



El Pollo Loco (LOCO-US): \$8.39

Market Cap: \$276 mm

Enterprise Value: \$340mm

EV/EBITDA: 6.5x

P/E: 10.6x

Rating: Neutral

Short Interest: 4.6%

12-month perf (%): -23%

30-Day Average Daily Volume: 500k

Date: 12/1/2023

Company Background

El Pollo Loco, a fast-food chain founded in 1975 in Mexico, has found success in California but struggled to expand beyond, with around 80 new units added since its 2014 IPO. It positions itself as a Mexican-style QSR+ brand, offering flame-grilled chicken at premium prices. Its average check sizes are higher, but it faces lower traffic compared to competitors.

The company has been slow to adopt digital innovations, with sales mainly split between carry-out, dine-in, and drive-thru, along with 8% from delivery services. Ownership has changed hands multiple times throughout the firm's history. The company has seen recent CEO turnover and is currently in search of a new CEO.

LOCO initially looked promising with a good valuation, familiar brand, growth potential, reduced debt, and easing selling pressure. However, further research revealed sustainability doubts due to tough competition and weak competitive positioning, resulting in a neutral rating.

Challenges/Risks

- The mature restaurant industry demands capturing market share for meaningful growth. Well-capitalized rivals with strong digital experiences, like YUM Brands, have outperformed.
- Labor Cost Challenges: California's minimum wage increase to \$20 per hour, affecting 80% of LOCO's units, is expected to impact margins by 100-150 basis points, putting further pressure on the company.
- Poor Strategy: Over the past two decades, LOCO's traffic growth has stagnated, relying on aggressive price increases for same-store sales increases.
- Late Response to Market Needs: LOCO's recent introduction of value items may not be sufficient to address their perception problem. To stay competitive, they need menu innovation, robust marketing, and strong management, areas where they have made limited progress.

Valuation

El Pollo Loco missed opportunities for growth and national recognition, failing to capitalize on timing in the competitive QSR industry. A best-case scenario may involve acquisition and revitalization, as their current trajectory lacks momentum in an increasingly competitive category. LOCO receives a neutral rating due to its low valuation.

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