Private Equity Case Study
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Today

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Brief History of El Pollo Loco

1975 - 1985
Founded (yes, in Mexico!) and launched in the U.S.

1985 - 1998
Orphaned

1999 - 2003
Rebuilt for Growth

2003
Disciplined Growth

Steve Carley Joins

American Securities partners with management to buy company
**What is it Like to be an Orphan?**

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
<th>Description</th>
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<tbody>
<tr>
<td>1983</td>
<td>Denny’s Inc. purchases El Pollo Loco U.S. operations</td>
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<td>1987</td>
<td>TW Services, Inc. purchases Denny’s, Inc.</td>
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<td>1989</td>
<td>TW Services, Inc. recapitalizes in an overly leveraged LBO</td>
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<td>1991</td>
<td>El Pollo Loco opens its 200th restaurant</td>
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<td>1997</td>
<td>TW Services, Inc. (renamed Flagstar Corp.) files for bankruptcy</td>
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<td>1998</td>
<td>Flagstar emerges from bankruptcy as Advantica Restaurant Group</td>
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**Parent Company Driven**

- **Erratic Growth**
  - The strategy to grow Company units was inconsistent and often contradictory
    - On one year and off the next
  - Company-operated restaurants were given little attention
  - The decision to franchise or refranchise units was based on balance sheet needs

- **Undisciplined**
  - The Company’s franchising efforts suffered from no focus, no standards and minimal support for franchisees
  - Resulted in an inconsistent product quality and brand message

- **Under-Resourced**
  - Insufficient investment was made in EPL’s infrastructure and systems creating a substantial need to remedy deferred expenditures
  - Primary focus was on Advantica’s more troubled brands (Denny’s, Cocos, Carrows) leaving EPL with few resources

But our customers loved the EPL product and stayed loyal
The Ownership Transition

What Happened

- American Securities Capital Partners and management bought from Advantica
- Committed to fixing the problems and making the investments required to rebuild/correct the past deferred investment and to sustain an ongoing growth program
- Reduced leverage!!

What We Stopped

- Stopped aggressive growth
- Stopped aggressive franchising
  - No new franchise development agreements
  - Shrunk franchise base from 71 to 54
American Securities and management committed to a substantial capital plan toward the chain’s long term success

• **Restaurants**
  – Remodeled and refocused on deferred maintenance
  – Redesigned and re-imaged units to be consistent with the brand
  – Re-engineered the buildings for efficiency of cost and function
  – Ultimately developed “next generation” restaurant, changing the operational aspects of the business

• **Information technology**
  – Installed new back office systems designed for this type of business
  – Upgraded each unit in POS and communication
  – Laid foundation for continued IT improvement

• **People**
  – Deepened the group of world class executives/managers
  – Substantially invested in new HR/training/leadership department
  – Added area leaders to tighten span of control
Rebuilding the Foundation for Growth – Strategic Repositioning

- Based on a developed vision, over the last five years, EPL has strategically positioned itself between the traditional chicken/Mexican QSR and fast-casual Mexican market segments.
• Unlike virtually any concept, EPL has been built around a highly leveragable and very differentiated single signature product that has survived through bad times and good

• EPL’s signature flame-grilled marinated chicken has always been, and continues to be, the primary ingredient in virtually all of EPL’s high quality, authentically Mexican product offerings

• EPL expanded its product line to better serve the broad demographic segment to which it appealed
Rebuilding the Foundation for Growth – Driving Unit Profitability

- EPL’s best in class restaurant level cash flow margins drive attractive returns relative to other restaurant concepts

Source: RBC Capital Markets research report dated February 12, 2005; EPL data from Company records and estimates, calculated in a manner consistent with RBC analysis.
Rebuilding in a disciplined manner gave the company an opportunity to re-engage in growing the business, this time on a much stronger footing and with more discipline.
New Growth Era – The Future of EPL

New Company Stores

- 7-10 new each year in existing markets
- Total of 143

Aggressive Franchise Growth

- Total of 192
Private Equity Firms Are Not All The Same

**Hold Period**
- Long Term vs. Short Term

**How They Make Money**
- Aggressive vs. Conservative Leverage
- Driven by financial engineering or operational improvements

**Style**
- Hands on/off
- Culture

**Value added**
- Just initial capital vs. long term investments
- Value added beyond capital
My Thoughts on Choosing a Private Equity Partner

- **Hello “Controlling Equity Partner”**
  - Internalize intellectually and emotionally
- **Establish Broad Strategic Alignment**
  - Confirm CEO and management team’s participation vis a vis a private equity partner
- **Leverage Formal and “Back-Channel” References Personally**
  - Probe any areas of concern
- **Discuss “Freedom of Action” Guidelines/Approval Authority in Advance**
- **Understand Formal and Informal Communication Expectations and Roles**
- **Actively Explore “Rules of Engagement” for CEO/Direct Reports and Private Equity Members**
- **Discuss “Disaster Scenario” Definitions and Implications on Management Team Up Front**
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**American Securities Capital Partners: Overview**

**Background**
- Founded by William Rosenwald to manage his share of the Sears, Roebuck fortune
- Designed around the visions and needs of the wealthy individuals and families – long term, wealth preservation and desire to support the building of great enterprises
- 12 year history of top quartile returns, with no bad investments
- Currently managing $1.6 billion in capital
- Focused on companies between $50-500 million in revenue
- Experienced investment professionals in both franchisor and franchisee settings

**Our Philosophy**
- **Great Companies**: Find good or great companies with strong position/differentiation
- **Invest with management**: Always invest with management under the same terms – align incentives - we all win or we all lose
- **Focus on upside to management**: Increase management potential by granting meaningful options across the management team
- **Low leverage**: If we use leverage – keep it low, to allow companies to focus on business not balance sheet
- **Add value**: Act as a thought partner and add value in finance, strategy, growth, operations – but never interfere with management role
EPL 1999: From Our Perspective

Our Initial View

• Strong, durable brand
• Established proven market position in Southern California
• Enthusiastic and capable management that wanted a true partner
• Neglected company that could benefit from investment across company and have less leveraged capital structure
• Substantial improvements available through focus, attention and proper incentives
• Opportunities to expand

Transaction

• Purchased EPL with management in December 1999 for $128.3 million in cash
  • $44.4 million in equity
  • $15 million assumed capital leases
  • Financed remainder with syndicated loan (senior loan only)
• Equity ownership
  • ASCP 98.3%
  • Management excluding options 1.7%
  • Management with options 11.9%
• Invested substantial time and money in building partnerships with management
  • Sharing ideas
  • Building bonds
### EPL Partnership: From Our Perspective

#### What we want

- “Special” differentiated business
- Strong management team
- Healthy culture
- True Partnership
- Desire to build a great enterprise
- Desire to be investors and share in “win-together” philosophy
- Ability for us to add value (which differs based on the circumstances)

#### What we got

- Company with very strong brand and market position
- Very strong management team that wanted to drive toward being great (and did it)
- Passion for building the brand
- Culture centered around excellence
- Management as partners in every sense
- Openness of management team to new ideas (without a “not invented here mindset”)
- Ultimately a great business, a great investment and a lifelong set of valuable friendships and relationships