
The Chefs' Warehouse
CHEF : NASDAQ : US\$13.93
Buy | US\$18.00 Target

Scott Van Winkle, CFA 1.617.371.3759
svanwinkle@canaccordgenuity.com
Chris Mandeville 1.617.371.3728
cmandeville@canaccordgenuity.com

GROWTH KEEPS COOKING; REITERATE BUY AND \$18 TARGET

Investment recommendation

We expect that CHEF will deliver an EPS growth CAGR of over 20% over the next few years and believe the company has considerable geographic growth opportunities to deliver years of growth well above the specialty food sector overall.

Investment highlights

- CHEF delivers a strong Q3 with EPS of \$0.19 on an adjusted basis vs. \$0.17 last year, meeting consensus despite a \$0.01 impact from Hurricane Irene and higher spending integrating the Harry Wils acquisition. The business is clearly trending ahead of Street expectations.
- Revenue was up 20% to \$102M vs. consensus of \$98M as internal growth remained strong near 14% and acquisition contribution was a little ahead of our forecast. We expect the sales momentum to continue with incremental earnings leverage vs. Q3.
- Concerns over CHEF's exposure to discretionary spending and its concentration in New York with a volatile Wall Street outlook are obviously overblown, in our view, and we believe that investors will begin to recognize that the company can grow through today's environment. We expect the valuation to re-expand as the consistency of revenue growth is further illustrated despite the economic backdrop.
- Guidance for both revenue and EPS was maintained, with the high end of the revenue guidance the right place to be. We have not had an opportunity to yet reflect the Q3 revenue upside in our forecasts.
- We reiterate our BUY rating and \$18 price target. Our investment thesis is incrementally validated as CHEF's robust growth continues and its integration of Harry Wils, while a little more costly in its first quarter, is tracking 10-20% above our revenue contribution forecast. The growth of specialty foods, market share gains and acquisition opportunities are the foundation of our expectation that CHEF can be a consistent double-digit grower, and each was evident in the Q3 results.

Valuation

At 14.8x F2012 P/E and 8.9x F2012 EBITDA, we view valuation as attractive and believe shares deserve a premium valuation relative to the food distribution sector (average of 11.5x F2012 P/E and 6.5x F2012 EBITDA) given the superior growth and margins. We maintain our target of \$18, which is based on a multiple of 9.5x F2013 EBITDA.

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Investment risks

Key risks that may impede the achievement of our forecasts and/or price target include the following:

A rise in commodity prices: While normally beneficial for food distributors, excessive commodity costs, which have been volatile over the last several years, could alter consumption behavior and lower consumer demand. Major products sold that have had their inputs fluctuate greatly are dairy, wheat, flour, and cooking oils. Additionally, rises in fuel costs could negatively impact CHEF's operations.

Economic sensitivity: Given CHEF's focus on higher end food service establishments, the company is exposures to potential sales volatility as consumer confidence and spending fluctuation. Recent concerns surrounding incremental economic weakness have impacted the performance of the shares.

Competitive activity: Despite its favorable positioning in specialty foods, competition in the food distribution industry is fierce and CHEF competes with larger food companies with greater resources. Market leaders include Sysco, U.S. Foodservices, Inc and United Natural Foods.

Market concentration: CHEF operations are concentrated in six markets, leaving the Company susceptible to economic downturns. As of the end of 2010, 66% of CHEF's total sales originated from the New York market.

Acquisition and integration risk: CHEF has made several acquisitions over its history and it remains a key growth initiative. The specialty foods distribution industry is highly fragmented and the Company has indicated plans for future acquisitions. Future acquisitions could strain management resources; result in sales disruptions or loss of key personnel and the company may not achieve expected cost reductions or distribution gains.

Product recalls and/or food safety concerns: CHEF products are ingested and any concern about food safety or quality can impair consumer confidence in the brands sold through CHEF. The risk of adverse health impacts is always present.

Industry regulation: CHEF's line of business is highly regulated at the federal, state and local levels, and its specialty food products and distribution operations require various licenses, permits and approvals. Suppliers are also subject to similar regulatory requirements and oversight. In addition, as a distributor of specialty food products, CHEF is subject to increasing governmental scrutiny of and public awareness regarding food safety and the sale, packaging and marketing of natural and organic products

Weather: Adverse weather conditions can significantly impact CHEF's ability to profitably and efficiently conduct its operations and, in severe cases, could result in its trucks being unable to make deliveries or cause the temporary closure or the destruction of one or more of its distribution centers.

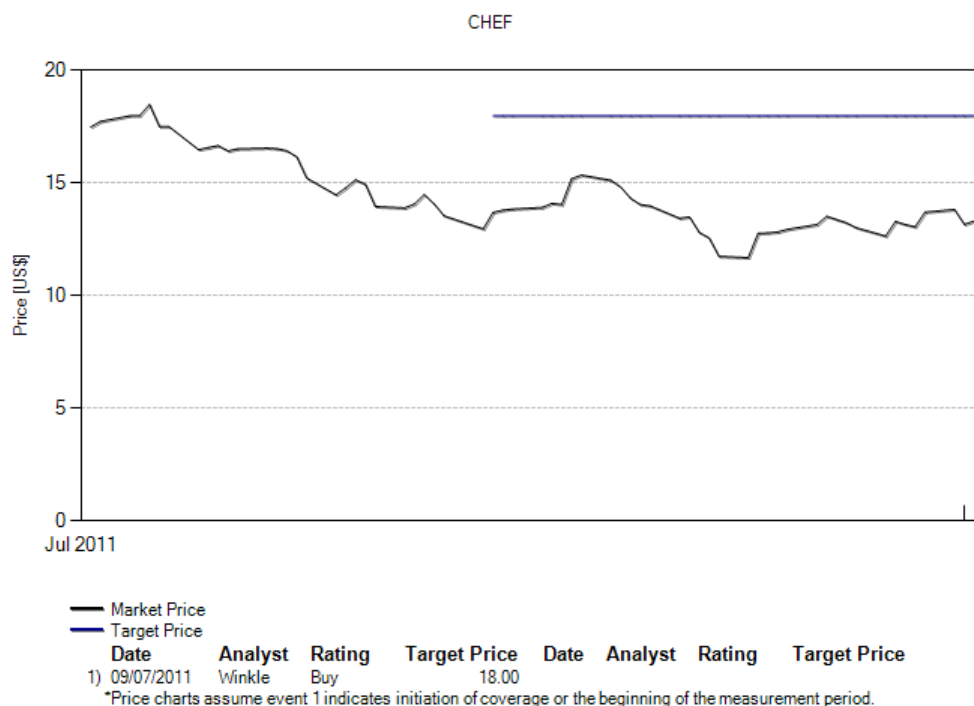
In addition, we strongly urge investors to review the complete set of risk factors that can be found in The Chefs' Warehouse's most recent regulatory filing.

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Site Visit:

An analyst has visited the issuer's material operations in Ridgefield, Connecticut. No payment or reimbursement was received from the issuer for the related travel costs.

Price Chart:***Distribution of Ratings:**

Global Stock Ratings
(as of 3 October 2011)

Rating	Coverage Universe		IB Clients	
	#	%	#	%
Buy	509	63.5%	35	35.6%
Speculative Buy	86	10.7%	64	64.0%
Hold	194	24.2%	17	17.0%
Sell	12	1.5%	25	25.0%
	801	100%		

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The Chefs' Warehouse	1A, 2, 3, 5, 7
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