COMPANY NOTE

Initiating Coverage

USA | Consumer | Retailing/Food & Drug Chains

September 6, 2011

Jefferies

EQUITY RESEARCH AMERICAS

The Chefs' Warehouse (CHEF)

Turning a Cottage Into an Estate

BUY

Price target $17.50
Price $13.56

Key Takeaway

Significant opportunity exists for Chefs' to drive higher sales/earnings as it flexes its technology platform, the benefits of which remain in very early innings, and combines this with its superior product offering, unique sales force, and limited buyer and supplier power. Further, we believe the company will work to consolidate this fragmented industry, potentially transforming a cottage industry into its own estate.

We are initiating coverage on The Chefs' Warehouse, Inc. (CHEF) with a Buy rating and a PT of $17.50. Our EPS est. are $0.18 for 3Q, $0.77 for FY11, and $0.96 for FY12. However, there is upside potential, particularly in FY11, if robust 1H:11 growth continues. Every 1% in additional sales adds just under ½ penny to EPS per Q. Jefferies & Company, Inc. acted as a Joint Bookrunner on the IPO, which priced on July 27, 2011.

The application of technology should drive growth and lower costs. Indeed, the deployment of CRM and price optimization systems should increase placements/customer and add new customers. This, combined with the completion of its warehouse management system rollout, should improve margins, especially in regions outside of NY. We estimate every 10 bps in better margin adds roughly $0.01 to EPS annually.

A better business model should propel excess rev. growth/profits, while exposure to the wealthy/educated class provides a macro tailwind. Chefs' scale, broad offering, and mostly culinary-educated sales force serve to differentiate it from its "mom & pop" competitors. Given the channel fragmentation, Chefs' also faces little buyer/supplier power. Finally, Chefs' benefits from the robust spending of the wealthy/educated class, which frequents the establishments it serves.

There is ample opportunity for accretive tuck-in acquisitions. Acquisitions serve to leverage its current asset base and provide a beachhead into new geographies. Most of these transactions are small, and are largely purchases of customer lists, lowering risk.

Valuation/Risks

Our price target of $17.50 is 18.3x our FY12 EPS estimate of $0.96. This is below United Natural Foods' multiple of 19.0x. Our DCF also places the value of the company at about $20. **Risks:** Near-term: economic downturn resulting in meaningful contraction in wealth, acquisition-related integration or technology/systems implementation and geographic concentration risk. Longer-term: Group purchasing organizations.

USD	*Prev.*	2009A	*Prev.*	2010A	*Prev.*	2011E	*Prev.*	2012E
Rev. (MM)	--	271.1	--	330.1	--	391.2	--	436.5
EV/Rev		1.2x		1.0x		0.8x		0.7x
EBITDA (MM)	--	15.2	--	20.2	--	29.3	--	36.2
EV/EBITDA		21.4x		16.1x		11.1x		9.0x
EPS								
Mar	--	--	--	--	--	0.12A	--	--
Jun	--	--	--	--	--	0.21A	--	--
Sep	--	--	--	--	--	0.18	--	--
Dec	--	--	--	--	--	0.25	--	--
FY Dec	--	NA	--	0.54	--	0.77	--	0.96
FY P/E				25.1x		17.6x		14.1x

EPS: 2010 and 2011 reflect pro forma adjustments.

Financial Summary

Net Debt (MM):	$43.1

Market Data

52 Week Range:	$18.50 - $13.13
Total Entprs. Value (MM):	$325.1
Market Cap. (MM):	$282.0
Shares Out. (MM):	20.8
Float (MM):	10.4
Avg. Daily Vol.:	NA

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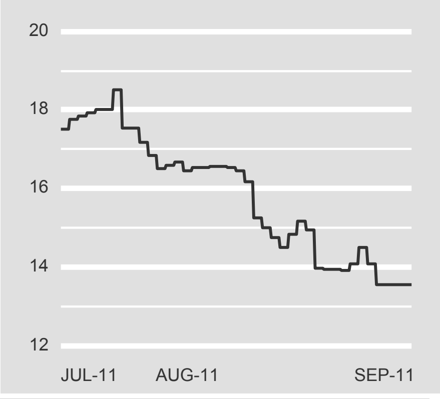
Price Performance



The Chefs' Warehouse

Buy: $17.50 Price Target

Scenarios

Target Investment Thesis

- Total sales growth of 18.5% and 11.6% in FY11 and '12, driven by strong organic growth, aided by acquisitions and a 53rd week in FY11.
- Some gross margin expansion on improved mix in FY11 and better gross margin management in FY12.
- Operating expense leverage on higher sales and improving cost efficiencies.
- FY12 EPS: $0.96; Target Multiple: 18.3x; Target Price: $17.50.

Upside Scenario

- Stronger-than-expected organic sales as the company benefits from its IT initiatives; coupled with favorable macros.
- Better-than-expected gross profit as Chefs' is better able to manage account profitability; improving mix.
- Better-than-expected expense leverage on stronger sales and larger benefits from the warehouse management system rollout.
- FY12 EPS: $1.05; Target Multiple: 20x; Target Price: $21.

Downside Scenario

- Deteriorating macros and contracting wealth lead to sales slowdown.
- Gross margin pressured by trade down and mix shift; competitor or industry pressure lowering pricing capabilities.
- Less operating expense leverage on lower sales; more limited benefits from warehouse and distribution initiatives.
- FY12 EPS: $0.80; Target Multiple: 14x; Target Price: $11.

Long Term Analysis and Overview

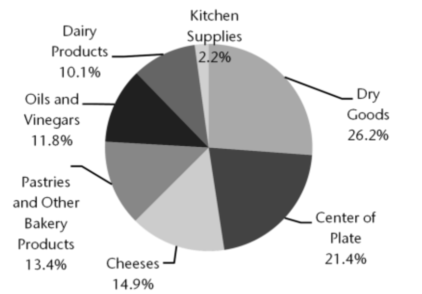
Chefs' Current Footprint

Source: Company Data

Long Term Financial Model Drivers

Organic Net Revenue Growth	9-10%
Gross Margin	26-26.5%
EBIT Margin	8-9%
Tax Rate	39%
3 Year EPS CAGR	18%

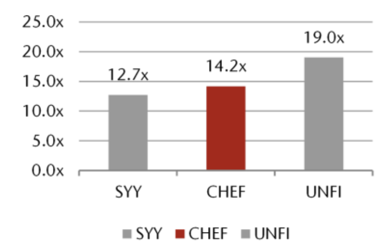
FY10 Net Revenue By Product Category



Source: Company Data

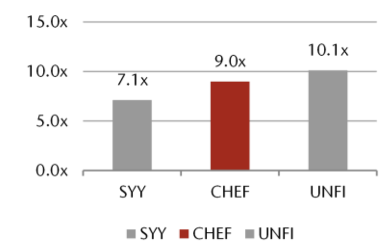
Peer Group

Forward P/E (CY12)



Source: Jefferies estimates, Thomson

EV/ EBITDA (CY12)



Source: Jefferies estimates, Thomson

Recommendation / Price Target

Ticker	Rec.	PT
CHEF	Buy	$17.50
UNFI	Hold	$40
SYY	NC	NC

Catalysts

- Better-than-expected organic sales driven by increased placements/customer and new customers.
- Better-than-expected benefits from the rollout of the company's warehouse management system to its other DCs.

Company Description

The Chefs' Warehouse, Inc. is one of the largest specialty food distributors in the U.S., largely serving upscale independent menu restaurants, fine hotels and clubs.

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Executive Summary

The Chefs' Warehouse, Inc. ("Chefs'") is one of the largest specialty food distributors in the U.S., largely serving upscale independent menu restaurants, fine hotels and clubs. The company offers over 11,500 unique items many of which are premium products. From hard to get olive oil from Italy to unique cheese from France, the company caters to and is counted on by the most discerning chefs. Founded in 1985, with its origins as a dairy distributor in the New York City metro market, Chefs' currently operates in six major markets, including New York, Los Angeles, San Francisco, Las Vegas, Washington D.C. and Miami, but also services Boston, Philadelphia and Napa Valley.

We are initiating coverage on The Chefs' Warehouse, Inc. (CHEF) with a Buy rating and a 12-month price target of $17.50. Significant opportunity exists for Chefs' to drive higher sale/earnings as it flexes its technology platform, the benefits of which remain in very early innings, and combines this with its superior product offering, unique sales force, and limited buyer and supplier power. Further, we believe the company will work to consolidate this fragmented industry, potentially transforming a cottage industry into its own estate.

The application of technology should drive growth and lower costs. Indeed, as Chefs' Warehouse applies best practices and leverages the benefits of its sales, warehouse and distribution technology systems, the company should be able to drive better organic growth and lower costs. The company's CRM and price optimization technology should help Chefs' increase placements/customer and new customers, while also allowing Chefs' to better manage gross profit/customer. This, combined with the completion of the full rollout of its warehouse management system by 1Q12, should help reduce costs and lead to improved margins and earnings, especially in regions outside of New York. Every 1% in sales growth adds just under ½ penny in EPS per quarter, while every 10 bps in better margin adds roughly $0.01 annually, according to our estimates.

There is ample opportunity for accretive, tuck-in, acquisitions. Given the fragmentation of Chefs' industry sub-sector, one that is largely dominated by a myriad of less sophisticated, regional or mom and pop operators, there exist significant prospects to expand Chefs' distribution reach through acquisition. Many of these transactions are largely purchases of customer lists, lowering integration risk, while providing increased share in its current markets as well as expansion in new geographies. We expect that most of these purchases will be relatively small, $10-$30 million in revenues, and be nicely accretive as they should be done at 2-4x EBITDA.

Limited industry buyer and supplier power, coupled with Chefs' superior product offering and uniquely positioned sales force should allow the company to capture excess profits. Unlike certain other segments of food distribution, Chefs' faces limited buyer or supplier power risk, as its top ten customers account for under 10% of net revenue and no supplier accounts for more than 5% of its products. In addition, Chefs' also carries over 11,500 SKUs, an amount roughly 7x its typical competitor and provides a much broader range of specialty products, while also offering many everyday staple items (flour, sugar, butter) as well. Finally, Chefs' 125 person sales force is uniquely positioned, as most are culinary educated or have spent significant time in the culinary industry.

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Chefs', we believe, also provides the opportunity to invest in the faster-growth, high-end consumer segment in the food-away-from-home channel that is driven by the wealthy and educated consumer. Indeed, as exhibited nicely by Whole Foods (WFM, $63.11, Hold), United Natural Foods (UNFI, $38.27, Hold) and The Fresh Market (TFM, $36.21, NC), among others, the high-end consumer segment has exhibited very strong growth coming out of the 2008 downturn and continues to show resilience. With a correlation of 0.80 between Chefs' organic growth and household wealth, similar to the correlation exhibited by Whole Foods according to our calculations, Chefs' customers clearly cater to the higher-end demographic and, as a result, recent stock market gyrations are a concern. However, our research has shown little slowdown in trends, although we have built much lower organic growth into our model in the back half of 2011. If this does not materialize, EPS could exceed our current estimate with every 1% in sales equal to just under ½ penny in earnings per quarter, according to our estimates.

Valuation

Our price target of $17.50 is 18.3x our FY12 EPS estimate of $0.96. This is below United Natural Foods' multiple of 19.0x and above Sysco's of 12.7x. Sysco, however, is a much slower growing company than both UNFI and Chefs'. We also believe Whole Foods and The Fresh Market are tangential comps, and Chefs' valuation is nicely under these companies as well. Our DCF places the value of the company at about $20.

Risks

Near-term: economic downturn resulting in meaningful contraction in wealth, acquisition-related integration or technology/systems implementation and geographic concentration risk. **Longer-term:** Group purchasing organizations.

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Company Snapshot

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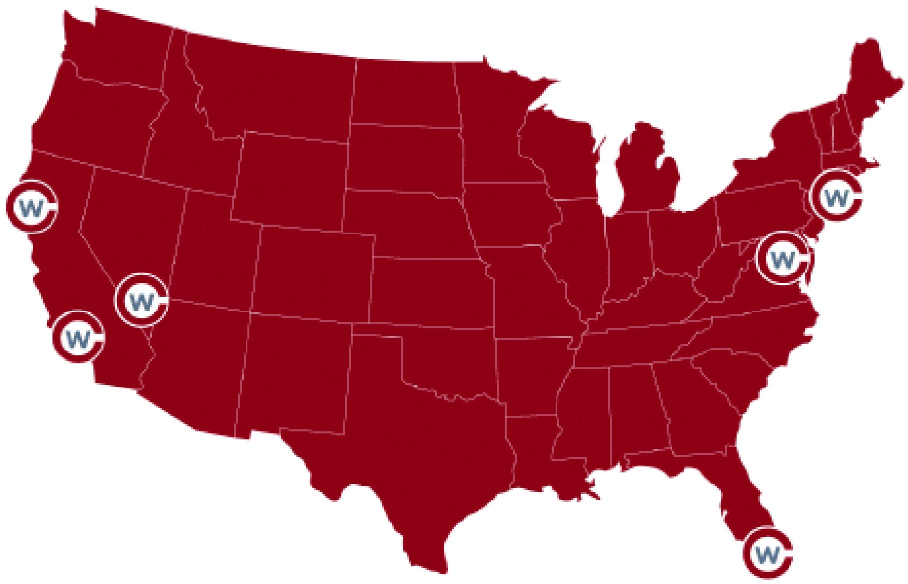
Chart 1: Chefs' Current Footprint



Source: Company Data

New York is the company's largest and most important market. Indeed, this market, which is heavily concentrated in the New York City metro area, but extends from Atlantic City to Boston is the largest for Chefs', generating approximately 65% of FY10 net revenue. In addition, we believe that the company's operating margins in this region are quite a bit higher, roughly double the operating margins in its other regions, with opportunity for even further improvement over time, we estimate. The higher margin profile doesn't come as much of a surprise to us given New York is the company's longest standing market, it drives the most revenue, it contains the company's largest and most efficient distribution center and New York metro provides for a very unique concentration of customers relative to other U.S. geographies. We believe over time that margins in the company's other regions will improve quite nicely as Chefs' looks to replicate its model in New York, with those markets that have the best densities and lower relative stem miles likely able to benefit the most, in our opinion.

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Opportunity in New York market centred on increasing placements per customer. According to filings, Chefs' believes the company distributes at least one product per week to roughly 60% of the addressable New York metro market, relative to the 20-30% in its other regions currently, with the addressable market constituting those independent restaurants with an average price for an entrée of above $15. We do note however, this is not market share, but rather suggestive of the number of unique customers to which Chefs' distributes at least one product, with restaurants buying a myriad of products across food and non-food categories weekly. That said, we believe growth in the New York metro market will come more from increased placements per customer than new customers (although plenty of opportunity remains here as well), while growth in Chefs' other geographies (as well as future markets) should see the scale weighed more towards new customers than higher placements in the beginning.

Chart 2: Markets Served by Chefs'

Chefs' Geographic Distribution Overview

Chefs' Markets	Distribution Footprint	Year Entered
New York	Boston to Atlantic City	1985
Washington, D.C.	Philadelphia to Richmond	1999
Los Angeles	Santa Barbara to San Diego	2005
San Francisco	Napa Valley to Monterey Bay	2005
Las Vegas	Las Vegas	2005
Miami	Miami	2010

Source: Company Data

Chart 3: Chefs' Distribution Centers

Chefs' Distribution Center Overview

Name/Location	Approx. Size (Sq. Ft)	Owned / Leased
Bronx, NY #1	120,000	Leased
Bronx, NY #2	55,000	Leased
Hanover, MD	55,200	Leased
Miami, FL	10,000	Leased
Los Angeles, CA	80,000	Leased
Hayward, CA	40,000	Leased
Las Vegas, NV	11,440	Leased

Source: Company Data

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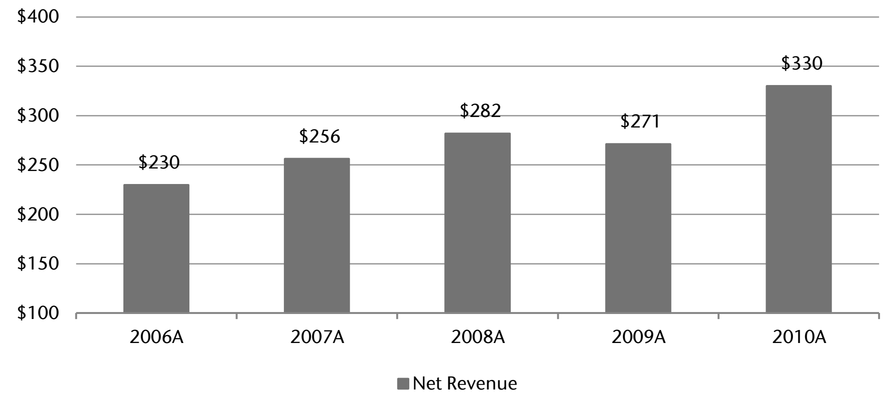
Since its founding in 1985, Chefs' has grown to become the largest operator in the specialty foodservice distribution sub-segment, catering specifically to upscale independent menu restaurants, hotels and clubs, among others. With over $330mm in net revenue in FY10, Chefs' has grown its business over time both organically, by increasing the number of new customers it serves as well as the number of unique products it distributes to those customers, and through acquisition. As it relates to acquisition, Chefs' has added to its organic growth with the addition of tuck-in acquisitions in order to both expand the company's footprint into new geographies, as well as increase its customer penetration in existing markets. In June 2010, Chefs' entered the Miami, FL market through the acquisition of Culinaire Specialty Foods, Inc. and increased its penetration of the company's largest market, New York, with its June 2011 purchase of Harry Wils & Co.

Chart 4: Chefs' Historical Annual Net Revenue ($mm)



Source: Company Data

With the aim of supplying and providing for the distinct culinary needs of chefs of upscale independent menu restaurants, and other similar establishments, The Chefs' Warehouse is literally just as it sounds. The company's largest customer type is the upscale independent menu restaurant, but Chefs' Warehouse also distributes to other fine dining establishments, hotels, casinos, country clubs, caterers, other distributors and retailers, as well as some of the best culinary schools in the country, including The Culinary Institute of America and The French Culinary Institute. While there are a myriad of types of independent or non-chain restaurants, we have attempted to provide a hypothetical example to help further illustrate a type of independent restaurant to which Chefs' might distribute. A more typical customer of Chefs' would be a *Pepe's Gourmet Italian Bistro* that serves wood-fired pizza, hand-made with the finest ingredients from Italy including one-of a kind olive oil and authentic flour. The type of independent restaurant not really serviced by Chefs' would be a *Tony's Pizza and Subs*, with pre-made dough and commoditized ingredients.

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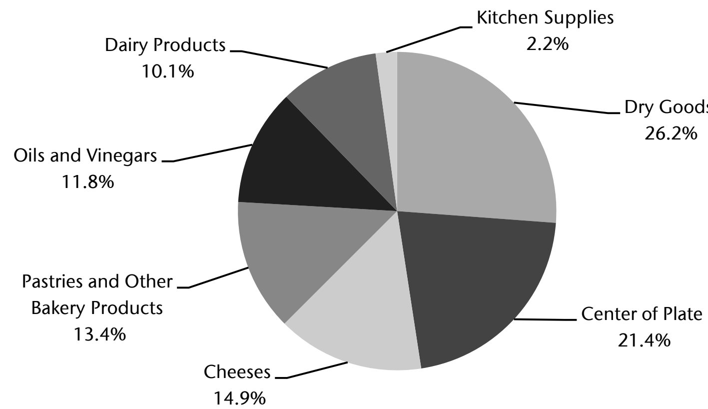
Chefs' product offering is vast and much broader than its typical specialty food distributor competition. Chefs' carries over 11,500 SKUs of specialty food items ranging from one of a kind olive oils, cheeses and charcuterie, as well as pastries and chocolates, among a number of other specialty food items from producers around the globe and domestically in the U.S. In addition to the many distinct and unique products Chefs' sells, leveraging the company's 125 person sales force, most of which are culinary educated or have spent significant time in the industry, the company also distributes a number of more common foodservice items in categories such as dairy, cooking oils and flour, allowing for a broader spectrum of available products and reducing the need for customers to utilize other distributors.

Chart 5: Chefs' FY10 Net Revenue By Product Category



Source: Company Data

Chart 6: Chefs' Historical Category Breakdown

	Net Revenue By Category (As % of Total)			Net Revenue Growth By Category		
	2008A	2009A	2010A	2008A	2009A	2010A
Dry Goods	25.5%	26.0%	26.2%	NA	-1.9%	22.6%
Center of Plate	20.4%	21.4%	21.4%	NA	1.0%	21.9%
Cheeses	15.2%	15.0%	14.9%	NA	-5.1%	20.9%
Pastries and Other Bakery Products	12.9%	13.7%	13.4%	NA	2.5%	19.1%
Oils and Vinegars	13.9%	12.6%	11.8%	NA	-12.9%	14.2%
Dairy Products	10.3%	9.3%	10.1%	NA	-12.9%	31.4%
Kitchen Supplies	1.7%	1.9%	2.2%	NA	5.1%	38.3%
Total	100.0%	100.0%	100.0%	NA	-3.8%	21.8%

Source: Company Data

Chefs' has made a dramatic push into the application of technology in an attempt to supercharge its business. Over the last few years the company has moved to leverage the benefits of technology and integrate them across its entire business starting from the point of sale all the way through the warehouse and distribution functions. Indeed, the company's sales-related IT platforms, which should help drive growth and better manage profitability, remain in very early innings, while the company's warehouse management system, which is already in place in its largest distribution center in the Bronx, is being rolled out to its other DCs with completion estimated in 1Q12.

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Near-Term Outlook

Overview

Overview of Pro Forma FY11 Adjustments. We have utilized pro forma FY11 estimates in an effort to better illustrate a normalized operating year for Chefs' given the confluence of moving parts related to its IPO in the third quarter and the associated deleveraging process. The pro forma items outlined below assume an IPO occurs on January 1, 2011. Above the line, revenue and gross profit are unchanged from our non-pro forma estimates. As it relates to operating expenses, we have assumed higher operating expenses associated with being a public company, as well as the removal of the stock compensation expense related to the 50% up front vest in 3Q, replaced with a more normalized stock compensation expense rate for the whole year. Below the line, the pro forma estimates reflect the post IPO capital structure and lower interest expense, as well as the removal of deferred financing fee amortization and original issue discount amortization under the old capital structure, but include an assumption for deferred financing fee amortization going forward. The pro forma estimates also incorporate a higher corporate tax rate and pro forma share count to reflect the company's initial public offering.

3Q11 Pro Forma Expectations – EPS of $0.18, EBITDA of $7.1mm (ex. one-time items)

Total Revenue Growth of 14.3%. We have assumed total organic growth of 7.5%, including higher placements/customer and new customers along with contribution from mix and higher inflation. Our organic revenue assumptions do incorporate some slowing of organic growth given more difficult compares and the potential for some macro pressures, although continued trends similar to those in 1Q and 2Q would present opportunity for upside. In addition, we have assumed 6.8% growth from acquisition given the contribution from Harry Wils which closed at the end of 2Q.

Gross Margin of 26.0% – flat from the prior year period. We have assumed flat gross margin improvement as mix and slower inflation pass through could hold back gross margin growth.

Operating Expenses (As % of Net revenues) of 19.1%. Given the lack of a comparable pro forma operating expense in the prior year period, the y/y change in operating expense as a % of sales is not comparable. On a GAAP basis, we assume 205 bps expense deleverage largely to account for the one-time stock compensation expense of approximately $1.6mm associated with the 50% upfront vesting in conjunction with the company's IPO, as well as some carry through of expenses related to Harry Wils. Our 3Q11 Pro forma operating expense margin of 19.1% reflects the removal of the upfront stock compensation expense and is replaced with a more normalized estimate for quarterly stock compensation.

Below the Line – Net interest expense of $0.4mm, tax rate of 39.0% and share count of 20.8mm shares.

Potential Hurricane Impact: *While it is unclear what the impact could be from Hurricane Irene on earnings, we do see the potential for $0.01-$0.03 negative drag on EPS in 3Q11. That said, we have left our 3Q forecast unchanged given the treatment of any potential hurricane-related costs as one-time.*

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Additional Information – Net interest expense in 3Q adjusts for one-time items related to the company's IPO and refinancing, including the removal of deferred financing fee amortization, original issue discount and call premium associated with the pre-IPO capital structure. On August 2, 2011, The Chefs' Warehouse completed its Initial Public Offering, offering 4,666,667 primary shares and 5,683,333 secondary shares, including an over-allotment of 1,350,000 shares, at an offering price of $15. The net proceeds to the company of approximately $63.1mm will be used to pay down existing debt. Jefferies & Company, Inc. acted as a Joint Bookrunner on the IPO.

FY11 Pro Forma Expectations – EPS of $0.77, EBITDA of $29.3mm (ex. one-time items)

Total Revenue Growth of 18.5%. We have assumed total organic growth of 11.2%. This is driven by strong growth in placements per customer and new customers, coupled with contribution from inflation and mix. We have also assumed acquisition growth of 4.8% for the year, which incorporates the contribution from Harry Wils in the back-half of the year and contribution from the company's Miami acquisition in 1H:11. The remaining difference is attributed to the benefit of the extra selling week in FY11, which we estimate improves FY11 revenue growth by 2.4%.

Gross Margin of 26.2% – up 22 bps from FY10 Pro Forma. We have assumed some gross margin expansion in FY11 as the company laps the 32 bps of contraction last year (non pro forma basis) on improved product mix y/y, offset by the elevated inflationary climate and potential for some slower inflation pass through during 2H:11.

Operating Expenses (As % of Net revenues) of 19.1% – down 119 bps from FY10 Pro Forma. On a pro forma basis we have assumed nice operating leverage as the company benefits from higher sales and continued cost control as well as improved leverage during 4Q given the extra week.

Below the Line – Net interest expense of $1.7mm, tax rate of 39.1% and share count of 20.8mm shares.

FY12 Expectations – EPS of $0.96, EBITDA of $36.2mm

Total Revenue Growth of 11.6%. We have assumed organic growth of 10.5%, plus 3.3% contribution from Harry Wils in the first half of the year. Our revenue forecast model does not assume any additional revenue contribution from acquisitions. FY12 is also a 52 week year, resulting in an estimated -2.1% impact y/y relative to last year's 53 week year.

Gross Margin of 26.3% – up 10 bps from FY11 Pro Forma. We have assumed minimal gross margin expansion in FY12 and beyond mostly due to some benefits from mix and improved customer account management.

Operating Expenses (As % of Net revenues) of 18.4% – down 70 bps from FY11 Pro Forma. We have assumed solid operating expense leverage as the company benefits from the full rollout of its warehouse management systems by the end of 1Q12, as well as continued expense control on higher revenues. FY12 will also include a full year of normalized stock compensation and public company expenses.

Below the Line – Net interest expense of $1.7mm, tax rate of 39.0% and share count of 20.9mm shares.

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Outlook Detail

Chart 7: Near-term Outlook

Earnings Table	Q3:11PFE	2011PFE	2012E
Net Revenues	$97,031	$391,156	$436,545
Gross Profit	$25,207	$102,510	$114,842
EBIT	$6,716	$27,820	$34,540
EBITDA	$7,116	$29,350	$36,199
EBT	$6,290	$26,213	$32,842
Taxes	$2,453	$10,240	$12,808
Net Income (Operating)	$3,837	$15,973	$20,033
Diluted EPS (Operating)	$0.18	$0.77	$0.96
Diluted Shares Outstanding	20,835	20,835	20,935
Sales Growth			
Total Organic	7.5%	11.2%	10.5%
Acquisitions	6.8%	4.8%	3.3%
Total	14.3%	16.1%	13.8%
Other	-	2.4%	-2.1%
Total	14.3%	18.5%	11.6%
Gross Margin	26.0%	26.2%	26.3%
Change in Gross Margin	NA	0.22%	0.10%
Operating Expenses (As % of Net Revenues)	19.1%	19.1%	18.4%
Change in Operating Expenses	NA	-1.19%	-0.70%
EBIT Margin	6.9%	7.1%	7.9%
Change in EBIT Margin	NA	1.41%	0.80%

Source: Jefferies

Note: Other sales growth related to the existence of an extra week in the company's 4Q and FY11 periods. For FY12, other sales growth represents the estimated y/y impact of the return to a 52 week period from the 53 week period in FY11.

Quantification: Potential Upside

We believe upside in FY11 is likely to be driven by better-than-expected organic sales, while better than expected EPS in FY12 and beyond would come from a mix of stronger growth and better expense control. In 2H:11, potential upside to our estimates could come from stronger-than-expected organic growth if strength in the high-end consumer remains and Chefs' business continues on similar trajectory to the solid results seen in 1Q and 2Q. In FY12, the company could see greater than expected sales and gross profit benefits from the application of its CRM and price optimization technologies as Chefs' looks to drive increased placements/customer, on-board new customers and better manage gross profit/ customer. Combine this with the growing efficiencies from the rollout of the warehouse management system to its other DCs by 1Q12 and improved ability to manage costs, suggests the potential for the better revenue to flow to the bottom line at a higher rate.

Chart 8: Quantification

Quantification	EPS Impact Per Period
Every 1% of Additional Sales:	Just under 1/2 penny in EPS per Quarter
Every 10 bps of Operating Margin:	Approximately one penny to EPS per Year

Source: Jefferies

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Turning a Cottage Into an Estate

Leveraging Technology to Drive Performance

The application of technology should drive growth and lower costs. Indeed, as Chefs' Warehouse applies best practices and leverages the benefits of its sales, warehouse and distribution technology systems, the company should be able to drive better organic growth rates and lower costs. This should allow the company to improve its operating margins not only in New York, where they are much higher, but also quite nicely in other regions as the company looks to replicate its New York model in its other geographies. The company's move to focus heavily on incorporating technology and best practices across its business we believe will continue to place further distance between Chefs' and its competitors, who are typically far less sophisticated given the highly fragmented, and still very cottage nature of this sub-sector of foodservice distribution. Indeed, our research suggests that while other regional or local competitors similar to Chefs' may capture higher gross margin in certain instances, Chefs' is nevertheless able to deliver higher operating margins given the lower cost to distribute. This is due in part to the company's technology driven efficiencies and practices (the other reason we believe is the lack of buyer and supplier power).

Starting early should be one key to success. Chefs' has made a concerted effort to integrate technology into its business before it speeds up its efforts to consolidate the industry, which we believe should mitigate potential issues down the road as Chefs' grows, while also better positioning the company to potentially deliver and capture improved results over time sooner than perhaps would have been achieved otherwise. UNFI, Chefs' closest public comparable in our opinion, but not a direct competitor, has struggled over time with its own technology implementation as the company worked to consolidate the industry first and largely implemented technology second. This, coupled with the significant growth in the natural and organic industry over the years, has limited UNFI's ability to implement certain technology into its DCs, however this is changing with CEO Steve Spinner. While UNFI was able to get the right systems into its new Lancaster, TX distribution center late last year, a win on many fronts, UNFI did run into some issues with the implementation, which resulted in higher costs and slowed the initial timeline of the full rollout to its other DCs. With Chefs' putting all its technology systems into its biggest and busiest facility in NY, we do not believe it will suffer the same fate as UNFI (don't feel too sorry for UNFI, the stock has done just fine!)

Higher organic revenue and improved gross margin are possible as the company applies technology and best practices to its sales efforts. The benefits of applying technology to supercharge Chefs' selling efforts remain in very early innings, we believe, and have the potential to drive higher organic sales as well as improve gross margin over the medium and long-term. Indeed, the application of the company's CRM and price optimization technology systems should help Chefs' increase both the number of placements it sells per customer and the number of new customers, while also aiding the sales force to better manage account profitability. Chefs' has also worked to better-align its sales force with its internal goals and we believe the company's constantly improving platforms should better provide the sales force the tools it needs. Interestingly, similar to the time when the company began to implement early variations of its sales IT platforms and systems in 2009, Chefs' began to see nice improvements in its organic growth rates, a welcome sign that the current application of much improved systems could boost results even further.

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The company is also focused on using technology and enhanced process standards to help lower costs and drive productivity improvements in its warehouse and distribution functions. To that end, Chefs' put in place a warehouse management system, Road Net and pick-to-voice technologies into its largest DC in the Bronx. While Chefs' plans to roll-out the warehouse management system to its other DCs by 1Q12, it has wisely already implemented and tested the systems in its largest and busiest distribution center in New York. Next year the company will be moving its current Bronx facility to a larger location in close proximity. This process could end up being relatively seamless, although there is the potential for some initial lag in productivity as the employees get used to the ins and outs of the new facility. On the distribution side, the company is also working on a number of tools to enhance route efficiency.

Successful execution and leverage of its technology systems and processes should drive higher operating margins, especially in areas outside NY as Chefs' looks to replicate its New York model. Margins in the company's New York market are quite a bit higher than its other regions, roughly double we estimate, largely due to efficiency the company has driven into its business in the tri-state area. In addition, the company's New York market is the longest standing for Chefs' and contains the largest and most efficient distribution facility, with the market contributing roughly 65% of FY10 consolidated net revenue. Despite the company's long-standing strength in New York, we believe there remains ample runway to improve margins, as higher placements per customer and new customers are supported by the efficiencies gained from the warehouse management system in its Bronx DC. Clearly, the densities in New York City metro and the shorter relative stem miles are also a big help to margins.

Replicating New York elsewhere should be quite fruitful. Beyond New York, the company has significant opportunity to improve the margin profile of its other regions, as Chefs' looks to replicate its New York model including the implementation of its warehouse management system across its other DCs by 1Q12 and the addition of its other CRM and price optimization technologies. Only a select grouping of MSAs in the U.S., we believe, have characteristics similar enough to New York, including necessary densities, to allow for the potential for similar margin structures to New York over the long-term in those markets. The company's San Francisco market and south Florida operations would likely fit that profile, as would Chicago, although this is a market in which Chefs' does not currently operate. That said, margins in the company's other existing markets, including Washington DC, Los Angeles and Las Vegas, also have the potential to move meaningfully higher over time, if the company executes well on its strategy, helping the company's overall margin profile. However, longer stem miles and lower densities, are likely to keep the margin structure somewhat below that of New York.

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Fruitful Acquisition Landscape

There is ample opportunity for accretive, tuck-in, acquisitions. Given the fragmentation of Chefs' industry sub-sector, one that is largely dominated by a myriad of less sophisticated, regional or mom and pop operators, there exist significant prospects to expand Chefs' distribution reach through acquisition. Many of these transactions are largely purchases of customer lists, lowering integration risk, while providing increased share in its current markets as well as expansion in new geographies. We expect that most of these purchases will be relatively small, $10-$30 million in revenues, and be nicely accretive as they should be done at 2-4x EBITDA.

The number of acquisitions done per year is likely to increase, although future acquisition activity is not in our numbers. Indeed, the company has acquired a number of smaller operators over the last few years, averaging approximately one transaction per year. We believe that the company is likely to step-up the number of acquisitions it does on a yearly basis to perhaps 2-3 transactions per year on average which we estimate could add a few hundred basis points of sales growth annually. In FY10, sales growth from acquisitions totalled approximately 3%, while we estimate that a half year contribution from the company's June 2010 Miami acquisition and the company's June 2011 acquisition of Harry Wils in New York metro should add a combined 4.8% to sales growth in FY11. In FY12 we have assumed 3.3% sales growth from acquisitions, representing the contribution in the first half of the year from Harry Wils. We estimate total revenue contribution for Harry Wils of approximately $25mm annualized, after-taking a discount to our estimated sales of approximately $30mm, in-line with the company's acquisition practices, although this could indeed prove conservative if customer retention remains high. Outside of recently acquired transactions, we do not model in any benefit from future transactions.

Chart 9: Chefs' Recent Acquisition History

Target	Date	Total Consideration ($mm)	Market Served	Multiple of Revenue	Multiple of EBITDA
Harry Wils & Co.	06/24/11	$8.9	New York Metro	NA	NA
Culinaire Specialty Foods, Inc.	06/18/10	$3.7	South Florida	NA	NA
San Francisco Division of European Imports	08/28/09	$3.8	San Francisco	NA	NA
American Gourmet Foods	May-08	$5.1	Washington, DC	NA	NA

Source: Company Data

While there is always execution and integration risk with any transaction, the typical transaction for Chefs' appears to carry less risk, in our opinion. The company's typical transaction involves the purchase of smaller, regional or local operators with an average cash outlay for Chefs' over its last four transactions of just over $5mm, which also tend to be accretive. In addition, many of the acquisitions involve the purchase of customer lists, working capital and inventory, which significantly lowers the integration risk and shortens the time to close. Lastly, the company remains quite conservative in its forecasts for contribution from acquisitions, and assumes a sizeable discount to actual revenues, which we estimate is upwards of 20-30%, depending on the transaction. This is to account for the potential for any customer transition or leakage, although we believe this assumption ends up being conservative in the end. The purchase price in a typical transaction is done between 2-4x EBITDA with cash on hand and/or debt, resulting in nice accretion.

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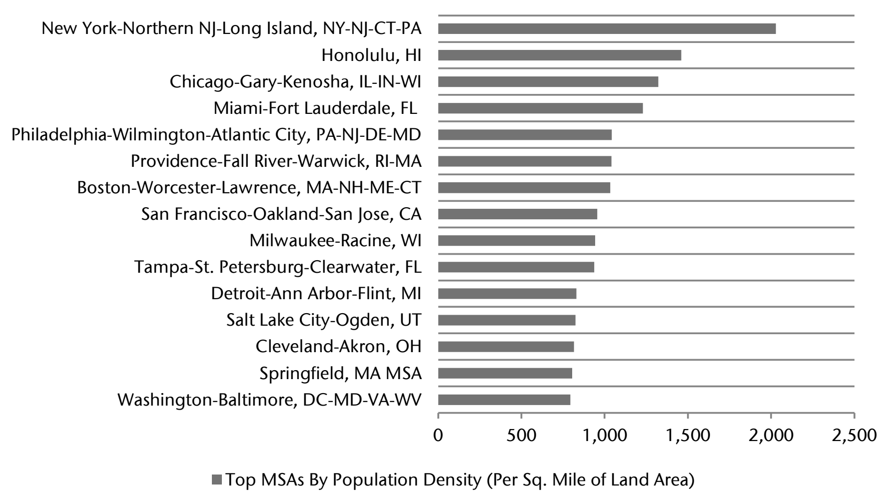
Establishing an initial presence in a new geography will likely come from acquisition. While three of the company's four most recent transactions helped to add customers to already existing markets, such as New York, San Francisco and Washington, DC, we expect Chefs' to move into additional new geographies across the U.S. over time, with the focus on the major MSAs with the best densities and culinary characteristics. An example of a transaction which allowed Chefs' to establish a new presence in a market was the company's June 2010 acquisition of Culinaire Specialty Foods, Inc., giving Chefs' the opportunity to go into South Florida for a mere $3.7mm. After entering the new market, the company can expand distribution through new customers and increased placements per existing customer, although on-boarding new customers will represent the bulk of growth for some time in new markets, we believe. In Miami, Chefs' will also be moving its current operations to a new facility in 3Q of FY11.

A Look at Population Densities in the U.S.

Density analysis suggests opportunity for margin improvement in other markets. While it is clear that the densities in the New York MSA, being the highest in the country, help Chefs' capture higher profitability in the region, there are also a number of markets which likely have sufficient density profiles to support higher margin structures. Miami, Philadelphia, Boston and San Francisco are all markets in which Chefs' has a presence, although some more than others at the current juncture. Chicago, which registers third on the list below, is a market in which Chefs' does not currently operate, but has attractive density profiles as well.

Chart 10: Population Density Per Square Mile of Land Area By MSA



Source: U.S. Census Bureau; Census 2000

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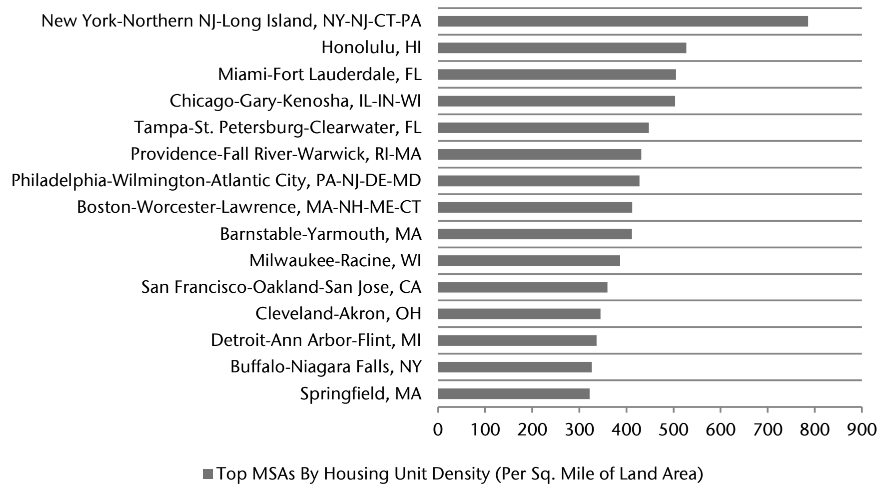
Chart 11: Housing Unit Density Per Square Mile of Land Area By MSA



Source: U.S. Census Bureau; Census 2000

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Chefs' Model Positions It to Capture Excess Profits

Limited industry buyer and supplier power, coupled with Chefs' superior product offering and uniquely positioned sales force should allow the company to capture excess profits. Unlike certain other segments of food distribution, Chefs' faces limited buyer or supplier power risk, as its top ten customers account for under 10% of net revenue and no supplier accounts for more than 5% of its products. In addition, Chefs' also carries over 11,500 SKUs, an amount roughly 7x its typical competitor and provides a much broader range of specialty products, while also offering many everyday staple items (flour, sugar, butter) as well. Finally, Chefs' 125 person sales force is uniquely positioned, as most are culinary educated or have spent significant time in the culinary industry.

Limited buyer and supplier power position Chefs' quite favorably as it looks to consolidate the fragmented landscape over the long-term. The highly fragmented landscape of distributors, which is largely composed of a myriad of regional and local specialty operators who service an also fragmented independent restaurant industry in the U.S., provides a favorable backdrop for Chefs', indeed. This is especially true as the top 10 customers for Chefs' account for under 10% of net revenue. Equally important, is that Chefs' is supplied by an also fragmented network of producers, over 1,000 according to the company, with many instances in which Chefs' is the largest distributor of a manufacturer's product(s). According to filings, no supplier accounts for more than 5% of Chefs' products distributed. Taken together, this advantage should pay dividends for Chefs' over the long-run, as limited buyer and supplier power suggest excess profitability in the industry should go to the consolidator, with the potential for further flow through to the bottom line given Chefs' technology driven efficiencies. We believe this is one of the reasons Chefs' garners higher profit margins than its public comparables, UNFI and Sysco (SYY, $27.16, NC). While UNFI has been a consolidator in the natural and organic space, they, unlike Chefs', do face some supplier power and even larger buyer power, with Hain Celestial (HAIN, $30.37, Buy) representing roughly 7% of total purchases and Whole Foods representing 35% of UNFI's net sales in FY10, something which has a tendency to depress excess profitability.

Superior product offering will continue to be a key differentiator for Chefs'. The company's vast product offering, including a wide variety of specialty items from across the globe, places Chefs' in a category all its own, in our opinion, relative to its typical competition. Indeed, the company distributes over 11,500 SKUs, an amount which represents approximately 7x the average SKU count of other competing specialty distributors. Over the long-term, Chefs' growing offering should allow the company to further meet the diverse and ever-changing needs and tastes of its chef customers. In addition, we believe the company's ability to provide a wide variety of food categories, as well as certain everyday staple items, in a cost efficient manner limits the opportunity for other distributors to take share and in fact further strengthens Chefs' positioning in the industry. While a typical independent restaurant is likely to have a number of different suppliers based on its needs, as Chefs' continues to expand its product offering, the potential opportunity exists for the company to perhaps displace competitors as restaurants and other accounts look to consolidate supplier partners, a trend which we have witnessed in other places across the food vertical chain.

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A differentiated sales force and Chefs' ability to extend credit to its customers provide a strong go-to-market advantage. Chefs' sales force looks to be uniquely positioned as most are culinary educated or have spent significant time in the culinary industry. We believe this is uniquely advantageous and allows the company to better understand and meet the needs of its chef customers as they look to differentiate their product offering. In addition, given the spot nature of the order volume based on the customers' needs, Chefs' ability to extend credit to its customers and manage that well is a necessity for its customers. It is also a limiting factor in the growth of group purchasing organizations into the independent restaurant industry, the biggest long-term risk for Chefs' we believe, as these organizations typically do not extend credit to customers. Chefs' write-off ratio over the last few years has averaged roughly 32 bps, as the company's dedicated Credit and Collections Department manages it well depending on the climate.

Much more complicated than meets the eye. Despite what may appear to be a relatively simple and straightforward distribution model, Chefs' specialty business is intensely more complicated than may outwardly appear, something we determined first hand one night as we witnessed how a product goes from the shelf in the warehouse to the truck and ultimately to the customer. Profit margins generally in the food distribution business are thin as companies rely on solid sales leverage and cost efficiencies to turn a good profit. While larger broadline foodservice operators and those bigger distributors in the food-at-home channel have the ability to drive efficiencies through larger drop sizes and item volumes, we were struck by the inherent complexity in not only building a pallet through the piece-pick process, but ultimately breaking down a pallet on the truck as it is distributed to the different customers on the route. We believe the company's ability to operate a complex specialty distribution business and generate industry leading profitability provides a distinct competitive advantage for Chefs' and a barrier to entry for others. Indeed, the company's order to fill rate is over 99%, pretty astounding, while miss-picks are now well under 1%.

Chefs' is led by a very strong management team with significant experience. The company was founded and built from the ground up by Christopher Pappas, Chairman and CEO, and John Pappas, Director and Vice Chairman. Over the last six years, the company has made a significant push to invest in its business, including both people and technology. This included the hiring of James Wagner in 2005, appointed to COO in March 2011, the hiring of Kenneth Clark in 2007, appointed to CFO in March 2009 and the hiring of Frank O'Dowd in 2007, the company's CIO. These additions have created, in our opinion, a formidable senior team. Indeed, the chemistry that has developed between Mr. Pappas the CEO and Mr. Wagner the COO, while somewhat intangible, is also quite important as this company sets a path toward accelerating growth.

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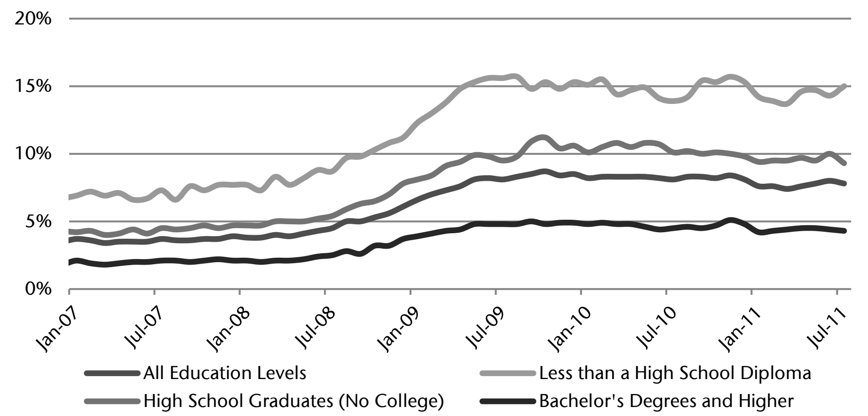
A Way to Invest in the High-End Consumer

Chefs', we believe, also provides the opportunity to invest in the faster-growth, high-end consumer segment in the food-away-from-home channel that is driven by the wealthy and educated consumer. Indeed, as exhibited nicely by Whole Foods, United Natural Foods, and The Fresh Market, among others, the high-end consumer segment has exhibited very strong growth coming out of the 2008 downturn and continues to show resilience. With a correlation of 0.80 between Chefs' organic growth and household wealth, similar to the correlation exhibited by Whole Foods according to our calculations, Chefs' customers clearly cater to the higher-end demographic and, as a result, recent stock market gyrations are a concern. However, our research has shown little slowdown in trends, although we have built much lower organic growth into our model in the back half of 2011. If this does not materialize, EPS could exceed our current estimate with every 1% in sales equal to just under ½ penny in earnings per quarter, according to our estimates.

Chart 12: Unemployment by Education Level



Source: BLS

Educated consumers are still employed and make more money. Coming out of the 2008 downturn the educated/wealthy individual fared quite well despite the difficult broader economy. Indeed, the unemployment rate of individuals with bachelor's degrees and higher is 4.3%, down from 5.1% in November 2010. The actions by the Federal Reserve to force people into risk assets have clearly buoyed equities, resulting in a sharp rebound in wealth, as is clearly seen by the Federal Reserve's Household Net Worth figures. (see below). Consumer Confidence, as reported by the University of Michigan, is also much higher for the higher income brackets when compared to U.S. consumers as a whole. In our opinion, these consumers also tend to shun chain restaurants, preferring the unique experience provided by the independent menu restaurants. In addition, the private clubs and upscale hotels are also frequented by the same demographic. These establishments are the bread and butter of Chefs' business.

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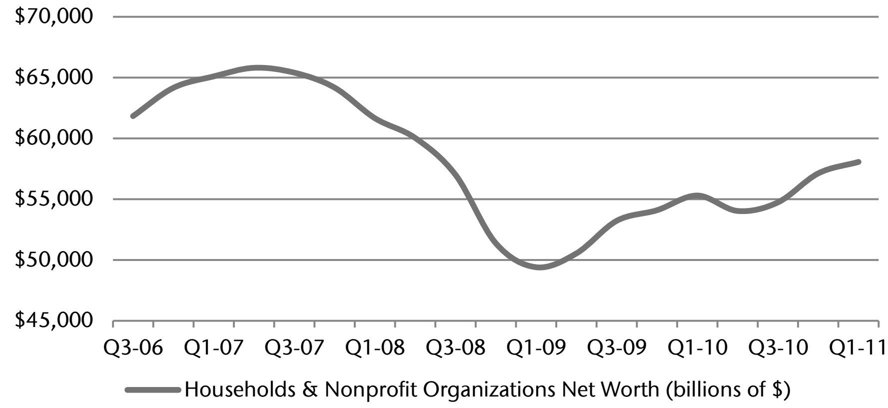
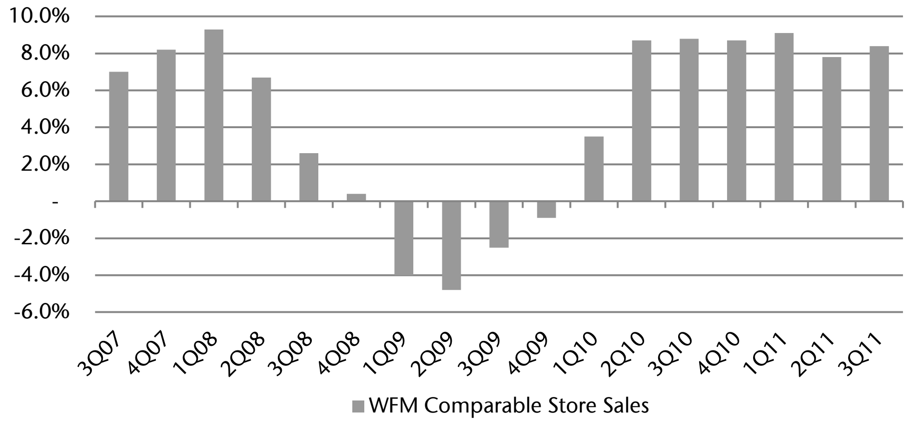
Chart 13: Household Net Worth



Source: The Federal Reserve Board.

Chart 14: WFM Comparable Store Sales



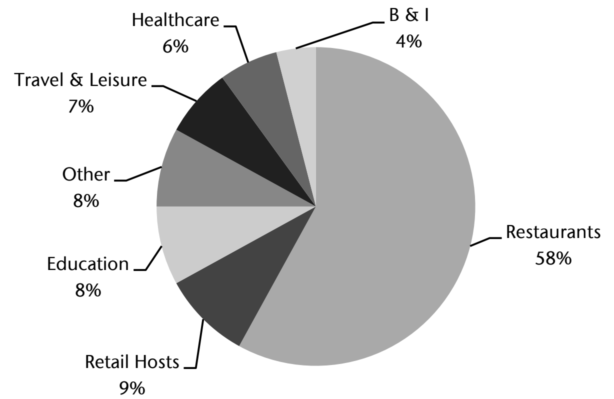
Source: Company Data

A slowdown in the macros could indeed crimp sales in the short-run, but Chefs' is simply stronger, more nimble and better positioned, we believe, to consolidate its industry over the long-term. While a deterioration in the U.S. macro picture, leading to wealth contraction in the higher-end demographic, would likely impact Chefs' to some degree, the company has made significant improvements on its operations and practices across its sales, warehouse and distribution functions since the last downturn a few years ago. Chefs' has and continues to build upon best practices and implemented large scale improvements to its technology infrastructure (the benefits of which remain in very early innings we believe) in an effort to truly supercharge its business. These actions have not only served to strengthen the company's operations, but have also provided the company increased up to the moment insight (and still improving) into the business and prepared Chefs' to drive results and gain share even when the backdrop remains less favorable.

A Fragmented Food Distribution Landscape

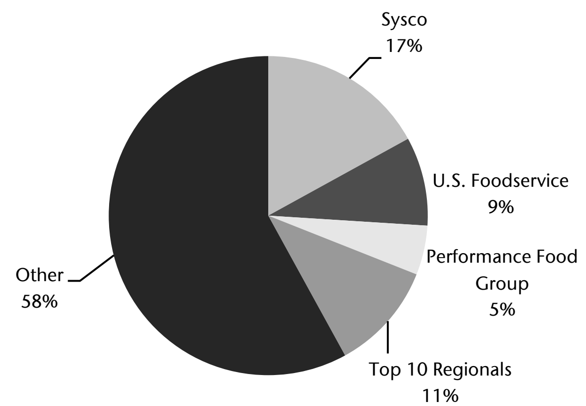
The U.S. food distribution landscape is vast and characterized by a wide range of operator-types who distribute across the food-away-from-home (chain restaurants, hospitals, hotels, etc.) and food-at-home (supermarkets, grocery retail, etc.) channels. The broader food-away-from-home channel in which Chefs' operates is dominated by major, national broadline distributors such as Sysco, U.S. Foodservice and Performance Food Group, as well as a number of regional and smaller operators. Operators such as Sysco and its two closest peers, distribute largely to chain restaurants, participants in the hospitality industry (hotels, etc.) and other large healthcare and educational institutions, among others. Chefs' operates in a much smaller niche of the food-away-from-home distribution channel, focusing specifically on specialty items sold largely to upscale independent menu restaurants, as well as hotels, other fine dining establishments, country clubs and culinary schools, among others, all driven by a focus on the chef and the cuisine served.

Chart 15: U.S. Foodservice Distribution Industry By Channel



Source: Sysco presentation CAGNY 2011

Chart 16: U.S. and Canada Foodservice Distribution Landscape



Source: Sysco presentation CAGNY 2011

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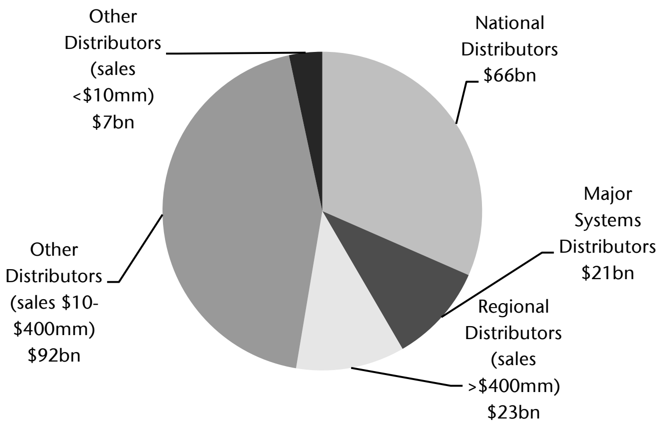
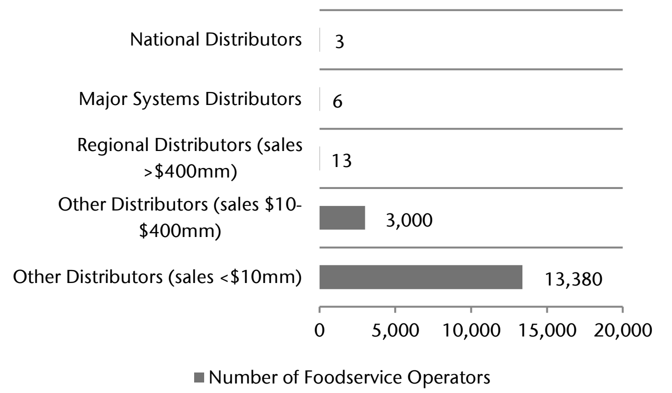
Chart 17: U.S. and Canada Foodservice Distribution Market By Size ($bn)



Source: Sysco presentation CAGNY 2011

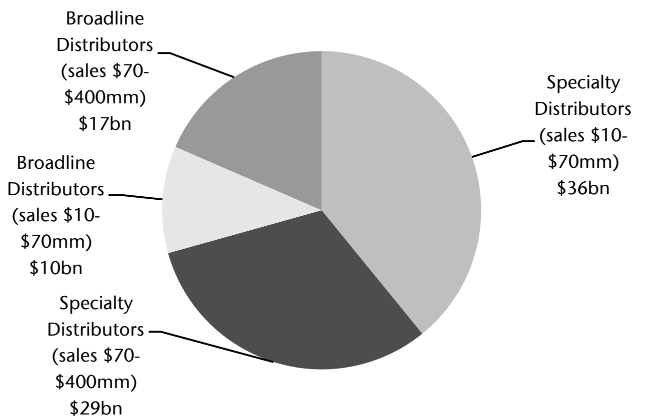
Chart 18: U.S. and Canada Foodservice Distribution Market By Number of Operators



Source: Sysco presentation CAGNY 2011

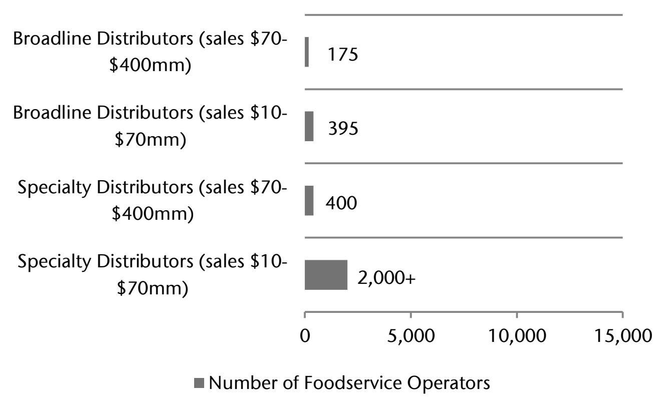
Chefs' main competitors are largely other regional or local specialty distributors, although they do compete with larger broadline players as well. While the customers to which Chefs' distributes do also utilize larger broadline distributors, Chefs' competition comes more from other regional or smaller specialty foodservice distributors in the markets in which it operates. Chefs' specific industry sub-segment remains highly fragmented, although there are a few operators of somewhat larger size, including European Imports, based in Chicago, which we believe is roughly half the size of Chefs' when measured by sales.

Chart 19: U.S. and Canada Foodservice Distribution Market ($10-$400mm in Sales) By Size ($bn)



Source: Sysco presentation CAGNY 2011

Chart 20: U.S. and Canada Foodservice Distribution Market ($10-$400mm in Sales) By Number of Operators



Source: Sysco presentation CAGNY 2011

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Valuation Overview

Our price target of $17.50 is 18.3x our FY12 EPS estimate of $0.96. This is below United Natural Foods' multiple of 19.0x and above Sysco's of 12.7x. Sysco, however, is a much slower growing company than both UNFI and Chefs'. We also believe Whole Foods and The Fresh Market are tangential comps, and Chefs' valuation is nicely under these companies as well. Our DCF places the value of the company at about $20.

Chart 21: Comparable Company Analysis ($mm, except per share data)

Company	09/02/11 Ticker	Current Price	Market Cap	Enterprise Value	EV / Revenue CY10	EV / Revenue CY11	EV / Revenue CY12	EV / EBITDA CY10	EV / EBITDA CY11	EV / EBITDA CY12	P/E CY10	P/E CY11	P/E CY12
United Natural Foods (Jefferies Est)	UNFI	$38.27	$1,855.4	$2,057.8	0.51x	0.44x	0.40x	13.2x	11.4x	10.1x	23.7x	21.5x	19.0x
Sysco (Consensus)	SYY	$27.16	$16,097.7	$18,126.4	0.47x	0.45x	0.43x	7.7x	7.5x	7.1x	13.9x	13.5x	12.7x
Mean					0.49x	0.44x	0.41x	10.4x	9.4x	8.6x	18.8x	17.5x	15.9x
Median					0.49x	0.44x	0.41x	10.4x	9.4x	8.6x	18.8x	17.5x	15.9x
Chefs' Warehouse (Jefferies Est)	CHEF	$13.56	$282.5	$325.7	0.99x	0.83x	0.75x	16.1x	11.1x	9.0x	25.3x	17.7x	14.2x

Source: Jefferies, Company Data, CapitalIQ, Thomson

Note: CHEF FY10 and FY11 reflect pro forma adjustments

Comparable Company Analysis

We believe the best and closest public company comparables to The Chefs' Warehouse are first United Natural Foods (UNFI, $38.27, Hold) and second Sysco (SYY, $27.16, NC). Interestingly, despite the myriad of operator types across the vast U.S. food distribution landscape, there exists a very limited cross-section of public companies generally speaking. In addition, there are no-pure play public comparables in the highly fragmented sub-sector of foodservice distribution in which Chefs' specifically operates as this portion of the industry is largely dominated by smaller, private, regional or local competitors. Despite the limited universe, and certain differentiating characteristics, which all factor into the multiple spreads among the three, UNFI and SYY remain the most appropriate comparable public companies, we believe.

CHEF currently trades at roughly 14x our CY12 EPS, while UNFI and SYY trade at approximately 19x and 13x CY12 EPS, respectively. We believe CHEF's P/E multiple premium to SYY is justified largely given the higher revenue and earnings growth rates exhibited by CHEF, coupled with the more favorable margin structure. On the flip side, despite Chefs' similar revenue growth trajectory, but slightly higher long-term EPS growth rate and better margin profile relative to UNFI, we believe a trading discount to UNFI is warranted given the more limited track record for CHEF. On an EV/EBITDA basis, CHEF currently trades at 9.0x our FY12 EBITDA, a roughly two multiple turn premium to SYY's 7.1x and just over one multiple turn discount to UNFI which trades at 10.1x.

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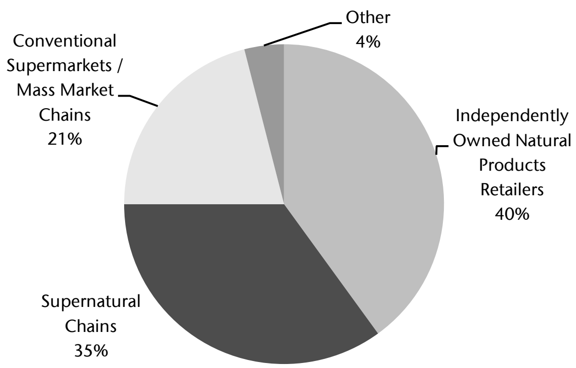
UNFI, the largest natural and organic product wholesale distributor in the U.S. and Canada, which also distributes a broad range of specialty food/non-food items, is the best public comp to CHEF, in our opinion. Much like the path of UNFI over its history, consolidating a highly fragmented natural and organic distribution landscape, The Chefs' Warehouse appears to be on a similar trajectory with the opportunity to consolidate its also-fragmented sub-sector of the industry, albeit one that caters to a different end-customer (namely the chef of the upscale independent menu restaurant). To that end, we find Chefs' at its current stage of lifecycle very analogous to where UNFI was in the 1990s and early 2000's, albeit with the advantage of having put technology into its busiest facility fairly early into its rapid growth cycle. UNFI, on the other hand, has struggled to get productivity enhancing tools deployed which we believe has hurt margins (although not the stock price all that much!).

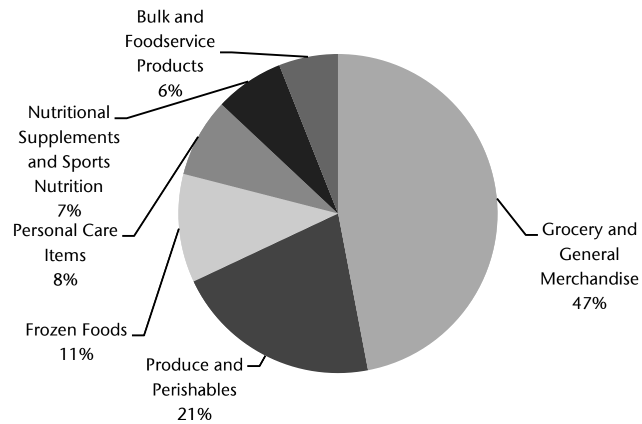
Buyer and supplier power are much more a factor for UNFI than they are for CHEF. Unlike CHEF, UNFI operates in the food-at-home channel, distributing largely to independent natural product retailers, supernatural chains (i.e. Whole Foods), as well as other conventional and mass retailers. Indeed, UNFI has a long-track record and a very dominant position in the natural and organic industry, however significant buyer and supplier concentration do exist, namely in Whole Foods and Hain Celestial. UNFI is the largest distributor to Whole Foods, representing 35% of UNFI's total net sales in FY10. In addition, roughly 7% of total purchases for UNFI come from Hain Celestial, the leading manufacturer of natural and organic food and related products.

Chart 22: UNFI FY10 Sales By Customer Type



Source: Company Data

Chart 23: UNFI FY10 Sales By Product Type



Source: Company Data

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UNFI has a somewhat similar revenue growth profile to CHEF, as strong organic growth rates are further supplemented by acquisitions, but CHEF's long-term EPS growth appears more favorable. Indeed, UNFI has grown net sales at a roughly 15% CAGR since fiscal year 2000 and we estimate approximately 10.3% revenue growth for UNFI next year (FY12: July). As it relates to Chefs' Warehouse, we estimate organic revenue growth of 10.5% in FY12 (Dec) and a growth rate of approximately 10% on average over the next five years (FY11-FY15). Indeed, aside from already announced acquisitions (Culinaire Specialty Foods and Harry Wils) we do not incorporate acquisition-related growth into our model, which we believe could add a few hundred basis points per year to sales. While both UNFI and CHEF have similar revenue growth profiles, CHEF's 3-year EPS CAGR of approximately 18% (based off our pro forma FY11 EPS of $0.77 for comparison purposes) is higher than what we estimate for UNFI at 12%, over a similar time frame. While UNFI is farther along the maturation growth curve than Chefs' and is directly benefitting from a natural and organic secular tailwind (which Chefs' is not), we believe an EPS CAGR of 12-15% for UNFI is reasonable.

Chefs' Warehouse also garners a more favorable margin structure than its peers. While UNFI's business in recent periods has grown more quickly with lower-margin conventional and mass customers, pressuring its gross margin before the lowered cost to service those specific customers is able to offset, we believe the roughly 300-400 bps higher operating margin (and growing) at CHEF is attributable to three main factors. First, we believe that Chefs' ability to drive higher margins through the utilization and leverage of its technology and infrastructure, such as its warehouse management system, among others has allowed the company to reduce operating costs and benefit from sales leverage, which should continue to improve over time. Second, the limited buyer and supplier power faced by Chefs' have allowed the company to capture better profits given the fragmentation of its industry backdrop. Indeed, our research suggests that while other regional or local competitors similar to Chefs' may capture higher gross margins in certain instances, Chefs' is nevertheless able to deliver higher operating margins given the lower cost to distribute and the benefits of its IT platform, a factor we believe should lead to further improvement in operating margins over time. Finally, the very specialty nature of Chefs' products leads to higher gross margin in certain instances.

Moving on to Sysco, which we also see as a logical compare to CHEF, there are perhaps greater relative differences to CHEF than exhibited by UNFI, suggesting the comparison, while appropriate, is not as strong. Sysco is the largest foodservice distributor in North America, according to the company, with over $39bn in sales in FY11 (July 2, 2011). Similar to Chefs', SYY also operates in the broader food-away-from-home channel, while UNFI operates in the food-at-home channel. SYY largely services chain restaurants, hospitals and nursing homes, hotels and motels, as well as schools and colleges, among others. Of the three large broadline foodservice distributors, also including U.S. Foodservice and Performance Food Group, SYY is the only public operator.

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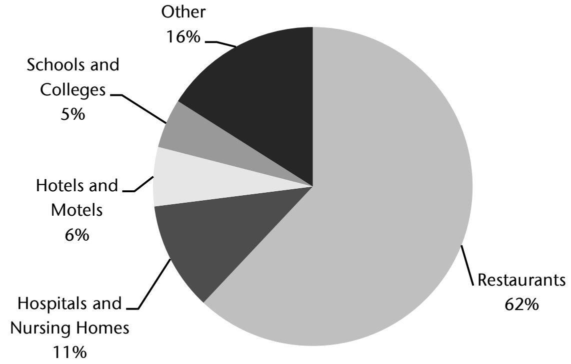
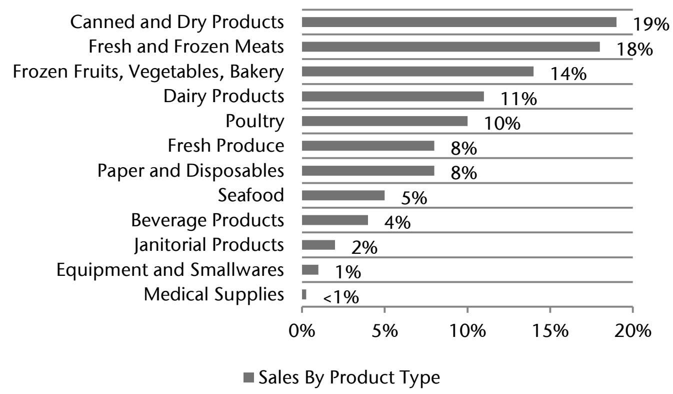
Chart 24: SYY FY11 Sales By Customer Type



Source: Company Data

Chart 25: SYY FY11 Sales By Product Type

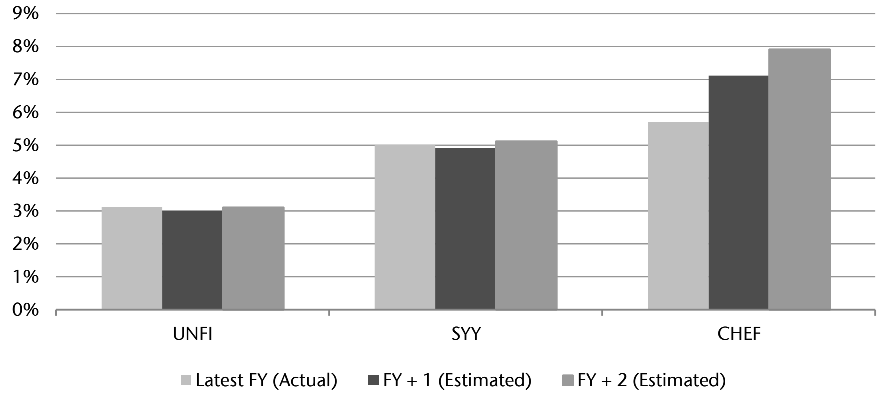


Source: Company Data

Despite its size, SYY has a much lower organic growth rate and a lower operating margin profile than Chefs', justifying an equity multiple discount to CHEF, we believe. Indeed, since FY01 SYY has grown sales at a roughly 6% CAGR, less than half the 10-year CAGR rate of UNFI. In its recently ended FY11, SYY grew top-line at a similar 6% rate. Long-term organic sales growth for SYY is likely in the mid-single digit range as the company captures market share on-top of more moderate industry growth.

Margins at SYY, while higher than UNFI, still trail CHEF. From a margin perspective, SYY commands higher operating margins than UNFI, averaging roughly 5% for SYY, but 3% for UNFI over the last few years. SYY's operating margin, however still trails that of CHEF by approximately 200 bps on average at the current juncture, a spread we believe which could widen over time as Chefs' consolidates the cottage industry in which it operates and further leverages the benefits of its technology platform.

Chart 26: Operating Margin Comparison (CHEF vs. Peers)



Source: Jefferies, Company Data, Thomson

Note: Actual data based on latest historical fiscal year (FY) available, including UNFI (FY10 July 31, 2010), SYY (FY11 July 2, 2011), and CHEF (FY10 Dec 24, 2010). UNFI and CHEF estimates for operating margins in FY+1 and FY+2 periods as per Jefferies' estimates. SYY estimates as per Thomson. CHEF's FY10 and FY+1 operating margin reflect pro forma adjustments.

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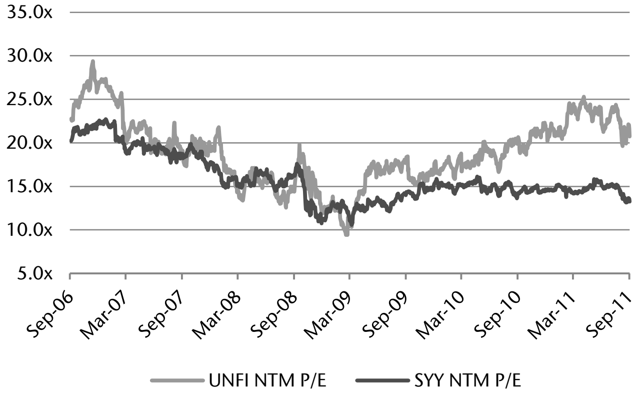
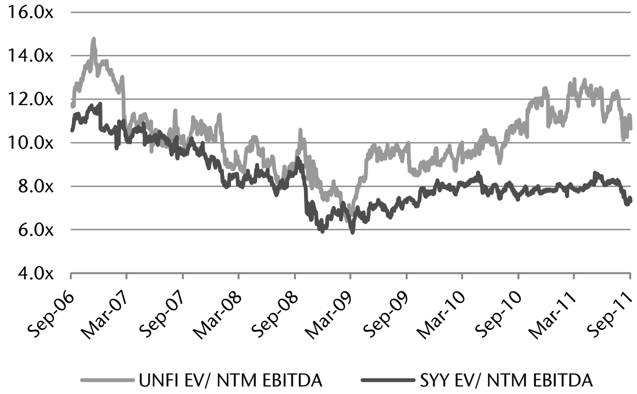
Comparable Company Trading History

Chart 27: Comparable Company NTM P/E



Source: Capital IQ

Chart 28: Comparable Company EV/ NTM EBITDA



Source: Capital IQ

Chart 29: Historical Multiple Trading Range

	Forward P/E (NTM)			EV/ Forward EBITDA (NTM)		
UNFI	**Min**	**Max**	**Avg**	**Min**	**Max**	**Avg**
1 Year	18.6x	25.3x	22.1x	10.1x	12.9x	11.7x
3 Years	9.4x	25.3x	18.3x	6.4x	12.9x	10.0x
5 Years	9.4x	29.4x	18.9x	6.4x	14.8x	10.2x
10 Years	9.4x	33.8x	21.2x	6.4x	16.8x	11.6x
SYY						
1 Year	13.2x	15.8x	14.6x	7.2x	8.6x	7.9x
3 Years	10.6x	17.6x	14.2x	5.9x	9.3x	7.6x
5 Years	10.6x	22.7x	15.9x	5.9x	11.8x	8.4x
10 Years	10.6x	28.3x	19.5x	5.9x	14.2x	10.1x

Source: Capital IQ

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Discounted Cash Flow

Our conservative DCF value of approximately $20 suggests equity upside as Chefs' grows and drives improved operating leverage. We assume organic growth of 11.2% and 10.5% in FY11 and FY12. Including the contribution from Chefs' Miami acquisition last year and its June 2011 acquisition of Harry Wils, we estimate 4.8% and 3.3% of contribution in FY11 and FY12, respectively. FY11 is also a 53 week period, which we estimate adds 2.4% to sales this year, while reducing sales in FY12 on a comparable y/y basis by 2.1%. All in, we estimate total sales growth of 18.5% and 11.6% in FY11 and FY12, respectively. For FY11 through FY15 we estimate organic sales of approximately 10% over the time period. We estimate total sales on average over the FY12-FY20 period of 8.8%, with 4% sales growth in the terminal value. If we were to add 1% in revenue growth throughout the life of our model (starting in FY12 and excluding the TV year) this would add approximately $1.50 to our DCF value.

We estimate improving EBIT margins over time. We estimate EBIT margin of 7.1% in FY11 on a pro forma basis and 7.9% in FY12, driven largely by improved revenue and operating expense leverage, with slight gross margin improvement. Our model assumes a 9% EBIT margin is achieved by FY17 and remains flat at 9% thereafter, through the terminal value. According to our estimates, 100bps of margin difference spread equally over FY12-FY17 adds or subtracts approximately $2.50 from our DCF value.

Depreciation and Amortization are estimated to grow in line with sales. We have assumed $1.5mm and $8.3mm in CapEx in FY11 and FY12. The step-up next year is due largely to the company's move from its current Bronx NY facility to another in close proximity. Over the long-term we slowly move CapEx (as a % of net revenue) higher as the company expands its business over time. In addition, we assume working capital usage each year and assume a 39% tax rate. We also assume a weighted average cost of capital for our DCF analysis of 9.7% with every ½ of one percent decrease boosting the value of the DCF by approximately $2.30.

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Risks

Group purchasing organizations could potentially depress margins over the long-term. The influx of group purchasing organizations over time into the independent restaurant channel could serve to depress profitability for Chefs' Warehouse. Group purchasing organizations largely seek to aggregate individual parties in an effort to improve the collective buying power of the group to a greater degree than could be done on an individual basis. While these organizations currently are not as prevalent in the industry sub-sector in which Chefs' participates as in other areas, if Chefs' customers were to join or form larger scale group purchasing organizations in an effort to reduce their costs of buying products from Chefs' and other similar distributors, this could reduce profitability for Chefs' Warehouse. While we believe this represents the biggest potential risk for the company over the long-term, there are mitigating factors, including the extension of credit to customers. Given the nature of the industry, Chefs' regularly extends credit to its customers, while group purchasing organizations largely do not. We also believe Chefs' model and the unique relationships it has with its customers and the chefs could help deter the formation of such groups in the company's industry segment. Finally, through its CRM and price optimization technologies Chefs makes sure it is not fleecing its customers, particularly its high volume clients.

Strong correlation to wealth and the high-end consumer present both opportunity and risk for Chefs' Warehouse. While Chefs' business does fall into the category of foodservice distribution, its customers largely cater to the higher-end demographic and as a result Chefs' business is strongly influenced by this segment of the population. Indeed, with a correlation of 0.80 between Chefs' organic growth and household wealth, as defined by the Federal Reserve, there remains opportunity on the upside given the strong growth exhibited by this segment despite high stagnant unemployment and rising prices for food and fuel in recent periods. However, if the macro economy were to deteriorate, leading to a contraction in wealth for this demographic in the U.S., Chefs' sales and earnings would likely be negatively impacted. Whole Foods, which by our calculation exhibits a similar correlation between its comp sales and wealth, saw a noticeable decline in its sales during the 2008-2009 down turn. To that end, we believe that Chefs' organic sales could exhibit greater movement on the upside and downside given the nature of the food-away-from-home segment, relative to those similar companies that participate in the food-at-home channel such as UNFI and Whole Foods for example. However, Chefs' has made significant improvements on its business since the last downturn which have provided greater strength, flexibility and insight into its operations, better positioning the company for the long-term, as well as helping to offset shorter-term macro weakness. Indeed, thus far our research has revealed little if any slowing in the high-end food channel.

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Chefs' operations are concentrated in New York. The company's New York market, which falls between Atlantic City and Boston, but is largely concentrated in greater New York City, is the largest and most important for Chefs'. Indeed, approximately 65% of FY10 net revenues came from this geography, and we estimate a significant portion of total company profitability. As such, any material adverse event as it relates to Chefs' business in this region could have a significant negative impact on the company's operations and results. In FY12, the company will be moving its DC to another facility in very close proximity. While we do not anticipate any significant issues, any operational slowdown related to this move could impact results.

Acquisition growth adds execution risk. As Chefs' Warehouse expands its presence into new geographies, the company will look to add customers through acquisition. Indeed, over time the company has added to organic growth with acquisitions and we expect this to continue. Over the last few years, the company has completed about one acquisition per year, however, we expect this rate to increase to perhaps 2-3 transactions per year on average as Chefs' looks to grow outside its current geographies as well as within current ones. While any acquisition presents the possibility of execution-related risk, there do tend to be some factors which help to mitigate risk for Chefs'. Transaction sizes have historically been small, with three of Chefs' last four at or below $5mm and the latest transaction under $10mm, although any future transactions could in fact be larger. In addition, many transactions involve the purchase of customer lists and related items, along with inventory and working capital, suggesting more limited integration risk.

Technology and systems implementation risk. The company is moving to bring its systems outside of New York. While we believe this process will be smooth, it does create some temporary execution risk as the systems are deployed.

Excessive inflation or deflation could present challenges for the company. Indeed, higher costs for food inputs could raise the cost to produce for suppliers and in turn reduce the company's gross margin or make it more difficult to pass along to its customers. One factor that helps to mitigate some risk in a period of rising food inputs is that Chefs' distributes a wide variety of products which on a relative basis are not as heavily tied to one specific commodity input. However, the company does remain exposed to rising fuel prices. While there is some pass through pricing ability, the company does not employ sophisticated hedging strategies and significant or sharp increases in fuel prices could have a negative impact on results. In addition, prolonged periods of deflation or falling prices would also likely present challenges for Chefs' as the company uses higher sales to help leverage fixed costs.

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Chart 30: CHEF Income Statement ($ thousands, except per share data)

	2008A	2009A	2010A	2010PF					2011E					2011PFE	2012E
				Pro Forma						*Pro Forma*	*Pro Forma*	*Pro Forma*	*Pro Forma*	*Pro Forma*	
	52 weeks	52 weeks	52 weeks	52 weeks	Q1:11A	Q2:11A	Q3:11E	Q4:11E	53 weeks	Q1:11PF	Q2:11PF	Q3:11PFE	Q4:11PFE	53 weeks	52 weeks
	Dec-08	Dec-09	Dec-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11	Dec-11	Mar-11	Jun-11	Sep-11	Dec-11	Dec-11	Dec-12
	364	364	364	364	91	91	91	98	371	91	91	91	98	371	364
Net Revenues	$281,703	$271,072	$330,118	$330,118	$83,183	$99,255	$97,031	$111,688	$391,156	$83,183	$99,255	$97,031	$111,688	$391,156	$436,545
Cost of Sales	$211,387	$199,764	$244,340	$244,340	$61,148	$73,000	$71,823	$82,675	$288,646	$61,148	$73,000	$71,823	$82,675	$288,646	$321,703
Gross Profit	$70,316	$71,308	$85,778	$85,778	$22,035	$26,255	$25,207	$29,013	$102,510	$22,035	$26,255	$25,207	$29,013	$102,510	$114,842
Operating Expenses	$59,955	$57,580	$63,491	$66,965	$16,976	$18,351	$19,977	$19,877	$75,180	$17,441	$18,766	$18,492	$19,992	$74,690	$80,302
EBIT (Operating)	$10,361	$13,728	$22,287	$18,813	$5,059	$7,904	$5,231	$9,136	$27,330	$4,594	$7,489	$6,716	$9,021	$27,820	$34,540
Non-Recurring Items	-	-	-	-	-	$200	-	-	$200	-	$200	-	-	$200	-
EBIT (Reported)	$10,361	$13,728	$22,287	$18,813	$5,059	$7,704	$5,231	$9,136	$27,130	$4,594	$7,289	$6,716	$9,021	$27,620	$34,540
EBIT (Operating)	$10,361	$13,728	$22,287	$18,813	$5,059	$7,904	$5,231	$9,136	$27,330	$4,594	$7,489	$6,716	$9,021	$27,820	$34,540
Plus: Depreciation & Amortization	$1,626	$1,520	$1,388	$1,388	$322	$393	$400	$415	$1,530	$322	$393	$400	$415	$1,530	$1,659
EBITDA	$11,987	$15,248	$23,675	$20,201	$5,381	$8,297	$5,631	$9,551	$28,860	$4,916	$7,882	$7,116	$9,436	$29,350	$36,199
Interest Expense, Net	$3,597	$3,212	$4,756	$1,397	$3,450	$3,343	$1,100	$450	$8,343	$433	$417	$426	$410	$1,685	$1,699
(Gain) / Loss on Fluctuation of Interest Rate Swap	$1,118	($658)	($910)	($910)	($81)	-	-	-	($81)	($81)	-	-	-	($81)	-
Other	-	-	-	-	$3	-	-	-	$3	$3	-	-	-	$3	-
EBT	$5,646	$11,174	$18,441	$18,326	$1,687	$4,561	$4,131	$8,686	$19,065	$4,239	$7,072	$6,290	$8,612	$26,213	$32,842
Income Taxes	$3,450	$2,213	$2,567	$7,147	$667	$1,786	$1,611	$3,388	$7,452	$1,663	$2,765	$2,453	$3,358	$10,240	$12,808
Net Income (Loss) (Operating)	$2,196	$8,961	$15,874	$11,179	$1,020	$2,775	$2,520	$5,299	$11,613	$2,576	$4,307	$3,837	$5,253	$15,973	$20,033
Non-Recurring Items (Net of Taxes)	-	-	-	$854	-	($122)	($3,271)	-	($3,393)	-	($122)	-	-	($122)	-
Net Income (Loss) Reported	$2,196	$8,961	$15,874	$12,033	$1,020	$2,653	($752)	$5,299	$8,220	$2,576	$4,185	$3,837	$5,253	$15,851	$20,033
Disc Operations, Net of Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Reported) After Disc. Ops	$2,196	$8,961	$15,874	$12,033	$1,020	$2,653	($752)	$5,299	$8,220	$2,576	$4,185	$3,837	$5,253	$15,851	$20,033
Deemed Dividend Accretion on Class A Units	($3,000)	($6,207)	($4,123)		-	-	-	-	-						
Deemed Dividend Paid to Class A Units	-	-	($22,429)		-	-	-	-	-						
Net Income (Loss) to Common Stockholders	($804)	$2,754	($10,678)		$1,020	$2,653	($752)	$5,299	$8,220						
Diluted EPS (Operating)	NA	NA	NA	$0.54	$0.06	$0.17	$0.12	$0.25	$0.63	$0.12	$0.21	$0.18	$0.25	$0.77	$0.96
Diluted EPS (Reported)	NA	NA	NA	$0.58	$0.06	$0.17	($0.04)	$0.25	$0.45	$0.12	$0.20	$0.18	$0.25	$0.76	$0.96
Weighted Avg. Diluted Shares Outstanding	NA	NA	NA	20,835	16,000	16,000	20,835	20,835	18,417	20,835	20,835	20,835	20,835	20,835	20,935
Growth Rates															
Net Revenues	10.0%	-3.8%	21.8%	NA	18.8%	18.7%	NA	NA	18.5%	18.8%	18.7%	NA	NA	18.5%	11.6%
Gross Profit	7.6%	1.4%	20.3%	NA	22.5%	19.7%	NA	NA	19.5%	22.5%	19.7%	NA	NA	19.5%	12.0%
Operating Expenses	1.0%	-4.0%	10.3%	NA	14.7%	13.3%	NA	NA	18.4%	15.7%	14.0%	NA	NA	11.5%	7.5%
EBIT (Operating)	73.9%	32.5%	62.3%	NA	59.2%	37.5%	NA	NA	22.6%	57.7%	36.5%	NA	NA	47.9%	24.2%
EBIT (Reported)	73.9%	32.5%	62.3%	NA	59.2%	34.1%	NA	NA	21.7%	57.7%	32.9%	NA	NA	46.8%	25.1%
Depreciation & Amortization	NM	-6.5%	-8.7%	NA	1.9%	9.8%	NA	NA	10.2%	1.9%	9.8%	NA	NA	10.2%	8.4%
EBITDA	NM	27.2%	55.3%	NA	54.1%	35.9%	NA	NA	21.9%	52.2%	34.9%	NA	NA	45.3%	23.3%
Net Income (Operating)	64.9%	308.1%	77.1%	NA	-33.6%	-35.3%	NA	NA	-26.8%	81.7%	39.1%	NA	NA	42.9%	25.4%
Net Income (Reported)	NM	NM	NM	NA	186.5%	-14.7%	NA	NA	NM	81.7%	35.1%	NA	NA	31.7%	26.4%
Diluted EPS (Operating)	NA	NA	NA	NA	319.0%	30.3%	NA	NA	NA	81.7%	39.1%	NA	NA	42.9%	24.8%
Diluted EPS (Reported)	NA	NA	NA	NA	319.0%	24.6%	NA	NA	NA	81.7%	35.1%	NA	NA	31.7%	25.8%
Margin															
Gross Profit	25.0%	26.3%	26.0%	26.0%	26.5%	26.5%	26.0%	26.0%	26.2%	26.5%	26.5%	26.0%	26.0%	26.2%	26.3%
Operating Expenses (As % of Net Revenues)	21.3%	21.2%	19.2%	20.3%	20.4%	18.5%	20.6%	17.8%	19.2%	21.0%	18.9%	19.1%	17.9%	19.1%	18.4%
EBIT (Operating)	3.7%	5.1%	6.8%	5.7%	6.1%	8.0%	5.4%	8.2%	7.0%	5.5%	7.5%	6.9%	8.1%	7.1%	7.9%
EBIT (Reported)	3.7%	5.1%	6.8%	5.7%	6.1%	7.8%	5.4%	8.2%	6.9%	5.5%	7.3%	6.9%	8.1%	7.1%	7.9%
EBITDA	4.3%	5.6%	7.2%	6.1%	6.5%	8.4%	5.8%	8.6%	7.4%	5.9%	7.9%	7.3%	8.4%	7.5%	8.3%
Net Income (Operating)	0.8%	3.3%	4.8%	3.4%	1.2%	2.8%	2.6%	4.7%	3.0%	3.1%	4.3%	4.0%	4.7%	4.1%	4.6%
Net Income (Reported)	-0.3%	1.0%	-3.2%	3.6%	1.2%	2.7%	-0.8%	4.7%	2.1%	3.1%	4.2%	4.0%	4.7%	4.1%	4.6%
Change in Margin															
Change in Gross Profit Margin	-0.55%	1.34%	-0.32%	NA	0.80%	0.21%	NA	NA	0.22%	0.80%	0.21%	NA	NA	0.22%	0.10%
Change in Operating Expenses (As % of Net Revenues)	-1.90%	-0.04%	-2.01%	NA	-0.74%	-0.88%	NA	NA	-0.01%	-0.56%	-0.78%	NA	NA	-1.19%	-0.70%
Change in EBIT (Operating) Margin	1.35%	1.39%	1.69%	NA	1.54%	1.09%	NA	NA	0.24%	1.36%	0.99%	NA	NA	1.41%	0.80%
Change in EBIT (Reported) Margin	1.35%	1.39%	1.69%	NA	1.54%	0.89%	NA	NA	0.18%	1.36%	0.78%	NA	NA	1.36%	0.85%
Change in EBITDA Margin	NA	1.37%	1.55%	NA	1.48%	1.06%	NA	NA	0.21%	1.30%	0.95%	NA	NA	1.38%	0.79%
Effective Tax Rate	61.1%	19.8%	13.9%	39.0%	39.5%	39.2%	39.0%	39.0%	39.1%	39.2%	39.1%	39.0%	39.0%	39.1%	39.0%

Source: Jefferies, company data

Note: Operating expenses exclude deferred financing fee amortization, which is included below the line in Interest Expense, Net.

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Company Description

Analyst Certification

I, Scott A. Mushkin, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). 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 research report.

I, Thilo Wrede, certify that all of the views expressed in this research report accurately reflect my personal views about the subject security(ies) and subject company(ies). 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 research report.

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The expected total return (price appreciation plus yield) for Buy rated stocks with an average stock price consistently below $10 is 20% or more within a 12-month period as these companies are typically more volatile than the overall stock market. For Hold rated stocks with an average stock price consistently below $10, the expected total return (price appreciation plus yield) is plus or minus 20% within a 12-month period. For Underperform rated stocks with an average stock price consistently below $10, the expected total return (price appreciation plus yield) is minus 20% within a 12-month period.

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Other Companies Mentioned in This Report

- Hain Celestial (HAIN: $30.37, BUY)
- The Chefs' Warehouse, Inc. (CHEF: $13.56, BUY)
- United Natural Foods (UNFI: $38.27, HOLD)
- Whole Foods Market (WFM: $63.11, HOLD)

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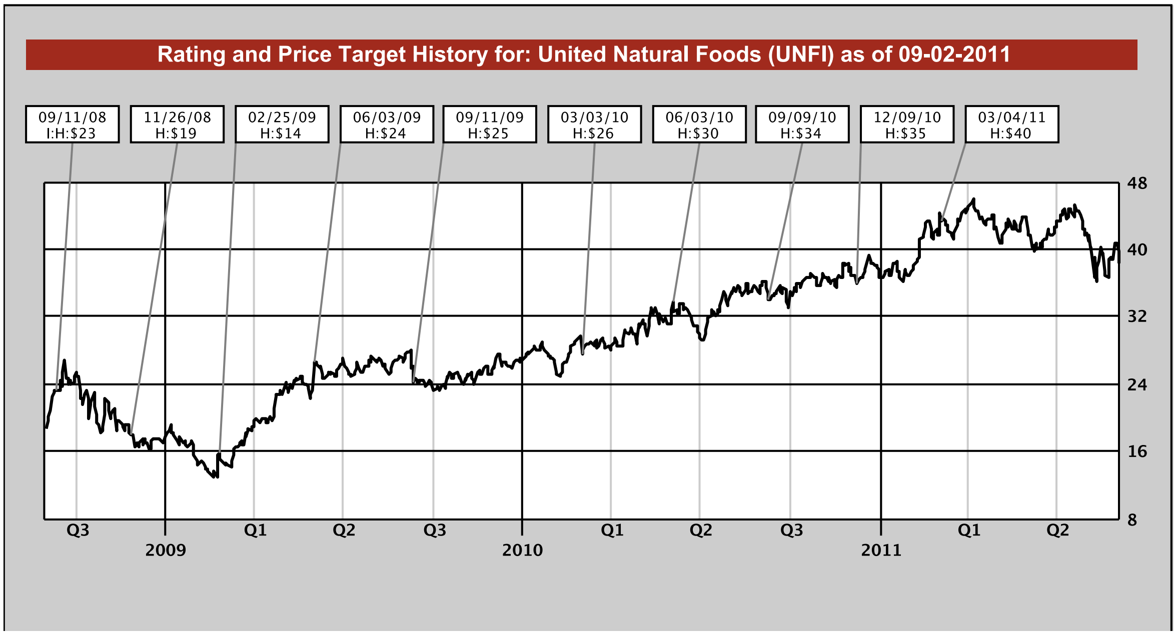

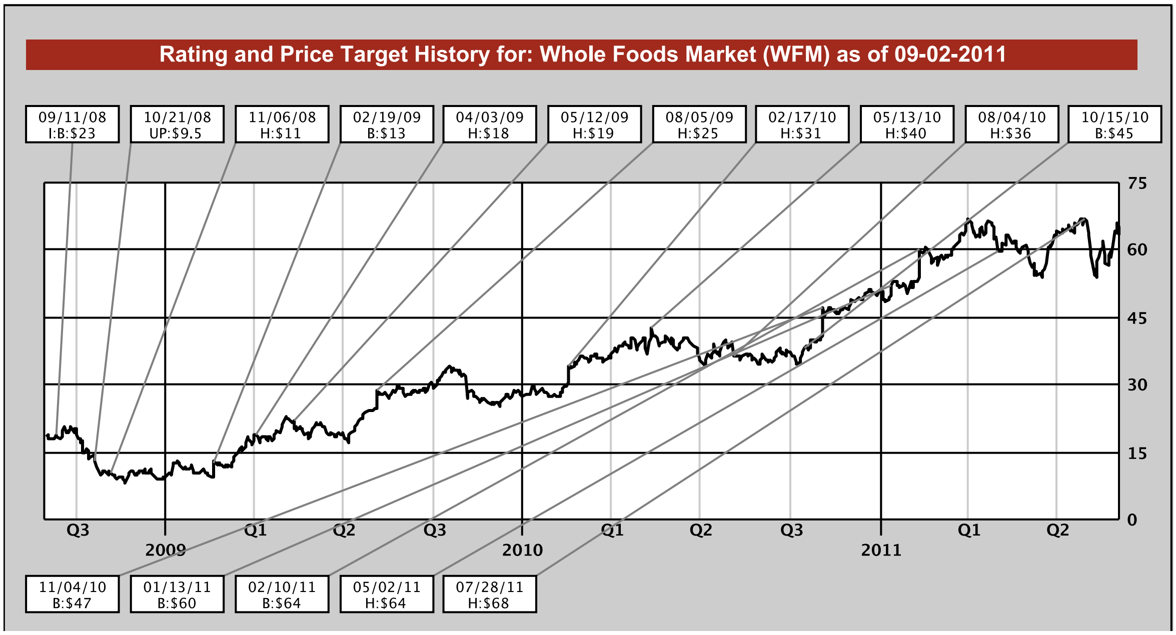

Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos. Count	IB Serv./Past 12 Mos. Percent
BUY	676	53.40%	32	4.73%
HOLD	526	41.50%	31	5.89%
UNDERPERFORM	65	5.10%	2	3.08%

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