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# Chipotle Mexican Grill, Inc. (CMG) Q3 2024 Earnings Call Transcript

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## Q3: 2024-10-29 Earnings Summary

[Play Call](#)[Press Release](#)[10-Q](#)EPS of \$0.27 **beats by \$0.02** | Revenue of \$2.79B (13.01% Y/Y) **misses by \$24.77M**

Chipotle Mexican Grill, Inc. (NYSE:[CMG](#)) Q3 2024 Earnings Call Transcript October 29, 2024 4:30 PM ET

### Company Participants

Cindy Olsen - Head of Investor Relations and Strategy

Scott Boatwright - Interim Chief Executive Officer

Adam Rymer - Chief Financial Officer

Jack Hartung - President and Chief Strategy Officer

### Conference Call Participants

Andrew Charles - TD Cowan  
David Tarantino - Baird  
Sara Senatore - Bank of America  
David Palmer - Evercore ISI  
Christine Zhao - Goldman Sachs  
Brian Harbour - Morgan Stanley  
John Ivankoe - JPMorgan  
Lauren Silberman - Deutsche Bank  
Chris O'Cull - Stifel  
Brian Bittner - Oppenheimer  
Sharon Zackfia - William Blair  
Danilo Gargiulo - Bernstein

## **Operator**

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

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

## **Cindy Olsen**

Hello, everyone, and welcome to our third quarter fiscal 2023 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](https://ir.chipotle.com). I will begin by reminding you that certain statements and projections made in this presentation about our future business and financial results constitute forward-looking statements. These statements are based on management's current business and market expectations, and our actual results could differ materially from those projections in the forward-looking statements. Please see the risk factors contained in our Annual Report on Form 10-K and in our Form 10-Q for a discussion of 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, Interim Chief Executive Officer; and Jack Hartung, President and Chief Strategy 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'll turn the call over to Scott.

### **Scott Boatwright**

Thanks Cindy and hello everyone. Before I get into the details of the quarter, I know I speak on behalf of everyone at Chipotle when I say that we are grateful for Brian's leadership and for the transformation he led. Over the past several years, we built a strong team with a great culture and have developed compelling and successful strategies together. With that said, after leading our operations for the last seven years, I'm excited and honored for the opportunity to lead Chipotle as our Interim CEO.

To start, there are three things I want to make very clear today. The first is that I'm extremely passionate about our brand and purpose. We are truly a special company that cares about the culinary heritage that Chipotle was founded upon. And our purpose of cultivating a better world resonates with our teams at all levels of our organization, as well as with the guests we serve in our restaurants each and every day. I'm also passionate about our people, and I strongly believe we have the best in the industry, both in our restaurants and at our support centers. Since joining Chipotle in 2017, I've had the privilege and responsibility of leading our restaurant teams as we have grown from under 2,300 restaurants to over 3,600 restaurants today, employing over 125,000 people. I can tell you firsthand how hard our teams work to provide our fresh, delicious, and customizable culinary experience at accessible prices to millions of people every day. These exceptional people are the backbone of our great brand.

And the third is that our strategy is not changing. I have worked alongside our talented executive team to craft and evolve our successful strategy, and we will continue to execute against it. This includes our long-term targets of expanding to 7,000 restaurants in North America, increasing our AUVs to over 4 million, and expanding our restaurant-level margins and growing internationally.

Now, before I dive into our five strategies, I want to run through our third quarter results. We had another outstanding quarter with positive transaction growth every month. We saw momentum build throughout the quarter as the impact from summer seasonality normalized and as we successfully launched Smoked Brisket, which is off to a fantastic start. For the quarter, sales grew 13% to reach \$2.8 billion, driven by a 6% comp with over 3% transaction comp growth. In-restaurant sales grew by 80% over last year. Digital sales represented 34% of sales. Restaurant level margin was 25.5%, a decrease of 80 basis points year-over-year. Adjusted diluted EPS was \$0.27, representing 17% growth over last year. And we opened 86 new restaurants, including 73 Chipotlane. The momentum of the business has continued into the fourth quarter with accelerating transaction trends, and we are maintaining our full year guidance of mid to high single-digit comps.

Now let me provide an update on our five key strategies that have helped us win today and will grow our future. These strategies include learning successful restaurants with a people-accountable culture that provides great food with integrity while delivering exceptional in-restaurant and digital experiences, amplifying technology and innovation to drive growth and productivity at our restaurants, support centers, and in our supply chain, sustaining world-class people leadership by developing and retaining diverse talent at every level, making the brand visible, relevant, and loved to acquire new guests and improve overall guest engagement, and expanding access and convenience by accelerating new restaurant openings in North America and internationally.

Let's start with running successful restaurants and our progress on throughput. We have mentioned this in the past, but it's important to say it again. Throughput is a core focus for Chipotle because it is the outcome of a strong operational engine that delivers a great experience for our guests and teams. And execution in our restaurant is improving as we continue to build our throughput muscle. Last quarter, we began concentrating our efforts on the expo position as it is a critical pillar of throughput. As a reminder, this is the crew member between salsa and cash who helps expedite the order assembly and payment process. Restaurants with an expo in place are averaging five incremental entrees in their peak 15 minutes. We are often asked why it's so challenging to execute this key pillar of throughput. Well the crew member responsible for the expo position may be doing other tasks like prep which prevents them from being properly deployed. In late August, we made a decision to have the manager on duty deployed to the expo position during peaks. This has helped to improve the percentage of restaurants with an expo in place to over 60% compared to just over 50% last quarter.

It has also helped to drive accountability, improve communication with the guests and ensure we are properly ringing up each order. While we are making great progress on executing the four pillars of throughput, we still have work to do. Of the restaurants that do not have the four pillars in place, we are finding that often our crew members are still prepping food during peak periods. The fact is, preparing our delicious food is a lot of work and requires strong culinary skills. Our teams are beginning prep at 6 or 7 a.m. in the morning to be able to deliver our food on time when we open. This includes slicing and dicing produce, hand-mashing avocados to make our delicious guacamole, frying on chips every day, and grilling items like the heat of veggies and adobo chicken on the plancha.

In addition to coaching and training around throughput, we are also exploring ways to make the prep process easier on our teams while ensuring we are maintaining or improving upon our high culinary standards. This brings me to technology and innovation. We now have several initiatives in stage gate that can help to improve the prep and cooking process and drive a better experience for our teams. Two, that I'm particularly excited about are the dual-sided plancha and the produce slicer. As we mentioned last quarter, we are in the process of rolling out the dual-sided plancha to an incremental 74 restaurants, which will be complete by the end of next month. And as part of the stage gate process, we are now evaluating and implementing the dual-sided plancha into new restaurant openings, as well as retrofitting existing restaurants, and we'll have more to share on this early next year.

Additionally, over the last year, we have been testing a produce slicer. In our restaurants, slicing and dicing vegetables like jalapenos and bell peppers is one of the most time-consuming and repetitive tasks. It would be an understatement to say our teams are excited about this new tool. In fact, at our all-major conference in March, nearly 5,000 managers and above-restaurant leaders gave it a standing ovation. The new produce slicer drives improved efficiency, which will allow our teams to complete the prep process on time in every restaurant, resulting in better deployment at peak and better throughput. And it also improves our culinary by delivering consistent cut sizes. I'm excited to share that we are beginning to roll out the new produce slicer in all restaurants, which should be complete by next summer. Beyond these two initiatives are augmented make line by Hyphen and Autocado, which cuts, cores, and scoops avocados were installed into their first restaurants for pilot testing during the quarter. These are both highly customized technologies that could provide big unlocks for us in the future. We have already received a lot of learnings on both innovations from our crew and our guests that will be used for future iterations. As you can see, we have a number of initiatives underway, and I envision significant back-of-the-house changes in the near future that will drive efficiencies and improve the consistency of our culinary in our restaurants. This will enable our teams to focus on and execute the four pillars of throughput better than we ever have and deliver an exceptional experience for our guests in restaurants every day.

Let's shift to world-class people leadership. In addition to innovation that helps to better enable the preparation of our delicious food, we are also rolling out a new technology platform across all restaurants that will make the hiring process simpler, faster, and more automated. The new AI hiring platform automates the communication and scheduling between applicants and our general managers, reducing the amount of time it takes to hire an employee for an in-restaurant position by as much as 75%. The automation of this administrative task will allow our GMs to spend more time coaching and developing their teams and providing excellent hospitality for our guests. And it also gives us a competitive advantage against the other restaurant chains in the high-volume hiring market because we can hire talent faster. As I mentioned earlier, I'm passionate about our people and building a strong culture that recruits, retains, and grows the very best. And I'm thrilled to share that Chipotle was ranked first among 400 of the largest publicly traded companies in the American Opportunity Index of best places for high school graduates to start a career.

The rankings were based on how well a company hires entry-level employees, promotes from within, and prepares them for opportunities when they leave. One of the very best benefits we offer our teams is our career advancement opportunity. We have so many stories of crew members who have started at Chipotle and grown within the organization, resulting in life-changing careers, including several to the position of Regional Vice President, overseeing hundreds of restaurants, and a billion dollar plus business. In fact, our team director out of the Chicago region has one of these inspiring journeys. She came to the US at the age of seven with her parents and brother as refugees. And at the age of 18, she started working at Chipotle as a crew member for her first job out of high school. She has advanced within Chipotle to become a top performing team director and now is responsible for 61 restaurants or almost \$200 million in sales each year. She clearly demonstrates and understands that developing and growing future leaders is what makes Chipotle a special company.

My favorite part about her journey is that through her financial success at Chipotle, she was able to help her mom retire, which she views as her biggest accomplishment. I could not be prouder to be part of an organization that prioritizes our people and their growth. And the exciting part is that as we look to grow to 7,000 restaurants in North America and expand internationally, we will be adding hundreds of new restaurant leadership roles each year, and we will continue to pursue our goal of promoting over 90% from within. The future is very bright at Chipotle.

Now turning to marketing, I have to take a moment to acknowledge our marketing team for their outstanding work over the years and making Chipotle more visible, more relevant, and more loved. Our brand continues to lead and gain momentum in many categories like quality of ingredients, quality of food for the money, and healthy and nutritious. This is a result of a strong marketing strategy and brand campaigns like Behind the Foil, which showcases our Chipotle teams preparing our fresh, delicious food. The campaign is certainly resonating well, and we will continue to evolve it and find new ways to put a spotlight on what differentiates Chipotle, which is our food, our people, our purpose, and our values.

Turning to menu innovation, our limited time offers continue to surpass our expectations. Our guests have been craving the return of Smoked Brisket for three years and it's off to a very strong start driving incremental transactions and spend. As we have mentioned in the past given the limited supply of responsibly raised beef it was a huge cross-muscle effort to bring back this fan favorite and we anticipate it will last through the fourth quarter. We also been testing Chipotle Honey Chicken which is our adobo chicken seasoned with savory Mexican spices and finished with a touch of pure honey. Similar to Chicken Al Pastor it is simple to execute in our restaurants and absolutely delicious. This has been one of our most successful tests to date both in early century testing as well as in the broader two market test we are currently running in Nashville and Sacramento. I'm delighted to share that Chipotle Honey Chicken has made its way through the stage gate process and is ready to be rolled out in the future.

Finally coming up this week will be our annual boom reader promotion. This year our marketing team found another creative way to lead culture as we collaborated with spirit Halloween and launched a new collection of Chipotle costumes inspired by popular memes on our social channels which is generated some of our highest social engagement this year. Now moving on to our final strategy which is to expand access and convenience both in North America and internationally. In North America, our development team made great progress smoothing the cadence of openings with 185 new restaurant openings year-to-date which compares to 149 at this same time last year. We remain on track to open between 285 and 315 new restaurants this year which will mark another record for us. As we look at 2025, we anticipate opening 315 and 345 new restaurants with at least 80% including at Chipotlane.

In Canada, our new restaurant openings continue to be outstanding and in the third quarter we entered another new market with our first restaurant in Edmonton which broke an opening day record for North America. We will surpass 50 restaurants in Canada next month which is a huge milestone. Our unit level economics and returns remain on par with the US and we will continue to accelerate growth in Canada in 2025.



Turning to Europe, under the new leadership team we are beginning to see promising results. We have better aligned our culinary menu to the North American standards and we are in the process of fully unlocking the functionalities of our operational tools to better manage labor and food costs. Additionally, similar to our successful strategy in Canada, we are rolling out local and digital marketing initiatives which are building brand awareness and bringing more guests into our restaurants. The recent performance gives us confidence that we can begin to build our restaurant pipeline for the future. And I'm optimistic that Europe will be a sizable growth opportunity for Chipotle over the coming years. Finally, I'm excited to share that our first restaurant in Dubai opened earlier this month. The restaurant is absolutely beautiful and located along the beachside boulevard of Jumeirah Beach. This is the third restaurant we have opened this year with our partner Alshaya Group. All three restaurants are exceeding our expectations and Chipotle is one of the top performing brands in AlShaya's portfolio. This is further strengthening our confidence that Chipotle is responsibly sourced, classically cooked, real ingredients, resonates across geographies. We are targeting to open a second restaurant in Dubai early next year and plan to accelerate growth with Alshaya Group in 2025.

In closing, I want to thank our restaurant and support center teams for another great quarter driven by strong transaction growth. I always say that at Chipotle, we are either directly serving our guests or serving someone who is serving our guests. And it's important that as a team we continue to focus on exceptional food, exceptional people, and exceptional throughput. This will drive great execution in our restaurants that will enable us to continue down our very long runway for growth as we expand to 7,000 restaurants in North America and grow internationally. And as we make our way down this path, I strongly believe Chipotle will become a purpose driven, global lifestyle brand. With that, I'll turn it over to Jack.

**Jack Hartung**

Thank you, Scott. Good afternoon, everyone. Before I hand it over to Adam to go through the third quarter financial results, I want to make a few comments about the management transition. While Brian's departure was not expected, our focus on succession planning at all levels of the organization allowed for this to be a seamless transition with Scott assuming the role as our Interim CEO. We're all very supportive of Scott as his leadership at the company is unparalleled, having led our restaurant teams over the last seven years. And Adam and Jamie were already well prepared to take on their new roles earlier than anticipated so that I could step into my new role as President and Chief Strategy Officer. Also I want to emphasize that the culture and morale at Chipotle has never been stronger. We have so many passionate leaders running our restaurants and at our sports centers that are all connected by our purpose of cultivating a better world. There's positive energy and a real sense of responsibility to keep the momentum going and to continue to execute against our very successful strategy.

Finally, I'm committed to my new role and plan to stay on indefinitely to ensure a smooth transition. As you can imagine, having spent 22 years at Chipotle, I love this company. I'm passionate about our purpose and I strongly believe we have a very long growth runway ahead of us as we expand Chipotle in North America and around the world. With that, I'll now turn it over to Adam, our new Chief Financial Officer to go through the results. Adam, congratulations and over to you.

### **Adam Rymer**

Thank you, Jack. I'm excited to take on the role of Chief Financial Officer for this great company and I'm happy to be with all of you on my first conference call. With that said, I will turn to our quarterly results. Sales in the third quarter grew 13% year-over-year to reach about \$2.8 billion as comp sales grew 6%, driven by over 3% transaction growth. Restaurant level margin of 25.5% decreased about 80 basis points compared to last year. Earnings per share adjusted for unusual items was \$0.27, representing 17% year-over-year growth. The third quarter benefited from equity awards forfeited by our former CEO and a gain on an investment. These were partially offset by the impairment of a corporate asset and equity awards granted for retention of key executives. Collectively, these positively impacted our earnings per share by \$0.01, leading to GAAP earnings per share of \$0.28.

As Scott mentioned, comps accelerated throughout the quarter, with transaction trends strongest in September as the impact from summer seasonality normalized and we rolled out Smoked Brisket. Looking to Q4 and taking into consideration that the strong transaction trends have continued so far in October, as well as the tougher comparison against Carne asada, we anticipate our transaction comps to modestly accelerate from Q3. As a reminder, we roll off about three points of pricing at mid-October, as the impact of pricing in the fourth quarter will be just over 1% due to the price increase, we took in our California restaurants in April. For the full year, we continue to expect our overall comp to be in the mid to high single digit range.

I will now go through the key P&L line items beginning with cost of sales. Cost of sales in the quarter were 30.6%, an increase of about 90 basis points from last year. The benefit of last year's menu price increase was more than offset by inflation across several items, most notably avocados and dairy, as well as higher usage as we focused on ensuring consistent and generous portions, and the mixed impact from our premium Smoked Brisket LTO. For Q4, we anticipate our cost of sales to be just about 31%, as we have a full quarter of our Smoked Brisket LTO. As we mentioned last quarter, we believe we can offset the 60 basis point portion investment through efficiencies and innovation over the next several quarters. This includes efficiencies we have identified within our supply chain, as well as several in-restaurant initiatives, including the produce slicers that Scott mentioned earlier. While we anticipate some of the benefit to begin in Q4, we don't anticipate a full offset until the second half of 2025.

Labor costs for the quarter were 24.9%, about flat to last year, as the benefit from sales leverage offset wage inflation. For Q4, we expect our labor cost to be in the low 25% range due to seasonally lower sales, with wage inflation to remain in the mid-single digit range. As a reminder, about half of the wage inflation is due to the nearly 20% step up in wages in California, from the increase in minimum wage for restaurant companies like ours that took effect in April. Other operating costs for the quarter were 13.8%, a decrease of about 20 basis points from last year. The decrease was primarily driven by sales leverage and a lower delivery mix, partially offset by higher marketing and promo costs. Marketing and promo costs were 2.1% of sales in Q3, and in Q4, we expect marketing costs to step up to the low 3% range. In Q4, other operating costs are expected to be in the low 14% range, as we anticipate higher marketing costs to be partially offset by lower seasonal expenses, like utilities and maintenance and repair.

G&A for the quarter was \$127 million on a GAAP basis or \$149 million on a non-GAAP basis excluding a net \$22 million benefit from equity awards forfeited by our former CEO, partially offset by the expense for awards granted for retention of key executives. G&A also includes \$126 million in underlying G&A, \$25 million related to non-cash stock compensation and a \$2 million benefit from a bonus adjustment. Non-cash stock compensation and bonus expense benefited in the quarter from our CEO's departure as well as performance-based adjustments. We expect our underlying G&A to step up to around \$130 million in Q4 as we invest in people to support our growth. We anticipate stock comp will be around \$28 million in Q4, although this amount could move up or down based on our actual performance. We also expect to recognize around \$4 million related to higher bonus accruals and employer taxes associated with shares that best during the quarter and \$1 million for costs associated with our field leadership conference in early 2025, bringing our anticipated total G&A in Q4 to around \$163 million.

Depreciation for the quarter was \$84 million or 3% of sales. In Q4, we expect depreciation to step up slightly as we open more restaurants. Our effective tax rate for Q3 was 22.9% for GAAP and 23.8% for non-GAAP. Our effective tax rate benefited from a reduction in nondeductible expenses related to our CEO's departure. For fiscal 2024, we estimate our underlying tax rate will now be in the 24% to 26% range, although it may vary based on discrete items. Our balance sheet remains strong as we ended the quarter with \$2.3 billion in cash, restricted cash and investments with no debt. During the quarter, we repurchased \$488 million of our stock at an average price of \$54.55.

In the third quarter, our Board of Directors approved an incremental \$900 million in share repurchase authorization. And at the end of the quarter, we had nearly \$1.1 billion remaining. To close, I am grateful for Jack's mentorship over the last 15 years and honored to be a part of our leadership team, serving our 125,000 employees in our restaurants and support centers. We will continue to protect the special brand and our unique economic model that allows us to spend more on our real ingredients, yet remain one of the best values in the industry, while also maintaining industry-leading margins. This is a huge competitive advantage and will continue to require a relentless focus on driving an exceptional experience for our restaurant teams and our guests each and every day. And with that, let's open it up for questions.

## Question-and-Answer Session

### Operator

[Operator Instructions]

Today's first question comes from Andrew Charles of TD Cowan.

**Andrew Charles**

Great. Thank you. First off, Adam, Jack, as well as Scott, congrats on your new roles. Last call, you guys were contemplating a price increase in 4Q. I was curious if this strengthened traffic in recent months, along with missing widget labor cost pressures, to help solidify your decision on this.

**Scott Boatwright**

Yes, this is Scott. I'll jump in here. Thanks for the question. We're keeping a really close eye on the consumer, as you can imagine. Also a close eye on this very competitive market that we're in today, given the macros and what's going on with value wars and QSR and fast casual. But also note that we are seeing some modest inflation. I'll let Adam speak to that in the business today. So nothing planned today, but that's not to say we wouldn't look at a pricing action at some point in the future.

**Adam Rymer**

Yes, and to go a little bit further into inflation. So yes, like you said, Andrew, we're kind of seeing low single digit inflation on cost of sales. That's after you peel back a few layers. So one of that's going to be the investment that we made in portions, so roughly that 60 basis points that we mentioned on the call. We believe we can offset that through efficiencies within our supply chain as well as within the back of house of our restaurants. Probably a full offset by the end of next year, so that's not included. Neither is the impact of Brisket, kind of that premium item and what that's doing to cost of sales right now, as well as the avocado comparison. So if you remember about a year ago, avocados were abnormally low. And so once you peel back those layers, you're seeing about a low single digit inflation on cost of sales and then a similar amount on labor. We mentioned mid-single digit on labor, but that includes the FAST Act. We've already taken prices back in April of this year to offset that roughly 20% increase in wages in California. And so the remaining underlying inflation on labor is kind of in that low single digit range.

**Andrew Charles**

Okay, very helpful. And then, Jack or Adam, you guys previously talked about aspirations to ramp to 10% net restaurant growth in 2025. While the guidance for 315 to 345 openings is a strong number, it was a bit light of the aspirations you guys previously laid out. So I was wondering if you could talk through what is factored into the development guidance for '25.

**Scott Boatwright**

Hey, this is Scott. I'll jump in here again. I'll let Adam come in behind. I'll tell you we will see year-over-year incremental new restaurant growth in 2025. The percentage will move closer to 10% than we've been in years past. We feel really comfortable about the number today to successfully open that many restaurants with high-quality leaders that we know we can execute and deliver with excellence. We feel really comfortable in the 8% to 10% range. Can we move closer to 10%? Perhaps. Timelines remain pretty consistent at 21 months. And we have a really robust pipeline. We have a lot of confidence in our development team and operations team to deliver great results in the years to come.

**Operator**

And our next question comes from David Tarantino with Baird.

**David Tarantino**

Hi, good afternoon. My question's on new unit performance. At least the way we calculate it this quarter, it looked a little lower than it has been in past quarters. So I was wondering if you could explain what you're seeing there and whether there's something unusual in the numbers affecting the calculations of that.

**Adam Rymer**

Yes, I'll start, and it's got definitely jump in. So nothing unusual in this quarter to really call out. We're still seeing productivity kind of in that low 80% range. And so we're still really excited about how our new units are performing.

**Scott Boatwright**

Yes, and the year two ROI is still holding pretty steadily. And we feel really good about the performance of this class of restaurants.

**David Tarantino**

Great, thank you. And then I guess my other question was about the path to get back to the high 20s restaurant margin. I think you've talked about that being something that you would have at this level of average unit volume. So I guess I know you mentioned some efficiency gains or productivity gains you're expecting but I guess as you think forward is there anything you can share with respect to the path to get there in the next few years.

### **Scott Boatwright**

David, I'll start again flip it over to Adam, but I think in general we have a lot of confidence in our ability to get back to high 20s. We think the algorithm still holds at \$4 million and 30%. There are several initiatives that are in the pipeline today whether it's supply chain initiatives or efficiencies and or technologies like equipment technologies will help us be more efficient at the restaurant level. Adam, is there anything else you would add to that?

### **Adam Rymer**

No, I would just say that within the margin algorithm, that 40% flow through on incremental transactions still very much in line. And I know in Q3, it was about an 80 basis point decline year-over-year. But you have to take into account a few different things. One, the portion investment, which again, will offset that 60 basis points through efficiencies. The avocado comparison is another 50 basis points or so. And then there's an add promo timing that added another 20 basis points. So if you take those into consideration, we would have gone from kind of a minus 80 basis points to a positive 50, which would be more in line with the transactions that we drove. So a few unique items in the quarter.

### **Operator**

Our next question today comes from Sara Senatore with Bank of America.

### **Sara Senatore**

Thank you. I guess a clarification on the comps and then a question on the throughput. So you mentioned that the comparisons, Carne asada comparisons are difficult, but I thought Carne asada was on the menu for all of the fourth quarter of last year. So just trying to understand if you're saying that you would expect traffic trends, which accelerated nicely into October, to somehow be a flow through the rest of the quarter. And whether or not, again, that any of this is seasonality, similar to what we saw in the second quarter where maybe April was very strong, but then some other kind of variability. So I wanted to make sure I was understanding the commentary on the traffic outlook for 4Q and then just a question about throughput.

### **Scott Boatwright**

Yes, Sarah, we are seeing acceleration in the business and that's even in the light of what we believe to have been a very successful Carne asada promotion, which we're rolling over at present. As well as, if you recall, we have 3% pricing that is rolling off, rolled off a couple of weeks ago. And so we feel great about the trends and I think it's a combination of an exceptional product offering, great marketing around what makes our brand unique and special as well as operational execution.

I'll tell you, Sarah, our ops teams are delivering on a level I have not seen before in my 30-year history. I couldn't be more proud of them. I think all of those things together are driving the performance that we're seeing in the business today.

### **Adam Rymer**

Yes, and then I can expand a little bit on throughput. So we saw great progress in the quarter. Like Scott mentioned, expo execution went from like 50% of our restaurants to 60% of our restaurants. So that was a nice step up. And then we saw an increase in Max 15 of about 1.2 entrees in our 15-minute period. And so we believe that, again, the fueling of not only the positive 3.3% transaction, but also that execution that Scott talked about just amazing in our restaurants to help drive that result.

### **Sara Senatore**

Right, thank you. That's great color and just on the throughput just one quick question. Is that how you think about the some of the technology of equipment you're rolling out? I mean I know you talked about efficiencies and it seems like it's that'll largely be reinvested into the portion sizing, but would you expect to see a step change in throughput as well or is that again more incremental?



**Scott Boatwright**

I do, Sara, absolutely. One of the challenges that we have in our restaurants is in the mornings our teams are so involved in cutting, slicing, dicing, chopping, and really preparing all the wonderful ingredients to be used throughout the day that oftentimes they fall behind for a host of reasons whether that's a call out or a new team member joining the team that is less talented with a knife. Those challenges are formidable and that oftentimes causes us to not be deployed effectively at peak and not able to drive great throughput. The technologies we're talking about will help enable our teams to deliver great culinary, but also get the process done in time to be deployed effectively and really drive great throughput of the business.

**Operator**

And our next question today comes from David Palmer with Evercore ISI.

**David Palmer**

Thanks. Good evening. Scott, I actually heard you on CNBC just now, just a half hour ago or so, and you were talking about some of the technology the AI enabled customized marketing that you would imagine happening and some of the bespoke type suggestions or whatnot. I'm trying to imagine what you could have been talking about there. Maybe you can maybe bring that to life for us about maybe what iterations of enhanced digital experiences and what that could mean ultimately to comps. And just to follow up on that throughput question that Sara was asking about, you mentioned something like a 1.2 improvement in entrees per 15 minutes, and we saw that you had driven, looks like your labor hours might have been roughly flat versus the traffic up 3%. Is that the type of relationship that happens from that? I mean, you talked about five more entrees per 15 minutes being the opportunity. Does that mean that you can kind of do this for another, is there a relationship there that we should think about as we model between those two things? Or maybe I'm overthinking that. Thanks.

**Scott Boatwright**

Yes, thanks David. On to the CRM and CDP, I'm sorry, CDP loyalty and personalization I spoke of earlier. And that way, Curt Garner and his team and talked through some of the early stages of what would an AI model look like to really drive greater efficiency with our loyalty members. And we're early innings and we're still experimenting with some really, really unique ideas. He has an extraordinarily talented team that continues to figure out ways to iterate and drive performance in that channel. And so it's really early days, but we think the AI model's sitting on top that's really searching out whether you're a lapsed user, an at-risk user, or an active user within the program. How do we serve up a bespoke experience, a truly bespoke experience, beyond some of the traditional format pitches that you typically get in a loyalty program, but something that's really tailored for the user, not just a checkout for ads, but also a bespoke experience. When you enter the experience, you'll see something tailored for you as an individual based on your needs, your usages over the past or your history. So we think it's a really cool play on how do we continue to drive incremental value within that platform.

### **Adam Rymer**

Yes, and then David, I can comment on the labor comments. I mean, outside of normal leverage, as we drive additional transactions, whether that be through throughput or marketing initiatives or really all of the above, labor hours, there's no kind of relationship, I think, other than the leverage that you're talking about. So if I'm understanding that question correctly.

### **David Palmer**

Yes, no, and we can, I'll ask about it more offline, but thank you.

### **Scott Boatwright**

David, I will add, one of the challenges we face, again, is getting all the work done in the AM and being deployed correctly. So it's the same amount of labor in the building, but someone's taking care of pot companions at the district and someone else is wrapping up prep on onions or peppers or bell peppers or jalapenos and not being deployed. So if we can get all that work done, put away in the right way, in every restaurant consistently every day, we can deploy all those individuals to the guest experience, which is where we'll drive the most value.

### **Operator**

And our next question comes from Christine Zhao with Goldman Sachs.

### **Christine Zhao**

Thank you. Congrats, Scott, Jack, and Adam. I was wondering if you can share any internal metrics or measures on the impact and returns of these portion size investments. So do you think these investments have been sufficient in protecting the core brand equity? And what do you need to see to kind of move on gradually? I know you mentioned that you won't expect to fully cycle until the second half, but how you see the returns on the investment so far. Thank you.

### **Scott Boatwright**

Yes, it's really hard to quantify. Here's what I will tell you is, if you think about one of the core equities of this rolling brand for the last 30 years, it's all been grounded and this idea of high quality, fresh ingredients prepared for classic culinary techniques in variety and abundance and a speed in which you can't get anywhere else, at an extraordinary price point. And so we know that portioning is a core equity of hours in the organization, and we are committed to ensuring that we give the right portion to every guest that walks into the building. We've seen strong improvement, even through our social channels and people about, it's a reverse of what we saw earlier in the year.

Around people posting big burritos, big bowls, and really excited about portioning their getting a Chipotle brand. We also see that show up in our brand tracker and other third party sources where value for the money, food for the money, and quality for the money exceed most of our peers in the category. So also internal consumer metrics that we measured through our digital channel and then restaurant experience show portioning positive scores are up 500 points over the spring. So, we know we're making great progress. We know we're delivering value for the consumer, especially in this really tight environment. And we'll continue to lean into that.

### **Operator**

And our next question is from Brian Harbour with Morgan Stanley.

### **Brian Harbour**

Yes, thanks. Good afternoon, guys. Maybe just first one. Adam, do you have any kind of thoughts on inflation next year or so far? Do you think low single digit for food and wages can kind of continue?

### **Adam Rymer**

Yes, from what we see at this point, we believe that that will continue. Labor has been kind of in that level outside of the FAST Act for quite some time now. So we have no reason to believe that'll change. And then our first initial looks at cost of sales in the next year are still going to be more of the same. But we'll update you guys if that changes in upcoming calls.

## **Brian Harbour**

Okay, thanks. Scott, maybe just on some of the new equipment and automation, how fast do you think some of that can be deployed? And I guess just kind of like philosophically, is this something where it's really -- it's mainly about kind of creating a better experience for employees? Is it something that you think kind of drives better margins over time? Or on the other hand, do you sort of, if it creates efficiencies, do you share that with the customer in the form of kind of lower pricing versus some of your competition over time? How do you kind of manage that over the longer term?

## **Scott Boatwright**

Yes, Brian, I'll tell you, we have a number of initiatives in our stage gate process today. Some short range, some mid-range, some long range. A couple of pieces that are in the short range at the stage gate that have moved their way through. The dual-sided plancha which will drive great efficiency and unlock increased capacity, I should say, in the kitchen, and also drive efficiencies as it relates to the labor model. The produce slicer, we feel really good about it, have already talked about that. We also have, we're testing a new dual backfire that will be more efficient as we cook chips daily in season chips in our restaurants. So all of these things will be items that will help the team member experience, drive efficiency, remove some of the mundane repetitive tasks in the restaurant, which will always ladder to a better guest experience. And some of them will have a margin improvement baked into the program.

So we feel really good about the long-range items around avocado and Hyphen. Recall these are companies that we've invested in that were building, co-building really bespoke pieces of technology that we know will help us down the road somewhere, but we continue to refine and iterate on how those show up in the restaurant. And so you'll see those items, I think it's important to know, go into restaurants, we'll test and learn, bring it out of the restaurant, refine the piece of equipment, put it back in. But we feel really good about what the value they can bring long term for the organization. Hopefully that answers your question, Brian.

## **Operator**

And our next question comes from John Ivankoe with JPMorgan.

**John Ivankoe**

Hi. Thank you, two, if I may. The first question is on your investment in Brassica, in the Mediterranean and the Columbus area. Should we read anything in Chipotle, maybe extending itself a little bit more in terms of being a platform company? I mean, was that a one-off type of transaction, or could we expect a series of interesting businesses like that, that could eventually fit within the Food with Integrity broader theme?

**Scott Boatwright**

That was an investment we made from our Chipotle Next fund, and we felt really good about it. So we were, we've been looking around the industry for concepts, emerging concepts that are aligned with our food ethos and how we think food should be eaten that were aligned to our business model and practices that we could co-invest with. Now, keep in mind, this is a passive investment and a minority investment and will not be a distraction on the Chipotle organization. And so we see them as they think about growth down the road. We'll give them some guidance and counsel on development and how they grow, but it won't be the distraction of this organization, and it could be a growth platform somewhere 10, 15 years down the road that adds a layer of growth for the business.

**John Ivankoe**

Okay. Sounds good. Thank you. And secondly, we spent a good amount of time today talking about prep, prep labor, complexity, and to some extent the repetitiveness around it, stores that need to be staffed at 6 or 7 in the morning. I've asked a question before, and sometimes I don't think I've asked it correctly. Is there an opportunity over time to maybe have certain prep stores that are densely clustered within a market that can maybe take care of some prep work for stores that are in their immediate surroundings. I'm not asking for a central kitchen per se, as we would normally define those terms on an industry basis, but maybe one store that takes care of prep for five or 10 stores around it that could make it easier to run all stores within a specific trade area. Is that something that you're considering over time?

**Scott Boatwright**

Hey, it's a great question, and it's something we have looked at in the past. Now, it comes with its own set of complexities and inherent risks, and largely the opportunity is how do we create that experience? We can be consistent with regard to how we prep, but then distributing and keeping that food safe during the distribution process from the central location out to, call it, a spoken hub. It's just challenging. And when we looked at it a few years back, it was cost prohibitive as well. And so right now, we feel like the working model we have is the best way to Chipotle to deliver our unique experience, but that's not to say we couldn't look at something different down the road.

## **Operator**

And our next question comes from Lauren Silberman at Deutsche Bank.

## **Lauren Silberman**

Great. Thanks so much. I just wanted to ask about the consumer, some of the behavior you're seeing across different cohorts, the low, middle income, high income consumer, any differences that you're seeing across regions at all?

## **Scott Boatwright**

Yes. I'll start, and I'll flip it over to Adam here. We're still seeing strength across all income cohorts, even in this competitive environment, which gives us the belief that we are still delivering extraordinary value for the consumer. You can get all the core equities that I talked about earlier, and the chicken burrito on average is still under \$10, which we believe is still a 15% to 30% discount compared to our peer group. And so we'll continue to lead into that as we move forward. Again, all income cohorts, even low income, are showing positive signs of strength.

## **Adam Rymer**

Yes. And I would just add, across the board, too, in terms of our regions, I mean, really all performing very, very well. We called out California on the last call, of course, after the FAST Act price increase there. We did see some weakness overall in our sales in California after the FAST Act, but we sell that across the entire industry, so it seemed to be more of a macro based, or really just a reaction to the inflation in restaurants in California. So that has kind of continued on into Q3, but outside of that, it's really been pretty broad based on our strength.

## **Lauren Silberman**

Great. Very helpful. And then just a follow up on the 4Q guide, you talked about traffic modestly accelerating, have price rolling off. Are you assuming traffic decelerates as we move through the quarter and just a level set? Are you thinking 4.5% to 5% in terms of the comp guide for the quarter? Thank you.

**Adam Rymer**

Yes, and so like I said earlier, September was kind of a mid-7% comp of which trans were kind of in that low 4% range. That trans comp has continued into October. And at this point our assumption is that will continue into Q4. And then in the prepared comments I talked about how the price impact would be just above 1%. And there'll be a slight mixed drag. So I believe check will be somewhere around 1%. So I think you're thinking about it the right way if you get kind of into that mid-5% range.

**Operator**

And our next question today comes from Chris O'Cull with Stifel.

**Chris O'Cull**

Thank you. First, Scott, I wanted to clarify the level of improvement in the number of entrees per 15 minutes that you believe is ultimately possible after implementing the throughput and issues that are planned for the next six to nine months or so.

**Scott Boatwright**

Yes, I think it's possible for us to get back to where we were in the heyday of Chipotle in the low 30s, and today we're trending around the mid-20s. So you have to include digital in that number. The digital entrees are coming through the digital channel as well, but if you think about just the true business, the in-restaurant experience, that is, we think there's still pretty significant upsides.

**Chris O'Cull**

Okay, and then just one other question. I was hoping you could provide a bit more color on the performance of the Smoked Brisket. In particular, has the repeat usage been as high this time as it was the last time it was promoted?

**Adam Rymer**

Yes, so I'll start, and then, Scott, you can jump in. And so Brisket is performing really well, especially compared to Carne asada. It's kind of in that mid-teens incident in terms of a percent of entrees. It's driving spend. It's driving additional transactions, comping really well over Carne asada. And then in terms of repeat usage, I mean, I know it's driving amazing new customers to the brand, as well as getting people in and increasing their frequency. And then what's beauty, the beauty of all of these LTOs is they come in, they try Brisket, and then we see on the second or third businesses, sometimes they go back to Brisket, sometimes they go to chicken, steak, or other items. So really seeing some great trends there.

### **Scott Boatwright**

Yes, it's not often that you find an LTO that you can put in the marketplace that's going to drive check, transactions, and margin. This is one of them. And so we're super excited about the product. We love how it's performing.

### **Operator**

And our next question today comes from Brian Bittner in Oppenheimer.

### **Brian Bittner**

Hey, thank you. And congratulations to everybody on their new roles. As it relates to margins, specifically the COGS margin line, you saw the deleverage this quarter of about 90 basis points, and obviously that was expected. But can you bridge that deleverage broken down between the actual portion investments that you deployed versus underlying dynamics, like food cost inflation for us, so we can understand bridge little bit better. And I totally understand that a price action doesn't seem necessarily on the table for 4Q, but how do you want us all thinking about the potential base case for pricing as we go into 2025? Because I think that is going to be a debate on investors' minds moving forward.

### **Adam Rymer**



Yes. So like I talked about earlier, so within cost of sales, that portion investment of about 60 basis points, that's fully in that cost of sales number. And then the avocado comparison of being about another 50 basis points or so of just it being abnormally low in the prior year is also in there as well. And so once you peel back those two layers and then the fact that Brisket, which like Scott talked about, it drives margin overall. However, it does increase our cost of sales, I think roughly 40 or 50 basis points in a quarter. And so that's another layer that's basically temporary hit to cost of sales. However, because of the price point of Brisket, you leverage on labor and other operating and things like that. And so once you peel back the layers, look at the underlying inflation of cost of sales, labor, and other operating expense, that menu price impact that we would need to offset that and maintain our margins would be probably somewhere in that like 2% to 3% range.

### **Operator**

And our next question today comes from Sharon Zackfia with William Blair.

### **Sharon Zackfia**

Hi, good afternoon. It sounds like things are on a really good path to Alshaya so far. And I'm curious just given what seems to be a good start there, are you thinking about other kind of shortlisted regions that you'd like to find licensees to operate Chipotle? And are you fully committed to continuing to own your locations in France, Germany, and the UK?

### **Scott Boatwright**

Yes, thank you. Here's what I'll tell you is we're really pleased with our partnership with Alshaya. And I said on the call, we're one of the best performing brands in Alshaya's portfolio. We plan pretty aggressive growth with Alshaya over the next few years. We will strategically look at other like partners around the globe that we could potentially partner with to expand, whether that's Latin America or APAC or otherwise, those opportunities, I am sure emerge over the coming months. And we'll look at those very closely on what the market entry would look like for us, how we think about those partnerships. We will continue to own our presence in Western Europe as well as North America. We think that's the greatest way to drive value for our brand and for our shareholders.

### **Sharon Zackfia**

Thanks for that. And then there's a question on Hyphen. I know it's early days and you've only have it, I think, in one location. But is that helping keeping kind of the aces in their places, having that tool in the restaurant?

### **Scott Boatwright**

It is. More importantly, it will allow us to unlock demand in that channel. And so we think, we don't think. We know that the table with one individual, the output is far greater than one or two individuals on the table. And so the goal here is 60% of our entrees are either bowls or salads. And so the table is taking care of all of that lifting, heavy lifting, if you will. And then the operator at the table can focus on burritos and tacos. We think it's a pretty magnificent lift in overall demand. And we're driving improved performance, whether it's plating or accuracy for the consumer.

### **Operator**

And our final question today will come from Danilo Gargiulo with Bernstein.

### **Danilo Gargiulo**

Thank you. And once again, congrats everybody, for your new and expanded roles. Scott, clearly your message has been that of continuity with the strategy at Chipotle. So if your appointment was to become permanent, what would you like to be known for and which opportunities for acceleration of the current strategy do you see more likely for Chipotle? I mean, it sounds like you're more open to international growth as a natural evolution, but maybe there is more areas that you are going deeper on. Thank you.

### **Scott Boatwright**

Yes, terrific question. It is my endeavor to keep our organization, this leadership team, and all the 125,000 folks in our field organization clearly focused on our five strategic priorities that have served our brand for the last many years. Sure, there'll be some iteration or modification in the years to come, but we feel very confident those five key strategies will continue to drive extraordinary performance for this organization. It'll also, two other things I think I'd like to point out is I'd like to continue to move our organization to a more connected organization to the consumer through our restaurant teams. And so, I think that's an important note, right. I mean, everyone in the organization, I said this in the prepared remarks, is either serving a Chipotle guest or serving someone who is. And when you have that kind of power and focus in an organization, extraordinary things can happen. And the last thing I'd leave you with is this brand has had extraordinary success here in North America. We have our sites clearly aligned on 7,000 restaurants, but I also want to give an eye towards how do we continue to push Chipotle to be more of an iconic global brand? And so, that's what you'll see probably in the coming years and coming months. And that's probably it.

### **Danilo Gargiulo**

Okay, great. And if I may, just double-clicking on the international expansion, given your continued successes in Europe, if you were to borrow from your experience in Canada, how many quarters of the way do you think we are from Chipotle growing units in Europe? And what is still pending before the performance in Europe can really close the full gap versus Canada or Europe? Thank you.

### **Scott Boatwright**

Yes, so if you look back at what happened historically when we worked on the turnaround in Canada, it started about six years ago, and of course appointing a new leader in Canada and Anat Davidzon was critical and really the fulcrum to leverage the business in a more full way, whether it's supply chain efficiencies, operational efficiencies or marketing, demand driven marketing. She's done an amazing job in that country getting margins to US, comparable to US margins and we're growing at 25 to 35% in country today. The reason we put Anat in Western Europe is to probably, not probably, to look for a similar outcome and she's already making incredible progress aligning the co-native US standards, getting operational efficiencies and processes in place around cost of labor, cost of food. And so we feel really good about the progress. To put a time to it, I couldn't really give you a timetable. Here's what I'm telling you is we know we could have hundreds of restaurants in the markets in which we operate today and potentially thousands in Western Europe over time. So that's what I leave you with.

## Operator

Thank you. This concludes our question and answer session. I'd like to turn the conference back over to the company for the closing remarks.

## Scott Boatwright

Thank you. And I just want to say thank you to everyone for joining the call today. And I want to ensure I really believe that I'm incredibly proud of this entire Chipotle family for driving another, what I believe to be, incredible quarter around transaction trends and accelerating momentum. Our culture, brand, and value proposition have never been stronger and we have a lot of exciting initiatives in the pipeline that will continue to grow and strengthen our great company and our brand for many years to come. We look forward to speaking to all of you in our fourth quarter earnings call in February. Thank you so much.

## Operator

Thank you. This concludes today's conference call. We thank you all for attending today's presentation. You may now disconnect your lines. And have a wonderful day.

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