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Chipotle Mexican Grill, Inc. (CMG) Q2 2025 Earnings Call Transcript

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Q2: 2025-07-23 Earnings Summary

Insights



EPS of \$0.33 **beats by \$0.00** | Revenue of \$3.06B (3.04% Y/Y) **misses by \$53.22M**

Chipotle Mexican Grill, Inc. (NYSE:[CMG](#)) Q2 2025 Earnings Conference Call July 23, 2025 4:30 PM ET

Company Participants

Cynthia Olsen - Head of Investor Relations & Strategy

Scott Boatwright - CEO & Director

Adam Rymer - Chief Financial Officer

Conference Call Participants

David Palmer - Evercore ISI Institutional Equities, Research Division

Dennis Geiger - UBS Investment Bank, Research Division

Sara Senatore - BofA Securities, Research Division

David Tarantino - Robert W. Baird & Co. Incorporated, Research Division

Christopher O'Cull - Stifel, Nicolaus & Company, Incorporated, Research Division

Danilo Gargiulo - Sanford C. Bernstein & Co., LLC., Research Division

John Ivankoe - JPMorgan Chase & Co, Research Division

Hyun Jin Cho - Goldman Sachs Group, Inc., Research Division

Andrew Charles - TD Cowen, Research Division

Lauren Silberman - Deutsche Bank AG, Research Division

Brian Harbour - Morgan Stanley, Research Division

Jeffrey Bernstein - Barclays Bank PLC, Research Division

Jacob Aiken-Phillips - Melius Research LLC

Operator

Good day, and welcome to the Chipotle Mexican Grill Second Quarter 2025 Results Conference Call.

[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.

Cynthia Olsen

Hello, everyone, and welcome to our second 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 projections, 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 the call over to Scott.

Scott Boatwright

Thanks, Cindy, and good afternoon, everyone. In the second quarter, our restaurant teams did an extraordinary job of executing in a challenging environment, including delivering exceptional food throughput and hospitality as well as managing their controllable costs.

Additionally, we are beginning to see some of the benefits of our back-of-house initiatives as we complete the rollout of the produce slicer.

Now let me review our second quarter results. Sales for the second quarter grew 3% to reach \$3.1 billion, including a negative 4% comp.

Digital sales were 35.5% of total sales. Restaurant-level margin was 27.4%, a decline of 150 basis points year-over-year. Adjusted diluted EPS was \$0.33, a decline of 3% over last year. And we opened 61 new restaurants, including 47 Chipotlanes.

I will start with an update on our current trends. While we experienced a slowdown in our underlying trend in May, we did see momentum build as we rolled out our summer marketing initiatives and leaned into hospitality. And exiting the quarter, we returned to a positive comp and transaction trends, which have continued into July.

However, considering the ongoing volatility in our trends in the consumer environment, we now anticipate comparable sales to be about flat for the full year.

With that said, we have a strong plan to build on our industry-leading value proposition and accelerate transactions. The fact is in most markets, for around \$10 before taxes and fees, you can get a handcrafted Chicken Bowl or Burrito filled in abundance with the best ingredients, made fresh in our restaurants using classic culinary techniques at a speed at which you cannot find anywhere else.

This is a 20% to 30% discount to comparable fast casual meals and often below comparable meals at many quick service restaurants. Going forward, we will roll out new and creative ways to emphasize our value proposition while improving the benefit of our offering through better execution, menu innovation and amplifying our rewards program, which we'll get to in just a few moments.

First, I will review our 5 key strategies that will help win today while we grow our future. These strategies include: running successful restaurants with 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 acquire new guests and improve overall guest engagement; amplifying technology and innovation to drive growth and productivity at our restaurants, support centers, and our supply chain; expanding access and convenience by accelerating new restaurant openings in North America and internationally; and sustaining world-class people leadership by developing and retaining top talent at every level.

I want to reiterate that we have a lot of opportunity to drive consistent transaction growth over the upcoming years as we execute against the first 3 of our 5 key strategies, or our flywheel of operations, marketing and digital experience.

Starting with operations. We recently appointed Jason Kidd as Chief Operating Officer. He's off to a tremendous start and brings a wealth of knowledge and vast operational experience at large-scale multiunit retail.

I have no doubt that he is the right person to lead and inspire the 130,000 people that make up our restaurant teams and that he will also bring new strategic thinking to our executive team.

This quarter, I am pleased to say that we continued to make progress around throughput execution as the percentage of restaurants with an expo in place is now over 70%.

In addition to coaching and training around the 4 pillars of throughput, we just completed the rollout of the produce slicers across all restaurants, and we are starting to see back-of-house benefits as it enables our teams to complete prep on time and be properly deployed for their peak period.

In addition to the slicer, we have begun rolling out the high-efficiency equipment package, which includes the dual-sided plancha, the 3-pan rice cooker and the high-capacity fryer.

We anticipate this rollout will create a more scalable Chipotle with many benefits, including an improvement in the consistency and quality of our culinary and an increase in prep efficiencies that will help our teams be properly deployed for peak, driving faster throughput.

This will lead to a better team member and guest experience and potentially could unlock additional growth platforms for our business like catering.

For the rollout, we plan to do a phased stage-gate approach, and we anticipate by the end of year, the high-efficiency equipment target will be in hundreds of restaurants, including the subregion where we plan to introduce our catering test in the fall and all new restaurant openings beginning in the fourth quarter.

Based on our learnings, we can accelerate the rollout later this year, and we estimate it will take around 3 years to complete across all existing restaurants.

We also recently opened a new restaurant innovation space, where we have a team working on emergent technology that rethinks our tools and processes holistically rather than as bolt-on additions.

Currently, this includes a high-efficiency equipment package, our augmented digital makeline, Autocado and a vision system. Ultimately, we aim to identify the ideal technology and operating model to enhance culinary standards, improve the team and guest experience and drive higher returns in our restaurants.

The next pillar of our comp flywheel of marketing while making Chipotle more visible, more relevant and more loved.

Over the last 2 summers, we have experienced a slowdown in trends as our guests typically step out of their routine and our marketing spend seasonally slows. To increase visibility and drive engagement, we made the decision to ramp up our summer marketing strategy and meet our guests where they are by doubling our reach in social and streaming, adding incremental menu innovation and launching our first ever seasonal program for rewards members called Summer of Extras.

This has been successful in driving an acceleration in our underlying trends.

In terms of menu innovation, Chipotle Honey Chicken has the highest incidence rate of all of our limited time offers and is included in 1 out of every 4 orders. The guest feedback has been very positive. It will certainly be another LTO that we will bring back in the future.

We also introduced Adobo Ranch last month, which is our first dip in 5 years. This is our smoky spicy twist on classic ranch made fresh in our restaurants and featuring only real ingredients. It is delicious, easy to execute and off to a great start driving incremental transactions. We see more opportunity in sides and dips in the future, and we'll have more to share as they make their way through the stage-gate process.

In social, we leverage user-generated content to launch a tatted like a Chipotle bag, BOGO, which is one of our best-performing BOGOs ever despite only being available for 1 hour as it drove more than double the sales of a normal 3:00 p.m. to 4:00 p.m. time frame.

Additionally, while the BOGO was only in-store, the over 100 million social impressions had a media halo effect, driving more guests into our digital channel, making it a highly incremental promotion.

Based on the learnings and success of the recent marketing initiatives and as we start to think about 2026 and beyond, I believe we have a lot more opportunity to increase visibility, highlight our value proposition and add incremental menu innovation that drives consumer relevance and love for the brand all year long.

Finally, as I mentioned earlier, we will be testing a new catering platform this fall in a subregion of about 60 restaurants.

The test will include the high-efficiency equipment package to help expedite prep and increase capacity. It will also include a new technology stack to help load balance orders across restaurants as well as a full marketing push to drive demand into catering.

Our goal is to scale the catering business within our restaurants without disrupting the core operations. With catering at just about 1% to 2% of sales versus our peers who are at 5% to 10%, we think this could be a big opportunity longer term.

Shifting to the final piece of the flywheel, the digital experience.

We continue to find ways to enhance our app functionality to provide a seamless experience for our guests. This includes a recent update to the app providing the ability to personalize multiple message offerings such as rewards, reminders and menu suggestions. Within rewards, about 20 million members are active or have transacted at least once in the last year.

To drive more people into our loyalty program, we are ramping up our enrollment campaigns and signage, both in restaurant and digitally.

We also recently launched Summer of Extras, a 3-month gamified experience with extra points, badges, and prizes as our rewards members reach milestones.

Results have been very encouraging as we drive more people into the rewards program and increasing their frequency and spend year-over-year. We have another exciting program planned for the fall, targeting the college cohort, and we will continue to find creative ways to drive enrollment and improve engagement.

When you layer all these opportunities within the flywheel, we are confident in getting back to mid-single-digit comps and surpassing \$4 million in AUVs longer term. And our 40% flow-through remains intact with the potential for additional margin opportunities as we continue to improve the back-of-house experience.

Now moving to expanding access. In the U.S. and Canada, we opened 61 new restaurants, which marked a record for the second quarter. We now have 61 restaurants in Canada. And over the last 5 years, we have nearly tripled the business with economics, on par with the U.S.

In the U.S. and Canada, we remain on track to open between 315 and 345 new restaurants this year, with 80% including a Chipotlane. We are also confident in our ability to grow new restaurant openings between 8% and 10% and to reach 7,000 restaurants longer term.

We are also establishing a solid foundation in other international markets, which will enable Chipotle to extend its growth runway for decades.

In Europe, economics continue to progress with positive consumer feedback on the improvement and the experience, including the quality of the culinary.

Our Head of Europe and Canada is doing an excellent job of building the team and culture to be able to scale, similar to what she did in Canada several years ago.

In the Middle East, our restaurant in the Avenues Mall in Kuwait completed its first year of operations, with revenue surpassing the average unit volume in the United States. We have 5 restaurants open in Kuwait and Dubai, and Alshaya Group plans to accelerate growth in the back half of the year.

We remain on track to open our first restaurant with Alsea in Mexico early next year and continue to evaluate other potential partnerships in different parts of the world. Based on our progress in our current markets and discussions with partners, we have a lot of confidence that Chipotle's fresh, craveable culinary served fast will resonate around the world.

Finally, moving to sustaining world-class people leadership. We are often asked if there are parts of the Chipotle story that are underappreciated, and I believe there are 2: Our purpose of cultivating a better world and our culture of people development.

Not only does our purpose give our teams pride in what they do every day, but with around 80% internal promotions, our teams can visualize their own growth within the organization, which is critical as we scale and build the brand.

The growth of our Canadian business is a notable example. Our Team Director in Canada has been with Chipotle for 23 years. She started as an apprentice general manager in Texas and then moved to Canada to become the first field leader in the country.

Her deep connection with her teams and her ability to develop and grow future leaders stood out, which led to her becoming Canada's first Team Director about 5 years ago.

We decided to accelerate growth in the country. She has now developed 8 of our 10 field leaders within the region and is an inspiration to our Canadian restaurant teams who see her path as achievable.

This is what Chipotle is all about, cultivating a better world by not only expanding access to our delicious, fresh food, but by creating life-changing opportunities for our people along the way.

To close, I want to thank our teams for all their hard work bringing the Chipotle culinary experience to life each and every day. I am optimistic about our operational improvements and early results and learnings from our summer marketing initiatives, which we will use to enhance our value proposition moving forward.

I continue to see so much opportunity ahead by leveraging our flywheel of operations, marketing and digital to drive our AUVs north of \$4 million longer term.

Additionally, we will continue to invest in our restaurants and back-of-house initiatives to create a more scalable Chipotle as we grow to 7,000 restaurants in the U.S. and Canada and making our way to becoming a global iconic brand.

This will require an exceptional team of people committed to paying homage to our culinary beginnings and our purpose while focusing on our long runway of growth ahead. I am confident that we have the right team and a clear strategy to achieve this ambitious goal.

With that, I will turn it over to Adam.

Adam Rymer

Thanks, Scott. Good afternoon, everyone. Sales in the second quarter grew 3% year-over-year to reach \$3.1 billion, including a comparable sales decline of 4%.

Restaurant level margin of 27.4%, declined about 150 basis points compared to last year.

Earnings per share was \$0.32 on a GAAP basis and \$0.33 on a non-GAAP basis adjusted for unusual items, representing 3% year-over-year decline.

As Scott mentioned, in May, we saw a step down in our underlying transaction trend, followed by a reacceleration in June as we rolled out our summer marketing initiatives. While comparable sales and transactions turned positive in June and this trend continued into July, given the ongoing volatility in our sales trends in the consumer environment, we now anticipate comps to be about flat for the full year.

I will now go through the key P&L line items, beginning with cost of sales.

Cost of sales in the quarter were 28.9%, a decrease of about 50 basis points from last year. The benefit of our menu price increase from last year and cost of sales efficiencies more than offset inflation, primarily in steak and chicken. Relative to our guidance, we benefited from lower-than-anticipated avocado prices, a better-than-expected benefit from cost of sales efficiencies and a lower impact from tariffs.

Thanks to these efficiencies, which include both supply chain and in-restaurant initiatives, we have now more than offset the portion of investment we made last year.

For Q3, we expect our cost of sales will step up to the high 29% range, with about 60 basis points of the step-up due to the mix impact from rolling off Chipotle Honey Chicken and 40 basis points due to tariffs.

We estimate that we will see about a 50 basis point ongoing impact from tariffs, which remains in line with our commentary from last quarter and does not include any impact from Mexican or Canadian imports that fall into the USMCA exemption.

We still anticipate underlying cost of sales inflation to be in the low single-digit range for the remainder of the year, which excludes impacts from LTOs and tariffs as well as benefits from cost of sales initiatives.

Labor costs for the quarter were 24.7%, an increase of about 60 basis points from last year, primarily driven by lower volumes as higher pricing and better labor execution, more than offset wage inflation.

For Q3, we expect our labor cost to be in the high 24% range with wage inflation in the low single-digit range for the remainder of the year.

Regarding labor execution, our restaurant teams did a fantastic job managing labor throughout the quarter, supported by the rollout of the new produce slicers.

Other operating costs for the quarter were 14%, an increase of about 110 basis points from last year, primarily driven by higher marketing costs and lower volumes.

Marketing costs were 2.7% of sales in Q2, an increase of about 60 basis points from last year.

In Q3, we expect marketing cost to step up to the mid-2% range, with the full year in the high 2% range. For Q3, we anticipate other operating costs to be in the mid-14% range.

G&A for the quarter was \$172 million on a GAAP basis or \$160 million on a non-GAAP basis, excluding about \$12 million related to retention, equity awards granted to key executives last August.

G&A also includes \$140 million in underlying G&A, \$23 million related to noncash stock compensation, which included a reduction in our performance share approvals, \$2 million related to restaurant leadership conferences, offset by \$5 million in lower bonus accruals.

We expect our underlying G&A to be around \$139 million in Q3. We anticipate the third quarter G&A will also include around \$29 million in stock-based compensation, although this amount could move up or down based on our actual performance, around \$2 million in employer taxes associated with shares that vest during the quarter and around \$1 million related to restaurant leadership conferences, offset by \$8 million in lower bonus accruals, bringing our anticipated total non-GAAP G&A in Q3 to around \$163 million.

Depreciation for the quarter was \$91 million or 3% of sales. For 2025, we expect it to remain around 3% of sales. Our effective tax rate for Q2 was 24.5% for GAAP and 24.2% for non-GAAP.

Our effective tax rate benefited from option exercises and equity vesting above the grant values. For fiscal 2025, we estimate our underlying effective tax rate will be in the 25% to 27% range, though it may vary based on discrete items.

Our balance sheet remains strong as we ended the quarter with \$2.1 billion in cash, restricted cash and investments and no debt. During the second quarter, we purchased \$436 million of our stock at an average price of \$50.16, bringing our year-to-date total to a record \$990 million at an average price of \$52.32.

During the quarter, the Board authorized an additional \$400 million to our share purchase authorization. And at the end of the quarter, we had \$839 million remaining.

To close, I want to thank our restaurant and support center teams for their dedication to Chipotle and their execution this quarter.

Our strong economic model rooted in real ingredients, exceptional value and industry-leading margins and returns allows us to continue to invest in our people and our growth.

As Scott laid out, we have a long runway for growth in front of us in both the U.S. and internationally.

And with that, we'll open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions]

The first question today comes from David Palmer with Evercore ISI.

David Palmer

I wanted to ask you a question about the digital marketing, and I know you were doing some things that you haven't done before. Obviously, Summer of Extras. You also did some other digital marketing. What worked? What didn't work? Have you been able to already affect the change in that 2 year to the 8% or so that it seems to be implied for the second half? And I have a quick follow-up.

Scott Boatwright

David, Scott here. Thanks for the question. Really pleased with how Summer of Extras performed. We had about 5 million people participating, of which about 40% of those who transacted.

We also saw enrollments go up about 14% year-over-year, adding a significant number of people to the top of the funnel, which is exciting to see.

We drove incremental frequency versus normal behavior across all frequency bands, including low frequency. Of the 5 million, 2 million were low-frequency users that are now engaging with the brand throughout summer on a more consistent basis.

So I'll tell you all in all, I think it's been a great program for us, a lot of key learnings there and learnings that we will leverage for the back half of the year.

David Palmer

That's great. I would perceive the Summer of Extras would be really directed towards your active users, just trying to get maybe 1 or 2 more visits out of them during a month.

And then I wonder also with your digital getting those lapsed users back and maybe with some things to kind of get them back like a freebie here or there, is that an opportunity? And when can you maybe get those tools up and running?

Scott Boatwright

I think it's a really sizable opportunity, David. On the last call, I talked about the welcome journey, and I talked about how AI will help us on the welcome journey and our goal of achieving 3 purchases within the first 90 days.

We saw with the AI tool, about a 46%, 47% uplift in engagement through that welcome journey. So that informed what we are now calling the win-back journey. So this is a more aggressive targeted program for near or lapsing consumers to really get them to reengage with the brand.

So we are still early innings, David. It should be in-market, in test here in the coming months. But we feel like there's a meaningful opportunity to reengage lapsed or near lapsed users that have engaged in the platform.

Operator

The next question comes from Dennis Geiger with UBS.

Dennis Geiger

Great. First question, just curious, maybe housekeeping. If you could sort of speak at all to trends through the quarter. I know you talked about that improving momentum, but anything sort of on June, July, either the 1 year or I know you spoke last quarter to the 2-year trend, just so we can kind of level set where that sort of underlying trend is now, please?

Adam Rymer

Yes, Dennis, I'll start, and then Scott, feel free to add in. So going all the way back to April, like we said during the last call, we're riding the wave from Chipotle Honey Chicken and our 2-year comp was around a plus 8%. .

In May, we saw the softness that Scott talked about, and that really correlated pretty heavily with consumer sentiment bottoming around that time. So our 2-year dropped a couple of hundred basis points. But then it bounced back in the second half of June and summer marketing went into full effect, as well as the launch of Adobo Ranch and Summer of Extras.

And we exited June not only with positive comps and positive transactions, but also that 2-year returning to about that 8% level.

Now when you go into July, July has been a bit choppy over the last couple of weeks. I think it's due to kind of some post holiday as well as some weather that we've seen. And so the 2-year stack in July has been bouncing around like 7% to 8%, but we expect that it will be closer to 8% in Q3, and we have a solid plan to [indiscernible] it in September. So that obviously includes that as well.

Dennis Geiger

Great. I appreciate that color, Adam. And then maybe one more, just bigger picture, Scott, you talked about the confidence kind of in getting back to that mid-single-digit comp growth profile that you had at least historically.

Just any additional thoughts on the time line there? How important is sort of the macro normalizing relative to all the initiatives that you talked about and kind of just starting to see those continue to gain traction and gain momentum?

Scott Boatwright

Yes, it's a great question, Dennis. I think Q2 was probably the worst aggregate storm -- conditions for an aggregate storm that we could have faced. We had extraordinary compares, we had declining consumer confidence. We had -- we just had all sorts of things. I won't make any more excuses around the quarter.

Here's what I'll tell you is, as compares ease in the back half of the year, if we could get a little favorability on consumer confidence, which seems to be trending upward in June, July and then layer in the initiatives that we have in the back half of the year, another exciting LTO coming, I've got another side that's making its way through stage-gate as we speak, which could also launch in the fall, kind of winter time frame.

We have an additional rewards program targeted for college students, which will launch here in just a few weeks, which I think will drive increased engagement with the college students across the country, which are big fans of our brand. And then we have a lot of benefits that are on their way from the produce slicer launch, increasing culinary, improving the guest experience, ensuring that we're ready for great throughput this fall.

So I say all that to say I have a lot of confidence in the plans we have of getting us back on our front foot here very quickly. And then the 2026 calendar, I'll tell you, is shaping up nicely.

Chris and team have been working aggressively on what that will look like. You've already heard me say that we'll have increased LTO cadence. I talked about 3 for the upcoming year to include, [indiscernible] pepper and other sides and dips, which we know are highly incremental and that are performing well. So I feel really confident in us getting back to mid-single digits in the near term.

Operator

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

Sara Senatore

Great. So I guess one quick housekeeping question. It's always difficult to measure new store productivity, I think, given timing and also just when trajectory change a lot in the comp.

Could you maybe just talk a little bit about that, the NSPs and how anything that you might be seeing there? It looks, I think, pretty consistent, but I just wanted to confirm that, and then also, I do have a separate question.

Adam Rymer

Yes, Sara, I can jump in on the new store productivity. So you're reading that correctly.

We're still in that like around 80%, actually just slightly above that in Q2. So our new store productivity is holding up really, really nicely compared to our existing base.

Sara Senatore

Okay. Great. And then on the -- I know you said like there's a lot of volatility, consumer confidence, I guess. Historically, we haven't seen as much of correlation with confidence. And then I guess when I'm thinking about the 2-year, it feels like you've thrown a lot at this with respect to advertising and then the LTO, and I know -- or the Adobo Ranch.

I guess to what extent is this all -- you still have control over or you feel confident in the ability, I guess, to continue to innovate, given that we have seen a lot and yet it sort of seems like it's moving the needle just a little bit less significantly than you had? Is there any sense that maybe people are -- they're fatigued or anything like that, that would give you pause?

Scott Boatwright

Sara, Scott here. Thanks for the question. We have been tracking along with consumer sentiment over the last several months, which is interesting in its own -- in looking at the charts and how we trend along with foot traffic.

Here's what I'll tell you is the summer campaign, while it seems like we threw a lot at it, we were just testing and learning. And if you recall, the initiatives around summer, we put into flight in the fall/winter time frame of last

year. It wasn't to respond to market conditions or a declining consumer backdrop.

And so the goal this summer was to merely test ideas to really buttress the summer lull we've experienced over the last couple of years. And quite frankly, I think we have learned several things that work and several things that may not work that will inform the back half of the year calendar as well as the 2026 calendar.

Operator

The next question comes from David Tarantino with Baird.

David Tarantino

Scott, I just want to come back to the outlook to getting back to mid-single-digit comps. I guess there's some debate in the investment community about whether Chipotle is just reaching a scale at which it's going to be tough to drive that kind of comp growth and whether a more appropriate target for the business might be something lower than that. So I just wanted to see if you could react to that comment.

Do you think it's going to be harder and harder to get to that kind of number over time? Or do you think this is all just macro holding you back? And once that clears up, you'll be able to get there? So any thoughts on that topic would be great.

Scott Boatwright

Yes, David, thanks for the question. I think much of what we're experiencing right now is due to macro, and the consumer -- the low-income consumer is looking for value as a price point at present. .

You have to look no further than what's going on with our competitors with snack occasion or \$5 meals and that's where the consumer is drifting towards as value as a price point because of low consumer sentiment. I think as sentiment improves, the business will improve. And so that -- I think that's probably the biggest headwind we face.

Now that does cause us internally to think differently about how do we think about value at Chipotle, how do we think about innovation as it relates to whether it's LTOs or sides or dips or desserts and other platforms that we can layer into the business long term.

But I still believe and I'm confident, this leadership team and I are all confident that we have a path to get back to mid-single-digit growth and return us back to where we need to be in the coming months.

Operator

The next question comes from Chris O'Cull with Stifel.

Christopher O'Cull

Scott, it's encouraging to hear the plan to adjust the LTO cadence next year. How are you thinking about the mix of new product launches versus revisiting some of those existing favorites that have been proven to be consistent performers?

Scott Boatwright

Yes. I'll tell you, each time we run an LTO -- thank you for the question, by the way. Every time we run an LTO, it tends to perform better than it did during its prior launch. .

Even products that we've revisited 2x or 3x. So that gives us a lot of confidence that we have a pantry of items today, LTOs, that is, that we can layer into the marketing calendar that we know are proven that will be successful.

And we just reintroduced a product in test that we've launched, I guess, it's been in market 3 times now. It actually performed better in test than it did during its first 3 market launches.

So that said, you set that aside, and then the team continues to work on other craveable on-brand items, whether that's center of the plate items, or sides or dips that we can launch into the marketplace that will go through our stage-gate process to help fill out a more full calendar in 2026 and beyond.

Operator

The next question comes from Danilo Gargiulo with Bernstein.

Danilo Gargiulo

Scott, I want to go back on the debate on whether macro is impacting the performance in the second quarter versus something a little bit more structural.

And so I wonder if you can talk a little bit about whether you're seeing some level of competition rising and whether this is a source of concern for you? Specifically, are you seeing any of your consumers potentially trading down into any other food categories? Or do you see stable trends across the income cohorts?

Scott Boatwright

Hi, Danilo. Thanks for the question. We did see some share loss in the April-May time frame as the low-income consumer pulled back, but we're back to share gains yet again in June-July. So I think it truly is trending along with the macro and consumer sentiment at this point. And so I don't have overarching fears. We always keep our eye on the competitors as you -- I'm sure you're aware, Danilo. But we see no one on the rise today that is causing us to remake our strategy.

And we'll continue to meet the consumer where they are and try to drive demand through our core equities of the brand, whether that's obviously high-quality ingredients, classic culinary abundance and the speed at which you can't get anywhere else and then bring in new ideas around LTOs to get the consumer to come back more often or bring trial to the brand.

Danilo Gargiulo

Great. And then speaking about the frequency itself, I mean, the loyalty members that you have is around 40 million people. And you mentioned that about 20 million of them are active in the past 12 months. But I'm sure that within this active population, there are different tiers of activity, right?

There are some consumers who are more frequent consumers than others. So what level of frequency from active members -- like how has it trended over time? And which part of the active consumer base has been more under pressure lately? Is it the super users, the more casual consumers? And what are your plans to be attracting those consumers back in the second half?

Scott Boatwright

Yes. I talked about this just a moment ago. I think the low frequency user is the one that's most at risk here, Danilo. The Summer of Extras promotion really engaged that consumer in a meaningful way and cause them to transact with us more frequently over June-July.

This program will obviously continue for the next several weeks. And so we continue to see that pick up, which is encouraging, which will also inform our strategy as we think about extras, beyond Summer of Extras, what does that look like as an evergreen program that will inform the back half of the year calendar as well as the 2026 calendar.

Operator

The next question comes from John Ivankoe with JPMorgan.

John Ivankoe

The question is also -- you're dissecting the comp and just overall performance to some degree. And the question isn't from a consumer cohort perspective.

The question is based on various regional performance differences that you may see, suburban or urban differences that you may see.

And I asked the question sitting in New York today, where competition has notably improved over the past couple of years, but I could even say that there's even been some significant changes from Washington, all the way up through Boston and a lot of areas in between that.

If you are seeing some pockets of competitive change in New York, for example, that maybe have, to some extent, been offset by easing of competition and other certain metropolitan areas?

Scott Boatwright

Yes. I'll jump in, and I'll let Adam come in behind with any additional detail. Here's what I would tell you, is I have the privilege, the opportunity to look at sales by region every single morning, as you can imagine.

And surprisingly, all regions have been trending in the same way, either up or down for the past many months.

With regard to the Northeast, Northeast was one of our best-performing regions last year, was top of the category. And so I feel confident that we're still performing at a really high level in the Northeast.

So I know what you're seeing in New York, I was there in Boston as well over the last several months for different meetings. And I see the emergence of a lot of really cool fast casual concepts. But if you go into Chipotle, you'll see a line to the door. You may not find that still yet at some of the emerging concepts.

Adam Rymer

Yes. And the only other two things I would add in, number one, in some pockets of the country, especially around high vacation times, we've seen a little bit of softness compared to some other areas, especially around holidays and whatnot, so that's been more pockets. And then you asked about urban versus suburban. I mean, the majority -- the vast majority of our restaurants are suburban.

However, we've actually seen the urban restaurants outperform those just a little bit. So I think to Scott's point in some of those areas, although there is more competition, we're not necessarily seeing that, especially on urban.

Operator

The next question comes from Christine Cho with Goldman Sachs.

Hyun Jin Cho

So Scott, I would be curious to hear from you, just given your previous role of COO.

What specific contribution do you expect Jason to bring to Chipotle? And what would be his kind of key priorities and focus areas in the near term? And furthermore, now with all the executive team fully on board, are there any aspects of your long-term strategy that could be reconsidered or tweaked?

Scott Boatwright

Hi, Christine, thank you. Jason brings a vast knowledge of high-level, large-scale retail to our brand. And his previous brand, obviously, managing a very large food concept.

I think in our early days -- and so he's been in restaurant doing his restaurant training, he's learning how to work a knife, which is unique to our brand, which is exciting to see.

But I think he'll bring a different perspective, and he already has. I mean, we've been in restaurants together over the last few weeks, and he's already identifying opportunities to improve the experience for both team member and guest that maybe was overlooked by the prior COO, which is exciting.

And so I think I really believe Jason will create a step change in our operational performance in this brand.

I would like to caveat that with, I could not be more proud of how our 130,000 people have performed in a really tough macro environment over the last 6 months and achieving the profitability, both restaurant level margin and EPS that we have enjoyed over the last couple of quarters is in large part due to their efforts. And so I just want to say thank you to them.

That said, the management team fully intact, it's an extraordinary team that has been in this brand with a lot of historical contacts, a lot of success for a lot of years. And we constantly are talking about our strategy. We're constantly talking about the consumer and we're always looking for ways to innovate, whether that's in operations, digital or marketing.

And the idea is this team generates best-in-class, full stop. I have a lot of confidence in our strategy today and how it will evolve in the future.

Hyun Jin Cho

Just a follow-up to an earlier question. So thank you for sharing some of the key metrics around the impact of Summer of Extras. Would you consider making this as kind of a more regular engagement in the summer? And do you see potential kind of increase to marketing spend going forward versus kind of the high 2% that you're expecting for the year?

Scott Boatwright

Yes. And you're thinking about it the right way. And so we are learning what's working right now as we speak, and that will inform our strategy as it relates to digital going forward.

And so you could see some modifications, not wholesale changes, but as we continue to think about how do we approach digital in the most meaningful way, whether that's driving new users into that channel or solving for some of the challenges as we have some attrition within the bucket.

As it relates to marketing, I mean, we will continue to follow a return-focused approach to marketing.

So we will incrementally spend where we know that we can drive both top line and bottom line. And I think Chris and his team have done a remarkable job of doing just that this summer, which gives us confidence if we increase, and you could see us spend up to 3%, perhaps even more, dare I say. I know that will make Chris pretty happy. But as long as it's return focused and we can drive again both top line and bottom line, we'll spend the dollars.

Operator

The next question comes from Andrew Charles with TD Cowen.

Andrew Charles

Great. Adam, I'm curious now that you've had the high-efficiency equipment in market for enough time in the pilot that you're rolling this out to all new stores and retrofits are going to begin, what are you seeing just in early stages with the sales volumes and margin uplifts relative to the remainder of the restaurant fleet?

Adam Rymer

Yes. Hey, Andrew. So it's a little early to put numbers to any of those yet, especially given that we've had maybe about 40 or so installs. And like Scott said, we're ramping up.

But I can give you a few tidbits and we've talked a little bit about this in the past, but in terms of what we're expecting to see just right off the bat is a labor efficiency in order to really justify the expense here.

And that's probably going to be in that like 2- to 3-hour range on an average restaurant on an average day. And that's just the straight off efficiency, which I believe will drive a pretty nice return on this.

It doesn't count the fact that all the other benefits that Scott has detailed. I mean, the improvement and the consistency of our quality of our culinary, I mean, I think that, that's going to be a huge step change that could definitely affect the top line.

I think that allowing our teams to be more efficient at prep will allow them to deploy better and increase our max 15 to allow us to really drive better throughput. I think that can have to top line benefit as well as potentially unlocking additional growth platforms like we mentioned earlier, with catering and doing that test and having a high-efficiency equipment package and before we do that test to really see if we can unlock that.

So just several things that I can do to not only help the team members, but also the guests. So still early, but we're really excited about the returns that this could potentially have.

Andrew Charles

That's helpful. Maybe just one quick follow-up, just as a result of the delays of prep that I know can cause operational hiccups and cause sales hiccups. Is there a way to quantify what you're seeing today in the business or in recent quarters just from the headwinds there that it can help solve?

Adam Rymer

I mean I think the best indication of that is just our ability to deploy. So the fact that we shared in the prepared comments that 70% or so of our restaurants are able to get expo in place, that's driving a step change in throughput.

And so we'll be able to continue to push that further. It's a little less than that on getting all 4 pillars in place. We're probably somewhere in that 50% range in terms of the amount of restaurants that we're able to have all 4 pillars in place during their busiest 15-minute period.

So as we're able to get this equipment in place, including the produce slicer and really get proficient with it, we expect those numbers to rise, which will then yield to higher a max 15, which will yield to a higher comp. So I think there's some really good benefit there that's coming our way.

Operator

The next question comes from Lauren Silberman with Deutsche Bank.

Lauren Silberman

I wanted to just follow up on the same-store sales trends, 2-year around 8% exiting June, 7% to 8% in July. Can you just help level set what you're seeing on a 1-year basis in July?

And I think compares make it tougher as you move through the quarter. So do you expect the 1-year comp to moderate? Or just what should we be thinking there, which I think would get you to about a 2% comp for the quarter?

Adam Rymer

Yes. No, I think you're thinking about it the right way. I mean it's somewhat consistent July, August and September, especially that we're embedding that we have a really strong plan to [indiscernible] in September. .

And so if you're getting somewhere in that like low single-digit range for the quarter, that's about where we're at in July. We've got positive comps, but also positive transactions so far in July despite kind of that choppiness. But you're thinking about it the right way.

Lauren Silberman

Okay. And I assume there's some mix headwind that's going on?

Adam Rymer

Yes. I would assume the mix headwind, which was about a minus 1 in the second quarter to continue for the rest of the year. That's still driven by lower group size. There's also been a little bit of a shift to lower-priced entrées, so think of that as your steak and barbacoa customers shifting a little bit more to chicken than we've seen kind of in the past.

But we're still seeing strength in sides on per entrée basis, like extra meat, for example, especially around Chipotle Honey Chicken has been really, really strong. And then the Adobo Ranch really stepped up, but that was kind of late in the quarter, so we got a couple of weeks in that. And then the other items like Guac, Queso chips, even drinks are actually holding really nicely. And so net-net, sides are still providing kind of a partial offset to that group size decline, but we expect that minus 1 to continue for the rest of the year.

Lauren Silberman

Okay. And a little bit of a, I guess, a follow-up, but you guys have been historically very resilient in challenging environments.

Obviously, a strong value proposition on an absolute basis. Is there any reason you think Chipotle is more susceptible to macro today than you have historically? Or do you think you're getting sufficient credit from consumers on your strong value proposition?

Scott Boatwright

Yes. To answer that question very bluntly, I don't think we're getting credit with the consumer today. And so what I've talked to the team about internally is how do we better communicate our value proposition and center around the core equities of the brand.

And so there's a lot of activity going on to talk. How do we do that in a unique way that is authentically Chipotle that is not targeted at the competition, and that is not price pointed, right?

I think we've got to figure out a way we can communicate value for the consumer and showcase the value we are to QSR and fast casual, I think there's more work to do there, and that's what we'll lean into in the back half of the year.

Operator

The next question comes from Brian Harbour with Morgan Stanley.

Brian Harbour

Maybe just to clarify those same-store sales comments, too. So I guess, the way you're thinking about it is sort of similar -- from June, July sort of similar trends holding through the balance of the year? And would you say that the things you're doing with rewards marketing kind of ranch have all had some contribution over the last couple of months and so you're sort of assuming no real change in how those things drive same-store sales for the balance of the year?

Adam Rymer

Yes. No, I think that's a good way to look at it because again, in May, we saw softness. It was a couple of hundred basis points. Those drove us back to get to that rough 8%, 2-year comp, and that's what we expect to continue on into the second half of the year.

Obviously, as the summer marketing initiatives start to wear off, that's where the fall campaign comes in, and we're really confident with what we've got lined up for the fall and all the other things that Scott mentioned, that we'll be able to maintain that, if not build upon that throughout the rest of the year.

Brian Harbour

Okay. The food efficiencies that you called out, I mean, I assume because I think the slicers are probably just now starting to have an impact. So I guess I might infer that, that was from other initiatives. Could you sort of talk about what else it is that's driven some of that food cost favorability?

Adam Rymer

Yes. Yes. So I'll go into some detail on that. So as you know, I mean, a little history lesson, as you guys already know, we had about a 60 basis point portion of investment a little over a year ago.

It dropped towards the end of the year to probably closer to about 40 or 50 basis points with some outlier management that we discussed several quarters ago. But we have more than offset it through really 2 main initiatives. One is in-restaurant initiatives. So think of this as our restaurant team is doing a remarkable job, really focusing in on what we call the flow of food.

And that's many steps throughout the restaurant, but it goes from everything from receiving and logging orders to ensure that we're only paying for food that actually showed up at the restaurants from our DCs to managing their inventories effectively, properly prepping, properly cooking.

We've given this example many times in the past. I mean if you overcook chicken a minute or 2, the yield loss of that can be pretty substantial across the entire fleet of restaurants. And then it goes all the way to ensuring that we're correctly bringing everything up on the front line. And I think as we're better deployed and have expo in place, we're more likely to be much more accurate in making sure that we're charging for steak instead of chicken that we're getting all of the sides and that communication is doing. It's going really well on the line. So that's part of it.

The other part is supply chain initiatives. And I think we've pointed to some of this in the past, but we found a lot of success with our team and supply chain around supplier diversification in specific categories, especially like tortillas, as well as some fine-tuning and logistics and removing some unnecessary intermediaries.

All of those combined were actually net about a 30 to 40 basis point gain on a go-forward basis from that investment that we made just over a year ago.

And then on labor, when it comes to the produce slicers, we're starting to see some really nice execution come through. We didn't remove any hours when it came to produce slicers, we invested that back into the restaurant so that they can really make sure that we're doing everything done at prep so that they can take their meal breaks and be fully deployed at lunch. But the efficiencies that they're driving is allowing these teams to get much better on their labor execution, and that drove around 20 basis points of efficiencies in Q2 alone.

So we expect some of that to continue going into the future. So it's a really good story around this margin initiative across the board to not only offset that investment we made, but really overshoot it by about 30 or 40 basis points just on cost of sales alone.

Operator

The next question comes from Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Question is on the more recent comp slowdown you noted, and I think consumer environment was the issue, consumer looking for more price point certainty. Clearly, others in the industry are being more aggressive with price points.

I'm just wondering beyond that kind of consumer environment, do you think there's anything specific in terms of the headwind? Maybe you can use [May] as an example. It didn't seem like peers sort of thing [indiscernible] pulling back. I'm just wondering beyond the macro, if there's anything that's been self-inflicted that you could perhaps address that would give reason to believe trends should get better in the back half? And then I have one follow-up.

Scott Boatwright

Yes, Jeffrey, great question. All the consumer metrics that we look at through our brand tracker and how we think about the Chipotle customer shows positive progress still yet.

And I know I talked about the 15 perceptual attributes that we were top 3 in on the last call. We remain pretty consistent quarter-over-quarter and we remain consistent on some of the consumer metrics we measure in restaurants as well as team member measurements, whether that's turnover, staffing or at model or development, all remain very consistent.

And believe me, we've unpacked this thing 10 ways to understand is this a self-inflicted problem or is this just more of a macro problem.

Now we have our opportunities, don't misunderstand that statement. But there's nothing glaring. There's no smoking gun here that says we've had a misstep. And that gives us confidence that stay on strategy, innovate where we can, try to meet the consumer where they are in our own unique Chipotle way, but more importantly is really continued execution in the restaurant, delivering great team member experiences and great guest experiences.

Jeffrey Bernstein

Understood. And then just the follow-up, as I think about the restaurant margin side of things, just wondering your confidence on your line of sight to return to margin expansion over time if the comps weren't necessarily to return to mid-single digits.

So if it was more low single digit, your ability to expand margins from here. I think you noted your goal of getting to that \$4 million AUV and obviously, you're talking about a return to the mid-single-digit comp. But what restaurant margin would come with that, if you were to return to a mid-single digit? I know that used to be talk of a 30% type margin. I'm just wondering how you think about the margin outlook, depending on whether the comp is low or mid-single digit going forward.

Adam Rymer

Yes. Yes. So I can start on this one. So no change to the flow-through as we look longer term at 40% growth through on incremental transactions.

And so when you're at a mid-single-digit comp and you're opening restaurants at the pace that we're opening. No problem seeing that as we approach \$4 million in AUV, we can get to that 29%, 30% range on the restaurant-level margin. And that does not include any additional benefits that we're able to find in the business, like the high-efficiency equipment package or anything else that we're able to drive.

And then in terms of margin expansion, I mean, really looking at the second half of the year, we expect margin will increase at that typical flow-through with additional transactions.

Because if you think about it, the impact of tariffs, which like I said in prepared comments was -- it's probably going to be somewhere around 40 basis points in Q3 and a little bit more than that in Q4. That's going to begin. We also have higher ad promo spend in the second half of the year, probably around 20 basis points or so on a year-over-year. But that's going to be offset by the lower cost of sales from the margin initiatives that I just discussed as well as lapping the portion investment.

So all of that offsets to where we should see a nice increase in our restaurant-level margins based off of the transactions that we're able to drive. And then next year, build upon that as well. And so the margin story is still very much intact. And our restaurant teams, again, are doing such a great job on execution, both on the cost of sales side, but on the labor side to really make sure that, that happens.

Operator

The last question today comes from Jacob Aiken-Phillips with Melius Research.

Jacob Aiken-Phillips

Good afternoon. So I just wanted to ask about -- a bit more about digital. So like your recent commentary earnings, it seems like you've rightfully emphasized operations, hospitality, equipment innovation. But Chipotle has been really good at scaling the digital. And I'd argue that to get back to mid-single-digit comps, you have to lean more into that digital.

So just how are you thinking about like medium term to long term? I know you've outlined some good stuff for this year in 2026. So how are you thinking about that evolving as a comp driver? And how do you prioritize investments in tech or equipment innovation versus in digital?

Scott Boatwright

Yes. Great question. I think -- I don't think. So today, we continue to innovate in the digital channels. Curt and his team are some of the most accretive figures in the industry as far as I'm concerned.

We continue to work on creating an end-to-end frictionless user experience within the app. We've made a couple of recent innovations on the app to remove friction from the experience already. They continue to look for ways to do that. They're driving top of funnel. So I think I said earlier, we're up 14% year-over-year on sign-ups for digital for our loyalty program.

And then we continue to work with our third-party partners on creative ways to drive more demand into the channel. And so there's constant pressure to really move the needle on the digital experience and create a great experience for the consumer.

And so that's a forever evolving and evergreen approach to again, creating a seamless experience for that consumer. As we think about prioritizing spend, we are very fortunate at Chipotle to have an extraordinary balance sheet, and we have the cash we need to innovate and be creative in the channels we need to, whether that's operations, marketing and/or digital, and we'll continue to use those dollars to drive the highest return.

Jacob Aiken-Phillips

Great. And then just on international, like you've done great work in Canada and doing great work in Europe. Any color on at what point you reach a level of like self-sustaining growth or accelerating growth in newer markets?

Scott Boatwright

Yes. I'll tell you, Anat and her team have done remarkable work in Western Europe. And so -- and leveraging -- really working on getting 100% recipes aligned and then 100% aligned on menu.

Believe it or not, we didn't have kids' meals or we didn't have Tractor, we didn't have soda fountains. And they're making a lot of progress on creating -- delivering the Chipotle experience the way it was intended.

We are driving top line. We are driving margin improvement in Western Europe today. We've already unlocked Central London and Germany for additional restaurant growth. We think we can have hundreds of restaurants in the existing markets we're in today, potentially thousands in Western Europe over time. That said, you know about our deal with Alshaya, they'll accelerate development of growth in the back half of this year. Alsea will open their first restaurant next year.

And then we're looking at other opportunities. And we have a framework which we're leveraging to understand, weighing the opportunity size, operational complexity, partner quality and the economic model. I think I've said this before, but it's important to repeat, and we will leverage the strength of the Chipotle brand in the markets we enter in and we'll be flexible on that market entry strategy, whether that's partnership, wholly owned or JV.

And so it's -- we are early, early, early innings on what international will be for this brand, but we fully believe it will be a pretty significant growth lever for us in the years to come.

Operator

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

Scott Boatwright

I just want to say thank you to our support center teams and our restaurant teams for their hard work. I really believe that the brand strength and the core equities of this brand are still intact. We still are driving consumer fandom and delivering great experiences in large part to our operators in the field who work tirelessly every day to deliver the experience.

I've said it before, it's worth repeating there, the absolute backbone of this great organization and a large reason why we maintain our profitability and our EPS, couldn't be prouder of their performance. We will get back to positive growth here in the second half and will accelerate in 2026, what I believe to be a best-in-class marketing calendar with innovation and creativity from both digital as well as marketing. That said, thank you all for listening in, and have a great quarter.

Operator

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

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