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Chipotle Mexican Grill, Inc. (CMG) Q2 2026 Earnings Call Transcript

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Q2: 2026-07-29 Earnings Summary

Insights

EPS of $0.33 beats by $0.01 | Revenue of $3.35B (9.31% Y/Y) beats by $16.84M

Chipotle Mexican Grill, Inc. (CMG) Q2 2026 Earnings Call July 29, 2026 4:30 PM EDT

Company Participants

Michael Johnston
Scott Boatwright - CEO & Director
Adam Rymer - Chief Financial Officer

Conference Call Participants

Sara Senatore - BofA Securities, Research Division
David Palmer - Evercore ISI Institutional Equities, Research Division
Dennis Geiger - UBS Investment Bank, Research Division
Danilo Gargiulo - Bernstein Institutional Services LLC, Research Division
Gregory Francfort - Guggenheim Securities, LLC, Research Division
Christabel Rocha - JPMorgan Chase & Co, Research Division
Zachary Ogden - TD Cowen, Research Division
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Brian Vaccaro - Raymond James & Associates, Inc., Research Division
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Andrew North - Robert W. Baird & Co. Incorporated, Research Division
James Salera - Stephens Inc., Research Division

Presentation

Operator

Good day and welcome to the Chipotle Mexican Grill Second Quarter 2026 Results Conference Call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Michael Johnston, Vice President of Finance. Please go ahead.

Michael Johnston

Hello, everyone, and welcome to our second quarter fiscal 2026 earnings call. By now, you should have access to our earnings press release. If not, it can be found on our Investor Relations website at ir.chipotle.com. Additionally, supplemental investor information is available on our site as a reference for today's call.

I will begin today by reminding you that today's discussion includes forward-looking statements, including projections about our future business, financial and other performance results. 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 today's earnings release and 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
CEO & Director

Thank you, Michael, and good afternoon, everyone. We're pleased with the strength of our second quarter results, which were driven by continued positive transaction growth and clear evidence that our Recipe for Growth initiatives launched at the start of the year continued to gain traction. These proof points reinforce our confidence as we strengthen restaurant execution, accelerate innovation and invest in the long-term health of the business.

For the second quarter, we delivered revenue growth of 9.3% to $3.3 billion, including positive comparable sales and transactions. Our results reflect the team's disciplined execution of our Recipe for Growth strategy. Over the last several months, we have seen the successful return of Chipotle Honey Chicken, continued strength from our Cilantro Lime Sauce, our revamped Rewards program and marketing initiatives that helped keep Chipotle top of mind, including several culturally relevant activations. Together, these initiatives drove incremental transactions while reinforcing the strength and relevance of the Chipotle brand.

At the same time, we continue to make targeted investments to strengthen the guest experience and improve hospitality. Our Recipe for Growth strategy is creating multiple levers to drive transactions, improve execution and reinforce the competitive advantages that differentiate Chipotle. As a reminder, the 5 pillars of our strategy include: protecting and strengthening the core by driving operational and culinary excellence to deliver exceptional value for our guests; modernizing our business model with industry-leading technology, including leveraging AI and relaunching our Rewards program to elevate the experience for our guests and our teams; evolving brand messaging and accelerating menu innovation and new occasions that drive demand; cultivating the best talent in the industry, energized and focused on speed and agility; and expanding our global reach by scaling with intention through proven company-owned and partner-operated markets as well as strategic new regions.

The first pillar of our Recipe for Growth strategy is to protect and strengthen the core, and that starts with running great restaurants. For our guests, that means delicious food, generous portions, exceptional throughput and exceptional hospitality. That is what we are focused on every day, and it's why we're making targeted investments to strengthen the execution across our restaurants.

Throughput is the cornerstone of great hospitality. And across the first half of 2026, we have seen steady progress across all 4 pillars of execution. The 2 most important pillars to building throughput are linebacker and expo. And in addition to strong expo deployment, we also drove linebacker deployment in over 70% of our restaurants for the first time this quarter. The team's focus on delivering the basics through throughput drove year-over-year max 15 performance to accelerate for the second quarter in a row.

In addition to our weekly throughput reviews and consistently high staffing levels, our investments in the back of the house over the last 2 years have been a key enabler of this progress. This includes last year's introduction of produce slices and the ongoing rollout of HEEP, our high-efficiency equipment package. HEEP is designed to make food preparation more delicious, more efficient and more consistent.

Because we're reinvesting the labor efficiency back into our restaurants, our crews can spend more time with our guests, strengthening hospitality and delighting them by being properly deployed during their busiest periods. The equipment is now installed in more than 1,000 restaurants, and we still expect to reach approximately 2,000 restaurants by year-end. We are excited by the results we've seen so far, including improvements in food quality, guest satisfaction, and throughput gains are perhaps the most notable where we see HEEP restaurants outperforming the enterprise by 2 to 3 entrees in their peak 15-minute period. These tangible gains are translating into hundreds of basis points of improvement in comparable sales.

Beyond HEEP, we're also reinforcing our commitment to exceptional hospitality through enhanced training and greater accountability. While food quality and generous portions bring guests through our doors, it's the experience we deliver that keeps them coming back. To help ensure we're consistently meeting our standards, we're bringing back mystery shoppers to provide more frequent feedback to our teams. These insights will help us identify opportunities for improvement and raise the bar across the enterprise.

Additionally, our restaurant leaders held a Hospitality Huddle with their crews in June to help every team member understand their duty to say yes to the guest and emphasize the role they play in delivering a great experience. To carry this message further, we're also empowering our team leaders to identify more moments to surprise and delight our guests.

We're also optimizing how general managers and apprentices are deployed throughout the week. Through enhanced training and a strategic reallocation of manager time to support our busiest dayparts, we're seeking to strengthen execution where it matters most. We're starting to see these investments pay off with notable year-over-year increases in overall guest satisfaction scores and digital on-time percentage, alongside a meaningful reduction in refunds.

The second pillar is modernizing our business through technology and digital innovation, and I believe we are now even better positioned with the addition of Arlie Sisson, our Chief Digital Officer. She has quickly impacted the culture and direction of her teams and is bringing a new and inspired vision for how we can move faster in implementing technology to better serve our restaurant teams and engage with our guests.

We're already starting to see this come to life through the launch of our modernized cook to needs tool live in pilot this month. The tool helps to ensure our teams are ready with the right amount of freshly prepared, food at the right time. It also automates a cumbersome daily task by eliminating data entry and automatically incorporating AI-based demand forecasts.

Early feedback from our crews has been strong, and the tools utility will only grow as our AI breadth expands, providing dynamic adjustments, intelligent insights and actionable coaching. This is complemented by Chipotle Kitchen, our proprietary crew interface on the digital makeline, which is designed to improve digital order accuracy, speed and consistency. We are currently rolling out this new technology to all restaurants and continue to see encouraging improvements in accuracy, on-time fulfillment and overall guest satisfaction.

Within Chipotle Rewards, we relaunched in mid-April with an enhanced experience designed to increase personalization, deepen guest engagement and strengthen our digital ecosystem. The relaunch introduced more personalized offers, simplified onboarding, increased proactive reengagement for lapsed users and expanded redemption options. One of our largest opportunities remains increasing Rewards participation in our in-restaurant business, where only about 20% of the transactions scan for Rewards compared to nearly 90% of owned digital transactions.

To help close the gap, we introduced new in-restaurant enrollment tools, including menu panels, QR codes and enhanced team member engagement. These have already driven a nearly 20% step-up in daily enrollments since launch. Encouragingly, in-store loyalty comps have outpaced order-ahead loyalty comps since the relaunch, reinforcing our belief that simplifying the in-restaurant Rewards experience can meaningfully increase engagement over time.

We're also preparing to pilot a new frictionless in-restaurant Rewards experience beginning in August that will allow our guests to automatically earn Rewards points while paying, eliminating the need to also scan the Rewards card at checkout. This is an important step to not only creating a more seamless in-restaurant loyalty experience but another component of our relentless focus on throughput, making payments faster and easier for our most loyal guests. Over time, we believe this will lead to a meaningful improvement in both Rewards engagement and speed of service.

In June, we brought back our Summer of Extras campaign, building on the momentum of our Rewards relaunch and new offers designed to reward frequency and deepen engagement. Compared to last year, more members have engaged with Summer of Extras with the highest gains coming from our lowest frequency guests, and we have seen overall frequency increase. With 23 million active members in our Rewards program, we continue to see a significant opportunity to strengthen our digital ecosystem by reducing friction, increasing personalization and creating additional opportunities to drive guest frequency over time.

Our next strategic pillar is evolving our brand messaging, accelerating menu innovation and expanding on new occasions. At the heart of this pillar is ensuring guests understand what makes Chipotle different, real food made from high-quality ingredients prepared fresh every day using classic culinary techniques. Combined with generous portions, speed and an accessible price point, we believe Chipotle continues to offer one of the strongest value propositions in the industry. This was reinforced by our most recent brand tracker, which showed meaningful improvement in guest perception that they are getting good value at Chipotle.

It has been great to welcome Fernando Machado, our Chief Brand Officer, to the team this quarter. In his first 2 months on the job, I've been impressed with his enthusiasm and urgency he has brought to the organization in evolving our brand messaging. He was already an admirer of the brand, and that has only been reinforced as he has taken time to truly understand Chipotle. His vision is to enhance the way we tell our story, and he's quickly moving the team to implement marketing strategies that highlight the differentiated value of our real food, stretch our creative ambition and resonate on a cultural level. Later this quarter, we will begin to see the first elements of this ongoing evolution in our brand messaging.

On menu innovation, we kicked off the quarter with the return of Chipotle Honey Chicken, one of our most popular limited time offerings that delivers a balance of smoky heat from Chipotle peppers and a touch of sweetness from pure honey. Guest response has been strong, outperforming last year's launch and achieving a cumulative attachment rate north of 25%. Our Cilantro Lime Sauce, which is prepared fresh daily in our restaurants, also continues to perform exceptionally well. It has maintained attachment rates above both Red Chimichurri and Adobo Ranch, reinforcing the demand we're seeing for flavor-forward menu innovation. Together, these offerings demonstrate our ability to introduce compelling menu innovation while staying true to the culinary principles that define the Chipotle brand.

We also refreshed our high-protein campaign with new athlete and Chipotle superfan orders, reinforcing one of our key points of differentiation, delicious high-quality protein prepared fresh every day. Looking ahead, we have a strong innovation pipeline plan for the second half of the year, including 2 additional limited time protein options and continued innovation across the menu. These offerings will give our guests more reasons to choose Chipotle and reinforce exactly what makes our food unique.

We're also focused on expanding to group occasions where guests choose Chipotle, particularly through catering and Build-Your-Own Chipotle, which we are now positioning more clearly as a family meal solution. This helps guests better understand its convenience and value. And the response has been clearly positive with a notable increase in orders since we implemented the change.

The results from our catering pilots in Chicago, Boston and now Phoenix have been very encouraging. The catering guest comes with the highest expectation of flawless execution, and these tests have provided valuable learnings as we prepare to scale our operation and technology across both first- and third-party marketplaces. We are now confident we can grow the business while maintaining the quality, speed and hospitality that defines the Chipotle experience. Together, catering and Build-Your-Own Chipotle represent 2% to 3% of sales today, but they are highly incremental and operationally efficient. We are working through the remaining pilot learnings now positioning ourselves for a national launch in 2027.

Finally, our culturally relevant marketing continued to resonate with guests throughout the quarter. Our Tatted Like a Chipotle Bag promotion earlier this year only briefly held the title as our highest sales day ever as it was outdone by the Matchday BOGO, which set a new single day sales record and became the most successful BOGO in our history. These campaigns are an important part of the broader effort to tell the Chipotle story in a more authentic and culture-forward way while giving guests more reasons to choose us.

Now shifting our focus to developing world-class people leaders. At Chipotle, our people are our greatest competitive advantage. And when we invest in our teams, they deliver better experiences for our guests, and that drives sustainable growth. A great example is Hamed Harizi, who joined Chipotle as a crew member 13 years ago. He rode his bicycle to work, had no college degree and came to work each day determined to learn and improve. Today, Hamed is the Team Director responsible for developing talent across his market and is nearing completion of his master's degree. His journey reflects what makes Chipotle special, culture that recognizes potential, rewards dedication and creates pathways for advancement fueled by our growth. His story is one of many that demonstrates the impact Chipotle can have on the lives and careers of our team members.

Just as importantly, we see the strength of that culture reflected in our results. General manager turnover remains at a multiyear low, and crew turnover has returned to historical norms. We believe Chipotle has become one of the industry's best developer of restaurant operators, and that capability is critical to delivering consistent execution today while supporting our long-term growth.

Next, I'm pleased to provide an update on how we are expanding our global reach through disciplined growth across both company-owned and partner-operated markets. We opened 100 company-owned restaurants during the quarter and still expect to open approximately 350 restaurants this year with about 80%, including a Chipotlane. We see substantial growth potential in North America, and we're applying the same disciplined operating model that has driven our success here as we expand internationally.

In Europe, we saw each country deliver high single-digit comp sales growth during the quarter, as our continued alignment to North American culinary operations and training standards translated into stronger restaurant performance. And just 2 weeks ago, I had the privilege of attending the opening celebration of our first restaurant in Monterrey, Mexico. We believe that real food delivered with excellent culinary will resonate strongly with the Mexican consumer and are entering the market with world-class operational capability and our partner, Alsea. It was a pleasure to see this come to life with incredible energy and enthusiasm for our market entry. We will build on this momentum with additional openings planned in the Monterrey metropolitan area later this year and expansion into Mexico City in 2027.

We'll open our first restaurants in Seoul, South Korea this year with Singapore expected to follow shortly thereafter in early 2027 with our partner, SPC Group. Each of these new markets represents an important step toward our vision of building Chipotle into an iconic global brand.

Now turning to our partner-operated markets in the Middle East. In late April, we opened a new restaurant in Abu Dhabi, followed by our second location in Qatar last week. Additionally, we plan to enter the Saudi Arabian market in the near future. We're also encouraged to see sales across the region returning to pre-conflict levels. While near-term development remains dependent on geopolitical conditions, our long-term outlook remains unchanged, and we continue to believe that the region has the potential to support hundreds of Chipotle restaurants over time. Consumers around the world are increasingly looking for high-quality food prepared fresh with real ingredients, and we believe Chipotle is well positioned to meet that demand.

To close, we're encouraged by the progress we're making as our Recipe for Growth strategy has gained traction in the last 2 quarters. We're strengthening restaurant execution, accelerating innovation, enhancing our digital capabilities, investing in our people and expanding our global reach. What gives me the most confidence is our team, both here in North America around the globe. They're energized, aligned and focused on delivering exceptional food, throughput, hospitality and value every day. I'm confident we have the right leaders in place, the right strategy and a significant opportunity ahead as we continue building Chipotle into an iconic global brand.

And with that, I'll turn it over to Adam.

Adam Rymer
Chief Financial Officer

Thanks, Scott, and good afternoon, everyone. Our strong second quarter performance provides further evidence that our Recipe for Growth strategy is delivering results. Within the quarter, sales grew 9.3% to $3.3 billion, driven by a comparable restaurant sales increase of 2.2%, including a transaction comp of 1%. Digital sales of $1.3 billion were 38.3% of total sales compared to 35.5% in the prior year. Restaurant-level margin was 25.2%, down 220 basis points year-over-year. Adjusted diluted earnings per share was $0.33, flat to last year, and we opened 101 new restaurants, including 80 Chipotlanes and 1 international partner-operated restaurant.

These trends were supported by the return of Chipotle Honey Chicken and continued strength from Cilantro Lime Sauce. They were further amplified by the Rewards revamp, Summer of Extras and the targeted investments we are making in our restaurants to strengthen the guest experience.

We were pleased to see this momentum carry into early July, but trends have been softer in recent weeks, and they've heightened consumer caution around the broader restaurant industry. As a reminder, comparisons become more difficult in the third quarter as we lap increased promotional activity in the prior year. However, as we navigate both industry and consumer challenges, we are confident that we will continue to build upon this momentum for the rest of the year, and we now expect full year comp sales growth in the low single-digit range.

On pricing, the impact in Q2 was around 1.6%, and we anticipate it will increase to the mid-2% range in Q3. For the full year, we expect to land near the high end of the 1% to 2% range we communicated earlier this year. Before I walk through the P&L, I want to take a moment to spotlight new restaurant performance and the trends informing our development strategy in North America and beyond.

Over the last 7 years, we have steadily and thoughtfully increased the pace of new restaurant growth in North America and are thoroughly impressed by our team's ability to deliver excellent sites with well-trained crews as we've scaled. New restaurant productivity has remained stable in the 80% range, and year 2 cash-on-cash returns continue to be around 60%, both of which are among the strongest in the industry.

Importantly, as our development pace has increased, the net impact from the new openings on our comparable restaurant sales is approximately 100 basis points, which is in line with what we have seen for many years. We are also encouraged to see these results hold even as we add restaurants in our most dense markets, which builds even greater confidence in our ability to operate at least 7,000 restaurants across the region.

Opening a Chipotle nearly every day of the year is no small feat, but the results give us confidence that our talent and real estate pipelines can support this level of growth while preserving the strength of our existing restaurant base. In Europe, our results this year reflect our multiyear effort to align the region with our North American standards. This has taken unit economics to a level that warrants additional investment and has given us the confidence to build our pipeline for meaningful growth in the coming years. At the same time, the strength of our company-owned operating model is influencing how we're able to approach partner-operated growth. As we enter new markets, Chipotle is highly attractive to best-in-class local operators because of what I just outlined, our proven brand strength and leading unit economic model.

Our unique partnerships allow us to expand access to Chipotle globally while still participating meaningfully in the long-term growth and profitability of each new market. With that, I will now go through the key P&L line items, beginning with cost of sales.

Cost of sales in the quarter were 29.7%, an increase of about 80 basis points from last year. The benefits of menu price alongside lower avocado and dairy prices were more than offset by inflation, primarily in beef and freight as well as increased usage of several ingredients, including chicken, steak and produce. For Q3, we anticipate cost of sales to be just under 30% as sequentially higher avocado pricing will be offset with menu pricing. Overall, we anticipate cost of sales inflation to be in the low single-digit range for Q3.

Labor costs for the quarter were 25%, an increase of about 30 basis points from last year. The increase was primarily driven by wage inflation and performance bonuses in addition to labor execution in restaurants as we lean into the guest experience, including our Hospitality Huddles held during June. These were partially offset by the impact from menu price increases. For Q3, we expect our labor cost to be in the mid-25% range with wage inflation in the low single-digit range.

Other operating costs for the quarter were 14.9%, an increase of about 90 basis points from last year, primarily driven by higher marketing and inflation across several items, most notably insurance, maintenance and utility costs. Marketing costs were 3% of sales, an increase of about 30 basis points from last year. In Q3, we expect marketing costs to remain in the low 3% range and for the full year, also in the low 3% range. For Q3, we anticipate other operating costs to be in the mid-15% range.

G&A for the quarter was $190 million on a GAAP basis or $176 million on a non-GAAP basis, excluding $13 million related to certain legal settlements and restructuring costs associated with our Recipe for Growth strategy and $1 million related to retention equity awards granted to key executives in August of 2024. G&A included $148 million of underlying G&A, $25 million of noncash stock compensation, $5 million related to higher bonus accruals and payroll taxes offset by a $2 million benefit related to our All Manager Conference. We expect our G&A to be around $180 million on a non-GAAP basis in Q3, which will include $152 million in underlying G&A, $25 million in noncash stock compensation, although this amount could move up or down based on our actual performance, and $3 million in higher bonus accruals and payroll taxes.

As we continue to scale, our G&A growth is predominantly driven by field leadership roles supporting new restaurants. Our disciplined approach to investments in technology and other areas has resulted in efficiencies across the P&L while still delivering meaningful leverage to underlying G&A over the past 5 years. We believe that in the coming years, we can continue to fuel our Recipe for Growth strategy and leverage G&A.

Depreciation for the quarter was $98 million or 2.9% of sales. For 2026, we expect it to remain around 3% of sales. Our effective tax rate for Q2 was 24.3% on a GAAP basis and 24.0% on a non-GAAP basis. For fiscal 2026, we estimate our underlying effective tax rate will be in 24% to 26% range, though it may vary based on discrete items.

We ended the quarter with $800 million in cash, restricted cash and investments, a decrease of $1.3 billion compared to a year ago as we continue to utilize our balance sheet to opportunistically repurchase stock, including $631 million in the second quarter at an average price of $32.55. This brings our year-to-date total to over $1.3 billion at an average price of $34.35. With access to our $500 million revolver and no debt, we will continue to opportunistically repurchase stock; and during the quarter, the Board authorized an additional $1.3 billion to our repurchase authorization. At the end of the quarter, we had $1.7 billion remaining.

To close, I want to thank our nearly 140,000 employees for their hard work and commitment to delivering real hospitality in every restaurant every day. It's exciting to see our Recipe for Growth strategy continue to gain momentum this quarter, and we know there is significant opportunity ahead. With Chipotle's uniquely positioned brand and the leading economic model with our foundation, I'm confident we have the right priorities and teams in place to build on this momentum and drive sustainable growth for years come.

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

Question-and-Answer Session

Operator

[Operator Instructions] The first question today comes from Sara Senatore with Bank of America.

Sara Senatore
BofA Securities, Research Division

I guess I wanted to ask maybe about -- you mentioned the kind of core underpinnings of what your -- what is driving your comp, delicious food, generous portions, quality. I guess, maybe 2 questions about those 2 components. One is can you talk about bringing back LTOs from the pantry. I think in the past, you've said the lift kind of builds every time. Different card data maybe suggest different things. Is it still the case that as people kind of revisit these LTOs, the lift you get from Honey Chicken, for example, is as good or better than the last time you brought it?

And then I guess on the sort of generous portions, are you seeing any changes in value perception? I mean, it's obviously always been very good value for the money, but I think maybe the perception hasn't as fully reflected that. So anything on that and just sort of the impact of having underpriced the industry for so long?

Scott Boatwright
CEO & Director

Sara, Scott here. Thanks for the question. I'll tell you, Chipotle Honey Chicken did perform better the second time around as do many of our LTOs. So we're excited about the pantry items that we have. I do think there's a point of diminishing returns. I don't know what -- if that's the fifth or sixth time around.

That said, we have ramped up innovation in menu 4x what it was just a couple of years ago. And you're going to see new items come on to the calendar in the coming months ahead and us revisit tried and true favorites that continue to perform better and better the second and third time we introduce those to the consumer or reintroduce those to the consumer.

As it relates to value, Sara, I'm happy to report our brand tracker showed really solid progress across all income groups and age cohorts on value perception. Our affordability scores were better in Q2 than they've been in probably the past couple of years. And so I think we're making meaningful progress as it relates to value at Chipotle. What we also learned, I think, as an important note, is value isn't just about discounting and price point. It's about convenience. It's about execution. It's about menu innovation. There's a host of things that the consumer is looking at to determine value.

Obviously, the introduction of the high-protein menu is playing a part in that as well as an approachable price point with an emerging trend around protein and who better to capitalize on great protein than Chipotle Mexican Grill. We have the best proteins in the world with the best husbandry practices in the world, and we should own that category.

Operator

The next question comes from David Palmer with Evercore ISI.

David Palmer
Evercore ISI Institutional Equities, Research Division

Just want to talk about sort of a pushback that I hear and that is that it feels like Chipotle is doing a lot and spending a lot to get the 1% to 2% same-store sales growth lately. And how do I know that they're really going to be picking up momentum into '27? And I know you have a different view on that, but maybe you could take a crack at helping maybe give a sense of how you can feel confident at this moment, meaning you even talked about lately dealing with some tough comparisons and some slowdown lately, but you're taking up the guidance to up low single digits. So clearly, you feel confident about some bit of momentum picking up either in the current business and the underlying but also something in the initiatives ahead. So maybe you could help give us a sense of where you have that confidence.

Scott Boatwright
CEO & Director

David, thank you. I'll tell you, the transaction growth we saw in Q2 was really the early days of the Recipe for Growth strategy hard at work for us, specifically around menu innovation. And so if you think about what we're doing, is we're investing in our restaurant execution, and that investment is in the form of high-efficiency equipment package and really investing in better throughput and hospitality. And the proof points, the early proof points in guest satisfaction, food quality and operational consistency tell us we're on the right track.

And then we're building additional transaction growth drivers through, I talked about, menu innovation, deeper Rewards engagement, stronger brand communication and expanded group occasions. And all of these things, David, are starting to show green shoots of positive momentum, but they will continue to build and scale as the year unfolds, which will add layers of growth as it sets up for the balance of the second half of '26 and into 2027.

And we're early days on what Arlie -- I believe Arlie will do in our digital properties and digital commerce for our business. The early thinking I won't share here on the call today is really innovative, really creative and really pushing our creative ambition. That's what we talked about with Fernando as it relates to our brand communication, culturally relevant branding that is not only a part of culture but leading culture, and he also is really stretching the team on creative ambition. And again, the idea that he and I have discussed over the past couple of weeks are really industry changing and leading. And so I'd say we're early days. The momentum is already building, and we have more levers that we will continue to pull as 2026 unfolds.

Operator

The next question comes from Dennis Geiger with UBS.

Dennis Geiger
UBS Investment Bank, Research Division

I was wondering if you could provide a little bit more color on the guide for the positive low single in 2026 on the comps, including perhaps any insights into the third quarter or early days? I know you talked about the softening in recent weeks. But just anything on that trajectory, maybe where the trend was into some of the challenges for the industry in recent weeks, Scott, and just how you're thinking about cadence from here if anything to share there?

Adam Rymer
Chief Financial Officer

Yes. Thanks, Dennis. It's Adam. I'll jump in. So traffic in the second quarter really improved throughout the quarter, and we're really encouraged by the momentum that is building as we continue to execute on our Recipe for Growth initiatives, and that momentum continued into the first half of July.

And then in the second half of July, we did see a softening, call it about 200 basis points or so right around the issue that's affecting the industry around cyclospora. And so we took that into account when we're looking at Q3, so you do have to keep in mind, like I said in my prepared comments, Q3 is the toughest lap that we have this year. But at this point, we anticipate our comps will be somewhere around a plus 1% in Q3, which does assume a continuation of that roughly 200 basis point impact because it's really tough at this point to predict how long it will persist.

And so as we took that into account and we started to think about the full year, again, excited about the momentum that we're getting, and we're confident that we can continue to build upon this momentum for the rest of the year. And then based off of our year-to-date performance as well as how we're setting up Q3 and what we have in store for Q4, that gave us the confidence to raise our guidance to that low single-digit range.

Scott Boatwright
CEO & Director

And if I could jump in here. I know cyclospora is really on everyone's mind. I want to start by saying the health and safety of our guests and team members remains our highest priority, and Chipotle maintains a very robust food safety program. We work closely with various governments and agencies, and they monitor issues in the supply chain and conduct their investigations and take responsive action as appropriate, including trace back and the removal of product if necessary. And together, these measures really help protect our guests and reinforce our commitment to serve safe, high-quality food every day. So I just want to make sure we put that to rest.

We're not impacted -- or we are impacted from a sales perspective, but we're not involved in the cyclospora conversation today. The products that are caught up in that conversation, we don't use in our -- on our menu, and our lettuces are sourced here in California.

Operator

The next question comes from Danilo Gargiulo with Bernstein.

Danilo Gargiulo

Bernstein Institutional Services LLC, Research Division

My question is about capital allocation and the linkage of that one to your stores. I think, Scott, last time we met you, you were mentioning that you are seeing an opportunity to refresh the store base to allow for the elevated marketing to actually reflect also in the operating system and in the flow in the store. And I think you were identifying 3 level of investments for about 1,000 to 1,500 stores in North America. Now assuming that some of the stores would have been refreshed anyway, given that they are hitting the 10-year mark, so I wonder if you've been able to size up the incremental CapEx needed and if you have any early indication on any expected sales uplift that could generate and the timing of that.

And then still on capital allocation. Have you considered leveraging partners in other international markets instead of owning and operating your stores?

Scott Boatwright

CEO & Director

Yes. Thanks for the question. We're always reinvesting in our restaurants. I think that's a really important note, even our oldest assets. But we haven't done an aesthetic remodel in the brand's history. And so what I wanted to accomplish this year is stage gate, if you will, the idea of a remodel-refresh program and is there a return on that investment.

We're in early days. We have selected several locations across several geographies to make different levels of investment in today. So think -- I want you to think between $100,000 and $300,000 per restaurant to see what the return -- what the consumer perceptions are and then what the overall return will be. I have nothing to report today unfortunately, but I'll tell you that work is in flight. I'm optimistic, but we remain patient to see how the returns shake out by each level of investment.

As it relates to partner-operated restaurants, we are building partnerships around the globe, very strategic in a very slow measured way. We've talked about Alshaya in Middle East. We've talked about Alsea in Latin America and SPC in Southeast Asia. And those are partnerships either through just partner-operated and/or JVs, and we will leverage the strength of the partner, the quality of the partner, our operational ability in those markets to garner the most -- I think the healthiest return for the Chipotle brand based on the strength of the brand and strength of the economic model.

So I don't know if I answered your question, but as we think about growth globally, we'll continue to own and operate Western Europe and grow from that base. But you can think about the rest of the world as partner operated.

Operator

The next question comes from Greg Francfort with Guggenheim.

Gregory Francfort
Guggenheim Securities, LLC, Research Division

My question, I guess, just on digital sales. I mean, I think digital sales grew 18%, including the unit growth in the quarter year-over-year, and you kind of 4 quarters ago really turned that on. And was there something like a big catalyst that kind of unlocked this? And I guess what you're seeing in the digital sales versus the non-digital sales, what's driving some of these changes at the register around loyalty and ability to pay and all that? I'm just curious if that's all linked.

Scott Boatwright
CEO & Director

It is all linked. I'll tell you, and the launch of Summer of Extras last year really helped us understand where we have the right to win with the consumer in digital. And we learned things that would work and things that don't work, quite frankly, for our brand. And so that informed really the refresh that we did and relaunch just a couple of months ago around Rewards on Repeat, where we removed some friction from the app. We gave you greater flexibility in how you earn rewards. We gave you greater flexibility on how you redeem those rewards.

And then building out Summer of Extras this year has really all helped to accelerate our digital ability to drive revenue, which is really important, is -- and I think we're also capitalizing on an emerging trend. We were just positioned right place, right time. But I think the team is doing incredible work to make sure we're relevant.

I will tell you, Arlie is taking a holistic look and approach to digital. There's more work to do. We are early days. I think the innovation that she's going to bring to digital commerce over the next many weeks and months is going to be game changing.

Operator

The next question comes from John Ivankoe with JPMorgan.

Christabel Rocha

JPMorgan Chase & Co, Research Division

This is Christabel on for John. I wanted to ask on the HEEP rollout. Should we expect all of this to kind of be reinvested into labor back into the production line? And so do you think any of that could be helped to drive positive traffic, customer satisfaction on the front line?

Scott Boatwright

CEO & Director

If I understand your question was how is HEEP impacting restaurant performance and are we reinvesting the labor. The answer is yes. We see about -- I think it's 2 to 4 hours of efficiency depending on volume, and we are leading that labor in restaurant to really help support getting prep done in the morning, so we're actually deployed during peak, and then having that labor deployed on the line to move throughput. And we're seeing that translate into transactions lift in those restaurants, both in max 15, so think throughput efficiencies as well as overall total sales. We're also seeing better taste of food scores, which is obviously meaningful for the consumer. So we're on the right path.

We're rolling out as aggressively as we can. We'll be in 2,000 restaurants by the end of the year. Hope to have the entire portfolio completed sometime in 2027. And then all new restaurants that we're building today come standard with the HEEP package today. So we know we're on the right track. We're going as fast as we can, and there's meaningful upside to getting the package installed.

Operator

The next question comes from Andrew Charles with TD Cowen.

Zachary Ogden

TD Cowen, Research Division

This is Zach Ogden on for Andrew. So Scott, at a conference back in May, you talked about how 350 company-operated openings per year is the right level for Chipotle. Can you talk about why you view that as the right level versus maybe the prior ceiling of 400 stores and maybe what the gating factor is to accelerating above 350?

Scott Boatwright

CEO & Director

Yes. As I look across the landscape of what we do compared to our competitors, the white space that exists in the U.S. today and quite frankly, our ability to develop ready now capable leaders, I feel like one restaurant per day is meaningful growth and something we can continue to handle and support as an organization. We've demonstrated historically our ability to open restaurants successfully. I know I never want to lose that edge.

I think there could be a point of diminishing returns either in how the restaurant opens beyond 350 or could possibly fracture the base if you get too aggressive. But I like 350 number. The team likes it. We feel comfortable with it, and we're developing ready now capable leaders to support that growth.

As it relates to incremental growth, think about global expansion, whether that's company owned in Western Europe, but also think about development with partner-operated restaurants really in the early stages today. That will ramp very quickly, evidenced by what we're seeing in the Middle East. We had -- our partnership started just a couple of years ago, and we're already at 15 restaurants with Alshaya across 3 or 4 different countries. They have meaningful acceleration in development this upcoming year for 2027, and think about other partners ramping at that pace. I think we can still target the number we've talked about historically and feel good about that growth number.

Operator

The next question comes from Jon Tower with Citi.

Jon Tower
Citigroup Inc., Research Division

Maybe, Scott, just you have a new CMO onboard and obviously, he's relatively new to the brand, but I'm just curious in terms of how you see the brand being positioned in the market. I know the For Real campaign has been out there for a very long time in front of guests, and my own opinion is it's kind of gone a little stale. So I'm curious to hear from your perspective where you think it should go. And will there be -- specifically around value and/or kind of the quality of the ingredients, is that going to be something that's -- are those things going to be highlighted for guests more prominently than in the past and especially when you contrast it against a number of, say, limited service competitors that aren't really doing the food rep that you're doing within stores? Like just trying to get a feel for what direction do you think this is going to end up going.

Scott Boatwright
CEO & Director

If you keep talking, I think Fernando is going to hire you on the team. Here's what I would tell you. The For Real campaign was extraordinary. And the creativity around that launch of that campaign was just exceptional, and it served us well for many, many years. So if you think about what Fernando is going to do, it's not a 180 pivot. It's really the next evolution of what For Real looks like for us.

And so you can -- you've already tied to it already, but I'll tell you, you're going to see more of how we prepare our food fresh in restaurant. You're going to see more of our ingredient usage and how we think about ingredients. You're going to see more around how we think about the Chipotle brand and how we're creating this opportunity to cultivate a better world.

He's going to really, I talked about this earlier, but stretch our creative ambition and do things that break through the sea of sameness that's on television today. And it relates to value. It will highlight our value but different than you think about price pointed or discount. It'll highlight the extraordinary value that is Chipotle based on the best ingredients in the world prepared fresh in restaurant daily and an abundance and speed you really can't anywhere else at a really approachable price point. And that's what we're going to celebrate.

Operator

The next question comes from Brian Vaccaro with Raymond James.

Brian Vaccaro
Raymond James & Associates, Inc., Research Division

I just had 2 quick clarifications. The first one was just your comments around the third quarter comp guide. Adam, I think you said about 1%, and I think you also said that the cyclospora impact is about 200 basis points. So is it right to think ballpark that you think the underlying trend is up about 3% but that you assumed this 2% headwind sustains for the rest of the quarter. Is that the right interpretation of that 1% guide?

Adam Rymer
Chief Financial Officer

Yes, yes, that's correct, and that's what our expense line guidance was based off of, was that 1% guide because, again, it assumes the continuation of that impact through the rest of the quarter because, again, very difficult to predict how long this could last.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Understood. Okay. That's helpful. And then just on the HEEP benefits to throughput, obviously, encouraging to hear there. Can you just level set where max 15-minute throughput is for the system overall, the sort of ex HEEP or the stores that don't have HEEP in place?

Adam Rymer

Chief Financial Officer

Yes, absolutely. So we mentioned that the restaurants that have HEEP in place, they're doing about 2 or 3 entrees more in their max 15. And so when you think about it, overall, we're kind of in that low 20% range in store. And then that doesn't count digital, of course, and digital being almost 40% of our sales. Digital tends to be somewhere in that mid-teens. So when you combine both, we're kind of in that low to mid-30s on our max 15 for each restaurant each day.

Operator

The next question comes from Brian Mullan with Piper Sandler.

Brian Mullan

Piper Sandler & Co., Research Division

Just a question on loyalty and the efforts to promote the program in restaurant. Can you just elaborate a little bit more on those efforts? Maybe what's working well and what can you potentially do better on that front? And related to it, just for clarification, those in-store transactions, where I think you said 80% of them don't have loyalty, do those over-index or correlate with your lower-income guests? I'm not sure if it's right to draw that relationship but if you could just comment on that.

Scott Boatwright

CEO & Director

Yes, I'll start with the last part of your question. No, they don't. In fact, I think it's more broad-based. And so the 20% we know could have a meaningful lift if we can get them into our Rewards program. But I think there are some components of our business that prohibit that from happening in a really frictionless way. And Curt and team are working on how do we make this a more seamless experience for that consumer, visiting with your phone, trying to get your loyalty app up, pay with your credit card. It's really a clunky experience.

And so what Curt and team are going to do in August is now have a one-stop pay, and once you pay, you get your Rewards points. You can asked to be enrolled in the program. So it's going to be more seamless execution and execution that happens behind the scenes without being overly reliant on the restaurant team, which I think would impact throughput, which we are obviously not going to do. And so we have more work to do there in really educating the consumer on the loyalty program in restaurant and then creating that frictionless experience, which we think we have a handle on, so more to come.

Operator

The next question comes from Peter Saleh with BTIG.

Peter Saleh
BTIG, LLC, Research Division

Great. Scott, a few minutes ago, you mentioned some new items may be coming to the menu in the months ahead. I was hoping you could elaborate a little bit more on this. Are these center-of-the-plate items that you're talking about? Or is this side items? And any more detail you care to provide or can provide would be helpful.

Scott Boatwright
CEO & Director

Yes. Here's what I would tell you. The team is hard at work. We have expanded the team on culinary to really address this challenge of really driving thoughtful menu innovation, not just pantry items but new news to business. So I want you to think about it as we're running down really center-of-the-plate items. We also have teams working on beverage. We have teams working on sides. We have teams working on desserts, and I think there's meaningful work that's happening today. And we've stage gated -- I'm sure you've seen either through social media over the last couple of months, we've stage gated some really big ideas that we're working on that we're pushing through our stage-gate process that have merit and that you could see on the calendar maybe back half of '26 but certainly in 2027.

Operator

The next question comes from Brian Harbour with Morgan Stanley.

Kelly Anne Merrill

Morgan Stanley, Research Division

This is Kelly on for Brian. I know you've said in the past that younger and lower to middle income guests had been under more pressure. Just curious if you can give us an update on the trends you saw in second quarter by age and income or if there's anything to call out in 3Q to date. Just want to know if any groups are beginning to improve relative to the higher income cohort or if you're seeing any meaningful differences in frequency across the groups.

Adam Rymer

Chief Financial Officer

Yes, yes. Thank you for the question. So what I would say is those 2 cohorts that were under the most pressure, right, the younger cohort, the lower income cohort. They really have improved the most compared to everyone else. So if you're looking at our results from Q1 even into Q2, it's been pretty broad-based but had -- we definitely had outsized impact with those 2 groups.

And it really centers around menu innovation. So think of the Chipotle Honey Chicken launch as well as Cilantro Lime Sauce, also the promotions that we're running in our restaurants. Matchday BOGO, for example, was a huge day for us and really celebrated World Cup fans as well as our Rewards program, as we kind of really zero in on each of these initiatives, really having an outsized impact on those. So I think we're doing a really good job of meeting those 2 cohorts and really giving them what they want to see out of Chipotle.

Scott Boatwright
CEO & Director

Yes. I would just add to that is we saw our highest year-over-year gains in wallet share last quarter since 2024, and we have taken share in each month of 2026, which tells us we're on the right path, and that's across all income cohorts and age groups.

Operator

The next question comes from Chris Carril with KeyBanc.

Christopher Carril
KeyBanc Capital Markets Inc., Research Division

Thanks for the 3Q margin detail, Adam, but can you provide maybe an update on how you're thinking about the margin outlook beyond the current quarter? I think last quarter, you spoke to the gap between pricing and inflation narrowing near the end of the year. So any update around this would be helpful.

Adam Rymer
Chief Financial Officer

Yes, absolutely. So that gap between price and inflation, as you know, is at its widest point really in the first half of the year. That is definitely easing in the second half as we continue this measured approach to taking price increases with this rolling strategy that we have.

And so in Q3, I would expect inflation to be closer to about 3%, while pricing, like we said in the prepared comments, will be closer to that mid-2% range. So that dislocation has narrowed meaningfully from the first half where pricing was more in that 1% range, while inflation was kind of in that low to mid-3%. And so on a go-forward basis, we're pretty much there in Q3, but from Q4 forward, we expect those 2 to match and that -- therefore, that dislocation will not be there on a go-forward basis.

Operator

The next question comes from Drew North with Baird.

Andrew North
Robert W. Baird & Co. Incorporated, Research Division

Great. I have one on more recent trends. I was wondering if you saw any regional or market divergences around the World Cup that would tell you there was a benefit for Chipotle in recent months. And then I have a follow-up.

Adam Rymer
Chief Financial Officer

Yes. So on the World Cup, very small impact to the quarter. We do have about 300 restaurants or so that were within, call it, 10 miles of World Cup stadium. So during the tournament, they saw a small benefit anywhere from maybe 50 to 100 basis points in comps specific in those locations. But if you look at the overall quarter, the impact was less than 5 basis points. So nice impact for those close restaurants, but on the overall quarter, it was a very small impact. And then you had a follow-up.

Andrew North
Robert W. Baird & Co. Incorporated, Research Division

Yes. On pricing, I know you've been conservative this year rolling out pricing methodically over the course of the year. I was wondering what you've learned from this process as the year progressed. And what gave you comfort to trend towards the higher end of that initial 1% to 2% guide?

Adam Rymer
Chief Financial Officer

Yes, absolutely. So what we've learned is the process is working very nicely. I mean we've talked about this in the past. The key benefits really of this strategy are -- it allows us to measure resistance more precisely and adjust if necessary, and kind of just continue to roll out market by market, region by region as we like to go.

And then it also gives us the ability to adjust if we need depending on the elation that we're seeing. And so we just feel like it's a much more dynamic situation. And as we've gotten these reads on resistance and as we've gotten consumer feedback on it, it's allowed us to continue to push forward. And so I think you'll see us continue to follow this strategy going forward, and you won't have that dislocation. That was really just a timing impact. So we're really happy with how it's performing, and we're going to continue down this path.

Operator

The next question comes from Jim Salera with Stephens.

James Salera

Stephens Inc., Research Division

I was hoping you could give us some incremental color on the LTO contribution to the frequency uplift that you're seeing. I don't know if you have any historical benchmarks that you can use for kind of overall LTO contribution to the whole amount of traffic in the quarter, but would love any commentary on that given the stepped-up LTO cadence this year.

Adam Rymer

Chief Financial Officer

Yes. I mean, I'll start. We haven't given any specifics on specific LTOs and kind of what the lift has seen. But what we have seen, especially with Chipotle Honey Chicken this year and even Chicken al Pastor earlier in the year, is that we're seeing an increase in transactions and as we dig into those transactions just coming from our most frequent guests coming in more often because they're excited about the menu innovation, but we're also driving in more new guests. And so we typically see hundreds of basis points of trans lift, of which -- most of which sustains during the entire promotion.

And even when these LTOs tend to leave, we measure then the stickiness of those customers that we've either attracted in or again, those more frequent guests coming in more often. And we really like what we see from that standpoint as well. So again, we see this as a multiyear lever of increasing our AUVs over time versus kind of a short spike in sales, if that makes sense.

James Salera

Stephens Inc., Research Division

Yes, absolutely. And if I could ask one follow-up on that. You highlighted some of the protein LTOs coming up in the back half of the year. Given that being a more and more frequent characteristic that consumers are looking for from food, do you find the guests that gravitate towards the higher protein offerings are existing Chipotle guests? Or does that bring in kind of the new cohorts that didn't frequently interact with the brand in the past? And do you have any sense for converting the frequency there relative to kind of the core menu items?

Scott Boatwright
CEO & Director

Here's what I would tell you is it brings in new customers who want to try the brand for the first time. And what we have recognized is when a guest tries an LTO, their lifetime value goes up in a material way, which gives us confidence that the LTO strategy is on track and the right approach.

But we also see our current customers come in more frequently because they have new options to eat around on the menu, which they enjoy. And so you'll see a couple more center-of-the-plate items in the back half of the year. You'll also see us bring in some sides innovation, and we're leaning into beverage innovation in a more meaningful way. I think there's significant opportunity in beverage, and we are running down a path today to really capitalize on what's happening in beverage. We have a lot of work to do in this category, but I feel like we have the right team on it and the right approach and the right strategy.

Operator

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

Scott Boatwright
CEO & Director

Well, thank you for joining our call today. I'm really proud of the results we delivered in the second quarter as we continue to execute our Recipe for Growth strategy. We're seeing encouraging momentum across the business from improvements in throughput, restaurant execution to the expansion of catering, a really strong pipeline of menu innovation, lower turnover, continued deployment of our high-efficiency equipment package, investments that are enhancing our digital capabilities and strengthening the experience for both really our guests and our team members, which I think is really important. At the same time, we're continuing to invest in our people while thoughtfully expanding our global reach.

While we're pleased with the progress we've made, we're even more excited about what's ahead for this great brand. I think we have the right team. We have a strategy that is driving results and an incredibly strong brand. As we continue to execute our strategy, we're working on a plan to gather many of the folks on the call here today and others in the new year where we can showcase what's new in our restaurants and provide an opportunity for you to hear directly from our new leadership team, existing leadership team and the new folks that have joined our team in a place. So keep an eye out for that. We're excited to have you see really firsthand the progress we're making across the business, experience our operations up close and spend time with the leadership team, as I said, including the new executives that we brought on the team.

So that said, thank you again for your time, your partnership and continued confidence in Chipotle. We appreciate your support and look forward to updating you on continued progress next quarter.

Operator

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

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