

COMPANY NOTE

Target | Estimate Change

USA | Consumer | Retailing/Food & Drug Chains

March 8, 2012

Jefferies

The Chefs' Warehouse (CHEF) Under the Hood – Lookin' Quite Good

Key Takeaway

Chefs' Warehouse continues to post very strong sales, ending fiscal 2011 on a high note as the company's efforts to invest in its business and focus on driving placements/customer and new customers are clearly paying off. Indeed, we expect that continued leverage of technology should help drive strong sales and reduce costs, both in FY12 and over the next few years as CHEF looks to consolidate a fragmented industry.

A look under the hood suggests continued strong business trends at CHEF. Indeed, 4Q revealed another solid quarter for the company, characterized by favorable top-line and profitability, trends which we expect to continue. Recent acquisitions are on track and despite a difficult macro climate, CHEF's business remains on solid footing. Turning to guidance for FY12, revenue appears strong, while adjusted earnings guidance came in somewhat below expectations. However, on closer inspection, there are a number of additional costs that are impacting the \$0.91-\$0.96 range, and are not indicative of a slowdown in the core business. These include a higher tax rate of 41% (vs. our previous 39% estimate) which reduces EPS by \$0.03, an increase in non-cash amortization, which we estimate impacts EPS by another few cents, as well as management's decision to invest more in its business (roughly \$0.02-\$0.03), the latter reflecting the company's confidence in its market share potential, which is well founded, in our opinion.

Strong sales drive another quality quarter. CHEF reported 4Q11 EPS (ex. items) of \$0.26 vs. our \$0.25 estimate as solid sales and profitability were partially offset by higher op. expenses relative to our expectations. Indeed, net rev. grew 27% y/y (~20% ex. the extra week), as CHEF posted organic growth of approx. 10% (incl. ~1% inflation) and roughly 10% from acquisitions. Reported EBIT \$'s of \$9.7mm was above our \$9.0mm estimate.

We are establishing 1Q12 and FY13 EPS of \$0.15 and \$1.12, respectively. Our FY12 estimate of \$0.95 reflects stronger revenue growth, offset by less expense leverage, largely due to increased business investment/additional costs as noted above, as well as a slight tempering of gross margin improvement given the fuel environment, plus a higher tax rate.

Valuation/Risks

Our PT of \$25 (from \$17.50) is approx. 22x our FY13 EPS estimate of \$1.12. Our DCF also places the value of the equity at about \$27. **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.	2010A	Prev.	2011A	Prev.	2012E	Prev.	2013E
Rev. (MM)	--	330.1	395.8	400.6	441.7	467.2	--	523.3
EV/Rev		1.5x		1.2x		1.0x		0.9x
EBITDA (MM)	20.2	22.5	30.2	31.0	37.2	37.5	--	43.3
EV/EBITDA		21.4x		15.5x		12.8x		11.1x
EPS								
Mar	--	--	--	0.12	--	0.15	--	--
Jun	--	--	--	0.21	--	0.26	--	--
Sep	--	--	--	0.20	--	0.25	--	--
Dec	--	--	0.25	0.26	--	0.30	--	--
FY Dec	0.54	0.57	--	0.79	0.98	0.95	--	1.12
FY P/E		36.9x		26.6x		22.2x		18.8x

EPS: 2010 and 2011 reflect pro forma adjustments.

BUY

Price target \$25.00
(from \$17.50)

Price \$21.05

Financial Summary

Net Debt (MM): \$43.1

Market Data

52 Week Range: \$22.19 - \$11.32

Total Entprs. Value (MM): \$480.9

Market Cap. (MM): \$437.8

Shares Out. (MM): 20.8

Float (MM): 10.0

Avg. Daily Vol.: 92,990

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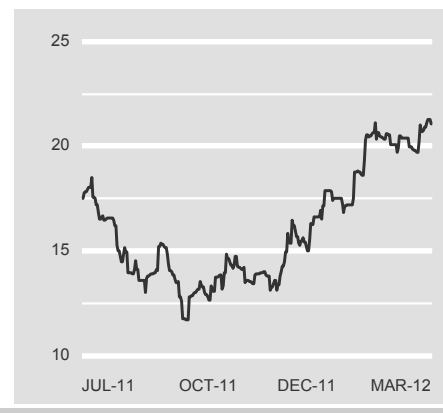
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Price Performance



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EQUITY RESEARCH AMERICAS

CHEF

Target | Estimate Change

March 8, 2012

The Chefs' Warehouse**Buy: \$25.00 Price Target****Scenarios****Target Investment Thesis**

- Sales growth of 17% and 12% in FY12 and '13, from strong organic growth and acquisitions, but one less wk in '12.
- Slight gross margin expansion on mix and better gross margin management, offset by elevated input costs.
- Moderate operating expense leverage on higher sales and improving cost efficiencies, offset by increased investment.
- FY13 EPS: \$1.12; Target Multiple: ~22x; Target Price: \$25.

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.
- FY13 EPS: \$1.25; Target Multiple: 25x; Target Price: \$31.

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.
- FY13 EPS: \$0.90; Target Multiple: 18x; Target Price: \$16.

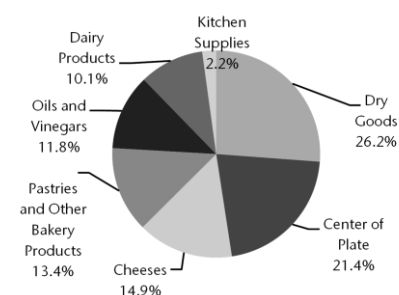
Long Term Analysis and Overview**Chefs' Current Footprint**

Source: Company Data

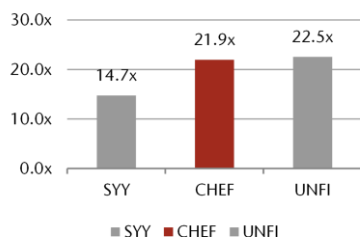
*Excludes Portland/Seattle market entered in Nov 2011

Long Term Financial Model Drivers

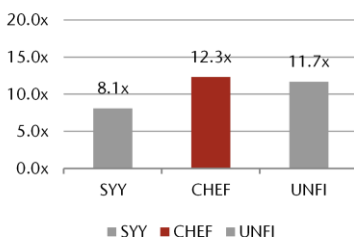
Organic Net Revenue Growth	10-12%
Gross Margin	26.5-26.7%
EBIT Margin	7.5-8.5%
Tax Rate	41%

FY10 Net Revenue By Product Category

Source: Company Data

Peer Group**Forward P/E (CY12)**

Source: Thomson, CapitalIQ

EV/ EBITDA (CY12)

Source: Thomson, CapitalIQ

Recommendation / Price Target

Ticker	Rec.	PT
CHEF	Buy	\$25
UNFI	Buy	\$44
SY	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.

Near-term Outlook

Chart 1: Near-term Outlook (\$ thousands, except per share data)

Earnings Table	Q1:12E	2012E	2013E
Net Revenues	\$101,501	\$467,221	\$523,288
Gross Profit	\$26,887	\$124,235	\$139,404
EBIT	\$5,856	\$35,650	\$41,236
EBITDA	\$6,210	\$37,518	\$43,328
EBT	\$5,381	\$33,725	\$39,839
Taxes	\$2,206	\$13,827	\$16,334
Net Income (Operating)	\$3,175	\$19,898	\$23,505
Diluted EPS (Operating)	\$0.15	\$0.95	\$1.12
Consensus EPS	\$0.16	\$0.96	\$1.12
Diluted Shares Outstanding	20,841	20,841	20,941

Source: Jefferies

Chart 2: CHEF Income Statement (\$ thousands, except per share data)

	2009A	2010PF	2011PF				2011PF	2012E				2012E	2013E
	52 weeks Dec-09	52 weeks Dec-10	Pro Forma Q1:11PF Mar-11	Pro Forma Q2:11PF Jun-11	Pro Forma Q3:11PF Sep-11	Pro Forma Q4:11PF Dec-11	53 weeks Dec-11	Q1:12E Mar-12	Q2:12E Jun-12	Q3:12E Sep-12	Q4:12E Dec-12	52 weeks Dec-12	52 weeks Dec-13
	364	364	91	91	91	98	371	91	91	91	91	364	364
Net Revenues	\$271,072	\$330,118	\$83,183	\$99,255	\$101,681	\$116,513	\$400,632	\$101,501	\$119,181	\$118,866	\$127,674	\$467,221	\$523,288
Cost of Sales	\$199,764	\$244,340	\$61,148	\$73,000	\$74,651	\$85,499	\$294,298	\$74,614	\$87,416	\$87,268	\$93,689	\$342,987	\$383,883
Gross Profit	\$71,308	\$85,778	\$22,035	\$26,255	\$27,030	\$31,014	\$106,334	\$26,887	\$31,764	\$31,598	\$33,985	\$124,235	\$139,404
Operating Expenses	\$57,580	\$64,628	\$17,444	\$18,766	\$19,568	\$21,318	\$77,096	\$21,032	\$22,295	\$22,281	\$22,977	\$88,584	\$98,168
EBIT (Operating)	\$13,728	\$21,150	\$4,591	\$7,489	\$7,462	\$9,696	\$29,238	\$5,856	\$9,469	\$9,317	\$11,008	\$35,650	\$41,236
Non-Recurring Items	-	-	-	\$200	\$400	-	\$600	-	-	-	-	-	-
EBIT (Reported)	\$13,728	\$21,150	\$4,591	\$7,289	\$7,062	\$9,696	\$28,638	\$5,856	\$9,469	\$9,317	\$11,008	\$35,650	\$41,236
EBIT (Operating)	\$13,728	\$21,150	\$4,591	\$7,489	\$7,462	\$9,696	\$29,238	\$5,856	\$9,469	\$9,317	\$11,008	\$35,650	\$41,236
Plus: Depreciation & Amortization	\$1,520	\$1,388	\$322	\$460	\$429	\$511	\$1,722	\$354	\$506	\$476	\$531	\$1,868	\$2,092
EBITDA	\$15,248	\$22,538	\$4,913	\$7,949	\$7,891	\$10,207	\$30,960	\$6,210	\$9,975	\$9,794	\$11,539	\$37,518	\$43,328
Interest Expense, Net	\$3,212	\$2,490	\$433	\$417	\$505	\$528	\$1,883	\$475	\$450	\$500	\$500	\$1,925	\$1,397
(Gain) / Loss on Fluctuation of Interest Rate Swap	(\$658)	(\$910)	(\$81)	-	-	-	(\$81)	-	-	-	-	-	-
Other	-	-	\$3	-	-	\$3	\$6	-	-	-	-	-	-
EBT	\$11,174	\$19,570	\$4,236	\$7,072	\$6,957	\$9,165	\$27,430	\$5,381	\$9,019	\$8,817	\$10,508	\$33,725	\$39,839
Income Taxes	\$2,213	\$7,777	\$1,660	\$2,765	\$2,713	\$3,805	\$10,943	\$2,206	\$3,698	\$3,615	\$4,308	\$13,827	\$16,334
Net Income (Loss) (Operating)	\$8,961	\$11,793	\$2,576	\$4,307	\$4,244	\$5,360	\$16,487	\$3,175	\$5,321	\$5,202	\$6,200	\$19,898	\$23,505
Non-Recurring Items (Net of Taxes)	-	-	-	(\$122)	(\$5,429)	(\$150)	(\$5,701)	-	-	-	-	-	-
Net Income (Loss) Reported	\$8,961	\$11,793	\$2,576	\$4,185	(\$1,185)	\$5,210	\$10,786	\$3,175	\$5,321	\$5,202	\$6,200	\$19,898	\$23,505
Disc Operations, Net of Taxes	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Reported) After Disc. Ops	\$8,961	\$11,793	\$2,576	\$4,185	(\$1,185)	\$5,210	\$10,786	\$3,175	\$5,321	\$5,202	\$6,200	\$19,898	\$23,505
Deemed Dividend Accretion on Class A Units	(\$6,207)	-	-	-	-	-	-	-	-	-	-	-	-
Deemed Dividend Paid to Class A Units	-	-	-	-	-	-	-	-	-	-	-	-	-
Net Income (Loss) to Common Stockholders	\$2,754	-	-	-	-	-	-	-	-	-	-	-	-
Diluted EPS (Operating)	NA	\$0.57	\$0.12	\$0.21	\$0.20	\$0.26	\$0.79	\$0.15	\$0.26	\$0.25	\$0.30	\$0.95	\$1.12
Diluted EPS (Reported)	NA	\$0.57	\$0.12	\$0.20	(\$0.06)	\$0.25	\$0.52	\$0.15	\$0.26	\$0.25	\$0.30	\$0.95	\$1.12
First Call Consensus	-	-	-	-	\$0.19	\$0.25	\$0.77	\$0.16	\$0.26	\$0.24	\$0.29	\$0.96	\$1.12
Weighted Avg. Diluted Shares Outstanding	NA	20,835	20,835	20,835	20,835	20,835	20,835	20,841	20,841	20,841	20,841	20,841	20,941
Growth Rates													
Net Revenues	-3.8%	NA	18.8%	18.7%	19.7%	27.2%	21.4%	22.0%	20.1%	16.9%	9.6%	16.6%	12.0%
Gross Profit	1.4%	NA	22.5%	19.7%	22.5%	30.4%	24.0%	22.0%	21.0%	16.9%	9.6%	16.8%	12.2%
Operating Expenses	-4.0%	NA	15.8%	13.4%	22.0%	25.6%	19.3%	20.6%	18.8%	13.9%	7.8%	14.9%	10.8%
EBIT (Operating)	32.5%	NA	57.5%	38.7%	24.0%	42.3%	38.2%	27.5%	26.4%	24.9%	13.5%	21.9%	15.7%
EBIT (Reported)	32.5%	NA	57.5%	35.0%	17.3%	42.3%	35.4%	27.5%	29.9%	31.9%	13.5%	24.5%	15.7%
Depreciation & Amortization	-6.5%	NA	1.9%	3.8%	13.5%	103.6%	24.1%	10.0%	10.0%	11.0%	4.0%	8.5%	12.0%
EBITDA	27.2%	NA	52.1%	36.0%	23.4%	44.4%	37.4%	26.4%	25.5%	24.1%	13.1%	21.2%	15.5%
Net Income (Operating)	308.1%	NA	81.7%	39.1%	21.0%	42.1%	39.8%	23.2%	23.5%	22.6%	15.7%	20.7%	18.1%
Net Income (Reported)	NM	NA	81.7%	35.1%	NM	38.2%	-8.5%	23.2%	27.2%	NM	19.0%	84.5%	18.1%
Diluted EPS (Operating)	NA	NA	81.7%	39.1%	21.0%	42.1%	39.8%	23.2%	23.5%	22.5%	15.6%	20.7%	17.6%
Diluted EPS (Reported)	NA	NA	81.7%	35.1%	NM	38.2%	-8.5%	23.2%	27.1%	NM	19.0%	84.4%	17.6%
Margin													
Gross Profit	26.3%	26.0%	26.5%	26.5%	26.6%	26.6%	26.5%	26.5%	26.7%	26.6%	26.6%	26.6%	26.6%
Operating Expenses (As % of Net Revenues)	21.2%	19.6%	21.0%	18.9%	19.2%	18.3%	19.2%	20.7%	18.7%	18.7%	18.0%	19.0%	18.8%
EBIT (Operating)	5.1%	6.4%	5.5%	7.5%	7.3%	8.3%	7.3%	5.8%	7.9%	7.8%	8.6%	7.6%	7.9%
EBIT (Reported)	5.1%	6.4%	5.5%	7.3%	6.9%	8.3%	7.1%	5.8%	7.9%	7.8%	8.6%	7.6%	7.9%
EBITDA	5.6%	6.8%	5.9%	8.0%	7.8%	8.8%	7.7%	6.1%	8.4%	8.2%	9.0%	8.0%	8.3%
Net Income (Operating)	3.3%	3.6%	3.1%	4.3%	4.2%	4.6%	4.1%	3.1%	4.5%	4.4%	4.9%	4.3%	4.5%
Net Income (Reported)	1.0%	3.6%	3.1%	4.2%	-1.2%	4.5%	2.7%	3.1%	4.5%	4.4%	4.9%	4.3%	4.5%
Change in Margin													
Change in Gross Profit Margin	1.34%	NA	0.80%	0.21%	0.60%	0.64%	0.56%	-	0.20%	-	-	0.05%	0.05%
Change in Operating Expenses (As % of Net Revenue)	-0.04%	NA	-0.56%	-0.88%	0.35%	-0.24%	-0.33%	-0.25%	-0.20%	-0.50%	-0.30%	-0.28%	-0.20%
Change in EBIT (Operating) Margin	1.39%	NA	1.36%	1.09%	0.25%	0.88%	0.89%	0.25%	0.40%	0.50%	0.30%	0.33%	0.25%
Change in EBIT (Reported) Margin	1.39%	NA	1.36%	0.89%	-0.14%	0.88%	0.74%	0.25%	0.60%	0.89%	0.30%	0.48%	0.25%
Change in EBITDA Margin	1.37%	NA	1.29%	1.02%	0.23%	1.04%	0.90%	0.21%	0.36%	0.48%	0.28%	0.30%	0.25%
Effective Tax Rate	19.8%	39.7%	39.2%	39.1%	39.0%	41.5%	39.9%	41.0%	41.0%	41.0%	41.0%	41.0%	41.0%

Source: Jefferies, company data

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.

Analyst Certification

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Buy - Describes stocks that we expect to provide a total return (price appreciation plus yield) of 15% or more within a 12-month period.

Hold - Describes stocks that we expect to provide a total return (price appreciation plus yield) of plus 15% or minus 10% within a 12-month period.

Underperform - Describes stocks that we expect to provide a total negative return (price appreciation plus yield) of 10% or more within a 12-month period.

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.

NR - The investment rating and price target have been temporarily suspended. Such suspensions are in compliance with applicable regulations and/or Jefferies policies.

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NC - Not covered. Jefferies does not cover this company.

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Monitor - Describes stocks whose company fundamentals and financials are being monitored, and for which no financial projections or opinions on the investment merits of the company are provided.

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Jefferies' methodology for assigning ratings may include the following: market capitalization, maturity, growth/value, volatility and expected total return over the next 12 months. The price targets are based on several methodologies, which may include, but are not restricted to, analyses of market risk, growth rate, revenue stream, discounted cash flow (DCF), EBITDA, EPS, cash flow (CF), free cash flow (FCF), EV/EBITDA, P/E, PE/growth, P/CF, P/FCF, premium (discount)/average group EV/EBITDA, premium (discount)/average group P/E, sum of the parts, net asset value, dividend returns, and return on equity (ROE) over the next 12 months.

Conviction List Methodology

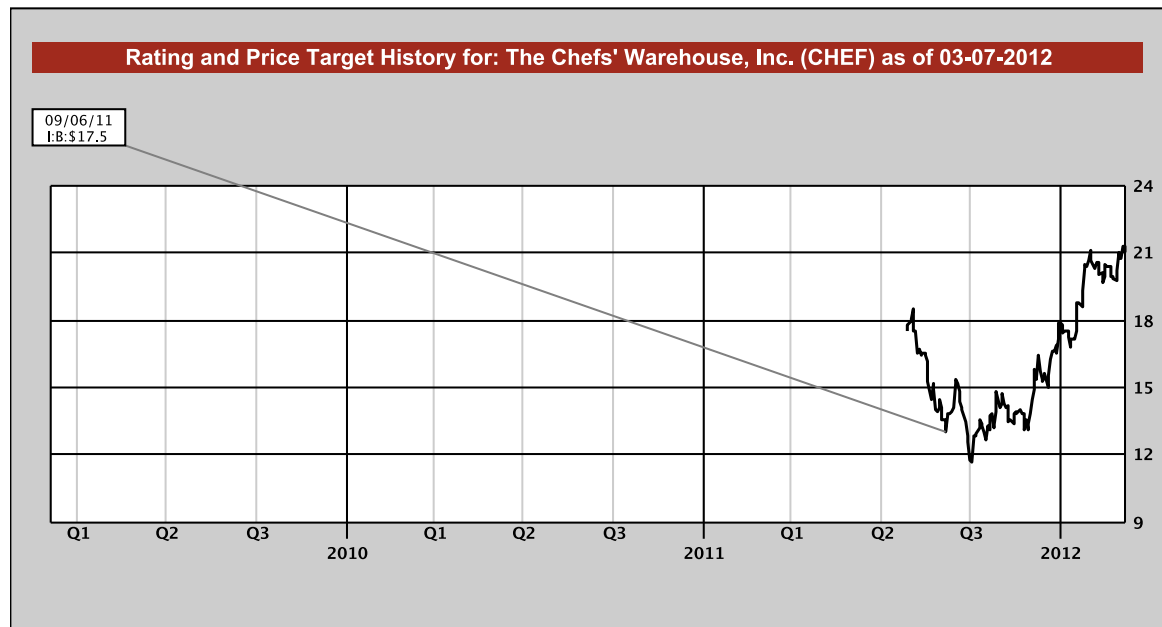
1. The aim of the conviction list is to publicise the best individual stocks ideas from the Jefferies Global Research.
2. Only stocks with a Buy rating are allowed to be included in the recommended list.
3. Stocks are screened for minimum market capitalisation and adequate daily turnover. Furthermore, a valuation, correlation and style screen is used to ensure a well-diversified portfolio.
4. Stocks are sorted to a maximum of 30 stocks with the maximum country exposure at around 50%. Limits are also imposed on a sector basis.
5. Once a month, analysts are invited to recommend their best ideas. Analysts' stock selection can be based on one or more of the following: non-Consensus investment view, difference in earnings relative to Consensus, valuation methodology, target upside/downside % relative to the current stock price. These are then assessed against existing holdings to ensure consistency. Stocks that have either reached their target price, been downgraded over the course of the month or where a more suitable candidate has been found are removed.
6. All stocks are inserted at the last closing price and removed at the last closing price. There are no changes to the conviction list during the month.
7. Performance is calculated in US dollars on an equally weighted basis and is compared to MSCI World AC US\$.
8. The conviction list is published once a month whilst global equity markets are closed.
9. Transaction fees are not included.
10. All corporate actions are taken into account.

Risk which may impede the achievement of our Price Target

This report was prepared for general circulation and does not provide investment recommendations specific to individual investors. As such, the financial instruments discussed in this report may not be suitable for all investors and investors must make their own investment decisions based upon their specific investment objectives and financial situation utilizing their own financial advisors as they deem necessary. Past performance of the financial instruments recommended in this report should not be taken as an indication or guarantee of future results. The price, value of, and income from, any of the financial instruments mentioned in this report can rise as well as fall and may be affected by changes in economic, financial and political factors. If a financial instrument is denominated in a currency other than the investor's home currency, a change in exchange rates may adversely affect the price of, value of, or income derived from the financial instrument described in this report. In addition, investors in securities such as ADRs, whose values are affected by the currency of the underlying security, effectively assume currency risk.

Other Companies Mentioned in This Report

- United Natural Foods (UNFI: \$45.64, BUY)



Rating and Price Target History for: United Natural Foods (UNFI) as of 03-07-2012



Distribution of Ratings

Rating	Count	Percent	IB Serv./Past 12 Mos.	
			Count	Percent
BUY	773	52.10%	104	13.45%
HOLD	604	40.70%	65	10.76%
UNDERPERFORM	108	7.30%	3	2.78%

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