



# El Pollo Loco (NASDAQ:LOCO)

Recommendation: Buy



Alexandra Daddio, Abigail Varney, Annalisa Eramo & Marisa Sunnerberg  
March 27th, 2021

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# Executive Summary

Recommendation:

We are recommending a 'buy' on El Pollo Loco stock (NASDAQ: LOCO)

Price Target Year 1:

Price Target Year 3:

Bear:

Base:

Bull:

Bear:

Base:

Bull:

7.9%/\$20.39

16.7%/\$22.05

29%/\$24.36

29.4%/\$24.44

36.4%/\$25.77

43.5%/\$27.10

Macro Headwinds Driving Demand

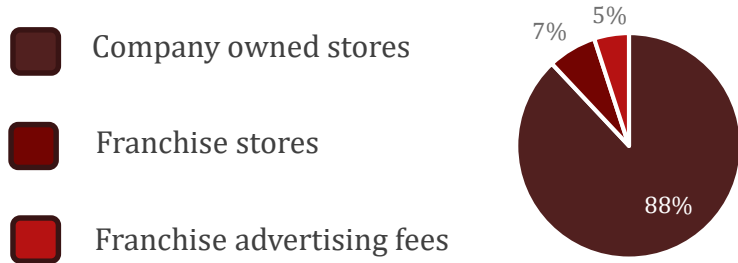
Evolution of Customer Satisfaction

Experienced Leadership with Focus on Growth

# Business Overview

## Revenue Segments and Breakdown

All revenue relates to retail sales of food and beverages



## Details

### Limited-Service Restaurant (LSR)

- Aims to provide the food and dining experience of fast-casual restaurant at the speed, value, and convenience of a QSR

### LA-Mex Cuisine

- Combines culinary tradition of Mexico with healthier lifestyle of Los Angeles
- Menu: citrus-marinated chicken, chicken avocado burritos, chicken tostada salads, and pollo bowls

### Locations

- California, Arizona, Nevada, Texas, Utah, and Louisiana; past failures to expand east
- 80% system wide in Cali, 60% in LA

## Management Strategy

### Transformation Period 2017-2020

People-first culture, differentiation, simplification of operations, and responsible growth

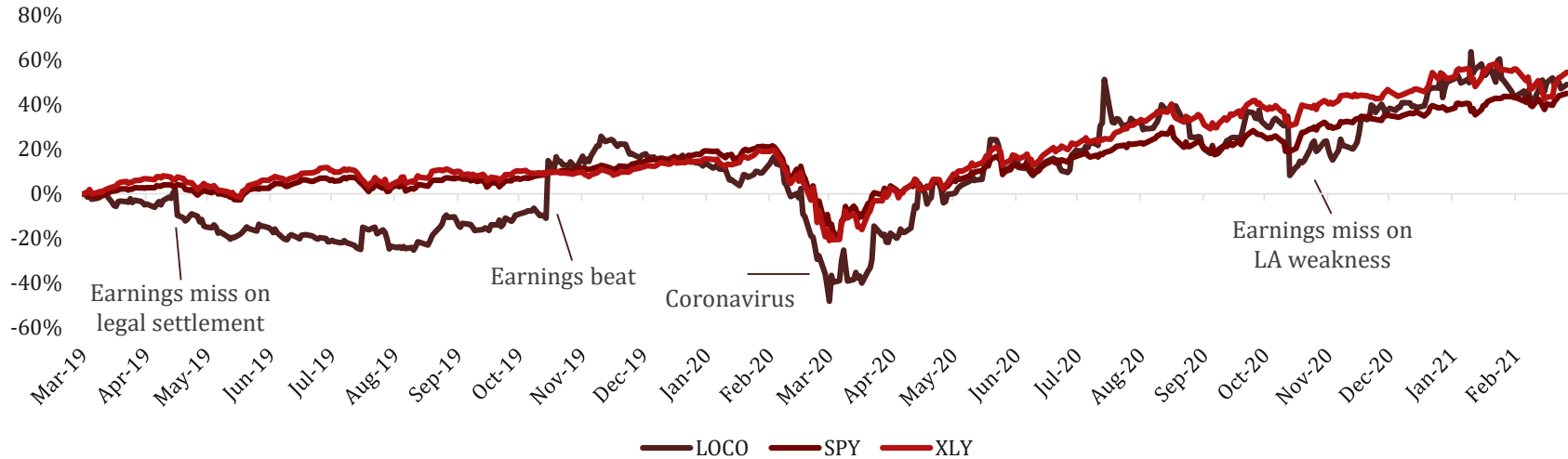
'17-'19 comps 8.3% growth

### Acceleration Agenda 2021-2024

TBA FY1Q21

Most likely to be focused on e-commerce, off-premise consumption, better-for-you product development, and franchise expansion

## 2 Year Relative Performance



## Key Metrics

|             |          |
|-------------|----------|
| Share Price | \$18.89  |
| Market Cap  | \$688.7M |
| EV/EBITDA   | 14.7x    |
| P/E         | 23.92x   |
| ROIC        | 4.94%    |
| Beta        | 1.32     |

# Industry/End Market Overview

## Industry Trends – Shift in Demand

### Health

- Consumer becoming more health conscious
- Evolution to specified offerings for certain dietary needs

### Convenience

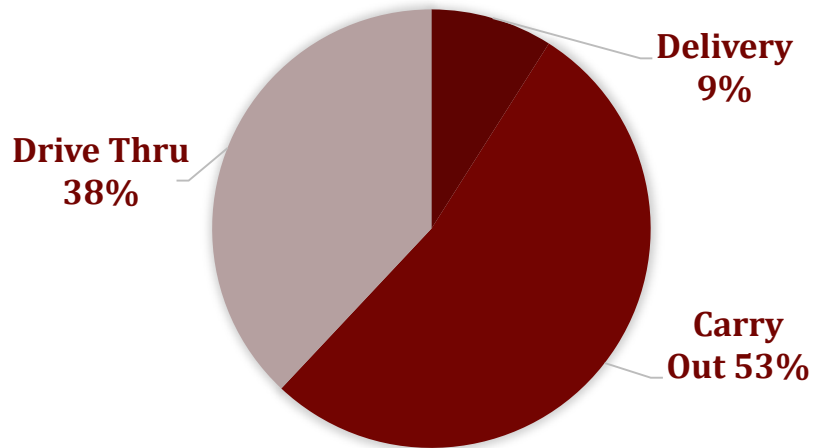
- Emphasis on customer wait time
- Mobile ordering, apps, and technology used to speed up experience

### Price

- Demand for higher quality food at historical industry prices
- Value still a determining factor for customers

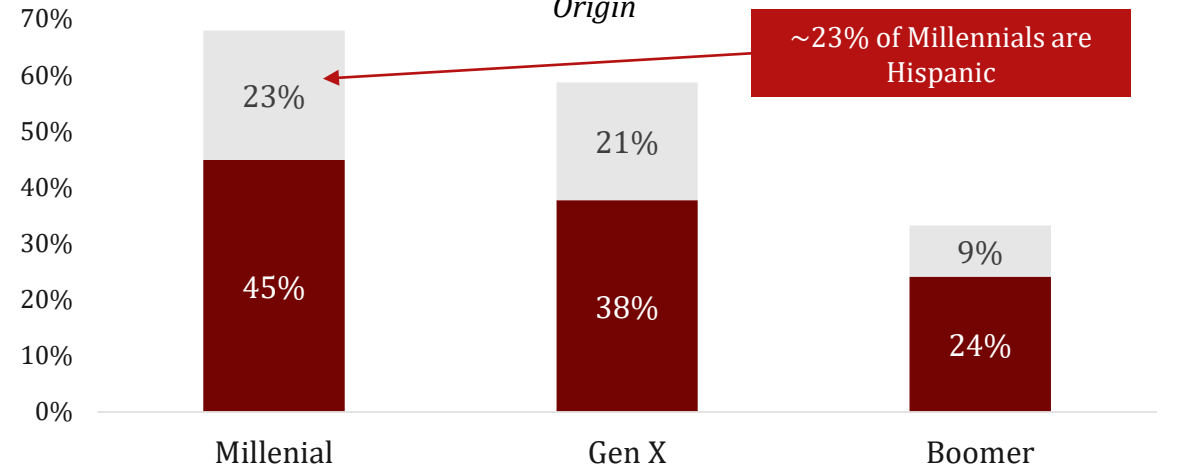
## Adjusting End Markets Due to COVID-19

% Share of Off-Premises U.S. Restaurant Sales 2020



## Customer Demographics

% of U.S. Adults who Consumed Fast Food on a Given Day in 2016 by Age and Hispanic Origin



## Future Outlook

•Kiosk ordering, GPS integration, and app engagement

•Multi-lane drive-thru and curbside pick up

•Redesign of physical locations and dining rooms



Macro Headwinds Driving Demand



Evolution of Customer Satisfaction



Experienced Leadership with Focus on Growth

# Macro Tailwinds Driving Demand

## Healthier Lifestyles

### Purchase Drivers

- ~70% of Millennials will pay more for healthier & better-quality food options

### Diet Culture

- 1 in 5 Americans are on diets
- 50% of U.S. adults have diet-related conditions

### Changing Palate

- ~39% of people in the United States are eating more vegan foods

## Unrealized TAM

### Hispanic Population Growth:

- Hispanic population to reach ~87 million by 2040 (~25% of total U.S. population)

*% Increase in Hispanic population by state 2010-2019*

30%

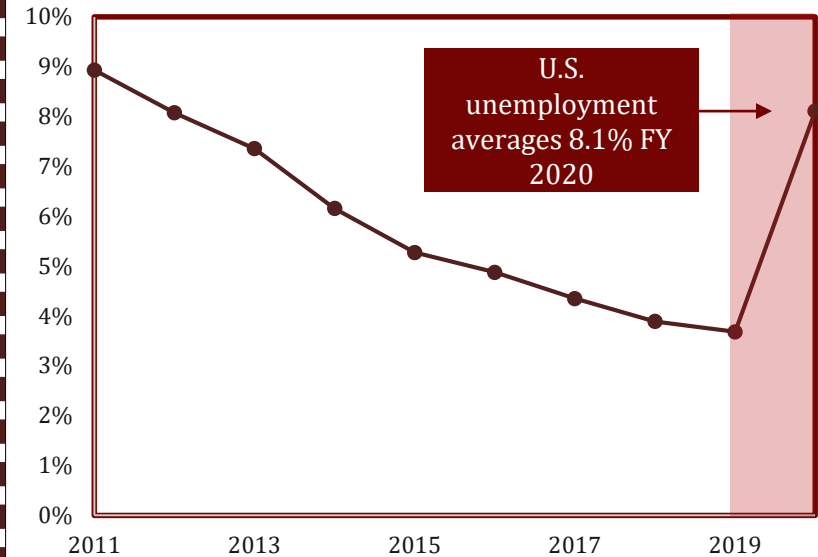
20%

- U.S. border states account for ~50% of Hispanic population, while growth continues elsewhere

## COVID-19 Economic Downturn

### Effect on Consumers:

- Widespread unemployment
- Spending shift to value and essentials
- Reliance on takeout, drive-thru, and homecooked meals

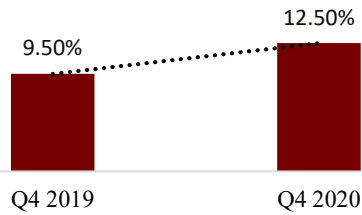


- LOCO store sales -4% in 2020

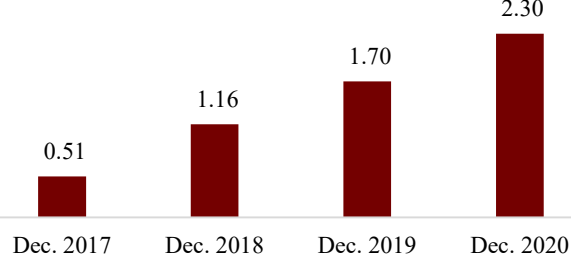
# Evolution of Customer Satisfaction

## Loyalty Program

Loco Rewards Loyalty Program Percent of Total Sales (%)



Loco Rewards Loyalty Program Members (Millions)



New loyalty program implemented in fall 2020 ranked top in the US  
Loyalty program sales reach 10-12% of sales each week

## Menu Updates to Match Trends & Food Quality

### Vegan

- First chicken brand to create vegetarian chicken
- Redeveloped vegetarian chicken to make vegan option in 3 months

### Keto

- First chicken brand to offer keto alternatives
- Offer Keto tacos and burritos using keto tortillas

### Caloric Breakdowns

- Complete breakdowns of all menu items
- Offers meals for 390 Calories (less caloric density than Chipotle at 490 calories)

LOCO's can quickly adapt to change in consumer demand, which allows them to reach the 44% of Americans with diet restrictions

## Operational Effectiveness

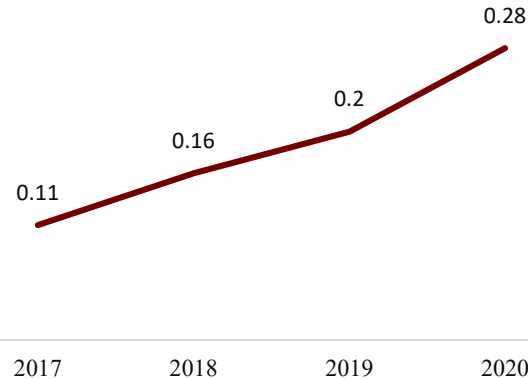
New double drive-thrus and technology reduce wait times by 50%

New GPS technology for pick-up (10% of sales)

New drive-thru and take-out only locations

Goal to decrease wait times to 45 seconds

Operational Efficiencies Drive Pro Forma EPS Growth y/y

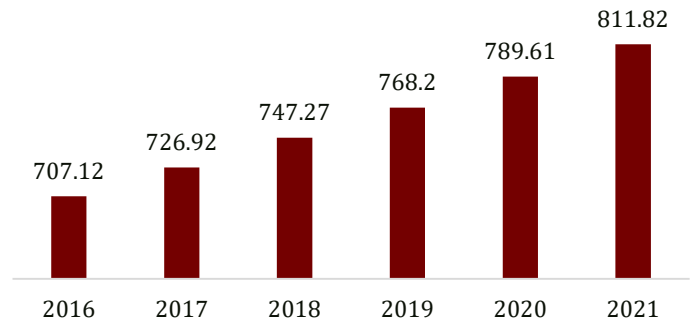


65% of Americans want to eat healthier

LOCO only uses fresh ingredients

Combination of quick and healthy food appeals to consumers

Healthy Food Market Value (Billions)

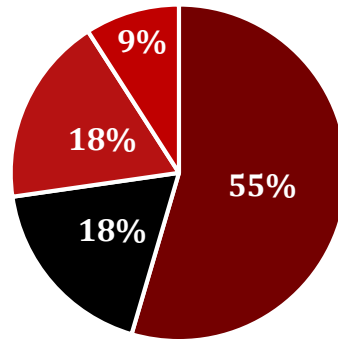


# Experienced Leadership with Focus on Franchise and Partnership Growth

## Skilled Management

- Management team has record of profit growth through strategic product development, advertising, and digital expertise
- Consistent transformation agendas with a new logo, tagline, and point-of-purchase materials
- Implementation of five-point strategy: delivery, family meal sales, value, drive-thrus, and digital sales

Years of Executive Experience



■ 30+ ■ 25+ ■ 20+ ■ 15+

## Organic Partnership

• “Design resilient brands” through distinct marketing and e-commerce strategies

Over 30% increase of LOCO’s digital media dollar allocation from 2019-2020

Advance mobile app, loyalty program, and GPS-enabled curbside pickup

## Franchise-Based Growth Strategy

- 5% annual projected unit expansion in the U.S. by 2023
- Projected 140+ restaurants to open in Western U.S. by 2026
- Lower capital commitment leads to ~7% increase in franchise revenue YTD

### Franchise Costs

#### Franchise Fee

\$40,000

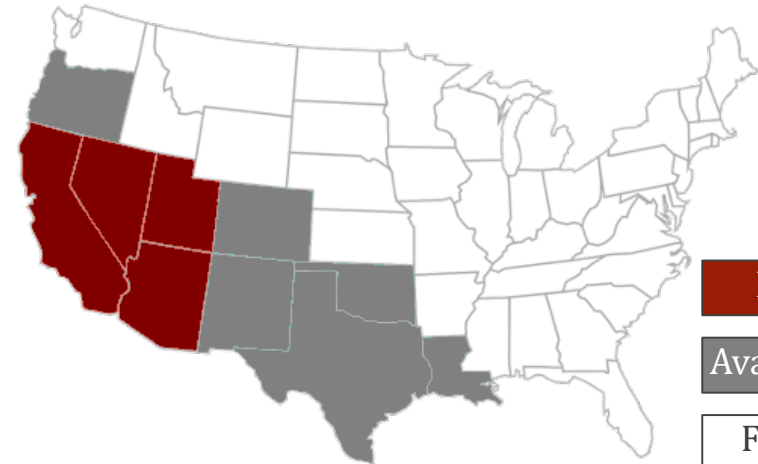
#### Total Investment

\$505,000-\$1.1M

#### Royalty Fee

4% of monthly receipts

## Franchise Territories



Full Territory

Available Territory

Future Growth



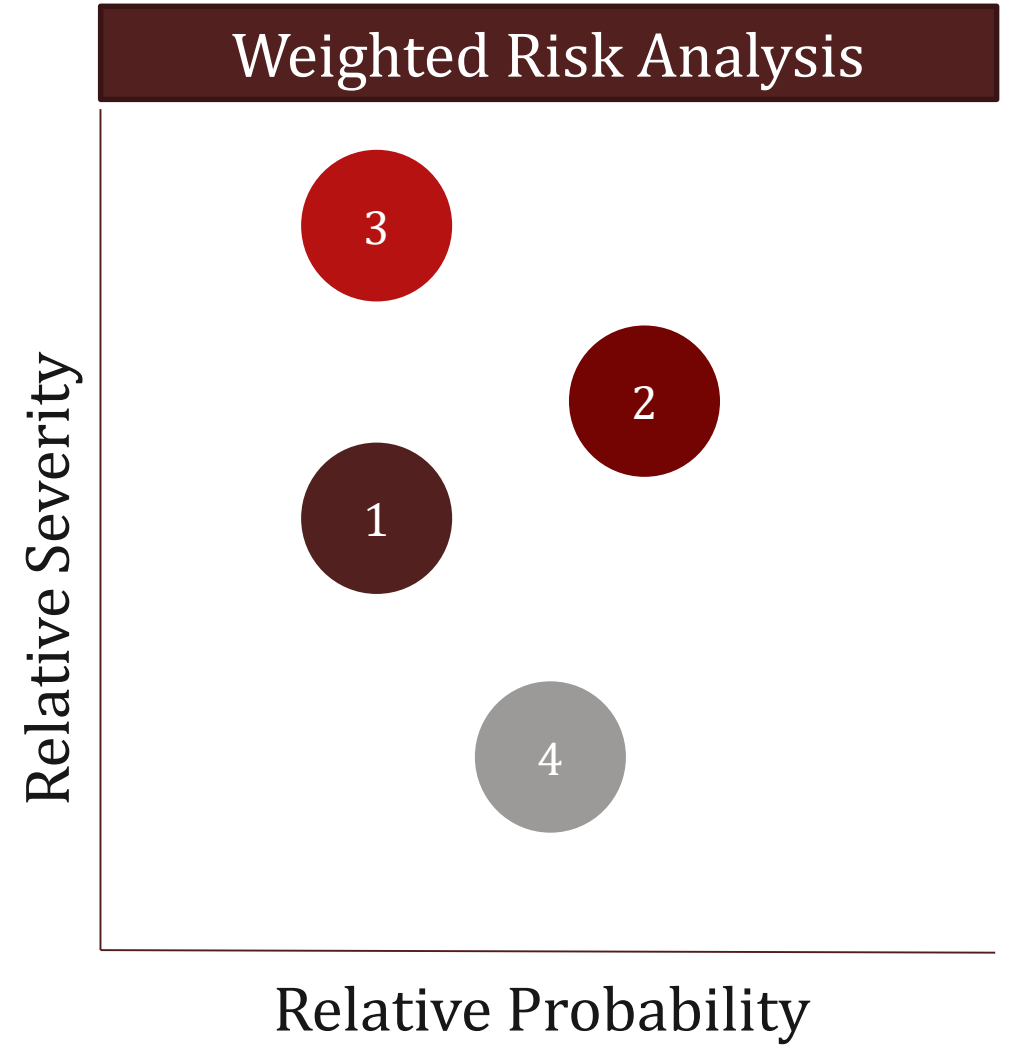
## Risks to Thesis

1. 2016 Franchise Lawsuit

2. LA & CA Economy

3. Tepid Reception in New Markets

4. Overpopulation of FCRs and QSRs



## Catalysts

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Announcement of New Franchisees in New Markets

New Marketing Targets Different Demographics

Increase in Food Consumption Awareness

Faster than Expected Economic Rebound in LA

## Comparable Company Analysis

| Company                    | Ticker      | Location Count | Market Cap       | EV/EBITDA    | P/E          | EBITDA Margin | ROE           | ROIC         | Short Int.  |
|----------------------------|-------------|----------------|------------------|--------------|--------------|---------------|---------------|--------------|-------------|
| Mexican Restaurant Peers   |             |                |                  |              |              |               |               |              |             |
| <b>Mean</b>                |             |                |                  | <b>27.5x</b> | <b>69.9x</b> | <b>2.9%</b>   | <b>-12.2%</b> | <b>-3.8%</b> | <b>5.5%</b> |
| <b>Median</b>              |             |                |                  | <b>26.8x</b> | <b>54.9x</b> | <b>11.8%</b>  | <b>-1.5%</b>  | <b>-0.7%</b> | <b>6.3%</b> |
| <b>El Pollo Loco</b>       | <b>LOCO</b> | <b>479</b>     | <b>\$688.7mm</b> | <b>14.7x</b> | <b>23.9x</b> | <b>13.4%</b>  | <b>8.8%</b>   | <b>4.9%</b>  | <b>9.0%</b> |
| Chipotle                   | CMG         | 2,744          | \$41.5B          | 41.7x        | 130.9x       | 14.4%         | 19.2%         | 7.1%         | 2.4%        |
| Chuy's                     | CHUY        | 92             | \$843.1mm        | 25.8x        | 54.9x        | 11.8%         | -1.5%         | -0.7%        | 6.3%        |
| Del Taco                   | TACO        | 596            | \$409.8mm        | N/A          | N/A          | -29.8%        | -67.9%        | -29.3%       | 2.2%        |
| Fiesta RG                  | FRGI        | 323            | \$423.2mm        | 27.8x        | N/A          | 4.6%          | -19.7%        | -1.1%        | 7.5%        |
| Small Cap Restaurant Peers |             |                |                  |              |              |               |               |              |             |
| <b>Mean</b>                |             |                |                  | <b>64.5x</b> | <b>58.0x</b> | <b>15.2%</b>  | <b>-4.6%</b>  | <b>8.4%</b>  | <b>7.1%</b> |
| <b>Median</b>              |             |                |                  | <b>64.0x</b> | <b>39.6x</b> | <b>13.4%</b>  | <b>-10.7%</b> | <b>2.1%</b>  | <b>7.7%</b> |
| <b>El Pollo LOCO</b>       | <b>LOCO</b> | <b>479</b>     | <b>\$688.7mm</b> | <b>14.7x</b> | <b>23.9x</b> | <b>13.4%</b>  | <b>8.8%</b>   | <b>4.9%</b>  | <b>9.0%</b> |
| Biglari                    | BH          | 556            | \$467.5mm        | 41.9x        | 39.6x        | 21.0%         | -10.7%        | 1.5%         | 4.4%        |
| Denny's                    | DENN        | 1,650          | \$1.2B           | 93.7x        | N/A          | 5.9%          | N/A           | 2.1%         | 4.3%        |
| Shake Shack                | SHAK        | 311            | \$5.2B           | 108.1x       | N/A          | 9.5%          | -11.9%        | -6.3%        | 10.0%       |
| Wingstop                   | WING        | 1,500          | \$3.87B          | 64.0x        | 110.5x       | 26.1%         | N/A           | 40.0%        | 7.7%        |

# Valuation & Sensitivity Analysis

| Free Cash Flow Build             | 12/28/2016 | 12/27/2017 | 12/26/2018 | 12/25/2019 | 12/24/20 | 12/25/21 | 12/25/22 | 12/25/23 | 12/24/24 |
|----------------------------------|------------|------------|------------|------------|----------|----------|----------|----------|----------|
| Adj. EBITDA                      | 66         | 65         | 63         | 63         | 60       | 59       | 61       | 65       | 70       |
| Less: Income Tax Expense         | 13         | 0          | (3)        | 10         | 6        | 10       | 10       | 11       | 12       |
| Less: Changes in Working Capital | 0          | (1)        | 4          | 0          | (2)      | (0)      | (0)      | (0)      | (0)      |
| Less: Capital Expenditures       | 37         | 36         | 28         | 15         | 17       | 17       | 18       | 21       | 22       |
| Unlevered Free Cash Flow         |            |            |            |            | 38       | 32       | 33       | 34       | 36       |
| Time Until Cash Flow             |            |            |            |            | -        | 0.84     | 1.84     | 2.84     | 3.84     |
| Present Value of FCF             |            |            |            |            | 38       | 30       | 28       | 25       | 25       |

|      |        | EV/Adj. EBITDA |        |        |        |        |        |        |  |
|------|--------|----------------|--------|--------|--------|--------|--------|--------|--|
|      |        | 13.20x         | 13.70x | 14.20x | 14.70x | 15.20x | 15.70x | 16.20x |  |
| WACC | 8.86%  | 11.7%          | 15.4%  | 19.1%  | 22.8%  | 26.5%  | 30.2%  | 33.9%  |  |
|      | 9.36%  | 9.8%           | 13.5%  | 17.1%  | 20.8%  | 24.4%  | 28.0%  | 31.7%  |  |
|      | 9.86%  | 8.0%           | 11.6%  | 15.2%  | 18.7%  | 22.3%  | 25.9%  | 29.5%  |  |
|      | 10.36% | 6.2%           | 9.7%   | 13.2%  | 16.8%  | 20.3%  | 23.8%  | 27.3%  |  |
|      | 10.86% | 4.5%           | 7.9%   | 11.4%  | 14.8%  | 18.3%  | 21.7%  | 25.2%  |  |
|      | 11.36% | 2.7%           | 6.1%   | 9.5%   | 12.9%  | 16.3%  | 19.7%  | 23.1%  |  |
|      | 11.86% | 1.0%           | 4.4%   | 7.7%   | 11.1%  | 14.4%  | 17.7%  | 21.1%  |  |

| WACC                   |        |
|------------------------|--------|
| Beta                   | 1.32   |
| Risk Free Rate         | 1.3%   |
| ERM                    | 9.0%   |
| Market Value of Equity | 681    |
| Weight of Equity       | 89.0%  |
| Cost of Equity         | 11.5%  |
| WA Interest rate       | 1.7%   |
| Tax Rate               | 17.6%  |
| Value of Debt          | 83.8   |
| Weight of Debt         | 11.0%  |
| Cost of Debt           | 1.4%   |
| Calculated WACC        | 10.36% |
| Bloomberg WACC         | 8.8%   |

## Bear:

| Exit EBITDA multiple approach       |            |
|-------------------------------------|------------|
| Terminal year Adj. EBITDA           | 63         |
| Terminal value EBITDA multiple      | 15.3x      |
| Terminal value                      | 966        |
| Present value of terminal value     | 662        |
| Present value of stage 1 cash flows | 128        |
| <b>Enterprise value</b>             | <b>790</b> |

| Valuation                     |                |
|-------------------------------|----------------|
| Enterprise Value              | 790            |
| Less: Net Debt                | 54             |
| Equity Value                  | 735            |
| Diluted Shares Outstanding    | 36.06          |
| <b>Equity Value Per Share</b> | <b>\$20.39</b> |
| Implied Upside                | 7.9%           |

## Base:

| Exit EBITDA multiple approach       |            |
|-------------------------------------|------------|
| Terminal year Adj. EBITDA           | 70         |
| Terminal value EBITDA multiple      | 14.7x      |
| Terminal value                      | 1,028      |
| Present value of terminal value     | 704        |
| Present value of stage 1 cash flows | 146        |
| <b>Enterprise value</b>             | <b>850</b> |

| Valuation                     |                |
|-------------------------------|----------------|
| Enterprise Value              | 850            |
| Less: Net Debt                | 54             |
| Equity Value                  | 795            |
| Diluted Shares Outstanding    | 36.06          |
| <b>Equity Value Per Share</b> | <b>\$22.05</b> |
| Implied Upside                | 16.7%          |

## Bull:

| Exit EBITDA multiple approach       |            |
|-------------------------------------|------------|
| Terminal year Adj. EBITDA           | 72         |
| Terminal value EBITDA multiple      | 16.0x      |
| Terminal value                      | 1,148      |
| Present value of terminal value     | 786        |
| Present value of stage 1 cash flows | 147        |
| <b>Enterprise value</b>             | <b>933</b> |

| Valuation                     |                |
|-------------------------------|----------------|
| Enterprise Value              | 933            |
| Less: Net Debt                | 54             |
| Equity Value                  | 879            |
| Diluted Shares Outstanding    | 36.06          |
| <b>Equity Value Per Share</b> | <b>\$24.36</b> |
| Implied Upside                | 29.0%          |

# Conclusion

Recommendation:

We are recommending a 'buy' on El Pollo Loco stock (NASDAQ: LOCO)

Price Target Year 1:

Price Target Year 3:

Bear:

Base:

Bull:

Bear:

Base:

Bull:

7.9%/\$20.39

16.7%/\$22.05

29%/\$24.36

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36.4%/\$25.77

43.5%/\$27.10

Macro Headwinds Driving Demand

Evolution of Customer Satisfaction

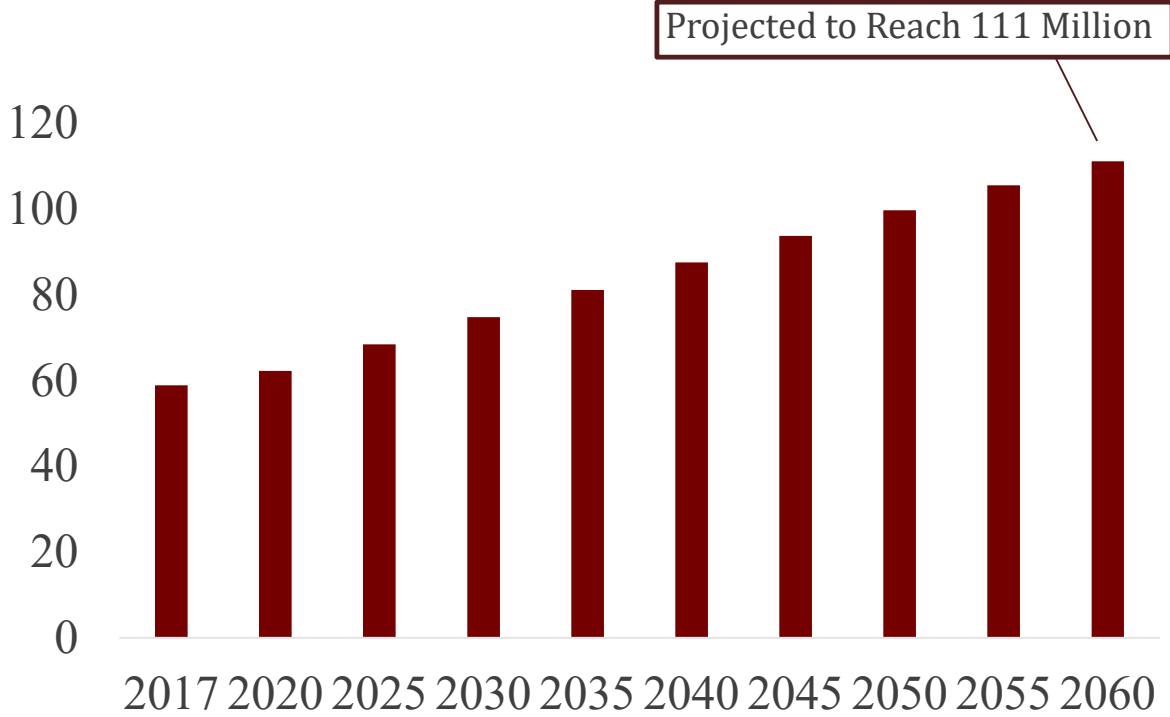
Experienced Leadership with Focus on Growth

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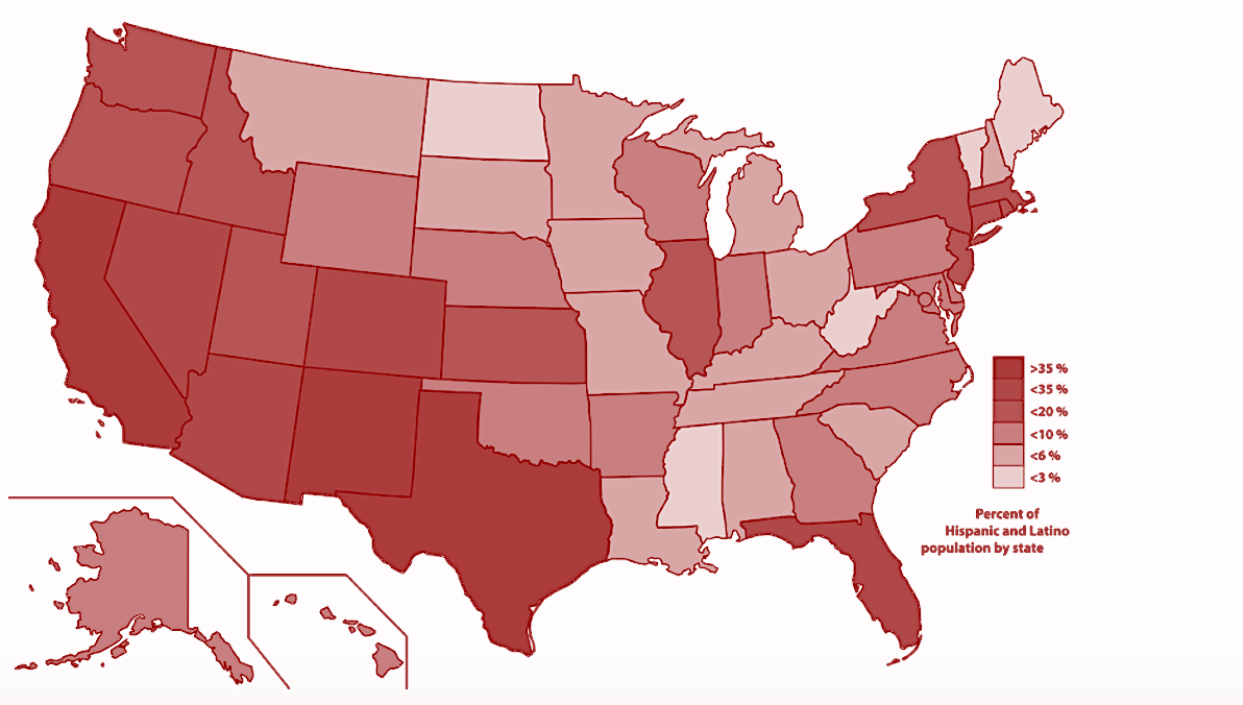
# Questions?

# Appendix

## Projected Hispanic Population in the U.S. (Millions)

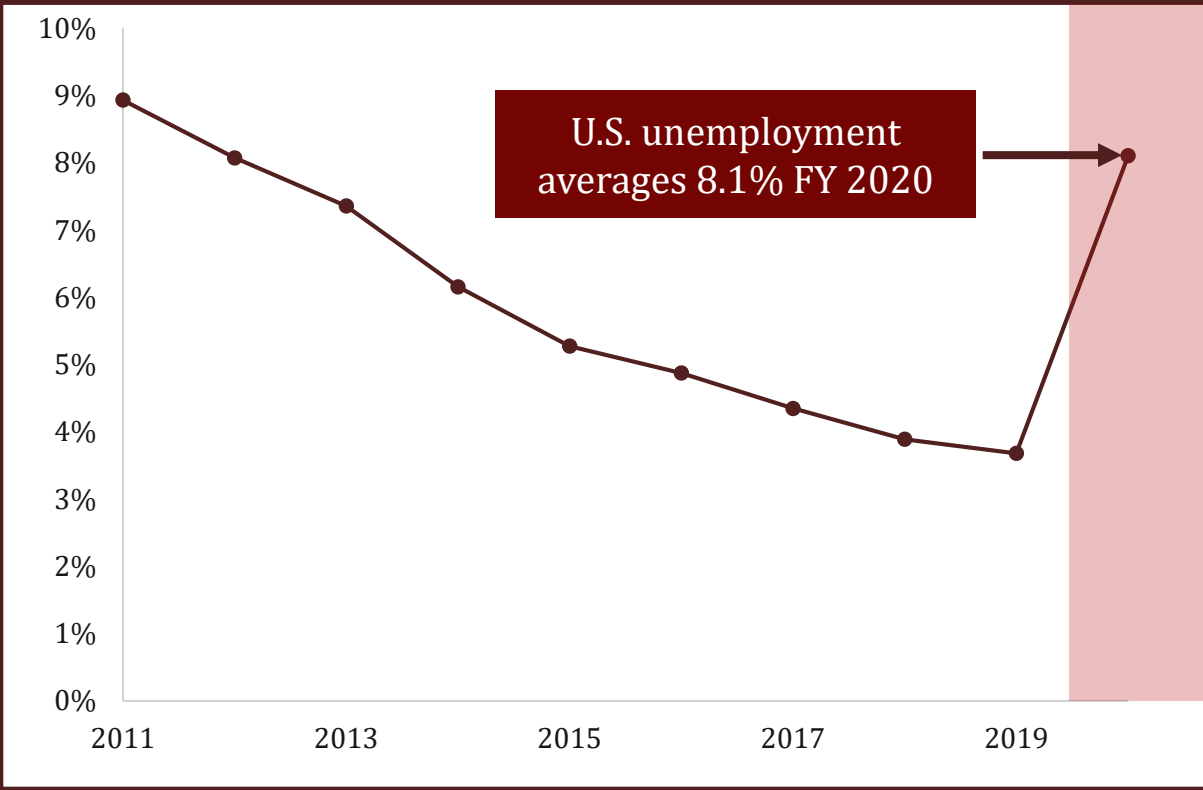


## Hispanic and Latino Population By State

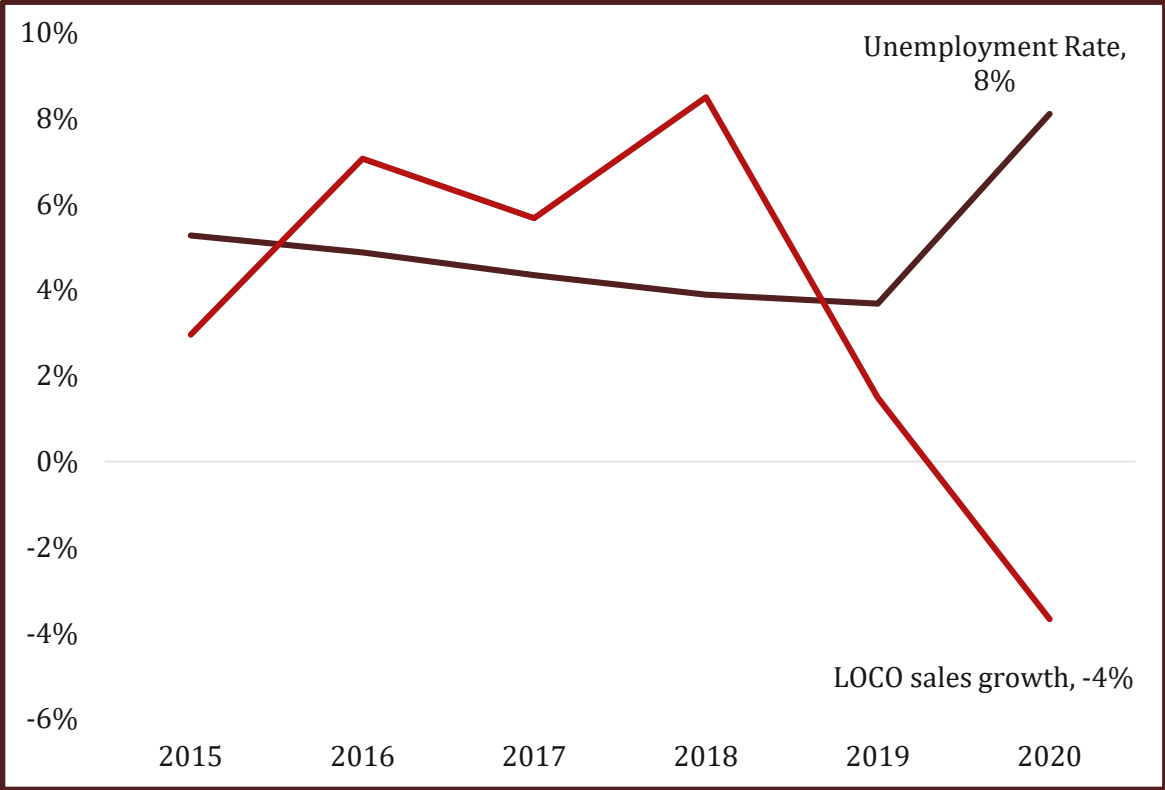


# Appendix

## United States Unemployment Averages



## Unemployment Vs. LOCO Sales Growth



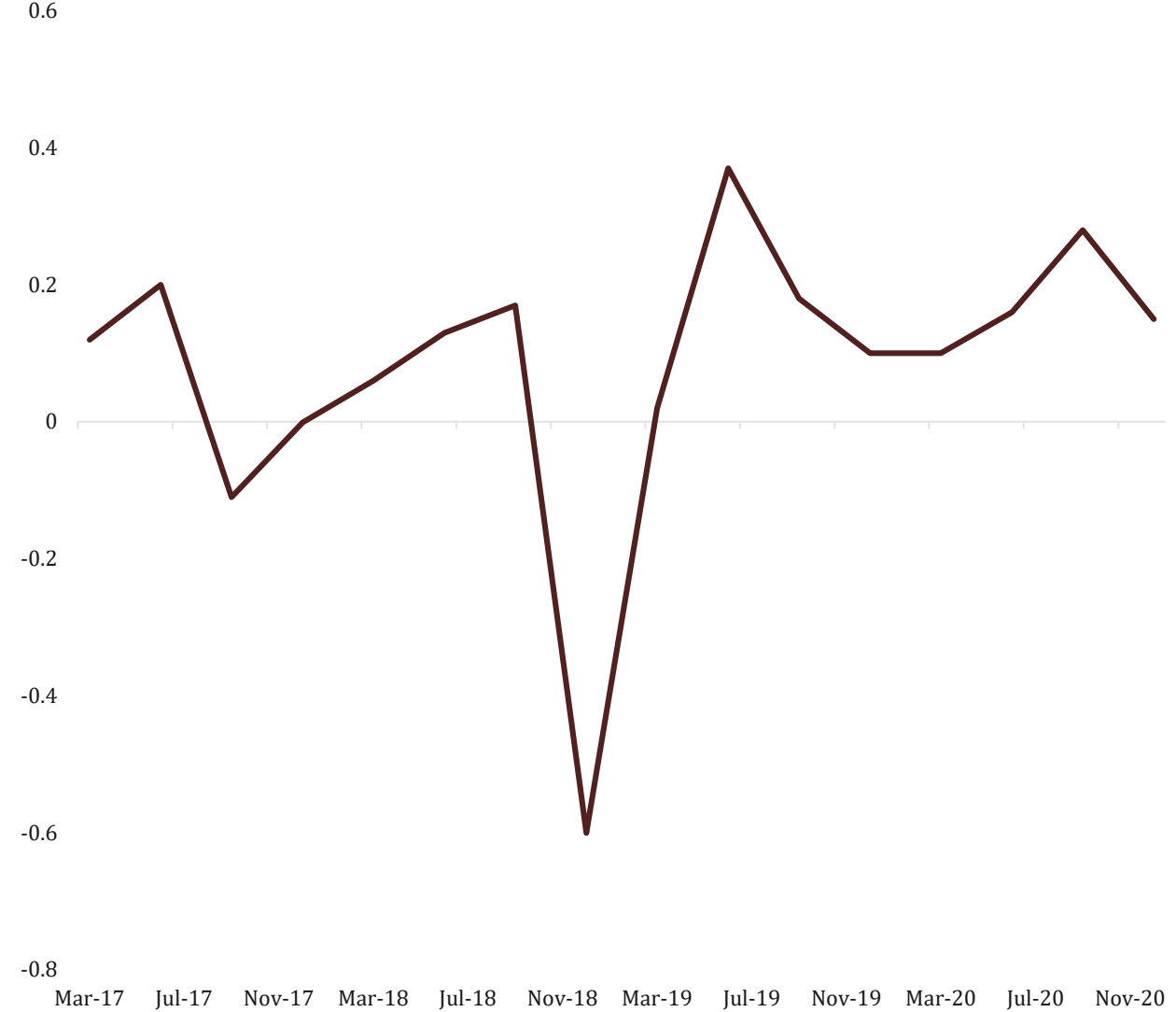


# Appendix

## Revenue vs. EV/EBITDA



## EPS



# Appendix

## Sensitivity Tables for Bear and Bull Scenarios

Bear:

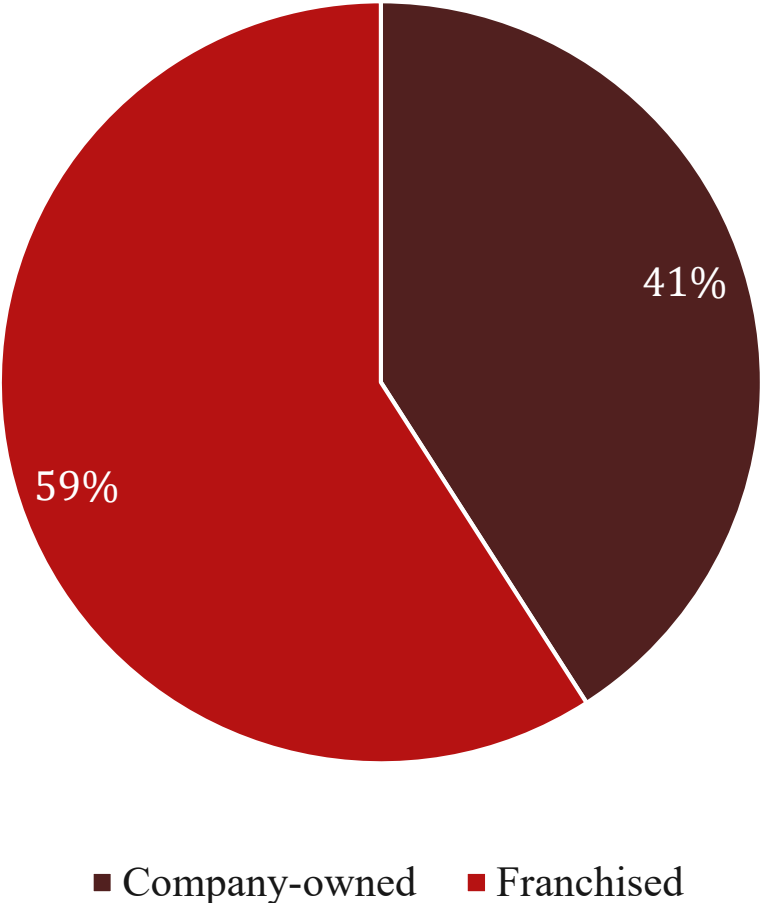
|      |        | EV/Adj. EBITDA |        |        |        |        |        |        |
|------|--------|----------------|--------|--------|--------|--------|--------|--------|
|      |        | 13.80x         | 14.30x | 14.80x | 15.30x | 15.80x | 16.30x | 16.80x |
| WACC | 8.90%  | 3.6%           | 7.0%   | 10.3%  | 13.7%  | 17.0%  | 20.4%  | 23.7%  |
|      | 9.40%  | 1.9%           | 5.2%   | 8.5%   | 11.7%  | 15.0%  | 18.3%  | 21.6%  |
|      | 9.90%  | 0.2%           | 3.4%   | 6.6%   | 9.9%   | 13.1%  | 16.3%  | 19.5%  |
|      | 10.40% | -1.5%          | 1.6%   | 4.8%   | 8.0%   | 11.2%  | 14.3%  | 17.5%  |
|      | 10.90% | -3.2%          | -0.1%  | 3.1%   | 6.2%   | 9.3%   | 12.4%  | 15.5%  |
|      | 11.40% | -4.8%          | -1.7%  | 1.3%   | 4.4%   | 7.5%   | 10.5%  | 13.6%  |
|      | 11.90% | -6.4%          | -3.4%  | -0.3%  | 2.7%   | 5.7%   | 8.7%   | 11.7%  |

Bull:

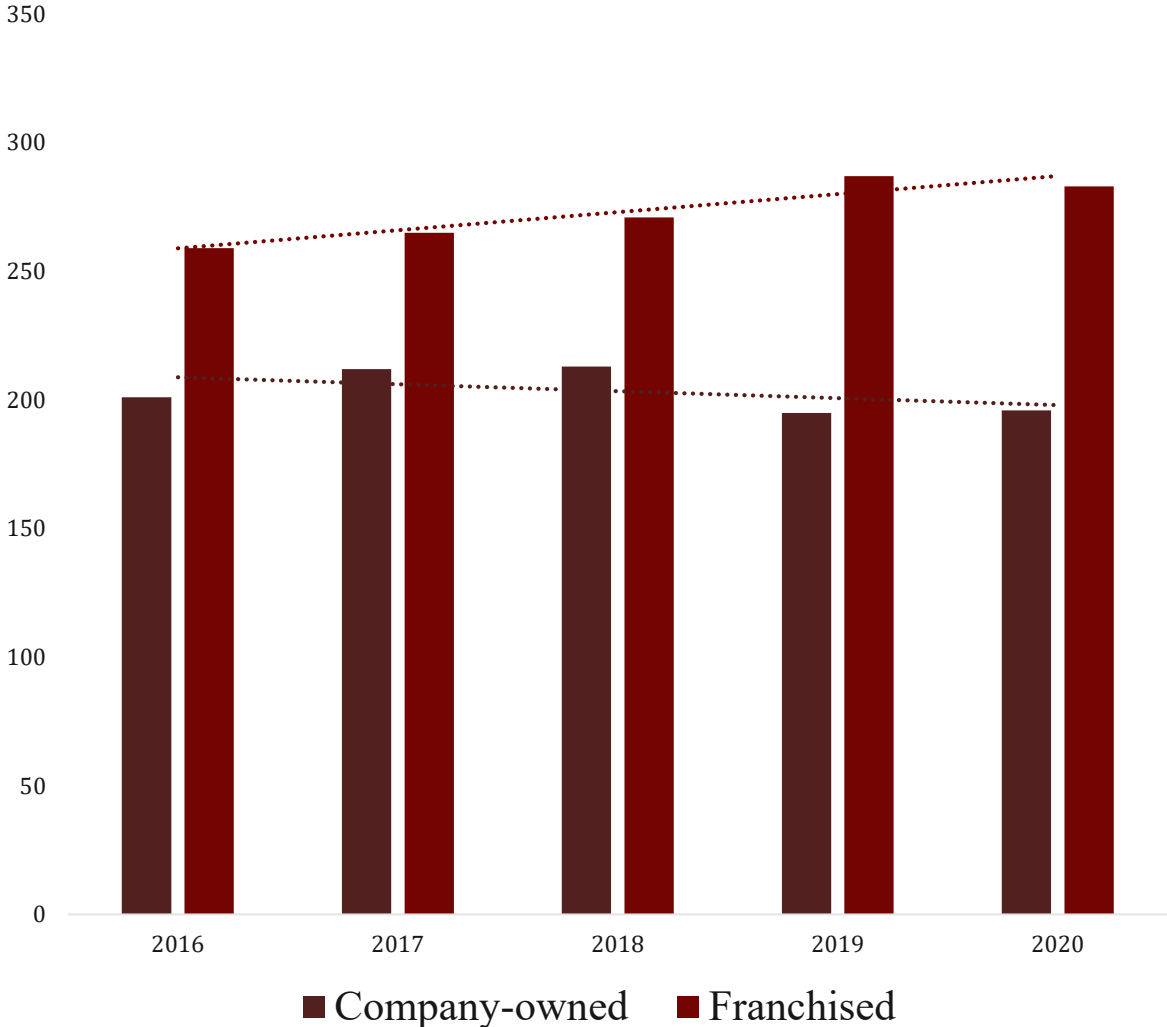
|      |        | EV/Adj. EBITDA |        |        |        |        |        |        |
|------|--------|----------------|--------|--------|--------|--------|--------|--------|
|      |        | 14.50x         | 15.00x | 15.50x | 16.00x | 16.50x | 17.00x | 17.50x |
| WACC | 8.90%  | 24.1%          | 27.9%  | 31.7%  | 35.5%  | 39.3%  | 43.1%  | 46.9%  |
|      | 9.40%  | 22.1%          | 25.8%  | 29.5%  | 33.2%  | 37.0%  | 40.7%  | 44.4%  |
|      | 9.90%  | 20.0%          | 23.7%  | 27.3%  | 31.0%  | 34.7%  | 38.3%  | 42.0%  |
|      | 10.40% | 18.0%          | 21.6%  | 25.2%  | 28.8%  | 32.4%  | 36.0%  | 39.6%  |
|      | 10.90% | 16.0%          | 19.6%  | 23.1%  | 26.7%  | 30.2%  | 33.7%  | 37.3%  |
|      | 11.40% | 14.1%          | 17.6%  | 21.1%  | 24.6%  | 28.0%  | 31.5%  | 35.0%  |
|      | 11.90% | 12.3%          | 15.7%  | 19.1%  | 22.5%  | 25.9%  | 29.3%  | 32.8%  |

# Appendix

## Restaurant Mix as of 12/2020

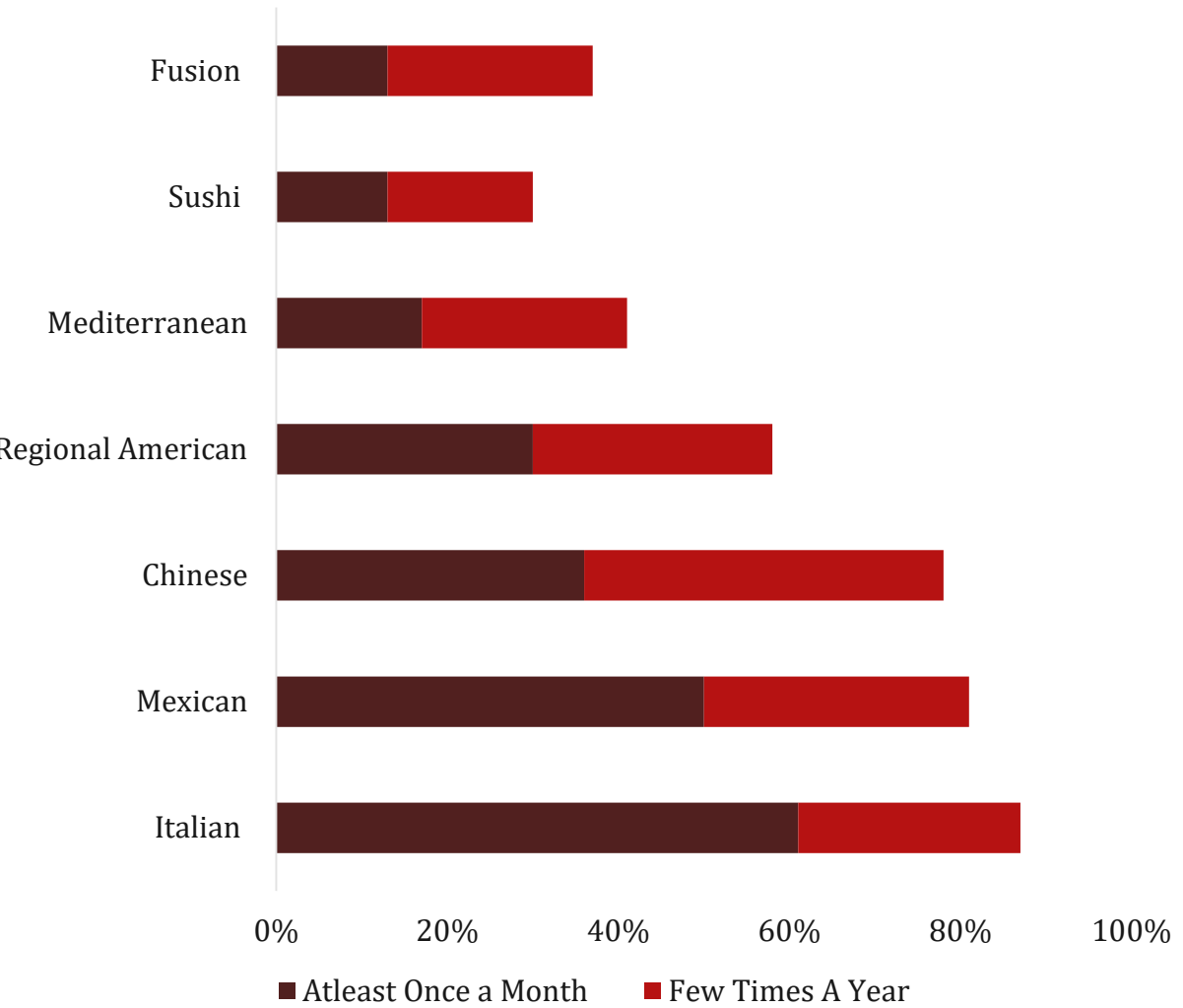


## Company Owned Vs. Franchise Mix

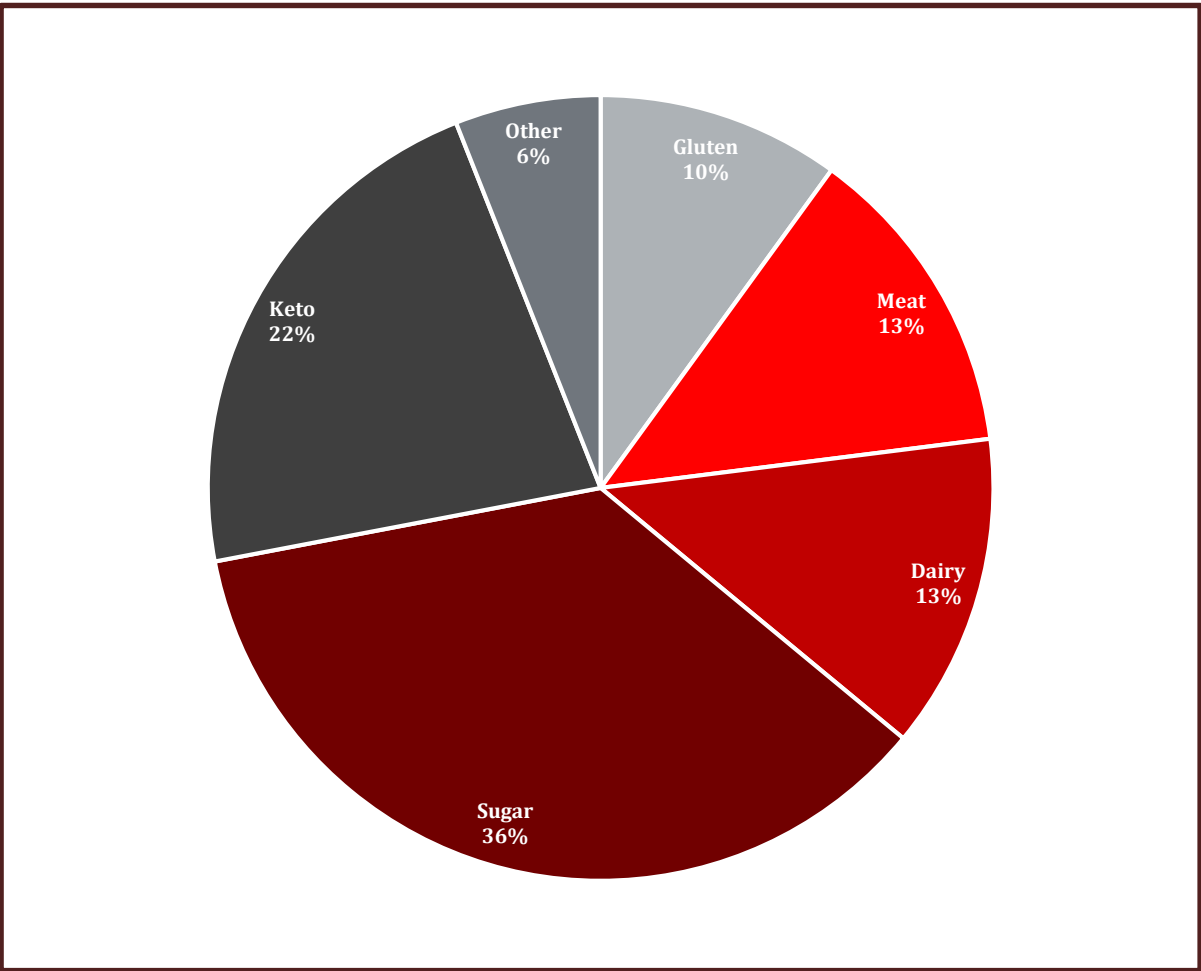


# Appendix

Frequency U.S. Consumers Eat Ethnic Cuisine (menu type)

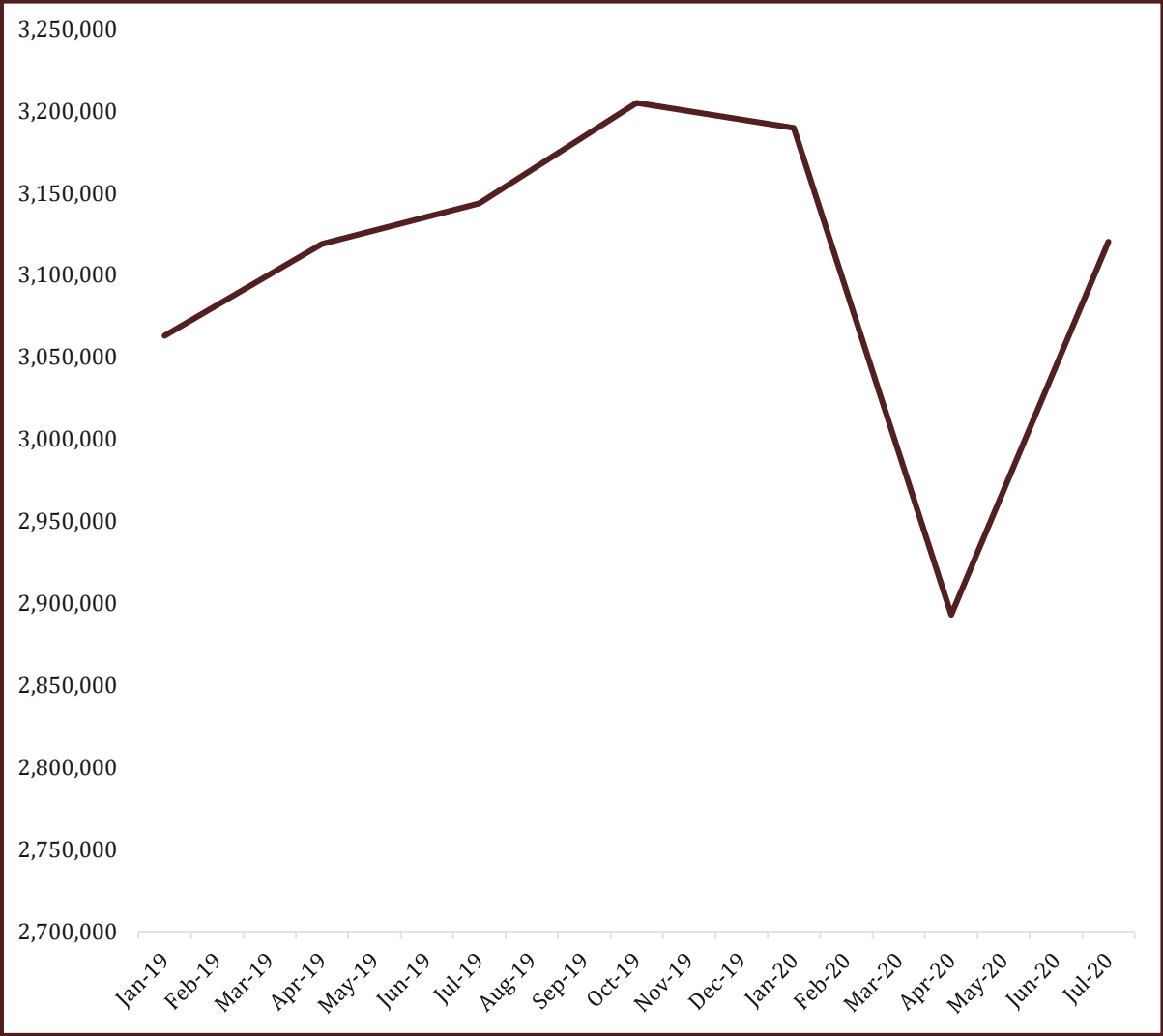


Diet Restrictions in the U.S.

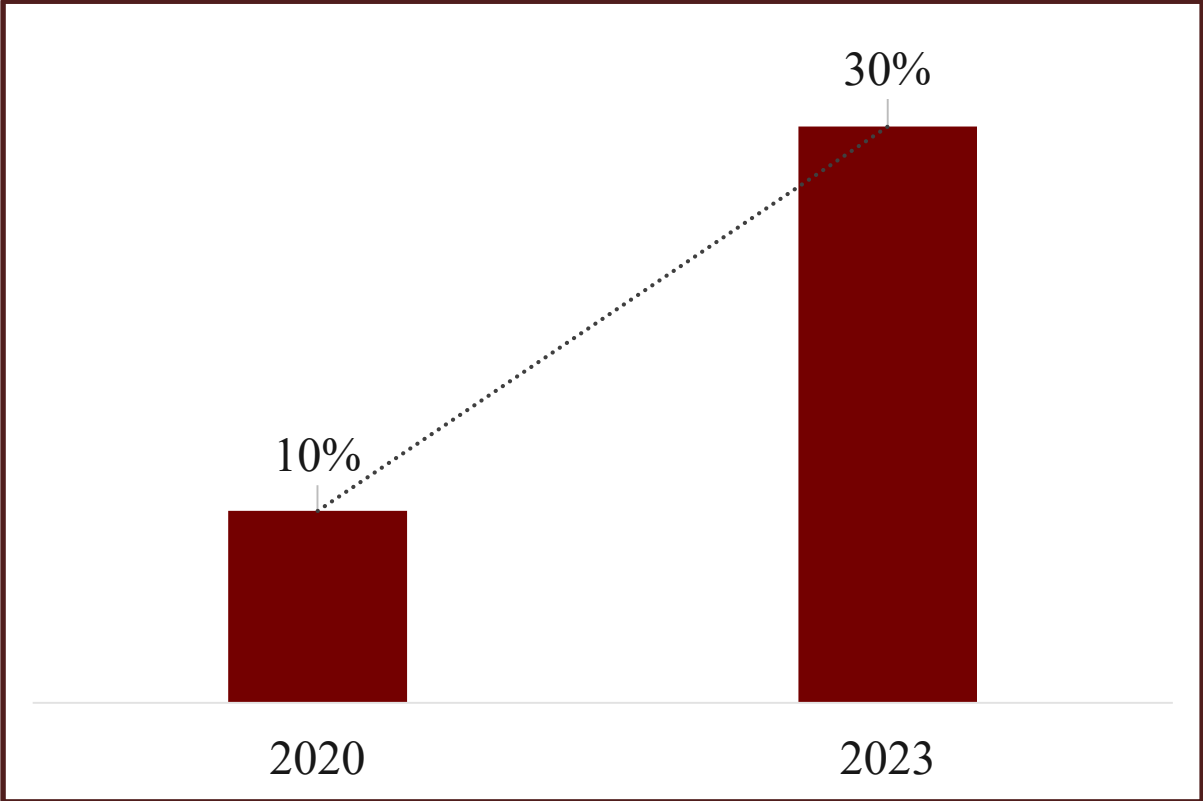


# Appendix

## California GDP

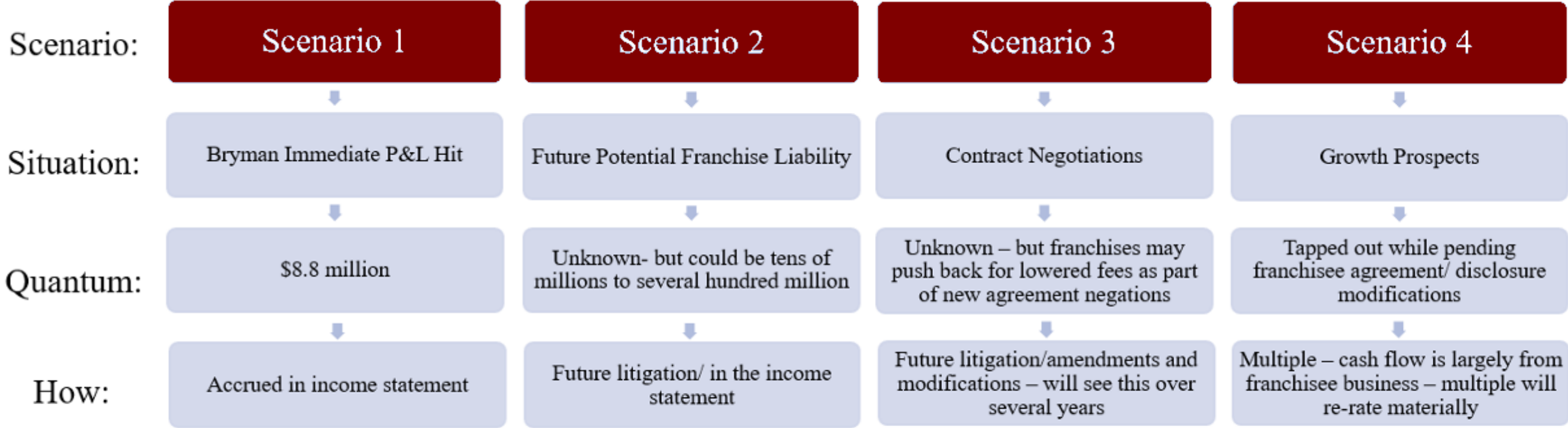


## Digital Sales as % of Total Sales



# Appendix

## Potential Consequences of Franchise Lawsuit



**El Pollo Loco**  
**NYSE: LOCO**  
**Recommendation: BUY**



**Company Data**

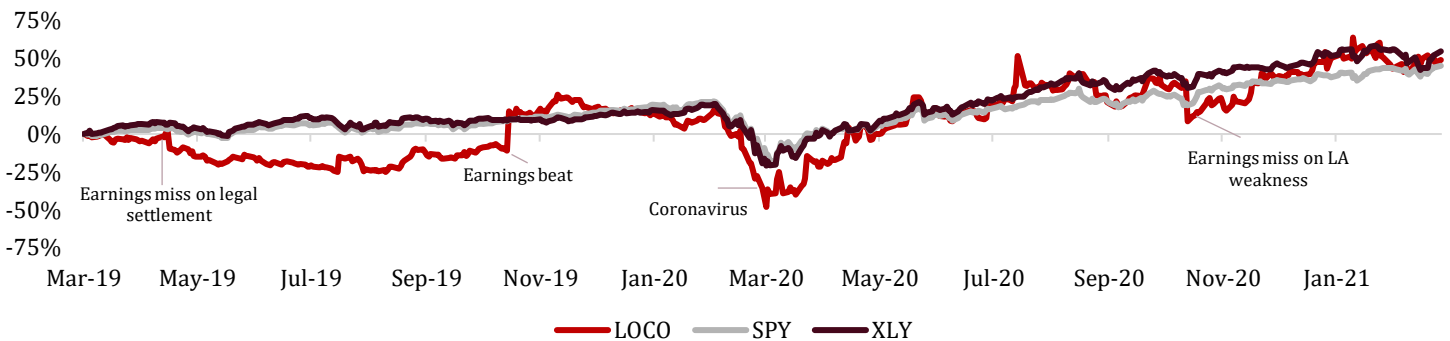
|                   |          |
|-------------------|----------|
| Price.....        | \$18.89  |
| Market Cap.....   | \$688.7M |
| P/E.....          | 23.92x   |
| EV/EBITDA.....    | 14.70x   |
| Price Target..... | \$22.05  |
| Upside.....       | 16.7%    |

**Investment Thesis**

We recommend a buy on El Pollo Loco (LOCO) with a target price of \$22.05 and an implied upside of 16.7%. El Pollo Loco is a California-based restaurant chain specializing in “LA Mex” food products, which is a healthy spin on traditional Mexican cuisine.

We believe strong macro tailwinds, paired with an experienced leadership team and dedication to customer satisfaction, make LOCO an attractive investment opportunity. Currently, in the United States, shifting eating habits towards healthier foods and changing demographics due to Hispanic population growth, creates positive tailwinds that LOCO is positioned to capitalize off of. Furthermore, as COVID-19 has accentuated operational efficiency, LOCO’s restaurant structure has evolved and adapted. Finally, LOCO’s relatively new leadership team, which is comprised of all tenured food-service executives, will guide LOCO to sustainable growth and expansion.

**Two-Year Performance**



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**Business Overview**

LOCO is a limited-service restaurant (LSR), meaning it aims to provide the food and dining experience of a fast-casual restaurant at the speed, value, and convenience of a quick-service restaurant (QSR). LOCO specializes in Mexican and LA-style fresh, never frozen chicken dishes that it has coined as “LA-Mex”. LA-Mex focuses on combining the culinary tradition of Mexico with the healthier lifestyle of LA. LOCO has 479 system-wide restaurants located in California, Arizona, Nevada, Texas, Utah, and Louisiana. 80% of system-wide restaurants are in California, and more specifically 60% of system-wide restaurants are in LA. For company restaurants, 73% are in LA, giving LOCO significant exposure to the economy of the Greater LA area.

**End Market Overview**

Fast-casual retailers are adjusting end markets due to COVID-19. ~91% of off premises U.S. restaurants sales were through drive-thru and carry out transactions. As sales shift towards drive-thru, takeout, and curbside pick-up, retailers are adjusting to a little-to-no interaction model. In addition, fast food customer demographics are changing, with over 75% of millennials consuming fast food on a given day, up ~15% from their Gen X counterparts. Of the millennial’s who are causing a fast-casual boom, ~23% of millennials identify as Hispanic, making millennials one of the most diverse generations in U.S. history. This is resulting in an expanded palate of the younger generation, forcing retailers to adjust their menus and offerings to fit customer’s changing needs.

## Macro Tailwinds Driving Demand

LOCO will benefit from the macro tailwinds of healthier lifestyles, an unrealized TAM, and the COVID-19 economic downturn. LOCO is well-positioned to benefit from healthier customer eating habits as it is an LSR focused on healthy, authentic cuisine. Americans are sourcing and eating healthier food with ~70% of Millennials saying they would pay more for healthier and better-quality food options. Additionally, almost ~39% of Americans are eating more vegan foods. LOCO has differentiated itself as a LSR by focusing on the health and dietary inclusion of their Mexican cuisine. Its authentic menu options with strong Hispanic influence also positions LOCO to benefit from the tailwinds of an unrealized TAM. We believe the 3% annualized Hispanic growth within the U.S. will increase LOCO's customer base for authentic LA-Mex cuisine. Although U.S. border states already account for ~50% of Hispanic population, recent Hispanic growth is dispersed across the U.S., providing a growing customer base that will complement LOCO's aggressive expansion plans. LOCO's resilient business model and low-cost quality meals will attract new customers as the economic downturn has shrunk customer budgets, and consumer spending has shifted to value and essentials.

## Evolution of Customer Satisfaction

LOCO is continually evolving its practices to best meet customer's changing needs. LOCO's relaunch of its loyalty program has driven loyalty-related sales up by 3% from 4Q19 to 4Q20. We believe this growth will continue as LOCO opens new locations and increases its overall customer base. LOCO has also created its own recipe for vegan chicken, allowing it to service the 15% of Americans who do not eat chicken-based products. With customers in mind, LOCO is also increasing its operational effectiveness by creating

double drive-thrus, drive-thru only restaurants, and GPS enabled pick up. LOCO's goal is to reduce wait times by 50%, which would allow for 2x more customers per day to be serviced.

## Experienced Leadership with Focus on Franchise and Partnership Growth

LOCO's new partnership with Organic has positioned the company to increase digital sales to 30% of total sales over the next three years. In 2020 alone, LOCO's e-commerce business grew 3x in size and is projected to keep growing alongside the global e-commerce CAGR of ~14.7% from 2020-2027. LOCO also utilizes a franchise-based growth strategy that requires a comparatively minimal capital commitment and is aimed at generating both strong cash flow as well as high returns on invested capital. Balancing franchise ownership expertise with local market familiarity, we believe that LOCO will achieve its expected 5% annual unit expansion in the U.S. by 2023. This is in addition to its wide-ranging growth strategy to open 140+ restaurants in Western U.S by 2026.

## Catalysts

1. Announcement of New Franchisees
2. New Marketing Targets Different Demographics
3. Increase in Food Consumption Awareness
4. Faster than Expected Economic LA Rebound

## Risks

1. 2016 Franchise Lawsuit
2. LA & CA Economy
3. Tepid Reception in New Markets
4. Overpopulation of FCRs and QSRs

## Comparable Company Analysis

Given LOCO's relative value to peers despite higher margins and what we believe to be better expansion opportunities, LOCO is the most attractive peer. We expect once LOCO finds success in expanding markets, we could see EV/EBITDA multiple expansion, bringing it closer in line with Chipotle (CMG) yet still at a considerable discount. LOCO consistently has a higher ROIC and ROE than peers as well as a lower P/E ratio. On all fronts, except size, CMG is LOCO's largest competition but, as articulated in our thesis points, we do not see this inhibiting LOCO's growth.

## Valuation

Using a Discounted Cash Flow model and a conservative EV/EBITDA multiple of 14.7x for the base case, we found an implied upside of 16.7% and a targeted share price of \$22.05. For the bear case, we found an implied upside of 7.9% and a targeted share price of \$20.39. For the bull case, we found an implied upside of 29% and a targeted share price of \$24.36. To arrive at our different outputs, we carefully considered revenue and franchise expansion assumptions as well as multiple expansion. For our potential 3-year price target, we arrived at an upside of 36.4% and a targeted share price of \$25.77 for the base case. We attributed this growth largely to EV/EBITDA multiple expansion that falls in line with the historic trends of competitors, management guidance, as well as our own research. We were conservative with our assumptions as we understand there is additional risk due to LOCO's future success being reliant on franchise expansion and an economic rebound in Los Angeles and California.