

November, 30, 2017

## Chipotle: CMG

Timothy Cousin

Sector: Consumer Discretionary

Industry: Hotels, Restaurants and Leisure

Current Price: \$285.86

Target Price: \$323.33

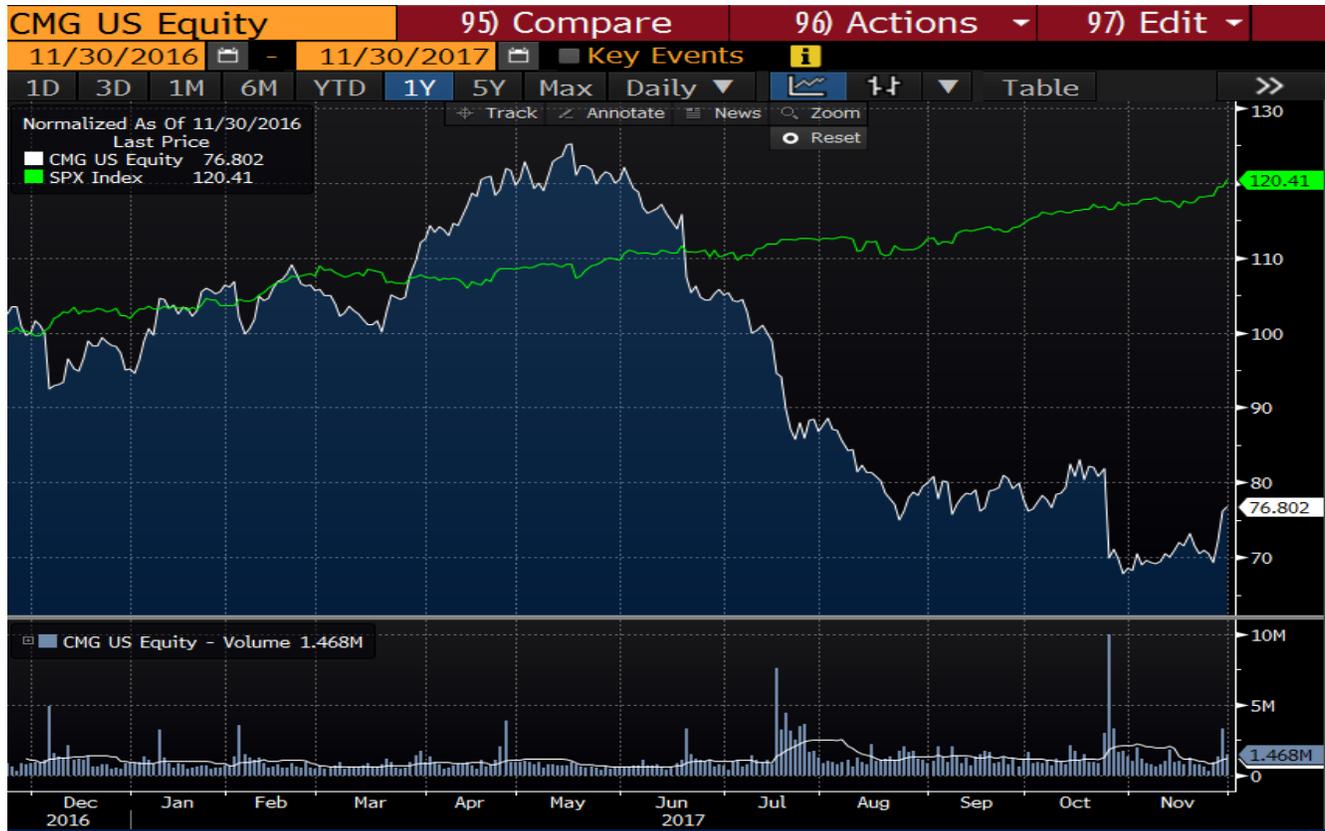
**Company Description:** Chipotle is widely known for their ability to serve Mexican fast food. The company has been operating through the United States since 1993.

### BUY

|                       |                      |
|-----------------------|----------------------|
| Current Price:        | \$285.86             |
| Target Price:         | \$323.33             |
| Market Cap:           | 8.5B                 |
| Operating Margin      | 4%                   |
| WACC                  | 11.3%                |
| ROE                   | 6.0%                 |
| Return on Capital     | 7.1%                 |
| Beta:                 | 1.0                  |
| Cost of Existing Debt | 4.5%                 |
| Days to Cover         | 5.0                  |
| Range                 | \$263.00 to \$499.00 |

**Catalysts:** Forward looking projections that call for positive/negative outlook that will strengthen your thesis. Example:

- Short Term (within the year): The ability to order off their application.
- Mid Term (1-2 years): The company regains the trust of their customers after the e-coli outbreak.
- Long Term (3+): Chipotle looking to expand in areas such as Europe.



## Thesis:

Chipotle is a quick serve restaurant chain that has been able to do well since 1993. Chipotle has seen controversy in the news especially in 2016 with the e-coli outbreak. Chipotle has taken a hit in the short term, but there is a positive upside for this company.

This is almost the lowest point the company has hit throughout the year, the company will have a positive upside due to the fact of being able to regain their customers trust, the launch of their mobile application, and since they are looking to expand into areas such as Europe. I understand we already purchased this company, but believe it is a good time to buy more due to the fact it is near the yearly low, and I do not see it as a restaurant people will stop going.

## Earnings Performance:

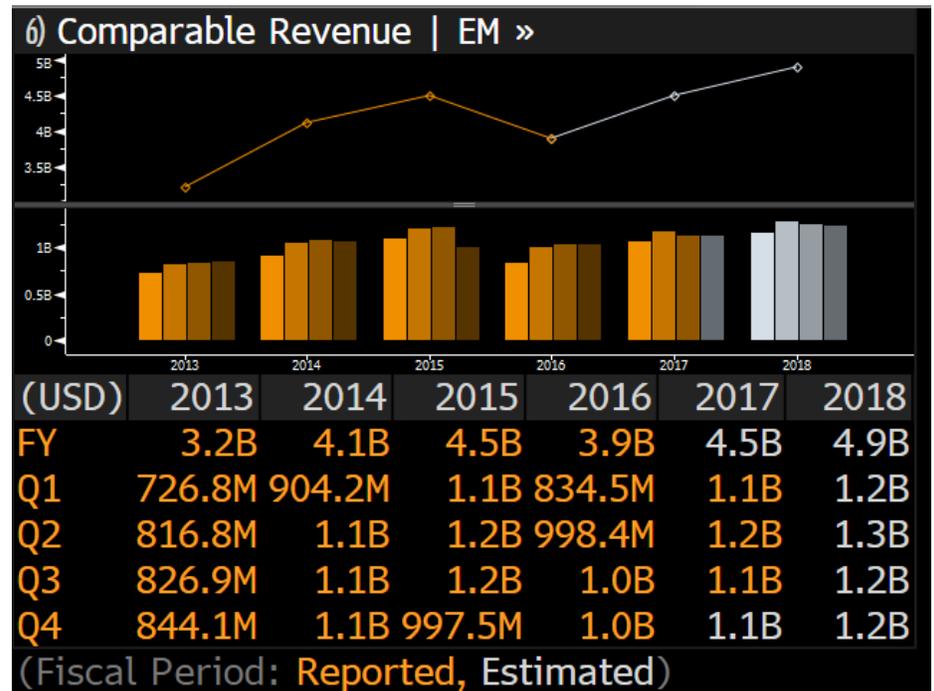
Chipotle is able to make their money due to the fact they are a quick serve restaurant. The way the store is set up has a lot to do with their earnings. They store is set up in an assembly line with many different servers taking peoples orders, increasing efficiency.

Starting from the year 2013 Chipotle has seen an increase in revenue from 3.2 billion dollars to 4.5 billion dollars in 2015. When it came to 2016, they saw a decrease in revenue due to breakouts of e-coli, but revenue was still at 3.9 billion dollars.

Looking ahead, they were able to bounce back in 2017 having a total revenue of 4.5 billion dollars. The quarters throughout the year have been consistent for 2017 earning around 1.1 billion dollars per quarter. This is important in the sense that Chipotle was able to tame the outbreak, and earn the trust of their competitors. Looking even further, Chipotle estimates to have a total revenue for the year of 2018 at 4.9 billion dollars.

Revenue has remained consistent for the most part beside 2016. Chipotle estimating that they will receive 4.9 billion in revenue for 2018, and an average quarter of 1.2 billion shows the company has been able to get the trust back from their customers.

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## Industry Overview:

Restaurant operators have been seeing some challenges when it comes to growth, leading to sales to decrease. Many analysts relate this to the fact of a saturated market, rising labor costs. A couple of different areas that the restaurant business will be able to improve on sales has to do with the fact of the expanding catering business, and delivery.



The positive outlook is that many restaurants will be able to see positive sales growth in the sense when it comes to technology. Restaurant stocks outperformed the S&P 500 in the period of delivery and mobile. Technology has had an important impact in the sense; it has made it convenient for customers to order efficiently.

When it comes to restaurants, they can be broken down into three main segments such as full service restaurants, quick service restaurants, and cafeterias and buffets. Restaurants like Chipotle own the largest share of the market at 55%. Full service restaurants have a market share of 44%, and bars and taverns only make up 1% of the market.

## Profitability:

Chipotle is a company that has been able to bring in revenue streams since they established themselves 1993.

|   |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
|  Revenue, Adj      | 3,214.6 | 4,108.3 | 4,501.2 | 3,904.4 | 4,400.9 |
|  Growth %, YoY     | 17.7    | 27.8    | 9.6     | -13.3   | 13.8    |
|  Gross Profit, Adj | 854.8   | 1,117.8 | 1,174.3 | 498.2   | 730.8   |
|  Margin %          | 26.6    | 27.2    | 26.1    | 12.8    | 16.6    |
|  EBITDA, Adj       | 635.5   | 828.3   | 907.2   | 204.8   | 413.1   |
|  Margin %          | 19.8    | 20.2    | 20.2    | 5.2     | 9.4     |
|  Net Income, Adj   | 331.8   | 449.9   | 484.2   | 37.0    | 156.1   |
|  Margin %          | 10.3    | 11.0    | 10.8    | 0.9     | 3.5     |
|  EPS, Adj          | 10.61   | 14.27   | 15.37   | 1.24    | 5.43    |
|  Growth %, YoY     | 19.9    | 34.5    | 7.7     | -91.9   | 81.1    |

When it came to revenue growth

starting at, 2013 they were able to climb from 3.2 million in 2013 to 4.5 million in 2015. After the hit on 2016, they were able to bounce back and see revenue increase from 3.9 million in 2016 to 4.4 million dollars in 2017. This is a growth of 13.8% from the year 2016. Previously before that, they were at a negative 13.3%. Going into 2017, not only have they been able to get their customers trust back, and have the ability to have positive feedback in the market when it comes to their application the company launched.

Chipotle has not only been able to increase in areas such as revenue, they have been able to grow in net income each year starting at 2013 from a margin of 10.3% in 2013, to 10.8% in 2015. They took a hit in 2016 going down to 0.9%, but then climbed back up to 3.5%.

Not only has net income been able to see a steady growth, but also EBITDA has as well. Starting in 2013 EBITDA started out at a margin of 19.8% and climbed up to 20.2%. After 2016, EBITDA was able to climb back up to a margin of 3.5% after being down at 0.9%.

## Segment Breakdown:

Chipotle is interesting when it comes to

| 12 Months Ending           | 12/31/2013     | 12/31/2014     | 12/31/2015     |
|----------------------------|----------------|----------------|----------------|
| <b>Revenue</b>             | 3,214.6 100.0% | 4,108.3 100.0% | 4,501.2 100.0% |
| Restaurant Sales           | 3,214.6 100.0% | 4,108.3 100.0% | 4,501.2 100.0% |
| Franchise Royalties & Fees | —              | —              | —              |

their segment breakdown. They are interesting in the sense that they only rely on their restaurant sales. They are a company that has not decided to go into franchising yet, and rely on their restaurant sales starting at 3.2 million in 2013, and reaching 4.5 million in 2015. In 2016, they took a hit falling back down to 3.9 million. They are a company that believes they are in a good spot with the sales of their restaurants and do not need to go into franchising.

Chipotle is has a competitive advantage in the sense, they have had the ability to perform in international territory. For the most part, they are strong in the United States accounting for 99.4 percent of their sales.

| Number of Locations  | 12/31/2013  | 12/31/2014  | 12/31/2015  |
|----------------------|-------------|-------------|-------------|
| <b>North America</b> | 1,586 99.4% | 1,773 99.4% | 1,998 99.4% |
| United States        | 1,579 99.0% | 1,766 99.0% | 1,987 98.9% |
| Canada               | 7 0.4%      | 7 0.4%      | 11 0.5%     |
| <b>International</b> | 9 0.6%      | 10 0.6%     | 12 0.6%     |
| United Kingdom       | 6 0.4%      | 6 0.3%      | 7 0.3%      |
| France               | 2 0.1%      | 3 0.2%      | 4 0.2%      |
| Germany              | 1 0.1%      | 1 0.1%      | 1 0.0%      |

The other locations that Chipotle has the opportunity to operate includes the United Kingdom which accounts for .4% of their sales in 2013, France which accounts for .1% of their sales, and Germany which accounts for .1% of their sales. Throughout the years this percentages have been able to increasing at a slow rate. This is significant in the sense it will be able a starting point for Chipotle to try to expand. They have been able to get some revenue in their stores internationally, leading an opportunity for the company to expand.

## Comparable:

Chipotle is a company that has had the opportunity to do well against some of their competitors. One of their main competitors is Shake Shack in the sense it was the same style of service.

Chipotle has been able to outperform Shake Shack in a number of different areas.

| Name (BI Peers)               | Mkt Op Cap | ROIC   | ROE LF   | ROA LF  | NI T12M |
|-------------------------------|------------|--------|----------|---------|---------|
| <b>Median</b>                 | 2.33B      | 20.35  | 13.34%   | 8.46%   | 133.41M |
| 100) CHIPOTLE MEXICAN GRIL... | 8.59B      | 17.89  | 10.50%   | 7.19%   | 156.14M |
| 101) POTBELLY CORP            | 318.73M    | 12.05  | 1.86%    | 1.30%   | 9.65M   |
| 102) NOODLES & CO             | 207.65M    | 6.40   | -169.28% | -38.61% | 3.21M   |
| 103) SHAKE SHACK INC - CLA... | 1.51B      | 16.64  | 10.06%   | 2.89%   | 16.00M  |
| 104) DOMINO'S PIZZA INC       | 8.14B      | 144.17 | --       | 34.47%  | 261.04M |
| 105) PAPA JOHN'S INTL INC     | 2.05B      | 44.04  | --       | 20.27%  | 99.39M  |
| 106) STARBUCKS CORP           | 82.27B     | 40.01  | 50.90%   | 20.12%  | 3.06B   |
| 107) DUNKIN' BRANDS GROUP...  | 5.39B      | 17.70  | --       | 6.73%   | 211.95M |
| 108) WENDY'S CO/THE           | 3.61B      | 8.39   | 11.15%   | 1.55%   | 97.56M  |
| 109) JACK IN THE BOX INC      | 3.05B      | 32.04  | --       | 10.50%  | 132.75M |

To start out, they have a bigger market cap than Shake Shack in the sense that Chipotle operates at 8.59 billion dollars, while Shake Shack only operates at 1.51 billion dollars. Chipotle also has a higher net income

in the past twelve months, bringing in 156.14 million dollars. Shake shack has only had the opportunity to bring in 16.0 million dollars.

When it comes to return on investment, Chipotle has been able to operate at 17.89%. They have been able to see a decent return on their investment within the last twelve months. Shake Shack has only been able to see a return of investment of 16.64%. When it comes to return on assets, Chipotle has been able to see an advantage in the sense they are operating at 7.19% and Shake Shack is only operating at 2.89%.

Chipotle has had a couple of good years from 2013 leading up to 2015. After the e coli breakout, they have seen a decrease in all aspects of their company. Within the past twelve months however, they have been able to recover at a moderate pace and still do better in certain categories against one of their main competitors.

## Ownership:

Chipotle was recently in the news a couple days ago for firing their CEO. The market did not react too strong to this decision; the stock only dropped four dollars.

The previous CEO at the time was Steve Ells and he was with the company for 13 years. The company is recently looking to replace him. Jack Hartung is the chief financial officer, and has been with the company for 16 years. Finally, Scott Boatwright is the chief operating officer and has been with the company for two years. They are a veteran staff, and will have the CEO replaced within the next couple of weeks.

When it comes to ownership of shares. Chipotle is mostly in the United States. About 84.01% of their shares are owned in the United States, and that number has increased since November 26. Britain owns 6.43% of the shares, and France owns 1.07%. Great Britain and France having the opportunity to own shares is important for Chipotle to have the opportunity to expand their company, and if people are interested, it will only help their process.

Even though Chipotle has been in the news recently due to the firing of their CEO, the number of sellers only changed from 268 to 269. Not only did the stock drop four bucks, but also this statistic illustrates that many people are not worried about the future of the company, and still see value.

| Top Geographic Ownership (%) |          |       |        |   |
|------------------------------|----------|-------|--------|---|
| 53) Geographic               | 11/26/17 | Curr  | Change |   |
| 31) UNITED STATES            | 84.01    | 84.05 | +0.04  | ↕ |
| 32) BRITAIN                  | 6.43     | 6.41  | -0.02  | ↕ |
| 33) JAPAN                    | 1.73     | 1.73  | 0.00   | ↕ |
| 34) Unknown                  | 1.46     | 1.46  | 0.00   | ↕ |
| 35) FRANCE                   | 1.07     | 1.07  | 0.00   | ↕ |
| 36) NORWAY                   | 0.98     | 0.98  | 0.00   | ↕ |
| 37) SWITZERLAND              | 0.95     | 0.95  | 0.00   | ↕ |
| 38) CANADA                   | 0.84     | 0.83  | -0.01  | ↕ |
| 39) LUXEMBOURG               | 0.71     | 0.71  | 0.00   | ↕ |

| Compare Current Stats Against 11/26/17   |          |        |        |   |
|--|----------|--------|--------|---|
| Institutional - Based on Current Filings |          |        |        |   |
| 51) Institutional                        | 11/26/17 | Curr   | Change |   |
| 11) % of Shares Held                     | 102.16   | 102.49 | +0.33  | ↕ |
| 12) % of Float Held                      | 103.74   | 104.06 | +0.32  | ↕ |
| 13) # of Institutions                    | 845      | 844    | -0.12% | ↕ |
| 14) # of Buyers                          | 256      | 257    | +0.39% | ↕ |
| 15) # of Sellers                         | 268      | 269    | +0.37% | ↕ |
| 16) # of New Buyers                      | 83       | 87     | +4.82% | ↕ |
| 17) # of Selloffs                        | 152      | 152    | 0.00%  | ↕ |
| 18) % Chg in Inst Positions              | -6.97    | -6.69  | +0.28  | ↕ |

## **Conclusion:**

Chipotle is a company that has been in the news within the past couple of years. Some of it being positive, while at times negative. It would be a great time to double down with Chipotle in the sense that it is the lowest point they have been at all year, they have a strong mobile application that makes it easier to take orders, and they are a company that is looking to expand.

Chipotle is a restaurant that people will not stop going to. Even though they took a hit in 2016 with the e coli outbreak, they started to pick up again reaching revenue of 4.5 billion dollars. During this time, Chipotle has been able to outperform one of their main competitors Shake Shack. Chipotle has been able to recover from a poor year in 2016, and outperform one of their competitors makes it a great opportunity to double down.

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

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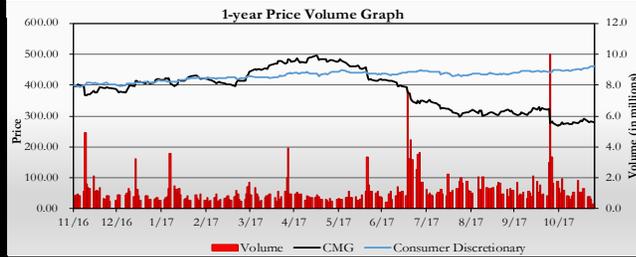
**NEUTRAL**

Analysis by **Timothy Cousin**  
11/30/2017

**Current Price:** **\$285.86**  
**Divident Yield:** **0.0%**

**Intrinsic Value:** **\$273.17**  
**Target Price:** **\$323.33**

Target 1 year Return: 13.11%  
Probability of Price Increase: 91%

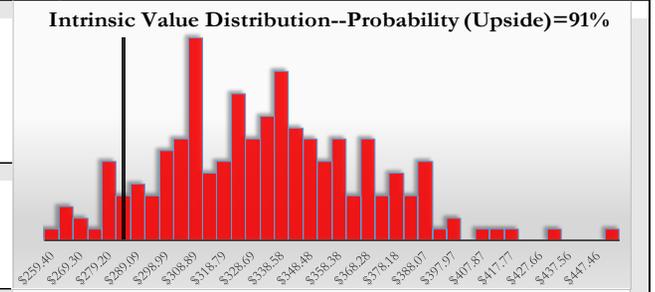


| Description   |                                 |
|---|---------------------------------|
| Chipotle Mexican Grill, Inc., together with its subsidiaries, develops and operates Chipotle Mexican Grill restaurants. |                                 |
| General Information   |                                 |
| Sector  | Consumer Discretionary          |
| Industry  | Hotels, Restaurants and Leisure |
| Last Guidance   | November 3, 2015                |
| Next earnings date  | February 2, 2018                |
| Estimated Country Risk Premium  | 7.08%                           |
| Effective Tax rate  | 24%                             |
| Effective Operating Tax rate  | 24%                             |

| Market Data                           |            |
|---------------------------------------|------------|
| Market Capitalization                 | \$8,070.66 |
| Daily volume (mil)                    | 1.33       |
| Shares outstanding (mil)              | 28.23      |
| Diluted shares outstanding (mil)      | 28.95      |
| % shares held by institutions         | 116%       |
| % shares held by investments Managers | 66%        |
| % shares held by hedge funds          | 17%        |
| % shares held by insiders             | 1.51%      |
| Short interest                        | 19.35%     |
| Days to cover short interest          | 4.04       |
| 52 week high                          | \$499.00   |
| 52-week low                           | \$263.00   |
| Volatility                            | 29.57%     |

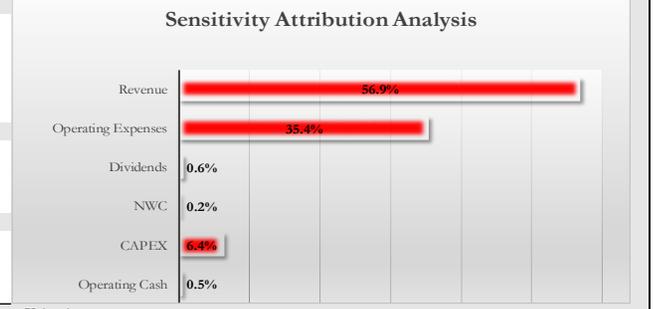
| Past Earning Surprises |         |         |
|------------------------|---------|---------|
| Quarter ending         | Revenue | EBITDA  |
| 9/30/2016              | -4.33%  | -42.53% |
| 12/31/2016             | -0.04%  | 3.92%   |
| 3/31/2017              | 1.34%   | 15.18%  |
| 6/30/2017              | -1.19%  | 6.14%   |
| 9/30/2017              | -0.36%  | -33.16% |
| Mean                   | -0.92%  | -10.09% |
| Standard error         | 0.9%    | 11.6%   |

| Peers                                |  |
|--------------------------------------|--|
| Yum! Brands, Inc.                    |  |
| Restaurant Brands International Inc. |  |
| McDonald's Corporation               |  |
| Domino's Pizza, Inc.                 |  |
| Jack in the Box Inc.                 |  |
| The Wendy's Company                  |  |
| Red Robin Gourmet Burgers, Inc.      |  |
| Darden Restaurants, Inc.             |  |



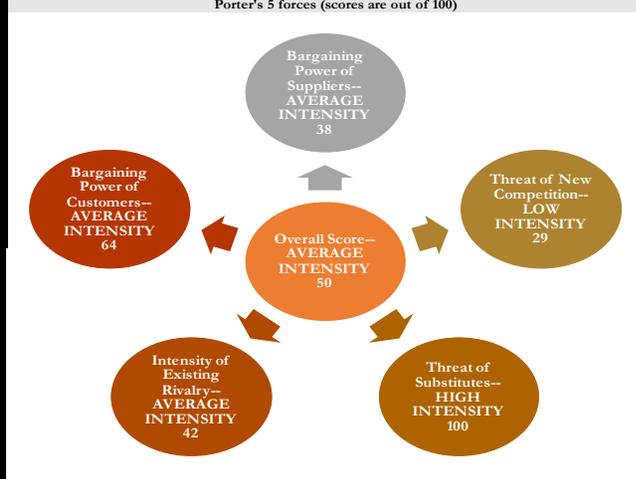
| Management        | Position                     | Total compensations growth | Total return to shareholders |
|-------------------|------------------------------|----------------------------|------------------------------|
| Ellis, M.         | Founder, Chairman and Chief  | -0.37% per annum over 5y   | 9.97% per annum over 5y      |
| Hartung, John     | Chief Financial Officer      | 1.43% per annum over 5y    | 9.97% per annum over 5y      |
| Crumpacker, Mark  | Chief Marketing & Strategy O | 18.84% per annum over 5y   | 9.97% per annum over 5y      |
| Boatwright, Scott | Principal Operating Officer  | N/M                        | N/M                          |
| Garner, Curtis    | Chief Digital and Informatio | N/M                        | N/M                          |
| Schalow, Laurie   | Chief Communications Officer | N/M                        | N/M                          |

| Profitability             | CMG (LTM) | CMG (5 years historical average) | Peers' Median (LTM) |
|---------------------------|-----------|----------------------------------|---------------------|
| Return on Capital (GAAP)  | 7.1%      | 23.14%                           | 13.31%              |
| Operating Margin          | 4%        | 9.09%                            | 11.31%              |
| Revenue/Capital (GAAP)    | 1.65      | 2.55                             | 1.18                |
| ROE (GAAP)                | 6.0%      | 26.9%                            | 7.2%                |
| Net margin                | 3.0%      | 11.6%                            | 11.5%               |
| Revenue/Book Value (GAAP) | 2.02      | 2.32                             | 0.63                |



| Invested Funds           | CMG (LTM) | CMG (5 years historical average) | Peers' Median (LTM) |
|--------------------------|-----------|----------------------------------|---------------------|
| Cash/Capital             | 15.7%     | 34.6%                            | 8.5%                |
| NWC/Capital              | -8.3%     | 3.9%                             | -4.5%               |
| Operating Assets/Capital | 92.0%     | 60.5%                            | 78.0%               |
| Goodwill/Capital         | 0.7%      | 1.0%                             | 17.9%               |

| Capital Structure                                       | CMG (LTM) | CMG (5 years historical average) | Peers' Median (LTM) |
|---|-----------|----------------------------------|---------------------|
| Total Debt/Market Capitalization                        | 0.30      | 0.31                             | 1.49                |
| Cost of Existing Debt                                   | 4.5%      | 7.6%                             | 4.5%                |
| CGFS Rating (F-score, Z-score, and default Probability) | B         | A                                | A                   |
| WACC  | 11.3%     | 13.3%                            | 8.2%                |



| Period            | Revenue Growth Forecast | NO PAT Margin Forecast | Revenue to Capital Forecast |
|-------------------|-------------------------|------------------------|-----------------------------|
| Base Year         | 14%                     | 9.2%                   | 1.64                        |
| 9/30/2018         | 10%                     | 10.5%                  | 2.40                        |
| 9/30/2019         | 9%                      | 10.9%                  | 2.00                        |
| 9/30/2020         | 10%                     | 10.1%                  | 1.72                        |
| 9/30/2021         | 8%                      | 10.7%                  | 1.51                        |
| 9/30/2022         | 8%                      | 11.4%                  | 1.36                        |
| 9/30/2023         | 2%                      | 11.9%                  | 1.18                        |
| 9/30/2024         | 2%                      | 12.6%                  | 1.03                        |
| 9/30/2025         | 3%                      | 13.3%                  | 0.93                        |
| 9/30/2026         | 3%                      | 14.0%                  | 0.85                        |
| 9/30/2027         | 4%                      | 14.7%                  | 0.78                        |
| Continuing Period | 4%                      | 15.5%                  | 0.73                        |

| Period            | Return on Capital Forecast | WACC Forecast | Price per share Forecast |
|-------------------|----------------------------|---------------|--------------------------|
| Base Year         | 15.0%                      | 11.3%         | \$299.21                 |
| 9/30/2018         | 25.2%                      | 10.7%         | \$333.97                 |
| 9/30/2019         | 21.8%                      | 11.0%         | \$374.01                 |
| 9/30/2020         | 17.3%                      | 10.5%         | \$415.00                 |
| 9/30/2021         | 16.2%                      | 10.6%         | \$458.80                 |
| 9/30/2022         | 15.6%                      | 10.9%         | \$506.19                 |
| 9/30/2023         | 13.9%                      | 10.6%         | \$555.31                 |
| 9/30/2024         | 13.0%                      | 10.6%         | \$606.81                 |
| 9/30/2025         | 12.4%                      | 10.6%         | \$660.59                 |
| 9/30/2026         | 11.9%                      | 10.7%         | \$716.71                 |
| 9/30/2027         | 11.5%                      | 10.7%         | \$775.17                 |
| Continuing Period | 11.2%                      | 10.7%         |                          |

