

July 26, 2012

Chefs' Warehouse

(CHEF-NASDAQ)

Stock Rating: Outperform
Industry Rating: Market Perform

Food Retail

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Higher-End Customers Should Insulate CHEF From Broader Restaurant Industry Woes

Event

Chef will report 2Q12 on July 31 with a call at 5 p.m. ET. Our \$0.23 EPS is slightly less than consensus of \$0.24. We are forecasting sales growth of 19%, EBIT growth of 20.3%, and EPS growth of 18.4%. Although restaurant data points have been mixed, we believe CHEF is – for the most part – insulated from the recent negative industry data points because the company focuses on the higher-end segment. As evidenced by WFM's results last night, the higher-end consumer has proven to be fairly resilient.

Impact

CHEF's recent weakness reflects: 1) shaky industry data points, 2) fears that the new CFO might reduce guidance, and exacerbated by 3) low trading volume. Given the recent weakness, CHEF is now trading at 7.8x our FY13 EV/EBITDAR – in line with SYU and at a steep discount to UNFI. We have always maintained CHEF should trade in between the two. As a result, we believe the current level presents new investors with an attractive entry point because we believe the stock has significant long-term upside given the company's industry-leading position in a very fragmented market, strong (and recently strengthened) management team, sustainable organic top line, extremely attractive ROIC, and long-term potential EPS growth.

Forecasts

Our 2Q12 and FY12 EPS estimates are \$0.23 and \$0.91, respectively. Consensus is \$0.24 and \$0.91. Guidance is \$0.91-\$0.94, with revenues of \$452-\$462m. Guidance reflects a deflationary environment in dairy – and while the category could remain deflationary for the year – we believe it is likely to be less deflationary than (previously) expected.

Valuation

CHEF is trading at a FY13 EV/EBITDAR of 7.8x and a P/E of 14.2x.

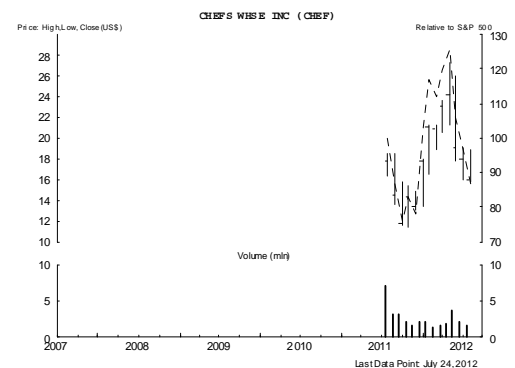
Recommendation

We maintain our **OUTPERFORM** rating on CHEF.

Securities Info

Price (25-Jul)	\$16.14	Target Price	\$26
52-Wk High/Low	\$27/\$11	Dividend	--
Mkt Cap (mm)	\$338	Yield	--
Shs O/S (mm, BASIC)	20.9	Float O/S (mm)	10.8
Options O/S (mm)	41.6	ADVOL (30-day, 000s)	109

Price Performance



Valuation/Financial Data

(FY-Dec.)	2010A	2011A	2012E	2013E
EPS Pro Forma	\$0.76	\$0.77	\$0.91	\$1.14
P/E			17.7x	14.2x
First Call Cons.			\$0.91	\$1.10
EPS GAAP	\$0.76	\$0.77	\$0.91	\$1.14
FCF	na	na	na	na
P/FCF			na	na
EBITDA (\$mm)	\$24	\$30	\$37	\$44
EV/EBITDA			10.2x	8.4x
Rev. (\$mm)	\$330	\$400	\$461	\$512
EV/Rev			0.8x	0.7x
Quarterly EPS	1Q	2Q	3Q	4Q
2011A	\$0.13	\$0.20	\$0.19	\$0.26
2012E	\$0.13A	\$0.23	\$0.23	\$0.32
Quarterly EBITDA	1Q	2Q	3Q	4Q
2011A	\$4.7	\$7.6	\$7.5	\$10.2
2012E	\$5.7A	\$9.3	\$9.1	\$12.5
Balance Sheet Data (30-Mar)				
Net Debt (\$mm)	\$35			1.1x
Total Debt (\$mm)	\$42			EBITDA/IntExp
Net Debt/Cap.	51.4%			Price/Book
				12.8x

Notes: All values in US\$.

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

Key Points

Exhibit 1. CHEF Current Valuation

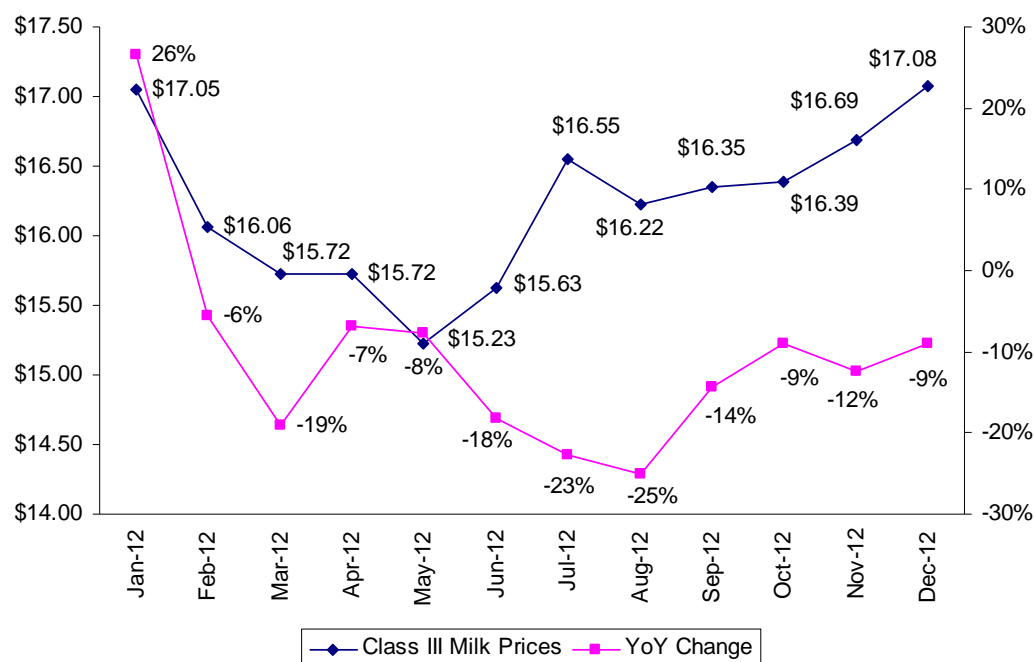
Chefs' Warehouse Current Valuation		
	2012E	2013E
Net Income	\$19.07	\$23.85
EPS	\$0.91	\$1.14
EBITDA	\$37	\$44
EBITDAR	\$46	\$54
Net Forward Debt	\$26	\$7
# Shares	21	21
Current Stock Price	\$16.14	\$16.14
Market Cap	\$338	\$338
EV	\$363	\$345
P/E	17.7x	14.2x
EV/EBITDA	9.9x	7.8x
EPS Growth	17.7%	25.0%

Source: Company reports, BMO Capital Markets estimates.

Areas of focus for the conference call:

- Cadence of sales throughout 2Q, and sales trends into 3Q12.
- Updated guidance for FY12.
- The breakdown of total sales growth into organic growth, and the impact due to acquisitions and inflation. Additionally, some color on trends on unique customers.
- Progress on transitioning to the new facility in the Bronx and to the Praml facility in Las Vegas.
- Some color on the state of the consumer and, as a result, the health of the restaurant operators that Chef serves.
- Some color on inflation trends and the company's ability to pass on cost increases to its customers. Additionally, management's outlook for inflation especially in dairy.
- Trends in case volumes and revenues per case.
- Management's thoughts on the opportunity for new market entries – specifically, how many markets the company can ultimately enter and an outline of the criteria management uses to evaluate potential markets.
- An update on the quality of the acquisition pipeline, and on the company's sense of urgency to enter new categories such as meat, seafood, produce, direct ship pastry and supplies.
- Some color on the competitive environment.
- Now that the company has acquired three companies over the last 13 months – some commentary on the stickiness of the acquired customers, including: how retention levels change as the transaction ages, a typical percentage of customers CHEF expects to retain one year post acquisition, and how order sizes progress.

Dairy trends in 2Q12 and projections for the remainder of 2012. Exhibit 2 details dairy prices in FY12 to date, year-over-year price comparisons, as well as forecasts for the remainder of the year. While dairy could remain deflationary for the rest of FY12 – the magnitude abates materially – as a result, we believe the dairy headwind could be slightly lower than previously discussed and guided. We will ask for an update on dairy on next week's call.

Exhibit 2. Historical and Projected Class III Milk Prices

Source: Bloomberg, Company reports, BMO Capital Markets estimates.

Our 2Q12 EPS estimate is \$0.23 vs. consensus of \$0.24. Our EBITDA estimate is \$9.3 million. Our estimate assumes total sales increase 19.0% to \$118.1 million – driven by 9.0% organic sales growth, and we assume gross margins expand 75 bp to 27.2%. We forecast operating expenses (excluding D&A) grow 22.5% to \$22.9 million, or a 55 bp increase as a percentage of sales to 19.3% – leading to an 8 bp improvement in operating margins to 7.3%, or \$8.7 million. This gets us to EBITDA of \$9.3 million, a 20 bp expansion in margin to 7.9%. We assume interest expense of \$0.4 million, a 41.0% tax rate, and 20.9 million shares outstanding, which gets us to EPS of \$0.23 – an 18.4% increase from 2Q11.

In FY2012, our estimate is \$0.91 vs. consensus of \$0.91. Our EBITDA estimate is \$36.6 million. Our estimate assumes total sales increase 15.2% to \$461.0 million (vs. consensus of \$463.1 million), with gross margins improving 67 bp to 27.0%. We forecast operating expenses (excluding D&A) grow 16.6% to \$87.8 million, a 24 bp year-over-year deterioration in margin – leading to a 39 bp improvement in operating margins to 7.4%, or \$34.1 million. This gets us to EBITDA of \$36.6 million, a 44 bp improvement in margin to 7.9%. We assume interest expense of \$1.8 million, a 41.1% tax rate, and 20.9 million shares outstanding, which gets us to EPS of \$0.91.

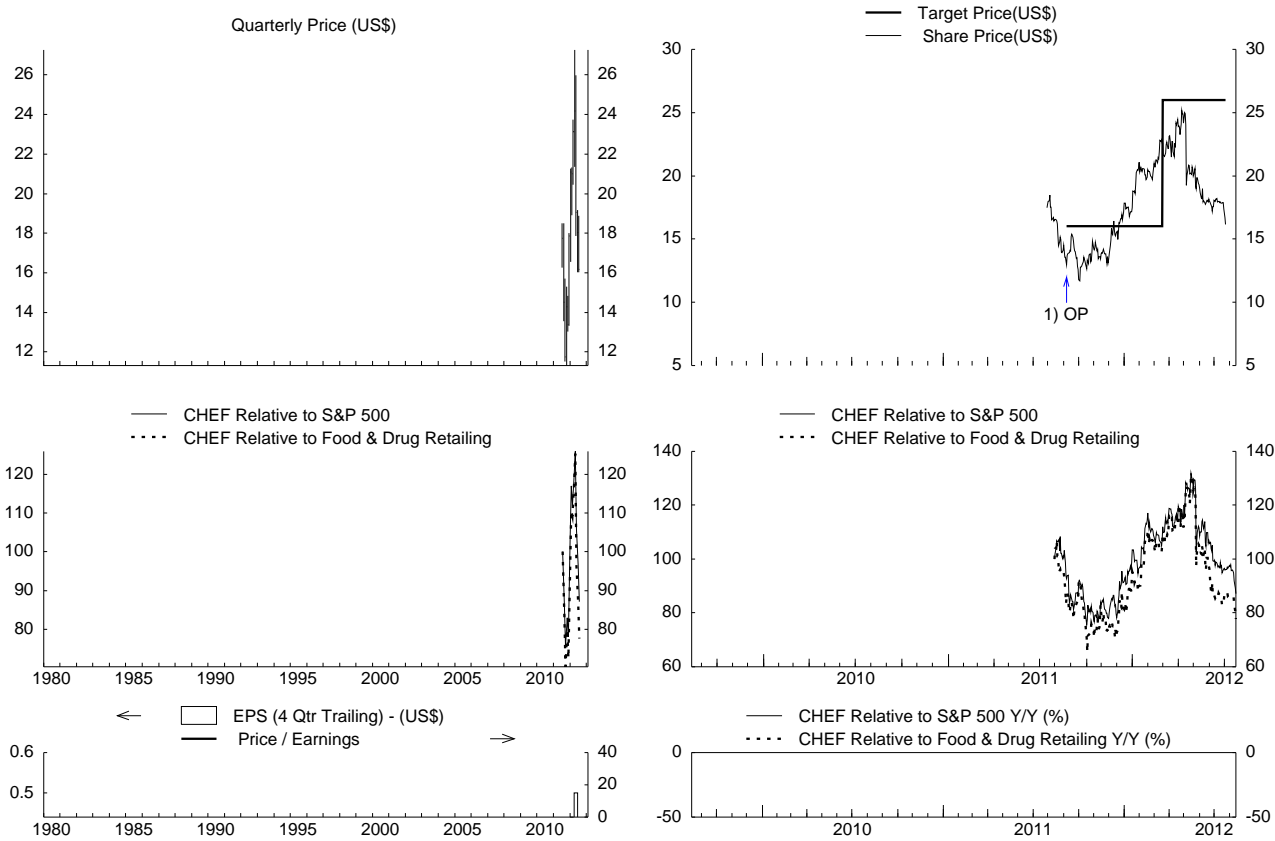
Other companies mentioned (priced as of the close on July 25, 2012):

Whole Foods (WFM, \$84.53, **OUTPERFORM**)
 Sysco (SYY, \$28.31, **MARKET PERFORM**)
 United Natural Foods (UNFI, \$51.53, **OUTPERFORM**)

Chefs' Warehouse Income Statement															
	52 weeks 12/28/2007	52 weeks 12/26/2008	52 weeks 12/25/2009	52 weeks 12/24/2010	3/25/2011	6/24/2011			53 weeks 12/30/2011						
	2007	2008	2009	2010	1Q11	2Q11	3Q11	4Q11	2011	1Q12	2Q12E	3Q12E	4Q12E	2012E	2013E
Revenues	\$256.13	\$281.70	\$271.07	\$330.12	\$82.90	\$99.26	\$101.68	\$116.51	\$400.35	\$98.07	\$118.11	\$117.95	\$126.91	\$461.04	\$511.76
Cost of Goods	\$190.79	\$211.39	\$199.76	\$244.34	\$61.50	\$73.00	\$75.05	\$85.50	\$295.05	\$72.02	\$85.98	\$86.17	\$92.49	\$336.67	\$372.43
Gross Profit	\$65.35	\$70.32	\$71.31	\$85.78	\$21.40	\$26.26	\$26.63	\$31.01	\$105.30	\$26.05	\$32.13	\$31.78	\$34.42	\$124.37	\$139.33
D&A	\$1.94	\$1.99	\$1.92	\$2.10	\$0.60	\$0.39	\$0.43	\$0.51	\$1.93	\$0.61	\$0.61	\$0.61	\$0.61	\$2.44	\$2.44
Total Operating Expenses (Incl. D&A)	\$59.39	\$60.31	\$57.98	\$64.21	\$17.30	\$19.05	\$19.57	\$21.32	\$77.24	\$20.99	\$23.46	\$23.28	\$22.51	\$90.25	\$97.35
Total Operating Expenses (Ex. D&A)	\$57.45	\$58.33	\$56.06	\$62.10	\$16.70	\$18.66	\$19.14	\$20.81	\$75.31	\$20.39	\$22.85	\$22.67	\$21.90	\$87.81	\$94.91
Operating Income	\$5.96	\$10.00	\$13.33	\$21.57	\$4.10	\$7.20	\$7.06	\$9.70	\$28.06	\$5.06	\$8.67	\$8.49	\$11.90	\$34.12	\$41.98
EBITDA	\$7.90	\$11.99	\$15.25	\$23.68	\$4.70	\$7.60	\$7.491	\$10.207	\$29.99	\$5.66	\$9.28	\$9.10	\$12.51	\$36.56	\$44.41
Interest	\$3.52	\$3.24	\$2.82	\$4.04	\$0.40	\$0.42	\$0.51	\$0.53	\$1.85	\$0.55	\$0.40	\$0.40	\$0.40	\$1.75	\$1.63
Gain on Settlement	\$1.10														
Gain/Loss on Interest Rate Swap	-\$0.62	-\$1.12	\$0.66	\$0.91	\$0.40	\$0.00	\$0.00	\$0.00	\$0.40	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.07
Other					\$0.00			\$0.00							
Income Before Tax	\$2.92	\$5.65	\$11.17	\$18.44	\$4.10	\$6.79	\$6.56	\$9.17	\$26.61	\$4.51	\$8.27	\$8.09	\$11.50	\$32.37	\$40.42
Taxes	\$0.79	\$3.45	\$2.21	\$2.57	\$1.50	\$2.69	\$2.56	\$3.76	\$10.50	\$1.88	\$3.39	\$3.32	\$4.72	\$13.30	\$16.57
Net Income	\$2.14	\$2.20	\$8.96	\$15.87	\$2.60	\$4.10	\$4.00	\$5.41	\$16.11	\$2.63	\$4.88	\$4.77	\$6.79	\$19.07	\$23.85
Tax Rate	26.9%	61.1%	19.8%	13.9%	36.6%	39.6%	39.0%	41.0%	39.5%	41.6%	41.0%	41.0%	41.0%	41.1%	41.0%
Diluted EPS	\$0.10	\$0.11	\$0.43	\$0.76	\$0.13	\$0.20	\$0.19	\$0.26	\$0.77	\$0.13	\$0.23	\$0.23	\$0.32	\$0.91	\$1.14
Diluted	20.77	20.77	20.77	20.77	20.67	20.83	20.83	20.84	20.79	20.90	20.93	20.93	20.93	20.92	20.92
Consensus EPS								\$0.25	\$0.77	\$0.16	\$0.26	\$0.25	\$0.30	\$0.95	\$1.13
Growth															
Sales		10.0%	-3.8%	21.8%	18.4%	18.7%	19.7%	27.2%	21.3%	18.3%	19.0%	16.0%	18.0%	15.2%	11.0%
Organic Sales growth		4.2%	-6.2%	10.9%	10.9%	13.0%	10.6%	8.8%	11.4%	7%	9%	9%	9%		8%
Inflation - contribution to sales		n/a	-0.6%	7.8%	4.9%	3.3%	2.7%	1.1%	2.2%	-1.7%	-2.0%	-2.0%	0.0%		3%
Acquisitions - contribution to sales		5.8%	3.0%	3.1%	3.0%	2.0%	6.4%	10.0%	5.7%	11%	12%	9%	9%		0%
Impact of extra week - contribution to sales								7.2%	2.0%						
Operating Expenses (Ex. D&A)		1.5%	-3.9%	10.8%	15.3%	19.3%	24.3%	25.5%	21.3%	22.1%	22.5%	18.5%	5.3%	16.6%	8.1%
Operating Expenses (Incl. D&A)		1.6%	-3.9%	10.7%	15.7%	18.1%	23.8%	23.2%	20.3%	21.3%	23.2%	19.0%	5.6%	16.8%	7.9%
Operating Income		67.9%	33.3%	61.8%	35.3%	24.1%	12.9%	49.6%	30.1%	23.4%	20.3%	20.3%	22.8%	21.6%	23.0%
EBITDA		51.7%	27.2%	55.3%	34.5%	20.4%	12.5%	41.5%	26.7%	20.5%	22.1%	21.5%	22.6%	21.9%	21.5%
Net Income		2.8%	308.1%	77.1%	69.0%	-8.7%	-9.3%	-0.6%	1.5%	1.4%	19.0%	19.4%	25.5%	18.4%	25.0%
EPS			308.1%	77.1%					1.4%					17.7%	25.0%
Margins															
Gross	25.5%	25.0%	26.3%	26.0%	25.8%	26.45%	26.19%	26.62%	26.30%	26.56%	27.20%	26.94%	27.12%	26.98%	27.2%
D&A	0.8%	0.7%	0.7%	0.6%	0.7%	0.4%	0.4%	0.4%	0.5%	0.6%	0.5%	0.5%	0.5%	0.5%	0.5%
Operating Expenses (Ex. D&A)				18.8%	20.1%	18.8%	18.8%	17.9%	18.8%	20.8%	19.3%	19.2%	17.3%	19.0%	18.5%
Operating Expenses (Incl. D&A)	23.2%	21.4%	21.4%	19.4%	20.9%	19.2%	19.2%	18.3%	19.3%	21.4%	19.9%	19.7%	17.7%	19.6%	19.0%
Operating Income	2.3%	3.6%	4.9%	6.5%	4.9%	7.3%	6.9%	8.3%	7.0%	5.2%	7.3%	7.2%	9.4%	7.4%	8.2%
EBITDA	3.1%	4.3%	5.6%	7.2%	5.7%	7.7%	7.4%	8.8%	7.5%	5.8%	7.9%	7.7%	9.9%	7.9%	8.7%
Tax	26.9%	61.1%	19.8%	13.9%	36.6%	39.6%	39.0%	41.0%	39.5%	41.6%	41.0%	41.0%	41.0%	41.1%	41.0%
Net	0.8%	0.8%	3.3%	4.8%	3.1%	4.1%	3.9%	4.6%	4.0%	2.7%	4.1%	4.0%	5.3%	4.1%	4.7%
Change in Margins															
Gross		-55bp	134bp	-32bp	12bp	21bp	21bp	64bp	32bp	75bp	75bp	75bp	50bp	67bp	25bp
D&A		-5bp	0bp	-7bp	6bp	-20bp	-6bp	-36bp	-15bp	-11bp	12bp	10bp	4bp	5bp	-5bp
Operating Expenses (Ex. D&A)					-55bp	10bp	69bp	-24bp	0bp	64bp	55bp	40bp	-60bp	24bp	-50bp
Operating Expenses (Incl. D&A)		-178bp	-2bp	-194bp	-49bp	-11bp	63bp	-60bp	-16bp	54bp	67bp	50bp	-56bp	28bp	-55bp
Operating Income		122bp	137bp	162bp	62bp	31bp	-42bp	124bp	47bp	21bp	8bp	25bp	106bp	39bp	80bp
EBITDA		117bp	137bp	155bp	68bp	11bp	-47bp	88bp	32bp	11bp	20bp	35bp	110bp	44bp	75bp
Net		-5bp	253bp	150bp	94bp	-124bp	-126bp	-130bp	-78bp	-45bp	0bp	11bp	71bp	11bp	52bp

Source: Company reports, BMO Capital Markets estimates.

CHEFS WHSE INC (CHEF)

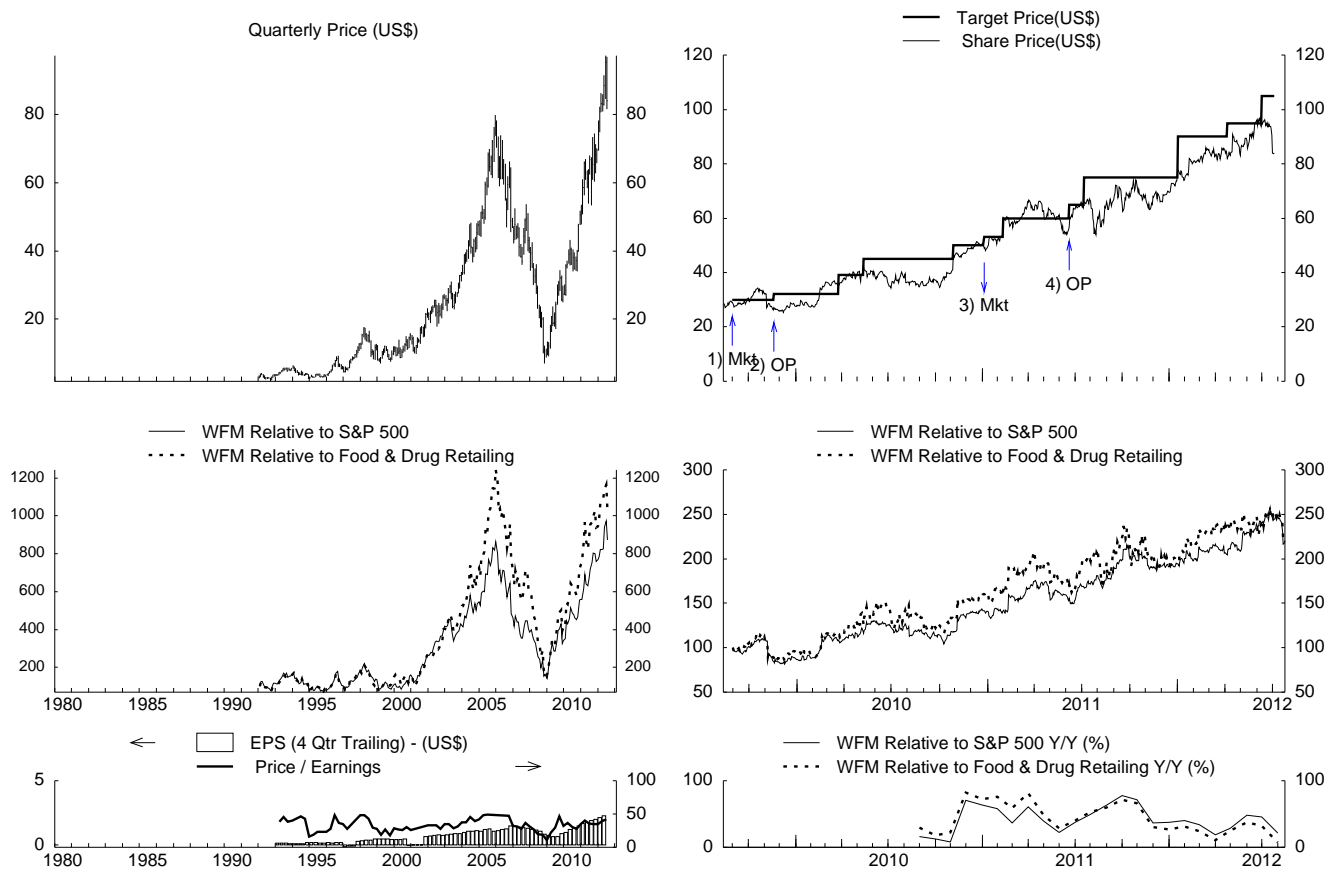


CHEF - Rating as of 28-Jul-11 = NR

Date	Rating Change	Share Price
1 6-Sep-11	NR to OP	\$13.56

Last Daily Data Point: July 23, 2012

WHOLE FOODS MKT INC (WFM)

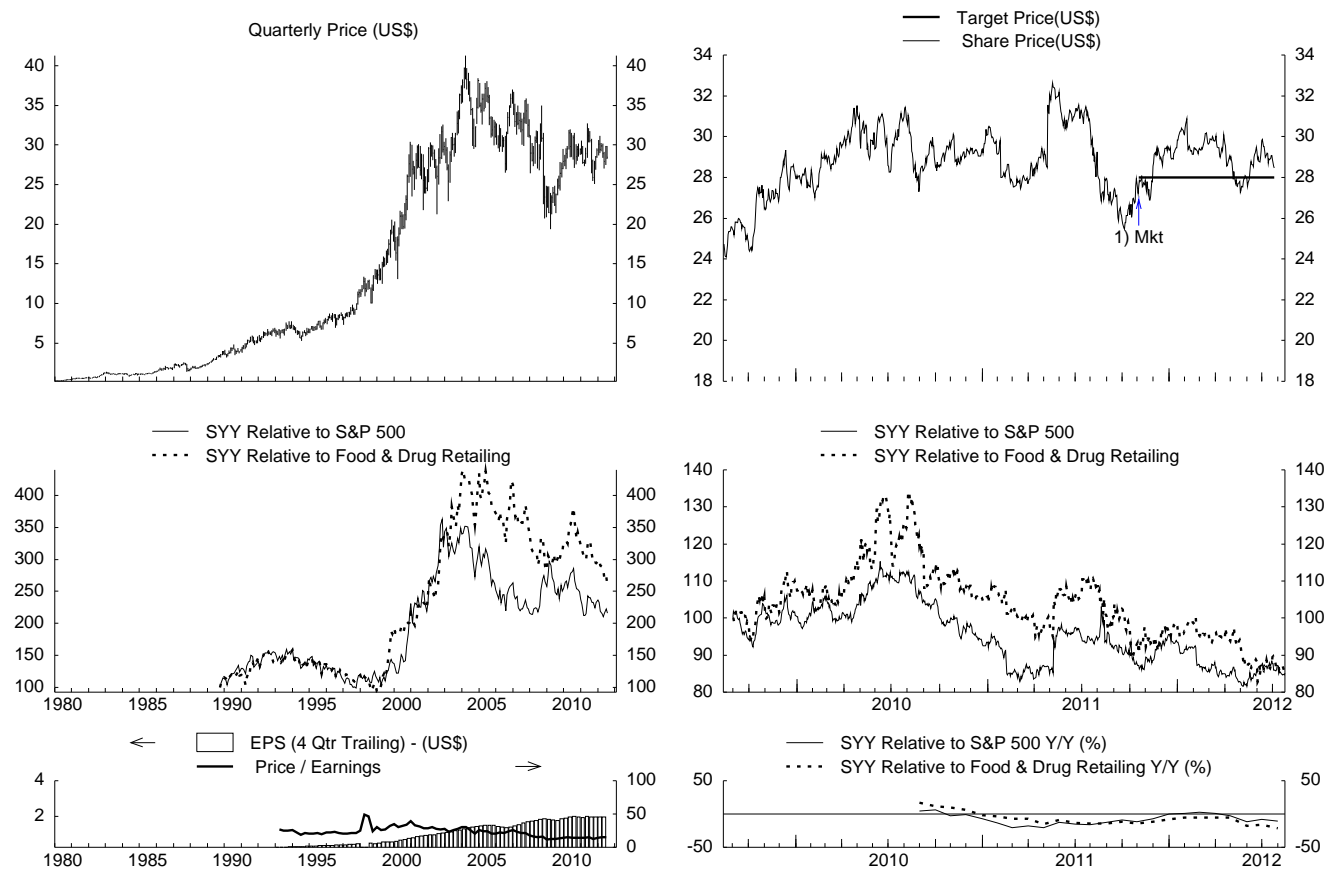


WFM - Rating as of 13-Aug-09 = NR

	Date	Rating Change	Share Price
1	31-Aug-09	NR to Mkt	\$29.11
2	19-Nov-09	Mkt to OP	\$26.21
3	4-Jan-11	OP to Mkt	\$50.75
4	20-Jun-11	Mkt to OP	\$55.69

Last Daily Data Point: July 24, 2012

SYSCO CORP (SYY)

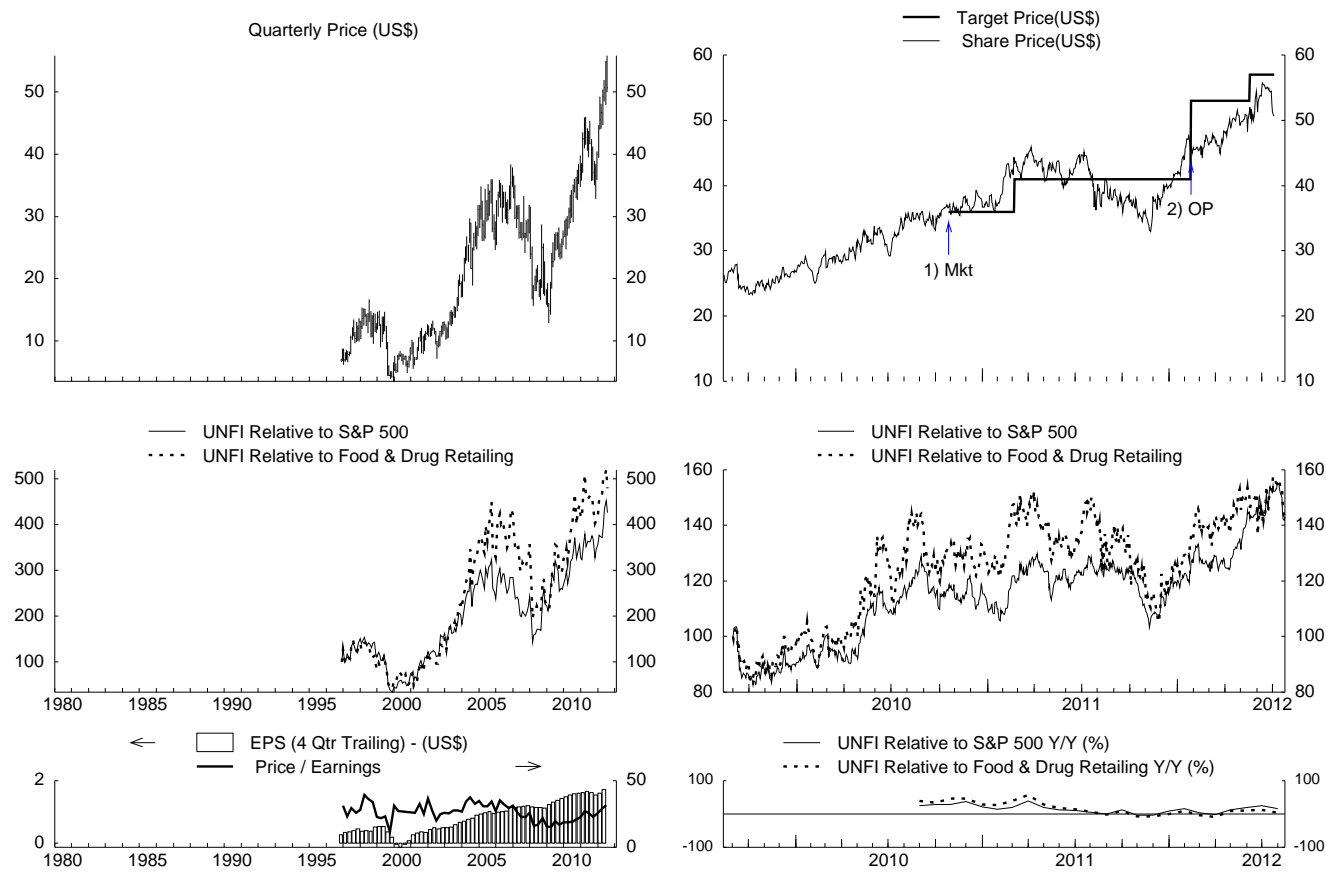


SYY - Rating as of 13-Aug-09 = NR

	Date	Rating Change	Share Price
1	2-Nov-11	NR to Mkt	\$27.20

Last Daily Data Point: July 24, 2012

UNITED NAT FOODS INC (UNFI)



UNFI - Rating as of 13-Aug-09 = NR

	Date	Rating Change	Share Price
1	27-Oct-10	NR to Mkt	\$36.61
2	13-Feb-12	Mkt to OP	\$45.26

Last Daily Data Point: July 24, 2012

Important Disclosures**Analyst's Certification**

I, Karen Short, hereby certify that the views expressed in this report accurately reflect my personal views about the subject securities or issuers. 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 report.

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Company Specific Disclosure for CHEF

Disclosure 1: BMO Capital Markets has undertaken an underwriting liability with respect to this issuer within the past 12 months.

Disclosure 2: BMO Capital Markets has provided investment banking services with respect to this issuer within the past 12 months.

Disclosure 3: BMO Capital Markets has managed or co-managed a public offering of securities with respect to this issuer within the past 12 months.

Disclosure 4: BMO Capital Markets or an affiliate has received compensation for investment banking services from this issuer within the past 12 months.

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Disclosure 9: BMO Capital Markets makes a market in this security.

Methodology and Risks to Our Price Target/Valuation for CHEF

Methodology: Our target price values CHEF at a FY2013 EV/EBITDA of 11.7x and P/E of 22.8x

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.

Company Specific Disclosures for WFM

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9 - BMO Capital Markets makes a market in this security.

Methodology and Risks to Our Price Target/Valuation

Methodology: Our target price values WFMI at a P/E of 26.9x and an EV/EBITDA of 8.0x.

Risks: Key risks to our price target include further expansion into the natural and organics space by conventional retailers, a decline in consumer spend levels, trade down activity both within the store and to other retailers or discount operators, an increase in unemployment and an increase in labor costs.

Company Specific Disclosures for SYY

9 - BMO Capital Markets makes a market in this security.

Methodology and Risks to Our Price Target/Valuation

Methodology: Our target price values SYY at an FY13 EV/EBITDAR of 7.4x and P/E of 14.6x.

Risks: Key risks to our SYY price target include increased competition from other broadline operators or consolidation among regional distributors, deterioration in the national economy as it relates to discretionary spending at restaurants, the success and completion of future acquisitions at fair prices, the success and on time completion of the Business Transformation Project, restaurant unit growth rates, and the rate of inflation.

Company Specific Disclosures for UNFI

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Methodology and Risks to Our Price Target/Valuation

Methodology: Our target price values UNFI at a FY11 EV/EBITDA of 11.0x.

Risks: The risks to UNFI's target price include the loss of the Whole Foods Market business (35% of FY10 sales) as well as a weakening in Whole Foods sales trends, a significant economic downturn, a decline in consumer spending, grocery industry consolidation, integration risks associated with the implementation of a new IT platform and high fuel prices.

Distribution of Ratings (June 30, 2012)

Rating Category	BMO Rating	BMOCM US Universe*	BMOCM US IB Clients**	BMOCM US IB Clients***	BMOCM Universe****	BMOCM IB Clients*****	Starline Universe
Buy	Outperform	39.2%	14.2%	66.0%	39.7%	49.1%	55.7%

Hold	Market Perform	58.8%	4.6%	31.9%	57.1%	48.6%	39.3%
Sell	Underperform	2.0%	9.1%	2.1%	3.2%	2.3%	5.0%

* Reflects rating distribution of all companies covered by BMO Capital Markets Corp. equity research analysts.

** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage within ratings category.

*** Reflects rating distribution of all companies from which BMO Capital Markets Corp. has received compensation for Investment Banking services as percentage of Investment Banking clients.

**** Reflects rating distribution of all companies covered by BMO Capital Markets equity research analysts.

***** Reflects rating distribution of all companies from which BMO Capital Markets has received compensation for Investment Banking services as percentage of Investment Banking clients.

Ratings and Sector Key

We use the following ratings system definitions:

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.

Market performance is measured by a benchmark index such as the S&P/TSX Composite Index, S&P 500, Nasdaq Composite, as appropriate for each company. BMO Capital Markets' seven Top 15 lists guide investors to our best ideas according to different objectives (CDN Large Cap, CDN Small Cap, US Large Cap, US Small cap, Income, CDN Quant, and US Quant) have replaced the Top Pick rating.

Other Important Disclosures

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