

## **Chipotle Mexican Grill, Inc. (CMG)**

### **Company Overview**

Chipotle Mexican Grill, Inc. is an American fast-food chain of restaurants specializing in Mexican food. It serves a menu of burritos, tacos, burrito bowls and salads along with a variety of non-alcoholic and alcoholic beverages. The company has over 2,000 locations and operates in the United States, United Kingdom, Canada, Germany and France. Its commitment to food with integrity emphasizes its efforts to bring high quality, natural products to its customers. Chipotle was founded by Steve Ells in July 1993 in Denver, Colorado.

### **Industry Overview**

The consumer discretionary sector of the restaurants industry is highly competitive. Chipotle's top competitors include McDonald's Corporation, Yum Brands Inc, Darden Restaurants, Starbucks Corporation and Wendy's Co. The industry is based on the consumer preference for fast, tasty food at reasonably low prices. However, even with Chipotle's size, it controls only 0.19% of the market due to the high number of competitors in the industry and more established market presence of other companies like McDonald's. Thus the competition makes the industry have high barriers to entry.

### **Key Financials**

-NYSE: CMG	-EBITDA: \$483.82M
-Current Price: \$430.87	-P/E Ratio: \$63.85
-52 Week Range: \$384.77 - \$757.00	-EPS: \$6.75
-Market Cap: \$12.33B	
-Revenue: \$4.05B	

### **Competitive Advantages and Catalysts**

- Increasing revenue from 2006 to 2015 - \$820 million to \$4.5 billion, respectively
- In terms of system wide sales, Chipotle was the second largest Mexican restaurant chain in the U.S. after Taco Bell, as of 2014
- Transparency on food sources/sustainability and emphasis on positive contributions to the environment
- A strive for more natural and healthier food appealing to a more health-conscious population - long-term trend for health eating: 57.6% would prefer organic products if given choice (Statista)
- Expansion into other worldly cuisines - Shophouse Southeast Asian Kitchen and Pizzeria Locale

- Unique more upscale, fast-food and casual culture of dining

### **Associated Risk**

- High competition in the food/services industry
- Increasing trend of low food (grocery) prices encouraging more cooking and eating at home
- Adverse impact of upward pricing of ingredients forcing rising cost of food to consumers
- Difficulty of maintaining customers with same products/continual need to diversify menu options

### ***Management Team***

#### ***Steve Ells***

- Chairman of the Board and Co-Chief Executive Officer
- CEO since 2009
- Experience: Culinary Institute of America graduate, restaurant experience at Stars in San Francisco

#### ***Montgomery Moran***

- Co-Chief Executive Officer and Director
- Executive officer since 2009, joined Chipotle in 2005
- Experience: CEO of Denver law firm Messner & Reeves, LLC

#### ***John Hartung***

- Chief Financial Officer
- Since 2002
- Experience: Various management positions for 18 years at McDonald's, VP & CFO of its Partner Brands Group

#### ***Mark Crumpacker***

- Chief Creative and Development Officer
- Since 2009
- Experience: Creative Director & Co-founder of strategic design and marketing consulting firm Sequence, LLC

### **Recommendation**

Chipotle has had mixed success in 2015 and 2016. The company has opened more restaurants, from 1,783 in 2014 to 2,010 in 2015. At the end of the 2015 fiscal year, it had a 15.3% increase in revenue on opening of 150 new restaurants and restaurant sales increases of 5.5%. EPS increased 6.9% to \$15.10. The company's financial statements reveal that it is in relatively stable

condition at a 0.34 debt-to-capital (D/C) ratio. However, due to recent food safety incidents (including E.coli bacteria and norovirus outbreaks), consumers have responded negatively as a result with shareholders selling many of their shares. Following the outbreaks, EPS considerably dropped and it has struggled to recover since. The negative exposure is not necessarily expected to bankrupt the company; however, it will take time to reach considerable growth again. As of Q3 end (June 2016), Chipotle in response has pledged up to \$10 million to have suppliers meet its new safety standards via education and training, financial assistance and new partnerships. It is an optimal time to buy at this window of opportunity and hold as it continues to embark on the journey to recovery.

**Sources:** Chipotle, Yahoo Finance, Reuters, Bloomberg, Wall Street Journal, CSI Market