CFA Institute Research Challenge

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Team F

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Disclosures:

Ownership and material conflicts of interest

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Receipt of compensation

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Position as an officer or a director

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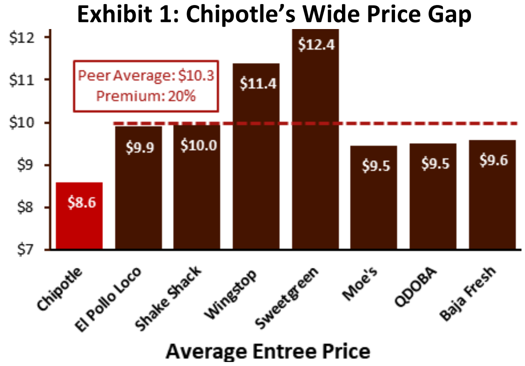
CHIPOTLE

GISC Sector: Consumer Discretionary
Industry: Restaurants
USA | New York Stock Exchange (NYSE)

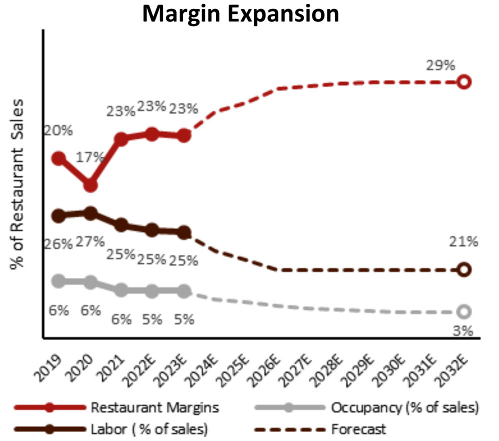
Recommendation	BUY
Ticker Symbol:	CMG
Current Price: (as of 1/13/23):	$1,525
Price Target:	$2,133
Discount:	40%
52 Week Range:	$1,196 – $1,776
Shares Outstanding:	28MM
Market Cap:	$43.0B
Forecasted EPS 2023:	$32.57
Forecasted EPS 2024:	$51.56
Forecasted P/E NTM:	46.8x

Exhibit 1: Chipotle's Wide Price Gap



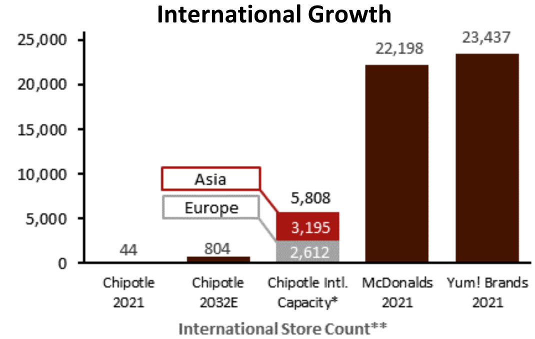
Source: Company Data, Team Estimates
Methodology: Appendix C-1

Exhibit 2: Throughput and Efficiencies Drive Margin Expansion



Source: Company Data
Methodology: Appendix F

Exhibit 3: Paved Path Towards Long-term, International Growth



Methodology: Appendix E-2
**Data and estimates exclude China*
Source: Company Data, Team Estimates

INVESTMENT SUMMARY

Chipotle's Superior Value Proposition Sparks Monumental Growth

We recommend a BUY for Chipotle with a price target of $2,133, providing a 40% upside from CMG's last close price on January 13th, 2023. Chipotle provides an unrivaled value proposition from an innovative combination of high-quality ingredients and a swift, assembly-line service model. The resulting affordability, convenience, and quality is a magnet for throughput, driving superior revenue growth, margin expansion, and pricing power. This competitive advantage opens the path towards doubling store count domestically while having an untapped international market for years of growth afterward. Chipotle's growth will be fast and organic as its accelerating free cash flow supports self-funded expansion. With cash on hand and store expansion runway clear, Chipotle is ready to serve value to a growing global audience.

KEY INVESTMENT HIGHLIGHTS

Strong Competitive Advantage from Sustainable Value Gap

Chipotle's convenient assembly line service style ignited a loyal following by providing customers with healthy, high-quality ingredients at an affordable price. The superior value proposition created by this model remains today as a Chipotle chicken burrito is 20% cheaper than alternatives (*Exhibit 1*) on top of providing higher quality food and similarly fast service. Chipotle's strong implementation allows it to serve higher throughput compared to peers, resulting in stronger unit economics and a growing competitive advantage. This value gap gives Chipotle optionality: they can increase prices to improve margins or remain at a discount to take market share. We see Chipotle's competitive advantage sustainable in the long-term as the firms' wholly company owned store strategy enables fast integration of restaurant improvements, and its strong free cash flow generation ensures that growth is not reliant on capital markets. With an already strong value gap lead, Chipotle will enjoy continued pricing power and strong throughput growth as fast casual restaurants (FCR) outperform.

Margin Expansion Opportunities

Strong pricing power and continued transaction growth will fuel margin expansion via sales leverage and increased efficiencies with labor and real estate (*Exhibit 2*). Chipotle has historically expanded margins through strong transaction growth as labor and occupancy costs remain fixed at the restaurant level, and we expect this trend to accelerate as consumers continue to favor FCRs and prefer Chipotle's strong value proposition. Over the past two years, Chipotle has sustained margins and sales while lagging its peers in price increases, and we remain confident that its wide value gap will allow the company to continue passing off costs as inflationary pressures persist. Chipotle has additional margin expansion levers independent of pricing and transaction growth, including labor efficiencies, from automation and leaner digital kitchens, expansion into cheaper properties with comparable average unit volume (AUV), and the economies of scale gained from its long growth runway.

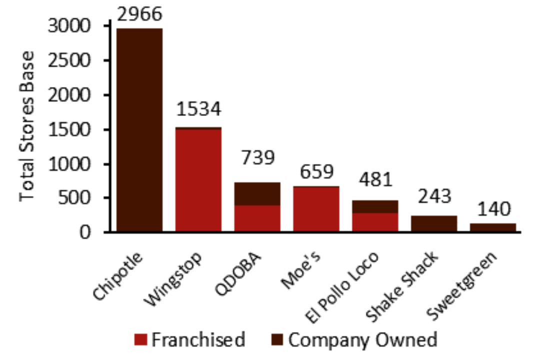
Clear Path Towards Long-Term Unit Expansion

We believe that CMG can exceed its 7,000 domestic store potential in the next ten years and has the potential to double that goal through international expansion. Global markets remain untapped by fast-casual restaurants, driving our expectations of sustained store count growth after 2032. There is tremendous potential for growth in international markets, given that most other fast-food chains like Taco Bell, KFC, and McDonald's successfully operate thousands of international locations, paving the path for Chipotle to open 5,808 stores overseas (*Exhibit 3*). Specifically, we see markets in Europe and Asia untapped, and Chipotle is the ideal concept to meet demand as Chipotle's high growth, and already sizeable domestic store base will give it a lead compared to other fast-casual restaurants (See Appendix: E).

Bright Future for Shareholder Value Creation

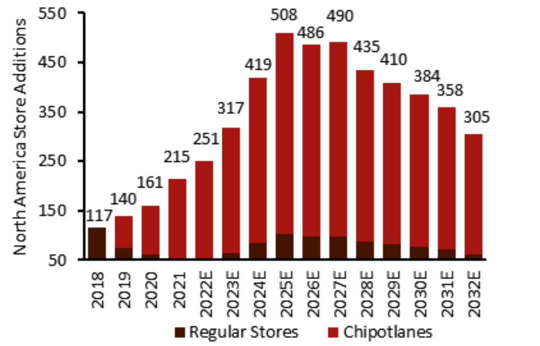
Chipotle's restaurants already generate strong cash returns, which should further improve as margins expand. Over our ten-year forecasting period, our assumptions of AUV growing at a 5.6% compound annual growth rate (CAGR), store count growing at a 9.7% CAGR, restaurant margins reaching 29% (*Exhibit 2*), and operating margins reaching 18.3% result in free cash flow growing at an 18.2% CAGR. Our discounted cash flow model derived a $2,133 equity share price, representing a 40% upside to the current share price. Chipotle's strong cash flow generation leaves significant excess cash, which we expect management to return to shareholders through dividends and share buybacks.

Exhibit 4: Chipotle Maintains the Largest Number of Company Owned Stores



Source: QSR 50 2022 Report

Exhibit 5: Chipotle Commits to Expanding with Chipotlanes

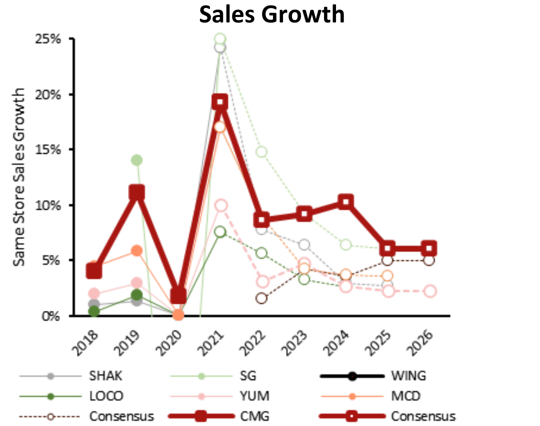


Source: FactSet Market Data, Company Data
Methodology: Appendix G-1

Exhibit 6: Chipotle's Exceptional Store Growth Potential

Source: Company Data

Exhibit 7: Chipotle's Above Average Same Store Sales Growth



Source: FactSet Market Data, Team Data
Methodology: Appendix C-3

BUSINESS DESCRIPTION

General Overview

Chipotle Mexican Grill is a Tex-Mex style fast-casual restaurant with 2,966 stores in the United States and 44 internationally as of September 2022. Chipotle specializes in serving customizable burritos, burrito bowls, salads, and other Mexican-inspired entrees that feature fresh, high-quality ingredients at an affordable price. "Food with Integrity" is Chipotle's primary core value and ensures the delivery of foods with non-therapeutic antibiotics or added growth hormones. Chipotle fosters long-term relationships with suppliers by investing in small farms that provide sustainably sourced ingredients. Chipotle's core customer base tends to be more affluent, making over $75,000 in income, college students, and young working adults.

Corporate Strategy

All Restaurants Company Owned: One of Chipotle's primary differentiators is its wholly company-owned store strategy, whereas peers like Wingstop, Qdoba, Moe's, and El Pollo Loco choose to focus on franchising (*Exhibit 4*). While this does result in lower operating margins and a more capital-intensive business, Chipotle's superior unit economics justify the decision. Additionally, having all stores company owned allows Chipotle to be much nimbler in implementing store improvements such as mobile ordering, which made it highly resilient during the pandemic, and the swift shift towards Chipotlanes, which fueled its domestic store growth capabilities.

Chipotlanes Fan the Flames of Growth: Chipotlanes are the key to management reaching its $4 million average unit volume (AUV) goal from its current $2.8 million. This is because Chipotle stores that open with Chipotlanes experience 20% higher AUV than traditional formats and drive about a 15% percent higher overall digital sales mix.[1] To meet this demand without hindering in-store sales, most Chipotle's now include a second make line which is more ergonomic and allows for faster product construction with similar levels of labor. The second lines at Chipotle are so productive that, if they were standalone operations, CEO Brian Niccol stated in a Q2 2022 earnings call that, on average, they would generate over $1 million in revenue per year. Chipotlanes drastically improve the unit economics over traditional formats from the increased amount of sales that can be serviced at a marginal cost, resulting in management's plan to make 80% of new stores include Chipotlanes (*Exhibit 5*).

7,000+ Global Stores Within Arm's Reach: Chipotle has a strong history of above-average store count growth; since 2007, Chipotle's store count has grown at a CAGR of 10.1%. The significant improvement in unit economics that Chipotlanes provide allows Chipotle to expand into smaller cities and towns that it was not previously able to, driving management's 7,000 store count goal (*Exhibit 6*). Shifting its focus toward less densely populated areas will allow Chipotle to cut square footage and reduce labor and maintenance costs relative to sales, further improving unit economics without sacrificing AUV. By continuing with its aggressive store expansion domestically, Chipotle is setting itself up to benefit from structural demand tailwinds in the fast-casual industry, demographic shifts towards suburban areas, and margin expansion opportunities. At the same time, international markets leave significant whitespace for growth, as seen in the success of quick service restaurant (QSR) concepts.

COMPETITIVE POSITIONING

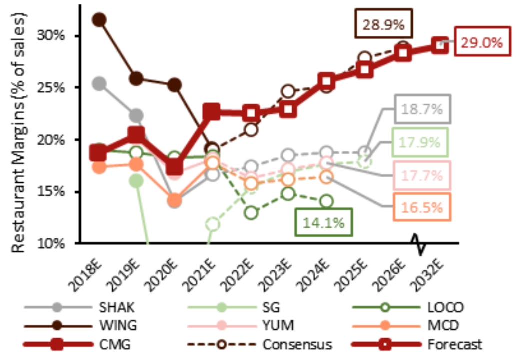
Value Gap Kindles Higher Transaction Growth

Chipotle's assembly line service model has cemented the company's position in the fast-casual segment by fostering a wide value gap compared to its peers. Chipotle's value gap begins with its price gap; an average order is 10.6% cheaper than an average QDOBA order and 10.1% cheaper than an average Moe's order (*Exhibit 1*). Chipotle has maintained this relative discount recently, even as it increased prices faster than competitors. Because of its operating model, Chipotle can offer its high-quality products at a discount while providing customers with a fast-ordering experience. The order-ahead software company Rakuten Ready reported that, even during the later stages of the pandemic, the average time for a Chipotle in-store pickup remained under two minutes, beating quick service giants McDonald's and Taco Bell.[13] Chipotle's ability to provide customers with affordability, quality, and convenience will sustain its value gap, make it a staple for fast casual eaters, and drive above-average throughput and same-store sales growth compared to peers (*Exhibit 7*).[13]

Unit Economics Shine Brighter

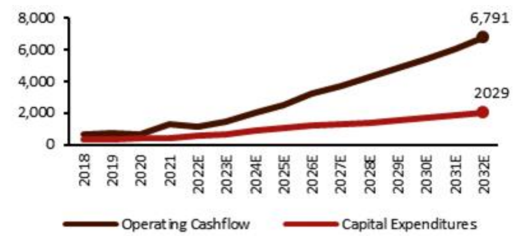
Chipotle's higher expected throughput compared to peers will continue to improve its superior unit economics as sales leverage from fixed unit labor and occupancy costs drive higher restaurant margins. Out of the peer group, Chipotle already has the second lowest labor expense and lowest occupancy expense as a percent of restaurant sales. This is attributable to

Exhibit 8: Chipotle's Improving Unit Economics



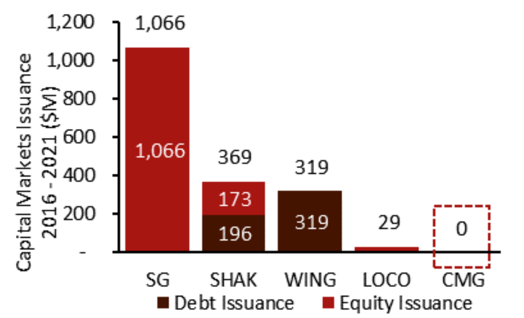
Source: FactSet Market Data, Team Data
Methodology: Appendix G-2

Exhibit 9: Chipotle's Abundant Operating Cash Flow Generation



Source: FactSet Market Data, Company Data

Exhibit 10: Growth Without Capital Markets



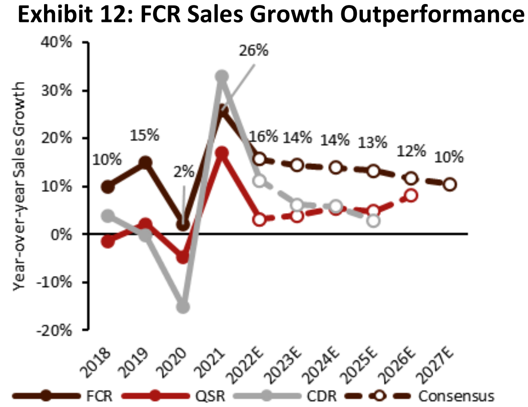
Source: FactSet Market Data, Company Data

Exhibit 11: Chipotle Successfully Navigates Pandemic Shutdowns

Year-over-year Sales Growth					
Fiscal Year	2017	2018	2019	2020	2021
CMG	**15%**	**9%**	**15%**	**7%**	**26%**
FCR	22%	14%	17%	-5%	26%
QSR	-7%	2%	3%	4%	13%
CDR*	5%	10%	5%	-22%	39%

**Casual Dining Restaurant (CDR)*
Source: FactSet Market Data, Company Data
Methodology: Appendix C-3

Exhibit 12: FCR Sales Growth Outperformance



Source: FactSet Market Data, Company Data
Methodology: Appendix C-3

its efficient restaurant operating model and economies of scale that allow higher throughput. We see Chipotle's low-cost structure improving as its modular menu design and company-owned strategy led to a seamless integration of automation initiatives and Chipotlanes that can handle higher throughput without sacrificing customer service (*Exhibit 8*).

Company Owned Strategy Extinguishes Operational Risks

Unlike many competitors, Chipotle does not offer the ability to franchise; all stores are owned and operated by Chipotle. Though franchising does provide growth opportunities, the fully corporate-owned model is more attractive for Chipotle. It facilitates quicker and easier coordination between its restaurants, corporate headquarters, and corporate-owned distribution centers and allows corporate oversight for all quality control efforts. In the past, brands like McDonald's have had issues rolling out new initiatives like menu changes and limited time offers (LTOs) to franchised stores. This contrasts with Chipotle's successful implementation of annual LTOs across all stores and swift implementation of mobile orders. Chipotle's philosophy is that brands who choose to franchise either need money or need operators for their stores. Chipotle needs neither; its strong cash flow is more than enough to fuel expansion towards its 7,000-store target, and its labor expenses were among the first of its peers to normalize after the pandemic, indicating that there is no shortage of personnel to operate new stores. Of its closest competitors, QDOBA, Moe's, and Baja Fresh stores are all primarily operated by franchisees. Other well-known brands like McDonald's, Subway, and Taco Bell have turned to franchising for growth. Chipotle's corporate-owned store strategy will allow it to benefit from its superior unit economics and continue implementing initiatives that will sustain growth. This strategy is sustainable in the long-term as Chipotle's strong balance sheet and substantial cash flow generation should be capable of funding expansion and innovation capital expenditures for the foreseeable future.

Debt-Free Balance Sheet

Chipotle boasts a strong and debt-free balance sheet. Chipotle currently maintains $367 million in cash, $417 million in short-term securities, and $443 million in long-term securities (treasuries with maturities of less than two years). Chipotle also has an abundant amount of cash given each new store takes roughly $1 million in startup capital expenditures. The only debt it carries is operating lease liabilities for restaurant openings. This abundance of cash and lack of debt can be attributed to Chipotle growing its operating cash flow at an 18% CAGR between 2006 and 2021 (*Exhibit 9*). In the last twelve months starting Q3 2022, Chipotle generated $1,360 million in operating cash flow which adequately covered its $57 million in capital expenditures, allowing it to spend the rest on investments and share buybacks. Peers, including Shake Shack and Sweetgreen, have a similar "growth without obligation" philosophy, but their inferior unit economics and small scale still make them reliant on capital market financing as they issue equity instead of debt to meet their cash needs (*Exhibit 10*). Chipotle's ability to expand without accessing capital markets is a testament to its strong unit economics and growth plan execution. We do not expect any slowdown in store expansion as Chipotle's exceptional balance sheet and continued strong free-cash-flow generation will allow for continued expansion. Chipotle has the solid financial strength to grow under any market condition and benefit from the rapidly growing fast-casual segment (*Exhibit 11*).

INDUSTRY ANALYSIS

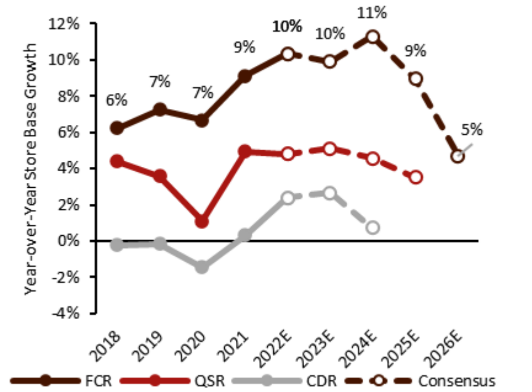
Overview

The three restaurant segments that Chipotle competes against for wallet share are fast-casual restaurants (FCR), quick service restaurants (QSR), and casual dining restaurants (CDR). FCRs, the youngest segment of the three, were popularized by the success of Chipotle in the early 1990s. FCRs focus on higher-quality ingredients, premium products, middle price points, and convenience. On the other hand, QSRs are the most affordable and convenient as they serve lower-quality fast food. CDRs offer the most expensive experience as the higher quality food is combined with service fees (in the form of tips or service charges) that go towards a more refined, in-person eating atmosphere. Over the past ten years, the fast-casual segment has strongly outperformed the other restaurant segments, and we expect this trend to continue.

Fast Casual Restaurants Outperformance

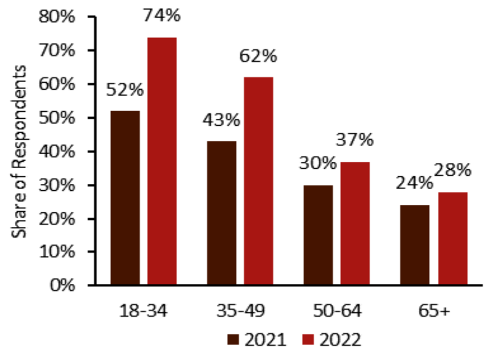
Structural Growth Tailwinds: Over the past decade, the FCR segment has significantly outperformed its QSR and CDR peers, even when factoring in international store growth (*Exhibit 12 & 13*). The rise of healthy eating has been the primary driver towards the fast-growing FCR segment as eaters in all generations show that health is becoming a greater priority (*Exhibit 14*). FCR has been and will continue to be the solution to this growing consumer preference, as eaters can get high-quality ingredients at reasonable prices and high convenience. As millennials reach their peak earnings and Generation Z enters the workforce,

Exhibit 13: FCR Store Growth Outperformance



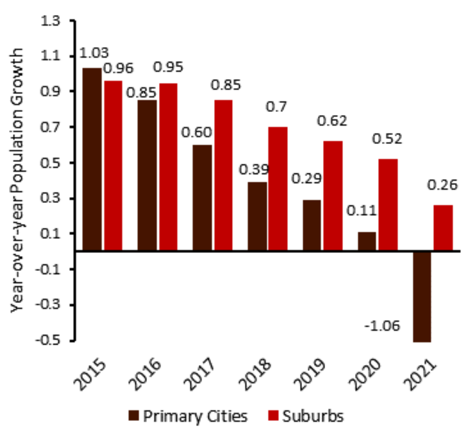
Source: FactSet Market Data, Company Data
Methodology: Appendix C-3

Exhibit 14: Share of Respondents Following Diets or Eating Patterns in the United States



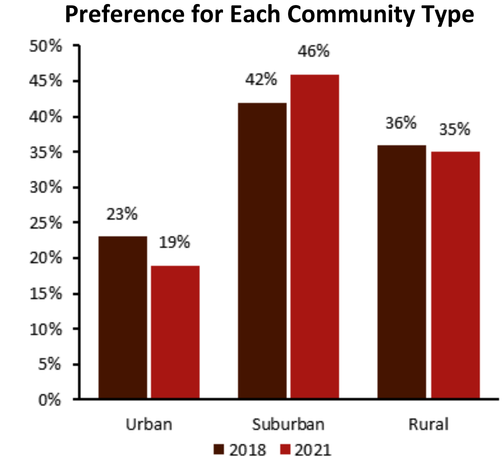
Source: IFIC; Greenwald & Associates

Exhibit 15: Secular Trend of Suburban Growth Accelerates



Source: Brookings Metro, William H. Frey

Exhibit 16: Share of Respondents Expressing Preference for Each Community Type



Source: Pew Research

we see these generations continuing their healthy eating habits and leveraging FCR to save time. We see younger generations as a strong tailwind for the fast-casual restaurant industry as they have shown to be willing to pay more for higher quality ingredients, and the growing shift towards healthy eating ensures growing demand for FCRs across all demographics. Secular healthy eating trends and consumer preferences shifting towards higher quality ingredients provide strong structural growth tailwinds for FCRs.

Chipotle is Well Positioned to Outperform: Chipotle offers the best combination of quality, convenience, and affordability compared to other peers in the fast-casual restaurant, prompting our expectations that the company will continue to take market share. Chipotle's significant value gap makes it a staple choice to fulfill growing demand, and its corporate-owned store strategy and debt-free balance sheet will accelerate the implementation of technological innovations that will increase profitability amid growing revenue.

Technological Innovations Increases Throughput Capacity

A Renaissance of Labor Automation

Record labor shortages and wage inflation for restaurant employees have been a significant roadblock for restaurants in 2022.[2] However, numerous restaurant concepts are implementing new innovations to handle additional throughput without additional labor while creating more convenient experience for customers:

- **Mobile Ordering:** Most fast casual and quick service restaurants continue implementing mobile ordering as a major service channel. Not only does mobile ordering improve throughput by reducing lines during peak hours, but this also saves workers time as they do not need to provide one-on-one service for each customer.[3]
- **Digital Only Kitchens:** Many fast-casual concepts, including Chipotle, Sweetgreen, and Shake Shack, are opening digital only kitchens where drive-through and mobile orders only are accepted and where no dine-in seating is provided. Digital-only kitchens reap the mobile ordering benefits previously outlined as well as restaurant margin expansion from lower occupancy costs as chains can operate these concepts in smaller buildings. [4]
- **Fully Automated Restaurants:** Sweetgreen is beginning to implement fully automated kitchens in specific stores where kitchen robots automatically prepare all the food when ordered. Chipotle is testing this as well with its robot "Chippy" which automates tortilla chip making, and a third, under-the-table make-line operated by robots to handle drive-through and mobile orders. [5,6]
- **Upgraded Kiosks:** Which Wich is testing an upgraded version of the traditional self-serving kiosks where guests are assisted virtually by work-from-home employees. This would decrease labor costs as employees can monitor multiple kiosks simultaneously from anywhere. Additionally, we see this concept as highly beneficial for modular menu types like Which Wich and Chipotle.[7]

Chipotle's Easy Integration of New Technology

While many of these innovations are being started by competitors, Chipotle's wholly corporate-owned store strategy will allow it to test and implement any of these initiatives if they seem fruitful. Chipotle's strong operating cash flow generation ensures that there should be adequate funding for implementing new initiatives. Through these initiatives, Chipotle will be able to service its growing throughput with minimal extra labor costs leading to sales leverage, and the implementation of automation within the kitchen will reduce labor needs across restaurants. The sales leverage and labor efficiencies that are capable through these new innovations make us confident in margin expansion above Chipotle's previous historic levels.

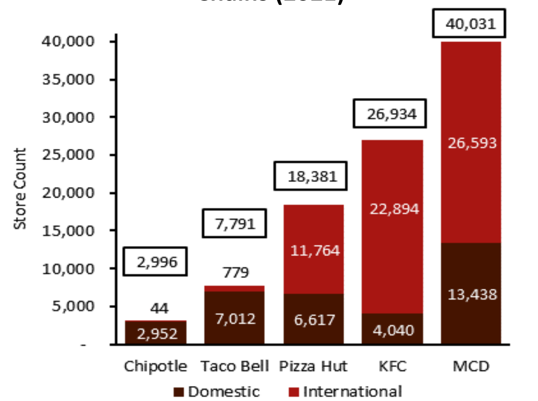
Store Expansion Trends

Rising Tide of Suburban Expansion

Individuals moving out of cities and towards the suburbs is an ongoing secular trend that we expect to persist in the long term. Americans today have a growing preference for living in the suburbs due to more affordable housing, bigger living spaces, and increased work flexibility from virtual work (*Exhibit 15*). Continued population shifts from cities to suburban areas have made FCR and QSR expansion into suburban areas a new channel for domestic growth (*Exhibit 16*). Companies can also benefit from cutting real estate costs by 50% through remote work by transitioning to smaller offices.[8] Continued population growth provides a rising tide for FCRs to enter suburban areas; however, what makes this expansion truly lucrative is the implementation of drive-throughs in suburban stores which best synergizes with the higher car ownership of suburban residents when compared to urban residents. The growing preference towards fast casual restaurants and their ability to offer similar convenience to QSRs will extend FCRs' growth outperformance into suburban areas (*Exhibit 17*).

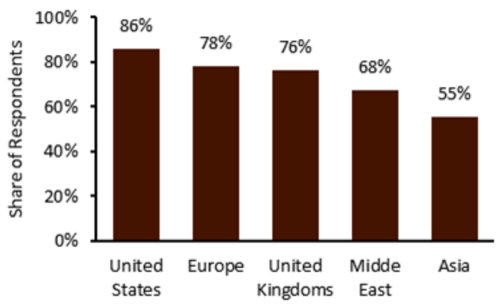
Chipotle: The Ship Ready to Sail

Exhibit 17: Global Popularity of U.S. Restaurant Chains (2021)



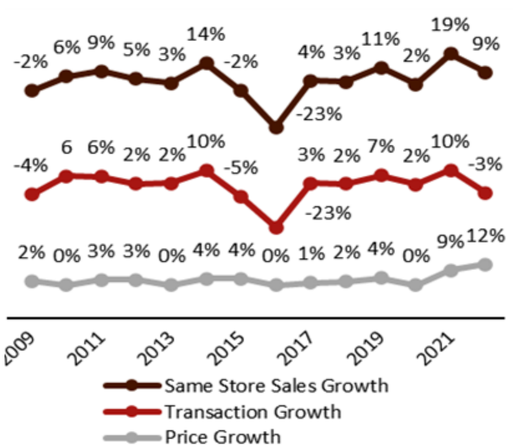
Source: FactSet Market Data, Company Data

Exhibit 18: Share of Respondents that Enjoy Mexican Food



Details: May to December 2018; 25,000 respondents; only among those who had tried Mexican food
Source: YouGov

Exhibit 19: Strong Historical Same Store Sales Growth



Source: Company Data

Exhibit 20: Successful Store Expansion

Source: Company Data

In addition to Chipotle's strong competitive advantage that will allow it to outperform peers, Chipotle is better positioned than peers to expand into these smaller cities. Our density analysis shows a tangible addressable market of 7,285 Chipotle stores across North America, as their solid competitive advantage will support superior unit economics across most markets. Execution of this expansion is supported by Chipotle's existing large footprint in suburban and urban areas surrounding them, making it easy for the company to add new stores and achieve economies of scale. Chipotle's leasing strategy is ideal for this expansion by reducing the capital expenditures needed to expand, given its wholly company-owned strategy. This eliminates significant bottlenecks to growth while allowing Chipotle to benefit from its superior unit economics, as opposed to operators like Shake Shack, who are experiencing expansion delays from construction bottlenecks. Chipotle's store growth potential doesn't end domestically but accelerates as Chipotle is well positioned for growth internationally.

International Expansion on the Horizon

While most FCRs still establish themselves domestically, QSRs have paved the way for international growth. McDonald's and Yum! Brands are two examples of QSRs that have saturated their U.S. market and are finding substantial success expanding in Europe and Asia (*Exhibit 18*). Expanding into Europe has been vital for some companies like Wendy's and Wingstop. In 2021, Wendy's opened its first U.K. Store in over a decade as the company believes it can open 400 new units in the country. In the same year, Wingstop became a minority investor in Lemon Pepper Holdings as it grew its brand presence in the U.K. A common denominator among these cities is that they have many American ex-pat communities and tourist traffic. The Asia-Pacific region is additionally anticipated to grow enormously. The area is more potent than any other market because of the growing middle-income group and rapid urbanization due to increasing industrialization, the rapid growth of the food and beverage industry, and rising public and private sector investments. Furthermore, some key market players like McDonald's, Burger King, and Yum! China brands like Taco Bell, Pizza Hut, and KFC show how this region is ripe for U.S.-based restaurant concepts.

Chipotle's Growth Is Just Getting Started

In addition to more than doubling its U.S. store count domestically, we expect Chipotle to ramp up its international store expansion within our 10-year forecast period. Our population density analysis shows 5,807 potential overseas stores – 2,612 in Europe and 3,195 in Asia (Appendix E-2). Not only do many countries enjoy the Mexican flavor profile Chipotle provides (*Exhibit 18*), but Chipotle's straightforward, modular menu allows it to be just as flexible as QSRs when tailoring products to specific regions; the seamless integration of LTOs each year is a prime example of this. Chipotle already has a small 12-store international footprint outside North America and across countries such as the UK, Germany, and France, giving it a small amount of experience in global expansion. Chipotle's new store growth potential illustrates the tremendous growth we see ahead.

FINANCIAL ANALYSIS

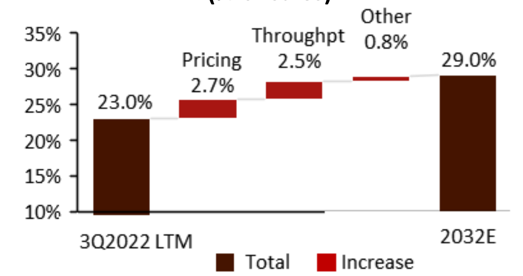
Income Statement

Sales Outlook

Same Store Sales: Independent of the Great Recession and E. coli outbreak, Chipotle's annual same-store sales growth has averaged 7.7%, driven by an average of 5.1% annual transaction growth and 2.5% annual price growth (*Exhibit 19*). This exceptional growth in the past decade results from a substantial value gap compared to peers, which enabled a strong brand reputation, loyal customers, and long-term pricing power; we see these trends lasting as Chipotle continues to improve its unit economics and benefit from economies of scale. We forecast same-store growth to be an average of 7.1% per year through 2027 and taper to a 4% same-store sales growth until 2032. FactSet Estimates show Wingstop's same-store sales growth to 3% by 2028 and McDonald's tapering to 3.6% by 2025. We see Chipotle's sustainable completive advantage lasting through 2032, resulting in our higher-than-average same-store sales growth lasting through the 10-year forecast. Our menu price 2% CAGR from 2027-2032, based on a normalized 2% inflation, implies 2% same stores transaction CAGR in the same period, which we see as reasonable.

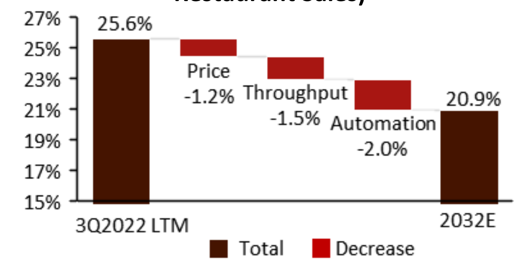
Store Growth: Chipotle has grown its store base at a similarly impressive 11.5% CAGR from 2006 to 2021, primarily driven by domestic growth as Chipotle has only added 44 international stores, 29 of which are in Canada (*Exhibit 20*). Most of this store expansion has been in denser urban areas. While store growth in the past 5-years has lagged against the historical average, much of this can be attributed to the closures and strategic shift away from Chipotle's other

Exhibit 21: Restaurant Margins Outlook (% of sales)



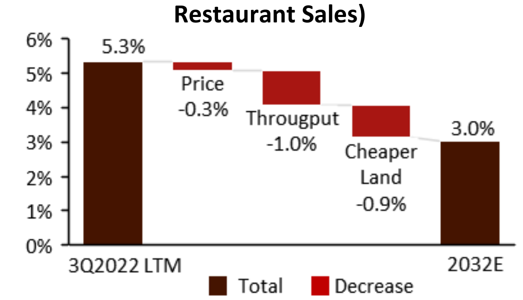
Source: Company Data, Team Estimates

Exhibit 22: Labor Expense Outlook (% of Restaurant Sales)



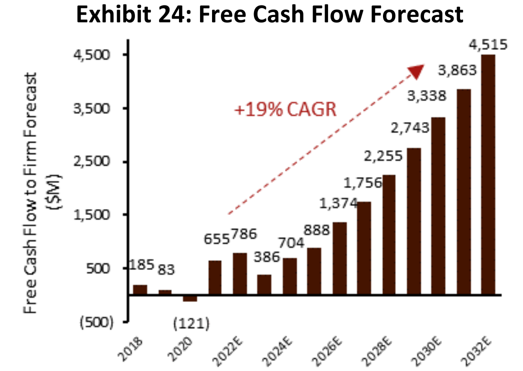
Source: Company Data, Team Estimates

Exhibit 23: Occupancy Expense Outlook (% of Restaurant Sales)



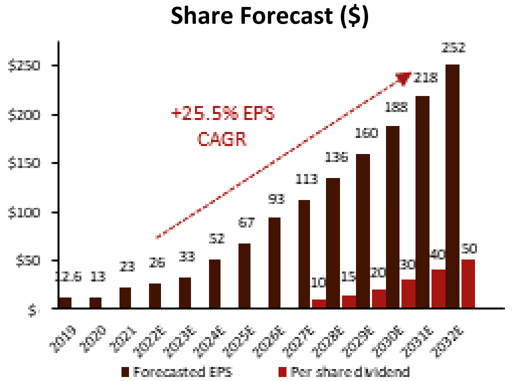
Source: Company Data

Exhibit 24: Free Cash Flow Forecast



Source: Company Data, Team Estimates

Exhibit 25: Earnings Per Share and Dividends Per Share Forecast ($)



Source: Company Data, Team Estimates

concepts at the time (Pizzeria Locale, TastyMade, ShopHouse). We forecast healthy domestic growth from greater suburb penetration followed by international expansion. The untapped global market will be the primary growth driver after the next five years. We forecast a store count CAGR of 11.2% domestically through 2027, which tapers to a 6.2% CAGR over the following five years as Chipotle reaches our 7,285 projected North American store capacity (Appendix E-1). International store additions are expected to accelerate to 250 stores per year by 2032, resulting in an 8.1% total store count CAGR from 2027-2032 and 804 international stores by 2032.

Margin Outlook

Chipotle's strong pricing power and recession resiliency can be seen after the pandemic as restaurant and operating margins expanded compared to pre-pandemic levels. While margins did compress to 20.2% and 20.7%, respectively, in 4Q2021 and 1Q2022, they quickly rebounded to over 25% for the remainder of 2022 as Chipotle started raising prices. Chipotle experienced minimal transaction decline from its price increases as transactions only declined 1% year-over-year in 4Q2022. We expect continued margin expansion due to Chipotle taking price, transaction sales leverage, and increased efficiencies across restaurant costs. Restaurant margins are forecasted to expand to 29.0% by 2032, and operating margins are expected to grow to 18.3% (*Exhibit 21*).

Food & Beverage: Food away from home inflation is expected to increase between 4%-5% in 2023, and we expect this to slow down to normalized inflation of 2%. 10 In the short-term, we expect continued price increases in 2023 to offset this inflation, increasing margins as Chipotle takes price without damaging its large value gap. Through 2032, we expect economies of scale to drive distribution cost savings that will expand margins as Chipotle opens new stores in the suburbs near its existing urban hubs. We forecast food as a percent of sales to decrease from 30.6% in 2021 to 29.0% in 2032.

Labor: We forecast labor expenses to decrease from 25.4% in 2021 to 20.9% in 2032 (*Exhibit 22*). Increased labor costs primarily contribute to Chipotle's restaurant margins staying below pre-E. Coli levels. Labor expense as a percentage of sales increased from 22.0% in 2014 to 25.4% in 2021, with the primary contributor being the extensive hiring of food safety professionals to ensure another E. coli outbreak does not occur. More recently, Chipotle has successfully passed wage inflation as labor expenses only increased to 26.4% in 4Q2021 before returning to 25.3% in 3Q2022. While we expect wages to rise at a heightened 4.5% in 2023, in line with other occupations, we expect Chipotle to continue passing these costs off as well.[11] Short-term price taking, transaction sales leverage from higher throughput, and numerous automation and efficiency initiatives available (Appendix F) will lead to significant margin expansion.

Occupancy: Chipotle acquires buildings through triple net leases which include maintenance charges, property taxes, insurance, and rent and are usually kept lower than a gross lease. With Chipotle's movement into more suburban areas via Chipotlanes, the new store format will drive similar AUV to existing stores at a cheaper cost, allowing for margin expansion. Stores with Chipotlanes also maintain 500 basis points of higher margins due to being able to handle higher AUV with limited additional labor. These savings will more than offset the $75,000-$100,000 price that comes with adding the Chipotlanes.[12] Short-term pricing, transaction sales leverage, and expansion into cheaper suburban real estate drive our forecast that occupancy costs will decrease 2.3% to 3% of sales by 2032 (*Exhibit 23*) (Appendix F).

Promotions: The rise of mobile ordering has driven a significant increase in regular promotions on items to entice customer spending and engagement. While Chipotle does have a strong loyalty app that allows for customization, personalized marketing or promotions still need to be improved. Increased promotional spending will be necessary to sustain Chipotle's value gap, and we forecast promotional incentives for customers to decrease restaurant margins by 2.7% through 2027.

Balance Sheet

Debt Free Balance Sheet

The strength of Chipotle's balance sheet can be seen in how it has never raised debt in its history. Chipotle's only debt on its balance sheet is operational lease liabilities as it enters triple net leases of up to 20 years for each restaurant it opens. We see Chipotle's debt-free balance sheet as a strong indicator of the safety of its growth prospects, reducing earnings volatility during economic slowdowns and ensuring adequate capital for expansion under any economic condition. Chipotle's lack of debt and interest expense add to the safety and sustainability of Chipotle's store growth. Furthermore, we see Chipotle's wholly company-owned strategy as beneficial due to the strong cash flow economics that it is generating. Our three-statement model forecasts no debt issuance through 2032 as Chipotle finances continued growth internally.

Cashflow Statement

Accelerating Free Cash Flow Generation

The primary reason that Chipotle has not needed debt to fund its remarkable expansion in the past decade is because of the impressive cash flow economics of each store. Management targets at least 30% cash-on-cash returns for new stores and earns up to 70% in stores in the company's most developed markets. We forecast improving unit economics as Chipotle expands in smaller towns where comparable AUV is achievable with lower costs. Our forecast shows free cash flow (FCF) growing at a 18.2% CAGR through 2032 to $4.2 billion in annual FCF by 2032 (*Exhibit 24*). The significant amount of cash that we expect Chipotle to generate provides Chipotle with even more levers to increase shareholder value in the form of stock buybacks and dividends. Our share buyback forecast shows Chipotle repurchasing up to $16 billion in stock in the next ten years, decreasing shares outstanding by 7.5 million shares. In addition, we forecast Chipotle issuing a $10 dividend in 2027 that will grow to $50 by 2032 (*Exhibit 25*). Even with this significant cash return to shareholders, Chipotle still has enough cash available for $5 billion in special dividend payments, which we expect to be paid partially in 2030 and the remainder in 2032. The excessive amount of cash flow generation achievable by Chipotle's business model allows for this value to be returned to shareholders in addition to achieving Chipotle's long runway for growth domestically and internationally.

Valuation

Base Case

DCF: Based on our discounted cashflow (DCF) model price target of $2,133, Chipotle provides a 40% upside to the current price (*Exhibit 26*). We utilized a 10-year DCF to come to a fair value estimate for Chipotle, where we forecasted financials through 2032 and calculated a terminal value based on a P/E exit multiple. A 10-year forecast was appropriate as Chipotle's long-store count runway domestically and internationally would not be fully captured in a shorter forecast. The P/E exit multiple method for calculating the terminal value better captures the strong growth potential overseas, which we do not expect Chipotle to start taking advantage of until 2026. We utilized a 20x P/E exit multiple as this was the average multiple of other fast-growing concepts that matured in the past decade (Appendix D-7).

Revenue: Our average annual same-store sales growth of 5.6% through 2032 is based on our assumptions on price growth and transaction growth through the period (*Exhibit 27*). We expect lingering labor inflation through 2024 of ~3.5%-4.5%, resulting in our price growth of 7% and 5% in 2023 and 2024, respectively, as we are confident in Chipotle's pricing power. This price growth is slightly higher than our inflation expectations and represents our belief that Chipotle can take price in the short-term while still maintaining its significant value gap. Price growth then tapers down to 2%, our long-term inflation estimate, by 2027 and remains at that level through 2032. Our transaction growth forecast starts by growing at a moderate 2% in 2023 to represent chipotle's recession resilient target audience counteracting cooling economic condition. We then forecast a rebound in 2024 that tapers to 2% transaction growth by 2027, remaining at that level each year until 2032. This reflects our expectations of Chipotle maintaining higher same-store sales growth than the peer group. North American store growth is expected to accelerate to 11.2% CAGR through 2027, driven by increased opportunities in suburban areas, after which we forecast growth to slow to a 6.2% CAGR through 2032 (*Exhibit 28*). We expect Chipotle to surpass its 7,000-store count goal with 7,285 stores by 2032. After 2027, we expect international store growth to ramp up to 250 store additions per year by 2032, showing the long-growth runway remaining even after 2032. Overall store count will grow at a 9.7% CAGR through 2032, reaching 8,089 stores (*Exhibit 28*). This drives our 15.7% revenue CAGR through 2032.

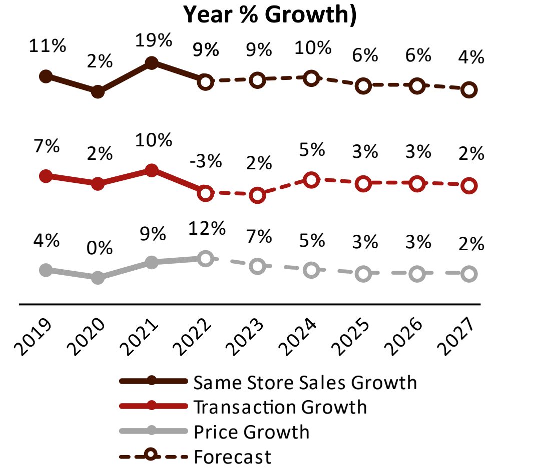
Margins: We expect easing inflationary pressures, continued investments in innovation, and considerable sales leverage to drive restaurant margins to ~29% and operating margins to ~18% by 2032 (*Exhibit 29*). The primary driver of this expansion is due to; **1) Food & Beverage Costs: 1.7% margin expansion contribution** through short-term price taking and economies of scale; **2) Labor: 4.7% margin expansion** due to short-term price taking, transaction sales leverage, and investment in automation that will drive record labor efficiencies; and **3) Occupancy Costs: 2.2% margin contribution** due to sales leverage and the transition towards cheaper real estate in suburban areas. Our forecasts also include a 2.7% increase in other operating costs as a percent of sales to factor in a rise in promotions and advertising to sustain Chipotle's value proposition amongst the increasing competition.

Exhibit 26: Base Case DCF Output

Equity Share Price		
Forecast Period		**10-yrs**
Net Income 2032		5,206
Exit P/E Multiple		20x
Terminal Value		**104,120**
PV of Terminal Value		45,436
PV of Cashflows		13,277
Enterprise Value		**58,713**
(-) Debt		-
(+) Current Cash		367
Equity Value		**59,079**
# of Shares		27.70
Share Price	**$**	**2,133**
Current Price		1,525
Upside		**39.9%**

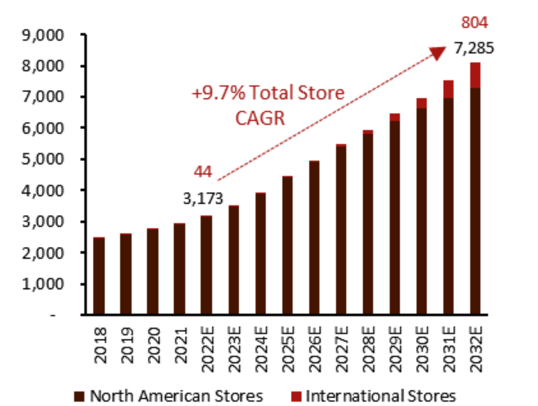
Source: Company Data, Team Estimates

Exhibit 27: Same Store Sales Outlook (Year-over-Year % Growth)



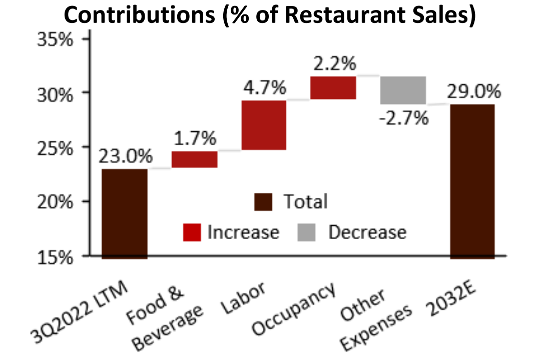
Source: Company Data, Team Estimates

Exhibit 28: Store Base Growth Outlook



Source: Company Data

Exhibit 29: Restaurant Margin Expansion Contributions (% of Restaurant Sales)



Source: Company Data

Exhibit 30: Cost of Equity Calculation

Cost of Equity Calculation	
Risk free rate	3.5%
Beta	1.01
EMR	8.6%
ERP	5.1%
Cost of Equity	**8.6%**

Source: Company Data, Team Estimates

Exhibit 31: Multiples Valuation Price Target

10-year Multiples Analysis		
Rel. Valuation	**Base**	**Pessimistic**
EPS Year 10	252	150
P/E Multiple	20x	18x
Share Price Year 10	5,041	2,708
IRR	12.70%	5.92%
Price estimate @ 8.6% WACC	2,200	1,182
Upside	44.3%	-22.5%

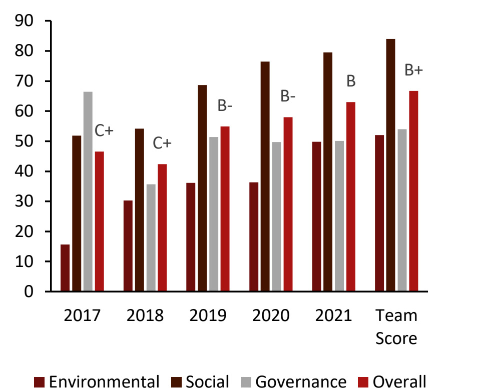
Source: Team Estimates

Exhibit 32: Pessimistic Case DCF Output

Equity Share Price		
Forecast Period		**10-yrs**
Net Income 2032		3,168
Exit P/E Multiple		18x
Terminal Value		**57,018**
PV of Terminal Value		24,881
PV of Cashflows		7,697
Enterprise Value		**32,579**
(-) Debt		-
(+) Current Cash		367
Equity Value		**32,945**
# of Shares		27.72
Share Price	**$**	**1,188**
Current Price		1,525
Upside		**-22.0%**

Source: Team Estimates

Exhibit 33: Chipotle Refinitiv ESG Score (2017-2021) & Independent Team Ranking



Source: Refinitiv, Team Analysis

Exhibit 34: Independent Team Score Breakdown

Team Score				
	E	S	G	**Overall**
Score*	65.0	84.0	64.0	**73.1**
Grade	B	A	B	**B+**
Refinitiv (2021)				
Score*	49.8	79.5	50.1	**63.0**
Grade	C+	A-	B-	**B**
Weight	*26.5%*	*44.1%*	*29.4%*	

**Score out of 100*

Source: Refinitiv, Team Analysis

Reinvestments: While Chipotle has historically decreased its net working capital by covering all increases in current assets with more current liabilities, we did not see this as sustainable through our forecasting period, given our expectations of considerable growth. As a result, we forecasted existing assets growing faster than current liabilities to account for rapidly increasing inventory needs and a decreased need for current liabilities from Chipotle's exceptional free cash flow generation. Both new stores starting capital expenditures and maintenance capital expenditures are forecasted to grow at a 5.6% CAGR through 2027 due to increased investments in technology, higher maintenance from Chipotlanes, and an overall increase in renovations to create a differentiated guest experience.

Weighted Average Cost of Capital (WACC): Our team estimates an 8.6% WACC for Chipotle based on utilizing a 3.5% risk free-rate based on the current 10-year treasury yield and calculating an equity risk premium of 5.1% based on Damodaran's most recent update (*Exhibit 30)*. The implied expected market return of 8.6% is within our 8-10% estimate based on the historical performance of the S&P 500. We calculate an equity beta of 1.01 (Appendix D-5). We used the capital asset pricing model (CAPM) to estimate Chipotle's 8.6% cost of equity. Even though we accounted for operating lease liabilities as debt to leverage the beta, we did not include it as debt in our WACC calculation since the operating lease costs are already accounted for in the operating margins in the form of occupancy costs.

Exit Multiple: After ten years, we still see substantial store growth available overseas. We utilized a P/E exit multiple to derive our terminal value to capture this heightened growth. Analyzing the fastest-growing restaurants historically in our industry's broad peer group, we saw an average P/E NTM (Next Twelve Months) of ~40x at peak sales growth, averaging 27.2% in the year across the sample. This compressed to ~20x when the peer group averaged 6.5% sales growth. This multiple compression and sales growth typically occurred in a 10–15-year span that matches our forecasting period of 10 years. We therefore calculated our terminal value by multiplying our Year 10 EPS by a 20x multiple (Appendix D-4). While a higher exit multiple is justified by Chipotle's long growth runway internationally after year 10, the 20x exit multiple was used to remain conservative.

Relative Valuation: A relative valuation was conducted to confirm the price target derived from our discounted cash flow analysis. We utilized the same assumptions in our DCF model where applicable to forecast Chipotle's earnings per share (EPS) throughout our investment horizon. Given our long-term outlook of Chipotle, we project Chipotle's EPS in year 10, multiply it with a P/E multiple, and calculate the internal rate of return (IRR) based on its fair value and current stock price. In year 10, we project an EPS of $252. We applied a P/E multiple of 20x, like our exit multiple in our DCF. Our 10-year price target of $5,041 represents an IRR of 12.7% and confirms the investment's significant upside opportunity. When discounted at our 8.6% WACC, we derived a share price estimate of $2,220, representing a 44.3% upside to the current price and reaffirming our $2,133 DCF price target.

Pessimistic Case

Our pessimistic scenario forecasts significant headwinds to AUV, preventing the company from reaching its $4 million AUV target until 2031. We recognize that increased competition from younger fast casual chains can erode Chipotle's value proposition, limiting its pricing power. Additionally, cooling economic conditions may adversely affect transaction growth more than expected due to a large amount of AUV growth driven by lower-income customers in 2021; we forecasted a minimal 0.8% AUV growth in 2023 to showcase this risk. The operational risk with rapid store expansion may also prevent store growth from reaching management's goal of 8% store growth per year. This risk is represented in the pessimistic case's 7.7% store base, reaching 6,708 North American stores by 2032. No international stores were forecasted due to continued domestic growth and barriers preventing store expansion overseas. Low pricing power, higher long-term labor inflation than expected, and minimal sales leverage will limit restaurant margins to 26.9% and operating margins to 15.5% by 2032, showing Chipotle's ability to reach pre-E. Coli levels but the inability to surpass them. We then applied a 18x to account for the slower growth profile after 10 years. Our pessimistic Year 10 EPS of $150 and 18x P/E multiple results in an IRR of 5.92% with a price value of $1,182, showing a 22.5% downside (*Exhibit 31*). Our pessimistic DCF model results in a $1,188 price target, resulting in a 22.0% downside to the current price (*Exhibit 32*).

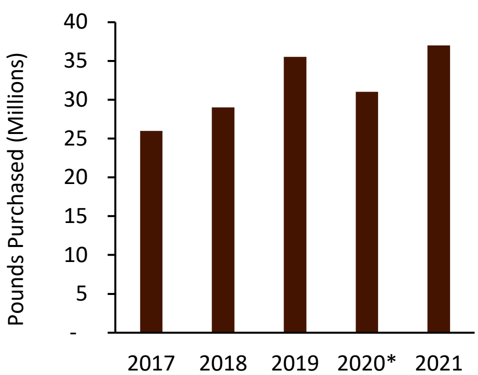
ENVIRONMENTAL, SOCIAL, GOVERNANCE

Chipotle's 2021 Refinitiv ESG Score is a B, and its score has steadily increased over the past ten years (*Exhibit 33*) as management executes its long-term vision of "Food With Integrity." Over the past five years, Chipotle has consistently had greater ESG Scores than a peer group of 30-34 publicly traded U.S. restaurant brands. Its social score has remained strong over the past

Exhibit 35: Chipotle Outperforms Peers in Food Safety

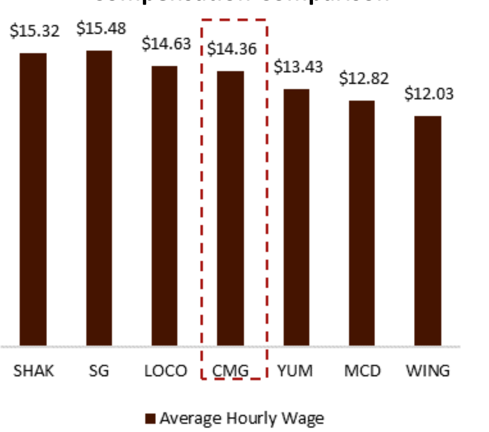
Source: Center for Food Safety

Exhibit 36: Chipotle's Commitment to Supporting Local Farmers



**COVID-19 drove decreases in 2020*
Source: CMG Sustainability Report/Sustainability Executive Summary/Sustainability Report Update, 2017-2021

Exhibit 37: Fast Casual Crew Member Hourly Compensation Comparison



Source: Indeed.com

Exhibit 38: Chipotle's C-Suite Compensation

CMG C-Suite Compensation, 2021				
Officer	Total Compensation	% of Sales	% of Earnings	Share Ownership (%)
B. Niccol (CEO)	$ 17,880,580	0.24%	2.62%	0.10%
J. Hartung (CFO)	$ 6,168,673	0.08%	0.91%	0.23%
C. Garner (CTO)	$ 5,704,712	0.08%	0.84%	0.04%
C. Brandt (CMO)	$ 4,899,260	0.07%	0.72%	0.03%
S. Boatwright (CRO)	$ 4,839,015	0.06%	0.71%	0.02%

Source: CMG 2022 Proxy Statement

ten years, and its environmental score has shown the most rapid improvement over the same period. We have determined Refinitiv's weightings to be appropriate and conducted our own analysis on each pillar to arrive at an ESG score of B+ (*Exhibit 34*).

Environmental

Chipotle continues to invest in environmental initiatives to ensure the long-term continuation of its "Food with Integrity" mantra. The company does this by **1)** sourcing fresh, natural, and wholesome ingredients responsibly; **2)** investing in local food systems; and **3)** creating and continuing green initiatives. Chipotle sources its ingredients from suppliers credentialed with ethical and humane practices. They have steadily increased the amount of organic and regeneratively grown food it buys year-over-year, with approximately 55 million pounds purchased in 2021. Though Chipotle has had food safety issues, it implemented various food safety protocols and is now a leader in the space (*Exhibit 35*). Its Food Safety Advisory Council (est. 2016) and its Board of Directors facilitate the design and implementation of food safety practices from the supply chain to each store. To further the sustainability of its supply chain, Chipotle invests heavily in local food systems (*Exhibit 36*). The company has promised to donate $5 million to local farmers, $1.3 million of which has already been pledged. Investing in young farmers will also bolster farming infrastructure and maintain a positive supplier relationship, supporting the consistency, reliability, and sustainability in Chipotle's supply chain. Chipotle has committed to several green initiatives, such as implementing compost and responsible waste management programs in new and existing stores. Additionally, it has pledged to reduce its emissions by 50% by 2030 (from a 2019 base year), furthering its commitment to environmental sustainability (Appendix G-1). Based on our analysis of its sustainability actions and green initiatives, we gave Chipotle a 65.0 (B) environmental rating.

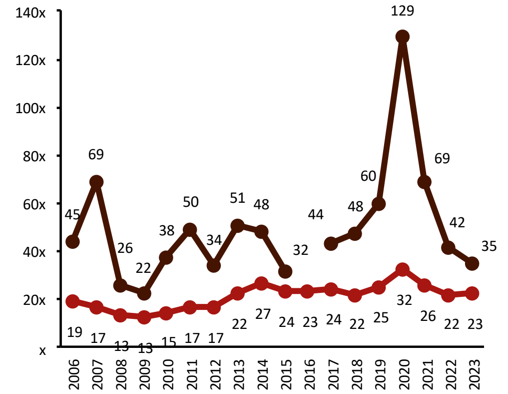
Social

Chipotle's strong commitment to its employees facilitates a collaborative culture of long-term talent retention, despite paying lower hourly wages relative to other fast casual peers (*Exhibit 37*). Chipotle provides numerous employee benefits, including free college education from ten universities, medical insurance options, free healthcare advocacy, gym discounts, 401(k) matching, and employee stock options. In 2020 and 2021, Chipotle struggled with turnover among all different levels of staff. The worst turnover was seen among the hourly team, which saw 141% turnover in 2020 and 194% in 2021, compared to McDonald's average annual turnover above 130%. Chipotle expanded its college tuition benefit program to combat turnover and support employee retention by including more degree and school options. As a result, 5,000 employees 2021 took advantage of the program, up from 4,400 in 2020. In 2021, Chipotle promoted 90% of restaurant managers from within and continued pushing for more diversity by increasing their previous goal of 60% diversity in promotions. When the promotion occurs, managers are offered a bonus and stock options in the company. This focus on promoting from within is one of Chipotle's driving factors for developing the staff that it believes is the cornerstone of its success. Chipotle goes beyond just promoting from within; it has implemented Diversity, Equity, and Inclusion strategies that further its mission to provide access and equity for its customers and employees. Of all employees, 53% are women, and 70% are racial or ethnic minorities. Chipotle regularly holds sessions to hear directly from employees about specific topics that they feel are an issue in the workplace. In 2021, Chipotle performed an independent pay equity analysis on its employees to identify pay gaps and risks between race and ethnicity. Based on Chipotle's strong record of commitment to employee satisfaction and development, we gave it an 84.0 (A) social rating (*Exhibit 33)*.

Governance

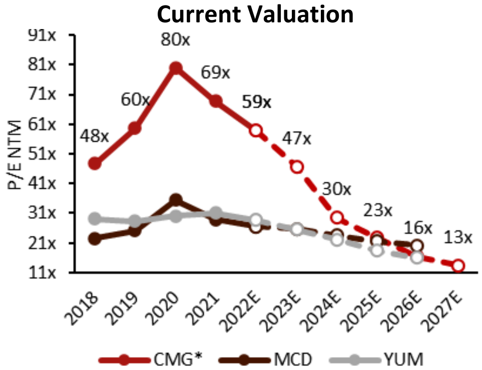
Chipotle is led by an experienced and diverse Board of Directors, comprised of ten independent directors and the company's CEO, that gives active oversight to all directors. Chipotle effectively aligns C-suite compensation, shareholder interests, and company vision by incentivizing short- and long-term goals set forth each year (Appendix G-2). Starting in 2020 with a 10% bonus tied directly to the completion of ESG goals, board members can now receive a 15% bonus based on the successful completion of ESG goals (*Exhibit 38*). Consistent with its performance-driven compensation philosophy, the Compensation Committee awards up to 90% of the executive officers' total compensation to variable, at-risk pay elements (performance-based Annual Incentive Plans and Long-Term Incentive Awards) (Appendix G-2). Shareholders are effectively represented as each share of owned common stock is entitled to one vote through issued proxy statements. However, Chipotle has shown preference to institutional shareholders as in 2016, shareholders approved a proposal that allows investors or investor groups to nominate directors to the Board. This approval gave more power to institutional investors which own 93.7% of the company. Because of Chipotle's independent Board that brings together many different backgrounds to set and actively pursue goals and

Exhibit 39: Chipotle's Historical P/E Premium Over the Industry



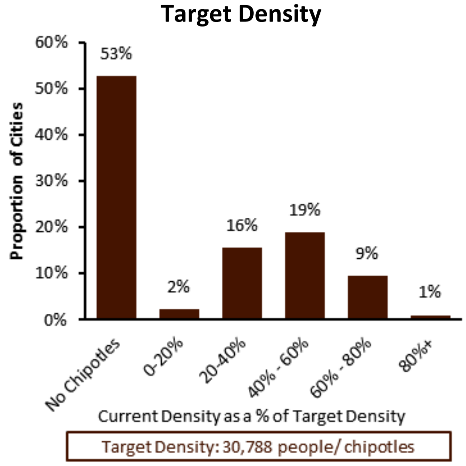
Source: Center for Food Safety

Exhibit 40: Chipotle Quickly Grows into Its Current Valuation



Source: Center for Food Safety

Exhibit 41: North American Cities Expected to Add Chipotles and their Density Compared to Target Density



Source: Appendix E-1

Methodology: A Lower Current Density as a % of Target Density equates to a higher people/Chipotle value. Higher people/Chipotle value equates to a lower density.

Exhibit 42: Mexican Fast Casual Restaurants Find Success in Asia

Source: Trip Advisor

shareholder interests, we gave it a 64.0 (B) governance rating (*Exhibit 33*).

RISKS

Risk 1: High Expectations from Investors

Investors recognize Chipotle's superior positioning and strong domestic growth compared to its peers. This explains Chipotle's NTM (next twelve months) P/E ratio of 35.5x, 50% more than the industry average of 23x. Chipotle's valuation premium comes from investors' high expectations that management can smoothly execute its store expansion, same-store sales growth, and margin expansion plans. Any unexpected headwinds that arise, whether from increased competition, less recession resiliency than expected, lower margin expansion from automation, or a consumer preference shift away from FCRs, may be met with a strong valuation correction towards the industry average. These are amplified with the long investment horizon that the free cash flows are expected to be generated, increasing risk. When compared to the industry, Chipotle's valuation presents significant downside risk.

Mitigant: Chipotle has historically traded at significantly higher premiums, with its average NTM P/E ratio since 2006 of 45x compared to the industry average of 26x (*Exhibit 39*). Chipotle gained this premium due to its strong historical growth, which is justified by its strong competitive advantage and long store growth runway domestically and internationally, resulting in significant future growth. Chipotle also has a safe path toward this growth as it has no debt and should be able to self-fund expansion, making it less risky than its fast-casual peers. Our earnings model shows this growth materializing with Chipotle's implied P/E ratio of 13x in 2027, based on the current price of $1,525 and 2027 EPS of $113. (*Exhibit 40*). When factoring potential growth headwinds into our pessimistic case, we also derived a -22.0%, which presents a favorable risk-to-reward profile compared to the 40% upside of our base case. We remained conservative with our base case terminal value as Chipotle's long international growth runway should justify a higher exit P/E multiple compared to the 20x industry average.

Risk 2: Domestic Store Cannibalization

Chipotle's aggressive domestic store expansion may lead to store cannibalization with its existing store base. Subway is a notorious example of a restaurant that allowed too many franchisees to open near each other, causing a decline in same-store sales growth. Since 2015, Chipotle's store base has declined by 4% each year, and system comprehensive sales have fallen by 3% annually. To a lesser extent, McDonald's is another peer that overextended growth and is now focusing on closing domestic stores to increase same-store sales growth while expanding internationally. Cannibalization could be a concern for Chipotle as their goal is to double their existing store count in North America. Based on our sales leverage analysis, the resulting decrease in same-store sales growth will hurt AUV and cause margin compression. The inability to grow store count without adversely affecting AUV would be a severe headwind to Chipotle's long-term growth story.

Mitigant: We remain confident that Chipotle can exceed its 7,000 domestic store count based on our North American tangible addressable market analysis which shows a potential for 7,285 stores. Our analysis shows that 53% of cities that our tangible addressable market analysis expects to add a Chipotle currently do not have any Chipotle, showing the enormous amount of growth potential without interfering with cities that have existing stores (*Exhibit 41*).

Risk 3: Unproven International Growth:

At the end of Q3 2022, Chipotle only has 44 international locations (1.4% of the total store count). The company is still experimenting with its international expansion as it monitors stores in Canada and the United Kingdom. One issue Chipotle faces are the need for more familiarity with Mexican food outside North America. However, the taste for Mexican cuisine in Europe has increased in recent years and is close to being on par with the United States demands. It can be more challenging for Chipotle to open stores in Asia than competitors like Taco Bell, which is owned by Yum! China and offer the ability to franchise.

Mitigant: For Chipotle to scale in Europe, it needs to penetrate customers in major cities. Many European countries have similar demands for Mexican cuisine as the U.S. markets. Chipotle currently has its European stores in tourist-heavy locations that Americans frequent, and European cities tend to be more densely populated compared to the United States. There are challenges in Asia, but most of these challenges will be within China, which is not included in our density analysis. If they deem this market favorable, they can create a subsidiary in China the same way Yum! Brands completed a spinoff of its China division in 2016. In addition, with the success of restaurants like Cuchara in South Korea, there is evidence of a taste for Mexican food in Southeastern Asian countries (*Exhibit 42*).

List of Appendices

Appendix A – Sources

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Appendix B: 3-Statement Model

Appendix Item B-1: Supplemental Financials and Other Data

Supplemental Financial and Other Data												
Fiscal Year	**2021A**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**
AUV ($ millions)	**2.60**	**2.82**	**3.08**	**3.40**	**3.61**	**3.83**	**3.98**	**4.14**	**4.31**	**4.48**	**4.66**	**4.85**
% YoY Same Store Sales Growth	*19.4%*	*8.6%*	*9.1%*	*10.3%*	*6.1%*	*6.1%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*	*4.0%*
Starting Stores	2,728	2,922	3,173	3,491	3,909	4,418	4,904	5,394	5,829	6,239	6,623	6,981
Increase/Decrease in Stores	194	251	317	419	508	486	490	435	410	384	358	304
North American Stores	**2,922**	**3,173**	**3,491**	**3,909**	**4,418**	**4,904**	**5,394**	**5,829**	**6,239**	**6,623**	**6,981**	**7,285**
% YoY Growth	*7.1%*	*8.6%*	*10.0%*	*12.0%*	*13.0%*	*11.0%*	*10.0%*	*8.1%*	*7.0%*	*6.2%*	*5.4%*	*4.4%*
Starting Stores	40	44	44	44	44	44	54	74	124	224	354	554
Increase/Decrease in Stores	4	-	-	-	-	10	20	50	100	130	200	250
International Stores	**44**	**44**	**44**	**44**	**44**	**54**	**74**	**124**	**224**	**354**	**554**	**804**
% YoY Growth	*10.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*22.7%*	*37.0%*	*67.6%*	*80.6%*	*58.0%*	*56.5%*	*45.1%*
Starting Stores	2,768	2,966	3,217	3,535	3,953	4,462	4,958	5,468	5,953	6,463	6,977	7,535
Increase/Decrease in Stores	198	251	317	419	508	496	510	485	510	514	558	554
Total Stores	**2,966**	**3,217**	**3,535**	**3,953**	**4,462**	**4,958**	**5,468**	**5,953**	**6,463**	**6,977**	**7,535**	**8,089**
% YoY Growth	*7.2%*	*8.5%*	*9.9%*	*11.9%*	*12.9%*	*11.1%*	*10.3%*	*8.9%*	*8.6%*	*8.0%*	*8.0%*	*7.4%*

Source: Team Estimates and Company Data

Appendix Item B-2: Income Statement

Income Statement												
Fiscal Year ($ in millions)	**2021A**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**
Revenue	**7,547**	**8,832**	**10,513**	**12,836**	**15,285**	**18,132**	**20,865**	**23,764**	**26,863**	**30,237**	**33,955**	**38,020**
Food and beverage revenue	7,457	8,733	10,407	12,725	15,172	18,016	20,747	23,646	26,745	30,119	33,837	37,902
Delivery service revenue	90	99	106	111	113	116	118	118	118	118	118	118
Restaurant operating costs excl. D&A	**(5,840)**	**(6,838)**	**(8,101)**	**(9,538)**	**(11,204)**	**(13,000)**	**(14,907)**	**(16,919)**	**(19,091)**	**(21,459)**	**(24,098)**	**(26,983)**
Food, beverage and packaging	(2,309)	(2,650)	(3,128)	(3,787)	(4,471)	(5,258)	(6,051)	(6,892)	(7,790)	(8,769)	(9,847)	(11,026)
Labor	(1,918)	(2,244)	(2,579)	(2,925)	(3,349)	(3,796)	(4,368)	(4,975)	(5,624)	(6,330)	(7,108)	(7,959)
Occupancy	(417)	(488)	(554)	(580)	(633)	(682)	(733)	(775)	(842)	(918)	(1,031)	(1,154)
Other operating costs	(1,197)	(1,457)	(1,840)	(2,246)	(2,751)	(3,264)	(3,756)	(4,278)	(4,835)	(5,443)	(6,112)	(6,844)
General and administrative expenses	(607)	(710)	(841)	(995)	(1,185)	(1,360)	(1,565)	(1,782)	(2,015)	(2,268)	(2,547)	(2,852)
Depreciation and amortization	(255)	(298)	(345)	(407)	(481)	(561)	(648)	(738)	(836)	(940)	(1,055)	(1,175)
Pre-opening costs	(21)	(28)	(36)	(48)	(60)	(60)	(64)	(60)	(63)	(64)	(70)	(69)
Total operating expenses	(6,742)	(7,874)	(9,323)	(10,988)	(12,930)	(14,981)	(17,183)	(19,500)	(22,005)	(24,731)	(27,769)	(31,079)
Income / loss from operations	**805**	**957**	**1,190**	**1,849**	**2,355**	**3,151**	**3,681**	**4,264**	**4,857**	**5,506**	**6,186**	**6,941**
Interest and other income / expense, net	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Income / loss before income taxes	813	957	1,190	1,849	2,355	3,151	3,681	4,264	4,857	5,506	6,186	6,941
Provision / benefit for income taxes	(160)	(239)	(298)	(462)	(589)	(788)	(920)	(1,066)	(1,214)	(1,376)	(1,546)	(1,735)
Net income / loss	**653**	**718**	**893**	**1,387**	**1,766**	**2,363**	**2,761**	**3,198**	**3,643**	**4,129**	**4,639**	**5,206**
EPS	**23.2**	**25.9**	**32.6**	**51.6**	**67.2**	**93.2**	**113.0**	**135.7**	**160.1**	**187.5**	**217.8**	**252.0**
Per share dividend		**-**	**-**	**-**	**-**	**-**	**10.0**	**15.0**	**20.0**	**30.0**	**40.0**	**50.0**
Weighted average shares	**28.1**	**27.7**	**27.4**	**26.9**	**26.3**	**25.4**	**24.4**	**23.6**	**22.7**	**22.0**	**21.3**	**20.7**

Source: Team Estimates and Company Data

Appendix Item B-3: Balance Sheet

Balance Sheet												
Fiscal Year ($ millions)	**2021A**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**2032E**
Total assets	**6,653**	**7,172**	**8,016**	**9,159**	**10,595**	**12,078**	**13,664**	**15,588**	**17,928**	**18,687**	**21,795**	**22,400**
Total current assets	**1,382**	**1,181**	**1,381**	**1,595**	**1,848**	**2,128**	**2,429**	**3,109**	**4,123**	**3,521**	**5,121**	**4,204**
Cash and cash equivalents	815	336	453	557	684	813	952	1,452	2,262	1,430	2,767	1,552
Accounts receivable	100	177	221	282	352	435	522	618	725	847	985	1,141
Inventory	33	48	59	76	94	116	139	165	195	228	266	309
Prepaid expenses and other current assets	79	92	118	150	190	235	287	345	411	487	574	674
Investments	261	417	417	417	417	417	417	417	417	417	417	417
Leasehold improvements, net	**1,769**	**2,036**	**2,365**	**2,836**	**3,436**	**4,053**	**4,723**	**5,381**	**6,094**	**6,835**	**7,668**	**8,522**
Leasehold improvements, gross	3,306	3,870	4,545	5,423	6,504	7,682	8,999	10,396	11,944	13,626	15,514	17,543
Accumulated Depreciation	(1,536)	(1,834)	(2,180)	(2,586)	(3,068)	(3,628)	(4,276)	(5,015)	(5,851)	(6,791)	(7,846)	(9,021)
Long term investments	274	443	443	443	443	443	443	443	443	443	443	443
Other assets	**88**	**95**	**95**	**95**	**95**	**95**	**95**	**95**	**95**	**95**	**95**	**95**
Restricted cash	31	31	31	31	31	31	31	31	31	31	31	31
Other assets excluding restricted cash	57	64	64	64	64	64	64	64	64	64	64	64
Operating lease assets	3,118	3,396	3,711	4,169	4,752	5,338	5,953	6,538	7,153	7,773	8,446	9,114
Goodwill	22	22	22	22	22	22	22	22	22	22	22	22
Total liabilities and shareholders' equity	**6,653**	**7,172**	**8,016**	**9,159**	**10,595**	**12,078**	**13,664**	**15,588**	**17,928**	**18,687**	**21,795**	**22,400**
Total liabilities	**4,356**	**4,737**	**5,161**	**5,758**	**6,483**	**7,222**	**7,978**	**8,701**	**9,450**	**10,206**	**11,016**	**11,821**
Total current liabilities	**874**	**1,000**	**1,129**	**1,297**	**1,474**	**1,663**	**1,843**	**2,017**	**2,190**	**2,364**	**2,543**	**2,722**
Accounts payable	163	185	213	250	287	326	360	392	423	454	484	513
Accrued payroll and benefits	162	190	213	236	264	291	326	362	397	435	474	515
Accrued liabilities	**329**	**389**	**447**	**526**	**604**	**689**	**762**	**832**	**900**	**968**	**1,036**	**1,103**
Accrued liabilities excluding unearned revenue	173	203	234	276	317	363	402	440	477	514	552	589
Unearned revenue	156	185	213	250	287	326	360	392	423	454	484	513
Current operating lease liabilities	219	236	256	284	320	357	395	431	469	508	550	591
Long-term operating lease liabilities	3,302	3,562	3,857	4,287	4,834	5,384	5,961	6,509	7,086	7,667	8,298	8,925
Deferred income tax liability	142	133	133	133	133	133	133	133	133	133	133	133
Other liabilities	**39**	**42**	**42**	**42**	**42**	**42**	**42**	**42**	**42**	**42**	**42**	**42**
Total shareholders' equity	**2,297**	**2,435**	**2,855**	**3,401**	**4,112**	**4,857**	**5,686**	**6,887**	**8,478**	**8,482**	**10,778**	**10,578**
Common stock	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**	**0.4**
Additional paid-in capital	1,729	1,808	1,808	1,808	1,808	1,808	1,808	1,808	1,808	1,808	1,808	1,808
Treasury stock, at cost	(3,356)	(4,011)	(4,484)	(5,325)	(6,380)	(7,999)	(9,686)	(11,329)	(12,926)	(14,392)	(15,882)	(17,256)
Accumulated other comprehensive income / loss	(5)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)	(9)
Retained earnings / accumulated deficit	3,929	4,647	5,540	6,926	8,693	11,056	13,572	16,417	19,605	21,074	24,861	26,034

Source: Team Estimates and Company Data

Appendix Item B-4: Cashflow Statement

Cash Flow Statement

Fiscal Year Ends: December	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Net cash provided by operating activities	**1,282**	**1,128**	**1,433**	**2,022**	**2,499**	**3,198**	**3,701**	**4,250**	**4,814**	**5,428**	**6,078**	**6,791**
Net income / loss	**653**	**718**	**893**	**1,387**	**1,766**	**2,363**	**2,761**	**3,198**	**3,643**	**4,129**	**4,639**	**5,206**
Adjustments to reconcile net income	**629**	**410**	**540**	**635**	**733**	**835**	**940**	**1,052**	**1,171**	**1,299**	**1,438**	**1,585**
Depreciation and amortization	255	298	345	407	481	561	648	738	836	940	1,055	1,175
Deferred income tax benefit / provision	(12)	(9)	-	-	-	-	-	-	-	-	-	-
Loss on disposal and impairment of assets	17	-	-	-	-	-	-	-	-	-	-	-
Stock-based compensation expense	176	142	168	199	237	272	313	356	403	454	509	570
Other	(5)	(4)	-	-	-	-	-	-	-	-	-	-
Changes in operating assets and liabilities	**197**	**(18)**	**27**	**30**	**14**	**2**	**(20)**	**(43)**	**(68)**	**(95)**	**(126)**	**(161)**
Accounts receivable	(2)	(77)	(44)	(62)	(69)	(84)	(86)	(96)	(107)	(121)	(138)	(156)
Inventory	(6)	(15)	(12)	(16)	(18)	(22)	(23)	(26)	(29)	(33)	(38)	(43)
Prepaid expenses and other current assets	(27)	(13)	(26)	(32)	(40)	(45)	(52)	(58)	(66)	(76)	(88)	(100)
Operating lease assets	224	277	315	458	583	586	615	585	614	620	673	668
Other assets	4	(7)	-	-	-	-	-	-	-	-	-	-
Accounts payable	21	22	27	37	36	40	34	32	31	30	30	29
Accrued liabilities and accrued payroll and benefits	**1**	**87**	**81**	**102**	**105**	**113**	**108**	**106**	**104**	**105**	**107**	**108**
Accrued payroll and benefits	(45)	28	23	23	28	28	35	35	36	37	39	41
Accrued liabilities	11	30	31	42	41	45	39	38	37	37	38	38
Unearned revenue	34	29	27	37	36	40	34	32	31	30	30	29
Income tax payable / receivable	193	(18)	-	-	-	-	-	-	-	-	-	-
Operating lease liabilities	(207)	(277)	(315)	(458)	(583)	(586)	(615)	(585)	(614)	(620)	(673)	(668)
Other long-term liabilities	(4)	3	-	-	-	-	-	-	-	-	-	-
Net cash provided by / used in investing activities	**(522)**	**(889)**	**(675)**	**(878)**	**(1,081)**	**(1,178)**	**(1,318)**	**(1,396)**	**(1,549)**	**(1,681)**	**(1,889)**	**(2,029)**
Purchases of leasehold improvements, property and equipment	(442)	(565)	(675)	(878)	(1,081)	(1,178)	(1,318)	(1,396)	(1,549)	(1,681)	(1,889)	(2,029)
Purchases of investments	(429)	(630)	-	-	-	-	-	-	-	-	-	-
Maturities of investments	346	305	-	-	-	-	-	-	-	-	-	-
Proceeds from sale of equipment	4	-	-	-	-	-	-	-	-	-	-	-
Net cash used in / provided by financing activities	**(549)**	**(718)**	**(641)**	**(1,040)**	**(1,292)**	**(1,891)**	**(2,244)**	**(2,354)**	**(2,455)**	**(4,579)**	**(2,852)**	**(5,977)**
Net proceeds from sale of common stock	-	79	-	-	-	-	-	-	-	-	-	-
Acquisition of treasury stock	**(546)**	**(797)**	**(641)**	**(1,040)**	**(1,292)**	**(1,891)**	**(2,000)**	**(2,000)**	**(2,000)**	**(1,919)**	**(2,000)**	**(1,944)**
Acquisition of treasury stock excl. tax benefit	(466)	(797)	(641)	(1,040)	(1,292)	(1,891)	(2,000)	(2,000)	(2,000)	(1,919)	(2,000)	(1,944)
Excess tax benefit on stock-based compensation	(80)	-	-	-	-	-	-	-	-	-	-	-
Dividends		**-**	**-**	**-**	**-**	**-**	**(244)**	**(354)**	**(455)**	**(2,661)**	**(852)**	**(4,033)**
Annual Dividends to Common Stock Shareholders		-	-	-	-	-	(244)	(354)	(455)	(661)	(852)	(1,033)
Special Dividends		-	-	-	-	-	-	-	-	(2,000)	-	(3,000)
Stock plan transactions and other financing activities	(2)	-	-	-	-	-	-	-	-	-	-	-
Effect of exchange rate changes on cash and cash equivalents	(1)	-	-	-	-	-	-	-	-	-	-	-
Net change in cash and cash equivalents	**210**	**(479)**	**117**	**104**	**126**	**129**	**139**	**500**	**810**	**(832)**	**1,337**	**(1,215)**
Cash and cash equivalents at beginning of period	636	846	367	484	588	715	844	983	1,483	2,293	1,461	2,798
Cash and cash equivalents at end of period	**846**	**367**	**484**	**588**	**715**	**844**	**983**	**1,483**	**2,293**	**1,461**	**2,798**	**1,583**

Source: Team Estimates and Company Data

Appendix C: Peer Comparisons

Appendix Item C-1: Value Gap Analysis

Methodology:

Peer Group Selection: The peer group was selected based on the type of food offered and the brand's price range. We deemed this peer group appropriate as each brand has locations in similar areas, aims to target a similar audience, and can be described as a fast-casual restaurant.

Average Entree Price Data: We first determined the five states with the most significant number of store locations for each brand. We then selected the city with the most store locations in those five states. Using each brand's online ordering feature, we collected the prices of average entrees in the selected cities. To determine the price used in our Price Gap Analysis, we took the average of each brand's prices at store locations in the aforementioned cities.

900- 1000 Calories

Chipotle - Chicken Burrito Price		
Los Angeles, CA	$	9.10
Miami, FL	$	8.45
Philadelphia, PA	$	8.85
Columbus, OH	$	8.50
Houston, TX	$	8.20
Average	**$**	**8.62**

920 Calories

El Pollo Loco - Chicken Avocado Burrito		
Los Angeles, CA	$	10.99
Houston, TX	$	9.29
Las Vegas, NV	$	9.59
Phoenix, AZ	$	9.99
Salt Lake City, UT	$	9.79
Average	**$**	**9.93**

790 Calories

Shake Shack - Double Shack Burger		
New York City, NY	$	9.59
Burbank, CA	$	9.59
Ft. Lauderdale, FL	$	9.39
Boston, MA	$	11.69
Hoboken, NJ	$	9.59
Average	**$**	**9.97**

420 Calories

Sweetgreen - Kale Caesar Salad		
New York, NY	$	12.95
Wahington, DC	$	11.95
Boston, MA	$	11.95
Chicago, IL	$	11.95
Los Angeles, CA	$	12.95
Average	**$**	**12.35**

800 – 1100 Calories

Wingstop - 10 Wings (Boneless)		
Houston, TX	$	10.99
Los Angeles, CA	$	11.35
Miami, FL	$	9.99
Chicago, IL	$	13.79
Atlanta, GA	$	10.99
Average	**$**	**11.42**

900- 1000 Calories

Moe's - Chicken Burrito Price		
Jacksonville, FL	$	9.49
Atlanta, GA	$	9.49
Rochester, NY	$	10.49
Greenville, SC	$	8.99
Norfolk, VA	$	8.99
Average	**$**	**9.49**

900- 1000 Calories

QDOBA - Chicken Burrito Price		
Colorado Springs, CO	$	9.45
Grand Rapids, MI	$	9.45
Milwaukee, WI	$	9.45
Indianapolis, IN	$	9.65
Louisville, KY	$	9.65
Average	**$**	**9.53**

900- 1000 Calories

Baja Fresh - Chicken Burrito Price		
Los Angeles, CA	$	10.59
Atlanta, GA	$	8.99
Washington, DC	$	9.99
Fairfax, VA	$	9.99
El Paso, TX	$	8.49
Average	**$**	**9.61**

Appendix Item C-2: Unit Economic Analysis

Methodology:

Peer Group Selection: We utilized a different peer group compared to our value gap analysis to account for the fact that many fast causal players are privately owned, preventing us from accessing their financials. For the peer group, we kept El Pollo Loco (LOCO), Shake Shack (SHAK), Sweetgreen (SG), and Wingstop (WING), as these are Chipotle's publicly traded fast-casual peers. Other fast-casual peers, such as Chuy Holdings (CHUY) and Portillo's (PTLO), were not included in the analysis due to their minimal store counts of 96 and 71 stores, respectively. McDonald's (MCD) and Yum! Brands (YUM) were also included in the unit economic analysis because most fast-casual restaurants focus on improving throughput and speed of service, shifting their operating model to be more like quick-service restaurants. In addition, McDonald's and Yum! Brands are implementing healthier and higher quality items to their menus, making their products increasingly like fast-casual restaurants. With the continuation of these trends, quick-service and fast-casual restaurants will grow increasingly comparable.

Unit Economic Analysis: Our same-store sales growth comparison included annual comparable sales growth across each company's system-wide store base, franchised and company-operated. Our restaurant margin analysis only included restaurant sales and costs from company-operated stores, as restaurant-level financials of franchise-operated stores are not publicly available.

Restaurant Margins	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2032E
CMG	**18.7%**	**20.5%**	**17.4%**	**22.6%**	**22.6%**	**22.9%**	**25.7%**	**26.7%**	**28.3%**	**29.0%**
SHAK	25.3%	22.3%	14.1%	16.7%	17.4%	18.5%	18.8%	18.7%	-	-
SG	-	16.0%	-3.9%	11.9%	15.4%	17.0%	17.7%	17.9%	-	-
WING	31.5%	25.9%	25.3%	19.0%	21.0%	24.6%	25.1%	27.8%	28.9%	-
LOCO	19.0%	18.7%	18.3%	18.4%	13.0%	14.9%	14.1%	0.0%	-	-
YUM	-	20.1%	16.8%	18.1%	16.3%	17.2%	17.7%	-	-	-
MCD	17.4%	17.6%	14.2%	17.8%	15.8%	16.2%	16.5%	-	-	-

Trailing 5-year Average Restaurant Margin Breakdown

5-yr Avg (% of sales)	CMG	SHAK	SG	WING	LOCO	YUM	MCD	EAT	DIN
Food	32.0%	29.8%	28.9%	35.9%	29.8%	30.9%	31.6%	0.0%	
Labor	26.3%	29.2%	33.4%	24.9%	28.8%	26.3%	28.6%	33.4%	
Occupancy	6.2%	8.4%	15.6%						
Other	15.2%	13.5%	12.5%						
Occupancy & Other	21.4%	22.0%	28.0%	15.6%	22.4%	25.5%	22.8%	25.6%	
Restaurant Margins	**20.3%**	**19.0%**	**9.6%**	**23.0%**	**19.0%**	**17.7%**	**16.7%**	**14.8%**	**6.1%**
Operating Margins	**7.0%**	**2.0%**	**-43.1%**	**26.0%**	**5.0%**	**36.2%**	**41.7%**	**6.1%**	**23.0%**

Appendix Item C-3: Restaurant Segments Analysis

Methodology:

Peer Group Selection: Using finviz.com, we screened for U.S-based companies in the restaurant segment with over $300 million in market cap and excluded companies that did not primarily operate restaurants. We sorted this peer group into fast casual, quick service, or casual dining based on each restaurant's price point, food quality, and guest experience. This process was implemented only to compare our analysis's highest quality publicly traded restaurant concepts.

Segment Growth Analysis: To find each segment's annual sales growth, we added each peer's sales in each segment for each year and calculated the growth of the cumulative revenue. For historical sales, if a peer did not have sales for that one year, their starting sales were not included in the cumulative sales of the following year to avoid abnormal revenue growth in the years that peers became public. We utilized FactSet estimates for sales data after 2021. We adjusted the cumulative sales to offset the effects of peers who did not have sales estimates in a particular year. This was done to avoid drops in industry segment revenue from the company's not having estimated sales for a particular year. This process was repeated for store growth.

Historical & Consensus Sales Growth

Ticker	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
CMG	9%	15%	7%	26%	15%	13%	13%	14%	14%	11%
WING	15%	30%	25%	14%	25%	18%	17%	13%	16%	-
SHAK	28%	29%	-12%	42%	22%	20%	18%	17%	-	-
SG	-	-	-20%	54%	40%	33%	28%	28%	-	-
PTLO	-	-	-5%	17%	11%	14%	11%	-	-	-
CHUY	8%	7%	-25%	24%	6%	9%	9%	-	-	-
LOCO	8%	1%	-4%	7%	3%	4%	2%	-	-	-
Fast Casual	**10%**	**15%**	**2%**	**26%**	**16%**	**14%**	**14%**	**13%**	**12%**	**10%**
MCD	-8%	2%	-10%	21%	-1%	3%	5%	4%	9%	-
YUM	-3%	-2%	1%	16%	2%	6%	8%	7%	6%	-
DPZ	23%	5%	14%	6%	5%	4%	6%	7%	5%	-
JACK	-21%	9%	8%	12%	28%	14%	2%	1%	1%	-
WEN	30%	7%	1%	9%	10%	4%	5%	10%	7%	-
PZZA	-7%	-3%	12%	14%	2%	4%	4%	-	-	-
Quick Service	**-1%**	**2%**	**-5%**	**17%**	**3%**	**4%**	**5%**	**5%**	**8%**	**-**
DRI	5%	-8%	-8%	34%	8%	6%	6%	7%	-	-
EAT	0%	3%	-4%	8%	14%	6%	4%	2%	-	-
FWRG	-	-	-22%	76%	22%	17%	12%	14%	-	-
BJRI	8%	4%	-33%	40%	18%	4%	5%	-	-	-
CAKE	3%	6%	-20%	48%	13%	6%	7%	-	-	-
DENN	19%	-14%	-47%	38%	15%	3%	1%	-	-	-
DIN	7%	17%	-24%	30%	2%	-10%	4%	-	-	-
TXRH	11%	12%	-13%	44%	16%	10%	9%	-	-	-
BLMN	-2%	0%	-23%	30%	8%	5%	2%	-	-	-
KRUS	39%	24%	-30%	44%	117%	31%	28%	-	-	-
Casual Dining	**4%**	**0%**	**-15%**	**33%**	**11%**	**6%**	**6%**	**3%**	**-**	**-**

Historical & Consensus Store Growth

Ticker	2018	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E
CMG	3%	5%	6%	7%	8%	8%	9%	9%	9%	8%
WING	11%	11%	11%	13%	13%	13%	13%	13%	12%	-
SHAK	31%	32%	13%	19%	18%	15%	3%	28%	-	-
SG	-	-	-	26%	23%	26%	25%	23%	-	-
PTLO	-	-	-	-	-	17%	13%	-	-	-
CHUY	10%	-	-	4%	3%	7%	-	-	-	-
LOCO	1%	-	-	-	2%	3%	3%	-	-	-
Fast Casual	**6%**	**7%**	**7%**	**9%**	**10%**	**10%**	**10%**	**11%**	**9%**	**5%**
MCD	2%	2%	1%	2%	1%	3%	4%	4%	-	-
YUM	7%	4%	-	6%	3%	6%	6%	5%	5%	-
DPZ	7%	7%	4%	7%	6%	6%	6%	6%	6%	-
JACK	-	-	-	25%	-	-	1%	-	-	-
WEN	1%	1%	-	2%	2%	4%	4%	7%	-	-
PZZA	2%	2%	-	5%	-	6%	7%	-	-	-
Quick Service	**4%**	**4%**	**1%**	**5%**	**3%**	**5%**	**5%**	**5%**	**4%**	**-**
DRI	2%	-	1%	2%	-	3%	3%	-	-	-
EAT	-	-	-	-	-	-	1%	-	-	-
FWRG	-	-	-	-	-	11%	20%	11%	-	-
BJRI	3%	3%	-	-	2%	3%	3%	-	-	-
CAKE	-	-	-	-	-	4%	22%	-	-	-
DENN	-	-	-	-	-	-	-	-	-	-
DIN	-	-	-	-	-	2%	-	-	-	-
TXRH	6%	5%	4%	5%	-	6%	5%	-	-	-
BLMN	-	-	-	2%	-	2%	1%	-	-	-
KRUS	-	-	-	-	-	25%	25%	-	-	-
Casual Dining	**0%**	**0%**	**-1%**	**0%**	**-1%**	**2%**	**3%**	**1%**	**-**	**-**

Appendix D: Discounted Cash Flow Model and Relative Valuation Model

Appendix Item D-1: Base Case EPS

EPS Forecast

Fiscal Year ($ millions)	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Revenue	**7,547**	**8,832**	**10,513**	**12,836**	**15,285**	**18,132**	**20,865**	**23,764**	**26,863**	**30,237**	**33,955**	**38,020**
Food and beverage revenue	7,457	8,733	10,407	12,725	15,172	18,016	20,747	23,646	26,745	30,119	33,837	37,902
Delivery service revenue	90	99	106	111	113	116	118	118	118	118	118	118
Restaurant operating costs excl. D&A	**(5,840)**	**(6,838)**	**(8,101)**	**(9,538)**	**(11,204)**	**(13,000)**	**(14,907)**	**(16,919)**	**(19,091)**	**(21,459)**	**(24,098)**	**(26,983)**
Food, beverage and packaging	(2,309)	(2,650)	(3,128)	(3,787)	(4,471)	(5,258)	(6,051)	(6,892)	(7,790)	(8,769)	(9,847)	(11,026)
Labor	(1,918)	(2,244)	(2,579)	(2,925)	(3,349)	(3,796)	(4,368)	(4,975)	(5,624)	(6,330)	(7,108)	(7,959)
Occupancy	(417)	(488)	(554)	(580)	(633)	(682)	(733)	(775)	(842)	(918)	(1,031)	(1,154)
Other operating costs	(1,197)	(1,457)	(1,840)	(2,246)	(2,751)	(3,264)	(3,756)	(4,278)	(4,835)	(5,443)	(6,112)	(6,844)
General and administrative expenses	(607)	(710)	(841)	(995)	(1,185)	(1,360)	(1,565)	(1,782)	(2,015)	(2,268)	(2,547)	(2,852)
Depreciation and amortization	(255)	(298)	(345)	(407)	(481)	(561)	(648)	(738)	(836)	(940)	(1,055)	(1,175)
Pre-opening costs	(21)	(28)	(36)	(48)	(60)	(60)	(64)	(60)	(63)	(64)	(70)	(69)
Total operating expenses	(6,742)	(7,874)	(9,323)	(10,988)	(12,930)	(14,981)	(17,183)	(19,500)	(22,005)	(24,731)	(27,769)	(31,079)
Income / loss from operations	**805**	**957**	**1,190**	**1,849**	**2,355**	**3,151**	**3,681**	**4,264**	**4,857**	**5,506**	**6,186**	**6,941**
Interest and other income / expense, net	**8**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Income / loss before income taxes	813	957	1,190	1,849	2,355	3,151	3,681	4,264	4,857	5,506	6,186	6,941
Provision / benefit for income taxes	(160)	(239)	(298)	(462)	(589)	(788)	(920)	(1,066)	(1,214)	(1,376)	(1,546)	(1,735)
Net income / loss	**653**	**718**	**893**	**1,387**	**1,766**	**2,363**	**2,761**	**3,198**	**3,643**	**4,129**	**4,639**	**5,206**
Weighted average shares	**28.1**	**27.7**	**27.4**	**26.9**	**26.3**	**25.4**	**24.4**	**23.6**	**22.7**	**22.0**	**21.3**	**20.7**
EPS	**23.2**	**25.9**	**32.6**	**51.6**	**67.2**	**93.2**	**113.0**	**135.7**	**160.1**	**187.5**	**217.8**	**252.0**

Appendix Item D-2: Base Case DCF Forecast

Free Cash Flow Forecast

Assumptions	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Sales Growth	26.1%	11.5%	24.9%	22.1%	19.1%	18.6%	15.1%	13.9%	13.0%	12.6%	12.3%	12.0%
Restaurant Margin (% of sales)	22.6%	23.0%	22.9%	25.7%	26.7%	28.3%	28.6%	28.8%	28.9%	29.0%	29.0%	29.0%
EBIT Margin (% of sales)	10.7%	12.1%	11.3%	14.4%	15.4%	17.4%	17.6%	17.9%	18.1%	18.2%	18.2%	18.3%
Depreciation (% of sales)	3.4%	3.3%	3.3%	3.2%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%	3.1%
Change in NWC (% of sales)	-2.6%	-2.1%	-0.3%	-0.2%	-0.1%	0.0%	0.1%	0.2%	0.3%	0.3%	0.4%	0.4%
CapEx (% of sales)	-5.9%	-5.4%	-6.4%	-6.8%	-7.1%	-6.5%	-6.3%	-5.9%	-5.8%	-5.6%	-5.6%	-5.3%

Fiscal Years	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
Sales	**7,547**	**8,415**	**10,513**	**12,836**	**15,285**	**18,132**	**20,865**	**23,764**	**26,863**	**30,237**	**33,955**	**38,020**
Operating Income	**805**	**1,022**	**1,190**	**1,849**	**2,355**	**3,151**	**3,681**	**4,264**	**4,857**	**5,506**	**6,186**	**6,941**
(-) Taxes	(160)	(237)	(298)	(462)	(589)	(788)	(920)	(1,066)	(1,214)	(1,376)	(1,546)	(1,735)
NOPAT	**645**	**786**	**893**	**1,387**	**1,766**	**2,363**	**2,761**	**3,198**	**3,643**	**4,129**	**4,639**	**5,206**
(+) Depreciation	255	279	345	407	481	561	648	738	836	940	1,055	1,175
(-) Change in NWC	197	179	27	30	14	2	(20)	(43)	(68)	(95)	(126)	(161)
(-) CapEx	(442)	(457)	(675)	(878)	(1,081)	(1,178)	(1,318)	(1,396)	(1,549)	(1,681)	(1,889)	(2,029)
FCFF	**655**	**786**	**590**	**945**	**1,181**	**1,748**	**2,071**	**2,497**	**2,862**	**3,293**	**3,680**	**4,191**
% Growth	-	*20.0%*	*-24.9%*	*60.3%*	*25.0%*	*48.0%*	*18.5%*	*20.6%*	*14.6%*	*15.1%*	*11.7%*	*13.9%*

Discounted Free Cash Flow

Two Stage DCF	2021A	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	2032E
FCFF	**WACC**	8.6%	590	945	1,181	1,748	2,071	2,497	2,862	3,293	3,680	4,191
PV of FCFF			543	801	921	1,255	1,368	1,518	1,602	1,696	1,745	1,829

Equity Share Price		
Forecast Period		**10-yrs**
Net Income 2032		5,206
Exit P/E Multiple		18x
Terminal Value		**93,708**
PV of Terminal Value		40,892
PV of Cashflows		13,277
Enterprise Value		**54,169**
(-) Debt		-
(+) Current Cash		367
Equity Value		**54,536**
# of Shares		27.70
Share Price	**$**	**1,969**
Current Price		1,525
Upside		**29.1%**

Appendix Item D-3: Base Case DCF Sensitivity Analysis

Exit P/E Multiple	WACC 7.6%	8.1%	8.6%	9.1%	9.6%
15.0x	$ 1,871	$ 1,795	$ 1,723	$ 1,654	$ 1,588
17.5x	$ 2,096	$ 2,010	$ 1,928	$ 1,849	$ 1,775
20.0x	$ 2,321	$ 2,224	$ 2,133	$ 2,045	$ 1,962
22.5x	$ 2,546	$ 2,439	$ 2,338	$ 2,241	$ 2,149
25.0x	$ 2,771	$ 2,654	$ 2,543	$ 2,437	$ 2,336

Appendix Item D-4: Exit Multiple Derivation

Multiple Compression of Fast Growing Concepts								
Company	**Peak Sales Growth**	P/E NTM	EV/Revenue NTM	EV/EBITDA NTM	**Ending Sales Growth**	P/E NTM	EV/Revenue NTM	EV/EBITDA NTM
Year		*2005*				*2019*		
BJRI	38.1%	61.8	2.7	24.1	4.0%	18.3	1.2	11.5
		2004				*2019*		
CAKE	25.3%	38.2	2.6	19.8	6.4%	14.9	1.3	15.2
		2005				*2019*		
TXRH	26.4%	36.2	2.4	17.9	12.20%	22.9	1.6	13.6
		2012				*2019*		
CHUY	32.2%	37.2	1.7	13.4	7.10%	24.9	1.5	16.1
		2004				*2019*		
SBUX	29.9%	47.9	3.4	21.4	7.2%	31.2	4.4	20.5
		2003				*2013*		
MCD	11.3%	17.7	2.4	9.7	2.0%	17.5	3.9	10.6
Average	**27.2%**	**39.8x**	**2.5x**	**17.7x**	**6.5%**	**21.6x**	**2.3x**	**14.6x**

Notes: To determine our P/E exit multiple, we first found the fastest-growing concepts in our total restaurant industry peer group that matured and experienced slowing sales growth over the last 20 years. The table on the left depicts the fast-growing concepts, their valuations in their peak growth year, and their valuations in 2019, when growth slowed. We chose 2019 as our ending year as the 2020 pandemic lockdowns and rapid 2021 economic recovery caused significant volatility in growth and valuations. McDonald's ending year was set for 2013 as the company experienced slowing same-store sales growth between 2003 and 2013, after which a swift change in corporate strategy and leadership re-ignited growth. The result was an average P/E at maturity of 21.6x. We used a P/E of 20x for our base DCF exit multiple and relative valuation in order to calculate a conservative price target.

Appendix Item D-5: WACC Calculation

Cost of Equity Calculation					
Company	Ticker	Market Value	Net Debt	Debt/Equity	Levered Beta (3yr)
Chipotle Mexican Grill, Inc.	**CMG**	**42,150**	**2,945**	**7%**	**.99x**
BJ's Restaurants, Inc.	BJRI	752	504	67%	1.69
Bloomin' Brands, Inc.	BLMN	1,884	2,073	110%	1.64
Dutch Bros, Inc. Class A	BROS	1,555	534	34%	1.84
Cheesecake Factory Incorporated	CAKE	1,957	1,697	87%	1.47
Cracker Barrel Old Country Store, Inc.	CBRL	3,038	1,159	38%	1.17
Chuy's Holdings, Inc.	CHUY	550	114	21%	1.37
Cannae Holdings, Inc.	CNNE	2,868	(88)	0%	1.17
Denny's Corporation	DENN	1,005	416	41%	1.41
Dine Brands Global, Inc.	DIN	1,244	1,387	111%	1.95
Domino's Pizza, Inc.	DPZ	17,212	4,927	29%	0.53
Darden Restaurants, Inc.	DRI	18,264	5,661	31%	1.36
Brinker International, Inc.	EAT	1,655	2,273	137%	1.72
First Watch Restaurant Group, Inc.	FWRG	917	452	49%	1.23
Jack in the Box Inc.	JACK	1,850	3,030	164%	1.20
Kura Sushi USA, Inc. Class A	KRUS	479	69	14%	1.47
El Pollo Loco Holdings Inc	LOCO	507	190	37%	0.81
McDonald's Corporation	MCD	192,573	44,460	23%	0.78
Portillo's, Inc. Class A	PTLO	1,033	272	26%	1.44
Papa John's International, Inc.	PZZA	4,296	714	17%	0.74
Starbucks Corporation	SBUX	115,591	20,622	18%	1.10
Sweetgreen, Inc. Class A	SG	2,451	(381)	0%	1.91
Shake Shack, Inc. Class A	SHAK	2,712	383	14%	1.42
Texas Roadhouse, Inc.	TXRH	6,079	587	10%	1.14
Wendy's Company	WEN	5,145	3,377	66%	1.01
Wingstop, Inc.	WING	4,623	515	11%	1.09
Yum! Brands, Inc.	YUM	37,245	11,179	30%	0.82

Levered Beta (indusry)	1.28x
MV D/E	44%
Tax Rate	25%
Unlevered beta	0.96
Chipotle Beta	1.01

Cost of Equity Calculation	
Risk free rate	3.5%
Beta	1.01
EMR	8.6%
ERP	5.1%
Cost of Equity	**8.6%**

Beta: We used Chipotle's cost of equity as the WACC for our DCF because Chipotle has no debt. Chipotle has operating lease liabilities, which are already factored into the DCF as occupancy expenses. We factor these operating lease liabilities when we recapitalize or pure-play beta since they increase earnings volatility compared to peers. To calculate the levered industry beta, we averaged the 3-year regression beta of our total restaurant industry peer group. We did not use the smaller public peer group created for our unit economics analysis (Appendix C-2), as many fast-casual restaurants are significantly smaller and younger than Chipotle. Using the entire restaurant industry peer group provides a broader look at the systematic risk within the entire restaurant industry. We took the average beta, market value D/E ratio, and effective tax rate to calculate a pure-play beta of .98. We then re-levered the pure-play beta with CMG's market value D/E ratio and its effective tax rate to calculate its equity beta of 1.01.

Cost of equity: We used the 10-year Treasury yield for our risk-free rate of 3.5% as of January 13th, 2023. We used Damodaran's 5.1% equity risk premium, which he updated on January 1st, 2023. The implied expected market return of 8.6% is within our estimates of an 8-10% scheduled market return based on the historical return of the S&P 500. We see Chipotle's 8.6% as an appropriate discount rate based on the company's risk profile.

Appendix D-6: Valuation Summary Statistics

Base Case							
Fiscal Year	2022E	2023E	2024E	2025E	2026E	2027E	2032E
AUV	2.8	3.1	3.4	3.6	3.8	4.0	4.9
Store Count	3,217	3,535	3,953	4,462	4,958	5,468	7,285
Revenue Growth	17.0%	19.0%	22.1%	19.1%	18.6%	15.1%	12.8%*
Food Expense (% of sales)	30.0%	29.8%	29.5%	29.3%	29.0%	29.0%	29.0%
Labor Expense (% of sales)	25.4%	24.5%	22.8%	21.9%	20.9%	20.9%	20.9%
Occupancy Expense (% of sales)	5.5%	5.3%	4.5%	4.1%	3.8%	3.5%	3.0%
Other Expenses (% of sales)	16.5%	17.5%	17.5%	18.0%	18.0%	18.0%	18.0%
Restaurant Margins	22.6%	22.9%	25.7%	26.7%	28.3%	28.6%	29.0%
Operating Margins	10.8%	11.3%	14.4%	15.4%	17.4%	17.6%	18%

Pessimistic Case							
Fiscal Year	2022E	2023E	2024E	2025E	2026E	2027E	2032E
AUV	2.8	2.8	3.1	3.2	3.4	3.5	4.1
Store Count	3,217	3,503	3,806	4,125	4,452	4,782	6,708
Revenue Growth	15.8%	9.5%	18.6%	13.9%	12.4%	11.4%	10.9%*
Food Expense (% of sales)	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%	30.0%
Labor Expense (% of sales)	25.6%	26.4%	24.7%	23.8%	23.1%	22.6%	21.4%
Occupancy Expense (% of sales)	5.6%	5.7%	5.0%	4.6%	4.3%	4.1%	3.2%
Other Expenses (% of sales)	16.5%	17.5%	18.0%	18.5%	18.5%	18.5%	18.5%
Restaurant Margins	22.4%	20.4%	22.4%	23.1%	24.0%	24.8%	26.9%
Operating Margins	10.6%	8.4%	11.1%	11.8%	12.8%	13.5%	16%

Appendix D-7: Relative Valuation

10-year Multiples Analysis		
Rel. Valuation	**Base**	**Pessimistic**
EPS Year 10	252	148
P/E Multiple	20x	18x
Share Price Year 10	5,041	2,663
IRR	12.70%	5.74%
Price estimate @ 8.6% WACC	2,200	1,162
Upside	44.3%	-23.8%

Base: We project an EPS of $252 in Year 10 and attached a multiple of 20x based on our analysis of mature restaurant valuations. This leads to a $5,041 value and an attractive 12.7% IRR, higher than our 8.6% WACC. When discounted by our WACC, this Year 10 value results in a $2,200 price estimate and a 44.3% upside.
Pessimistic: Pessimistic: We project an EPS of $148 in Year 10 and attach a multiple of 18x to account for a diminished growth profile after Year 10. This leads to a $2,663 value and an unattractive 5.74% IRR, lower than our 8.6% WACC. When discounted by our WACC, this Year 10 value results in a $1,162 price target and a 23.8% downside. As we are confident in the base case, we see the base case upside being significantly higher than the downside as a highly favorable risk-reward profile.

Appendix E: Chipotle Tangible Addressable Market Analysis

Appendix E-1: North American Tangible Addressable Market

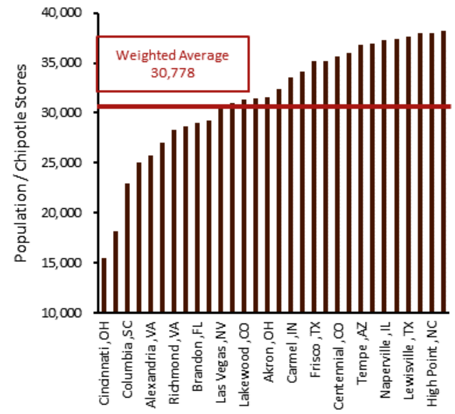
Assumptions	
Max Density (city population/store)	30,778
Min Populaiton (th ppl)	35,000
Total Stores	**7,285**

Projected Store Count	
United States	6,254
Canada	1,032
Total Stores	7,285

North American Density Analysis by City Population

#	City	Population	State	Country	Existing Chipotles	Projected Chipotles	Increase	Current Pop. Count Per Chipotle	Projected Pop. Count Per Chipotle
1	New York	8,467,513	New York	USA	56	275	219	151,206	30,778
2	Toronto	5,429,524	ON	CA	29	176	147	187,225	30,778
3	Los Angeles	3,849,297	California	USA	24	125	101	160,387	30,778
4	Montréal	3,519,595	QC	CA		114	114	-	30,778
5	Chicago	2,696,555	Illinois	USA	40	88	48	67,414	30,778
1555	Buenaventura Lakes	35,117	Florida	USA	-	1	1	-	30,778
1556	College Park	35,110	Maryland	USA	2	2	-	17,555	17,555
1557	Mason	35,089	Ohio	USA	2	2	-	17,545	17,545
1558	Glastonbury	35,054	Connecticut	USA	1	1	0	35,054	30,778
1559	Orangevale	35,030	California	USA	-	1	1	-	30,778
Total: Cities > 35,000 People		**196,187,008**			**2,072**	**6,473**	**4,401**	**64,240**	**29,455**
1560	San Juan Capistrano	34,955	California	USA	-	-	-	-	-
1561	West Hollywood	34,938	California	USA	-	-	-	-	-
1562	Bethlehem	34,924	New York	USA	-	-	-	-	-
1563	Martinez	34,912	Georgia	USA	-	-	-	-	-
1564	University Place	34,900	Washington	USA	-	-	-	-	-
31779	Homer C Jones	2	New Mexico	USA	-	-	-	-	-
31780	Mayfield Colony and Clark Colc	2	South Dakota	USA	-	-	-	-	-
31781	Warm River	1	Idaho	USA	-	-	-	-	-
31782	Goldcreek	1	Montana	USA	-	-	-	-	-
31783	Provo	1	South Dakota	USA	-	-	-	-	-
Total: Cities < 35,000 People		**120,179,473**			**812**	**812**	**-**	**16,655**	**16,655**
Total: North America		**316,366,481**			**2,884**	**7,285**	**-**	**50,842**	**28,029**

Exhibit: Top 30 North American Cities with the Highest Desnity of Chipotle Stores (City Population/Number of Chipotle Stores)



Methodology:
We first looked at the 30 cities with a population over 100,000 in the U.S. and Canada with the highest density of Chipotle's (city population/chipotles) and took a population-weighted average of each city's density, deriving our target density of 30,778. This is based on management, who stated they derived their most dense markets. For each city in the United States, we then projected the potential number of Chipotle's in that city by dividing the city's population by 30,788. If a town currently has a larger number of Chipotle's than we project, the city's projected store count is set to their current store count. If a town currently has a larger number of Chipotle's than we project, the city's projected store count is set to their existing store count. If the city has a population under 30,788, its projected store count was zero unless there were stores currently in the city. Our analytics estimate that Chipotle can maintain at least 7,285 stores in North America within these cities.

Source: Demographics by Cubit, Simplemaps, Company

Appendix E-2: International Tangible Addressable Market

Assumptions	
Max Density (city population/store)	60,000

European Density Analysis

#	City	Country	Population	Chipotles
1	London	United Kingdom	8,961,989	149
2	Berlin	Germany	3,426,354	57
3	Madrid	Spain	3,255,944	54
4	Kyiv	Ukraine	2,797,553	47
5	Rome	Italy	2,318,895	39
370	Rzeszow	Poland	158,382	3
371	Doncaster	United Kingdom	158,141	3
372	San Blas-Canillejas	Spain	157,367	3
373	Tiraspol	Moldova	157,000	3
374	Pecs	Hungary	156,649	3
Total: European Cities			**156,716,983**	**2,612**

Methodology: We first compiled a list of the 500 most populous cities in Europe and each of their populations. After removing cities in Russia, we divided the population of each city by a density value of 60,000 people per store to project each city's store capacity. The 60,000 people per chipotle value were derived by doubling the North American value, making these cities half as dense as North America. We see this as fully accounting for differences in taste preferences that will decrease density compared to North America. Adding the projected store capacity of each city resulted in our 2,612 European store capacity.

Source: World Population Review

Assumptions	
Max Density (city population/store)	100,000

Asian Population Density Analysis

#	City	Country	Population	Chipotles
1	Mumbai	India	12,691,836	127
2	Delhi	India	10,927,986	109
3	Dhaka	Bangladesh	10,356,500	104
4	Seoul	South Korea	10,349,312	103
5	Ho Chi Minh City	Vietnam	8,993,082	90
170	Anyang-si	South Korea	595,644	6
171	Las Pinas	Philippines	590,000	6
172	Thuan An	Vietnam	588,616	6
173	Cuttack	India	580,000	6
174	Bikaner	India	576,015	6
Total: Asian Cities			**319,547,109**	**3,195**

Methodology: We first compiled a list of Asia's 500 most populous cities and their populations. After removing towns in the Middle East and China, based on our expectations of more challenging execution risks in these geographies, we divided the population of each city by a density value of 100,000 people per store to project each city's storage capacity. The 100,000 people per Chipotle value were derived by tripling the North American value, making these cities a third as dense as North America. We see this as fully accounting for differences in taste preferences that will decrease density compared to North America. Adding the projected store capacity of each city resulted in our 3,195 store capacity within Asia.

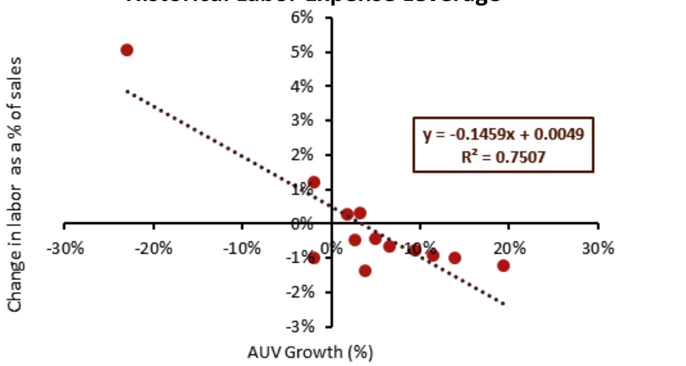
Source: World Population Review

Appendix F: Sales Leverage Analysis

Methodology: To forecast labor expense sales leverage, we conducted a regression analysis of the annual AUV growth and the change in labor expense as a percent of sales. Our research shows that, historically, a 1% increase in AUV correlates to a 15 bps decrease in labor as a percent of sales. We conducted the same analysis to forecast occupancy expense leverage, showing that a 1% increase in AUV correlates to a six bps decrease in occupancy as a percentage of sales.

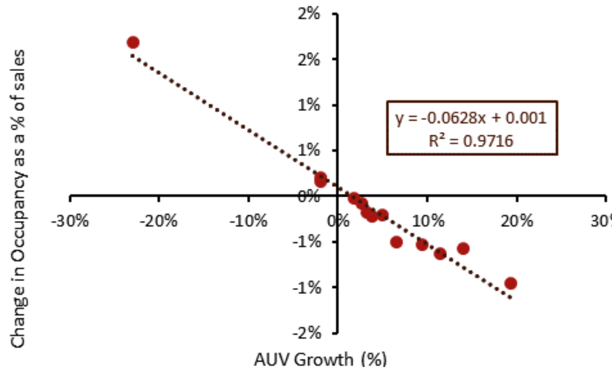
	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Sales Leverage (bps)	R^2
YoY AUV Growth	-2.0%	6.5%	9.4%	5.0%	2.7%	14.0%	-1.9%	-22.9%	3.9%	3.3%	11.4%	1.8%	19.4%		
Change in labor (% of sales)	-1.0%	-0.7%	-0.8%	-0.4%	-0.5%	-1.0%	1.2%	5.1%	-1.4%	0.3%	-0.9%	0.3%	-1.2%	-14.6	0.75
Change in occupancy	0.2%	-0.5%	-0.5%	-0.2%	-0.1%	-0.6%	0.2%	1.7%	-0.2%	-0.2%	-0.6%	0.0%	-1.0%	-6.28	0.97

Historical Labor Expense Leverage



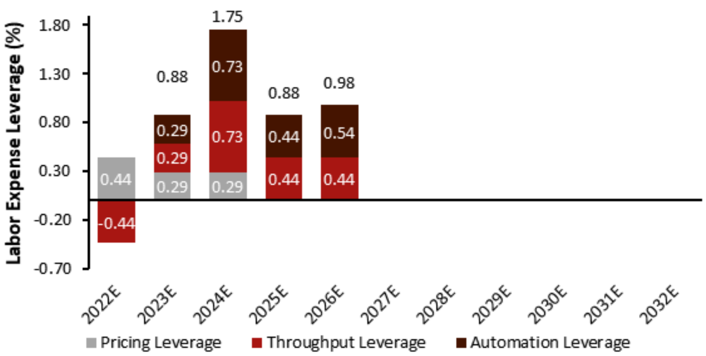
Interpretation: A 1% increase in AUV correlates to a 15 bps decrease in labor as a percent of sales.

Historical Occupancy Expense Leverage



Interpretation: A 1% increase in AUV correlates to a 6 bps decrease in occupancy as a percent of sales

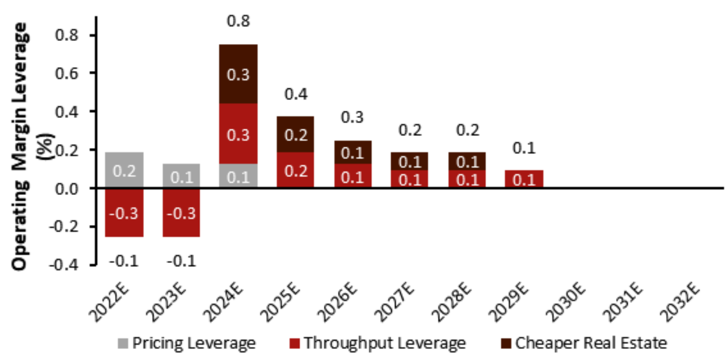
Labor Contribution to Restaurant Margin Expansion (%)



Interpretation: The above depicts the increase in margins each year due to labor expense leverage, broken down by our components of labor leverage.

Methodology: To calculate labor sales leverage from price increases, we multiplied the 15-bps labor leverage factor by our forecasted price increases for each year above our inflation expectations. We only expect Chipotle to take price in the short-term, which is why we only indicate price leverage through 2024, as Chipotle only increases prices to offset inflation after this year. To calculate labor sales leverage from throughput increases, we multiplied the 15-bps labor leverage factor by our forecasted throughput growth each year. Since we expect decreased labor expenses from automation investments, we calculated the level of automation efficiencies by multiplying the 15-bps labor leverage factor by our forecasted throughput growth each year. In 2026, labor as a percent of sales reached 20.9% which we left constant for the remainder of the forecasting period as we saw this as a reasonable terminal labor as a percent of sales.

Labor Contribution to Restaurant Margin Expansion (%)



Interpretation: The above depicts the increase in margins each year due to occupancy expense leverage, broken down by our components of occupancy leverage.

Methodology: To calculate occupancy sales leverage from price increases, we multiplied the 6-bps occupancy leverage factor by our forecasted price increases for each year over our inflation expectations. We only expect Chipotle to take price in the short-term, which is why we only indicate price leverage through 2024, as Chipotle only increases prices to offset inflation after this year. To calculate occupancy sales leverage from throughput increases, we multiplied the 6-bps occupancy leverage factor by our forecasted throughput growth each year. Since we expect decreased occupancy expenses from store growth in cheaper locations, we calculated the resulting decrease in occupancy by multiplying the 6-bps occupancy leverage factor by our forecasted throughput growth each year, starting in 2024. In 2029, occupancy as a percent of sales reached 3% which we left constant for the remainder of the forecasting period as we saw this as a reasonable terminal labor as a percent of sales.

Appendix G: Environmental, Social, Governance

Appendix G-1: Environmental

CMG Progress on Green Initiatives (2021)	
Percent of stores participating in recycling programs:	50%
Percent of stores participating in compost programs:	31%
Waste produced (cubic yards):	5.1 million
Waste recycled (cubic yards):	2.4 million
Waste composted (thousands of cubic yards):	107,900
Waste converted into energy (thousands of cubic yards):	68,490

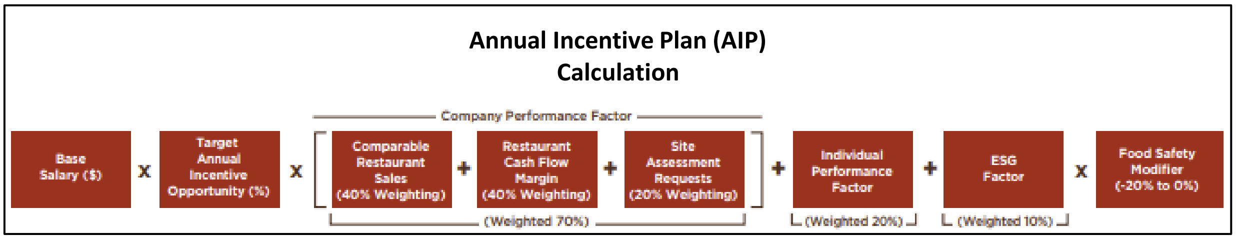
CMG Emissions Breakdown (2021)

Emission Category	Subcategory	Emissions*	% Contribution
Scope 1 Emissions		**126,373**	**50%**
Restaurants	Natural Gas	119,069	47%
Corporate Offices	Natural Gas	608	0%
Other	Natural Gas	6	0%
Restaurants	Propane	600	0%
Vehicle Fleet	Gasoline	3,043	1%
Corporate Jets	Jet Fuel	3,047	1%
Refrigerants	N/A	N/A	
Scope 2 Emissions		**128,786**	**50%**
Restaurants	Electricity	126,413	49%
Corporate Offices	Electricity	2,362	1%
Other	Electricity	11	0%
Total Scope 1 & 2 Emissions		255,159	100%

**Metric tons of CO2/equiv. per year*

Emission Category	Subcategory	Emissions*	% Contribution
Scope 3 Emissions		**3,567,125**	**100%**
Category 1	Purchased Goods and Services	2,974,374	83%
Category 2	Capital goods	125,208	4%
Category 3	Fuel- and energy-related activities	28,788	1%
Category 4	Upstream Transportation and Distribution	120,307	3%
Category 5	Waste generated in operations	115,111	3%
Category 6	Business travel	4,760	0%
Category 7	Employee commuting	133,620	4%
Category 8	Upstream leased assets	N/A	N/A
Category 9	Downstream Transportation and Distributio	29,931	1%
Category 10	Purchasing of sold products	N/A	N/A
Category 11	Use of sold products	N/A	N/A
Category 12	End of Life Treatment of Sold Products	35,026	1%
Category 13	Downstream leased assets	N/A	N/A
Category 14	Franchises	N/A	N/A
Category 15	Investments	N/A	N/A

Appendix G-2: Governance



Source: CMG 2022 Proxy Statement

Notes: The AIP is Chipotle's annual cash incentive program for certain bonus-eligible employees like the C-suite. The employee's base salary is multiplied by a yearly target incentive opportunity percentage, three factors, and a food safety modifier to arrive at the total bonus. The three factors are a company performance factor, an individual performance factor, and an ESG factor (implemented in 2021). 70% of the target value is based on company performance factor achievement, 20% is based on individual performance factor achievement, and 10% is based on ESG factor achievement.

CMG Corporate Governance Ranking			
Principle	**Description**	**Rating**	**Reasoning**
1. The Board is accountable to its shareholders	Shareholders must elect directors who represent their long-term interests in the company	4	Directors have strong experience and a clear vision for CMG that represents shareholders' best interests.
	Directors should stand for annual election	3	Directors are elected to one-year terms and stand for annual election or re-election.
	Directors who lose elections should resign	3	Any director who does not win a majority vote is required to submit his or her resignation.
	Shareholders should have nomination rights	3	CMG strongly encourages shareholders to nominate Board candidates.
	Anti-takeover measures should not be oppressive towards shareholders	3	CMG's share structure and anti-takeover measures are not oppressive to shareholders.
	Companies should be transparent with governance information	3	CMG provides information about board compensation, board member experience, and company direction.
2. Shareholders should be entitled to voting rights proportionate to their economic interest	One share should equal one vote	4	Class A shares, which are the only share class available, each have one vote.
	Boards should aim to remove multi-class share structures	4	CMG converted all of its Class B common stock one-to-one into shares of Class A stock in 2009.
3. Boards should be proactive and responsive to shareholders	Boards should consider significant shareholder proposals	2	The Board welcomes shareholder proposals and votes on shareholder proposals annually, but does not prioritize implementation in some cases.
	Boards should respond to shareholder opposition	3	The Board has historically addressed and remedied any shareholder opposition.
	Directors should be able to engage in dialogue with shareholders on significant matters	3	Through proxy statements and other channels, Directors communicate with shareholders throughout the year; the Investor Relations team meets regularly with company management, investors (current and prospective), and investment analysts. CMG regularly shares feedback and input received with its Board and applicable committees.
	Boards should work in the best interests of the shareholders	3	The Board has adopted policies to work in the best interest of shareholders and discloses any policy amendments.
4. Boards should have a strong, independent leadership structure	Boards should be independent from the parent company	3	CMG's Board has an independent majority of 89%.
	The board should have either an independent chairperson or a lead independent director	3	Scott Maw has been the Board's Lead Independent Director since 2014.
	The role of board leader should be clearly defined and sufficiently robust	3	The board leader has a number of responsibilities that are clearly defined CMG's Corporate Governance Guidelines.
5. Boards should adopt practices that enhance their effectiveness	Boards should be comprised of a diverse mix of experts	4	Board members come from many different industries and have strong backgrounds.
	Majority of Board Directors should be independent	4	Eight out of nine Board members are independent from the parent company.
	Boards should establish oversight committees	3	The Board has established three oversight committees - Audit & Risk; Compensation, People & Culture; and Nominating & Corporate Governance.
	Directors must dedicate substantial time to fulfill responsibilities	3	Directors are elected to one-year terms, and most Directors also serve on other company Boards.
	Boards should allow directors access to any information that is pertinent to the business	3	Directors receive regular reports on the most significant risks facing CMG, and are promptly informed on any new events that may affect the CMG's risk profile.
	Boards should disclose mechanisms that ensure board refinement	3	CMG discloses its Board nomination process and the criteria under which candidates are evaluated.
6. Boards should develop management incentive structures that align with the company's long-term strategy	Board must identify short- and long-term goals that include strong incentive plans and pay decisions that should be explained to shareholders	4	The Board identifies, implements, and discloses its goals for CMG. Pay decisions are based on relative performance versus peers and emphasize long-term equity over short-term cash.
	A change in long-term company strategy should necessitate a re-evaluation of the management incentives	3	CMG regularly re-evaluates management incentives and has historically altered management incentives if needed or appropriate (e.g. CEO pay packages during the E. coli outbreaks).
	Overall Average Rating:	**3.2**	
Rating Scale:	**1.** The company did not follow the criteria at all **2.** The company followed some of the criteria but failed to satisfy all aspects **3.** The company followed the criteria **4.** The company has excellent policies according to the criteria 5. The company implements industry leading policies according to the criteria	Poor Below Average Average Above Average Exceptional	

Source: Company Data, Team Analysis

C-Suite Compensation of CMG and Selected Peers, 2021				
Officer	**Total Compensation**	**% of Sales**	**% of Earnings**	**Share Ownership (%)**
Chipotle				
Brian Niccol (CEO)	$ 17,880,580	0.24%	2.62%	0.10%
Jack Hartung (CFO)	$ 6,168,673	0.08%	0.91%	0.23%
Curt Garner (CTO)	$ 5,704,712	0.08%	0.84%	0.04%
Christopher Brandt (CMO)	$ 4,899,260	0.07%	0.72%	0.03%
Scott Boatwright (CRO)	$ 4,839,015	0.06%	0.71%	0.02%
Shake Shack				
Randy Garutti (CEO)	$ 5,466,562	0.76%	0.00%	0.23%
Tara Comonte (CFO)	$ 1,923,758	0.27%	0.00%	0.00%
Zachary Koff (COO)	$ 1,810,576	0.25%	0.00%	0.08%
Katherine Fogertey (CFO)	$ 3,055,695	0.43%	0.00%	0.08%
Sweetgreen				
Jonathan Neman (CEO)	$ 38,819,816	11.42%	0.00%	3.18%
Nicolas Jammet (CCO)	$ 38,821,230	11.42%	0.00%	2.16%
Nathaniel Ru (CBO)	$ 38,807,732	11.41%	0.00%	2.18%
Wingstop				
Charles R. Morrison (CEO)	$ 5,042,788	0.22%	12.61%	0.26%
Michael J. Skipworth (CEO)	$ 2,611,488	0.11%	6.53%	0.06%
Alex R. Kaleida (CFO)	$ 1,134,627	0.05%	2.84%	0.01%
Stacy Peterson (CTO)	$ 2,059,139	0.09%	5.15%	0.01%
Donnie S. Upshaw (CPO)	$ 1,536,071	0.07%	3.84%	0.01%
Nicolas Boudet (Pres. Int)	$ 1,517,759	0.07%	3.79%	0.01%
El Pollo Loco				
Laurance Roberts (CEO)	$ 1,499,832	0.33%	4.72%	0.40%
Miguel Lozano (COO)	$ 1,107,640	0.24%	3.48%	0.23%
Bernard Acoca (CEO)	$ 2,011,266	0.44%	6.32%	0.30%
McDonald's				
Christopher Kempczinski (CEO)	$ 20,028,132	0.02%	0.27%	0.00%
Kevin Ozan (CFO)	$ 10,008,133	0.01%	0.14%	0.00%
Ian Borden (Pres. Int)	$ 8,275,790	0.01%	0.11%	0.00%

Source: Company Data, Team Analysis

Appendix H: Glossary

Average Unit Volume (AUV)	A Key measurement that shows how much a chain is earning per store
Casual Dining Restaurants (CDR)	A sit-down experience that offers moderately priced in a casual or relaxed atmosphere
Chipotlanes	A mode of mobile ordering by placing an order through the app and driving through once notified food is ready
Fast Casual Restaurants (FCR)	Offers the ease and comfort of fast food with high quality food and no full table service
Franchise	When someone buys marketing and distribution rights from a company so they can sell the product or service
Occupancy Costs	The cost associated with the type of lease a company has
Quick Service Restaurants (QSR)	A restaurant with a limited menu that requires little preparation time and delivered through quick methods
Restaurant Margins	The number of cents generated for each dollar of sales
Sales Leverage	The ability of a business to earn higher margins with incremental sales
Same Store Sales Growth (SSSG)	The total dollar amount of sales in the company's stores that have been operating for a year or more to use for performance comparison
Throughput	The amount of production through a process over a specific amount of time
Whitespace	The growth opportunities in untapped markets

Source: Team Analysis