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Chipotle Mexican Grill, Inc. (CMG) Q3 2025 Earnings Call Transcript

Oct. 29, 2025 8:06 PM ET | **Chipotle Mexican Grill, Inc. (CMG) Stock**, **CMGS:CA Stock**

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Q3: 2025-10-29 Earnings Summary

Insights



EPS of \$0.29 **beats by \$0.00** | Revenue of \$3.00B (7.51% Y/Y) **misses by \$19.11M**

Chipotle Mexican Grill, Inc. (**CMG**) Q3 2025 Earnings Call October 29, 2025 4:30 PM EDT

Company Participants

Cynthia Olsen - Head of Investor Relations & Strategy

Scott Boatwright - CEO & Director

Adam Rymer - Chief Financial Officer

Conference Call Participants

Zachary Ogden - TD Cowen, Research Division

Lauren Silberman - Deutsche Bank AG, Research Division

Sharon Zackfia - William Blair & Company L.L.C., Research Division

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

David Palmer - Evercore ISI Institutional Equities, Research Division

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

Sara Senatore - BofA Securities, Research Division

Dennis Geiger - UBS Investment Bank, Research Division

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

Brian Bittner - Oppenheimer & Co. Inc., Research Division

Anisha Datt - Barclays Bank PLC, Research Division

Presentation

Operator

Good day, and welcome to the Chipotle Mexican Grill Third Quarter 2025 Results Conference Call. [Operator Instructions] Please note, this event is being recorded.

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

Cynthia Olsen

Head of Investor Relations & Strategy

Hello, everyone, and welcome to our third quarter fiscal 2025 earnings call. By now, you should have access to our earnings press release. If not, it may be found on our Investor Relations website at ir.chipotle.com.

I will begin by reminding you that certain statements and projections made in this presentation about our future business and financial results constitute forward-looking statements. These statements are based on management's current business and market expectations, and our actual results could differ materially from those projected in the forward-looking statements. Please see the risk factors contained in our annual report on Form 10-K and in our Form 10-Qs for a discussion of risks that may cause our actual results to vary from these forward-looking statements. Our discussion today will include non-GAAP financial measures. A reconciliation to GAAP measures can be found via the link included on the presentation page within the Investor Relations section of our website.

We will start today's call with prepared remarks from Scott Boatwright, Chief Executive Officer; and Adam Rymer, Chief Financial Officer, after which we will take your questions. Our entire executive leadership team is available during the Q&A session.

With that, I will turn it over to Scott.

Scott Boatwright

CEO & Director

Thanks, Cindy, and good afternoon, everyone. Our third quarter performance fell short of our expectations due to persistent macroeconomic pressures. However, we are moving quickly with a clear actionable plan to accelerate transaction growth.

Let me first review our third quarter results. Sales grew 7.5% to reach \$3 billion including a 0.3% increase in comp. Digital sales were 36.7% of total sales. Restaurant level margin was 24.5%, a decline of 100 basis points year-over-year. Adjusted diluted EPS was \$0.29, an increase of 7% over last year. And we opened 84 new restaurants, including 64 Chipotlane.

Now I want to spend a minute addressing a few of the consumer headwinds we have experienced. Earlier this year, as consumer sentiment declined sharply, we saw a broad-based pullback in frequency across all income cohorts. Since then, the gap has widened, with low- to middle-income guests further reducing frequency. We believe that this guest with household income below \$100,000 represents about 40% of our total sales. And based on our data is dining out less often due to concerns about economy and inflation.

A particularly challenged cohort is the 25- to 35-year-old age group. We believe that this trend is not unique to Chipotle and is occurring across all restaurants as well as many discretionary categories. This group is facing several headwinds including unemployment, increased student loan repayment and slower real wage growth. We tend to skew younger and slightly over-indexed to this group relative to the broader restaurant industry.

Finally, the promotional environment has intensified with value as a price point and menu innovation escalating throughout the year. Despite these headwinds, Chipotle maintained stable wallet share in the third quarter, but we aim to get back to consistent share gains. While value as a price point is not and will not be a Chipotle strategy, we are using this challenging period to strengthen our consumer flywheel by improving execution, enhancing how we communicate value and accelerating menu and digital innovation. I will give you more specifics on our initiatives to drive transactions in just a moment.

But first, I will review our 5 key strategies that will help us win today and grow our future and these include: running successful restaurants with a people accountable culture that provides great food with integrity while delivering exceptional in-restaurant and digital experiences; sustaining world-class people leadership by developing and retaining top talent at every level; making the brand visible, relevant and love to acquire new guests and improve overall guest engagement; amplifying technology and innovation to drive growth and productivity at our restaurants, support centers and in our supply chain; and expanding access and convenience by accelerating new restaurant openings in North America and internationally.

I will start with a combination of operations and world-class people leadership. We recently held our team director conference with our leaders who each oversee a subregion or region of the country. What is incredible about being in a room with these 80 leaders is that 85% were promoted internally and the average tenure is nearly 15 years. Additionally, 29 started as crew members and grew within the organization. So this group understands that during challenging times experience in the restaurant is more important than ever and improving it will build loyalty and drive higher frequency in the future.

During the meeting, we discussed that Chipotle has experienced slowing transaction trends several times since going public. During each period, we doubled down on getting the fundamentals right in our restaurants, which reinforces and strengthens our value proposition through execution, not discounts and this enabled Chipotle to exit each period stronger with accelerating transaction trends that followed.

As a reminder, our value proposition includes food made fresh with the highest quality ingredients, prepared using classic culinary techniques, served in generous portions with reliable accuracy and fast, friendly service. Currently, all of this is delivered at a price point that is 20% to 30% below our peers. This gap has widened over the last few years as our pricing has consistently trailed the broader restaurant industry. In fact, our pricing has tracked more closely with food at home and food away from home. Bottom line, our value proposition has never been stronger.

Now it is important that we deliver this exceptional experience consistently across 4,000 restaurants every day for every guest. With this in mind, we renewed our problem detection survey. While we improved in key areas like dining room cleanliness, friendliness and portion sizes, we have room to be better. For example, in my visits to our restaurants, I still see inconsistencies in delivering Chipotle's standard of excellence including digital order accuracy, ingredient availability and the cleanliness of our dining room and drink stations. To address this, we are reemphasizing standards with a system-wide retraining and are resetting quarterly bonus incentives to better align with digital order accuracy and the guest experience.

Additionally, we are upgrading our restaurants with a high-efficiency equipment package, or HEAP, as we call it, to improve the team experience and throughput, while maintaining or improving upon our high-quality culinary. As a reminder, these include the dual-sided plancha, the 3-pan rice cooker and the high-capacity fryer. While throughput reviews continue to show progress on expo and the 4 pillars, we believe the rollout of HEAP will drive the next step function change in throughput as it simplifies prep, enabling our teams to be properly deployed at peak periods more consistently.

In restaurants where our high-efficiency equipment package is live, feedback from the field has been positive. Our teams report more consistent, higher-quality culinary execution, more efficient prep and an overall improved team experience. For example, the new plancha cooks chicken and steak to perfection in less than half the time, expanding morning capacity and helping us to keep up through peak. In these restaurants, we are seeing the taste of food and guest satisfaction scores improve in addition to a yield savings and greater labor efficiency. We remain on track with the rollout of HEAP across the country, which we anticipate will take around 3 years.

Shifting to marketing and menu innovation. In the third quarter, we accelerated our marketing spend to communicate the brand's extraordinary value through menu innovation, our rewards platform and high engagement promotions like the college football BOGO and Chipotle IQ. Based on our data, these initiatives successfully drove transactions and deepened guest engagement, helping to offset some of the incremental consumer headwinds in August and September. This response reinforces our focus on transaction-led growth going forward.

I will start with menu innovation. Through our research, we found that over 90% of Gen Z consumers say they would visit a restaurant just for a new sauce. Adobo Ranch proved this to be true and was our first new dip in 5 years that helped acquire new guests and drive incremental transactions. Earlier this month, we rolled out Red Chimichurri, which pairs exceptionally well with our limited time offer, Carne Asada. The sauce is prepared with only real ingredients, no artificial preservatives, colors or flavors and made fresh in our restaurants every day. As we rolled it out, it drove a step-up in transactions and is around low double-digit incidents. It also drove an acceleration in trial of Carne Asada.

Our culinary team is working hard to meaningfully accelerate our pace of innovation for 2026 to deliver new flavor experiences that are on trend, on brand and operationally friendly to execute. In addition to sides and dips, our innovation will include 3 to 4 limited time protein offers. Our past cadence of 2 offers a year has helped to drive a step change in transactions. In fact, we see in our data that new and existing guests who purchase LTOs increase frequency and spend over the following year compared to guests who do not purchase an LTO. Adding 1 or 2 more will keep Chipotle more visible, relevant and loved throughout the year.

Moving forward, we also plan to build awareness around new occasions that we believe could scale and be sizable pieces of our business over time. A few weeks ago, we launched a 60 restaurant catering pilot in Chicago. The test includes the high-efficiency equipment package to expedite prep and increase capacity in addition to a new technology stack to better manage orders. We also plan to make a full marketing push to drive demand into catering, including third-party platforms. As a reminder, our goal is to scale the catering business within our restaurants without disrupting the core operations. With catering at 1% to 2% of sales versus our peers at 5% to 10%, it could represent a meaningful opportunity in the future.

And last month, we rolled out Build Your Own Chipotle, our version of a family or group occasion with the ability to build custom bowls and tacos for a party of 4 to 6. Early guest feedback has been positive, and we are seeing little cannibalization as is bringing new guests and driving higher frequency. We believe the family or group occasion is another big opportunity over time as groups of 4 or more only make up about 2% of transactions.

Finally, we are elevating how we communicate Chipotle's value. Despite our extraordinary value proposition, we are seeing examples where this is not reflected in consumer perception. We are planning to launch a new creative campaign that spotlights what sets Chipotle apart, including clean ingredients freshly prepped in our restaurants each day using classic culinary techniques served in abundance at speed and price point you can't get anywhere else. You will see new ads that address these aspects of our value proposition in really creative ways, rolling out over the coming quarter and into 2026.

Now turning to digital. We believe we have an opportunity to create more engaging experiences that drive consumers into the rewards funnel, increasing our active members and resulting in higher frequency and spend. We learned from Summer of Extras that gamification is a great way to drive frequency even with our most infrequent guests. Combination of Summer of Extras as well as incremental promotions like Chipotle IQ and Freepotle resulted in loyalty comps accelerating versus non-loyalty comps over the last several months.

Additionally, our College Rewards program, or Chipotle U, is off to a good start as enrollees are increasing their spend after joining the program. We will continue to build awareness around Chipotle U and believe the program will be a great way to increase engagement throughout the year with this important cohort. Going forward, we are planning to make some significant additions to the rewards program to drive an increase in active members and improve engagement. We'll have more to share in the coming quarters.

Now moving to expanding access. Over the past several years, we have made tremendous progress scaling our new restaurant openings from 140 openings in 2019 to an expected 315 to 345 this year, all while delivering industry-leading economics and returns. On average, that is nearly one new restaurant opening every day. In North America, our new restaurant openings remain strong with consistent new restaurant productivity around 80% and year 2 cash-on-cash returns around 60%. We remain confident in our ability to reach 7,000 restaurants long term.

In Europe, we have made great strides in culinary and operational execution, and we continue to grow comps, restaurant margins and cash-on-cash returns. Next year, we will begin to expand new restaurant openings in the region, and we continue to believe Europe is a big opportunity for Chipotle over time. In the Middle East, we opened 2 partner-operated restaurants with the Alshaya Group bringing our total to 7 restaurants including our first in Qatar. Additionally, this week we opened our first Chipotlane outside of North America in Kuwait and we will open 2 additional partner-operated restaurants in the Middle East next month. The familiarity, excitement and fandom for the brand delivered at U.S. standards has been strong, reflecting an opening volumes that rival the best we have seen in the U.S. and Canada.

And in September, we announced our first joint venture partnership in Asia with SPC, with restaurants in South Korea and Singapore anticipated to open in 2026. South Korea is a trendsetter for pop culture across Asia with growing influence in the United States and the response to our announcement has been exceptionally strong. With high brand familiarity in both markets, a passion for exceptional culinary experiences and a rapidly evolving dining out landscape, these are ideal entry points for Chipotle in the region. In 2026, we anticipate opening between 350 and 370 new restaurants. Addition to growth in North America, this will include 10 to 15 new partner-operated restaurants in the Middle East, South Korea, Singapore and Mexico and 1 to 2 new company-owned restaurants in Europe.

To close, I want to reiterate that our brand and value proposition are in a great place, and we are leveraging this challenging time to refocus and provide clarity for our organization. Through our rigorous ground-up review of the business, we have identified ways to accelerate our flywheel of operations, marketing and digital that will further strengthen and grow this great brand. In operations, we are elevating hospitality and throughput. In marketing, we are sharpening our message to highlight our extraordinary culinary and strong value proposition while expanding menu innovation and growing new occasions. And in digital, we are creating more engaging personal experiences that deepen our guest loyalty and grows our rewards platform.

We are also working to define the next evolution of our long-term strategy which we are calling Recipe for Growth, and we'll have more to share in the coming quarters. As we execute this plan, we are confident that we will return to consistent, positive transaction growth, putting us on a path to surpass \$4 million in AUVs over time, expand to 7,000 restaurants in North America long term and accelerate international expansion as we make our way to becoming a global iconic brand.

With that, I will turn it over to Adam.

Adam Rymer

Chief Financial Officer

Thanks, Scott, and good afternoon, everyone. Sales in the third quarter grew 7% year-over-year to reach \$3 billion including a comparable sales increase of 0.3%. Restaurant level margin of 24.5% declined about 100 basis points compared to last year. Earnings per share grew 4% year-over-year to \$0.29 on a GAAP basis and grew 7% to \$0.29 on a non-GAAP basis adjusted for unusual items. During the quarter, we experienced another step down in our underlying trend. While we did see encouraging results as we accelerated our marketing spend and rolled out Carne Asada and Red Chimichurri, our underlying trends remain challenged throughout the quarter and into October.

Taking this into consideration as well as the ongoing macro uncertainty, we now anticipate full year comps to decline in the low single-digit range. As a reminder, we will be rolling off 2 points of price in early December. Additionally, inflation is accelerating into the mid-single-digit range primarily due to tariffs and rising beef costs and we anticipate it will remain in this range in 2026. We do not plan to fully offset this incremental inflation in the near term. And while this will pressure margins, we think it's the right thing to do to continue to provide extraordinary value to our guests during this challenging economic backdrop.

I will now go through the key P&L line items beginning with cost of sales. Cost of sales in the quarter were 30%, a decrease of about 60 basis points from last year. The benefit of our menu price increase from last year and cost of sales efficiencies more than offset inflation, primarily in beef and chicken as well as the impact of tariffs. Tariffs impacted the quarter by about 30 basis points. We continue to estimate that we will see about a 50 basis point ongoing impact from tariffs, which does not include any impact from Mexican or Canadian imports that fall under the USMCA exemption.

For Q4, we anticipate cost of sales to be in the high 30% range as we have a full quarter of our premium Carne Asada limited time offer as well as higher beef prices. Labor costs for the quarter were 25.2%, an increase of about 30 basis points from last year as higher pricing was more than offset by lower volumes and wage inflation. For Q4, we expect our labor costs to be in the high 25% range with wage inflation in the low single-digit range. Other operating costs for the quarter were 15%, an increase of about 120 basis points from last year, primarily driven by higher marketing costs and lower sales volumes.

Marketing costs were 3% of sales in Q3, an increase of about 90 basis points from last year. As Scott mentioned, we accelerated our marketing spend in the quarter which helped to offset some of the slowing underlying trends we experienced in August and September. We expect our marketing costs to remain around 3% of sales for Q4 and for the full year. For Q4, we anticipate other operating costs to be about 15%.

G&A for the quarter was \$147 million on a GAAP basis or \$139 million on a non-GAAP basis, excluding about \$8 million related to retention equity awards granted to key executives in August of 2024. G&A also includes \$137 million in underlying G&A, \$8 million related to noncash stock compensation, which included a reduction in our performance share accruals, \$1 million related to payroll taxes on equity vesting, \$1 million related to our upcoming All Manager Conference which will be held in Q1 of next year, offset by \$8 million in lower bonus accruals.

We expect G&A in the fourth quarter to be around \$161 million on a non-GAAP basis, which will include \$145 million in underlying G&A as we make investments in people and technology to support our ongoing growth, around \$26 million in noncash stock compensation, although this amount could move up or down based on our actual performance, around \$2 million related to our upcoming All Manager Conference offset by \$12 million in lower bonus accruals.

Depreciation for the quarter was \$91 million or 3% of sales. For 2025, we expect it to remain around 3% of sales. Our effective tax rate for Q3 was 23.1% for GAAP and 22.8% for non-GAAP. Our effective tax rate benefited from lower nondeductible expenses. For fiscal 2025, we estimate our underlying effective tax rate will be in the 25% to 27% range, though it may vary based on discrete items. Our balance sheet remains strong as we ended the quarter with \$1.8 billion in cash, restricted cash and investments with no debt.

During the third quarter, we purchased \$687 million of our stock at an average price of \$42.39, bringing our year-to-date total to a record \$1.67 billion at an average price of \$47.74. During the quarter, the Board authorized an additional \$500 million to our share repurchase authorization. And at the end of the quarter, we had \$652 million remaining.

To close, I want to thank all of our restaurant and restaurant support teams for their hard work and commitment to Chipotle. In times like these, our strong economic model gives us the flexibility to invest in our brand, our guest experience and our value proposition. And as we have seen in the past, this will further strengthen Chipotle and allow us to emerge from this period of consumer uncertainty even stronger than when we entered it. We are confident in our path forward, and we are ready to take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] The first question today comes from Andrew Charles with TD Cowen.

Zachary Ogden

TD Cowen, Research Division

This is Zach Ogden on for Andrew. So Adam, last quarter you brought up the idea of changing the pricing strategy from one per year to more of a learn and go approach. So one, is that the strategy for 2026? And then two, is this a change in philosophy that you're prioritizing traffic growth over margin expansion? Or is, say, the high 20s restaurant margin at \$4 million AUV still feasible and I guess assuming normalized inflation?

Adam Rymer

Chief Financial Officer

Yes. So as you know, we're currently running price of about 2% from the increase that we took in December of last year. And that's been enough to really offset the underlying inflation that we've seen so far this year. And that compares to the 4% that the industry is running as a whole. And so it's been really great how we've been able to offset underlying inflation while also increasing our value gap. And that's something that we've done historically, and we want to continue to do in the future.

But as we look into next year, as we mentioned in our prepared comments, inflation is stepping up into that mid-single-digit range. So given the elevated inflation and the ongoing consumer uncertainty, we're going to take a slow and measured approach to pricing in 2026. And I think that's kind of what you're getting at is we're going to kind of take it over time rather than all at once.

And at this point, we don't plan to fully offset inflation in 2026. And so this will pressure margins in the near term, but we believe it's the right thing to do for our guests in this environment and it'll further increase our value proposition and will create a temporary dislocation, but we believe that we can get that back over time.

Scott Boatwright

CEO & Director

I believe, Zach, you also had a question, a follow-up question about our long-term algorithm that we've talked about quite extensively. It will always be our endeavor, regardless of what's going on with the economy, to expand our margins responsibly based on the flow-through historically we have stated which is around 40%.

Zachary Ogden

TD Cowen, Research Division

Got it. And Scott, the last couple calls you've expressed confidence in returning to mid-single-digit same-store sales. So is that still the case for 2026? Or I guess what would be a reasonable time to get back there?

Scott Boatwright

CEO & Director

Yes, I believe that it is. It'll all depend on what's going on in the consumer backdrop. The economists we have spoken to over the last several quarters, say, Q4, Q1 likely to be the toughest for the consumer, specifically the cohort under \$100,000 annually, which I talked about in prepared remarks and then some easing in Q2. So I don't have a crystal ball, but here's what I will tell you. Our aim is to continue to be a transaction-led growth company, full stop. And we're confident in our ability to get back there through the acceleration of the consumer flywheel I talk about often, operations, digital and marketing.

Operator

The next question comes from Lauren Silberman with Deutsche Bank.

Lauren Silberman

Deutsche Bank AG, Research Division

If I could just start on the comp. I guess it's a fairly wide range of outcomes for Q4 with the down low single digit for the year. Can you just help level set where you exited the quarter and what you're seeing from a traffic perspective?

Adam Rymer

Chief Financial Officer

Yes. Sure, Lauren. I'll start off on this one. So towards the end of July and into August, we experienced a step down like we talked about in our prepared comments. And that was somewhere around the 200 to 300 basis point range. And then as Scott mentioned in his prepared comments, we increased spend on our media as well as our promotions that helped offset some of the softness that we were seeing specifically in August and September. And we also saw a strong reaction when we launched Carne Asada and even Red Chimichurri in early October.

However, during this whole time, the underlying transaction trend remained under pressure and in recent weeks it softened even further. So when you account for this recent trend as well as the ongoing uncertainty in the economy, the way that we're kind of looking at Q4 is really with a much more conservative view. And right now, at this point, we expect comps in Q4 to decline somewhere in the low to mid-single-digit range.

Lauren Silberman

Deutsche Bank AG, Research Division

Okay. When you look at what's going on with traffic, where are the losses really coming from? Understand some of the cohort commentary, but do you think you're also losing customers that are trading down or out of the space, losing frequency of transactions with your more loyal customers?

Scott Boatwright

CEO & Director

Yes, Lauren, I'll tell you, based on the data that we have, we're seeing that significant pullback from that cohort under \$100,000 annually. And also that age group, 25 to 34, which we over-indexed to is about 25% of our total sales, has pulled back meaningfully. Based on our data, both purchased and in-house data, it shows that we are gaining market share, but that cohort so meaning we're not losing them to the competition, we're losing them to grocery and food at home. And so that consumer is under pressure. It is one of our core consumer cohorts. And so they feel the pinch, we feel the pullback from them as well.

We were able to reengage them through the Summer of Extras promotion that we ran both through our loyalty rewards campaign as well as some digital initiatives that we did around Chipotle IQ as well as Freepotle. So we know with the right activations, we can get that consumer back into our business and we're going to leverage what we've learned from Summer of Extras to really inform the 2026 digital strategy.

Operator

The next question comes from Sharon Zackfia with William Blair.

Sharon Zackfia

William Blair & Company L.L.C., Research Division

I wanted to delve into the kind of HEAP throughput that you're seeing at the pilot locations. Can you talk about how meaningful that has been? I think you referred to it potentially yielding a step function and throughput and I'm curious as to what the actual results are.

Scott Boatwright

CEO & Director

Yes. So we're still early innings, unfortunately. We're in 175 restaurants today, another 100 this quarter, and then we'll start with all new restaurant openings, as I said on the previous call here, going forward. And so what gives us a lot of optimism around the project is we're already seeing labor efficiency gains, we're seeing better culinary, better food scores, better guest experience scores, we're seeing better delivery of distribution of labor during peak hours, which is leading to improved throughput for those restaurants. I can't get into specifics at present, but all signs are pointing up and to the right.

Sharon Zackfia

William Blair & Company L.L.C., Research Division

And a follow-up on the price question, is it fair to assume that you're going to exit the year with no price at this point?

Adam Rymer

Chief Financial Officer

I'd say, at this point, we're going to look maybe later in the quarter at starting to understand some of the impacts of price. So you might see us test in a small number of restaurants but expect the 2 points of price that we're running right now to fall off in December. So that's kind of how we're looking at it towards the end, but it's still kind of fluid at this...

Operator

The next question comes from Danilo Gargiulo with Bernstein.

Danilo Gargiulo

Sanford C. Bernstein & Co., LLC., Research Division

Scott, it seems that the consumer environment is deteriorating, and the many marketing efforts are not fully offsetting this traffic retraction. So while the LTO dips and marketing uplift may be helping traffic in '26, can you help us understand and maybe expand on the operational actions that you are taking in the near term to be inflecting the traffic regardless of the macro actions?

Scott Boatwright

CEO & Director

Yes. So thank you for the question, Danilo. I'll tell you, we ran a problem detection study. We actually renewed our problem detection study over the last quarter, which highlighted some key operational concerns that we are addressing as we speak. Jason Kidd, as you know, is probably just over 120 days in as Chief Operating Officer and I'll tell you he has quickly gathered the team, rallied the teams. They truly respect his leadership and his approach. And the problems that we have identified, he and the teams are actively working against solutions for those problems as well as modifying our quarterly bonus program, incentives target specifically for our restaurant teams to tie to the outcomes that we want to see going forward.

And so it's all grounded in this new strategy that I referenced very quickly at the end of the call around Recipe for Growth. And it's a 3-pronged strategy. Of course, it includes operations, digital and marketing. So from an operations perspective, we're digging in on what are the main friction points for the consumer today because they're different than they were just a year ago.

It is my belief that the consumer that we -- that is in the market today is more discerning. They're looking for value and not necessarily value as a price point, but value as a benefit over price, and I talk about that a lot. And so we have to over deliver on those expectations in this consumer environment, and I promise you my operations team under Jason's leadership are heading in the right direction, focused on the right activities and continue to strengthen our experience in restaurants.

One of the other challenges that we see and some of the learnings we pulled out of Summer of Extras is that there's more work to be done in really reimagining our loyalty program and how we show up in digital commerce. And so I won't get into the nuts and bolts of that but just know that there is a lot of work behind the scenes that is going into how do we reimagine rewards for the Chipotle customer going forward. Most importantly, targeting those consumers that aren't already in the funnel to get more consumers into the funnel because we know once they're in our funnel, we can drive transaction and really drive demand.

And then the last leg would be around this idea of better communicating our value proposition and our uniqueness as a brand. And so Chris and team are working on what that looks like today. So we talked briefly on the prepared remarks about new ad campaigns and new ads in general that will do just that. I'd also add one extra spin on that or rev on that is we're rapidly increasing the pace of innovation as it relates to culinary innovation. And so you will see more in 2026 because we know new news is really resonating with core consumers today.

Danilo Gargiulo

Sanford C. Bernstein & Co., LLC., Research Division

Excellent. And maybe, Adam, I was wondering if you can update us on the ROIC of incremental units being built. Specifically, if today, you're seeing more cannibalization on your existing stores versus the past and if the 8% to 10% net unit growth guidance that you share for the long term is still reasonable today? Or if there is any capacity constraint or return constraint that will make you think that the 8% to 10% may not be achievable going forward?

Adam Rymer

Chief Financial Officer

Yes. Thanks, Danilo. So no, in terms of impact that new restaurants are having on our existing restaurants on a per restaurant basis or a per new restaurant basis, we're seeing very similar levels to what we have in the past. The overall impact as it impacts our overall comp is increasing as we increase that percentage growth over time. But that's natural as you kind of go up in that and then plus those new restaurants drive a much higher comp, they comp much better than our existing restaurants. So that helps offset that. So net-net, you're seeing about 100 basis point or so impact to our overall comps from this NRO growth. And then Scott, do you want to talk about in terms of kind of the pace that we're at? I think that was the second part...

Scott Boatwright

CEO & Director

Yes. And I'll tell you that 1% has been historical for the last 10 or 15 years is what we typically see in a given year, regardless of the number of openings. But I'll tell you, Danilo, it's a great question. We believe we've reached the right pace that enables us to consistently open the best locations, staff with the most talented teams to maintain industry-leading unit economics and returns. And I don't know of anyone else in the space that's growing at that clip. If you frame it in this reference point is it's a restaurant every 24 hours, which is incredible growth, and we feel really comfortable in that as a sweet spot. Now that doesn't mean we won't flex up, Danilo, but we feel great in that range today.

Operator

Then next question comes from David Palmer with Evercore ISI.

David Palmer

Evercore ISI Institutional Equities, Research Division

Great. I'm trying to put this into a question. In the near term, obviously you're sacrificing incremental margins. Some of this is comps. You're pointing to low to mid-single-digit same-store sales declines in the quarter and some of it's some outsized inflation. But some of it's also that you're trying to not price to that inflation and perhaps give better or work towards a better value for the consumer and hopefully, over time, maybe get recognized for that.

And I'm wondering what that can mean for 20 -- you mentioned that incremental margins would be -- you're still thinking 40% long term, but it also feels like in the near term that, that's not going to be the case, that you're maybe going to earn the right to get back to that incremental margin by maybe rebasing those restaurant margins into 2026 as we find perhaps some stability in traffic and your core consumer can find their own footing in terms of their own economic well-being.

So I'm just wondering how we should be thinking about that, where we might sort of find a base in terms of restaurant margin? And just broadly speaking, how you're thinking about this because -- is this -- do you think that the solution really is going to be just giving better value to the consumer? You've tried all these other levers. Is this basically going to be about just giving better food value and then eventually you're just going to start to really comp strongly again because this is a very good brand. Wonder how you're thinking about all that.

Scott Boatwright

CEO & Director

Yes, David, you're heading down the right path. I'll tell you the core value proposition that is Chipotle is still firmly intact, and the business fundamentals are still strong. And what we're faced with today, and we talk a lot about this, is while we have opportunities, we believe that the consumer slowdown is really affecting our business in a meaningful way. But we would never let a good crisis go to waste, David. I think you and I have talked about this in the past. We are going to double down our efforts on the consumer flywheel and ensure we are delivering on value in the most meaningful way in this environment, and we will emerge stronger as an organization than we were when we went into this consumer slowdown.

And so if we need to invest some component of margin to really drive top line transactions in the near term, David, there could be something there. Again, not being able to price against the inflation that we'll see next year is one leg of that. And so once we believe that the consumer is on better footing, we'll do what's right and appropriate for the business and for the consumer to get back to our long-term algo. Anything you would add to that, Adam?

Adam Rymer

Chief Financial Officer

No, I mean, just a reminder that, as you know, David, I mean, we take price to offset the impact of inflation and then we're going to drive that margin north with transaction growth. I mean, this has been our approach in the past, it'll continue to be our approach in the future, and it has led to us lagging the industry when it comes to price on pretty much every comparison, 1 year, 5 year, even 10-plus years. So the fact that our pricing will lag 2026 inflation, I mean, just look at that as a temporary dislocation that we know we can get back over time and then we can return back to that ideal 40% flow through over time as we get back to mid-single-digit comps and are driving transactions again.

Scott Boatwright

CEO & Director

One of the things I will tell you, David, I think is encouraging, unfortunate but encouraging, is that the fast casual sector is just out of favor and has been deemed unaffordable and we are lumped into that. And so -- but I'll still tell you we are still a 20% to 30% discount to our fast casual peers in the sector. And so we've got to do a better job as an organization, communicating that value in the most meaningful way to really differentiate what makes Chipotle unique and special.

Operator

The next question comes from Drew North with Baird.

Andrew North

Robert W. Baird & Co. Incorporated, Research Division

Great. I wanted to ask another one on 2026, maybe asking it in a different way but Adam or Scott, any guardrails on how you're thinking about 2026 from a comp perspective or maybe traffic and the time line getting back to positive traffic? Or maybe how you're thinking about the shape of the year when considering the comparisons, pricing dynamics and all the internal initiatives for next year? Just trying to help frame up the right expectations there as we look out to next year.

Adam Rymer

Chief Financial Officer

Yes, I'll start and kind of frame up the baseline and then I'll let Scott kind of take it in terms of initiatives. So we're obviously not guiding to 2026 yet. We'll do that in February. But one thing that I would say that's important to note is, as you know, we've had several underlying step downs throughout the year. I mean, February and May and August and then this most recent one in October, and despite many initiatives helping to offset most of these step downs, obviously, as we've guided, 2025 will be in that negative low single-digit range.

So we're ending the year at a lower sales level than we began. And so that's going to create a tougher compare until we fully lap each of those step downs. So you've got to take this into account. And if you do that, you'll come up with a baseline in 2026 that starts negative, but then we're confident that we can build upon that with the initiatives that we have in place for 2026 to get that north of there. And Scott, if you want to comment on some of those.

Scott Boatwright

CEO & Director

Yes. Here's what I'd tell you, in the Recipe for Growth strategy, just think about it as we're developing a road map of initiatives with clear ownership, expectations and deliverables that will serve as our top enterprise priorities for the year. The good news is it aligns with our 5 strategic priorities, and we'll use it to accelerate the consumer flywheel that you hear me talk about often, which will strengthen our value proposition and really get us back to mid-single-digit comp growth. In the end, it's meant to inspire our teams to think boldly, act with urgency and more importantly, deliver on a growth mindset for 2026.

Operator

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

Sara Senatore

BofA Securities, Research Division

I have, I guess, 2-part question. The first is just about the value proposition and, Scott, you said the fast casual is being viewed as perhaps not -- as unaffordable. But I guess trying to reconcile that with the idea that you're not really losing share of restaurant wallet to, I guess, either QSRs or casual diners or your peers. So it actually sounds like maybe the value proposition is appreciated. And so I was just curious where you're kind of seeing that feedback about fast casual because it's not showing up in your share. And I guess on that same note, are you seeing any difference in daypart like lunch versus dinner? We've heard now that weekday lunch is perhaps weaker just because of -- it's easier to give up. So anything there?

Scott Boatwright

CEO & Director

Sara, thanks for the question. Dayparts are holding up very consistently roughly 50-50 between lunch and dinner. So no meaningful shift there. I will tell you, candidly, through our problem detection study, there were a few remarks that said that the brand was unaffordable, and I think they were broad-based in general. But I am curious to know further, does that consumer believe to be -- believe us to be lumped in with other casual or fast casual concepts at the \$15 price point, which just isn't true. And so while I'm not going to disparage the competition or have a price pointed ad, I do want to communicate that you can get extraordinary value for around \$10 at Chipotle in a way that doesn't say what I just said and that's the challenge.

Sara Senatore

BofA Securities, Research Division

I see. So just to follow-up on that, as you talk about things that you've trialed in terms of how do you communicate value, can you give me any sense, like is it you doing through social media or targeted marketing through your app? Just the idea of communicating value without a price point seems a little bit tricky to me.

Scott Boatwright

CEO & Director

It is. We did test that ad, I just mentioned to you, where we showed a lot of abundance. We showed classic culinary, and we showed consumers eating Chipotle. And we said at the end of the ad, you can get all this for around \$10. And in the testing, the consumer missed that message point altogether and said that's really not meaningful to me. What was meaningful to me was looking at innovation, looking at culinary and looking what makes Chipotle special and unique. So I think there's more work to do, and Chris will tell you, he's got several work streams underway to really ferret out what's the right approach. We are engaging other ad agencies to bring in ideas to ensure we have the best thinking in the room. But we will -- you'll see some new ads and a new strategy in 2026.

Operator

The next question comes from Dennis Geiger with UBS.

Dennis Geiger

UBS Investment Bank, Research Division

Scott, I wanted to come back to some of the comments around menu innovation looking to 2026 for what sounds like at least 1, maybe 2 incremental LTOs, I think you've mentioned. Any other learnings maybe from the '25 LTO launches to help you think about those launches next year in the current environment to maximize impact, whether it's something with marketing or timing or anything like that. Obviously, you guys have a long track record under your leadership of successfully launching LTOs. So you've done it well historically. Just anything new, given the environment that we're in, takeaways from this year as you think about ramping up those launches next year.

Scott Boatwright

CEO & Director

Yes, it's a great question. Here's what I'll tell you is the repeat LTO still performed well. While the initial transaction lift seemed to be muted because of the consumer backdrop, each one did drive transaction and spend and incidents. And we also learned this year that a consumer that buys an LTOs, lifetime value goes up exponentially, meaning they're going to spend more throughout the year than a consumer that doesn't purchase an LTO. What gives me a lot of confidence in the 2026 strategy, what surprised me this year was the success around dips. And so Adobo Ranch was highly successful. Red Chimichurri is proving to be just as, if not more successful and it's even driving an incremental trial on Carne Asada.

What's exciting about 2026 is there could be a blend of new innovation as well as historic innovation that has worked really, really well. But at the end of the day, what we know is working is new news and new product news and product innovation. And so we're going to lean into that more meaningfully in the coming year. So you'll see not only LTOs around proteins, but you'll also see us pepper in sauces, dips or sides that we think will have a step-change improvement in the consumer experience.

Dennis Geiger

UBS Investment Bank, Research Division

That's terrific. One more, if I may. Just on some of your comments just a few minutes ago about investing a component of margin potentially to help drive the top line drive transactions. Beyond the pricing piece, I'm not sure if I missed it, but any other aspects that you could share now and maybe what that might look like? Could there be anything else on portion size above and beyond what you've done? Anything else that you're contemplating that you share kind of on that opportunity to invest to drive the top line.

Scott Boatwright

CEO & Director

Yes. Thank you, and I appreciate you mentioning portioning because we are seeing incredibly positive transaction in social media around abundant portions at Chipotle, which we invested in, obviously, this year and have had a meaningful impact on. So that's one component of it. The other is you will see incremental ad spend. I think we've said historically we'll spend around 3% annually. That number will remain intact, but there could be strategic opportunities. And again, I said, we will always have a return-focused approach to marketing. There could be strategic opportunities that present themselves where we could incrementally spend as long as we're driving. I think I've said publicly a 4-plus ROAS, return on ad spend, where we know we can drive top line and margin.

Operator

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

Christopher O'Cull

Stifel, Nicolaus & Company, Incorporated, Research Division

Scott, you mentioned the locations with the new equipment are seeing improved guest satisfaction scores, but have you observed any concerning trends in customer SAT metrics for the rest of the chain, particularly regarding speed of service or food quality?

Scott Boatwright

CEO & Director

Nothing that stands out as divergent. Here's what I will tell you is we are struggling in digital with accuracy. And I'll tell you why, and I'll tell you why I think that is. I think we made a shift in our annual incentive plan to focus on, on time versus accuracy because we were doing pretty well in accuracy at the time we decided to make that change. Our accuracy has fallen off.

And so we are redesigning the incentive plan to accurately target the right things that the -- if you think about the consumer need states in digital specifically, it's give me what I ordered accurately on time, in high quality and in abundance. And it's very simple to deliver on those 3 need states, but you have to incentivize the right behavior for our 130,000 people in the field.

And so we're shifting that back to accuracy. And as you can imagine, accuracy versus on time is far more important. If you're 5 minutes late, but everything's in the bag, it's not that big of a deal. If you show up 10 minutes early and my kid's quesadilla is missing, now we have a real problem. And so I don't think we're actively incentivizing the right behaviors. And so we're going to get back to what we know to be true about those consumer need states.

Operator

The next question comes from Brian Bittner with Oppenheimer.

Brian Bittner

Oppenheimer & Co. Inc., Research Division

I understand the reluctance to price right now and to even talk about pricing in this environment, but I think we're trying to better understand what the action plan for pricing is when that 2% rolls off December into '26. I mean can you talk to us about how to think about the right base case or even the possible scenarios that you're thinking about for 2026 pricing against that mid-single-digit cost inflation?

Adam Rymer

Chief Financial Officer

Yes. Yes. So I can jump in here. So as we talked about earlier, we want to take a slow and measured approach. And so what that ultimately means is typically, in the past, you would see us take price across the country and one fell swoop, maybe over a week or 2. We're going to look at this over time. It could be over 4 or 5 or 6 months, it could be over 12 months. It really depends on as we start to roll a certain amount of restaurants and get some good reads on what we understand the resistance to be, the reaction to be, we'll determine from there. So that's why we're being a little bit vague because the strategy is still very fluid.

But we do know it's not going to be what we've done in the past, which is all at once. And then that's kind of the general strategy in terms of the rollout. And then in terms of this mid-single-digit inflation that we alluded to, which is driven mostly by cost of sales, that number is much higher than what we have seen in the past. I mean, typically we've seen a low single-digit inflation of around 2%. And so that's giving us some caution with the consumer environment to not go that high to offset that, like we typically have in the past. So we'll be more patient with that over time, but we'll continue to talk about this each quarter and give you updates as to kind of what we're at, what we're seeing and what we're running.

Scott Boatwright

CEO & Director

Yes, I don't think we talked about, nor are prepared to talk about risk mitigation strategies as it relates to that inflation as well. And so it is not our intent to sit idly and accept 5% inflation in the upcoming year. We will work to offset that with our partner suppliers as well.

Brian Bittner

Oppenheimer & Co. Inc., Research Division

And as it relates to the unit growth, you are accelerating openings in '26 to a very impressive, unprecedented level, clearly strong growth, is there -- and I know you've talked a lot about historically the cannibalization factor has remained very, very steady. But does this at all elevate your risk and your ability to drive same-store traffic growth moving forward? Just given the multiple years of such high growth and the fact that, that's accelerating, what's just -- what gives you confidence that you can execute on a same-store basis while opening this many units?

Adam Rymer

Chief Financial Officer

Yes. So I can jump in here. So we definitely have the confidence we can still drive same-store sales, even if that starts to -- that growth starts to basically level off at some point here in the future as we approach 7,000 restaurants. Because you have to keep in mind, new restaurants do impact our overall comp by that rough 100 basis points or so. So that's actually going to come down over time. And our existing restaurants do a fantastic job of comping. We even see our restaurants that are over 15 or 20 years comping as well when we're driving overall transactions up. So I don't think it's going to have any impact. If anything, it'll start to give us a very small tailwind as that starts to level off.

Scott Boatwright*CEO & Director*

Yes. I'd add to that. One of the unique things about the Chipotle brand having worked in other brands. The cannibalized restaurants at Chipotle recover inside of 12 to 13 months. And I don't think I've worked in any other brand that recovers as quickly. And those new restaurants are outcomping the current base restaurants. So we feel really good that we're in a sweet spot. We have the development machine prepared to develop enough ready talent leaders to run those business units, and we feel like we're in a really good spot today.

Operator

The next question comes from Jeffrey Bernstein with Barclays.

Anisha Datt*Barclays Bank PLC, Research Division*

This is Anisha Datt on for Jeff Bernstein. I wanted to ask a question on comp trends. To what extent do you attribute recent comp softness to Chipotle specific factors versus broader macro trends? And what levers are you considering to reverse the comp trend?

Scott Boatwright*CEO & Director*

Yes, it's a great question and one we look at very analytically and we look at often. I'm sure there's some component of self-inflicted opportunity. As I talked about the problem detection study and trying to understand how we better deliver on the consumer experience. I think there's a component of a more discerning consumer and I think most of it, the majority of it, is this massive pullback on who is a core audience of ours. 40% of our total sales, that household under \$100,000 a year is pulling back. We're not losing that customer. They're just coming less often. We have data that shows that empirically. So that's what I would tell you. And we remain confident we can get those consumers back in transacting more frequently through better marketing messages, better digital campaigns and better innovation.

Operator

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

Scott Boatwright

CEO & Director

Thank you and thank you for all the questions and thank you for your commitment to our great brand. I want to say thank you to the 135,000 people working in our field organization in what has been a very challenging year. This group continues to show up every day and works aggressively and very hard to deliver on great consumer experiences.

I'll tell you, our brand is made up of people and we're people that sell burritos. But at the end of the day, we have the best people in the industry. We believe we have the best product in the industry and the brand remains as strong today as it ever -- than it has ever been. And so that said, we look forward to a new strategy in 2026 that will get us back to mid-single-digit comp growth, and we'll talk to you all in the next quarter.

Operator

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

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