

COMPANY NOTE

Estimate Change

USA | Consumer | Retailing/Food & Drug Chains

October 28, 2011

Jefferies

The Chefs' Warehouse (CHEF) A Strong Showing Indeed

Key Takeaway

CHEF's 3Q results highlighted the strength in the company's business as management's continued efforts to drive organic growth and hold the line on costs are being met by a favorable macro backdrop for the high-end consumer. While the full benefit of these efforts was somewhat offset by higher costs from its recent acquisition, the near and long-term outlook for CHEF remains quite strong indeed.

3Q marked another quarter of solid top-line momentum. CHEF reported 3Q11 EPS (ex. items) of \$0.20 vs. our \$0.18 and the Street's \$0.19. Approx. \$0.01 of the beat reflects the exclusion of one-time costs related to Hurricane Irene. Total net sales growth of roughly 20% was particularly strong and came in nicely above our 14%, driven by solid organic growth of approximately 13.3% (including 2.7% from inflation/mix). Adjusting for the roughly 1.9% sales impact from Irene, organic sales ran over 15%. EBIT \$'s of \$7.5mm (ex. items) came in above our \$6.7mm as better gross profit was partly offset by higher operating expenses.

A stellar quarter in the company's core business. CHEF saw solid growth in placements/customer and new customers and while the net sales contribution from the recent acquisition fell slightly short of our expectations, due mostly to seasonality and the hurricane, we do believe the company's efforts to maintain business continuity and higher service levels will enable CHEF to retain a higher-than-normal revenue run-rate going forward. In the short-term however, these efforts did contribute to higher-than-expected costs, which prevented the quarter from being even better.

Due to the strong third quarter we are increasing our FY11 and FY12 EPS estimates by \$0.02, respectively. Aside from the flow through of the better 3Q results, we have left our estimates unchanged, but believe there does remain upside to revenue and EPS if current trends continue. We continue to view CHEF as a core small cap growth holding for investors as the company works to consolidate the fragmented marketplace and benefits from the positive secular spending trends in the wealthy/educated class.

Valuation/Risks

Our PT of \$17.50 is approx. 18x our FY12 EPS estimate of \$0.98. This is below UNFI's (UNFI, \$38.00, Hold) multiple of 19x. Our DCF also places the value the equity at about \$21. **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.	2009A	Prev.	2010A	Prev.	2011E	Prev.	2012E
Rev. (MM)	--	271.1	--	330.1	391.2	395.8	436.5	441.7
EV/Rev		1.2x		1.0x		0.8x		0.8x
EBITDA (MM)	--	15.2	--	20.2	29.3	30.2	36.2	37.2
EV/EBITDA		21.9x		16.5x		11.0x		8.9x
EPS								
Mar	--	--	--	--	--	0.12A	--	--
Jun	--	--	--	--	--	0.21A	--	--
Sep	--	--	--	--	0.18	0.20A	--	--
Dec	--	--	--	--	--	0.25	--	--
FY Dec	--	NA	--	0.54	0.77	0.79	0.96	0.98
FY P/E				25.8x		17.6x		14.2x

EPS: 2010 and 2011 reflect pro forma adjustments.

BUY

Price target \$17.50

Price \$13.93

Financial Summary

Net Debt (MM): \$43.1

Market Data

52 Week Range: \$18.50 - \$11.32

Total Entprs. Value (MM): \$332.8

Market Cap. (MM): \$289.7

Shares Out. (MM): 20.8

Float (MM): 9.2

Avg. Daily Vol.: 235,042

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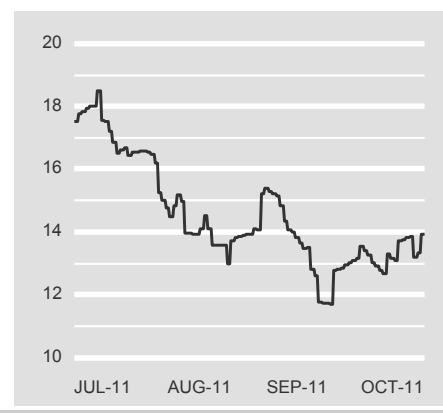
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Price Performance



CHEF

Estimate Change

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The Chefs' Warehouse**Buy: \$17.50 Price Target****Scenarios****Target Investment Thesis**

- Total sales growth of 19.9% and 11.6% in FY11 and '12, driven by strong organic growth, aided by acquisitions and a 53rd week in FY11.
- Some gross margin expansion on improved mix in FY11 and better gross margin management in FY12.
- Operating expense leverage on higher sales and improving cost efficiencies.
- FY12 EPS: \$0.98; Target Multiple: ~18x; Target Price: \$17.50.

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.
- FY12 EPS: \$1.05; Target Multiple: 20x; Target Price: \$21.

Downside Scenario

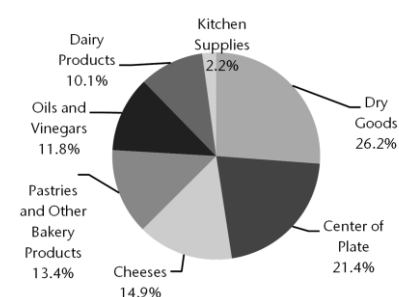
- Deteriorating macros and contracting wealth lead to sales slowdown.
- Gross margin pressured by trade down and mix shift; competitor or industry pressure lowering pricing capabilities.
- Less operating expense leverage on lower sales; more limited benefits from warehouse and distribution initiatives.
- FY12 EPS: \$0.80; Target Multiple: 14x; Target Price: \$11.

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

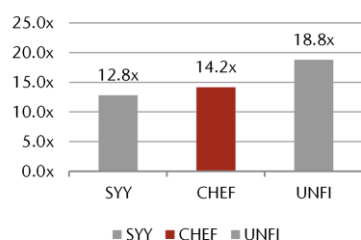
Source: Company Data

Long Term Financial Model Drivers

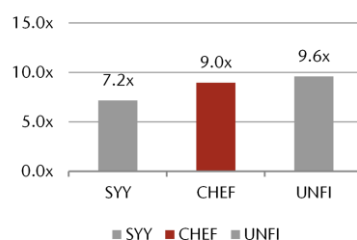
Organic Net Revenue Growth	9-10%
Gross Margin	26-26.5%
EBIT Margin	8-9%
Tax Rate	39%
3 Year EPS CAGR	18%

FY10 Net Revenue By Product Category

Source: Company Data

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

Source: Jefferies estimates, Thomson

EV/ EBITDA (CY12)

Source: Jefferies estimates, Thomson

Recommendation / Price Target

Ticker	Rec.	PT
CHEF	Buy	\$17.50
UNFI	Hold	\$41
SY	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.

Chart 1: 3Q11 Review

	Y-O-Y Quarter	Current Quarter	Jefferies Estimate	Y-O-Y	Actual vs. Estimated
Earnings Table	Q3:10PF	Q3:11PF	Q3:11PF	% Change	% Diff
Net Revenues	\$84,928	\$101,681	\$97,031	19.7%	4.8%
Cost of Sales	\$62,865	\$74,651	\$71,823	18.7%	3.9%
Gross Profit	\$22,063	\$27,030	\$25,207	22.5%	7.2%
Operating Expenses	\$16,005	\$19,568	\$18,492	22.3%	5.8%
EBIT (Operating)	\$6,058	\$7,462	\$6,716	23.2%	11.1%
Non-Recurring Items	-	\$400	-	NM	NM
EBIT (Reported)	\$6,058	\$7,062	\$6,716	16.6%	5.2%
EBIT (Operating)	\$6,058	\$7,462	\$6,716	23.2%	11.1%
Plus: Depreciation & Amortization	\$340	\$429	\$400	26.2%	7.3%
EBITDA	\$6,398	\$7,891	\$7,116	23.3%	10.9%
Interest Expense, Net	\$538	\$505	\$426	-6.1%	18.7%
(Gain) / Loss on Fluctuation of Interest Rate Swap	(\$228)	-	-	NM	NM
Other	-	-	-	NM	NM
EBT	\$5,748	\$6,957	\$6,290	21.0%	10.6%
Income Taxes	\$2,241	\$2,713	\$2,453	21.1%	10.6%
Net Income (Loss) (Operating)	\$3,507	\$4,244	\$3,837	21.0%	10.6%
Non-Recurring Items (Net of Taxes)	-	(\$5,429)	-	NM	NM
Net Income (Loss) Reported	\$3,507	(\$1,185)	\$3,837	NM	NM
Disc Operations, Net of Taxes	-	-	-	NM	NM
Net Income (Reported) After Disc. Ops	\$3,507	(\$1,185)	\$3,837	NM	NM
Diluted EPS (Operating)	\$0.17	\$0.20	\$0.18	21.0%	10.6%
Diluted EPS (Reported)	\$0.17	(\$0.06)	\$0.18	NM	NM
First Call Consensus	-	\$0.19	\$0.19	NM	-
Weighted Avg. Diluted Shares Outstanding	20,835	20,835	20,835	-	-
Margin					
Gross Profit	26.0%	26.6%	26.0%	60 bp	60 bp
Operating Expenses (As % of Net Revenues)	18.8%	19.2%	19.1%	40 bp	19 bp
EBIT (Operating)	7.1%	7.3%	6.9%	21 bp	42 bp
EBIT (Reported)	7.1%	6.9%	6.9%	-19 bp	2 bp
EBITDA	7.5%	7.8%	7.3%	23 bp	43 bp
Net Income (Operating)	4.1%	4.2%	4.0%	4 bp	22 bp
Net Income (Reported)	4.1%	-1.2%	4.0%	NM	NM

Source: Jefferies, company data

Chart 2: Near-term Outlook

Earnings Table	Q4:11PFE	2011PFE	2012E
Net Revenues	\$111,688	\$395,807	\$441,735
Gross Profit	\$29,013	\$104,333	\$116,881
EBIT	\$9,021	\$28,566	\$35,415
EBITDA	\$9,436	\$30,192	\$37,178
EBT	\$8,612	\$26,880	\$33,719
Taxes	\$3,359	\$10,500	\$13,150
Net Income (Operating)	\$5,253	\$16,380	\$20,568
Diluted EPS (Operating)	\$0.25	\$0.79	\$0.98
Consensus EPS	\$0.25	\$0.77	\$0.97
Diluted Shares Outstanding	20,835	20,835	20,935

Source: Jefferies

Chart 3: CHEF Income Statement (\$ thousands, except per share data)

	2008A	2009A	2010A	2010PF					2011E					2011PFE	2012E
	52 weeks Dec-08 364	52 weeks Dec-09 364	52 weeks Dec-10 364	52 weeks Dec-10 364	Q1:11A	Q2:11A	Q3:11A	Q4:11E	53 weeks Dec-11 371	Q1:11PF	Q2:11PF	Q3:11PF	Q4:11PFE	53 weeks Dec-11 371	52 weeks Dec-12 364
				Pro Forma	Mar-11	Jun-11	Sep-11	Dec-11		Pro Forma	Pro Forma	Pro Forma	Pro Forma	Pro Forma	
					91	91	91	98		Mar-11	Jun-11	Sep-11	Dec-11		
Net Revenues	\$281,703	\$271,072	\$330,118	\$330,118	\$83,183	\$99,255	\$101,681	\$111,688	\$395,807	\$83,183	\$99,255	\$101,681	\$111,688	\$395,807	\$441,735
Cost of Sales	\$211,387	\$199,764	\$244,340	\$244,340	\$61,148	\$73,000	\$74,651	\$82,675	\$291,474	\$61,148	\$73,000	\$74,651	\$82,675	\$291,474	\$324,854
Gross Profit	\$70,316	\$71,308	\$85,778	\$85,778	\$22,035	\$26,255	\$27,030	\$29,013	\$104,333	\$22,035	\$26,255	\$27,030	\$29,013	\$104,333	\$116,881
Operating Expenses	\$59,955	\$57,580	\$63,491	\$66,965	\$16,976	\$18,351	\$21,290	\$19,877	\$76,494	\$17,441	\$18,766	\$19,568	\$19,992	\$75,767	\$81,466
EBIT (Operating)	\$10,361	\$13,728	\$22,287	\$18,813	\$5,059	\$7,904	\$5,740	\$9,136	\$27,839	\$4,594	\$7,489	\$7,462	\$9,021	\$28,566	\$35,415
Non-Recurring Items	-	-	-	-	-	\$200	\$400	-	\$600	-	\$200	\$400	-	\$600	-
EBIT (Reported)	\$10,361	\$13,728	\$22,287	\$18,813	\$5,059	\$7,704	\$5,340	\$9,136	\$27,239	\$4,594	\$7,289	\$7,062	\$9,021	\$27,966	\$35,415
EBIT (Operating)	\$10,361	\$13,728	\$22,287	\$18,813	\$5,059	\$7,904	\$5,740	\$9,136	\$27,839	\$4,594	\$7,489	\$7,462	\$9,021	\$28,566	\$35,415
Plus: Depreciation & Amortization	\$1,626	\$1,520	\$1,388	\$1,388	\$322	\$460	\$429	\$415	\$1,626	\$322	\$460	\$429	\$415	\$1,626	\$1,763
EBITDA	\$11,987	\$15,248	\$23,675	\$20,201	\$5,381	\$8,364	\$6,169	\$9,551	\$29,465	\$4,916	\$7,949	\$7,891	\$9,436	\$30,192	\$37,178
Interest Expense, Net	\$3,597	\$3,212	\$4,756	\$1,397	\$3,450	\$3,343	\$7,249	\$450	\$14,492	\$433	\$417	\$505	\$409	\$1,764	\$1,696
(Gain) / Loss on Fluctuation of Interest Rate Swap	\$1,118	(\$658)	(\$910)	(\$910)	(\$81)	-	-	-	(\$81)	(\$81)	-	-	-	(\$81)	-
Other	-	-	-	-	\$3	-	-	-	\$3	\$3	-	-	-	\$3	-
EBT	\$5,646	\$11,174	\$18,441	\$18,326	\$1,687	\$4,561	(\$1,509)	\$8,686	\$13,425	\$4,239	\$7,072	\$6,957	\$8,612	\$26,880	\$33,719
Income Taxes	\$3,450	\$2,213	\$2,567	\$7,147	\$667	\$1,786	(\$568)	\$3,388	\$5,273	\$1,663	\$2,765	\$2,713	\$3,359	\$10,500	\$13,150
Net Income (Loss) (Operating)	\$2,196	\$8,961	\$15,874	\$11,179	\$1,020	\$2,775	(\$941)	\$5,299	\$8,153	\$2,576	\$4,307	\$4,244	\$5,253	\$16,380	\$20,568
Non-Recurring Items (Net of Taxes)	-	-	-	\$854	-	(\$122)	(\$244)	-	(\$366)	-	(\$122)	(\$5,429)	-	(\$5,551)	-
Net Income (Loss) Reported	\$2,196	\$8,961	\$15,874	\$12,033	\$1,020	\$2,653	(\$1,185)	\$5,299	\$7,787	\$2,576	\$4,185	(\$1,185)	\$5,253	\$10,830	\$20,568
Disc Operations, Net of Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Reported) After Disc. Ops	\$2,196	\$8,961	\$15,874	\$12,033	\$1,020	\$2,653	(\$1,185)	\$5,299	\$7,787	\$2,576	\$4,185	(\$1,185)	\$5,253	\$10,830	\$20,568
Deemed Dividend Accretion on Class A Units	(\$3,000)	(\$6,207)	(\$4,123)	-	-	-	-	-	-	-	-	-	-	-	-
Deemed Dividend Paid to Class A Units	-	(\$22,429)	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Loss) to Common Stockholders	(\$804)	\$2,754	(\$10,678)	-	\$1,020	\$2,653	(\$1,185)	\$5,299	\$7,787	-	-	-	-	-	-
Diluted EPS (Operating)	NA	NA	NA	\$0.54	\$0.06	\$0.17	(\$0.05)	\$0.25	\$0.46	\$0.12	\$0.21	\$0.20	\$0.25	\$0.79	\$0.98
Diluted EPS (Reported)	NA	NA	NA	\$0.58	\$0.06	\$0.17	(\$0.06)	\$0.25	\$0.44	\$0.12	\$0.20	(\$0.06)	\$0.25	\$0.52	\$0.98
First Call Consensus												\$0.19	\$0.25	\$0.77	\$0.97
Weighted Avg. Diluted Shares Outstanding	NA	NA	NA	20,835	16,000	16,000	18,696	20,835	17,883	20,835	20,835	20,835	20,835	20,835	20,935
Growth Rates															
Net Revenues	10.0%	-3.8%	21.8%	NA	18.8%	18.7%	19.7%	NA	19.9%	18.8%	18.7%	19.7%	NA	19.9%	11.6%
Gross Profit	7.6%	1.4%	20.3%	NA	22.5%	19.7%	22.5%	NA	21.6%	22.5%	19.7%	22.5%	NA	21.6%	12.0%
Operating Expenses	1.0%	-4.0%	10.3%	NA	14.7%	12.7%	35.2%	NA	20.5%	15.7%	13.4%	22.3%	NA	13.1%	7.5%
EBIT (Operating)	73.9%	32.5%	62.3%	NA	59.2%	39.6%	-9.2%	NA	24.9%	57.7%	38.7%	23.2%	NA	51.8%	24.0%
EBIT (Reported)	73.9%	32.5%	62.3%	NA	59.2%	36.1%	-15.5%	NA	22.2%	57.7%	35.0%	16.6%	NA	48.7%	26.6%
Depreciation & Amortization	NM	-6.5%	-8.7%	NA	1.9%	3.8%	26.2%	NA	17.1%	1.9%	3.8%	26.2%	NA	17.1%	8.4%
EBITDA	NM	27.2%	55.3%	NA	54.1%	37.0%	-7.4%	NA	24.5%	52.2%	36.0%	23.3%	NA	49.5%	23.1%
Net Income (Operating)	64.9%	308.1%	77.1%	NA	-33.6%	-35.3%	NM	NA	-48.6%	81.7%	39.1%	21.0%	NA	46.5%	25.6%
Net Income (Reported)	NM	NM	NM	NA	186.5%	-14.7%	NM	NA	NM	81.7%	35.1%	NM	NA	-10.0%	89.9%
Diluted EPS (Operating)	NA	NA	NA	NA	319.0%	30.3%	NM	NA	NA	81.7%	39.1%	21.0%	NA	46.5%	25.0%
Diluted EPS (Reported)	NA	NA	NA	NA	319.0%	24.6%	NM	NA	NA	81.7%	35.1%	NM	NA	-10.0%	89.0%
Margin															
Gross Profit	25.0%	26.3%	26.0%	26.0%	26.5%	26.5%	26.6%	26.0%	26.4%	26.5%	26.5%	26.6%	26.0%	26.4%	26.5%
Operating Expenses (As % of Net Revenues)	21.3%	21.2%	19.2%	20.3%	20.4%	18.5%	20.9%	17.8%	19.3%	21.0%	18.9%	19.2%	17.9%	19.1%	18.4%
EBIT (Operating)	3.7%	5.1%	6.8%	5.7%	6.1%	8.0%	5.6%	8.2%	7.0%	5.5%	7.5%	7.3%	8.1%	7.2%	8.0%
EBIT (Reported)	3.7%	5.1%	6.8%	5.7%	6.1%	7.8%	5.3%	8.2%	6.9%	5.5%	7.3%	6.9%	8.1%	7.1%	8.0%
EBITDA	4.3%	5.6%	7.2%	6.1%	6.5%	8.4%	6.1%	8.6%	7.4%	5.9%	8.0%	7.8%	8.4%	7.6%	8.4%
Net Income (Operating)	0.8%	3.3%	4.8%	3.4%	1.2%	2.8%	-0.9%	4.7%	2.1%	3.1%	4.3%	4.2%	4.4%	4.1%	4.7%
Net Income (Reported)	-0.3%	1.0%	-3.2%	3.6%	1.2%	2.7%	-1.2%	4.7%	2.0%	3.1%	4.2%	-1.2%	4.7%	2.7%	4.7%
Change in Margin															
Change in Gross Profit Margin	-0.55%	1.34%	-0.32%	NA	0.80%	0.21%	0.60%	NA	0.38%	0.80%	0.21%	0.60%	NA	0.38%	0.10%
Change in Operating Expenses (As % of Net Revenue	-1.90%	-0.04%	-2.01%	NA	-0.74%	-0.98%	2.40%	NA	0.09%	-0.56%	-0.88%	0.40%	NA	-1.14%	-0.70%
Change in EBIT (Operating) Margin	1.35%	1.39%	1.69%	NA	1.54%	1.19%	-1.80%	NA	0.28%	1.36%	1.09%	0.21%	NA	1.52%	0.80%
Change in EBIT (Reported) Margin	1.35%	1.39%	1.69%	NA	1.54%	0.99%	-2.19%	NA	0.13%	1.36%	0.89%	-0.19%	NA	1.37%	0.95%
Change in EBITDA Margin	NA	1.37%	1.55%	NA	1.48%	1.13%	-1.77%	NA	0.27%	1.30%	1.02%	0.23%	NA	1.51%	0.79%
Effective Tax Rate	61.1%	19.8%	13.9%	39.0%	39.5%	39.2%	37.6%	39.0%	39.3%	39.2%	39.1%	39.0%	39.0%	39.1%	39.0%

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.

Analyst Certification

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I, Thilo Wrede, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

I, Mike Otway, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Jefferies & Company, Inc makes a market in the securities or ADRs of The Chefs' Warehouse, Inc.

Jefferies & Company, Inc makes a market in the securities or ADRs of United Natural Foods.

Within the past 12 months, Jefferies Group, Inc, its affiliates or subsidiaries has received compensation from investment banking services from The Chefs' Warehouse, Inc..

Jefferies Group, Inc, its affiliates or subsidiaries has acted as a manager or co-manager in the underwriting or placement of securities for The Chefs' Warehouse, Inc. or one of its affiliates within the past twelve months.

Meanings of Jefferies Ratings

Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below \$10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below \$10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

CS - Coverage Suspended. Jefferies has suspended coverage of this company.

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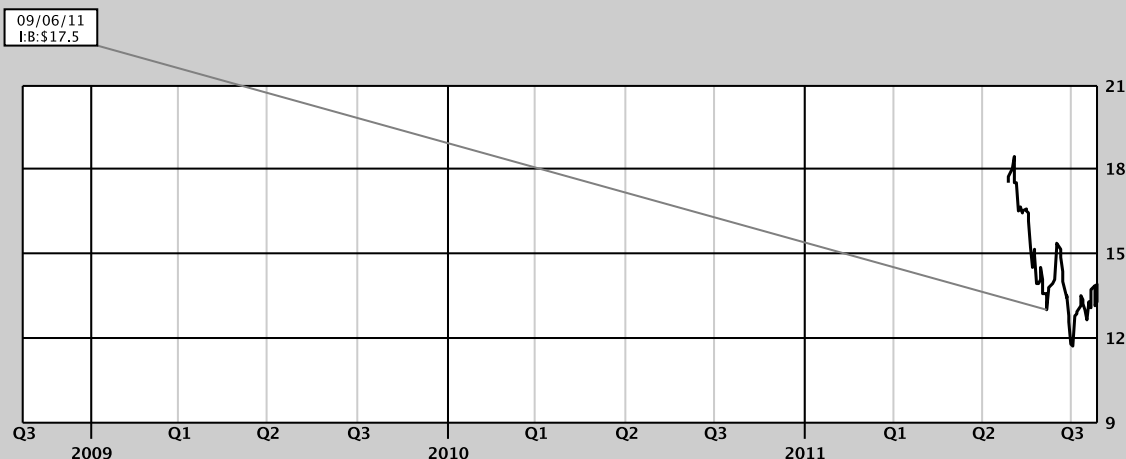
Risk which may impede the achievement of our Price Target

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Other Companies Mentioned in This Report

- United Natural Foods (UNFI: \$38.00, HOLD)

Rating and Price Target History for: The Chefs' Warehouse, Inc. (CHEF) as of 10-27-2011



Rating and Price Target History for: United Natural Foods (UNFI) as of 10-27-2011



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	755	54.30%	107	14.17%
HOLD	562	40.40%	53	9.43%
UNDERPERFORM	74	5.30%	2	2.70%

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