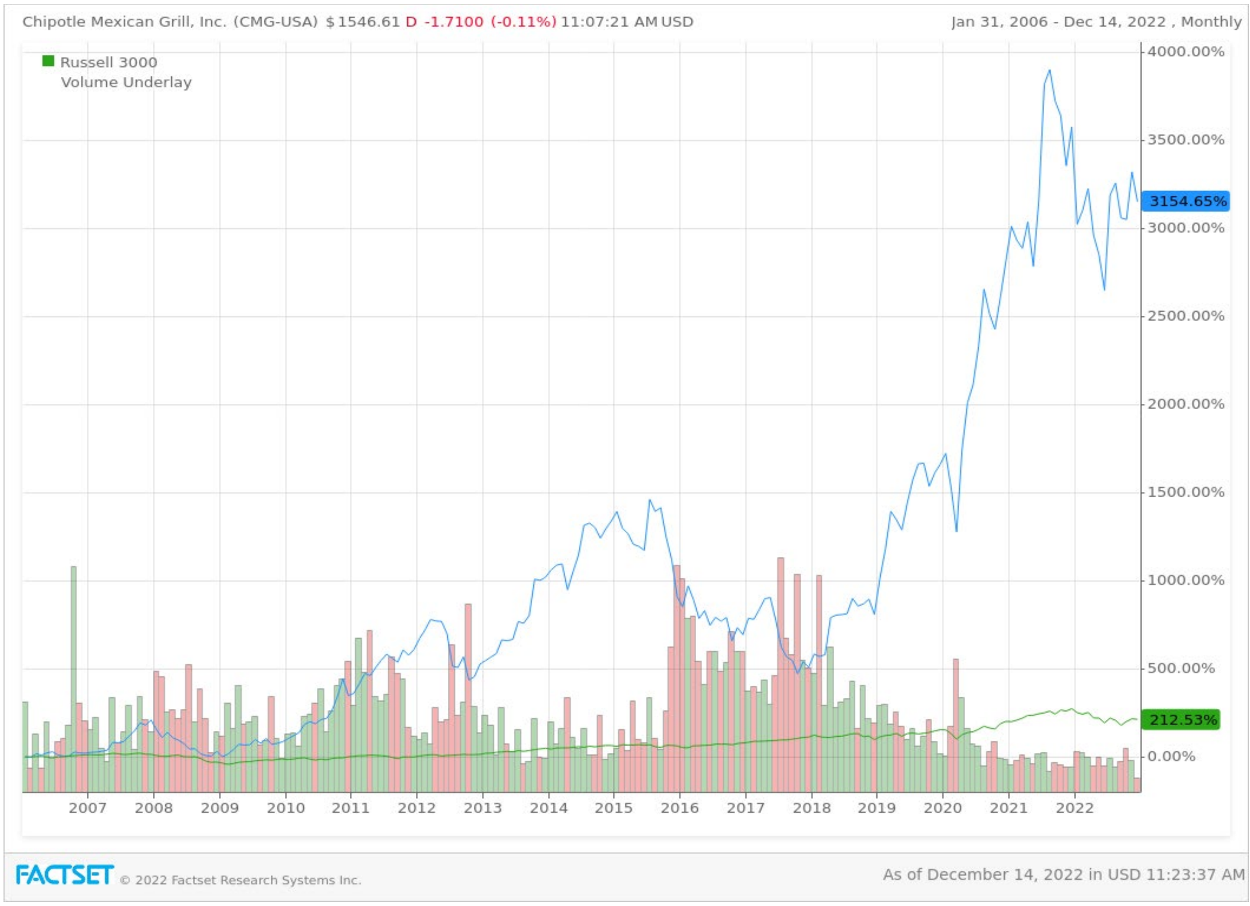
Chipotle Mexican Grill Inc (CMG)

Eric Mossor and Sergio Tufik – December 14th, 2022

Last Price	Fair Value	Estimate Price/FVE	Recommendation
$1,555.31	$1,874.99	1.20	**BUY**



52 Week Range: $1,196.28 – $1,776.67

Market Cap: $45.101B

P/E Ratio: 55.7

P/B Ratio: 18.2

Dividend Yield: 0%

Profit Margin: 9.61%

Number of Restaurants: 3,090

5-year Revenue CAGR: 14.1%

5-year Net Income CAGR: 95.4%

Highlights

- Third biggest (public) company in terms of Enterprise Value in the quick-service restaurant industry.
- Resilience of sales due to digitalization of the business.
- Increasing revenue and profitability.

Risks

- Food poisoning outbreaks represented the main problem in the past.
- Competition is also a treat, including new entrants.

1. Introduction

Chipotle Mexican Grill, Inc. is a Delaware corporation that owns and operates more than 3,000 restaurants in the US and 4 other countries[1]. The first Chipotle restaurant was opened in 1993 in Denver, Colorado. Today, Chipotle has a total enterprise value of $45.1 billion, being the third biggest public company in the quick-service restaurant industry, after McDonald's and Starbucks.

The company aims to provide "food with integrity", meaning that their intention is to serve high quality food while still charging reasonable prices. For that reason, Chipotle owns and operates many regional distribution centers and only buys its ingredients from selected producers, for example, those who care about responsibly grown produce and animal welfare.

In 2015, Chipotle was responsible for a food poisoning outbreak that sickened at least 52 people from 9 states and hospitalized 20 people[2]. This event impacted the business significantly, and Chipotle has been recovering since 2016, as is going to be discussed in our report.

More recently, Chipotle has been investing in a digitalization of its business, consisting of digitizing the restaurant kitchens, expanding partnerships with third-party delivery services and building Chipotlanes, which is the drive though format for customer pick-up of digital orders. Digital sales, which includes delivery and customer pick-up, represented 45.6% of total revenue in 2021[1].

2. Net Income Statement

a. Revenue

Total revenue is the most important driver of our model. Chipotle stopped franchising restaurants in 2007. Since then, the business operates all of its restaurants. As a consequence, we projected sales by examining the number of opened stores and the average revenue generated per store.

It is worth mentioning that Chipotle also operated two other brands called "Shop House Southeast Asian Kitchen", from 2011 to 2017, and "Pizzaria Locale", since 2013 to present date. Nevertheless, our projections do not discriminate these restaurants for 3 main reasons:

(i) The number of stores is minimal in comparison to the overall store count. These 2 brands combined peaked a total of 23 restaurants in 2016, which represented only 1% of total restaurants.
(ii) No specific information for these brands is present in the company's SEC filings and reports.
(iii) Management does not seem to prioritize opening more stores of these brands nor consider them an important lever for future growth.

Further, Chipotle started with restaurants based exclusively in the US, but started to have an international footprint in 2008, with the opening of a store in Canada. Our analysis does not evaluate national and international stores separately for the same reasons (i) and (ii) mentioned for the other brands. The number of international stores keeps growing every year and there are 50 stores in operation as of the end of the 3rd quarter of 2022, representing 1.6% of all stores (*Figure 1*).

Management does not disclose its future targets with international stores; however, it already operates in 4 different countries (Canada, France, Germany and United Kingdom).

Figure 1: Number of international restaurants and as % of total restaurants.
(Source: Company's 10-Ks)

i. Number of Restaurants

There is no clear guidance for the expected number of restaurants that Chipotle plans to open in the future. Some of the previous 10-Ks mentioned management's expectations of new stores to be opened in the following year, but that was not the case in the last 10-K, for the year ended on December 31st, 2021. Chipotle currently operates 3,036 restaurants in the US, which is significant. However, we believe that there is still room for growth. McDonald's, as an example, has more than 4 times this number, 13,438 locations as of the end of 2021[3].

We expect that by the end of 2022 the number of restaurants in operation is 3,131. This prediction was made by annualizing the number of restaurants opened by Chipotle in the first 9 months of the 2022 (124). Therefore, maintaining the same proportion, in 12 months the company is expected to open 165 new stores.

For the following years, we expect the company to open a number of restaurants to be the same as the CAGR from the period between 2018 and 2022E, as shown in Figure 2.

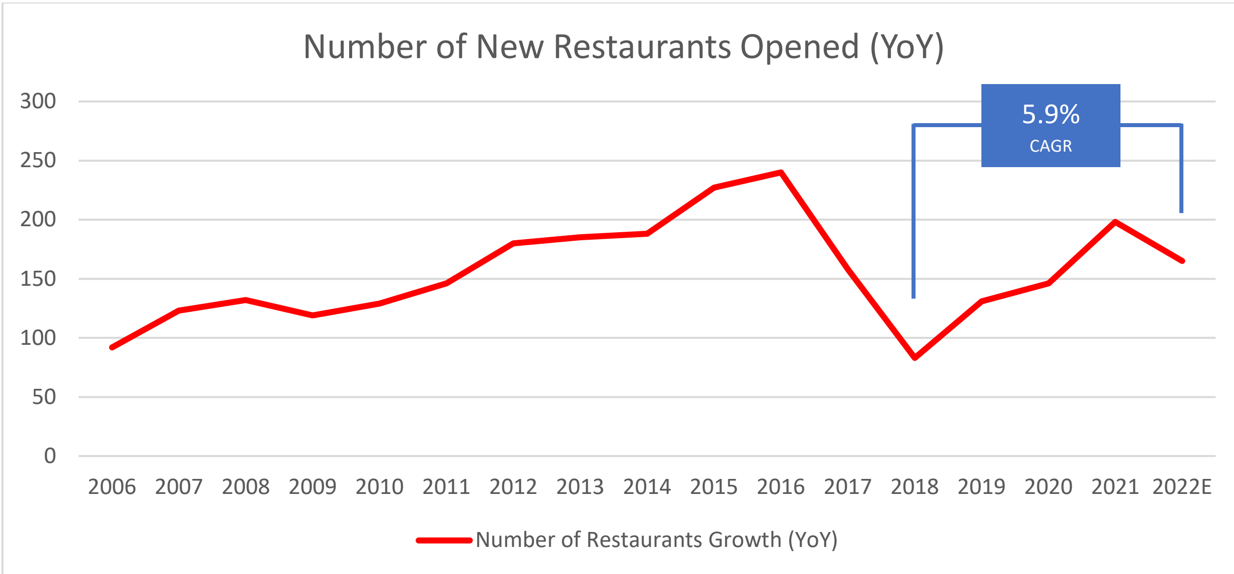


Figure 2: Number of new restaurants opened YoY and CAGR between 2018 and 2022E. Note: the CAGR shown is this graph refers to the increase in total number of restaurants.
(Source: Company's 10-Ks and our analysis)

We understand that the company's business model of owning and operating all of its stores poses a limitation to number of new stores to be opened in any given year. In addition to this, in the last 10 years, the number of new stores opened was relatively stable, ranging between 83 new stores in 2018 and 240 in 2016. The average in this period was 171 new restaurants opened per year with a standard deviation of 45 restaurants.

One possibility to be considered is that the number of new stores opened keep increasing at the same rate observed from 2018 to 2021. However, this prediction will probably be severely compromised already in 2022. Additionally, Chipotle was not able to fulfill many of its forecasts of opening around 250 stores. Therefore, we believe there is an upper limit to the number of new restaurants that can be opened during the year.

As a result of these assumptions, we expect that the total number of stores opened is 165 in 2022, gradually increasing until 219 in 2026, as shown in *Figure 3*.

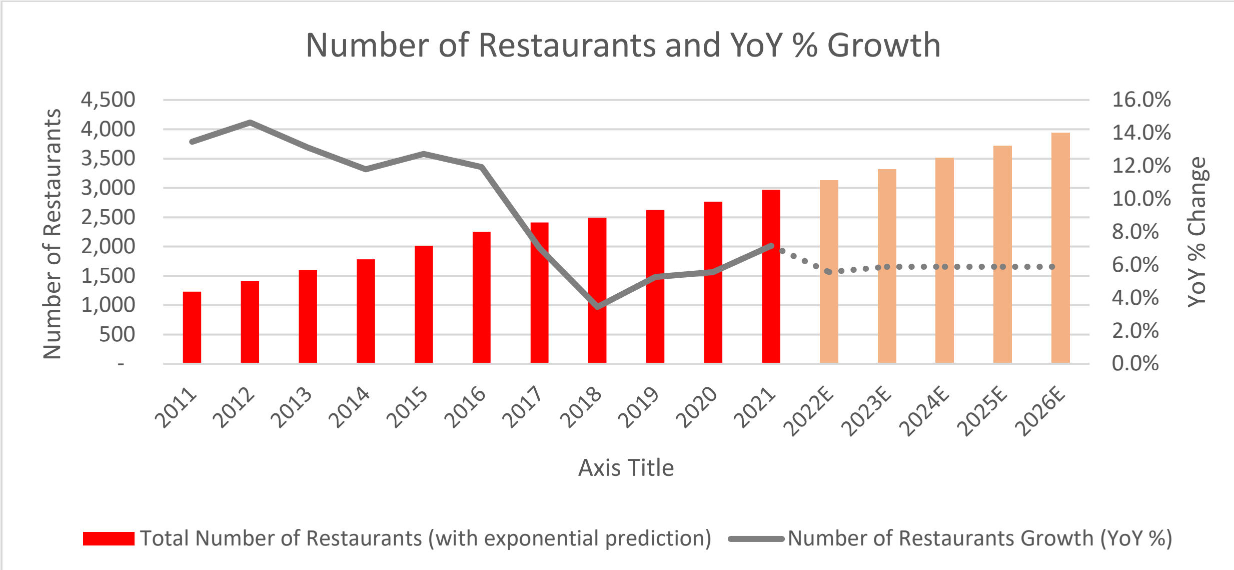


Figure 3: Total number of restaurants in the last 10 years and predictions for the next 5 years, with the %YoY growth. (Source: Company's 10-Ks and our analysis)

ii. Average Revenue per Store

The second important parameter to predict total revenue is the average sales per store. Since its IPO until 2014, Chipotle was able to generate a consistent increase in the Average Revenue per Store, with an average of 6.6% nominal annual growth or 4.4% in real terms. In 2015 and 2016, Chipotle suffered from a foodborne illness outbreak, and the hundreds of people sickened by an *E. coli* outbreak plunged the company into crisis. Since then, Chipotle established and enforced many safety programs and practices, such as: (i) natural inhibitors to prevent microbial growth in ingredients; (ii) advance technology to reduce or eliminate pathogens; (iii) small grower support and training; (iv) enhanced restaurants procedures, including protocols for handling ingredients and sanitizing surfaces; (v) supplier interventions; among others.

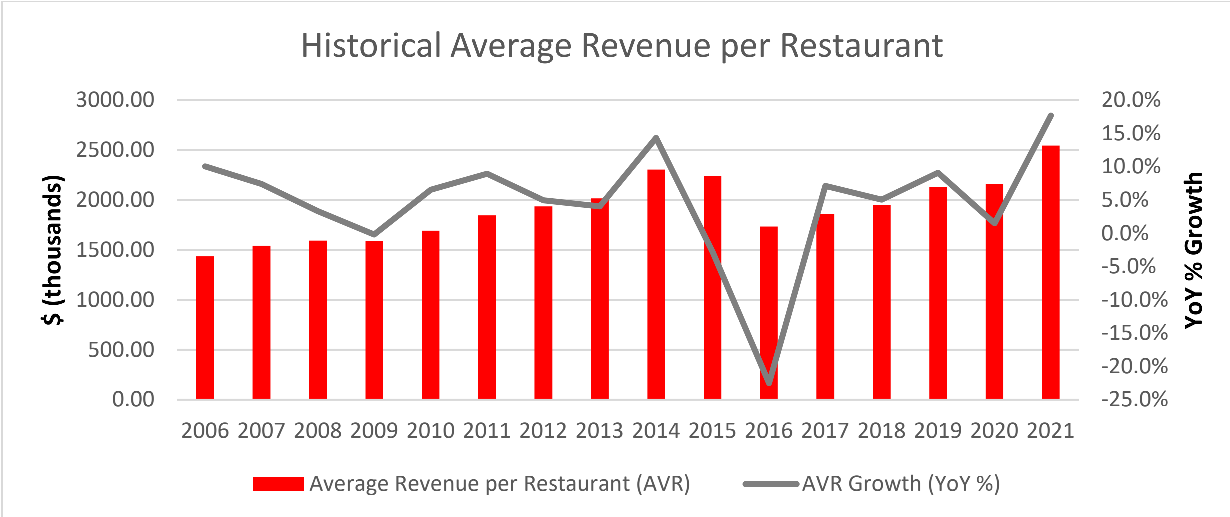


Figure 4: Historical average revenue per restaurant and YoY % growth.
(Source: Company's 10-Ks and our analysis)

Because of this, we used the years after the crisis (from 2016 to 2022E) as a reference to predict future revenues per store. We used the period's CAGR of 8.2% relative to the growth of nominal average revenue per restaurant and extrapolated for future years (2023 and forward). We don't see any strong reason for this tendency to be drastically shifted. One consideration made by the management team in the 3Q22 conference call was that Chipotle is already experiencing a slight decrease in customers from lower income families. However, they account for a minority of the clients and this phenomenon is compensated by higher income families. For 2022, we used the average revenue per store observed in the first 3 quarters.

The increase in average revenue per restaurant is based on two main drivers: the number of transactions and the price. In the last years, both of these factors were important for the observed increase, with a slightly predominance to the increase in transactions. For example, in 2021, the increase in transactions was 10.3% while the increase from menu prices was 8.5%[1].

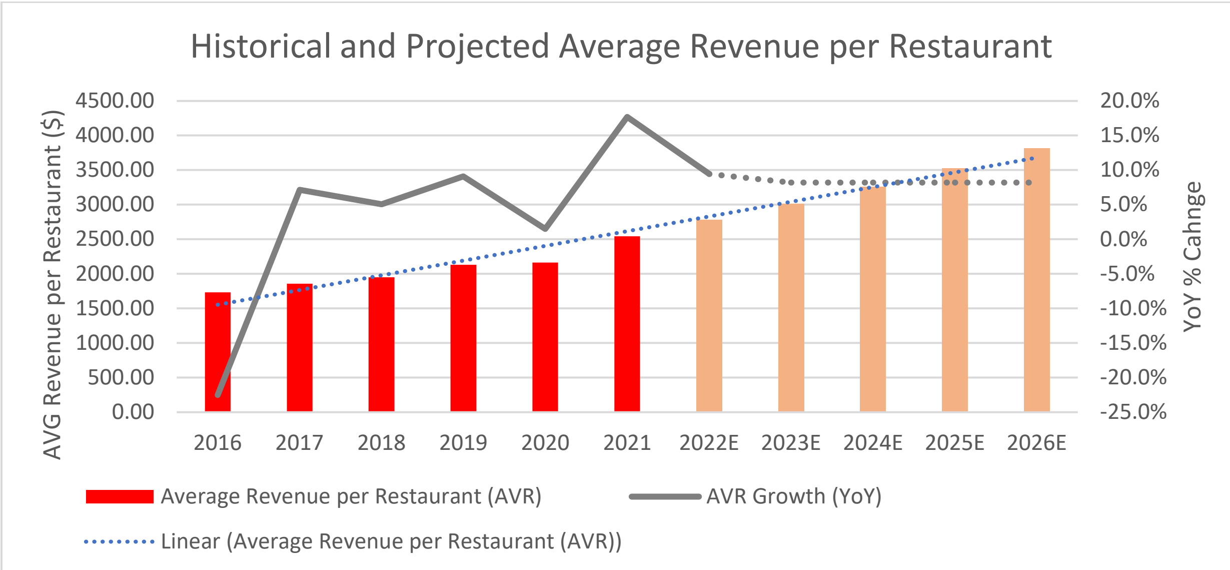


Figure 5: Actual and projected average revenue per restaurant, based on CAGR calculated with data from 2016 to 2022E. (Source: Company's 10-Ks and our analysis)

b. Total Revenue

From this point, the calculation of total revenue is straightforward, by multiplying the number of stores by the average revenue per store.

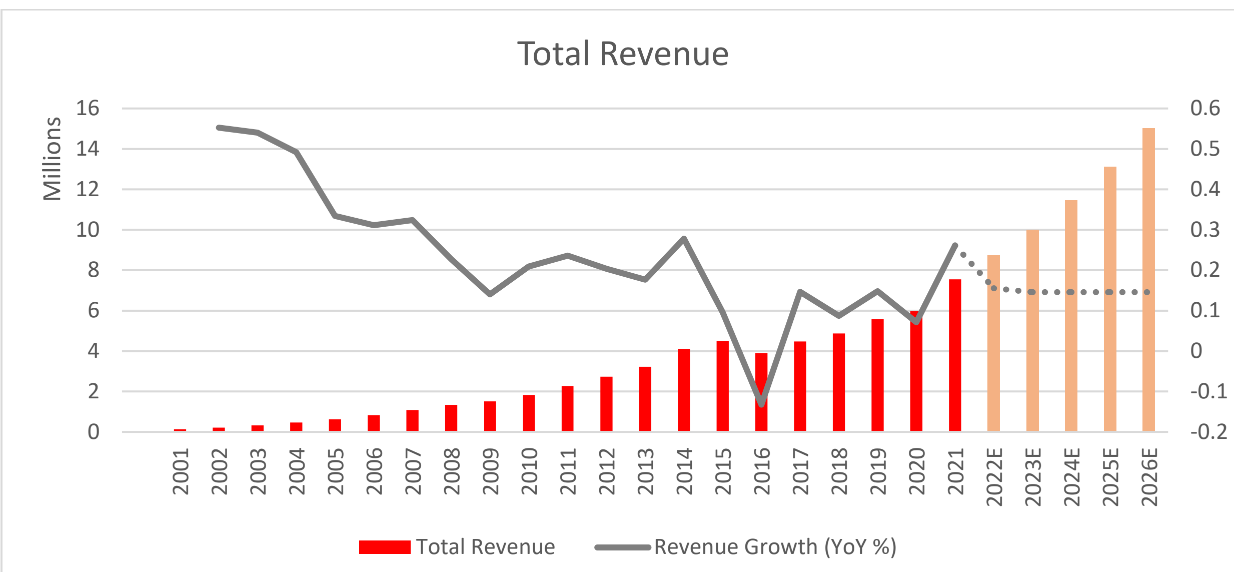


Figure 6: Historical and predicted total revenue with the YoY % growth. (Source: Company's 10-Ks and our analysis)

The comparison from our estimates to market consensus is shown on Table 1. Our estimates are slightly above market consensus from 2022 to 2024, similar in both number of restaurants and average revenue per restaurant. In 2025, our estimates are 0.8% below consensus.

(in millions)	2022E	2023E	2024E	2025E
Our Analysis	$ 8,719.19	$ 9,989.43	$ 11,444.72	$ 13,112.24
Market Consensus	$ 8,696.21	$ 9,874.74	$ 11,227.90	$ 13,219.00
Difference	+ 0.3%	+ 1.2%	+ 1.9%	- 0.8%

Table 1: Comparison between our forecasts for revenue and the market consensus.
(Source: FactSet and our analysis)

c. Cost of Goods Sold

Chipotle divides its cost of goods sold (COGS) into 4 categories: "food, beverage and packaging", "labor", "occupancy" and "other operating costs". Although we have analyzed each of the categories independently, the combination of all of them revealed a stable past tendency that we considered good for future forecasts.

The years following the 2015-2016 outbreak were challenging for the company, but Chipotle is gradually returning to the previous gross margins. However, the management team claims to be focused on efficiency and is proud of owning and operating 25 distribution centers. The results prove that they are succeeding in this mission.

In the 9M22, COGS totaled 76.1% of sales, representing a gross margin of 23.9%. Since 4th quarters tend to present slightly higher operating costs than the previous quarters, we expect that by the end of 2022 operating costs sum up to 77% of total revenue. In 2023 and the following years, we believe that Chipotle will return to the rates before the crisis. Therefore, we used the average gross margin for the period between 2011 and 2015, 26.6 %, meaning that operating costs will represent 73.4% of total revenue.

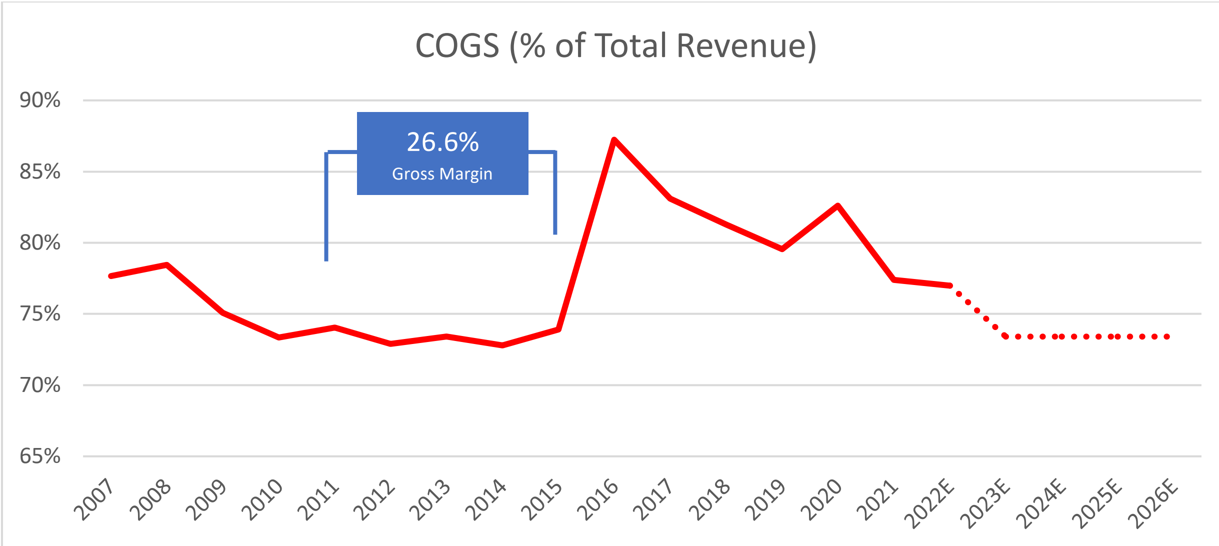


Figure 7: Historical and projected COGS as % of total revenue. The projections for 2023 and following years is the average of the period between 2011 and 2015.
(Source: Company's 10-Ks and our analysis)

d. General and Administrative Costs

Historical general and administrative costs were relatively stable when compared to the company's revenues. In the last 10 years, it represented from 5.6% of revenue in 2015 to 8.1% in 2019, with an average of 7.0% and standard deviation of 0.8%. In the first 9 months of 2022, Chipotle's general and administrative costs represented 6.7% of total revenue and this is the ratio we used for the subsequent years. It is worth mentioning that not much is disclosed in the company's 10-Ks in relation to general and administrative costs, expect for the fact that stock-based compensation and contingencies to legal matters are included in this section.

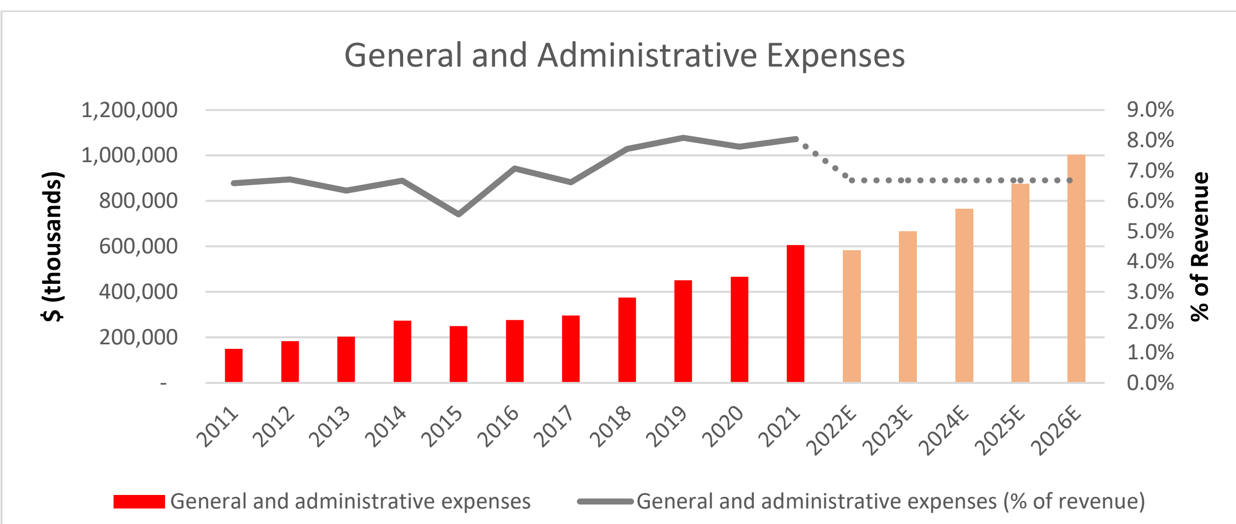


Figure 8: Historical and predicted general and administrative expenses. The predicted ratio is 6.7%, as observed in 9M22.
(Source: Company's 10-Ks and our analysis)

e. Depreciation and Amortization

Depreciation and amortization is the third most significant category of expenses, after COGS and general and administrative costs. The way depreciation and amortization was calculated followed these steps:

(i) Analysis of property, plant and equipment (PP&E) by estimating capital expenditures and depreciation related to PP&E.

(ii) Capital expenditure (capex) was forecasted using the number of new restaurants expected to be opened and adjusted by an expected inflation of 3% in the next 5 years.

(iii) Depreciation related to PP&E was forecasted through an estimation of what percentage it represents from capex. We used the rate observed in 2021 and assumed an annual increase of 2.2%. We believe that as the company grows, its depreciation tends to grow more than capex, leading to a ratio of 1 in the future. The reasoning behind the annual 2.2% step is the assumption that this ratio will be achieved in 25 years though a linear regression.

(iv) Depreciation and amortization not related to PP%E was forecasted using its percentage of total revenue. The ratio of 1.3% observed in 2021 was estimated to remain constant.

PROPERTY, PLANT & EQUIPMENT								
Fiscal year	**2019A**	**2020A**	**2021A**	**2022P**	**2023P**	**2024P**	**2025P**	**2026P**
Fiscal year end date	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*	*12/31/23*	*12/31/24*	*12/31/25*	*12/31/26*
						Forecast		
Beginning of period			1,584,311	1,769,278	1,921,691	2,089,646	2,264,853	2,447,248
Plus: Capital expenditures	197,368	303,892	341,580	293,190	337,135	367,678	400,989	437,318
Less: Depreciation	(117,932)	(178,271)	(156,613)	(140,777)	(169,180)	(192,471)	(218,594)	(247,870)
End of period		**1,584,311**	**1,769,278**	**1,921,691**	**2,089,646**	**2,264,853**	**2,447,248**	**2,636,696**
New restaurants opened	131	146	198	165	184	195	207	219
Expected inflation				3%	3%	3%	3%	3%
D&A related to PP&E as a % of capex	59.8%	58.7%	45.8%	48.0%	50.2%	52.3%	54.5%	56.7%

Table 2: Assumptions and forecast for PP&E through capex and depreciation and amortization.
(Source: Company's 10-Ks and our analysis)

f. Pre-Opening Costs

Chipotle presents in its net income statement a category named "pre-opening costs", which is not related to the construction/reform costs of a new restaurant, but rather to the rent, wages, benefits, and travel for training associated with an opening. As it is reasonable to expect, pre-opening costs are related to the number of new restaurants opened. Therefore, in our calculations we used the average pre-opening costs per restaurants from 2011 to 2021 as a proxy for our estimates and extrapolated to the expected number of new restaurants to be opened.

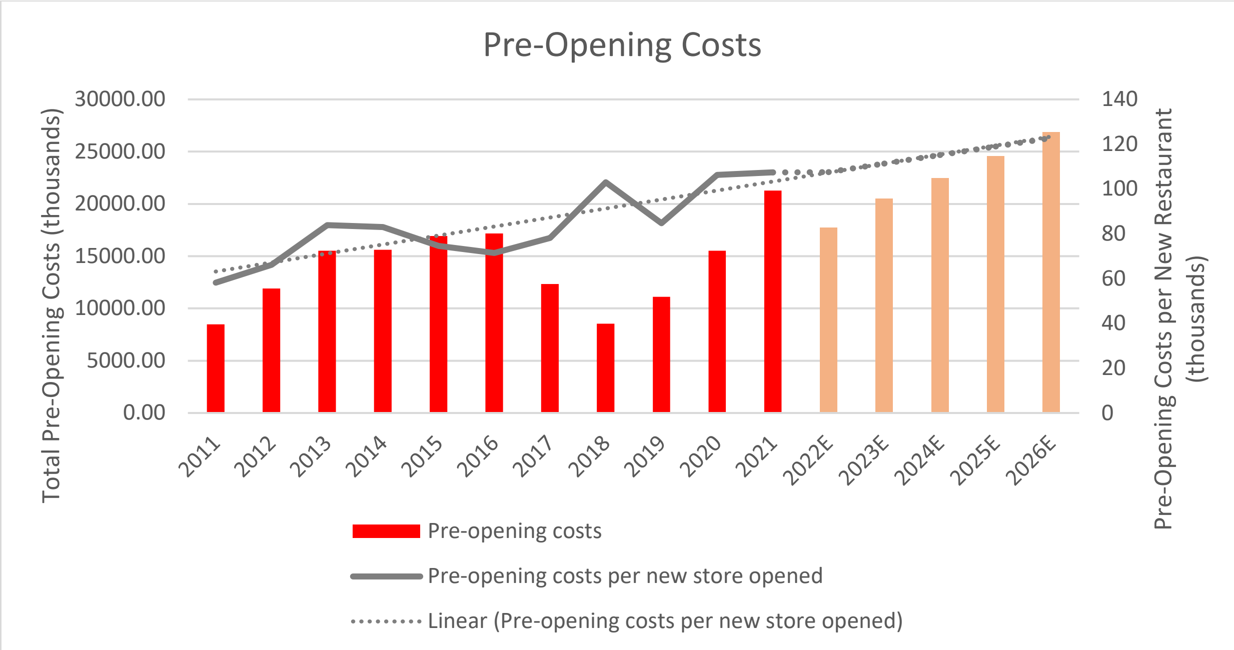


Figure 9: Historical and predicted pre-opening costs, shown as aggregate and per new restaurant. (Source: Company's 10-Ks and our analysis)

g. Impairment, Closure Costs and Asset Disposals

Impairment, closure costs, and asset disposals is an item with minor influence to the overall performance of the company, since it represents on average 0.3% of total revenue and presented minimal fluctuation in the last decade. Therefore, we used 0.2% of total revenue as the proxy for our projections. We used that percentage because it was the one observed in the 9M22.

h. Interest Income

The company does not disclose in detail its interest income. The only reference available is an item named "interest and other income, net" in the income statement; therefore, this is the information we used to calculate the interest rate gained by Chipotle in relation to its cash, cash equivalents and investments. In 2021, the interest rate based on this calculation was 0.7% and that is what we used to predict future interest income.

Chipotle currently has no debt, and we believe there is no reason to change the company's capital structure. Therefore, no interest expense was used in our projections.

i. Net Income

Based on the assumptions and projections discussed so far, our model captures the tendency of increasing margins in all EBIT, EBITDA and net income. We estimate that EBIT margin will grow from 10.7% in 2021 to 16.4%. The same phenomenon is projected to occur in net income. The 2021 margin of

8.7% will rise to 12.6%. The comparison from our estimates of net income to market consensus is shown on *Table 3*. Complete estimates are shown in *Table 4*.

(in millions)	2022E	2023E	2024E
Our Analysis	$ 860	$ 1,260	$ 1,451
Market Consensus	$ 935	$ 1,186	$ 1,434
Difference	- 8.0%	+ 6.2%	+ 1.2%

Table 3: Comparison between our forecasts for net income and the market consensus.
(Source: FactSet and our analysis)

INCOME STATEMENT								
Fiscal year	2019A	2020A	2021A	2022P	2023P	2024P	2025P	2026P
Fiscal year end date	*12/31/19*	*12/31/20*	*12/31/21*	*12/31/22*	*12/31/23*	*12/31/24*	*12/31/25*	*12/31/26*
Revenue	5,586,369	5,984,634	7,547,061	8,719,191	9,989,430	11,444,721	13,112,024	15,022,225
Cost of sales	(4,443,879)	(4,943,553)	(5,840,052)	(6,713,352)	(7,333,145)	(8,401,461)	(9,625,412)	(11,027,672)
Gross Profit	**1,142,490**	**1,041,081**	**1,707,009**	**2,005,839**	**2,656,285**	**3,043,261**	**3,486,612**	**3,994,553**
Selling, general & administrative	(451,552)	(466,291)	(606,854)	(582,477)	(667,334)	(764,553)	(875,936)	(1,003,545)
Depreciation and amortization	(212,778)	(238,534)	(254,657)	(257,145)	(302,501)	(345,215)	(393,590)	(448,361)
Pre-opening costs	(11,108)	(15,515)	(21,264)	(17,743)	(12,947)	(11,953)	(16,097)	(27,204)
Impairment, closure costs, and asset disposals	(23,094)	(30,577)	(19,291)	(20,298.38)	(23,255.52)	(26,643.45)	(30,524.95)	(34,971.92)
Operating profit (EBIT)	**443,958**	**290,164**	**804,943**	**1,128,176**	**1,650,247**	**1,894,896**	**2,170,465**	**2,480,472**
Operating profit (& of revenue)	7.9%	4.8%	10.7%	12.9%	16.5%	16.6%	16.6%	16.5%
Interest income	14,327	3,617	7,820	10,021	15,992	24,248	33,936	45,194
Pretax profit	**458,285**	**293,781**	**812,763**	**1,138,197**	**1,666,239**	**1,919,144**	**2,204,401**	**2,525,666**
Taxes	(108,127)	61,985	(159,779)	(277,720)	(406,562)	(468,271)	(537,874)	(616,262)
Net income	**350,158**	**355,766**	**652,984**	**860,477**	**1,259,677**	**1,450,873**	**1,666,527**	**1,909,403**
Net income (& of revenue)	6.3%	5.9%	8.7%	9.9%	12.6%	12.7%	12.7%	12.7%
Depreciation & amortization	212,778	238,534	254,657	257,145	302,501	345,215	393,590	448,361
EBITDA	**656,736**	**528,698**	**1,059,600**	**1,385,321**	**1,952,748**	**2,240,111**	**2,564,055**	**2,928,832**
Stock based compensation	91,396	82,626	176,392	203,787	233,476	267,489	306,458	351,104
Adjusted EBITDA	**748,132**	**611,324**	**1,235,992**	**1,589,108**	**2,186,224**	**2,507,600**	**2,870,513**	**3,279,936**
Adjusted EBITDA (% of revenue)	13.4%	10.2%	16.4%	18.2%	21.9%	21.9%	21.9%	21.8%
Growth rates & margins								
Revenue growth		7.1%	26.1%	15.5%	14.6%	14.6%	14.6%	14.6%
Gross profit margin	20.5%	17.4%	22.6%	23.0%	26.6%	26.6%	26.6%	26.6%
SG&A % of sales	8.1%	7.8%	8.0%	6.7%	6.7%	6.7%	6.7%	6.7%
Pre-opening costs % of sales	0.2%	0.3%	0.3%	0.2%	0.1%	0.1%	0.1%	0.2%
Impairment, closure costs, and asset disposals % of sales	0.4%	0.5%	0.3%	0.2%	0.2%	0.2%	0.2%	0.2%
Tax rate	23.6%	(21.1%)	19.7%	24.4%	24.4%	24.4%	24.4%	24.4%

Table 4: Projections for the income statement.
(Source: Company's 10-Ks and our analysis)

3. Balance Sheet

Most of our projections for the balance sheet is a direct consequence of the forecast from the income statement. The reasoning behind every category in the balance sheet is as follows:

(i) Cash & equivalents, ST and LT marketable securities are the result of "net change in cash" from the cash flow statement.

(ii) Accounts receivable, other current and non-currents assets and investments are increased in-line with revenue growth.

(iii) Inventories were increased in-line with COGS growth.
(iv) Accounts payable, other current liabilities, and deferred revenue were increased in-line with revenue growth.
(v) Other comprehensive income was projected to remain unchanged.

BALANCE SHEET							
Fiscal year	2020A	2021A	2022P	2023P	2024P	2025P	2026P
Fiscal year end date	*12/31/20*	*12/31/21*	*12/31/22*	*12/31/23*	*12/31/24*	*12/31/25*	*12/31/26*
Cash & equivalents, ST and LT marketable securities	607,987	815,374	1,536,921.73	2,559,560.66	4,177,961.22	5,637,613.97	7,329,499.89
Accounts receivable	104,500	99,599	115,068	131,831	151,037	173,040	198,249
Inventories	26,445	32,826	37,735	41,218	47,223	54,103	61,985
Current investments	343,616	260,945	301,472	345,392	395,709	453,358	519,404
Other current assets	337,689	172,820	199,661	228,748	262,072	300,252	343,994
Property, plant & equipment	1,584,311	1,769,278	1,921,691	2,089,646	2,264,853	2,447,248	2,636,696
Non current investments	102,328	274,311	316,914	363,083			
Other non current assets	2,978,348	3,227,805	3,729,114	4,272,383	4,894,797	5,607,886	6,424,860
Total assets	**5,982,896**	**6,652,958**	**8,158,575**	**10,031,861**	**12,193,653**	**14,673,501**	**17,514,688**
Accounts payable	121,990	163,161	187,559	204,875	234,722	268,917	308,094
Other current liabilities	572,459	554,170	640,238	733,510	840,370	962,797	1,103,061
Deferred revenue (current and non current)	127,750	156,351	180,634	206,949	237,098	271,639	311,213
Long term debt (includes current portion)	-	-	-	-	-	-	-
Other non current liabilities	3,140,562	3,481,902	4,022,674	4,608,710	5,280,121	6,049,346	6,930,634
Total liabilities	**3,962,761**	**4,355,584**	**5,031,105**	**5,754,044**	**6,592,311**	**7,552,700**	**8,653,001**
Common stock	367	371	204,158	437,634	705,123	1,011,581	1,362,685
Retained earnings	3,276,163	2,297,374	2,923,683	3,840,554	4,896,589	6,109,591	7,499,373
Other comprehensive income	(1,256,395)	(371)	(371)	(371)	(371)	(371)	(371)
Total equity	**2,020,135**	**2,297,374**	**3,127,470**	**4,277,817**	**5,601,341**	**7,120,801**	**8,861,687**

Table 5: Projections for the balance sheet.
(Source: Company's 10-Ks and our analysis)

4. Discounted Cash Flow Model

a. Unlevered Free Cash Flows

The outputs from the predictions described above were used to create the unlevered free cash flow forecasts, as shown in *Table 6*.

The tax rate of 24.4% was mentioned in the 10-K for 2021 as the predicted rate for the following years.

Unlevered Free Cash Flows						
	Actual	Forecasts				
Fiscal year ended	12/31/21	12/31/22	12/31/23	12/31/24	12/31/25	12/31/26
Revenue	7,547,061	8,719,191	9,989,430	11,444,721	13,112,024	15,022,225
% growth		15.5%	14.6%	14.6%	14.6%	14.6%
EBITDA	1,059,600	1,385,321	1,952,748	2,240,111	2,564,055	2,928,832
% margin	14.0%	15.9%	19.5%	19.6%	19.6%	19.5%
EBIT	804,943	1,128,176	1,650,247	1,894,896	2,170,465	2,480,472
% margin	10.7%	12.9%	16.5%	16.6%	16.6%	16.5%
Tax on EBIT	169,038	275,275	402,660	462,355	529,593	605,235
Tax rate	21.0%	24.4%	24.4%	24.4%	24.4%	24.4%
NOPAT (aka EBIAT)	**635,905**	**852,901**	**1,247,587**	**1,432,541**	**1,640,871**	**1,875,237**
Depreciation & amortization	254,657	257,145	302,501	345,215	393,590	448,361
Changes in net working capital	283,586	265,717	43,649	58,003	66,453	76,134
Capital expenditures	(341,580)	(293,190)	(343,975)	(360,867)	(378,463)	(396,790)
as % of revenue	4.5%	3.4%	3.4%	3.2%	2.9%	2.6%
Unlevered free cash flows (UFCF)		**1,082,573**	**1,249,763**	**1,474,892**	**1,722,451**	**2,002,941**
Net working capital (WC Assets - WC liabilities)	(88,779)	(354,496)	(398,145)	(456,148)	(522,601)	(598,736)
as % of revenue	(1.2%)	(4.1%)	(4.0%)	(4.0%)	(4.0%)	(4.0%)

Table 6: Unlevered free cash flow projections.
(Source: Company's 10-Ks and our analysis)

b. Weighted Average Cost of Capital (WACC)

Chipotle does not hold any debt and we expect this situation to remain the same in the future, as commented by the management team. Therefore, we estimated the discount rate by the WACC method.

i. Beta

We calculated Chipotles 5-year rolling betas, as shown in *Figure 10*. The betas calculated since the Covid-19 pandemic present a very different pattern from what it used to be before. Consequently, we used the industry beta instead (0.76).

Note: all else equal, if we used the current Beta for Chipotle as 1.2, the WAAC would have been 10.48% (instead of 8.0%) and our valuation would be reduced to $1,753.05 per share (instead of $1,875.25), a decrease of 6.5% in the equity value per share. Nevertheless, the recommendation would remain the same; however, with a narrower margin of upside.

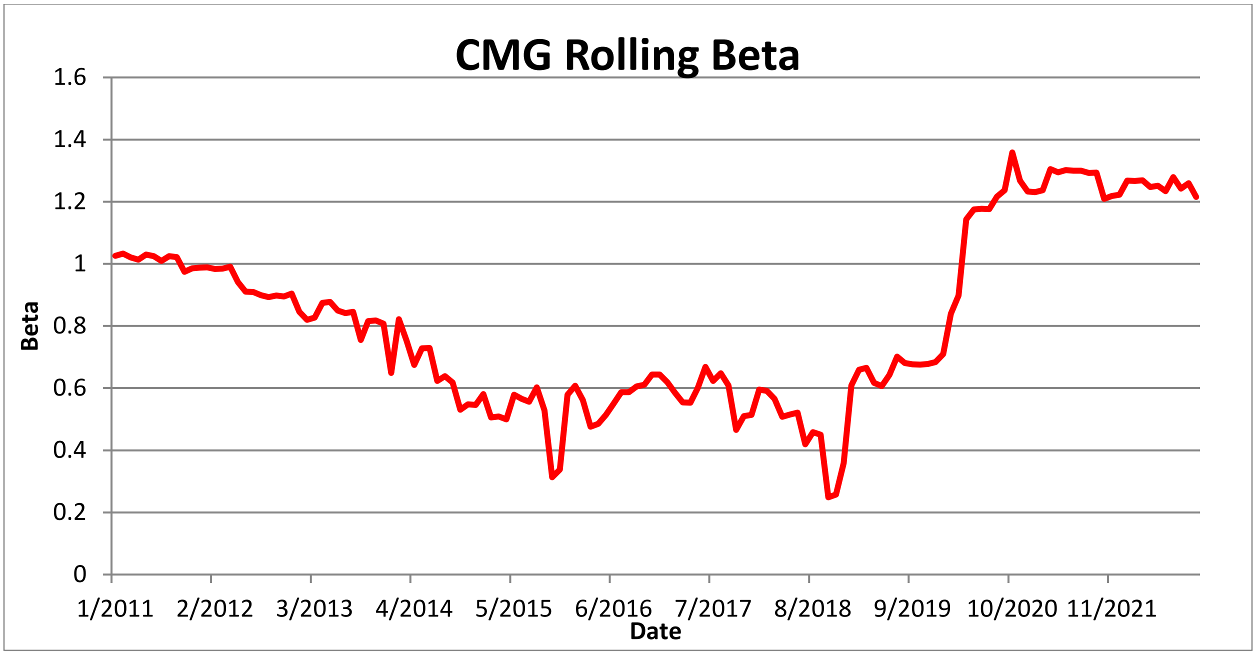


Figure 30: Chipotle's 5-year rolling beta calculation.
(Source: FactSet and our analysis)

ii. WACC calculation

Based on the capital structure constituted exclusively of equity, a beta of 0.76, a market-risk premium of 5.6% and a risk-free rate of 3.76%, as of current 10-year US Treasury yield, we obtained a WACC of 8.0%.

WACC Buildup	
$ and shares in thousands, except per share data	
Cost of capital assumptions	
Cost of debt	
Tax rate	24.40%
Cost of debt (after tax)	–
Risk free rate	3.76%
Beta	0.760
Market risk premium	5.60%
Cost of equity	8.01%
Capital weights (capital structure)	
	% of total
Equity	100.0%
Debt	0.0%
Cost of capital (WACC)	**8.0%**

Table 7: Assumptions for and calculations of the WACC.
(Source: Wall Street Journal and our analysis)

c. Present Value Calculation

We discounted the unlevered cash flows by the WACC. For the year of 2022, we considered a 8.1% stub, representing the remaining percentage of days in the current year. We also used a midyear adjustment. Instead of considering that all the cashflows were generated at the last day of the year, we considered:

(i) For 2022: the average date between the last day of the year and the current date.
(ii) For the following years: the average date between the fist and the last days of the year.

Note: all else equal, if we did not use the midyear adjustment, our valuation would be an equity value per share of $1,815.69 (instead of $1,875.25), representing a reduction of 3.2%.

Present value of UFCF on Dec 02, 2022 valuation date								
		Val date	Yr 1 - Stub	Year 2	Year 3	Year 4	Year 5
Date for discounting cash flows	Stub %	12/2/2022	12/16/2022	7/1/2023	7/1/2024	7/1/2025	7/1/2026
Unlevered free cash flows (UFCF) stub adjusted	8.1%		87,207	1,249,763	1,474,892	1,722,451	2,002,941
Present value of of unlevered free cash flows			**86,941**	**1,195,164**	**1,305,673**	**1,411,546**	**1,519,624**

Table 8: Discounted cash flows calculation.
(Source: our analysis)

d. Terminal Value Calculation

For the calculation of the terminal value, we used the EBITDA multiple approach. If we used the growth in perpetuity method approach, we would need to consider a long-term growth rate reasonable with the whole economy, around 2.0% per year. However, we believe that in 5 years Chipotle will still be able to grow its cash flow generation by more than the average of the economy. Therefore, the EBITDA multiple approach is better correlated with our expectations.

Today, Chipotle is the third largest company in the quick-service restaurant industry, with a total enterprise value (EV) of $45.1 billion[2], only behind of McDonald's Corporation and Starbucks Corporation. As of November 2022, Chipotle trade at an average of 32.44[5] EV/EBITDA in the last five years, while the other two companies traded at an average of 19.65. Therefore, we used this multiple in our calculations because we believe that this is a more realistic for Chipotle 5 years in the future.

Terminal value - EBITDA multiple approach			**Terminal value - growth in perpetuity approach**	
Terminal year EBITDA	2,928,832		Long term growth rate	2.0%
EBITDA multiple	19.7x		2026 FCF x (1+g)	2,043,000
Terminal value in 2026	57,551,555		Terminal value in 2026	33,970,733
Present value of terminal value	43,664,187		Present value of terminal value	25,773,490
Present value of stage 1 cash flows	7,532,621		Present value of stage 1 cash flows	7,532,621
Enterprise value (stage 1 + 2)	**51,196,808**		**Total enterprise value (TEV)**	**33,306,111**
Terminal value as % of TEV	*85.3%*		*Terminal value as % of TEV*	*77.4%*
Stage 1 cash flows as % of TEV	*14.7%*		*Stage 1 cash flows as % of TEV*	*22.6%*
Implied terminal growth rate	4.4%		*Implied TV exit EBITDA multiple*	*11.6x*

Table 9: Terminal value calculated through the EBITDA multiple and growth in perpetuity methods.
(Source: our analysis)

e. Valuation

Finally, considering the current net debt of negative $783 million, due to the absence of debt and presence of positive cash and cash equivalents, we were able to estimate a equity value per share of $1,874.99, which represents an upside of 20.0% from the current market price ($1,555.31). Therefore, our recommendation is a buy.

Valuation		
	EBITDA	Perpetuity
Enterprise value	51,196,819	33,306,117
Net debt	*(783,901)*	*(783,901)*
Equity value	51,980,720	34,090,018
Shares outstanding	27,723	27,723
Equity value per share	**$1,874.99**	**$1,229.65**
Year 1 Multiples	EBITDA	Perpetuity
EV / Revenue	5.9x	3.8x
EV / EBITDA	37.0x	24.0x
EV / EBIT	45.4x	29.5x

Table 10: Chipotle valuation.
(Source: our analysis)

5. References

1) Chipotle Mexican Grill, Inc., 2021 10-K.
2) Gillespie, Carla. Largest Multistate Food Poisoning Outbreaks 2015: #5 Chipotle E. coli. Food poisoning bulletin. December 27th, 2015.
3) Gravvat, Liam. Number of McDonald's locations in the United States, North America and world in 2022. USA Today. July 30th, 2022.
4) Yahoo Finance, accessed on December 14th, 2022
5) FactSet, accessed on December 14th, 2022