Desautels Capital Management

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# El Pollo Loco Holdings
# NasdaqGS:LOCO

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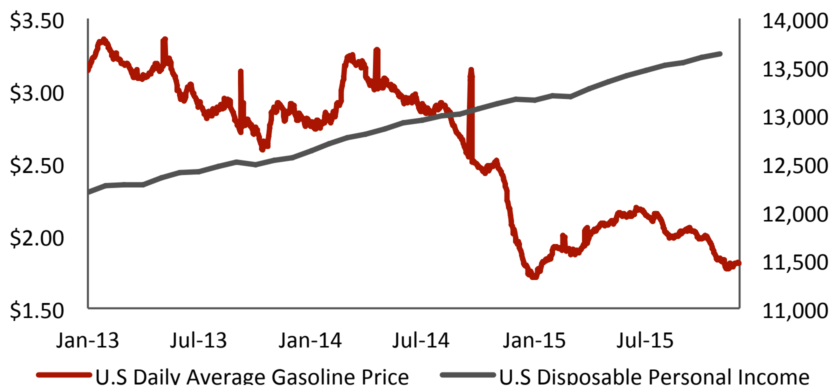
# 2016 Consumer Discretionary Outlook

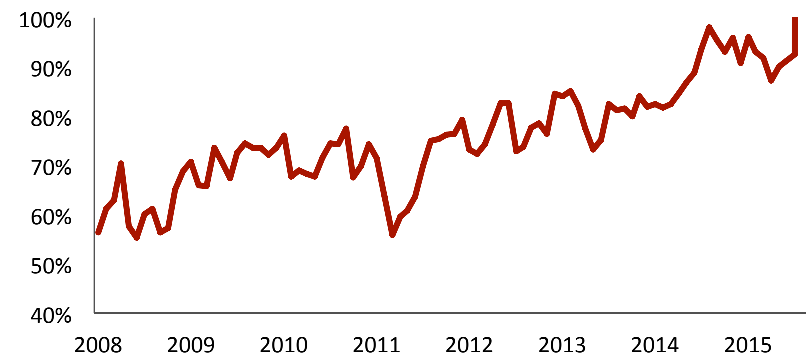
Section I

# Consumer Discretionary Outlook
General Themes

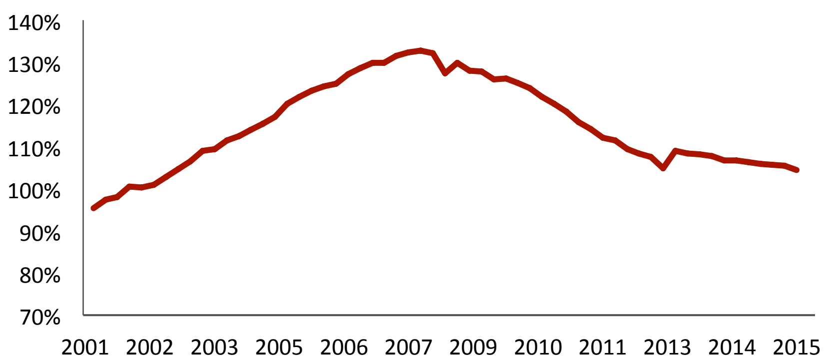
## Gas Prices vs. Disposable Income




## Consumer Sentiment Index




## Household Debt-to-Disposable Income



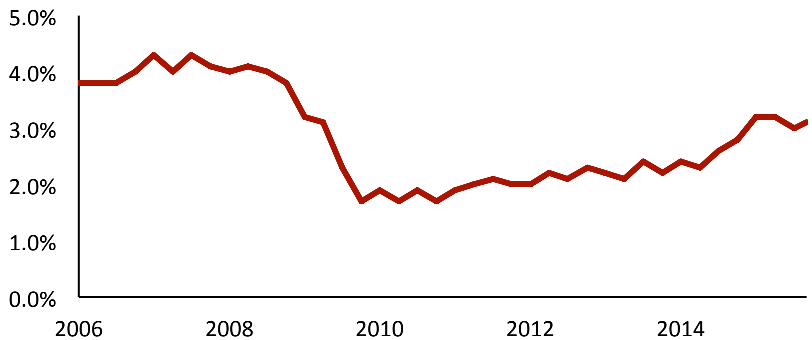

## DCM Outlook

- We expect to see a continued increase in consumer spending, driven by depressed gasoline prices, a robust job recovery, increasing wages and by low borrowing costs
- Falling energy prices have generated savings of approximately $700/year per household (U.S. Energy Information Administration)
- According to a J.P. Morgan report, roughly 80% of the savings from lower gas prices are spent and not saved. The effect of declining gas prices is amplified by the steadily increasing disposable income. As a result, consumer sentiment continues to increase and it is at its post-recession peak

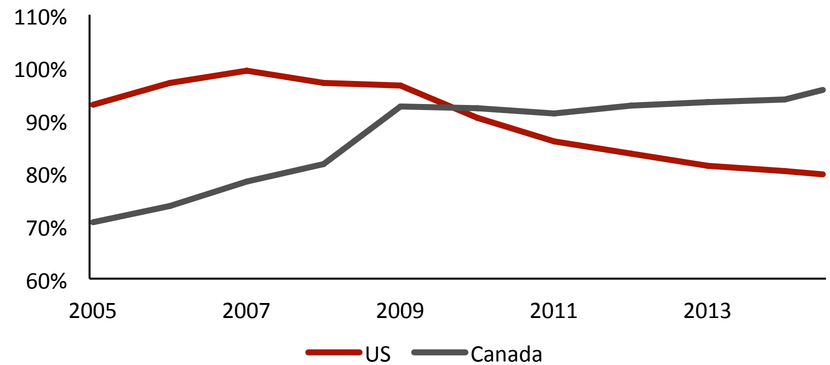
*Source: Bloomberg as of 12/31/2015;*

# Consumer Discretionary Outlook
A Neighborhood Rivalry

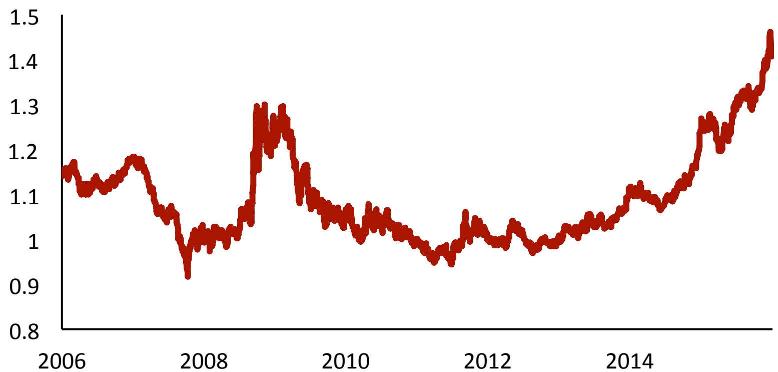
## US Wage Growth % YoY




## U.S vs. CAD Household Debt-to-GDP




## CAD/USD




## Canada vs. America

- We see a continuing divergence between U.S. and Canadian household debt as a percentage of GDP, as seen above
- With oil prices expected to remain depressed, we anticipate the divergence to persist as the U.S. economy benefits from low oil prices while Canada has greater negative exposure
- We thus remain more bullish on the US discretionary consumer sector in general
- Global consumer spending is more volatile; however the U.S. consumer is resilient

*Source: Bloomberg & S&P Capital IQ as of 12/31/2015*

# Restaurant Sector Overview

Section II

# Restaurant Sector Overview
## Brief Primer

### Limited-Service Restaurants (LSR)

- Establishments whose patrons generally order or select items and pay before eating, with check averages generally between $3 and $12. Food and drink may be consumed on-premise, taken out or delivered to customers' locations

LSR is composed of:

- **Quick-Service Restaurants (QSR):** Traditional "fast-food" restaurants, generally with check averages between $3-$8
- **Fast Casual (FC):** Establishments with a limited-service or self-service format; check averages between $8-$12, food prepared to order, fresh (or perceived as fresh) ingredients, innovative food and upscale or highly developed interior design

### Full-Service Restaurants (FSR)

- Establishments with a relatively broad menu along with table service and a waitstaff. These establishments offer meals for immediate consumption on-premise; some may offer takeout

FSR is composed of:

- **Midscale:** $8-$12 check
- **Casual-dining:** $12-$50 check, alcohol is served
- **Fine-dining** : Generally above $50 check, emphasis on dinner, "white-tablecloth restaurants"

| QSR | Fast Casual | Midscale | Casual-Dining | Fine-Dining |
|---|---|---|---|---|
| Taco Bell, Burger King, KFC, McDonald's | Shake Shack, Noodles & Company, Zoës Kitchen, Chipotle Mexican Grill | Denny's, IHOP Restaurant, Friendly's | Olive Garden Italian Kitchen, Red Lobster, Chili's | Morton's The Steakhouse, Ruth's Chris Steak House, The Palm Restaurant |

*Source: Techonomic Industry Report, Euromonitor Report*

# Restaurant Sector Overview
## Trending Topics

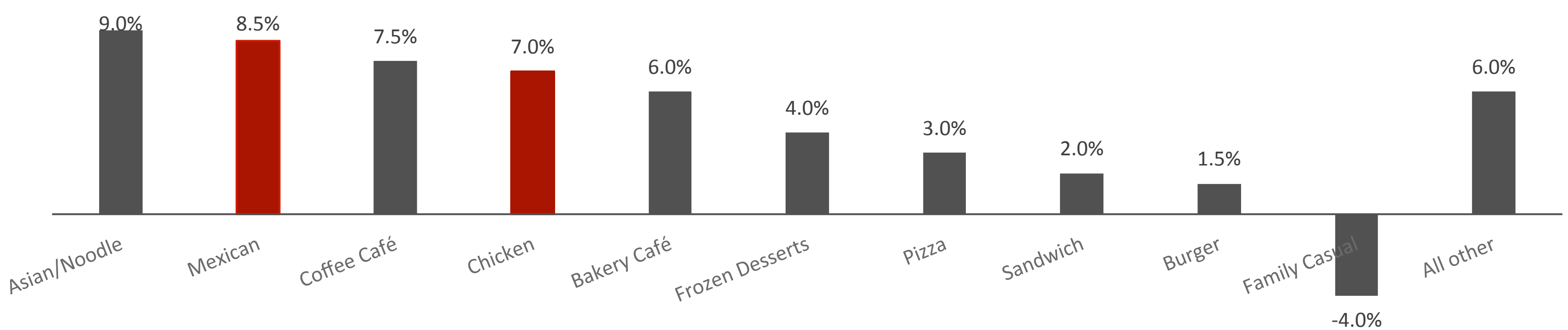
### Changing Tastes and Desires

- "Clean food" & health & wellness gaining traction
- Food deflation increasing demand for value (QSR + Fast Casual)
- Rejection of "average" and processed foods
- Increasing transparency with regards to ingredients
- Modest changes in diets occurring across the continent
- Millennials having large impact on food as they seek out and support higher quality food and ingredients

### Fast Casual and QSR+

- Fast Casual and QSR+ taking market share from QSR and casual dining as consumers grow accustomed to quick, healthy, tasty and economical meals
- Many casual dining concepts are experiencing meaningful declines in traffic
- Mexican, chicken and Asian concepts with perceived fresh ingredients are among this year's hottest concepts

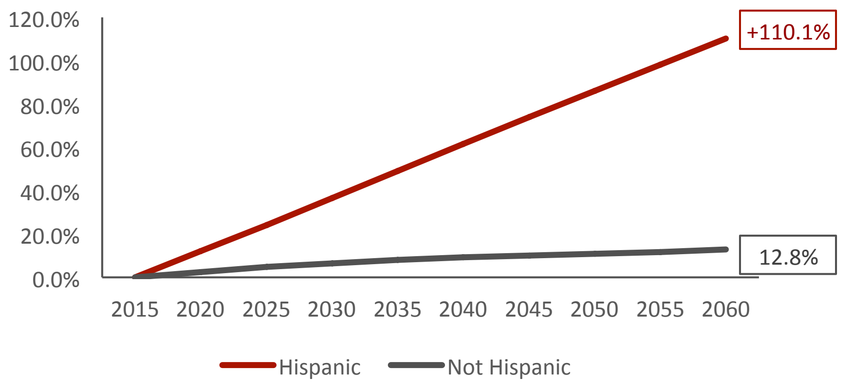
### Limited Service (QSR & Fast Casual 2015 One-Year % Change)




*Source: Techonomic Industry Report, Euromonitor Report*

# Restaurant Sector Overview
## Trending Topics

### Shifting U.S. Demographics (Pop. Growth)

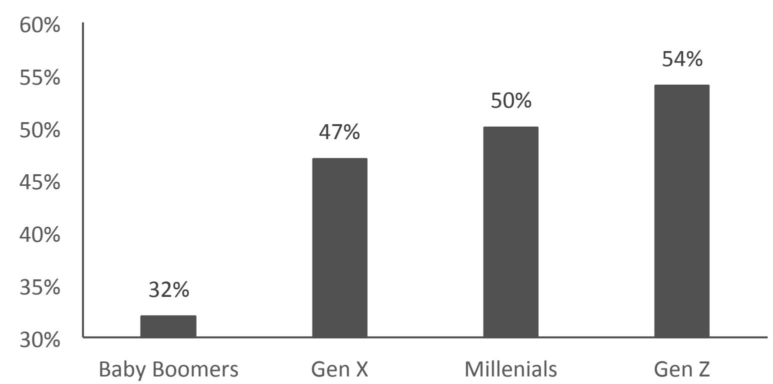



- With the Hispanic population expected to comprise 29% of the U.S. population by 2060, Mexican concepts are expected to become increasingly popular
- The U.S Hispanic median household income is ~20% lower than the average American household so Mexican concepts that couple authenticity with value are positioned well
- Hispanics spend more money eating at home compared to others but eat out more frequently by primarily eating fast-food

### Trend Towards Customization

- Build your own food concepts with visible custom prep are up 23.3% vs overall 13.1% sales surge in the fast-casual sector
- Even larger concepts have began to offer customization keep abreast of consumer trends: McDonald's rolled out a "Create Your Taste" test program for custom burger options. Denny's launched a Monthly Features menu that included Build Your Own French Toast
- 46% of operators say consumers want to customize today more than ever

### "Is Food Customization Important"




*Source: United States Census Estimates and Population Data, Food Navigator – USA, 2010, Technomic*

# Restaurant Sector Overview

“To Franchise or not to Franchise that is the Question”

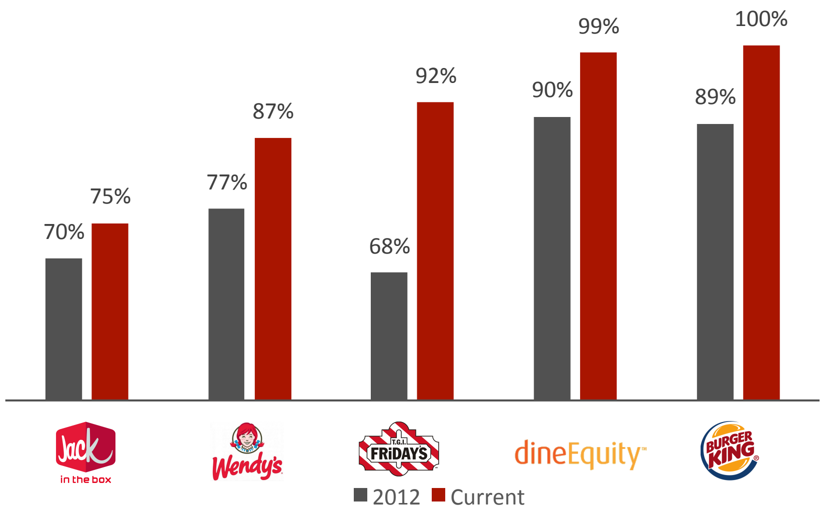
## Franchise Considerations

- Stable and recurring cash flows with fixed royalty fees; however, share of profit is diminished
- Builds brand awareness and restaurant penetration with minimal capital, allowing rapid expansion
- Franchise owners are often more incentivized than store managers and drive company-wide innovation
  - Ex: Big Mac and Egg McMuffin

## Company-Operated Considerations

- Maintaining control of operations (standards are respected, company image is manageable
- Retain all profits; however, exposed to all risks
- Necessary capex investment to open units slows down growth or makes company reliant on capital markets

## Industry shift towards asset-light model

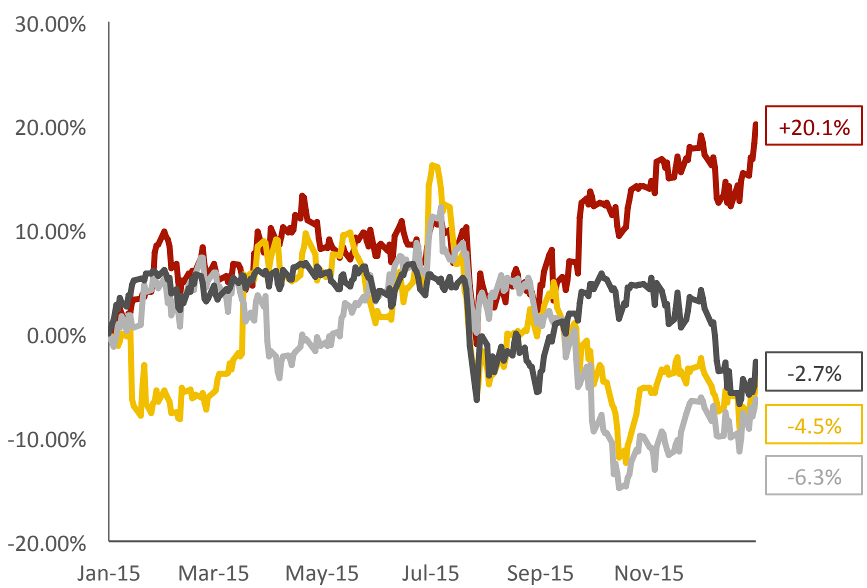



## Emergence of “Super-Franchisees”

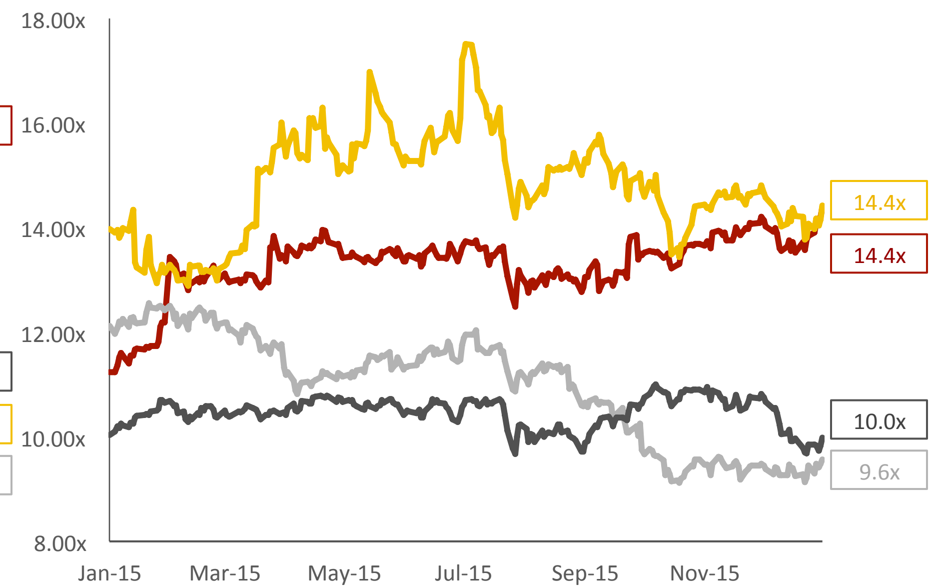
- Franchising fully embraced by QSR and fast casual concepts and increasingly so with casual dining companies
- Large franchisees with scale, experience and capital are seeking new concepts in order to grow more quickly and efficiently
- Many multi-unit franchisees, such as NRD Partners, have become so large and so good at opening and running units that operators are approaching them to strike large multi-unit agreements

# Restaurant Sector Overview
## Public Landscape

### LTM Share Price Performance




### LTM EV/LTM EBITDA




- Fast casual has retrenched amidst Chipotle's woes
- QSR and certain fast casual concepts continue to take market share from casual dining

- Casual dining concepts now cheaper than the general market – reflecting bleak outlook for a majority of them
- Fast casual multiples are now in line with QSR

*Note: QSR includes MCD, YUM, LOCO, WEN, QSR, SONC, PLKI, BOJA, JACK; Fast Casual includes PNRA, ZOES, FRSH, SHAK, WING, HABT,NDLS, PBPB; Casual Dining includes LUB,CAKE,CHUY, BWLD,EAT, DRI, BLMN, TXRH, BJRI*

*Source: S&P Capital IQ as of 1/30/2016*

# El Pollo Loco Holdings

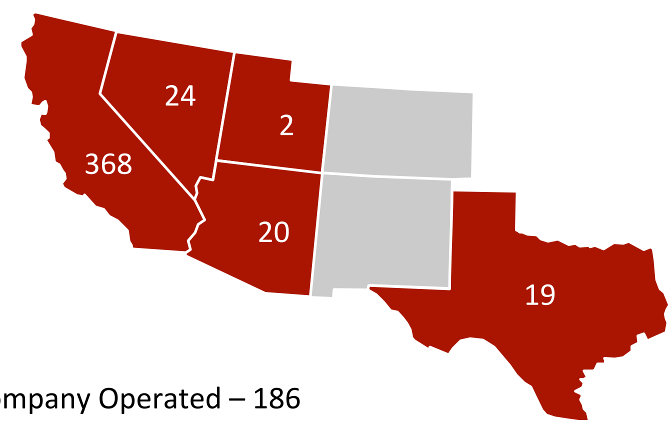
Section III

# Company Overview
The Crazy Chicken

## Description

- Restaurant chain based in the United States, specializing in fresh, Mexican-style grilled chicken
- High-quality food typical of fast casual restaurants while providing the speed, convenience and value typical of traditional QSRs (QSR+)
- Operates or franchises 433 stores in 5 states (CA, AZ, TX, NV and UT)
- 50% lunch / 50% dinner mix
- IPO in July 2014

## Geographic Locations




Company Operated – 186
Franchised – 247

## Public Market Overview

| El Pollo Loco Holdings, Inc. (USD$) | |
|---|---|
| **Current Price (USD$/Share)** | $12.10 |
| Dividend Yield | 0.0% |
| 52-Week High | $29.20 |
| 52-Week Low | $9.58 |
| Diluted Shares Outstanding (mm) | 38.3 |
| **Market Cap (mm)** | **463.2** |
| Add: Total Debt (mm) | 125.7 |
| Add: Value of Preferrred Shares | - |
| Add: Minority Interest | 0.0 |
| Less: Cash & ST Investments (mm) | 8.2 |
| **Enterprise Value** | **580.7** |

| Valuation Summary | 2013A | 2014A | 2015E | 2016E |
|---|---|---|---|---|
| **Revenue** | **314.7** | **344.9** | **356.8** | **395.6** |
| *YOY Growth %* | 7.2% | 9.6% | 3.5% | 10.9% |
| **EBITDA** | **52.8** | **59.6** | **63.4** | **69.4** |
| *YOY Growth %* | 17.9% | 13.0% | 6.3% | 9.5% |
| **EV/Revenue** | **N/A** | **1.7x** | **1.6x** | **1.5x** |
| **EV/EBITDA** | **N/A** | **9.7x** | **9.2x** | **8.4x** |

# Company Overview

## Management Team  with Strong Industry Experience

**Steve Sather**

**CEO & Director**

- Experience within the company as SVP (2006-2010)
- SVP Great Circle Foods (2002-2005)
- COO Rubio's (1996-2001)

**Larry Roberts**

**CFO**

- COO KFC (2008-2013)
- CFO KFC (2005-2008)
- CFO Yum! Brands (2003-2008)

**Kay Bogeasjis**

**COO**

- VP Operations Peet's Coffee & Tea (2007-2013)
- Head of Western Operations Yum! Brands (2003-2007)
- VP Operations Taco Bell (2001-2003)

**Ed Valle**

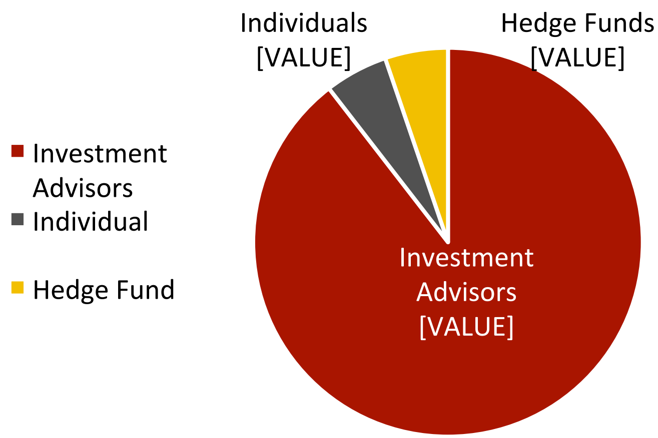
**Chief Marketing Officer**

- CMO for Choice Hotels (2009-2010)
- VP Marketing Panera Bread (2005-2009)
- Prior marketing positions at Dunkin' Donuts, Subway Restaurants and Diageo

# Ownership Overview

Crazy Fast Growth

## Percentage Ownership



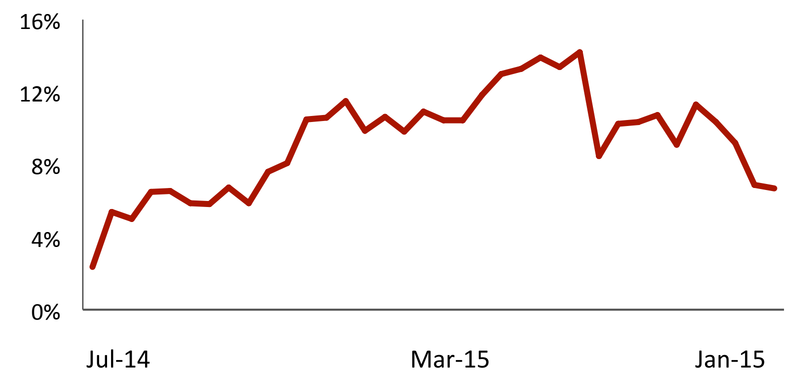

## Top 10 Biggest Owners

| Holder Name | % Outstanding |
|---|---|
| 1. Trimaran Fund Management | 43.7% |
| 2. Sather Stephen | 3.2% |
| 3. Vanguard Group | 3.2% |
| 4. Massachusetts Financial | 2.5% |
| 5. BlackRock | 2.1% |
| 6. Susquehanna International | 1.9% |
| 7. Jefferies Group | 1.9% |
| 8. Millennium Management | 1.8% |
| 9. Fidelity Management | 1.6% |
| 10. Morgan Stanley | 0.8% |

## Recent Purchases/Sells by Management

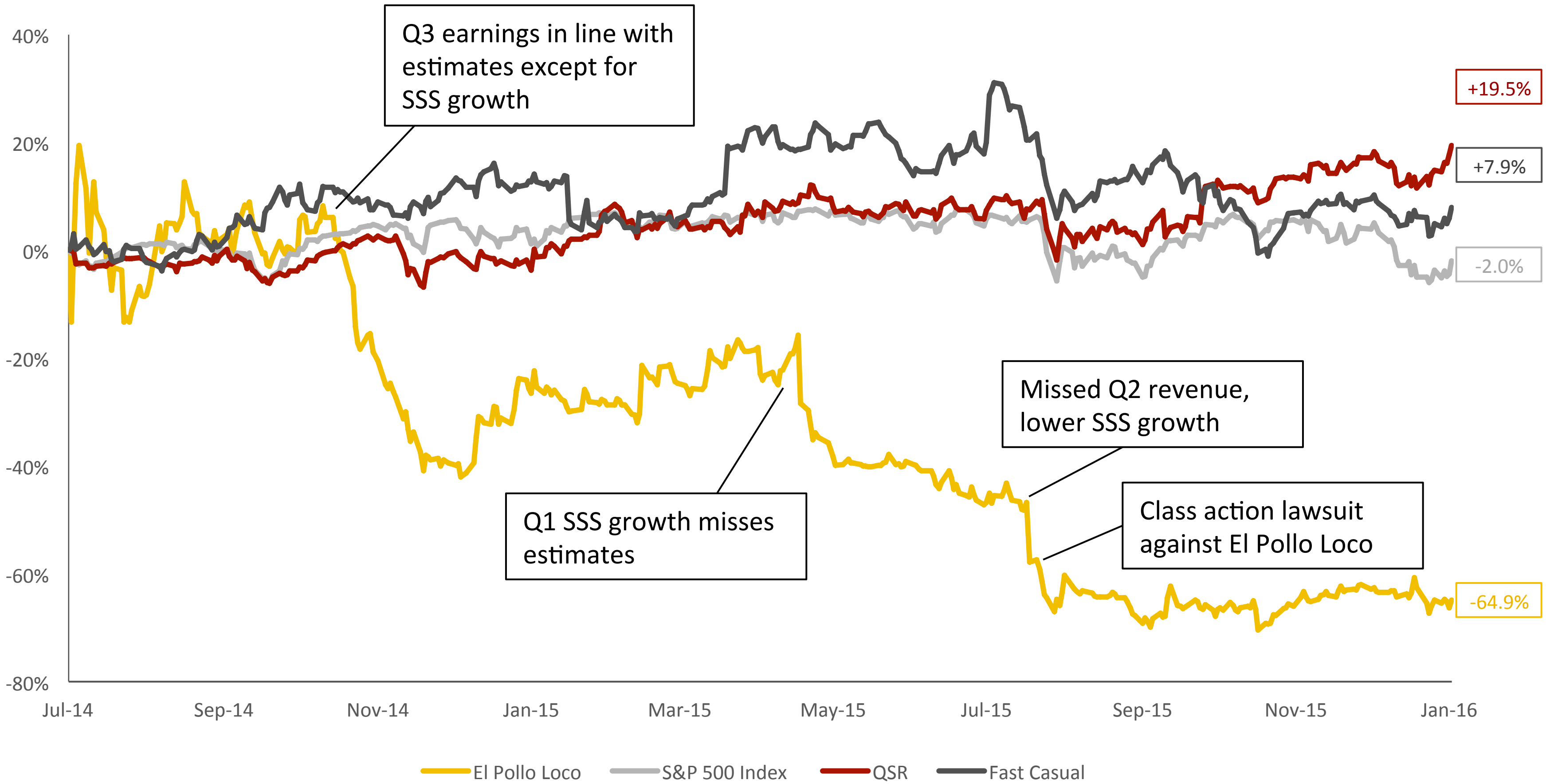
| Holder Name | Position | Latest Change | Date |
|---|---|---|---|
| Sather Stephen | CEO | -85,029 | 11/25/2014 |
| Roberts Laurance | CFO | -7,500 | 11/25/2014 |
| Bogeajis Kay | COO | -14,773 | 11/25/2014 |

## Short Interest Chart since IPO



# Annotated Stock Chart

## Investors Chickening Out




*Note: QSR includes MCD, YUM, WEN, QSR, SONC, PLKI, BOJA, JACK; Fast Casual includes PNRA, ZOES, FRSH, SHAK, WING, HABT,NDLS, PBPB*

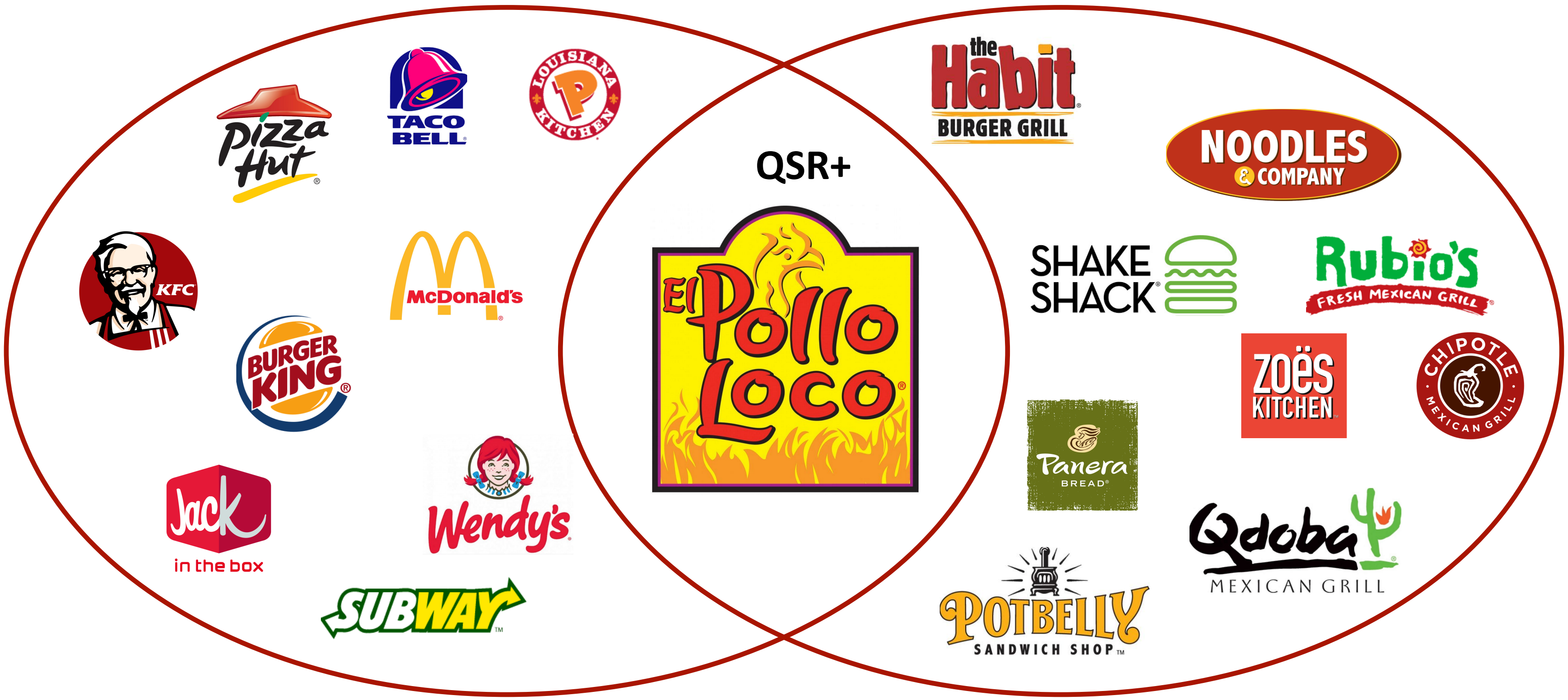
*Source: S&P Capital IQ as of 1/30/2016*

# Market Positioning

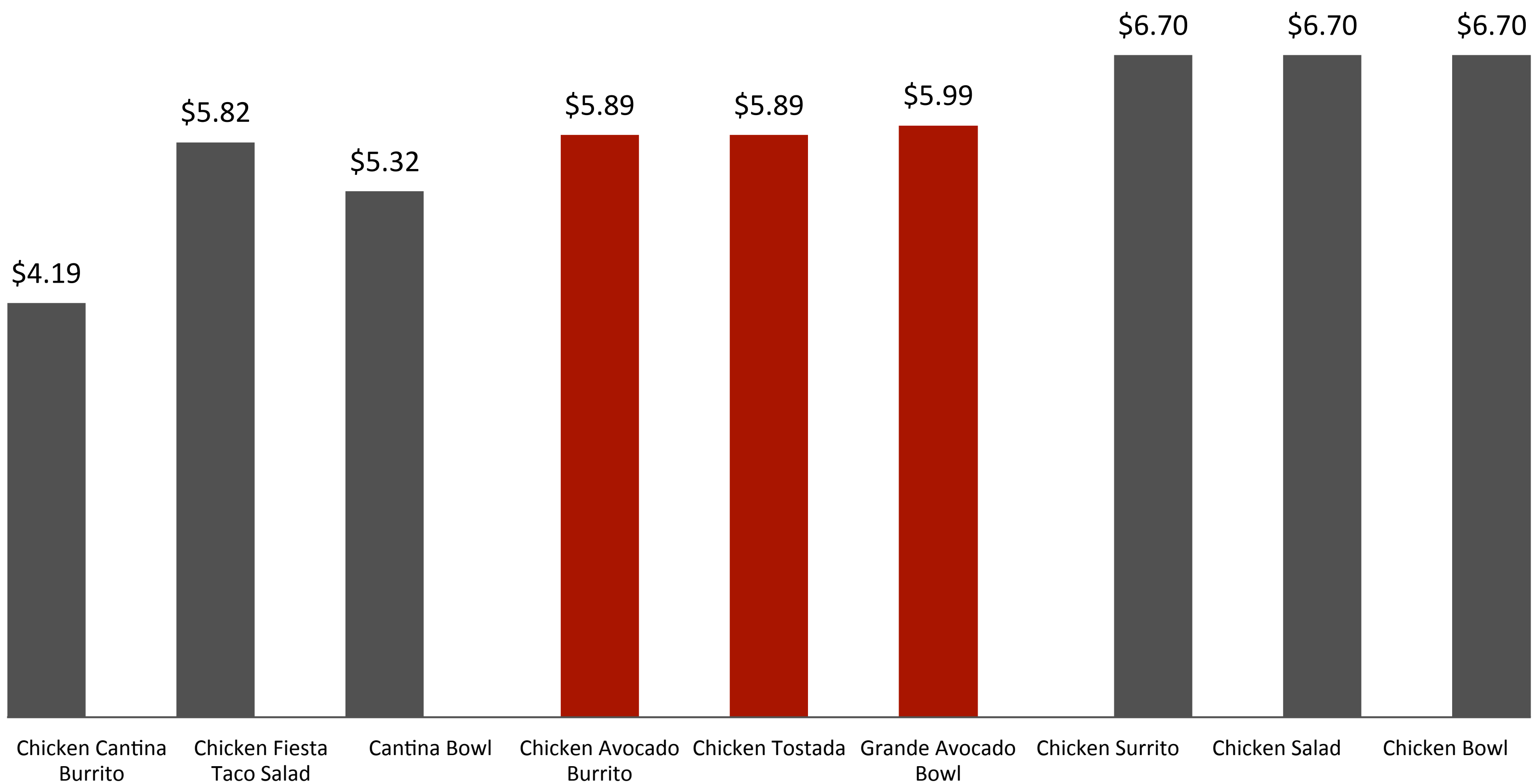
## Value-Oriented, Faster than "Fast Casual" Concept

**QSR**: Speed of Service and Value Proposition

**Fast Casual**: High Quality Food and Dining Experience



# Business Overview
## Great Food at Great Value



# Restaurant Description

Appearances are a Major Key

## Modernized Stores Following Remodeling Program



## Fresh, authentic, and healthy food

**Store Remodeling: " Hacienda Program:**

- Program began in 2011, 70% completed now and expected to be done by 2018
- Redone exteriors and interiors that highlight the open grill have been showed to increase SSS by additional 3%

**Healthy and Fresh Food:**

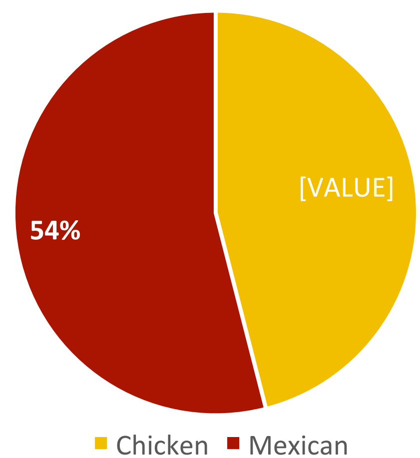
- Chicken is grilled and food is prepped right in front of the customers to highlight the authenticity and freshness of the food

# Product items

Don’t Get Too Hungry Yet, the Presentation Just Started…

## Menu

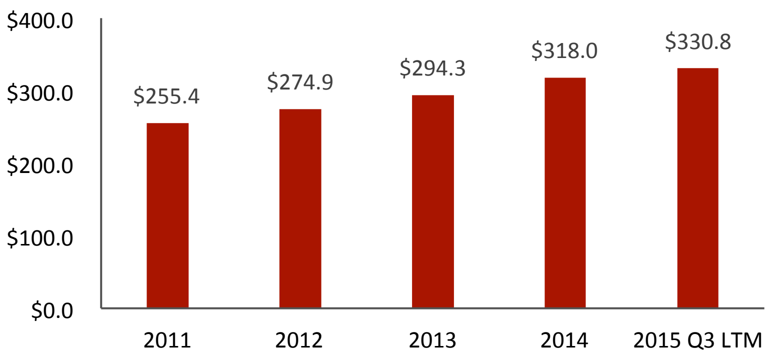

## Dishes and Cuisine Breakdown

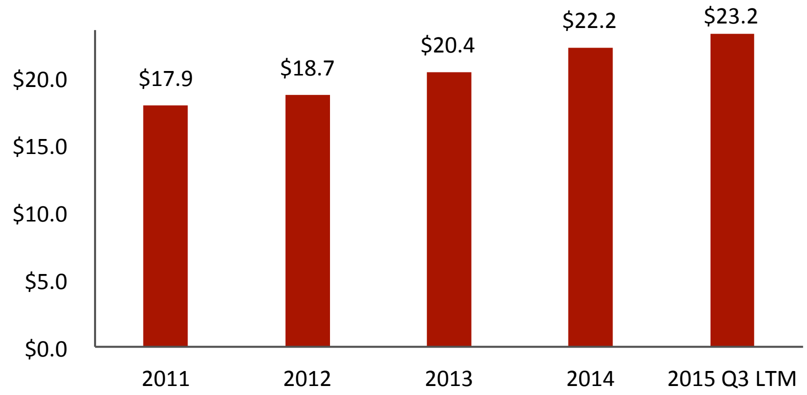
# Financial Overview

Strong Growth

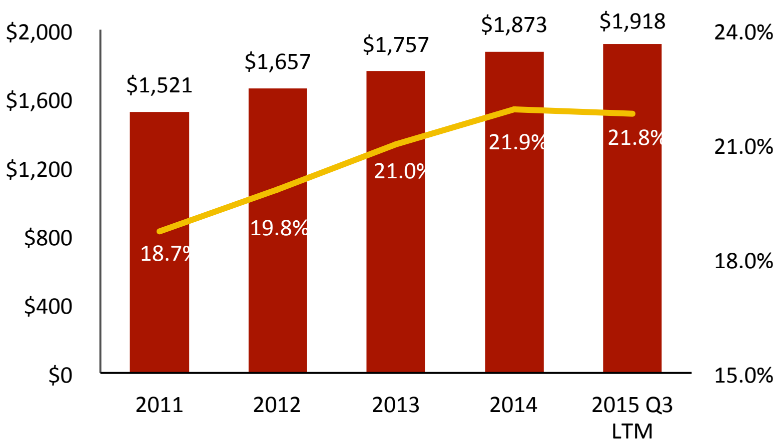
## Company-Operated Restaurant Revenue



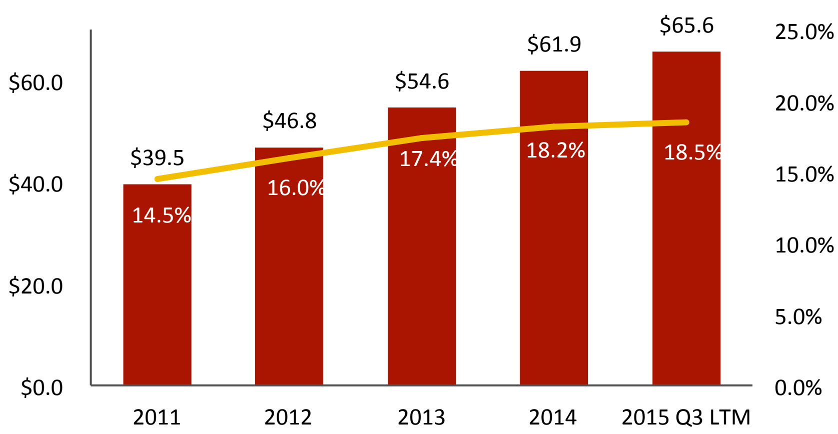

## Franchise Revenue




## AUV and Contribution Margin

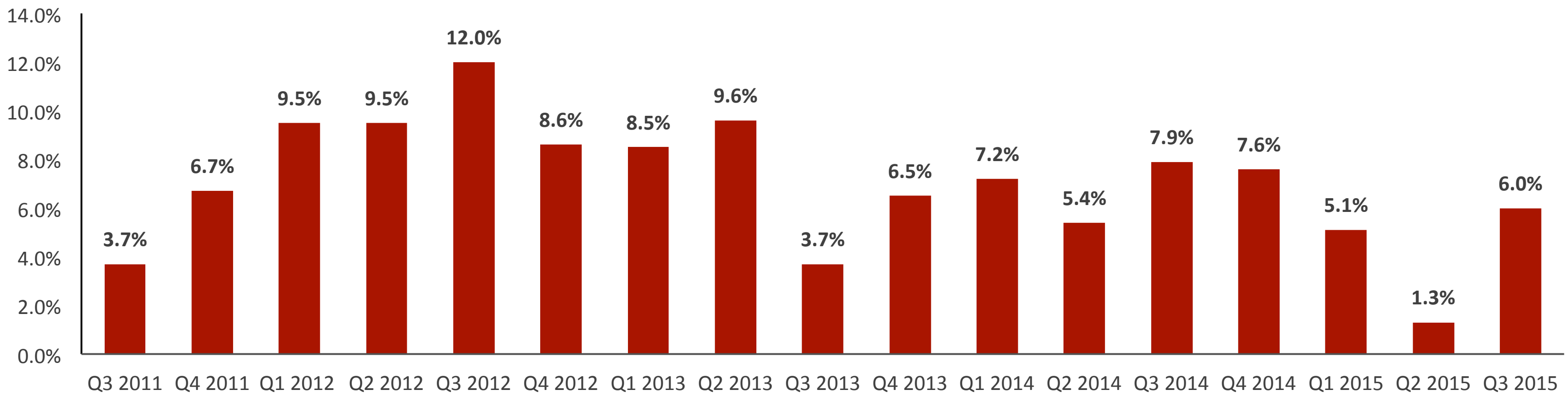



## Adjusted EBITDA and Margin

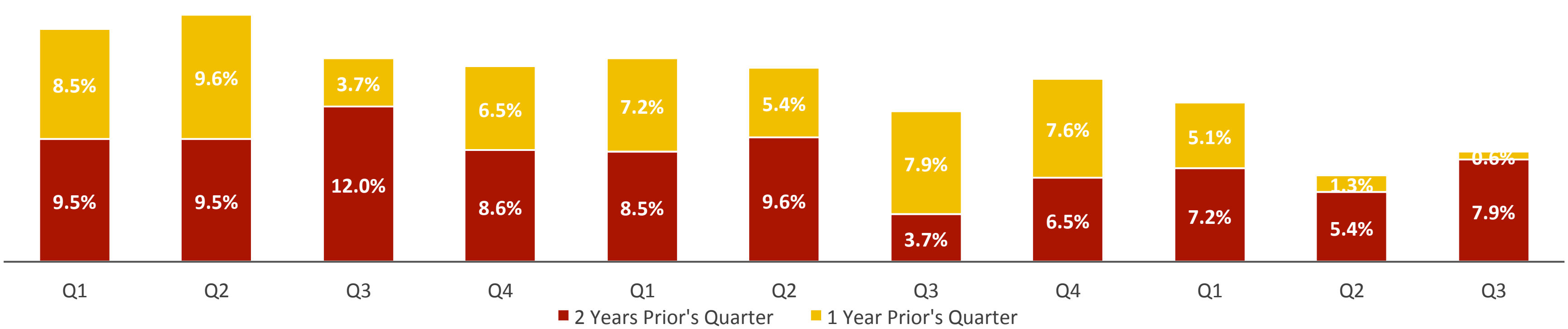


# Business Overview
## Consistently Strong Performance

### 17 straight quarters of positive comps sales

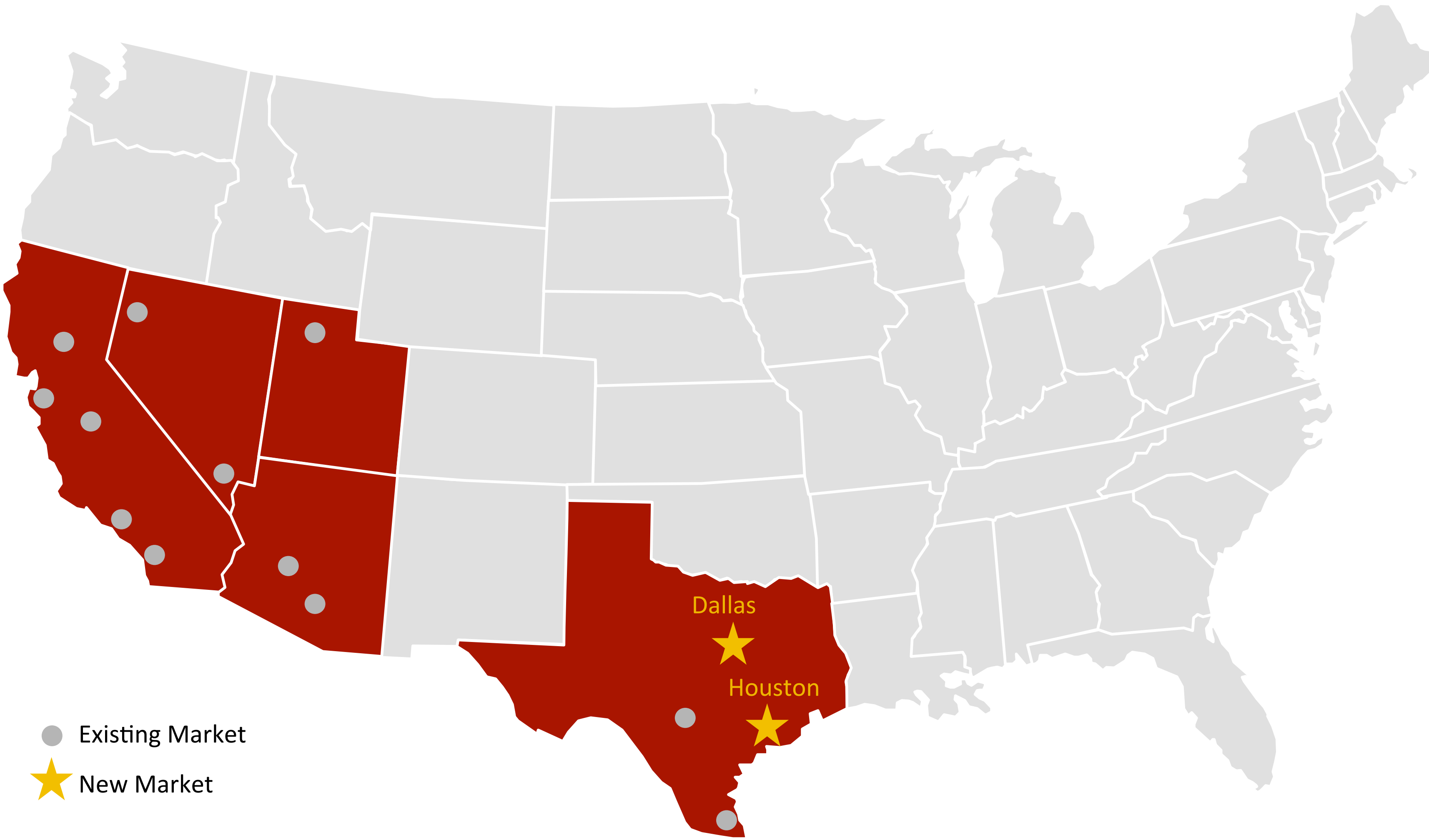



### 2-Year Stacked Comparable Restaurant Sales Growth



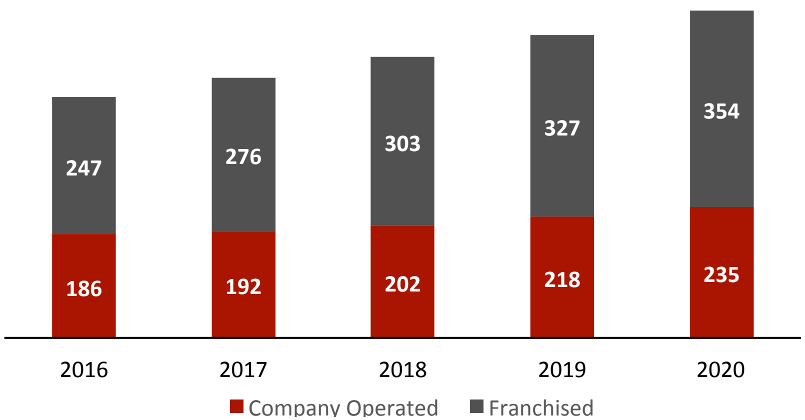
# Growth Through New Units

Potential For An Additional 1,900 Restaurants Nationwide

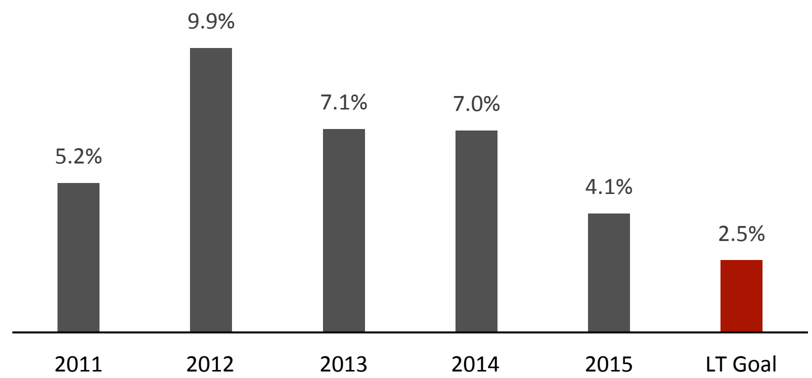


# Main Growth Drivers
## Focus on Core Strategy

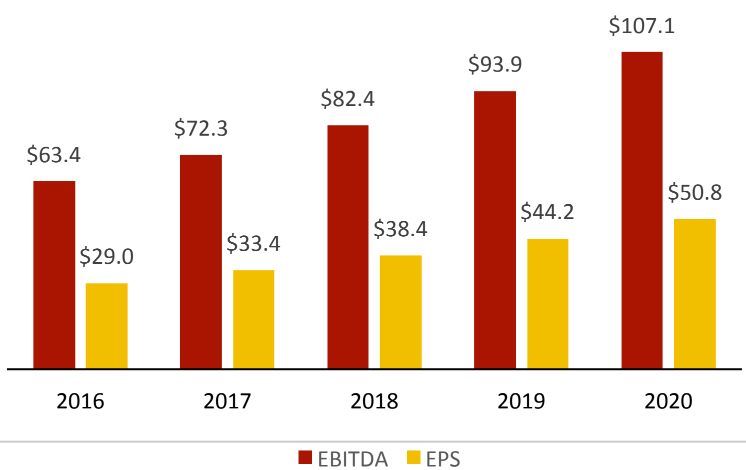
### Expanding its Geographical Reach…




### … While Projecting Conservative SSS Growth




### Expected ~+15% EBITDA + EPS growth




### While Remaining Conservative

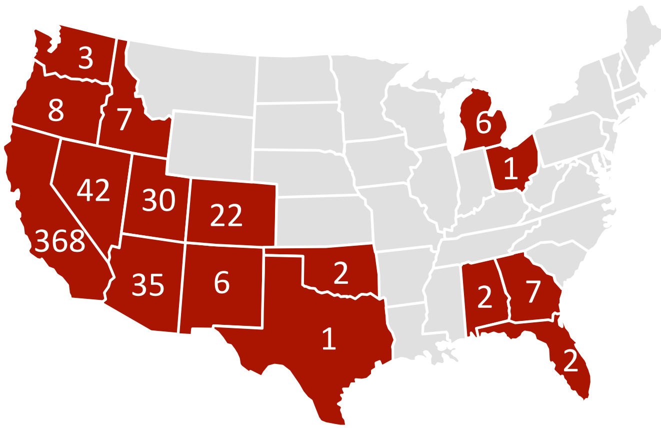
Focus on expanding geographical reach as the stores are currently highly concentrated in South West

Comps Growth considered conservative:

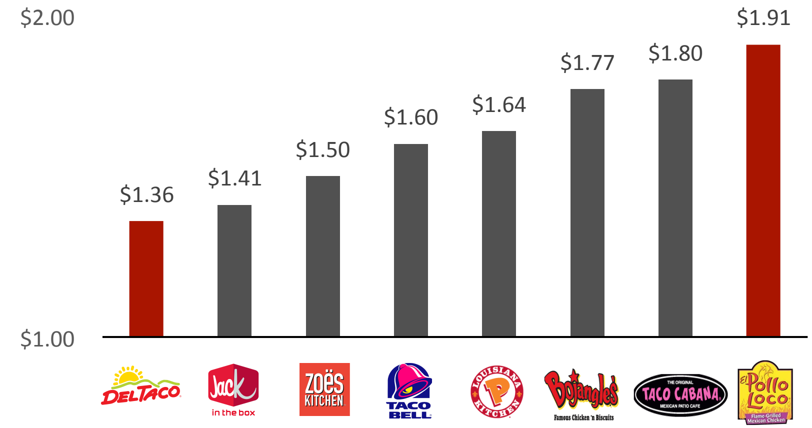
1. Historical growth much higher
2. Maturing of new stores
3. Store remodeling program that increases SSS growth by 3%, done by 2018
4. Menu innovation

# Growth Strategy
Competitor - Del Taco

## Already Large Geographic Diversification…




## …But Much Lower AUV ($mm)




## El Pollo Loco vs. Del Taco

| | Del Taco | El Pollo Loco |
|---|---|---|
| Store Count | 547 | 433 |
| AUV | $1.91 million | $1.36 million |
| Investment Cost | 900,000 | $1.3 million |
| Growth strategy | Cash & Debt | Cash & Debt |
| Expension Strategy | Spread out | Condensed |
| Next targeted Region | Houston | Houston |

## More Risky Strategy

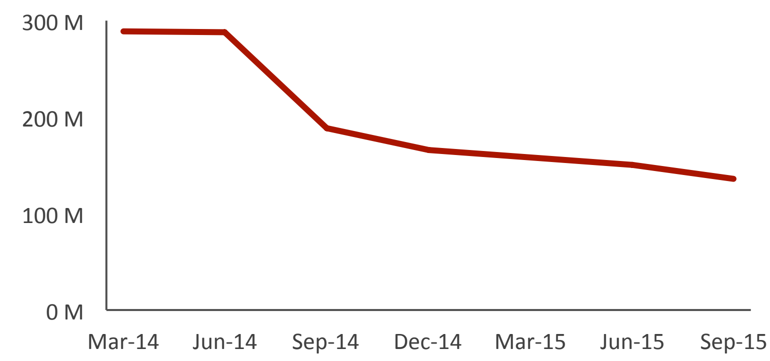
- Del Taco will find it more difficult to expand its AUV since it is spread out to many locations without having a condensed presence in more than 3 states, so it now has to renovate stores or increase marketing to drive traffic while increase increasing it regional presence
- El Pollo Loco; however, plans to expand with concentrated efforts, first opening up a new market with a core of company owned stores and then following up with franchisees to further build the market

# Debt Overview
Business Structure Optimized for Growth

## Strengthened Balance Sheet

| ($Millions) | March 2014 (Pre-IPO) | September, 2015 |
|---|---|---|
| Cash & Cash Equivalents | $20.4 | $8.2 |
| Total Debt | $288.8 | $125.7 |
| Net Debt | $268.4 | $117.5 |
| Total Debt / LTM Adj. EBITDA | 5.1x | 1.9x |
| Net Debt / LTM Adj. EBITDA | 4.7x | 1.8x |
| LTM Adjusted EBITDA (52 weeks) | $57.0 | $65.6 |

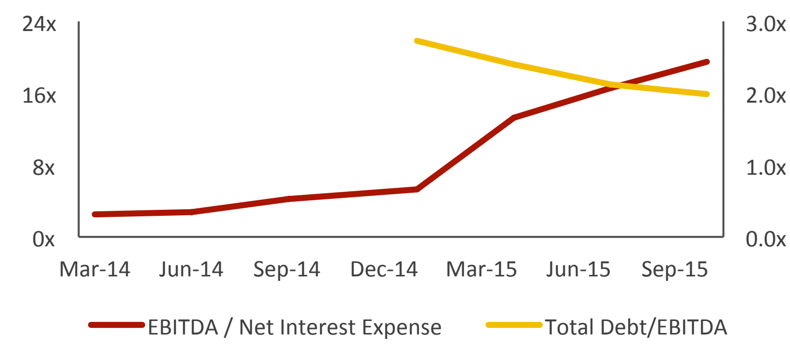
## Total Debt Q-o-Q




## How they Improved

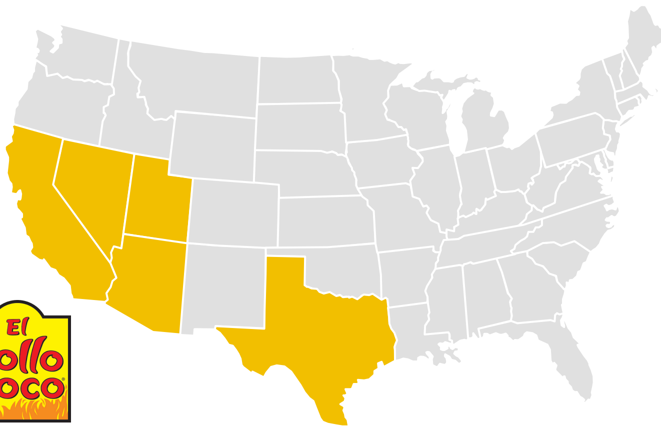
- Raised $107 million from the IPO and $162 million from the follow-on offering to pay down part of $288 million of debt
- Interest expense decreased from 3.2 million in Q3-14 to $810,000 in Q3-15
- Moving forward, management intends to start using debt along with its cash to finance its capex

## Debt Coverage Improvement

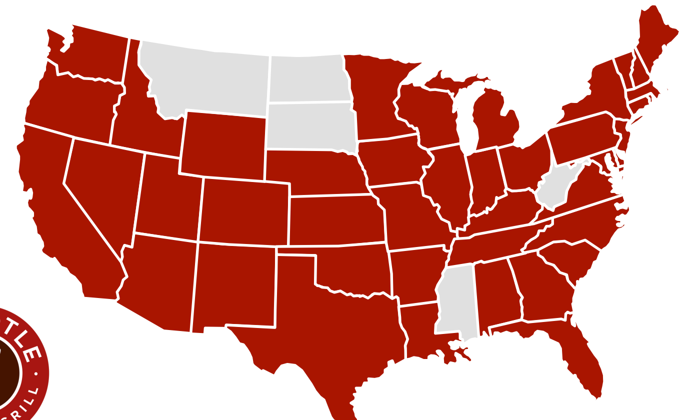


# Analysis of Competitors
U.S Geographic Footprint

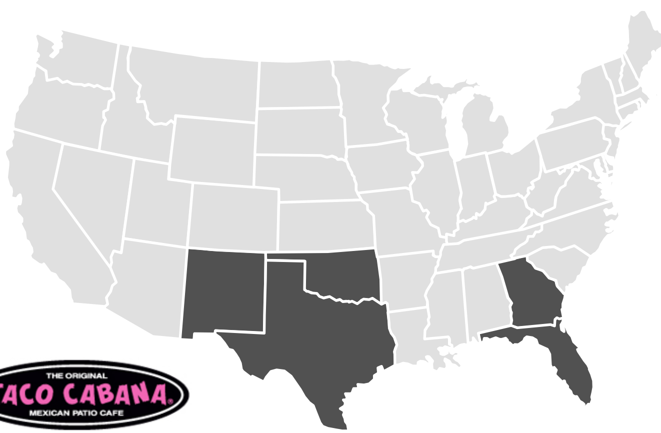
## El Pollo Loco



## Chipotle



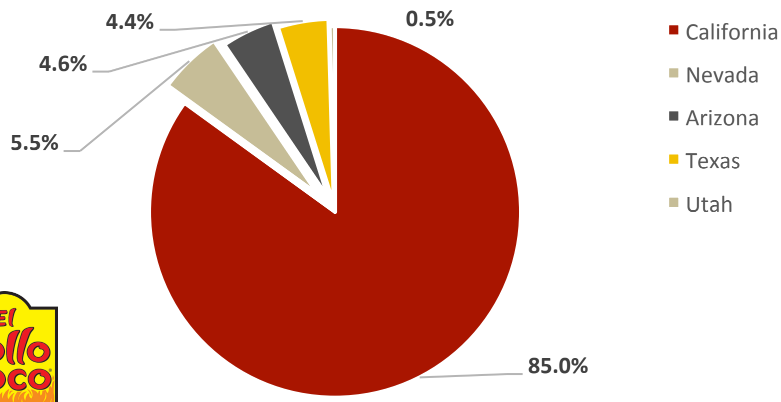
## Taco Cabana



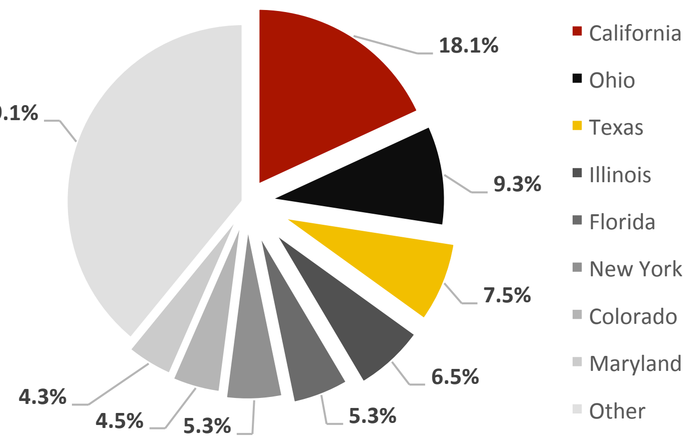
## Del Taco

# Analysis of Competitors
Geographic Segmentation

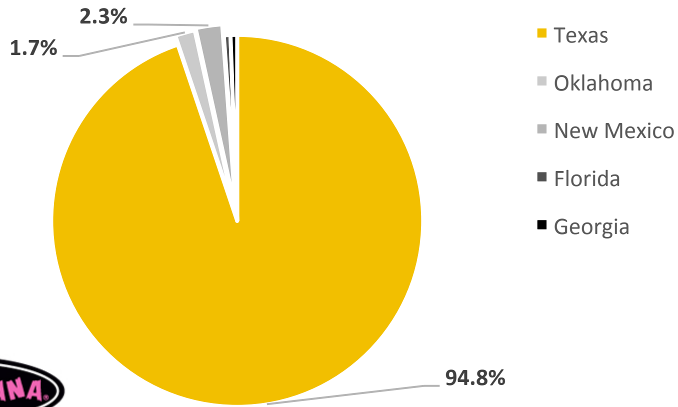
## El Pollo Loco



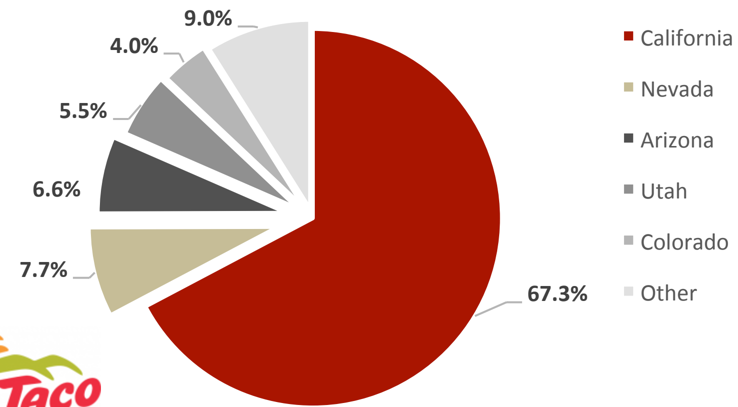

## Chipotle




## Taco Cabana

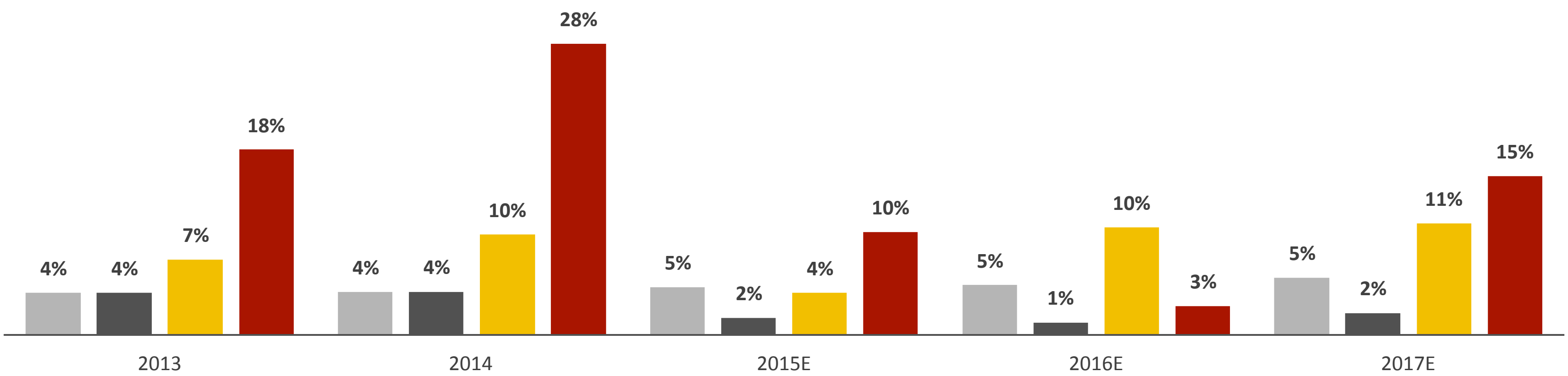



## Del Taco

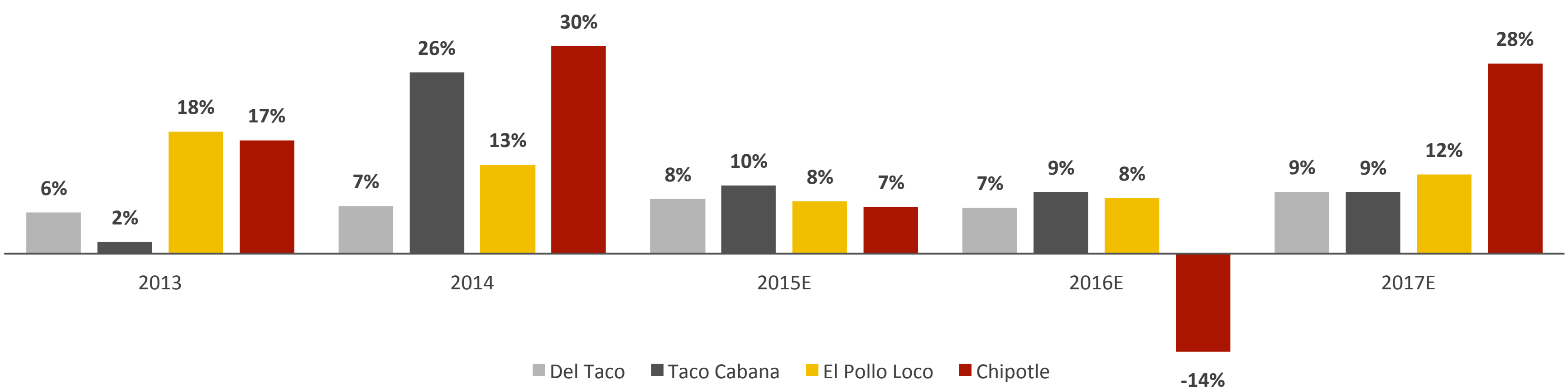


# Analysis of Competitors
Overall company financial performance

## Historical and Forecasted Revenue Growth



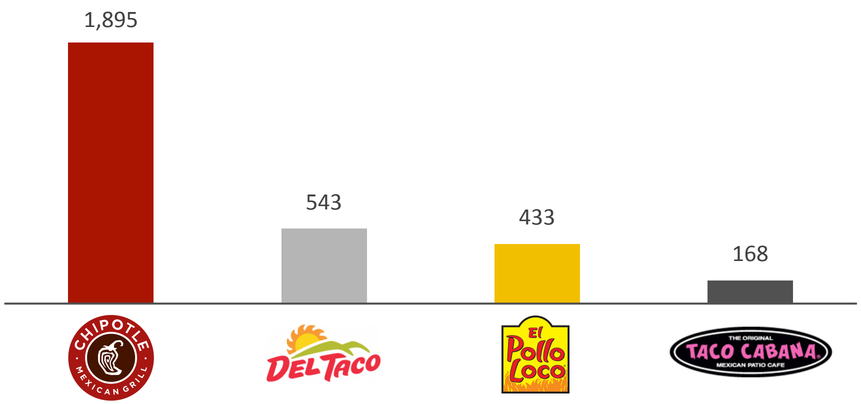

## Historical and Forecasted EBITDA Growth



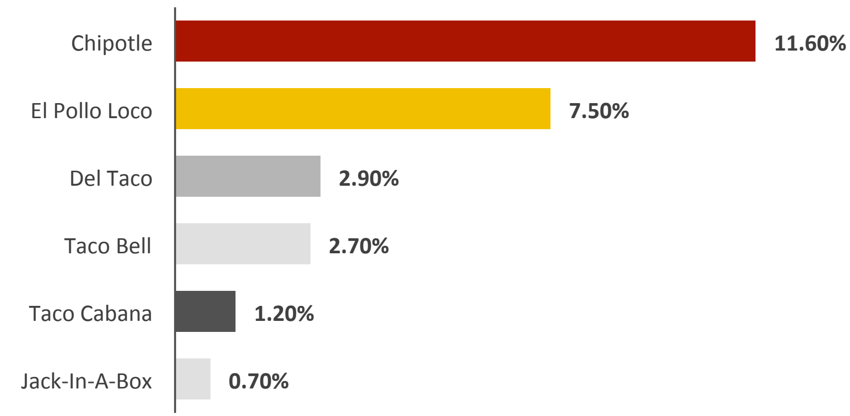
# Analysis of Competitors

## Total System-Wide Restaurants

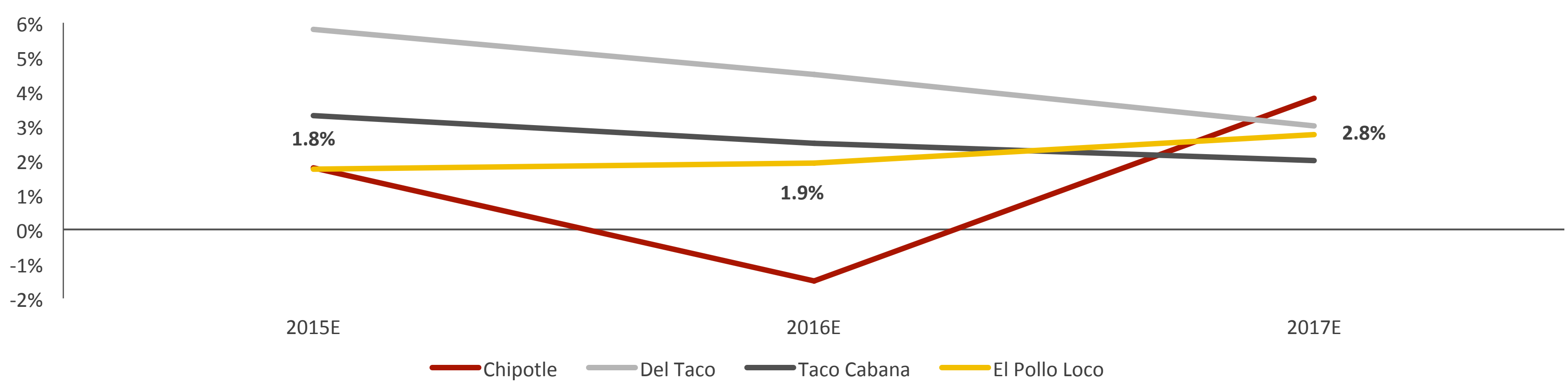
### Total Number of Restaurants




### 2015-2016E U.S. System-Wide Unit Growth

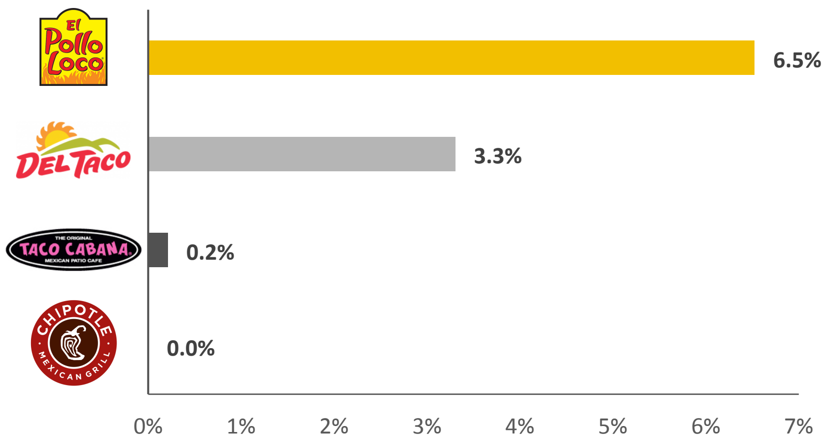



### Total Same-Store Sales Growth

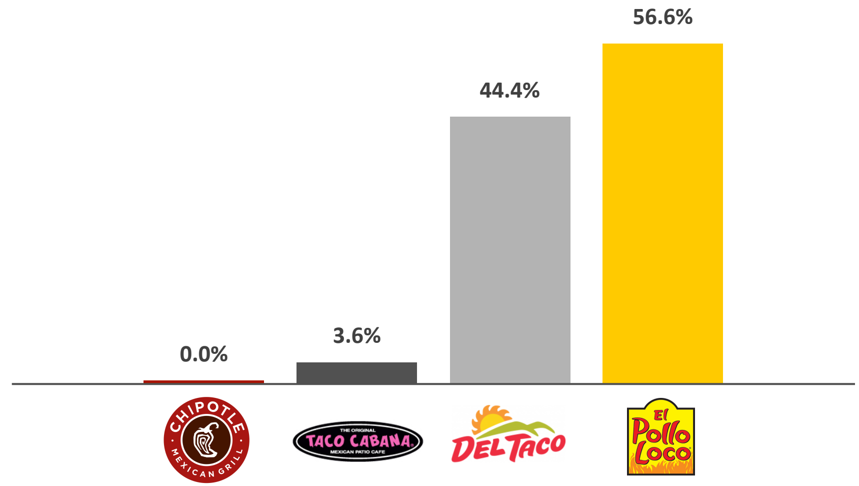


# Analysis of Competitors
## Franchise Restaurants

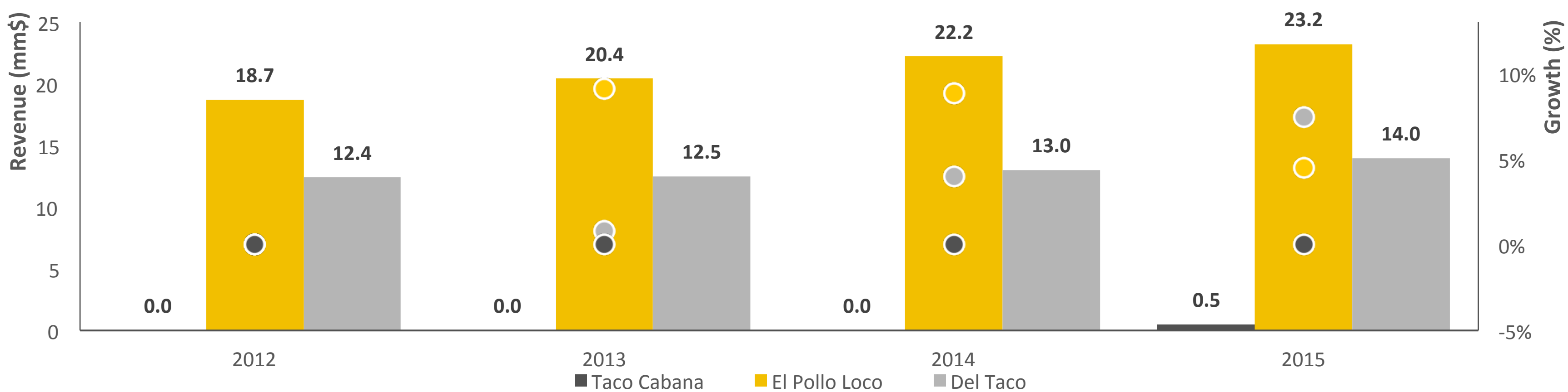
### Franchise Revenue (%)




### Franchise As % of Total Restaurants




### Franchise Revenue Historical and Growth Rate



# Comparable Analysis
## Attractiveness for potential franchisees

### Unit economics for El Pollo Loco vs. other Mexican QSR/fast casual peers

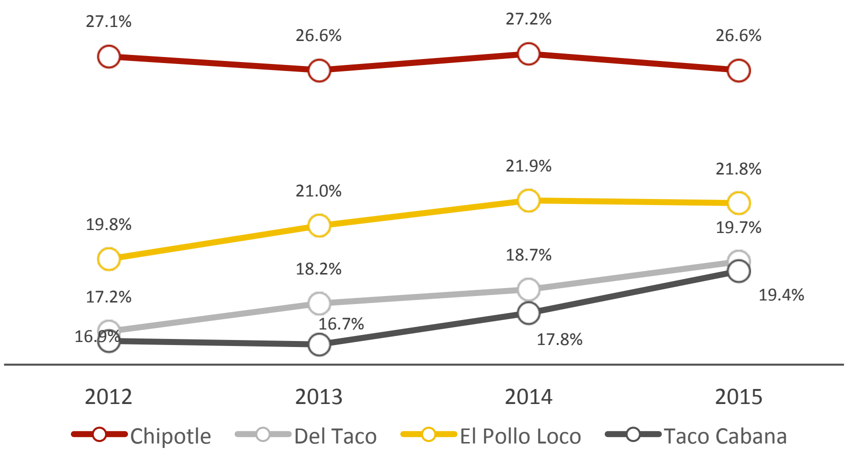
| Metric | Del Taco | Chipotle | El Pollo Loco | Taco Bell | Qdoba |
|---|---|---|---|---|---|
| **Average Unit Volumes ($mm)** | **$1.35** | **$2.10** | **$1.82** | **$1.30** | **$1.08** |
| Restaurant-Level EBITDA | $0.22 | $0.57 | $0.41 | $0.23 | $0.19 |
| *Margin (%)* | *16.3%* | *27.1%* | *22.5%* | *17.7%* | *17.6%* |
| Cash Investment Cost | $0.90 | $0.80 | $1.36 | $0.83 | $0.70 |
| Sales to Investment | 1.5x | 2.6x | 1.3x | 1.6x | 1.5x |
| **Cash-On-Cash Return** | **24.4%** | **71.3%** | **30.1%** | **27.7%** | **27.1%** |

### Why is the Cash Investment Cost so Much Higher?

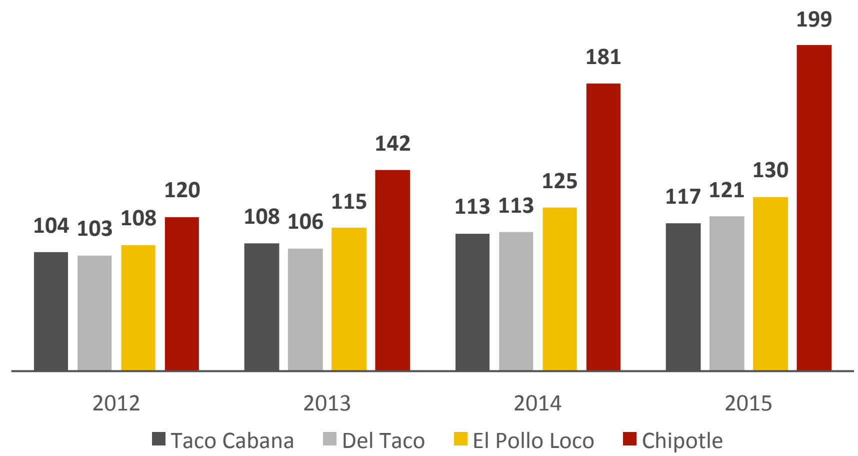
1. Average store size about 20% larger than all competitors
2. 85% of stores are located in California, which is the most expensive real estate market in the U.S.
3. Emphasis on uniquely designed stand-alone stores, which require higher initial cash investment

# Analysis of Competitors
Company-Operated Restaurants

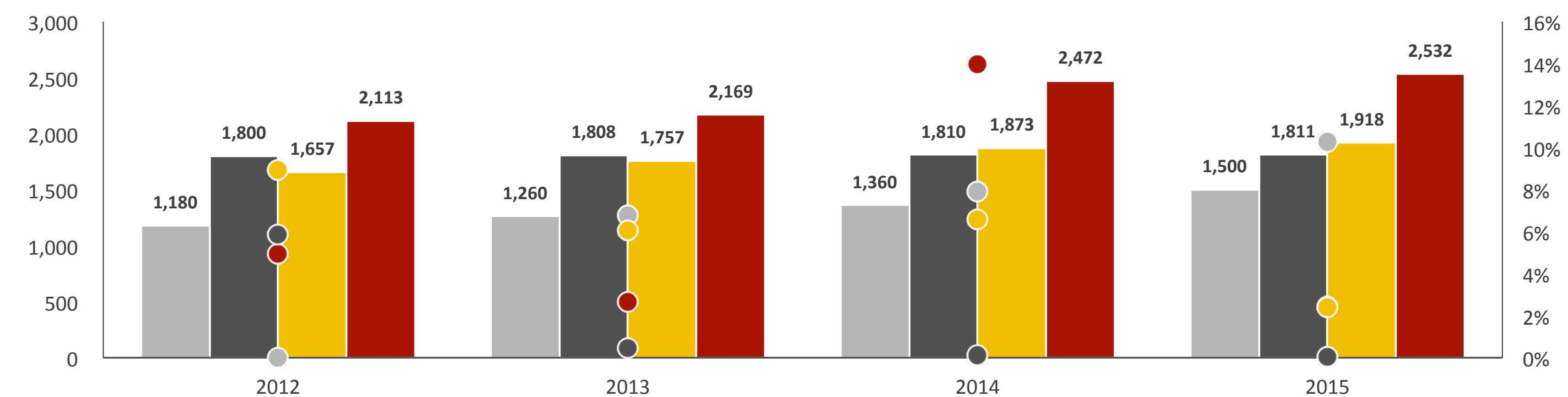
## Restaurant Contribution




## Company-Operated Restaurant Revenue




## Company-Operated Average Unit Volumes



# What is the market seeing? Why is this untrue?

"A public-opinion poll is no substitute for good thought" (Warren Buffet)

## Geographic Concentration

- **Market Outlook :** With ~85% of stores located in California the market perceives that wage increases as well as weather related impacts could have a disproportionate impact on their earnings relative to their more diversified peers
- California is in the middle of a four year drought and water usage restrictions are raising water prices (which is used significantly throughout restaurant operations)

## Our Outlook

- Previous wage increase was offset with a 0.5% increase in price → as wages increase disposable income does as well
- Franchisees absorb the cost of wage and water increases so risk is mitigated by increasing number of franchisees
- Plans for expansion will further reduce concentration

## Skepticism Regarding Expansion Plans

**Market Outlook :** Prior to the 2009 the company opened and subsequently closed 20 franchises east of the Rockies due to low sales

- Past expansionary failings leaves investors cynical about the company's ability to expand nationwide → current valuation reflects doubt in ability to grow

## Our Outlook

These initial expansion activities lacked adequate and cohesive marketing support due to arbitrary opportunistic site selection that drove a change in strategy, leading to the current strategic site selection plan:

- Future expansion plans have company-owned units open up new markets and establish them before allowing franchisees to open new units
- This expansion occurred before the strategic reposition and elevation of the concept that occurred in 2012 that created broader and deeper demographic appeal for future growth

# Investment Thesis

What We Are Seeing

## 1. Attractive Position given Current Macro Environment and Trends

- LOCO's customer base is comprised of more lower-income households relative to its peers due to its lower price point and offering of bundled meals
  - LOCO benefits from depressed oil prices & increasing wages, given customer base
  - 30% of customers are Hispanic so growing Hispanic population supports expansion plans
- Mexican food chains are among the fastest growing concepts in the LSR space and LOCO's healthy and fresh dishes makes it an attractive choice within this increasingly popular market
- Chicken (46% of sales) concepts are also among the fastest growing given chicken's reputation as a lean, healthy source of protein
- Consistent growth of consumers eating away from home (25% in 1955 vs 48% currently) coupled with increasing desire for food customization serving as a long-term driver for units and sales expansion

# Investment Thesis

What We Are Seeing

## 2. Opportunity to become a Serious National Chain

- Potential and plans for an additional 1900 restaurants nationwide as the chain expands
- Current leader Chipotle lost significant market share and brand equity in 2015 as a result of E. coli and norovirus contaminations coupled with lawsuits of violation animal welfare and use of GMO's
  - Chipotle's tarnished reputation creates an opportunity for LOCO to garner greater market share by distinguishing itself from Chipotle and its failings
- After Chipotle, El Pollo Loco has the most enticing unit economics and returns
- Expected to grow significantly more than all competitors asides from Chipotle
- Superior value proposition to its peers

## 3. Current Valuation is Extremely Attractive - Yielding Significant Upside

- Due to skepticism regarding expansion plans stock is severely discounted
- Trading at around 8.4x 2016E EV/EBITDA vs. 11.1x median
- Base Case DCF Value at 9.0x-13.0x Exit EBITDA Range yields 57.4% upside
- Base Case DCF Value at 1.5%-3.5% Perpetuity Range yields 29.4% upside
- Weighted average of DCF methodologies and comps yields 38.6% upside
- The company is trading at a discount to peers despite having a conservative capital structure, strong revenue and margin growth expectations

# Valuation

## Comparable Company Analysis

January 31, 2016
USD$ unless otherwise noted

| | | Balance Sheet | | EV/Sales | | | EV/EBITDA | | P/E | | Sales Growth | | Profit |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Company | Market Cap. ($ mm) | Debt ($ mm) | EV ($ mm) | 2015E | 2016E | 2017E | 2016E | 2017E | LTM | 2016E | 2016E | 2017E | EBITDA Margin |
| **Select Fast Casual and QSR+ Peer Group** | | | | | | | | | | | | | |
| Bojangles', Inc. | 522 | 243 | 750 | 1.5x | 1.4x | 1.2x | 8.8x | 7.6x | 17.5x | 16.5x | 11% | 13% | 14% |
| Chipotle Mexican Grill, Inc. | 13,945 | - | 13,341 | 3.0x | 2.9x | 2.5x | 17.7x | 13.8x | 39.7x | 35.1x | 3% | 15% | 22% |
| Chuy's Holdings, Inc. | 563 | - | 553 | 1.9x | 1.7x | 1.4x | 13.4x | 12.0x | 34.4x | 33.1x | 17% | 14% | 12% |
| Del Taco Restaurants, Inc. | 375 | 176 | 544 | 1.3x | 1.2x | 1.2x | 8.0x | 7.3x | 17.7x | 16.5x | 5% | 5% | 14% |
| Fiesta Restaurant Group, Inc. | 967 | 70 | 1,037 | 1.5x | 1.4x | 1.2x | 8.9x | nmf | 21.9x | 21.3x | 10% | 17% | 14% |
| Papa Murphy's Holdings, Inc. | 161 | 112 | 267 | 2.2x | 1.9x | 1.9x | 8.9x | 8.8x | 21.0x | 18.1x | 15% | 4% | 22% |
| Popeyes Louisiana Kitchen, Inc. | 1,385 | 110 | 1,487 | 5.7x | 5.1x | 4.7x | 15.6x | 13.7x | 28.5x | 27.5x | 11% | 10% | 32% |
| Shake Shack Inc. | 526 | 0 | 463 | 2.4x | 1.9x | 1.5x | 11.4x | 9.1x | 90.0x | 88.0x | 26% | 26% | 14% |
| Wingstop Inc. | 693 | 96 | 783 | 10.1x | 9.0x | 8.2x | 24.4x | 21.2x | 47.3x | 44.6x | 13% | 9% | 34% |
| Mean | 2,126 | 90 | 2,136 | 3.3x | 2.9x | 2.6x | 13.0x | 11.7x | 35.3x | 33.4x | 12% | 13% | 20% |
| Median | 563 | 96 | 750 | 2.2x | 1.9x | 1.5x | 11.4x | 10.6x | 28.5x | 27.5x | 11% | 13% | 14% |
| **El Pollo Loco Valuation** | | | | | | | | | | | | | |
| El Pollo Loco Holdings, Inc. | 464 | 126 | 581 | 1.6x | 1.5x | 1.3x | 8.4x | 7.5x | 16.9x | 16.4x | 11% | 11% | 18% |

**Compelling Valuation: Trading at a significant and unwarranted discount to a peer group across all metrics despite strong sales and margin growth expectations**

*Source: S&P Capital IQ*

# Valuation

## DCF Output & Operating Assumptions

### Bear Case

**Average unit volume (AUV) growth**

- Assumed to decrease vs. 2014A both for franchise and co.-operated units and remain constant afterward

**Unit growth**

- Both company-owned and franchise units growing at 8% y-o-y

**Company restaurants expense**

- Food and paper cost increasing
- Higher wage and related expense

**Company level expense**

- Higher SG&A and franchise fees

| | |
|---|---|
| Price Target: | $11.64 |
| **Downside:** | **-4%** |

### Base Case

**Average unit volume (AUV) growth**

- Assumed to stay constant over time both for franchise and co.-operated units

**Unit growth**

- Both company-owned and franchise units growing at 9% y-o-y

**Company restaurants expense**

- Food and paper cost constant
- Increasing wage and related expense

**Company level expense**

- Constant SG&A and franchise fees

| | |
|---|---|
| Price Target: | $16.80 |
| **Upside:** | **39%** |

### Bull Case

**Average unit volume (AUV) growth**

- Assumed to increase vs. 2014A both for franchise and co.-operated units and remain constant afterward

**Unit growth**

- Both company-owned and franchise units growing at 10% y-o-y

**Company restaurants expense**

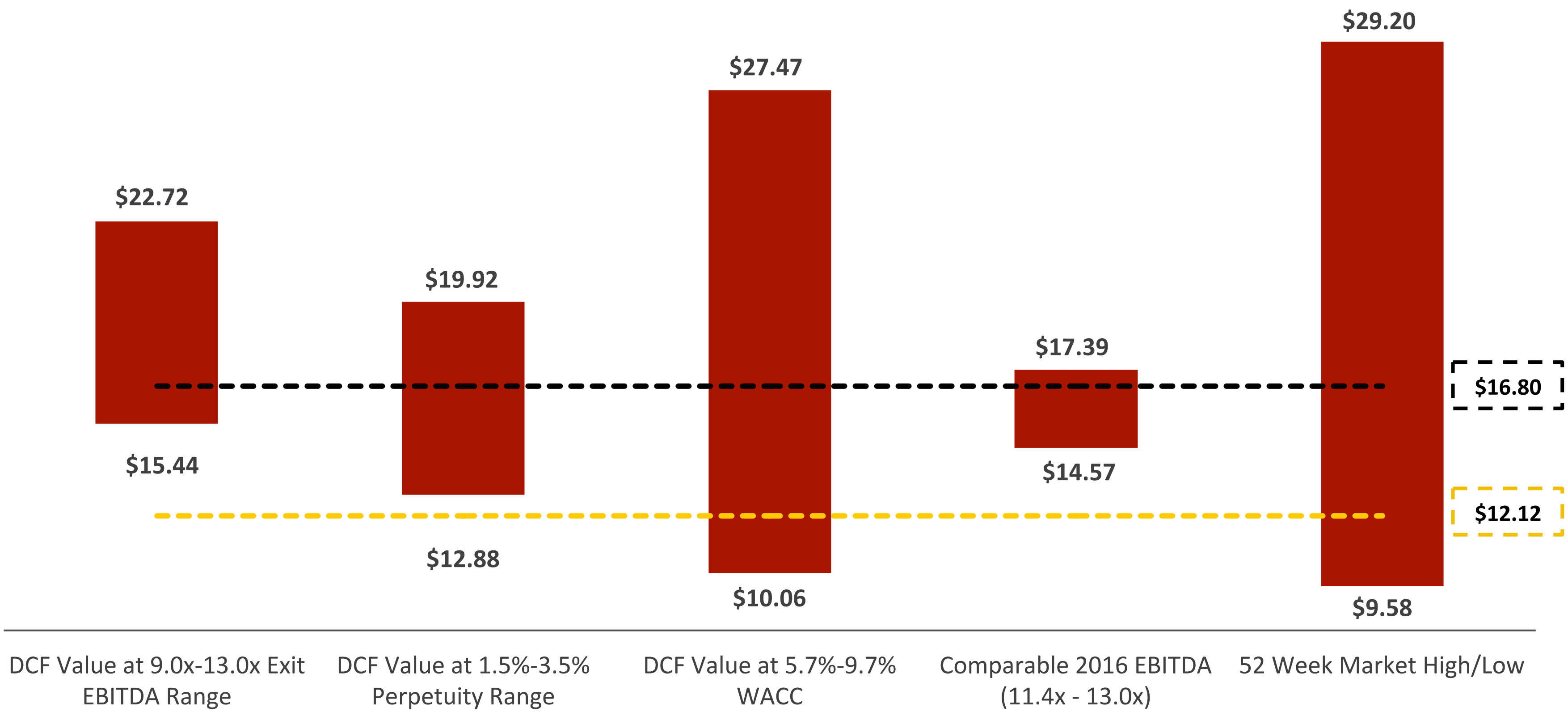
- Food and paper cost decreasing
- Constant wage and related expense

**Company level expense**

- Slightly lower SG&A and franchise fees

| | |
|---|---|
| Price Target: | $18.15 |
| **Upside:** | **50%** |

# Valuation
## Football Field




Price target of $16.80 represents an upside of 39%

*Source: DCM – LOCO-Model-Comp-Table-FV*

# Valuation

## WACC Calculation

**COMPANIES**

| El Pollo Loco Holdings, Inc. | NasdaqGS:LOCO |
|---|---|
| Market Value of Equity | 464.0 |
| Market Value of Debt | 125.7 |
| Preferred Shares | 0.0 |
| Minority Interest | 0.0 |
| Cash & ST Investments | 8.2 |
| **Enterprise Value** | **581.5** |
| Debt-to-Equity | 27.09% |
| Debt-to-EV | 21.62% |
| Equity-to-EV | 79.80% |
| **Cost of Debt** | **1.91%** |
| **Cost of Equity** | **9.35%** |
| Industry related risk premium | 0.00% |
| Country Risk Premium (MRP) | 8.01% |
| Risk Free Rate | 1.92% |
| Tax Rate | 35.00% |
| Levered Beta | 0.8 |
| Unlevered Beta | 0.663 |
| **Relevered Beta** | **0.927** |
| **WACC** | 7.73% |

| Del Taco Restaurants, Inc. | NasdaqCM:TACO |
|---|---|
| Market Value of Equity | 375.2 |
| Market Value of Debt | 176.4 |
| Preferred Shares | 0.0 |
| Minority Interest | 0.0 |
| Cash & ST Investments | 7.2 |
| **Enterprise Value** | **544.4** |
| Debt-to-Equity | 47.01% |
| Debt-to-EV | 32.40% |
| Equity-to-EV | 68.92% |
| **Cost of Debt** | **1.06%** |
| **Cost of Equity** | **11.18%** |
| Industry related risk premium | 0.00% |
| Country Risk Premium (MRP) | 8.16% |
| Risk Free Rate | 2.04% |
| Tax Rate | 35.00% |
| Levered Beta | 0.5 |
| Unlevered Beta | 0.383 |
| | **1.121** |
| **WACC** | 7.93% |

| Fiesta Restaurant Group, Inc. | NasdaqGS:FRGI |
|---|---|
| Market Value of Equity | 967.1 |
| Market Value of Debt | 70.4 |
| Preferred Shares | 0.0 |
| Minority Interest | 0.0 |
| Cash & ST Investments | 1.0 |
| **Enterprise Value** | **1036.6** |
| Debt-to-Equity | 7.28% |
| Debt-to-EV | 6.80% |
| Equity-to-EV | 93.30% |
| **Cost of Debt** | **1.91%** |
| **Cost of Equity** | **7.89%** |
| Industry related risk premium | 0.00% |
| Country Risk Premium (MRP) | 8.16% |
| Risk Free Rate | 2.04% |
| Tax Rate | 35.00% |
| Levered Beta | 1.1 |
| Unlevered Beta | 1.079 |
| | **0.717** |
| **WACC** | 7.44% |

| Chuy's Holdings, Inc. | NasdaqGS:CHUY |
|---|---|
| Market Value of Equity | 563.4 |
| Market Value of Debt | 0.0 |
| Preferred Shares | 0.0 |
| Minority Interest | 0.0 |
| Cash & ST Investments | 10.6 |
| **Enterprise Value** | **552.8** |
| Debt-to-Equity | 0.00% |
| Debt-to-EV | 0.00% |
| Equity-to-EV | 101.92% |
| **Cost of Debt** | **1.50%** |
| **Cost of Equity** | **7.78%** |
| Industry related risk premium | 0.00% |
| Country Risk Premium (MRP) | 8.16% |
| Risk Free Rate | 2.04% |
| Tax Rate | 35.00% |
| Levered Beta | 1.0 |
| Unlevered Beta | 1.000 |
| | **0.704** |
| **WACC** | 7.93% |

| Bojangles', Inc. | NasdaqGS:BOJA |
|---|---|
| Market Value of Equity | 522.0 |
| Market Value of Debt | 242.9 |
| Preferred Shares | 0.0 |
| Minority Interest | 0.0 |
| Cash & ST Investments | 15.1 |
| **Enterprise Value** | **749.9** |
| Debt-to-Equity | 46.54% |
| Debt-to-EV | 32.40% |
| Equity-to-EV | 69.61% |
| **Cost of Debt** | **1.89%** |
| **Cost of Equity** | **10.34%** |
| Industry related risk premium | 0.00% |
| Country Risk Premium (MRP) | 8.16% |
| Risk Free Rate | 2.04% |
| Tax Rate | 35.00% |
| Levered Beta | 0.9 |
| Unlevered Beta | 0.691 |
| | **1.018** |
| **WACC** | 7.60% |

| USA | |
|---|---|
| Risk Free Rate | 2.04% |
| Industry Average Unlevered Beta | **0.788** |

| USA | |
|---|---|
| Risk Free Rate | 2.04% |
| Industry Average Unlevered Beta | **0.858** |

| USA | |
|---|---|
| Risk Free Rate | 2.04% |
| Industry Average Unlevered Beta | **0.684** |

| USA | |
|---|---|
| Risk Free Rate | 2.04% |
| Industry Average Unlevered Beta | **0.704** |

| USA | |
|---|---|
| Risk Free Rate | 2.04% |
| Industry Average Unlevered Beta | **0.781** |

*Source: DCM – LOCO-Model-Comp-Table-FV*
*Source Bloomberg Data Feb. 1st, 2016*

# Valuation
## Sensitivity Analysis

| | | Long term growth rate | | | | |
|---|---|---|---|---|---|---|
| | | 1.5% | 2.0% | 2.5% | 3.0% | 3.5% |
| WACC | 9.7% | $ 8.6 | $ 9.3 | $ 10.1 | $ 10.9 | $ 12.0 |
| | 8.7% | $ 10.4 | $ 11.4 | $ 12.4 | $ 13.7 | $ 15.1 |
| | 7.7% | $ 12.9 | $ 14.2 | $ 15.7 | $ 17.5 | $ 19.8 |
| | 6.7% | $ 16.3 | $ 18.2 | $ 20.5 | $ 23.5 | $ 27.5 |
| | 5.7% | $ 21.3 | $ 24.4 | $ 28.4 | $ 34.0 | $ 42.0 |

| | | Exit EBITDA Multiple | | | | |
|---|---|---|---|---|---|---|
| | | 9.0x | 10.0x | 11.0x | 12.0x | 13.0x |
| WACC | 9.7% | $ 13.9 | $ 15.6 | $ 17.3 | $ 18.9 | $ 20.6 |
| | 8.7% | $ 14.7 | $ 16.4 | $ 18.1 | $ 19.9 | $ 21.6 |
| | 7.7% | $ 15.4 | $ 17.3 | $ 19.1 | $ 20.9 | $ 22.7 |
| | 6.7% | $ 16.3 | $ 18.2 | $ 20.1 | $ 22.0 | $ 23.9 |
| | 5.7% | $ 17.1 | $ 19.1 | $ 21.1 | $ 23.1 | $ 25.1 |

From the sensitivity analysis, we come to realize that LOCO is trading at a discount in most cases

*Source: DCM – LOCO-Model-Comp-Table-FV*

# Risks and Catalysts

BUY recommendation with price target of $16.80

## Risk of getting roasted

- Low brand awareness outside of California → as they expand may have to spend significantly to establish traction
- Chicken commodity spikes could impact margins and decrease the value proposition
- Reliance on franchisees
- Trimaran Fund Management owns 44% of shares outstanding and if they liquidate their position it could potentially hurt valuation
- Geographic Exposure: wage increases, and water price hikes could have strong impact

## Chicken can fly too (Catalysts)

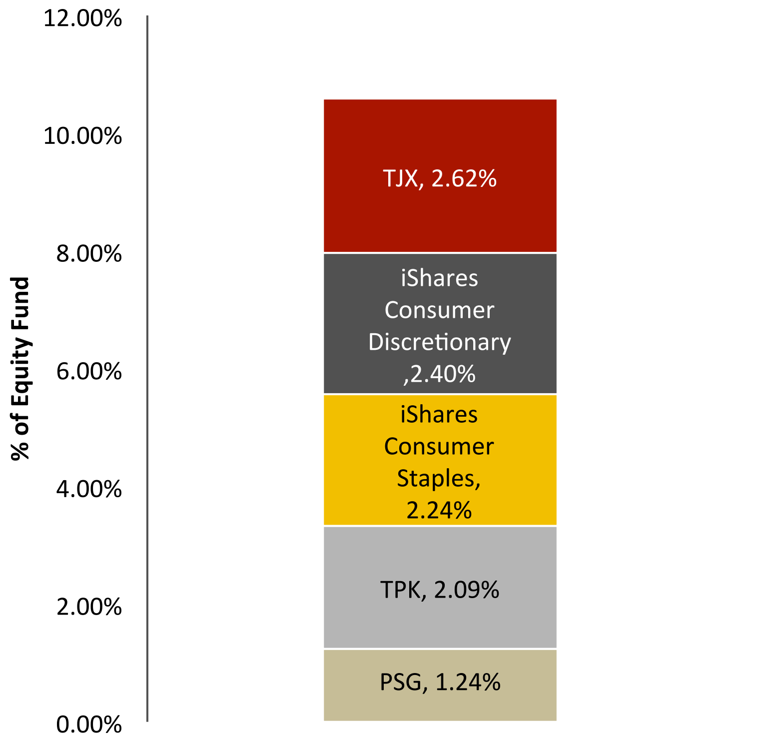
- Increase in comps and SSS could lead to reversal of market sentiment
- Initial expansion data proving to be positive could lead to more upbeat expectation of growth prospects
- At depressed valuation LOCO is a target and we could see it taken private or acquired
- Continued deliverance of positive results will lead to a multiple revaluation
- Continued growth of contribution margin and AUV

¡FEEL THE MEXCELLENCE!℠

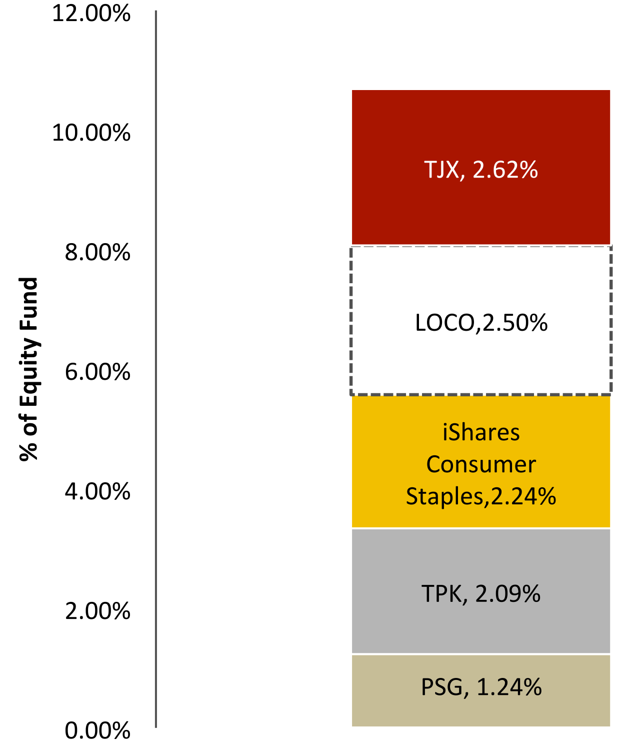
Price target of $16.80 represents an upside of 39%

# Allocation Discussion
Finger Licking Good

## Current Allocation




## Suggested Allocation




**Recommendation**: Initiate a 2.5% position in LOCO and sell iShares Consumer Discretionary ETF position, increasing the consumer portfolio's exposure to the U.S. consumer services sub segment.