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Company Analysis of Chipotle

Chipotle is a fast-casual dining restaurant that serves Mexican style food. They allow you to customize burritos, bowls, tacos, quesadillas, and more. The company's first location was opened in 1993 in Denver, Colorado. The restaurant quickly turned a profit and more and more locations were opened. McDonalds became an investor in 1998 and the company continued to gain traction (CNBC). Now there are over 3,200 Chipotle locations in the U.S. After years of steady growth, the restaurant chain finds itself at the top of what is named the fast-casual dining industry. In 2021, Chipotle led the industry with over seven billion dollars in sales (Statista). Companies like Panera Bread, Panda Express, Raising Canes, and Jimmy John's, are behind Chipotle in sales in this competitive industry. Chipotle's customers are spread out pretty evenly over the U.S., with California, Texas, Ohio, and New York having the most Chipotle locations in those respective states (Chipotle).

The Chipotle dining experience is by no means revolutionary. Subway – founded about 30 years prior to Chipotle – has a very similar store set-up. At both places you can customize your sandwich (in the case of Subway), and bowl or burrito (in the case of Chipotle). This allows each and every customer to personalize their meal in a way that they can enjoy. Chipotle also emphasizes quality, fresh ingredients, prepared in the store each and every day (Chipotle). This reputation took a hit in late 2015, after an E. Coli outbreak was discovered in two Chipotle locations. This outbreak later spread to many more U.S. states, resulting in the closure of 43 Chipotle restaurants. Its stock also took a hit, dropping twelve percent during this period (Food). Since then, Chipotle has taken careful measures to ensure cleanliness within their kitchen and dining area. As we are now eight years away from the initial outbreak, it seems that people have all but forgotten about this incident, and there is little to no long-lasting impact to the company. This is the opinion shared by Chipotle themselves (Chipotle).

The company's main competitors are Panera Bread, Qdoba, Del Taco, Taco Bell, and Subway. We initially wanted to look into Panera Bread and Qdoba and compare their financials with Chipotle. Panera is second to Chipotle in sales in their industry and Qdoba is tenth on that list, and has very similar menu items and a similar restaurant experience when compared to Chipotle (Statista). As a result of both Panera Bread and Qdoba being privately owned companies, we are not able to access their financial information via the SEC because they are not required to report these financials. We instead were forced to move on to Chipotle's next two closest competitors, Taco Bell and Del Taco. Taco Bell is owned by Yum! Brands, a multinational corporation that also owns KFC, Pizza Hut, and Habit Burger Grill. And Del Taco was just recently acquired by Jack in the Box INC. in 2022. In our research we looked at a number ratios and financial metrics to gauge the health of both Chipotle and its competitors as companies. We also looked at future plans for Chipotle, and some explanations for why the financial data looks the way that it does.

Ratio Analysis:

The financial ratios for Chipotle over the last three years have been quite strong. They suggest that the company has a good handle on its short and long term debts, and that it gets good return on its investments. The current ratio for Chipotle was at 1.72 in 2020, 1.65 in 2021, and it dipped a little bit down to 1.28 in 2022. The current ratios suggest that Chipotle has good liquidity as a company. The company has more current assets than current liabilities and can easily fulfill its short-term debt obligations. The restaurant industry average current ratio is 0.97 as of the end of the year 2022, and Chipotle performs well above this number. The reason for such a low average current ratio in the restaurant industry is a result of restaurants having less money in accounts receivable in their balance sheets (Macro). Chipotle also outperforms its competitors, Yum! Brands and Jack in the Box INC. in this area. Yum! Brands had a current ratio of 1.08 in 2020, 1.02 in 2021, and 0.96 in 2022. Jack in the Box INC. had current ratios of 0.99, 0.98, and 0.54 in those respective years. Both corporations sit right around the industry average of 0.97, but are outpaced by Chipotle's solid numbers. The cash ratio is also a significant measure of a company's liquidity in the short term. Chipotle had a cash ratio of 1.15 in 2020, 1.28 in 2021, and 0.98 in 2022. Yum! Brands had ratios of 0.44, 0.34, and 0.30 also during this time frame. These numbers again reiterate the fact that Chipotle has better liquidity than its competitors and the rest of the industry, which suggests it can easily pay off its debts in the near term.

The debt-to-equity ratio is another vitally important ratio to measure how a company is doing in regards to its debt and its leverage. Chipotle's debt-to-equity ratio went from 1.96, to 1.90, to 1.93 in 2020, 2021, and 2022 respectively. These numbers suggest that Chipotle is using a fair amount of debt to finance its operations – which is not uncommon for a company of its size. This also indicates that the company is leveraged somewhat, because the financing coming from debt is almost two times the value of equity for the company. It is important, though, to compare to the industry average debt-to-equity ratio, which sits at 3.08 as of 2022 (Macro). This implies restaurants rely heavily on debt to finance their business, and it also implies Chipotle's numbers are strong within the industry. Now, compared to its competitors: Yum! Brands was at a -1.74 debt-to-equity ratio in 2020, -1.71 in 2021, and -1.65 in 2022. Jack in the Box INC.'s numbers were -3.40, -3.13, and -4.96 for these same years. These negative numbers mean that both corporations have more total liabilities than total assets listed in their balance sheets, causing their value of shareholders' equity to be negative. Negative values imply something risky is occurring within the company's finances, and is usually not a sign of a strong business (Investopedia). It is clear that in this area Chipotle is much more secure than its competitors in the restaurant industry. Please see Figure 2 in the appendix, which describes how Chipotle's debt-to-equity ratios and current ratios have changed over the last three years.

In addition to the debt-to-equity ratio, Chipotle had a decent total debt ratio of 1.52 in 2022 and they had a long-term debt ratio of 0.59. These numbers have virtually stayed constant since 2020, where they were 1.50 and 0.59 respectively. The long-term debt ratio suggests that the company is not over relying on long-term debt to finance its projects, and the total debt ratio suggests that the company has some more debt than assets, but not a lot more. The fact that there is little to no change in these debt ratios from year to year also demonstrates the stability of Chipotle as a company and their aptitude in controlling their debt.

Return on assets (ROA) is a percentage that tells how much profit a company is generating as a result of its holdings (property/equipment). The ROA for Chipotle was 4% in 2020, 10% in 2021, and 13% in 2022. The restaurant industry average ROA sits at 4.42% as of 2022 (Macro). These numbers are not bad by any means for Chipotle. They are at – in 2020 – or well above the industry average, meaning their assets are generating strong returns for the company. Yum! Brands had ROA's of 26%, 35% and 31%, while Jack in the Box INC. had ROA's of 8%, 13%, and 6% across these years. This is a rare category where Chipotle's numbers are being beaten. Yum! Brands has exceedingly high return on assets, year over year, Jack in the Box INC. a little bit less so. These numbers indicate that Chipotle's assets are not generating as much return as the assets of Yum! Brands are. This is certainly an area of weakness for Chipotle, but it is one that Chipotle has improved upon. In the graph (refer to Figure 1 in the appendix), Chipotle has strong growth over the last couple of years, especially compared to its competitors.

Return on equity (ROE) is another statistic that has had a similar progression throughout the last three years for Chipotle. The ROE has climbed steadily, from 17% in 2020, to 28% in 2021, to 37% in 2022. The industry average ROE for restaurants is approximately 24% (Macro). This puts Chipotle in a good position compared to other companies as it has been above this mark the last two years. These numbers suggest that Chipotle is able to efficiently turn money from its investors into a profit. These strong figures encourage more and more people to invest in Chipotle stock, because the returns will increase as a result. Again, the rapid and consistent growth of the ROE figures is a very good sign for Chipotle.

Return on capital (ROC) has gone from 15% to 32% to 39% during this period too. It is necessary to again point out the continual growth in these figures as time goes on. The restaurant industry average ROC was around 18% as of 2022 (Macro).

Financial Analysis:

Over the past three years, Chipotle has had strong financial health, demonstrated by a strong market capitalization and a high price to earnings ratio. The consistent increase in earnings per share further contributes to this positive trajectory. However, a noteworthy concern arises from the diminishing trend in working capital, declining from $598,038 in 2020 to $507,882 in the subsequent year and further to $253,957 in 2022.

This decline in working capital signifies a strategic shift in Chipotle's investment approach. Working capital, a measure of liquidity and short-term financial health, and for Chipotle, this downward trend suggests an enhanced efficiency in managing short-term debts. The company appears to be adopting a more streamlined operational strategy, optimizing its ability to convert current assets into cash to meet immediate financial obligations. The trend of decreasing working capital may indicate that Chipotle is actively refinancing or allocating excess cash to pay off short-term debts.

Chipotle’s strong financial standing can also be seen by looking at its price to earnings (P/E) ratio over the past three years. The P/E ratio is determined by market capitalization and Earnings Per Share (EPS). In 2020, the P/E ratio was 111.42, 75.98 in 2021, and 69.72 in 2022. The 2022 value indicates that investors are willing to pay $69.72 for every $1 of earnings per share. This suggests elevated market expectations for Chiptole's future earning growth. The progression in the P/E ratio reflects a fluctuating pattern of investors’ confidence level in Chipotle. The declining P/E ratio from 2020 to 2022 might signify a reevaluation of the company's growth prospects. While the higher P/E ratio can suggest optimism and confidence in future earnings, it can also mean that its stock may be overvalued. Given the downward trend in working capital over the same period, there is a possibility that investors are pricing in future growth while the company is actively managing its operational efficiency.

We can also look at the EPS for Chipotle. In 2020, the EPS stood at $12.52, in 2021 it rose to $22.90, and in the most recent year, 2022, it was $32.04. This upward trend in EPS aligns with positive investor sentiment. It also indicates the company's ability to generate higher earnings for each outstanding share of stock – a key indicator of profitability. This implies that the investors are willing to pay more because they believe the company is generating higher profits in relation to its share price.

The market capitalization (market cap) of Chipotle has exhibited a substantial growth over the past three years, which reflects the market's positive valuation of the company's outstanding shares. In 2020, the market cap was calculated at $39.64 billion, which experienced an increase to $49.61 billion in 2021. The upward trend continued in 2022, reaching an impressive $61.13 billion.This ascending pattern in market capitalization is indicative of heightened investor confidence. The increase in market cap signifies that the market values the company more in subsequent years, attributing a higher worth to its shares.

The beta of Chipotle is 1.33, which is a measure of a stock's volatility in relation to the overall market. A beta greater than 1, signifies that Chipotle's stock is expected to be a little bit more volatile than the market average. Chipotle’s beta of 1.33 implies the potential for higher returns making it more risky stock. Investors looking for greater returns will be drawn to stocks with higher betas. The elevated beta, a good earnings per share, may attract risk-tolerant or risk lover investors looking for growth opportunities.

It is relevant to bring in Chipotle’s competitors – Taco Bell (Yum! Brands) and Del Taco (Jack in the Box INC.) – to examine how Chipotle is faring compared to the rest of the industry. Chipotle exhibits a moderate level of risk with a beta of 1.33. In contrast, Yum! Brands displays a slightly lower beta of 1.01, suggesting a comparatively more stable stock. On the other hand, Jack in the Box Inc. stands out with a higher beta of 1.74, signaling a higher volatility. These diverse beta values reflect risk tolerance behavior among investors for the three companies, where Jack in the Box Inc is the riskiest stock followed by Chipotle and then Yum Brands.

Moving to earnings performance, Chipotle has an EPS of $32.04 in 2022. Jack in the Box INC. follows with an EPS of $6.30 while Yum! Brands reports an EPS of $5.26. Chipotle has a higher EPS implying they have higher profitability than Jack in the Box and by Yum! Brands.

The P/E ratio provides an understanding into market valuation. Chipotle had a P/E ratio of 69.72 in 2022, indicating investors are willing to pay more for its earnings. Yum! Brands had a P/E ratio of 24.93 this same year, suggesting a more conservative valuation relative to Chipotle. Meanwhile, Jack in the Box INC. stood out with a lower P/E ratio of 13.46.

Yum! Brands has the highest market cap of $64.22 billion, implying a significant market presence. Chipotle follows closely behind Yum! Brands with a market cap of $61.13 billion, exhibiting solid market confidence in Chipotle. Lastly, Jack in the Box INC. has a much smaller market cap of $1.67 billion, positioning it as a comparatively smaller player in the industry.

Chipotle has demonstrated strong financial health over the past three years, marked by a strong market cap and a consistently high price to earnings ratio. The increasing trajectory in earnings per share signifies the company's ability to generate higher earnings for each outstanding share year over year. One weakness for the company is the declining trend in working capital. This may indicate a strategic shift towards enhanced efficiency in managing short-term debts, and thus not be a major source for concern. The P/E ratio, standing at 69.72 in

2022, suggests high market expectations for Chipotle's future earnings growth. Despite a fluctuating pattern in P/E ratios over the years, the decline from 111.42 in 2020 may indicate a reevaluation of the company's growth prospects by investors. Chipotle's beta of 1.33 suggests a moderate level of volatility, which may attract risk-tolerant investors who seek potentially higher returns. Compared to its competitors, Chipotle sits in the middle with its beta, where Yum! Brands is slightly less risky than Chipotle's stock, and Jack in the Box INC. is the most risky. Chipotle trumps both competitors in EPS by almost $30 dollars which is a significant amount. The P/E ratios also indicate that Chipotle is valued more highly than its competitors, which is a good thing, but may also be a signal that the company is overvalued.

Strengths and Weaknesses:

There are only a handful of areas in which Chipotle can improve upon. One such area is their return on assets (ROA) which have been below the level of their competitor Yum! Brands. Yum! Brands has had around a 20% higher ROA than Chipotle in the last couple of years – which is quite significant. Chipotle has slowly been closing this gap which is an encouraging sign and from this we can infer Chipotle is utilizing their assets more effectively. One other area where Chipotle is bested by a competitor, is in the beta measurement. Right now, Chipotle's beta is 1.33 compared to 1.01 for Yum! Brands. Investors who are worried about risk would rather invest in a stock like Yum! Brands then they would Chipotle. As Chipotle continues to establish itself as a household name, and continues its growth, this beta should come down and the stock will be considered less risky. The restaurants in Yum! Brands are both more established and there are more of them which makes the difference in beta values more understandable, however, it is a weak point for Chipotle.

Working capital is the last main weak point of Chipotle as a company. Their working capital saw a decrease of around $250 million dollars from 2021 to 2022. This is a slight cause for concern because this indicates Chipotle's ability to pay off its short-term debt obligations is affected in a negative way. The current ratio was still fairly good in 2022 and working capital is a large positive number, so this is not a major issue.

On the other hand, there are many strong aspects of Chipotle as a company. The current ratio has remained strong throughout the last couple of years in addition to a strong debt-to-equity ratio. Both ratios have been far better than the restaurant industry averages and suggest that Chipotle has very good control of both its short and long-term debt obligations. It also implies Chipotle is not highly leveraged, and their business model is relatively safe.

The high EPS is another solid point for Chipotle as it means that Chipotle is earning lots of money from each share of stock. The way that the P/E has stabilized in recent years is another strong point from being too overvalued to continuing to work on its Price earning ratio as it indicates higher market market expectation for future earning growth.

Chipotle has plans to make gains on its competitors through their plans to open thousands of stores over the next couple of years. These new stores will contain what's called a Chipotlane, which is a place where customers can pick up mobile orders in a drive-thru-like system (Chipotle). This will allow customers to quickly get their food and get on their way, taking away the edge that the fast food brands Del Taco and Taco Bell may have had on Chipotle in the past.

Conclusion:

Chipotle has a relatively simple business model centered around healthy ingredients, a clean restaurant environment, and efficient, personalized dining. They are the leader in their industry and all signs indicate that they will continue to grow into the foreseeable future. Their financial ratios and financial analysis demonstrate the stable foundation of the company. They also have shown steady growth as a stock, and have seen higher returns than the S&P 500 in recent years (see Figure 3). Many of Chipotle's financial ratios have been improving over time also. This, coupled with the fact that Chipotle plans to expand their number of locations substantially in the coming years, bodes very well for the future of the company.

Appendix

CNBC, Background on chipotle: link
Food Poisoning News, E. Coli Outbreak Background: link
Statista, article on fast-casual dining industry sales: link
SEC, Chipotle's financial information: link
Chipotle, website: link
Jack in the Box acquisition of Del Taco: link
Yahoo Finance, Yum! Brands: link
Yahoo Finance, Jack in the Box : link
Yahoo finance, Chipotle: link
Macro Trends, article on ratio averages in Restaurant industry: link
Investopedia, article on debt-to-equity ratio: link

Ratio Calculations this example is for Chipotle's 2020 calculations:

1. Current Ratio - 1,420,237/822,199 = 1.72 (Current Assets / Current liabilities)
2. Debt to Equity Ratio = 3,962,761/2,020,135 = 1.96 (Total Debt / Total Equity)
3. Cash Ratio = (607,987 + 343,616)/ 822,199 = 1.15 ((cash + marketable securities) / current liabilities)
4. Long term Debt = 2,952,296/ (2,952,296 + 2,020,135) = 0.593 (long term debt/ long term debt + equity)
5. Total Debt Ratio - 5,982,896/ 3,962,761 = 1.50 (Total Assets / Total Liabilities)
6. Times Interest Earned = 336,256/3,617= 92.96 (EBIT / Interest Expense)
7. Return on Assets = (336,256 - 61,985)/5,982,896 = 0.04
   (after tax operating income/ total assets end of the year =(EBIT - Tax) / Total assets end of the year)
8. Return on Equity (ROE) = 355,766/ 2,020,135 = 0.17 (End of Year 2020) (net income / equity start of year)
9. Return on Capital (ROC) = 336,256 - 61,985/ [(2,020,135 + 1,683,026)/2] =274,271 / 1,851,580.5 = 0.148 (after-tax operating income/ average of total capitalization start of the year and total cap end of year)
10. Market to Book Ratio = 28,416*1395/ (2,020,135/28,416) = 557,607.53
    (market value of stock/book value of stock = Shares of stock outstanding* Price of Stock/(Total Shareholder Equity / Number of shares outstanding)
11. Market value added = 28,416*1395 - (5,982,896-3,962,761) = $37,620,185
    (market capitalization - book value of equity; book value of equity = Total Assets - Total Liabilities)

12. EVA= 3,617 + 355,766 - (14.75%*[1]*2,020,135) = $61,413.08(interest+ net income - cost of capital X total capitalization)
13. EPS = 12.52 (Diluted in the balance sheet)

Financial Analysis Numbers:

Chipotle

Market capitalization

1. 2020 - 28,416*1395 = $39,640,320,000
2. 2021 - 28,511*1,740.08 = $49,611,420,880
3. 2022 - 28,062,000 x 2,233.83 = $62,685,737,460 (Yahoo Finance = 61.13B)

EPS Diluted (Balance Sheet)

1. 2020 = 12.52
2. 2021 = 22.90
3. 2022 = 32.04

Price Earnings ratio = share price/ earnings per share

1. 2020: 1395/ 12.52 = 111.42
2. 2021 : 1,740.08 / 22.90 = 75.98
3. 2022 : 2,233.83/ 32.04 = 69.72

Working capital : (In thousands of dollars, Yahoo Finance)

1. 2020 - $598,038
2. 2021 -$507,882
3. 2022 - $253,957

Beta - 1.33

Yum! Brands (Latest 2022, Yahoo Finance)

1. Beta - 1.01
2. EPS - 5.26
3. PE ratio - 24.93

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[1] https://www.stock-analysis-on.net/NYSE/Company/Chipotle-Mexican-Grill-Inc/Performance-Measure/Economic-Value-Added#Cost-of-Capital

4. Market cap - $64.22 B

Jack in the Box Inc. (Latest 2022, Yahoo Finance)

1. Beta - 1.74
2. EPS - 6.30
3. PE ratio - 13.46
4. Market Cap - $1.673B

Figure 1 (Chipotle's Comparison Ratio)

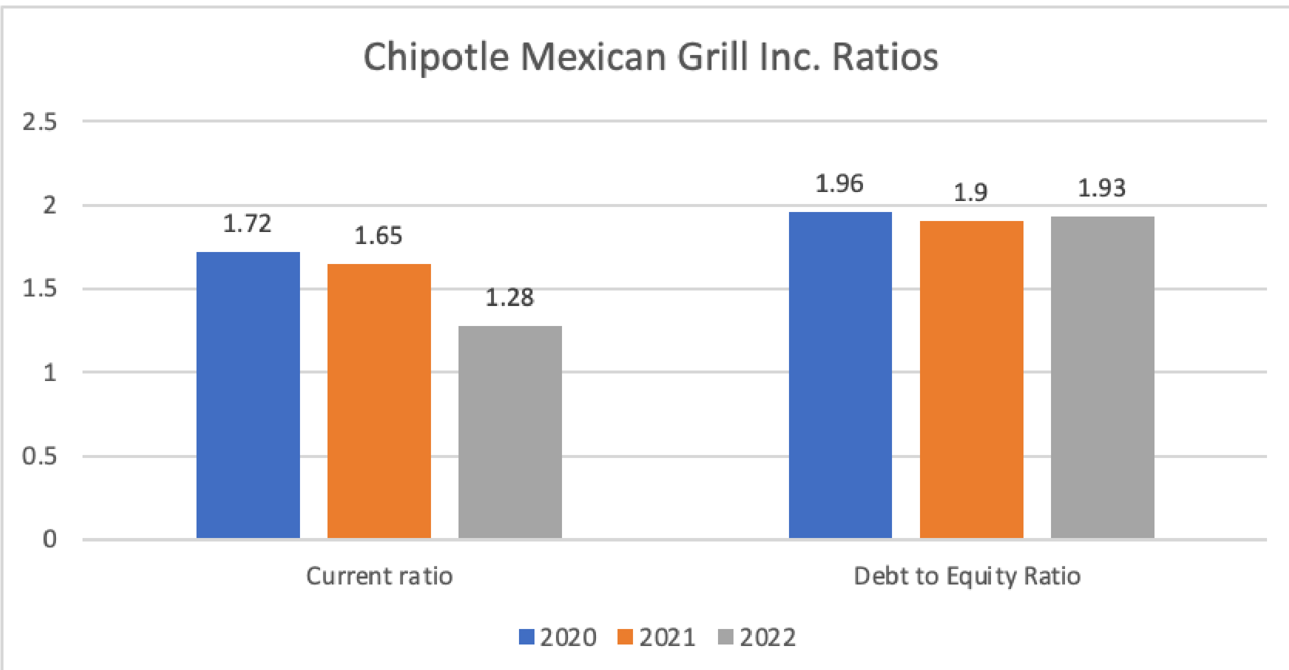


Figure 2 - Chipotle and Competitors Return on Assets Comparison

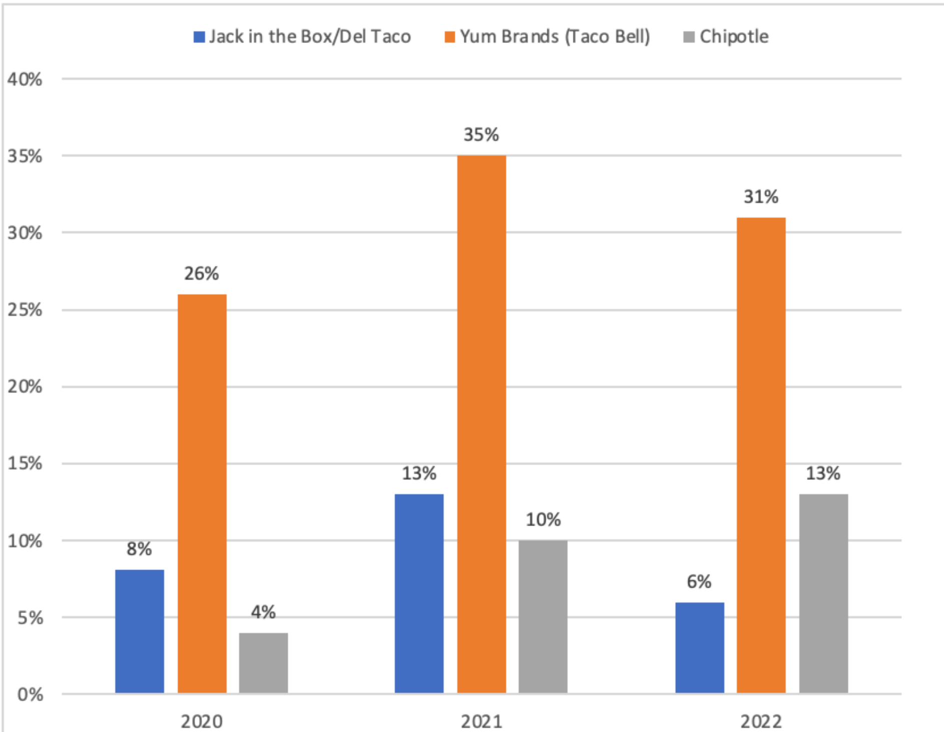
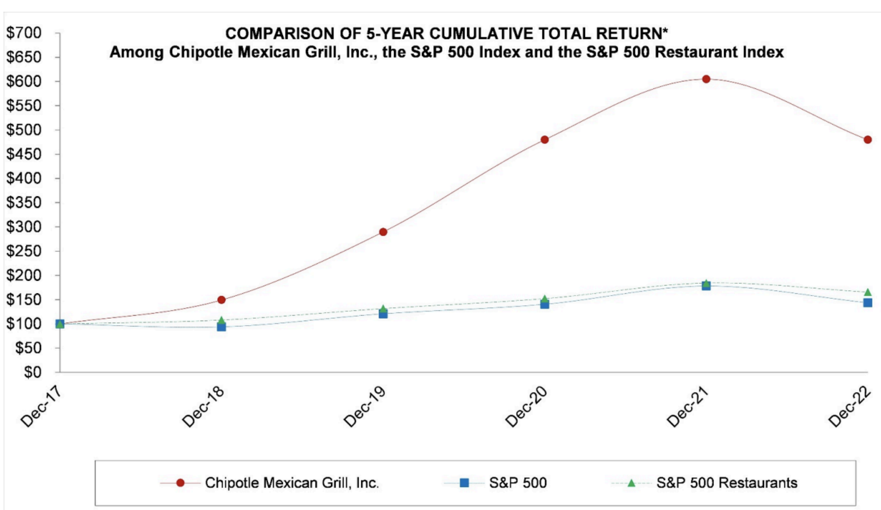


Figure 3 - Comparisons of 5 year Cumulative Total Return



Company/Index	2017	2018	2019	2020	2021	2022
Chipotle Mexican Grill, Inc.	$ 100	$ 149	$ 290	$ 480	605	$ 480
S&P 500	100	94	121	140	178	144
S&P 500 Restaurants	100	108	132	152	184	166

Task performed by each member of the team:

The team did an equal amount of tasks for the presentation and report. Ilina did the calculations for ratios and conducted the financial analysis. She also created graphs and focused on the Financial Analysis section in the written report. Jackson focused on the overview, introduction, strengths and weaknesses, and interpretation of ratios in the report and presentation. The overall distribution of responsibilities for this project was very even.