



Estimate Change

Food & Drug
Merchandising

Andrew P. Wolf, CFA / (804) 787-8224 / awolf@bbandtcm.com

Ashby W. Price / (804) 782-8711 / aprice@bbandtcm.com

The Chefs' Warehouse, Inc. (CHEF-\$13.93)

Buy (1)

Company Statistics

12-month Price Target:	\$20
52-wk Range:	\$11.32-\$18.50
Market Capitalization (M):	\$288
Shares Outstanding (M) fd:	20.7
Avg. Daily Vol. (000):	137
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	2011E	2012E	2013E
P/E Ratio:	32.4x	24.9x	18.3x	14.4x	12.1x
Revenue (M):	\$271.1	\$330.1	\$400.5	\$440.5	\$486.8
EBITDA (M):	\$15.2	\$22.3	\$29.4	\$36.1	\$42.3
ROE:	NM	NM	NM	57.4%	42.5%
ROA:	13.7%	15.7%	17.4%	19.1%	19.8%

EPS:	Q1	-	\$0.07	\$0.12A	-	-
	Q2	-	\$0.15	\$0.20A	-	-
	Q3	-	\$0.17	\$0.19A	-	-
	Q4	-	\$0.18	\$0.25	-	-

Total	\$0.43	\$0.56	\$0.76	\$0.97	\$1.15
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Prior EPS:	Q1	-	-	-	-	-
	Q2	-	-	-	-	-
	Q3	-	-	-	-	-
	Q4	-	-	\$0.25	-	-

Total	-	-	\$0.79	\$0.97	\$1.15
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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 7,000 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 11,500 items (7,000 are in stock every day). During 2010, Chefs' reported sales, adjusted EBITDA, and pro forma net earnings of \$330.1M, \$22.6M, and \$11.6M, respectively. Chefs' completed its initial public offering of common stock on August 2, 2011, at \$15/sh.

CHEF: EPS IN LINE WITH CONSENSUS DESPITE \$0.02 HEADWIND FROM HURRICANE AND ACQUISITION; REITERATE BUY (1)

Key Points

- **EPS in line with consensus but miss us on quasi one-time events; sales beat.** After the close, on Thursday, October 27, Chefs' Warehouse reported Q3'11 pro forma core (before nonrecurring items) EPS of \$0.19 versus \$0.17 in the similar year-ago period; this was in line with consensus but \$0.03 below our \$0.22 estimate. However, Hurricane Irene trimmed a penny from EPS as did unanticipated integration expenses from the recent Harry Wils acquisition in metro New York; excluding these quasi one-time events, EPS would have been \$0.21.
- **Top-line growth remained strong.** Sales grew 19.7% yr/yr to \$101.7M in Q3, driven by 13.4% internal sales gains (10.7% from volume and 2.7% from price/mix) and 6.3% from Harry Wils. This beat our estimate of top-line growth of 18% and consensus at 16%. Adding back \$1.6M in lost business due to Hurricane Irene, sales gains would have registered 21.6% and internal sales would have risen 15.3%; this compares well to Q2 internal sales growth 16.7% and gives us confidence that sales momentum will remain robust in the intermediate term.
- **Tweaking earnings model to adjust for Q3 miss; 2012 and 2013 EPS estimates unchanged.** For 53-week 2011, we forecast growth in sales of 21.3% to \$400.5M, in operating profit of 38% to \$27.8M, and in pro forma EPS of 37% to \$0.76 (this is down from our prior \$0.79 forecast based on the \$0.03 miss). We have maintained our \$0.25 Q4 EPS projection. For 2012, we forecast growth in sales at 10% to \$440.5M, in operating profit of 23.4% to \$34.4M, and in EPS of 27% to \$0.97. For 2013, we forecast growth in sales of 10.5% to \$486.8M, and in EPS of 19% to \$1.15. We project free cash flow/sh at \$0.50 for 2012 and \$1.00 for 2013.
- **Maintain Buy (1) rating and \$20 price target.** We continue to view Chefs' equity as undervalued given its strong fundamental growth outlook and relative valuation discount. Specifically, Chefs' forward P/E ratio based on estimated calendar 2012 EPS at 14.4x is valued at a 23% discount to the median of its peer group. Further, its forward PEG (P/E to long-term growth rate) at 0.72x is currently at a 38% discount to the group median of 1.17x.

Additional Discussion

EPS in line with consensus but miss us on quasi one-time events; sales beat. After the close, on Thursday, October 27, Chefs' Warehouse reported Q3'11 pro forma core (before nonrecurring items) EPS of \$0.19 versus \$0.17 in the similar year-ago period; this was in line with consensus but \$0.03 below our \$0.22 estimate. However, Hurricane Irene trimmed a penny from EPS as did unanticipated integration expenses from the recent Harry Wils acquisition in metro New York; excluding these quasi one-time events, EPS would have been \$0.21.

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Results in Detail

Below we present and analyze current and prior-periods on a pro forma basis to reflect the impact of Chefs' recent IPO. Specific adjustments include the following:

- Material adjustments to interest expense assuming post-IPO financial leverage and excluding debt refinancing costs
- Modest additional costs to operate a public company
- Exclude one-time stock compensation accelerated vesting charge
- Tax adjustment (assuming a 39% tax rate) to normalize the 2010 effective tax rate

Q3'11 sales grew 19.7% yr/yr to \$101.7M on increased case volume, higher revenue per case, and \$5.4M of revenue related to Harry Wils; excluding lost sales due to Hurricane Irene, sales climbed 21.6%. Nominal internal sales rose 13.4% on real internal growth of 10.7% and inflation/mix of 2.7% while Harry Wils contributed 6.3%.

Gross margin expanded 21 bps yr/yr to 26.19% mainly due to a mix shift to higher margin protein products. Operating expenses increased 21% yr/yr while the corresponding ratio expanded 25 bps yr/yr to 19.24%, driven primarily by higher labor and fleet expenses related to Harry Wils. Operating margin thus contracted 4 bps yr/yr to 6.95% while the related profit dollars grew 18.9% to \$7.1M. Net interest expense gained 7% to \$0.5M while other income was nil versus a loss of \$0.2M in Q3'10. The effective tax rate was relatively flat at 39%, resulting in net income of \$4M, up 15.1% from the similar period last year.

Valuation Methodology & Risk Considerations

We generally apply forward P/E valuation methods to growth stocks, and we certainly view Chefs' that way. Based on its strong fundamentals, we believe that CHEF's will ultimately be revalued up to the group median of 18.6x calendar 2012 EPS from 14.4x currently.

For the sake of conservatism, we have applied an 8% discount to the group median multiple to derive our \$20 price target. Mathematically, we take the 18.4x group multiple, multiply that by 0.92 to yield a target valuation of 17x and apply it to our calendar 2013 EPS forecast of \$1.15 to yield our \$20 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 cyclical demand tied to high end consumer sentiment, concentration of business in greater New York, fuel price inflation, product cost inflation, and acquisition related risks.

The Chefs' Warehouse, Inc.
Historical and Forecasted Income Statement - Quarterly
(Dollar data in thousands)[1]

Fiscal year[2] Period Number of weeks	2010A[3]					2011E[3]					2012E	2013E
	Qtr 1 13	Qtr 2 13	Qtr 3 13	Qtr 4 13	Year 52	Qtr 1A 13	Qtr 2A 13	Qtr 3A 13	Qtr 4 14	Year 53	Year 52	Year 52
FIFO Income												
Sales:\$	70,000	83,613	84,928	91,576	330,118	83,183	99,255	101,681	116,378	400,497	440,514	486,768
Cost of sales:\$	52,017	61,670	62,865	67,788	244,340	61,148	73,000	75,051	85,957	295,156	324,659	358,748
Gross profit:\$	17,983	21,943	22,063	23,789	85,778	22,035	26,255	26,630	30,421	105,341	115,855	128,020
Gross margin:%	25.69	26.24	25.98	25.98	25.98	26.49	26.45	26.19	26.14	26.30	26.30	26.30
Operating expenses:\$	15,216	16,602	16,125	17,622	65,565	17,441	18,966	19,568	21,530	77,505	81,495	87,618
Expense ratio:%	21.74	19.86	18.99	19.24	19.86	20.97	19.11	19.24	18.50	19.35	18.50	18.00
Operating profit:\$	2,767	5,341	5,938	6,167	20,213	4,594	7,289	7,062	8,891	27,836	34,360	40,402
Operating margin:%	3.95	6.39	6.99	6.73	6.12	5.52	7.34	6.95	7.64	6.95	7.80	8.30
Operating cash flow:\$	3,676	6,353	6,832	7,411	22,316	5,552	8,097	7,491	9,291	29,446	36,131	42,329
Operating cash-flow margin:%	5.25	7.60	8.04	8.09	6.76	6.67	8.16	7.37	7.98	7.35	8.20	8.70
Adjusted EBITDA:\$	3,580	6,194	6,432	6,899	22,579	5,161	8,133	7,697	9,291	30,282	36,131	42,329
Adjusted EBITDA margin:%	5.11	7.41	7.57	7.53	6.84	6.20	8.19	7.57	7.98	7.56	8.20	8.70
Interest expense, net:\$	627	512	472	429	2,041	433	417	505	466	1,821	1,322	487
Interest ratio:%	0.90	0.61	0.56	0.47	0.62	0.52	0.42	0.50	0.40	0.45	0.30	0.10
(Gain)/loss on swap/other income:\$	(183)	(248)	(228)	(252)	(910)	(81)	0	0	0	(81)	0	0
Pretax income:\$	2,323	5,077	5,694	5,990	19,083	4,242	6,872	6,557	8,426	26,097	33,039	39,915
Pretax margin:%	3.32	6.07	6.70	6.54	5.78	5.10	6.92	6.45	7.24	6.52	7.50	8.20
Income taxes:\$	905	1,980	2,220	2,337	7,442	1,660	2,687	2,557	3,286	10,190	12,885	15,567
Effective tax rate:%	38.96	39.00	38.99	39.02	39.00	39.13	39.10	39.00	39.00	39.05	39.00	39.00
Net income:\$	1,418	3,097	3,474	3,653	11,641	2,582	4,185	4,000	5,140	15,907	20,154	24,348
Net margin:%	2.03	3.70	4.09	3.99	3.53	3.10	4.22	3.93	4.42	3.97	4.58	5.00
Net nonrecurring items:\$	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(5185.0)	0.0	(5185.0)	0.0	0.0
Reported net income:\$	1418	3097	3474	3653	11641	2582	4185	(1185)	5140	10722	20154	24348
Diluted Per-Share Data												
Avg shares outstanding(mil)	20,835	20,835	20,835	20,835	20,835	20,835	20,835	20,835	20,835	20,835	20,875	21,155
Earnings per share:\$	0.07	0.15	0.17	0.18	0.56	0.12	0.20	0.19	0.25	0.76	0.97	1.15
Net nonrecurring items:\$	0.00	0.00	0.00	0.00	0.00	0.00	0.00	(0.25)	0.00	(0.25)	0.00	0.00
Reported EPS:\$	0.07	0.15	0.17	0.18	0.56	0.12	0.20	(0.06)	0.25	0.51	0.97	1.15
Real internal sales	10.0	12.0	11.0	10.6	10.9	10.9	13.4	10.7	9.0	11.0	6.5	7.5
Sales inflation/mix	4.6	7.5	9.0	9.4	7.8	4.9	3.3	2.7	3.0	3.5	3.0	3.0
Nominal internal sales	14.6	19.5	20.0	20.0	18.7	15.8	16.7	13.4	12.0	14.4	9.5	10.5
Sales	17.7	22.5	23.7	22.6	21.8	18.8	18.7	19.7	27.1	21.3	10.0	10.5
Cost of sales					22.3	17.6	18.4	19.4	26.8	20.8	10.0	10.5
Gross profit					20.3	22.5	19.6	20.7	27.9	22.8	10.0	10.5
Operating expenses					13.1	14.6	14.2	21.4	22.2	18.2	5.1	7.5
Operating profit					51.6	66.0	36.5	18.9	44.2	37.7	23.4	17.6
Operating cash flow					46.4	51.0	27.5	9.6	25.4	31.9	22.7	17.2
Interest expense, net					(27.5)	(31.0)	(18.6)	7.0	8.5	(10.8)	(27.4)	(63.2)
Pretax income					70.8	82.6	35.4	15.2	40.7	36.8	26.6	20.8
Net income					29.9	82.1	35.1	15.1	40.7	36.6	26.7	20.8
Earnings per share					29.9	82.1	35.1	15.1	40.7	36.6	26.5	19.2

A Actual results.

E BB&T Capital Markets estimates.

NM Not meaningful.

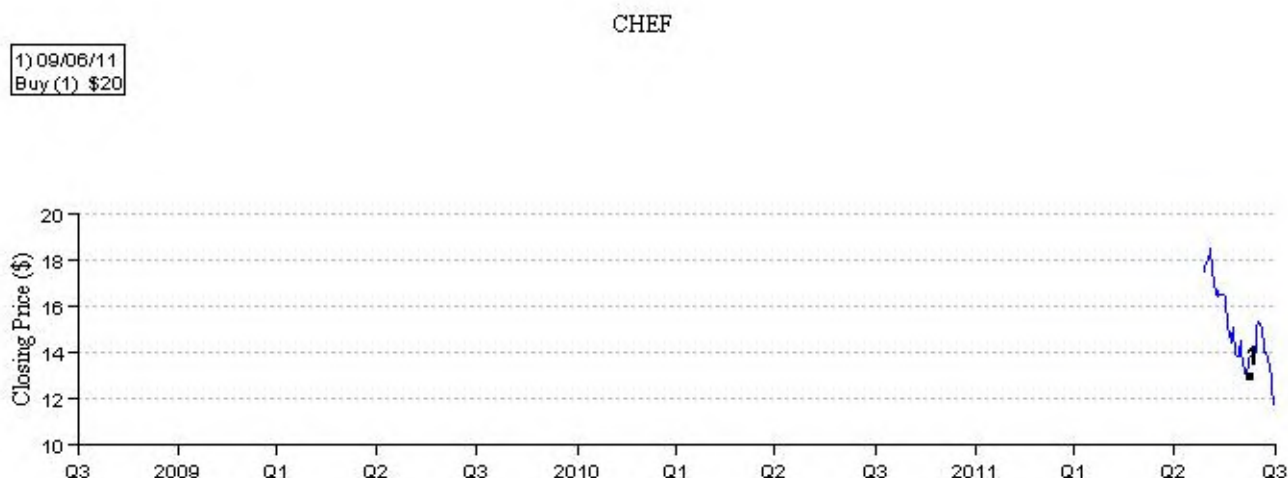
[1] Except per-share figures.

[2] Fiscal year ends on the fifth Friday of December.

[3] Estimated pro forma for IPO and other adjustments.

IMPORTANT DISCLOSURES

Price Chart



BB&T Capital Markets rating distribution by percentage (as of September 30, 2011):

All companies under coverage:		All companies under coverage to which it has provided investment banking services in the previous 12 months:	
Buy (1)	58.7%	Buy (1)	14.0%
Hold (2)	41.0%	Hold (2)	7.7%
Underweight/Sell (3)	0.3%	Underweight/Sell (3)	0.0%
Not Rated (NR)	0.0%	Not Rated (NR)	0.0%
Suspended (SP)	0.0%	Suspended (SP)	0.0%

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The definition of each rating is as follows:

Buy (1): estimated total return potential greater than or equal to 10%

Hold (2): estimated total return potential greater than or equal to 0% and less than 10%

Underweight (3): estimated total return potential less than 0%

NR: Not Rated

NA: Not Applicable

NM: Not Meaningful

SP: Suspended

Stocks rated Buy (1) are required to have a published 12-month price target, while it is not required on stocks rated Hold (2) and Underweight (3).

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COMPANY	DISCLOSURE
The Chefs' Warehouse, Inc. (CHEF)	1, 4, 5, 6

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EQUITY RESEARCH

Director of Research - Vernon C. Plack, CFA (804) 780-3257
Assistant Director of Research - James H. Weber, CFA (804) 782-8773

COMMERCIAL AND INDUSTRIAL

Building Materials

John F. Kasprzak Jr. (804) 782-8715
Paul Betz (804) 782-8746
Teresa T. Nguyen, CFA (804) 782-8745

Commercial Durables

Matthew S. McCall, CFA (804) 780-3582
Jack C. Stimac, CFA (804) 782-8884

Industrial Equipment—Distribution & Components

Holden Lewis (804) 782-8820
John C. Cooper (804) 787-8293

Industrial Equipment—Flow Control

Kevin R. Maczka, CFA (804) 782-8811
Nicholas V. Prendergast (804) 782-2006

Industrial Equipment—Machinery

C. Schon Williams (804) 782-8769

Specialty Construction & Facilities Services

Adam R. Thalhimier, CFA (804) 344-8377

CONSUMER

Agribusiness/Consumer Foods

Heather L. Jones (804) 780-3280
Brett M. Hundley, CFA (804) 782-8753

Apparel, Footwear, & Specialty Retail

Scott D. Krasik, CFA (212) 822-8138
Kelly L. Halsor (212) 822-8132

Automotive Aftermarket

Anthony F. Cristello (804) 780-3269
Allen M. Hatzimanolis, CFA (804) 782-8732

Food & Drug Merchandising

Andrew P. Wolf, CFA (804) 787-8224
Ashby W. Price (804) 782-8711

Specialty Hardlines Retailers

Anthony C. Chukumba (212) 822-8143
Eric Cohen (212) 822-8140

ENERGY

Coal/Natural Resources

Mark A. Levin (804) 782-8856
Garrett S. Nelson (804) 787-8259

Energy Infrastructure

Robert F. Norfleet III (804) 787-8231
Bryce D. Humphrey (804) 782-8893

FINANCIAL SERVICES

Banks/Thrfts

Cary A. Morris (804) 782-8831
Blair C. Brantley, CFA (804) 727-2604

Specialty Finance

Vernon C. Plack, CFA (804) 780-3257
Peter W. Councill, CFA (804) 782-8850
Charles E. Redding (804) 782-8853

HEALTHCARE SERVICES

Healthcare Outsourcing/Health & Human Services

James J. Kumpel, CFA (212) 822-8139
Eugene Park (212) 822-8126

PBMs/Post-Acute Care

Eugene Goldenberg (212) 822-8149
James C. Chen (212) 822-8158

TECHNOLOGY

Aerospace & Defense

F. Carter Leake (804) 482-7167

Commercial IT Services/Government Services

George A. Price Jr. (703) 245-0903

Defense

Jeremy W. Devaney (703) 245-0902

TRANSPORTATION SERVICES

Airfreight & Logistics/Maritime

Kevin W. Sterling, CFA (804) 782-8804
William W. Horner (804) 787-1143
Chip Rowe (804) 782-8787

Surface Transportation

Thomas S. Albrecht, CFA (804) 787-8210
E. Neal Deaton (704) 367-3805
A. Rhem Wood Jr. (804) 782-8784

RESEARCH DEPARTMENT

Product Manager

W. Moultrie Dotterer, CFA (804) 780-3279

Supervisory Analysts

Kathleen R. Schneider (732) 567-8766
Denise Bossé Tyznar (804) 782-8880
James H. Weber, CFA (804) 782-8773

Editor

Peggy Myers Walz (804) 782-8785

RESEARCH OFFICES

Richmond—Main Office

901 East Byrd St., Suite 310 (800) 552-7757
Richmond, Virginia 23219

New York—Research, Sales Trading, Sales

1133 Avenue of the Americas, 27th fl (800) 896-9868
New York, New York 10036

Tysons Corner—Research

8200 Greensboro Drive, Suite 825 (703) 761-2800
McLean, VA 22102