

CHIPOTLE FOURTH QUARTER EARNINGS PER SHARE GROWS 182% TO \$1.55 ON REVENUE INCREASE OF 7.3%

DENVER--(BUSINESS WIRE)--Feb. 6, 2018--Chipotle Mexican Grill, Inc. (NYSE: CMG) today reported financial results for its fourth quarter and year ended December 31, 2017.

Overview for the fourth quarter of 2017 as compared to the fourth quarter of 2016:

- Revenue increased 7.3% to \$1.1 billion
- Comparable restaurant sales increased 0.9% for the quarter
- Restaurant level operating margin was 14.9%, an increase from 13.5%
- Net income was \$43.8 million, an increase from \$16.0 million
- Diluted earnings per share was \$1.55, including a benefit of \$0.21 per share resulting from changes in U.S. tax law, compared to \$0.55 in the fourth quarter of 2016
- Opened 38 new restaurants

Overview for the year ended December 31, 2017 as compared to the prior year:

- Revenue increased 14.7% to \$4.5 billion
- Comparable restaurant sales increased 6.4%
- Restaurant level operating margin was 16.9%, an increase from 12.8%
- Net income was \$176.3 million, an increase from net income of \$22.9 million
- Diluted earnings per share was \$6.17, including a benefit of \$0.21 per share resulting from changes in U.S. tax law, compared to \$0.77 in 2016
- Opened 183 new restaurants and closed or relocated 25, including 15 ShopHouse Southeast Asian Kitchen Restaurants

“During 2017, we have made considerable changes around leadership, operations, and long-term planning and it is clear that, while there is still work to be done, we are starting to see some success,” said Steve Ells, founder, chairman and chief executive officer. “2018 marks the 25th anniversary of Chipotle, and I am encouraged by the dedication all of our guests and employees have to this brand. Our focus this year will be to continue perfecting the dining experience, enhancing the guest experience through innovations in digital and catering, and reinvesting in our restaurants. We are making good progress on our search for a new CEO who can improve execution, drive sales and enable Chipotle to realize our enormous potential.”

Fourth quarter 2017 results

Revenue for the quarter was \$1.1 billion, an increase of 7.3% from the fourth quarter of 2016. The increase in revenue was driven by new restaurant openings and to a lesser extent by a 0.9% increase in comparable restaurant sales. Comparable restaurants sales include a 0.6% reduction related to deferred revenue that was recognized during the fourth quarter of 2016 related to our Chiptopia Summer Rewards program. Comparable restaurant sales increased as a result of an increase in the average check, including a 2.4% impact from menu price increases taken in select restaurants during the second and fourth quarters of 2017, partially offset by a decrease in transactions. We opened 38 new restaurants during the quarter, and relocated or closed four restaurants, bringing the total restaurant count to 2,408.

Food costs were 34.2% of revenue, a decrease of 110 basis points compared to the fourth quarter of 2016. The decrease was driven by the benefit of the menu price increases, cost savings initiatives related to paper and packaging products, and relief in avocado prices during the fourth quarter of 2017 compared to the fourth quarter of 2016.

Restaurant level operating margin was 14.9% in the quarter, an improvement from 13.5% in the fourth quarter of 2016. The improvement was driven primarily by decreased promotional activity and lower food, beverage and packaging costs as a percent of revenue.

General and administrative expenses were 5.2% of revenue for the fourth quarter of 2017, a decrease of 110 basis points over the fourth quarter of 2016. In dollar terms, general and administrative expenses decreased compared to the fourth quarter of 2016 due to decreased non-cash stock-based compensation expense and lower legal costs.

Net income for the fourth quarter of 2017 was \$43.8 million, or \$1.55 per diluted share, compared to net income of \$16.0 million, or \$0.55 per diluted share, in the fourth quarter of 2016. Net income for the fourth quarter of 2017 included a \$6.0 million benefit (\$0.21 per diluted share) for changes in U.S. tax law.

Full year 2017 results

Revenue for the full year 2017 was \$4.5 billion, up 14.7% from the prior year. The increase in revenue was driven by new restaurant openings and a 6.4% increase in comparable restaurant sales. Comparable restaurant sales for the full year included

a 1.2% benefit from menu price increases during the second and fourth quarters and a 0.3% benefit from the accounting for deferred revenue during 2016 and 2017 related to Chiptopia Summer Rewards. Comparable restaurant sales improved primarily as a result of an increase in average check during 2017 compared to 2016.

We opened 183 new restaurants during the year and closed or relocated 25 (including the closure of 15 ShopHouse Southeast Asian Kitchen restaurants), bringing the total restaurant count to 2,408.

Food costs were 34.3% of revenue, a decrease of 70 basis points as compared to the prior year. The decrease was driven by the benefit of the menu price increases taken in select restaurants during the second and fourth quarters of 2017, combined with bringing the preparation of lettuce and bell peppers back into our restaurants after using pre-cut produce during portions of 2016, and cost savings initiatives related to paper and packaging products. These decreases were partially offset by higher avocado prices.

Restaurant level operating margin was 16.9% for the full year 2017, an improvement from 12.8% in the prior year. The improvement was driven by sales leverage, including the benefit of menu price increases, decreased marketing and promotional spend and labor efficiencies, partially offset by higher wages paid to crew and managers. Marketing and promotional expenses were 3.5% of revenue during 2017, compared to 5.1% of revenue during 2016.

General and administrative expenses were 6.6% of revenue for the full year of 2017, a decrease of 50 basis points over the prior year, primarily as a result of sales leverage. In dollar terms, general and administrative costs increased compared to the prior year primarily due to recording a liability of \$30.0 million, which represents an estimate of potential claims and assessments by payment card networks related to the data security incident that was announced in April 2017. Additionally, increased bonus costs and higher non-cash stock-based compensation expense contributed to the increase. The increase was partially offset by lower legal costs, as well as decreased meeting costs because of the biennial All Managers Conference held in September 2016.

Our 2017 effective tax rate was 36.1%, a decrease of 4.7% from 2016, due to the enactment of the Tax Cuts and Jobs Act, and a lower state tax rate. This decrease was partially offset by federal credits on overall higher pre-tax operating income. The Tax Cuts and Jobs Act reduced the federal corporate income tax rate to 21% starting in 2018. As a result, we recognized a \$6.0 million benefit related to the remeasurement of our deferred tax position at the lower rate.

Net income for the full year 2017 was \$176.3 million, or \$6.17 per diluted share, compared to net income of \$22.9 million, or \$0.77 per diluted share, for the prior year.

With regard to the impact of the Tax Cuts and Jobs Act, Jack Hartung, Chief Financial Officer, said, "We're pleased that the lower income tax rate from the tax law change will result in savings of approximately \$40 to \$50 million in 2018. We plan to invest more than one-third of these tax savings in our people, including by making all of our restaurant managers and crew eligible for a one-time cash bonus, awarding one-time stock bonuses to a broad group of staff employees, and enhancing a number of other benefits such as parental leave and short term disability, all to help position Chipotle as the employer of choice in the restaurant industry. We're excited to share further details about these programs in the coming days."

Outlook

For 2018, management is expecting the following:

- Comparable restaurant sales increases in the low single digits
- 130 - 150 new restaurant openings
- An estimated effective tax rate for the full year of between 30.0% and 31.0%, which includes an underlying effective tax rate of about 27% to 28%, plus the effect of prior year employee equity plans which may either expire without vesting (resulting in no tax deduction), or vest at lower realized values (resulting in a lower tax deduction). While we expect future underlying effective tax rates in the 27% to 28% range, these rates will be further impacted by volatility due to accounting for taxes associated with previous and future stock-based compensation awards as well as a deferred tax asset related to market-based performance stock awards which may not vest.

Definitions

The following definitions apply to these terms as used throughout this release:

Comparable restaurant sales, or sales comps, represent the change in period-over-period sales for restaurants in operation for at least 13 full calendar months.

Restaurant level operating margin represents total revenue less restaurant operating costs, expressed as a percent of total revenue.

Conference Call

Chipotle will host a conference call to discuss the fourth quarter and full year 2017 financial results on Tuesday, February 6,

Revenue	\$1,110,100	100.0%	\$1,034,560	100.0%
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Food, beverage and packaging	379,914	34.2	365,612	35.3
Labor	305,428	27.5	284,250	27.5
Occupancy	84,650	7.6	76,489	7.4
Other operating costs	175,038	15.8	168,563	16.3
General and administrative expenses	57,690	5.2	65,069	6.3
Depreciation and amortization	41,442	3.7	38,072	3.7
Pre-opening costs	2,577	0.2	4,118	0.4
Loss on disposal and impairment of assets	3,332	0.3	1,837	0.2
Total operating expenses	1,050,071	94.6	1,004,010	97.0
Income from operations	60,029	5.4	30,550	3.0
Interest and other income, net	1,437	0.1	588	0.1
Income before income taxes	61,466	5.5	31,138	3.0
Provision for income taxes	(17,673)	(1.6)	(15,163)	(1.5)
Net income	\$43,793	3.9%	\$15,975	1.5%
Earnings per share:				
Basic	\$1.56		\$0.55	
Diluted	\$1.55		\$0.55	
Weighted average common shares outstanding:				
Basic	28,158		28,903	
Diluted	28,164		29,003	

Chipotle Mexican Grill, Inc.
Consolidated Statement of Income
(in thousands, except per share data)

	Year ended December 31,			
	2017		2016	
	(unaudited)			
Revenue	\$4,476,412	100.0%	\$3,904,384	100.0%
Restaurant operating costs (exclusive of depreciation and amortization shown separately below):				
Food, beverage and packaging	1,535,428	34.3	1,365,580	35.0
Labor	1,205,992	26.9	1,105,001	28.3
Occupancy	327,132	7.3	293,636	7.5
Other operating costs	651,644	14.6	641,953	16.4
General and administrative expenses	296,388	6.6	276,240	7.1
Depreciation and amortization	163,348	3.6	146,368	3.7
Pre-opening costs	12,341	0.3	17,162	0.4
Loss on disposal and impairment of assets	13,345	0.3	23,877	0.6
Total operating expenses	4,205,618	94.0	3,869,817	99.1
Income from operations	270,794	6.0	34,567	0.9
Interest and other income, net	4,949	0.1	4,172	0.1
Income before income taxes	275,743	6.2	38,739	1.0
Provision for income taxes	(99,490)	(2.2)	(15,801)	(0.4)
Net income	\$176,253	3.9%	\$22,938	0.6%
Earnings per share:				
Basic	\$6.19		\$0.78	
Diluted	\$6.17		\$0.77	
Weighted average common shares outstanding:				
Basic	28,491		29,265	
Diluted	28,561		29,770	

Chipotle Mexican Grill, Inc.
Consolidated Balance Sheet
(in thousands, except per share data)

	December 31,	
	2017	2016
	(unaudited)	
Assets		
Current assets:		
Cash and cash equivalents	\$ 184,569	\$ 87,880
Accounts receivable, net of allowance for doubtful accounts of \$0 and \$259 as of December 31, 2017 and 2016, respectively	40,453	40,451
Inventory	19,860	15,019
Prepaid expenses and other current assets	50,918	44,080
Income tax receivable	9,353	5,108
Investments	324,382	329,836
Total current assets	629,535	522,374
Leasehold improvements, property and equipment, net	1,338,366	1,303,558
Long term investments	-	125,055
Other assets	55,852	53,177
Goodwill	21,939	21,939
Total assets	\$ 2,045,692	\$ 2,026,103
Liabilities and shareholders' equity		
Current liabilities:		
Accounts payable	\$ 82,028	\$ 78,363
Accrued payroll and benefits	82,541	76,301
Accrued liabilities	159,324	127,129
Total current liabilities	323,893	281,793
Deferred rent	316,498	288,927
Deferred income tax liability	814	18,944
Other liabilities	40,042	33,946
Total liabilities	681,247	623,610
Shareholders' equity:		
Preferred stock, \$0.01 par value, 600,000 shares authorized, no shares issued as of December 31, 2017 and 2016, respectively	-	-
Common stock \$0.01 par value, 230,000 shares authorized, and 35,852 and 35,833 shares issued as of December 31, 2017 and 2016, respectively	359	358
Additional paid-in capital	1,305,090	1,238,875
Treasury stock, at cost, 7,826 and 7,019 common shares at December 31, 2017 and 2016, respectively	(2,334,409)	(2,049,389)
Accumulated other comprehensive income (loss)	(3,659)	(8,162)
Retained earnings	2,397,064	2,220,811
Total shareholders' equity	1,364,445	1,402,493
Total liabilities and shareholders' equity	\$ 2,045,692	\$ 2,026,103

Chipotle Mexican Grill, Inc.
Consolidated Statement of Cash Flows
(in thousands)

	Year ended December	
	31,	
	2017	2016
	(unaudited)	
Operating activities		
Net income	\$ 176,253	\$ 22,938
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	163,348	146,368
Deferred income tax (benefit) provision	(18,026)	(14,207)
Loss on disposal and impairment of assets	13,345	23,877
Bad debt allowance	214	(262)

Stock-based compensation expense	65,255	64,166
Excess tax benefit on stock-based compensation	-	(1,320)
Other	(218)	(604)
Changes in operating assets and liabilities:		
Accounts receivable	(140)	(1,923)
Inventory	(5,250)	(91)
Prepaid expenses and other current assets	(6,710)	(4,259)
Other assets	(2,587)	(4,855)
Accounts payable	10,908	(6,734)
Accrued liabilities	38,574	33,491
Income tax payable/receivable	(4,173)	54,340
Deferred rent	29,996	37,030
Other long-term liabilities	6,316	1,287
Net cash provided by operating activities	467,105	349,242
Investing activities		
Purchases of leasehold improvements, property and equipment	(216,777)	(258,842)
Purchases of investments	(199,801)	-
Maturities of investments	330,000	45,000
Proceeds from sale of investments	-	540,648
Net cash provided by (used in) investing activities	(86,578)	326,806
Financing activities		
Acquisition of treasury stock	(285,920)	(837,655)
Excess tax benefit on stock-based compensation	-	1,320
Stock plan transactions and other financing activities	26	52
Net cash used in financing activities	(285,894)	(836,283)
Effect of exchange rate changes on cash and cash equivalents	2,056	110
Net change in cash and cash equivalents	96,689	(160,125)
Cash and cash equivalents at beginning of year	87,880	248,005
Cash and cash equivalents at end of year	\$ 184,569	\$ 87,880

Chipotle Mexican Grill, Inc.
Supplemental Financial and Other Data
(dollars in thousands)

	For the three months ended				
	Dec. 31,	Sep. 30	Jun. 30,	Mar. 31,	Dec. 31,
	2017	2017	2017	2017	2016
Number of restaurants opened	38	38	50	57	72
Restaurant relocations/closures	(4)	(3)	(2)	(16)	-
Number of restaurants at end of period	2,408	2,374	2,339	2,291	2,250
Average restaurant sales	\$ 1,940	\$ 1,948	\$ 1,957	\$ 1,931	\$ 1,868
Comparable restaurant sales increase (decrease)	0.9 %	1.0 %	8.1 %	17.8 %	(4.8 %)

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