

October 28, 2011

Chefs' Warehouse

(CHEF-NASDAQ)

Stock Rating: Outperform
Industry Rating: Market Perform

Food Retail

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Still Cooking – Strong Top Line and In-Line EPS Despite Unanticipated Headwinds

Event

Chefs' Warehouse reported an in-line 3Q of \$0.19 despite a \$0.01 impact from Hurricane Irene and a \$0.01 impact from a temporary increase in transportation costs associated with the Harry Wils acquisition. What we liked: 1) the company is seeing no change in customer behavior, 2) organic sales trends remained robust in 3Q and have remained more or less unchanged in 4Q to date, 3) the company has successfully and seamlessly integrated its largest acquisition to date, 4) inflation came in at 2.7% in 3Q – down sequentially as a result of slightly lower inflation – mix remained unchanged, 5) the unchanged mix (sequentially) – indicates the company is not seeing an incremental trade down from their customers (or from the end-use consumer), and 6) FY11 top and bottom line guidance was maintained despite Hurricane Irene and higher-than-expected integration expenses. We maintain our **OUTPERFORM** rating and \$16 price target.

Impact

Neutral.

Forecasts

Our 4Q11 EPS estimate is \$0.26. For 2012, our EPS estimate is \$0.99. The consensus estimates are \$0.25 and \$0.97, respectively.

Valuation

CHEF is trading at an 2011 and 2012 EV/EBITDA of 11.0x and 8.2x, respectively.

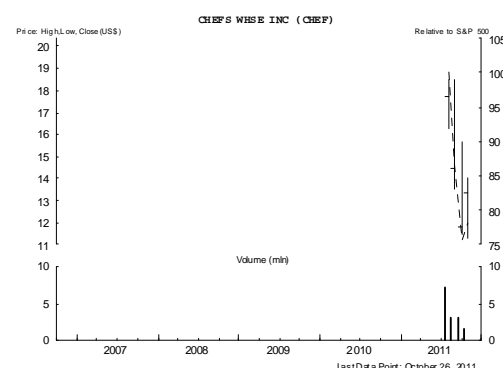
Recommendation

We maintain our **OUTPERFORM** rating.

Securities Info

Price (27-Oct)	\$13.93	Target Price	\$16
52-Wk High/Low	\$19/\$11	Dividend	--
Mkt Cap (mm)	\$290	Yield	--
Shs O/S (mm, BASIC)	20.8	Float O/S (mm)	9.2
Options O/S (mm)	na	ADVol (30-day, 000s)	137

Price Performance



Valuation/Financial Data

(FY-Dec.)	2009A	2010A	2011E	2012E
EPS Pro Forma	\$0.43	\$0.76	\$0.77	\$0.99
P/E			18.1x	14.1x
First Call Cons.			\$0.77	\$0.97
EPS GAAP	\$0.43	\$0.76	\$0.77	\$0.99
FCF	na	na	na	na
P/FCF			na	na
EBITDA (\$mm)	\$15	\$24	\$30	\$38
EV/EBITDA			11.0x	8.6x
Rev. (\$mm)	\$271	\$330	\$401	\$443
EV/Rev			0.8x	0.7x

Quarterly EPS	1Q	2Q	3Q	4Q
2010A	\$0.07	\$0.22	\$0.21	\$0.26
2011E	\$0.13A	\$0.20A	\$0.19A	\$0.26
Quarterly EBITDA	1Q	2Q	3Q	4Q
2010A	\$3.5	\$6.3	\$6.7	\$7.2
2011E	\$4.7A	\$7.6A	\$7.5A	\$9.8

Balance Sheet Data (na)

Net Debt (\$mm)	\$35	Total Debt/EBITDA	na
Total Debt (\$mm)	na	EBITDA/IntExp	na
Net Debt/Cap.	na	Price/Book	#DIV/0!

Notes: All values in US\$.

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

Key Points

Exhibit 1. CHEF Current Valuation

Chefs' Warehouse Current Valuation					
	2011E	2012E	2013E	2014E	2015E
Net Income	\$16.14	\$20.78			
EPS	\$0.77	\$0.99			
EBITDA	\$30	\$38			
EBITDAR	\$38	\$47			
Net Forward Debt	\$35.00	\$20			
# Shares	21	21	21	21	21
Current Stock Price	\$13.93	\$13.93	\$13.93	\$13.93	\$13.93
Market Cap	\$291	\$293	\$293	\$293	\$293
EV	\$326	\$312	\$291	\$266	\$238
P/E	18.0x	14.1x	12.0x	10.2x	8.9x
EV/EBITDA	11.0x	8.2x	6.6x	5.2x	4.1x
EPS Growth	1.3%	27.9%	17.4%	18.1%	14.8%

Source: Company reports, BMO Capital Markets estimates.

In 4Q11, we are looking for EPS of \$0.26 and EBITDA of \$9.8 million. The consensus estimate is \$0.25. Our estimate assumes total sales increase 18.0% to \$117.1 million – driven by 9% organic sales growth, and we assume gross margins expand 50 bp to 26.5%. We forecast operating expenses (excluding D&A) grow 27.8% to \$21.2 million, no change from last year's margin of 18.1% – leading to a 78-bp improvement in operating margins to 7.9%, or \$9.2 million. This gets us to EBITDA of \$9.8 million, a 50-bp expansion in margin to 8.4%. We assume interest expense of \$0.2 million, a 39.5% tax rate and 21.1 million shares outstanding, which gets us to EPS of \$0.26.

In 2012, our EPS estimate remains at \$0.99. Consensus EPS is \$0.97. Our EBITDA estimate is \$38.0 million. Our estimate assumes total sales increase 12.5% to \$442.5 million (vs. consensus of \$435.0 million), with gross margins improving 30 bp to 26.6%. We forecast operating expenses (excluding D&A) grow 5.1% to \$79.6 million, a 90-bp year-over-year improvement in margin – leading to a 116-bp improvement in operating margins to 8.0%, or \$35.5 million. This gets us to EBITDA of \$38.0 million, a 120-bp improvement in margin to 8.6%. We assume interest expense of \$1.2 million, a 39.5% tax rate and 21.0 million shares outstanding, which gets us to EPS of \$0.99.

In 3Q11, CHEF reported a LPS of \$0.06, or an EPS of \$0.19 when adjusting for several one-time items. Adjusted EPS was in line with both our estimate and consensus of \$0.19. Total sales increased 19.7% to \$101.7 million – versus our estimate for 13.5% growth. Gross margins improved 21 bp to 26.2%, which was better than our estimate for 75-bp deterioration. Operating expenses (excluding D&A) grew 24.3% to \$19.1 million when we exclude a one-time stock compensation expense and add expected incremental public company costs. We were looking for growth in operating expenses (excluding D&A) of 9.1%. Operating margins deteriorated 42 bp to 6.9%, or \$7.1 million, while EBITDA margins deteriorated 47 bp to 7.4%, or \$7.5 million. We were looking for operating margin deterioration of 20 bp and EBITDA

margin deterioration of 5 bp. Interest expense came in at \$0.5 million after adjusting for the post IPO capital structure and one time charges related to debt repayments in connection with the IPO. Using a normalized 39% tax rate and pro forma 20.8 million shares outstanding gets us to EPS of \$0.19.

Additional Takeaways

- The company has seen no change in customer behavior;
- Both case volumes and revenues per case increased in 3Q;
- The company's unique customer growth was in line with trends seen in 1H11;
- The company temporarily increased transportation infrastructure (fleet capacity increased 30% in 3Q) and labor infrastructure in order to maintain high service levels with the recently acquired Harry Wils customer base – this was a conscious decision made to minimize rates of (unwanted) attrition – and maximize retention;
- The decision to increase fleet capacity was largely a function of adjusting to new delivery windows for the acquired customer base. With time, the company will optimize routes and change delivery windows to minimize incremental expense;
- With the Harry Wils acquisition – one of CHEF's largest competitors, the split between organic growth and acquisitions will shift slightly to higher acquisition growth. This is not an indication that organic growth is slowing – it is merely a function of the fact that CHEF acquired a competitor that it had previously been gaining share from;
- Mix remained unchanged sequentially, while inflation abated slightly – largely a function of lower rates of inflation in dairy; and
- The improved gross margin was a function of a mix shift within the protein category to higher margin items.

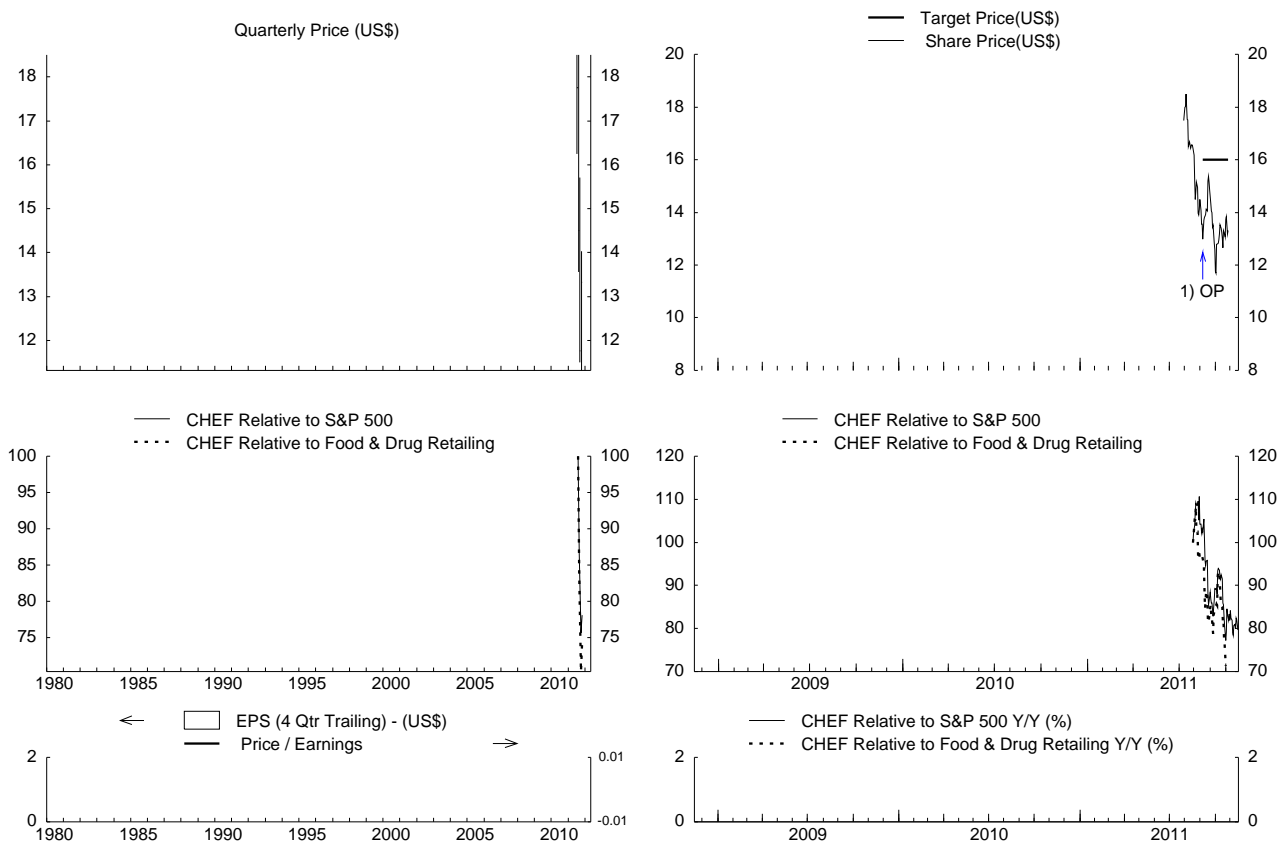
Chefs' Warehouse Income Statement													
	52 weeks 12/28/2007	52 weeks 12/26/2008	52 weeks 12/25/2009	3/26/2010	6/25/2010			52 weeks 12/24/2010	3/25/2011	6/24/2011		53 weeks 12/30/2011	
	2007	2008	2009	1Q10	2Q10	3Q10	4Q10	2010	1Q11	2Q11	3Q11	4Q11E	2011E 2012E
Revenues	\$256.13	\$281.70	\$271.07	\$70.00	\$83.61	\$84.93	\$91.58	\$330.12	\$82.90	\$99.26	\$101.68	\$117.06	\$400.90 \$442.50
Cost of Goods	\$190.79	\$211.39	\$199.76	\$52.02	\$61.67	\$62.86	\$67.79	\$244.34	\$61.50	\$73.00	\$75.05	\$86.07	\$295.62 \$324.97
Gross Profit	\$65.35	\$70.32	\$71.31	\$17.98	\$21.94	\$22.06	\$23.79	\$85.78	\$21.40	\$26.26	\$26.63	\$31.00	\$105.28 \$117.53
D&A	\$1.94	\$1.99	\$1.92	\$0.46	\$0.50	\$0.41	\$0.73	\$2.10	\$0.60	\$0.39	\$0.43	\$0.61	\$2.03 \$2.44
Total Operating Expenses (Ex. D&A)	\$57.45	\$58.33	\$56.06	\$14.49	\$15.64	\$15.40	\$16.57	\$62.10	\$16.70	\$18.66	\$19.14	\$21.19	\$75.69 \$79.56
Total Operating Expenses (Incl. D&A)	\$59.39	\$60.31	\$57.98	\$14.953	\$16.14	\$15.81	\$17.31	\$64.21	\$17.30	\$19.05	\$19.57	\$21.80	\$77.72 \$82.00
Operating Income	\$5.96	\$10.00	\$13.33	\$3.03	\$5.80	\$6.25	\$6.48	\$21.57	\$4.10	\$7.20	\$7.06	\$9.20	\$27.56 \$35.54
EBITDA	\$7.90	\$11.99	\$15.25	\$3.49	\$6.31	\$6.66	\$7.21	\$23.68	\$4.70	\$7.60	\$7.491	\$9.81	\$29.60 \$37.98
Interest	\$3.52	\$3.24	\$2.82	\$0.63	\$0.51	\$0.47	\$2.43	\$4.04	\$0.40	\$0.42	\$0.51	\$0.20	\$1.52 \$1.18
Gain on Settlement	\$1.10												
Gain/Loss on Interest Rate Swap	-\$0.62	-\$1.12	\$0.66	\$0.18	\$0.25	\$0.23	\$0.25	\$0.91	\$0.40	\$0.00	\$0.00	\$0.00	\$0.40 \$0.00
Other									\$0.00	\$0.00	\$0.00	\$0.00	
Income Before Tax	\$2.92	\$5.65	\$11.17	\$2.59	\$5.54	\$6.01	\$4.31	\$18.44	\$4.10	\$6.79	\$6.56	\$9.00	\$26.44 \$34.35
Taxes	\$0.79	\$3.45	\$2.21	\$1.05	\$1.05	\$1.60	-\$1.13	\$2.57	\$1.50	\$2.69	\$2.56	\$3.55	\$10.30 \$13.57
Net Income	\$2.14	\$2.20	\$8.96	\$1.54	\$4.49	\$4.41	\$5.44	\$15.87	\$2.60	\$4.10	\$4.00	\$5.44	\$16.14 \$20.78
Tax Rate	26.9%	61.1%	19.8%	40.6%	19.0%	26.6%	-26.3%	13.9%	36.6%	39.6%	39.0%	39.5%	38.9% 39.5%
Diluted EPS	\$0.10	\$0.11	\$0.43	\$0.07	\$0.22	\$0.21	\$0.26	\$0.76	\$0.13	\$0.20	\$0.19	\$0.26	\$0.77 \$0.99
Basic	20.32	20.32	20.32	20.12	20.16	20.45	20.54	20.32	20.12	20.12	20.45	20.54	20.31 20.80
Diluted	20.77	20.77	20.77	20.67	20.67	20.87	20.87	20.77	20.67	20.83	20.83	21.10	20.86 21.00
Consensus EBITDA													\$390.86 \$434.97
Consensus Sales													\$29.73 \$36.88
Consensus EPS													\$0.77 \$0.97
Growth													
Sales		10.0%	-3.8%	17.7%	22.5%	23.7%	22.6%	21.8%	18.4%	18.7%	19.7%	18.0%	21.4% 12.5%
Organic Sales growth		4.2%	-6.2%	10.0%	12.0%	11.0%	10.6%	10.9%	10.9%	13.0%	10.6%	9%	6%
Inflation - contribution to sales		n/a	-0.6%	4.6%	7.5%	9.0%	9.4%	7.8%	4.9%	3.3%	2.7%	3%	4%
Acquisitions - contribution to sales		5.8%	3.0%	3.0%	3.0%	3.7%	2.7%	3.1%	3.0%	2.0%	6.4%	6%	3%
Operating Expenses (Ex. D&A)		1.5%	-3.9%					10.8%	15.3%	19.3%	24.3%	27.8%	21.9% 5.1%
Operating Expenses (Incl. D&A)		1.6%	-3.9%					10.7%	15.7%	18.1%	23.8%	25.9%	21.0% 5.5%
Operating Income		67.9%	33.3%					61.8%	35.3%	24.1%	12.9%	41.9%	27.8% 28.9%
EBITDA		51.7%	27.2%					55.3%	34.5%	20.4%	12.5%	35.9%	25.0% 28.3%
Net Income		2.8%	308.1%					77.1%	69.0%	-8.7%	-9.3%	0.1%	1.7% 28.8%
EPS			308.1%					77.1%					1.3% 27.9%
Margins													
Gross	25.5%	25.0%	26.3%	25.7%	26.24%	25.98%	25.98%	26.0%	25.8%	26.45%	26.19%	26.48%	26.26% 26.56%
D&A	0.8%	0.7%	0.7%	0.7%	0.6%	0.5%	0.8%	0.6%	0.7%	0.4%	0.4%	0.5%	0.5% 0.6%
Operating Expenses (Ex. D&A)				20.7%	18.7%	18.1%	18.1%	18.8%	20.1%	18.8%	18.8%	18.1%	18.9% 18.0%
Operating Expenses (Incl. D&A)	23.2%	21.4%	21.4%	21.4%	19.3%	18.6%	18.9%	19.4%	20.9%	19.2%	19.2%	18.6%	19.4% 18.5%
Operating Income	2.3%	3.6%	4.9%	4.3%	6.9%	7.4%	7.1%	6.5%	4.9%	7.3%	6.9%	7.9%	6.9% 8.0%
EBITDA	3.1%	4.3%	5.6%	5.0%	7.5%	7.8%	7.9%	7.2%	5.7%	7.7%	7.4%	8.4%	7.4% 8.6%
Tax	26.9%	61.1%	19.8%	40.6%	19.0%	26.6%	-26.3%	13.9%	36.6%	39.6%	39.0%	39.5%	38.9% 39.5%
Net	0.8%	0.8%	3.3%	2.2%	5.4%	5.2%	5.9%	4.8%	3.1%	4.1%	3.9%	4.7%	4.0% 4.7%
Change in Margins													
Gross		-55bp	134bp					-32bp	12bp	21bp	21bp	50bp	28bp 30bp
D&A		-5bp	0bp					-7bp	6bp	-20bp	-6bp	-28bp	-13bp 4bp
Operating Expenses (Ex. D&A)									-55bp	10bp	69bp	0bp	7bp -90bp
Operating Expenses (Incl. D&A)		-178bp	-2bp					-194bp	-49bp	-11bp	63bp	-28bp	-6bp -86bp
Operating Income		122bp	137bp					162bp	62bp	31bp	-42bp	78bp	34bp 116bp
EBITDA		117bp	137bp					155bp	68bp	11bp	-47bp	50bp	21bp 120bp
Net		-5bp	253bp					150bp	94bp	-124bp	-126bp	-129bp	-78bp 67bp

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: October 26, 2011

Important Disclosures

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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 9.4x and P/E of 16.2x.

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 (September 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	39.2%	12.6%	38.8%	42.5%	48.1%	57.2%
Hold	Market Perform	58.9%	13.2%	61.2%	54.6%	50.9%	38.5%
Sell	Underperform	1.9%	0.0%	0.0%	2.9%	0.9%	4.3%

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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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