.1%	4.3%
Net Income (Reported)	1.0%	3.6%	3.0%	4.2%	-1.2%	4.5%	2.7%	2.7%	4.2%	4.3%	4.8%	4.1%	4.3%
Change in Margin													
Change in Gross Profit Margin	1.34%	NA	0.80%	0.21%	0.60%	0.64%	0.56%	0.07%	0.10%	-	0.10%	0.07%	0.05%
Change in Operating Expenses (As % of Net Revenue)	-0.04%	NA	-0.56%	-0.88%	0.35%	-0.24%	-0.33%	0.43%	-	-0.50%	-0.30%	-0.11%	-0.20%
Change in EBIT (Operating) Margin	1.39%	NA	1.36%	1.09%	0.25%	0.88%	0.89%	-0.36%	0.10%	0.50%	0.40%	0.17%	0.25%
Change in EBIT (Reported) Margin	1.39%	NA	1.36%	0.89%	-0.14%	0.88%	0.74%	-0.36%	0.30%	0.89%	0.40%	0.32%	0.25%
Change in EBITDA Margin	1.37%	NA	1.29%	1.02%	0.23%	1.04%	0.90%	-0.13%	0.14%	0.58%	0.41%	0.25%	0.25%
Effective Tax Rate	19.8%	39.7%	40.4%	39.1%	39.0%	41.5%	40.1%	41.6%	41.0%	41.0%	41.0%	41.1%	41.0%

Source: Jefferies, company data

Company Description

The Chefs' Warehouse, Inc. is one of the largest specialty food distributors in the U.S., largely serving upscale independent menu restaurants, fine hotels and clubs.

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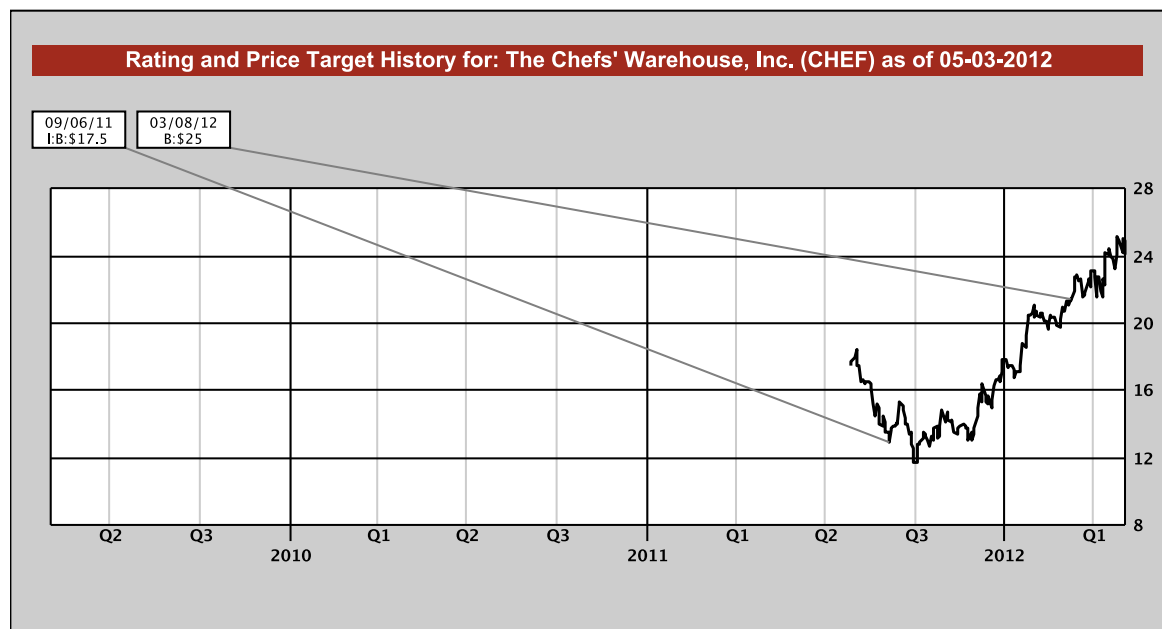
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2. Only stocks with a Buy rating are allowed to be included in the recommended list.
3. Stocks are screened for minimum market capitalisation and adequate daily turnover. Furthermore, a valuation, correlation and style screen is used to ensure a well-diversified portfolio.
4. Stocks are sorted to a maximum of 30 stocks with the maximum country exposure at around 50%. Limits are also imposed on a sector basis.
5. Once a month, analysts are invited to recommend their best ideas. Analysts' stock selection can be based on one or more of the following: non-Consensus investment view, difference in earnings relative to Consensus, valuation methodology, target upside/downside % relative to the current stock price. These are then assessed against existing holdings to ensure consistency. Stocks that have either reached their target price, been downgraded over the course of the month or where a more suitable candidate has been found are removed.
6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.
7. Performance is calculated in US dollars on an equally weighted basis and is compared to MSCI World AC US\$.
8. The conviction list is published once a month whilst global equity markets are closed.
9. Transaction fees are not included.
10. All corporate actions are taken into account.

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Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
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HOLD	615	40.65%	69	11.22%
UNDERPERFORM	98	6.48%	1	1.02%

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