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Chipotle Mexican Grill, Inc. (CMG) Q1 2025 Earnings Call Transcript

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Q1: 2025-04-23 Earnings Summary

Insights



EPS of \$0.29 **beats by \$0.01** | Revenue of \$2.88B (6.42% Y/Y) **misses by \$68.33M**

Chipotle Mexican Grill, Inc. (NYSE:[CMG](#)) Q1 2025 Earnings Conference Call April 23, 2025 4:30 PM ET

Company Participants

Cindy Olsen - Head of Investor Relations and Strategy

Scott Boatwright - Chief Executive Officer

Adam Rymer - Chief Financial Officer

Conference Call Participants

Andrew Charles - TD Cowen
Sara Senatore - Bank of America
David Tarantino - Robert W. Baird & Co.
David Palmer - Evercore ISI
Sharon Zackfia - William Blair & Company
Brian Harbour - Morgan Stanley
Dennis Geiger - UBS
Gregory Francfort - Guggenheim Securities
Christine Cho - Goldman Sachs Group, Inc.
Lauren Silberman - Deutsche Bank AG
Jon Tower - Citigroup Inc.

Operator

Good day, and welcome to the Chipotle Mexican Grill First Quarter 2025 Conference Call. All participants will be in a listen-only mode. [Operator Instructions] After today's presentation, there will be an opportunity to ask questions. [Operator Instructions] Please note, that 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 2025 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-Qs for a discussion of risks 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 Scott Boatwright, Chief Executive Officer, and Adam Rymer, Chief Financial 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 it over to Scott.

Scott Boatwright

Thanks, Cindy, and good afternoon, everyone. While our first quarter results were impacted by several headwinds, including weather and a slowdown in consumer spending, our teams continue to make great progress improving the execution in our restaurants, testing and rolling out exciting back-of-house innovation and building out our brand in the U.S. and internationally. Additionally, Chipotle Honey Chicken is off to a terrific start, driving incremental transactions in our restaurants.

Now turning to our first quarter results. Sales grew over 6% to reach \$2.9 billion, including a comparable sales decline of 0.4%. Digital sales represented 35.4% of sales. Restaurant-level margin was 26.2%, a decrease of 130 basis points year-over-year. Adjusted diluted earnings per share was \$0.29, representing 7% growth over last year, and we opened 57 new restaurants, including 48 Chipotlanes.

Before I give an update on our five key strategies, I will provide insight into our current trends and outlook. In February, we began to see that the elevated level of uncertainty felt by consumers starting to impact their spending habits. We could see this in our visitation study where saving money because of concerns around the economy was the overwhelming reason consumers were reducing the frequency of restaurant visits. This drove a slowdown in our underlying transaction trends. This trend has continued into April.

While we can't predict how long these consumer headwinds will last, what I do know is that the Chipotle brand has never been stronger, that we have an extraordinary value proposition that is more important than ever to focus on being guest obsessed to earn every transaction.

Now turning to our outlook. Current underlying trends would result in a low single-digit full-year comp and returned to positive transaction growth in the second half of the year. We also have several near-term initiatives that I'm confident will accelerate this trend.

Before I get into the details of these initiatives, I want to first review our five key strategies that will help win today while we draw our future. And these strategies include: Running successful restaurants with a people accountable culture that provides great food with integrity while delivering exceptional in-restaurant and digital experiences; amplifying technology and innovation to drive growth and productivity at our restaurants, support centers and in our supply chain; making the brand visible, relevant and loved to acquire new guests and improve overall guest engagement; sustaining world-class people leadership by developing and retaining top talent at every level and expanding access and convenience by accelerating new restaurant openings in North America and internationally.

First, starting with our restaurants. Our value proposition is rooted in exceptional people serving delicious food, fast throughput and affordable price point. In fact, the average cost of our most popular entree at Chicken Bowl or Burrito is still under \$10, which is about 20% to 30% below comparable fast casual meals and can reach as high as 50% below comparable meals in some markets.

What you get for this price is handcrafted, high-quality culinary in abundance at a speed in which you can't find anywhere else. This is resonating with our guests, and we can see it in our brand tracker, which continues to gain momentum. In fact, our latest survey shows Chipotle ranks top three in a record 15 perceptual drivers and leads in key areas, including good amount of food for your money and quality of ingredients.

We believe that we have built a strong competitive advantage by delivering on this value proposition year-after-year. And our success today and in the future relies on our ability to continue to wow our guests when they choose to eat at Chipotle. Our teams are working hard, and our culinary and throughput continue to be key differentiators for the brand. However, we do have an opportunity to lean into exceptional hospitality as part of our focus on being guest obsessed.

At our Field Leader Conference in March, which included all leaders above restaurant general managers, I posed this simple question. What if, in addition to great culinary and great speed, we also renewed our commitment to great hospitality. With this in mind, we laid out specific actions to be accomplished in our restaurants that will not interrupt our focus on throughput. This includes a friendly smile at tortilla, a heartfelt thank you from our cashier, clean dining rooms and drink stations and great guest on-site recovery for any issue. The fact is smiles down the line don't slow us down.

Our restaurant leaders have cascaded this message and rolled out training tools to all of our nearly 3,800 restaurants. While it will take time to build the guest obsessed culture across 130,000 team members, I am confident that we can do this and it will further strengthen our industry-leading value proposition at a time when our guests appreciate it most. Additionally, exceptional throughput remains a key priority, and we continue to make progress on executing the four pillars of throughput, including [expo].

In fact, our recent review show that a handful of our sub-regions, which average about 60 restaurants each have an expo in place over 80% of the time. While this tells us what is possible, our reviews also show us that restaurants without an expo in place, often still prepping and not properly deployed for the peak period. As a reminder, our prep process begins at six or seven o'clock in the morning so that we can be finished by the time we open at 10:30 a.m.

For those who have not seen Prep at a Chipotle restaurant, it looks like a farmer's market, including whole heads of romaine lettuce, 25-pound bags of whole onions, boxes of bell peppers, jalapenos and avocados and bunches of cilantro. When our crew arrives in the morning, they grab knives, cutting boards, pots and pans and get to work preparing our delicious food. Sometimes, restaurants get behind in the morning and as a result are not properly deployed for the peak period, preventing the execution of the four pillars, including expo.

In addition to consistent training and reps, we also believe our back-of-house equipment innovation will be the next big unlock for more restaurants to complete prep on time and be ready for throughput at peak. This brings me to amplifying technology and innovation. We are well underway testing and rolling out innovative tools that will modernize the experience for our team members without compromising Chipotle's heritage, high-quality and crafted culinary experience, including the farmers market that I just described.

We remain on track to have the produce slicer in all restaurants by this summer, which will improve the speed of prep and improve the culinary by ensuring consistent cut sizes for onions, bell peppers and jalapenos. We are also expanding the rollout of the equipment package, which includes the dual-sided plancha, three-pan rice cooker and the high-capacity fryer.

In addition to new restaurant openings that will begin in Q4 of this year, we are now in the process of rolling out the equipment package to an additional 100 existing restaurants over the next few months. Based on the results, we can accelerate the rollout to all restaurants, which we believe we can complete over the next several years.

While we do anticipate that we will realize efficiencies from these initiatives, some of this will be invested back into our restaurants to enhance the experience for our teams and our guests. This will enable our crews to be properly deployed during peaks, driving better throughput and a better guest experience. It will also improve and drive better consistency across culinary, which is key as we continue to scale this great brand.

Finally, we continue to make progress with both Autocado and the augmented digital makeline. These are both customized pieces of equipment, co-developed by Chipotle and our innovative partners. We have gone through several iterations, including in-restaurant testing. And over the last couple of months, both were back at our Cultivate Center for additional enhancements. Autocado is now back in the restaurants for further testing and an augmented digital makeline will be back in our restaurant later this summer. We are happy with the progress we are seeing and remain optimistic about both pieces of equipment.

Turning to marketing. Our Chipotle Honey Chicken limited time offer is off to a strong start. Since its launch in March, it has had a higher mix than any other limited time offer, even surpassing its two-market pilot test. It is also driving incremental transactions and the guest feedback has been overwhelmingly positive. I am confident this will be another successful LTO to bring back in the future.

Looking forward, our marketing team has an enhanced plan for the summer and the remainder of the year to make Chipotle more visible, more relevant and more loved to drive difference, drive purchase and drive culture. For example, beginning in May and continuing through the summer, we will meaningfully ramp up our marketing spend to reach more guests and meet them where they are. This will include menu innovation around the possible side or dip, increasing marketing in our digital and social channels and leveraging our rewards platform to target specific customer cohorts and group occasions.

We are also rethinking our catering business, which we see as an opportunity long-term. Today, catering is only about 1.5% of sales with little or no marketing. Yet it is one of the best experiences at Chipotle.

We have developed a plan to scale the business and will rollout a catering test this fall in one of our sub-regions. Our test will include the new equipment package, additional storage as well as new technology to best allocate orders and drive demand. We can then see if it allows us to effectively scale the catering business without impacting our core business, we will share our learnings along the way.

Now shifting to our exceptional people. When we ask our teams what they love most about working at Chipotle, they consistently mentioned industry-leading benefits, culinary, commitment to food with integrity and their ability to grow within the organization. Our growth has resulted in countless inspiring stories of life-changing careers to make Chipotle a very special company to work for. In fact, at our Field Leader Conference in March, we featured and celebrated the successful journey of one of our team directors.

20 years old, he moved to the United States and started working at Chipotle as a crew member. Over the last 12 years, he worked his way up through the organization. He credits his General Manager and his team Director for helping him develop and grow along the way, including learning English, buying his first home and supporting his family. And now he is one of our top leaders managing \$200 million business.

This type of leader inspires our teams and is able to build a strong culture in their restaurants, which is key to stability and consistency. This drives a great experience for our team, which then ladders up to a great experience for our guests, ultimately driving results.

Our culture and focus on developing exceptional people makes us an employer of choice. And I'm proud to share that we were recognized again by Fortune as one of the world's most admired companies. And we continue to have so much more opportunity for our teams as we aim to promote 90% internally and scale to our long-term goal of 7,000 restaurants in the U.S. and Canada.

Finally, moving to expanding access. In the U.S. and Canada, we opened 57 new restaurants in the quarter and remain on track to open between 315 and 345 new restaurants this year with 80% including a Chipotlane. This includes 15 to 20 new restaurants in Canada, which will mark another record year of openings.

New restaurant economics remained strong with year two cash-on-cash returns around 60%. Additionally, our overall cash-on-cash return is in the low 80% range as restaurants continue to grow their economics over time, which gives us a lot of confidence in long-term growth targets.

In the Middle East, we opened two more restaurants with Alshaya Group in February. We now have five restaurants opened, including three in Kuwait and two in Dubai. Results continue to be very strong as we mentioned last quarter. We will accelerate growth this year with the Alshaya Group.

Finally, I'm excited to share that we recently signed a new partnership agreement with Alsea, a leading operator in Latin America and Europe to open restaurants in Mexico. We anticipate the first restaurant to open in early 2026, and we will also begin to explore possible expansion into additional markets in the region.

To close, I want to thank our restaurant and support center teams for their commitment to being guest obsessed. During these uncertain economic times, our objective is to invest in the things that make Chipotle a special brand. Our people, our culinary, our value proposition, our innovation and our growth. By doing so, we expect that our brand in our business will be even stronger when the economic headwinds subside.

We continue to be optimistic about our ability to expand 7,000 restaurants in the U.S. and Canada, grow our AUVs to over \$4 million, expand margins and make our way to becoming a global iconic brand. Not only will this mean providing delicious real food around the world, but it will also mean growth of our people and the impact of our purpose to cultivate a better world on more communities.

With that, I will turn it over to Adam.

Adam Rymer

Thanks, Scott, and good afternoon, everyone. Sales in the fourth quarter grew over 6% year-over-year to reach \$2.9 billion, including a comparable sales decline of 0.4%. The restaurant level margin of 26.2% declined about 130 basis points compared to last year. Earnings per share was \$0.28 on a GAAP basis and \$0.29 on a non-GAAP basis adjusted for unusual items, representing 7% year-over-year growth.

As Scott mentioned, in February, we began to see that the elevated level of uncertainty felt by consumers was starting to impact their spending. This drove a meaningful change in our underlying transaction trend that has continued into April with some improvement late in the quarter from the success of Chipotle Honey Chicken.

As we look to Q2, we are facing our most challenging comparison as we lap in 11.2% comp from last year, including a high teens comp in April. Additionally, we roll off about 90 basis points of price and have an additional 100 basis point headwind due to the timing of Easter.

With all of this in mind, we think it is best to consider our two-year stacked comp trend, which was around 7% in February and March and accelerated by about 100 basis points into April. Assuming no change in the consumer environment, we anticipate that this trend to carry through Q2 and for comps to turn positive exiting the quarter as comparisons to ease and will return us to positive transaction growth in the second half of the year.

I will now go through the key P&L line items, beginning with cost of sales. Cost of sales in the quarter were 29.2%, an increase of about 40 basis points from last year. The benefit of our menu price increase was more than offset by inflation and higher usage across several items, most notably avocados, dairy and chicken in addition to the mix impact from limited time offers. Relative to our guidance, avocados were favorable as the year-over-year step-up was less than we anticipated, and our supply chain and in-restaurant initiatives begin to offset the increase in usage from last year.

For Q2, we expect our cost of sales to be in the high 29% range as the mix benefit from Chipotle Honey Chicken will be more than offset by higher inflation across several items, the normalization of avocado prices and the impact of the newly enacted tariffs, including aluminum and the broad-based 10% tariff.

We estimate these tariffs will have an ongoing impact of about 50 basis points and due to inventory on hand, we anticipate a 20 basis point impact in Q2, which is included in our guidance. These estimates do not include any impact from the tariffs that were postponed or the 25% tariffs on Mexico and Canada since our imports fall under the U.S. MCA exemption.

Regarding the 60 basis point investment that we made in 2024 to ensure consistent and generous portions, we estimate that we have offset more than half of the impact from supply chain savings as well as improved execution in our restaurants. We continue to anticipate a full offset by the back half of the year through several in-restaurant initiatives, including the produce slicers. We still anticipate underlying cost of sales inflation to be in the low single-digit range for the full-year, which excludes the normalization of avocado prices, the mix impact from LTOs, a portion investment and any impact from tariffs.

Labor costs for the quarter were 25%, an increase of about 60 basis points from last year, primarily driven by lower volumes as leverage from pricing offset wage inflation. For Q2, we expect our labor cost to be in the mid-24% range with wage inflation in the low single-digit range as we have now lapped the 20% step-up in California wages from April of last year.

Other operating costs for the quarter were 14.4%, an increase of about 10 basis points from last year, primarily driven by lower volumes as leverage from pricing offset underlying inflation across a number of items, most notably utilities.

Marketing and promo costs were 3% of sales in Q1, an increase of about 10 basis points from last year. In Q2, we expect marketing costs to be in the mid-2% range with the full-year in the high 2% range which includes the incremental spend for our summer marketing plans. In Q2, other operating costs are expected to be in the high 13% range.

G&A for the quarter was \$173 million on a GAAP basis or \$161 million on a non-GAAP basis, excluding about \$12 million related to equity awards granted last year for retention of key executives. G&A also includes \$133 million in underlying G&A, \$23 million related to non-cash stock compensation, which included a reduction in our performance share accruals, \$2 million related to payroll taxes on equity vesting and exercises partially offset by lower bonus accruals and \$3 million related to our Field Leadership Conference, which was held in March of this year.

We expect our underlying G&A to be around \$135 million in Q2 and step up each quarter as we make investments in people and technology to support ongoing growth. We anticipate the second quarter G&A will also include around \$36 million in stock-based compensation, although this amount could move up or down based on our actual performance. Offset by \$3 million in lower bonus accruals, bringing our anticipated total G&A in Q2 to around \$168 million.

Depreciation for the quarter was \$87 million or 3% of sales. For 2025, we expect it to remain around 3% of sales. Our effective tax rate for Q1 was 22.9% for GAAP and 22.7% for non-GAAP benefited from option exercises and equity vesting above grant values. For 2025, we estimate our underlying effective tax rate to be in the 25% to 27% range, though it may vary based on discrete items.

Our balance sheet remains strong, and we ended the quarter with \$2.1 billion in cash, restricted cash and investments and no debt. During the quarter, we purchased \$554 million of our stock at an average price of \$54.15, and we will continue to opportunistically purchase our stock. During the quarter, the Board authorized an additional \$400 million to our share purchase authorization. And at the end of the quarter, we have \$875 million remaining.

To close, I would like to thank our 130,000 team members for your focus on being guest obsessed and earning every transaction, which is more important than ever in a challenged consumer environment. We are in a fortunate position with an industry-leading economic model, an exceptional value proposition and a fortified balance sheet, which enables us to continue to invest in what makes Chipotle such a special brand and enable our long-term growth. I'm confident that we have a strong plan for the remainder of the year and look forward to sharing our progress with you in the coming quarters.

And with that, we can open it up for questions.

Question-and-Answer Session

Operator

Thank you very much. We will now begin the question-and-answer session. [Operator Instructions] Our first question comes from Andrew Charles from TD Cowen. Please go ahead.

Andrew Charles

Great. Thank you, and thank you for the comprehensive action items to help turn on performance. Scott, when we look across publicly traded fast-casual concepts, it appears they are reaching greater scale and replicating the successful Chipotle playbook of deploying advertising, speed of service, menu innovation, loyalty programs, as well as executing on unit growth targets in the suburbs. I'm curious what leaves you confidence that fast-casual competition will impede your target for positive traffic in the back half of this year?

Scott Boatwright

Yes. Hi, Andrew, thanks for the question. We look at our fast-casual competitors. We often monitor their performance in the marketplace, their performance relative to ours. What gives me a lot of confidence is we have competition, as you can imagine, that opens up near or in close proximity to Chipotle's today. And we don't see any material impact to our business. As a matter of fact, in most cases, we see an increase in traffic to the area and we garner more than our fair share. And what I attribute that to is an extraordinary value proposition, a speed at which our competitors are hard-pressed to manage or at least even compete with. And that gives me a lot of confidence regardless of what's happening in the marketplace. The Chipotle brand has never been stronger. Our value proposition has never been greater. Our food has never been better and our speed is unmatched.

Adam Rymer

Yes. And I would just add to that, Scott, that if you look at fast-casual, it's growing considerably, but it's still really small in general when it comes to the overall restaurant space. And so I think there's still a lot of room to grow.

Scott Boatwright

It's a great point. I actually said this in the Buy Side Conference recently. We build a new competitor every single year. We'll build between 315 and 345 new restaurants this year alone, which surpasses the size and scale of most of our competitors.

Andrew Charles

That's helpful. And Adam, if I could ask one follow-up. I appreciate the commentary on tariffs and the impact on COGS. How should we think about the impact on new store CapEx? And I think you talked about how new store economics, 60%, while still very strong, diminished a bit from the 60% to 70% you talked about last quarter?

Adam Rymer

Yes. So when it comes to tariffs on new store builds, it's still a little bit in flux of course, with everything that's moving around. But everything that's been enacted so far, we think it will be an increase of somewhere in the mid-single-digit range, but a lot of that comes from China. And as we've seen in the news in the last couple of days, that percentage could be coming down. So that could have an impact on our new store returns. But again, still very much in flux and appears to be somewhat minimal at this point.

Andrew Charles

Very helpful. Thank you.

Operator

Thank you. Your next question comes from Sara Senatore from Bank of America. Please go ahead.

Sara Senatore

Hi. Thank you. I guess a question and then maybe just a clarification on your marketing comments. The question is, you mentioned maybe the consumer slowing, but I think depending on how I interpret your comments about the run rate signals, I mean, first of all, you said the two-year stack improved. And then when I look versus 2019, albeit that was long time ago now is actually incredibly stable. So I'm just curious what you might be seeing. I know you mentioned survey data, but is there any kind of I guess, legitimacy to the idea that maybe it's just difficult comparisons as opposed to a real fundamental change in your consumer behavior? And then like I said, I will have a quick follow-up on the marketing spend, please.

Scott Boatwright

Hi, Sara. Thank you. As I think about the consumer visitation study, we just took, gosh, just a few weeks ago and look at why consumers are spending less, and it was all around this idea of saving money, economic uncertainty, they're eating at home more frequently than they're eating out. What we asked specifically around Chipotle was around convenience, which we've been hearing for many, many years, which really supports our long-term growth strategy to get to 7,000 restaurants to create convenience and access for the consumer. So we believe it's a culmination of many things, whether it's weather, the Easter shift, whether it's consumer slowdown on consumer spending and/or tough compares, I really believe it's all of the above. But I think the underlying trend, I'll let Adam weigh in here, is really tied to the consumer sitting on the sideline.

Adam Rymer

Yes. Yes, and I think that's right, Scott. So if you look at it, especially across February, we started to see kind of our underlying transactions soften a little bit. But then as we go into March, we launched Chipotle Honey Chicken, and that provided a little bit of an offset, but then we started to comp over the Easter shift. And Sara, as you know, Easter is a springboard really for our burrito season and getting us on the spring seasonality. And so the fact that, that happened several weeks later, there's a bunch of layers to kind of peel back there. But net-net, we are measuring a few 100 basis points lower on our trend, which we believe is primarily macro-related like Scott, said.

Sara Senatore

Great. Thank you. And then just on the marketing, I think you took up the spend as a percentage of revenues, just a little bit, is there a room to do even more if you see the returns are quite positive. I know some of your traditional QSR peers then, twice that revenue share on marketing.

Scott Boatwright

Yes, Sara. So we took a hard look at summer seasonality. The last couple of years, we've seen a step down in the business during that summer timeframe. And what – Chris and the team have come up with is a plan that has – that will reach consumers and remain – keep us relevant with our consumers more consistently throughout the summer. And we're looking at it as return on ad spend, obviously and Chris and team are hyper focused on returns with the marketing spend. But I think how we're thinking about the consumer because linear TV as you know just doesn't work as hard for us or isn't as efficient in the summer months. But thinking about what's possible with regard to streaming social activations or just reaching the consumer in a different way during the summer months and some digital activation to add top spend from our digital team. I think it will have a meaningful impact on the summer.

Sara Senatore

Thank you.

Operator

Thank you. Your next question comes from David Tarantino from Baird. Please go ahead.

David Tarantino

Hi. Good afternoon. My question is really getting back to kind of the underlying slowdown you mentioned. I guess, Scott, how did you diagnose that it was all macro and not something specific to Chipotle? I guess as you look at your internal metrics or however you want to look at it or however you benchmark your business versus others? Why wouldn't you think that maybe if there isn't something related to specifically Chipotle in this environment? Thanks.

Scott Boatwright

Thank you, David. Yes, I think I'm confident the brand has never been stronger, David. If I look at every KPI, whether I'm looking at operational KPIs, people KPIs or more importantly, how we're performing in the consumer visitation study, and our own brand tracker, we've never been stronger. We moved into a record 15 perceptual drivers top three this past quarter, which gives us confidence. We are making the right decisions as it relates to value for the money, food for the money, quality of ingredients. We've moved into two – we haven't seen before in the past around cares a lot about the customer as well as customer care or customer satisfaction, which is exciting to see, which supports the whole guest obsessed movement we put into place just a couple of months ago, couldn't be proud of our restaurant teams for their performance.

Turnover is holding steady at all-time lows. Staffing levels are at all-time highs. The digital team continues to lean in and innovate and remove friction points within the app. They continue to work on customer journeys. We can talk about that in a moment. We are doing all the right things. And so it has to lead me to believe that the consumer slowdown and pullback is probably the leading factor for the sales performance in Q1 and what's happening in Q2. So I'd leave you with that, David.

David Tarantino

Great. That's very helpful. And then, Adam, I know you sometimes look at the business trend. I know you mentioned the two-year comp performance, but I know – in the past, you talked about taking what you're seeing in the most recent few months and running that forward on a seasonally adjusted basis. I guess does that give you the same answer when you look at it that way in terms of how you're guiding for the rest of the year?

Adam Rymer

That's how I would look at Q2. So like we talked about that two-year comp stepped up to about 8%. If you push that through for Q2, I think that's a good place to get to in terms of the Q2 comp. When you start to think about the second half of the year, if you were to push forward that same trend, it will yield a positive comp in the second half, including the positive transactions like we discussed, and a slightly positive full-year comp. Somewhere in that 0% to 1% range. But we believe with the initiatives that we already had in place going into this year as well as some of the things that we're leaning into that Scott just mentioned around summertime that we can build upon that to get to that low single-digit comp that we guided for the full-year.

David Tarantino

Great. Thank you very much.

Adam Rymer

Thanks, David.

Operator

Thank you. The next question comes from David Palmer from Evercore ISI. Please go ahead.

David Palmer

Thanks, guys. I wanted to ask you maybe to dig into the data that you might have collected in terms of your consumer survey or study. There's been an acceleration in the restaurant industry chain traffic trends in the last four weeks ending mid-April and back in February, it was really bad. It was – the industry was down 4% or 5% traffic wise. It's been flat over the last four weeks, sort of got a little bit better through March. So that's a chain – those are chain numbers. So maybe some of the big fast food chains are getting better that we're doing pretty awful last year as you're maybe dealing with some difficult comparisons. So I'm wondering if your study is showing that consumers are maybe trading to other traditional fast food players. And if you think that, that is happening, how does that inform your view about consumer value and your marketing strategy? And I have a quick follow-up.

Scott Boatwright

Hi, David, it's Scott here. As we look at our data, we continue to gain share across all restaurants both QSR and fast-casual. And so we feel like we're in a really good place. The promotional activity you're seeing are primarily trading share between QSRs at present, based on our information. So we feel good about where we sit today. We continue to lean into my idea or our idea of value, which is benefit over price, we're going to hold price constant, Dave. We're going to continue to lean into the benefit of the offering. We're going to lean into high-quality, great culinary abundant portioning throughout all restaurant occasions and all channels and then lead into the customer experience in a more meaningful way, which I talked about in the prepared remarks.

David Palmer

And I just want to ask you about like Honey Chicken, you said it's done well and no doubt it is doing well. But I wonder if doing well, might be eight out of 10 versus maybe one of the best LTOs you've ever done, but it might not be quite the Chicken al Pastor, which might have been 10 out of 10 in terms of lift to sales and incrementality. So I just wonder how you're viewing this because clearly, something that mixed over 20% last year with Chicken al Pastor might just be too big of a mountain for you to climb over and that might be, frankly, what we're looking at here?

Scott Boatwright

Yes, David, the mix percent on Chipotle Honey Chicken is outpacing Chicken al Pastor, which gives us confidence that, that LTO is working really hard for us in this environment, and we feel like it is moving transactions.

Adam Rymer

Yes. And I would say, David, it's probably in that at least 100 to 200 basis point range on transactions. The problem is we launched in the middle of March and then soon thereafter was the Easter shift. And so that's kind of clouding a little bit of that compare. But again, with the idea that it's driving that much in transactions in a really tough consumer environment, we're really excited about what this could do on a as we potentially bring it out in another year when the environment is not so tough.

David Palmer

Thank you, guys.

Operator

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

Sharon Zackfia

Hi, thanks for taking the question. I guess as you kind of unpack what's happening in your business, how do you think about what's happening by income cohort? Is there anything to talk about there or the digital versus walk-in business and any divergence and urban versus suburban? So trying to unpack that? And then how do you translate that? And how quickly can you translate that to your marketing plans?

Scott Boatwright

Yes. Hi, Sharon, I'll jump in, and I'll flip it over to Adam. We took a hard look at the consumer by income cohort, which we're not seeing any divergence in any cohort, specific cohort. And we took a look at it by geography. And we see that the slowdown is more macro versus generalized or by geography or cohort. So we're not seeing anything that would lead us to believe that there's a problem with the consumer today as it relates to Chipotle's consumers.

Adam Rymer

Yes, yes, I would agree, Scott. I mean it's broad-based, whether it's income, whether it's suburban, urban or not seeing a deflection there. So again, just appears very broad-based

Sharon Zackfia

Can I ask a follow-up? Because if I back into the average weekly sales for digital, it seems to kind of gap more negatively in the first quarter and then where it has been trending relative to the non-digital business. Is there something happening there with delivery that's particularly weak? Or anything going on with the rewards program, which you think you can amplify better?

Scott Boatwright

I'll start by saying, I think there is more we can do in digital to amplify better. I will tell you, marketplace is holding up very consistent month-over-month and quarter-over-quarter, where we are seeing some deteriorations in white label, and we see that moving more order head pick up and in restaurant. So that's the only softness we're seeing in the channel today.

Can we do more? Yes. And we're innovating against customer journeys, which I've talked about before. And I'll give you an idea of one of those journeys as we think about digital and how we remove friction from the app, we just completed what I believe to be a very successful AI test on time of day and content optimizations with our welcome journey, which saw significant increases to our engagement rates as we continue to drive for three purchases within our first 90 days.

And then separately, on the welcome journey we continue to test offers to expedite progress through the journey. And so while the team is still testing and iterating, we're learning on the fly. But I believe there's more to do there as the team gets sharper around the journey specific to new lapsed and at-risk consumers within the digital ecosystem.

Sharon Zackfia

Thank you.

Operator

Thank you. Your next question comes from Brian Harbour from Morgan Stanley. Please go ahead.

Brian Harbour

Yes. Thank you. Good evening. What you talked about sort of on elevating hospitality and I guess some of these other initiatives, just increasing marketing, maybe some new innovation. Was that an output of – did some of your survey work, for example, indicate any sort of efficiency there or things that people were sort of concerned about or for example, on sort of guides or add-ons, was there do you think there's just a real interest in that, that you haven't kind of tapped successfully in the past? What drove some of those decisions to move forward with those things?

Scott Boatwright

Yes. Thanks, Brian. I'll tell you, these initiatives have been in flight for some time as far back as Q4 of last year. So it wasn't necessarily about what's happening with the consumer today. It was just different thinking, if you will, between this leadership team and past leadership on how we approach marketing specifically, how we think about digital and the customer, that work has been in flight for some time. I'll tell you, Chris Brandt has been asking for more marketing dollars for the eight years I've been with this brand. So he's pretty darn excited as we think about spend and how we reach more consumers more frequently.

The operational component, I was seeing some pretty material deficiencies and I'm pretty hard on the ops team as it relates to the guest experience. We did do an impact analysis on the consumer last year problem detection study, if you will, that told us we're not as clean as we should be at peak as it relates to dining room and drink station, and we're not as friendly as we probably should be in restaurant and that we don't handle customer recovery well. And so that's why we were leaning into the operational improvements. And I'll tell you, the team has really knocked it out of the park. We are seeing refunds drop as a percentage of sales. We are seeing cost of care drop, and we're moving the needle on brand perception with the consumer evidenced by our brand tracker remarks that I made earlier.

Brian Harbour

Great. That's helpful. Thank you. On the tariff impacts, could you I know you said kind of like aluminum. Could you elaborate on what items are affected there? I don't know if it's any other packaging items? And what equipment either for new restaurants or based on some of the – like the new equipment package, what actually could be affected there under current plans?

Adam Rymer

Yes. So the 50 basis points that I shared in the prepared comments as it relates to aluminum and then the 10% broad based, that was mostly or pretty much all on cost of sales. So the big categories there are going to be beef, we get some of our beef from Australia, so that's been impacted as well as packaging from various countries. I mean, so think about Vietnam, Indonesia, Thailand and areas like that, as well as avocados from Colombia and Peru. And so those categories right there are going to be the majority of that 50 basis points.

And then when it comes to new restaurant builds, it's a few different categories. I mean, everything from lumber to shelving to some of the other items. Like I mentioned earlier, that one is still a little bit in flux, especially the items that come from China. And so that one, we're going to continue to really understand how we can mitigate those costs, but those are the main categories when it comes to cost of sales.

Brian Harbour

Thank you.

Operator

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

Dennis Geiger

Great. Thanks, guys. Two-part question on the sales trends, if I could, please. The first one, just adding to the question around observations about what you're seeing. Anything on lunch versus dinner to call out? Is it easier for your customers to cut back on lunch in this environment, but the dinner is holding up better anything there? And the second part, Scott, just as it relates to the initiatives that you outlined to drive a return to positive transaction comps in the back half. Can you just help frame up a bit how you think about what's most impactful maybe the additional marketing, maybe the third new menu item, a new protein I assume probably in the back half still the throughput. Anything there you could just frame up what's most impactful in the back half as you sit here today? Thank you.

Scott Boatwright

Yes. Thanks, Dennis. I'll answer the last part of your second question first, and I'll flip over to Adam to answer your first question, just to make things really confusing. I think about the consumer flywheel they talk about operations, marketing and digital. And when those three things are working in harmony for this brand, great things happen for us and for the consumer. And I'll tell you, the most important thing we can do, and we've said this, gosh, for the last eight years I've been here is continue to lean into great throughput in our restaurants.

And so operationally, we'll continue to push our teams and challenge our teams on delivering on the four cornerstones of great throughput to ensure that we have expo in place the produce slicer, which we haven't talked about today will be in all restaurants by the end of Q2. The restaurants we're in today are already seeing improved expo placement, improved throughput. We're seeing better labor management in those restaurants. We're seeing more consistent cut sizes. So I think once we get to scale all restaurants with the produce slicer, we'll have a step change in our throughput performance leading into the back half of the year.

The marketing initiatives that are in flight are really just to maintain our position as it relates to relevance with the consumer throughout the summer months when our competitors continue to spend at high levels I think we just fall behind in those months. And then the digital ecosystem, Curt and his team constantly think through ways to remove friction within the app to make it a seamless experience for the consumer and then meet the consumer through this idea, we keep talking about around personalization to drive increased frequency and add-ons to check in the digital system. So I say that to say, I think it's all of the above. If we just stay on our current trend line that we see today, we'll move into positive transactions in the second half. Everything I just described to you will add topspin to what we're seeing.

Adam Rymer

Yes. And then in terms of the lunch versus dinner mix. I mean, overall, as you know, our sales are pretty evenly split between the two, but dinner has been holding up better than lunch recently. And that was through last year, and it's also during the first quarter of this year. So holding up a little better and therefore, lunch is down a little bit more than dinner's been, especially recently.

Dennis Geiger

Great. Thanks, guys.

Operator

Thank you. The next question comes from Gregory Francfort from Guggenheim. Please go ahead.

Gregory Francfort

Hey, thanks for the question. I know someone asked about it earlier just on tariffs on the new builds. I'm wondering if there's any – like where you're sourcing the new equipment from for the equipment package? And if there's any impact on either cost or just availability and timing of the ability to roll that out. And then my second question is just any more clarity on the margin impact you might be able to see as you get the whole suite of that equipment packaging? Thanks.

Scott Boatwright

Yes. Hi. So most of the equipment that we use here in the U.S. is manufactured in the U.S. Now it's component parts are the things that will be subject to tariffs as those things come from other countries, as you can imagine. So we really don't understand the full impact today. We have an educated guess, and that's baked into what Adam talked about earlier as it relates to build costs, inflation and build costs. I'm sorry, I forgot the second part of your question.

Gregory Francfort

Just any early thoughts on the benefits you'll see from that, either from a margin or even sales? I would assume there will be cost and margin benefits, but maybe the magnitude on that? Thanks.

Scott Boatwright

Yes. So we're just now we're going to move into 100 additional restaurants with a high-efficiency equipment package this summer. So it's a little too early to tell. We have – we ballpark what we believe the savings – the margin savings to be. But we also haven't landed on what components of that savings will be reinvested back into the consumer experience or the team member experience, and which components we will capture as margins. So more to come.

Gregory Francfort

Thank you.

Operator

Thank you. The next question comes from Christine Cho from Goldman Sachs. Please go ahead.

Christine Cho

Yes. Thank you. So could you give us a little bit more color on the trends in your international markets, particularly Canada and U.K.? Are you seeing any impact from shift in sentiment towards the U.S.? And could this impact your thinking around the development plans in the region? Thank you.

Scott Boatwright

Yes. Thanks, Christine. Thanks for the question. Canada is holding up quite well as it relates to sales and margin performance, and we're still seeing U.S. level margin in Canada. We're going to grow that market this year at about 35%. So think an additional 15 to 20 restaurants in Canada this year alone. And we continue to lean into development across three provinces we are in today. Canada is a long-term opportunity. We feel really bullish on, obviously.

As it relates to Western Europe, we continue to see great progress in restaurant-level margins and achieving some of the highest margins we've seen in that market since we entered the market many, many years ago. So I have a lot of confidence in [indiscernible] and her team really building out a really strong economic model across the markets we are in which we can see. We can see a pathway to hundreds of restaurants in the markets we operate in today. We've already opened up Central London and Germany for additional development opportunities. We are actively looking for sites to start growing again in Europe. As you know, it takes time. Once you find a site, it's probably 18 to 24 months before that site opens. But we feel really good about where we are today and the progress we're making. Are you still there?

Operator

Christine, does that answer your questions?

Christine Cho

Yes. Thank you. Sorry, just one more follow-up question. So we're all hopeful of the acceleration in future quarters. But if you continue to see slower comp growth. Would you reconsider kind of your high single-digit to low double-digit unit growth algo in the midterm? What are some of the key considerations here as you think about development and capital allocation? Thank you.

Scott Boatwright

Yes, I'll start here. I think I have a lot of confidence in us returning to mid-single-digit growth for the next many years. What we are – and again, I said it earlier, the strength of the brand has never been better. We are on our front foot operationally. I love our marketing plan, our strategy, our LTO innovation to drive or create new news for our consumer, which will drive transactions, both in repeat and trial. And our digital ecosystem, we continue to innovate and drive creative ways to meet the consumer where they are. A lot of confidence in our runway to get to 7,000 restaurants here in North America. And we continue to see great strength in our partnership with Alshaya in the Middle East. And we have five restaurants today, three in Kuwait and Dubai, and we're going to grow aggressively with Alshaya this year as well.

Christine Cho

Great. Thank you.

Operator

Thank you. Your next question comes from Lauren Silberman from Deutsche Bank. Please go ahead.

Lauren Silberman

Thank you very much. What I wanted to just ask a follow-up on the unit growth side. You're running close to high single-digit now. A few years ago, you were closer to mid-single digits. What are you seeing in terms of cannibalization of the existing store base and whether you're seeing any incremental drag versus history?

Adam Rymer

No. I mean – yes, thanks, Lauren. So our impact to comp, it's only ticked up as that percentage has increased. But in terms of per store basis or per opening basis as we're looking at it, we're seeing a very similar overall drag to comps. It's been somewhere in that 80 to 100 basis point range on our overall comps. And so not seeing any further deterioration from there as we ramp up.

Lauren Silberman

Okay. Very helpful. And then if I could just ask another one to clarify the comp guide. Given the expectation for traffic to accelerate on a one year and two year in the back half, are you anticipating comps approach mid-single digit? Or do you need the macro to get a little bit better before returning to your mid-single-digit run rate?

Adam Rymer

I mean, like I said earlier, the trend line that we're on now probably gets you closer to that 0% to 1% range. We believe that we can build upon that. How much? It really depends. And obviously, that assumes no change in macro for better or for worse for the rest of the year in terms of that impact. And so it's really just how well some of these things that we are investing in throughout the year perform for us. But again, as you are especially if you're looking at the first half versus the second half, I believe the second half can get to that mid-single-digit range, getting the full-year there would probably take some relief on the macro side.

Lauren Silberman

Yes. And then final one, just on the 2Q comp, Adam, I think you mentioned that exiting you'll be positive comp. I just want to clarify that's comp, not traffic? Thank you.

Adam Rymer

Yes, that's correct. I think as you get towards the end of the quarter because of our easing compares throughout the quarter. I mean like I said, April was kind of in that high double-digit comp as you get closer to June, you're more in that mid to high single-digit in that 6% to 7% range. So at that point, we'll be positive comps. And I believe traffic around that time will be close to flat as we exit.

Lauren Silberman

Great. Thank you very much.

Operator

Thank you. The next question comes from Jon Tower from Citi. Please go ahead.

Jon Tower

Yes. Great. Thanks. I'm curious, just it sounds like the summer, we're going to be seeing a new sauce or site or something like that coming to the menu with some heavy marketing around it. And I'm just more curious thinking about your philosophy around the LTO cadence for the brand going forward. Historically, it's been one in the spring, one in the fall, and now there's coming this summer. Going forward, are you effectively evolving your thinking around that such that we should more of these throughout the year as we progress into the future? Or is it just kind of a onetime thing this year?

Scott Boatwright

Yes. I think we've had a lot of discussion internally about what's right and appropriate for our brand. We've loved to for many, many years. We are never going to be an LTO-driven brand. That's just not who we are as an organization, not core to who we are. You could see us do up to three LTOs in a not-too-distant future. It is our belief that there are times when we're asking the LTO to work too hard. And what I mean by that is the first 30, 60 days, you have the ramp of the LTO, it works incredibly hard for us. You start to see some level of softening, albeit small in that 60 to 90 days. We're asking our LTOs today to work for five or six months. And I think they lose their luster in months five and six. So there is potential to do potentially a three LTO calendar to bridge the month more fully and drive consumer engagement. So that's what we're thinking about – how we're thinking about LTOs for the brand, and likely something you will see as we go forward.

Jon Tower

Awesome. Thanks. I appreciate that. And then maybe just going back to your remarks earlier about the high efficiency, kitchen equipment and some of the other stuff that's being brought into the back-of-the-house and reinvesting back some of the savings into the stores, it sounds like hospitality. Can you just maybe frame up what you mean by that? Are we talking about labor hours? Are we talking about even greater portions for guests? Are you thinking more labor hours or perhaps more actual bodies in the stores on a regular basis? I know it's still kind of evolving, but any thoughts would be great.

Scott Boatwright

I think it's more towards deploying additional people towards peak to drive even greater throughput in all restaurants, but it's not something we have landed on or is definitive. And we don't know if it will be fully necessary. So once we get the equipment package in, we get the test done this summer, we'll have greater clarity and line of sight on what's right and responsible. So stay tuned, more to come.

Jon Tower

Got it. Thanks for taking the questions.

Operator

We would take that as a last question for today. I would now like to hand the conference back to Scott for any closing remarks.

Scott Boatwright

I'd just like to close with – a tough quarter. We can't control what's going on in the consumer environment. We can't control what's going on with our great brand. We will continue to lean into our core strategies, which have served us well for the past many years. We'll continue to invest in the things that make us special as an organization. We're going to continue to invest in people and great culinary innovation and in growth and continue to push our brand forward on our path to 7,000 restaurants here in North America.

In closing, I just want to say thank you to our 130,000 team members out in our restaurants for all their hard work every single day that bring this beautiful Chipotle experience to life. Thanks all for listening and have a great week.

Operator

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

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