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Chipotle Mexican Grill, Inc. (CMG) Q4 2024 Earnings Call Transcript

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EPS of \$0.25 **beats by \$0.00** | Revenue of \$2.85B (13.07% Y/Y) **misses by \$5.41M**

Chipotle Mexican Grill, Inc. (NYSE:[CMG](#)) Q4 2024 Earnings Conference Call February 4, 2024 4:30 PM ET

Corporate Participants

Cindy Olsen - Head of Investor Relations and Strategy

Scott Boatwright - Chief Executive Officer

Adam Rymer - Chief Financial Officer

Conference Call Participants

Sara Senatore - Bank of America
David Tarantino - Baird
David Palmer - Evercore ISI
Lauren Silberman - Deutsche Bank
Dennis Geiger - UBS
Christine Zhao - Goldman Sachs
John Ivankoe - JPMorgan
Andrew Charles - TD Cowen
Danilo Gargiulo - Bernstein
Jon Tower - Citi
Brian Harbour - Morgan Stanley
Sharon Zackfia - William Blair
Brian Bittner - Oppenheimer & Co.
Zach Fadem - Wells Fargo

Operator

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

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

Cindy Olsen

Hello, everyone, and welcome to our fourth quarter and full year fiscal 2024 earnings call. By now, you should have access to our earnings press release. If not, it may be found on the 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. And with that, I will turn the call over to Scott.

Scott Boatwright

Thanks, Cindy, and good afternoon, everyone.

I speak on behalf of everyone at Chipotle when I say that we are deeply saddened by the devastation caused by the recent wildfires in Southern California. The safety of our restaurant teams and guests is a top priority. And fortunately, I'm pleased to report that our team members are safe and the impact of our business has been minimal.

In response to this tragedy, Chipotle has provided thousands of burritos to firefighters and first responders, committed \$1 million in free meals to those impacted, as well as made donations through our Cultivate Foundation to charitable organizations, aiding in the relief efforts. We also featured the American Red Cross in our app to provide our guests a way to donate by rounding up their change. I want to thank our employees and our guests for helping to support the recovery efforts in the affected communities.

Now turning to our business update, Chipotle had another outstanding year, delivering strong transaction-driven comps each quarter, expanding margins, opening over 300 restaurants, gaining momentum in key industry-leading brand metrics, making progress on many back-of-house initiatives, and building our footprint internationally.

For the fiscal year 2024, sales grew about 15% to reach \$11.3 billion, driven by a 7.4% comp, including over 5% transaction growth. Digital sales of \$3.9 billion represented 35% of sales. AUVs increased to \$3.2 million. Restaurant-level margin was 26.7%, an increase of 50 basis points year-over-year. Adjusted diluted EPS was \$1.12, representing 24% growth over last year. And we opened a record 304 new restaurants, including 257 Chipotle lanes.

Our fourth quarter results were also impressive, especially considering that we are lapping the very successful Carne asada limited-time offer from last year. Additionally, we experienced some volatility around the December holidays, which we believe was impacted by the calendar shifts this year.

Despite this, we were able to grow transactions by 4% in the quarter, driven by continued improvement in throughput, as well as the successful rollout of Brisket as a limited-time offer. For the fourth quarter, sales grew over 13% to reach \$2.8 billion, driven by a 5.4% comp. Digital sales were 34% of sales. Restaurant-level margin was 24.8%, a decline of 60 basis points year-over-year. Adjusted diluted EPS was \$0.25, representing 19% growth over last year. And we opened 119 restaurants, including 95 Chipotle lanes.

Considering our underlying trends, as well as our incremental throughput opportunity and strong marketing plan, we believe we can continue to drive positive transaction comps in 2025 and anticipate annual comps to be in the low- to mid-single-digit range. Adam will provide more details on this in just a few minutes.

Now, before I dive into an update on our strategies, I want to take a minute to share a key takeaway from our leadership summit we held in November.

An important theme we are prioritizing is to be guest-obsessed. I want to make sure that as we continue to scale Chipotle, everything we do is in service of our guests or those who serve our guests. This will require an understanding and a focus on how each role in the organization matters up to making the experience in our restaurants better every day.

A guest-obsessed mindset is crucial to ensuring that we continue to deliver against our five key strategies that help us win today while we grow the future. And these strategies include running successful restaurants with a people accountable culture that provides great food with integrity while delivering exceptional in-restaurant and digital experiences, amplifying technology and innovation to drive growth and productivity at our restaurants, support centers, and in our supply chain, making the brand visible, relevant, and loved to acquire new guests and improve overall guest engagement, sustaining world-class people leadership by developing and retaining top talent at every level, and expanding access and convenience by accelerating our restaurant openings in North America and internationally.

I will start with our operations and our focus on throughput. One key driver of running successful restaurants is an experienced general manager who understands the importance of throughput and can train and develop the crew to execute the four pillars consistently every day. The good news is our GM turnover continued to improve in 2024 and is among the lowest levels in the company's history. More stability among our GMs results in more stability in our restaurants, and stability coupled with consistent training and reps has been a big driver of the progress we have seen.

In 2024, throughput improved by about two entrees in the peak 15-minute period, and we achieved our near-term goal to reach the mid-20s. Our support centers and restaurant leadership teams continue to find ways to improve our ability to execute the four pillars.

For example, our weekly throughput reviews conducted across our restaurant support centers help to keep us top of mind and give our restaurant leaders information to provide coaching and feedback to drive improvement as well as celebrate excellence.

We also made the decision last quarter to have the manager on duty responsible for the expo position, and this helped to improve the percentage of restaurants with an expo in place to over 60%. While I'm thrilled to see the progress we are making, we still have work to do and throughput remains one of our biggest priorities and opportunities in 2025.

One of the important unlocks this year will be our focus on modernizing the back of house to improve the team member experience and the speed and simplicity of prep while maintaining our high culinary standards. This will ensure more restaurants complete prep on time, which will enable better execution of the four pillars during peak periods, and this brings me to amplifying technology. We have several innovative tools that we are testing to improve the prep process.

As we mentioned last quarter, we are currently in the middle of rolling out the produce slicers to all restaurants and expect the rollout to be complete by this summer. Fresh chopped produce in our restaurants each day is key to maintaining our high culinary standards. But it's also one of the most time-consuming tasks.

The slicer improves the experience for our team members by reducing the time to chop produce and improve the culinary by ensuring consistent cut sizes. As we have mentioned in the past, some of the efficiencies from the produce slicer will help offset the investment we made last year, ensuring generous portion sizes.

Over the last several months, we also began a new initiative in a patch of restaurants to better understand the synergistic benefits of installing the produce slicer, the dual-sided plancha, the three-pan rice cooker, and the dual-vat fryer in the same restaurant.

As a reminder, the dual-sided plancha cooks the chicken and steak in under half the time it takes on the traditional plancha with the same sear and char and better consistency and juiciness. The new rice cooker eliminates the large rice pots and cooks the rice in the pans that you see on the line, which creates more consistent quality and streamlines the rice cooking process. And the dual-vat fryer doubles the capacity for frying our chips, resulting in better quality and reducing the time it takes while ensuring consistent availability.

Based on the initial results, we have decided to roll out all four pieces of equipment to new restaurant openings beginning later this year. And as we gain more data and insights into this initiative, we will determine if and how we roll out more broadly to existing restaurants. This is a great example of how we're beginning to look at our tools and processes and conventions holistically rather than as bolt-on additions.

The end goal is to improve the experience for our teams by making tasks easier to execute, more efficient, faster, and more consistent while maintaining our high culinary standards. We are also pursuing long-term innovations through our stage gate process, including avocado, our device that cuts cores and scoops avocados, and our augmented digital make line, both of which are being evaluated on a test basis. While it is early in our learnings on these opportunities, we are making progress and remain optimistic about each of these innovative tools.

When we improve the experience for our restaurant teams, it ladders to a better guest experience. Exceptional in-restaurant and digital experiences coupled with our powerful marketing strategy to make the brand more visible, more relevant, and more loved, builds the brand momentum and results in year after year of transaction growth. Our marketing strategy in 2024 was nothing short of exceptional with a strong brand campaign and two very successful limited-time offers, including Chicken Al Pastor and Brisket, both of which surpassed our expectations and drove incremental transactions and spend.

This helped to further strengthen our brand as we ended the year leading and gaining momentum in important categories like high-quality ingredients, value for the money, healthy and nutritious, good amount of food for the money, and brand I love. And we have a strong plan for 2025 to keep the momentum going.

We started off the year by putting a spotlight on our lifestyle goals and to encourage and reward healthy habits among our guests in North America and Europe, and our second partnership with Strava, the app for active people with over 135 million users in more than 190 countries.

With health and wellness top of mind for our guests, this is a great way to show how the Chipotle ingredients can be customized to fit and fuel any dietary restrictions or lifestyle routines. Additionally, I think it's no secret that our Chipotle Honey Chicken Pilot was a success. It was our best performing limited-time offer, both in early sensory testing as well as the broader to market tests, and you'll see it in our restaurants in the near future.

We will also continue to reinforce our brand story of high-quality, responsibly sourced ingredients made fresh every day through our behind-the-foil advertising campaign. This campaign, which features our real teams preparing our delicious food, has certainly resonated with our guests who are not just buying our brand, but buying into our brand and our purpose to cultivate a better world.

Speaking of our teams, last year was another tremendous year of opportunities and growth with over 23,000 people promoted, of which over 85% of all restaurant management roles were internal promotions.

We also promoted three regional Vice Presidents who started as crew members, and now five of our 11 Regional Vice Presidents started as crew and worked their way up to the highest level of operations, managing a region of the country with sales over \$1 billion. Collectively, these five RVPs have over 100 years of experience at Chipotle. To be promoted to an RVP, not only did they need to run a successful sub-region, but they also needed to show the ability to develop and grow future leaders, and these five have developed and promoted over 30 Team Directors, nearly 100 Field Leaders, and hundreds of General Managers.

These are life-changing careers for the RVPs, as well as the leaders they are developing along the way. I think this is a testament to our leadership development capabilities as an organization, which I couldn't be prouder of. At the end of the day, our business wins when we lean into the growth and development of all Chipotle team members.

Finally, moving to expanding access. 2024 was another outstanding year with 304 new restaurant openings, including 257 Chipotle lanes, making it a second year in a row of record openings. We continue to anticipate between 315 and 345 new openings in 2025, with at least 80% including a Chipotle lane.

I'm excited to share that we recently surpassed our 1,000th Chipotle lane, and now this drive-through format makes up over 25% of our restaurants. On average, the Chipotle lane takes less than 30 seconds to complete the order pickup process. The added convenience has been incremental, as Chipotle lanes continue to generate better revenues, margins, and returns than non-Chipotle lanes opened at the same time. It can also be seen in the mix of business as Chipotle lanes have a larger pickup mix, mostly offset by a lower delivery mix.

Shifting to outside the U.S., we now have 85 international restaurants. Including 55 in Canada, 27 in Europe, and three in the Middle East.

As we mentioned last quarter, we're proving that Chipotle resonates across geographies, and we will accelerate growth in Canada and the Middle East in 2025. We will also continue to make progress on proving out the economic model in Europe and begin to build a pipeline for growth.

To conclude, 2024 was another year of milestones, including growing transactions over 5% and surpassing \$3.2 million in AUV. Reaching 1,000 Chipotle lanes, opening our first restaurants in the Middle East, and making tremendous progress in Europe. I want to thank our 130,000 employees for your hard work last year. The amount of talent and passion we have is more than most businesses could ever hope for. I don't take that for granted, and I'm proud to be a part of this great organization that prioritizes our people and their growth. And we continue to have so much growth in front of us as we aim to reach 7,000 restaurants in North America, grow our AUVs beyond \$4 million, expand margins, and make progress toward becoming a global iconic brand. This will require exceptional people, exceptional food, and exceptional throughput, and a commitment to being guest-obsessed.

I'm confident that we have the right team to achieve these ambitious goals, and that the best is yet to come. With that, I'll turn it over to Adam.

Adam Rymer

Thanks, Scott, and good afternoon, everyone.

Sales in the fourth quarter grew over 13% year-over-year to reach \$2.8 billion, as comp sales grew 5.4%, driven by 4% transaction growth. Our comp included a negative 20 basis point true-up related to our loyalty program.

As a reminder, in Q4 of each year, we reevaluate the estimated breakage for loyalty points that will expire, and this year we decreased our estimate due to higher member engagement. Restaurant-level margin of 24.8% declined about 60 basis points compared to last year. Earnings per share was \$0.24 cents on a GAAP basis and \$0.25 on a non-GAAP basis, adjusted for unusual items, representing 19% year-over-year growth.

During the quarter, transaction comps were positive in all months, driven by the launch of Brisket and continued improvement in throughput. As Scott mentioned, we experienced softer trends around the holidays in late December, which we believe was due to Christmas and New Year's falling in the middle of each week. Comps have been volatile so far in 2025, with weather having a larger impact on our sales than what we experienced last year.

While we believe underlying transaction trends are healthy and we have a strong plan for the year, we do compare against progressively tougher comps in the first half of the year, and therefore are guiding to a low- to mid-single-digit comp for the full year. There are also a couple of factors to keep in mind when you think about the full year.

In the second quarter, we will be rolling off about 90 basis points of pricing in April when we lap the pricing we took last year in California to offset the step-up in wages.

And Easter will fall back into the second quarter this year, which will negatively impact Q2 comps by about 100 basis points, with no net benefit in the first quarter because of leap day in the prior year.

I will now go through the key P&L line items, beginning with cost of sales. Cost of sales in the quarter were 30.4%, an increase of about 70 basis points from last year. The benefit of our menu price increase was more than offset by higher usage, as we focused on ensuring consistent and generous portions, as well as the mix impact from our premium smoked brisket LTO and inflation across several items, most notably avocados and dairy.

Relative to our guidance, avocados were favorable, as the year-over-year step-up was less than we anticipated. For Q1, we expect our cost of sales to be in the high 29% range, as pricing leverage and the benefit from brisket ramping down will be partially offset by higher costs across several items, most notably avocados and chicken.

Our guidance does not include the impact of the new tariffs on items imported from Mexico, Canada, and China. We source about 2% of our sales from Mexico, which includes avocados, tomatoes, limes, and peppers, and less than 0.5% of our sales from Canada and China. If the recently announced tariffs go into full effect, it would have an ongoing impact of about 60 basis points on our cost of sales.

Also, we remain confident that we can offset the 60-basis point portion investment we made in 2024. Recently, we have started to see the impact ease slightly, as we expected, and we will offset the remainder through efficiencies we have identified within our supply chain, as well as several in-restaurant initiatives, including the produce slicers. While we expect to realize some of the benefit in the first half of the year, we don't anticipate a full offset until the second half of 2025.

Finally, underlying cost of sales inflation is expected to be in the low single-digit range for the first quarter and for the full year, which excludes the normalization of avocado prices, the mixed impact from LTOs, the portion investment, and any impact from tariffs. Labor costs for the quarter were 25.2%, an increase of about 20 basis points from last year, as the benefit from sales leverage was offset by wage inflation.

For Q1, we expect our labor costs to be in the high 24% range, with wage inflation in the mid single-digit range. We anticipate wage inflation will step down to the low single-digit range in Q2 and for the remainder of the year, when we lap the nearly 20% step-up in wages in California that went into effect in April of last year.

Other operating costs for the quarter were 14.5%, a decrease of about 20 basis points from last year. The decrease was driven by sales leverage and a lower delivery mix, partially offset by a true-up in insurance reserves.

Marketing and promo costs were 3% of sales in Q4, a decrease of about 10 basis points from last year. In Q1, we expect marketing costs to be in the low 3% range, with the full year to come in the mid 2% range. In Q1, other operating costs are expected to be in the low 14% range.

G&A for the quarter was \$191 million on a GAAP basis or \$175 million on a non-GAAP basis, excluding about \$12 million related to equity awards granted for retention of key executives and a \$4 million increase in legal reserves. G&A also included \$133 million in underlying G&A, \$32 million related to non-cash stock compensation, \$8 million related to higher bonus accruals and payroll taxes on equity vesting and exercises, and \$2 million related to our upcoming field leadership conference, which is scheduled in Q1 for this year. We expect our underlying G&A to be around \$135 million in Q1, and we'll step up each quarter as we make investments in people and technology to support ongoing growth.

We anticipate first quarter G&A will also include around \$33 million in stock-based compensation, although this amount could move up or down based off our actual performance and is subject to the final 2025 grants, which are issued in Q1, around \$8 million related to employer taxes associated with shares that vest during the quarter, and \$3 million for costs associated with our biannual field leadership conference in March, bringing our anticipated total G&A in Q1 to around \$179 million. Depreciation for the quarter was \$84 million, or 2.9% of sales. For 2025, we expect it to remain around 3% of sales.

Our effective tax rate for Q4 was 24.4% for GAAP and 24.6% for non-GAAP, and benefited from a reduction in non-deductible expenses. For 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 remained strong, and we ended the quarter with \$2.3 billion in cash, restricted cash and investments, and no debt.

During the fourth quarter, we purchased \$331 million of our stock at an average price of \$59.83. For the full year, we purchased nearly \$1 billion at an average price of \$57.21 and going forward, we will continue to opportunistically purchase our stock. During the quarter, the Board authorized an additional \$300 million to our share purchase authorization, and at the end of the quarter, we have just over \$1 billion remaining.

To close, I want to thank our 130,000 employees for all your hard work and dedication in delivering an exceptional experience for our guests each and every day. This powers our strong economic model that we continue to protect and grow and allows us to invest back into Chipotle by growing our footprint and furthering our purpose of cultivating a better world. We have a strong plan for 2025, and we look forward to sharing our progress with you in the coming quarters.

And with that, let's open it up for questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions]. Today's first question comes from Sara Senatore with Bank of America. Please go ahead.

Sara Senatore

Just a quick housekeeping and then a question about the food line. So just on the housekeeping, you talked about positive transactions in 2025, so I think you mentioned 90 basis points of price rolling off. If you don't take any additional price, what does that look like for the full year? I think you would still have some.

And then the question about food costs is better than we expected, given all the headwinds you highlighted in terms of inflation and portion investments. I guess to the extent that it was better than you thought, what was the impact? Was it the pricing? Was it benefits from supply chain earlier than you expected? And have you contemplated tariffs as you think about it going forward? Thanks.

Adam Rymer

Thanks, Sara. So on your first question, we believe pricing will be somewhere around 2% in 2025, and so that assumes no additional price. Because if you think about it, we just took about 2% in December. That will carry through December of this year. And then we roll off the roughly 1% national impact from the Fast Act pricing in April. So that comes to be around 2% for the full year.

And then on your second question, you're right. We came in a little bit better than we guided in Q4 on cost of sales, and that was mostly because the step-up in avocado prices was a little bit less than we anticipated. It's still happening. It just is more of a timing issue.

Scott Boatwright

Sorry, this is Scott. Sara, did you have a question around tariffs?

Sara Senatore

Yes, just anything. I know it's obviously in flux, but to the extent that avocados have been a swing factor, if you wouldn't mind touching on that. Thank you.

Scott Boatwright

Yes. I'll take this one if you don't mind, Sara. So our supply chain team has done a remarkable job over the last couple of years with vendor diversification and moving some country of origins out of Mexico proper. Today we source from both Colombia, Peru, as well as the Dominican Republic. Only about 50% of our avocado supply today is coming out of Mexico. And I think we said earlier in the prepared remarks, it's about a 60 basis points impact if it is something that sustains for the year.

Operator

Thank you. And our next question comes from David Tarantino with Baird. Please go ahead.

David Tarantino

My question is on the comps guidance for the year. I think, Adam, you mentioned a few issues related to the first half. I was just hoping that maybe you could elaborate on how you're thinking the comp trajectory could play out as the year goes on. And I have a follow-up.

Adam Rymer

Thanks, David. I'll start talking about really January. So if you look at January from a transactions comp standpoint, we ran about a negative 2, and that included a pretty sizable impact from weather as well as the calendar shift, which kind of had, people going back to work and to school a little bit later with the New Year's Day falling in the middle of the week, and then a very small impact from the wildfires in L.A. All of that was about a 400 basis point impact on our comps in January. And so the underlying trend there is closer to about a plus 2. And so if you push that plus 2 forward for the rest of Q1, we believe that Q1 will come somewhere around flattish on comps.

And the reason for that is really when you're looking at February, we're going to be comping over a really successful braised beef barbacoa campaign that we did last year. And that one, the amazing thing about that is we really saw a nice uplift not only in transactions but also in mix that caused a really nice lift in check, a lot of that sustained. And so we don't believe it will hit quite the same way this year because of how much of it sustained. So that's going to be a bit of a tougher comp as well as the second iteration of Chicken Al Pastor hitting in March. It was really pent up demand from the first time that it was in restaurants. And so when that going up as much as it did, that's going to be a really tough, tough comp going into March.

And then Easter is also kind of a delay. And so Easter, being a few weeks later is going to cause a little bit of a loss in sales in the sense of Easter tends to really spring our burrito season or beginning of kind of that spring step-ups that we see. So the fact that that's happening several weeks later makes us believe that all of those things will lead to kind of a flat transaction comp in the first quarter.

And then when you go into the second quarter, really strong comps from the year before. So I think that'll be kind of a low point for us in terms of the comparison for the full year. And then we'll step up in Q3 and Q4 from there to get to that low to mid-single digit guide that we have for the full year.

Scott Boatwright

I just want to say, David, I apologize. I think Adam said that, the comp would be flat for the quarter. He meant that transactions [indiscernible]. I want to make sure we cleared that up.

David Tarantino

Yes. Thanks for that clarification. I guess, are you assuming a big lift from, you mentioned honey chicken would be coming pretty soon. Is that embedded in your guidance? Are you assuming something similar out of honey chicken, as you thought it Chicken Al Pastor? I guess, how should we think about potentially the upcoming launch of that, that you signaled?

Scott Boatwright

Yes. Hi, David, Scott here. That is not included in the guidance that Adam just gave you. And we typically launch our LTOs around mid to late March. We do intend to launch a product around that timeframe. And we're excited about the marketing calendar for the year. I think Chris and team have done a really nice job of setting up the year to drive positive transactions. And we're excited about the LTO we're going to launch in the spring.

Operator

Thank you. And our next question comes from David Palmer at Evercore ISI. Please go ahead.

David Palmer

As a follow-up on that commentary about the LTO with honey chicken, lapping chicken al pastor, to some degree, I feel like we all focus on these LTOs as the big driver for comps. It's obviously easy for us to focus on these innovations.

But when you think about real comp drivers for the year, I'm wondering what other things you're really thinking about that will give you momentum as you go through the year. You mentioned throughput. Do you think that will be as much of a lift this year or maybe even bigger than last year? And maybe you're contemplating certain things that you can do seasonally, maybe personalized marketing initiatives or anything beyond these LTOs that you might be thinking about in terms of a sales driver. Thank you.

Scott Boatwright

Yes, David, you've heard us talk about this idea of having a flywheel really generating outsized performance and the flywheel being inclusive of great operations, great marketing, and a great digital strategy. I'll start with operations. I'll tell you, our ops teams have never been on better footing as they stand today with regard to staffing, app model, the best retention numbers we have experienced in my years with the brand.

Culture is really strong in the organization today. And we're set up for what could be an extraordinary year around this idea of improving this guest experience, the total guest experience. We spent a lot of time over the past many years really getting to the heart of extraordinary culinary.

Speed down the line has been a key focus. There's more work to do there, David. And I think the unlock for step change improvement there is grounded in this idea of what I'm talking about as modernization of the back of house at Chipotle, which drives efficiency, allows us to be better prepared for the peak period at lunch and dinner, and also allows us to continue to scale this great brand as we endeavor to go to 7,000 restaurants in North America alone.

That said, operationally, I feel like we've never been on better footing. I will continue to lean into, obviously, the throughput strategies we've deployed in the past and a couple of new ideas we have for this year. As it relates to the marketing calendar, as I said earlier, Chris and team have come forward with a marketing plan that is really extraordinary and probably the best plan we've seen in the branches I've been here as well.

We have incremental spend, as you know, year-over-year. We have more linear TV this year than last. The LTOs this year are going to be really strong. We have some new things we're going to test and learn on as it relates to summer months. More on that at a later date.

And then with regard to digital, the team is really working on this idea of leaning into the AI assistant to help with customer journeys. I'll give you an example of what that looks like. It's a new pre-defection journey. When the model detects that a customer's behavior is changing in a particular way that would signal a propensity for churn, we will take them on a new journey with personalized extras and offers to encourage them to reengage.

And so I think those things are going to drive meaningful difference within the digital channel. And so that total flywheel gives me a lot of confidence this year that we'll have positive transactions and continue to move the business forward.

Operator

Thank you. And our next question today comes from Lauren Sullivan with Deutsche Bank. Please go ahead.

Lauren Silberman

I wanted to follow up on the traffic commentary. Underlying traffic in January up to, it's a [de-sell] [ph] from what you've been seeing in recent quarters, as you assess the underlying business and understand there's a lot of noise, any more color on what you're seeing from the consumer, any shifts that you're seeing across cohorts, just trying to understand how we go from, I guess, what underlying is plus two, but we're at a down two to back up to positive as we move through the year. Thank you.

Adam Rymer

Yes, no, nothing really to report from an income cohort standpoint. I mean, they're all contributing to the comp very nicely, and we saw this throughout Q4, and that really hasn't changed going into January. So nothing to report on that side.

And I would just say, as we turn the year and we look at what we're comping over last year, I mean, keep in mind that we're comping over a roughly, what, 5.3% trans comp from the year before. And so I think that's probably what you're seeing with some of that step down in terms of the absolute comp.

Operator

Thank you. And our next question today comes from Dennis Geiger with UBS. Please go ahead.

Dennis Geiger

Great. Thanks, guys. Another one on the comp outlook, if I could, sort of bigger picture, cutting through some of the weather noise, the comparisons. Do you guys generally look at the business a little bit longer term as sort of mid-single digit from a same-store sales algorithm perspective, pick your price to understand the positive traffic? Is that still the right way to think about the business longer term or kind of underlying trajectory? Thank you.

Scott Boatwright

Yes, I'll start, and I'll flip it over to Adam. Yes, absolutely. Mid-single digits is right where we should be as an organization. We'll continue to put forward strategies that will keep us on that pace in the years to come. I think we've demonstrated over the past many years that we can continue to push forward long-standing, durable earnings and have done a remarkable job with it over the past many years. This year, unfortunately, is off to a rough start, and some of that stuff is largely out of our control.

But we have, what we believe to be a great plan for the year, and guiding the low to mid makes more sense to us, based on where we sit today. Hence the guidance. But, Adam, anything you would add to that?

Adam Rymer

No, that's perfect. Thanks, Scott.

Operator

Thank you. And our next question today comes from Christine Zhao with Goldman Sachs. Please go ahead.

Christine Zhao

So, Adam, you still seem to be pretty cautious about taking additional pricing this year. I just want to understand whether this is a reflection of consumer price sensitivity rising or competitive pressure on value, or do you think there would still be a runway for incremental pricing if it becomes necessary throughout the year? And, secondly, just also if you had any thoughts on the mixed component this year. Thank you.

Adam Rymer

Sure. So when it comes to pricing, we are comfortable with the level of pricing we're running right now for the inflation that we're seeing in the business. Because, as you know, we like to utilize price only to offset inflation, and we want to grow our margins through incremental transactions.

And so if there were something that came up throughout the year that would be a permanent hit to the business in the form of inflation, we would consider taking price. But at this point, we feel we're well covered based off of what we're projecting.

And then your question about mix. So the mixed drag in Q4 was about 70 basis points. Keep in mind 20 basis points of that is related to the loyalty adjustment that we took, which was a multi-period adjustment. So it's really, outside of that, the underlying mixed drag was about 50 basis points.

And when you're looking at that a little bit closer, it's still driven by a decline in group size. And a big component of that decline in group size that we saw in Q4 really happened in those last couple of weeks of December, as it relates to that calendar shift. And then we're continuing it.

And there was also a benefit. So when you think about the offset or sorry, the offset to that group size decline, benefits really came from brisket being a premium priced item, especially compared to Carne asada in the year before. And then I'm happy to report we're continuing to see strength in size. And this is coming from queso. This is coming from extra meat and chips. You probably remember us talking about this for several quarters in a row now. And so that did not change in the fourth quarter. And so those are the main components of that mix.

Operator

Thank you. And our next question comes from John Ivankoe with JPMorgan. Please go ahead.

John Ivankoe

The question is on the labor market for you, and obviously the entire industry. As we went through the end of '24 and into early '25, wage rates have actually been fairly cooperative, maybe outside of California, but fairly cooperative. And turnover levels across the industry have been fairly low relative to historic averages.

So can you comment, I guess, so why you think that may have happened, at this point in the economy and are you looking for any kind of signs of change? Maybe there's some certain pockets of change of either strengthening or weakening, in the labor market and various points of the country that maybe you're paying attention to that could potentially be a forward indicator. Thank you.

Scott Boatwright

It's a great question. And one, it's hard to answer as you think about why, why all of a sudden retention across the industry has improved. I think ours is probably improved at a quicker rate than many others in the industry. And I attribute that largely to our, what I believe to be best in class wages, best in class benefits, and a great culture. And so, as I said earlier, we're at all time highs on staffing as a brand today, as we sit here, we've never been stronger and retention has never been lower.

I attribute that success to our operations leadership out in the field, really doing a remarkable job, creating the right experiences, the right environment that people feel heard, and that they are able to continue to develop and grow and hit their long-term career goals for.

As it relates to our peer group, I really can't speak to what's happening there. Is there a canary in the coal mine? I haven't seen one. I think we still continue to see strength in the brand, even in the face of extraordinary value wars and value wars, meaning value as a price point with some of the big QSR players, we continue to take share consistently throughout the year, throughout 2024. We continue to see that trend move forward as well.

I think that's built on the fact that we create extraordinary value and keep, we're still a 30% discount on average to our peer group, and the consumer still sees value at Chipotle as benefit over price.

Operator

Thank you. And our next question comes from Andrew Charles at TD Cowen. Please go ahead.

Andrew Charles

Two questions for me. Scott, in light of the external environment that's presenting some challenges to start the year, can you talk about the decision to keep March at the time to launch this upcoming chicken promotion when it possibly could have been accelerated to help make up for some of the shortfall the external environment caused to start the year?

Scott Boatwright

Yes. We considered that, absolutely thought about it, you know, toward the end of last year. Can you pull that up? Can you make it, pull it forward? To be quite frank, there were two things that went into the decision. Number one is we had a lot of confidence in Braised Beef Barbacoa, even the second time through, we think will be a meaningful launch in February.

We really want to target that March timeframe as it relates to linear TV specifically, because we know that our reach and frequency is much stronger in that March, April timeframe. And so it's kind of, it's fishing when the fish are biting, if you will, and putting all of our marbles in one hat. Hopefully that's helpful.

Andrew Charles

Okay. Yep. That's great clarity. Thanks. And then my second question was around, I think in the past you talked about the addition of the expedited position, helps drive around five incremental transactions during that peak 15-minute window. So I'm curious, what is the gaining factor to getting that staffing of that position from 60% to closer to a 100%?

Scott Boatwright

Yes. Believe me, it's something we continue to lean into every single day. I think there are restaurants today that are challenged with getting all the prep items done prior to peak getting breaks deployed so that we are set and ready for peak rush.

Oftentimes what we find when we don't have the expo in position, there are people that are out of position, either on breaks at the dish sink, washing the enormous amount of wares we use on a given day or still involved in prep activity. We fervently believe that the back of house innovation, the equipment that we are leaning into through our stage gate process will help us drive greater efficiency at the AM morning prep cycle. That'll allow us to hit those targets more consistently as an organization and create a step change and improvement in throughput.

Operator

Thank you. And our next question comes from Danilo Gargiulo with Bernstein. Please go ahead.

Danilo Gargiulo

I actually have two questions on potential future unlocks. The first one is if you're looking at international markets, I mean with nearly one year of new leadership team in the U.K., what are now the restaurant level margins in their region and how have they improved over time? And maybe, Scott, what other initiatives are you expecting to close the gap on margins versus the U.S.?

Scott Boatwright

Hi Dino. Thanks for the question. I'll tell you they've improved measurably so much so that we have decided to go ahead and start looking at site development in specific areas of Western Europe to begin to build the pipeline to grow again. And so we have a lot of confidence in the team.

We have confidence in the progress. They continue to make month-over-month progress. And we know that we have, we can drive or create a viable business in the Western Europe markets we operate in today with hundreds of restaurants and potentially thousands of restaurants in other markets, adjacent markets that we can bring in.

Danilo Gargiulo

Thank you. And then, another source of opportunity for you is probably the Chipotle lane. And you mentioned that you're still seeing a lot of success in this Chipotle lane, generating higher sales, higher margins. What is your aspirational opportunity to maybe retrofit the stores with more Chipotle lanes given that they've been a success?

Scott Boatwright

Yes. So we take a hard look at those, Dino. So the legacy restaurants, we take a hard look at which ones where it makes sense to convert, where we can do it and still see a nice return on the investment. And we will make those strategic decisions throughout the year on which ones we do convert. It's just a hard decision. You've got to understand, how much lease term do I have? Do I have space on the lot? Will the traffic flow work? Will permitting allow it? Obviously so many variables that go into that decision. But where we can, Dino, we will make the investment because we know there's a return.

Operator

And our next question comes from Jon Tower at Citi. Please go ahead.

Jon Tower

Hopefully you can hear me okay.

Scott Boatwright

Yes.

Jon Tower

Great. Awesome. Maybe first on unit growth, you've got another year here in '24 where you hit the effectively smack dab in the middle of your guidance range. And I'm just curious if you can offer any insights to what might prevent you from getting to that higher end of the range in fiscal '25. Are you still dealing with local government, permitting issues as kind of a governor there?

Scott Boatwright

Jon, some of it's permitting. We're going to hit somewhere in the 9% to 9.5% range this year. And we'll continue to drive the team as it relates to performance for SARs development. Those are the site acceptance requests for new restaurants, obviously 21 months out. And so we feel like the pipeline for '25 was really strong. We'll continue to grow that pipeline and ensure that we have a really successful '26 and hopefully get closer to that 10% mark.

But as I said on the last earnings call, we feel really comfortable and confident that we can grow this business in that 8% to 10% range and continue to drive what we believe to be best in class return on investment.

Jon Tower

Okay. Maybe switching gears to the marketing front. This will be another year or '24 was another year where your marketing spend as a percentage sales is, is roughly in that 2.5% range. I think you're speaking to a similar level in '25. And when looking back, historically you guys had been in that 3% range and I'm just curious. I know the dollars have grown, but why kind of take that percentage down rather than keep it there and maybe hit different mediums or use it in a different manner?

Adam Rymer

Yes. I mean, what you're seeing with that, and we guided for the full year, somewhere in that mid 2% range, what you're seeing there is we're asking for some leverage over the last several years, especially during COVID when we took some outsized price increases to offset inflation and labor and some of the other areas. And so we didn't feel like that should be passed all the way down on the marketing side.

And so that's why we're showing a little bit of leverage compared to that historically. However, it is still like, did a very big step up year-over-year, something around 8%, 8.5%. But it's something that we can continue to pull that lever. So if there's good areas that we can invest in, that we think we can get a good return, we'll absolutely pull that lever when those opportunities come up.

Operator

Thank you. And our next question comes from Brian Harbour with Morgan Stanley. Please go ahead.

Brian Harbour

Yes, thanks. Good afternoon, guys. How would you sort of contextualize the performance of brisket this time relative to, the past iteration of that and other LTOs. And was there anything different just about timing? Like, for example, was it sort of a stronger start, and did it trail off at the end or was it pretty strong throughout?

Adam Rymer

Yes. I'll start and then Scott, feel free to add it. And so we felt like, brisket, this was the first time they'd been back in quite some time because as you know, it's a very difficult item to procure. And especially for us to last several months in the amount of restaurants that we have and things like that. And we were very, very excited about the performance. It hit really high in terms of transactions, as well as those that are switching, from all, all across proteins, not just, steak and barbacoa, but also chicken as well.

And so it performed really, really well at the onset and then continued through the end of the year and into January. So we're happy with the fact that a lot of our existing customers switched over to brisket. It drove a lot of new customers to the brand. And that it sustained really nicely. And so we're really happy with the results of brisket as well as the hype because like, as you know, it took a couple of years to get it back into our restaurants. And I think that built up some of that hype.

Scott Boatwright

Yes. I would tell you it's an extraordinary product and hopefully the folks on the call have tried it many times throughout the promotional window. I know I probably ate it once a week throughout the entire season. The teams in the restaurant did a really remarkable job delivering that experience with excellence this time around and the consumers voted with their wallets and the incidents remained strong throughout the entire promotion.

It's something we would probably do annually, maybe even permanently if you could find adequate supply, but unfortunately that's not the case. So hopefully we can bring it back as a future LTO as an arrow in the quiver in the years to come, but we'll see.

Brian Harbour

Okay, great. Thanks. Just on the equipment discussion. So the produce slicer, I guess my question there was, once you roll that out, does that actually change? I knew you could redeploy some of that labor, but does it actually sort of like change labor hours needed? If people can, I don't know, show up an hour later, for example.

And then, Scott, you talked about sort of that new suite of equipment that you're, you're testing, but if you were to sort of put that in more existing locations or try to roll that out faster, is there, you know, any obstacle to doing so besides just kind of securing supply of equipment?

Scott Boatwright

Yes. So the produce slicer will save labor. We plan to redeploy some of that labor and capture part of the labor. How much we have is, is undecided at present. The other piece of equipment are also pieces of equipment that will drive efficiency in the restaurant, better team member experience, better culinary, but it'll also allow us to redeploy or take labor as margin as well. One of those examples is the dual vat fryer. Dual vat fryer, obviously, allows us to cook chips and less than half the time it takes today, freeing up that individual to do other tasks in the restaurant to better prepare for throughput.

The dual sided plancha, we've talked about quite a bit over the years. We think it's a better product coming off the plancha, reduces the complexity of one of the most complex jobs at Chipotle today, which is the grill operation. And the rice cooker is far more efficient for the team members, gets them away from those big pans of rice that are just hard to work with and hard to mix and makes that easy, that process much more efficient.

Those four pieces of equipment will go into all new restaurant openings at the back end of this year, and will be a part of the new restaurant opening package. We are looking to retrofit a handful of restaurants today. We're calling the high efficiency equipment package. We'll walk that through stage gate and if successful, we're seeing the returns we were looking for. Then we'll do, we'll work through how we retrofit the existing fleet of restaurants today.

Operator

Thank you. And our next question today comes from Sharon Zackfia with William Blair. Please go ahead.

Sharon Zackfia

I guess there are a lot of moving parts and restaurant level margin this year. And I just wanted to maybe touch on your thoughts on full year restaurant level margin and your ability to spend that.

It feels like it might be a tale of two halves where down in the first half, maybe up in the back half. I'm wondering if that's correct. And then secondarily, in terms of the opportunities to mitigate those portion investments, is there any opportunity to accelerate the harvesting of those efficiencies? Thanks.

Adam Rymer

Yes. Hi, Sharon. So you're right in the sense of, I think it is kind of a first half second half type of story. And a lot of that has to do with the portion investment and the fact that we believe that we can offset that investment in the second half of the year. And so that'll cause a little bit of pressure on the first half and then a little bit of relief in the second half. But in general, as you're looking at it from, you know, 10,000 feet, our goal this year is to drive positive transactions and flow that through to where we would see incremental restaurant level margin.

So it's really highly dependent on our ability to drive transactions and our ability to flow that through. But that's the ultimate goal. And then in terms of your second question, I believe it was the offset on the portion investment. Is that correct? And the details around that?

Sharon Zackfia

Yes. Thanks.

Adam Rymer

Yes. And so with that portion investment, you'll notice in the prepared comments, I talked about how a little bit of that 60 basis points is starting to come back, especially through some of our teams and outlier management. That's going to be basis points, at most, maybe 10 basis points. So that'll leave about 50 basis points left in that investment. And we believe that the produce slicers that Scott just talked about will offset a little less than call it half of that. And then you'll get the rest of it a little more than half some from some efficiencies that we've already identified within the supply chain that we're going to start to chip away at here in Q1 and in Q2. And so we'll slowly start to offset that investment. But until those produce slicers come in, you won't see that full offset until the second half of next year.

Operator

And our next question comes from Brian Bittner with Oppenheimer & Co. Please go ahead.

Brian Bittner

All my questions have been answered. So I'll just zoom out for you, Scott. you were named permanent CEO in November. And I know on the last call you talked a lot about how the strategy isn't changing. And I think that makes a lot of sense.

But now that you're taking on the permanent role of CEO, are there any differences between you and Brian and how you look at the business that's maybe worth pointing out on this call? Or perhaps maybe there's opportunities where you see you could lean in more. I mean, I think it's anticipated that everything stays the same for the most part, but just wanted to give you the opportunity to suggest any differences.

Scott Boatwright

I really appreciate that. I don't know there are a ton of differences. Here's what I would tell you is there are three core things that we have the organization focused on for the year.

And I talked about this differently in the last earnings call when I talked about a more connected organization. And what I endeavor to do in this leadership endeavors to do is be more connected to the guest and around this idea of guest obsession. And if you're in a support center role, your guests are the folks out in the field that are doing the work in our restaurants every day. And I need us to obsess over those individuals.

At the restaurant level, we have to do a better job of creating a better experience consistently for all guests that come into our restaurants, whether that's clean dining rooms, smiles down the line or better guest recovery. We have opportunity there.

We're really strong with culinary today. We're really strong with speed down the line. We have best in class team members in every single restaurant. We can do a better job of creating a really unique experience as it relates to guest obsession. That's number one.

Number two, I keep talking about this, it's a critical one, is modernization of the back of house. And I own that one because I've been reluctant for many, many years as a Chief Operating Officer to make any wholesale changes to how we deliver the experience. And it's taken me a long time to get comfortable with equipment innovations that will come into the back of house and modify, if you will, the knife and cutting board process that we have today. I've gotten comfortable because we still need the knife and cutting boards and we create a better consistent cut size, which ladders to a better consistent recipe and taste profile. So if we can generate that experience and be more efficient and have better culinary, I am all in. So we are bought into this idea of modernization of back of house.

And the last thing is around this idea of growth. And growth, not only in organic growth, new restaurant growth, growth around the globe, if you will, as we move into other countries like the Middle East. We're taking a look at a couple of other partnerships as we speak today around the world. But growth with people and growth in from our restaurants all the way up to this executive team.

How do we think about development? How do we continue to lean in on growth for individuals that have career aspirations? We want people to start here, stay here, and know they'll hit their career goals and life journeys right here at Chipotle. So those are the three things that I continue to pound the drum on. This team is a line behind. But it's still grounded in the five key strategies that remain unchanged.

Operator

Thank you. And our final question today comes from Zach Fadem with Wells Fargo. Please go ahead.

Zach Fadem

So wanted to follow up on the restaurant level margins. As we've been looking at about 20% incremental flow through in the second half of the year, it seems like we should expect similar in the first half of the year.

But as the portion investment eases, maybe you have some equipment productivity, a return to, I guess, reaccelerating comps. Is the high 30% to low 40% incremental margins still the right way to think about this business? Or are there any other puts and takes we should keep in mind?

Adam Rymer

No, that 40% flow through is still very much intact. And you're right on the pieces as to why the second half of the year, it's been closer to call it 20% because of the portion investment. And then as we start to chip away at that in the first half of this year, like you said, as well as start to drive transaction comps, we'll climb back to that, I believe for the second half of the year. So you've got the pieces spot on.

Zach Fadem

Perfect. And then, Scott, you just mentioned, the potential to explore additional partnerships around the world. So I guess first question is, I presume the relationship with Alshaya is going well and second, in any additional color on regions that you might be interested in down the road.

Scott Boatwright

It's our belief that Chipotle works in all geographies around the globe. We think we have an extraordinary product. And it's hard to argue that rice, beans and chicken doesn't work around the globe. So we have a lot of confidence in our strategy. The partnership with Alshaya, I'll talk about first is going really, really well. And so we have three restaurants open, two in Kuwait, one in Dubai. We have one additional restaurant in Dubai opening very soon.

We're happy. Mohammed Alshaya is really happy with the relationship, and we'll continue to expand pretty aggressively with the Alshaya Group here in 2025.

As we think about other partnerships around the globe, I'm sure you can probably think about or come up with the countries we're thinking about, whether it's Southeast Asia or Latin America.

And we will probably go with like-minded partners, big robust organizations with a lot of track record of success with American brands within their geography and folks that we know that will have as much passion around what we do as the people in this building. So hopefully that gives you some additional color.

Operator

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

Scott Boatwright

Well, thank you all for listening in today. I was really proud of how the year landed. I'm really proud of this organization and what this team has accomplished, whether you're in our support centers, doing the good work, supporting our restaurant teams of 130,000 people out in our restaurants today that show up every day with a lot of passion around this idea of cultivating a better world. I couldn't be prouder of where we sit. I couldn't be more excited about the year ahead of us. Thank you all. Thank you all for listening in today and we'll talk soon.

Operator

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

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