



Raising Price Target

Food & Drug
Merchandising

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The Chefs' Warehouse, Inc. (CHEF-\$21.28)

Buy (1)

Company Statistics

| | |
|-----------------------------------|------------------------|
| 12-month Price Target: | \$24 |
| 52-wk Range: | \$11.32-\$21.48 |
| Market Capitalization (M): | \$442 |
| Shares Outstanding (M) fd: | 20.8 |
| Avg. Daily Vol. (000): | 74 |
| Dividend: | \$0.00 |
| Yield: | 0.00% |
| Debt/Total cap: | 79.0% |
| Est. 3-yr. EPS Growth: | 20.0% |
| Book Value/sh: | \$0.58 |

Financials

| FYE Dec | 2009A | 2010A | 2011A | 2012E | 2013E |
|-------------------|---------------|---------------|---------------|---------------|---------------|
| P/E Ratio: | 49.5x | 37.3x | 27.3x | 22.4x | 18.5x |
| Revenue (M): | \$271.1 | \$330.1 | \$400.6 | \$455.3 | \$503.1 |
| EBITDA (M): | \$15.2 | \$22.5 | \$30.5 | \$37.1 | \$44.0 |
| ROE: | NM | NM | NM | 57.0% | 43.0% |
| ROA: | 13.7% | 15.9% | 17.7% | 18.6% | 19.5% |
| EPS: | | | | | |
| Q1 | - | \$0.07 | \$0.12 | \$0.16 | - |
| Q2 | - | \$0.15 | \$0.20 | \$0.25 | - |
| Q3 | - | \$0.17 | \$0.19 | \$0.24 | - |
| Q4 | - | \$0.18 | \$0.26 | \$0.30 | - |
| Total | \$0.43 | \$0.57 | \$0.78 | \$0.95 | \$1.15 |
| Prior EPS: | | | | | |
| Q1 | - | - | - | - | - |
| Q2 | - | - | - | - | - |
| Q3 | - | - | - | - | - |
| Q4 | - | - | - | - | - |
| Total | - | - | - | \$0.97 | \$1.15 |

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

Company Description

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

CHEF: Q4 EPS UPSIDE PROFITABILITY BEAT; SALES REMAIN ROBUST; RAISING PT TO \$24

Key Points

- **EPS beat driven by higher-than-forecasted operating margin.** After the close on Tuesday, March 6, Chefs' Warehouse reported that 14-week Q4'11 pro forma core (before nonrecurring items) EPS climbed 44% to \$0.26 from \$0.18 in the 13-week year-ago period; this beat our and the consensus' \$0.25 forecast (on an equal-weeks basis EPS were \$0.24, up 33%). Relative to our model, the upside resulted from higher-than-forecasted operating margin of 8.48% versus our 7.64% estimate, as both gross margin and operating expenses were much better than forecasted. The tax rate at 41.5% exceeded our 39% forecast, and trimmed a penny from EPS.
- **Top-line growth remained strong.** Sales grew 27.2% yr/yr to \$116.5M in Q4, driven by 10% internal sales gains (8.9% from volume and 1.1% from price/mix), 10% from acquisitions and 7.2% from the extra week. Chefs' top-line growth matched our \$116.4M estimate and beat the consensus' 23.6% forecast. On an equal-weeks basis, Q4'11 sales increased 20%.
- **Recent acquisitions performing very well; more to come.** Recent acquisitions contributed \$1.1M in profit on \$9.2M in sales for an approximate 12% contribution margin. Management noted that the formerly New Jersey-based Harry Wils has met expectations and the recent investments in fleet and extra routes are driving business. In addition, Portland, OR-based Provvista Specialty Foods customer retention has exceeded expectations. Chefs' plans to grow sales at Provvista via customer penetration as it brings in its fuller lines of product and by winning new customers. Chefs' has boosted its technology capital spending to more efficiently and effectively integrate recent and future acquisitions.
- **2012 guidance introduced.** Chefs' established 2012 pro forma core (before nonrecurring items) EPS guidance at \$0.91-\$0.96 (up 17%-23% yr/yr) on total sales of \$450M-\$460M (up 12.3%-14.8% yr/yr). This includes a tax rate of 41% (we were using 39%) that negatively impacts EPS by some \$0.03.
- **Boosting sales and adjusted EBITDA estimates; trimming 2012 EPS forecast for tax rate.** For 2012, we forecast growth in sales of 13.7% (16.1% on an equal-weeks basis) to \$455.3M (up from our prior \$440.5M projection), in adjusted EBITDA of 18.8% to \$37.1M (up from our prior \$36.1M projection), and in pro forma EPS of 22% to \$0.95 (versus our prior \$0.97 estimate). For 2013, we forecast growth in sales at 10.5% to \$503.1M (versus our prior \$486.8M forecast), in adjusted EBITDA of 18.5% to \$44M (up from our prior \$42.3M estimate), and in EPS of 21% to \$1.15. We project free cash flow/share at \$0.50 for 2012 and \$1.00 for 2013.
- **Maintain Buy (1) rating and boosting price target to \$24.** We continue to view Chefs' as a compelling small cap growth equity investment and have thus retained our Buy (1) rating on its shares.

Additional Discussion

EPS beat driven by higher-than-forecasted operating margin. After the close on Tuesday, March 6, Chefs' Warehouse reported that 14-week Q4'11 pro forma core (before nonrecurring items) EPS climbed 44% to \$0.26 from \$0.18 in the 13-week year-ago period; this beat our and the consensus' \$0.25 forecast (on an equal-weeks basis EPS were \$0.24, up 33%). Relative to our model, the upside resulted from higher-than-forecasted operating margin of 8.48% versus our 7.64% estimate, as both gross margin and operating expenses were much better than forecasted. The tax rate at 41.5% exceeded our 39% forecast, and trimmed a penny from EPS.

Top-line growth remained strong. Sales grew 27.2% yr/yr to \$116.5M in Q4, driven by 10% internal sales gains (8.9% from volume and 1.1% from price/mix), 10% from acquisitions and 7.2% from the extra week. Chefs' top-line growth matched our \$116.4M estimate and beat the consensus' 23.6% forecast. On an equal-weeks basis, Q4'11 sales increased 20%.

Recent acquisitions performing very well; more to come. Based on information provided in its press release, these two acquisitions contributed \$1.1M in profit on \$9.2M in sales for an approximate 12% contribution margin. Management noted that the formerly New Jersey-based Harry Wils has met expectations and the recent investments in fleet and extra routes are driving business. In addition, Portland, OR-based Provvista Specialty Foods customer retention has exceeded expectations. Chefs' plans to grow sales at Provvista via customer penetration as it brings in its fuller lines of product and by winning new customers. Chefs' has boosted its technology capital spending to more efficiently and effectively integrate recent and future acquisitions.

2012 guidance introduced. Chefs' established 2012 pro forma core (before nonrecurring items) EPS guidance at \$0.91-\$0.96 (up 17%-23% yr/yr) on total sales of \$450M-\$460M (up 12.3%-14.8% yr/yr). This includes a tax rate of 41% (we were using 39%) that negatively impacts EPS by some \$0.03.

Boosting sales and adjusted EBITDA estimates; trimming 2012 EPS forecast for tax rate. For 2012, we forecast growth in sales of 13.7% (16.1% on an equal-weeks basis) to \$455.3M (up from our prior \$440.5M projection), in adjusted EBITDA of 18.8% to \$37.1M (up from our prior \$36.1M projection), and in pro forma EPS of 22% to \$0.95 (trimmed by \$0.02 from our prior \$0.97 estimate). For 2013, we forecast growth in sales at 10.5% to \$503.1M (versus our prior \$486.8M forecast), in adjusted EBITDA of 18.5% to \$44M (up from our prior \$42.3M estimate), and in EPS of 21% to \$1.15. We project free cash flow/share at \$0.50 for 2012 and \$1.00 for 2013.

Maintain Buy (1) rating and boosting price target to \$24. We continue to view Chefs' as a compelling small cap growth equity investment. While its valuation has expanded, we still view it as reasonable. Specifically, Chefs' forward P/E ratio based on estimated calendar 2012 EPS at 22.4x is valued at an 11% discount to the BB&T Natural and Functional Food Merchandisers Index at 25.2x. Further, its forward PEG (P/E to long-term growth rate) at 1.12x is currently at a 15% discount to the group median of 1.31x.

Results in Detail

Below we analyze Q4'11 versus the Q4'10 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 (applied to Q4'10 only)
- Tax adjustment (assuming a 41% tax rate) to normalize the Q4'10 effective tax rate

Q4'11 sales grew 27.2% yr/yr to \$116.5M on increased case volume, higher revenue per case, and \$9.2M of revenue related to acquisitions; excluding the additional week, sales climbed 20%. Nominal internal sales rose 10% on real internal growth of 8.9% and inflation/mix of 1.1% while acquisitions contributed 10% growth on an equal-weeks basis.

Gross margin expanded 64 bps yr/yr to 26.62% versus our 16 bps forecast. Operating expenses increased 21.4% yr/yr while the corresponding ratio contracted 87 bps to 18.14% (versus our 51 bps forecast), driven by leveraging strong sales growth. Operating margin thus expanded 152 bps yr/yr to 8.48% while the related profit dollars soared 55% to \$9.9M. Net interest expense increased to \$0.5M from \$0.2M while other income was nil versus a loss of \$0.3M in Q4'10. The effective tax rate expanded 50 bps to 41.5%, resulting in net income of \$5.5M, up 43% yr/yr.

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 could be revalued closer to the group average of 25.2x calendar 2012 EPS from 22.4x currently. However, for the sake of conservatism, we have contracted our forward P/E valuation assumption by 1.4x to 21x, which we apply it to our calendar 2013 EPS forecast of \$1.15 to yield our \$24 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] | 2011A[3] | | | | | 2012E | | | | | 2013E |
|---|-----------------|--------------|--------------|----------------|--------------|---------------|--------------|--------------|--------------|--------------|---------------|---------------|
| | Year | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Year | Qtr 1 | Qtr 2 | Qtr 3 | Qtr 4 | Year | Year |
| | 52 | 13 | 13 | 13 | 14 | 53 | 13 | 13 | 13 | 13 | 52 | 52 |
| FIFO Income | | | | | | | | | | | | |
| Sales:\$ | 330,118 | 83,183 | 99,255 | 101,681 | 116,513 | 400,632 | 96,585 | 119,684 | 116,941 | 122,127 | 455,338 | 503,148 |
| Cost of sales:\$ | 244,340 | 61,148 | 73,000 | 75,051 | 85,499 | 294,698 | 70,749 | 87,729 | 86,068 | 89,214 | 333,760 | 368,053 |
| Gross profit:\$ | 85,778 | 22,035 | 26,255 | 26,630 | 31,014 | 105,934 | 25,837 | 31,956 | 30,872 | 32,913 | 121,578 | 135,095 |
| Gross margin:% | 25.98 | 26.49 | 26.45 | 26.19 | 26.62 | 26.44 | 26.75 | 26.70 | 26.40 | 26.95 | 26.70 | 26.85 |
| Operating expenses:\$ | 65,353 | 17,441 | 18,966 | 19,568 | 21,132 | 77,107 | 19,800 | 22,501 | 22,219 | 21,983 | 86,502 | 93,334 |
| Expense ratio:% | 19.80 | 20.97 | 19.11 | 19.24 | 18.14 | 19.25 | 20.50 | 18.80 | 19.00 | 18.00 | 19.00 | 18.55 |
| Operating profit:\$ | 20,425 | 4,594 | 7,289 | 7,062 | 9,882 | 28,827 | 6,037 | 9,455 | 8,654 | 10,930 | 35,076 | 41,761 |
| Operating margin:% | 6.19 | 5.52 | 7.34 | 6.95 | 8.48 | 7.20 | 6.25 | 7.90 | 7.40 | 8.95 | 7.70 | 8.30 |
| Operating cash flow:\$ | 22,528 | 5,552 | 8,097 | 7,491 | 10,204 | 30,548 | 6,541 | 9,966 | 9,168 | 11,467 | 37,142 | 44,009 |
| Operating cash-flow margin:% | 6.82 | 6.67 | 8.16 | 7.37 | 8.76 | 7.62 | 6.77 | 8.33 | 7.84 | 9.39 | 8.16 | 8.75 |
| Adjusted EBITDA:\$ | 22,790 | 5,161 | 8,133 | 7,697 | 10,272 | 31,263 | 6,541 | 9,966 | 9,168 | 11,467 | 37,142 | 44,009 |
| Adjusted EBITDA margin:% | 6.90 | 6.20 | 8.19 | 7.57 | 8.82 | 7.80 | 6.77 | 8.33 | 7.84 | 9.39 | 8.16 | 8.75 |
| Interest expense, net:\$ | 1,776 | 433 | 417 | 505 | 528 | 1,883 | 435 | 479 | 351 | 366 | 1,631 | 755 |
| Interest ratio:% | 0.54 | 0.52 | 0.42 | 0.50 | 0.45 | 0.47 | 0.45 | 0.40 | 0.30 | 0.30 | 0.36 | 0.15 |
| (Gain)/loss on swap/other income:\$ | (910) | (81) | 0 | 0 | 3 | (78) | 0 | 0 | 0 | 0 | 0 | 0 |
| Pretax income:\$ | 19,559 | 4,242 | 6,872 | 6,557 | 9,351 | 27,022 | 5,602 | 8,976 | 8,303 | 10,564 | 33,445 | 41,007 |
| Pretax margin:% | 5.92 | 5.10 | 6.92 | 6.45 | 8.03 | 6.74 | 5.80 | 7.50 | 7.10 | 8.65 | 7.35 | 8.15 |
| Income taxes:\$ | 7,756 | 1,660 | 2,687 | 2,557 | 3,881 | 10,785 | 2,297 | 3,680 | 3,404 | 4,331 | 13,712 | 16,813 |
| Effective tax rate:% | 39.65 | 39.13 | 39.10 | 39.00 | 41.50 | 39.91 | 41.00 | 41.00 | 41.00 | 41.00 | 41.00 | 41.00 |
| Net income:\$ | 11,803 | 2,582 | 4,185 | 4,000 | 5,470 | 16,237 | 3,305 | 5,296 | 4,899 | 6,233 | 19,733 | 24,194 |
| Net margin:% | 3.58 | 3.10 | 4.22 | 3.93 | 4.69 | 4.05 | 3.42 | 4.43 | 4.19 | 5.10 | 4.33 | 4.81 |
| Net nonrecurring items:\$ | (22,870) | 0 | 0 | (5,185) | (260) | (5,445) | 0 | 0 | (250) | (400) | (650) | 0 |
| Reported net income:\$ | (11,067) | 2,582 | 4,185 | (1,185) | 5,210 | 10,792 | 3,305 | 5,296 | 4,649 | 5,833 | 19,083 | 24,194 |
| 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 | 20,835 | 21,045 |
| Earnings per share:\$ | 0.57 | 0.12 | 0.20 | 0.19 | 0.26 | 0.78 | 0.16 | 0.25 | 0.24 | 0.30 | 0.95 | 1.15 |
| Net nonrecurring items:\$ | (1.10) | 0.00 | 0.00 | (0.25) | (0.01) | (0.26) | 0.00 | 0.00 | (0.01) | (0.02) | (0.03) | 0.00 |
| Reported EPS:\$ | (0.53) | 0.12 | 0.20 | (0.06) | 0.25 | 0.52 | 0.16 | 0.25 | 0.22 | 0.28 | 0.92 | 1.15 |
| Real internal sales | 10.9 | 10.9 | 13.4 | 10.7 | 8.9 | 11.0 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 | 7.5 |
| Sales inflation/mix | 7.8 | 4.9 | 3.3 | 2.7 | 1.1 | 3.0 | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 3.0 |
| Nominal internal sales | 18.7 | 15.8 | 16.7 | 13.4 | 10.0 | 13.9 | 9.5 | 9.5 | 9.5 | 9.5 | 9.5 | 10.5 |
| Sales | 21.8 | 18.8 | 18.7 | 19.7 | 27.2 | 21.4 | 16.1 | 20.6 | 15.0 | 4.8 | 13.7 | 10.5 |
| Cost of sales | 22.3 | 17.6 | 18.4 | 19.4 | 26.1 | 20.6 | 15.7 | 20.2 | 14.7 | 4.3 | 13.3 | 10.3 |
| Gross profit | 20.3 | 22.5 | 19.6 | 20.7 | 30.4 | 23.5 | 17.3 | 21.7 | 15.9 | 6.1 | 14.8 | 11.1 |
| Operating expenses | 12.7 | 14.6 | 14.2 | 21.4 | 21.4 | 18.0 | 13.5 | 18.6 | 13.5 | 4.0 | 12.2 | 7.9 |
| Operating profit | 53.2 | 66.0 | 36.5 | 18.9 | 54.9 | 41.1 | 31.4 | 29.7 | 22.5 | 10.6 | 21.7 | 19.1 |
| Operating cash flow | 47.7 | 51.0 | 27.5 | 9.6 | 33.1 | 35.6 | 17.8 | 23.1 | 22.4 | 12.4 | 21.6 | 18.5 |
| Interest expense, net | (36.9) | (31.0) | (18.6) | 7.0 | 222.1 | 6.0 | 0.4 | 14.8 | (30.5) | (30.6) | (13.4) | (53.7) |
| Pretax income | 75.0 | 82.6 | 35.4 | 15.2 | 44.6 | 38.2 | 32.1 | 30.6 | 26.6 | 13.0 | 23.8 | 22.6 |
| Net income | 31.7 | 82.1 | 35.1 | 15.1 | 43.4 | 37.6 | 28.0 | 26.5 | 22.5 | 13.9 | 21.5 | 22.6 |
| Earnings per share | 31.7 | 82.1 | 35.1 | 15.1 | 43.4 | 37.6 | 28.0 | 26.5 | 22.5 | 13.9 | 21.5 | 21.4 |

A Actual results.

E BB&T Capital Markets estimates.

NM Not meaningful.

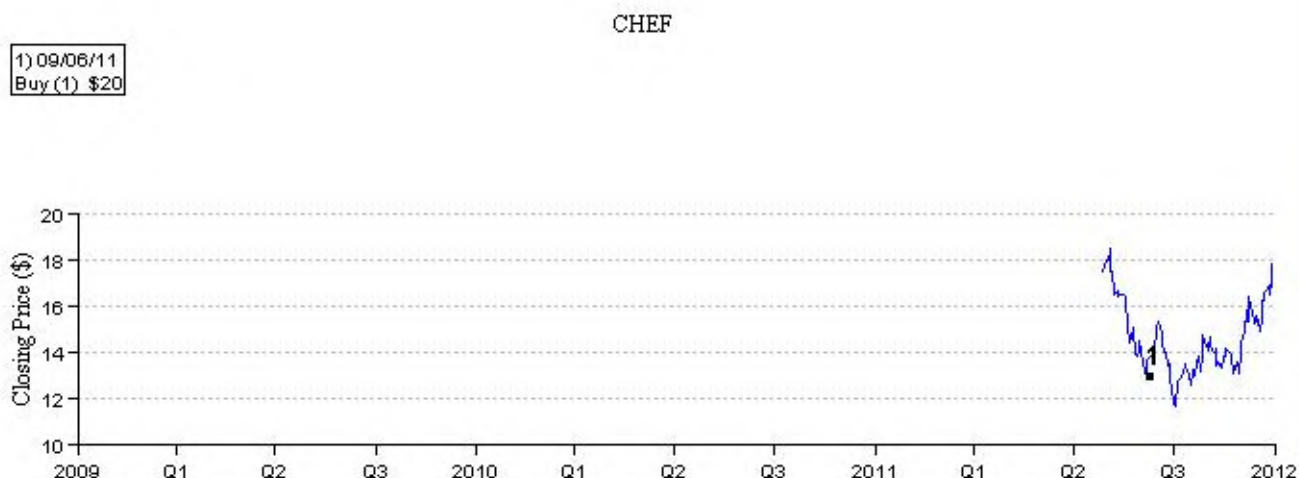
[1] Except per-share figures.

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

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

IMPORTANT DISCLOSURES

Price Chart



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| | | | |
|-------------------------------|-------|--|-------|
| All companies under coverage: | | All companies under coverage to which it has provided investment banking services in the previous 12 months: | |
| Buy (1) | 55.2% | Buy (1) | 10.6% |
| Hold (2) | 43.6% | Hold (2) | 4.2% |
| Underweight/Sell (3) | 1.2% | 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 BBTCM Equity Research Department Stock Rating System consists of three separate ratings. The appropriate rating is determined by a stock's estimated 12-month total return potential, which consists of the percentage price change to the 12-month price target and the current yield on anticipated dividends. A 12-month price target is the analyst's best estimate of the market price of the stock in 12 months. A 12-month price target is highly subjective and the result of numerous assumptions, including company, industry, and market fundamentals, both on an absolute and relative basis, as well as investor sentiment, which can be highly volatile.

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).

BB&T Capital Markets Equity Research Disclosures as of March 7, 2012

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

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