the chefs WAREHOUSE

VALUE x VAIL

June 24 – 26, 2015

Laughing Water Capital

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Investment Basics

- ✓ Easy To Understand
- ✓ Under-appreciated Moat
- ✓ Competitive Advantages
- ✓ Strong Normalized FCF Generation
- ✓ Fragmented Industry
- ✓ Opportunity for Reinvestment
- ✓ Long Runway for Growth
- ✓ Incentivized Management
- ✓ Misunderstood Risks
- ✓ Temporary Problems

Stock Basics

Stock Symbol	CHEF
Stock Price	$19.02*
Shares Out (mm)	25,780
Market Cap (mm)	$490.3
Cash (mm)	$1.9
Debt (mm)	$270.1
Convert(mm)	$36.7
Enterprise Value (mm)	$795.2
PF T12M EV/EBITDA	14.2x
52 Week Range	$14.80-24.09

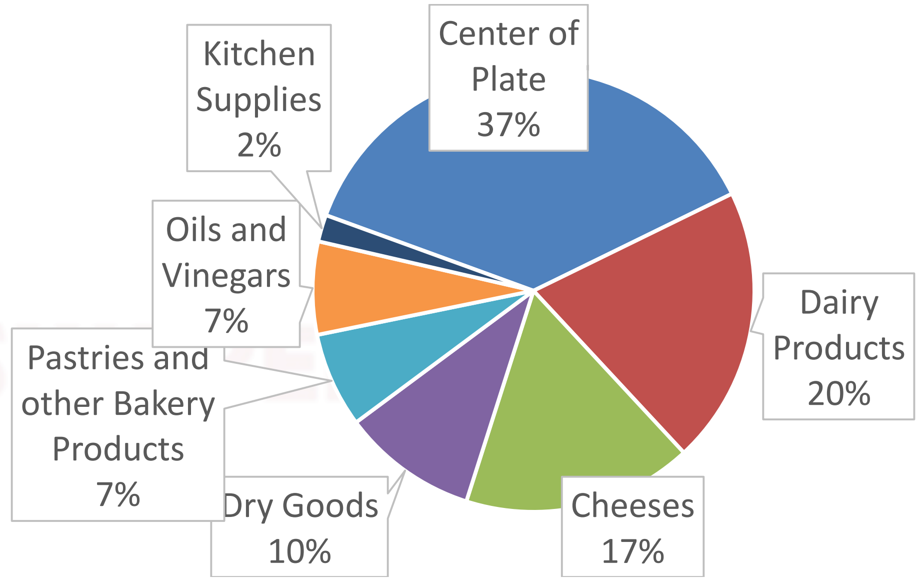
*As of 6/15/2014

Company Description

- Founded in 1985 as an importer of European cheeses to NYC by 25 year old Christopher Pappas, who mortgaged his Father's house to start the business in the garage
- Focused on the highest end of the restaurant market – "chef driven"
- IPO'd in 2011 with $400M in revenue
- Expecting $1B+ revenue in 2015 (~28% CAGR)
- Recent growth has been largely tied to acquisitions, but organic growth has been high single digits per year
- Nations largest specialty food distributor, and more recently, shifting focus to center of plate items

Key Takeaway: CHEF has rapidly grown in a small niche of the food distribution industry.

Product Mix

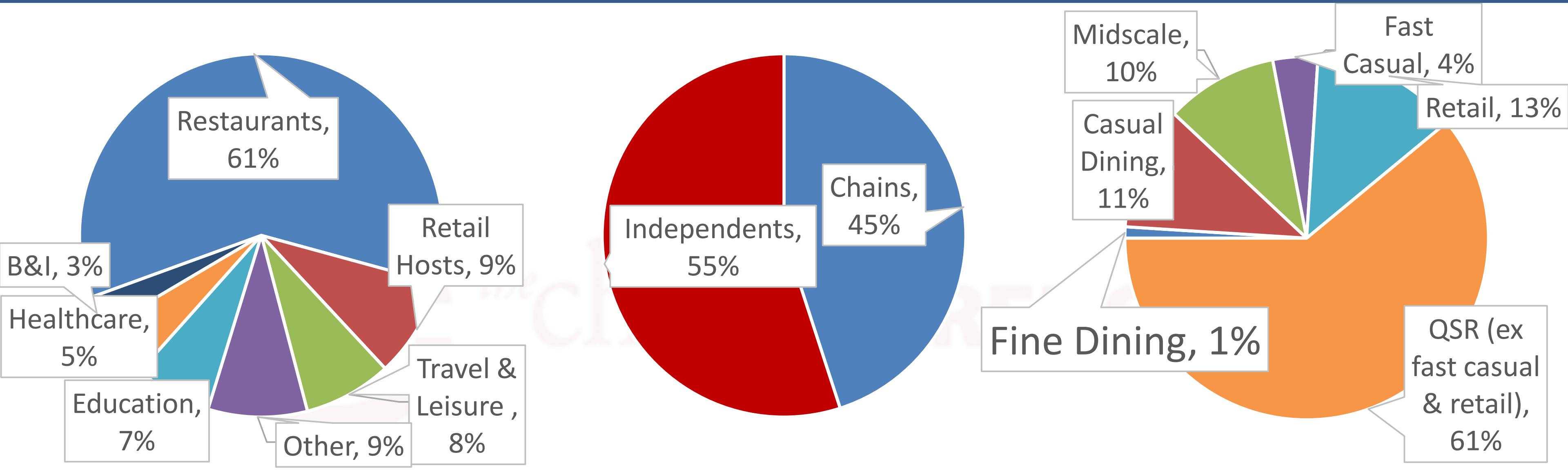


Markets Served / Year Entered

New York	1985	Columbus	2012
Washington, D.C.	1999	Cincinnati	2013
Los Angeles	2005	Chicago	2013
San Francisco	2005	Vancouver	2013
Las Vegas	2005	Edmonton	2013
Miami	2010	Toronto	2013
Portland	2011	Seattle	2013

Industry Basics

Total Industry Structure	Restaurant Industry Structure	Restaurant Segments

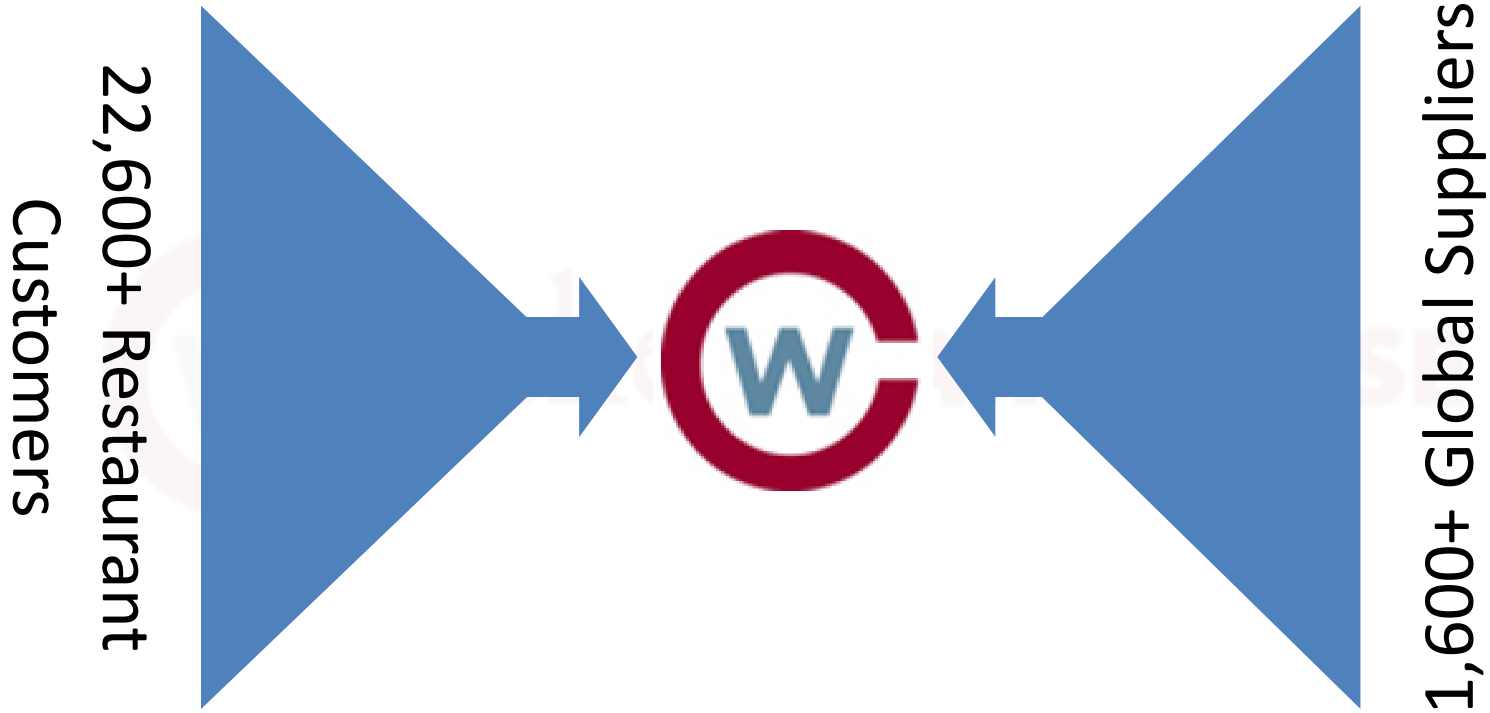


- ~ $212 billion US food distribution market
- ~ 16,500 food distributors, vast majority of them are “mom and pop” operations
- Top 3 competitors control 37% of the market
- Spending at “fine dining” establishments represents ~1% of total food spending away from home

Key Takeaway: CHEF is a scale player focused on a small niche of a very large and very fragmented food distribution industry

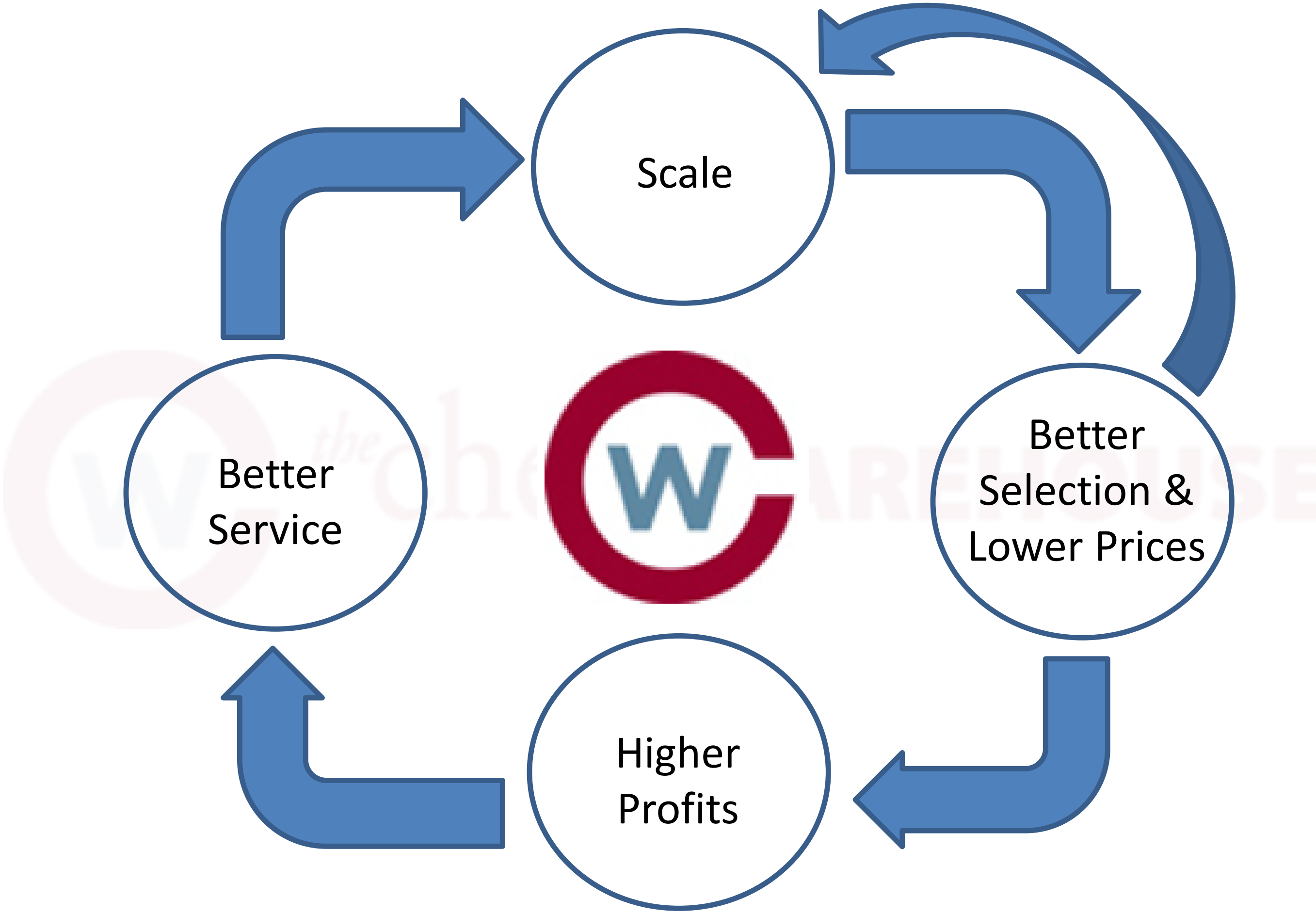
*Source – company presentation, NPD group

Distribution: Under-appreciated Moat



Key Takeaway: While barriers to entry are non-existent, scale represents a meaningful moat for distributors. Suppliers want access to many end-users, and end-users want access to many suppliers. The result is a 2 sided network, where both sides want to use a middleman due to fragmentation on the other side.

Distribution: Under-appreciated Moat



Key Takeaway: Scale leads to purchasing price advantages and operational leverage, which lead to the ability to offer competitive prices, which starts a virtuous cycle as the benefits of scale attract more constituents to the 2 sided network.

Distribution: Low Normalized Cap-Ex

	2009	2010	2011	2012	2013	2014	E2015	ENormal
Revenue	$271,072	$330,118	$400,632	$480,292	$673,545	$836,625	$1,050,000	
% growth		*21.8%*	*21.4%*	*19.9%*	*40.2%*	*24.2%*	*25.5%*	
CapEx	1,061	1,133	2,081	3,186	11,704	24,206	17,000	5-8,000
% of Revenue	*0.4%*	*0.3%*	*0.5%*	*0.7%*	*1.7%*	*2.9%*	*1.6%*	*.3 - .7%*

Reflects recent tech upgrades and facility expansions attached to growth initiatives

Key Takeaway: Absent one time items and growth spending, cap-ex is virtually non-existent. How much does it cost to maintain a warehouse? Cash can be re-invested for growth of inventory and geographic expansion.

LWC and company estimates

Competitive Advantage: Scale

But wait! How can you claim scale advantage vs SYY?!?

VS.

"It is almost impossible for [Sysco] to really penetrate our customer base. They are just not set up for it. So a typical salesperson from Sysco -- you go to work for Sysco, US, you get a territory. You might get three or four blocks in a major city. So you have to sell prisons and hospitals and delis, and you're not going to make the money that you are going to make on your big institutional accounts, servicing a restaurant that is buying $1,000 to $2,000 a week. So they are not going to get priority on the truck."
~ CEO John Papas, 2012 JeffCo Conference

The Sweet Spot: Local & Artisanal

Value x Vail

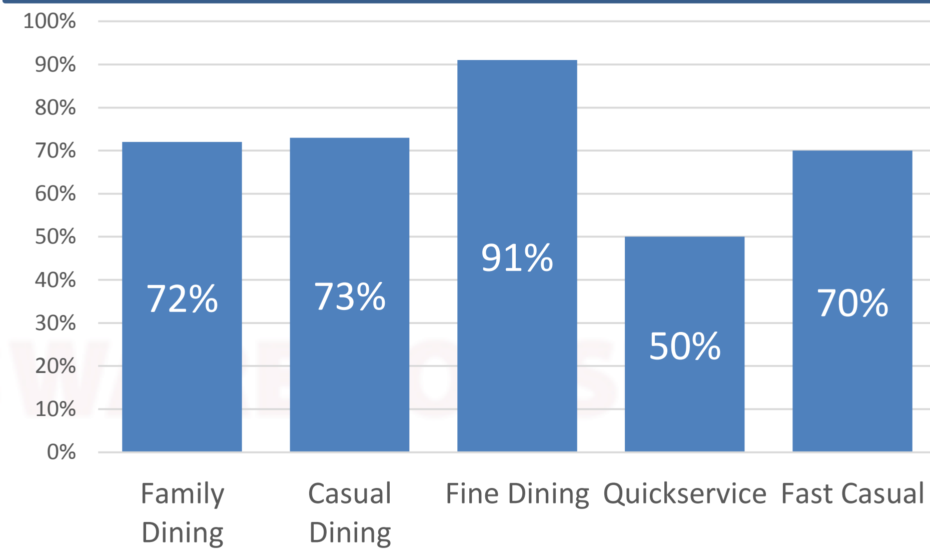
There is a clear trend among consumers toward locally sourced & artisan ingredients, which by definition come from small suppliers.

SYY is simply not designed for farm to table – rather, they buy from industrial operations.

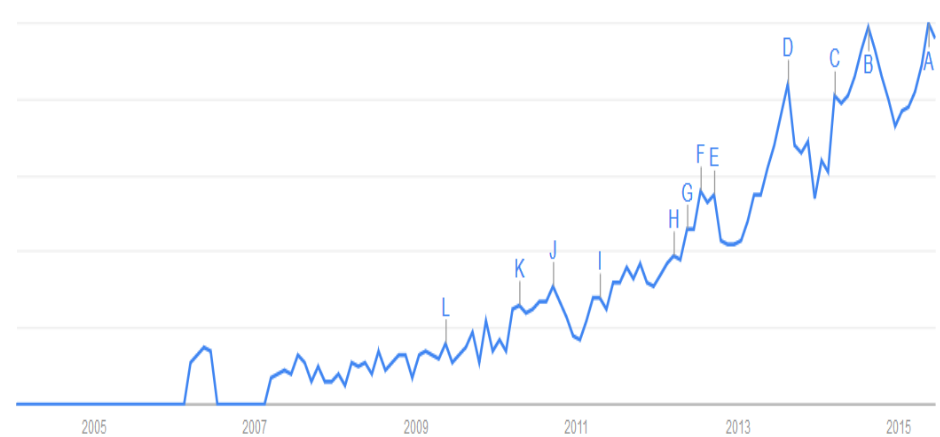
CHEF is in the sweet spot where they are small enough to buy from artisan producers, but bigger than the local competition.

Key Takeaway: CHEF operates in a niche where there are limits to the benefits of scale

% of Diners More Interested in Local Ingredients Than They Were 2 Years Ago*



Google Trends: "Farm to Table"



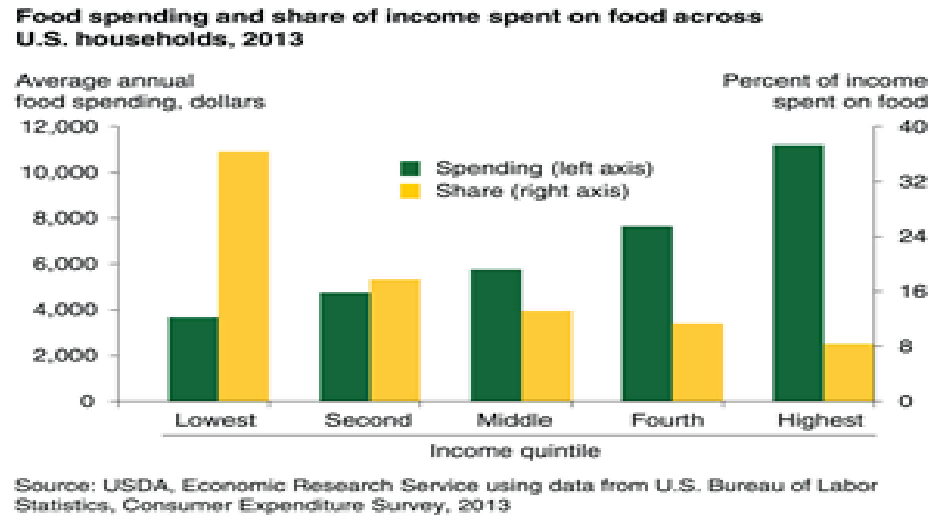
*Source: National Restaurant Association

The Sweet Spot: Fine Dining

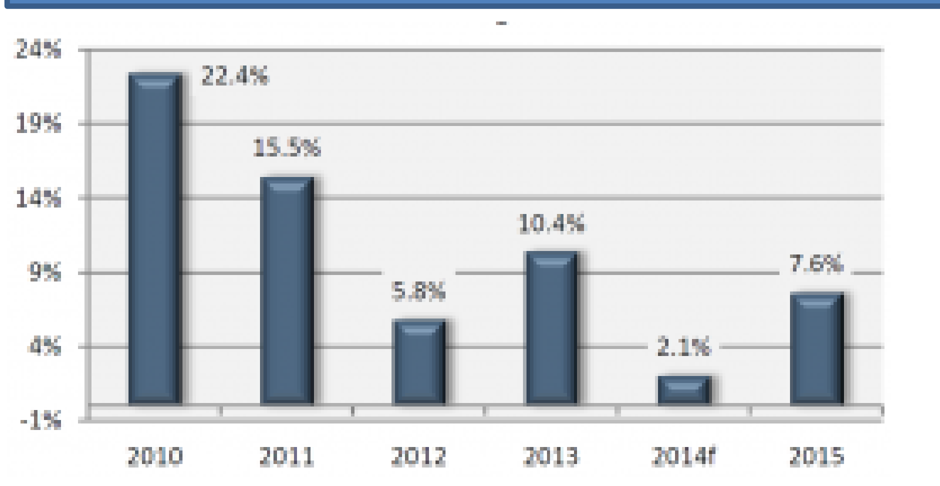
Midscale and casual-dining traffic have been stagnant since the great recession. However, fine dining rose 5% in 2012 and 2013 and 3% in 2014

- Households with income of $100,000+ account for 36% of spending on food away from home
- Restaurant spending by corporate clients rose 5.5% YoY through Q1'15
- Fine dining is highly correlated with travel. Hotel occupancy up 3.6% in 2014, business travel expected to continue to grow

Food Spending & Share of Income Spent on Food - 2013



Total Business Travel Spending % Change



*Source: Foodservice Equipment & Supplies Magazine, National Restaurant Association, Dinova, GBTA Foundation, STR Global

Competitive Advantage: Service

Operational Excellence

- CHEF operates in major cities, where square footage is at a premium, and storage space is often minimal – just in time delivery is a differentiator
- CHEF takes orders for next day delivery until midnight, vs. most competitors who cut off in mid-afternoon
- CHEF's scale allows them to invest in the technology for just in time delivery while maintaining a 97% fill rate

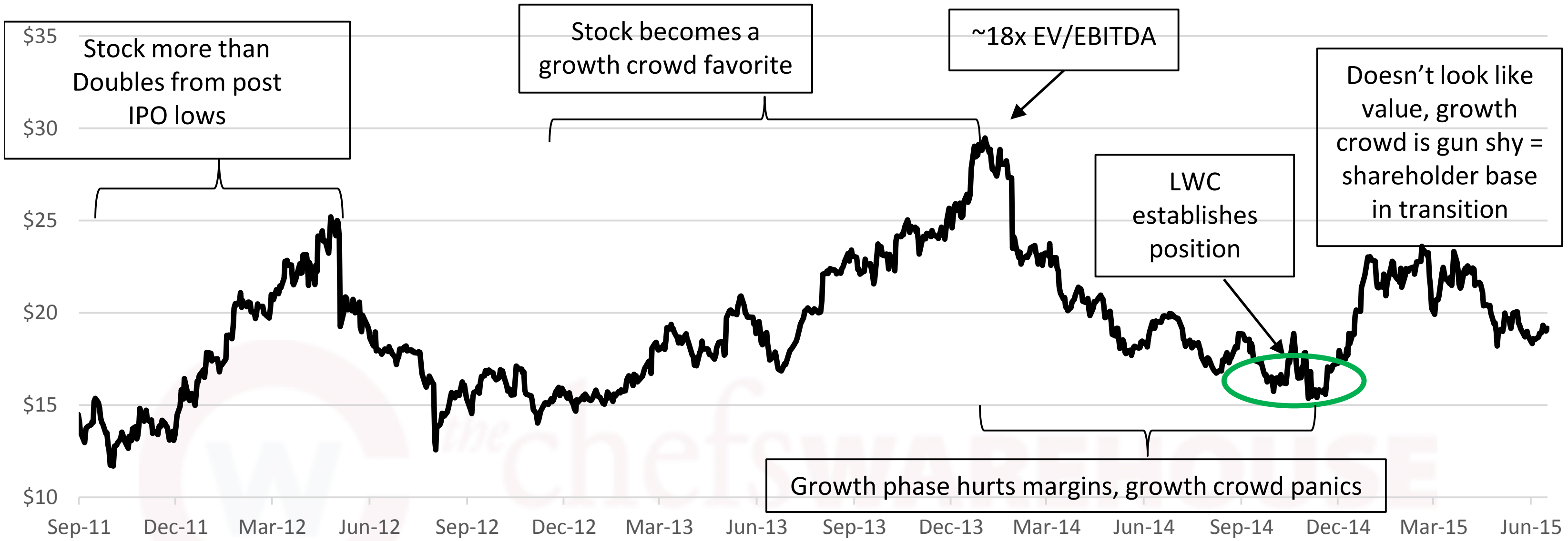
The Human Element

- High % of CHEF's sales team are culinary school graduates and restaurant veterans who have moved to distribution for a better of quality of life (not working nights and weekends)
- Their experience gives them credibility in helping a customer design their menu
- CHEF likely attracts the best of the best in food distribution

"The typical foodservice salesperson probably makes $50,000 - $70,000. Ours is way into the six figures, mainly because they are able to get a higher margin and they are able to sell more expensive food products."

~CEO John Pappas, 2013 Canaccord Genuity Growth Conference

Why is it Cheap?



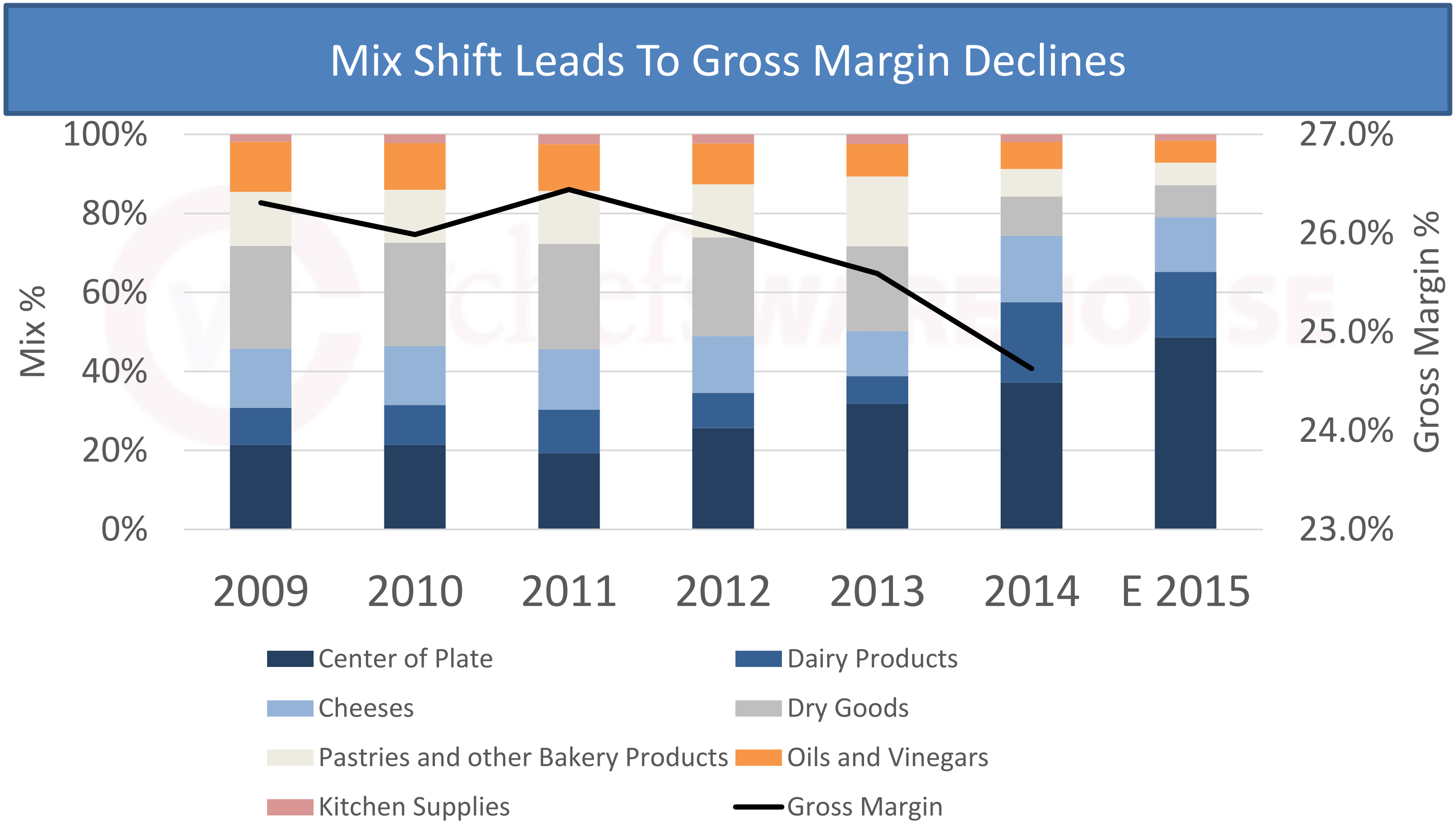
- CHEF was a growth crowd darling as the market priced in a seamless future
- Quite predictably, there have been a few bumps in the road
- Equally as predictable, the starry eyed growth crowd headed for the exits *en-masse,* leading to a ~50% sell off in 2014. Tax loss selling an important factor
- Screens poorly – recent acquisition affects EV, but not EBITDA = 19.4x T12M multiple
- Shares remain extremely volatile as there is no natural share-holder base at the moment. It doesn't look like value, and the growth crowd is once bitten twice shy

Growth	2009-2014	2011-2014
Revenue CAGR	25.3%	27.8%
EBITDA CAGR	25.3%	11.8%

What happened?!?

Temporary Problem: Gross Margin

Bears: "Gross margin pressure is indicative of no barriers to entry, and no competitive advantage"

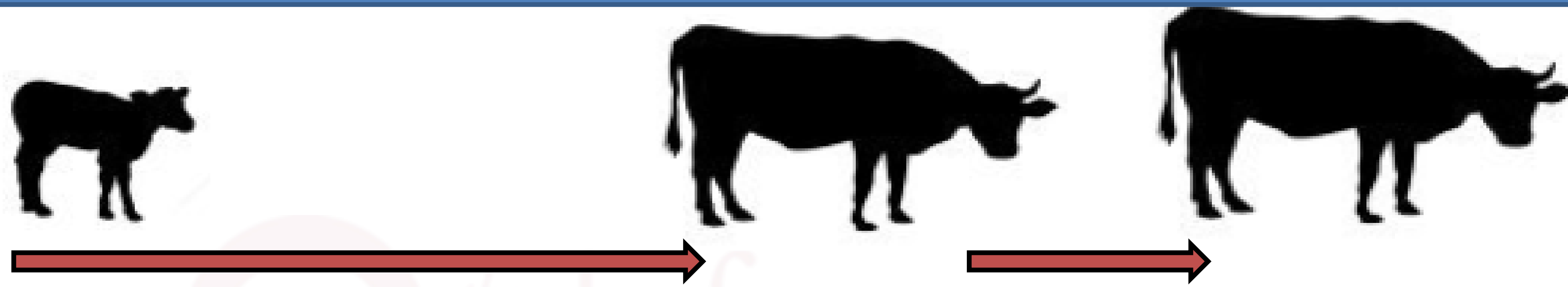


Reality: Gross margin pressure has coincided with a mix shift toward beef and dairy products.

*LWC estimates

Temporary Problem: Gross Margin

2011-2013, A Perfect Storm for Beef Inflation

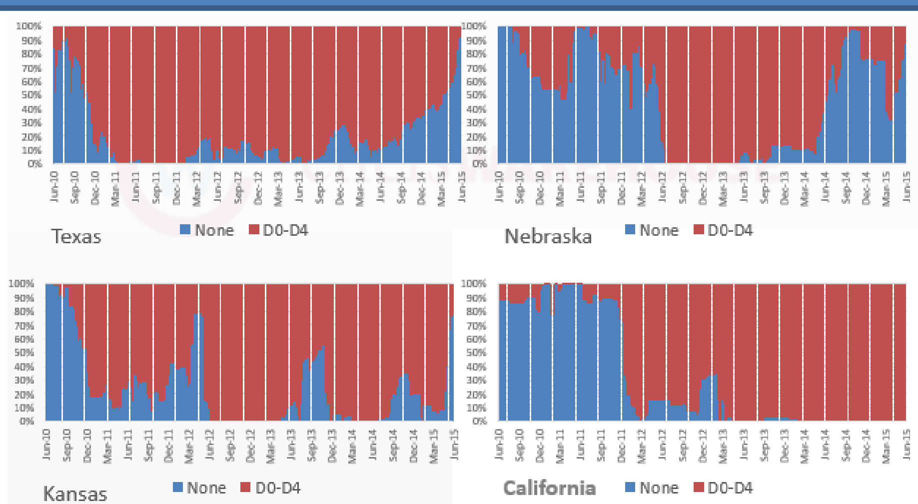


Stocker Phase: 12-16 Month
Typically pasture fed

Feed lot: 4-6 Months
Diet heavy on corn and grains

Slaughter Weight

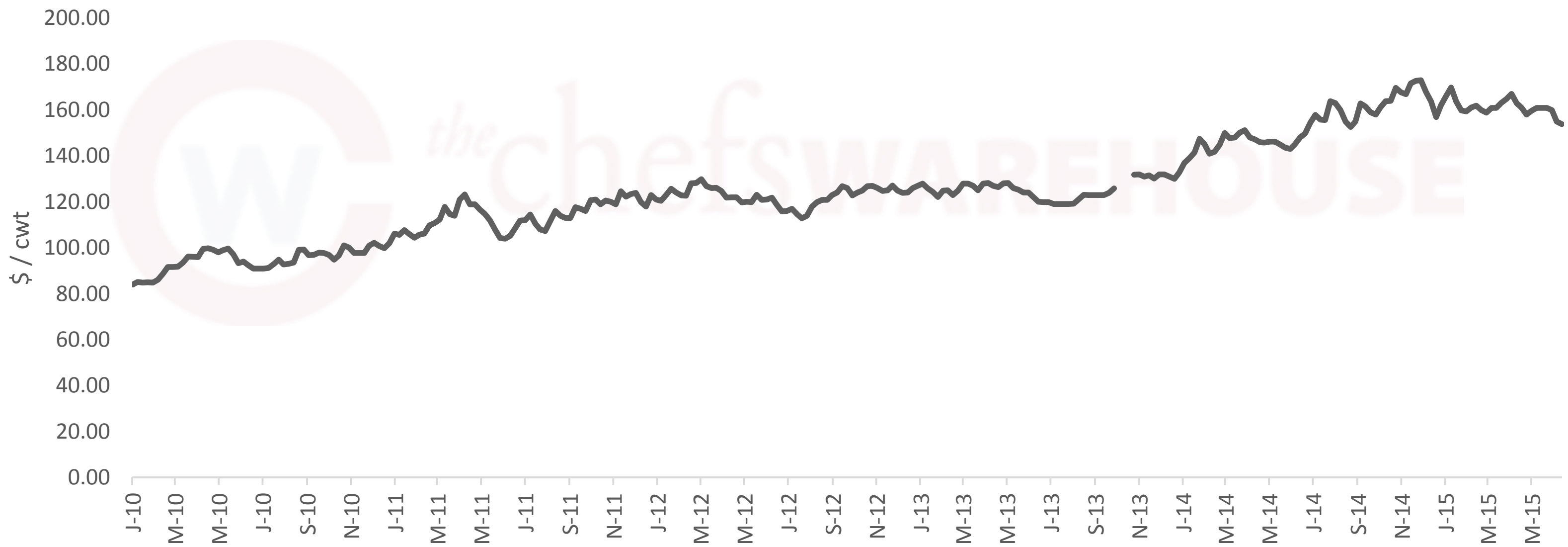
Drought Monitor



Corn Price

Temporary Problem: Gross Margin

Record Beef Prices

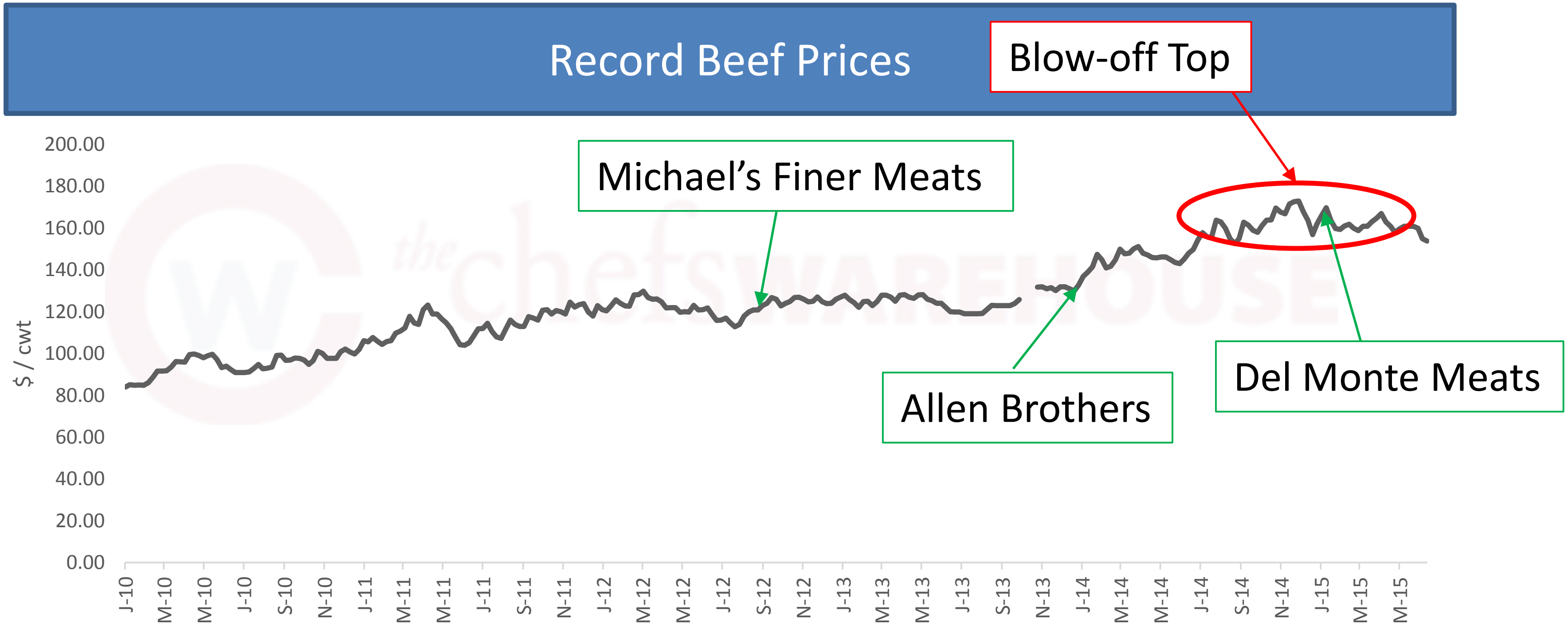


- Prices Double over last 5 years
- Up 26% 2013-2014

Temporary Problem: Gross Margin

"The time to buy is when there is blood in the streets."

~ Baron Rothschild



While bears focus on the margin decline, the owner-operator CEO focuses on expanding his business into attractive niches at exactly the right time: when protein industry margins are at their worst. History has shown that high margin specialty sales increase 2-3x in geographies where CHEF has a center of plate offering.

Temporary Problem: Gross Margin

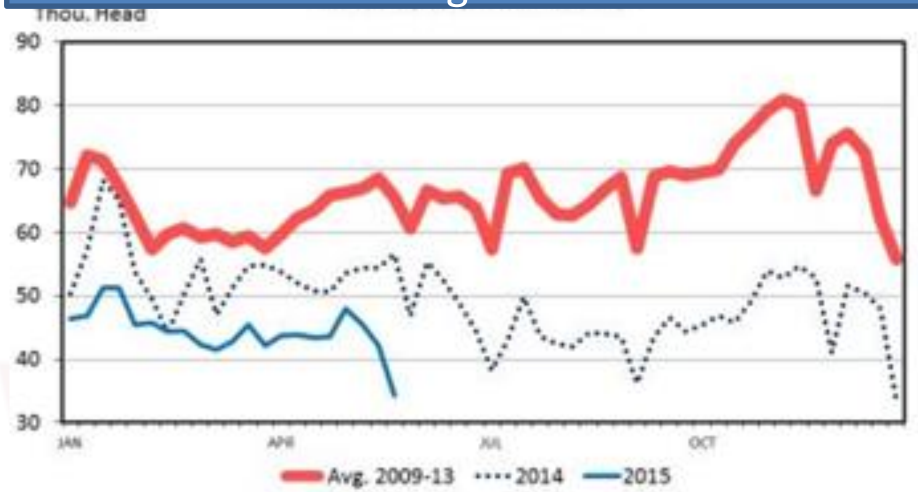
Understanding Long Cycle Commodities

Over longer periods of time food distribution is an inflation pass through business. However, over shorter periods of time, distributors have to share the pain of rapid price increases

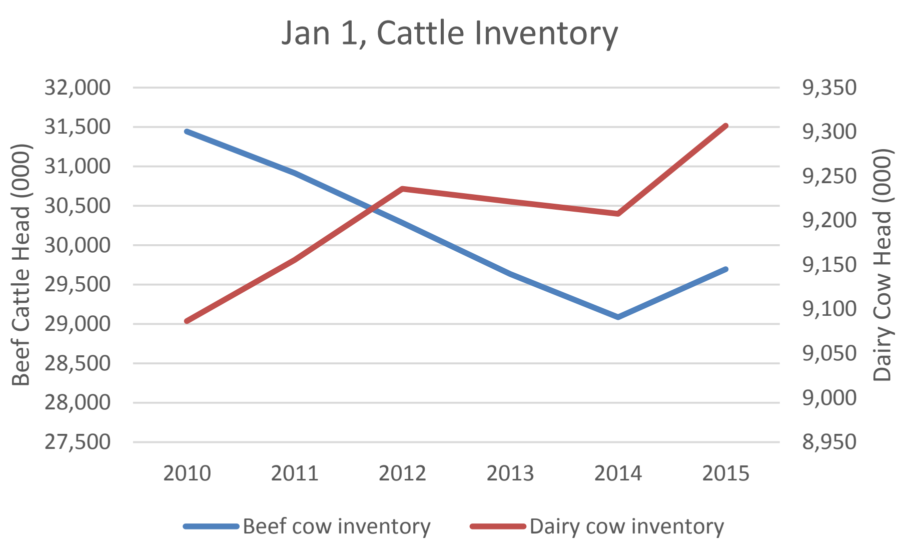
The recent run-up in beef prices is the result of a supply shortage. Unlike hard commodities where capital is the gating factor to "flipping the switch" when supply is constrained, beef supply is constrained by bovine biology

- 2014 to 2015 recovered 18% of the number of cows that left the herd between 2006 and 2014
- Slaughter rates are down 17% YoY
- Hay stocks are trending 28% higher YoY
- Corn prices continue to decline

Record Drought & Record Corn Lead to Record Slaughter Numbers



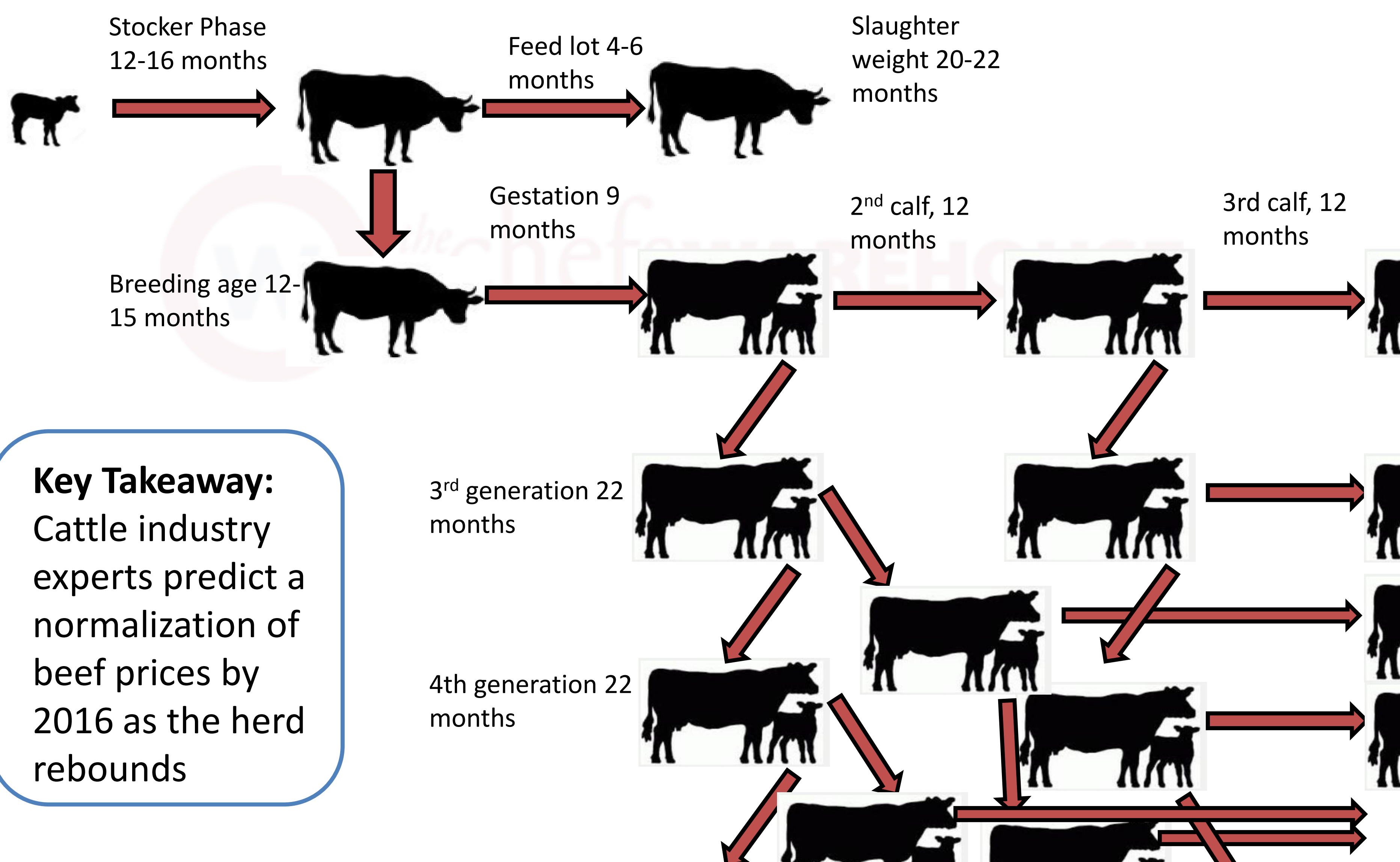
Early Recovery of Cattle Herd is Evident



Source: Livetock Marketing Information Center

Temporary Problem: Gross Margin

Exponential Rebound of the Cattle Herd Has Just Begun



Key Takeaway: Cattle industry experts predict a normalization of beef prices by 2016 as the herd rebounds

Temporary Problem: Gross Margin

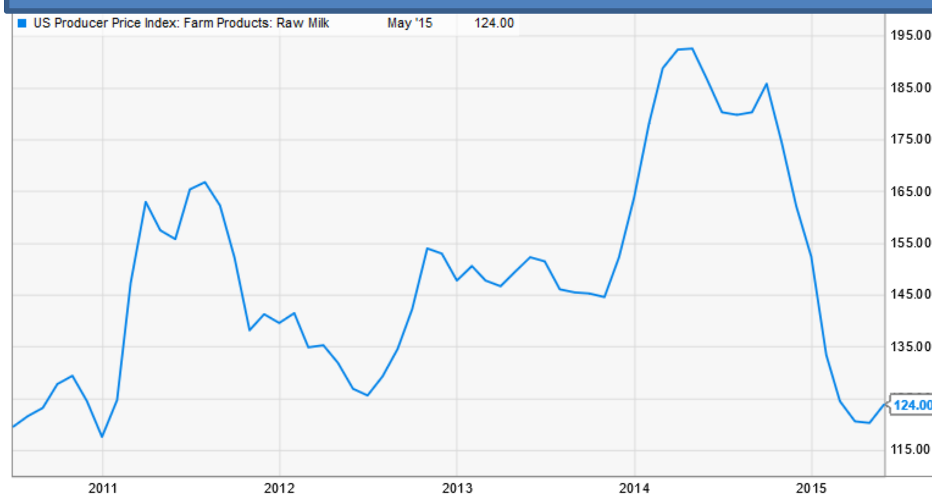
Global Relief for Raw Milk Prices

A butterfly flaps its wings

- 2009 – Chinese milk scandal
- Chinese import demand for milk powder sky rockets
- New Zealand and Australia meet Chinese demand
- 2013 – drought in New Zealand and Australia, China turns to European and American producers, just as US herd is being decimated
- Global raw milk prices sky rocket = inflation for cheese and dairy
- Market has already corrected
- Relaxation of EU milk quotas will add further comfort

New Zealand Milk Production

US PPI: Raw Milk

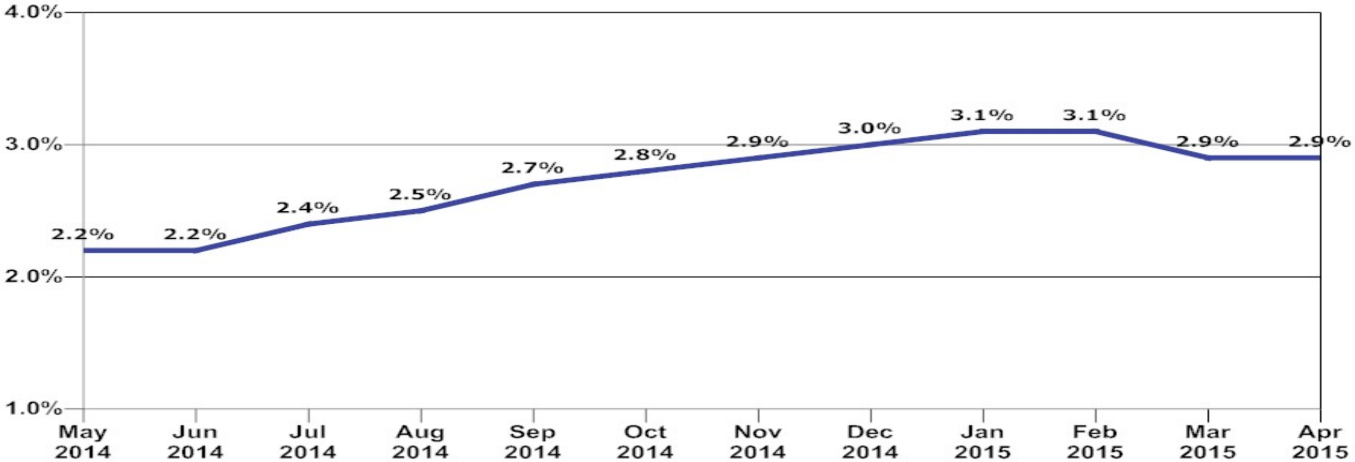


Temporary Problem: Gross Margin

Sales Trends Strong, Inflation Easing

Eating & Drinking Place Sales $B

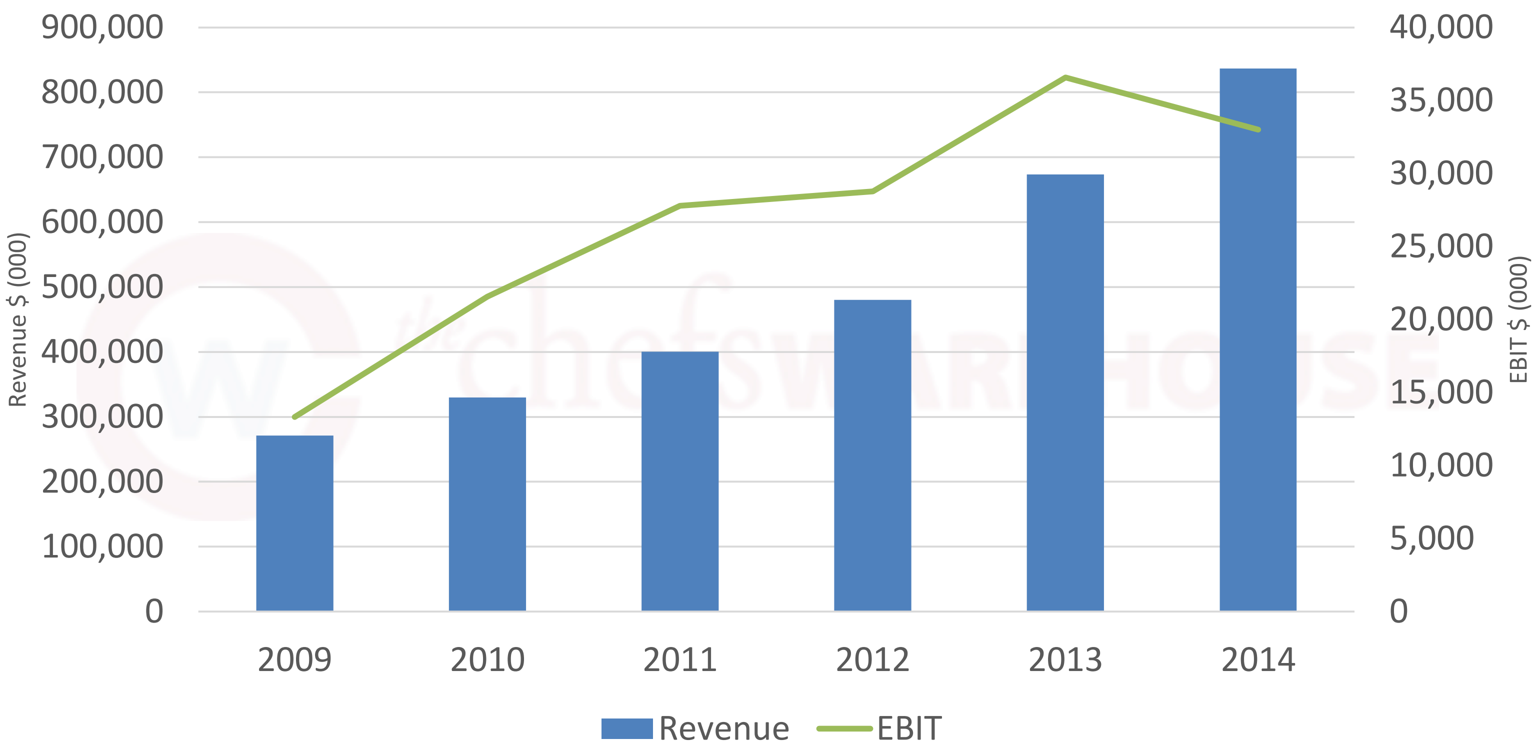
Restaurant Menu Prices % Change YoY



Source: BLS, Census Bureau

Temporary Problem: EBIT Margins

Rapid Growth Leads to Operating Margin Pressure



	2009	2010	2011	2012	2013	2014
EBITDA Margin	4.9%	6.5%	7.4%	6.8%	6.5%	4.9%

Recent rapid growth into new geographies, often through acquisition, has resulted in a less than optimal operating structure due to duplicate facilities and under-utilized facilities. The company is in the process of streamlining operations, and organic growth will lead to operational leverage

Temporary Problem: EBIT Margins

Las Vegas

- August 2014, the Company announced plans to double their square footage in Las Vegas to 80,000 feet
- The new space will include a "test kitchen" where chef-customers can come to experiment with various ingredients
- We view this as a competitive advantage in a customer-centric business – mom & pops can not compete with this
- Facility recently completed and expected to be on-line by 2H'15
- Hotel occupancy up, gambling revenue down, indicating more $ toward food and other

Test Kitchen

Note: stock photo

Temporary Problem: EBIT Margins

Chicago

- May 2013 – Qzina foods purchase gives a small pastry presence in Chicago
- December 2013 – Allen Brothers purchase gives protein presence – thus far has been a drag
- May 2014 – Company leases 108k square feet facility with an eye toward the future (~$3M drag on 2014 EBITDA)
- Presently consolidating facilities
- Just now layering specialty SKUs onto existing pastry and protein network
- Management sees potential to be 3rd largest geography

Specialty Greenfield

Temporary Problem: EBIT Margins

New York

- In 2012 the company signed a lease on a new facility that will allow them to double sales in the Boston – Atlantic City corridor
- A series of bureaucratic hurdles delayed full use of the new facility until 1H 2015, leading to duplicate rent charges for 2 years
- The real benefit of the new facility is more loading docks, which has been a bottle-neck for growth
- NJ Qzina facility being consolidated
- 37% of 2014 sales – possible to double?

Expanded Loading Capacity

Note: stock photo

Temporary Problem: EBIT Margins

San Francisco

- Began consolidating from 2 facilities that together comprised 49,000 sq. feet to 1 117,000 sq. ft in 2013
- Further consolidation likely (4 Del Monte facilities)
- Del Monte acquisition brings sales force from ~20 to ~50 reps
- Historically center of plate businesses lead to a 2-3x increase in specialty sales
- Del Monte has been rapidly growing and maintains higher than system margins
- This expertise can be applied to struggling Allen Brothers business

Major Acquisition

	2012	2013	2014
Sales	$148,339	$179,341	$218,561
growth		*20.9%*	*21.9%*
EBITDA	10,529	17,849	23,238
growth		*69.5%*	*30.2%*
margin	*7.1%*	*10.0%*	*10.6%*

Future Growth

Long Term Plan

"With the existing footprint and looking at the top 15 metro markets, we think we can double the business [in five to 7 years]"

~ CFO John Austin, 2015 BMO Farm to Market Conference

"Every NFL city except switch Green Bay for LA"

M&A Growth

- Aging Mom & Pops = many willing sellers
- Seek to pay 4-8x EBITDA for bolt-ons – more for platforms
- Historically have received incoming calls from potential bolt-ons when a new geography is entered via platform acquisition

Organic Growth

- Layer more SKUs on platform acquisitions to increase penetration
- Establish beach-heads in new geographies by running trucks overnight from existing facilities – build out local facility when demand warrants it
- Establish relationships with up and coming chefs

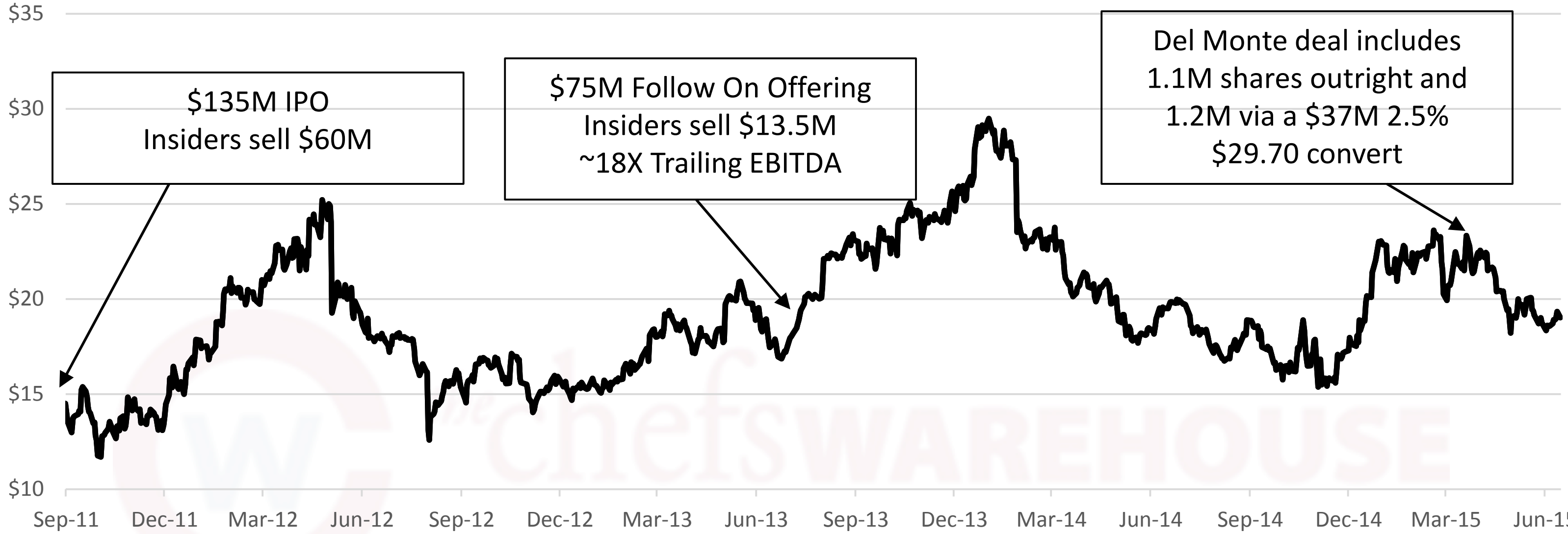
Bear Complaints

Target Co.	Date	Price (MM)	Revenue (MM)	P/S	EV/EBITDA	EBITDA Margin	Implied EV/EBITDA @ 7% Margin
Queensgate	Jan-13	$21,900	$40,000	0.5x	N/A	N/A	7.8x
Qzina Specialty Foods	May-13	$32,700	$63,000	0.5x	N/A	N/A	7.4x
Allen Bros	Dec-13	$29,900	$83,000	0.4x	N/A	N/A	5.1x
Praml International	May-14	$19,500	N/A	N/A	N/A	N/A	N/A
Michaels	Aug-14	$54,300	$80,000	0.7x	N/A	N/A	9.7x
Euro Gourmet	Oct-14	N/A	$5,000	N/A	N/A	N/A	N/A
Del Monte	Apr-15	$191,200*	$218,561	0.9x	8.2x	10.6%	12.5x
Average				0.6x			7.4x

Criticism	Counter
Over-paid for Del Monte	Recently released financials justify price. Factor in revenue synergies from specialty items and national leadership for protein business
Management took transaction bonuses after Del Monte deal	Deal was done w/o I-bankers, so net-net was likely cheaper
At ~4x EBITDA they are over-levered following Del Monte	Currently at the top end of their range, but they will rapidly de-lever through growth – near term liquidity through revolver

*Does not include potential earn-out

Bear Complaints



Criticism	Counter
• Pappas Brothers have sold stock in equity offerings	• Company was started by a couple kids in a garage. It's ok to take something off the table 30 years later. Insiders still own ~25%.
• CHEF has issued equity to fuel M&A	• It makes sense to sell stock at mid-high teens multiples to buy companies at mid-high single digits

Valuation

Buffett: it is easier to know that something will be worth a lot more in ten years than to know what it is worth today.

Commodity fluctuation and the unpredictable nature of growth make it difficult to put a current "value" on CHEF.

Competitive advantages, industry characteristics, and operational "coiled springs" make it easy to say that intrinsic value will continue to grow.

Distribution is a cap-ex light business, allowing FCF to be re-invested for the future, and is thus deserving of a high multiple.

We assume some bolt-ons through 2017, but do not factor in continued aggressive growth.

12x E2017 may prove to be conservative as the balance sheet will be substantially de-levered and able to support large scale M&A going into 2018. CHEF has frequently traded above 14x in the past as growth hungry investors price in a bright future. At 14x CHEF would trade at $36.00

Comp Universe

Subsector	5Y Rev Growth	EBITDA Margin	T12M EV/EBITDA
Food Distribution	9.6%	4.2%	12.4x
Other Distribution	9.4%	8.1%	12.8x
High End Restaurant	6.0%	9.8%	14.2x
Average	8.4%	7.4%	13.1x

CHEF

	5Y Rev Growth	EBITDA Margin	T12M EV/EBITDA
Chef's Warehouse	25.5%	4.9%	19.4x

Back of Envelope 2017 Estimates (000)

E2017 EBITDA	$93,000
E2017 EV @ 12x	$1,116,000
E2017 Net Debt	-$256,000
E2017 Equity Value	$860,000
E2017 Diluted Shares	29,000
E2017 Value Per Share	$29.65
Upside	~56%
IRR	~19%

Key Takeaways

- ✓Unique niche in a competitive industry
- ✓Competitive advantage through scale and service
- ✓Gross margins have been pinched by temporary factors
- ✓Operating margins have been pinched by rapid growth
- ✓Normalized margins significantly higher than recent margins
- ✓Long runway for growth
- ✓Intrinsic value is likely to grow at a mid-high teens rate for years to come

VALUE x VAIL

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