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Chipotle Mexican Grill, Inc. (CMG) Q3 2026 Earnings Call Transcript

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Q3: 2026-10-28 Earnings Summary

Insights

EPS of $0.27 misses by $0.02 | Revenue of $3.29B (9.65% Y/Y) beats by $7.72M

Chipotle Mexican Grill, Inc. (CMG) Q3 2026 Earnings Call October 28, 2026 4:30 PM EDT

Company Participants

Christian D'Souza
Scott Boatwright - CEO & Director
Adam Rymer - Chief Financial Officer

Conference Call Participants

David Palmer - Evercore ISI Institutional Equities, Research Division
Sara Senatore - BofA Securities, Research Division
Danilo Gargiulo - Bernstein Institutional Services LLC, Research Division
Dennis Geiger - UBS Investment Bank, Research Division
Christopher O'Cull - Robert W. Baird & Co. Incorporated, Research Division
John Ivankoe - JPMorgan Chase & Co, Research Division
Peter Saleh - BTIG, LLC, Research Division
Andrew Charles - TD Cowen, Research Division
Brian Harbour - Morgan Stanley, Research Division
Jon Tower - Citigroup Inc., Research Division
Brian Bittner - Oppenheimer & Co. Inc., Research Division
Gregory Francfort - Guggenheim Securities, LLC, Research Division

Presentation

Operator

Good afternoon, and welcome to Chipotle Mexican Grill's Third Quarter Fiscal 2026 Earnings Call. [Operator Instructions] Please note this event is being recorded. I would now like to turn the conference over to Christian D'Souza, Vice President, Investor Relations. Please go ahead.

Christian D'Souza

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

I will begin by reminding you that today's discussion includes forward-looking statements, including projections about our future business, financial and other performance results. These statements are based on management's current business and market expectations, and our actual results could differ materially from those projected in the forward-looking statements. Please see today's earnings release and the risk factors contained in our annual report on Form 10-K and in our Form 10-Qs for a discussion of risks that may cause our actual results to vary from these forward-looking statements.

Our discussion today will include non-GAAP financial measures. A reconciliation to GAAP measures can be found via the link included on the Presentations 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. And with that, I will turn the call over to Scott.

Scott Boatwright
CEO & Director

Thank you, Christian, and good afternoon, everyone. We are pleased to see the momentum in our business continue in the quarter as we delivered revenue growth of 9.6%, once again including positive comparable sales and transactions. These results were fueled by our Recipe for Growth strategy as we continue to improve restaurant execution, deepen engagement with our Rewards members, bring new craveable innovation to the menu and expand occasions.

Additionally, our marketing connected with consumers in new and culturally relevant ways, including through our 100 Creators campaign. And we've been opening a new restaurant nearly every day of the year and see tremendous opportunity to continue to do so even in our most dense markets. Our focus remains clear: Strengthen what differentiates Chipotle, execute with greater consistency, and create more reasons for guests to choose us.

Broader consumer and industry headwinds may continue, but initiatives across our Recipe for Growth strategy are building and giving us more tools to win in any environment. We are still in the early stages of this work, and it's gaining traction. The progress we delivered this quarter gives us even greater conviction in our strategy and the multiple avenues we have to drive sustained growth at scale. In short, we are a category leader. We have a uniquely differentiated brand with strong fandom, and we believe much of our growth opportunity is still in front of us.

Now I'll walk through our progress across each of the 5 strategic pillars, starting with our first pillar, protecting and strengthening the core because everything begins with running great restaurants. For our guests, that means delicious food made from high-quality ingredients, generous and consistent portions, exceptional throughput, on-time and accurate digital orders, clean restaurants and genuine hospitality. These are fundamental to our brand promise, and we remain focused on delivering them consistently throughout the day across every restaurant globally.

Our high-efficiency equipment package is showing how targeted investments in our restaurants can drive better outcomes for our guests, our teams and our business. Restaurants with HEEP are delivering hundreds of basis points of comparable sales uplift, improvements in guest satisfaction and taste of food scores and over 2 additional entrees during the peak 15-minute period. HEEP is now installed in over 1,700 restaurants, and we continue to work toward approximately 2,000 restaurants by year-end.

HEEP is designed to simplify morning prep and grill operations, improve culinary consistency and flavor, reduce menu outages and help our teams deploy more effectively during peaks. Importantly, we continue to reinvest the labor efficiencies created by the equipment back into our restaurants, giving our teams greater capacity to focus on throughput and hospitality.

Throughput remains a key focus and one of the most important ways we believe we can improve the guest experience and drive incremental transactions. When we have the 4 pillars of throughput in place, our teams can move guests through the line faster while creating more opportunities to engage with them in a genuine and hospitable way. We have been focused on Linebacker and Expo deployment for the past several quarters and have made great progress on execution. We are now expanding our focus to drive consistent execution across all 4 pillars, including Mise en Place and Aces in their places, which is happening in fewer than half our restaurants today.

We fully recognize the importance of exceptional throughput and know this is our strategic advantage. While we've made progress, I know we can be better. We will be emphasizing this evolution in Q4, so we are well prepared for the seasonal ramp in 2027, and we enter the new year with the momentum necessary to be great. At the same time, we are reinforcing accountability around hospitality and execution. I attended our Team Director conference during the quarter, and this year's agenda was focused on being brilliant at the basics that bring guests back time after time.

Preparing exceptional food is central to this, and Jason Kidd, our Chief Operating Officer, had a simple message for our teams, "Run to the food. Taste it every time and ensure it's delicious for our guests." That focus is already paying off with Taste of Food scores up nearly 1 point year-over-year. We're proud of that progress, but just like throughput, we know we can be even better.

Great execution starts with great leadership in the restaurants, and we continue to optimize general manager and apprentice deployment to ensure our busiest dayparts are supported. These efforts are collectively leading to the better outcomes we are seeing in operational metrics, and we have made meaningful progress, but we know there's more opportunity ahead. Our goal is to deliver the Chipotle experience with consistency in every restaurant every day.

Turning to our second pillar, modernizing our business through technology and digital innovation. Our goal is straightforward: Use technology to make our teams more effective and make the Chipotle experience easier, faster and more rewarding for our guests. Under Chief Digital Officer Arlie Sisson's leadership, we are building the capabilities to accelerate progress, and Arlie is strengthening her team with the addition of AI and architecture leadership to help accelerate innovation across the business.

We are still in the early stages of what AI can do. One example is our AI-enabled cook-to-needs tool, which entered pilot during the third quarter and is now rolled out to over 500 restaurants. The tool, which we plan to roll out nationally early next year, uses AI-based demand forecast to recommend the right amount of freshly prepared food at the right time. This helps reduce manual data entry, increase prep efficiency and readiness, reduce waste and support better deployment and more consistent culinary execution.

Alongside this, we are also developing Ava Cado, our in-restaurant AI assistant, and see the potential to expand its scope and assist general managers with operational insights and actionable coaching that can help our team leaders make better decisions in real time. Our proprietary digital makeline interface, which we call Chipotle Kitchen, is also currently rolling out to our restaurants with plans to reach several hundred by year-end.

The technology is designed around improving the outcomes that matter most for our teams and guests: order accuracy, on-time fulfillment, speed, ease of integrating new menu items and guest satisfaction. We will continue scaling to the entire system throughout 2027. In April, we revamped Chipotle Rewards and are continuing to see strong results from the program with our highest comps consistently coming from loyalty occasions.

In-store enrollment has also remained elevated, driving our active membership to reach over 24 million guests for the quarter, and we continue to see significant opportunity to deepen engagement with members. Summer of Extras was a strong example with 6.8 million Rewards members opting into the program, an increase over last year. Members earned 25 million badges and completed approximately 600,000 challenges. Most importantly, our loyalty share of sales increased to over 33%, our highest ever. This is exactly what the program is designed to do, deepen engagement and give guests more reasons to visit Chipotle.

We also continue to progress with our frictionless rewards pilot. Around 30% of our guests use Apple Pay in-store, and they will be able to automatically earn points while paying, eliminating the need for a separate rewards scan. It's a simple change, but an important one because it reduces a key friction point while also supporting throughput. We will advance the test through stage gate in Q4 and plan to take the technology across the enterprise in 2027.

Longer term, we see a significant opportunity for technology to make rewards increasingly personalized, improve in-restaurant identification and help us more effectively reengage lapsed members. Our third strategic pillar is evolving our brand messaging, accelerating menu innovation and expanding the occasions where guests choose Chipotle. At the center of this work is the value proposition that has defined Chipotle for more than 3 decades, real food made with high-quality ingredients, freshly prepared using classic culinary techniques, served with generous portions and speed at an accessible price point. Our brand tracker revealed that our value scores and overall brand health remained strong in Q3 with sequential gains in both amount and quality of food for the money.

Under Chief Brand Officer Fernando Machado's leadership, we are supercharging how we communicate our value proposition and connecting what makes Chipotle different with what matters to consumers today. And we are doing it in ways that are more ambitious, culturally relevant and distinctive to the brand. We are showing up across creator content, sports and entertainment, gaming, fashion and other spaces to meet guests where they are, and guests are recognizing the differentiation.

We saw stable or improving wallet share across the quarter with broad strength across income and age cohorts. Importantly, we saw lower income cohorts outperform higher income cohorts for the first time this year, with the greatest strength in September when promotional activity was at its lowest. Driving this in Q3 was our 100 Creators campaign, which brought popular creators directly into Chipotle kitchens to experience the brand firsthand and capture the care, craft and fresh preparation that goes into our food every day.

Our work with Cardi B and the Bardi Bowl created another meaningful connection while promoting our Chili Lime Chips. The Salish Matter Kid's Meal helped us engage families with younger guests, while our PGA 2K25 integration allowed us to tap into the strong affinity between Chipotle and the golf community. And recently, we revealed that the music within our 100 Creators campaign was the result of a partnership with the London Vegetable Orchestra. We enlisted them to record an original track at the legendary Abbey Road Studios with instruments made from our 53 real ingredients.

These activations are designed to do more than generate attention. They help us tell the story in fresh ways, broaden our reach and keep the brand top of mind. Menu innovation is another important factor in enhancing our value proposition, attracting new guests and giving existing guests more reason to visit, all while staying true to our Food with Integrity commitment and the culinary principles that define Chipotle.

On August 31st, we broke new ground by launching 2 limited time offerings together, bringing back Pollo Asado with an all-new recipe and our Chili Lime Chips, our first innovation in the category. Pollo Asado features freshly grilled Adobo chicken seasoned with garlic and Mexican spices, hand-cut cilantro and bright citrus. Guest response has exceeded our expectations, driving incremental transactions and an attachment rate in the low 20% range, which is significantly higher than our prior launch.

Chili Lime Chips were inspired by a viral fan food hack and are made fresh daily and hand seasoned with fresh squeeze lime and chili peppers. Guest response has been very positive, driving incremental growth in overall chip incidents. Cilantro Lime Sauce also remained on the menu throughout the quarter and has maintained a strong attachment rate while outperforming the benchmark set by prior sauce innovation.

Next week, we are excited to bring back smoked brisket for a limited time with a new and even more delicious recipe, featuring responsibly raised beef that is seasoned with spices, including smoked serrano and Chipotle chili peppers before being smoked over mesquite wood. Once in our restaurants, teams sear the brisket on the plancha, finish it with spices, sauce it in a savory sauce made with smoky chili peppers and hand chop it in small batches throughout the day.

Smoked Brisket has demonstrated both broad guest appeal and incremental transaction growth in the past, and we look forward to bringing it back. We have been hard at work this year on our innovation pipeline, which remains strong. In 2027 and beyond, we see considerable opportunity across proteins, sides, and beverages, giving us multiple ways to create fresh news around Chipotle while staying true to who we are.

We also continue to make progress on our efforts to expand catering nationally, and we intend to begin rolling it out in Q1 of 2027. We have been working on refining our approach and developing bespoke load balancing tools to help optimize the process. And our pilots have delivered the operational, marketing and technology insights we need to feel confident we can grow without disrupting the core lunch and dinner business.

Catering guests have heightened expectations, and we intend to deliver flawless execution as we scale. Additionally, Chipotle Family Meals, which are also available in Canada, are resonating as a convenient, high-value solution for groups of 4 to 6. To drive awareness for the family meal offering, this month, we launched a memorable marketing campaign, which I'll just say, like its name, is an enormous bag to highlight the oversized meal offering. This was a fun and distinctive way to connect the brand to culture, drive buzz and showcase value.

Early results have shown a step-up of over 30% in Family Meal sales. Together, Catering and Chipotle Family Meals represent approximately 3% of sales today. Both remain highly incremental and operationally efficient, giving us another meaningful runway for growth.

Turning to our fourth pillar, Cultivating the Best Talent in the Industry. Our people remain our greatest competitive advantage. Quality of our restaurant teams and leadership directly influences consistency, hospitality, restaurant performance and our ability to sustain growth. We continue to make progress building the pipeline of general managers, apprentices and field leaders needed to support new restaurant openings, and we're proud to see both general manager and crew turnover down year-over-year.

We also understand the value of a second tenured manager in the restaurant with better operational and guest-facing outcomes occurring in restaurants that do have an apprentice. 3/4 of our restaurants have apprentices today, and we will begin expanding coverage incrementally in 2027. We will keep a keen focus on hospitality and measuring the sustained benefit of this investment, and we believe the returns will justify further expansion across the year. Central to our people strategy is offering world-class benefits and educational assistance continues to be a strong driver of retention.

In August, we celebrated the 10-year anniversary of our partnership with Guild, which provides debt-free education and greater career mobility for our team members. Nearly 25,000 team members have enrolled in the education program and more than 14,000 have completed one. Those programs reinforce something fundamental to our culture. Chipotle is a place where people build meaningful long-term careers.

And as we strengthen leadership across the organization, we're continuing to add capabilities and expertise at the Board level to support our long-term ambitions. In September, we added Sabir Sami to our Board of Directors. Sabir brings extensive global restaurant leadership and operating experience with capabilities that align with our international growth ambitions.

Finally, turning to our fifth pillar, we are expanding our global footprint. Our approach to development remains disciplined, site selection, restaurant economics, expected returns and the strength of our talent pipeline all inform the pace of growth and each remains strong. Chipotlanes continue to be an important part of that model. They provide greater convenience, drive higher digital mix, generate stronger sales and returns, and reduce friction for our guests. During the third quarter, we reached an important milestone with the opening of our 1,500th Chipotlane. In the U.S. and Canada, we opened 83 new restaurants during the quarter, including 53 Chipotlanes.

We continue to see significant white space in both countries and remain confident that we will open around 350 restaurants this year. Looking ahead to 2027, we expect to open approximately 340 to 360 company-owned restaurants in the U.S. and Canada. Our company-owned international business also continued to expand during the quarter with a new restaurant in the U.K., which has seen opening performance consistent with our strongest London restaurants.

Alongside our company-owned growth, our partner-operated model is allowing us to enter new markets with experienced local operators and expand access to Chipotle around the world. The third quarter marked an important step forward in our ambition to build Chipotle into an iconic global brand as we entered Mexico, Saudi Arabia and South Korea, meaning Chipotle is now available to enjoy in 11 countries across the globe.

Each region has demonstrated strong local demand, which can be seen in the long lines of guests waiting for us to open the doors on day 1 in each new market we enter. In Mexico, our first restaurant opened in July to an extremely positive reception in the Monterrey metropolitan area with our partner, Alsea. Opening volumes exceeded our initial expectations, and this has reinforced the appeal of the Chipotle brand within the country. We plan to open our next restaurant nearby as well as our first location in Mexico City in 2027.

We entered Saudi Arabia this quarter in partnership with Alshaya Group, and we were thrilled to see new opening volumes set yet another record and build on the demand we have seen across the Middle East. We also opened new restaurants in the UAE and Kuwait, bringing our total across the region to 18 restaurants. Our long-term outlook in the region remains unchanged, and we continue to believe it can support hundreds of Chipotle restaurants over time.

Additionally, our first restaurant in South Korea opened last month near Gangnam Station, where lines stretched several city blocks for weeks and average daily sales trends built throughout the quarter. In fact, earlier today, we opened our second location in Seoul and have additional restaurants in development as we build the business with SPC Group, including our planned opening in Singapore next spring. So far in 2026, 8 restaurants have opened outside the U.S. and Canada, and the response we are seeing across markets reinforces our belief that the appeal of Chipotle is borderless.

Consumers around the globe value high-quality food, prepared fresh with real ingredients, giving us confidence that our model can resonate well around the globe. In 2027, we expect to open around 15 to 25 restaurants outside the U.S. and Canada. To close, our third quarter results reinforce that our Recipe for Growth strategy is gaining traction and creating multiple levers to navigate a dynamic industry and consumer environment and drive sustained growth.

We are improving restaurant execution, throughput and hospitality. We are scaling technology and AI while building a more engaging rewards ecosystem. We are accelerating menu innovation and evolving our marketing to keep Chipotle relevant and top of mind. We are also building new occasions through Catering and Family Meals. We continue to develop a deep pipeline of talent and are expanding globally with discipline. I'm confident we have the right strategy, the right leadership team and a significant opportunity ahead as we continue to build Chipotle into an iconic global brand. With that, I'll turn it over to Adam.

Adam Rymer
Chief Financial Officer

Thanks, Scott, and good afternoon, everyone. Our third quarter results reflect the continued traction of our Recipe for Growth strategy as well as our ability to respond quickly and decisively when we see shifts in demand. In the third quarter, sales grew 9.6% to $3.3 billion, including a comparable restaurant sales increase of 2.1% and a positive transaction comp of 0.8%. Digital sales of $1.3 billion were 38.8% of total sales compared to 36.7% in the prior year.

Restaurant level margin was 23.3%, a decline of 120 basis points year-over-year. Adjusted diluted earnings per share was $0.27, down 7% versus last year. And we opened 84 company-owned restaurants and 5 partner-operated restaurants, expanding into 3 new markets: Mexico, Saudi Arabia and South Korea. We entered the quarter with strong sales trends supported by our Recipe for Growth initiatives. However, industry headwinds beginning in mid-July slowed our momentum. We quickly acted to reengage our guests with promotional offers, and I am proud of how thoughtfully our teams responded.

We were pleased to see trends normalize by late August, and we saw further improvement in September after the launch of Pollo Asado and Chili Lime Chips as well as our 100 Creators campaign. October trends have softened, consistent with the broader industry. However, we continue to see positive underlying engagement with our menu innovation and activations. We look forward to building momentum with the launch of Smoked Brisket next week, and we are confident we will deliver on our guidance of low single-digit comps for 2026.

On pricing, the impact in Q3 was around 2.7%. We anticipate it will increase to about 3% in Q4, bringing total pricing in 2026 to around 2%. As we look ahead to 2027, we currently anticipate overall inflation to remain in the low to mid-single-digit range and expect to continue managing that inflation over the long run with our new approach to menu pricing.

Before I walk through the P&L, I want to take a moment to highlight the economics behind our promotional strategy and how we approach our overall marketing investment. Promotions such as our BUY-ONE-GET-ONE activations and protein limited time offers are designed to connect with our guests in a culturally relevant way. They do more than drive a single day or a single quarter of sales. They bring new and lapsed guests into our restaurants, increase frequency among existing guests and keep Chipotle top of mind.

As we shared earlier this year, our protein limited time offers typically generate a few hundred basis points of transaction lift over the life of the promotion. And we generally sustain part of that lift longer term as many new guests continue to dine with us after the offer ends. Our BUY-ONE-GET-ONE activations have followed a similar pattern and the benefit is amplified when we find opportunities to connect at the cultural moment. It is this stickiness that makes these investments so productive over time.

We evaluate marketing and promotional investments through a return-focused lens. When we have great ideas that deliver attractive returns, we will lean in as we did this quarter. This discipline gives us the flexibility to respond quickly to shifts in demand while protecting the long-term strength of our economic model.

With that, I will go through the key P&L line items, beginning with cost of sales. Cost of sales in the quarter was 29.5%, a decrease of about 50 basis points from last year. The benefits of menu pricing and tariff relief were more than enough to offset inflation, which was primarily driven by beef and freight. For Q4, we anticipate cost of sales to be around 30.5%, primarily due to the impact of our Smoked Brisket limited time offer. On an underlying basis, this puts cost of sales inflation at around 3% for Q4.

Labor costs for the quarter were 25.7%, an increase of about 50 basis points from last year. The increase was driven by sales volumes, wage inflation and higher labor usage in support of promotional activity. In addition, we recognized some discrete costs related to insurance. These factors were partially offset by the benefit of menu price increases. Excluding these discrete impacts, we saw underlying inflation in the low single-digit range, and we expect this to continue into Q4 with labor costs around 26%.

Other operating costs for the quarter were 16%, an increase of about 100 basis points from last year, primarily driven by higher marketing, delivery mix and inflation across several items, including utilities and maintenance. Marketing costs were in the mid-3% range during the quarter, an increase of about 40 basis points from last year as we leaned into promotional activity to reengage guests following the industry headwinds mid-quarter.

In support of the Brisket campaign in Q4, we expect marketing costs to land in the high 3% range, bringing other operating costs to around 16%. Altogether, this will put Q4 margins at just under 22%, which is roughly 150 basis points lower than last year. After normalizing for a 70 basis point gift card breakage benefit in the prior year and the shift in marketing spend to support Brisket, the decline is driven by sales volume.

With pricing now in line with inflation, our unit economic model remains intact, and we expect margins to expand as we drive additional transaction growth. G&A for the quarter was $185 million on a GAAP basis or $184 million on a non-GAAP basis, excluding retention equity awards granted to key executives in August of 2024. G&A included $155 million of underlying G&A, $29 million of noncash stock compensation, offset by $0.5 million related to lower bonus accruals and payroll taxes.

For Q4, we expect G&A to be around $189 million on a non-GAAP basis, which will include $156 million in underlying G&A, $31 million in noncash stock compensation, although this amount could move up or down based on our actual performance and $2 million in higher bonus accruals and payroll taxes. As we continue to scale, our G&A growth is predominantly driven by field leadership roles supporting new restaurants, and we have leveraged G&A over the past several years, thanks to our disciplined approach to investments in technology and other areas.

In 2027 and beyond, we intend to fuel our Recipe for Growth strategy while also leveraging G&A. Depreciation for the quarter was $103 million or 3.1% of sales. And in Q4, we expect it to remain in the low 3% range. Our effective tax rate for Q3 was 25.6% on a GAAP and non-GAAP basis. For fiscal 2026, we continue to expect our underlying effective tax rate to be in the 24% to 26% range, though it may vary based on discrete items.

Our balance sheet remains strong as we ended the quarter with $1 billion in cash, restricted cash and investments and no debt. Share repurchases are an important part of our capital allocation program in a meaningful way to return value to shareholders. Year-to-date, we've repurchased $1.4 billion at an average price of $34.32, and we have about $1.6 billion remaining under authorization. During the quarter, there was a period where we were unable to repurchase our stock. However, we believe our shares are undervalued, and we look forward to returning to the market as soon as the earnings blackout lifts.

To close, this quarter demonstrated the strength of our Recipe for Growth strategy and our ability to respond quickly and effectively when we see shifts in demand. Few brands can invest in the highest quality ingredients, offer an accessible price point and still deliver industry-leading economics. That unique model gives us the flexibility to invest behind our guests while protecting the long-term strength of the business. We are optimistic about closing out 2026 on a strong note, and we remain well positioned to continue creating long-term value for our guests, our teams and our shareholders. And with that, we can open it up for questions.

Question-and-Answer Session

Operator

[Operator Instructions] The first question comes from David Palmer with Evercore ISI.

David Palmer
Evercore ISI Institutional Equities, Research Division

I wanted to ask about this fourth quarter and what you think it means so far. I think you know that this quarter was supposed to be a payoff quarter of sorts where pricing was ramping through the year. You got the new kitchen equipment. You have more stores with that, the marketing improvement, the renewed focus on operations, the diminishing cyclospora headwinds and comparisons. And I think there was some expectation out there that the comps would continue to ramp maybe 3% plus, and you were kind of going there, it looked like in the third quarter.

I think there's a perception that comps are down so far in October. And so that's making people jump to conclusions about wondering what's working, what's not working. So perhaps you can comment more specifically on October to date, what's happened? And then what's your diagnosis? What is -- what implications does this have for your strategy? And what sort of same-store sales expectation you might have for '27?

Scott Boatwright
CEO & Director

David, Scott here. Thank you for the question. I'll tell you, we entered the quarter -- I'll tell you how we finished September up 3.8% with little to -- very little promo activity, which gave us a lot of confidence that we're on the right track. We saw some broader industry pullback in the first part of October. I'll tell you we have since regained positive transactions, and we have high confidence in the balance of the quarter on the back of what is an extraordinary product in Brisket, which has had incredible demand over the past few years when we offered it. We see no difference this year. We think the product is improved and even better. And so we feel very confident that November and December set up very well for us with a potential exit rate on the year of 3% to 4%.

Adam Rymer
Chief Financial Officer

Yes. And I'll add to that, David, just to give you an idea for Q4. So taking into account the choppy start for the quarter and the dynamic consumer environment, we anticipate that our Q4 comps will actually be around a plus 2%. But like Scott said, we'll have an exit rate in that 3% to 4% range. And again, that's going to be fueled by the launch of Brisket next week as well as several marketing initiatives that we have planned. And we're really excited really to continue to build upon this momentum in 2027. Too early to give any kind of guide at this point for comps. We'll do that at the next call, but it's still early days with many of our sales building initiatives from our Recipe for Growth strategy. So you can imagine that we're excited as this continues to build into 2027 and beyond.

Scott Boatwright
CEO & Director

Yes, David, I'll just -- one more I'll add on there. I think it's a really important note to say that there's only a few core tent poles of the strategy that are actually working for us here in 2026. Much of the strategy is yet to continue to build, scale and unfold and most of the growth is still well ahead of us.

Operator

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

Sara Senatore
BofA Securities, Research Division

Just maybe a question on throughput and then a quick question on, Adam, your comment on marketing. I think with the throughput piece, one of the things that we've heard from others is that maybe there's been too much focus on speed of service at the expense of hospitality. Just curious, I know you mentioned both, but as you think about measuring some of these other metrics to ensure that your -- the experience is better, has that changed what you are -- your checklist or your metrics that you measure for your management teams or how they're compensated?

And then the question for Adam was you mentioned normalizing for marketing behind Brisket. I guess I was trying to understand that comment about normalizing since it sort of seems like just this is a step-up in spending around marketing that has worked for you, but it's not necessarily onetime.

Scott Boatwright
CEO & Director

Sara, Scott here. I'll start with the throughput question. I'll flip over to Adam on promo spending. I think it's important to note that Q3's performance in throughput was very consistent with what we saw in Q2. Bonus is still tied. So crew bonus is still tied to quarterly throughput measures. In the restaurants where we have HEEP into -- fully loaded, it's about 1,700 restaurants today. We're seeing plus 2 entrees in those restaurants as compared to the base, which gives us confidence that the HEEP investment is the right investment for our brand.

And we'll finish that rollout as we've talked about or near complete that rollout by the end of 2027. I assure you, we are going as absolutely fast as we possibly can there. Also important to note, we are -- Jason and team are about to go under the tent once again with Throughput 2.0 and cascade the throughput fundamentals back through the organization once again, which is something we do on an annual basis. That work is starting here this quarter to ensure we are front-footed going into 2027.

Can we get better? I am absolutely positive we can get better. Is it still an absolute focal point for this organization? It is core and center to Jason's operational strategy. We all know full well how critically important it is to our brand, and we're going to lean into that momentum that's building in a really meaningful way here in Q4.

Adam Rymer
Chief Financial Officer

Yes. Sara, it's Adam. So to answer your question on marketing, you have to think about the fact that switching to this 4 protein LTO strategy that we've had this year is causing some shifts in marketing. So with Brisket coming on in November, there's a little bit more spend in the last 2 months of the year than kind of prior year. So that's where -- when we kind of talk about in support of that campaign, we expect marketing cost to be a little bit higher in Q4. So that was where that comment was based on.

Operator

The next question comes from Danilo Gargiulo with Bernstein.

Danilo Gargiulo
Bernstein Institutional Services LLC, Research Division

Great. Scott, I wanted to expand on the comment that you were making earlier regarding your bias to action. I mean it's clear that so far, you've demonstrated greater bias to actions. You had 4 LTOs, greater marketing spending, more occasions being driven. Yet the -- on the traffic level, especially on the third quarter, it has been relatively flattish this year. So I know you're not giving any guidance for 2027, but just directionally, what's your expectations on traffic? Meaning do you think that you can get into positive traffic over there even if the market overall is not improving? And if so, can you help us understand maybe the building block of this traffic -- of this positive traffic growth into 2027?

Scott Boatwright
CEO & Director

Yes. Danilo, I think I heard you asking about traffic. I'll tell you, we've had positive transactions all 3 quarters of the year thus far. And we feel like we're in early days of the Recipe for Growth strategy, which is designed to do just that. It's a demand-driving strategy across the core tenets of technology, restaurant execution, innovation, brand messaging, group occasions. And we feel like we're in early days of that strategy. So if you're asking, can we drive transactions in a really challenging consumer environment? I think we've demonstrated for the past 3 quarters, we can do that. And the strategy is only in the early days and we'll continue to build and scale as the year unfolds and as we enter 2027. So if you're asking me if I have confidence in this team's ability to drive transactions in this environment, the answer is absolutely yes.

Operator

The next question comes from Dennis Geiger with UBS.

Dennis Geiger
UBS Investment Bank, Research Division

Wondering if you could talk a little bit more about the 4Q margin expectations, Adam, great color by line item, always helpful. I guess just relative to the comp expectation for the quarter, any other moving pieces? I get that the marketing seems like a pretty big piece of this. Any other moving pieces for the 4Q margins that maybe you didn't touch on, if anything on labor hours, investment in some of the labor programs that you've got, anything on promo impacts? Anything else to flag beyond some of those items you called out earlier?

Adam Rymer
Chief Financial Officer

Yes. Sure, Dennis. So yes, what we called out earlier, of course, when you're kind of looking at it on a year-over-year basis, it's down about 150 basis points. Half of that is that gift card benefit that we got in the prior year. So you kind of have to look at that as a discrete item based off of that comparison. And then really the ad promo shift to support Brisket, call out another 30 basis points or so, and then the remainder is really sales volume.

So we're expecting with that 2-ish percent guide about a flat transaction, but a mix impact of probably about a minus 1%. And then, of course, you've got the year-over-year impact from new restaurant openings. And so that gives you the bridge. But taking a step back and really thinking about margins in total, that will get you -- based off of our guidance, it will get you to about a 2026 margin of somewhere in that like mid-23% range. However, you have to remember that, that includes about 100 basis points of kind of that price inflation dislocation, right? Because we're going to be around 2% pricing this year, but our OpEx inflation is closer to 3%.

And so when you're thinking about 2027, I would consider that 23.5% plus that 100 basis points, so call it a mid-24% margin is kind of the baseline, assuming that we're able to utilize price to offset inflation and then drive at least a point of trans to offset the impact of our NROs next year. And then any additional traffic growth on top of that, that will be margin accretive at our usual pass-through of somewhere around 40%. So I think those give you the pieces, not only for Q4, but kind of looking forward.

Operator

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

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

Just as a follow-up, Adam, on the response to the margin question. The company has been making some sizable investments, obviously, to increase traffic. What comp do you believe is necessary to stabilize margin performance with this inflation outlook?

Adam Rymer
Chief Financial Officer

Yes. I mean assuming that we're covering our inflation with pricing, which is what we intend to do. We might not get that right every quarter, but we intend to get that right over time. We need about 1 point of trans to offset the impact of new restaurant openings. So when you get north of that 1% trans comp, that's when you start to see that 40% flow through.

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

So if you're looking at 3% inflation, you're thinking a 4% nominal comp might be necessary to stabilize margin?

Adam Rymer
Chief Financial Officer

Yes, that's correct.

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

Okay. And then how are you thinking about overall level of marketing investment that's right for the business as you go into '27? I think your spend is up over 20% year-to-date. So I'm just curious if you expect a similar rate of growth in marketing spend next year.

Scott Boatwright
CEO & Director

Chris, this is Scott. I think 3% is the right range for us to think about, and that could flex up or down. We will lean into return-generating opportunities and pull back when we don't see that same opportunity is how I would think about it. Right now, the baseline for that budget for the upcoming year will be in that 3% range. And we think that gives us a really strong calendar to support what I believe to be a best-in-class LTO platform for the upcoming year. But we'll see. There could be opportunities where we want to lean in, where we know there will be a return to be gained or to be had. And so that's where we'll spend our dollars.

Operator

The next question comes from John Ivankoe with JPMorgan.

John Ivankoe
JPMorgan Chase & Co, Research Division

The question is on the physical asset itself. And outside of the High-Efficiency Equipment Package, really looking at the aesthetics of the box. We have talked about this before, but as over 2,000 Chipotle restaurants are over 10 years old. How much of an opportunity from both an employee and a customer perspective might a refresh give you? I say that because the vast majority of Chipotle customers, they might not dine in your restaurants, but they actually come to your restaurants, whether to order on-premise or pick up a digital order. So that must be a very important touch point for a lot of people. So as you've begun to stage gate the process in terms of refreshes, how big of an opportunity do you think it might be to modernize the brand further?

Scott Boatwright
CEO & Director

John, thank you. I think it could be a really big opportunity for the brand. We're in the very early days of testing a group of restaurants here in California, Florida and Texas. We're almost through. We're done with California. Texas is up and running. I think Florida is still in the early days of the remodel program. And what we're looking to do is really resurrect some of the legacy restaurants that are, let's call it, the first 1,000 restaurants we built in the brand, gosh, now over 20, 30 years ago. And what we're looking to do is bring them up to date, more open format, more modern, more differentiated.

We think there's a strategic opportunity. We're seeing early signs that give us confidence that we're on the right track. But we'll have more to say in the -- probably in the Q1 earnings call on how we think about our remodel program, if you will, or a remodel strategy, but we think we're on the right track. We know there's an opportunity to make the environment more appealing, soften up the environment a bit and make the consumer feel more welcome in our restaurants.

Operator

The next question comes from Peter Saleh with U.S. Bank BTIG.

Peter Saleh
BTIG, LLC, Research Division

Scott, you had just mentioned a great LTO lineup for 2027. Just trying to understand if you guys can help us out with how many of those LTOs next year will be new products versus existing LTOs that are coming back to the menu?

Scott Boatwright
CEO & Director

Yes, it's a great question, Peter. So we'll bring in some new innovation you'll see on the calendar -- you won't see it on the calendar, but you'll see it as we launch those products in the marketplace. And then you'll see some tried and true favorites, items that we know consumers want because they tell us daily to bring them back. And so we have -- we're setting up the calendar to have about 4 center-of-the-plate LTOs. And then we'll continue to lean into sides, dips, and we're going to really be a little more front-footed on beverage innovation in the upcoming year.

We think there's a really strategic opportunity for our brand to drive incidents in a meaningful way through our partnerships with our beverage partners. And so you'll see more of that. But I don't want you to think that LTO, and I get this all the time means additional complexity necessarily for our restaurant teams. Our center-of-the-plate LTOs are really just a sauce change on our core protein.

Our teams are executing that with ease in our restaurants and transition from one to the next is more simple than you would find in most brands that have an LTO strategy. So don't be discouraged by the pace of innovation there. Just know that we're going to put forward products that are on trend, on market, on brand and that will drive demand and create value. We've learned that our consumers are looking at value in different ways. Price isn't the only way they look at value. They look at innovation, menu innovation is a really meaningful point in the overall value equation.

Operator

The next question comes from Andrew Charles with TD Cowen.

Andrew Charles
TD Cowen, Research Division

You talked about high 3% of sales spend on marketing or plan for marketing in the fourth quarter. And I'm curious if Fernando in place for the full quarter, should we expect this to be a fair run rate for the first half of 2027 and beyond?

Adam Rymer
Chief Financial Officer

We haven't gotten to the point yet where we're going to kind of give an idea of how it's going to be from quarter-to-quarter next year. But as Scott said earlier, we're somewhere in that low 3% range or around 3% for next year, but we'll ebb and flow that as we see fit, whether it aligns with what we're doing from a TV standpoint or from a big advertising standpoint around when certain LTOs drop, or different investments that we want to make that we believe we can get a great return from.

Andrew Charles
TD Cowen, Research Division

And then just on the pricing side as well, we know there was a ramp throughout this year. Are you guys happy with the 2% rate? Do you see this as a sustainable level? I know you talked about, Adam, for instance, low to mid-single-digit inflation for 2027. What's kind of your philosophy on pricing as you look ahead?

Adam Rymer
Chief Financial Officer

Yes. I mean it really hasn't changed. I mean I'd say, over the long run, we're going to continue to look at utilizing price to offset inflation, but we want to do it in a very measured patient way. And I say that because if there's temporary or transitory increases in inflation that we know is only going to last a few months, we won't utilize that opportunity, of course, to pass it on. We'll eat those costs. And so it's more of that longer-term inflation. But primarily in the past, it's been closer to that 2% range. And so we hope to get back to that sooner rather than later. It's just not looking like that's going to happen in 2027 at this point, but we'll give more color on that as we get into next year.

Scott Boatwright
CEO & Director

But I think it's important to note that the way we're rolling out pricing across the system allows us to measure pre and post net of control the impact of that price lift to ensure we don't see resistance greater than we should. And so we're able to flex pricing up or down or discontinue altogether based on what we're seeing happening in the consumer environment.

Operator

The next question comes from Brian Harbour with Morgan Stanley.

Brian Harbour
Morgan Stanley, Research Division

The High-Efficiency Equipment Package is -- does that comp lift that you talked about sustain quite nicely? I mean has this been like an increasing contributor through the course of this year to your same-store sales? Is that what you expect in '27 as well?

Adam Rymer
Chief Financial Officer

Yes. I mean I expect it to continue to build. So as we talked about on the call or in the prepared comments, we're at about 1,700 restaurants. But as we've said in the past, it takes a few months for us to really start to see that comp lift come into fruition, right? The teams have got to get used to the new equipment, and then it takes a little while for the guests to really see kind of that better hospitality, taste of food going up, all of those elements take a little bit longer as well. And so there's a bit of a lag.

And so I would look at it as even though we're through 1,700 restaurants, it's probably only half of those restaurants that we're actually seeing that have been in place long enough to get that comp lift. So I expect this to continue to build. And everything that we look at, whether it's that first phase of restaurants or the ones that have kind of hit that 2- or 3-month mark, those comp lifts have sustained in that couple of hundred basis point range. And so we're excited to continue to build on this because I think it will build on our comps in 2027 and also in 2028.

Scott Boatwright
CEO & Director

Yes. And important note there as well to follow on is we're seeing in those restaurants where we're fully loaded, stronger guest satisfaction scores, stronger taste of food scores and better throughput at Max 15, which tells us we're on the right track. And as that continues to roll out to the entire system, we'll continue to scale and build.

Brian Harbour
Morgan Stanley, Research Division

Do you still expect kind of the mix dynamics that you've been seeing just within same-store sales, do you still expect that to continue?

Adam Rymer
Chief Financial Officer

Yes. I mean for the near term, I do -- so mix impact in the quarter, for example, was about a minus 1.4%. It's still driven by lower group size, which again is being driven by increased Rewards engagement. And our Rewards percent of sales has been growing nicely. I think we're at around 33% or so right now. We were at about 30% or 31% last year at that same time. And so seeing nice improvement there. So think of that as people coming in and redeeming for free entrees or certain elements there, that's lowering that group size.

And so that we expect to continue, especially as we continue to lean in on rewards. But we're also seeing a nice offset from extra meat, for example. So still up about 20% from the protein campaign that we launched in January. We'll, of course, start to lap that this January. But we're also seeing offsets in Cilantro Lime Sauce. We only had about a month of Chili Lime Chips, but that was in there as well. And then, of course, Family Meals. But again, I expect that roughly 100 basis point drag from group size to continue as we continue to lean into Rewards, but it will ebb and flow based off of some of this LTO activity.

Operator

The next question comes from Jon Tower with Citi.

Jon Tower
Citigroup Inc., Research Division

I'm curious if you could speak to the delivery business, what you saw in the quarter and frankly, if there's any channel shifts you're seeing with consumers? And specifically, are there any initiatives underway to try and build the value perception with consumers in that channel specifically?

Adam Rymer
Chief Financial Officer

Yes. I kind of start with just kind of what we're seeing. I mean it was kind of a low single-digit comp. But in all honesty, it was the least in terms of growth in the digital channels. Order ahead was our primary grower. I mean there's a lot of things going on in there, especially around Rewards. And as Scott mentioned earlier, 1,500 Chipotlanes, that's driving a lot of people to order ahead. And then Catering actually out-comped Delivery as well. But Delivery is still seeing growth on a year-over-year basis, just not as much as the other digital channels. Scott, I don't know if you want anything to add.

Scott Boatwright
CEO & Director

Yes. I think Delivery is still a huge growth channel, and we've seen a lot of growth over the last 3 quarters. But we're seeing a lot of progress with loyalty. I think loyalty comps are up over in-restaurant comps for the quarter. The relaunch has really paid huge dividends. We now have 24 million people in the Rewards program that are driving 33% of our transactions for the entire system. We think that number can move much higher. If you talk to Arlie, she'd tell you it should be in the 40%, 50% range and has aspirations and plans to get there. But there's a lot under the hood that's being worked on to continue to drive demand through the channel.

Operator

The next question comes from Brian Bittner with Oppenheimer & Co.

Brian Bittner
Oppenheimer & Co. Inc., Research Division

It's interesting to hear that you're going to begin this catering rollout in the first quarter. Can you talk to us about what percentage of your markets you can scale the catering strategy to? Or should we actually be thinking of this as a national strategy? And can you give us an idea of the performance you've been seeing in these pilot markets that maybe give you the confidence to really get after this opportunity?

Scott Boatwright
CEO & Director

Yes. Thanks for the question. We think it's a really strategic opportunity for us. So it's more of a national rollout in the upcoming quarter, but we'll continue to add elements of the offering that will continue to have it scale and ramp for the consumer, whether that's third-party marketing, third-party delivery and/or the technology advancements we need to make to ensure we're load balancing correctly across restaurants.

We think today -- so group occasions today represent 2% to 3% of sales. If you look at what some of our competitors in the space are doing upwards of 5%, 10% there, I'd say, 15% of total sales in Catering. We know there's an enormous opportunity. We're not trying to get to 15% tomorrow morning. What we'd like to do is see 1 or 2 points of growth year-over-year in the next couple of years, and we continue to ramp and scale. The goal here is to ensure we can deliver an incredible consumer experience and not disrupt the core business, which is priority #1 for us.

Operator

I understand there is time for one last questioner, that will be Gregory Francfort with Guggenheim Securities.

Gregory Francfort
Guggenheim Securities, LLC, Research Division

My question is just on international and maybe what you're seeing there. I think you called out kind of opening up 15 to 25 stores overseas next year. I'm not sure if you guys are willing to break out how many of those might be company-operated? And then kind of what sort of ramp maybe we should expect from there in the next couple of years?

Scott Boatwright
CEO & Director

Yes. So those 15 to 25 will be all partner-operated across the regions where we're open today. The 340 to 360 will be equity owned. So I think U.S., Canada and Western Europe. With some limited growth in Western Europe, we are now actively building a development pipeline there, which takes time, as you can imagine. So most of that growth will come through partner-operated. Alshaya Group in the Middle East, our Middle Eastern partner has really aggressive plans for growth there. We'll expand to Singapore in Q1 with our partner, SPC and then open up Mexico City early Q1 as well or Q1, Q2 of next year. So that's where the growth is coming. Can they go faster? Perhaps. It will really depend on what's going on with the conflict in the Middle East and how fast our partners in Latin America and Southeast Asia can get up to speed.

Adam Rymer
Chief Financial Officer

Yes. And I would just add one thing on our company-operated in Europe. We continue to show better economics, and we actually had comps in the low double-digit range in Q3. I think we mentioned they were in the high single-digit range in Q2. So that is driving increased restaurant margins and our cash-on-cash returns in Central London and Frankfurt are still very attractive. So like Scott mentioned, we're going to continue to grow in those areas.

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

Well, thank you for joining us today. I'm really proud of the progress our teams delivered in the third quarter. The 140,000 team members out in our restaurants that work so hard for us every single day to deliver an incredible experience to our support center staff here in Newport Beach and Columbus.

We're in the early days of our Recipe for Growth strategy and believe much of the growth is still to come. And I think that's a really important note. And we've seen measurable progress across 2026 with positive transactions in every quarter. And we've seen promising results in multiple areas of the 5 pillars of our strategy. Looking forward, we're going to continue to build momentum in this dynamic environment, and many of our initiatives are in early stages of the rollout.

As I said earlier, I know we have the right strategy and the right team and more growth levers in place today than any point in our history. And I'm confident in our ability to build Chipotle into a global iconic brand while creating long-term value for our guests, our teams and our shareholders.

I think it's a really important note to say that we are still a category-defining brand that is the way people want to eat in the world today. And so I think that's an important note and that there's more growth in front of us than there is behind us. And if you're asking a question, are we still a growth brand, we absolutely are. We have industry-leading economics. We have incredible growth in front of us and an extraordinary team of professionals that are committed to our strategy. That said, I just want to say thank you for your continued support, your confidence in Chipotle, and we look forward to updating you on our continued progress next quarter.

Operator

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

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