WESTPEAK RESEARCH ASSOCIATION

The Chefs' Warehouse (NASDAQ: CHEF)

Consumer Discretionary – Specialty Foods

The Money Lies on the Bottom Shelf

March 1, 2019

The Chefs' Warehouse Inc. ("the company" or "CW") is a specialty foods distributor that sells niche products sought out by chefs at independent restaurants, country clubs, hotels, bakeries, and more in the United States and Canada. The company's competitive advantage arises through a one-stop shop experience for high-end chefs with specific and unique demands.

Thesis - Excellent top line, but income calls for focus on margins

The Chefs' Warehouse has succeeded in earning itself a strong position in the specialty foods market, despite the presence of dominant players in the foodservice distribution industry. While CW's CAGR of 20.1% since the company began the expansion of their protein segment in FY2012 is impressive, operating margins have lagged behind, dropping from 5.99% in FY2012 to 3.38% in FY2018. Considering CW's stronger focus on reaching an expanded customer base within existing markets and solidifying operational efficiency and continued activity in center-of-the-plate acquisitions, we expect CW to make a slight recovery from depressed operating margins occurring over the past 5 years.

Drivers - Macro-driven revenue, efficiency-driven income

Changes in disposable personal income and discretionary spending drive CW's revenue growth, whereas a fluctuation in operating income is largely driven by food price volatility as well as overhead costs from acquisitions. The implementation of a new ERP program marks a step towards improving operational efficiency. This goal is further prioritized through measures such as Gross Profit compensation plans for CW sales teams, rewarding employees that actively cross-sell higher margin goods.

Valuation

Our target share price of $31.00 represents a downside of 2.7%, based on a 50/50 weighting of our DCF model and Comparable analysis. Given the current share price, we believe that CHEF is fairly valued by the market; we initiate a **hold** rating on the stock.

Analyst: Jason Brennan, BCom. '21
contact@westpeakresearch.com

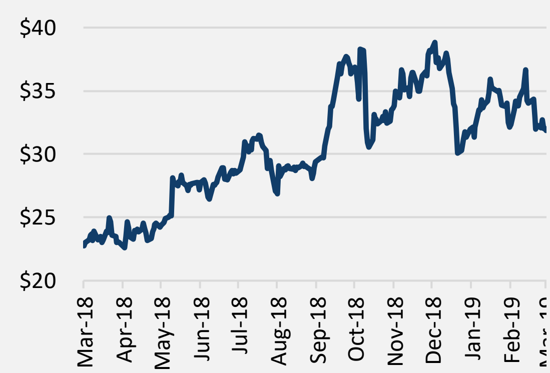
Equity Research	US
Price Target	**USD$ 31.00**
Rating	Hold
Share Price (Mar. 1 Close)	USD$ 31.85
Total Return	-2.7%

Key Statistics	
52 Week H/L	$39.26/$21.25
Market Capitalization	$955M
Average Daily Trading Volume	245K
Net Debt	$236M
Enterprise Value	$1.2B
Net Debt/EBITDA	3.2x
Diluted Shares Outstanding	30M
Free Float	84%
Dividend Yield	N/A

WestPeak's Forecast

	2019E	2020E	2021E
Revenue	$1.6B	$1.7B	$1.8B
EBITDA	$85M	$101M	$114M
Net Income	$28M	$35M	$38M
EPS	$0.93	$1.17	$1.27
P/E	34.3x	27.6x	25.2x
EV/EBITDA	14.3x	12.1x	10.7x

1-Year Price Performance

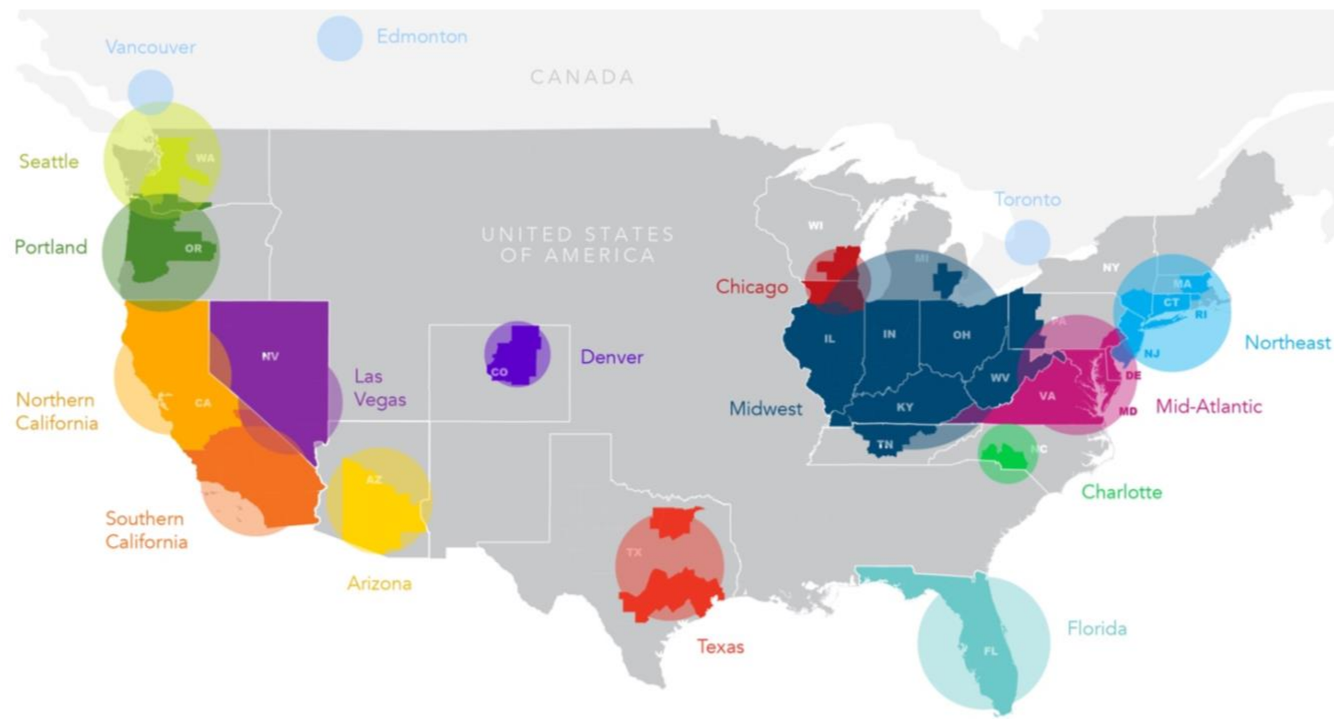


Business Overview/Fundamentals

Company Overview

The Chefs' Warehouse Inc. is a specialty foods distributor that collaborates with chefs to provide them with specific as well as essential ingredients necessary to be successful in their kitchen. Primarily operating in the United States, with additional operations in Canada, the company's key focus is on serving chefs in upper-mid to high-end restaurants. The remainder of their client focus consists of country clubs, hotels, culinary schools, caterers, bakeries, and other retail specialty food establishments in the United States and Canada. CW serves over 30,000 distinct customer locations out of 23 distribution centres. Figure 1 gives a visual representation of the locations of CW's distribution regions.

Figure 1 **Source: [Company Website]**



The top 35% performing independent restaurants in the U.S. represent a roughly $25-30 billion market. These restaurants are a key focus for the company, as the businesses are typically high-end, niche, and require very specific ingredients that allow them to maintain a consistently unique menu. Targeting this segment is what allows CW to be a leading distributor of specialty foods in New York, Washington D.C., San Francisco, and Los Angeles. With a large presence in the Mid-Atlantic, 27.8% of the company's net sales in FY2017 came from operations between Boston and Atlantic City. We believe that CW will be able to maintain their status as a leading distributor in specialty foods, given their penetration in a broad range of markets. This is further backed by the company's ability to maintain relationships over the course of their strategic acquisition history.

Subsidiaries

In 1985, brothers Christopher and John Pappas founded Dairlyand USA, which has since formed into The Chefs' Warehouse Inc. Dairyland USA continues to operate out of the Bronx, New York, as a subsidiary of parent company. The Chefs' Warehouse Inc. CW is headquartered in Ridgefield, Connecticut, wholly owning numerous entities that offer different products across different regions. CW's company's strategy of entering new markets by acquiring smaller companies has resulted in the existence of numerous subsidiaries, many of which continue to operate under their own name.

Figure 2 **Source: Company Website**

Provvista Specialty Foods, Inc. operates under The Chefs' Warehouse West Coast division, after the acquisition took place in 2011. The subsidiary offers a wide range of specialty foods that is consistent with CW's breadth of product. The subsidiary focuses on fulfilling the unique demands of top chefs across the Pacific Northwest region.

Michael's Finer Meats, LLC was acquired by CW in 2012, marking the beginning of the company's expansion towards center-of-the-plate proteins. Based in Ohio, the company targets fine steakhouses across the Midwest United States. Products are also available to be shipped direct-to-consumer via their website.

Qzina Specialty Foods is a supplier of pastries, chocolates and other desserts, and was acquired by CW in May of 2013. It was through this acquisition that CW entered the Canadian market, with Qzina pastry divisions in Vancouver, Edmonton, and Toronto. In the U.S., Qzina operates out of California, Illinois and Florida.

Allen Brothers is a Chicago-based meats company that was acquired late in 2013, as The Chefs' Warehouse continued their shift towards center-of-the-plate items as a major source of revenue. Selling hand-cut meats and using a patented aging process, the subsidiary sells directly to consumers via mail and through their website. Like CW's other subsidiaries, Allen Brothers prime beef is also sold business-to-business.

Del Monte Meat Company and LLC & **Ports Seafood** are subsidiaries that were acquired simultaneously by The Chefs' Warehouse Inc. in 2015. Both operate in California, offering meat and seafood products, respectively. Del Monte offers fresh products cut-to-order while Port's Seafood provides seafood with an emphasis on responsible fishing practices.

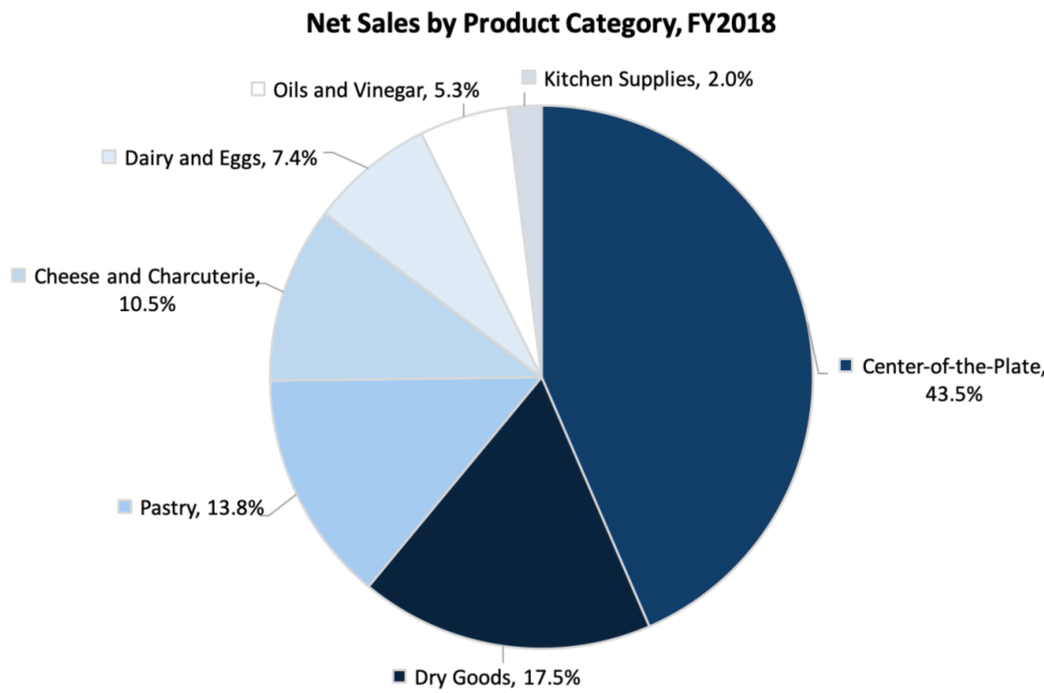
MT Food Service Inc. was acquired by CW In June of 2016, marking further investment into the Chicago market. MT is a wholesale dairy, produce, and specialty items distributor.

Fells Point Wholesale Meats was acquired in late August of 2017. The specialty protein provider operates out of Baltimore, Maryland and Washington D.C., and was the source of much of CW's inorganic growth in FY2018.

Products

The Chefs' Warehouse serves to be a one stop shop for chefs that would otherwise have difficulty finding products that distinguish their recipes amongst other chefs. The company has an extensive product line, sourcing from over 2,500 different suppliers. CW offers a product line of over 48,000 stock-keeping units (SKU's), with the goal of offering a selection that will allow chefs to follow regional food trends, and to pursue menu changes with ease. This product offering ranges from steaks, cheese and charcuterie, pastries, produce, as well as truffles, vinegars, olives, caviar, and much more.

Figure 3 **Source: SEC Filings**



CW's product line is regularly assessed in order to keep their catalogue up to date with relevant culinary trends. The Chefs' Warehouse reports net sales by product category each quarter, identifying six product categories: Center-of-the-plate protein, dry goods, pastries and other baked goods, cheeses, dairy products, oils and vinegars, and kitchen supplies. Center-of-the-plate protein items bring in nearly half of CW's revenue; all other categories are referred to under the umbrella of 'specialty'.

Center-of-the-plate expansion: Since the 2012 acquisition of Michael's Finer Meats, LLC, The Chefs' Warehouse has expanded their line of center-of-the-plate products to make up their largest revenue segment. This category is composed of protein items such as steaks that are intended to be the centerpiece of a meal. With the additional acquisitions of Allen Brothers, Del Monte Meat Company, Ports Seafood, and Fells Point Wholesale Meats, growing this product category has been a target for strategic acquisitions over the past six years. CW has further pursued this expansion with the February 2019 acquisition of Bassian Farms, Inc., a specialty protein manufacturer in San Francisco with $50M in yearly net sales.

Since FY2013, growth in the center-of-the-plate category has accounted for 53.8% of CW's revenue growth. In that same time frame, the company's EBITDA margin has tumbled from 6.5% to 4.9% as a result of increased operating expenses. With a continued objective of pursuing protein focused acquisitions as shown by the Bassian Farms deal, we see CW entering a segment with narrower margins as a threat to operating margins.

Jason Brennan | contact@westpeakresearch.com

Company Strategy

The Chefs' Warehouse achieves a competitive advantage in the specialty foodservice industry primarily due to their extensive product line, and their strong bonds with customers which is a result of their ability to provide insight when guiding clients through their purchase orders. CW markets their products towards chefs, with the goal of securing clients through the company's ability to fulfill the specific and unique needs of any fine dining establishment.

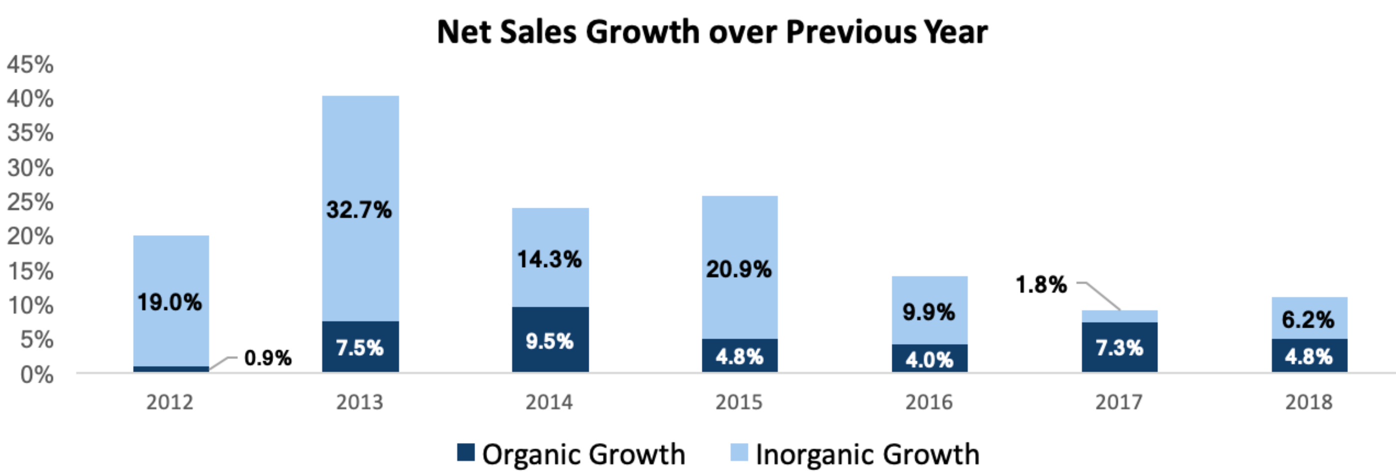
Growth Strategies

Organic Growth: Having spent the past five years in a flurry of acquisition activity, management has identified a focus on growing organically within existing markets. By using data to analyze profit contributions of the company's client base, CW's sales teams target specific customers to offer more products based on demands as well as purchasing habits. In addition, extensive training of staff as well as the sales team's actions to educate clients and assist with menu planning and pricing has maintained an above-average retention rate.

With expanded capacity resulting from numerous acquisitions since their IPO, the company can shift focus from integrating these acquired companies as CW brands and expand their customer base within these markets. An example of this is with CW's acquisition of Chicago based MT Foodservice Inc. Although MT Foodservice achieved lower margins than CW, the company pursued this acquisition to expanding their product offering, with the goal of adding depth to their existing share in the Chicago market.

Acquisitions: Acquisitions have proven to be a consistent growth strategy since the company's Initial Public Offering in 2011. These acquisitions have been tailored towards increasing the number of unique products that the company can provide to its clients, as well as expanding the center-of-the-plate protein revenue segment. This is shown through the purchase of entities such as Bassian Farms, specialty protein manufacturer Fells Point, imported and domestic goods wholesaler Euro Gourmet Inc., and gourmet dessert and pastry supplier Qzina Specialty Foods. As displayed in Figure 4, CW's acquisitions since 2012 have resulted in significant net sales accretion.

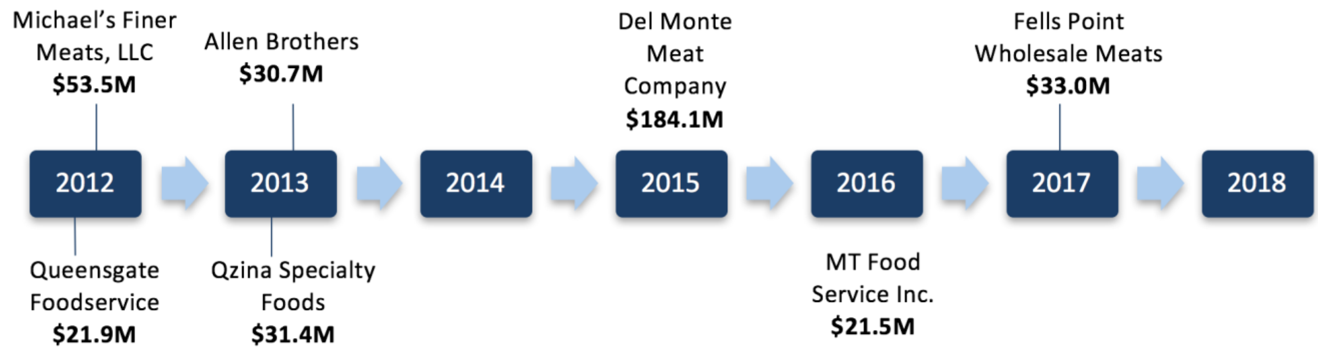
Figure 4 **Source: SEC Filings**



Jason Brennan | contact@westpeakresearch.com

Between December 2011 and December 2018, net sales have grown from $400.6 million to $1.4 billion. On the other hand, operating income grew from $27.8M to just $48.8M in the same time frame. While this growth history demonstrates CW's ability to make acquisitions that grow the top line, CW has not maintained their margins in the process. We believe that there is room for improvement in the way that the company is scaled, given the additional consideration that ROIC fell from 7.9% to 6.3% from FY2013 to FY2018.

Figure 5 **Reported Acquisitions over $20M, FY2012 – FY2018** **Source: SEC Filings**



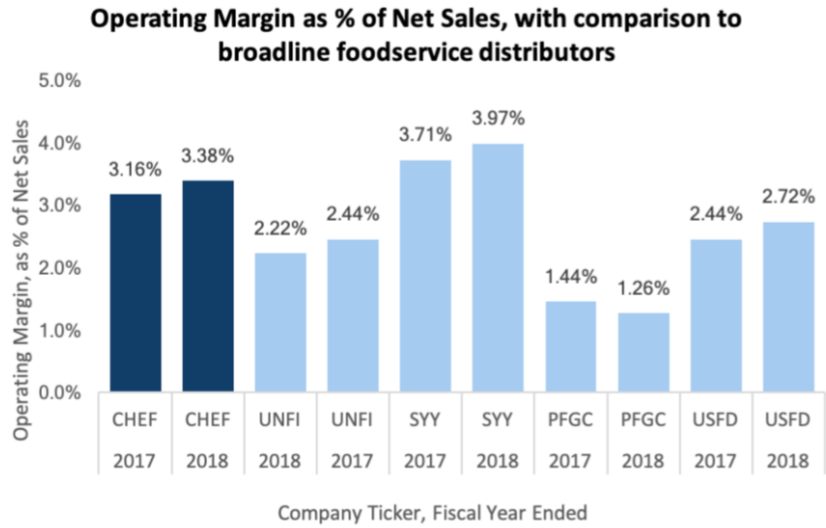
Over the course of their acquisition history, Management has solidified key components of a business that signals whether a business would integrate well with CW's strategy. In addition to ensuring that a business aligns with CW's strategy, a large consideration is the potential target's IT system – having large companies switch systems leads to large overhead costs. Otherwise, maintaining the acquisition target's sales and managing the integration of sales teams are other primary focuses.

Historically, CW has paid for acquisitions primarily using cash, but has also issued senior secured notes as well as convertible subordinated notes to finance transactions. The company currently has $240M of Senior Secured Term Loan obligations, which makes up the bulk of the company's total debt of $280M.

CW recently entered Texas through a small acquisition, a market that may be a prime location for further growth. The state has 7.2% of the United States' single-location full-service restaurants (IBISWorld), just second to California (12.5%). Management has also indicated their intent to expand in Los Angeles to further capitalize on the California market.

Supply Chain

Figure 6 **Source: SEC Filings**



CW's strategy around choosing suppliers involves sourcing goods from a base of over 2,500 suppliers, across North America, Europe, Asia, and South America. A large proportion of these suppliers are small, family owned businesses of which CW's orders makes up a large portion of their sales. As a result of sourcing from small suppliers, CW's product offering is largely composed of exclusive, artisanal goods.

As shown in Figure 6, CW maintains a strong margin with comparison to broadline foodservice distributors. This is in part the result of the company's specialty product offering, as well as effective supply chain and sourcing methods. When it comes to distribution, The Chefs' Warehouse filled 97% of orders by the requested delivery date in FY2017, demonstrating strength in logistical operations.

Customer Relationships & Marketing

What separates CW from other food distributors is the degree of personalization that is offered to each client. Through its importing division, CW will fulfill specific client requests for items that are not regularly available by catalogue. This degree of care, in addition to services such as custom-cut meat options, is part of what makes chefs choose The Chefs' Warehouse over a leading national distributor. An example of this is demonstrated with CW's 9-year relationships with The Culinary Institute of America, and The French Culinary Institute. Attendees of such institutes are familiarized with CW during their time in culinary school, increasing the likelihood that they will develop a loyalty to the service provided by The Chefs' Warehouse. The CW sales team has been described to act more as consultants, rather than simply order takers. Many of the company's customer service representatives have culinary training or work experience in the field, which allows them to understand client needs and desires. Furthermore, the sales teams have compensation tied to gross profit goals, incentivizing the sale of high margin products.

Technology

In Q3 of 2018, CW's mobile app accounted for 20% of the company's online sales. Additionally, CW's new Enterprise Resource Planning (ERP) system 75% implemented and will continue integration throughout 2019. This system implements 'one-screen ordering', which will allow CW sales staff to focus more time on the customer rather than processing orders. Both of these systems are used with the purpose of improving operational efficiency, and may marginally impact margin efficiency in the long run.

Industry Analysis

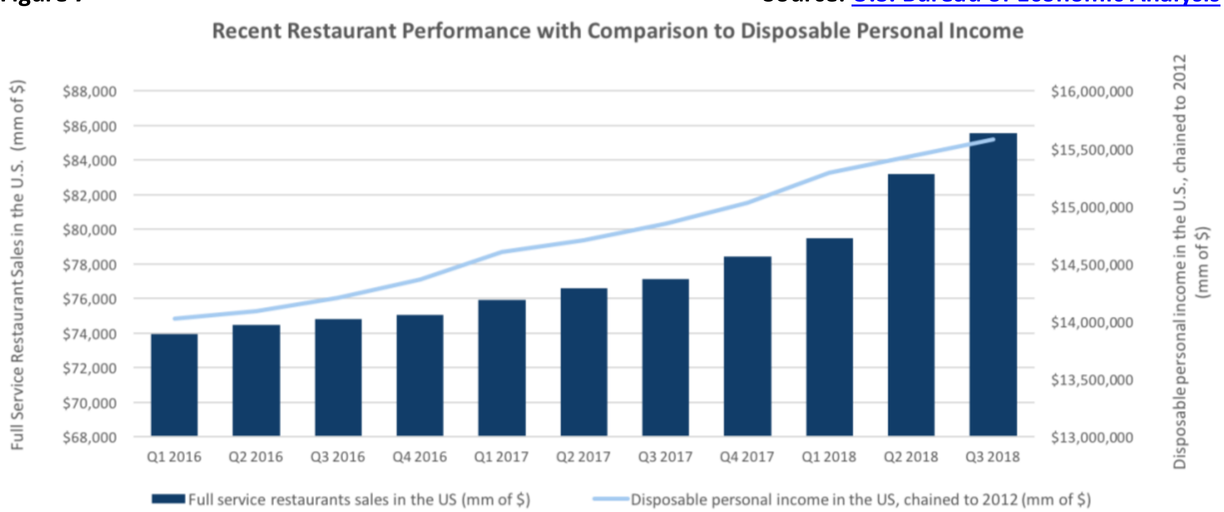
Specialty Foodservice Distribution

The U.S. Foodservice Distribution industry makes up a roughly $293 billion market, with a presence of over 15,000 distribution companies. Seeing roughly 2.5% annual growth between 2013-2018, the industry is expected to maintain growth at 2.5% through 2019-2023. The market is largely held between large broadline distributors that compete on cost. This includes companies such as Sysco Corporation and US Food Holdings Corp., with $58.7B and $24.1B in net sales in their latest fiscal year, respectively.

Trends within the industry include improved inventory tracking systems, ERP systems, as well as the development and use of e-commerce platforms. Maintaining efficiency within these domains is important for companies in order to remain competitive, given that the most efficient companies will be able to price lower and undercut competitors. The centralization of information via ERP systems is consistently seen amongst distributors and is essential to remain competitive on the operational side of the business. While CW is in the process of migrating ERP systems, Sysco Corporation similarly integrated a new system in FY2017.

Within specialty foodservice distribution, CW specifically focuses on the top 35% of independent restaurants, which are a roughly $25B to $30B market. With over $1.4B in revenue during FY2018, CW represents approximately 5% of this $25B to $30B segment. This has grown significantly considering CW brought in $674M in net sales in FY2013. By supplying to top independent restaurants and fine-dining establishments, specialty foodservice distributors are impacted by the performance of such restaurants. When personal disposable income sees strong growth, discretionary spending tends to increase, leading restaurants to purchase more from their suppliers. On the other hand, a decrease in discretionary spending leaves foodservice distributors at risk of losing clients. In the past three years, growth in disposable personal income has been encouraging for distributors relying on discretionary spending (Figure 7).

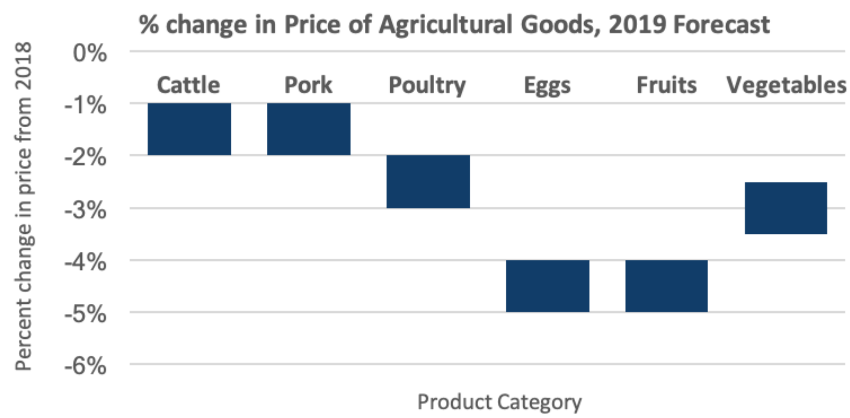
Figure 7 **Source:** [U.S. Bureau of Economic Analysis]



With consideration to recent interest rate hikes, such actions have historically had negative correlation with discretionary spending. Taking in mind the U.S. Federal Reserve's intent for two interest rate hikes throughout 2019, we are projecting moderately slowed growth in the specialty foodservice distribution industry. This forecast is made with caution to potential slowed growth in restaurant sales as consumers allocate more of their income from discretionary spending towards saving.

Cost of Goods

Figure 8 **Source:** United States Department of Agriculture



Given that foodservice distribution companies purchase thousands of stock-keeping units from their suppliers, companies in the industry are largely exposed to changes in food prices. According to the U.S. Department of Agriculture, analysts estimate that the prices of food categories including cattle, pork, poultry, eggs, fruits and vegetables will see price deflation in 2019. This could affect pricing strategies for whole sellers with focus in selling proteins. On the other hand, this may have less of a material impact on companies that hedge against input price volatility using fixed markups on their goods sold. CW incorporates this method for a portion of their protein items.

Industry Consolidation

Currently a highly fragmented market with upwards of 15,000 distribution countries, the smallest foodservice distributors with local market shares are acquired by the larger foodservice distributors in the industry on an ongoing basis. Deals occur frequently due to the fact that large distributors are able to take over smaller companies with insignificant overhead costs, and capture an increased market share through the acquisition. We believe that the nature of the industry is suitable for CW's growth strategy, considering the high number of potential acquisition targets across the American market.

Catalysts

Future Acquisitions

Considering CW's growth strategies and consistent acquisition history, future acquisitions are a potential catalyst that could impact the company's share price. In December of 2017, the company issued an additional 1.9 million shares, netting $34 million in proceeds. The proceeds are being held as cash, with consideration of use for future acquisitions. As of the latest quarter, CW has $42M in cash on hand. Should Management stay true to their growth strategies and pursue further acquisitions in the near future, the revenue growth generated from the deal may affect the company's share price.

Growing Adoption of E-Commerce

An increasing prevalence in the use of mobile and online ordering is beneficial to CW given the lower operational costs for these platforms with comparison to interactions with salespeople. Furthermore, customers using online platforms have a tendency to purchase greater order sizes than through other sales methods (Q3 FY2018 Earnings Call). A greater adoption of CW's online platforms could lead to improvement in operating margins, indicating to investors that the company can drive greater profit from e-commerce trends.

Management Team

Christopher Pappas – Founder, President, CEO & Chairman

Christopher Pappas is a founder of The Chefs' Warehouse alongside his brother, John. Christopher has served as CEO of the company since it was founded as Dairyland USA in 1985. As CEO, Pappas' focus is on overseeing product procurement, sales and marketing, as well as business strategy. Christopher has 3,051,786 shares, equivalent to an ownership of 10.18% of shares outstanding at a market value of $97.2 million. In FY2017 Christopher's base salary was $792,000, plus $636,000 from the Non-Equity Incentive Plan, and $107,875 from other compensation such as benefits. Pappas' FY2017 compensation totalled to $1,535,875.

John Pappas – Founder, Vice Chairman

John Pappas is a founder, alongside his brother, Christopher. Formerly COO until 2011, John serves as Vice Chairman. With 1,300,921 shares, he has a 4.34% ownership in the company at a market value of $41.4 million. In FY2017, John's base salary was $395,000, plus $316,000 from the Non-Equity Incentive Plan, as well as an additional $39,260 under other compensation. John's FY2017 compensation totalled to $750,260.

James Leddy - CFO

James Leddy is the Chief Financial Officer, having joined The Chefs' Warehouse in September of 2017. With over 25 years in financial leadership, Leddy's past experience includes working as Senior Vice President and Treasurer of JetBlue Airways from 2012 until late 2016, when he stepped up as interim CFO for four months. Prior to his roles at JetBlue, Leddy was Senior Vice President, Treasury and Cash Management from 2008 to 2012 at NBCUniversal. Having joined The Chefs' Warehouse fairly recently, James does not yet have a significant stake in the company. In FY2017, James' total compensation was $223,824, which takes into account the fact that he joined the company late in the year. In 2018, James Leddy will have a base salary of $375,000.

Management Conclusion

The Chefs' Warehouse executives receive a cash compensation through the Non-Equity Incentive Plan for reaching an Adjusted EBITDA target, and a Revenue target. Furthermore, the Long-Term Equity Compensation Plan compensates executives with stock based on Return on Invested Capital and EBITDA margin performance between FY2017 and through until the end of FY2019. Because of these two compensation plans, as well as both Pappas brothers owning large stakes in the company, management is incentivized to pursue both top line as well as margin growth.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

The Chefs' Warehouse is largely held by institutions, with institutional investors holding 98.06% of free float. The top ten shareholders of the company collectively own 73.62% of the shares outstanding. Christopher Pappas and John Pappas have the largest inside ownership, possessing 10.18% and 4.34% of CW's shares outstanding, respectively. The company has 29,743,851 diluted shares outstanding.

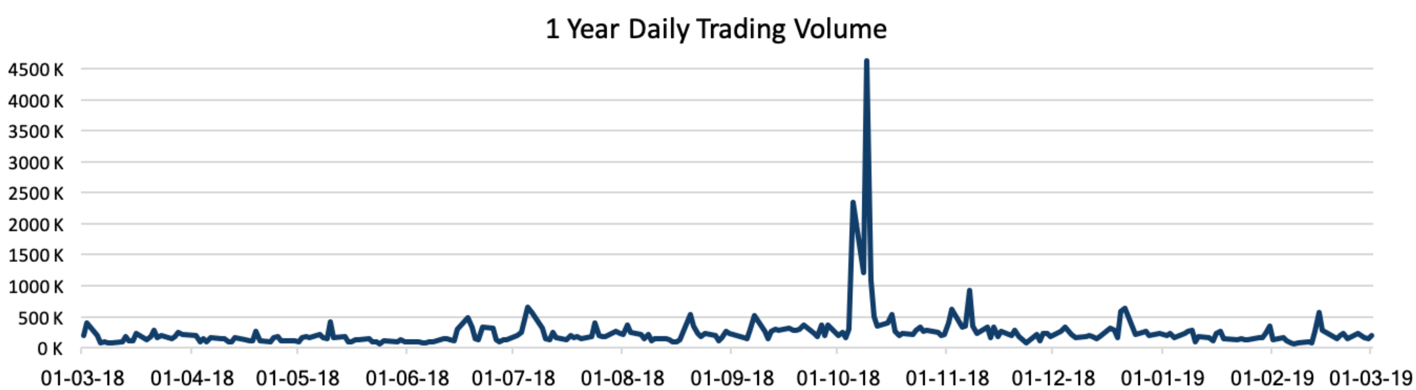
Figure 9 **Source: Bloomberg**

Shareholder	Number of Shares Owned	% of Free Float	Insider?
Kayne Anderson Rudnick Investment Management, LLC	4,420,909	14.75	No
Blackrock, Inc.	3,710,142	12.38	No
Christopher Pappas	3,051,786	10.18	Yes
Virtus Investment Advisers, Inc.	2,759,200	9.21	No
The Vanguard Group, Inc.	1,728,836	5.77	No
Dimensional Fund Advisors, L.P.	1,512,579	5.05	No
John Pappas	1,300,921	4.34	Yes
Conestoga Capital Advisors, LLC	1,299,533	4.34	No
AllianceBernstein L.P.	1,247,153	4.16	No
Renaissance Technologies LLC	1,031,806	3.44	No
Top 10 Shareholders	**22,062,865**	**73.62 %**	

Liquidity

The Chefs' Warehouse has an average daily trading volume of 244,891. With comparison to the trading volume of its peers, we believe that investors do not face significant liquidity risk. The spike in liquidity (Figure 10) occurred when CW was placed into the S&P SmallCap 600 index. This was well received by investors, with the share price up 9.4% following the news.

Figure 10 **Source: Yahoo Finance**



Valuation

Discounted Cash Flow Assumptions

Revenue: We believe that CW will maintain above industry average revenue growth in the near future, given their forward-looking plans as well as history in achieving organic and inorganic growth. We expect the center-of-the-plate protein category to continue leading the growth as CW's largest segment. From a long-term perspective, we expect revenue growth to slow gradually as the company focuses on margin improvement rather than inorganic growth, also taking into consideration risk of changes in discretionary spending. We have forecasted a growth rate of 8.4% for FY2019, with a gradual decline until FY2023 with projected growth of 4.5% as the company matures.

CAPEX: We have forecasted $21.6M in CAPEX for FY2019, which comes to 29.6% of P&E. Management has indicated that this recent slight increase in CAPEX has been due to planned facility renovations and expansions. We expect CAPEX to remain slightly elevated in the short term but to balance out in the coming years.

Gross Profit Margin: CW's Gross margin is largely susceptible to food price volatility. To mitigate this risk, the company prices using cost plus a dollar markup in some of their protein products. With this in mind, we believe that changes in Gross margin moving forward will continue to be nominal, generally less than 100 basis points quarter-to-quarter.

OPEX & EBITDA Margin: CW's three to five-year plan of attaining revenue of $2 billion and an EBITDA margin of 7% implies OPEX improvements in the coming years. This is derived from the reduced administrative costs that will be achieved with the integration of the ERP model and customer adoption of the e-commerce platform and mobile app. We believe the company's EBITDA margin will attain 7% by FY2022, with the implication that technology implementation and acquisition synergy continue the pattern of providing modest margin improvements. We forecast revenue to reach just under $2B by FY2023.

Effective Tax Rate: The effective tax rate for FY2019 is expected to be 27.5%.

Dividends: The company intends to continue its trend of allocating capital towards the growth of the company, and therefore will continue its pattern of not issuing dividends.

Weighted Average Cost of Capital (WACC): We used a WACC of 8.2% for our valuation, using a cost of equity of 9.8% and after-tax cost of debt of 2.5%. We drew these estimates using the 5-year U.S. Treasury Bill of 2.5% as the risk-free rate, and an expected market return of 9.7%, resulting in a market risk premium of 7.2%. In addition, we used a beta of 1.03 (Bloomberg), and an effective tax rate of 27.5%.

EV/EBITDA Exit Multiple: We used an EV/EBITDA exit multiple of 13.5x, taking into consideration our EBITDA forecasts, as well as a projected FY2019 multiple of 13.4x in our comparable company analysis. We used a higher than average exit multiple due to CW's above-average EBITDA growth, as well as stronger margins relative to broadline foodservice distributors.

Comparable Company Analysis

Our Comparable Company analysis indicated an implied share price of $29.60 using a projected EV/EBITDA of 13.3x. Our competitor mean FY2019 EV/EBITDA was 12.1x. The companies used in our comparable analysis were chosen based on industry, target customer segment, and company strategy. Considering that The Chefs' Warehouse finds itself in a more specialized market than typical broadline food distributors, we selected businesses that share CW's depth of product line, and wholesaler characteristics. The following peer group was utilized for the comparable analysis:

Sysco Corporation (NYSE: SYY): Sysco Corporation is the largest global wholesale foods distributor, with a focus on serving the foodservice and food-away-from-home industries. 62% of Sysco's customers in 2018 were restaurants, showing that they target customers in a similar fashion to The Chefs' Warehouse. Sysco operates 322 distribution facilities across North America and Europe.

Performance Food Group Company (NYSE: PFGC): Performance Food Group Company is a foodservice distributor, operating out of 73 distribution centers across the United States. PFGC serves a customer base comprised of independent and chain restaurants, schools, retailers, theatres, and more.

US Food Holdings Corp. (NYSE: USFD): US Food Holdings Corp. is a foodservice distributor serving independent and chain restaurants, hospitals, hotels, country clubs, retailers, and more. The company operates over 60 distribution facilities across the United States.

Calavo Growers, Inc. (NYSE: CVGW): Calavo Growers, Inc. is an avocado and fresh foods distributor, serving the retail grocery and foodservice industries, and more. Similar to The Chefs' Warehouse, Calavo Growers, Inc. distributes a specialized product to a wide customer base.

Recommendation

The Chefs' Warehouse has proven its ability to grow and secure market share within a niche segment of the cutthroat foodservice distribution industry. We believe that CW's forward-looking focus on achieving organic growth by utilizing expanded capacity resulting from acquisitions is a step in the right direction towards achieving the coveted 7% EBITDA margin. Additional efforts on incentivizing experienced sales teams to boost gross profit dollars, as well as capitalizing on opportunities for operational efficiency such as the new ERP system demonstrate that management's eyes are on the bottom line.

On the other hand, CW has increasingly leaned towards center-of-the-plate protein as a primary revenue segment and source of expansion. We believe that investors should be cautious with respect to CW's ability to translate revenue into above-normal profits given the company's ever-increasing position in this lower margin segment. With this in mind, we believe that CW's growth potential is priced into the current market price. With considerations to our 50/50 weighting of our DCF model and Comparable analysis, we place a **hold** on the stock given our implied share price of **$31.00** and downside of **2.7%**.

Jason Brennan | contact@westpeakresearch.com

Risks

Changes in Discretionary Spending and Disposable Income Levels

In the event of declining disposable income levels and discretionary spending, CW's clients may purchase less goods from the company as a result. With less demand for specialty goods, The Chefs' Warehouse would find itself competing against larger broadline foodservice distributors with greater resources and market share.

Failure to Achieve Acquisition Synergy

The Chefs' Warehouse achieves a significant portion of its growth by means of acquisitions. There is risk that in the future, strategic acquisitions may not succeed as expected. This may be caused by and is not limited to unforeseen costs, or poorer than expected revenues.

Food Price Volatility

CW is largely susceptible to changes in food prices, which impact the company's gross margins. Increasing food prices may affect the company's ability to stay competitive within the foodservice distribution industry. External shocks such as tariffs on imported goods, or unexpected weather patterns reducing crop sizes may impact CW's ability to procure specialty goods. This may impact CW's ability to meet client demands.

Center-of-the-plate volatility: With The Chefs' Warehouse emphasizing a larger focus on center-of-the-plate protein products, the company is more sensitive to fluctuations in meat, seafood, and poultry prices. Historically, these goods tend to see greater price fluctuations with comparison to other food categories. Management has not indicated any plans to employ financial instruments to hedge risk against food price fluctuations.

Competitor Consolidation

M&A activity between larger distributors could pose a threat to The Chefs' Warehouse. In 2015, foodservice distribution giant Sysco Corporation was set to acquire US Foods for $8.2 billion. The deal was unraveled following the Federal Trade Commission's argument that the merger would negatively impact the fair state of the industry, given that Sysco and US Foods would together control 75% of the American foodservice distribution market. Although this deal was halted, United Natural Foods' $2.9 billion acquisition of SUPERVALU Inc. in October of 2018 puts into question whether specialty distributors are at risk of being overrun by larger distributors with expanding market shares.

Jason Brennan | contact@westpeakresearch.com

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Jason Brennan
Analyst

WestPeak Research Association
contact@westpeakresearch.com

Appendix 1: Model Summary

	Dec-13	*Dec-14*	*Dec-15*	*Dec-16*	*Dec-17*	*Dec-18*	*Mar-19*	*Jun-19*	*Sep-19*	*Dec-19*	*Dec-19*	*Dec-20*	*Dec-21*	*Dec-22*	*Dec-23*
(Figures in mm USD)	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**Q1-2019**	**Q2-2019**	**Q3-2019**	**Q4-2019**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**
Income Statement															
Revenue	**673.5**	**832.7**	**1,046.9**	**1,192.9**	**1,301.5**	**1,444.6**	**345.5**	**401.7**	**391.9**	**427.3**	**1,566.5**	**1,678.6**	**1,784.7**	**1,889.9**	**1,974.1**
EBITDA	**43.9**	**41.3**	**55.8**	**65.8**	**61.7**	**71.0**	**18.7**	**21.7**	**21.2**	**23.1**	**84.6**	**100.7**	**114.2**	**132.3**	**138.2**
Net Income	**17.0**	**14.2**	**16.2**	**3.0**	**14.4**	**20.4**	**5.9**	**7.6**	**6.7**	**7.6**	**27.9**	**34.7**	**38.0**	**45.1**	**44.0**
Earnings Per Share	**$ 0.77**	**$ 0.57**	**$ 0.61**	**$ 0.12**	**$ 0.52**	**$ 0.69**	**$ 0.20**	**$ 0.25**	**$ 0.23**	**$ 0.26**	**$ 0.93**	**$ 1.16**	**$ 1.27**	**$ 1.51**	**$ 1.47**
Cash Flow Statement															
Capital Expenditures	**(11.7)**	**(24.2)**	**(21.7)**	**(16.6)**	**(12.3)**	**(19.8)**	**(4.6)**	**(5.1)**	**(5.7)**	**(6.2)**	**(21.6)**	**(22.7)**	**(29.0)**	**(34.7)**	**(39.9)**
Acquisitions	**(78.0)**	**0.5**	**(123.8)**	**(19.7)**	**(30.1)**	**(13.9)**	**(10.0)**	**(10.0)**	**(10.0)**	**(10.0)**	**(40.0)**	**(40.0)**	**(40.0)**	**(40.0)**	**(40.0)**
Divestitures	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividend Payment	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividend Per Share	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**	**$ -**
Dividend Payout to Earnings	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividend Payout to Core FCF	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Dividend Yield	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Balance Sheet															
Current Assets	180.1	189.0	228.5	264.5	296.8	328.7	316.0	317.2	317.8	319.7	319.7	331.7	349.5	376.5	404.0
Non-Current Assets	174.7	187.2	351.3	369.0	390.9	403.7	412.7	421.6	430.4	439.1	439.1	469.0	496.2	520.8	543.1
Assets	**354.8**	**376.2**	**579.8**	**633.5**	**687.7**	**732.4**	**728.7**	**738.9**	**748.2**	**758.8**	**758.8**	**800.7**	**845.7**	**897.3**	**947.1**
Current Liabilities	62.6	77.1	103.1	107.4	108.3	125.5	115.9	118.5	121.1	124.1	124.1	131.3	138.2	144.8	150.6
Non-Current Liabilities	160.1	152.3	288.7	332.4	330.9	298.2	298.2	298.2	298.2	298.2	298.2	298.2	298.2	298.2	298.2
Liabilities	**222.7**	**229.4**	**391.8**	**439.8**	**439.1**	**423.7**	**414.1**	**416.7**	**419.3**	**422.3**	**422.3**	**429.5**	**436.4**	**442.9**	**448.8**
Shareholders' Equity	**132.1**	**146.8**	**188.0**	**193.8**	**248.6**	**308.7**	**314.6**	**322.2**	**328.9**	**336.6**	**336.6**	**371.3**	**409.3**	**454.3**	**498.3**
Cash	**20.0**	**3.3**	**2.5**	**32.9**	**41.5**	**42.4**	**31.7**	**31.9**	**27.8**	**25.0**	**25.0**	**15.9**	**13.8**	**21.1**	**32.8**
Debt	**147.7**	**143.5**	**273.6**	**332.5**	**317.8**	**278.2**	**278.2**	**278.2**	**278.2**	**278.2**	**278.2**	**278.2**	**278.2**	**278.2**	**278.2**
Net Debt	**127.7**	**140.2**	**271.2**	**299.7**	**276.3**	**235.8**	**246.5**	**246.3**	**250.4**	**253.2**	**253.2**	**262.3**	**264.4**	**257.1**	**245.4**
Minority Interests	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Debt/EBITDA	**2.9 x**	**3.4 x**	**4.9 x**	**4.6 x**	**4.5 x**	**3.3 x**					**3.0 x**	**2.6 x**	**2.3 x**	**1.9 x**	**1.8 x**
Operating Metrics															
Return on Equity (ROE)	**12.9%**	**9.7%**	**8.6%**	**1.6%**	**5.8%**	**6.6%**					**8.3%**	**9.4%**	**9.3%**	**9.9%**	**8.8%**
Return on Assets (ROA)	**4.8%**	**3.8%**	**2.8%**	**0.5%**	**2.1%**	**2.8%**					**3.7%**	**4.3%**	**4.5%**	**5.0%**	**4.6%**
Return on Invested Capital (ROIC)	**7.9%**	**6.4%**	**5.0%**	**5.1%**	**6.0%**	**6.3%**					**7.0%**	**7.5%**	**7.6%**	**8.1%**	**7.7%**
Valuation Metrics															
Stock Price (High)	$ 29.32	$ 29.99	$ 24.09	$ 20.34	$ 21.23	$ 39.12	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85
Stock Price (Low)	$ 14.72	$ 14.80	$ 12.55	$ 10.49	$ 12.00	$ 18.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85
Stock Price (Average)	$ 22.02	$ 22.40	$ 18.32	$ 15.42	$ 16.62	$ 28.99	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85	$ 31.85
Diluted Shares Outstanding (Average)	22.0	24.8	26.5	26.0	27.4	29.7	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8	29.8
Market Capitalization (Average)	484.3	556.4	485.6	401.2	455.7	860.2	950.0	950.0	950.0	950.0	950.0	950.0	950.0	950.0	950.0
Enterprise Value (Average)	612.0	696.6	756.8	700.9	732.0	1,096.1	1,196.5	1,196.4	1,200.4	1,203.2	1,203.2	1,212.3	1,214.5	1,207.1	1,195.5
P/E	**28.5 x**	**39.1 x**	**30.0 x**	**132.7 x**	**31.7 x**	**42.2 x**	**160.9 x**	**124.9 x**	**141.1 x**	**124.4 x**	**34.1 x**	**27.3 x**	**25.0 x**	**21.1 x**	**21.6 x**
EV/EBITDA	**13.9 x**	**16.9 x**	**13.6 x**	**10.7 x**	**11.9 x**	**15.4 x**	**64.1 x**	**55.2 x**	**56.7 x**	**52.1 x**	**14.2 x**	**12.0 x**	**10.6 x**	**9.1 x**	**8.7 x**
FCF Yield to Market Capitalization	**0.8%**	**-1.5%**	**4.3%**	**9.8%**	**7.4%**	**3.5%**	**0.3%**	**1.5%**	**1.0%**	**1.1%**	**3.9%**	**4.8%**	**5.5%**	**6.5%**	**7.0%**
FCF Yield to Enterprise Value	**0.6%**	**-1.2%**	**2.7%**	**5.6%**	**4.6%**	**2.8%**	**0.2%**	**1.2%**	**0.8%**	**0.9%**	**3.1%**	**3.7%**	**4.3%**	**5.1%**	**5.5%**
Free Cash Flow															
EBIT	36.6	33.0	40.4	47.2	41.1	48.8	13.1	15.5	14.3	15.5	58.5	67.9	72.4	82.2	80.6
Tax Expense	(11.8)	(10.6)	(11.5)	(2.7)	(4.0)	(7.4)	(3.6)	(4.3)	(3.9)	(4.3)	(16.1)	(18.7)	(19.9)	(22.6)	(22.2)
D&A	7.3	8.2	15.4	18.5	20.5	22.2	5.5	6.2	6.9	7.5	26.1	32.8	41.9	50.1	57.6
Capital Expenditures	(11.7)	(24.2)	(21.7)	(16.6)	(12.3)	(19.8)	(4.6)	(5.1)	(5.7)	(6.2)	(21.6)	(22.7)	(29.0)	(34.7)	(39.9)
Changes in NWC	(16.6)	(14.6)	(1.9)	(7.0)	(11.6)	(13.5)	(7.6)	1.5	(2.0)	(1.8)	(9.8)	(13.9)	(12.9)	(13.1)	(10.0)
Unlevered Free Cash Flow	**3.8**	**(8.2)**	**20.8**	**39.5**	**33.7**	**30.2**	**2.9**	**13.8**	**9.6**	**10.8**	**37.1**	**45.4**	**52.4**	**61.8**	**66.2**

Appendix 2: Discounted Cash Flow Analysis

WACC Calculations

Cost of Equity	
Risk-free rate	2.5%
Expected market return	9.7%
Market Risk Premium	**7.2%**
Beta	1.03
Cost of Equity	**9.8%**

Cost of Debt	
Pre-tax cost of debt	3.5%
Effective tax rate	27.5%
Cost of Debt	**2.5%**

WACC	
Market value of equity	950.0
Market value of debt	278.2
Total Capitalization	1,228.3
Cost of equity	9.8%
Cost of debt	2.5%
WACC	**8.2%**

Free Cash Flow

	Dec-13	*Dec-14*	*Dec-15*	*Dec-16*	*Dec-17*	*Mar-18*	*Jun-18*	*Sep-18*	*Dec-18*	*Dec-18*	*Dec-19*	*Dec-20*	*Dec-21*	*Dec-22*	*Dec-23*
(Figures in mm USD)	**FY2013**	**FY2014**	**FY2015**	**FY2016**	**FY2017**	**Q1-2018**	**Q2-2018**	**Q3-2018**	**Q4-2018**	**FY2018**	**FY2019**	**FY2020**	**FY2021**	**FY2022**	**FY2023**
EBIT	36.6	33.0	40.4	47.2	41.1	5.7	14.9	10.3	17.8	48.8	58.5	67.9	72.4	82.2	80.6
Less: Tax expense	(11.8)	(10.6)	(11.5)	(2.7)	(4.0)	(0.2)	(2.7)	(1.4)	(3.1)	(7.4)	(16.1)	(18.7)	(19.9)	(22.6)	(22.2)
Add: Depreciation and amortization	7.3	8.2	15.4	18.5	20.5	5.2	5.3	5.7	6.0	22.2	26.1	32.8	41.9	50.1	57.6
Less: Capital expenditures	(11.7)	(24.2)	(21.7)	(16.6)	(12.3)	(2.9)	(2.6)	(3.9)	(10.4)	(19.8)	(21.6)	(22.7)	(29.0)	(34.7)	(39.9)
Less: Change in net working capital	(16.6)	(14.6)	(1.9)	(7.0)	(11.6)	2.1	(6.6)	(0.2)	(8.8)	(13.5)	(9.8)	(13.9)	(12.9)	(13.1)	(10.0)
Unlevered Free Cash Flow	**3.8**	**(8.2)**	**20.8**	**39.5**	**33.7**	**10.0**	**8.2**	**10.4**	**1.6**	**30.2**	**37.1**	**45.4**	**52.4**	**61.8**	**66.2**
Discount factor											1.00	2.00	3.00	4.00	5.00
Present Value of Unlevered Free Cash Flow						**-**	**-**	**-**	**-**	**-**	**35.2**	**38.8**	**41.4**	**45.1**	**44.6**

Discounted Cash Flow Valuations

Perpetuity Growth Method	
Perpetuity Growth Rate	2.0%
PV sum of unlevered FCF	205.1
Terminal value	735.9
Enterprise Value	**941.0**
Add: Cash	42.4
Less: Debt	278.2
Less: Other EV adjustments	-
Equity Value	**705.2**
Shares outstanding	29.8
Implied Share Price	**$ 23.64**

Current Price	$ 31.85
Implied Price	**$ 23.64**
Total Return	**-25.8%**

Exit Multiple Method	
Terminal EV/EBITDA Multiple	13.5x
PV sum of unlevered FCF	205.1
Terminal value	######
Enterprise Value	**######**
Add: Cash	42.4
Less: Debt	278.2
Less: Other EV adjustments	-
Equity Value	**######**
Shares outstanding	29.8
Implied Share Price	**$ 41.17**

Current Price	$ 31.85
Implied Price	**$ 41.17**
Total Return	**29.2%**

		WACC				
		9.00%	**8.50%**	**8.00%**	**7.50%**	**7.00%**
Perpetuity Growth Rate	**1.00%**	$ 17.02	$ 18.78	$ 20.79	$ 23.12	$ 25.83
	1.50%	$ 18.33	$ 20.30	$ 22.58	$ 25.25	$ 28.40
	2.00%	$ 19.82	$ 22.06	$ 24.67	$ 27.76	$ 31.48
	2.50%	$ 21.55	$ 24.11	$ 27.14	$ 30.78	$ 35.24
	3.00%	$ 23.57	$ 26.54	$ 30.11	$ 34.48	$ 39.94

		WACC				
		9.00%	**8.50%**	**8.00%**	**7.50%**	**7.00%**
Terminal EV/EBITDA Multiple	**12.0x**	$ 34.95	$ 35.88	$ 36.84	$ 37.83	$ 38.84
	13.0x	$ 37.96	$ 38.96	$ 40.00	$ 41.06	$ 42.15
	14.0x	$ 40.97	$ 42.04	$ 43.15	$ 44.28	$ 45.45
	15.0x	$ 43.98	$ 45.12	$ 46.30	$ 47.51	$ 48.75
	16.0x	$ 46.99	$ 48.21	$ 49.45	$ 50.74	$ 52.06

Appendix 3: Comparable Company Analysis

(Figures in mm USD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple: 2017A EV/EBITDA	2018E EV/EBITDA	2019E EV/EBITDA	P/E Multiple: 2017A P/E	2018E P/E	2019E P/E
Sysco Corporation	NYSE: SYY	35,540.3	42,924.0	14.2 x	13.2 x	12.2 x	30.3 x	22.4 x	19.9 x
Performance Food Group Company	NYSE: PFGC	4,063.1	5,352.9	15.6 x	12.5 x	11.6 x	39.2 x	22.7 x	23.4 x
US Food Holdings Corp.	NYSE: USFD	7,609.8	11,248.3	11.8 x	10.2 x	9.5 x	31.3 x	17.2 x	15.8 x
Calavo Growers, Inc.	NYSE: CVGW	1,506.2	1,522.0	21.7 x	19.3 x	15.1 x	40.4 x	31.1 x	23.9 x
The Chefs' Warehouse	**NASDAQ: CHEF**	**950.0**	**1,185.8**	**19.9 x**	**15.3 x**	**13.3 x**	**77.7 x**	**23.4 x**	**21.7 x**
Median					**12.8 x**	**11.9 x**		**22.5 x**	**21.6 x**
Mean					**13.8 x**	**12.1 x**		**23.3 x**	**20.8 x**
High					**19.3 x**	**15.1 x**		**31.1 x**	**23.9 x**
Low					**10.2 x**	**9.5 x**		**17.2 x**	**15.8 x**

	EV/EBITDA Implied Price		P/E Implied Price	
Median	$ 25.49	$ 27.50	$ 30.63	$ 31.82
Mean	**$ 28.03**	**$ 28.11**	**$ 31.73**	**$ 30.52**
High	$ 42.46	$ 37.20	$ 42.32	$ 35.14
Low	$ 18.70	$ 20.26	$ 23.35	$ 23.29

Jason Brennan | contact@westpeakresearch.com