



Chipotle Mexican Grill (NYSE: CMG)

Consumer Discretionary – Quick-Service Restaurants

Company Description: Chipotle Mexican Grill, Inc. engages in the development and operation of classically cooked, real food with wholesome ingredients without artificial colors, flavors or preservatives. It offers a focused menu of burritos, tacos, burrito bowls, and salads prepared using classic cooking methods. The company was founded by Steve Eells in 1993 and is headquartered in Newport Beach, CA.

Source 27: FactSet

Investment Thesis

We recommend... a **HOLD** rating for Chipotle Mexican Grill with a 6.46% – 7.21% upside due to a growing balance sheet, exhibiting a trend leadership position, and ambitious new restaurant goals.

Drivers of Thesis

- **Growing balance sheet:** Chipotle's uncommon capital structure allows them to conduct business with no debt. This allows them to have a large cash line item which we foresee to grow to approximately 44.02% of revenue by 2031, making growth and expansion easier for the company.
- **Trend leadership position:** Chipotle has been closely following the digital revolution as they have partnered with numerous third-party services and pushed their rewards program to entice consumers. They have also stepped out of the fast-food bubble by offering "food with integrity" and working to follow these ethical standards.
- **Ambitious restaurant goals:** Chipotle has announced a new goal of operating 7,000 restaurants in North America after hitting 2,966 restaurants in 2021. In addition, Chipotle addresses wanting to add "chipotlanes" drive-thrus to all existing and future restaurants.

Risks to Thesis

- **Third-party delivery fees:** Chipotle has stated previously that the additional fees they must pay sometimes creates a deficit over a profit, which could hinder their anticipated revenue growth as delivery service revenue is projected to grow from 1.12% of sales in 2021 to 3.21% by 2031.
- **Low switching costs:** If consumers continue to have low switching costs, Chipotle may not be able to keep up with competitors offering similar products at lower prices.

1Y Stock Performance Relative to S&P 500



Source 9: Seeking Alpha

Target Price \$1,694.42 – \$1,706.35

DCF/EP: \$1,694.42

DDM: \$1,321.39

Relative Valuation: \$730.04 - \$1,418.17

Statistical Highlights

Price Data

Current Price	\$1,591.67
52 Week Range	\$1,277.41 - \$1,958.55
Current P/E	\$23.21

Key Statistics

Market Capitalization	44.773B
Shares Outstanding	28.130M
2021 EPS	\$23.21
2022E EPS	\$29.78
Beta	1.32
WACC	9.08%
ROE	24.42%

Financial Metrics

2021 Revenue	7,547.061M
2022E Revenue	8,491.894M
2021 Net Income	652.984M
2022E Net Income	1,292.940M
2021 Profit Margin	10.67%
2022E Profit Margin	12.43%

Earnings Estimates

2022	2023	2024	2025	2026
29.78	34.46	39.74	45.91	52.82

Market Cap (in millions)



Executive Summary

Chipotle Mexican Grill (NYSE: CMG) operates within the consumer discretionary sector as a player in the quick-service restaurants industry

We believe that Chipotle Mexican Grill is a growing company that is flourishing from trends such as an upsurge in digital ordering and a deviation in consumer dietary preferences. We project that the addition of “chipotlanes” for new and existing stores will help boost sales for Chipotle Mexican Grill and further their ability to expand. Chipotle Mexican Grill will progress with these drive-thru lanes as they already have a well-built strategic capital structure. Chipotle Mexican Grill operates with no debt, which is an uncommon advantage in this industry, but reveals an upper hand for them as they can benefit from the extra liquidity to fuel new developments. We will refer to Chipotle Mexican Grill as “CMG” or “Chipotle” going forward.

Economic Analysis

Outlook for Consumer Discretionary: **NEUTRAL**

Although interest rates are rising to combat record inflation, we believe that unemployment will remain at consistently low levels and US real GDP will continue to grow, however, at a slower rate than in recent periods. The Fed will ultimately be successful in their battle against inflation; however, the timeline is unclear – causing consumer sentiment to retract only slightly within the next year. With unemployment steady, disposable personal income will have room to increase by 2023.

University of Michigan Consumer Sentiment Index

The University of Michigan Consumer Sentiment Index (MCSI) measures how optimistic or pessimistic consumers feel about their expected financial situation. Quite like the Consumer Confidence Index (CCI), these indexes are important indicators in the consumer discretionary sector as they predict the financial situation of consumers, and if they are willing to spend on nonessential items, like discretionary goods or services.

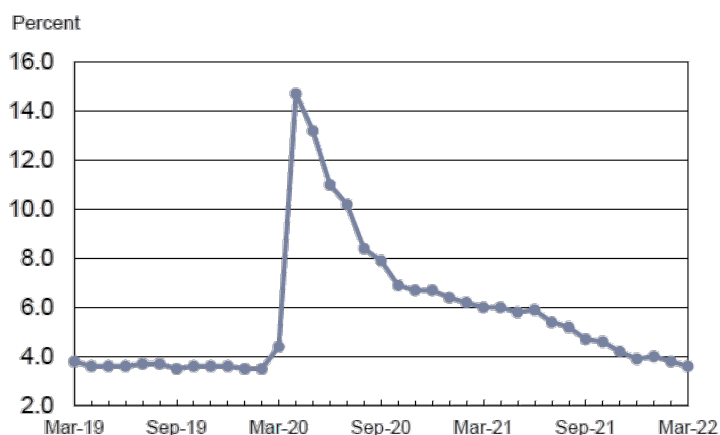
The preliminary results of the MCSI indicated that consumer sentiment sits at 65.7 bp (April 2022) – a 25.6% drop year-over-year from 2021, however a 10.6% increase from the previous month (March 2022). This offers evidence of small gains in sentiment, but these gains are still suggesting lower levels throughout the rest of the year

compared to the pre-pandemic position.¹ With the impacts of COVID still lingering and the uncertainty involving the Russian-Ukraine War, there is continued pessimism towards consumer discretionary spending over the next year.¹ We believe these economic conditions will cause consumer sentiment to decrease to approximately 59.2 by April of 2023, indicating a decrease in consumer demand for nonessential goods and services.

U.S Unemployment Rate

The U.S Unemployment Rate is a measure of the portion of the labor force in the United States that is jobless (as a percentage). This is a key indicator for the consumer discretionary sector because if a greater percentage of the population in the US is unemployed, resulting in lower purchasing power, then they are less likely to spend money on nonessential goods and services. The unemployment rate declined by 0.2 percentage points to 3.6% in March, and the number of unemployed persons decreased by 318,000 to 6.0 million.² As most people are returning to work, and businesses are, for the most part, re-opened to their full capacity, we believe that the unemployment rate will remain stagnant over the next 1-2 years. This is a positive indicator for the consumer discretionary sector as lower rates of unemployment can imply that consumers will have access to a greater amount of discretionary funds.

Chart 1. Unemployment rate, seasonally adjusted, March 2019 – March 2022

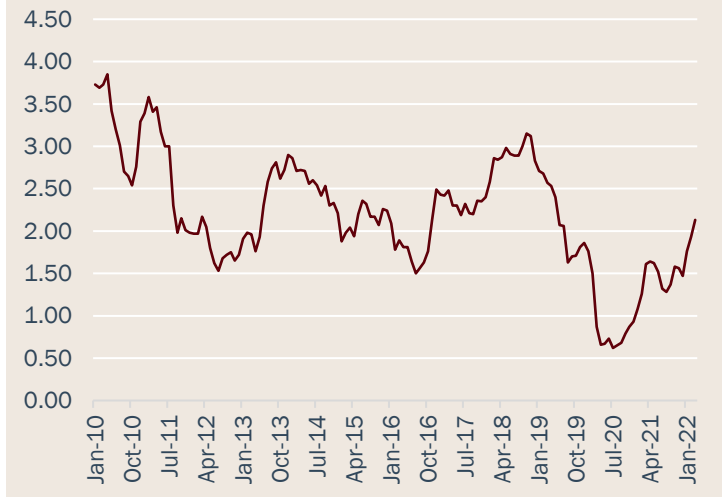


Source 2: Bureau of Labor Statistics

Interest Rates

An interest rate is the amount a lender charges a borrower for any form of debt and is expressed as a percentage of the amount loaned. This is crucial to the consumer discretionary sector as higher interest rates make consumers less likely to borrow money for nonessential purchases such as dining out or certain specialty retail/luxury items. This sector is more likely to perform better when interest rates are low.

10-yr Treasury Yield



Source 19: FRED

Currently, the long-term 10-year government yield is at 2.13% as of March 2022.⁴ Interest rates were extremely low throughout the pandemic as the Fed wanted to stimulate the economy by promoting spending. During this time the 10-year dropped as low as 0.062%. Since then, the Fed has taken action in raising interest rates slowly to help combat rising inflation. The first interest rate hike occurred in March 2021 where the 10-year went up to 1.61% - anticipated to continue increasing through the rest of the year.³ This could have a negative impact on the consumer discretionary as this sector relies on low interest rates for increased sales.

Aside from their impact on consumer spending, interest rates make the cost of borrowing money much more expensive. For companies like those in the consumer discretionary sector that rely heavily on debt, this makes investing in the expansion and growth of one's business extremely difficult. For Chipotle, a company that operates with no debt, the rise in interest rates has little to no negative impact on their use of capital. We see this as an advantage for Chipotle relative to its peers.

Real GDP

United States real gross domestic product (GDP) is an inflation-adjusted measure of the value of all goods and services produced by the United States economy in a given year. GDP is an important variable for projecting economic fluctuations within the consumer discretionary sector since it is a strong indicator of consumer spending and overall available goods for sale. Real GDP provides a more concise picture of economic growth year to year than nominal GDP which overlooks the effects of inflation.

According to the U.S Bureau of Economic Analysis, "real GDP increased at an annual rate of 6.9% in the 4th quarter [of 2021] after increasing 2.3% in the 3rd quarter."⁵ This

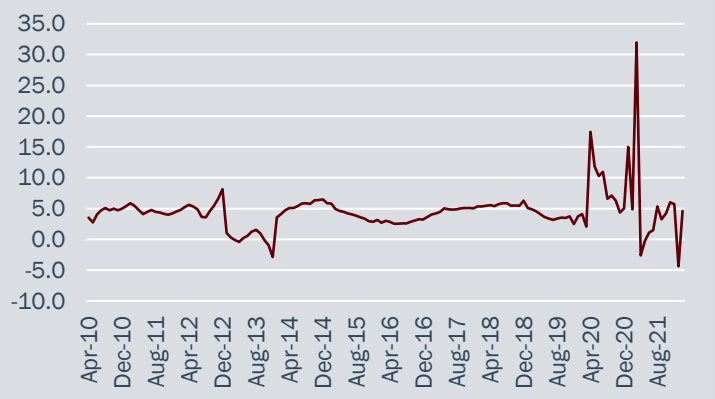
increase was due in part to an acceleration in consumer spending in a post pandemic environment. The consumer discretionary sector falls within the private goods-producing industries which includes nondurable and durable goods manufacturing and was in the top 10 industries contributing to an increase in real GDP output. The BEA states that "In 2021, private services-producing industries led the increase in GDP by 6.6% followed by the private goods-producing industries at a 5.1% increase."⁵

Current economic conditions have a large portion of the population worried that we may be headed into a recession. However, we have a slightly more confident outlook. We predict US real GDP will slow over the coming quarters, and over the next 1-2 years from its most recent 6.9% annual growth in the fourth quarter of 2021 to a modest 5.0% annual growth in the fourth quarter of 2022.

Disposable Personal Income

Disposable personal income is defined as the amount of income that consumers have left to spend or save after paying taxes out.¹⁹ In March 2021, DPI took the highest percent increase year over year in the past ten years of 32%, due in part to the stimulus checks that were issued during the pandemic. Since then, DPI has drastically fallen going negative twice in April 2021 and January 2022. DPI currently sits at a +4.6% annual change as of February 2022.¹⁹ We believe this increase is due to US citizens returning to work as restrictions are lifted. One concern with the future of DPI is whether or not the government will be able to get inflation under control. We feel that in the coming quarters, the government will successfully begin lowering inflation to 6.5% annually by the conclusion of this year. The outcome of reduced annual levels of inflation will begin to increase DPI by +5.3% annually by the first quarter of 2023. This proves to be useful for the consumer discretionary sector as consumers will have more cash on hand.

Y/Y Disposable Personal Income % Change



Source 19: FRED

Industry Analysis

Outlook for Consumer Discretionary: **POSITIVE**

We have an overall positive outlook for the quick-service restaurant industry. As momentum continues for the industry following pandemic recovery, we anticipate increased potential for revenue growth as companies in the industry continue to expand on emerging trends. Digital ordering and third-party delivery services are the most significant examples of these trends. Chipotle has made multiple announcements recently that suggest the company will also be on top of these trends, in addition to implementing new innovations.

Industry Description

We will be focusing on the restaurant industry which includes four business segments: quick-service restaurants, fast-casual restaurants, casual dining, and fine dining restaurants. To further specify, we will be analyzing the quick-service restaurants sub-industry including such companies headquartered in the US.²³

Product lines in this industry include a variety of foods, beverages, and promotional products. Common business segments consist of national and international operations, franchising, and real estate activity.²³

Revenues are generated through the sale of products from operating restaurant locations and fees, advertising funds collected from franchising restaurants, facilitating franchise-to franchise restaurant transfers, as well as providing development-related services to franchises. The majority of revenues come from direct sales of food and beverage products to consumers.²²

Industry Trends

Digital Ordering and Third-Party Delivery

Quick-service restaurants provide digital ordering services through self-run platforms, third-party platforms (DoorDash, Grubhub), and sometimes, a hybrid of the two. Digital ordering and delivery services have become more popular since the pandemic and are now crucial to quick-service restaurant companies as they strive to keep up with convenience-demanding consumers.

This development reduces wait time for consumers and drastically increases convenience in ordering, payment, and pickup.²¹ Since the on-start of COVID, take out and online ordering has become the new norm. Third-party delivery services also allow companies to offer some

additional incentives, such as free delivery or rewards through individualized programs, to keep consumers coming back.¹¹

Chipotle is keeping up with this trend as they continue developing their mobile ordering and membership app and keep up relationships with third-party delivery services. The only down-side to third-party delivery services to Chipotle, as stated in their 2021 10-K, is the fact that there is almost always a large delivery fee attached to that service – decreasing margins significantly for those sales. If the company cannot find a solution to this issue as digital sales and delivery become a larger share of their revenues, the company may take a hit on some revenues. Luckily, we believe that Chipotle will be able to combat this issue by raising menu item prices. In 2021, 8.50% of their 26.11% annual increase in revenues was due to menu item price increases that were successfully implemented without any noticeable reservations from consumers. CEO Brian Niccol said in an interview this year that he believes the company has room to raise prices by an additional 6% to combat such increasing expenses, again, without decreasing consumer participation.²⁶

Shifts in Dietary Preferences

Quick-service restaurants tend to lack in their variety of products that cater to specific dietary needs. QSRs rarely offer vegan, vegetarian, gluten-free, alternatives to their most popular products. Items that are consistent with such dietary needs may include plant-based foods, alternative proteins, low fat, gluten-free, or antibiotic free products. Companies that can adhere to these needs have a great chance of beating out competitors and gaining more consumers.²²

Chipotle is well-known for their commitment to providing quality foods made with wholesome ingredients to consumers – one reason their brand name is so strong. With this reputation already built, Chipotle stays far ahead of competitors attempting to participate in this trend.

Porter's Five Forces

Degree of Competition – high

There is a high threat of rivalry in the QSR sub-industry as giant, well developed, fast-food companies have more access and money to spend on marketing and innovation to help meet the continuously changing demand of consumers. Companies that have already created value in this industry work hard to keep their brand loyalty and stay top of mind for their customers. It is very difficult for new quick-service restaurants to compete on price, quality, and service against companies with large market shares in the

industry who are already heavily recognized and known for their unique products.¹³

Bargaining Power of Buyers – moderate

In the quick service industry, we believe that buyers have moderate buying power. Depending on their specific preferences, buyers have the option to switch to a more inexpensive restaurant if they are running a deal or promotion. As a result, we think that successful companies in this industry need strong brand loyalty and awareness to maintain customer attention. This should allow companies to have reliable sales, even in unpredictable economic conditions or changes in consumer preferences.

Bargaining Power of Suppliers – low

Companies in this industry have the ability to use multiple suppliers, stick with one supplier, or develop their own farm and packing. Since the quick-service industry relies on relatively essential commodities, there is always a wide availability of these inputs, which results in suppliers having low bargaining power. We believe that an advantageous quick-service company will work with suppliers that give them the lowest prices as compared to rivals.¹³

Threat of Substitutes – high

With a number of quick-service restaurants worldwide, consumers have very low switching costs and can easily be enticed by better bundles or new deal promotions.²⁰ A way to mitigate this risk is for companies to become more niche and work to increase their brand loyalty through fostering relationships with consumers. We believe that companies that can build trust with consumers through reward programs, digital efficiency, and consumer awareness will be the most successful candidates in this industry.¹³

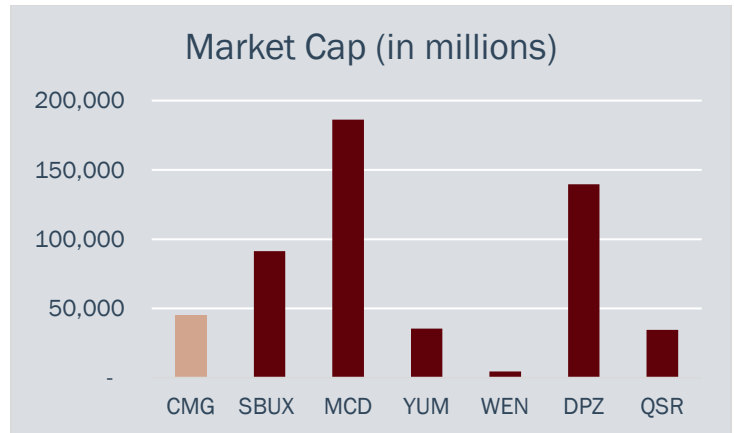
Threat of New Entrants – moderate

New companies wishing to join the quick service restaurant sector can set up a new restaurant with relative ease, as it takes low initial investment. Beyond that, companies fighting to enter this market must be concerned about high fixed costs and low profitability in the beginning stages, which can increase the risk of sustaining enough growth to continue the life of a company for new entrants.²⁰ Additionally, companies should be aware of the high brand value and brand awareness for existing brands which makes for a strong barrier against new entrants.¹³

Peer Comparisons

Market Capitalization Comparison

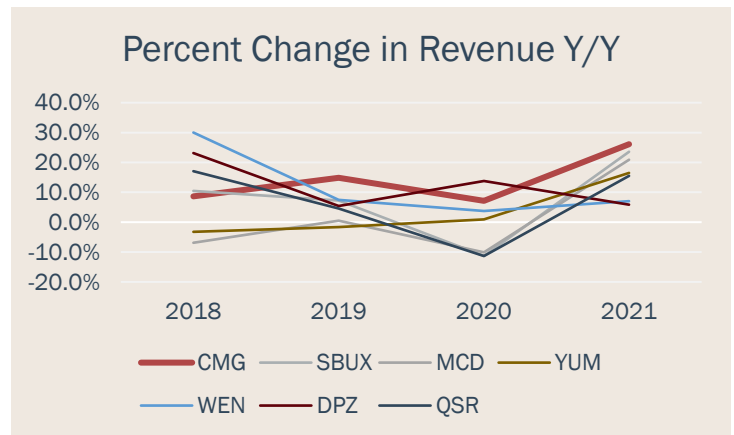
The top competitors we see potentially affecting Chipotle’s success in the quick-service restaurant industry are Starbucks (SBUX), McDonald’s (MCD), Yum Brands (YUM), Domino’s Pizza (DPZ) and Quick Service Restaurants (QSR). Here we have listed the market capitalizations for each company, CMG has a much smaller market cap than companies such as SBUX and MCD because these competitors have a presence outside of North America – an advantage over Chipotle. We hope to see future expansion into international waters for CMG to help increase their market share over the long-term horizon.



Source 27: FactSet

Revenue Comparison

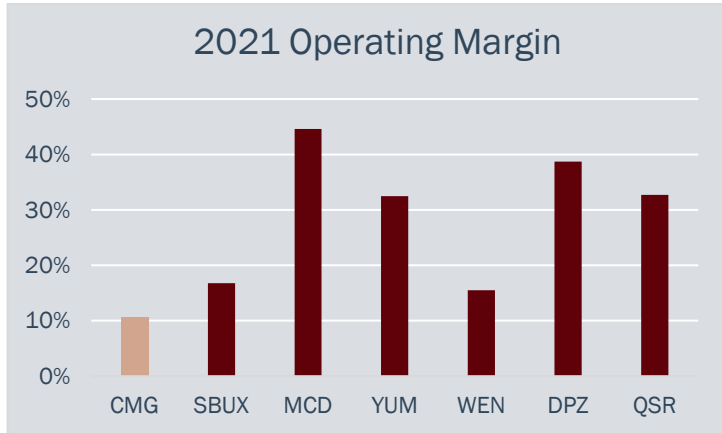
Chipotle has led in this metric relative to the majority of its competitors in recent years. This makes sense as the company is still in growth stages – while most of its public comps are at a more mature, steady state of growth. Chipotle’s capital structure, operating with no debt, allows the company a high-level liquidity for CMG to take advantage of and continue to expand.



Source 27: FactSet

Operating Margin Comparison

For its size in comparison to its public comps, Chipotle has consistently maintained a healthy operating margin for the industry. With the company's plans to increase efficiencies through automation while simultaneously growing revenues through innovations and unit growth, we predict that the company will reach a higher operating margin of 14.36% by the year 2031.



Source 27: FactSet

Company Analysis

Chipotle Mexican Grill, Inc. is a quick-service restaurant company which engages in the development and operation of classically cooked, real food with wholesome ingredients without artificial colors, flavors, or preservatives. It offers a focused menu of burritos, tacos, burrito bowls, and salads prepared using classic cooking methods. The company was founded by Steve Eells in 1993 and is headquartered in Newport Beach, CA.²⁷

Business Profile

Chipotle Mexican Grill serves a focused menu of burritos, tacos, burrito bowls, and salad using fresh ingredients. This focus on preparing quality food made from wholesome ingredients is something unique to the quick-service restaurant industry – one evident reason why their customers are so loyal to their brand.

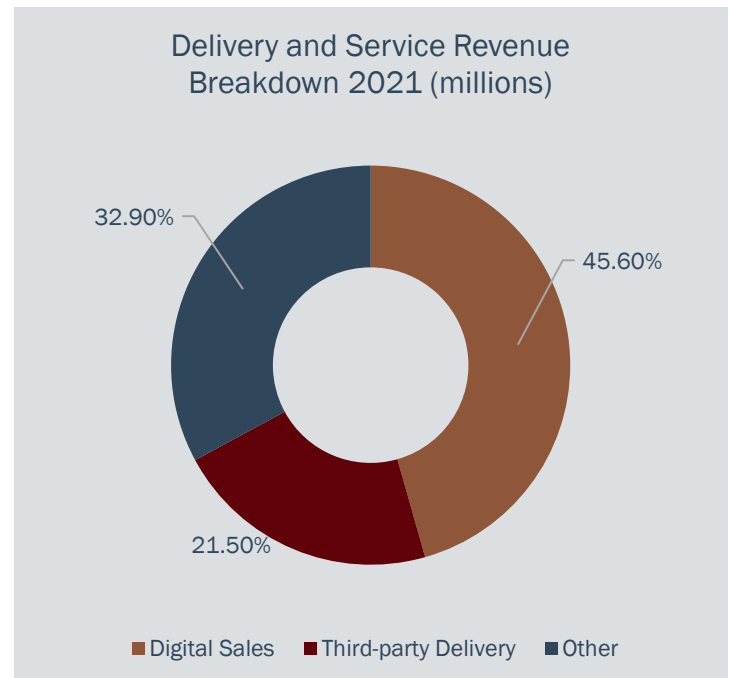
Ingredients and other operating supplies are delivered directly to restaurant locations by their own independently owned and operated regional distribution centers.²⁴

Chipotle operates primarily in North America with only 13 of its 2,996 restaurants located in the United Kingdom. The company generates revenue primarily through the sale of fresh foods and beverages. As a member of the quick-service restaurants industry, the company stands out from its competitors as a provider of quick, quality Mexican cuisine made from wholesome ingredients. The majority of

the company's operating expenses come from the purchases of supplies and labor. With plans to expand and opportunities to become more efficient, ultimately increasing margins, we estimate that the company will increase its operating margin from 10.56% in 2021 to 12.99% by 2025.²⁴

Revenues

Chipotle has recently begun dividing their revenues into two categories: 'food and beverage revenue' and 'delivery service revenue.' Average restaurant sales in 2021 were \$2.641 million (an increase from \$2.223 million in 2020) – 98.81% of which was attributable to 'food and beverage' revenues. 'Delivery and service' revenue accounted for 1.07% and 1.19% of sales in 2020 and 2021, respectively. 'Delivery and service' revenues are divided into three sub-categories: 'digital sales,' 'third-party delivery,' and 'other.'²⁴

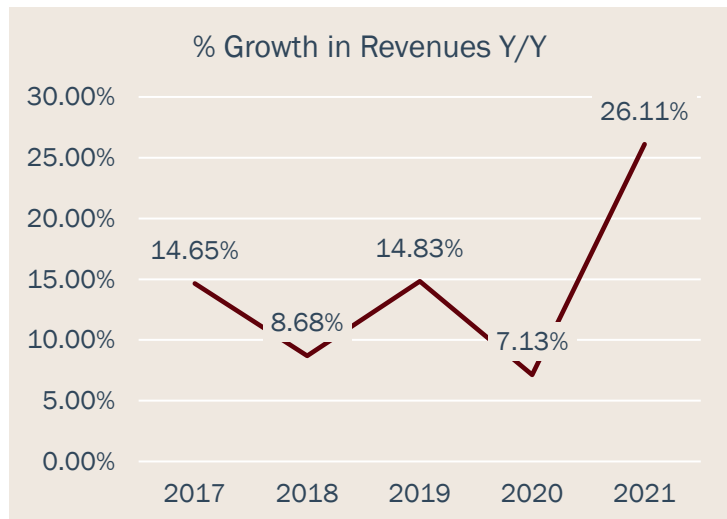


Source 24

Since the start of the pandemic, digital business has become a rapidly growing trend in the quick-service restaurants industry as consumers are prioritizing convenience and speed when considering where to dine.

As a result of this trend, we anticipate 'delivery and service' revenues for Chipotle will continue to rise quickly as a percentage of total sales over the next ten years. Specifically, we see 'third-party delivery' leading this expansion – which could potentially lead to shrinking margins as there is a sizable delivery fee associated with such a service that "doesn't always cover delivery costs." Chipotle has reported no intention of developing their own independent delivery service, but it is something we have mentioned as a potential opportunity if planned correctly.

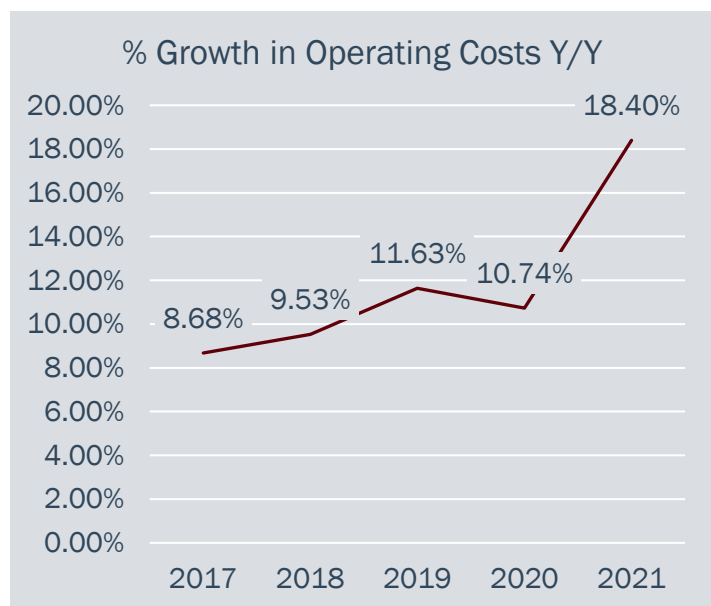
Revenues for Chipotle have been consistently growing over the past 5 years. The graph below shows a 26.11% growth in revenues from 2020-2021, which is slightly deceiving considering that operations for the company, as well as for the industry as whole, were recovering from the effects of the pandemic – resulting in a boost of growth. However, from 2019-2021, sales grew 35.10% over two years – greater than their average two-year revenue growth rate of 28.28% over the past ten years.²⁴



Source 24

Expenses

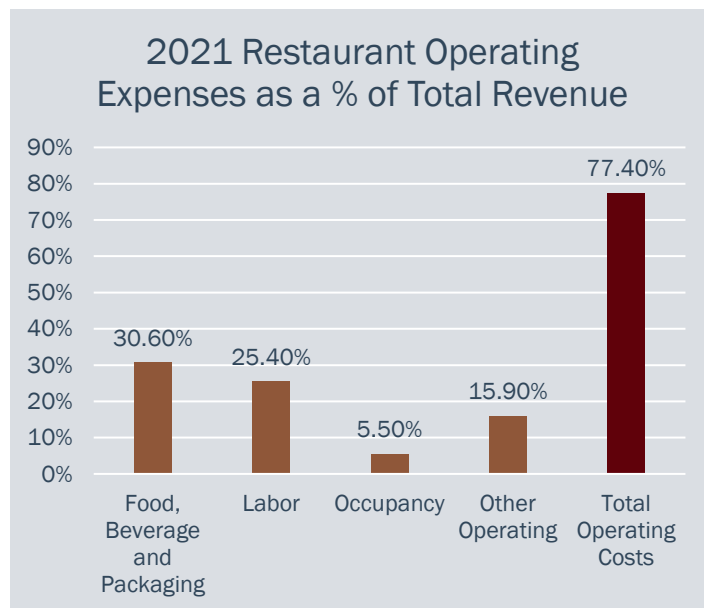
Chipotle’s restaurant operating costs include expenses related to food, beverage, and packaging, labor, occupancy expenses, and other.²⁴ In 2021, restaurant operating costs accounted for 77.4% of revenues (down from 82.6% in 2020), implying a 22.6% restaurant operating income margin, and yielding a **10.67% net profit margin** – which is high for quick-service restaurants with an industry average of 6-9%.¹¹



Source 24

Restaurant Development Costs

Chipotle opened 215 new restaurants in 2021, including 174 with “chipotlanes”, which is alike a normal drive-thru.²⁴ The majority of development costs for this company are recorded as capital expenditures – the only exception being “pre-opening costs” which accounted for only 0.28% of revenues in 2021 and 0.26% in 2020. ‘Pre-opening costs’ include rent, wages, benefits, and travel for training and opening teams, initial food and other operating costs associated with the opening of a new location.²⁴



Source 24

Other Operating Costs as a % of Total Revenue (2021)

General & Admin	8.04%
Depreciation & Amortization	3.37%
Pre-Opening Costs	0.28%
Impairment, Closure Costs, And Asset Disposals	0.26%

Expenses grew significantly in 2021 relative to their upward trend in the previous years – justified by their desire for expansion. The company began the year of 2021 with 2,768 restaurant locations and ended with 2,996 locations – 174 of which were built with a “chipotlane”.²⁴

SWOT Analysis

Strengths

Chipotle Mexican Grill’s primary strength is following their mission statement, “food with integrity”. Chipotle has built its business model around being known for producing high quality food through ethical suppliers and adhering to their commitment of using fresh produce.¹⁴ The company’s push for healthier alternatives has enhanced their brand image and given them a competitive advantage against other

quick-service companies who are focused more on less expensive fast food.

Additionally looking at their capital structure, Chipotle operates with zero debt. We see this as a unique strength for CMG because it allows them to build more restaurants at a faster rate than companies who have a large amount of debt and need to borrow to fund expansion. This allows Chipotle more financial flexibility as they work towards their goal of adding “chipotlanes” to their new and previously existing restaurants.

Weaknesses

The onset of COVID led quick-service restaurants across the board to increase their menu prices by around 8% in 2021.¹⁵ Since Chipotle is corporately owned, they can charge different prices across regions. Not only has their menu prices increase, but the pandemic has also resulted in a total spike of 9% in delivery prices across its 20 largest regions.¹⁵ This could potentially hinder Chipotle’s consumer loyalty, if other rivals are able to follow the health trend and provide lower prices.

Finally, in April 2020 Chipotle agreed to pay \$25 million to settle for food safety violations resulting from their E-coli breakout during 2015 – 2018.¹⁴ This was particularly harmful to their brand as consumers drew away from buying Chipotle in case of more illness outbreaks. Although Chipotle has recovered strongly from the E-coli outbreak posting a 10% same store sales growth in Q2 of 2019, it is still a lingering factor that Chipotle must keep on top of so that another outbreak doesn’t occur.¹⁶

Opportunities

Currently in the quick service industry, there are multiple opportunities for Chipotle to capitalize on. To start, Chipotle has 2,966 stores and only 13 locations outside of North America.²⁴ We believe that, with the proper expansion strategy, the next trend for Chipotle will be to develop new stores in parts of Europe and Asia. Not only will expanding into international markets be a significant opportunity, but their building of “chipotlanes” can be a great competitive advantage against rivals. With these additional drive through options, Chipotle will be able to cater to a larger group of customers. Consumers are all about efficiency these days, and Chipotle will be able to decrease their customer wait time by adhering to both a drive thru and in-store line.

Through the lines of efficiency, another advantage Chipotle could obtain is by creating their own delivery service. Restaurants, such as Chipotle, that partner with delivery apps – Postmates, Grubhub, UberEats and Doordash – pay commissions of 15-30% per order in 2020.²⁵ If Chipotle decides to build their own delivery platform, they will be

able to increase revenues as they will not be forced to pay out third-party fees. This will be a unique opportunity for Chipotle as little to none quick service restaurants offer their own service. Although services like these can be costly and consuming, this type of project would need to be timed effectively where Chipotle would have the extra liquidity to pursue such a tedious proposal.

Threats

Given the low barriers to entry in the quick-service industry, Chipotle is threatened by low switching costs by competitors that are offering lower prices. However, since Chipotle operates in the Tex-Mex sub-industry, they compete against a smaller number of similar rivals such as Taco Bell, Qdoba, and Moe’s Southwest Grill. Although these are competitors to watch out for, Chipotle does have higher quality and healthier food which they have used as an advantage to set them apart.¹⁷

A final threat to Chipotle’s success is their chicken supply chain disruption. From the beginning, Chipotle has always promoted ethical goals and standards. Recently, Chipotle opened up that they did not hit their goal of sourcing their chicken entirely humane by the end of 2021. Chipotle chief of corporate affairs and food safety officer, Laurie Schalow, said “since the transition to humane certification for our chicken requires changes to our existing suppliers, we were unable to take this step in 2021 without interrupting business. We feel confident that 100% of our US chicken will be American Humane Certified by the end of 2022”.¹⁸ Chipotle will have to navigate new terrain in finding ethical supplier, which can in turn be more costly. Overall, we believe this will lead them to success, as they continue to promote their mission for the more conscious consumers who value ethical treatment.

Valuation Analysis

Valuing Chipotle, we carefully analyzed the company's historical trends and performance, as well as economic conditions and events that may have influenced that performance from FY 2010 to FY 2021. We also took into consideration current economic conditions that we believe would have an impact on the future performance of the company. Using our personal economic and industry outlooks, we have projected Chipotle's financial statements for the next ten years (2022-2031) which we have used to create a discounted cash flow analysis, economic profit analysis, dividend discount model, and relative valuation model to determine the target stock price of the company.

Valuation Models

Discounted Cash Flow & Economic Profit Analyses

Share Price Result: \$1,694.42

Projection Period: 2022-2031

We believe that the discounted cash flow analysis and the economic profit analysis models provide the best picture of Chipotle's valuation. The company's unique capital structure and brand set it apart from its closest competitors. These intrinsic valuation models use the company's projected future free cash flow (FCF) and economic profit (EP) to calculate our base target price for Chipotle's stock – still taking into consideration inflation, major cash inflows and outflows, and our own personal projections for the company's growth.

In constructing these analyses, we first began by projecting the company's three financial statements ten years into the future.

Major Income Statement Items: In projecting revenues, we first began with projecting how many restaurants we believe Chipotle will construct each given year. We did this by calculating the five-year CAGR for the number of restaurants opened by the company since 2010, and then averaged those growth rates – excluding outliers from problematic/unusual fiscal years for Chipotle (for example, the growth rates surrounding the e-coli outbreak of 2015). We then applied the average growth rate of the number of restaurants opened annually, 8.55%, to the years within our projection period. We felt confident in the results of these calculations considering the company's recent announcement of their plans to begin expanding rapidly – eventually operating 7,000 restaurants in North America from their previous goal of 6,000.¹⁰

Many of the operating expense items we projected were estimated as a percentage of sales based on the previous ten-year average percentage of sales since 2010. Because we do not anticipate the company's operating structure changing in the near or distant future, we believed this method would result in an accurate representation of the company's financial statements into the future. The only exceptions being depreciation and amortization expense and pre-opening costs. Depreciation and amortization expense was projected as a percentage of net PPE – decreasing from 3.37% of sales in 2021 to an estimated 2.04% in 2031. Pre-opening costs were projected based on the estimated number of restaurant openings annual – increasing from 0.29% of revenue in 2021 to an estimated 0.39% in 2031.

Balance Sheet Items: The majority of operating balance sheet items were estimated throughout the projection period as a percentage of total revenues based on the previous ten- to five-year averages varying to our discretion. 'Leasehold improvements, property and equipment, net' was projected by netting the account against the deduction of depreciation and amortization and the addition of capital expenditures. Capital expenditures were projected by the company in their financial statements for the fiscal year 2022, and the estimates thereafter we determined as a function of annual restaurant openings growth and estimated pre-opening cost per restaurant opening yearly growth.

The entirety of the company's debt is composed of operating leases. To determine the projected balance of the operating lease assets item, we calculated the average leased asset value per store from 2019-2021. * We then attached a growth rate to these few years and applied that to figure the average leased asset value per restaurant in each year to calculate operating lease assets. As a result, operating lease assets accounted for 41.55% of revenues in 2022 and rose to 43.68% of revenues in 2031.

*Prior to 2019, accounting standards did not require that operating leases were reported on a company's balance sheet

Next, we looked at our projected financial statements to calculate each year's net operating profit less adjusted taxes (NOPLAT), invested capital (IC), free cash flow (FCF), and economic profit (EP), using these metrics to calculate key items for the DCF and EP valuation models.

Cost of Equity: We used the CAPM formula to calculate Chipotle's cost of equity using the yield on the US 10-year treasury as the risk-free rate. Our market risk premium of 5.17% is a historical geometric average of the difference between the return on the market and US T-bonds over the years 1928-2021. To calculate Chipotle's beta, we took an average of their two-year weekly and five-year monthly from

Bloomberg to get a beta of 1.32. With these inputs, Chipotle's **cost of equity is 8.96%**.

WACC: The company's capital structure is weighted 91.31% equity and 8.69% debt (operating leases). Using their given after-tax cost of debt of 1.62% taken from Bloomberg, we concluded that Chipotle's **weighted average cost of capital is 8.32%**.

Methodology: Our discounted cash flow analysis was built by forecasting Chipotle's free cash flows from 2022-2031 and then discounting them back to their present values using the WACC.

Our economic profit model was built by forecasting the company's economic profit from 2022-2031 and discounting them back to their present values using the cost of equity. For both models, the FCF/EP projections present values were summed, and the necessary adjustments were made to get from the implied enterprise value to equity value. Dividing the equity value by the total number of shares outstanding gave us our implied share price which was then adjusted to get the **implied share price or both models as \$1,694.42**.

Dividend Discount Model

Share Price Result: \$1,321.39

Projection Period: 2022-2031

Chipotle has never paid out any dividends and has expressed in their financial statements that they do not intend on doing so in the future. For that reason, this model was not taken into much consideration when determining our target price.

Relative Valuation

Share Price Result: \$730.04 – \$1,418.17

Peer Comparables: Starbucks (SBUX), McDonalds (MCD), Yum Brands (YUM), Wendy's (WEN), Domino's Pizza (DPZ), Restaurant Brand International (QSR)

Looking back at Chipotle's rare capital structure, geometric presence, and operation patterns relative to its competitors, we have concluded that relative valuation does not result in an accurate representation of the company's value. The extremely large range that this valuation method yields is evidence to this conclusion.

Sensitivity Analysis

We conducted a series of tests on our model through sensitivity tables – which allowed us to see the resulting stock price of our model when two different assumptions were changed at once. Below are the assumptions that we chose to test and their results.

Risk-free Rate & Beta

We chose to test the effects of altering the risk-free rate and Chipotle's beta together because they are both key assumptions that go into the calculation of the cost of equity and weighted average cost of capital – arguably the most sensitive variables within DCF and EP models. Analyzing how different risk-free rates affect the valuation of Chipotle's stock is extremely necessary under current economic conditions. With multiple interest rate hikes almost guaranteed by the end of 2022, the risk-free rate is quite volatile at this point.

Chipotle's beta is very telling to the company, as their capital structure is 92.54% equity. Again, because current and near future economic conditions are so unpredictable at the moment, we could see some fluctuation in the company's beta as markets continue to be extremely volatile. These tested variables result in an estimated stock price between \$1,300 – \$2,369.

		Risk-Free Rate							
		1,694.42	1.98%	2.03%	2.08%	2.13%	2.18%	2.23%	2.28%
Beta	1.17	2,369	2,321	2,275	2,230	2,187	2,146	2,106	
	1.22	2,139	2,099	2,060	2,023	1,987	1,952	1,918	
	1.27	1,946	1,912	1,879	1,848	1,817	1,787	1,758	
	1.32	1,779	1,750	1,722	1,694	1,668	1,642	1,617	
	1.37	1,640	1,615	1,591	1,567	1,544	1,521	1,499	
	1.42	1,517	1,495	1,474	1,453	1,433	1,413	1,393	
	1.47	1,410	1,390	1,371	1,353	1,335	1,317	1,300	

WACC & CV Growth Rate of NOPLAT

The weighted average cost of capital and the CV growth rate of the NOPLAT are conceivably the most impactful assumptions of the DCF model. Because the weighted average cost of capital fluctuates with the risk-free rate, market risk premium, and Chipotle's cost of debt (operating leases), observing the impact that slight changes in the WACC would have on the model is necessary.

The continuing value (CV) growth rate of the NOPLAT is also a variable that is very hard to predict so far into the future. Because our model stretches over ten years to 2031, where we believe the company will reach steady-state growth, their growth rate from that point on could be

estimated very differently even in the coming 2-3 years. With the current growth rate of 5.00%, the CV of the DCF model accounts for roughly 73% of the company's enterprise value. These tested variables result in an estimated stock price ranging from \$1,306 – \$2,441.

CV Growth Rate of NOPLAT	WACC							
	1.694.42	8.02%	8.12%	8.22%	8.32%	8.42%	8.52%	8.62%
4.25%	1,561	1,513	1,467	1,424	1,383	1,344	1,306	
4.50%	1,656	1,602	1,551	1,502	1,457	1,414	1,372	
4.75%	1,765	1,704	1,646	1,591	1,541	1,493	1,447	
5.00%	1,892	1,822	1,757	1,694	1,638	1,583	1,532	
5.25%	2,042	1,961	1,885	1,814	1,749	1,687	1,629	
5.50%	2,221	2,126	2,038	1,955	1,880	1,809	1,742	
5.75%	2,441	2,326	2,221	2,123	2,035	1,952	1,875	

After-tax Cost of Debt & Cost of Equity

As mentioned in the previous section, Chipotle's after-tax cost of debt was available via Bloomberg. With foreseen rate hikes in the near future, we believe the cost of debt for Chipotle will continue to fluctuate, and possibly rise in the coming quarters.

Again, because equity makes up the overwhelming majority of Chipotle's capital structure, it is important to sensitivity test this variable and observe its impact on the implied share price for the company in both the DCF and EP models. We predict variability in the company's beta as well as the risk-free rate, so testing this variable against the cost of debt (both of which go into the important assumption of the WACC for the DCF model) is important. These tested variables result in an estimated stock price between \$1,691 – \$1,698.

Cost of Equity	After-tax Cost of Debt							
	1.694.42	1.47%	1.52%	1.57%	1.62%	1.67%	1.72%	1.77%
8.66%	1,696	1,695	1,694	1,694	1,692	1,692	1,691	
8.76%	1,696	1,695	1,694	1,694	1,693	1,692	1,691	
8.86%	1,696	1,696	1,695	1,695	1,693	1,692	1,692	
8.96%	1,696	1,696	1,695	1,695	1,693	1,692	1,692	
9.06%	1,697	1,696	1,696	1,696	1,694	1,693	1,693	
9.16%	1,698	1,697	1,696	1,696	1,695	1,694	1,693	
9.26%	1,698	1,697	1,697	1,697	1,695	1,694	1,693	

Annual Growth Rate of Store Openings & Annual Growth Rate of Revenues per Store

Chipotle recently announced that they have increased their goal of operating 6,000 restaurants in North America to 7,000 in February.¹⁰ The company has not put a deadline on this goal; however, this indicates that they intend on increasing the number of stores that they open and operate each fiscal year. Based on restaurant opening statistics over the previous 10 years and the company's recent announcement of their plan to speed up expansion, we anticipate that Chipotle will grow their number of store

openings each fiscal year by 8.55% annually through 2025 (implying 233 new restaurants opening in 2022, up from 215 opened in 2021). Because the speed at which Chipotle intends on meeting their goal of 7,000 locations is unknown, it is important to test this variable as its results go into the calculation of net PPE each fiscal year – impacting total operating expenses and revenues, capital expenditures, among a number of other factors that go into calculating key assumptions for the DCF and EP models (NOPLAT, invested capital, ROIC, EP, etc.).

The annual growth rate of revenues per store is tested against the growth rate of store openings because the two variables are key in determining total revenues, expenses, and margins. We have determined that revenues per store will grow at a rate of 4.31% based on revenue growth over the previous 10 years. Chipotle's implementation of more "chipotlanes" and intended digital sales improvement will impact the amount of revenues that each location brings in, on average, depending on the behavior of consumers as a result of such changes. These tested variables depicted an estimated stock price between \$1,651 – \$1,737.

Annual Growth Rate of Revenue per Store	Annual Growth Rate of Store Openings							
	1.694.42	8.40%	8.45%	8.50%	8.55%	8.60%	8.65%	8.70%
4.16%	1,651	1,654	1,656	1,658	1,660	1,663	1,665	
4.21%	1,663	1,665	1,668	1,670	1,672	1,675	1,677	
4.26%	1,675	1,677	1,680	1,682	1,684	1,687	1,689	
4.31%	1,687	1,689	1,692	1,694	1,696	1,699	1,701	
4.36%	1,699	1,701	1,704	1,706	1,708	1,711	1,713	
4.41%	1,711	1,713	1,716	1,718	1,720	1,723	1,725	
4.46%	1,723	1,726	1,728	1,730	1,733	1,735	1,737	

Food, Beverage, and Packaging Costs as a % of Sales & Labor Costs as a % of Sales (2022-2031)

'Food, beverage, and packaging costs' as a percentage of sales is the next variable we wanted to test against 'labor costs' as a percentage of sales. These are important variables to test for Chipotle because of recent company news. In mid-March this year, Chipotle announced it was testing a new tortilla chip-making robot named Chippy – the first and only chip making robot. This invention, if successfully implemented at Chipotle locations, would significantly impact labor and supply costs.⁷ A bit later in March of this year, the company announced it was testing radio-frequency identification (RFID) technology to track inventory and decrease the number of unnecessary tasks that employees are currently doing.⁸ This could also significantly impact labor and supply costs if the technology is successfully implemented at multiple locations going into the future. These tested variables issued an estimated stock price between \$1,656 – \$1,732.

		Food, Beverage and Packaging Costs as a % of Sales 2022-2031							
		1,694.42	32.79%	32.84%	32.89%	32.94%	32.99%	33.04%	33.09%
Labor Costs as a % of Sales 2022-2031	24.96%	1,732	1,726	1,719	1,713	1,707	1,700	1,694	1,687
	25.01%	1,726	1,719	1,713	1,707	1,700	1,694	1,687	1,681
	25.06%	1,719	1,713	1,707	1,700	1,694	1,687	1,681	1,675
	25.11%	1,713	1,707	1,701	1,694	1,688	1,682	1,675	1,668
	25.16%	1,707	1,700	1,694	1,688	1,681	1,675	1,668	1,662
	25.21%	1,700	1,694	1,687	1,681	1,675	1,668	1,662	1,656
	25.26%	1,694	1,687	1,681	1,675	1,668	1,662	1,656	1,650

General and Administrative Costs as a % of Sales & Other Operating Expenses as a % of Sales (2022-2031)

General and administrative costs as a percentage of revenue could vary significantly in the coming years as inflation continues to rise. This expense also may vary from the trending average over the previous 10 years (7.65%) we assumed when making our models because of Chipotle's recent announcement of the opening of a new corporate office in Columbus, Ohio.⁶ 'Other operating expenses' are defined in Chipotle's FY 2021 10-K as "marketing and promotional costs, delivery expense, bank and credit card processing fees, restaurant utilities, and maintenance costs." In 2021, 'other operating costs' accounted for 15.86% of revenues. Again, with the new corporate office and the anticipated rapid expansion of restaurant locations, this percentage could vary significantly impacting margins. We used an average over the previous 10 years to project this income statement item as 13.09% of revenues throughout the projections period of our financial models. These tested variables raise an estimated outcome stock price range between \$1,656 – \$1,733.

		General and Administrative Expense as a % of Sales 2022-2031							
		1,694.42	7.50%	7.55%	7.60%	7.65%	7.70%	7.75%	7.80%
Other Operating Expenses as a % of Sales 2022-2031	12.94%	1,733	1,727	1,720	1,714	1,708	1,701	1,695	1,688
	12.99%	1,727	1,720	1,714	1,708	1,701	1,695	1,688	1,682
	13.04%	1,720	1,714	1,708	1,701	1,695	1,688	1,682	1,676
	13.09%	1,714	1,708	1,701	1,695	1,688	1,682	1,676	1,669
	13.14%	1,708	1,701	1,695	1,688	1,682	1,676	1,669	1,663
	13.19%	1,701	1,695	1,688	1,682	1,676	1,669	1,663	1,656
	13.24%	1,695	1,688	1,682	1,676	1,669	1,663	1,656	1,650

Important Disclaimer

This report was created by students enrolled in the Applied Equity Valuation class at the University of Iowa. The report was originally created to offer an internal investment recommendation for the University of Iowa Krause Fund and its advisory board. The report also provides potential employers and other interested parties an example of the students' skills, knowledge and abilities. Members of the Krause Fund are not registered investment advisors, brokers or officially licensed financial professionals. The investment advice contained in this report does not represent an offer or solicitation to buy or sell any of the securities mentioned. Unless otherwise noted, facts and figures included in this report are from publicly available sources. This report is not a complete compilation of data, and its accuracy is not guaranteed. From time to time, the University of Iowa, its faculty, staff, students, or the Krause Fund may hold a financial interest in the companies mentioned in this report.

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Chipotle Mexican Grill



Key Assumptions of Valuation Model

Ticker Symbol	CMG
Current Share Price	\$ 1,591.67
Current Model Date	4/13/2022
FY End (month/day)	Dec. 31
Last FYE Date	12/31/2021
Next FYE Date	12/31/2022

After-tax cost of debt	1.62%
Beta	1.32
Risk-Free Rate	2.13%
Equity Risk Premium	5.17%
Cost of Equity	8.96%
Forecasted Marginal Tax Rate	22.00%
Forecasted Effective Tax Rate	25.00%
WACC	8.32%

Total Shares Outstanding (M)	28,130.00
CV Growth of NOPLAT	5.00%
CV Growth of EPS	5.00%
Current Dividend Yield	0.00%
Short-Term ROI Prediction (1 yr treasury)	1.05%
Long-Term ROI Prediction (10 yr treasury)	2.13%

Normal Cash Estimate (% sales)	2.25%
Share Repurchases Annual Growth Rate	6.10%
Number of store opening yearly growth	8.55%
Pre-opening cost per restaurant yearly growth	1.3%

Revenue per store annual growth rate	4.31%
Food, beverage and packaging costs as a % of sales	32.94%
Labor costs as a % of sales	25.11%
Other operating expenses as a % of sales	13.09%
General and administrative expense as a % of sales	7.65%

Chipotle Mexican Grill

Revenue Decomposition

<i>Fiscal Years Ending Dec. 31</i>	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Food & beverage revenue	-	5,920,545	7,457,169	8,349,986	9,370,223	10,527,283	11,836,852	13,317,918	14,992,423	16,885,409	19,025,324	21,444,427	24,179,264
% of total revenue		98.93%	98.81%	98.33%	98.02%	97.78%	97.59%	97.42%	97.27%	97.13%	97.01%	96.90%	96.79%
Delivery service revenue	-	64,089	89,892	141,908	189,218	238,560	292,517	352,790	420,852	498,175	586,326	687,028	802,211
% of total revenue		1.07%	1.19%	1.67%	1.98%	2.22%	2.41%	2.58%	2.73%	2.87%	2.99%	3.10%	3.21%
Total revenue	5,586,369	5,984,634	7,547,061	8,491,894	9,559,441	10,765,842	12,129,370	13,670,708	15,413,275	17,383,584	19,611,650	22,131,455	24,981,474
Growth rate of total revenue Y/Y	14.83%	7.13%	26.11%	12.52%	12.57%	12.62%	12.67%	12.71%	12.75%	12.78%	12.82%	12.85%	12.88%
Store count	2,622	2,768	2,966	3,199	3,453	3,728	4,026	4,350	4,702	5,084	5,499	5,949	6,437
Revenue per store	2,131	2,162	2,545	2,654	2,769	2,888	3,013	3,142	3,278	3,419	3,567	3,720	3,881
Revenue per store growth Y/Y	9.09%	1.48%	17.69%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%	4.31%
Two-year growth rate of total revenue	24.80%	23.01%	35.10%	41.89%	26.66%	26.78%	26.88%	26.98%	27.07%	27.16%	27.24%	27.31%	27.38%

Chipotle Mexican Grill

Income Statement

(in thousands of US dollars)

Fiscal Years Ending Dec. 31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Food & beverage revenue	-	5,920,545	7,457,169	8,344,901	9,370,223	10,527,283	11,836,852	13,317,918	14,992,423	16,885,409	19,025,324	21,444,427	24,179,264
Delivery service revenue	-	64,089	89,892	141,908	189,218	238,560	292,517	352,790	420,852	498,175	586,326	687,028	802,211
Total revenue	5,586,369	5,984,634	7,547,061	8,491,894	9,559,441	10,765,842	12,129,370	13,670,708	15,413,275	17,383,584	19,611,650	22,131,455	24,981,474
Restaurant Operating Costs													
Food, beverage & packaging	1,847,916	1,932,766	2,308,631	2,797,172	3,148,815	3,546,195	3,995,332	4,503,038	5,077,028	5,726,035	6,459,944	7,289,951	8,228,728
Labor	1,472,060	1,593,013	1,917,761	2,132,007	2,400,029	2,702,913	3,045,245	3,432,219	3,869,715	4,364,388	4,923,774	5,556,406	6,271,943
Occupancy	363,072	387,762	416,606	456,281	499,967	548,072	601,047	659,389	723,646	794,422	872,382	958,259	1,052,863
Other operating costs	760,831	1,030,012	1,197,054	1,111,735	1,251,495	1,409,434	1,587,943	1,789,731	2,017,863	2,275,810	2,567,502	2,897,388	3,270,504
General & administrative expenses	451,552	466,291	606,854	649,701	731,378	823,678	927,999	1,045,924	1,179,245	1,329,991	1,500,456	1,693,243	1,911,293
Depreciation & amortization	212,778	238,534	254,657	235,345	263,897	292,052	320,196	348,698	377,913	408,190	439,873	473,310	508,854
Pre-opening costs	11,108	15,515	21,264	23,378	25,702	28,256	31,065	34,153	37,548	41,280	45,384	49,895	54,855
Impairment, closure costs, and other asset disposals	23,094	30,577	19,291	31,112	35,218	39,884	45,186	51,212	58,063	65,850	74,705	84,773	96,224
Total operating expenses	5,142,411	5,694,470	6,742,118	7,436,731	8,356,501	9,390,484	10,554,013	11,864,365	13,341,021	15,005,965	16,884,020	19,003,225	21,395,264
Income (loss) from operations	443,958	290,164	804,943	1,055,163	1,202,940	1,375,358	1,575,356	1,806,343	2,072,254	2,377,619	2,727,629	3,128,230	3,586,211
Interest & other income (expense), net	14,327	3,617	7,820	14,272	19,588	23,885	29,023	35,626	43,924	54,234	66,836	82,073	100,358
Income (loss) before income taxes	458,285	293,781	812,763	1,069,435	1,222,528	1,399,243	1,604,379	1,841,969	2,116,178	2,431,853	2,794,465	3,210,303	3,686,569
Provision (benefit) for income taxes	108,127	(61,985)	159,779	235,276	268,956	307,833	352,963	405,233	465,559	535,008	614,782	706,267	811,045
Net income (loss)	350,158	355,766	652,984	834,159	953,572	1,091,410	1,251,415	1,436,736	1,650,619	1,896,845	2,179,683	2,504,036	2,875,524
Earnings per Share													
Total basic shares outstanding (thousands)	27,740	27,920	28,130	27,897	27,671	27,454	27,244	27,042	26,847	26,660	26,479	26,306	26,138
Net earnings (loss) per share - basic	\$12.62	\$12.74	\$23.21	\$29.78	\$34.46	\$39.75	\$45.93	\$53.13	\$61.48	\$71.15	\$82.32	\$95.19	\$110.01
Weighted average shares outstanding - basic	27,740	27,917	28,132	28,013	27,784	27,563	27,349	27,143	26,945	26,754	26,570	26,392	26,222
Annual dividends per share	0	0	0	0	0	0	0	0	0	0	0	0	0
EPS Growth Y/Y	98.74%	0.95%	82.18%	28.30%	15.73%	15.36%	15.54%	15.67%	15.72%	15.73%	15.69%	15.64%	15.57%

Chipotle Mexican Grill

Historical Cash Flow Statement

Fiscal Years Ending Dec. 31

	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Operating activities												
Net income (loss)	178,981	214,945	278,000	327,438	445,374	475,602	22,938	176,253	176,553	350,158	355,766	652,984
<i>Adjustments to reconcile net income to net cash provided by operating activities</i>												
Depreciation & amortization	68,921	74,938	84,130	96,054	110,474	130,368	146,368	163,348	201,979	376,730	423,072	254,657
Deferred income tax provision (benefit)	10,064	11,319	(18,057)	2,103	(20,671)	11,666	(14,207)	(18,026)	10,585	29,962	108,350	(12,357)
Impairment, closure costs, and asset disposals	6,711	6,422	5,027	6,751	6,976	13,194	23,877	13,345	61,987	15,402	28,874	17,086
Provision for credit losses	(151)	239	1,046	19	9	(23)	(262)	214	125	33	164	493
Stock-based compensation	6,855	2,596	(8,934)	25,278	74,773	(16,531)	62,846	65,255	69,164	91,396	82,626	176,392
Other adjustments	-	2,501	522	507	104	582	(604)	(218)	(2,918)	(10,592)	3,643	(4,599)
<i>Changes in operating assets and liabilities</i>												
Accounts receivable	(743)	(2,970)	(9,438)	(7,238)	(10,966)	(3,504)	(1,923)	(140)	(8,298)	(2,630)	3,010	(1,687)
Inventory	(1,481)	(1,816)	(2,180)	(1,950)	(2,307)	262	(91)	(5,250)	(1,722)	(4,530)	(394)	(6,392)
Prepaid expenses & other current assets	(1,632)	(5,399)	(5,954)	(6,806)	(658)	(5,259)	(4,259)	(6,710)	(3,811)	(23,066)	(11,442)	(26,826)
Operating lease assets	-	-	-	-	-	-	-	-	-	-	-	223,837
Other assets	(8,956)	(7,350)	(20,539)	(1,354)	1,071	(5,619)	(4,855)	(2,587)	(2,005)	2,818	(26,577)	3,993
Accounts payable	6,989	9,432	7,849	2,052	2,168	19,525	(6,734)	10,908	32,080	(973)	(3,859)	21,440
Accrued payroll & benefits	-	-	-	-	-	-	-	-	29,568	11,759	76,683	(44,555)
Accrued liabilities	16,607	17,451	21,307	12,020	35,019	(7,440)	33,491	38,574	14,831	36,543	5,596	10,997
Unearned revenue	-	-	-	-	-	-	-	-	6,829	30,400	36,958	34,387
Income tax payable/receivable	(13,209)	66,555	59,357	44,334	8,831	32,756	54,340	(4,173)	14,439	(32,083)	(255,251)	193,379
Operating lease liabilities	17,261	19,624	23,765	25,715	27,025	32,911	37,030	29,996	21,297	(151,557)	(165,154)	(207,164)
Other long-term liabilities	2,974	2,609	4,062	3,857	4,845	4,826	1,287	6,316	869	1,862	1,782	(3,984)
Net cash flows from operating activities	289,191	411,096	419,963	528,780	682,067	683,316	349,242	467,105	621,552	721,632	663,847	1,282,081
Investing activities												
Purchases of leasehold improvements, property & equipment	(113,215)	(151,147)	(197,037)	(199,926)	(252,590)	(257,418)	(258,842)	(216,777)	(287,390)	(333,912)	(373,352)	(442,475)
Purchases of investments	(125,000)	(183,251)	(213,462)	(387,639)	(521,004)	(559,372)	540,648	(199,801)	(485,188)	(448,754)	(468,418)	(429,350)
Maturities of investments	50,234	124,766	55,000	159,250	254,750	352,650	45,000	330,000	385,000	476,723	419,078	345,748
Proceeds from sale of equipment	-	-	-	-	-	-	-	-	-	13,969	-	4,035
Acquisitions of equity method investments	(1,900)	(586)	-	-	-	-	-	-	-	-	(10,025)	-
Net cash flows from investing activities	(189,881)	(210,218)	(355,499)	(428,315)	(518,844)	(464,140)	326,806	(86,578)	(387,578)	(291,974)	(432,717)	(522,042)
Financing activities												
Acquisition of treasury stock	(126,602)	(63,508)	(217,092)	(138,903)	(88,338)	(460,675)	(837,655)	(285,920)	(160,937)	(190,617)	(54,401)	(466,462)
Tax withholding on stock-based compensation awards	32,176	39,360	73,691	38,695	21,667	74,442	1,320	-	(5,411)	(10,420)	(48,555)	(79,870)
Stock plan transactions & other financing activities	-	-	-	-	(66)	(207)	52	26	(187)	(698)	-	-
Payments on deemed landlord financing	(96)	(120)	(133)	-	-	-	-	-	-	-	-	-
Other financing payments	-	-	-	(143)	-	-	-	-	-	-	(1,895)	(2,274)
Net cash flows from financing activities	(94,522)	(24,268)	(143,534)	(100,351)	(66,737)	(386,440)	(836,283)	(285,894)	(166,535)	(201,735)	(104,851)	(548,606)
<i>Effect of exchange rate changes on cash & cash equivalents</i>	<i>484</i>	<i>(205)</i>	<i>380</i>	<i>536</i>	<i>(224)</i>	<i>(4,196)</i>	<i>110</i>	<i>2,056</i>	<i>(1,457)</i>	<i>406</i>	<i>1,076</i>	<i>(1,039)</i>
Cash, cash equivalents, & restricted cash at beginning of period	219,566	224,838	401,243	322,553	323,203	419,465	248,005	87,880	214,170	280,152	508,481	635,836
Cash, cash equivalents, & restricted cash at end of period	224,838	401,243	322,553	323,203	419,465	248,005	87,880	184,569	280,152	508,481	635,836	846,230
Net change in cash & cash equivalents	5,272	176,405	(78,690)	650	96,262	(171,460)	#####	96,689	65,982	228,329	127,355	210,394
Check	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK	OK
<i>Income taxes paid (refunded)</i>	<i>112,150</i>	<i>56,270</i>	<i>138,385</i>	<i>160,973</i>	<i>280,687</i>	<i>248,547</i>	<i>23,862</i>	<i>119,787</i>	<i>67,053</i>	<i>109,571</i>	<i>85,010</i>	<i>(17,831)</i>

Chipotle Mexican Grill

Forecasted Cash Flow Statement

<i>Fiscal Years Ending Dec. 31</i>	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Net Income	834,159	953,572	1,091,410	1,251,415	1,436,736	1,650,619	1,896,845	2,179,683	2,504,036	2,875,524
Depreciation & Amortization Expense	235,345	263,897	292,052	320,196	348,698	377,913	408,190	439,873	473,310	508,854
Net Income + D&A	1,069,504	1,217,469	1,383,462	1,571,612	1,785,434	2,028,532	2,305,035	2,619,556	2,977,346	3,384,378
<i>Cash Flows from Operating Activities</i>										
Accounts receivable, net	(14,059)	(14,288)	(16,147)	(18,250)	(20,630)	(23,323)	(26,371)	(29,821)	(33,726)	(38,146)
Inventory	(5,060)	(4,763)	(5,382)	(6,083)	(6,877)	(7,774)	(8,790)	(9,940)	(11,242)	(12,715)
Prepaid expenses & other current assets	(5,673)	(10,614)	(11,994)	(13,557)	(15,324)	(17,325)	(19,589)	(22,152)	(25,053)	(28,336)
Income tax receivable	58,263	(5,125)	(5,916)	(6,867)	(7,954)	(9,180)	(10,568)	(12,139)	(13,921)	(15,944)
Accounts payable	13,982	22,269	25,498	28,872	33,723	34,834	41,389	46,868	52,955	59,806
Accrued payroll & benefits	41,184	25,594	28,923	32,690	36,953	41,777	47,237	53,417	60,411	68,328
Accrued liabilities	48,696	27,877	31,503	35,606	40,249	45,503	51,450	58,181	65,799	74,422
Unearned revenue	(122)	19,640	22,195	25,085	28,357	32,059	36,249	40,991	46,358	52,433
Current operating lease liabilities	128,686	29,665	(9,446)	(7,931)	(8,294)	0	0	0	0	0
Operating lease assets	(409,960)	(465,707)	(529,131)	(601,293)	(683,401)	(776,833)	(883,154)	(1,004,150)	(1,141,852)	(1,298,572)
Other assets	(1,208)	(1,234)	(1,260)	(1,287)	(1,314)	(1,342)	(1,371)	(1,400)	(1,430)	(1,460)
Long-term operating lease liabilities	455,627	495,931	563,470	640,315	727,752	827,247	940,469	1,069,317	1,215,955	1,382,845
Deferred income tax liability	2,471	2,824	3,232	3,706	4,255	4,889	5,618	6,456	7,416	8,516
Other liabilities	4,100	5,209	5,908	6,687	7,562	8,550	9,666	10,927	12,352	13,964
Net cash from operating activities	1,386,431	1,344,747	1,484,914	1,689,305	1,920,491	2,187,614	2,487,269	2,826,109	3,211,370	3,649,521
<i>Cash Flows from Financing Activities</i>										
Cash from share issuances	64,948	64,948	64,948	64,948	64,948	64,948	64,948	64,948	64,948	64,948
Restricted cash	(324)	0	0	0	0	0	0	0	0	0
Net cash from financing activities	64,624	64,948	64,948	64,948	64,948	64,948	64,948	64,948	64,948	64,948
<i>Cash Flows from Investing Activities</i>										
Purchases of lease, PPE	(450,000)	(475,561)	(503,634)	(534,468)	(568,333)	(605,527)	(646,378)	(691,244)	(740,522)	(794,644)
Investments - available for sale	(2,740)	(2,769)	(2,798)	(2,827)	(2,857)	(2,887)	(2,917)	(2,948)	(2,979)	(3,010)
Acquisition of treasury stock	(494,896)	(525,063)	(557,068)	(591,025)	(627,052)	(665,274)	(705,827)	(748,851)	(794,499)	(842,928)
Long-term investments	(5,843)	(5,967)	(6,094)	(6,224)	(6,357)	(6,492)	(6,630)	(6,772)	(6,916)	(7,063)
Accumulated and other comprehensive income (loss)	0	0	0	0	0	0	0	0	0	0
Net cash from investing activities	(953,478)	(1,009,359)	(1,069,595)	(1,134,544)	(1,204,598)	(1,280,180)	(1,361,752)	(1,449,815)	(1,544,915)	(1,647,645)
Net change in cash	497,577	400,336	480,268	619,709	780,842	972,382	1,190,465	1,441,242	1,731,403	2,066,824

Chipotle Mexican Grill

Common Size Income Statement

<i>Fiscal Years Ending Dec. 31</i>	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Food & beverage revenue	-	98.93%	98.81%	98.27%	98.02%	97.78%	97.59%	97.42%	97.27%	97.13%	97.01%	96.90%	96.79%
Delivery service revenue	-	1.07%	1.19%	1.67%	1.98%	2.22%	2.41%	2.58%	2.73%	2.87%	2.99%	3.10%	3.21%
Total revenue	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
<i>Restaurant Operating Costs</i>													
Food, beverage & packaging	33.08%	32.30%	30.59%	32.94%	32.94%	32.94%	32.94%	32.94%	32.94%	32.94%	32.94%	32.94%	32.94%
Labor	26.35%	26.62%	25.41%	25.11%	25.11%	25.11%	25.11%	25.11%	25.11%	25.11%	25.11%	25.11%	25.11%
Occupancy	6.50%	6.48%	5.52%	6.49%	6.49%	6.49%	6.49%	6.49%	6.49%	6.49%	6.49%	6.49%	6.49%
Other operating costs	13.62%	17.21%	15.86%	13.09%	13.09%	13.09%	13.09%	13.09%	13.09%	13.09%	13.09%	13.09%	13.09%
General & administrative expenses	8.08%	7.79%	8.04%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%	7.65%
Depreciation & amortization	3.81%	3.99%	3.37%	2.77%	2.76%	2.71%	2.64%	2.55%	2.45%	2.35%	2.24%	2.14%	2.04%
Pre-opening costs	0.20%	0.26%	0.28%	0.28%	0.27%	0.26%	0.26%	0.25%	0.24%	0.24%	0.23%	0.23%	0.22%
Impairment, closure costs, and other asset disposals	0.41%	0.51%	0.26%	0.37%	0.37%	0.37%	0.37%	0.37%	0.38%	0.38%	0.38%	0.38%	0.39%
Total operating expenses	92.05%	95.15%	89.33%	87.57%	87.42%	87.22%	87.01%	86.79%	86.56%	86.32%	86.09%	85.87%	85.64%
Income (loss) from operations	7.95%	4.85%	10.67%	12.43%	12.58%	12.78%	12.99%	13.21%	13.44%	13.68%	13.91%	14.13%	14.36%
Interest & other income (expense), net	0.26%	0.06%	0.10%	0.17%	0.20%	0.22%	0.24%	0.26%	0.28%	0.31%	0.34%	0.37%	0.40%
Income (loss) before income taxes	8.20%	4.91%	10.77%	12.59%	12.79%	13.00%	13.23%	13.47%	13.73%	13.99%	14.25%	14.51%	14.76%
Provision (Benefit) for income taxes	1.94%	-1.04%	2.12%	2.77%	2.81%	2.86%	2.91%	2.96%	3.02%	3.08%	3.13%	3.19%	3.25%
Net income (loss)	6.27%	5.94%	8.65%	9.82%	9.98%	10.14%	10.32%	10.51%	10.71%	10.91%	11.11%	11.31%	11.51%

Chipotle Mexican Grill

Common Size Balance Sheet

<i>Fiscal Years Ending Dec. 31</i>	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Current Assets													
Cash & cash equivalents	8.60%	10.16%	10.80%	15.46%	17.92%	20.38%	23.19%	26.29%	29.63%	33.12%	36.70%	40.35%	44.02%
Accounts receivable, net	1.44%	1.75%	1.32%	1.34%	1.34%	1.34%	1.34%	1.34%	1.34%	1.34%	1.34%	1.34%	1.34%
Inventory	0.47%	0.44%	0.43%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%	0.45%
Current deferred tax asset	-	-	-	-	-	-	-	-	-	-	-	-	-
Prepaid expenses & other current assets	1.02%	0.92%	1.04%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%	0.99%
Income tax receivable	0.50%	4.73%	1.25%	0.42%	0.43%	0.44%	0.44%	0.45%	0.46%	0.47%	0.48%	0.49%	0.49%
Investments - available for sale	7.16%	5.74%	3.46%	5.45%	5.45%	5.45%	5.45%	5.45%	5.45%	5.45%	5.45%	5.45%	5.45%
Total current assets	19.19%	23.73%	18.31%	21.77%	23.92%	26.09%	28.66%	31.53%	34.67%	37.98%	41.41%	44.91%	48.45%
Leasehold improvements, property & equipment, net	26.11%	26.47%	23.44%	23.36%	22.97%	22.36%	21.61%	20.78%	19.91%	19.02%	18.14%	17.29%	16.46%
Long term investments	-	1.71%	3.63%	3.30%	3.37%	3.44%	3.51%	3.59%	3.67%	3.74%	3.82%	3.90%	3.99%
Other assets	0.33%	0.99%	0.75%	0.68%	0.62%	0.56%	0.51%	0.46%	0.42%	0.38%	0.34%	0.31%	0.28%
Restricted cash	0.50%	0.47%	0.41%	0.37%	0.33%	0.29%	0.26%	0.23%	0.20%	0.18%	0.16%	0.14%	0.12%
Operating lease assets	44.85%	46.24%	41.32%	41.55%	41.78%	42.01%	42.25%	42.48%	42.72%	42.96%	43.20%	43.44%	43.68%
Goodwill	0.39%	0.37%	0.29%	0.26%	0.23%	0.20%	0.18%	0.16%	0.14%	0.13%	0.11%	0.10%	0.09%
Total assets	91.38%	99.97%	88.15%	91.28%	92.83%	94.23%	95.93%	97.88%	100.08%	102.47%	105.02%	107.68%	110.44%
Current Liabilities													
Accounts payable	2.07%	2.04%	2.16%	2.09%	2.09%	2.09%	2.09%	2.10%	2.09%	2.09%	2.09%	2.09%	2.09%
Accrued payroll & benefits	2.27%	3.39%	2.15%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%	2.40%
Accrued liabilities	2.79%	2.75%	2.29%	2.61%	2.61%	2.61%	2.61%	2.61%	2.61%	2.61%	2.61%	2.61%	2.61%
Unearned revenue	1.70%	2.13%	2.07%	1.84%	1.84%	1.84%	1.84%	1.84%	1.84%	1.84%	1.84%	1.84%	1.84%
Current operating lease liabilities	3.10%	3.42%	2.90%	4.09%	3.94%	3.41%	2.97%	2.57%	2.28%	2.02%	1.79%	1.59%	1.41%
Current portion of deemed landlord financing	-	-	-	-	-	-	-	-	-	-	-	-	-
Income tax payable	-	-	-	-	-	-	-	-	-	-	-	-	-
Total current liabilities	11.93%	13.74%	11.58%	13.03%	12.88%	12.35%	11.91%	11.52%	11.22%	10.96%	10.73%	10.53%	10.35%
Long-term operating lease liabilities	47.94%	49.33%	43.75%	44.24%	44.49%	44.74%	44.99%	45.24%	45.49%	45.75%	46.00%	46.26%	46.52%
Deemed landlord financing	-	-	-	-	-	-	-	-	-	-	-	-	-
Deferred income tax liability	0.68%	2.50%	1.88%	1.70%	1.54%	1.40%	1.27%	1.16%	1.06%	0.97%	0.89%	0.83%	0.77%
Other liabilities	0.69%	0.65%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%	0.51%
Total liabilities	61.25%	66.22%	57.71%	59.47%	59.41%	58.99%	58.66%	58.42%	58.27%	58.18%	58.12%	58.11%	58.13%
Shareholders' Equity													
Common stock	26.24%	25.90%	22.92%	21.13%	19.45%	17.88%	16.40%	15.03%	13.75%	12.57%	11.47%	10.46%	9.52%
Treasury stock, at cost	-48.32%	-46.82%	-44.47%	-45.35%	-45.78%	-45.82%	-45.54%	-45.00%	-44.22%	-43.27%	-42.17%	-40.96%	-39.66%
Accumulated other comprehensive income (loss)	-0.10%	-0.07%	-0.07%	-0.06%	-0.06%	-0.05%	-0.04%	-0.04%	-0.03%	-0.03%	-0.03%	-0.02%	-0.02%
Retained earnings (accumulated deficit)	52.30%	54.74%	52.06%	56.09%	59.80%	63.24%	66.45%	69.47%	72.32%	75.04%	77.63%	80.10%	82.47%
Total shareholders' equity	30.13%	33.76%	30.44%	31.81%	33.42%	35.24%	37.26%	39.46%	41.81%	44.30%	46.89%	49.57%	52.31%
Total liabilities & shareholders' equity	91.38%	99.97%	88.15%	91.28%	92.83%	94.23%	95.93%	97.88%	100.08%	102.47%	105.02%	107.68%	110.44%

Chipotle Mexican Grill

Value Driver Estimations
(in thousands of US dollars)

	Marginal Tax Rate	23.4%	21.7%	22.9%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%	22.00%
Fiscal Years Ending Dec. 31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E	
NOPLAT														
Food & beverage revenue	-	5,920,545	7,457,169	8,344,901	9,370,223	10,527,283	11,836,852	13,317,918	14,992,423	16,885,409	19,025,324	21,444,427	24,179,264	
Delivery service revenue	-	64,089	89,892	141,908	189,218	238,560	292,517	352,790	420,852	498,175	586,326	687,028	802,211	
Total Revenue	5,586,369	5,984,634	7,547,061	8,491,894	9,559,441	10,765,842	12,129,370	13,670,708	15,413,275	17,383,584	19,611,650	22,131,455	24,981,474	
Restaurant Operating Costs														
- Food, beverage & packaging	1,847,916	1,932,766	2,308,631	2,797,172	3,148,815	3,546,195	3,995,332	4,503,038	5,077,028	5,726,035	6,459,944	7,289,951	8,228,728	
- Labor	1,472,060	1,593,013	1,917,761	2,132,007	2,400,029	2,702,913	3,045,245	3,432,219	3,869,715	4,364,388	4,923,774	5,556,406	6,271,943	
- Occupancy	363,072	387,762	416,606	456,281	499,967	548,072	601,047	659,389	723,646	794,422	872,382	958,259	1,052,863	
- Other operating costs	760,831	1,030,012	1,197,054	1,111,735	1,251,495	1,409,434	1,587,943	1,789,731	2,017,863	2,275,810	2,567,502	2,897,388	3,270,504	
- General & administrative expenses	451,552	466,291	606,854	649,701	731,378	823,678	927,999	1,045,924	1,179,245	1,329,991	1,500,456	1,693,243	1,911,293	
- Depreciation & amortization	212,778	238,534	254,657	235,345	263,897	292,052	320,196	348,698	377,913	408,190	439,873	473,310	508,854	
- Pre-opening costs	11,108	15,515	21,264	23,378	25,702	28,256	31,065	34,153	37,548	41,280	45,384	49,895	54,855	
- Impairment, closure costs, and other asset disposals	23,094	30,577	19,291	31,112	35,218	39,884	45,186	51,212	58,063	65,850	74,705	84,773	96,224	
+ Implied interest on operating leases	57,080	57,943	62,506	50,516	57,158	64,702	73,274	83,015	94,086	106,671	120,978	137,245	155,743	
EBITA	501,038	348,107	867,449	1,105,679	1,260,097	1,440,060	1,648,630	1,889,358	2,166,340	2,484,290	2,848,607	3,265,475	3,741,954	
Less: adjusted taxes														
Total income tax provision (benefit)	108,127	(61,985)	159,779	235,276	268,956	307,833	352,963	405,233	465,559	535,008	614,782	706,267	811,045	
- Tax on all non-operating income (expense)	3,353	785	1,791	3,140	4,309	5,255	6,385	7,838	9,663	11,931	14,704	18,056	22,079	
+ Tax shield on operating leases	13,357	12,574	14,314	11,114	12,575	14,234	16,120	18,263	20,699	23,468	26,615	30,194	34,263	
Adjusted taxes	118,131	(50,196)	172,302	243,249	277,221	316,813	362,699	415,659	476,595	546,544	626,694	718,404	823,230	
Plus: Change in Deferred Taxes	26,248	111,608	(7,657)	2,471	2,824	3,232	3,706	4,255	4,889	5,618	6,456	7,416	8,516	
NOPLAT	409,155	509,911	687,490	864,901	985,700	1,126,479	1,289,638	1,477,954	1,694,634	1,943,364	2,228,369	2,554,487	2,927,241	
Invested Capital (IC)														
Net Operating Working Capital														
Normal cash	125,738	134,702	169,869	191,136	215,164	242,318	273,008	307,701	346,922	391,270	441,420	498,135	562,284	
+ Accounts receivable	80,545	104,500	99,599	113,658	127,947	144,094	162,344	182,974	206,297	232,668	262,489	296,215	334,361	
+ Inventory	26,096	26,445	32,826	37,886	42,648	48,031	54,114	60,990	68,765	77,555	87,495	98,737	111,452	
+ Prepaid expenses and other current assets	57,076	54,906	78,756	84,429	95,043	107,037	120,594	135,918	153,243	172,832	194,984	220,037	248,373	
+ Operating lease assets	2,505,466	2,767,185	3,118,294	3,528,254	3,993,961	4,523,093	5,124,385	5,807,787	6,584,619	7,467,774	8,471,924	9,613,776	10,912,347	
+ Income tax receivable	27,705	282,783	94,064	35,801	40,926	46,842	53,709	61,663	70,842	81,410	93,549	107,470	123,413	
Operating Current Assets	2,822,626	3,370,521	3,593,408	3,991,164	4,515,689	5,111,414	5,788,154	6,557,032	7,430,689	8,423,509	9,551,861	10,834,370	12,292,230	
- Account payable	115,816	121,990	163,161	177,143	199,412	224,910	253,782	287,505	322,338	363,727	410,595	463,550	523,357	
- Accrued expenses	282,443	367,703	335,457	425,337	478,808	539,234	607,529	684,731	772,012	870,700	982,298	1,108,508	1,251,259	
- Deferred revenue	95,195	127,750	156,351	156,229	175,869	198,064	223,149	251,506	283,565	319,813	360,804	407,162	459,595	
- Income taxes payable	-	-	0	0	0	0	0	0	0	0	0	0	0	
Non-Interest Bearing Current Liabilities	493,454	617,443	654,969	758,709	854,089	962,207	1,084,460	1,223,742	1,377,915	1,554,240	1,753,696	1,979,220	2,234,210	
Net property, plant, & equipment	1,458,690	1,584,311	1,769,278	1,983,933	2,195,597	2,407,179	2,621,450	2,841,085	3,068,698	3,306,886	3,558,257	3,825,469	4,111,260	
Other operating liabilities	2,851,513	3,157,052	3,520,314	4,104,627	4,630,223	5,184,247	5,816,631	6,536,089	7,363,336	8,303,805	9,373,122	10,589,076	11,971,922	
Total Invested Capital	936,349	1,180,337	1,187,403	1,111,761	1,226,974	1,372,138	1,508,513	1,638,286	1,758,136	1,872,351	1,983,301	2,091,543	2,197,359	
Free Cash Flow (FCF)														
NOPLAT	409,155	509,911	687,490	864,901	985,700	1,126,479	1,289,638	1,477,954	1,694,634	1,943,364	2,228,369	2,554,487	2,927,241	
Less: change in IC	3,432,905	(243,988)	(7,066)	75,643	(115,213)	(145,164)	(136,375)	(129,773)	(119,850)	(114,215)	(110,950)	(108,242)	(105,816)	
FCF	3,842,060	265,923	680,424	940,543	870,487	981,316	1,153,263	1,348,181	1,574,784	1,829,149	2,117,419	2,446,244	2,821,425	
Return on Invested Capital (ROIC)														
NOPLAT	409,155	509,911	687,490	864,901	985,700	1,126,479	1,289,638	1,477,954	1,694,634	1,943,364	2,228,369	2,554,487	2,927,241	
Beginning IC	4,369,255	936,349	1,180,337	1,187,403	1,111,761	1,226,974	1,372,138	1,508,513	1,638,286	1,758,136	1,872,351	1,983,301	2,091,543	
ROIC	9.36%	54.46%	58.25%	72.84%	88.66%	91.81%	93.99%	97.97%	103.44%	110.54%	119.01%	128.80%	139.96%	
Economic Profit (EP)														
Beginning IC	4,369,255	936,349	1,180,337	1,187,403	1,111,761	1,226,974	1,372,138	1,508,513	1,638,286	1,758,136	1,872,351	1,983,301	2,091,543	
x (ROIC - WACC)	1.04%	46.14%	49.92%	64.52%	80.34%	83.49%	85.67%	89.65%	95.12%	102.21%	110.69%	120.48%	131.63%	
EP	45,571	431,994	589,269	766,092	893,186	1,024,378	1,175,456	1,352,424	1,558,305	1,797,062	2,072,563	2,389,448	2,753,194	

Chipotle Mexican Grill

Weighted Average Cost of Capital (WACC) Estimation

Cost of Equity

Risk-Free Rate	2.13%	found from FRED using the 10-yr Treasury yield
Beta	1.32	averaged the weekly and 5Y monthly from Bloomberg
Equity Risk Premium	5.17%	1928-2020 geometric average over 10-year Treasury
Cost of Equity	8.96%	

Cost of Debt

Risk-Free Rate	2.13%	found from FRED using the 10-yr Treasury yield
Implied Default Premium	-0.05%	
Pre-Tax Cost of Debt	2.08%	
Marginal Tax Rate	22%	
After-Tax Cost of Debt	1.62%	Found After-Tax Cost of Debt on Bloomberg for CMG and worked backwards to find pre-tax cost of debt using marginal tax rate (22%)

Market Value of Common Equity

Total Shares Outstanding	28,130.00
Current Stock Price	\$1,591.67
MV of Equity	44,773,677.10

MV Weights

91.31%

Market Value of Debt

Short-Term Debt	-
Current Portion of LTD	-
Long-Term Debt	-
PV of Operating Leases	4,263,551.86
MV of Total Debt	4,263,551.86

8.69%

Market Value of the Firm

49,037,228.96 100.00%

Estimated WACC **8.32%**

Chipotle Mexican Grill

Dividend Discount Model (DDM) or Fundamental P/E Valuation Model

Fiscal Years Ending Dec. 31	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
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EPS	\$ 29.78	\$ 34.32	\$ 39.60	\$ 45.76	\$ 52.93	\$ 61.26	\$ 70.90	\$ 82.04	\$ 94.88	\$ 109.66
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Key Assumptions

CV growth of EPS	5.00%
CV Year ROE	26.21%
Cost of Equity	8.96%

Future Cash Flows

P/E Multiple (CV Year)											20.44
EPS (CV Year)											\$ 109.66
Future Stock Price											\$ 2,241.20
Dividends Per Share	\$ 24.10	\$ 27.77	\$ 32.04	\$ 37.03	\$ 42.83	\$ 49.57	\$ 57.38	\$ 66.39	\$ 76.78		
Discounted Cash Flows	\$ 22.12	\$ 23.39	\$ 24.77	\$ 26.27	\$ 27.89	\$ 29.62	\$ 31.47	\$ 33.42	\$ 35.47	\$ 1,035.36	

Intrinsic Value as of Last FYE	\$ 1,289.78
Implied Price as of Today	\$ 1,321.39

Implied Retention Ratio 19.08%

Note: CMG does not pay dividends – this model is based on what they could afford to pay in dividends

Chipotle Mexican Grill

Relative Valuation Models

Ticker	Company	Price	EPS 2022E	EPS 2023E	P/E 22	P/E 23	Est. 5yr Growth %	PEG 22	PEG 23
SBUX	Starbucks	\$91.45	\$3.34	\$3.91	26.10	22.50	9.1	2.88	2.48
MCD	McDonalds	\$247.88	\$10.01	\$11.04	24.80	22.40	8.7	2.84	2.57
YUM	Yum Brands!	\$119.05	\$1.08	\$1.25	24.40	21.40	13.7	1.78	1.56
WEN	Wendy's	\$21.73	\$0.89	\$1.07	24.50	20.50	9.0	2.73	2.29
DPZ	Domino's Pizza	\$395.00	\$14.41	\$16.66	28.20	24.40	11.6	2.44	2.11
QSR	Restaurant Brand Internation	\$72.85	\$3.82	\$4.28	19.10	17.10	6.3	3.03	2.71
Average					24.52	21.38		2.61	2.28
CMG	Chipotle Mexican Grill	\$1,591.67	\$29.78	\$34.46	53.5	46.2	18.0	3.0	2.6

Implied Relative Value

P/E (EPS22)	\$	730.04
P/E (EPS23)	\$	736.89
PEG (EPS22)	\$	1,402.56
PEG (EPS23)	\$	1,418.17

Chipotle Mexican Grill

Key Management Ratios

Fiscal Years Ending Dec. 31	2019	2020	2021	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Liquidity Ratios													
Current Ratio - measures a company's ability to pay short-term obligations or those due within one year	1.61	1.73	1.58	1.67	1.86	2.11	2.41	2.74	3.09	3.46	3.86	4.26	4.68
Quick Ratio - test of a company's ability to cover its short-term obligations, but more specific than the current ratio because it only includes highly liquid line items	1.44	1.28	1.35	1.53	1.71	1.96	2.25	2.57	2.92	3.29	3.68	4.08	4.49
Cash Ratio - only considers the most thr most liquid assets - cash and marketable securities - because they are the most readily available to a company to pay short-term obligations	1.32	1.16	1.23	1.43	1.61	1.85	2.14	2.46	2.80	3.17	3.55	3.95	4.36
Asset-Management Ratios													
Asset-Turnover Ratio - measures the efficiency of a company's use of its assets to product sales	1.52	1.08	1.19	1.18	1.15	1.13	1.11	1.09	1.07	1.05	1.02	1.00	0.97
Fixed Asset Turnover Ratio - tells how efficiently, fixed assets of the firm are used in generating sales revenue	1.40	1.36	1.53	1.52	1.53	1.54	1.55	1.57	1.59	1.60	1.62	1.64	1.66
Inventory Turnover - tells how many times a company has sold and replaced inventory during a period of time	139.35	134.21	142.61	139.42	137.80	137.83	137.86	137.88	137.90	137.92	137.94	137.96	137.98
Financial Leverage Ratios													
Debt-to-Assets Ratio	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt-to-Equity Ratio	-	-	-	-	-	-	-	-	-	-	-	-	-
Asset-to-Equity Ratio - indicates the relationship of the total assets of the firm to the part owned by shareholders	3.03	2.96	2.90	2.87	2.78	2.67	2.57	2.48	2.39	2.31	2.24	2.17	2.11
Profitability Ratios													
Return on Equity (NI/Beg TSE) - shows how well a company can use shareholder investments to generate profits. A measure of a shareholder's return on their investment	24.29%	21.14%	32.32%	36.31%	35.30%	34.16%	32.98%	31.79%	30.60%	29.43%	28.31%	27.23%	26.21%
Return on Assets - indicates how good your company is at turning its investments into a profit. Measures how successfully your company uses the assets at its disposal	6.86%	5.95%	9.81%	10.76%	10.75%	10.76%	10.76%	10.74%	10.70%	10.65%	10.58%	10.51%	10.42%
Operating Profit Margin - shows how much revenue is left over after it covers both COGS and operating expenses. The % of revenue that remains once these costs are deducted from your net sales	7.95%	4.85%	10.67%	12.43%	12.58%	12.78%	12.99%	13.21%	13.44%	13.68%	13.91%	14.13%	14.36%
Payout Policy Ratios													
Dividend Payout Ratio (Dividend/EPS)	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Payout Ratio ((Divs. + Repurchases)/NI) - important for dividend investors as it can give an idea of how much of a dividend payout you are expected to receive	91.16%	54.44%	15.29%	59.33%	55.06%	51.04%	47.23%	43.64%	40.30%	37.21%	34.36%	31.73%	29.31%

Chipotle Mexican Grill

Present Value of Operating Lease Obligations

Fiscal Years Ending Dec. 31	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Year 1	114,754	133,813	158,981	185,866	206,413	239,683	264,911	281,461	294,191	286,807	318,990	347,399
Year 2	115,752	135,247	161,042	189,474	208,326	241,366	268,862	285,264	296,579	313,729	344,902	377,064
Year 3	116,776	136,664	161,971	189,514	209,012	244,698	269,133	283,934	294,941	313,577	340,328	367,618
Year 4	118,142	137,527	162,451	190,256	211,754	245,251	263,732	279,816	295,290	309,068	329,819	359,687
Year 5	119,354	137,985	163,511	193,243	211,833	239,933	257,400	278,615	290,980	297,457	321,444	351,393
Thereafter	1,288,094	1,435,159	1,658,347	1,908,169	1,996,859	2,257,081	2,358,941	2,497,163	2,478,397	2,483,595	2,660,361	2,973,135
Total Minimum Payments	1,872,872	2,116,395	2,466,303	2,856,522	3,044,197	3,468,012	3,682,979	3,906,253	3,950,378	4,004,233	4,315,844	4,776,296
Less: Cumulative Interest	233,118	257,399	295,544	337,617	349,913	396,312	412,743	434,067	426,900	427,505	457,438	512,744
PV of Minimum Payments	1,639,754	1,858,996	2,170,759	2,518,905	2,694,284	3,071,700	3,270,236	3,472,186	3,523,478	3,576,728	3,858,406	4,263,552
Implied Interest in Year 1 Payment		26,564	30,116	35,166	40,806	43,647	49,762	52,978	56,249	57,080	57,943	62,506
Pre-Tax Cost of Debt	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%	1.62%
Years Implied by Year 6 Payment	10.8	10.4	10.1	9.9	9.4	9.4	9.2	9.0	8.5	8.3	8.3	8.5
Expected Obligation in Year 6 & Beyond	119,354	137,985	163,511	193,243	211,833	239,933	257,400	278,615	290,980	297,457	321,444	351,393
Present Value of Lease Payments												
PV of Year 1	112,925	131,680	156,447	182,903	203,122	235,862	260,688	276,974	289,501	282,235	313,905	341,861
PV of Year 2	112,091	130,969	155,948	183,481	201,737	233,732	260,358	276,241	287,198	303,806	333,993	365,138
PV of Year 3	111,280	130,232	154,348	180,594	199,174	233,181	256,466	270,570	281,059	298,818	324,310	350,315
PV of Year 4	110,787	128,965	152,337	178,411	198,571	229,982	247,312	262,395	276,906	289,826	309,285	337,294
PV of Year 5	110,139	127,332	150,887	178,323	195,478	221,408	237,527	257,104	268,514	274,491	296,626	324,263
PV of 6 & beyond	1,082,533	1,209,819	1,400,793	1,615,193	1,696,201	1,917,535	2,007,885	2,128,901	2,120,300	2,127,552	2,280,287	2,544,682
Capitalized PV of Payments	1,639,754	1,858,996	2,170,759	2,518,905	2,694,284	3,071,700	3,270,236	3,472,186	3,523,478	3,576,728	3,858,406	4,263,552

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Effects of ESOP Exercise and Share
Repurchases on Common Stock Account and
Number of Shares Outstanding

Number of Options Outstanding (shares):	364
Average Time to Maturity (years):	4.70
Expected Annual Number of Options Exercised:	77
Current Average Strike Price:	\$ 838.62
Cost of Equity:	8.96%
Current Stock Price:	\$ 1,591.67

<i>Fiscal Years Ending Dec. 31</i>	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Increase in Shares Outstanding:	77	77	77	77	77	77	77	77	77	77
Average Strike Price:	\$ 838.62	\$ 838.62	\$ 838.62	\$ 838.62	\$ 838.62	\$ 838.62	\$ 838.62	\$ 838.62	\$ 838.62	\$ 838.62
Increase in Common Stock Account:	64,948	64,948	64,948	64,948	64,948	64,948	64,948	64,948	64,948	64,948
Share Repurchases (\$)	494,896	525,063	557,068	591,025	627,052	665,274	705,827	748,851	794,499	842,928
Expected Price of Repurchased Shares:	\$1,591.67	\$ 1,734.28	\$ 1,889.66	\$ 2,058.97	\$ 2,243.44	\$ 2,444.44	\$ 2,663.45	\$ 2,902.09	\$ 3,162.10	\$ 3,445.41
Number of Shares Repurchased:	311	303	295	287	280	272	265	258	251	245
Shares Outstanding (beginning of the year)	28,130	27,897	27,671	27,454	27,244	27,042	26,847	26,660	26,479	26,306
Plus: Shares Issued Through ESOP	77	77	77	77	77	77	77	77	77	77
Less: Shares Repurchased in Treasury	311	303	295	287	280	272	265	258	251	245
Shares Outstanding (end of the year)	27,897	27,671	27,454	27,244	27,042	26,847	26,660	26,479	26,306	26,138

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Valuation of Options Granted under ESOP

Current Stock Price	\$1,591.67
Risk Free Rate	2.13%
Current Dividend Yield	0.00%
Annualized St. Dev. of Stock Returns	33.06%

Range of Outstanding Options	Number of Shares	Average Exercise Price	Average Remaining Life (yrs)	B-S Option Price	Value of Options Granted
Outstanding Options	364	838.62	4.70	\$ 891.97	\$ 324,677
Total	364	\$ 838.62	4.70	\$ 891.97	\$ 324,677

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Sensitivity Tables

Risk-Free Rate

	1,694.42	1.98%	2.03%	2.08%	2.13%	2.18%	2.23%	2.28%
Beta	1.17	2,369	2,321	2,275	2,230	2,187	2,146	2,106
	1.22	2,139	2,099	2,060	2,023	1,987	1,952	1,918
	1.27	1,946	1,912	1,879	1,848	1,817	1,787	1,758
	1.32	1,779	1,750	1,722	1,694	1,668	1,642	1,617
	1.37	1,640	1,615	1,591	1,567	1,544	1,521	1,499
	1.42	1,517	1,495	1,474	1,453	1,433	1,413	1,393
	1.47	1,410	1,390	1,371	1,353	1,335	1,317	1,300

Annual Growth Rate of Store Openings

	1,694.42	8.40%	8.45%	8.50%	8.55%	8.60%	8.65%	8.70%
Annual Growth Rate of Revenue per Store	4.16%	1,651	1,654	1,656	1,658	1,660	1,663	1,665
	4.21%	1,663	1,665	1,668	1,670	1,672	1,675	1,677
	4.26%	1,675	1,677	1,680	1,682	1,684	1,687	1,689
	4.31%	1,687	1,689	1,692	1,694	1,696	1,699	1,701
	4.36%	1,699	1,701	1,704	1,706	1,708	1,711	1,713
	4.41%	1,711	1,713	1,716	1,718	1,720	1,723	1,725
	4.46%	1,723	1,726	1,728	1,730	1,733	1,735	1,737

WACC

	1,694.42	8.02%	8.12%	8.22%	8.32%	8.42%	8.52%	8.62%
CV Growth Rate of NOPLAT	4.25%	1,561	1,513	1,467	1,424	1,383	1,344	1,306
	4.50%	1,656	1,602	1,551	1,502	1,457	1,414	1,372
	4.75%	1,765	1,704	1,646	1,591	1,541	1,493	1,447
	5.00%	1,892	1,822	1,757	1,694	1,638	1,583	1,532
	5.25%	2,042	1,961	1,885	1,814	1,749	1,687	1,629
	5.50%	2,221	2,126	2,038	1,955	1,880	1,809	1,742
	5.75%	2,441	2,326	2,221	2,123	2,035	1,952	1,875

Food, Beverage and Packaging Costs as a % of Sales 2022-2031

	1,694.42	32.79%	32.84%	32.89%	32.94%	32.99%	33.04%	33.09%
Labor Costs as a % of Sales 2022-2031	24.96%	1,732	1,726	1,719	1,713	1,707	1,700	1,694
	25.01%	1,726	1,719	1,713	1,707	1,700	1,694	1,687
	25.06%	1,719	1,713	1,707	1,700	1,694	1,687	1,681
	25.11%	1,713	1,707	1,701	1,694	1,688	1,682	1,675
	25.16%	1,707	1,700	1,694	1,688	1,681	1,675	1,668
	25.21%	1,700	1,694	1,687	1,681	1,675	1,668	1,662
	25.26%	1,694	1,687	1,681	1,675	1,668	1,662	1,656

After-tax Cost of Debt

	1,694.42	1.47%	1.52%	1.57%	1.62%	1.67%	1.72%	1.77%
Cost of Equity	8.66%	1,696	1,695	1,694	1,694	1,692	1,692	1,691
	8.76%	1,696	1,695	1,694	1,694	1,693	1,692	1,691
	8.86%	1,696	1,696	1,695	1,695	1,693	1,692	1,692
	8.96%	1,696	1,696	1,695	1,695	1,693	1,692	1,692
	9.06%	1,697	1,696	1,696	1,696	1,694	1,693	1,693
	9.16%	1,698	1,697	1,696	1,696	1,695	1,694	1,693
	9.26%	1,698	1,697	1,697	1,697	1,695	1,694	1,693

General and Administrative Expense as a % of Sales 2022-2031

	1,694.42	7.50%	7.55%	7.60%	7.65%	7.70%	7.75%	7.80%
Other Operating Expenses as a % of Sales 2022-2031	12.94%	1,733	1,727	1,720	1,714	1,708	1,701	1,695
	12.99%	1,727	1,720	1,714	1,708	1,701	1,695	1,688
	13.04%	1,720	1,714	1,708	1,701	1,695	1,688	1,682
	13.09%	1,714	1,708	1,701	1,695	1,688	1,682	1,676
	13.14%	1,708	1,701	1,695	1,688	1,682	1,676	1,669
	13.19%	1,701	1,695	1,688	1,682	1,676	1,669	1,663
	13.24%	1,695	1,688	1,682	1,676	1,669	1,663	1,656