Chefs' Warehouse, Inc.
Form 10-Q
November 02, 2016

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 23, 2016

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _________ to _________

Commission file number: 001-35249

THE CHEFS' WAREHOUSE, INC.

(Exact name of registrant as specified in its charter)

Delaware	**20-3031526**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**
100 East Ridge Road Ridgefield, Connecticut	**06877**
(Address of principal executive offices)	**(Zip Code)**

Registrant's telephone number, including area code: (203) 894-1345

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer

Non-accelerated filer   (Do not check if a smaller reporting company)   Smaller reporting company
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes   No

Number of shares of common stock, par value $.01 per share, outstanding at October 28, 2016: 26,254,318

THE CHEFS' WAREHOUSE, INC.

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CAUTION CONCERNING FORWARD-LOOKING STATEMENTS

Statements in this report regarding the business of The Chefs' Warehouse, Inc. (the "Company") that are not historical facts are "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act, Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, that involve risks and uncertainties and are based on current expectations and management estimates; actual results may differ materially. Words such as "anticipates", "expects", "intends", "plans", "believes", "seeks", "estimates" and variations of words and similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance and are subject to risks, uncertainties and other factors, some of which are beyond our control, are difficult to predict and/or could cause actual results to differ materially from those expressed or forecasted in the forward-looking statements. The risks and uncertainties which could impact these statements include, but are not limited to, the Company's ability to successfully deploy its operational initiatives to achieve synergies from the acquisition of Del Monte Capitol Meat Co. and certain related entities; the Company's and its customers current economic environment, changes in disposable income levels and consumer discretionary spending on food-away-from-home purchases; the Company's sensitivity to general economic conditions, including vulnerability to economic and other developments in the geographic markets in which it operates; the risks of supply chain interruptions due to lack of long-term contracts, severe weather or more prolonged climate change, work stoppages or otherwise; the risk of loss of customers due to the fact the Company does not customarily have long-term contracts with its customers; the risks of loss of revenue or reductions in operating margins in the Company's protein business as a result of competitive pressures within this reporting unit of the Company's business; changes in the availability or cost of the Company's specialty food products; the ability to effectively price the Company's specialty food products and reduce the Company's expenses; the relatively low margins of the foodservice distribution industry and the Company's sensitivity to inflationary and deflationary pressures; the Company's ability to successfully identify, obtain financing for and complete acquisitions of other foodservice distributors and to integrate and realize expected synergies from those acquisitions; the Company's ability to service customers from its Chicago, San Francisco and Las Vegas distribution centers and the expenses associated therewith; increased fuel cost volatility and expectations regarding the use of fuel surcharges; fluctuations in the wholesale prices of beef, poultry and seafood, including increases in these prices as a result of increases in the cost of feeding and caring for livestock; the loss of key members of the Company's management team and the Company's ability to replace such personnel; the strain on the Company's infrastructure and resources caused by its growth; and other risks and uncertainties included under the heading Risk Factors in our Annual Report on Form 10-K filed on March 4, 2016 and our Form 10-Q filed on August 3, 2016 with the Securities and Exchange Commission (the "SEC").

PART I FINANCIAL INFORMATION

ITEM 1. CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
THE CHEFS' WAREHOUSE, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Amounts in thousands, except share data)

	September 23, 2016 (unaudited)	December 25, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 26,191	$ 2,454
Accounts receivable, net of allowance of $6,091 in 2016 and $5,803 in 2015	121,493	124,139
Inventories, net	88,979	92,758
Deferred taxes, net	5,502	5,256
Prepaid expenses and other current assets	23,090	9,164
Total current assets	265,255	233,771
Equipment and leasehold improvements, net	59,275	54,283
Software costs, net	6,337	4,511
Goodwill	163,806	155,816
Intangible assets, net	133,904	132,211
Other assets	3,703	3,089
Total assets	$ 632,280	$ 583,681
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 59,163	$ 64,888
Accrued liabilities	22,064	24,258
Accrued compensation	7,968	7,732
Current portion of long-term debt	13,615	6,030
Total current liabilities	102,810	102,908
Long-term debt, net of current portion	319,005	266,207
Deferred taxes, net	9.974	9,316
Other liabilities and deferred credits	16,254	17,286
Total liabilities	448,043	395,717
Commitments and contingencies	—	—
Stockholders' equity:		
Preferred Stock, $0.01 par value, 5,000,000 shares authorized, no shares issued and outstanding September 23, 2016 and December 25, 2015	—	—
Common Stock, $0.01 par value, 100,000,000 shares authorized, 26,254,411 and 26,290,675 shares issued and outstanding September 23, 2016 and December 25, 2015, respectively	263	263
Additional paid in capital	126,528	125,170
Cumulative foreign currency translation adjustment	(1,915)	(2,949)
Retained earnings	59,361	65,480

Stockholders' equity	184,237	187,964
Total liabilities and stockholders' equity	$ 632,280	$ 583,681

See accompanying notes to condensed consolidated financial statements.

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THE CHEFS' WAREHOUSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME

(Unaudited)

(Amounts in thousands, except share and per share amounts)

	Thirteen Week Period Ended	
	September 23, 2016	September 25, 2015
Net sales	$297,917	$276,306
Cost of sales	223,525	206,134
Gross profit	74,392	70,172
Operating expenses	66,106	57,319
Operating income	8,286	12,853
Interest expense	5,947	3,902
Loss on asset disposal	40	8
Income before income taxes	2,299	8,943
Provision for income tax expense	956	3,719
Net income	$1,343	$5,224
Other comprehensive loss:		
Foreign currency translation adjustments	(72)	(914)
Comprehensive income	$1,271	$4,310
Net income per share:		
Basic	$0.05	$0.20
Diluted	$0.05	$0.20
Weighted average common shares outstanding:		
Basic	25,936,832	25,864,638
Diluted	25,977,171	27,154,770

See accompanying notes to condensed consolidated financial statements.

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THE CHEFS' WAREHOUSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE (LOSS) INCOME

(Unaudited)

(Amounts in thousands, except share and per share amounts)

	Thirty-Nine Week Period Ended	
	September 23, 2016	September 25, 2015
Net sales	$849,962	$753,789
Cost of sales	637,809	562,146
Gross profit	212,153	191,643
Operating expenses	187,318	166,316
Operating income	24,835	25,327
Interest expense	35,271	9,312
Loss (gain) on asset disposal	43	(340)
(Loss) income before income taxes	(10,479)	16,355
Provision for income tax (benefit) expense	(4,360)	6,801
Net (loss) income	$(6,119)	$9,554
Other comprehensive (loss) income:		
Foreign currency translation adjustments	1,034	(1,282)
Comprehensive (loss) income	$(5,085)	$8,272
Net (loss) income per share:		
Basic	$(0.24)	$0.38
Diluted	$(0.24)	$0.37
Weighted average common shares outstanding:		
Basic	25,911,278	25,419,349
Diluted	25,911,278	26,275,597

See accompanying notes to condensed consolidated financial statements.

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THE CHEFS' WAREHOUSE, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

(Amounts in thousands)

	Thirty-Nine Week Period Ended	
	September 23, 2016	September 25, 2015
Cash flows from operating activities:		
Net income (loss)	$(6,119)	$9,554
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation	4,966	4,219
Amortization	8,704	6,754
Provision for allowance for doubtful accounts	2,674	2,018
Deferred rent	1,340	475
Deferred taxes	1,169	(1,760)
Amortization of deferred financing fees	1,209	908
Loss on debt extinguishment	22,310	—
Stock compensation	1,909	2,869
Change in fair value of contingent earn-out liability	(1,601)	307
Loss (gain) on sale of assets	43	(340)
Changes in assets and liabilities, net of acquisitions:		
Accounts receivable	4,627	(3,294)
Inventories	5,638	(6,182)
Prepaid expenses and other current assets	(15,612)	563
Accounts payable, accrued liabilities and accrued compensation	(8,424)	1,124
Other liabilities	(1,186)	(85)
Other assets	(439)	(385)
Net cash provided by operating activities	21,208	16,745
Cash flows from investing activities:		
Capital expenditures	(11,532)	(19,247)
Proceeds from asset disposals	—	16,187
Cash paid for acquisitions, net of cash received	(19,742)	(123,831)
Net cash used in investing activities	(31,274)	(126,891)
Cash flows from financing activities:		
Payment of debt	(156,655)	(7,351)
Proceeds from issuance of debt	315,810	25,000
Debt prepayment penalty and other fees	(21,219)	—
Cash paid for deferred financing fees	(7,691)	(628)
Surrender of shares to pay withholding taxes	(552)	(1,060)
Cash paid for contingent earn-out liability	(2,660)	(1,420)
Borrowings under revolving credit facility	33,200	192,300
Payments under revolving credit facility	(126,582)	(98,300)

Net cash provided by financing activities	33,651	108,541
Effect of foreign currency on cash and cash equivalents	152	(238)
Net increase (decrease) in cash and cash equivalents	23,737	(1,843)
Cash and cash equivalents-beginning of period	2,454	3,328
Cash and cash equivalents-end of period	$26,191	$1,485

See accompanying notes to condensed consolidated financial statements.

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THE CHEFS' WAREHOUSE, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(unaudited)
(Amounts in thousands, except share amounts and per share data)

Note 1 Operations and Basis of Presentation
Description of Business and Basis of Presentation

The financial statements include the consolidated accounts of The Chefs' Warehouse, Inc. (the "Company"), and its wholly-owned subsidiaries. The Company's quarterly periods end on the thirteenth Friday of each quarter. Every six to seven years the Company will add a fourteenth week to its fourth quarter to more closely align its year end to the calendar year. Fiscal 2016 will include a fourteenth week in the fourth quarter. The Company operates in one reportable segment, food product distribution, which is concentrated on the East and West Coasts of the United States. The Company's customer base consists primarily of menu-driven independent restaurants, fine dining establishments, country clubs, hotels, caterers, culinary schools, bakeries, patisseries, chocolatiers, cruise lines, casinos and specialty food stores.

Consolidation

The consolidated financial statements include all the accounts of the Company and its direct and indirect wholly-owned subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Unaudited Interim Financial Statements

The accompanying unaudited condensed consolidated financial statements and the related interim information contained within the notes to such unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP") and the applicable rules of the Securities and Exchange Commission ("SEC") for interim information and quarterly reports on Form 10-Q. Accordingly, they do not include all the information and disclosures required by GAAP for complete financial statements. These unaudited condensed consolidated financial statements and related notes should be read in conjunction with the Company's audited consolidated financial statements and notes thereto for the fiscal year ended December 25, 2015 filed as part of the Company's Annual Report on Form 10-K, as filed with the SEC on March 4, 2016.

The unaudited condensed consolidated financial statements appearing in this Form 10-Q have been prepared on the same basis as the audited consolidated financial statements included in the Company's Annual Report on Form 10-K, as filed with the SEC on March 4, 2016, and in the opinion of management include all normal recurring adjustments that are necessary for the fair statement of the Company's interim period results. The year-end condensed consolidated balance sheet data was derived from the audited financial statements but does not include all disclosures required by GAAP. Due to seasonal fluctuations and other factors, the results of operations for the thirteen and thirty-nine weeks ended September 23, 2016 are not necessarily indicative of the results to be expected for the full year.

The preparation of financial statements in conformity with GAAP requires management to make significant estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from management's estimates.

Reclassification

Changes have been made to the prior period presentation in the condensed consolidated statements of operations and comprehensive income to conform to the current period presentation. Amounts previously included in operating expenses are now included in net sales and cost of sales and amounts previously included in sales have been netted against cost of sales. The impact of these reclassifications is included below:

Thirteen weeks ended September 25, 2015	**Net Sales**	**Cost of Sales**	**Gross Profit**	**Operating Expenses**
Previously reported	$277,516	$207,056	$70,460	$57,607
Income statement reclassifications	(1,210)	(922)	(288)	(288)
Current presentation	**$276,306**	**$206,134**	**$70,172**	**$57,319**

Thirty-nine weeks ended September 25, 2015	**Net Sales**	**Cost of Sales**	**Gross Profit**	**Operating Expenses**
Previously reported	$759,274	$566,666	$192,608	$167,281
Income statement reclassifications	(5,485)	(4,520)	(965)	(965)
Current presentation	**$753,789**	**$562,146**	**$191,643**	**$166,316**

New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to clarify the principles for recognizing revenue. This guidance includes the required steps to achieve the core principle that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. On August 12, 2015, the FASB voted to defer the effective date by one year to December 15, 2017 for interim and annual reporting periods beginning after that date. Early adoption of ASU 2014-09 is permitted but not before the original effective date (annual periods beginning after December 15, 2016). The Company expects to adopt this guidance when effective and is still evaluating the impact this standard will have on its financial statements.

In July 2015, the FASB issued guidance to simplify the subsequent measurement of inventory. This new guidance provides that inventory should be measured at lower of cost or net realizable value. This guidance is effective for fiscal years beginning after December 15, 2016 and interim periods within fiscal years beginning after December 15, 2017 and is required to be applied on a prospective basis. Early adoption is permitted at the beginning of an interim or annual reporting period. The Company expects to adopt this guidance when effective and adoption is not expected to have a material effect on the financial statements.

In November 2015, the FASB issued guidance to simplify the presentation of deferred income tax assets and liabilities. Current GAAP requires an entity to separate deferred income tax assets and liabilities into current and non-current classifications. This guidance requires that all deferred tax liabilities be classified as non-current. This guidance is effective for fiscal years beginning after December 15, 2016 and may be applied on a prospective or retrospective basis. Early adoption is permitted as of the beginning of an interim or annual reporting period. The Company expects to adopt this guidance when effective and adoption is not expected to have a material effect on the financial statements.

In February 2016, the FASB issued guidance to increase the transparency and comparability among organizations by recognizing lease assets and lease liabilities on the balance sheet and disclosing key information about leasing arrangements. Current GAAP does not require lessees to recognize assets and liabilities arising from operating leases on the balance sheet. This new guidance is effective for fiscal years beginning after December 15, 2018. Early adoption is permitted. The Company expects to adopt this guidance when effective and is evaluating the impact this standard will have on its financial statements.

In March 2016, the FASB issued guidance to simplify the accounting for stock compensation. This guidance requires that all excess tax benefits and deficiencies be recognized as income tax expense in the period in which they occur and that they be reflected as an operating activity in the statement of cash flows. Current GAAP requires excess tax benefits to be recognized as additional paid in capital and as a financing activity in the statement of cash flows. In addition, the guidance gives companies the option of estimating the number of awards that will ultimately vest or accounting for forfeitures as they occur. This guidance is effective for fiscal years beginning after December 15, 2016. Early adoption is permitted. The Company expects to adopt this guidance when effective and is evaluating the impact this standard will have on its financial statements.

In August 2016, the FASB issued guidance to clarify how companies present and classify certain cash receipts and cash payments in the statement of cash flows, including contingent consideration payments made after a business acquisition and debt extinguishment costs. Specifically, cash payments to settle a contingent consideration liability which are not made soon after the acquisition date should be classified as cash used in financing activities up to the initial amount of contingent consideration recognized with the remaining amount classified as cash flows from operating activities. The guidance will be effective for the Company's annual and interim reporting periods beginning January 1, 2018, and early adoption is permitted. The Company expects to adopt this guidance when effective and adoption is not expected to have a material effect on the financial statements.

Guidance Adopted in 2016

Simplifying the Presentation of Debt Issuance Costs. In April 2015, the FASB issued guidance on the presentation of debt issuance costs. This guidance requires that debt issuance costs related to a recognized debt liability be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability. We adopted this guidance retrospectively during the first quarter of 2016. As a result of adopting this guidance, total assets and total liabilities as of December 25, 2015 decreased as follows.

	Other Assets	Total assets	Current portion of long-term debt	Total current liabilities	Long-term debt	Total liabilities	Total liabilities and stockholders' equity
Previously reported	$5,626	$586,218	$ 6,266	$103,144	$268,508	$398,254	$ 586,218
Simplifying the Presentation of Debt Issuance Costs	(2,537)	(2,537)	(236)	(236)	(2,301)	(2,537)	(2,537)
Current presentation	$3,089	$583,681	$ 6,030	$1			