

# Chipotle Mexican Grill

## Real Upside Still Exists

### Catalysts exist for further share upside; LT growth remains compelling

We continue to see upside for CMG shares following nearly 20% move since May, supported by multiple near and longer-term catalysts. Near-term, we expect accelerating comp momentum given: recent 3.5-4% menu pricing w/ more in 4Q, recovering dine-in traffic while digital sales remain elevated, new product launches, and throughput improvements. We believe recent commentary adjusting margin targets removes an overhang for shares, while pricing should largely cover cost inflation and margins will continue to expand over time. Longer-term, CMG is positioned to accelerate unit growth (UBSe toward 7-8%) and maintain a ~25% EPS CAGR '22-'24, while strategic optionality exists across share repurchase, int'l expansion, and day part expansion (breakfast & late-night). We remain optimistic on the path for shares given increased visibility into compelling multi-year growth, upside to Consensus earnings, and confidence in management's ability to continue to execute against growth plans.

### Digital, dine-in, innovation, and pricing support continued sales momentum

We believe CMG maintains multiple drivers to support continued comp momentum near-term and a multi-year +MSD sss trajectory. Key sales levers include new and existing menu items (quesadillas, beverages, brisket), elevated digital sales, loyalty/marketing investments, throughput gains, and pricing. Broader reopening tailwinds from increased consumer mobility and return to office should improve dine-in traffic (60% back as of 1Q), while just modest overlap between dine-in and digital occasions should support incremental gains. Additionally, we believe brand visibility and awareness can continue to increase, even several years after CEO Niccol highlighted the opportunity and has made significant gains. Recent digital marketing campaigns including a Tesla giveaway & game, 'Team Chipotle' digital-only menu items, and an expanded Twitch partnership are examples of initiatives that should further increase CMG's leading digital presence and broader customer reach. UBSe 31% 2Q sss (Consensus 29.7%).

### Updated AUV/margin gap target removes overhang; Margin expansion runway

We believe CMG expects modest customer resistance to recent pricing given pricing power, industry cover, and historically limited pushback. We expect add'l pricing in Nov/Dec could be in ~1-1.5% (depending on labor/commodity levels, other factors) to close the incremental margin gap from labor investments. Post wage & pricing increases, we expect CMG will likely target a ~100 bps LT AUV/margin algo gap on higher AUVs (ie. 25% margin now at ~\$2.6MM AUV). While staffing shortages have pressured pockets of stores, investments & benefits have likely minimized systemic impacts.

### Valuation: Near-term comp catalysts and LT growth potential support upside

Our \$1,700 PT is based on ~28x our NTM EBITDA estimate in 12 months.

### Equities

Americas  
Restaurants

12-month rating

Buy

12m price target

US\$1,700.00

Price (01 Jul 2021)

US\$1,538.23

RIC: CMG.N BBG: CMG US

### Trading data and key metrics

52-wk range	US\$1,550.49-1,088.92
Market cap.	US\$43.9b
Shares o/s	28.6m (COM)
Free float	98%
Avg. daily volume ('000)	68.3
Avg. daily value (m)	US\$97.5
Common s/h equity (12/21E)	US\$2.55b
P/BV (12/21E)	17.2x
Net debt to EBITDA (12/21E)	NM

### EPS (UBS, diluted) (US\$)

	12/21E	Cons.
Q1	5.36	5.36
Q2E	6.55	6.51
Q3E	6.78	6.27
Q4E	6.96	6.43
12/21E	25.66	24.51
12/22E	34.65	32.43
12/23E	41.75	41.04

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Highlights (US\$K)	12/18	12/19	12/20	12/21E	12/22E	12/23E	12/24E	12/25E
Revenues	4,864,985	5,586,369	5,984,584	7,526,322	8,543,299	9,565,934	10,741,956	12,053,935
EBIT (UBS)	349,073	498,276	356,286	981,369	1,347,453	1,633,871	1,918,255	2,276,861
Net earnings (UBS)	248,387	397,665	304,930	737,408	1,005,995	1,217,945	1,428,389	1,693,757
EPS (UBS, diluted) (US\$)	8.88	14.05	10.73	25.66	34.65	41.75	48.82	57.87
DPS (net) (US\$)	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Net (debt) / cash	249,953	480,626	607,987	967,491	1,242,201	1,643,130	2,074,528	2,564,499
Profitability/valuation	12/18	12/19	12/20	12/21E	12/22E	12/23E	12/24E	12/25E
EBIT (UBS) margin %	7.2	8.9	6.0	13.0	15.8	17.1	17.9	18.9
ROIC (EBIT) %	29.4	41.6	27.3	65.5	81.5	91.6	100.8	112.4
EV/EBITDA (UBS core) x	20.1	27.2	48.8	34.0	25.6	21.6	18.4	15.5
P/E (UBS, diluted) x	46.6	51.4	98.9	60.4	44.7	37.1	31.8	26.8
Equity FCF (UBS) yield %	3.4	1.3	0.1	1.2	1.7	2.2	2.7	3.3
Dividend yield (net) %	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company accounts, Thomson Reuters, UBS estimates. Metrics marked as (UBS) have had analyst adjustments applied. Valuations: based on an average share price that year, (E): based on a share price of US\$ 1,538.23 on 01-Jul-2021

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## Multiple drivers support near-term sss & multi-year +MSD

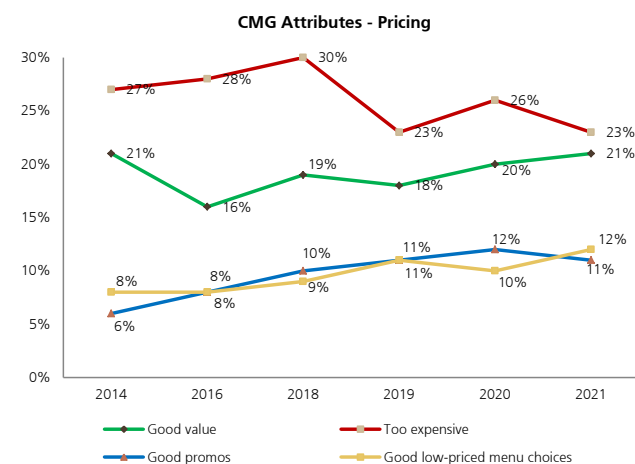
We believe CMG maintains multiple drivers to support continued comp momentum near-term and a multi-year +MSD sss trajectory, including menu innovation, incremental digital sales, loyalty/marketing investments and pricing. Near-term, we expect pricing taken in June is likely to face just limited customer resistance, driving a potential acceleration in comp trend. For innovation, our analysis of UBS Evidence Lab's survey ([Access dataset](#)) highlighted menu variety as a driver of incremental visits. Cauliflower rice, quesadillas, beverages and other successful stage-gate products have attracted new customers and helped sustain digital gains. We believe upcoming launches, including brisket likely to release later this year should be impactful. Reports also indicate testing of a mini churros dessert through the app, which could expand to more stores over time if successful. For digital, we view CMG's digital transactions as highly incremental, with only 10-15% customer overlap historically of digital/dine-in. CMG's iPhone app download share and app rankings ([Access dataset](#)) have strengthened over the past several years, and an increased focus on the Rewards program should help sustain gains. Digital marketing campaigns currently include a Tesla giveaway & video game, 'Team Chipotle' digital-only menu items, and an expanded Twitch partnership, likely increasing digital gains and broader awareness/reach.

## We expect just modest resistance to pricing increases

CMG has taken multiple rounds of pricing for delivery and broader menu this yr, while experiencing modest impacts to demand thus far. We expect the add'l pricing in Nov/Dec could be in the ~1-1.5%, w/ pricing levels likely determined by: i) resistance to June's pricing; ii) labor/staffing environment over the coming months; and iii) commodity inflation in coming months (expect some 2H inflation, w/ focus on how much and transitory vs. more LT). We expect just modest resistance to pricing given: limited historical pushback, cover from increases across the industry, below avg. pricing in recent yrs, and above avg. pricing power. Menu/ingredient quality, accessibility & convenience, and a strong value proposition should support pricing power.

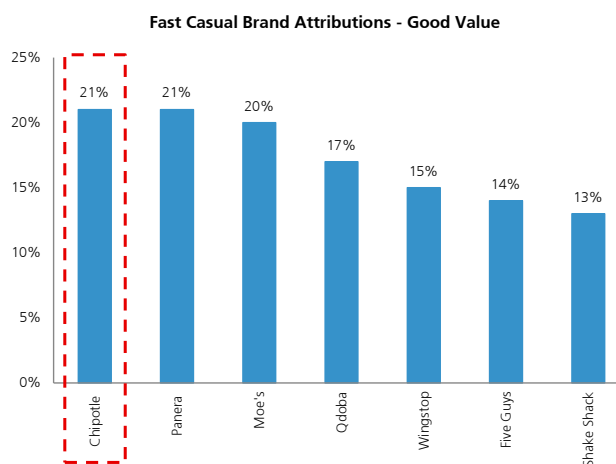
We expect the June and likely Nov/Dec pricing should close the incremental margin gap from recent wage investments. Post wage and pricing increases, we expect CMG will likely target a ~100 bps LT AUV/margin algo gap, given the mechanics of higher AUVs from the pricing. As an example, rather than a 25% restaurant margin at a \$2.5MM AUV, a ~25% margin would now be on a ~\$2.6MM AUV. With impact to earnings a neutral or even positive, we believe this update is a positive, removing a debate/overhang which investors were not modeling anyway. Margin drivers from here include top line growth, pricing, channel shift from delivery, product mix shift, potential labor and supply chain efficiencies, and increased Chipotlanes.

**Figure 2: UBS Evidence Lab survey respondents have increasingly associated CMG w/ good value, while those that view the brand as too expensive have declined...**



Source : UBS Evidence Lab, [Access dataset](#)

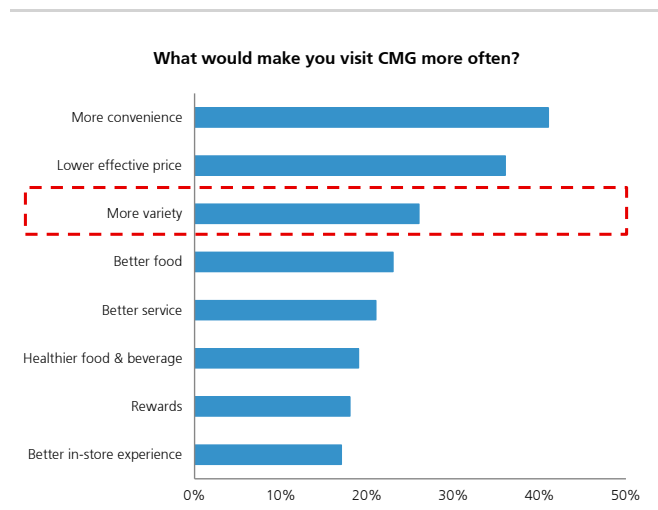
**Figure 3: ...and survey respondents also associated "good value" with CMG more than fast casual peers.**



Source : UBS Evidence Lab, [Access dataset](#)

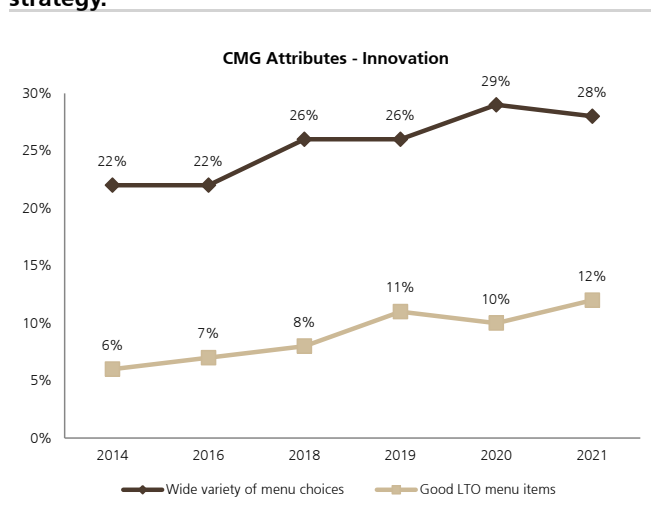
## Menu innovation to continue to drive incremental visits

**Figure 4: Survey respondents also noted that more menu variety would drive incremental visits...**



Source : UBS Evidence Lab, [Access dataset](#)

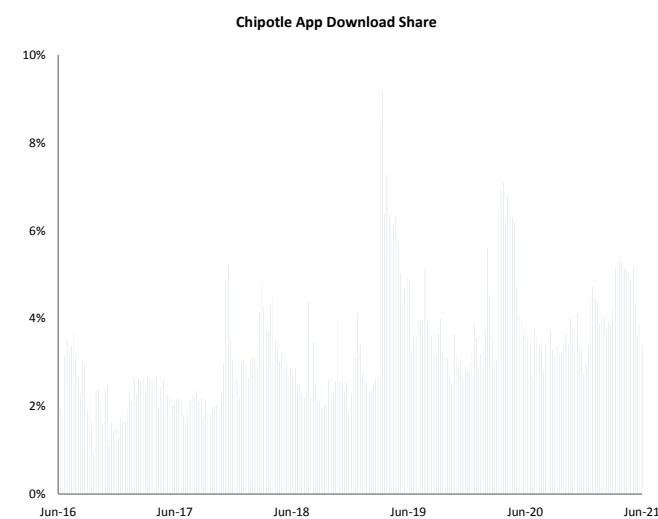
**Figure 5: ...and have increasingly associated menu variety and good item LTOs with Chipotle over the years, reflecting a positive response to the brand's innovation strategy.**



Source : UBS Evidence Lab, [Access dataset](#)

## Strong digital presence to benefit from recent initiatives

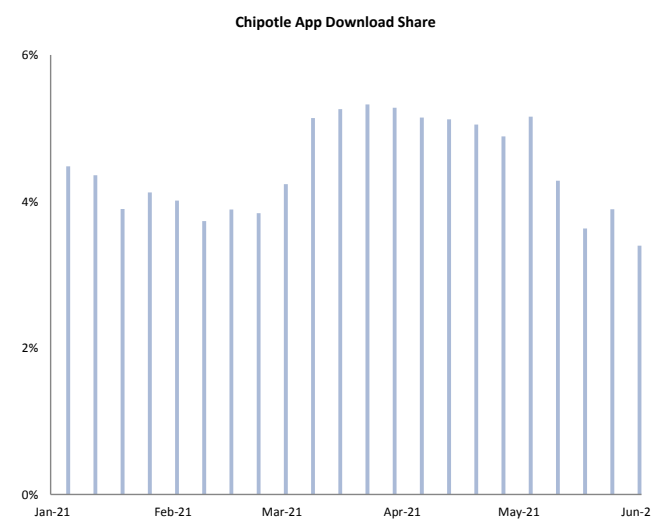
**Figure 6: CMG iPhone app download share has strengthened over the past several years...**



Source : UBS Evidence Lab, Sensor Tower, [Access dataset](#)

Note: Download share in iOS and Google Play. Relative to QSR In-Store and QSR Delivery apps.

**Figure 7: ...while modestly pulling back from recent highs in April 2021.**

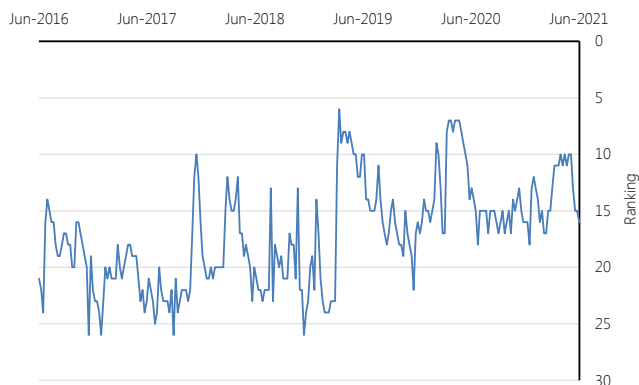


Source : UBS Evidence Lab, Sensor Tower, [Access dataset](#)

Note: Download share in iOS and Google Play. Relative to QSR In-Store and QSR Delivery apps.

**Figure 8: CMG iPhone app download rankings in the Food & Drink Category have improved over the past several years.**

#### Chipotle App Rankings

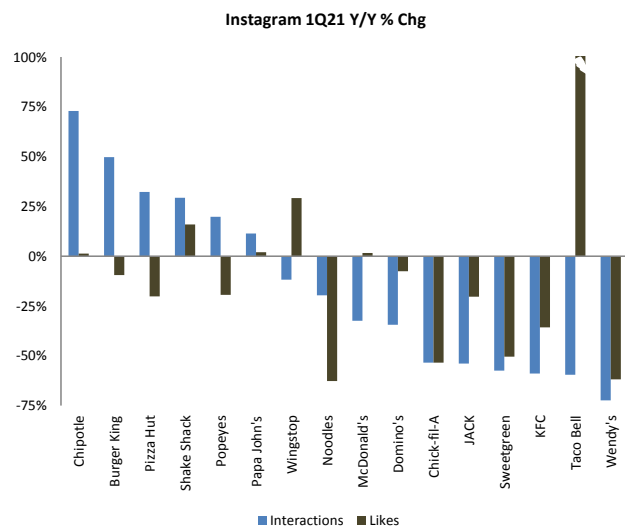


Source : UBS Evidence Lab, Sensor Tower, [Access dataset](#)  
 Note: Represents iPhone Rankings Food & Drink Category, US

## Social media metrics outperformed peers in 1Q21,

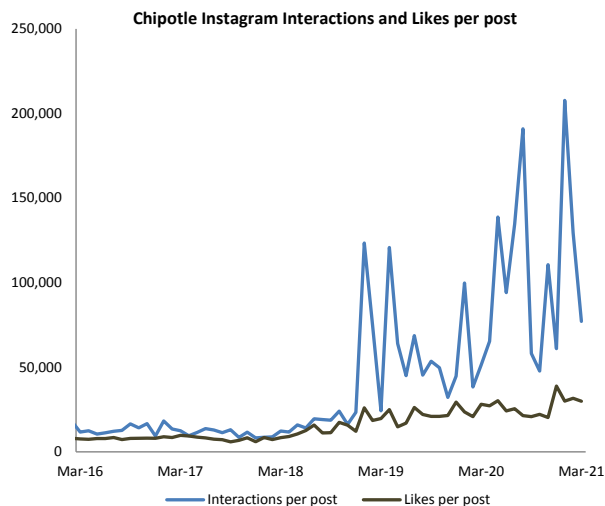
### supporting stickiness of digital gains

**Figure 9: CMG led growth in 1Q21 Instagram interactions (+73% y/y) and had a positive change in likes (+1% y/y) relative to most limited-service brands which declined...**



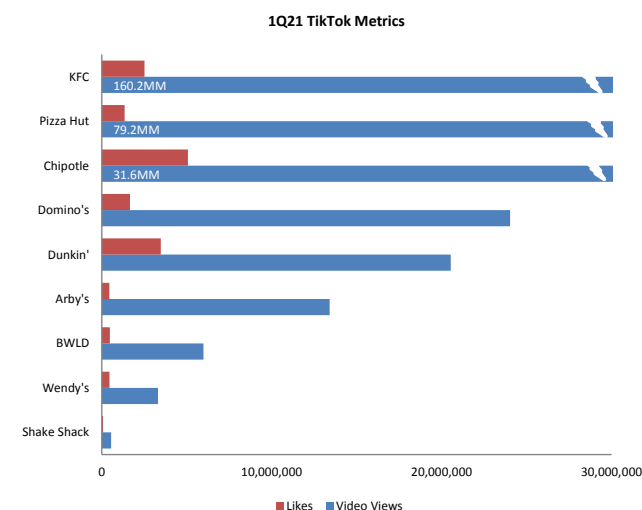
Source : UBS Evidence Lab, Instagram [Access dataset](#)

**Figure 10: ...with interactions and likes per post generally trending upwards over the past several years.**



Source : UBS Evidence Lab, Instagram [Access dataset](#)

**Figure 11: CMG maintains a leading TikTok presence, earning the highest amount of likes in 1Q21 relative to industry peers.**



Source : UBS Evidence Lab, Instagram [Access dataset](#)

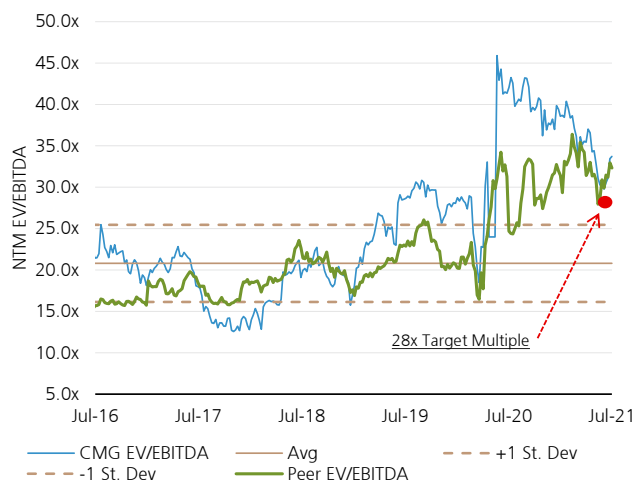
## Optionality from International development, daypart expansion, and other concepts can drive further gains LT

CMG has multiple compelling long-term strategic opportunities to further accelerate growth and create value, including: i) international development; ii) expansion to other dayparts; and iii) additional restaurant concepts. While we think the opportunity for international development is likely to be an increased focus over the next 12+ months, day part expansion and additional concepts are unlikely a major focus yet. Additionally, we expect share repurchase could significantly ramp over the coming years, with upside to Consensus very possible.

- **International** - CMG has made progress in readying Canada and Europe for global acceleration. CMG's expansion plans are further along in Canada given similar economics to the US. We expect management will accelerate Canada's footprint expansion over the next 12-24 months. For Europe, a slower COVID recovery has likely delayed stage-gate development initiatives, but management continues to bring over digital assets. Digital initiatives include the build-out of second make-lines in the UK and France, opening dark kitchens, and expanding delivery partners. We note CMG is looking at digitally-forward formats and testing trade areas in less urban-centric areas for the EU.
- **Expanding day parts** - We believe CMG has optionality to expand to other dayparts, w/ breakfast potentially a focus before late-night. We note that late-night would be less demanding operationally (ie. similar menu etc). Day part expansion is also likely dependent on growing the number of Chipotlanes across the system.
- **Additional concepts** - While expanding into other concepts is not a top priority currently, CMG could opportunistically pursue the strategy over time. We'd note CMG still owns a few Pizzeria Locale locations in Denver.

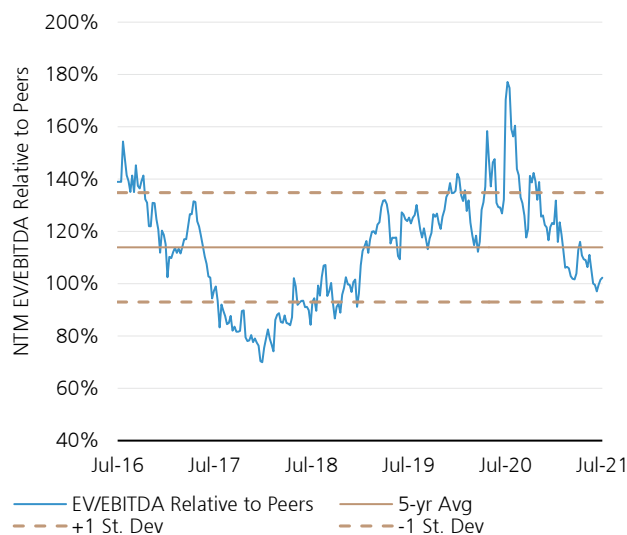
## Valuation remains reasonable, with upside potential

**Figure 12: CMG's NTM EV/EBITDA has declined from multiyear highs in recent months, trading above its pre-COVID 5-year historical average, similar to peers...**



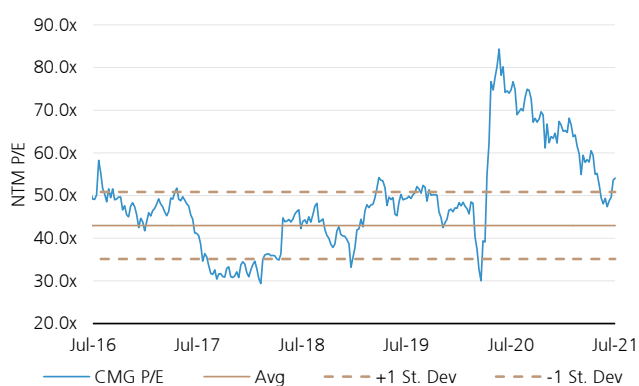
Source : Factset

**Figure 13: ...while CMG's valuation is slightly below its 5-year avg. premium to high growth peers (SHAK, DPZ and SBUX).**



Source : Factset

**Figure 14: CMG's NTM P/E has also declined from multiyear highs in recent months, trading roughly +1 SD above its pre-COVID 5-year historical average.**



Source : Factset

**\*UBS Evidence Lab** is a sell-side team of experts, independent of UBS Research, that work across 55+ specialized labs creating insight-ready datasets. The experts turn data into evidence by applying a combination of tools and techniques to harvest, cleanse, and connect billions of data items each month. Since 2014, UBS Research analysts have utilized the expertise of UBS Evidence Lab for insight-ready datasets on companies, sectors and themes, resulting in the production of thousands of differentiated UBS Research reports. UBS Evidence Lab does not provide research, investment recommendations, or advice, but provides insight-ready datasets for further analysis by UBS Research and by clients.

This is the 6th wave of the US Quick Service Restaurant Demand Consumer Survey. UBS Evidence Lab conducted an online survey among 2,000 adults (18 years and above) and 400 teen (age 13-17 years) across the US. Fieldwork took place from January 27th to February 12th 2021. To qualify for the survey, respondents had to eat at a quick-service restaurant at least once per month. The distribution of survey respondents was designed to mirror the sample profile achieved in the previous waves of the survey, by using quotas for gender, age, geography, household income and ethnicity in order to provide directly comparable results. This report leverages the following UBS Evidence Lab assets: US Quick Service Restaurant Demand Consumer Survey (Adults) and US Quick Service Restaurant Demand Consumer Survey (Teens).

UBS Evidence Lab uses App Analytics by Sensor Tower, a leading provider of market intelligence and insights for the global app economy to help answer questions related to company performance and mobile app strategy. UBS Evidence Lab tracks daily rankings and downloads data for thousands of mobile applications in the iOS and Google Play store across more than 50 geographies. Daily download estimates are provided by an algorithm trained on this ranking data and the actual download numbers of 50,000+ apps. Rankings data is aggregated by week and download share estimates are aggregated by month. This report leverages the following UBS Evidence Lab asset: US QSR App Monitor.

UBS Evidence Lab tracks page and post-level data from Instagram pages of leading brands and influencers. Metrics are based on the aggregation of the official Instagram pages for a given brand or influencer. Key metrics include page followers, posts, and interactions (likes, comments, and video views) on posts. Follower counts are presented based on the date of collection and interaction metrics are presented across multiple timescales including 4-week rolling sum, monthly, and quarterly. This report leverages the following UBS Evidence Lab asset: Global Brand Tracker [ Instagram ].

This report uses the following UBS Evidence Lab asset: Brand Tracker [ TikTok ] UBS Evidence Lab tracks post-level data from TikTok official pages of leading brands. Metrics are based on the aggregation of posts on the TikTok official pages of a given brand. Key metrics include followers, posts, and interactions (shares, likes, comments, and video views) on posts. Follower counts are presented based on the date of collection and interaction metrics are presented across multiple timescales including monthly and quarterly. Time series on interactions included in this analysis dates from January 2019.

## Forecast returns

Forecast price appreciation	+10.5%
Forecast dividend yield	0.0%
Forecast stock return	+10.5%
Market return assumption	5.3%
Forecast excess return	+5.3%

## Company Description

Chipotle operates more than 2,500 restaurants, primarily in the US, with international exposure in Canada, the UK, France, and Germany. Chipotle Mexican Grill restaurants feature burritos, tacos, burrito bowls, and salads made using fresh ingredients.

## Valuation Method and Risk Statement

Risks include but are not limited to: deteriorating macro-economic factors that could negatively impact consumer spending (rising unemployment, low wage growth, high gas prices, falling housing market); a food safety incident at CMG or another restaurant; increased competition in fast-casual Mexican or alternative all natural categories; risks related to international expansion; significant commodity or labor cost inflation, including sourcing all natural and organic ingredients; changing consumer eating trends; ability to identify and secure appropriate sites for new restaurants; effect of changes to healthcare laws and hiring practices; failure of internal controls over financial reporting; adverse weather conditions; the negative impact on existing restaurants from opening new restaurants in existing markets; and the impact from new information or attitudes regarding diet and health could result in changes in regulations or consumer preferences. Our price target is based on an EV/EBITDA methodology on our NTM EBITDA estimates in 12 months.



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12-Month Rating	Definition	Coverage <sup>1</sup>	IB Services <sup>2</sup>
Buy	FSR is > 6% above the MRA.	52%	31%
Neutral	FSR is between -6% and 6% of the MRA.	36%	28%
Sell	FSR is > 6% below the MRA.	12%	22%
Short-Term Rating	Definition	Coverage <sup>3</sup>	IB Services <sup>4</sup>
Buy	Stock price expected to rise within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%
Sell	Stock price expected to fall within three months from the time the rating was assigned because of a specific catalyst or event.	<1%	<1%

Source: UBS. Rating allocations are as of 31 March 2021.

1:Percentage of companies under coverage globally within the 12-month rating category.

2:Percentage of companies within the 12-month rating category for which investment banking (IB) services were provided within the past 12 months.

3:Percentage of companies under coverage globally within the Short-Term rating category.

4:Percentage of companies within the Short-Term rating category for which investment banking (IB) services were provided within the past 12 months.

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**UBS Securities LLC:** Dennis Geiger, CFA, Rebecca Derhy, Ryan Kidd.

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Company Name	Reuters	12-month rating	Price	Price date
Chipotle Mexican Grill <sup>16</sup>	CMG.N	Buy	US\$1,538.23	01 Jul 2021

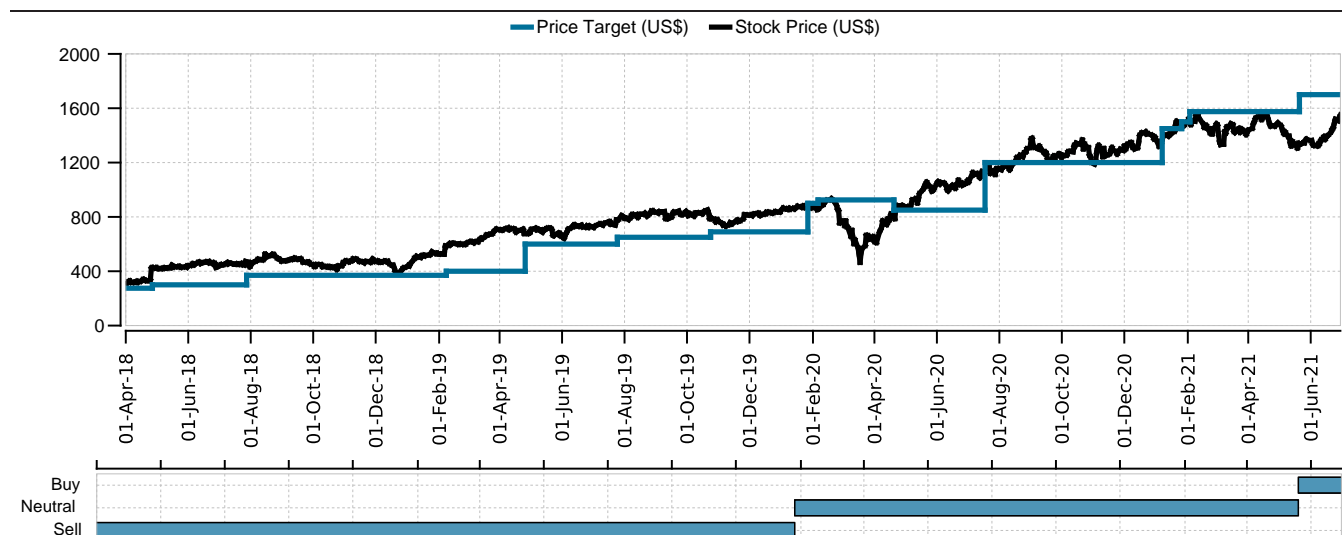
Source: UBS. All prices as of local market close.

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## Chipotle Mexican Grill (US\$)



Date	Stock Price (US\$)	Price Target (US\$)	Rating
2018-03-30	NaN	275.00	Sell
2018-04-26	422.50	300.00	Sell
2018-07-27	472.30	370.00	Sell
2019-02-07	585.78	400.00	Sell
2019-04-25	678.07	600.00	Sell
2019-07-24	777.96	650.00	Sell
2019-10-23	788.19	690.00	Sell
2020-01-26	869.71	900.00	Neutral
2020-02-05	854.01	925.00	Neutral
2020-04-19	820.27	850.00	Neutral
2020-07-17	1136.22	1200.00	Neutral
2021-01-06	1343.41	1450.00	Neutral
2021-01-25	1486.32	1500.00	Neutral
2021-02-02	1523.05	1575.00	Neutral
2021-05-20	1341.78	1700.00	Buy

Source: UBS; as of 01-Jul-2021

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