

VOSS

CAPITAL

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Fiesta Restaurant Group (FRGI) Opportunity Overview | July 29th, 2016 | Stock Price: \$22.34 | Market Cap: \$580.3mm

Executive Summary

- Voss believes FRGI has the most attractive risk-adjusted return profile of any public restaurant stock.
 - Easily refutable Jefferies downgrade offers attractive entry point at < 6x forward EBITDA.
- FRGI is the third cheapest restaurant, and the cheapest on a growth adjusted basis by a wide margin.
- We believe the stock has 32% upside in a worst case scenario, up to 95% in our base case (reverting to be in line with trading comps), and with more potential upside longer term.
- FRGI is extremely out of favor with institutional shareholders, offering an uncrowded long idea to savvy investors.
- ~ 2% insider ownership and minimal institutional sponsorship leave the door open for potential activism.
 - Potential activism angles include a sale of Taco Cabana, refranchising of both concepts, dividend recap.

Company Overview

Fiesta Restaurant Group (FRGI) owns, operates and franchises two fast-casual restaurant brands: Taco Cabana and Pollo Tropical.

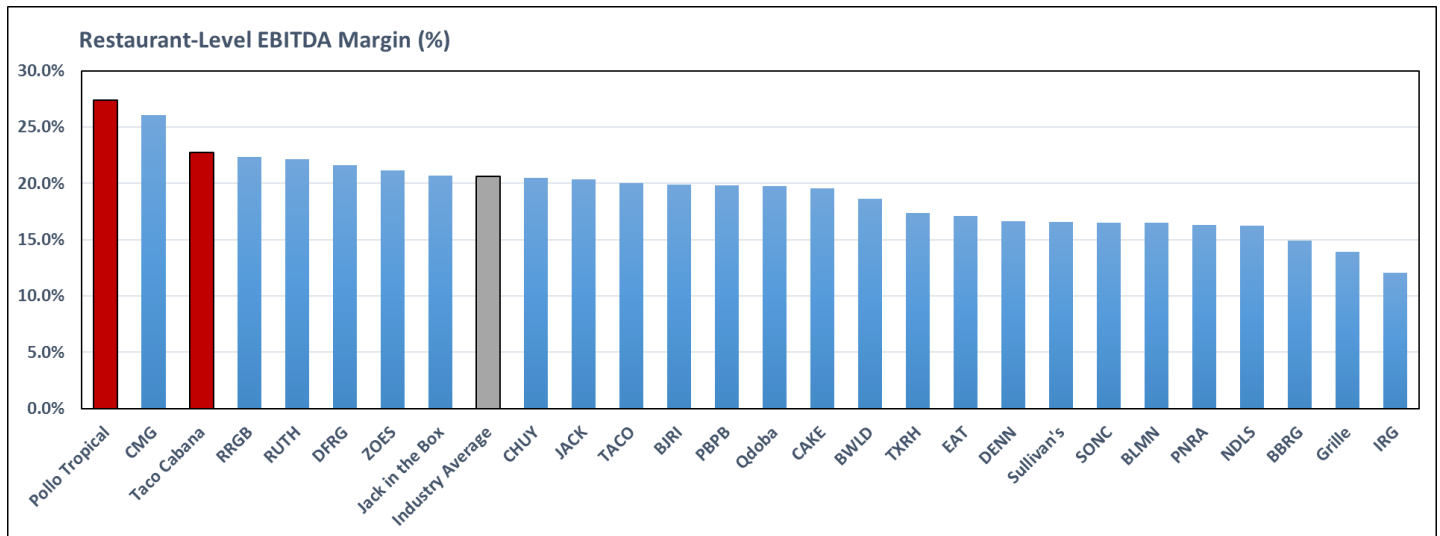


- Started 38 years ago in San Antonio
- Fast casual/QSR Mexican food
- 162 domestic locations
 - 99% in Texas
- 4 domestic franchises on college campuses in New Mexico
- 2 licensed locations on college campuses in Texas
- Average unit volume: \$1.9 million
 - Top 5 in AUV in the fast casual segment
- Average check: \$9.16

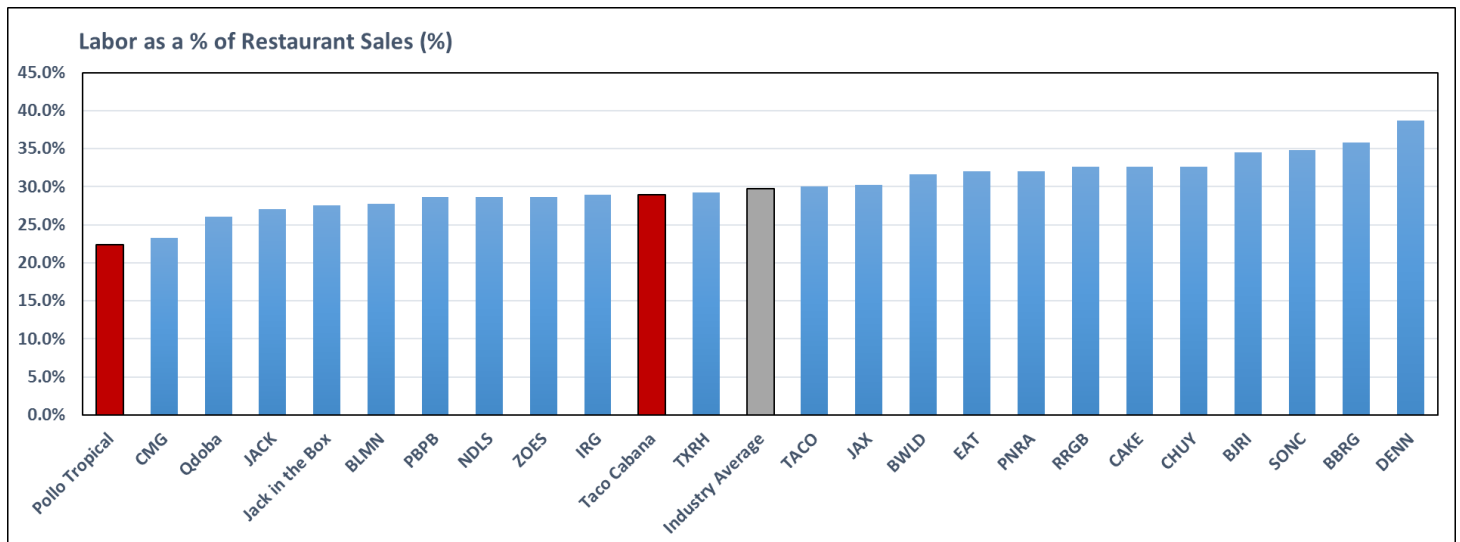


- Started 28 years ago in Miami
- Fast casual/QSR Caribbean food
- 161 domestic locations across 5 states
 - 119 in Florida
 - 27 in Texas
 - 11 in Georgia
 - 4 in Tennessee
- 31 international franchises
 - Puerto Rico, Honduras, Trinidad & Tobago, the Bahamas, Venezuela, Panama and Guatemala
- 5 licensed locations on college campuses
- 2,800 – 3,700 sq. ft.
 - 70 – 90 guest capacity
- Average unit volume: \$2.6 million
 - Industry leading
- Average check: \$10.76

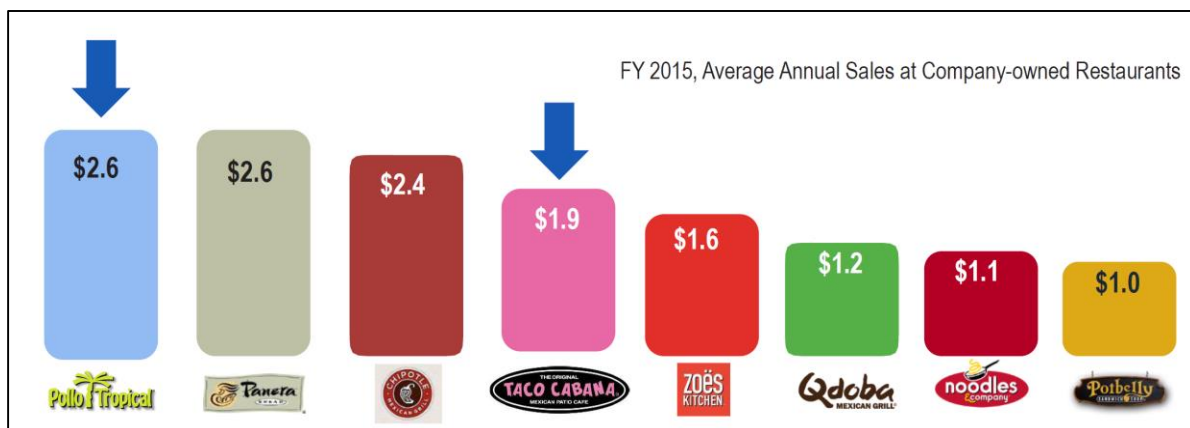
Industry Leading Restaurant Economics



- Both of FRGI's concepts have superior unit-level economics with industry leading AUV and EBITDA margins.



- This is partly a result of efficient labor models at both concepts.
 - Because both Pollo Tropical and Taco Cabana are located in southern states, they have avoided the increasing wage pressures facing restaurants in other regions of the US.



Restaurant-Level Financials

Pollo Tropical Restaurant Operations	FY ended December,		
(In \$ thousands)	2013	2014	2015
Restaurant Sales	257,837	305,404	364,544
Cost of Sales	85,532	100,468	121,689
Restaurant Wages	57,893	67,487	81,647
Restaurant Rent Expense	10,110	12,473	16,003
Other Operating Expense	30,790	38,331	45,376
Restaurant EBITDA	73,512	86,645	99,829
<i>Margin</i>	<i>28.5%</i>	<i>28.4%</i>	<i>27.4%</i>

Taco Cabana Restaurant Operations	FY ended December,		
(In \$ thousands)	2013	2014	2015
Restaurant Sales	291,143	303,136	320,040
Cost of Sales	90,591	91,782	95,639
Restaurant Wages	85,499	87,653	92,575
Restaurant Rent Expense	16,739	17,172	17,100
Other Operating Expense	38,231	40,590	41,909
Restaurant EBITDA	60,083	65,939	72,817
<i>Margin</i>	<i>20.6%</i>	<i>21.8%</i>	<i>22.8%</i>

Pollo Tropical Expenses as % of Sales	2013	2014	2015
Cost of Sales	33.2%	32.9%	33.4%
Restaurant Wages	22.5%	22.1%	22.4%
Restaurant Rent Expense	3.9%	4.1%	4.4%
Other Operating Expense	11.9%	12.6%	12.4%

Taco Cabana Expenses as % of Sales	2013	2014	2015
Cost of Sales	31.1%	30.3%	29.9%
Restaurant Wages	29.4%	28.9%	28.9%
Restaurant Rent Expense	5.7%	5.7%	5.3%
Other Operating Expense	13.1%	13.4%	13.1%

- Shown above is a more detailed breakdown of both concepts' unit economics. Both brands have done an exceptional job at managing expenses and margins.
- Jeffries recently downgraded FRGI to a hold. The crux of their thesis was that increasing labor costs in the restaurant industry would be a headwind for margins going forward.
 - While this may or not be true, FRGI is already starting at a far superior labor efficiency level compared to its QSR/Fast Casual peers.
- 2015 labor as a % of sales:
 - Pollo Tropical: 22.4%
 - Taco Cabana: 28.9%
 - **FRGI consolidated: 25.4%**
 - **Industry average: 29.7%**
- Despite showing a superior ability to manage expenses and produce industry-leading margins, FRGI has traded at a significant multiple discount to almost all of its peers.
- The table below shows the changes in a range of restaurants' margins, COGs and labor from 2012 to 2015.
 - Both Pollo Tropical and Taco Cabana were able to decrease labor as a % of sales since 2012 while some high-flying stocks such as PNRA and ZOES saw significant labor increases. The effect of this mismanagement of expenses can be seen in PNRA's 4% decrease in restaurant margins.

Ticker/Name	2012 - 2015		
	Δ in Restaurant EBITDA Margin	Δ in Cost of Sales as % of Sales	Δ in Labor as % of Sales
TACO	2.8%	-1.0%	-1.6%
Pollo Tropical	-0.7%	0.2%	-1.2%
Taco Cabana	1.9%	-1.6%	-0.6%
BLMN	1.0%	0.0%	-0.6%
EAT	1.3%	-1.3%	-0.5%
CMG	-1.0%	0.8%	-0.3%
BJRI	0.5%	-0.1%	-0.1%
TXRH	-0.6%	1.0%	0.1%
PBPB	-1.1%	-0.7%	0.4%
CAKE	0.8%	-0.9%	0.5%
CHUY	-0.4%	-0.6%	0.6%
FOGO	0.0%	-1.1%	0.8%
ZOES	-0.3%	-1.6%	1.3%
IRG	-4.6%	0.1%	1.5%
BBRG	-3.2%	-0.9%	1.6%
BWLD	0.4%	-1.9%	1.7%
NDLS	-5.0%	0.2%	1.7%
PNRA	-4.0%	0.9%	2.2%
Average	-0.7%	-0.5%	0.4%

Exhibiting Accelerating Growth

FRGI Growth Rates

	7-Year CAGR	5-Year CAGR	3-Year CAGR	1-Year Rate
Restaurant Sales	7.1%	9.4%	10.5%	12.5%
Franchise Revenue	10.1%	12.9%	5.7%	7.9%
Total Revenue	7.1%	9.4%	10.5%	12.5%
Restaurant EBITDA	9.3%	10.9%	12.2%	25.2%
EBIT	14.4%	15.3%	19.1%	9.1%
EBITDA	10.4%	10.9%	15.1%	13.8%

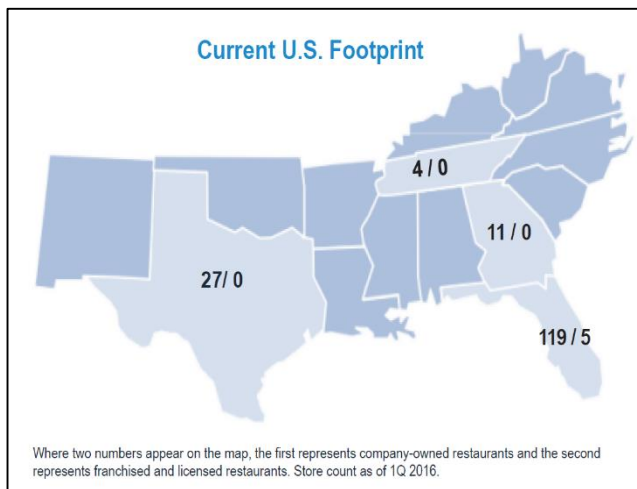
PNRA Growth Rates

	7-Year CAGR	5-Year CAGR	3-Year CAGR	1-Year Growth
Café Sales	11.4%	12.3%	7.9%	5.8%
Franchise Royalties	9.2%	10.0%	10.7%	12.0%
Total Revenue	10.9%	11.7%	8.0%	6.0%
Restaurant EBITDA	11.1%	9.0%	0.3%	-4.1%
EBIT	11.5%	5.5%	-5.1%	-12.4%
EBITDA	11.9%	9.2%	1.8%	-1.5%

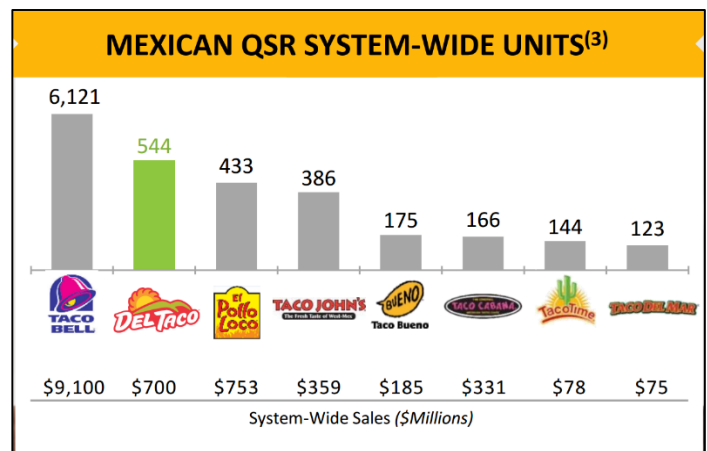
- The tables above show the growth rates in FRGI's and PNRA financials (each line is colored from red/lowest to green/highest).
- FRGI has shown growth accelerating in recent years with its 1-year and 3-year growth rates exceeding its 5 and 7-year rates.
- PNRA is used here as a Fast Casual comparison because of its "growth" narrative in the market. Its table of growth rates looks like the opposite of FRGI's with PNRA's 7-year and 5-year growth rates exceeding its more recent years, signaling a slowdown, and even a decline, in most metrics.

Long Runway for Significant Expansion

Pollo Tropical Locations

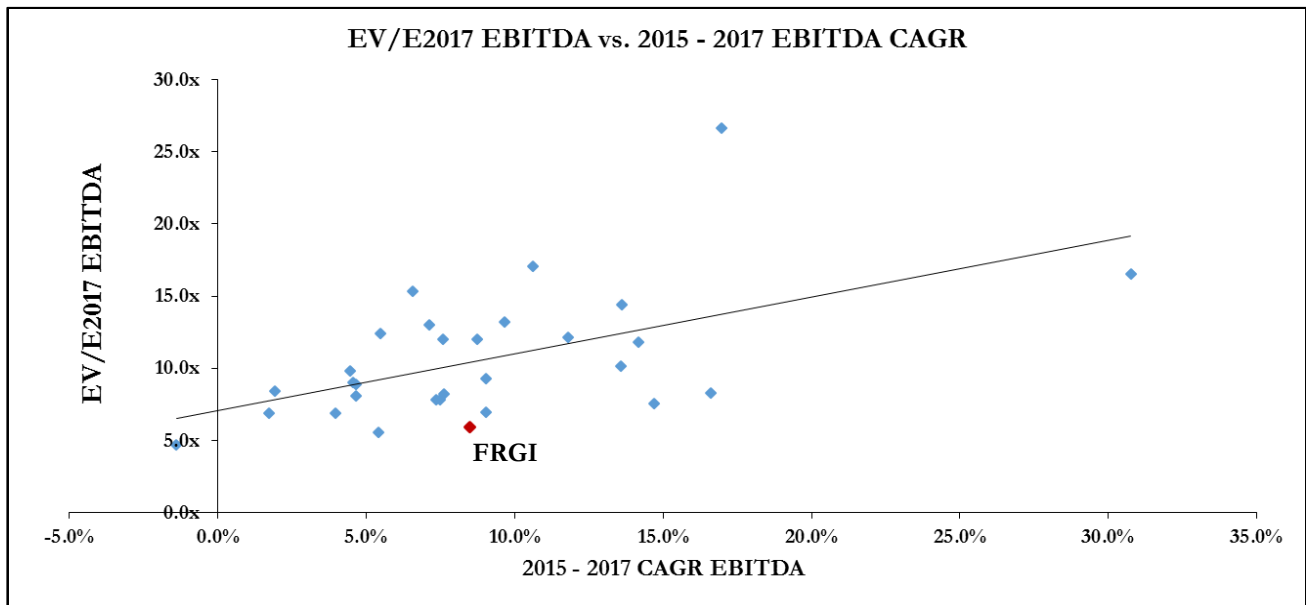


Taco Cabana Units Relative to Peers



- Despite the high historical growth rate, FRGI has a long runway for continued expansion due to its current narrow geographic footprint (Texas & Florida).
- Years of continued double-digit percentage unit growth are possible for both concepts.

Restaurant Stock Valuations



- The chart above shows EV/EBITDA multiples relative to expected EBITDA growth for 30 restaurant stocks.
- Using the regression for the entire industry, FRGI's fair value multiple should be 10.4x based off the conservative estimate for EBITDA growth of 8.5% over the next 2 years. However, we just showed you that growth has been accelerating not decelerating and 8.5% is a lower growth rate than any time period over the last 7 years. **If FRGI reverts to the multiple predicted by the regression using our base case of 10.0% EBITDA growth, the stock has +95% upside.**

Ticker	Predicted	Actual	Difference	2015 - 2017	
	EV/E2017 EBITDA	EV/E2017 EBITDA		CAGR EBITDA	Equity Upside/Downside
FRGI	10.4x	5.9x	-4.5x	8.5%	84%
RRGB	9.2x	5.6x	-3.6x	5.4%	89%
PLAY	13.6x	8.3x	-5.3x	16.6%	74%
BWLD	12.9x	7.5x	-5.3x	14.7%	61%
BJRI	10.6x	6.9x	-3.7x	9.0%	57%
BBRG	6.5x	4.7x	-1.8x	-1.4%	52%
FOGO	10.0x	7.8x	-2.2x	7.5%	38%
NDLS	8.6x	6.9x	-1.7x	4.0%	34%
JACK	12.4x	10.2x	-2.2x	13.6%	29%
DRI	10.0x	7.8x	-2.1x	7.4%	28%
RUTH	10.1x	8.2x	-1.9x	7.6%	23%
BLMN	7.7x	6.9x	-0.9x	1.7%	20%
BOJA	10.6x	9.3x	-1.3x	9.0%	19%
SHAK	19.2x	16.5x	-2.6x	30.8%	16%
TACO	8.9x	8.1x	-0.8x	4.7%	14%
TXRH	12.6x	11.8x	-0.9x	14.2%	7%
LOCO	8.9x	8.9x	0.0x	4.7%	0%
CAKE	8.9x	9.0x	0.2x	4.6%	-2%
CHUY	11.7x	12.2x	0.4x	11.8%	-4%
FRSH	7.8x	8.4x	0.6x	1.9%	-13%
SBUX	12.4x	14.4x	2.0x	13.6%	-14%
SONC	8.8x	9.8x	1.0x	4.4%	-14%
YUM	10.5x	12.0x	1.5x	8.7%	-14%
PNRA	10.0x	12.0x	2.0x	7.6%	-17%
PLKI	10.9x	13.2x	2.4x	9.7%	-19%
MCD	9.2x	12.4x	3.2x	5.5%	-31%
DNKN	9.9x	13.0x	3.2x	7.1%	-37%
PZZA	9.6x	15.3x	5.7x	6.6%	-41%
DPZ	11.2x	17.1x	5.8x	10.6%	-44%
ZOES	13.7x	26.7x	12.9x	17.0%	-49%

FRGI Incremental Return on Capital

FRGI ROIC	2011	2015	Change
Restaurants	249	317	
Net Income	9,541	38,536	28,995
Equity	(4,672)	243,982	
Debt & Deferred Obligations	411,511	217,968	
Less Goodwill/Excess Cash	137,154	128,765	
Total Capital Invested	269,685	333,185	63,500
Cumulative 4 Year Earnings	92,236		
Incremental Capital Invested	63,500		
Reinvestment Rate	69%		
Return on Incremental Capital Invested	46%		
Value Compounding Rate of FRGI	31%		

- Attractive unit economics provide for high return on incremental capital invested.
 - Compare returns of ~46% from opening new units to returns of ~25% for TACO & LOCO locations.
- The company is making the correct decision of maintaining a high reinvestment of earnings, creating substantial intrinsic value. The company should continue this high rate of reinvestment as long as unit economics of new units/geographies remain near existing company averages.
- The stock has sold off due to flattening SSS comps and has overshot fair value to the downside (went from drastically overvalued at \$60/share in late 2014, to massively under-valued at \$21-23/share currently).



Trading Comps

- We believe Chipotle (CMG), El Pollo Loco (LOCO), and Del Taco (TACO) are the best public trading comps.
- Del Taco:
 - \$500mm EV, system-wide sales \$700mm, AUV \$1.36mm, average check \$6.79, 542 units
 - **Best pure play comp for Taco Cabana**

TACO Restaurant Operations (In \$ thousands)	Fiscal Year,			
	2012	2013	2014	2015
Restaurant Sales	345,590	356,306	380,800	407,615
Cost of Sales	102,530	105,492	110,708	116,710
Labor	109,534	108,788	116,920	122,568
Occupancy and Operating	73,929	77,205	82,021	86,802
Restaurant EBITDA	59,597	64,821	71,151	81,535
<i>Margin</i>	<i>17.2%</i>	<i>18.2%</i>	<i>18.7%</i>	<i>20.0%</i>

TACO Expenses as % of Sales	2012	2013	2014	2015
Cost of Sales	29.7%	29.6%	29.1%	28.6%
Labor	31.7%	30.5%	30.7%	30.1%
Occupancy and Operating	21.4%	21.7%	21.5%	21.3%

- El Pollo Loco:
 - \$610mm EV, system-wide sales \$753 mm, AUV \$1.9mm, average check \$8 - \$12, 436 units
 - **Best pure play comp for Pollo Tropical**
- Chipotle:
 - We chose this as a trading comp because CMG is an industry leader in the fast casual segment (with no franchising) and has unit economics on par with Pollo Tropical.

Fiesta Restaurant Group									
Company Name	Price	Market Value	Shares		Sales	EBIT	EBITDA	Enterprise Value/ EBIT	Enterprise Value/ EBITDA
			Outstanding	Enterprise					
Fiesta Restaurant Group	21.81	586.9	26.6	657.0	700.2	64.1	96.2	10.25x	6.83x
Chipotle	402.76	11,761.0	29.9	11,510.2	4,246.6	531.2	665.7	21.67x	17.29x
El Pollo Loco Holdings	13.00	498.0	39.0	610.1	359.0	46.6	60.3	13.10x	10.12x
Del Taco Restaurants	9.10	347.7	38.8	503.6	329.4	29.5	47.0	17.06x	10.73x

- FRGI has an EV on par with LOCO despite 60% greater EBITDA and superior growth.

Fiesta Restaurant Group											
Company Name	Enterprise Value	Enterprise Value/ Sales	Enterprise Value/ EBIT	Enterprise Value/ EBITDA	Debt/ EBITDA	Enterprise Value	1 Yr Growth	EBITDA	3 Yr Growth	EV/ EBITDA NTM	EV/ EBITDA Estimate
Chipotle	11,510.2	2.71x	21.67x	17.29x	0.00x	0.00%	-25.9	17.7	22.20x	16.49x	
El Pollo Loco Holdings	610.1	1.70x	13.10x	10.12x	2.01x	19.85%	-1.2	--	8.75x	8.24x	
Del Taco Restaurants	503.6	1.53x	17.06x	10.73x	3.61x	33.63%	--	--	--	--	
Average	4,208.0	1.98x	17.27x	12.71x	1.87x	17.83%	-13.5	17.7	15.47x	12.36x	
Median	610.1	1.70x	17.06x	10.73x	2.01x	19.85%	-13.5	17.7	15.47x	12.36x	

- FRGI trades at massive multiple discount to peer group despite faster EBITDA growth.
- FRGI has differentiated concepts, born out and proven by consistently having the highest AUV in the industry.

Fiesta Restaurant Group										
Company Name	Fiscal Period	Gross Margin	EBITDA Margin	EBITDA	EBIT	Pretax Margin	Pretax Margin	Net Margin	Net Margin	
				Margin	Margin					Margin
				NTM	NTM					
Fiesta Restaurant Group	04/03/2016	38.4%	13.7%	14.4%	9.2%	9.0%	8.4%	8.7%	5.4%	5.5%
Chipotle	03/31/2016	30.2%	15.7%	11.4%	12.5%	8.2%	12.4%	8.3%	7.7%	5.1%
El Pollo Loco Holdings	03/30/2016	21.6%	16.8%	17.1%	13.0%	12.9%	11.9%	12.0%	6.3%	7.3%
Del Taco Restaurants	03/22/2016	17.9%	14.3%	15.5%	9.0%	9.4%	1.9%	8.1%	1.6%	4.8%
Average		23.2%	15.6%	14.7%	11.5%	10.2%	8.7%	9.4%	5.2%	5.7%
Median		21.6%	15.7%	15.5%	12.5%	9.4%	11.9%	8.3%	6.3%	5.1%

- FRGI EBIT margins are superior to TACO despite TACO having 45% of restaurant base franchised.
- FRGI EBITDA margins (NTM) are close to LOCO's (1.1% lower) despite LOCO having 56% of locations franchised.
- After a thorough investigation, we believe there are no discernible fundamental nor structural reasons for FRGI's meaningful valuation discount.
- Even if FRGI was not growing and didn't have industry leading unit economics, a 5.5x EBITDA valuation would still be a terrific purchase multiple.

Fiesta Restaurant Group												
Company Name	Price	52 Week High	52 Week High	% Below	52 Week Low	52 Week Low	% Above	Price Change	Price Change	Price Change	Price Change	Price Change
		Price	Date	High	Price	Date	Low	1 Month	3 Month	6 Month	1 Year	3 Year
Fiesta Restaurant Group	21.81	62.50	7/31/15	-65.10%	20.15	6/27/16	8.24%	-14.34%	-31.69%	-35.03%	-56.38%	-36.52%
Chipotle	402.76	758.61	8/05/15	-46.91%	384.77	6/14/16	4.68%	-9.58%	-13.60%	-17.09%	-33.43%	10.54%
El Pollo Loco Holdings	13.00	20.98	7/01/15	-38.04%	9.58	11/13/15	35.70%	16.28%	-3.35%	2.52%	-37.23%	--
Del Taco Restaurants	9.10	16.48	7/27/15	-44.80%	8.37	2/16/16	8.72%	-4.21%	-11.48%	-16.82%	-40.21%	--

- The entire comp group is well off their 52-week highs, but FRGI has been a notable underperformer in the last 1, 3, 6 and 12 months.

Sum of Parts Valuation Sensitivity Analysis

- The company plans to spin off the slower growth Taco Cabana (though still growing exceptionally fast by industry standards).
- We believe the fair value for Taco Cabana to be in the range of 8.0x – 9.0x EBITDA.
 - This would value Taco Cabana between \$300 - \$350mm.
- We believe Pollo Tropical is worth 10.5x-11.0x EBITDA (in-line with TACO and LOCO).
 - Valuing Pollo Tropical at \$600+mm.

Sum of Pollo and Taco EV

		Taco Cabana EV/EBITDA LTM				
		7.0x	8.0x	9.0x	10.0x	11.0x
Pollo Tropical EV/EBITDA LTM	7.0x	650,545	688,854	727,163	765,472	803,781
	8.0x	705,171	743,480	781,789	820,098	858,407
	9.0x	759,797	798,106	836,415	874,724	913,033
	10.0x	814,423	852,732	891,041	929,350	967,659
	11.0x	869,049	907,358	945,667	983,976	1,022,285

Blended Multiple

		Taco Cabana EV/EBITDA LTM				
		7.0x	8.0x	9.0x	10.0x	11.0x
Pollo Tropical EV/EBITDA LTM	7.0x	7.0x	7.4x	7.8x	8.2x	8.6x
	8.0x	7.6x	8.0x	8.4x	8.8x	9.2x
	9.0x	8.2x	8.6x	9.0x	9.4x	9.8x
	10.0x	8.8x	9.2x	9.6x	10.0x	10.4x
	11.0x	9.4x	9.8x	10.2x	10.6x	11.0x

Equity Upside

		Taco Cabana EV/EBITDA LTM				
		7.0x	8.0x	9.0x	10.0x	11.0x
Pollo Tropical EV/EBITDA LTM	7.0x	0.2%	6.8%	13.4%	20.0%	26.6%
	8.0x	9.6%	16.2%	22.8%	29.4%	36.0%
	9.0x	19.0%	25.6%	32.2%	38.8%	45.4%
	10.0x	28.4%	35.0%	41.6%	48.2%	54.8%
	11.0x	37.8%	44.4%	51.0%	57.6%	64.2%

<u>EV/EBITDA</u>						
(\$ USD thousands)	LTM	Multiples				
		7.0x	8.0x	9.0x	10.0x	11.0x
Taco EBITDA	38,309	268,163	306,472	344,781	383,090	421,399
Pollo EBITDA	54,626	382,382	437,008	491,634	546,260	600,886
	92,935					
Total		650,545	743,480	836,415	929,350	1,022,285
EV Upside		0.2%	14.5%	28.8%	43.1%	57.4%
Equity Upside		0.2%	16.2%	32.2%	48.2%	64.2%

Bear Theses for FRGI

1. Pollo Tropical will not be successful outside of Florida.

- Opened several locations in the Atlanta market in the mid-90's which were closed in 1996.
- Pollo Tropical has only succeeded in Florida due to the Hispanic population.
- The Caribbean and Mexican style of food only appeals to certain regions, limiting expansion potential.

2. Doubts about management's ability to expand units.

- Believe CEO Tim Taft's abilities are in stabilizing companies, not growing restaurant concepts. Previously, he spent over 10 years at Whataburger, was President and COO for 5 years. 3 years as CEO of Pizza Inn. 2 years as CEO of Souper Salad.
- Management's strategy is reliant upon growing Pollo Tropical units at a double-digit rate.

3. Risk of shrinking margins.

- Concerns of too many promotions and/or discounts used to increase SSS comps.
- "Cannibalizing" old store sales as part of the strategy to maximize advertising dollars spend will put pressure on SSS comps and margins.

Mitigants/Bull Counter-Arguments:

1. Pollo Tropical has had success in their recent [re]expansion into Atlanta, partly due to their TV based advertising there.
 - The idea that Pollo Tropical is only popular with Hispanics is doubtful, and even if it was true, Texas is ~ 40% vs. Florida's ~ 20% Hispanic population so this bear argument, ironically, bolsters the bull case for aggressive expansion into Texas.
2. Tim Taft's history at both Whataburger and Pizza Inn (both Dallas based) give him extensive experience in the Texas restaurant market, the main focus of Pollo Tropical's expansion plan and the sole geography of Taco Cabana's operations.
3. Margins are still industry-leading at Pollo Tropical and in the top 3 at Taco Cabana (in our comp base of 27 public restaurants)—even if there is slight reversion, they will still be superior to the industry. The idea of cannibalizing old store sales can be debated, but the idea to maximize advertising dollars seems efficient, especially when stores see an immediate ~10% growth in revenue once advertising is initiated in a new geography and there is evidence this strategy is working.

Ownership

- None of the top 25 institutional shareholders have FRGI as a >1% portfolio position.
 - Small position sizing creates price insensitive selling.
 - Largest holders are mostly passive funds and index funds/ETFs.
 - Wells Capital and Fidelity have been aggressively liquidating stake in last three months.
- Stock is extremely out of favor and underfollowed.

All Holder Types	%OS	Position (000)	Pos Chg (000) [6M]	Mkt Val (MM)	% Port	Source
Total	109.46	29453	3222	648	-	-
Fidelity Management & Research Co.	10.48	2821	456	62	0	13F Form
Wells Capital Management, Inc.	8.81	2370	-1549	52	0.1	13F Form
Wasatch Advisors, Inc.	7.51	2020	2020	44	0.4	13F Form
Columbia Wanger Asset Management LLC	7.26	1952	344	43	0.3	13F Form
The Vanguard Group, Inc.	6.93	1864	86	41	0	13F Form
BlackRock Fund Advisors	4.82	1296	6	29	0	13F Form
Gilder, Gagnon, Howe & Co. LLC	4.02	1082	-129	24	0.5	13F Form
Dimensional Fund Advisors LP	3.12	841	-21	18	0	13F Form
PENN Capital Management Co., Inc.	2.89	777	777	17	0.9	13F Form
Waddell & Reed Investment Management Co.	2.76	743	10	16	0	13F Form
Morgan Stanley Investment Management, Inc.	2.65	712	-267	16	0	13F Form
Frontier Capital Management Co. LLC	2.5	674	236	15	0.1	13F Form
Davidson Kempner Capital Management LP	2.14	575	575	13	0.6	13F Form
Fiduciary Management Associates LLC	1.85	498	498	11	0.7	13F Form
Kornitzer Capital Management, Inc.	1.81	488	10	11	0.2	13F Form
Delaware Management Business Trust	1.76	474	195	10	0	13F Form
SSgA Funds Management, Inc.	1.62	437	13	10	0	13F Form
Lord, Abnett & Co. LLC	1.47	395	395	9	0	Sum of Funds
William Blair Investment Management LLC	1.47	395	395	9	0	13F Form
FIAM LLC	1.46	393	154	9	0	13F Form
Marshall Wace LLP	1.45	390	390	9	0.1	13F Form

Source: FactSet

Additional Points of Interest

- Average daily volume last three months has been ~615,000 shares, or ~\$13.75 million worth per day.
 - This is ~2% of the company trading hands each day, providing more than sufficient trading liquidity to establish a very large stake (\$50+ million) in a short time period with minimal price moving effect.
- Management is comprised mostly of ex-Whataburger executive team that built concept into a 600+ unit QSR powerhouse in Texas.
- With average ticket sizes of \$9 and a compelling value propositions for consumers, we feel FRGI is less economically sensitive than mass casual and fine dining concepts.
- Private Equity appetite is strong for proven 100-200 unit fast casual concepts with limited geographic footprint.
 - Taco Bueno was sold just recently in December 2015 to TPG at estimated >8x EBITDA. Taco Bueno has much worse unit economics and is much smaller than Taco Cabana at ~\$25 million in EBITDA versus \$70+ million.

The deal stats shown here are calculated from public restaurant transaction comps from January 2010 – present (65 transactions total).

Deal Stats (2009 - Present)

Average EV/EBITDA:	9.0x
Median EV/EBITDA:	7.9x
Minimum EV/EBITDA:	5.5x
Maximum EV/EBITDA:	22.1x
Average Deal Size (mm):	550.7
Median Deal Size (mm):	266.7

- **After severe stock sell-off, FRGI's forward EBITDA multiple of < 6x now at the historical minimum buyout floor for public restaurant chains since 2009 despite average QSR/Fast Casual multiples being greater and FRGI having vastly superior economics.**

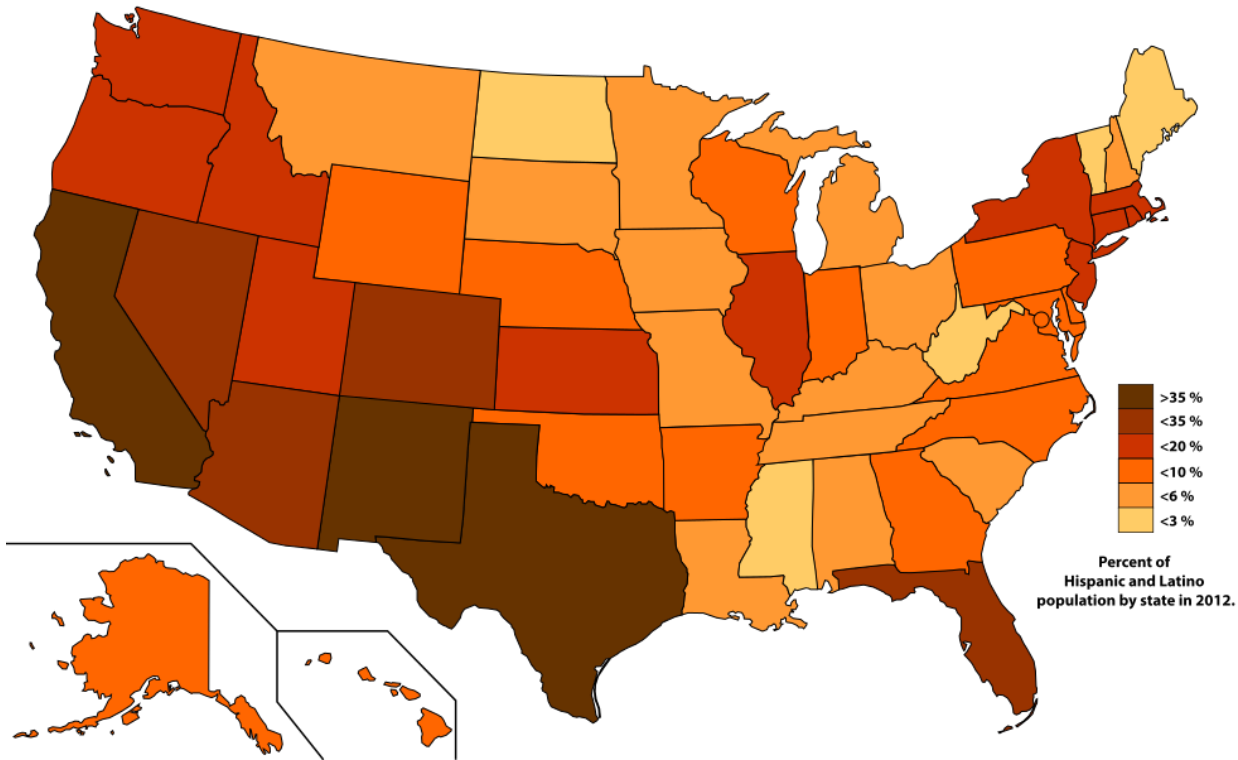
Appendix on Demographics: Debunking Bear Thesis that FRGI can't expand outside of Florida due to limited appeal to Latinos.

FRGI's main growth MSA at present is San Antonio (the 7th largest city in America). Last year, the San Antonio metro region had the sixth-fastest growth rate in the country among metros with a population of >1 million.

Additionally, four out of the top 11 cities in the US by population are in Texas and are the focus areas of FRGI's unit growth. These Texas cities that rank among the country's largest by population (Houston, Dallas, San Antonio, Austin) are growing multiples faster than the overall US population, and especially growing faster than other top cities. This provides solid demographic underpinnings for the areas of FRGI's main unit expansion.

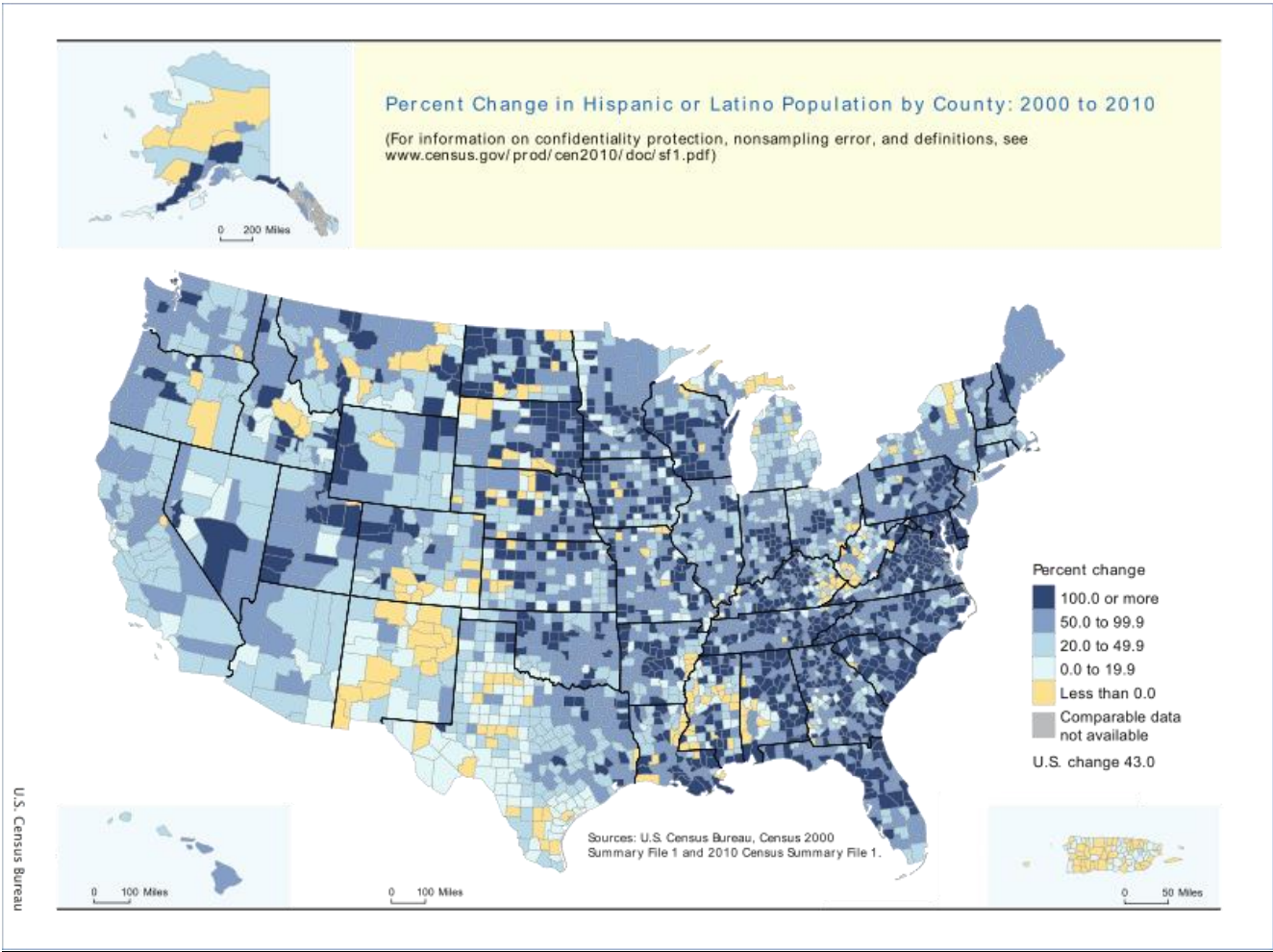
2015 rank ↕	City ↕	State ^[5] ↕	2015 estimate ↕	2010 Census ↕	Change ↕
1	<i>New York</i> ^[6]	New York	8,550,405	8,175,133	+4.59%
2	<i>Los Angeles</i>	California	3,971,883	3,792,621	+4.73%
3	<i>Chicago</i>	Illinois	2,720,546	2,695,598	+0.93%
4	<i>Houston</i> ^[7]	Texas	2,296,224	2,100,263	+9.33%
5	<i>Philadelphia</i> ^[8]	Pennsylvania	1,567,442	1,526,006	+2.72%
6	Phoenix	Arizona	1,563,025	1,445,632	+8.12%
7	San Antonio	Texas	1,469,845	1,327,407	+10.73%
8	San Diego	California	1,394,928	1,307,402	+6.69%
9	Dallas	Texas	1,300,092	1,197,816	+8.54%
10	San Jose	California	1,026,908	945,942	+8.56%
11	Austin	Texas	931,830	790,390	+17.89%

Source: https://en.wikipedia.org/wiki/List_of_United_States_cities_by_population



Source: Map By Ali Zifan - Own work <https://commons.wikimedia.org/w/index.php?curid=42766145>

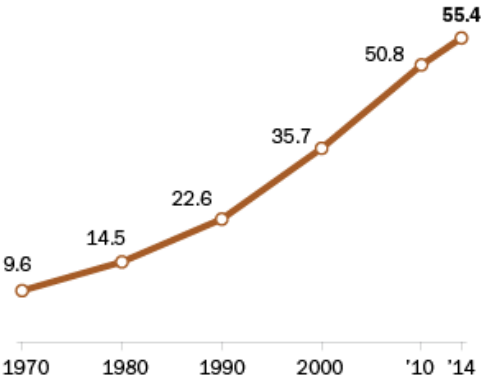
States with similar Latino populations as Florida and future expansion areas include Nevada, Arizona, and Colorado. States with a greater percentage of the population Hispanic are Texas, New Mexico, and California.



This chart above shows Hispanic population growth by county from 2000-2010. Many areas across the US have experienced >100% Hispanic population growth, the South has actually been more steady (higher starting point).

Hispanic Population Growth

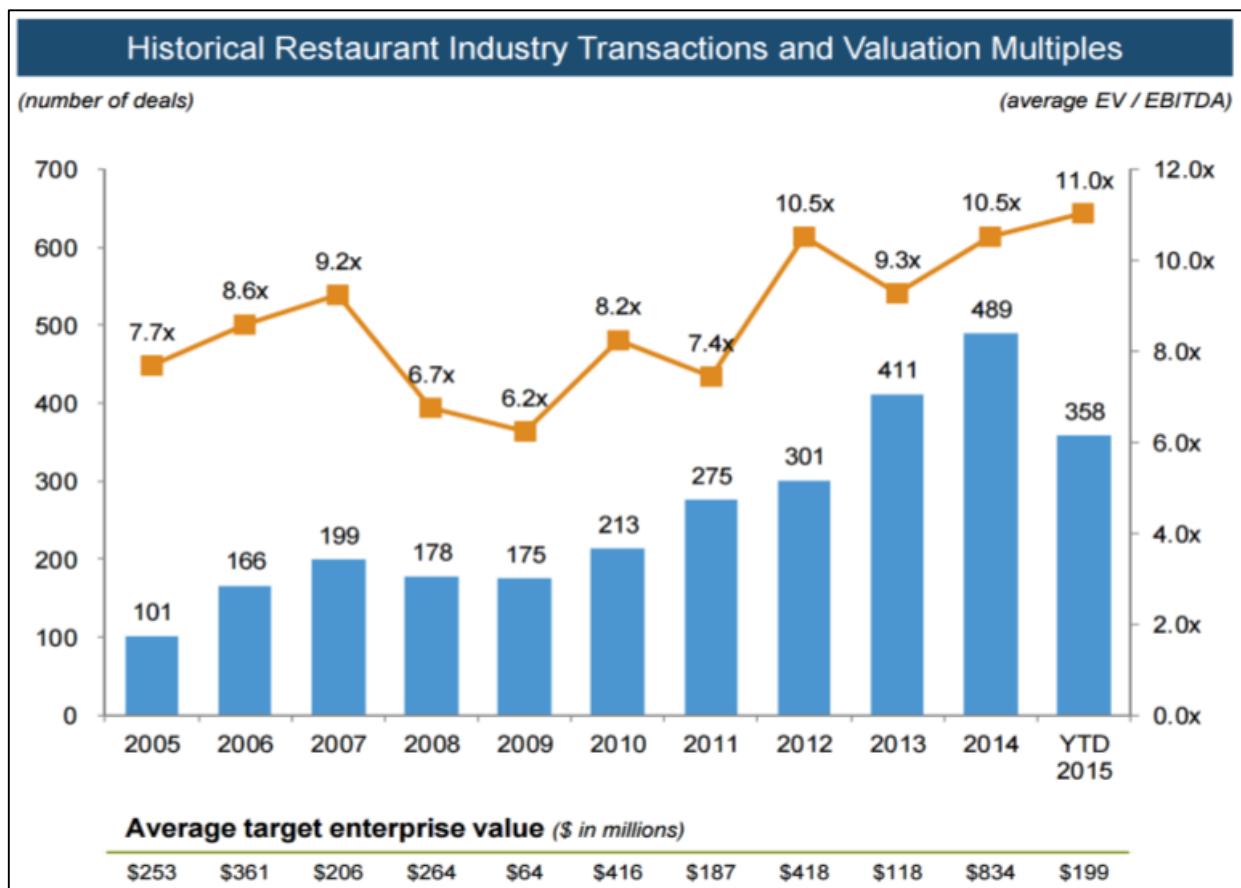
U.S. Hispanic population, in millions



Note: 1990-2014 estimates are for July 1.
 Source: 1970-1980 estimates based on the Decennial Censuses, see Passel & Cohn 2008. 1990-2014 estimates based on Intercensal population estimates and Vintage 2014.

PEW RESEARCH CENTER

Source: Pew Research Center



Source: Gibson Dunn 2015 Restaurant M&A Presentation

Regarding the Jefferies downgrade from 7/27/2016:

- FRGI has 21% upside to their base case PT of \$27 at 7x EBITDA, which is still 3.1x full EBITDA turns below nearest comp.
- FRGI has only 6% downside to their punitive bear case at 5x EBITDA.
- The stock is asymmetric to the upside even using their own rationale.
- Jefferies upside scenario has 79% upside but *still* leaves EV/EBITDA multiple a full 2-turns below trading comps despite superior unit growth and industry leading unit economics.

The crux of Jefferies bearish piece on FRGI is that increase labor cost will keep a lid on margins. FRGI stores are already starting at a far superior labor efficiency to the average QSR/Fast Casual peer. Labor as a % of sales 25.4% versus industry average 29.7%), Jefferies models in a slight bump in 2017 to 26.57%, **which would still be 3.13% better than industry average.**

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