

Chipotle Mexican Grill

Firing on all cylinders

Reiterate Rating: BUY | PO: 3,000.00 USD | Price: 2,487.74 USD

Value, throughput, digital working together

As Chipotle Mexican Grill's (CMG) pricing has rolled off - and it's remained disciplined around adding more - its gap to the industry (CMG +2.5% vs FAFH CPI of 5% in 4Q) creates a compelling value proposition, in our view. At the same time, improved throughput (+1 transaction at peak hour) is enhancing the customer experience. The latter will prove even more critical as CMG enters its peak selling season in March, when lines are sufficiently long to serve as a deterrent. Increasingly personalized app-based marketing works together with both value and speed to increase trial and frequency.

Operating leverage makes its reappearance

After two years of elevated inflation across virtually every expense line, CMG is finally seeing leverage commensurate with SSSG. We typically anticipate ~20 bps of margin expansion per point of transaction growth. CMG's 140 bps of RLM expansion y/y on 7ppts of transaction growth in 4Q fits squarely within that framework. With 2024 looking to be a normal inflationary year (low single digit commodities, mid-single digit wages) we expect this relationship to hold.

F24 SSSG and EPS higher on pricing, cont'd traffic gains

We lower 1QE EPS to \$11.32 (vs \$12.56 prior) as we incorporate a slower start to the year (January weather), higher G&A (CMG's managers conference takes place in 1Q, adding \$21 mm) and y/y calendar shifts (Easter in 1Q vs 2Q in prior year). We add 90 bps of pricing beginning in 2Q as we expect CMG to raise prices to offset California wage increases. Our F24E SSSG comes up slightly to 6.0% (vs 5.8% prior) as lower mix assumptions partially offset. Flowing through higher SSSG our F24E EPS moves to \$54.35 (vs \$53.78 prior).

Raising PO on rolled forward estimates. Reiterate Buy

We value CMG on steady state earnings power, assuming 7000 U.S. stores and an additional 1000 international. Rolling forward our steady state earnings power model, we now use 2023 as a base (vs 2022 previously). At steady state, we expect AUVs to exceed \$4mm and margins to reach the prior peak of 27% (28% ex. pre-opening). Assuming G&A of 5% (similar to mature company operated systems), CMG would generate \$7.9bb in EBITDA. Applying a 20x multiple, the implied EV is \$173bb, or \$77bb discounted back to today, and implied equity value per share is \$3000 (vs \$2700 prior).

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	32.78	44.87	54.35	66.34	81.30
GAAP EPS	32.04	44.34	54.35	66.34	81.30
EPS Change (YoY)	29.0%	36.9%	21.1%	22.1%	22.6%
Consensus EPS (Bloomberg)			53.34	64.13	76.64
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	75.9x	55.4x	45.8x	37.5x	30.6x
EV / EBITDA*	48.5x	37.2x	31.3x	26.2x	21.9x
Free Cash Flow Yield*	1.2%	1.8%	2.1%	2.9%	3.5%

* For full definitions of *IQmethod*SM measures, see page 6.

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12656263

Timestamp: 07 February 2024 05:00AM EST

07 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	2,700.00	3,000.00
2024E Rev (m)	11,193.2	11,259.2
2025E Rev (m)	12,789.9	12,866.4
2026E Rev (m)	14,660.5	14,749.0
2024E EPS	53.78	54.35
2025E EPS	65.42	66.34
2026E EPS	80.58	81.30

Sara Senatore
Research Analyst
BofAS
+1 646 743 2110
sara.senatore@bofa.com

Katherine Griffin
Research Analyst
BofAS
katherine.griffin@bofa.com

Jessica Owusu Afari
Research Analyst
BofAS
jessica.owusu-afari@bofa.com

Stock Data

Price	2,487.74 USD
Price Objective	3,000.00 USD
Date Established	7-Feb-2024
Investment Opinion	B-1-9
52-Week Range	1,470.05 USD - 2,506.07 USD
Mrkt Val (mn) / Shares Out (mn)	68,275 USD / 27.4
Free Float	99.3%
Average Daily Value (mn)	483.60 USD
BofA Ticker / Exchange	CMG / NYS
Bloomberg / Reuters	CMG US / CMG.N
ROE (2024E)	43.8%
Net Dbt to Eqty (Dec-2023A)	-18.3%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

FAFH CPI – Food away from home CPI
G&A – general and administrative expenses
SSSG – same-store sales growth
PLM – restaurant level margins

iQprofileSM Chipotle Mexican Grill

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	15.5%	19.3%	20.4%	22.0%	23.3%
Return on Equity	39.4%	45.8%	43.8%	42.5%	40.2%
Operating Margin	13.7%	16.2%	17.1%	18.1%	19.1%
Free Cash Flow	844	1,223	1,464	1,997	2,423

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.4x	1.4x	1.4x	1.3x	1.3x
Asset Replacement Ratio	1.7x	1.8x	1.6x	1.0x	0.9x
Tax Rate	23.9%	24.2%	25.0%	25.0%	25.0%
Net Debt-to-Equity Ratio	-16.2%	-18.3%	-28.3%	-44.4%	-58.5%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,635	9,872	11,259	12,866	14,749
% Change	14.4%	14.3%	14.1%	14.3%	14.6%
Gross Profit	2,062	2,586	3,006	3,472	4,029
% Change	20.8%	25.4%	16.3%	15.5%	16.0%
EBITDA	1,468	1,916	2,272	2,712	3,248
% Change	36.1%	30.5%	18.6%	19.3%	19.8%
Net Interest & Other Income	0	24	63	63	63
Net Income (Adjusted)	920	1,243	1,487	1,789	2,160
% Change	26.9%	35.2%	19.6%	20.3%	20.7%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	899	1,229	1,487	1,789	2,160
Depreciation & Amortization	287	319	351	389	431
Change in Working Capital	79	95	40	56	61
Deferred Taxation Charge	(43)	(10)	0	0	0
Other Adjustments, Net	102	150	156	163	171
Capital Expenditure	(479)	(561)	(571)	(400)	(400)
Free Cash Flow	844	1,223	1,464	1,997	2,423
% Change	0.5%	44.9%	19.7%	36.4%	21.3%
Share / Issue Repurchase	(830)	(592)	(900)	(900)	(900)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	384	561	1,055	2,083	3,537
Trade Receivables	107	116	139	159	183
Other Current Assets	685	945	942	964	989
Property, Plant & Equipment	1,951	2,170	2,376	2,375	2,331
Other Non-Current Assets	3,801	4,254	4,254	4,254	4,254
Total Assets	6,928	8,044	8,767	9,834	11,293
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	922	1,031	1,092	1,189	1,298
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	3,638	3,952	3,952	3,952	3,952
Total Liabilities	4,559	4,982	5,043	5,140	5,250
Total Equity	2,368	3,062	3,724	4,694	6,043
Total Equity & Liabilities	6,928	8,044	8,767	9,834	11,293

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Restaurants

Company Description

Chipotle Mexican Grill, Inc. operates around 3,200 fast-casual Mexican restaurants offering freshly made burritos, tacos, burrito bowls and salads. CMG is 100% company operated and runs average unit volumes that peaked at \$2.5mn but now run at around \$2.4mn.

Investment Rationale

Chipotle is one of the few high-growth restaurant companies and has numerous appealing attributes that support continued unit growth. A long growth runway with growing returns and our expectation that restaurant level margins will return to their historical peak of 27% support our Buy rating.

Stock Data

Average Daily Volume

205,213

Exhibit 1: Chipotle's 4Q comps and EPS were above BofAE and consensus expectations

Chipotle 4Q23 earnings variance vs Visual Alpha consensus and BofA estimates

\$ in millions	Reported 4Q22	Reported 4Q23	y/y change	BofAE 4Q23E	Consensus 4Q23E	Variance (vs BofAE)	Variance (vs Cons)
SSSG	5.6%	8.4%	2.8 ppt	7.2%	6.9%	1.2 ppt	1.5 ppt
Systemwide Units	3,187	3,437	8%	3,427	3,436	0%	0%
Food and beverage revenue	\$2,163.9	\$2,499.6	16%	\$2,474.4	\$2,469.3	1%	1%
Delivery service revenue	\$16.7	\$16.8	0%	\$16.7	\$16.6	0%	1%
Total Revenues	\$2,180.6	\$2,516.3	15%	\$2,491.0	\$2,487.8	1%	1%
Food, beverage, and packaging	\$638.9	\$747.2	17%	\$747.3	\$743.5	0%	0%
Labor	\$558.9	\$629.2	13%	\$630.2	\$630.7	0%	0%
Occupancy	\$118.6	\$131.2	11%	\$128.8	\$129.5	2%	1%
Other Operating Costs	\$341.6	\$370.5	8%	\$378.6	\$377.0	-2%	-2%
Total Store level expenses	\$1,658.1	\$1,878.0	13%	\$1,885.0	\$1,880.7	0%	0%
Food, beverage, and packaging	29.3%	29.7%	40 bps	30.0%	29.9%	-31 bps	-19 bps
Labor	25.6%	25.0%	-63 bps	25.3%	25.4%	-29 bps	-34 bps
Occupancy	5.4%	5.2%	-23 bps	5.2%	5.2%	4 bps	1 bps
Other Operating Costs	15.7%	14.7%	-94 bps	15.2%	15.2%	-48 bps	-43 bps
Store level margins	24.0%	25.4%	140 bps	24.3%	24.4%	104 bps	96 bps
Depreciation & amortization	\$74.0	\$85.5	16%	\$80.8	\$82.8	6%	3%
Pre-opening expenses	\$11.3	\$13.6	20%	\$15.0	\$14.7	-9%	-8%
G&A (adj)	\$135.1	\$170.0	26%	\$163.0	\$162.5	4%	5%
G&A % of sales	6.2%	6.8%	56 bps	6.5%	6.5%	21 bps	23 bps
Interest and other income	\$7.1	\$18.9	168%	\$18.4	\$17.5	3%	8%
Income taxes	\$79.7	\$100.3	26%	\$89.6	\$90.2	12%	11%
Tax rate	26.3%	26.2%	-3 bps	25.0%	25.2%	122 bps	102 bps
Adjusted tax rate	25.1%	26.2%	108 bps	25.0%	25.2%	122 bps	102 bps
Adj. Net Income	\$231.4	\$286.2	24%	\$268.8	\$266.1	6%	8%
Adj. Diluted EPS	\$8.29	\$10.36	25%	\$9.75	\$9.64	6%	7%
Net Income	\$223.7	\$282.1	26%	\$268.8	\$264.1	5%	7%
GAAP Diluted EPS	\$8.29	\$10.21	23%	\$9.75	\$9.56	5%	7%

Source: Company reports, Visible Alpha, BofA Global Research estimates

BofA GLOBAL RESEARCH



Exhibit 3: We forecast EPS of \$54.35 in F24 and \$66.34 in F25

CMG Income Statement F23-F25E

Chipotle Mexican Grill	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E
Revenues:							
Food and beverage revenue	9,804	2,626	2,882	2,856	2,827	11,191	12,798
Delivery service revenue	68	19	17	16	17	68	68
Restaurant Sales	9,872	2,644	2,899	2,872	2,844	11,259	12,866
Total Revenues	9,872	2,644	2,899	2,872	2,844	11,259	12,866
% Growth	14.3%	11.6%	15.3%	16.2%	13.0%	14.1%	14.3%
Expenses:							
Food, beverage, and packaging	2,913	772	854	856	847	3,330	3,818
Labor	2,441	666	705	716	711	2,799	3,172
Occupancy	503	133	135	138	144	550	605
Other Operating Costs	1,429	394	389	387	404	1,574	1,799
Total Store Level Expenses	7,286	1,965	2,084	2,097	2,107	8,253	9,394
Depreciation and amortization	319	84	87	87	94	351	389
Pre-opening expenses	37	8	7	10	19	43	44
G&A	634	187	163	171	171	691	716
Operating Income	1,596	400	559	508	453	1,921	2,323
	16%						
Loss on disposal of assets	38	3	3	3	3	13	13
Interest Income	63	19	19	19	19	76	76
Interest expense	-	-	-	-	-	-	-
Pretax Income	1,621	415	575	524	469	1,983	2,386
Income Tax Provision (benefit)	392	104	144	131	117	496	596
Tax Rate	24.2%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Adjusted tax rate	24.2%	25.0%	25.0%	25.0%	25.0%	25.0%	25.0%
Net Income	1,229	312	431	393	352	1,487	1,789
GAAP EPS	\$44.34	\$11.32	\$15.73	\$14.39	\$12.92	\$54.35	\$66.34
Total adjustments	15	-	-	-	-	-	-
Adjusted Net Income	1,243	312	431	393	352	1,487	1,789
Adjusted EPS	\$44.87	\$11.32	\$15.73	\$14.39	\$12.92	\$54.35	\$66.34
% Growth	36.9%	7.8%	24.4%	26.6%	24.7%	21.1%	22.1%
Wtd. Avg. Dlt'd. Sh. Outstanding	27.7	27.5	27.4	27.3	27.2	27.4	27.0

Source: BofA Global Research estimates, Company reports

BofA GLOBAL RESEARCH



Price objective basis & risk

Chipotle Mexican Grill (CMG)

Our \$3,000 price objective is based on earnings power. At the current unit growth rate, we think Chipotle should be able to reach its targeted 8000 store count in roughly 7 years. By then we'd expect AUVs to exceed \$4mm - under the assumption that comps increase in-line with cost inflation - and margins to be in line with prior peaks of 27%. Assuming a G&A of 5%, which is more similar to mature company operated systems, this system would generate \$7.9bb in EBITDA. At a 20x multiple, consistent with current valuation multiples on high growth companies, the implied EV would be \$173bb, or \$77bb discounted back to today. We then add the current net cash and project out 12 months to derive our price objective of \$3,000.

Downside risks are: 1) lower than expected consumer uptake of new product innovations or digital ordering capabilities, 2) higher than expected food or labor costs that Chipotle is unable to offset with increased pricing, and 3) macroeconomic pressures that slow consumer income growth or otherwise dampen consumption.

Analyst Certification

I, Sara Senatore, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Restaurants Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Chipotle Mexican Grill	CMG	CMG US	Sara Senatore
	Darden Restaurants	DRI	DRI US	Sara Senatore
	Domino's Pizza	DPZ	DPZ US	Sara Senatore
	Dutch Bros	BROS	BROS US	Sara Senatore
	First Watch	FWRG	FWRG US	Sara Senatore
	Jack in the Box	JACK	JACK US	Sara Senatore
	Krispy Kreme	DNUT	DNUT US	Sara Senatore
	Papa Johns International	PZZA	PZZA US	Sara Senatore
	Portillo's Inc.	PTLO	PTLO US	Sara Senatore
	Starbucks	SBUX	SBUX US	Sara Senatore
	Sweetgreen	SG	SG US	Katherine Griffin
	Texas Roadhouse	TXRH	TXRH US	Sara Senatore
	Wingstop Inc	WING	WING US	Sara Senatore
NEUTRAL				
	Bloomin Brands	BLMN	BLMN US	Sara Senatore
	McDonald's	MCD	MCD US	Sara Senatore
	Shake Shack	SHAK	SHAK.US	Sara Senatore
	The Cheesecake Factory	CAKE	CAKE US	Katherine Griffin
	Yum Brands Inc	YUM	YUM US	Sara Senatore
UNDERPERFORM				
	Brinker International	EAT	EAT US	Katherine Griffin
	Cracker Barrel	CBRL	CBRL US	Katherine Griffin
	Restaurant Brands International	YQSR	QSR CN	Sara Senatore
	Restaurant Brands International Inc.	QSR	QSR US	Sara Senatore
	Wendy's Co	WEN	WEN US	Sara Senatore



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

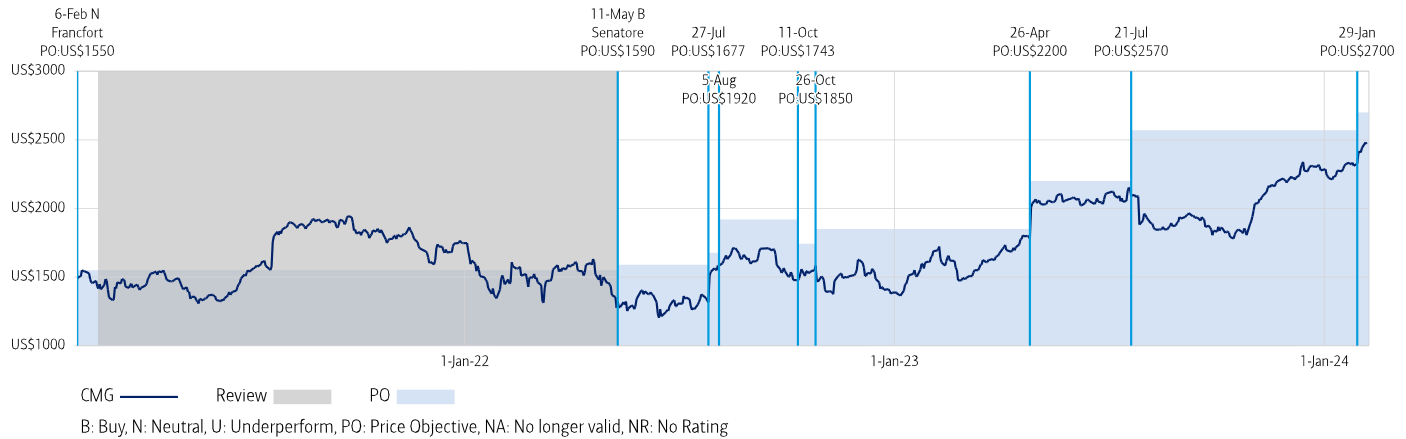
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Disclosures

Important Disclosures

Chipotle Mex Grill (CMG) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Restaurants Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	21	58.33%	Buy	10	47.62%
Hold	10	27.78%	Hold	3	30.00%
Sell	5	13.89%	Sell	4	80.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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