

The Chefs' Warehouse (CHEF) Heading West

BUY

Price target \$17.50

Price \$14.20

Key Takeaway

CHEF's acquisition of Portland-based distributor Provvista Specialty Foods looks to be a smart one indeed, as it allows CHEF the opportunity to expand into the Pacific Northwest. As part of the company's acquisition strategy, CHEF is using bolt-on transactions to establish a presence in new markets, where the company can subsequently leverage the strength of its model to increase new customers and placements per customer.

CHEF is heading west. On November 7th, The Chefs' Warehouse announced the acquisition of Provvista Specialty Foods, Inc., a leading Portland, OR based importer and wholesale distributor of specialty food products. The company, similar to The Chefs' Warehouse with its long-standing culinary history, was founded in 1993 by a Portland chef. Provvista, with roughly \$17mm in annual revenue in 2010, services greater than 500 customer locations in the Portland, OR and Seattle, WA markets.

This transaction fits nicely with CHEF's acquisition strategy. Over the years, Chefs' Warehouse has used bolt-on transactions both to enter new markets, as is the case with Provvista Specialty Foods, as well as increase its presence in existing markets, such as the company's June 2011 acquisition of Harry Wils & Co. in New York metro. These acquisitions generally tend to be smaller in size, largely purchases of customer lists, and nicely accretive. With Provvista, CHEF is able to move into its seventh regional market and establish a beachhead in the Pacific Northwest by acquiring a strong operator in the region. Our initial analysis suggests a purchase price range of roughly \$5-\$8mm and the potential for the transaction to be slightly accretive to EPS in FY12, by perhaps \$0.01 to \$0.02. Going forward, Chefs' Warehouse is likely to begin to accelerate unique customer growth and to drive placements/customer higher in that market relying on CHEF's expansive product offering, unique sales force and by flexing its technology platforms. There is likely also the opportunity for CHEF to leverage its warehouse management system technology over time to lower costs and drive productivity improvements as it relates to the acquired business.

We continue to believe CHEF should be a core small cap holding for investors. Our research suggests significant opportunity exists for The Chefs' Warehouse to drive higher sales and earnings as the company leverages the benefits of technology and its superior business model and works to consolidate the fragmented industry.

Scott A. Mushkin *Equity Analyst
(212) 708-2628 smushkin@jefferies.com**Thilo Wrede ***Equity Analyst
(212) 284-2473 twrede@jefferies.com**Mike Otway ***Equity Associate
(212) 323-3954 motway@jefferies.com**Brian Cullinane ***Equity Associate
(212) 323-3393 bcullinane@jefferies.com

* Jefferies & Company, Inc.

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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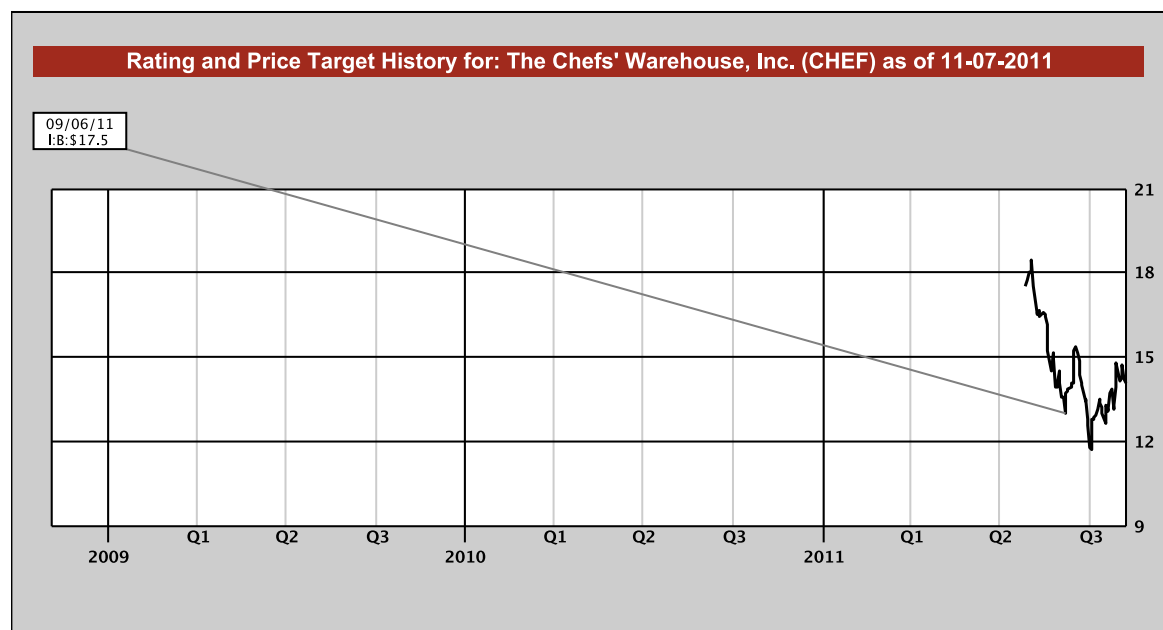
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