

CMG: 1Q06 Preview

Current Estimates

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

FY Date	1Q	2Q	3Q	4Q	EPS	EOY P/E
2005	\$0.00	\$0.00	\$0.00	\$0.00	\$1.15	38.4x
2006	\$0.28 E	\$0.18 E	\$0.17 E	\$0.17 E	\$0.81 E	68.0x

*2006FY with options \$0.71E

Source: Onboard Consulting Estimates

Highlights

- After the close Monday, Chipotle is expected to release 1st quarter earnings. We expect the company to report income of \$0.28 per share (excluding a \$0.13 gain from expected pre-IPO tax benefits and a \$0.03 loss from stock options expensing) (Figure 1).
- Our estimate includes a 16.0% increase in same-store sales (versus our prior estimate of up 12.0%) gain and the addition of 19 new units in the quarter. Our SSS estimate is based on how the company has lapped over its 2-year run rate in the past few quarters (beat by an average of 11.8%) and its relatively easy comparison in the first quarter of 2005 (positive 4.1%). Over the past three quarters, the average 2-year comparison was 35.0% (Figure 2), and the average increase over this comparison was 11.8%. For the full year, we also raised our SSS estimate to 13.8%.
- During the conference call, we hope to hear information on any tax and operational effects from the recent MCD announcement that it is divesting itself from Chipotle. Other areas of interest during the call will be any information about how fast new restaurants are ramping up, new operational improvements in the stores, and if the company has begun the transition to smaller boxes.
- Based on our estimates, we maintain our Buy rating and \$53 price target. We would adjust our price target to \$55 based on our current expectations, but we will wait to see if the company meets our estimates for the quarter. We caution that at this level, the stock is trading at 45.9x our 2007E EPS, and if sales unexpectedly slow, the company could pull back from its current level. Our longer-term confidence in the stock stems from higher than expected SSS, improved ramp-up time, and a benchmark rate of 25% operating growth.

Disclosures

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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:	\$53
Old:	\$53

Price	\$56.90
Market Cap.	2064.5m
52wk Range	\$39.51-\$58.00
Div. Yld.	0.0%

2006E	
ROA	6.8%
ROE	8.3%
ROIC	6.9%
BV Per Share	\$10.76
Debt to Cap	0.0%

Inside this report:

Discussion	2
Models	4
Disclosures	5

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Information for Decision Makers

Discussion

After the close Monday, Chipotle is expected to release 1st quarter earnings. We expect the company to report income of \$0.28 per share (excluding a \$0.13 gain from expected pre-IPO tax benefits and a \$0.03 loss from stock options expensing) (Figure 1). Our estimate expects:

- A 16.0% increase in same-store sales (up from our prior estimated increase of 12.0%) and the addition of 19 new units in the quarter. Our SSS estimate is based on:
 - 1) How the company has lapped over its 2-year run rate in the past few quarters (beat by an average of 11.8%)

Over the past three quarters, the average 2-year comparison was 35.0%, and this quarter it is 27.3% (Figure 2). It beat its previous 2-year comparison by an average of 11.8%. So, we are comfortable with our 16.0%E increase in 1Q06, as it would be a deceleration of this trend to 43.3% and of its 2 year trend to 20.1% from 23.8%.
 - 2) Its relatively easy comparison in the first quarter of 2005 (positive 4.1%). This comp is the easiest the company has faced in the 3 years of data we have.

Using the same methodology, we also decided to raise our SSS estimate to 13.8% for the full year.

- Since we do not have much data on 1Q05, we are using 4Q05 as a benchmark. As such, we are expecting a slight gross margin improvement (23 bps.) and operating margin improvement (100 bps.) over last quarter. We believe that long-term margin gains will take several quarters to be established. In the meantime, investors seem content with the company's expected top-line growth.
- During the conference call, we hope to hear information on any tax and operational effects from the recent MCD announcement that it is divesting itself from Chipotle. Given the complex tax situation between MCD and CMG, we have not made any adjustments to our model for the divestiture. We also hope to hear how the company plans to deal with the potential loss of its distribution network (McDonald's owns 13 of the 16 centers CMG uses).

Other areas of interest during the call will be any information about how fast new restaurants are ramping up, new operational improvements in the stores (to help expand margins), and if the company has begun the transition to smaller boxes.



After reviewing our model, we are maintaining our full year 2006 estimate of \$0.81 (excluding \$0.12 in stock option expense and a \$0.13 tax benefit) (Figure 1). We are also maintaining our Buy rating and \$53 price target. We would be adjusting the price target to \$55 based on our current expectations, but we will wait to see if the company comes in-line for the quarter. We caution that at this level, the stock is trading at 45.9x our 2007E EPS, and if sales unexpectedly slow, the company could pull back from its current level. Our longer-term confidence in the stock stems from higher than expected SSS, improved ramp-up time, and a benchmark rate of 25% operating growth.

Figure 1. Estimated 1Q06 results

	4Q05	1Q06E	Variances	Var %
Company Restaurant Sales	172.5	179.7	7.2	4.2%
Franchise Revenues	0.8	0.8	0.0	2.5%
Total Revenues	173.3	180.5	7.2	4.2%
Food, Bev. and Pkging. Costs	55.4	57.7	2.3	4.2%
Labor Costs	49.0	51.1	2.0	4.2%
Occupancy Costs	13.1	13.5	0.4	3.2%
Other Operating Costs	23.6	24.3	0.7	2.9%
Restaurant Operating Profit	32.2	33.9	1.7	5.4%
General and Administrative	14.8	15.4	0.6	4.2%
Depreciation and Amortization	7.6	8.0	0.3	4.2%
Preopening Costs	0.7	0.7	(0.0)	-1.1%
Loss on Disposal of Assets	1.3	0.0	(1.3)	-100.0%
Operating Income	7.7	9.9	2.1	27.6%
Interest Expense (Income)	0.1	(0.2)	(0.3)	NM
Other Income (Expense), Net	0.0	0.0	0.0	
Pre-tax Income	7.6	10.1	2.4	32.0%
Income Taxes (Benefit)	3.4		(3.4)	-100.0%
Net Operating Income	\$4.3	\$10.1	5.8	136.1%
Non-recurring (Gain)		(\$3.6)	(3.6)	
Net Income, Reported	\$4.3	\$13.6	9.4	NM
Earnings Per Share				
Continuing Operations	\$0.16	\$0.28	0.1	71.6%
Nonrecurring Gain (Loss)	\$0.00	\$0.10	0.1	
Reported (Diluted)	\$0.16	\$0.38	0.2	132.5%
Diluted Shares (Mil.)	26.4	36.3	9.9	37.6%

Source: The company and Onboard Consulting estimates

Figure 2. SSS trends

	Past 3 Qtrs Avg.	1Q06E
SSS: 2-year	35.0%	27.3%
Incr/Decr	11.8%	16.0%
3-yr Avg.	46.8%	43.3%

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.	2011E	% Chg.	
Revenue Detail																					
Company Restaurant Sales	203.9	55.3%	314.0	54.0%	468.6	49.2%	625.1	33.4%	764.9	22.4%	929.5	21.5%	1,123.1	20.8%	1,350.8	20.3%	1,618.4	19.8%	1,932.6	19.4%	
Franchise Revenues	0.8	182.0%	1.5	98.3%	2.1	43.5%	2.6	22.2%	3.5	34.8%	4.5	28.5%	5.5	21.1%	6.5	18.4%	7.6	16.4%	8.7	14.8%	
Total Revenues	204.6	55.5%	315.5	54.2%	470.7	49.2%	627.7	33.3%	768.4	22.4%	934.0	21.6%	1,128.6	20.8%	1,357.3	20.3%	1,625.9	19.8%	1,941.3	19.4%	
Food, Beverage and Packaging Costs	67.7	49.6%	104.9	55.0%	154.1	46.9%	202.3	31.2%	245.8	21.5%	300.8	22.4%	365.5	21.5%	441.6	20.8%	531.2	20.3%	636.4	19.8%	
Labor Costs	66.5	44.4%	94.0	41.4%	139.5	48.4%	178.7	28.1%	217.5	21.7%	260.7	19.9%	303.8	16.5%	351.8	15.8%	405.6	15.3%	465.6	14.8%	
Occupancy Costs	18.7	59.4%	25.6	36.6%	36.2	41.5%	47.6	31.6%	56.8	19.3%	66.9	17.7%	78.5	17.4%	92.5	17.9%	108.1	16.8%	126.0	16.6%	
Other Operating Costs	29.8	38.2%	43.5	46.1%	64.3	47.7%	83.0	29.1%	101.3	22.1%	115.1	13.6%	134.1	16.5%	155.2	15.8%	178.8	15.2%	204.9	14.6%	
Restaurant Operating Profit	21.9	NM	47.5	116.4%	76.6	61.4%	116.1	51.5%	147.0	26.7%	190.6	29.6%	246.9	29.5%	316.1	28.0%	402.4	27.3%	508.5	26.4%	
General and Administrative	25.8	24.7%	34.2	32.5%	40.8	19.4%	52.0	27.2%	65.1	25.2%	77.4	18.9%	91.4	18.1%	107.3	17.4%	125.4	16.9%	146.0	16.4%	
Depreciation and Amortization	11.3	29.0%	15.1	34.0%	21.8	44.5%	28.0	28.5%	35.1	25.2%	38.7	10.4%	45.0	16.1%	51.9	15.4%	59.6	14.8%	68.1	14.2%	
Preopening Costs	1.0	(54.5%)	1.6	59.6%	2.2	34.4%	2.0	(10.1%)	2.8	43.0%	3.2	13.8%	3.6	13.8%	4.1	13.8%	4.7	13.8%	5.4	13.8%	
Loss on Disposal of Assets	1.5		4.5		1.7		3.1		1.5		2.1	39.6%	2.9	39.6%	3.6	23.9%	4.3	19.3%	5.0	16.2%	
Operating Income	(17.6)	(28.7%)	(7.9)	(55.0%)	10.1	NM	31.0	NM	44.4	43.3%	69.2	55.8%	103.9	50.2%	149.1	43.5%	208.3	39.7%	284.0	36.3%	
Interest Expense (Income)	(0.3)		(0.2)		(0.0)		0.8	NM	(2.3)	NM	(4.6)	100.0%	(5.5)	20.0%	(6.6)	20.0%	(7.9)	20.0%	(9.5)	20.0%	
Other Income (Expense), Net	0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		0.0		
Pre-tax Income	(17.3)	(28.0%)	(7.7)	(55.4%)	10.1	NM	30.2	198.6%	46.7	54.5%	73.8	58.0%	109.4	48.3%	155.7	42.3%	216.2	38.9%	293.5	35.7%	
Income Taxes (Benefit)	0.0		0.0		0.0		0.0		17.1	#DIV/0!	28.0	63.7%	41.6	48.3%	59.2	42.3%	82.2	38.9%	111.5	35.7%	
Net Operating Income	(\$17.3)	(28.0%)	(\$7.7)	(55.4%)	\$10.1	NM	\$30.2	198.6%	\$29.6	(2.2%)	\$45.7	54.7%	\$67.8	48.3%	\$96.5	42.3%	\$134.1	38.9%	\$182.0	35.7%	
Non-recurring (Gain)	\$0.0		\$0.0		\$4.0		(\$7.5)		(\$0.8)												
Net Income, Reported	(\$17.3)	(28.0%)	(\$7.7)	(55.4%)	\$6.1	(179.4%)	\$37.7	NM	\$30.3	(19.5%)	\$45.7	50.8%	\$67.8	48.3%	\$96.5	42.3%	\$134.1	38.9%	\$182.0	35.7%	

CAGR
(2006E-2011E)
20.37%
19.74%
20.36%
0.0
20.96%
16.45%
17.26%
15.13%
28.17%
#DIV/0!
14.16%
13.75%
44.93%
44.43%
45.46%
43.82%
43.09%

Earnings Per Share

Continuing Operations	(\$1.32)	(49.2%)	(\$0.50)	(62.4%)	\$0.40	(180.0%)	\$1.15	189.0%	\$0.81	(29.4%)	\$1.24	53.4%	\$1.83	47.1%	\$2.58	41.1%	\$3.56	38.3%	\$4.84	35.7%
Nonrecurring Gain (Loss)	\$0.00		\$0.00		\$0.16		\$0.28		\$0.02											
Reported (Diluted)	(\$1.32)	(49.2%)	(\$0.50)	(62.4%)	\$0.24	(148.4%)	\$1.43	NM	\$0.83	(41.9%)	\$1.24	49.6%	\$1.83	47.1%	\$2.58	41.1%	\$3.56	38.3%	\$4.84	35.7%
Diluted Shares (Mil.)	13.1	41.9%	15.6	18.7%	25.5	64.0%	26.4	3.3%	36.6	38.6%	36.9	0.8%	37.2	0.8%	37.5	0.8%	37.6	0.4%	37.6	0.0%

43.00%
42.28%
0.57%

Margin Analysis (as a percent of sales, except tax rate)

Company Unit Margin	10.76%	NM	15.12%	NM	16.35%	123 bp	18.57%	222 bp	19.22%	65 bp	20.51%	128 bp	21.98%	147 bp	23.40%	142 bp	24.86%	146 bp	26.31%	145 bp
Food	33.19	(125) bp	33.41	22 bp	32.90	(51) bp	32.36	(53) bp	32.13	(23) bp	32.20	7 bp	32.38	18 bp	32.54	15 bp	32.67	13 bp	32.78	11 bp
Labor	32.62	(244) bp	29.94	(268) bp	29.77	(17) bp	28.59	(118) bp	27.00	(159) bp	27.91	91 bp	26.91	(100) bp	25.92	(99) bp	24.94	(98) bp	23.99	(96) bp
Occupancy	9.18	24 bp	8.14	(104) bp	7.72	(42) bp	7.62	(10) bp	7.40	(22) bp	7.16	(24) bp	6.95	(21) bp	6.82	(14) bp	6.65	(17) bp	6.49	(16) 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	10.60	(45) bp
Gross Margin	10.72	NM	15.05	NM	16.28	123 bp	18.49	222 bp	19.13	64 bp	20.41	127 bp	21.87	146 bp	23.29	141 bp	24.75	146 bp	26.19	144 bp
General & Administrative Expense	12.61	(311) bp	10.84	(177) bp	8.68	(216) bp	8.28	(40) bp	8.47	19 bp	8.29	(18) bp	8.10	(19) bp	7.91	(19) bp	7.71	(19) bp	7.52	(19) 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	3.51	(16) bp
Preopening Costs	0.50	(121) bp	0.52	2 bp	0.47	(5) bp	0.31	(15) bp	0.37	5 bp	1.07	70 bp	1.00	(7) bp	0.94	(6) bp	0.89	(5) bp	0.84	(4) bp
Operating Margin	(8.62)	NM	(2.51)	NM	2.15	NM	4.94	279 bp	5.78	84 bp	7.41	163 bp	9.21	180 bp	10.98	177 bp	12.81	183 bp	14.63	182 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)	(13) bp	(0.00)	0 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	6.08	126 bp	7.90	182 bp	9.69	180 bp	11.47	177 bp	13.30	183 bp	15.12	182 bp
Net Margin	(8.45)	NM	(2.44)	NM	2.15	NM	4.82	267 bp	3.85	(97) bp	4.90	105 bp	6.01	111 bp	7.11	110 bp	8.24	113 bp	9.37	113 bp
Tax Rate	0.00	0 bp	0.00	0 bp	0.00	0 bp	0.00	0 bp	36.67	NM	38.00	133 bp	38.00	0 bp	38.00	0 bp	38.00	0 bp	38.00	0 bp

05/07/06

Source: The company and Onboard Consulting estimates.



Disclosures

Reg AC, Analyst Certification

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Research Coverage Universe

Company	5.8.2006	Initiation Price	12-month Target Price
IHOP Corporation (IHOP)	\$50.47	\$47.35	\$50
Chipotle (CMG)	\$56.90	\$45.48	\$53

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Distribution of Rankings

Ranking	Definition
BUY	Stocks ranked "Buy" are those stocks Onboard recommend actively buying. These are stocks that are demonstrating their vision while meeting expectation and should appreciate at least 15% over the next 12 to 18 months.
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.
SELL	Stocks ranked "Sell" are those Onboard would sell; these are stocks that appear not to be able to fulfill or deliver on their disclosed milestones and are expected to depreciate at least 15% over the next 12 to 18 months.

Distribution of Rankings Breakdown

	Buy	Neutral	Sell
Companies	50 %	50%	0%

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Company Ranking Time Definition

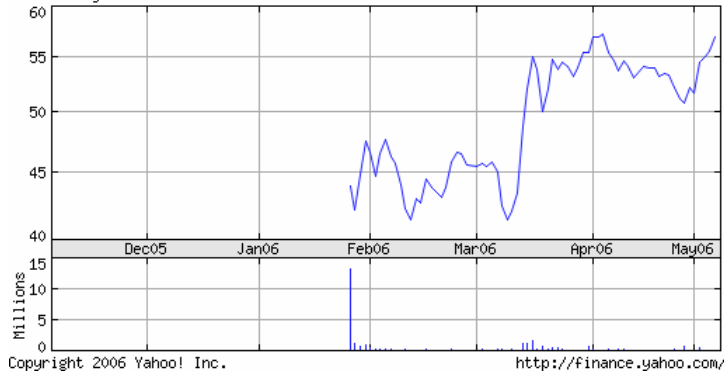
IHP



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

CHIPOTLE MEXICAN GRILL INC
as of 5-May-2006



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