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## After El Pollo Loco's Big Debut, Are Consumer IPOs Set To Go Crazy?

By Telis Demos

Shares of Mexican restaurant chain [El Pollo Loco Holdings](#) Inc. flew the coop following its initial public offering Thursday, jumping 60% in first-day trading. That's the best debut since [Zoe's Kitchen](#) Inc., a Mediterranean restaurant "concept," jumped 65% on its first day post-IPO in April.

After the most recent retail IPOs didn't go so well first day—Michaels Companies Inc. gained just 0.1%, take-home-and-bake pizza chain [Papa Murphy's Holdings](#) Inc. rose just 0.5% in first-day action and is now trading below its offering price—it's a solid return to action for the sector, which this year has produced the smallest percentage of all U.S. IPOs since 2007, according to Dealogic.



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Like the market as a whole, the IPO market's gains have come without a lot of confidence in the broader consumer economy, at least as evidenced by the kinds of deals that have worked and been plentiful: technology innovators, drugmakers, private equity debt-pay downs, shale drillers, and dividend payers. None of these deals require improvements in broad consumer or business spending to work.

"In the US today, there's little income growth. And with a lack of income growth comes a lack of consumer spending," said Gregg Nabhan, vice chairman of equity capital markets at Bank of America Merrill Lynch.

"So many high-growth retailer and restaurants are having a tougher experience so far this year. That's coupled with a particularly difficult first quarter due to weather," he said.

Many shares of recent IPOs of consumer firms, most of which debuted very successfully, have struggled this year. Sandwich-maker Potbelly Inc. shares had initially doubled after their debut, but are now trading below their offering price. Home-goods seller [Container Store Group Inc.](#) is down 55% from its peak; healthy grocery chain [Sprouts Farmers Markets Inc.](#) is off 36% from its highs.

Some stocks in the space have done well: action-camera maker GoPro Inc., for example, has rallied 74% since its IPO last month. Zoe's, the chain of Greek-ish restaurants, is up 109% since its debut in April.

The consumer-focused deals that have worked, and may work later this year, have been "extremely specialized and they have been so far immune to the drag that has come from the relatively weak U.S. consumer spend and income growth situation," he said. "But those are few and far between."

More broadly, he said, investors have honed in on companies that can trace their growth to a specific thing, like the boom in shale gas. "Industrial companies that can benefit from either shale gas or low-cost manufacturing...are those companies benefiting from momentum," he said.

The true test of the market will be if it broadens out to companies that are more closely seen as derivatives of consumer spending and economic growth.

Don Duffy, president of communications and research firm ICR, said that the size hurdle of the IPO market has fallen, meaning smaller consumer companies can go public, but the growth hurdle has risen, with investors expecting rapid growth of 20% in sales annually.

"When you have those characteristics," he said, "the market is very open to it."

So does El Pollo Loco fall into that category?

In some ways no, as the chain grew sales 7.2% last year, to \$314 million. In fact, it is using the proceeds of its IPO to pay down debt, which should help it cut its losses from \$17 million last year. So in some ways it's squarely in the private-equity deal category.

But restaurant analyst John Gordon, of the Pacific Management Consulting Group, still thinks the chain's appeal may herald a shift in the market toward a broader appetite for restaurants, even if they are larger and not growing quite as fast.

El Pollo Loco doesn't fit into the more highly specialized "fast casual" category that has dominated restaurant IPOs, and more closely tracks mass-appeal brands, he said. The chain, started in the 1970's, was formerly owned by [Denny's](#), he notes.

With its success, he says, "every restaurant cat and dog will come out of the barn now."

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