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EPS of \$13.37 **beats by \$1.69** | Revenue of \$2.70B (14.07% Y/Y) **beats by \$30.98M**

Chipotle Mexican Grill, Inc. (NYSE:[CMG](#)) Q1 2024 Earnings Conference Call April 24, 2024 4:30 PM ET

Company Participants

Cindy Olsen - Head of IR and Strategy

Brian Niccol - Chairman and CEO

Jack Hartung - Chief Financial and Chief Administrative Officer

Conference Call Participants

David Tarantino - Baird
Lauren Silberman - Deutsche Bank
Andrew Charles - TD Cowen
Sara Senatore - Bank of America
Jon Tower - Citigroup
Dennis Geiger - UBS
John Ivankoe - JPMorgan
Sharon Zackfia - William Blair
Brian Harbour - Morgan Stanley
Chris O'Cull - Stifel

Operator

Good day and welcome to the Chipotle Mexican Grill First Quarter 2024 Conference Call. All participants will be in a listen-only mode. [Operator Instructions] Please note, this event is being recorded.

I would now like to turn the conference over to Cindy Olsen, Head of Investor Relations and Strategy. Please go ahead.

Cindy Olsen

Hello, everyone, and welcome to our First Quarter Fiscal 2024 Earnings Call. By now, you should have access to our earnings press release. If not, it may be found on our investor relations website at ir.chipotle.com. I will begin by reminding you that certain statements and projections made in this presentation about our future business and financial results constitute forward-looking statements.

These statements are based on management's current business and market expectations, and our actual results could differ materially from those projected in the forward-looking statements. Please see the risk factors contained in our Annual Report on Form 10-K and in our Form 10-Q for a discussion of risk that may cause our actual results to vary from these forward-looking statements. Our discussion today will include non-GAAP financial measures. A reconciliation to GAAP measures can be found via the link included on the presentation page within the investor relations section of our website.

We will start today's call with prepared remarks from Brian Niccol, Chairman and Chief Executive Officer, and Jack Hartung, Chief Financial and Administrative Officer, after which we will take your questions. Our entire executive leadership team is available during the Q&A session. And with that, I will turn the call over to Brian.

Brian Niccol

Thanks, Cindy, and good afternoon, everyone. The momentum in the business continued in the first quarter as we delivered 7% comp sales growth driven by over 5% transaction growth. Our strong sales trends were fueled by our focus on improving throughput in our restaurants, as well as successful marketing campaigns, including spotlighting Barbacoa and the return of Chicken Al Pastor as a limited time offer.

For the quarter, sales grew 14% to reach \$2.7 billion, driven by a 7% comp. In-store sales grew by 19% over last year, as throughput reached the highest levels in four years. Digital sales represented 37% of sales. Restaurant level margin was 27.5%, an increase of 190 basis points year-over-year. Adjusted diluted EPS was \$13.37, representing 27% growth over last year. And we opened 47 new restaurants, including 43 Chipotlanes. The strength in our business has continued into April, and as a result we are increasing our annual comp guidance and now estimate comps in the mid to high single digit range for the full year.

Now let me shift to an update on our five key strategies that help us to win today while we grow our future. These strategies include sustaining world-class people leadership by developing and retaining diverse talent at every level. Running successful restaurants with a people accountable culture that provides great food with integrity, while delivering exceptional in restaurant and digital experiences.

Making the brand visible, relevant, and loved to improve overall guest engagement, amplifying technology and innovation to drive growth and productivity in our restaurants, support centers, and in our supply chain. And finally, expanding access and convenience by accelerating new restaurant openings in North America and internationally. I'll begin with our world-class people leadership. Last month, we held our All Manager Conference, where we brought together 4,500 of our restaurant and support center leaders to celebrate their success, as well as amplify our focus on exceptional people, exceptional food, and exceptional throughput.

The conference included over 3,200 general managers, 100 apprentices, 450 field leaders, 60 team directors, and 11 regional vice presidents. For the first time, we also included crew members who have worked with us for over 20 years to celebrate their commitment and dedication to Chipotle. In fact one of our general managers in attendance from Denver, Colorado has been with Chipotle for 23 years and she also had four crew members from her restaurant who have each been with the company for over 20 years.

Collectively, that is over 100 years of Chipotle experience, all at one restaurant, which is just incredible. And it's no surprise this restaurant has fantastic operations with throughput that is outperforming the overall company. At our conference, we highlighted the growth opportunity at Chipotle. To reach our long-term target of over 7,000 restaurants in North America, we showed our teams that we will need to double the number of field leadership positions we have. And as we target over 90% internal promotions, the majority of these future leaders will come from the GMs and apprentices at this conference.

This was a powerful and motivating message and one that is unique to Chipotle given our scale, growth, and company-owned model. And in connection with our 50 to 1 stock split, we also announced that all of our GMs, as well as crew members who have been with Chipotle over 20 years will receive stock grants once the split is effective. This will allow them to participate in the financial success of the company. Bottom-line, Chipotle is changing lives for the better. In fact, one of our restaurateurs and certified training managers, spoke at the conference and shared that her experience at Chipotle helped her to overcome financial hardship and that she was even on the verge of homelessness before she joined Chipotle.

She started as a crew member over 10 years ago and has thrived, making her way to the highest level GM and is now on her way to becoming a field leader. She was able to leverage her education benefits to earn a college degree, the first in her family, And utilizing the stock she received as a restaurateur, she was able to purchase her first home. She was also one of our team members that are behind the Foil commercials, as she really is a great example of the exceptional people that make Chipotle.

In addition to our world-class people, exceptional food and exceptional throughput are key areas of focus and are both critical to running our successful restaurants. We spent time at our All Manager Conference reminding our teams about Chipotle's culture of food with integrity and how there's a direct connection between how food is raised and prepared and how it tastes. We showcase Chipotle's food with integrity journey and our strong partnerships with our farmers and suppliers who take special care in assuring they are growing our food with the highest standards.

We also emphasize the importance of teaching and tasting Chipotle, which means that our restaurant teams taste the food they prepare multiple times a day to assure it is delicious and meets our high standards. You see Chipotle was founded on this idea of real food and real culinary, it's not a marketing slogan or a short-term initiative. It's in our heritage, it's in our DNA. Our restaurant teams take pride in our food and our healthy, high-quality eating experience adds value for our guests.

In addition to our delicious food, exceptional throughput, or the speed of service in our restaurant, also adds to the extraordinary value proposition we offer. I am thrilled to share that the momentum and throughput continue to build in the first quarter as we improve by nearly two entrees in our peak 15 minutes compared to last year with each month showing an acceleration.

At our All Manager Conference, we also focus on coaching the nuances of great throughput or executing what we call the four pillars. This includes expo, or the crew member between [saucing and cash] (ph) to help expedite the bagging and payment process. Linebacker, typically the manager on duty who supplies both lines with freshly prepared food so that the crew on our line can continue to serve our guests without interruption, [meat and plus] (ph) or another way of saying that everything that is needed for a lunch or dinner peak is ready and in its place, and it is in their places, or having the best trained crew deployed in each position for lunch and dinner peaks.

We're in the early innings of consistently executing the four pillars, but when we do, it creates a flywheel effect in our restaurants. The restaurants run more smoothly as our teams are properly trained and deployed, which allows them to keep up with demand without stress. This leads to more stability and therefore, more experienced teams that execute better every day. And this can be seen in our latest turnover data, which is at historically low levels. And for our guests, faster throughput results in shorter, faster moving lines and hotter, fresher food, strengthening our value proposition and driving incremental transactions.

Our restaurant in the financial district in Boston is a great example where a year ago they were doing mid-20 entrees in their peak 15 minutes. And today they are doing over 40 entrees in their peak 15 minutes with days that can reach as high as 80, which is among the highest in the company. The restaurant has low turnover and outsized transaction growth, which clearly demonstrates they are creating a better overall experience in the restaurant.

Now turning to marketing. Our marketing team has started the year-off strong with outstanding brand advertising and menu innovation. We've continued our successful Behind the Foil brand campaign, showing our real teams, prepping our delicious fresh food by hand every day, reinforcing a key differentiator for Chipotle. This ran across all media channels, including high-profile placements in television, such as college football and the NFL playoffs. We also began to promote our delicious barbacoa, as we leveraged our consumer insights that told us that many of our guests did not know that barbacoa was Braised Beef.

So we renamed it Braised Beef barbacoa and emphasized the culinary recipe, which is slow cooked, responsibly Braised Beef, seasoned with garlic and cumin, and hand shredded. It was Chipotle's best kept secret and is now growing in popularity. The campaign was a success driving incremental transactions and spend, and it was simple for our operations team to execute since it was an existing menu item. This is a perfect example of how our marketing team continues to make Chipotle more visible, more relevant, and more loved.

During the quarter, we also brought back one of our most requested new menu items, Chicken Al Pastor. Our guests loved our spin on the Al Pastor using our adobo chicken, morita peppers with a splash of pineapple, fresh lime, and hand chopped cilantro. Similar to Carne Asada, when we bring back a past favorite, we are able to improve the entire experience as we leverage our know-how across culinary, supply chain, marketing, and operations to make it more delicious with seamless execution.

Chicken Al Pastor is off to a great start once again, driving incremental transactions into our restaurants. Moving on to technology and innovation. Our marketing and digital teams continue to grow and evolve our rewards program, which recently celebrated its fifth anniversary. It is exciting that we now have a digital reach of about 40 million rewards members that we can leverage to increase engagement. Through our marketing initiatives, we continue to find successful ways to drive enrollments, and we are leveraging our digital team to create a seamless app experience and deliver more relevant journeys for our rewards members.

The goal is to drive higher engagement in the program, which results in higher frequency and spend over time. In our restaurants, we continue to explore technology tools that could drive higher productivity and improve the overall experience for our teams. This includes things like forecasting and deploying labor, recruiting new crew members, preparing our fresh food, and automating the preparation of digital orders.

In fact, at our All Manager Conference, we showed our teams the latest version of our automated digital make line and Autocado, which cuts cores, and peels avocados. And as we discussed last quarter, we are excited to get both into a restaurant later this year as part of the stage gate process. Our final strategic priority is expanding access and convenience by accelerating new restaurant openings in North America and internationally. We remain on track to open 285 to 315 new restaurants this year, mostly in North America. We continue to see strength in openings across geographies and location types, including urban, suburban, and small towns.

Additionally, our development team is making progress to smooth the cadence of openings throughout the year with the number of restaurants under construction up meaningfully to last year. Outside of North America, I am delighted to share that we opened our first restaurant in Kuwait with the Alshaya Group, which marks the first time we've entered a new country in over 10 years. This was a highly collaborative effort between the Alshaya Group and our Chipotle teams across culinary, food safety, development, operations, and supply chain to successfully launch Chipotle in a brand new market with the same food quality standards and customer experience that we have in North America.

Although it is very early, the opening was strong and we look forward to continued success and many restaurants across the region with the Alshaya Group. Moving to Europe, as you may recall, we brought over one of our top operators about a year ago who helped to identify areas of opportunity, including better aligning our training tools, systems, and culinary with our North American operations where it makes sense and is feasible. We have made nice progress aligning the culinary and are beginning to better align the operations, including a recent change in leadership structure as we expand the role of our Canadian leader to oversee both Canada and Europe.

Over the last five years, Canada's economics have improved to be on par with the US. In fact, Canada is leading our company in many key operational KPIs, including throughput. The successful approach of aligning the local strategy with our overall operational vision and diligently overseeing execution of Chipotle standards has set up Canada for rapid expansion. We see many similarities between the European operation today and the Canadian operation five years ago.

The new leadership team in Europe, including two top operators from the US, will take a similar strategic approach to improve economics and unlock Europe's growth potential. In closing, the strength in our business, including transaction-driven comps, is due to the collective hard work of our 120,000 employees who are results-driven, passionate about our purpose of cultivating a better world, and excited for our growth opportunities ahead.

At our All Manager Conference, I highlighted the importance of people development as it represents one of our greatest strengths. Seeing our leaders all in one place was inspiring, and their personal growth stories are a real and a key ingredient to Chipotle's success and future growth. This makes me more confident than ever that we have the right people and the right strategy to achieve our long-term goals of more than doubling our restaurants in North America and expanding internationally.

As I've said in the past, I believe the next Chipotle is Chipotle. And with that, I will turn it over to Jack.

Jack Hartung

Thanks, Brian, and good afternoon, everyone. Sales in the first quarter grew 14.1% year-over-year to reach \$2.7 billion as sales comp grew 7%, driven by over 5% transaction growth. Restaurant level margin of 27.5% increased about 190 basis points compared to last year. Earnings per share adjusted for unusual items was \$13.37, representing 27% year-over-year growth.

The first quarter had unusual expenses related to an increase in legal reserves. As Brian mentioned, based on our strong underlying transaction trends, we are raising our full year comp guidance to the mid to high single digit range. We anticipate second quarter comps to be the highest of the year, which includes a benefit of an extra day from the Easter ship. And we anticipate comps to continue to be driven by transactions in the back half of the year.

We do have some challenging rollover components, including Chicken Al Pastor, ending, lapping our menu price increase from the prior year, and rolling over the very successful Carne Asada campaign. With that said, we have a strong plan in place for the back half, both in terms of operations and marketing. Additionally, in April, minimum wage in California for restaurant companies like ours increased to \$20 an hour. As a result, our wages in California went up by nearly 20%, and we subsequently took a 6% to 7% menu price increase in our California restaurants just to cover the cost in dollar terms. This will add almost a full point to total company pricing beginning in Q2.

California restaurant cash flow is below the company average, so this increase will allow us to maintain cash flow. However, it will have a negative impact to overall company restaurant-level margin by about 20 basis points. I'll now go through the key P&L line items, beginning with cost of sales. Cost of sales in the quarter were 28.8%, a decrease of about 40 basis points from last year. The benefit of last year's menu price increase was partially offset by inflation across several ingredient costs, primarily beef and produce, and a protein mix headwind from the successful Beef Barbacoa marketing initiative.

For Q2, we expect our cost of sales to be in the mid 29% range due to higher prices across several items, but most notably avocados, as we anticipate a step up from the low levels we have seen over the past several quarters. We anticipate cost of sales inflation will be in the mid single digit range for the remainder of this year. Labor cost for the quarter were 24.4%, a decrease of about 20 basis points from last year as the benefit from sales leverage more than offset wage inflation and the higher performance base compensation.

For Q2, we expect our labor costs to stay in the mid 24% range, with wage inflation stepping up to about 6% as a result of the minimum wage increase in California. Other operating costs for the quarter were 14.3%, a decrease of about 100 basis points from last year. The decrease was driven by sales leverage, lower delivery expenses, and lower marketing and promo costs.

Marketing and promo costs were 2.9% of sales in Q1, a decrease of about 30 basis points from last year. In Q2, expect marketing costs to be in the low 2% range with the full year to come in just below 3%. In Q2, other operating costs are expected to be in the low 13% range. G&A for the quarter was \$204 million on a GAAP basis or \$191 million on a non-GAAP basis, excluding a \$13 million increase in legal reserves.

G&A also includes \$126 million in underlying G&A, \$34 million related to non-cash stock comp, \$21 million related to our successful All Manager Conference we held in March, and \$10 million related to higher bonus accruals and payroll taxes on equity vestings and exercises. We expect our underlying G&A to be around \$129 million in Q2 and step up each quarter as we make investments in people and technology to support ongoing growth.

We anticipate stock comp will be around \$36 million in Q2, although this amount could move up or down based on our actual performance. We also expect to recognize around \$6 million related to higher bonus accruals and employer taxes associated with share that vest during the quarter, bringing our total anticipated G&A in Q2 to around \$171 million. Appreciation for the quarter was \$83 million, or 3.1% of sales, and we expect appreciation to step up slightly each quarter as we continue to open more restaurants.

Our effective tax rate for Q1 was 22% for GAAP and 22.1% for non-GAAP. And our effective tax rate benefited from option exercises and equity vesting above grant values. For fiscal 2024, we estimate our underlying effective tax rate will be in the 25% to 27% range, though it may vary based on discrete items. On March 19th, we announced that our board of directors approved a 50-for-1 stock split, one of the largest in New York stock exchange history. We believe this will make our stock more accessible to our employees, as well as a broader range of investors.

Pending shareholder approval in early June to increase the number of authorized shares, the stock will begin trading on a post-split basis at the market open on Wednesday, June 26. Our balance sheet remains strong, as we enter the quarter with \$2.2 billion in cash, restricted cash and investments with no debt. As a result of the timing of our announcement of the stock split, we were unable to repurchase shares for most of the quarter, which limited our share repurchases to just \$25 million, an average price of \$2,320.

At the end of the quarter, we had nearly \$400 million remaining under our share authorization program, and we will be able to resume opportunistically repurchasing our shares when the window reopens in a few days. We opened 47 new restaurants in the first quarter, of which 43 had a Chipotle. And we continue to anticipate opening between 285 and 315 new restaurants in 2024, with over 80% having a [Chipotle] (ph). And we remain on track to move toward the high end of the 8% to 10% range by 2025, assuming timeline conditions do not worsen.

To close, I want to reiterate the message I shared at our recent All Manager Conference, [fully] (ph) started over 30 years ago with a young chef who thought just because food is served fast doesn't mean it has to be a typical fast food experience. That evolved into our food integrity journey, defying the traditional fast food model by investing more in our ingredients and shaping our economic model to help fund that investment. And today we have a special brand and unique economic model that allows us to spend more on our ingredients, yet remain one of the most affordable meals in the industry, while also maintaining industry-leading margins.

These three characteristics are incredibly difficult to replicate. Premium ingredients, affordable prices, and attractive margins. And this is a huge competitive advantage. And as we continue to protect and strengthen our economic model, the future looks very bright for Chipotle. And with that, we're happy to answer your questions.

Question-and-Answer Session

Operator

We will now begin the question and-answer-session. [Operator Instructions] The first question today comes from David Tarantino with Baird. Please go ahead.

David Tarantino

Hi. Good afternoon. My question is on speed of service. And Brian, I think you mentioned that you improved in Q1 by two transactions, which I think is the biggest improvement we've seen in quite some time. So I guess the first question is could you maybe elaborate on the factors that drove such a sharp improvement? And then secondly, could you maybe give us an update on where you think you are exiting the quarter, entering the first or second quarter versus where you ultimately wanted to be? How much progress, I guess, relative to the ultimate goal did you make in the last 3.5 months?

Brian Niccol

Yeah, so thanks, David. Well, first, I got to give a big kind of applause to our operators. We've really done a great job, I think of staffing, scheduling, and deploying, and then really executing against our four pillars of great throughput. So the nice thing that happened is we saw, frankly, a step up almost every month. And we continue to see progress as we are now in the month of April.

In fact, if you remember this, David, we were talking probably in 2023 about being in the low 20s and we wanted to get into the mid-20s. The good news is we're finally closing in on those mid-20s. And we're starting to see certain days push high-20s. So you know still lots of room for improvement but I really must say that I think the focus, the staffing, the deployment, the scheduling and then also giving our operators the visibility with reporting has really, I think, driven terrific outcomes on this throughput effort. And we're really excited about where we can go from here.

David Tarantino

And just maybe a quick follow-up on that. So the last year you made this type of progress on throughput that I can remember was all the way back in 2014, and it was a very big comp driver that year. And I just wonder, could this become a big comp driver as you look at the rest of this year and into the next few years? I mean, is it possible that this is a big driver as we think about how the next several years plays out? Or is this more of a -- we're starting to get closer to where you want to be, and maybe it plays out this year and you normalize versus that base?

Brian Niccol

Yes. No, you're exactly right, David. So 2014 was kind of our high watermark on throughput. And we believe we have got years of opportunity in this. Just from what we are seeing, we still have a lot of opportunity to execute against the four pillars to great throughput. So our teams are doing a much better job than we were just last month or even six months ago. But there's still so much upside in what our teams can do and perform. So this is a multi-year -- you're going to hear us talking about throughput for a long time. And I think, you're going to be hearing us talk about how we are getting better as time goes by, assuming we are able to keep the staffing, assuming we are able to keep the deployment, assuming we're able to keep the teams focused on this. But rest assured, it's one of our key drivers of our strategy going forward. And our operators know it's critical.

And the good news is when they have success with throughput, a lot of good things happen for the team. Customer satisfaction scores go up, bonuses go up, all kinds of good things are happening in the restaurant. The food is better, the experience is better. It's just -- it's one of those things that cascades into everything being a lot better.

David Tarantino

Great. Thank you very much and congrats on a great start to the year.

Brian Niccol

Yes. Thanks, David.

Operator

The next question comes from Lauren Silberman with Deutsche Bank. Please go ahead.

Lauren Silberman

Thanks so much. So on traffic, incredible numbers. You talked about this trend continuing into April and particularly impressive when considering what we are seeing in the overall industry. Can you give more color on just the cadence of trends you saw throughout the quarter and into April and color on what you are seeing with the consumer performance at the high-income versus low-income consumer? Thank you.

Operator

My apologies, it looks like we've lost connection with our speakers. Please hold while we reconnect. [Technical Difficulty]

Thank you very much for your patience. We have reconnected with our speakers. We currently have Lauren Silberman from Deutsche Bank asking a question. Please continue Lauren.

Lauren Silberman

Hi guys. So if I could just ask about just traffic, incredible trends during the quarter, strength continuing into April, particularly impressive when considering what's going on in the overall industry. Can you give some more color on the cadence of trends you saw throughout the quarter and into April? And then talk about what you're seeing with the consumer, high income versus low income performance? Thank you.

Brian Niccol

Yes. Sure. So this is Brian, I'll get started and, Jack feel free to chime in. The good news is, obviously, we had some weather in January, and then we had the timing of the Easter holiday in March and April. But consistently what we saw was a step-up from that bad weather. And then really our transactions have been running kind of in this mid-single digit range, which has been -- I think a real testament to the work that's been going on both in the restaurant around throughput and then obviously some of the marketing work that we have got going on both with Barbacoa and Chicken Al Pastor. So we continue to see that strength as we entered April. And when we look at where that strength is coming from, because I think your question is about consumer/income cohorts, it's really broad-based.

So from the low income consumer to the middle income to the higher income consumer, we're just seeing gains with all income cohorts. And when we ask the question, why is that? What we hear back from every group is, it's a great value proposition. So the speed at which people can get these quality ingredients, customize the way they want for the price points that we provided is playing back -- is just -- create value in this environment.

Jack Hartung

Yeah, Brian [to add] (ph) was on transactions were up was 5.5% during the quarter, and that was offset by check increase by about 1.5%. That was driven by part check and then offset by a little mix -- a little negative mix mostly due to group size.

Lauren Silberman

Very helpful. If I could just have a quick one on throughput. Do we expect the throughput efforts to compound over time as consumers recognize the improved operations? Is that what's happening as we move through the quarters?

Brian Niccol

Yes, that's exactly right. I think we've talked about this in the past. When you know the line moves quickly, you are willing to get in line. And also what happens is the experience is just all that much better, right? The culinary moves faster, and then you get to your experience faster. So our teams run more efficiently. The food, I think comes across even better prepared, and then you as a customer move through the line faster. So it is one of those things where kind of speed begets speed is the way to describe it.

Jack Hartung

Yes. And Brian, I was just going to add the -- in terms of the in-store channel, it's the fastest-growing channel during the quarter, and that's coming from two areas. One, we've got our in-store customers. Those customers that tend to come in store are coming more often. And it makes sense that when the lines are moving, they are going to come more often. And we're actually also seeing a little bit of shift from some of the order-ahead. Those folks are shifting into the order -- into the in-store channel as well. Again, when the lines are moving well, when the restaurant is running well, people like to come in and select their meal along the front-line.

Lauren Silberman

Great. Congrats on the quarter.

Brian Niccol

Thank you.

Operator

The next question comes from Andrew Charles with TD Cowen. Please go ahead.

Andrew Charles

Great. Thank you. I wanted to ask on transactions. Jack hoping you can talk about apples-to-apples, the impact on traffic this has had. So if you go back to July 2022, when you guys introduced Project Square One, you talked about hundreds of basis points of transactions that are on the table from reclaiming peak same-store sales or peak transactions. So here we are, you're back to pre-COVID levels. Is there way you can help contextualize the last 1.5 years or so since July 2022 what you've seen from transaction growth, same-store transactions from Project Square One?

Jack Hartung

Yes. Andrew, it's -- so it's hard to parse out the transactions and say how much is due to things like Chicken Al Pastor, how much is due to things like Barbacoa. Barbacoa, we think, drove some transactions as well and then throughput -- how much is driven by throughput specifically. I think part of what's happening is they complement each other. And so when we are moving into our peak season right now, and these are our peak sales season, and we've got Chicken Al Pastor, which has been -- it's off to a great start. And [she's] (ph) got seasonally more people coming into the restaurant and more people want to come in and enjoy Chicken Al Pastor.

If you don't have throughput, the in-store channel is not going to be the fastest-growing channel or at least it's not going to grow as fast. So is throughput driving the transactions or is it enabling the transaction? So it is hard to sort through whether it's the driver or the enabler. But it really doesn't matter to us because when we've got great LTOs with great advertising and that we're executing great throughput, we know the transactions will flow. And similar to David Tarantino's comment from 2014, that's exactly what was happening is throughput is an enabler or a driver of transaction growth for not just many quarters but many years.

Andrew Charles

Got it. And then separately, Brian, a philosophical question for you. Just given the strength of the business you're seeing in recent years, which I think is really exemplified in the first quarter given the challenging industry backdrop, just curious how your philosophy on the second concept has perhaps changed. You no doubt have a full plate of exciting opportunities for the brand in the years ahead. But just given the success and the recipe for success that you've seen that you've implemented, does it lead you to believe that you could benefit from a second concept?

Brian Niccol

Obviously, this comes up -- every once in a while, people bring it up. And the thing I would say is, right now we are much more focused on just turning Chipotle into an iconic brand that I think it can be, not just in the US, but outside the US. Obviously, if the opportunity presents itself, where it would make sense for us to do something outside of the brand, so I never want to say never, but it's just not a focus area for us right now.

We've got so much opportunity in front of us just with what we can do with the brand Chipotle that internally we're not working on it. But you never know, the external environment changes, and we'd be foolish to say we wouldn't be opportunistic. And luckily, we are operating from a position of strength right now. So I want to be as opportunistic as possible on brand Chipotle. And then if the external environment were to change and present other opportunities, maybe we would consider it, but it's not part of our growth strategy right now.

Andrew Charles

Fair enough. Thank you.

Operator

The next question comes from Sara Senatore with Bank of America. Please go ahead.

Sara Senatore

Thank you. Just a quick housekeeping and then another question, please. So just I think, Jack, you mentioned slightly negative mix. Can you clarify was pricing this quarter. I think it was just under 3%, like 2.8%, something like that. And then what does that mean for Q2 now that you've taken the price increase in California? So that's just the sort of modeling question.

Jack Hartung

Yes. Sara, you are right. Pricing in the quarter was like 2.7%, 2.8%. The only change going into next quarter and the next couple of quarters is we've got the California pricing. That's somewhere around 100 basis points or a little bit less. So Q2 and Q3 will be somewhere in that 3.5% range, and then Q4 will fall off and be more in that 1.5% range because we'll compare against last year's pricing.

Sara Senatore

Great. Thank you. Very helpful. And then I wanted to ask about sort of the store mix, which is you're seeing a shift towards in-store. Does that have any -- I know you said group size is still falling a little bit, presumably from the lower delivery. But do you see any impacts from shifting to in-store? I'm thinking more possibly positive from better attach for like beverages, for example. And I'm curious if -- as you look out ahead -- if mix could possibly turn positive from a driver like that.

Jack Hartung

Yes. It's a good question, Sara. We're actually seeing within the, call it 1.5% of negative -- or it's a 1.5% positive with a mix impact of, call it, about 100 basis points or so. What's happening is the group size is more like declining by about 2%. We actually do have size -- additional side attachment. But we're seeing the side attachment grow in both digital and in -- in-restaurant, and we are seeing the side attachment increase faster in restaurants than the side. So there is a positive factor there.

It's less from drinks though. It's more with extra meats, it's chips, it's queso. So we are getting a better attachment in both channels, and it is getting better even in the in-store channel. Part of that, we think, frankly is when we have the line fully staffed, we do think we do a better job of not only making the burrito but making sure when the burrito or the bowl is presented to our cashier that these extras and these sides are more properly run up. Drinks have been relatively steady. We're not seeing a big shift in drinks.

Sara Senatore

Okay. Got it. Thank you. So kind of the opposite of the check management that we're seeing elsewhere? Thank you very much.

Jack Hartung

Correct.

Operator

The next question comes from Jon Tower with Citigroup. Please go ahead.

Jon Tower

Great. Thanks for taking the question. Just a couple. First, maybe as we think about that path to \$4 million AUVs that you've spoken about before, can you help us just maybe think about even your average customer frequency today and how that compares to the rest of maybe some of your competitive set out there for just your average customer?

Brian Niccol

Yes. I don't know how to think about our frequency relative to some competitive opportunities out there. What I can tell you is the folks that are in our rewards program, we see -- with their high engagement, we see higher spend and more frequency. And then also what we are seeing in the business, which I think is really nice to see as a result, I think the efforts both in better operational execution and I think our advertising around just the base business, this idea of real ingredients, real culinary, fast customization. We're just seeing the base business grow.

So obviously, we love what Chicken Al Pastor does for us, as far as menu variety. Obviously, we love the fact that we're able to re-hit barbacoa, which is within our existing business. But I think it's been nice about the cadence of marketing and news combined with, I think great operational execution. We are just seeing the base business grow. So we're getting more new users, we're getting existing users to come more often. And it's a great recipe to grow your core business in all the various ways we've talked about right from marketing to digital to operations.

Jon Tower

Great. Maybe just pivoting a little bit on you. Can you talk about the Canadian market and specifically about the potential you think for that over the long term? And then expanding, I think you had mentioned earlier the idea that Europe looks a lot like Canada five years ago. But do you feel like you can, given everything you've learned in Canada, implement a lot of what you've taken there and apply it to Europe such that the time-line around getting growth in Europe will be a lot faster versus what you saw in Canada?

Brian Niccol

Look, I mean, we're delighted with what's happened or what's occurred in Canada five years, six years ago. We were struggling to make the unit economics look very compelling. Now they are very compelling. It's right there with the US. And as a result, that business is closing in on 50 restaurants. And pretty soon, we'll have 100 restaurants up there. And then I think, we'll be talking about having hundreds of restaurants in Canada, which is really exciting.

To answer your question on Europe, yes, look I think our belief is we've learned a lot on what we've had to do in Canada to get that business to perform. We are taking that leadership there, giving her the opportunity to oversee our Europe business, take those lessons learned and apply it. And then at the same token, we are taking -- what we think are some of our best operators in the US, given them the opportunity to grow by working in our European business. So the time-line, I don't know what the time-line is going to be, but I am feeling optimistic that we've got the right operators, the right leadership. And then look, the proposition is compelling, right? Clean food, great culinary, done fast with high levels of customization that resonates. So I'm optimistic about where we go from here for all the reasons I just mentioned.

Jon Tower

Got it. I appreciate you guys for taking the questions.

Operator

The next question comes from Dennis Geiger with UBS. Please go ahead.

Dennis Geiger

Great. Thank you. Brian, I wanted to follow up on your comment there that the incremental traffic or visits are coming both from existing customers coming more, as well as from new customers. I don't know, if you have this granular level of detail, but I'm curious if you have a sense maybe from where -- maybe it's everywhere, but if it's QSR, if it's other fast casual. Any sense -- are you picking it up more at lunch, the incremental visits and customers more at dinner? Is there any other level of granularity to kind of help explain some of the success and maybe where it's coming from as it shifts to you folks?

Brian Niccol

No, not really. I mean the good news for us is it's pretty broad-based, right? It's coming across all income cohorts, it's coming across lunch and dinner in the afternoon. So it's not like there's one thing that I would identify as like this change in consumer behavior. I think the one big change for us is we are performing a lot better in giving people the experience that they actually want from Chipotle.

I think you've heard us talk about this time and time again, exceptional food, exceptional people, exceptional throughput. And I think we're just getting better at each of those things. And the good news for us is we have an opportunity to be even better than we are today. And then you layer in, what I talked about earlier as it relates to marketing, both talking about the brand itself and then some of this menu news, it's just -- it's one of those things that builds on itself, right? Great digital programs, great marketing programs become much more effective when we are executing operations at a higher level. And I think that's -- what's happening.

Dennis Geiger

That's great. And then just one -- just on the menu innovation follow-up. Just given the success you've seen as you bring back past favorites, as it relates to the go-forward, given the success that you've seen in recent years from that strategy, has that shifted at all how you think about menu innovation going forward, as it relates to bringing back past favorites versus some newer items? Any shift there for you and for the team? Thank you.

Brian Niccol

No, no real shift. I mean, I think we like this cadence of one or two items a year. The good news is we've got now -- a great proven group of menu news that we can provide. And the good news is we've got a really talented culinary team and a talented marketing team that continues to help us find, I think new flavors that make sense that can be executed correctly at Chipotle. So you're going to see us continue to hopefully mix in things that we know have worked in the past and things that will be new but have gone through our stage-gate process so that we have a high level of success or belief in success going forward. So we like the cadence we're in. We can operate really well with it, and it seems to be resonating with our customers. So we want to keep doing what's working.

Dennis Geiger

Thank you and congratulations.

Brian Niccol

Thank you.

Operator

The next question comes from John Ivankoe with JPMorgan. Please go ahead.

John Ivankoe

Hi, thank you very much. I wanted to get an update on some of the near-term operational initiatives that you've talked about before, the clamshell, Autocado, Hyphen just kind of where we are in the stage-gate process. And if you can put that in the context of kind of an updated, I guess, funding of the Cultivate Fund, what types of opportunities that you're looking for, for the next phase of opportunities to overall accelerate the Chipotle brand. Thanks.

Brian Niccol

Yes. Sure. So obviously, all this stuff is really exciting. The dual-sided grill, we have expanded to a few more restaurants, specifically our high-volume restaurants. We think that's not only a great unlock for consistency in the culinary of our proteins and meats, but it's also a nice unlock for high-volume restaurants. Because you can cook the chicken faster, it allows the teams then to start prep closer to when we want to serve customers, which is really exciting. So we are continuing to test and learn on that front.

We've also made some nice progress on the energy use associated with it, which was something that was a bit of a barrier. On Hyphen and Autocado, I'm happy to say, we've got both of those units back in our Cultivate Center for a couple of prototypes in. And we are feeling really good about getting those into a restaurant probably in the back half of this year.

And then there is a lot of other things happening, too both on like forecasting, deployment, tools to help our team members cut veggies more efficiently, more effectively. So there is a lot of good things happening behind the scenes. And I am optimistic about what some of these things can do for our team members to give them a better experience, which then I know translates into better culinary and then ultimately better experiences for our customers. On the Cultivate Next fund, this continues to be a real I think, highlight area for us because we're continuing to see great ideas. And these great ideas are all the way from different ways to fertilize, to weeding in the fields, to different ways to actually deliver food or oils.

So the thing I know about this is -- it's perfectly in sync with our purpose of cultivating a better world. And we can use it to really move forward the entire system necessary to give people great culinary, great ingredients, great food, at affordable basis. So you're seeing us invest up and down the supply chain all the way to the point of customer experience.

John Ivankoe

Thank you.

Operator

The next question comes from Sharon Zackfia with William Blair. Please go ahead.

Sharon Zackfia

All right. Great, thanks for taking the question. I guess on California, where you took the price increase, I know it's pretty recent. But could you give us an idea of where average ticket now sits in California and whether you've been seeing any resistance within that market as wages have ticked up and you've had to take that price increase?

Jack Hartung

Yes, Sharon. So the average ticket in California is similar to the rest of the country. Until this increase, our menu prices in California were very similar to the averages throughout the country, even though the cost of doing business out in California tends to be higher. After the increase, we still have burritos that are going to be reasonably priced. The chicken burrito is going to be around \$10. It's very early, as you mentioned. It's too early to tell. We're not seeing any kind of change in consumer behavior yet, but it's only been a matter of a few weeks so far. So we will keep a close eye on it.

We still think in California compared to competitors, we are still a terrific value, if you look at what others are charging. Because if you look at others in California before this increase and compare them to average menu prices throughout the country, they tend to be higher. They are passing on a higher cost of doing business. We've tried to keep our pricing very, very affordable in California. So we still think we offer a great value here. So we think, we'll fare quite well. As a consumer absorbs and figures out how do they want to balance our budget, we think Chipotle will stay in the budget.

Sharon Zackfia

Okay. Great. I wanted to ask another question too as it relates to Chipotlanes, which obviously have been great. But as you look at kind of the automation and the initiatives you're working on, do you think there is anything that you are looking at or that could come down the pike that would open up kind of the opportunity for a non-digital drive-through, just a regular drive-up and order drive-through? Or is there not something from a robotic assembly standpoint that could answer that for you?

Brian Niccol

Yes. We don't envision that occurring. The thing that makes Chipotle pretty special is all the customization, and we would hate to screw up that experience. And that's why -- you might remember this. I remember when we first did this, everybody was like, oh -- were you going to be confused, how are they going know how to order, so on and so forth. And it's turned out to be a really pleasant experience for both our team members and our customers because literally all they have to do is pick up their food. Everything is paid for. The order is accurate. It's on time and on you go. So we think there's other places for us to be more productive, where we're hunting on kind of using robotics and AI and finding other ways to do productivity. But you're not going to see that coming down the pike.

Sharon Zackfia

That's great. Thank you.

Operator

The next question comes from Brian Harbour with Morgan Stanley. Please go ahead.

Brian Harbour

Yeah, thank you. Good afternoon. I had a question just on your comments about rewards program. Obviously, you continue to add people to that. But the effort to kind of drive engagement on a same-user basis, I know you've worked on personalization of offers and such. Have you seen that kind of showing -- have you seen pretty nice improvements in frequency or anything you can say just about what you've observed kind of from the same-user base of Rewards members?

Brian Niccol

Yes. I think one of the things that's pretty interesting that over the last, I'd say couple of months has really worked well for us is kind of between machine learning and AI. I'm not sure what the right label is here. But we figured out how to identify somebody that might go less frequent so that we can keep them in the mix. And that's proving to be pretty powerful. Still a very small cohort that we're learning on. But the good news is we are seeing nice progress with that cohort that I'm optimistic kind of in our stage-gate process. We'll take that learning and figure out how to apply it on a much bigger scale so that then you can feel it across the digital business.

But it's those types of things where I think the team is doing a nice job of commercializing the data in a very effective way that ultimately for the customer, it feels like more personalization, more relevance. Therefore you keep the engagement up, and then obviously, when we keep the engagement up, we see the higher spend and the more frequency.

Brian Harbour

Okay. Got it. This is the comment you made, Brian, just about forecasting and deployment in restaurants. So it's not just equipment. It's also kind of that piece of it, which I assume you're referring to kind of the software tools that you've put there. Is that -- what have you seen from that so far? Has that made a big difference, in your opinion, on throughput and kind of staffing? Could you say more about that?

Brian Niccol

Yes, definitely. Look, I think one of the things that's happening is because we are getting better forecasting, better at deploying, better at the scheduling, the job is becoming a better job, right? And one of the ways you see it is in our turnover numbers, right? Our turnover numbers are the lowest they've ever been. We've got some regions well below 100% turnover at the crew level, which I've never seen in my time in this industry, I think some of the lowest numbers I've ever seen, frankly, at Chipotle.

And to be in that 100% range, I think is a testament to us making the job a better experience for our team members. I say this all the time by our folks, I said this at our AMC. Our folks show up at work wanting to succeed. The more we can do to surround them, so that they have a successful day, the better they feel about the job, the better they feel about the experience that they're giving. Nobody likes to show up and be out of chicken when a customer gets to that point. And so the more we can do to ensure they prep correctly, they are staffed correctly, they're deployed correctly, the better the experience is going to be. And I think we're starting to see that in the turnover numbers. We're starting to see that in, frankly, just the performance at throughput, right the ultimate kind of metric to see like is the whole system really working. The whole system is working when we get great throughput.

And I'm just -- I'm delighted to see it happen. I talked about this a little bit in my prepared remarks. You really see it all coming alive at our AMC because when I had the opportunity to talk to people in the hallways or on our way to breakouts, I think people are just energized, man. They're fired up about this idea of being successful in their role -- being successful as a leader. And that translates into the team. Everybody likes to be part of the winning team. And I think that's what's happening in our restaurants. We've got leaders that know they're leading winning teams. So we're going to do more of that.

Operator

The last question today comes from Chris O'Cull with Stifel. Please go ahead.

Chris O'Cull

Yeah, hi. Thank you. I had a follow-up related to execution during peak periods. And in particular, Brian you've talked about helping teams in the stores have better visibility to know how they are performing in their 15 minutes, so they can course correct, I think, in real time. Is this a fairly new system or a dashboard tool that managers have access to.

And then maybe to help us understand the opportunity, I was just wondering if you could tell us what's the difference between the number of entrees during 15 minute peaks for like the top 20% and maybe the bottom 20% performers?

Brian Niccol

Yes. So to answer your first question, it is a new tool that we rolled out in January that gave them real-time visibility, which has been hugely powerful. It is great because now when I visit restaurants and you ask people, hey, how are you doing? They can tell me what their best 15 has been so far. And a lot of them now are so well aware like hey, I know we can do better than that. So like we might have did 25 in the last 15, but I think we are going to do 35 in the next 15, which is really exciting to hear them have that type of visibility and have that type of clarity so that as a team, they know what they're all working towards. What was your other question?

Jack Hartung

It was the range on throughput.

Brian Niccol

Oh, the range to the top and bottom?

Jack Hartung

Yes. I can take that one. We will see at the bottom, and these tend to be lower-volume restaurants. You'll see restaurants that are doing in the mid-teens call it. And then I don't think this is maybe the top 20%. But when we look at the top restaurants, which tells us what the potential is -- Brian gave an example during the prepared remarks in Boston. We've seen as high as [80] (ph), we've seen some even higher than that. But I would say the top-performing restaurants are consistently -- or at least on a peak day, it's not going to be in that 40, 50 range. So it's a very wide range. And we're still towards the lower end of that range with a lot of potential ahead of us.

Chris O'Cull

Great. Thanks and congratulations on a great start to the year.

Brian Niccol

Yes. Thank you.

Jack Hartung

Thank you.

Operator

This concludes our question-and-answer session. I would like to turn the conference back over to Brian Niccol for any closing remarks.

Brian Niccol

Okay. Thank you. And thanks, everybody for the questions. Obviously, I appreciate the kind words of recognizing how we are off to a great start. Very proud of the momentum that the business has and really proud of what our operators are doing in our restaurants.

I mentioned it in my prepared remarks, but it was so much fun to be at our AMC with all of our restaurant general managers, apprentices, field leaders, team directors, regional vice presidents, talking about the business. Everybody was clearly aligned on what the task needs to be at hand which is great culinary, developing great people, great culture, great teams, right, and then ultimately getting great throughput for our customers.

And I think you're seeing the power of focus, the power of alignment and the power, frankly, of Chipotle's culture and great people in these results in the last quarter. Optimistic about where we go from here. It's exciting to think about how we can double this business going from 3,400 to 3,500 restaurants to 7,000 restaurants, getting to 4 million average unit volumes. And then continuing to make great progress on throughput and surrounding this brand, I think with great digital, great marketing is really -- it's really an exciting moment for the brand and the company. And we are just getting started, which has really makes this a lot of fun.

So thanks for taking the time. It's great to see the business respond with transactions driving the comp. And we are going to stay focused on what we know works. So we will talk to you guys in a couple of months. Thanks, everybody.

Operator

The conference has now concluded. Thank you for attending today's presentation. You may now disconnect

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