

FNCE 3415: Valuation & Financial Modeling

Company: \$CMG - Chipotle Mexican Grill

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CHIPOTLE MEXICAN GRILL (\$CMG)

CHAPTER 1: COMPANY BASICS & FINANCIAL STATEMENT ANALYSIS

PART I: COMPANY OVERLOOK

Company Basics

Chipotle was founded in 1993 in Denver by Steve Eells, and is a company that **owns and operates** restaurants that serve Mexican Foods such as burritos, burrito bowls, quesadillas, etc. Chipotle has **3,371 locations** in the US, and 66 locations outside of the US as of December 2023. Chipotle's revenue is mostly derived from the food sales in their restaurants, although they do offer other products for sale such as merchandise through their Chipotle Goods line.

According to their SEC filing, Chipotle's business strategy is based off the following statements:

1. Sustaining world class people leadership by developing and retaining diverse talent at every level.
2. Running successful restaurants with a people accountable culture that provides great Food with Integrity while delivering exceptional in-restaurant and digital experiences.
3. Making the brand visible, relevant, and loved to improve overall guest engagement.
4. Amplifying technology and innovation to drive growth and productivity at our restaurants, support centers and in our supply chain.
5. Expanding access and convenience by accelerating new restaurant openings in North America and internationally.

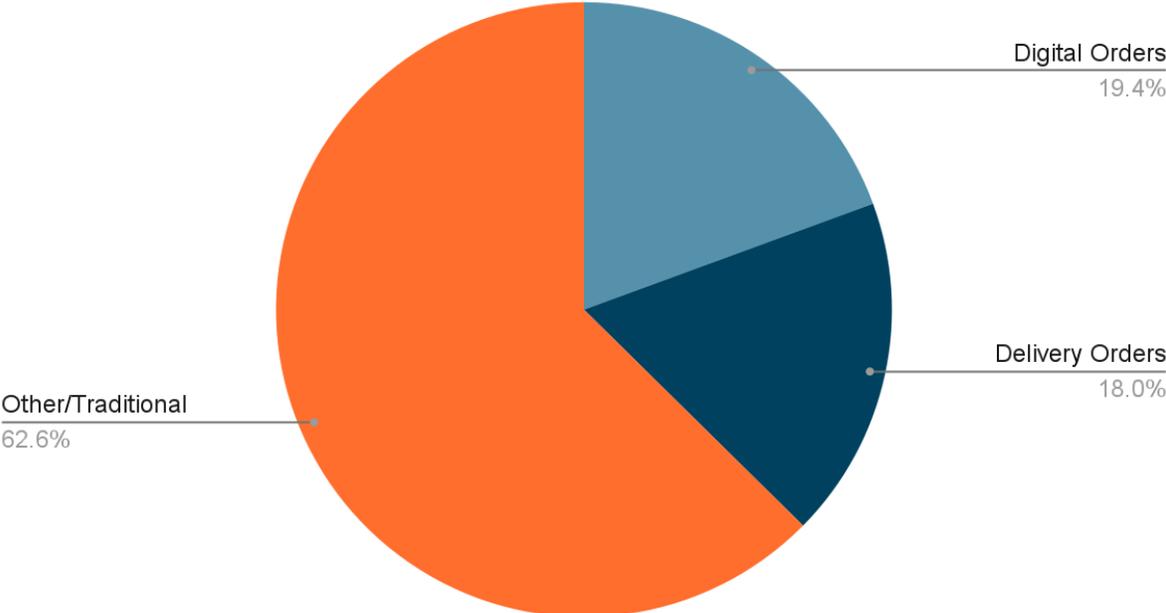
Chipotle states in their filings that one of the company's goals is to serve "Food With Integrity", meaning that the company looks to serve high-quality food at reasonable prices, sourcing high quality ingredients such meat without antibodies or growth hormones. Due to this, Chipotle follows an extensive program that focuses on maintaining a strict standard for the company's food quality.

The Company's Sales Breakdown

Chipotle is a restaurant that offers both a la carte menu options, as well as fully customizable options of their staples such as bowls, salads, and burritos. Although Chipotle’s menu is fully customizable, and often includes seasonal meals or limited-time promotions, one are able to break down their sales via the method by which the consumer purchases the product, which is either through third-party digital orders, food delivery orders, and standard in-person purchases.

According to their latest reports, the following breakdown illustrates Chipotle’s order distribution.

2024 Sales Breakdown



- Digital orders represent the sales obtained via partnerships with third-parties, the Chipotle website, the Chipotle App, and revenue deferrals associated with Chipotle Rewards. These sales do not include delivery services from the third-party platforms.
- Delivery orders represent sales generated and delivered exclusively by third-party providers, such as Doordash, UberEats, Postmates, etc.
- The rest of the orders represent traditional in-person sales.

Key Customers And Suppliers

Key Customers: Chipotle recognizes that a large share of their sales emerge via digital third-party platforms, furthermore, the company recognizes that there are variables which are out of their control regarding these sales, such as fees, wage regulations, and customer experience which could risk making these sales less profitable or riskier.

In order to combat this risk, Chipotle has developed their own app and have invested in improving the customer experience when ordering through their website with the goal of funneling digital sales through their in-house pipelines over which they have much more control. Chipotle is also integrating “Chipotlanes” into their locations, which are a drive-through lane that helps improve the customer experience when picking up digital orders.

Key Suppliers: Chipotle has 23 independently owned distribution centers that form an integral part of the company’s supply chain. These distribution centers purchase the ingredients that chipotle uses in its meals, and distributes these ingredients to the restaurant locations. Chipotle is also increasingly obtaining ingredients from local farms in an attempt to increase the restaurant’s sustainability strategy, also enacting practices like providing grants to local farms and purchasing ingredients from virtual farmer’s markets.

However, Chipotle still largely relies on established suppliers to provide most of their ingredients, the largest of these suppliers include:

- Niman Ranch: Ingredients related to pork, meats, etc.
- Petaluma Creamery: Dairy ingredients
- Meister Cheese: Cheese-related ingredients
- McKaskle Family Farm: Vegetable & grain ingredients

Chipotle acknowledges that there are inherent risks to any supply chain, and risks related to theirs include cybersecurity or IT breaches that might disrupt their supply-chain logistics, disruptions or shortages in their supply chain, fluctuations in prices of essential supply chain factors, and factors such as disease or weather that can be out of the company’s control.

Key competitors

According to Chipotle’s reporting, their competitors fall within the “fast-casual, quick-service, and casual dining segments of the restaurant industry”. The major factors that drive sales in this industry are “taste, price, food quality and presentation, service, location, convenience, brand reputation, cleanliness, and ambience of each restaurant”. Chipotle states that competitors can include both large nationwide chains that have multiple locations, or local restaurants that serve similar menu items to Chipotle’s. Although major chains comprise a large part of Chipotle’s

competition, the majority of their competition emerges from small, local restaurants that serve casual and health-leaning meals. This local competition is mostly made up of privately owned restaurants.

After conducting an analysis that compared Chipotle's offerings with those of similar restaurants I have concluded that the companies most similar (and therefore most competitive) to Chipotle are the following:

- **CAVA** (Cava Group Inc.) - \$CAVA: Mediterranean restaurant with a similar style to Chipotle's a la carte vs customizable menu items.
- **Taco Bell** (Yum Brands inc.) - \$YUM: Restaurant group that owns locations including KFC, Taco Bell, Pizza Hut, and Habit Burger Grill.
- **Shake Shack** (Shake Shack inc.) - \$SHAK: Restaurant that offers simple menu items such as burgers, hot dogs, and fries but with a focus on premium ingredients.
- **Sweetgreen** (Sweetgreen inc.) - \$SG: Restaurant group that focuses on plant-forward menu items as well as health-oriented ingredients. Similar menu style to chipotle.

These companies are deemed the most similar to chipotle due to their similar price range, their similar serving style or menu, their similar casual feel, and their similar location and target consumer.

Important events that have happened the company during the semester

- Chipotle begins the implementation of new "Chipotlanes" into locations in order to increase customer experience whilst doing order pickups. ([Link Here](#))
- Chipotle increases revenue by 15.4% in 2023 and restaurant traffic grows by 7.4% ([Link Here](#))
- Chipotle settles child labor lawsuit for \$300k ([Link Here](#))
- Chipotle manager rips off employee hijab, causing muslim employee to sue ([Link Here](#))

PART II: FINANCIAL STATEMENT ANALYSIS: COMMON SIZING

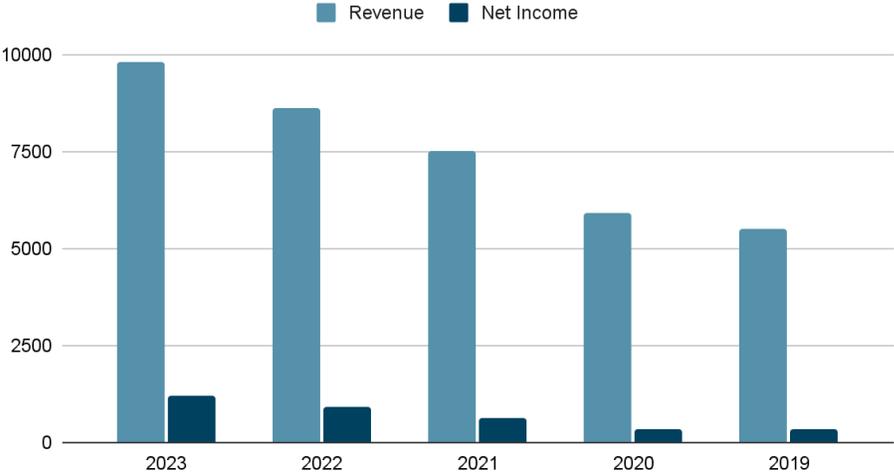
Common-size Conclusions:

(Numbers represented in thousands)

Conclusion 1

Chipotle has seen nearly a 2x growth in their overall revenue, which has grown from 5.5M to 9.8M from 2019 to 2023. This growth in revenue has also come with a significant increase in the company's bottom line, which went from representing under 10% of their revenue from 2019 (6.2%) and 2021 (8.6%), to representing over 15% of revenue in 2023. The net income of the company impressively increased from 350K to 1.2M on a dollar basis (showing growth of over 3x).

Bottom Line Growth (Scaled)

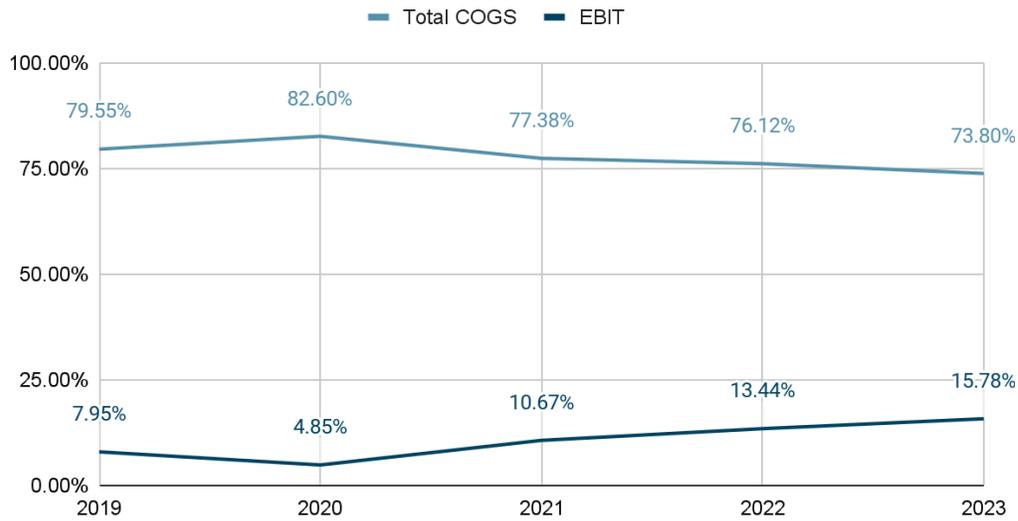


Conclusion 2

Since 2019, Chipotle has been able to significantly increase their EBIT. This number has increased overall, and it has also increased as a percentage of revenue. Since 2019 their EBIT in dollars has increased from 443K to 1.5M, in terms of percentage has increased from 7.95% to 15.78% of total revenue.

This jump from 443K to 1.5M represents incredible growth of over 33x in their EBIT from 2019 to 2023. The growth in their EBIT ratio can be attributed mainly to an increase in price of the company's products. This is evidenced by the costs remaining relatively stable and growing at low rates.

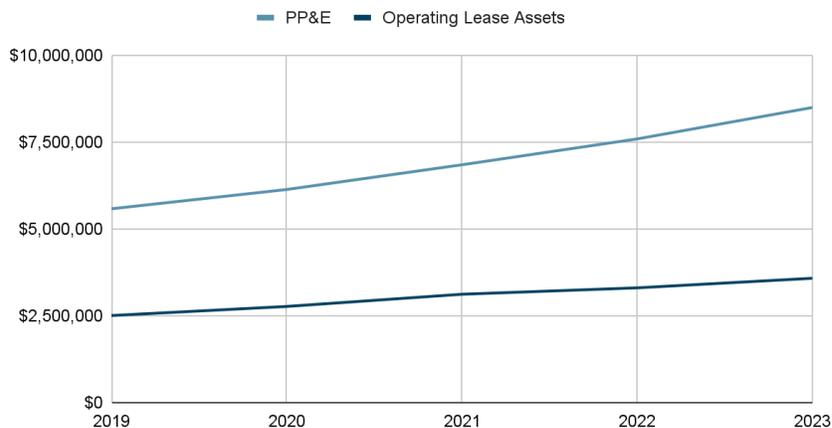
COGS & EBIT as a Percentage of Revenue



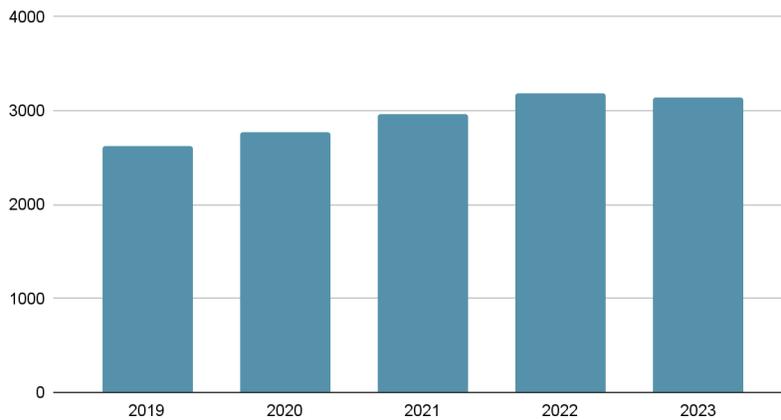
Conclusion 3

Chipotle has experienced significant growth in the Assets section of their balance sheet, which has seen an overall increase of around 3M since 2019. A large part of this increase stems from their growth in gross leasehold improvements, property and equipment, and operating lease assets which combined represent around 50% of the company's total assets. This increased investment is likely tied to the expansion of chipotle, which has opened over 100 new locations since 2019.

Balance Sheet Growth



Number of Chipotle Locations

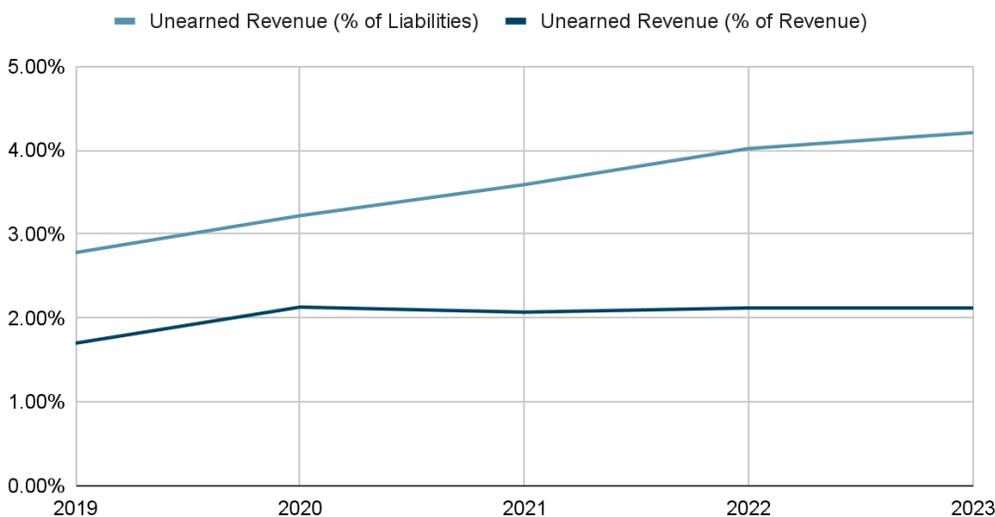


(Source)

Conclusion 4

As mentioned in their 10K, Chipotle has been looking to shift digital sales towards their in-house platforms, and one of the methods by which the company does this is via Chipotle gift cards. The growth in the presence of these gift cards can be seen via the growth of the Unearned Revenue section under Liabilities within the balance sheet, which has grown 95K in 2019 to 209K in 2023. However, this growth in unearned revenue has not shown a significant increase related to total assets, which has only moved from 1.86% to 2.61%.

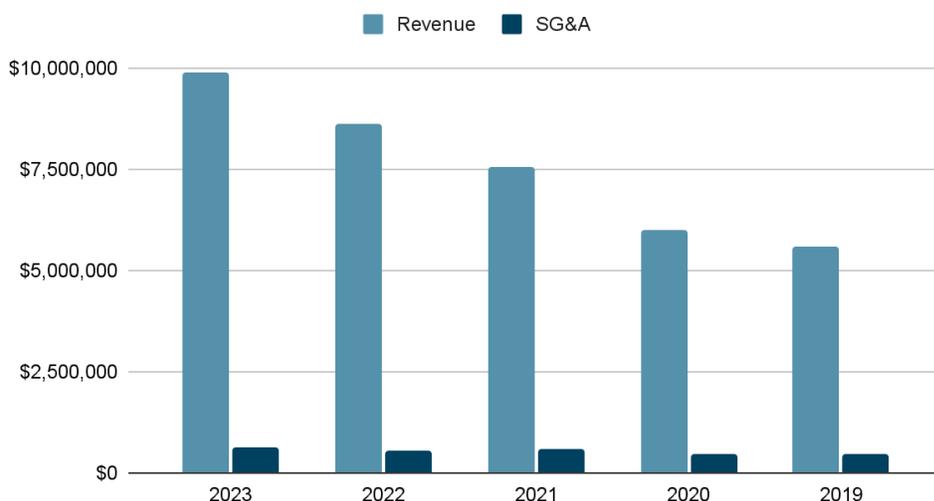
Points scored



Conclusion 5

Despite the rapid growth and expansion that Chipotle has seen, both in the growth of locations as well as the rapid growth in revenue, Chipotle has managed to keep its General & Administrative expenses relatively low, consistently representing under 10% of their revenue. Furthermore, although the dollar amount has increased from 2019 (from \$450K to \$630K), the percentage that this cost represents regarding revenue has steadily declined from 8% in 2019 to 6.4% in 2023.

Revenue vs SG&A

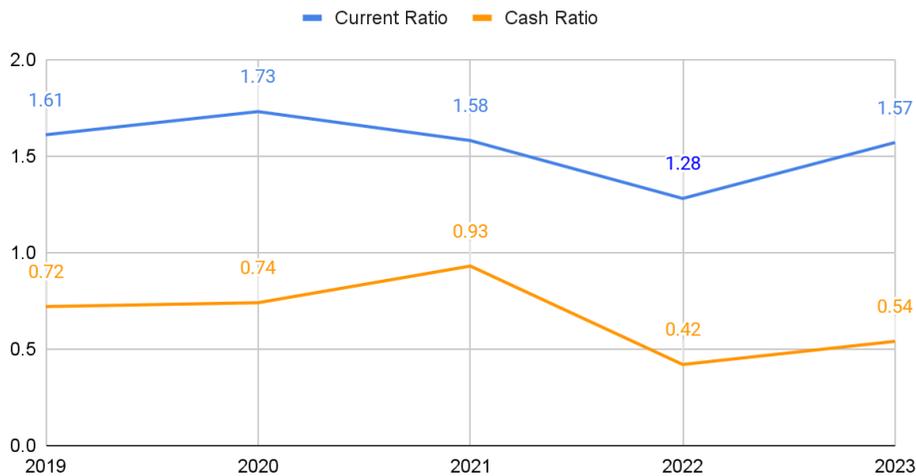


PART III: FINANCIAL STATEMENT ANALYSIS: RATIOS & PERFORMANCE

Short-Term Solvency Ratios

- **Current Ratio:** The Current Ratio measures a company's ability to cover its short-term liabilities. Chipotle has a healthy current ratio that has consistently remained over 1, this indicates that the company has low risk of failing to meet short-term obligations. Although this metric has seen an overall decline since 2019, it has managed to stay stable.
- **Cash Ratio:** As seen on their balance sheet, Chipotle is a low-cash company. On average the cash on their balance sheet represents under 9% of their total assets, and has seen a decline since 2019. Chipotle seems to be investing a lot in their mission to improve the digital sales experience, however, it could be a safe move to try and build up a slightly larger cash reserve.

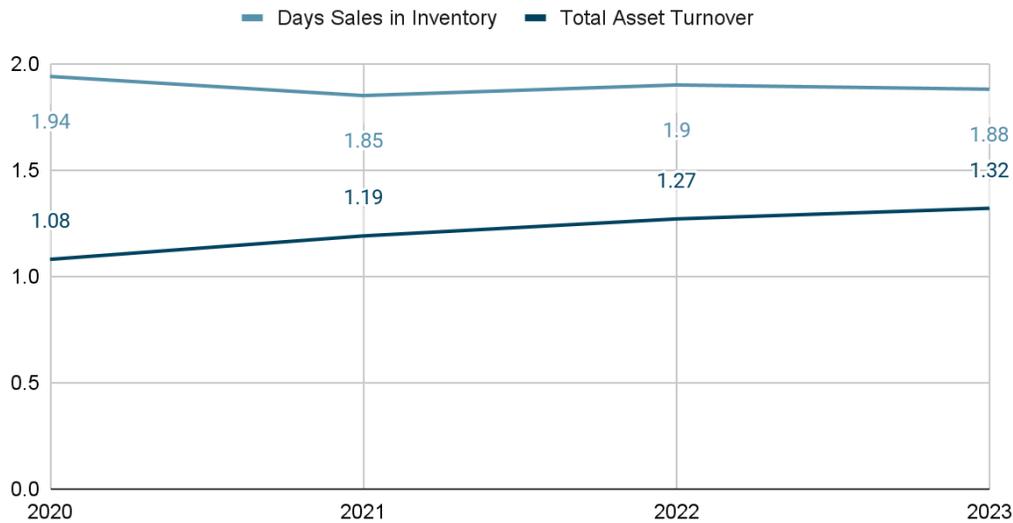
Short-Term Solvency Ratios



Asset Management Ratios

- **Inventory Turnover:** The Inventory Turnover ratio measures how many times in a period a company sells off its inventory. Chipotle has a very high inventory turnover ratio, which is consistent with their business strategy of selling food. Since 2019 their inventory turnover has slightly increased, yet remains hovering around the 190 range.
- **Days Sales in Inventory:** A company's Days sales in Inventory metric measures the average number of days that it takes for the company to turn (get rid of) their inventory. The inventory turnover metrics for Chipotle make sense for a company that works with items that have an extremely low shelf life, such as dairy and fresh vegetables. Chipotle's Days Sales in Inventory has remained slightly below 2 (days), and has seen gradual improvement since 2019.

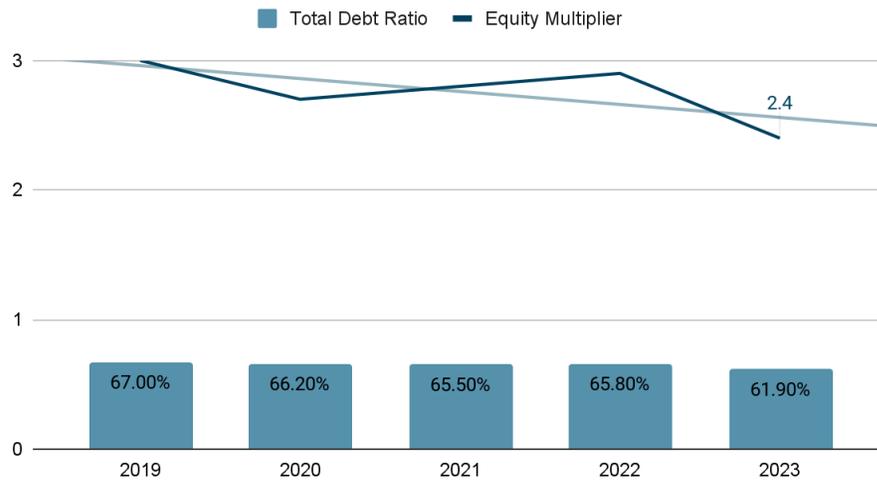
Asset Management Ratios



Long-Term Solvency Ratios

- **Total Debt Ratio:** A Company's Total Debt Ratio measures their ability to cover their debts in the long term. Chipotle's total debt ratio has remained around 30% during the past few years, however it nearly doubled during 2023, reaching nearly 62%. This indicates that the presence of liabilities on Chipotle's balance sheet has increased relative to their assets and equity. By observing their balance sheet, one can observe a sharp increase in accrued payroll benefits as well as Long-term Operating Lease Liabilities and Current Liabilities.
- **Equity Multiplier:** Similar to the Total Debt Ratio, the Equity Multiplier measures a company's ability to cover their debts. Chipotle's Equity Multiplier also saw a jump during 2023 due to an increase of the proportion of debt on the balance sheet. It is also important to highlight the fact that Chipotle's total equity saw a reduction between 2022 and 2023.

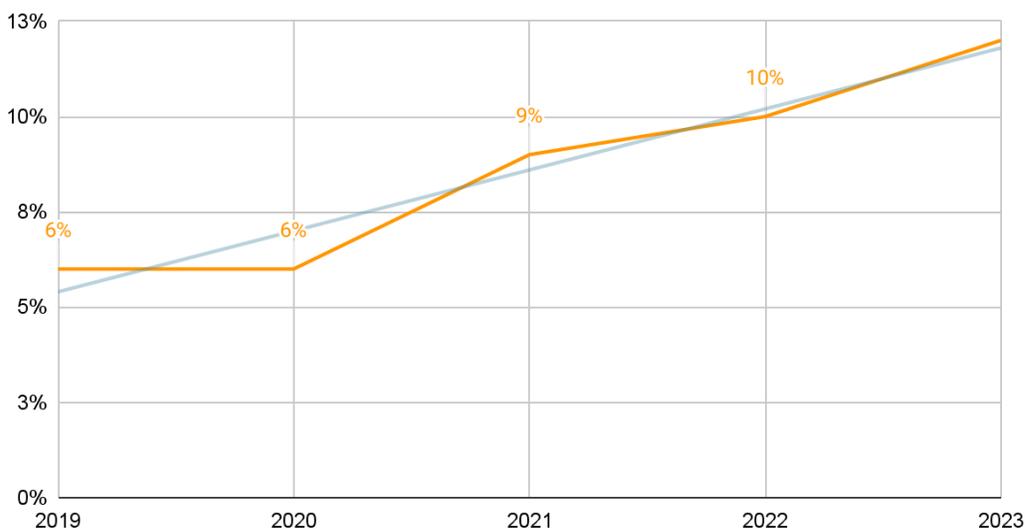
Points scored



Performance Ratio

- **Profit Margin:** A company's profit margin measures the percentage of profits retained from revenue. Chipotle's profit margin has experienced a growth of over 100% since 2019, going from 6% to over 12%. This percentage growth represents a dollar increase from \$350M to over \$1.2B. This growth is extremely impressive and is a reflection of Chipotle's extraordinary growth in recent years.

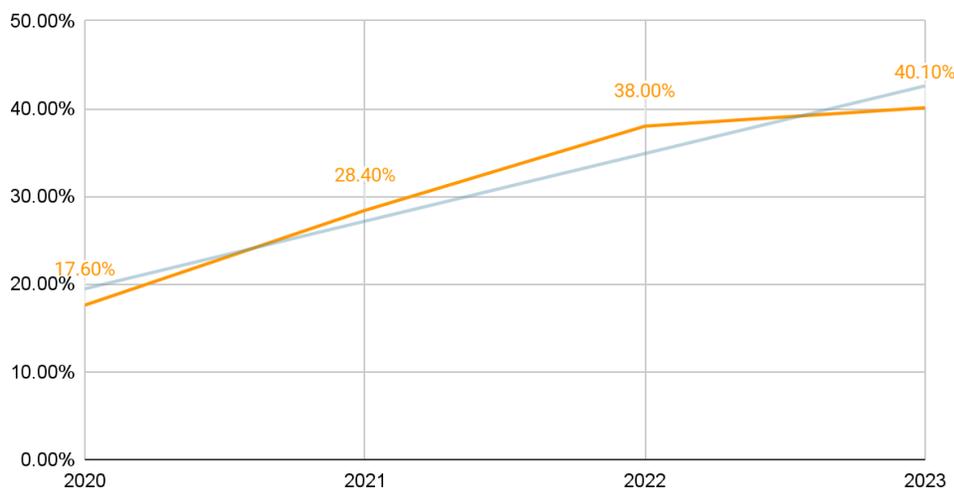
Points scored



Dupont Decomposition

- **Return on Equity:** A company's Return on Equity measures its ability to generate revenue off its equity, thus, it is an overall measure of the company's profitability. Chipotle's ROE has seen significant improvement in recent years, seeing a growth of over 2x from 17% in 2020 to 40% in 2021. This impressive ROE performance has the potential to make Chipotle more attractive to investors.

Chipotle ROE Performance



The Makeup of Chipotle's ROE

- Profit Margin: As previously noted, Chipotle's Profit Margin has seen impressive growth in recent years. Their performance is showing positive growth.
- Total Asset Turnover: Chipotle's Total Asset Turnover is showing stability, indicating potential improvement in their Efficiency. (Although there has been improvement since 2019.)
- Equity Multiplier: Chipotle's Equity Multiplier demonstrates a recent increase in the proportion of Liabilities on their balance sheet. However, the company remains with the ability to cover their obligations in both the short and long terms.

Profit Margin	12.4%	10%	9%	6%
Total Asset Turnover	1.3x	1.3x	1.2x	1.1x
Equity Multiplier	2.4x	2.9x	2.8x	2.7x
Return on Equity	40.1%	38.0%	28.4%	17.6%

PART IV: PEER GROUP ANALYSIS: RATIOS & PERFORMANCE

Ratio	Chipotle	Average	Cava	Sweetgreen	YUM!	Shake Shack
Current Ratio	1.6x	2.7x	3.3x	3.0x	1.3x	3.1x
Cash Ratio	0.544x	1.9x	3.049x	2.809x	0.401x	1.369x
Total Asset Turnover	1.32x	0.95x	0.91x	0.65x	1.17x	0.70x
Days Sales in Inventory	1.88 days	4.79 days	3.59 days	11.61 days	N/A	2.09 days
Total Debt Ratio	0.62%	0.52%	0.42%	0.44%	N/A	0.71%
Equity Multiplier	2.6x	1.7x	1.7x	1.8x	N/A	3.4x
ROA	16.41x	6.64x	1.67x	N/A	2.65x	1.31x
Profit Margin	12.45%	3.87%	1.82%	N/A	22.57%	1.93%
ROE	45.26%	7.08%	3.33%	N/A	3.74%	4.85%

Short-Term Solvency:

Regarding the ability to fulfill obligations in the short-term, Chipotle demonstrates a lower ability to do so when compared to the peer group average. Both Chipotle's Current and Cash ratios are notably lower than the peer group average. This conclusion is true despite two very young companies (CAVA and SweetGreen) being included in the peer group. However, Chipotle is still able to cover its short-term obligations, and has maintained its financial position relatively stable for the past 4 years, which leads us to believe that this is not something that management considers a pressing issue.

- **Conclusion:** Chipotle is performing worse than its peer group. However, they have maintained short-term solvency measurements stable for the past 4 years.

Long Term Solvency:

Regarding their ability to meet obligations in the long term Chipotle demonstrates a performance that is relatively on par with their peer group. Their Equity multiplier shows a slightly higher level than the peer group while their total debt ratio is approximately 20% higher than the peer group's. This indicates that Chipotle's management will have to confront this issue going forward.

- **Conclusion:** Chipotle's long-term solvency is slightly below its peer group. Management will have to face this issue in the future.

Profitability:

Chipotle's profitability has notably outperformed its peer group during the past four years, even showing impressive growth during the COVID-19 pandemic. Due to this, Chipotle's management is focusing on expanding and reinvesting in the business.

- **Conclusion:** Chipotle's profitability measures are notably outperforming the peer group average.

Efficiency

Similar to its profitability, Chipotle's efficiency and asset management ratios are notably better than the peer group average. This indicates an improved ability to generate revenue by Chipotle, which goes hand in hand with the impressive profits and growth.

- **Conclusion:** Chipotle's measures of ability to generate revenue are better than the peer groups'.

CHAPTER 2: INTRINSIC VALUATION: DISCOUNTED CASH FLOW MODEL

1) 2024 End of Year Growth Assumptions

Although Chipotle has seen constant and consistent growth during the past 4 years, recent growth trends from 2021 to 2023 show a decline in the growth rate, from 26% in 2021 to 14.4% in 2022 and 14.3% in 2023. According to the reporting done by Chipotle's interior analysts on their 10-K, they explain that Chipotle's recent growth in sales was driven by an "increase in comparable restaurant sales and new restaurant openings" ([SOURCE](#)). In order to identify the growth attributable to new restaurant openings, one must first calculate the growth in revenue credited to increased traffic in existing locations. According to a report on CNBC, same-store sales grew by 8.4% in 2023 ([SOURCE](#)). This alongside the fact that Chipotle opened 271 new locations during 2023 indicates that each new location can be credited with bringing in an estimated \$1.9M in new sales. Continuing with this trend, one can follow analyst expectations

that same-store sales will grow by 5.4% ([SOURCE](#)), and add that to our previous estimate of \$1.9M in revenue created by each new location.

Since Chipotle plans to open between 285 and 315 new locations one can select the midpoint at 300 new locations and estimate that this will bring in around \$5.7B (at \$1.9M from each of 300 new locations).

This means that the total estimated revenue for 2024 approximates \$10.9B, therefore representing an **11.18%** increase in overall revenue.

Of this \$1.9M in revenue per restaurant, I assumed that Digital sales were a significant contributor, due to the fact that they represented 37% of sales in 2023. I estimated that digital sales will grow to represent an additional 15% of sales, coming to a total of 52% of sales per restaurant. This 15% is an average of the user growth of Doordash, GrubHub, and Uber Eats in 2023.

2) Perpetual Growth Rate: Terminal Value Revenue Growth

In order to estimate the perpetual growth rate of **4%**, I took into account the following factors.

- **Continued International Expansion:**

- Taco Bell, a similar company to Chipotle that has a similar product offering as well as similar price points is currently operating in over 30 countries worldwide (Chipotle currently has locations in 5 countries). Taco Bell is owned by YUM Brands, a comparable company that I have previously used for Chipotle, and has experienced significant worldwide revenue growth ([SOURCE](#)). Furthermore, Chipotle management has recently reached an agreement in order to open locations in the middle east. Due to this, I believe that increased international expansion will lead to future growth in the company's revenue ([SOURCE](#)).

- **Digital Sales Growth**

- As previously mentioned, digital sales play a major role in Chipotle's growth forecasts and their business strategy. Digital Sales represent not only a new avenue of revenue, but also a less labor-intensive one that is becoming more popular day by day. Due to this, I think that this will not only drive growth for Chipotle's revenue, but it will also receive significant investment by Chipotle's management ([SOURCE](#)).

- **Increased Sales via "Chipotlanes"**

- The transition of Chipotle from a majorly walk-in business model to a restaurant that can also offer drive-through services indicates potential for growth in this area. Furthermore, this increase in services is intended to boost the already

growing digital sales sector. Due to this, I consider these investments as a positive force for continued growth in Chipotle's revenue ([SOURCE](#)).

Conclusion: Due to a mixture of increased digital sales, increased investment in new and current locations, and international expansion, I believe that Chipotle's perpetuity growth will be at 4%.

3) Appropriate Comparables: Beta Calculation

In order to calculate Chipotle's Beta value, I used 4 companies that I believe are accurate comparables for Chipotle. These companies are the following

- **Dominos Pizza Inc:** Domino's Pizza is a chain pizza restaurant that targets consumers with similar budgets to Chipotle. Although in the past Dominos pizza was notorious for low quality pizza with less-than-ideal ingredients, they have recently invested vast amounts of capital into redesigning their pizza recipes and changing their public image ([SOURCE](#)). Dominos is now one of the most successful fast food chains in the market and has around 6,900 US locations and over 20,000 stores worldwide ([SOURCE](#)).
- **YUM! Brands, Inc:** YUM! Brands is one of the largest conglomerates in the restaurant industry, having brands such as Taco Bell, KFC, Pizza Hut, and more under their corporate umbrella. I believe that YUM! is an accurate comparable company due to the similarity shared by their businesses and Chipotle including Taco Bell's Mexican theme, the shared "fast-food" denomination, and similar product offerings. Furthermore, both of these companies are international, and although YUM! is a significantly larger company, it still has overlap with Chipotle regarding their consumers and their digital growth opportunities ([SOURCE](#)).
- **Shake Shack Inc:** Shake Shack is a company that serves American food and is known for their fries, burgers, and shakes. Similar to Chipotle, they position themselves on the higher end of fast food, and their marketing boasts the quality of their ingredients as well as their commitment to ethical sourcing. Although Shake Shack does not share menu items with Chipotle, they target similar consumers and share similar company values, thus I consider them an appropriate comparable ([SOURCE](#)).
- **Sweetgreen Inc:** Sweetgreen is a company whose product offering revolves around salads and bowls. Although Sweetgreen does not follow the Mexican theme, it shares many menu options and ingredients with Chipotle. Furthermore, their positioning as a premium, healthy, and ethically sourced fast-food option places them in the same bracket as Chipotle. Sweetgreen's mission statement is

“Building healthier communities by connecting people to real food” which sounds very similar to Chipotle’s ([SOURCE](#)).

Conclusion: Other than the qualities that I have previously outlined, it is also important to mention that all of these companies are subject to very similar business risks, growth opportunities, and market trends. Thus, I believe that these are the most accurate comparable companies.

4) Cost of Capital & Tax Rate

Once the comparable companies had been selected, the next step consisted of obtaining the figures that would be used in the financial model. The unlevered average beta calculation provided a beta of 1.96. After applying the techniques used for leveraging, I obtained a beta of 1.27, which was used in the model.

- Cost of Debt: In order to calculate the cost of debt I used the Default Spread method, which consisted of using the sum of the risk free rate with the default spread value. In order to best capture the risk free rate I used US 10-Year Treasury Bonds, and in order to determine the default spread I used data from Damodaran’s Default Spread table ([linked here](#)), which I matched with Chipotle’s estimated BBB credit score rating.
- Cost of Equity: In order to calculate Chipotle’s cost of equity I used the Capital Asset Pricing Model (CAPM), which consisted of the sum of the risk free rate (which I again proxied with 10-year US treasury bonds) with the product of Damodaran’s Equity Risk Premium ([linked here](#)) and the levered beta.
- Tax Rate: In order to best capture the tax rate I used a 25% estimate, which represents a 21% federal rate along with an average 4% state tax.

Resulting Weighted Average Cost of Capital (WACC): After performing the required calculations, the resulting cost of capital for Chipotle was **15.19%**

The cost of capital is used in the model as the **discount rate** which was applied to the forecasted cash flows & terminal values to obtain present values.

5) Net Working Capital Prediction

In this model I predicted that Chipotle’s Net Working Capital would increase. I predicted a growth from 3% to 4%, which I credited to the company’s increased needs for capital for its expansion and investments in previous locations. Chipotle experienced a growth of 1% in NWC

from 2018 to 2023, and I believe that this time frame represents similar growth and needs to that of our forecast window, thus I chose to include the same increase of 1% for the window.

6) “Story” of Chipotle

Although Chipotle is a company that was founded over three decades ago, it has still not achieved its full economic potential. I view Chipotle as a company that has plenty of room for growth both within the US and internationally.

Among the leading growth factors are digital sales and increased locations. Each of these two factors in itself can have a significant impact on the company’s bottom line, as seen in 2021, where the sheer number of new locations resulted in the company experiencing over 26% growth in revenue despite it being the heat of the COVID-19 Pandemic. Furthermore, digital sales show an ever-increasing presence not only in Chipotle’s revenue, but across the whole restaurant industry. Chipotle is currently optimizing its business model in order to best benefit off digital sales by increasing investment in its in-house digital platform, rewards programs, digital marketing, and by modifying its existing locations with Drive-thrus (Chipotlanes) in order to reduce friction with digital order pickups. Furthermore, Chipotle has expanded to 4 countries outside of the US (Canada, France, Germany, and the UK) and they are actively taking measures in order to expand into other areas, such as the Middle East and South America.

According to analyst predictions, Chipotle is expected to continue growing, and their expansion into Digital orders as well as their investment into drive-thru lanes are expected to be a large driver of this growth ([Source 1](#)) ([Source 2](#)) ([Source 3](#)).

PART II: Forecast Window Projections

1) Revenue Forecast

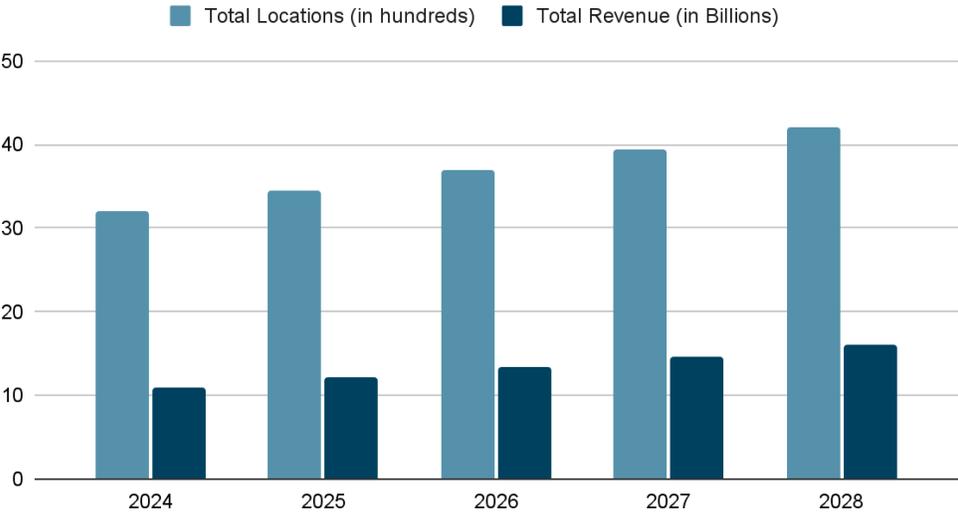
In order to calculate our estimates for Revenue Growth for the year 2028 I explored the growth avenues that Chipotle has regarding their current business. In their 10-K, Chipotle management discusses how digital revenue represents a new area of growth for Chipotle, which they are investing in by adding drive-through lanes to new and existing locations ([SOURCE](#) Page 5). These “Chipotlanes” will allow customers to make purchases in a faster and more accessible manner, such as by pre-ordering online and scheduling pickups via the Chipotlane. As of 2023, digital orders represent 37.4% of revenue, and the increased adoption of apps such as Doordash, Uber Eats, and Grub Hub indicate an increase in the trend of digital revenue.

In order to calculate the 8.95% growth rate for 2028, I estimated that Chipotle will open a yearly average of 250 new locations by 2028, and that each of these locations will bring in an estimated

\$5M in revenue (both in person & online). By this estimate, Chipotle’s revenue will grow by \$5M from approximately 11M to 15M.

I obtained the \$5M per new location figure by analyzing the number of new locations opened in 2021, and determining the estimated increase in revenue that each of these individual locations contributed to the increase in the company’s revenue. Thus, by using 2021 data for projections I accurately represent each new location’s potential revenue while hedging against worldwide disasters (due to the fact that 2021 revenue numbers were impacted by the COVID-19 Pandemic).

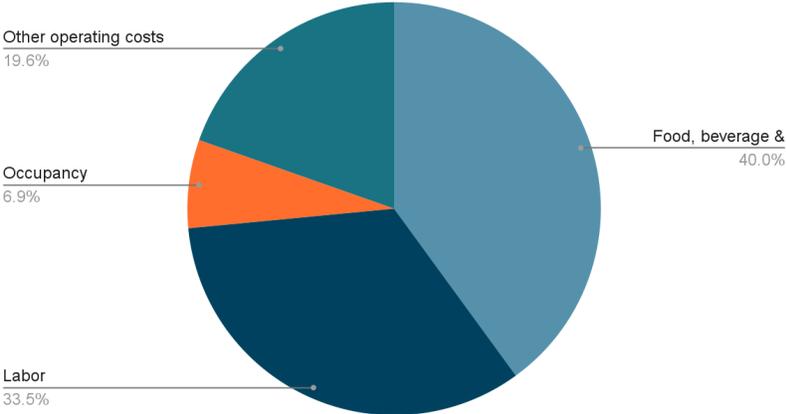
New Location & Revenue Forecasts



2) COGS as a Percentage of Revenue

Throughout the 2019-2023 window, Chipotle’s Cost of Goods Sold has seen an overall decline from nearly 80% of its revenue to under 74%.

2024 COGS Breakdown



Chipotle’s COGS is made up of four factors: Food, Beverage, and Packaging Costs, Labor Costs, Occupancy Costs, and Other operating costs.

I predict that as Chipotle continues to grow and expand they will look for innovative

ways to reduce costs. For example, they plan to reduce labor costs by employing robots that can perform tasks such as slicing avocados and preparing meals ([SOURCE](#)).

These improvements are likely to reduce labor costs. I quantified this in our model by reducing the overall COGS by 10%. Since labor cost has represented an average of 25% of COGS over the past 4 years, this decrease in COGS can also be expressed as a 40% reduction in Labor costs.

3) SG&A as a Percentage of Revenue

Throughout the past four years Chipotle has seen significant revenue growth, yet they have been able to consistently lower SG&A expenses, which have gone from representing 8% of revenue to below 6.5%. Although this is an impressive feat, the increase in investment in digital infrastructure in addition to international expansion will require an increase in staff which will be reflected in their SG&A expense. I have quantified this in our model by expressing an increase over the forecast window back to 8% of revenue. I chose the 8% figure for two reasons. The first of these reasons is based on historical data. Chipotle saw the most growth during the year 2021, and in order to capture the effect of our expected growth I used the same SG&A expense. The second reason why I chose this growth was a comparison with YUM! Brands' estimated SG&A. YUM! Has already seen international expansion and is similarly investing in digital market share. I calculated YUM!'s average SG&A cost per international location, and multiplied that by the estimated total locations from our previous forecast. Our calculation led us to increase SG&A expense by approximately 1.5% of revenue, which left us at 8%. Although I recognize the fact that SG&A is not necessarily a function of the number of locations that a company owns/manages, I believe that it is important to highlight the increased staff needs that will appear in order to manage international headquarters as well as the required data & financial processing needs from the increased investments in digital sales funnels.

4) D&A as a Percentage of CapEx

The past 4 years have seen Chipotle open over 800 new locations which have helped the company grow extensively. Throughout this period, the percentage that Depreciation and Amortization has represented of total Capital Expenditures has decreased by around 6.7%. This is despite the reported amount in dollars increasing by nearly 50% (from 212K to 319K). Due to similar expectations in revenue growth, expansion, and an increased number of locations I have concluded that the Depreciation and Amortization will continue to increase by dollar amount, yet continue to represent less and less of Capital Expenditures each year. Thus I have

continued the downtrend and forecasted a value of 48.2% of the year's Capital Expenditures for 2028.

5) Capital Expenditures as a Percentage of Revenue

In order to estimate the growth that would be required in Capital Expenditures in order to accurately reflect Chipotle's expansion, I observed the past growth that Chipotle experienced in 2021 and projected future CAPEX expenses using past figures as a reference point.

I used the year 2021 as a basis because this year saw impressive revenue growth of 26%. This year had around 215 Chipotle locations open and 81% of these had Chipotlanes ([SOURCE](#)). In our predictions I have the goal of forecasting similar growth to that of 2021. I believe that using 2021 figures also reflect potential risks due to this year being the peak of the COVID-19 pandemic, which was a difficult time for restaurant-based businesses. Thus, I believe that 2021 proxies both risk and growth within our forecast model.

Between 2019 and 2020 Capex increased by 0.26%, and between 2020 and 2021 Capex saw a reduction of 0.38%. By isolating each percentage, I can make the assumption that this temporary bump in Capex was due to the increased locations, thus by obtaining the average of these numbers I can estimate a 0.325% increase in Capex required for investment in new locations.

6) Pre-Opening Costs as a Percentage of Revenue

In order to accurately reflect the percentage of revenue that Pre-Opening costs would represent throughout our forecast I predicted an average cost per location which I could then apply to each new location. In order to do this I divided the Pre-Opening costs in 2023 by the number of new locations opened in that year. I obtained an estimated cost of \$136,000 per new location.

Afterwards I obtained the product of this estimate by the estimated new restaurant openings in 2024 (315), and identified what percentage this expense represents of revenue (0.4%). I then extrapolated the growth (0.33%) for the duration of the forecast.

CHAPTER 3: RELATIVE VALUATION

PART I: Selecting the Comparables

In order to perform the relative valuation, it is required that I look for the largest possible set of similar companies that I can use as comparables in the model. By using the relationship between the price of these companies' stock and their risk, growth, and cash flow profiles, I am able to proxy the appropriate market price of \$CMG. I followed the subsequent steps in order to create the best list of comparables possible.

1) Performing an objective and all-inclusive search

The first step in our search consisted of creating a list that followed objective parameters in order to avoid unnecessarily excluding any firms. This was done in order to avoid selection bias and unnecessarily overlooking any firms that I might not have heard of. Our sources for this list of firms included Chipotle's Proxy Statement, data from Mergent Online, and S&P's Capital IQ.

2) Objective First Filter (4 Digit SIC)

The second step in our search consisted of using objective criteria to filter out firms that differentiate themselves from our target company. In order to do this I used the Labor Bureau's 4-Digit SIC Codes. These codes helped us identify which companies the government places in different industries, which could create differences in risk and growth profiles.

3) Subjective Second Filter (Business sector, Life Cycle, Analyst Expectations)

The third step in this process consisted of using subjective analysis in order to arrive at the final candidates. In order to achieve this I did research that analyzed the potential firm's business mix and growth stage. I also looked into analyst expectations regarding each firm's growth and risk expectations. Finally, I took a dive into each company's Income Statement and Balance Sheet, looking for any significant irregularities.

After following the aforementioned steps, I arrived at our final list of comparables.

Notable Companies that I decided to exclude are:

- **McDonald's:** McDonalds is the largest fast food chain in the world which means that their growth profile is very different from that of Chipotle. Furthermore they target a different consumer base than Chipotle.
- **Jack in the Box:** Jack in the Box is another fast food chain that specializes in burgers, chicken nuggets, etc. Due to their menu differences with Chipotle, their positioning in the market is that of an unhealthy brand, which I believe results in the brand having a different risk profile.

- **Starbucks:** Starbucks is a coffeehouse chain that, similar to McDonald's, has a massive presence in the US and internationally. I believe that this provides Starbucks with different growth expectations than Chipotle, thus I decided not to include this company.

PART 2: Calculating the Multiples

Due to the fact that I am performing this analysis around the beginning of the year, not many financial reports have taken place since the 2023 year end 10-Ks. Therefore, I will be using 2023 numbers for all of our LTM calculations.

Market Value of Equity & Enterprise Value

In our model I used Market Cap as the Market Value of Equity. In order to calculate the Enterprise Value of each firm, I obtained the Market Cap from Yahoo! Finance, and added Net Debt, Preferred Stock, and Non Controlling Interests.

After these operations I were left with the following values for our firms:
(Numbers in Thousands)

Firm	Market Value (Yahoo! Finance)	Enterprise Value
Chipotle (CMG)	\$78,674,000	\$81,314,643
Cava Group (CAVA)	\$6,802,000	\$6,805,995
Shake Shack (SHAK)	\$3,730,000	\$4,221,912
YUM! Brands (YUM)	\$3,899,000	\$16,199,000
SweetGreen (SG)	\$2,330,000	\$2,375,625

Once I had calculated these values, the next step consisted of determining the Enterprise Value Multiples and the Equity Value Multiples. After this, I obtained four basic summary statistics that would help us quantify these multiples. These statistics were the minimum, maximum, mean, and median of our multiples.

Statistic	EV/Sales	EV/EBIT	EV/EBITDA	Forward PE	Forward PEG	Market-to Book	Cash as % of Assets
Max	9.3x	52.2x	86.3x	238.1x	2.5x	25.7x	0.3x
Mean	5.6x	23.9x	46.9x	8.4x	1.4x	10.2x	0.2x
Median	4.1x	14.4x	37.6x	53.5x	2.1x	8.4x	0.1x
Min	2.3x	-21.1x	-44.6x	0.0x	0.0x	0.0x	0.1x

PART 3: Applying the Multiples

Once all the Enterprise and Equity multiples have been determined, the next step consists of applying these multiples to our company's respective measurements, and then determining the price per share for our company.

It is important to highlight the fact that I used both the Mean and Median of our multiples in order to complete our calculations.

As a result of our calculations I obtained the following values for our **Enterprise Multiples**:

Statistic Name	Statistic	Implied Equity Value	Implied Price x Share
EV/Sales (avg)	5.6x	\$52,277,425.9	\$1,386.46
EV/Sales (Med)	4.1x	\$40,153,578.5	\$1,064.92
EV/EBIT (avg)	23.9x	\$37,154,453.3	\$985.38
EV/EBIT (med)	14.4x	\$22,439,084.6	\$595.11
EV/EBITDA (avg)	46.9x	\$87,474,215.2	\$2,319.91
EV/EBITDA (med)	37.6x	\$62,594,937.4	\$1,660.09

As a result of our calculations I obtained the following values for our **Equity Multiples**:

Statistic Name	Statistic	Shares Outstanding	Implied Price x Share
Forward PE (avg)	8.4x	37,705.8	\$374.60
Forward PE (med)	53.5x	37,705.8	\$2,399.11
Forward PEG (avg)	1.4x	37,705.8	\$1,430.93
Forward PEG (med)	2.1x	37,705.8	\$2,157.32
Price to book (avg)	10.2x	37,705.8	\$0.08
Price to book (med)	8.4x	37,705.8	\$0.07
Excess Cash (avg)	0.2x	37,705.8	\$374.60
Excess Cash (med)	0.1x	37,705.8	\$2,399.11

PART 4: Analysis of Important Events & Mgmt Discussion

Analysis of Important Events

Throughout the past 4 months, there have been a variety of important events happening within and around the Chipotle company. These events serve as an indication to Chipotle’s direction as a company, and show what they are prioritizing.

Event 1: Continued opening of Chipotlanes - Indicate continued investment in digital order infrastructure. ([SOURCE](#))

Event 2: Chipotle announces stock split - Indicates that Chipotle wants to make its stock attractive to new investors. ([SOURCE](#))

Event 3: Chipotle announces continual investment of \$50 Million into venture fund - Indicates that Chipotle is looking for innovative ways to improve its business ([SOURCE](#))

I believe that Event 3 is one of the most important occurrences since the beginning of the year. Chipotle has now invested a total of \$100 Million in a fund that provides investment to the following companies.

- GreenField Robotics: Company that has the goal of creating automated food preparation lines.
- Nitricity: Company that is looking to create fertilizers than help corporations reach net-zero emissions.
- Vebu: Engineering company that is aiming to make robots that can prepare food (specifically guacamole) without need for human intervention.

This fund provides investments to multiple other firms, however, I believe that these are the three most important firms that Chipotle will be able to reap the largest amount of rewards from.

Quoted Section from Management Discussion

“

Restaurant Development. During the year ended December 31, 2023, I opened 271 new restaurants, which included 238 restaurants with a Chipotle. I expect to open approximately 285-315 new restaurants in 2024 (including 5 to 10 relocations), which assumes developer, permit, inspection, and utility delays do not worsen. I expect that at least 80% of our new restaurants will include a Chipotle.

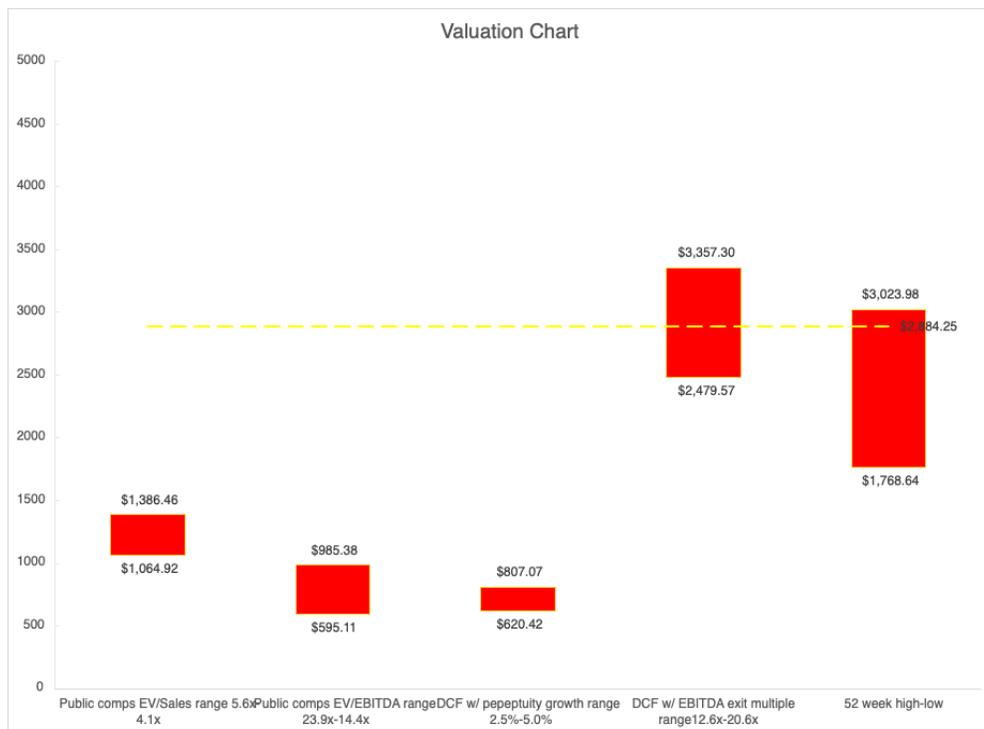
“

This section from the management discussion is what led us to believe that Chipotle’s perpetual growth rate will remain high. The company’s management remains committed to opening a sizable amount of new locations per year. Furthermore, they also mention the inclusion of Chipotlanes, which indicate an investment in digital order infrastructure. This shows that top tier management is has the following priorities:

- 1) Opening new locations
- 2) Receiving increased digital revenue

If Chipotle management continues to remain committed to these goals, all else being equal, there is nothing stopping the company from reaching revenues similar to McDonald’s or Starbucks.

PART 5: Football Field Chart & Buy/Sell Recommendation



On Chipotle’s Football Field Chart I can observe that the current stock price has only been beaten by the 52-week high as well as the 20.6x EBITDA exit multiple. The current EBITDA exit multiple is 16.6x.

Due to this, and all other analysis showing a lower relative and intrinsic value, I believe that Chipotle's Stock price is higher than its value.

Due to this, I do not recommend a buy.

Conclusions: Buy/Sell Recommendation

CHIPOTLE MEXICAN GRILL (\$CMG) : 4/5

