

## CMG: Ex- options, 1Q06 In-line to Our Street High Estimate of \$0.28 and Ahead of the Street's \$0.12

### Current Estimates

#### EPS Estimates (Before SFAS 123 & ex-one time items)

FY Date	1Q	2Q	3Q	4Q	EPS	EOY P/E
<b>2005</b>	\$0.00	\$0.00	\$0.00	\$0.00	\$1.15	38.4x
<b>2006</b>	\$0.28	\$0.29 E	\$0.23 E	\$0.24 E	\$1.13 E	48.6x

\*2006FY with options \$1.01E

Source: Onboard Consulting Estimates

### Highlights

- After the close Monday, Chipotle released 1st quarter earnings of \$0.28 (with SFAS 123: \$0.26) in-line with our estimate of \$0.28, and ahead of the Street's \$0.12 estimate. Despite coming in-line, the company's earnings quality was higher than expected due to leverage and unexpected price taken in the quarter (Figure 1).
- Same-store sales (up 19.7%) included a 2.8% price increase and beat our 16.0% estimate that was based on traffic. For the full year, Chipotle raised its estimated SSS to the high single digits. In addition, the company added 15 new units in the quarter, versus our estimate of 19 additions, and reaffirmed the opening of 80-90 new units for the year.
- During the conference call, management stated that McDonald's divestiture of the company's shares should have little to no impact on Chipotle's operations. However, for the second quarter, it will incur an approximate \$1m charge related to divestiture expenses.
- Management also spoke in length of its manager training program, which is designed to drive sales as well as reduce overall turnover. They also touched on the fact that new stores are ramping up faster than before (to approximately 80-85% of established unit sales) and that the company has begun its movement to smaller boxes. Over time, these designs should not only lower the average investment cost, but the build out cost in more expensive markets.
- After reviewing our model, we are increasing our full year estimate to \$1.13 (ex-SFAS 123) from \$0.81, and raising our price target to \$64 from \$53. Much of the upside in our revised EPS comes from lower than expected share count (~\$0.12), but also reflects slightly higher gross margin expectations. Looking ahead, we continue to believe that management can control expenses, and generate 25% operating growth.

### Disclosures

#### Reg AC, Analyst Certification

I, Kelly C. Peebles, hereby certify that all the views expressed in this review, accurately reflect my personal views about the subject Company or companies and its, or their, securities. No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views contained in this review.

Please read additional disclosures located on page 5

Rating	
New:	Buy
Old:	Buy
Price Target	
New:	\$64
Old:	\$53

Price	\$59.27
Market Cap.	1842.0m
52wk Range	\$39.51-\$59.27
Div. Yld.	0.0%

2006E	
ROA	8.2%
ROE	10.2%
ROIC	7.3%
BV Per Share	\$12.46
Debt to Cap	0.0%

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*Information for Decision Makers*

## Discussion

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After the close Monday, Chipotle released 1Q06 earnings of \$0.28 (or \$0.26 including SFAS 123) versus our comparable estimate of \$0.28 and the Street's \$0.12. Despite being in-line, the company's earnings quality was higher than expected due to:

- *Higher than expected SSS*- The company reported a 19.7% increase in SSS versus our estimated increase of 16.0%. Excluding the unexpected price (2.8%) taken during the quarter, SSS was still higher than our traffic only estimate. For the full year, Chipotle also raised its estimated SSS to the high single digits. During the conference call, Management noted that despite these volumes (AUV's topped \$1.5m for the first time), the highest volume stores continue to service ever higher volumes of traffic. In addition, new stores continue to open at higher levels and are keeping pace with the comp-store base's AUV's.
- *Increased leverage from the comps*- Gross margins topped 20% for the first time and management felt confident that this margin level is sustainable into the future. In addition, the company spoke of its attempts sustain margins via price increases. In particular, in markets where it rolls-out "food with integrity", management not only raises prices to cover the higher food costs, but also opportunistically looks to raise other menu prices if they are stale.
- *Controlled G&A expense*- Excluding stock options, Chipotle beat our \$15.4m G&A expense estimate by \$1.1m, or by 7.1%. On the margin, we view this development as a significant step towards sustainable margin expansion, as this level was only the second time that the company has reported below 8.0%. Prior, we expected the company to increase G&A slightly to meet its needs in growing operations. After this result, we have modeled lower numbers, and will watch to see how management controls its spending.

During the conference call, management also provided color around its operations. One program spoken of is its manager training program, dubbed "The Restaurant Tour Program". It involves training and matriculating future managers from inside the organization to fill positions at new stores. The goal is to not only lower labor costs via lower turnover, but increase sales via incentives. We view this development as a positive, as the company's research illustrates that developed managers perform at higher levels than outside talent.

Management also addressed the pending divestiture by its parent, McDonald's. The company stated that it has spoken with suppliers, and they intend to supply Chipotle at the same, or nearly the same, price level in the future. As part of the divestiture, the company plans on taking a \$1m charge in the second quarter to cover administrative and legal expenses.



After reviewing our model, we are increasing our full year estimate to \$1.13 (ex-SFAS 123) from \$0.81, and raising our price target to \$64 from \$53. We note that some of the upside in our EPS revision reflects lower than expected full year share count (~\$0.12). However, we have also adjusted our model to incorporate slightly more leverage, as we believe in management that the company can sustain gross margins in the low 20% range. We will also look to make further adjustments to our model once the company releases its 10-Q.

Figure 1. 1Q06 estimate to actual results

	1Q05	1Q06E	1Q06A	Variations	Var %
Company Restaurant Sales	132.9	179.7	186.4	6.8	3.8%
Franchise Revenues	0.5	0.8	0.6	(0.2)	-28.9%
<b>Total Revenues</b>	<b>133.4</b>	<b>180.5</b>	<b>187.0</b>	<b>6.5</b>	<b>3.6%</b>
Food, Bev. and Pkging. Costs	43.1	57.7	59.2	1.5	2.6%
Labor Costs	39.7	51.1	52.9	1.9	3.6%
Occupancy Costs	10.5	13.5	13.9	0.3	2.5%
Other Operating Costs	17.3	24.3	23.2	(1.0)	-4.2%
<b>Restaurant Operating Profit</b>	<b>22.8</b>	<b>33.9</b>	<b>37.7</b>	<b>3.8</b>	<b>11.3%</b>
General and Administrative	11.2	15.4	14.3	(1.1)	-7.1%
Depreciation and Amortization	6.5	8.0	8.0	0.1	0.6%
Preopening Costs	0.5	0.7	1.1	0.4	55.1%
Loss on Disposal of Assets	0.3	0.0	0.6	0.6	
<b>Operating Income</b>	<b>4.4</b>	<b>9.9</b>	<b>13.7</b>	<b>3.9</b>	<b>39.1%</b>
Interest Expense (Income)	0.1	(0.2)	(0.9)	(0.7)	NM
Other Income (Expense), Net	0.0	0.0	0.0	0.0	
<b>Pre-tax Income</b>	<b>4.4</b>	<b>10.1</b>	<b>14.6</b>	<b>4.6</b>	<b>45.5%</b>
Income Taxes (Benefit)	1.8		6.1	6.1	
<b>Net Operating Income</b>	<b>\$2.6</b>	<b>\$10.1</b>	<b>\$8.6</b>	<b>(1.5)</b>	<b>-14.8%</b>
Non-recurring (Gain)		(\$3.6)	\$0.6	4.2	
<b>Net Income, Reported</b>	<b>\$2.6</b>	<b>\$13.6</b>	<b>\$8.0</b>	<b>(5.6)</b>	<b>-41.4%</b>
<b>Earnings Per Share</b>					
<b>Continuing Operations</b>	<b>\$0.10</b>	<b>\$0.28</b>	<b>\$0.28</b>	<b>(0.0)</b>	<b>-0.5%</b>
Nonrecurring Gain (Loss)	\$0.00	\$0.10	(\$0.02)	(0.1)	
<b>Reported (Diluted)</b>	<b>\$0.10</b>	<b>\$0.38</b>	<b>\$0.26</b>	<b>(0.1)</b>	<b>-31.6%</b>
Diluted Shares (Mil.)	26.3	36.3	31.1	(5.2)	-14.3%
Company Unit Margin	17.2	18.9	20.2	137 bp	
Food	32.4	32.1	31.8	(36) bp	
Labor	29.8	28.4	28.4	(4) bp	
Occupancy	7.9	7.5	7.4	(10) bp	
Other	13.0	13.5	12.5	(103) bp	
Gross Margin	17.1	18.8	20.2	140 bp	
General & Administrative Expens	8.4	8.5	7.6	(88) bp	
Depreciation and Amortization	4.8	4.4	4.3	(13) bp	
Preopening Costs	0.3	0.4	0.6	20 bp	
Operating Margin	3.3	5.5	7.3	188 bp	
Interest Expense (Income)	0.0	(0.1)	(0.5)	(38) bp	
Pretax Margin	3.3	5.6	7.8	225 bp	
Net Margin	2.0	5.6	4.6	(99) bp	
Tax Rate	40.1	0.0	41.4	NM	

Source: The company and Onboard Consulting estimates



Chipotle - Annual Earnings Model

(Dollars in millions except per-share data. Fiscal year ends Dec)

	52 weeks		52 weeks		53 weeks		52 weeks											
	2002	% Chg.	2003	% Chg.	2004	% Chg.	2005	% Chg.	2006E	% Chg.	2007E	% Chg.	2008E	% Chg.	2009E	% Chg.	2010E	% Chg.
<b>Revenue Detail</b>																		
Company Restaurant Sales	203.9	55.3%	314.0	54.0%	468.6	49.2%	625.1	33.4%	794.1	27.0%	995.4	25.3%	1,234.5	24.0%	1,517.8	22.9%	1,852.8	22.1%
Franchise Revenues	0.8	182.0%	1.5	98.3%	2.1	43.5%	2.6	22.2%	2.9	9.4%	3.1	9.2%	3.3	6.1%	3.5	6.0%	3.7	6.0%
<b>Total Revenues</b>	<b>204.6</b>	<b>55.5%</b>	<b>315.5</b>	<b>54.2%</b>	<b>470.7</b>	<b>49.2%</b>	<b>627.7</b>	<b>33.3%</b>	<b>797.0</b>	<b>27.0%</b>	<b>998.5</b>	<b>25.3%</b>	<b>1,237.8</b>	<b>24.0%</b>	<b>1,521.3</b>	<b>22.9%</b>	<b>1,856.6</b>	<b>22.0%</b>
Food, Beverage and Packaging Costs	67.7	49.6%	104.9	55.0%	154.1	46.9%	202.3	31.2%	252.3	24.7%	320.6	27.0%	401.8	25.3%	498.3	24.0%	612.7	22.9%
Labor Costs	66.5	44.4%	94.0	41.4%	139.5	48.4%	178.7	28.1%	225.5	26.2%	280.9	24.5%	338.0	20.3%	402.3	19.0%	474.5	17.9%
Occupancy Costs	18.7	59.4%	25.6	36.6%	36.2	41.5%	47.6	31.6%	59.7	25.4%	73.1	22.4%	89.0	21.7%	108.5	21.9%	130.9	20.7%
Other Operating Costs	29.8	38.2%	43.5	46.1%	64.3	47.7%	83.0	29.1%	100.9	21.6%	123.3	22.2%	147.4	19.6%	174.4	18.4%	204.7	17.3%
<b>Restaurant Operating Profit</b>	<b>21.9</b>	<b>NM</b>	<b>47.5</b>	<b>116.4%</b>	<b>76.6</b>	<b>61.4%</b>	<b>116.1</b>	<b>51.5%</b>	<b>158.5</b>	<b>36.6%</b>	<b>200.7</b>	<b>26.6%</b>	<b>261.6</b>	<b>30.3%</b>	<b>337.8</b>	<b>29.1%</b>	<b>433.7</b>	<b>28.4%</b>
General and Administrative	25.8	24.7%	34.2	32.5%	40.8	19.4%	52.0	27.2%	60.5	16.3%	71.3	17.9%	82.9	16.3%	95.4	15.1%	108.8	14.1%
Depreciation and Amortization	11.3	29.0%	15.1	34.0%	21.8	44.5%	28.0	28.5%	34.7	23.8%	41.4	19.3%	49.3	19.1%	58.2	18.0%	68.1	16.9%
Preopening Costs	1.0	(54.5%)	1.6	59.6%	2.2	34.4%	2.0	(10.1%)	4.5	129.9%	4.9	7.5%	5.2	7.5%	5.6	7.5%	6.1	7.5%
Loss on Disposal of Assets	1.5		4.5		1.7		3.1		3.2		2.1	(34.8%)	1.4	(34.8%)	2.1	51.2%	2.8	33.8%
<b>Operating Income</b>	<b>(17.6)</b>	<b>(28.7%)</b>	<b>(7.9)</b>	<b>(55.0%)</b>	<b>10.1</b>	<b>NM</b>	<b>31.0</b>	<b>NM</b>	<b>56.8</b>	<b>83.4%</b>	<b>81.1</b>	<b>42.7%</b>	<b>122.8</b>	<b>51.4%</b>	<b>176.5</b>	<b>43.7%</b>	<b>248.1</b>	<b>40.6%</b>
Interest Expense (Income)	(0.3)		(0.2)		(0.0)		0.8		(2.3)		(4.6)	100.0%	(5.5)	20.0%	(6.6)	20.0%	(7.9)	20.0%
Other Income (Expense), Net	0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0	
<b>Pre-tax Income</b>	<b>(17.3)</b>	<b>(28.0%)</b>	<b>(7.7)</b>	<b>(55.4%)</b>	<b>10.1</b>	<b>NM</b>	<b>30.2</b>	<b>198.6%</b>	<b>59.1</b>	<b>95.5%</b>	<b>85.7</b>	<b>44.9%</b>	<b>128.3</b>	<b>49.7%</b>	<b>183.1</b>	<b>42.7%</b>	<b>256.0</b>	<b>39.8%</b>
Income Taxes (Benefit)	0.0		0.0		0.0		0.0		22.3	#DIV/0!	32.6	46.1%	48.8	49.7%	69.6	42.7%	97.3	39.8%
<b>Net Operating Income</b>	<b>(\$17.3)</b>	<b>(28.0%)</b>	<b>(\$7.7)</b>	<b>(55.4%)</b>	<b>\$10.1</b>	<b>NM</b>	<b>\$30.2</b>	<b>198.6%</b>	<b>\$36.8</b>	<b>21.8%</b>	<b>\$53.1</b>	<b>44.2%</b>	<b>\$79.6</b>	<b>49.7%</b>	<b>\$113.5</b>	<b>42.7%</b>	<b>\$158.7</b>	<b>39.8%</b>
Non-recurring (Gain)	\$0.0		\$0.0		\$4.0		(\$7.5)		\$2.9									
<b>Net Income, Reported</b>	<b>(\$17.3)</b>	<b>(28.0%)</b>	<b>(\$7.7)</b>	<b>(55.4%)</b>	<b>\$6.1</b>	<b>(179.4%)</b>	<b>\$37.7</b>	<b>NM</b>	<b>\$33.9</b>	<b>(10.0%)</b>	<b>\$53.1</b>	<b>56.6%</b>	<b>\$79.6</b>	<b>49.7%</b>	<b>\$113.5</b>	<b>42.7%</b>	<b>\$158.7</b>	<b>39.8%</b>
																		104%
<b>Earnings Per Share</b>																		
Continuing Operations	(\$1.32)	(49.2%)	(\$0.50)	(62.4%)	\$0.40	(180.0%)	\$1.15	189.0%	\$1.13	(1.4%)	\$1.62	42.9%	\$2.40	48.4%	\$3.39	41.4%	\$4.97	46.6%
Nonrecurring Gain (Loss)	\$0.00		\$0.00		\$0.16		\$0.28		(\$0.09)									
<b>Reported (Diluted)</b>	<b>(\$1.32)</b>	<b>(49.2%)</b>	<b>(\$0.50)</b>	<b>(62.4%)</b>	<b>\$0.24</b>	<b>(148.4%)</b>	<b>\$1.43</b>	<b>NM</b>	<b>\$1.04</b>	<b>(27.2%)</b>	<b>\$1.62</b>	<b>55.2%</b>	<b>\$2.40</b>	<b>48.4%</b>	<b>\$3.39</b>	<b>41.4%</b>	<b>\$4.97</b>	<b>46.6%</b>
Diluted Shares (Mil.)	13.1	41.9%	15.6	18.7%	25.5	64.0%	26.4	3.3%	32.6	23.5%	32.9	0.9%	33.2	0.9%	33.5	0.9%	31.9	(4.6%)
<b>Margin Analysis (as a percent of sales, except tax rate)</b>																		
Company Unit Margin	10.76%	NM	15.12%	NM	16.35%	123 bp	18.57%	222 bp	19.96%	139 bp	20.17%	21 bp	21.19%	103 bp	22.25%	106 bp	23.41%	116 bp
Food	33.19	(125) bp	33.41	22 bp	32.90	(51) bp	32.36	(53) bp	31.77	(59) bp	32.10	33 bp	32.46	36 bp	32.76	29 bp	33.00	24 bp
Labor	32.62	(244) bp	29.94	(268) bp	29.77	(17) bp	28.59	(118) bp	27.00	(159) bp	28.13	113 bp	27.31	(82) bp	26.44	(86) bp	25.56	(89) bp
Occupancy	9.18	24 bp	8.14	(104) bp	7.72	(42) bp	7.62	(10) bp	7.35	(27) bp	7.32	(3) bp	7.19	(13) bp	7.13	(6) bp	7.05	(8) bp
Other	14.61	(180) bp	13.86	(75) bp	13.72	(14) bp	13.27	(44) bp	12.83	(45) bp	12.38	(45) bp	11.94	(45) bp	11.49	(45) bp	11.05	(45) bp
Gross Margin	10.72	NM	15.05	NM	16.28	123 bp	18.49	222 bp	19.89	140 bp	20.10	22 bp	21.14	103 bp	22.20	107 bp	23.36	116 bp
General & Administrative Expense	12.61	(311) bp	10.84	(177) bp	8.68	(216) bp	8.28	(40) bp	7.59	(69) bp	7.14	(45) bp	6.70	(44) bp	6.27	(43) bp	5.86	(41) bp
Depreciation and Amortization	5.50	(113) bp	4.78	(72) bp	4.63	(15) bp	4.46	(17) bp	4.31	(16) bp	4.15	(16) bp	3.99	(16) bp	3.83	(16) bp	3.67	(16) bp
Preopening Costs	0.50	(121) bp	0.52	2 bp	0.47	(5) bp	0.31	(15) bp	0.57	25 bp	1.52	95 bp	1.30	(22) bp	1.13	(17) bp	0.99	(14) bp
Operating Margin	(8.62)	NM	(2.51)	NM	2.15	NM	4.94	279 bp	7.13	219 bp	8.12	99 bp	9.92	180 bp	11.60	168 bp	13.36	176 bp
Interest Expense (Income)	(0.17)	38 bp	(0.07)	10 bp	(0.00)	7 bp	0.12	12 bp	0.12	0 bp	(0.00)	(12) bp	(0.00)	0 bp	(0.00)	0 bp	(0.00)	0 bp
Pretax Margin	(8.45)	NM	(2.44)	NM	2.15	NM	4.82	267 bp	7.42	260 bp	8.58	116 bp	10.37	179 bp	12.04	167 bp	13.79	175 bp
Net Margin	(8.45)	NM	(2.44)	NM	2.15	NM	4.82	267 bp	4.62	(19) bp	5.32	70 bp	6.43	111 bp	7.46	103 bp	8.55	109 bp
Tax Rate	0.00	0 bp	0.00	0 bp	0.00	0 bp	0.00	0 bp	37.69	NM	38.00	31 bp	38.00	0 bp	38.00	0 bp	38.00	0 bp

05/08/06

Source: The company and Onboard Consulting estimates.



## Disclosures

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### Reg AC, Analyst Certification

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<b>Company</b>	<b>5.8.2006</b>	<b>Initiation Price</b>	<b>12-month Target Price</b>
IHOP Corporation (IHOP)	\$50.20	\$47.35	\$50
Chipotle (CMG)	\$59.27	\$45.48	\$64

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**Distribution of Rankings**

Ranking	Definition
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Neutral	Stocks ranked "Neutral" are those stocks Onboard would continue to hold in a portfolio. These are stocks that are making progress strategically and operationally but are not expected to demonstrate significant appreciation in the next 12 to 18 months.
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Distribution of Rankings Breakdown

	Buy	Neutral	Sell
<b>Companies Ranked</b>	50 %	50%	0%

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**Company Ranking Time Definition**

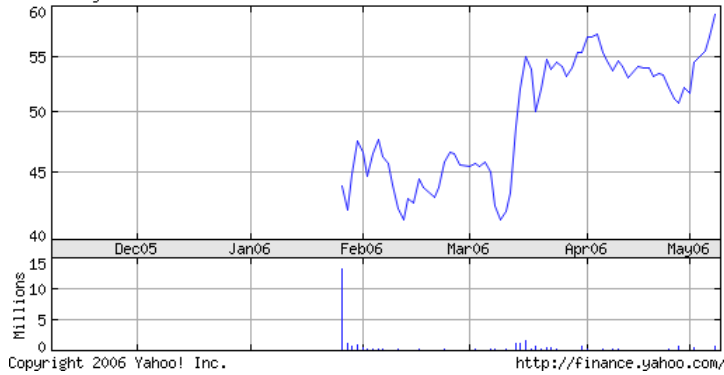
**IHP**



Initiation 12-26-2005	"Hold" 12-26-2005			
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## CMG

CHIPOTLE MEXICAN GRILL INC  
as of 8-May-2006



Initiation 3-3-2006	"Buy" 3-3-2006			
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