BB&T Capital Markets

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Raising Price Target

Food & Drug Merchandising

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The Chefs' Warehouse, Inc. (CHEF–$24.06) Buy (1)

Company Statistics

12-month Price Target:	**$29**
52-wk Range:	**$11.32-$27.26**
Market Capitalization (M):	**$502**
Shares Outstanding (M) fd:	**20.9**
Avg. Daily Vol. (000):	**81**
Dividend:	**NA**
Yield:	**NA**
Debt/Total cap:	**79.0%**
Est. 3-yr. EPS Growth:	**20.0%**
Book Value/sh:	**$0.58**

Financials

FYE Dec		2009A	2010A	2011A	2012E	2013E
P/E Ratio:		56.0x	42.2x	30.8x	25.3x	20.9x
Revenue (M):		$271.1	$330.1	$400.6	$455.3	$503.1
EBITDA (M):		$15.2	$22.5	$30.5	$37.1	$44.0
ROE:		NM	NM	NM	57.0%	43.0%
ROA:		13.7%	15.9%	17.7%	18.6%	19.5%
EPS:	Q1	–	$0.07	$0.12	$0.16	–
	Q2	–	$0.15	$0.20	$0.25	–
	Q3	–	$0.17	$0.19	$0.24	–
	Q4	–	$0.18	$0.26	$0.30	–
Total		**$0.43**	**$0.57**	**$0.78**	**$0.95**	**$1.15**

NOTE: 2010 and 2011 are estimated pro forma for IPO and other adjustments.

Company Description

Headquartered in Ridgefield, CT, Chefs' Warehouse is the nation's premier distributor of specialty foods. It services more than 9,800 customers; by sales mix, independent restaurants represent the largest customer segment (65%), followed by hotels and casinos (9%), food retailers (7%), private clubs (6%), caterers (4%) and other (8%). Chefs' sources products from some 1,000 suppliers in 40 countries globally and carries 16,700 items . During 2011, Chefs' reported sales, adjusted EBITDA, and pro forma net earnings of $400.6M, $31.3M, and $16.2M, respectively. Chefs' completed its initial public offering of common stock on August 2, 2011, at $15/sh.

CHEF: CEO MEETINGS BOLSTER NEAR AND LONG TERM INVESTMENT CASE; RAISING PRICE TARGET TO $29

Key Points

- We recently hosted investor meetings with CEO Christopher Pappas on the west coast. Our key takeaways as detailed in this note have bullish implications for both the near- and long- term, in our view. First, Chefs' near-term organic growth should remain strong based on significant penetration opportunities with existing customers and healthy new customer demand. Second, the acquisition outlook appears robust in Chefs' sweet spot of distributors with $10M-$40M in annual revenues, of which there are some 2,000 in the U.S. Third, Chefs' margins should remain stable, even as it acquires lower volume operators (with lower operating margins), as we anticipate significant synergies will be achieved in both operations and sales productivity.

- Overall, our critical takeaway is that Chefs' is well positioned to accelerate growth through acquisition due to the convergence of scalability (e.g., best-of-breed I/T and management) with opportunity (e.g., interested sellers and capital access).

- We present a scenario analysis which assumes that during the next three years CHEF consummates 10 acquisitions that average $25M in revenue and can reach profitability about in line with profit center average (i.e., pre-corporate expenses). Under these assumptions, sales and EBITDA can more than double in that time frame from calendarized 2011 results. Based on valuations that imbed 10% to 20% discounts to the current EV/EBITDA multiple, CHEF's stock price at the end of 2014 would be in a range of $45-$52, up 87% to 116% in total if this scenario were to occur. Clearly, we believe, this scenario would take longer to play out if Chefs' did not accelerate its acquisition activity at the pace we have assumed.

- We have not changed our sales and earnings estimates at this time since we do not model for unannounced acquisitions. But we view this analysis as indicative of the potential upside to long-term fundamentals for CHEF if its acquisition driven growth component accelerates meaningfully. Thus, we have raised our 12-month price target to $29 from $24, which retains the current forward P/E multiple (previously we had contracted the multiple for the sake of conservatism).

Additional Discussion

We recently hosted investor meetings with CEO Christopher Pappas on the west coast. This note contains two analytic sections with bullish implications for both the near- and long- term, in our view. First, we present meeting takeaways organized around three key fundamentals; organic growth, acquisitions and margin management largely focused on the near term. Second, from a longer term perspective, we analyze what Chefs' Warehouse might look like in three years time under the assumption of a meaningful acceleration in the historical rate of acquisitions.

Overall, our critical takeaway is that Chefs' is well positioned to accelerate growth through acquisition due to the convergence of scalability (e.g., best-of-breed I/T and management) with opportunity (e.g., interested sellers and capital access). As more fully detailed below, we present a scenario analysis which assumes that during the next three years CHEF consummates 10 acquisitions that average $25M in revenue and can reach profitability about in line with profit center average (i.e., pre-corporate expenses). Under these assumptions, sales and EBITDA can more than double in that time frame from calendarized 2011 results. Based on valuations that imbed 10% to 20% discounts to the current EV/EBITDA multiple CHEF's stock price at the end of 2014 would be in a range of $45-$52, up 87% to 116% in total if this scenario were to occur. Clearly, we believe, this scenario would take longer to play out if Chefs' did not accelerate its acquisition activity at the pace we have assumed.

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Near Term Outlook Remains Strong

Below we present details of key fundamental takeaways. First, Chefs' organic growth remains strong based on significant penetration opportunities with existing customers and healthy new customer demand. Second, the acquisition outlook appears robust in Chefs' sweet spot of distributors with $10M-$40M in annual revenues, of which there are some 2,000 in the U.S. Third, Chefs' margins should remain stable, even as it acquires lower volume operators (with lower operating margins), as we anticipate significant synergies will be achieved in both operations and sales productivity.

Meeting takeaway #1: Organic growth outlook remains strong

- From a facilities standpoint, once the Bronx distribution center is completed next year, CHEF will have capacity to double sales from the current infrastructure.
- Chefs' faces normal sales volume attrition of about 7% annually due to leases expiring and customer credit issues that must be overcome with unique placement gains (i.e., penetration) and new customer wins.
- Increased sales penetration and new customers are driven by superior selection with over 10,000 items versus 1,000 to 1,500 for a typical competitor. Examples of category dominance include some 120 olive oils ranging from $30 per liter to $3 per liter, and 800 cheeses at $30 per pound for artisanal Sonomas to commodity parmesans at $5 per pound.
- In New York the average customer purchases 21 line items while in less mature markets the average customer purchases 11 line items.
- In terms of new customers, Chefs' has received more than 2,000 credit applications suggesting its flow of interest remains strong.
- Currently, the total sales force is about 150 but Chefs' needs more street reps to boost penetration. The goal is to add up to 30 additional sales associates to fully cover the current customer base.
- While the higher end restaurant environment is not back to the boom times a la 1999, a decent recovery has taken hold. In particular, corporate spending has not fully recovered.

Meeting takeaway #2: Acquisition driven growth appears set to accelerate

- Chefs' sweet spot for acquisitions is revenues in the $10M-$40M range, of which there are some 2,000 foodservice distributors in the U.S. CHEF generally pays 3x-5x EV/EBITDA (post cost synergies as purchasing, human resources, payroll, IT, and finance are centralized). A 20%-30% sales loss is budgeted but Provvista in Portland, OR, had none while Harry Wils was in line with expectations.

- Acquired distributors typically stock 1,000 to 1,500 SKUs; Chefs' adds 20%-30% a year and trains the sales force to dramatically increase penetration at acquired businesses.
- The current potential interest pipeline is fuller than expected at initial public offering due to a combination of fear of Chefs' potential entry and previous relationships with entrepreneurs now in their fifties and sixties, who often have no succession plans.
- Major targeted markets for geographic expansion include Boston, Chicago, Denver, Philadelphia, Phoenix, Seattle and Texas. Management is very opportunistic in its execution making it nearly impossible to predict which market(s) it will enter in the near term.
- Targeted categories for product expansion include proteins (hormone and antibiotic free meat and seafood), produce and pastry. Gross margin in produce is near corporate average while proteins are below at about 20% but contribution dollars per case is greater than corporate average.
- Chefs' has passed on deals in new markets in particular due to bad management and for those firms that may operate in a grey area (e.g., mixing purity levels of olive oil without proper label disclosure).

Meeting takeaway #3: Margins should be stable

- Chefs' approach to vendor relations is more about building relationships than squeezing the lowest price since product supply is the ultimate differentiation.
- Centralized procurement produces better inventory control and scalable efficiencies.
- Roadnet has increased delivery windows and on-time accuracy, while voice picking has reduced mis-labels and shortages.
- Chefs' price optimization software allows its sales reps to dynamically price orders by comparing prices to similar restaurants in a particular market.
- Fuel surcharges force order consolidation by customers which hurts smaller firms but benefits Chefs'.
- Investment that will partly offset scale efficiencies include hiring additional sales associates, expanding and retrofitting warehouses, and investment needs of acquisitions.

Long Term Could be Stronger Yet

We believe that Chefs' is well positioned to accelerate growth through acquisition due to the convergence of scalability with opportunity. **Figure 1** shows our three year sales build. We assume Chefs' completes ten acquisitions over the next three years that average $25M in sales per acquisition. Based on these acquisitions and organic growth, we forecast revenue growth of 104% to $800M in 2014, or 27% annually compounded during the next three years.

Figure 1: Chefs' 3-Year Sales Build (2012-2014)

Acquired sales	$228M
Sales from current assets	$138M
Growth of acquired assets	$42M
Calendar 2011 sales (actual)	$392M
Total 2014 sales	$800M
3-year growth	104% total/27% annual

Source: Company reports; BB&T Capital Markets estimates

Figure 2 details our three year EBITDA build. We assume that Chefs' finances ten acquisitions at an average of 0.44x EV/sales, equating to $110M net new debt (we assume all debt financing). Based on a 9% EBITDA margin (our current 2013 forecast is 8.75%) we project EBITDA growth of 135% to $72M in 2014, or 33% annually compounded during the next three years.

Figure 2: Chefs' 3-Year EBITDA Build (2012-2014)

Acquisition financing	$250M x 0.44 EV/sales = $110M net new debt
2014 EBITDA estimate	2014 sales of $800M x 9% = $72M
2011 calendar EBITDA	$31M
3-year growth	135% total/33% annual

Source: Company reports; BB&T Capital Markets estimates

Figure 3 shows our three year cumulative free cash flow projection. We forecast that Chefs' will generate cumulative free cash flow of $50M from current assets and $20M from acquired assets and assume the company will use its free cash flow to pay down debt.

Figure 3: Chefs' 3-Year Cumulative Free Cash Flow (2012-2014)

Free cash flow on current asset base	$50M
Free cash flow on acquired assets	$20M
Total cumulative free cash flow	$70M

Source: Company reports; BB&T Capital Markets estimates

Figure 4 shows our three year net debt build. We assume Chefs' will use $110M to finance the acquisitions and $70M of free cash flow to pay down debt. Based on these assumptions, we forecast Chefs' net debt of $88M at the end of 2014.

Figure 4: Chefs' 3-Year Net Debt Build (2012-2014)

Current net debt	$48M
Acquisitions (cash)	$110M
Free cash flow to pay down debt	($70M)
Net debt at end of 2014	$88M

Source: Company reports; BB&T Capital Markets estimates

In **Figure 5** we derive hypothetical price targets based on the above three-year fundamental projections and assumed valuation levels. Our key assumptions are that valuation levels will contract (based on EV/LTM EBITDA) from 10% to 20% from the current 18x EV/LTM EBITDA. If the EV/LTM EBITDA valuation contracted 10% to 16.25x then we estimate CHEF's share price would climb to $52 by the end of 2014 for a total return of 116%. If EV/LTM EBITDA contracted 20% to 14.25x (which is UNFI's current EV/LTM EBITDA multiple) then we believe CHEF's stock price would advance 87% to $45 by the end of 2014.

Figure 5: Chefs' Share Price Derivation – End of 2014

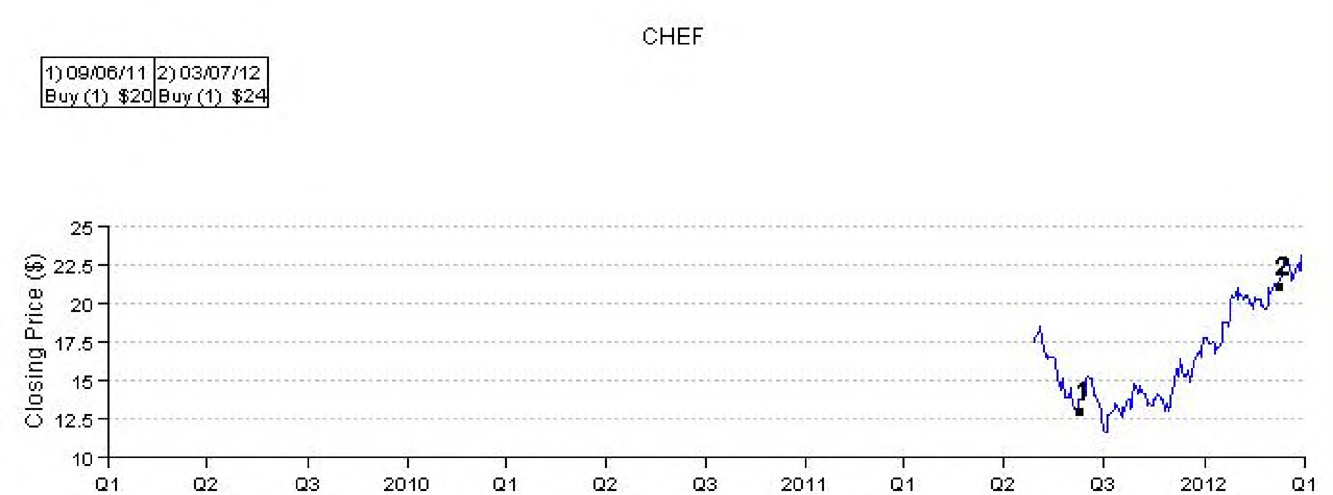
EV/EBITDA – LTM (current valuation)	18.0x
EV/EBITDA at end of 2014 at 16.25x (10% discount to current valuation)	$1,170M
Net debt at end of 2014	($88M)
Equity value at end of 2014	$1,082M
Stock price	$52
3-year stock price growth	116% total/29% annual
EV/EBITDA – LTM of UNFI (current valuation)	14.25x
EV/EBITDA at end of 2014 at 14.25x (20% discount to current valuation)	$1,026M
Net debt at end of 2014	($88M)
Equity	$938M
Stock price	$45
3-year stock price growth	87% total/23% annual

Source: Company reports; BB&T Capital Markets estimates

Valuation Methodology & Risk Considerations

Based on its strong fundamentals, we believe that CHEF's could be revalued closer to the group average of 27x calendar 2012 EPS from 25.3x currently. However, for the sake of conservatism, we have retained our forward P/E valuation assumption at 25.3x, which we apply to our calendar 2013 EPS forecast of $1.15 to yield our $29 price target. We believe general risks to achieving our price target include lower-than-forecasted sales and/or earnings. Specific risks relevant to Chefs' Warehouse include cyclicality of demand tied to high end consumer sentiment, concentration of business in greater New York, fuel price inflation, product cost inflation, and acquisition related risks.

IMPORTANT DISCLOSURES
Price Chart



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