

CHIPOTLE MEXICAN GRILL INC

Form 10-K

February 08, 2019

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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2018

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission File Number: 1-32731

CHIPOTLE MEXICAN GRILL, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of

incorporation or organization)
610 Newport Center Drive, Suite 1300 Newport Beach, CA

84-1219301
(IRS Employer

Identification No.)
92660

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(Address of Principal Executive Offices)

(Zip Code)

Registrant's telephone number, including area code: (303) 595-4000

Securities registered pursuant to Section 12(b) of the Act:

Title of each class

Name of each exchange on which registered

Common stock, par value \$0.01 per share New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act (check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act). Yes No

As of June 30, 2018, the aggregate market value of the registrant's outstanding common equity held by non-affiliates was \$8.726 billion, based on the closing price of the registrant's common stock on June 29, 2018, the last trading day of the registrant's most recently completed second fiscal quarter. For purposes of this calculation, shares of common stock held by each executive officer and director and by holders of 5% or more of the outstanding common stock have

been excluded since those persons may under certain circumstances be deemed to be affiliates. This determination of affiliate status is not necessarily a conclusive determination for other purposes.

As of February 4, 2019, there were 27,659,270 shares of the registrant's common stock, par value of \$0.01 per share outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Part III incorporates certain information by reference from the registrant's definitive proxy statement for the 2019 annual meeting of shareholders, which will be filed no later than 120 days after the close of the registrant's fiscal year ended December 31, 2018.

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PART I

Cautionary Note Regarding Forward-Looking Statements

This report includes statements of our expectations, intentions, plans and beliefs that constitute “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended (the “Securities Act”), and Section 21E of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), and that are intended to come within the safe harbor protection provided by those sections. These statements, which involve risks and uncertainties, relate to the discussion of our business strategies and our expectations concerning future operations, margins, profitability, trends, liquidity and capital resources and to analyses and other information that are based on forecasts of future results and estimates of amounts not yet determinable. Forward-looking statements include, among others, statements about the potential impact of catering and delivery offerings and technology initiatives; statements regarding the effectiveness of our food safety systems and procedures; projections of comparable restaurant sales increases and sales trends we expect for 2019; estimates of restructuring and restaurant closure costs and accelerated depreciation to be recognized in 2019; forecasts of the number of restaurants we expect to open; forecasts of trends in general and administrative expenses, restaurant development costs, and other expenses for 2019; estimates of expected effective tax rates for the year; statements about possible repurchases of our common stock; projections of planned capital expenditures; and other statements of our expectations and plans. We have used words such as “may,” “will,” “should,” “expect,” “intend,” “plan,” “anticipate,” “believe,” “think,” “estimate,” “seek,” “expect,” “predict,” “could,” “project” and other similar terms and phrases, including references to assumptions, in this report to identify forward-looking statements. These forward-looking statements are made based on expectations and beliefs concerning future events affecting us and are subject to risks and uncertainties relating to our operations and business environments, all of which are difficult to predict and many of which are beyond our control, that could cause our actual results to differ materially from those matters expressed or implied by these forward-looking statements. Such risks and uncertainties include those listed in Item 1A. “Risk Factors,” and elsewhere in this report.

When considering forward-looking statements in this report or that we make in other reports or statements, you should keep in mind the cautionary statements in this report and future reports we file with the SEC. New risks and uncertainties arise from time to time, and we cannot predict when they may arise or how they may affect us. We assume no obligation to update any forward-looking statements after the date of this report as a result of new information, future events or other developments, except as required by applicable laws and regulations.

ITEM 1. BUSINESS

General

Chipotle Mexican Grill, Inc., a Delaware corporation, together with its subsidiaries (“Chipotle”, “we”, “us”, or “our”) operates Chipotle Mexican Grill restaurants, which feature a relevant menu of burritos, burrito bowls (a burrito without the tortilla), tacos, and salads. We are passionate about serving great food and providing a great guest experience, and we are a longtime leader and innovator in the food industry. When Steve Eells, founder and Executive Chairman, first opened Chipotle starting with a single restaurant in Denver, Colorado in 1993, the idea was simple: show that food served fast didn't have to be a typical “fast-food” experience. Using high-quality real ingredients, classic cooking techniques, and distinctive interior design, we brought features from the realm of fine dining to the world of quick-service restaurants. Over 25 years later, our devotion to seeking out the very best ingredients, raised with respect for animals, farmers, and the environment, remains at the core of our commitment to Food With Integrity. As of December 31, 2018, we operated 2,452 Chipotle restaurants throughout the United States, 37 international Chipotle restaurants, and two non-Chipotle restaurants.

Business Strategy

We are committed to making our food more accessible to everyone while continuing to be a brand with a demonstrated purpose of cultivating a better world. Our strategy is to win today and cultivate the future by focusing on five key pillars which include:

- becoming a more culturally relevant and engaging brand that builds love and loyalty;
- digitizing and modernizing our restaurant experience to create a more convenient and enjoyable guest experience;
- running great restaurants with great hospitality and throughput;
- being disciplined and focused to enhance our powerful economic model; and
- building a great culture that can innovate and execute across digital, access, menu and the restaurant experience.

Relevant Menu. Our restaurants feature a relevant menu of burritos, burrito bowls, tacos and salads. In preparing our food, we employ classic cooking methods and use stoves and grills, pots and pans, cutting knives and other kitchen utensils, walk-in refrigerators stocked with a variety of fresh ingredients, herbs and spices, and dry goods such as rice. Our restaurants do not have microwaves or freezers. Our proteins include chicken, steak, carnitas (seasoned and braised pork), barbacoa (spicy braised and

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shredded beef), Sofritas (organic braised tofu) and vegetarian pinto and black beans. We add our rice, which is tossed with lime juice, freshly chopped cilantro, and a pinch of salt, as well as freshly shredded cheese, sour cream, lettuce, and sautéed peppers and onions, to our entrees depending on each guest's request. We use various herbs, spices and seasonings to prepare our meats and vegetables. We also serve tortilla chips that are fried twice a day in each restaurant and seasoned with fresh lime juice and salt, with sides of hand mashed guacamole, salsas, or queso. In addition to sodas, fruit and tea drinks, and organic milk, most of our restaurants also offer a selection of beer and margaritas. Our food is prepared from scratch, some in our restaurants and some with the same fresh ingredients in larger batches in commissaries.

Food with Integrity. Serving high quality food while still charging reasonable prices is critical to our purpose so that guests can enjoy wholesome food every day. We respect our environment and insist on preparing, cooking, and serving nutritious food made from natural ingredients and animals that are raised or grown with care. We spend time on farms and in the field to understand where our food comes from and how it is raised. We concentrate on the sourcing of each ingredient, and this has become a cornerstone of our continuous effort to improve the food we serve. The food we serve is made from just 51 ingredients that everyone can both recognize and pronounce. We're all about simple, fresh food without the use of artificial colors or flavors typically found in fast food—just genuine real ingredients and their individual, delectable flavors.

In all of our Chipotle restaurants, we endeavor to serve only meats that are raised in accordance with criteria we have established in an effort to improve sustainability and promote animal welfare, and without the use of non-therapeutic antibiotics or added hormones. We brand these meats as “Responsibly Raised ®.” One of our primary goals is for all of our restaurants to serve meats raised to meet our standards, but we have and expect to continue to face challenges in doing so. For example, some of our restaurants periodically serve conventionally raised chicken or beef due to supply constraints for our Responsibly Raised brand meats, or stop serving one or more menu items due to additional supply constraints. When we become aware of such an issue, we clearly and specifically disclose this temporary change on signage in each affected restaurant so that guests can adjust their orders if they choose to do so.

We also seek to use responsibly grown produce, by which we mean produce grown by suppliers whose practices conform to our priorities with respect to environmental considerations and employee welfare. Some of the beans we serve are organically grown or grown using conservation tillage methods that improve soil conditions, reduce erosion, and help preserve the environment in which the beans are grown. We call these beans “transitional”. Some of the other produce items we serve are organically grown as well. Our commitment to better ingredients also extends to the dairy products we serve. In 2018, all of the sour cream and shredded cheese served in our U.S. Chipotle restaurants was made with milk from cows not given rBGH (recombinant bovine growth hormone) and sourced from pasture-based dairies that provide an even higher standard of animal welfare by providing outdoor access for their cows.

In addition, none of the ingredients in our food (excluding beverages) in U.S. Chipotle restaurants contain genetically modified organisms, or GMOs. While the meat and poultry we serve is not genetically modified, many of the animals are likely fed a diet of grains containing GMOs. Due to the prevalence of GMOs in a number of important feed crops, the vast majority of the grains used as animal feed in the U.S. are genetically modified. Additionally, some of the beverages we serve are sweetened with corn-based sweeteners, which are typically made with genetically modified corn.

Purchasing and Food Safety

Close Relationships with Suppliers. Maintaining the high levels of quality and safety we expect in our restaurants depends in part on our ability to acquire high-quality, fresh ingredients and other necessary supplies that meet our

specifications from reliable suppliers. Our 24 independently owned and operated regional distribution centers purchase from various suppliers we carefully select based on quality and the suppliers' understanding of our mission. We work closely with our suppliers and seek to develop mutually beneficial long-term relationships with them. We use a mix of forward, fixed and formula pricing protocols, and our distribution centers purchase within the pricing guidelines and protocols we have established with suppliers. We've also sought to increase, where practical, the number of suppliers for our ingredients to help mitigate pricing volatility and supply shortages. In addition, we closely monitor industry news, trade tariffs and other issues, weather, exchange rates, foreign demand, crises and other world events that may affect our ingredient prices. Certain key ingredients (including beef, pork, chicken, beans, rice, sour cream, cheese, and tortillas) are purchased from a small number of suppliers. For a discussion of risks related to our supply chain, see "Risks Related to Operating in the Restaurant Industry – Failure to receive frequent deliveries of higher-quality food ingredients and other supplies meeting our specifications could harm our operations" and "Risks Unique to Our Business Strategy – Our Food With Integrity philosophy subjects us to risks" in Item 1A. "Risk Factors."

Quality Assurance and Food Safety. We are committed to serving safe, high quality food. Our food safety and quality assurance teams work to ensure compliance with our food safety programs and practices, components of which include:

- supplier interventions (steps to avoid food safety risks before ingredients reach Chipotle);
- advanced technologies (tools that eliminate pathogens while maintaining food quality);
- small grower support and training;

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- enhanced restaurant procedures (protocols for handling ingredients and sanitizing surfaces in our restaurants);
- food safety certifications;
- internal and third-party restaurant inspections; and
- ingredient traceability.

These and other food safety practices underscore our commitment to being a leader in food safety while continuing to serve high quality food that our guests love. Our food safety and quality assurance teams establish and monitor our quality and food safety programs and work closely with our suppliers to ensure our high standards are met throughout the supply chain. We maintain a limited list of approved suppliers, many of whom are among the top suppliers in the industry. In addition, we have a team approach where our training, operations, legal and risk management departments develop and implement operating standards for food quality, preparation, cleanliness, employee health protocols, and safety in the restaurants. Our food safety programs are also intended to ensure that we not only continue to comply with applicable federal, state and local food safety regulations, but also establish Chipotle as an industry leader in food safety. To help achieve this goal, we have a Food Safety Advisory Council comprised of some of the nation's foremost food safety authorities. The Food Safety Advisory Council is charged with evaluating our programs, both in practice and implementation, and advising us on ways to elevate our already high standards for food safety.

Guest Experience and Operations

Serving great food, with great service in a safe, quick, clean and happy environment is always our highest priority, and we take pride in making the Chipotle experience exceptional. We invest in training to consistently deliver an outstanding guest experience, and in our facilities to improve the appearance of our restaurants and modernize tools. These investments enable faster throughput, better efficiency and a better team member experience in our restaurants. In 2018, we hired a Chief People Officer to support our approximately 73,000 team members. We believe creating an excellent guest experience starts with hiring great people and creating great teams.

Restaurant Team. Each restaurant typically has a general manager or Restaurateur (a high-performing general manager), an apprentice manager (in a majority of our restaurants), two or three hourly service managers, one or two hourly kitchen managers and an average of 22 full and part-time crew members, though our busier restaurants tend to have slightly more employees. We generally have two shifts at our restaurants, which simplifies scheduling and provides stability for our employees. We also cross-train our team members so that each can work a variety of stations, allowing us to work efficiently during our busiest times, while giving our employees the opportunity to develop a wider array of skills. Consistent with our emphasis on customer service, we encourage our general managers and crew members to welcome and interact with guests throughout the day. In addition to the employees serving our guests at each restaurant, we also have a field support system that includes field leaders and team directors, as well as executive team directors who report to our Chief Restaurant Officer.

Innovation. We are prioritizing the development of technological and other innovations, such as digital/mobile ordering platforms, digital order pick-up shelves, digital order pick-up lanes we call "Chipotlanes", delivery and catering, that allow our guests to engage with us in whatever fashion is most convenient for them. By allowing our guests to order and receive their food in a variety of ways, we believe we can attract more guests and encourage them to choose us more frequently. In order to successfully deliver a great experience for more guests, we are emphasizing the optimization of second make lines and the ability to pay using Apple Pay or Android Pay for digital/mobile orders. These initiatives allow us to fulfill catering or digital/mobile orders without disrupting throughput on our main service line. In fact, technological innovations can enhance the experience of other guests by helping to improve throughput for those who choose to dine in our restaurants. Recent digital ordering innovations have allowed us to increase

digital order volumes to the highest levels we've ever achieved, and we believe continued improvements in these areas will allow us to further improve these results. Additionally, we have enhanced our data capabilities to allow us to better identify individual guests and their unique frequency patterns, and to target our marketing and promotional efforts at the individual level. We believe the advancements we have made in this area will help us as we seek to make it as convenient as possible for our guests to enjoy Chipotle when and how they like it. We are also testing new menu items. We have built a stage-gate process around innovation where we test, learn and iterate, so that when we roll out a new initiative, we are highly confident in the probability of success.

Marketing

Our marketing program and philosophy shifted from a more promotionally driven, decentralized approach in 2017 to a more centrally driven model designed to generate higher consumer awareness and drive guests into our restaurants in 2018. Our ultimate marketing mission is to make Chipotle not just a food brand but a purpose driven lifestyle brand that is more visible, more engaging, and more relevant in culture. In October 2018, we launched the biggest quarterly brand campaign in our history with the "For Real" launch, reflecting our heritage and also reinforcing our differentiation of using responsibly sourced, real ingredients and real cooking techniques to make flavorful food that consumers both love and feel better about eating.

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We utilize multiple marketing channels, including national television, digital marketing, social media, fundraising, events and sponsorships to reach consumers.

We have invested and will continue to invest in extensive customer research that will give us insight into our consumers in order to inform our business decisions, media, messaging, and innovation pipeline.

For a discussion of risks related to our marketing, see “Risks Related to our Plans to Grow Our Sales and Profitability – Our marketing and advertising strategies may not be successful, or may pose risks that could adversely impact our business” in Item 1A. “Risk Factors.”

Competition

The fast-casual, quick-service, and casual dining segments of the restaurant industry are highly competitive with respect to, among other things, taste, price, food quality and presentation, service, location, convenience, brand reputation, cleanliness, and ambience of each restaurant. Our competition includes a variety of restaurants in each of these segments, including locally-owned restaurants and national and regional chains. Many of our competitors offer dine-in, carry-out, online, catering, and delivery services. Among our main competitors are a number of multi-unit, multi-market Mexican food or burrito restaurant concepts, some of which are expanding nationally. In recent years, competition has increased significantly from restaurant formats like ours that serve higher quality food, quickly and at a reasonable price.

Moreover, we may also compete with companies outside the fast-casual, quick-service, and casual dining segments of the restaurant industry. For example, competitive pressures can come from deli sections and in-store cafés of major grocery store chains, including those targeted at customers who seek higher-quality food, as well as from convenience stores, cafeterias, and other dining outlets. Meal kit delivery companies and other eat-at-home options also present some degree of competition for our restaurants.

Competition has made it more challenging to maintain or increase the frequency of customer visits, however we believe that we can differentiate ourselves with our purpose of cultivating a better world. For more information, see “Risks Related to Operating in the Restaurant Industry—Competition could adversely affect us” in Item 1A. “Risk Factors.” We also compete with other restaurants and retail establishments for site locations and restaurant employees.

Restaurant Site Selection

We believe restaurant site selection is critical to our long-term success and growth strategy. As a result, we devote substantial time and effort to carefully evaluate each potential restaurant location. Our site selection process is led by our internal team of real estate managers and includes external real estate brokers with expertise in specific markets, as well as support from an internal real estate strategy and research group. We thoroughly assess the surrounding trade area, demographic and business information within that area, and available information on competitors and other restaurants. Based on this analysis, including utilization of predictive modeling using proprietary formulas, we determine projected sales and targeted return on investment for each potential restaurant site. We have been successful in a number of different types of locations, such as in-line or end-cap locations in strip or power centers, in regional malls and downtown business districts, free-standing buildings, food courts, outlet centers, airports, military bases and train stations.

For a discussion of risks related to our opening of new restaurants and expansion into new real estate types, see “Risks Related to our Plans to Grow Our Sales and Profitability – Our new restaurants, once opened, may not be profitable,

and may adversely impact the sales of our existing restaurants” in Item 1A. “Risk Factors.”

Other Restaurant Concepts

Although in 2019 our focus will remain on thoughtfully growing the Chipotle brand, we believe that the fundamental principles on which our restaurants are based – finding better ingredients, preparing them using classic techniques in front of our guests, and serving them in an interactive format with great teams dedicated to providing an excellent dining experience – can be adapted to cuisines other than the food served at Chipotle. We have invested in innovative concepts such as Pizzeria Locale, a fast-casual pizza restaurant that has two restaurants in Denver, Colorado. For a discussion of risks related to Pizzeria Locale and our possible investment in new concepts, see “Risks Unique to Our Business Strategy – Pizzeria Locale and other new restaurant concepts may not contribute to our growth” in Item 1A. “Risk Factors.”

Information Systems and Cyber Security

We use a variety of applications and systems to securely manage the flow of information within each of our restaurants and centralized corporate infrastructure. The services available within our systems and applications include restaurant operations, supply chain, inventory, scheduling, training, human capital management, financial tools, and data protection services. Our digital ordering system allows guests to place orders online or through our mobile app and enables a delivery by a third party service with which we

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have entered into a delivery agreement. We also continue to modernize and make investments in our information technology networks and infrastructure, specifically in our physical and technological security measures to anticipate cyber-attacks in order to combat breaches, as well as provide improved control, security and scalability.

In April 2017, our information security team detected unauthorized activity on the network that supports payment processing for our restaurants, and immediately began an investigation with the help of leading computer security firms. The investigation detected malware designed to access data from payment cards used at the point-of-sale system at most of our restaurants. The malware searched for track data, which may include cardholder name, card number, expiration date, and internal verification codes; however, no other customer information was affected. We removed the malware from our systems and have been working to further enhance the security of our payment card network. See “General Business Risks—We may be harmed by security risks we face in connection with our electronic processing and transmission of confidential guest and employee information” in Item 1A. “Risk Factors,” as well as Note 13. “Commitments and Contingencies” in Item 8. “Financial Statements and Supplementary Data,” for further discussion of the payment card security incident in 2017, related legal proceedings, and other risks associated with our information systems.

Government Regulation and Environmental Matters

We are subject to various federal, state and local laws and regulations governing our relationship with and other matters pertaining to our employees, including wage and hour laws, requirements to provide meal and rest periods or other benefits, family leave mandates, requirements regarding working conditions and accommodations to certain employees, citizenship or work authorization and related requirements, insurance and workers’ compensation rules, healthcare laws, scheduling notification requirements and anti-discrimination and anti-harassment laws.

We are required to collect and maintain personal information about our employees, and we collect information about guests as part of some of our marketing programs as well. The collection and use of such information is regulated at the federal and state levels, and by the European Union and its member states, and the regulatory environment related to information security and privacy is evolving and increasingly demanding.

We are subject to the ADA and similar state laws that give civil rights protections to individuals with disabilities in the context of employment, public accommodations and other areas.

In recent years, there has been an increased legislative, regulatory and consumer focus at the federal, state and municipal levels on the food industry including nutrition and advertising practices.

Each of our restaurants is also subject to state and local licensing and regulation by health, alcoholic beverage, sanitation, food and workplace safety and other agencies.

We are subject to federal, state and local environmental laws and regulations concerning the discharge, storage, handling, release and disposal of hazardous or toxic substances, as well as local ordinances restricting the use of straws, utensils, and the types of packaging we can use in our restaurants.

We offer eligible full-time and part-time U.S. employees the opportunity to enroll in healthcare coverage subsidized by us. For various reasons, many of our eligible employees currently choose not to participate in our healthcare plans. Under the comprehensive U.S. health care reform law enacted in 2010, the Affordable Care Act, employers can be subjected to penalties for failure to provide a healthcare plan which is deemed to be both “affordable” and offers minimal essential coverage.

Employees

As of December 31, 2018, we had about 73,000 employees, including about 5,100 salaried employees and about 67,900 hourly employees. None of our employees are unionized or covered by a collective bargaining agreement.

Seasonality

Seasonal factors influencing our business are described under the heading “Quarterly Financial Data/Seasonality” in Item 7. “Management’s Discussion and Analysis of Financial Condition and Results of Operations.”

Our Intellectual Property and Trademarks

“Chipotle,” “Chipotle Mexican Grill,” “Food With Integrity,” “Responsibly Raised,” and a number of other marks and related designs and logos are U.S. registered trademarks of Chipotle. We have filed trademark applications for a number of additional marks in the U.S. as well. In addition to our U.S. registrations, we have registered trademarks for “Chipotle” and a number of other marks in Canada, the European Union and various other countries, and have filed trademark applications for “Chipotle Mexican Grill,” “Chipotle” and a number of other marks in additional countries. We also believe that the design of our restaurants is our proprietary trade dress and have registered elements of our restaurant design for trade dress protection in the U.S. as well.

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From time to time we have taken action against other restaurants that we believe are misappropriating our trademarks, restaurant designs or advertising. Although our policy is to protect and defend vigorously our rights to our intellectual property, we may not be able to adequately protect our intellectual property, which could harm the value of our brand and adversely affect our business.

Available Information

We maintain a website at www.chipotle.com, including an investor relations section at ir.chipotle.com in which we routinely post important information, such as webcasts of quarterly earnings calls and other investor events in which we participate or host, and any related materials. Our Code of Conduct is also available in this section of our website. You may access our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports, as well as other reports relating to us that are filed with or furnished to the SEC, free of charge in the investor relations section of our website as soon as reasonably practicable after such material is electronically filed with or furnished to the SEC. The SEC also maintains a website that contains reports, proxy and information statements and other information regarding issuers that file electronically with the SEC at www.sec.gov.

The contents of the websites mentioned above are not incorporated into and should not be considered a part of this report. The references to the URLs for these websites are intended to be inactive textual references only.

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ITEM 1A. RISK FACTORS

The following risk factors could materially and adversely affect our business, financial condition and results of operations, and should be carefully considered in evaluating our business or making an investment decision involving our common stock. The risks and uncertainties described below are those that we have identified as material, but are not the only risks and uncertainties we face. Our business is also subject to general risks and uncertainties that affect many other companies, including, but not limited to, overall economic and industry conditions. Additional risks and uncertainties not currently known to us or that we currently believe are not material also may materially and adversely affect our business, financial condition and results of operations.

Risks Related to our Plans to Grow Our Sales and Improve Profitability

Our sales and profitability growth depends on our ability to increase comparable restaurant sales, and there are material risks to our ability to do so.

To grow our average restaurant sales, we will need to increase comparable restaurant sales, which represent the change in period-over-period sales for restaurants beginning in their 13th full calendar month of operation. Changes in comparable restaurant sales are a critical factor affecting our profitability, because the profit margin on incremental comparable restaurant sales is generally higher due to the sales increases being applied against a partially fixed cost base. Conversely, declines in comparable restaurant sales, as we have seen in some periods over the past three years, have a significant adverse effect on profitability due to the loss of the positive impact on profit margins associated with comparable restaurant sales increases, while we continue to incur a certain level of fixed costs.

Our ability to increase comparable restaurant sales depends on many factors, including:

- perceptions of the Chipotle brand and the safety and quality of our food, which may continue to be adversely impacted by actual or rumored food safety incidents or other adverse publicity, including as described below under “—We may continue to be negatively impacted by food safety incidents...”;
- competition, especially from an increasing number of competitors in the fast-casual segment of the restaurant industry and from other restaurant concepts whose strategies overlap with elements of our Food With Integrity philosophy, as well as from grocery stores, meal kit delivery services and other dining options;
- our ability to increase menu prices without adversely impacting transaction counts to such a degree that the impact from lower transactions equals or exceeds the benefit of the menu price increase, and without “trade down” by guests or other reductions in average check in response to such price increases;
- executing our strategies effectively, including our marketing and branding strategies, our initiatives to expand the use of mobile and other digital ordering and increase sales from our delivery orders and catering options, our efforts to improve the overall quality of our guests’ experience and increase the speed at which our crews serve each guest, and our potential introduction of new menu items, each of which we may not be able to accomplish or which may not have the impact we expect;
- changes in consumer preferences and discretionary spending, including weaker consumer spending during periods of economic difficulty or uncertainty;
- initial sales performance of new restaurants, and the impact of new Chipotle restaurants in the event guests who frequent one of our restaurants begin to visit one of our new restaurants instead, as further described below under “—Our new restaurants, once opened, may not be profitable...”;
 - weather, natural disasters and other factors limiting access to our restaurants; and

changes in government regulation that may impact consumer perceptions of our food, including initiatives regarding menu labeling and marketing claims about the origin or makeup of some of the ingredients we serve.

These factors, most of which are described in more detail in additional risk factors below, are beyond our control to at least some degree. As a result, it is possible that we will not achieve our targeted or expected comparable restaurant sales in the future, or may even experience declines in comparable restaurant sales in the future. Any declines in comparable restaurant sales or failure to meet market expectations for comparable restaurant sales increases would likely result in a significant adverse impact on the price of our common stock.

Increasing our sales and profits depends in part on our ability to open new restaurants in sites and on terms attractive to us, which is subject to many unpredictable factors, and we plan to open fewer restaurants in 2019 than we have in many prior years, which will adversely impact our sales growth rate.

We had 2,491 restaurants in operation as of December 31, 2018, and we plan to increase the number of our restaurants significantly. In 2019 we plan to open between 140 and 155 new restaurants, which is fewer than the number of restaurants opened per

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year in many prior years. We have in the past experienced delays in opening some restaurants and that could happen again as a result of any one or more of the following factors:

- our potential inability to locate and secure new restaurant sites in locations that we believe to be attractive;
- obstacles to hiring and training top performing employees in the local market;
- difficulty managing construction and development costs of new restaurants, particularly in competitive markets or when real estate development activity is robust;
 - delay or cancellation of new site development by developers and landlords, which may become increasingly common during periods of economic uncertainty, tight credit, and/or rising interest rates;
- any shortages of construction labor or materials;
- difficulty ramping up the growth of our international business or new restaurant concepts, including for the reasons described below under “—Our expansion into international markets has been limited, and may present increased risks ...” and “—Risks Unique to our Business Strategy—Pizzeria Locale and other new restaurant concepts may not contribute to our growth”;
- difficulty negotiating leases with acceptable terms;
- failures or delays in securing required governmental approvals (including construction, parking and other permits);
- lack of availability of, or inability to obtain, adequate supplies of ingredients that meet our quality standards; and
- the impact of inclement weather, natural disasters and other calamities.

One of our biggest challenges in opening new restaurants is staffing and training new restaurant teams. We seek to hire only top performing employees, train them extensively in order to help ensure we provide an outstanding guest experience, and promote many general managers from our crew, all of which may make it more difficult for us to staff all the restaurants we intend to open. Constraints on our hiring new employees are described further below under “—Risks Related to Operating in the Restaurant Industry—Our business could be adversely affected by increased labor costs...”

Another significant challenge is locating and securing an adequate supply of suitable new restaurant sites. Competition for restaurant sites in our target markets can be intense, and development and leasing costs are increasing, particularly for urban locations. These factors could negatively impact our ability to manage our occupancy costs, which may adversely impact our profitability. In addition, any of these factors may be exacerbated by economic factors, which may result in developers and contractors seeing increased demand and therefore driving up our construction and leasing costs. Moreover, as we open and operate more restaurants, our rate of expansion relative to the size of our existing restaurant base will decline, making it increasingly difficult to achieve levels of sales and profitability growth that we achieved prior to 2016. We expect this effect to be more pronounced through at least 2019, given our plan to decrease the number of new restaurants we open during the year as compared to the number of restaurants opened per year in many past years.

Our progress in opening new restaurants from quarter to quarter may also occur at an uneven rate, which may result in quarterly sales and profit growth falling short of market expectations in some periods.

If we are unable to open the number of new restaurants we plan to open, or if we decide to continue opening fewer new restaurants than we have in past years or delay or forego a significant number of planned restaurant openings, including due to any of the reasons set forth above, this would adversely affect our growth. Any resulting decrease in our sales growth rate or investor expectations for our future growth may result in declines in the price of our common stock.

Our new restaurants, once opened, may not be profitable, and may adversely impact the sales of our existing restaurants.

Historically, many of our new restaurants have opened with an initial ramp-up period typically lasting 24 months or more, during which they generate sales and income below the levels at which we expect them to normalize after the restaurant has built a customer base, and during which costs may be higher as we train new employees and adjust our food deliveries and preparation to sales volumes and peak-hour trends. If we are unable to build the customer base that we expect for new restaurant locations or overcome the higher fixed costs associated with new restaurant locations, new restaurants may not have results similar to those of our existing restaurants and may not be profitable. Our new restaurant sales volumes since the fourth quarter of 2015 have also been negatively impacted by the food safety issues described elsewhere in this report and other adverse publicity, and as a result, the initial negative effect of new restaurants on our average restaurant sales over the past two years has been of greater magnitude than we have seen in the past. This trend may continue into 2019 and beyond.

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We have also opened restaurants in nearly all major metropolitan areas across the U.S. New restaurants that we have recently opened, or may open, in existing markets may adversely impact sales in previously-opened restaurants in the same market, as guests who frequent our established restaurants begin to visit a newly-opened restaurant instead. This impact could worsen as we open additional restaurants, and could make it more difficult for us to increase comparable restaurant sales and profitability. Alternatively, existing restaurants could also make it more difficult to build the customer base for newly-opened restaurants in the same market, and could limit our growth potential if we determine that one or more of our nearby restaurants makes an otherwise viable new restaurant site unattractive to us.

In addition, in the event we are not able to contain increases in our average restaurant development costs, which could result from inflation, an increase in the proportion of higher cost locations, project mismanagement or other reasons, our new restaurant locations could also result in lower returns on our investment in such new restaurants.

Finally, our new restaurant development activity has broadened recently to incorporate trade areas or types of restaurant sites in which we have little or no prior experience, including smaller or more economically mixed communities, highway sites, outlet centers, and restaurants in airports, food courts, or on military sites. These types of sites may become more important to our restaurant growth strategy as we find fewer opportunities to open in traditional sites, given our past growth. Many of these site types may involve additional costs that we do not incur in our more traditional restaurant sites