

A case study: Pershing Square's acquisition decision – To buy or not to buy

Graig P. Arcuri

State University of New York at Oswego, USA

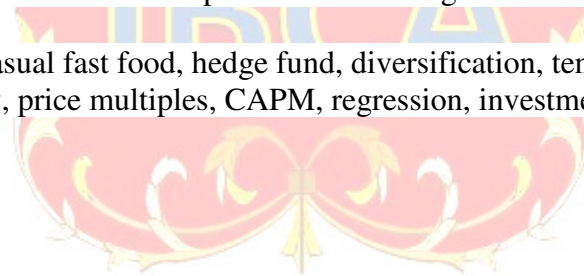
Susan Wright

State University of New York at Oswego, USA

ABSTRACT

In this finance case, students evaluate the investment decision making process of an investment hedge fund for assessing a take-over candidate. The case uses real-world information extracted from multiple sources to analyze Pershing Square's decision to acquire, through outright stock purchases, a controlling interest in Chipotle Mexican Grill, Inc. Students identify the factors that drive hedge fund take-over decisions, evaluate a firm as a takeover candidate, and identify the factors that improve investment performance. The basics of financial valuation (discounted free cash flow), cost of equity calculations using CAPM, use of multiples, and regression analysis are necessary to successfully navigate the case. The case can be used at the undergraduate (400) or graduate level and is most suitable for a course in advanced corporate financial management or a course with topics related to mergers and acquisitions.

Keywords: Restaurant, casual fast food, hedge fund, diversification, tender offer, takeover, discounted free cash flow, price multiples, CAPM, regression, investment objectives, public relations crisis



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INTRODUCTION

In September of 2016, Pershing Square Holdings, Ltd. acquired approximately 10% of Chipotle Mexican Grill's total float. Many analysts and investment contributors were surprised by this decision. Chipotle's had a public relations problem stemming from a 2015 food poisoning episode. (Bryan, 2016; Cohan, 2016). Other public relations issues, such as Wendy's chili (in which a human finger was found) and Tylenol's sabotage poisoning in 1982 had resulted in publicity night mares with detrimental consequences (Manning, 2016, Markel, 2014). Many wondered if Chipotle had resolved their food crisis dilemma and if the stock could recover given new entrants in the marketplace (Maxfield, 2017).

Pershing's chief investment managing member, Bill Ackman, a well-known stock activist, was optimistic. According to Ackman, working a turnaround in the fast food restaurant industry was one of Pershing Square's areas of expertise (Goldstein, 2016).

PERSHING SQUARE HOLDINGS, LTD. COMPANY BACKGROUND

Pershing Square Holdings, Ltd. is a publicly traded (symbol PSH), closed-end investment scheme. PSH was incorporated in 2012 and public shares commenced trading on Euronext Amsterdam N.V. on October 13, 2014. PSH historical performance versus the S&P 500 is quite volatile. In 2013, PSH Net Return = 9.6%, S&P 500 = 32.4%; in 2014 PSH Net Return = 40.4%, S&P 500 = 13.7%; in 2015 PSH Net Return = (20.5) %, S&P 500 = 1.4%; and 2016 PSH Net Return = (13.5%), S&P 500 = 11.9%. On a cumulative basis from 2013-2016, PSH Net Return = 5.8%, S&P 500 = 70.7%. On a compound, annual return basis from 2013-2016, PSH Net Return = 1.4%, S&P 500 = 14.3%. (Pershing Square Holdings, Ltd., 2016 Annual Report, page 6.)

The Company's investment objective is capital preservation with maximum, long-term capital appreciation commensurate with reasonable risk. They seek to achieve this objective through long and short positions in equity and/or debt securities of public US and non-US issuers, derivative instruments, and any other instruments that achieve the investment objectives (Pershing Square Holdings, Ltd., 2016 Annual Report, page 1).

Currently, Pershing Square Holdings, Ltd. portfolio of investments includes the following companies: Air Products and Chemicals, Inc. (APD), Chipotle Mexican Grill, Inc. (CMG), Fannie Mae (FNMA)/Freddie Mac (FMCC), Herbalife Ltd. (HLF – short), The Howard Hughes Corporation (HHC), Mondelez International (MDLZ), Nomad Food (NOMD), Platform Specialty Products Corporation (PAH), and Restaurant Brands International, Inc. (QSR). At year end, 2016, long positions in equity securities were valued at \$2,636,767,173 and in derivative financial instruments at \$1,022,162,881. Short positions in equity securities were valued at \$385,314,274 and in derivative financial instruments at \$190,734,223. Industry sector investments in equity securities (long and short) included Chemicals, Consumer Products, Financial Services, Healthcare, Industrial Chemicals, Real Estate Development, Restaurants, and Transportation. Derivative instruments (long and short) included Consumer Products, Healthcare, Industrial Chemicals, and Real Estate. (Pershing Square Holdings, Ltd., 2016 Annual Report, pages 12-18; 51-52)

During the year ended December 31, 2016 Pershing Square Holdings, Ltd. net asset value (NAV) fell by 13.5%, ending the year at \$18.14 per share. The shares ended the trading session for the year at December 30, 2016 at \$14.54 per share; a discount to NAV at year end. Over the course of the year, the shares traded at a discount to NAV most of the year reaching a peak of

over 22% in November 2016 and ending the year at 19.8% on December 31, 2016. (Pershing Square Holdings, Ltd., 2016 Annual Report, page 4)

CHIPOTLE MEXICAN GRILL, INC. COMPANY BACKGROUND

Chipotle Mexican Grill, Inc. (NYS: CMG) and its subsidiaries operate Chipotle Mexican Grill restaurants, Tasty Made Burgers, and Pizza Locale restaurants. As of December 31, 2016, Chipotle operated 2,198 restaurants throughout the United States, as well as 29 international Chipotle restaurants. They also operated one Tasty Made restaurant (burgers, fries and shakes), seven Pizzeria Locale restaurants in the US, and fifteen Shop House Southeast Asian Kitchen restaurants. (Chipotle Mexican Grill, Inc., 2016 10K, page 3)

Chipotle's claim to fame is based on three principles – using fresh whole ingredients, preparing ingredients in the restaurant using classic cooking techniques, and serving food in an interactive format where customers get to pick and choose what they want. Chipotle was one of the first of its kind - a fast-casual food restaurant – and industry growth in this sector has been strong. Chipotle's growth rate (# of restaurant locations) has averaged around 12% per year. Other fast-casual restaurants have entered the fast-growing segment in recent years including Panera Bread, Au Bon Pain, Qdoba, and Five Guys. (Chipotle Mexican Grill, Inc., 2016 10K, page 3; 2015 10K, page 3)

Trouble began in late summer 2015 when more than 200 people were sickened with the Norovirus after eating at one of its restaurants in Simi Valley, CA. Shortly thereafter, 64 people got salmonella poisoning at restaurants in Minnesota and Wisconsin. In November of 2015, several persons contracted Escherichia coli from select Chipotle restaurants at various locations across the US causing many of them to shut down for a period of time (Strom, 2016). The news quickly spread from local to national stations, and as a result Chipotle's revenues suffered greatly in FY 2016. In 2015, revenues peaked above \$4.5bn, and by the end of FY 2016 Chipotle's revenues were just above \$3.9bn, or slightly below FY 2014 revenues. In response to safety concerns, Chipotle hired a food safety expert to examine and improve food safety practices, maintaining its use of fresh ingredients and its interactive food delivery format. Chipotle stock, which once soared above \$700 per share, plummeted to under \$400 per share following the e-coli outbreak.

Pershing Square acquired Chipotle in early September 2016 and paid approximately \$414 per share to acquire a 9.9% ownership interest in Chipotle in early September 2016. The stock struggled in the 4th quarter of 2016 and closed the year at approximately \$378 per share. Pershing and Chipotle reached a settlement in December that gave them two seats on the Chipotle board of directors (Saleem, 2016 & Yurieff, 2016).

Bill Ackman, Pershing's chief investment manager, was now on the board. In March 2017, Chipotle announced it would close all fifteen ShopHouse Southeast Asian Kitchen restaurants and would consider closing the burger and pizza chains citing profitability concerns (Munarriz, R, 2017 & Taylor, K, 2017). In April 2017, Chipotle announced it would increase its prices by 5% in many locations in the US (Segarra, 2017).

Since the beginning of 2017, Chipotle's stock price has increased over 25%, however, a significant portion of Chipotle outstanding shares (16% at May 14, 2017, down from more than 20% at year-end) have been sold short in anticipation of the stock falling (Maxfield, 2017). First quarter, 2017 results look promising. Sales revenue is up 28% over first quarter 2016 (\$1,068,829 versus \$834,459 in thousands), while operating expenses are up 13% in comparison.

In 2017, operating margins are 7% in the 1st quarter 2017 and profit margins are 4.32% in 1st quarter (Chipotle Mexican Grill, Inc., 10Q, 1st Quarter 2017).

QUESTIONS

1. Identify the significant factors that make Chipotle Mexican Grill, Inc. an attractive investment for Pershing Square Holding, Ltd.
2. Why would PSH require a controlling interest in Chipotle Mexican Grill, Inc.? What are their goals for CMG as an investment? Why did Pershing Square need a presence on the Chipotle Board of Directors?
3. Chipotle closed its Asian food subsidiary in Spring 2017. Explain why. Why are they considering the sale of their burger and pizza subsidiaries?
4. Chipotle's cost of labor increased from 23% of sales in 2015 to 28% of sales in 2016. Provide possible reasons for this increase in the cost of labor (in dollars and as a percent of sales) when total sales revenue declined from 2015 to 2016. What do you recommend they do to contain these costs and improve profitability?
5. Using Table 1 – CMG and S&P 500 Monthly Returns, compute the beta statistic for Chipotle Mexican Grill, Inc. Use regression analysis, slope function or Covariance of CMG and S&P 500/Variance of S&P500.
6. Using Table 1, CMG and S&P 500 Monthly Returns, calculate the annual return, R_m on the S&P 500 (hint: compute the monthly average of the S&P 500 statistics. Then use the following formula: $EAR = (1 + AVE\ MO\ S\&P\ 500)^{12} - 1$).
7. Using the answers from questions 3 and 4 above, calculate the cost of equity capital for CMG using the Capital Asset Pricing Model. Assume the monthly T-bill rate on 12-31-16 is 0.504%. https://www.treasurydirect.gov/govt/rates/pd/avg/2016/2016_12.htm
8. Does CMG use long-term debt as part of their capital structure? Why or why not? Does the answer to this question make CMG more attractive as a takeover candidate?
9. Calculate CMG's weighted average cost of capital. Assume 100% equity financing.
10. Assume the growth rate = retention rate x ROE. Calculate the growth rate for CMG for 2016, 2015, 2014, and 2013. Use Tables 2, 3 & 4, CMG Balance Sheet and CMG Income Statement, CMG's Statement of Cash Flows. Note that CMG pays no dividends.
 - a. The retention rate = $(NI - \text{Treasury Stock Repurchases during year}) / NI$.
 - b. $ROE = NI / \text{Average Equity}$.
11. Estimate a forward growth rate for projecting future cash flows.
12. Using Table 4, Statement of Cash Flows, derive a FCF estimate for 2017. Assume that FCF can be estimated by using Cash Flows from Operating Activities minus investments in leasehold improvements, property and equipment. Base your FCF estimates on 2016 and 2015 cash flows.
13. Estimate the price of CMG on 12-31-16 using the DCF method. Actual closing price on 12-31-16 was \$377.32.
14. The PE ratio for CMG on 12-31-16 was very high as a result of the low EPS figure at year-end ($PE = P/EPS$, $\$377.32/0.78 = 483.74$). Using Table 5, PE Ratios of competitor firms, evaluate CMG. Using the average PE ratio of competitor firms and the 2015 EPS figure ($PE \times EPS = PRICE$), what estimate price is derived for Chipotle? Using the average PE ratio of competitor firms and the 2016 EPS figure, what estimate is derived? What do you make of it?

15. Given your answers from above, do you believe Chipotle is under/over or fairly valued at close of business on 12-31-16?
16. What should the new board members from Pershing Square suggest to further improve Chipotle's operating performance? Did they make a wise choice in acquiring a controlling interest in Chipotle Mexican Grill, Inc.? Did Pershing Square achieve their investment objectives?

ANSWERS

1. Chipotle's stock price had declined significantly and had reached a near bottom. The impact of the e-coli outbreak had been absorbed and the potential for improvement was great. Chipotle also had a strong liquidity position, no long-term debt, and a history of not paying dividends. It was a strong candidate for leveraging up and repurchasing shares to boost stock price. It had historically significant margins and profitability. Pershing also has experience in this industry sector and it fits in well with their current sector selections for diversification purposes. Other factors that create attractive takeover bids include:
 - a. Competitive advantage in its industry
 - b. Potential for new products to boost market share
 - c. Significant portion of shorted shares
2. Pershing Square Holdings, Inc. has a history of investing in companies that are temporarily in trouble. Those they think will improve, they purchase a long position. Those they think will not, they short. From the 2016 Annual Report, PSH identified these drivers:
 - a. A strong and relevant brand built by visionary leadership
 - b. A differentiated product offering with a highly attractive value proposition
 - c. Substantial scale in the fast-casual food industry and first-mover advantage in real estate
 - d. Strong unit economics and extremely high returns on capital, driven by a well-honed model that facilitates best-in-class throughput; and
 - e. Enormous growth opportunities including new units and operating enhancements such as mobile ordering and catering.
3. Chipotle sold its Asian subsidiary to eliminate losses and cash burn and to focus on its primary business. The same reasons would apply to the burger and pizza businesses.
4. Possible reasons for increases in labor costs include:
 - a. Increase cost of labor (minimum wage hikes)
 - b. Labor inefficiencies in response to declining sales
 - c. Increase in labor costs to address health scare issues
5. The beta statistic is 0.6112.
6. $R_m = 12.98\%$
7. $R_e = 10.4\%$ (R_f , annual = 6.22%)
8. Chipotle does not use long-term, interest bearing debt in their structure. They have significant long-term rental agreements and do not wish to use additional leverage in the

structure. Yes, the lack of long-term debt makes Chipotle a stronger candidate for leveraging the firm and repurchasing shares for the purpose of increasing the stock price.

9. The WACC = $R_e = 10.4\%$
10. RR 2016 = (3,551.8%); RR 2015 = 3.1%; RR 2014 = 80.2%; RR 2013 = 57.6%. ROE 2016 = 1.3%; ROE 2015 = 23%; ROE 2014 = 25.1%; ROE 2013 = 23.5%. G 2016 (negative); G 2015 = 0.713%; G 2014 = 20.1%; G 2013 = 13.5%.
11. A conservative estimate would range between 5 and 7%.
12. FCF 2016 = CFOA – Investments in PPE; FCF 2016 = 349,242 – 258,842 = 90,400. FCF 2015 = CFOA – Investments in PPE; FCF 2015 = 683,316 – 257,418 = 425,898
13. Price; FCF 2017 using 2016 info = $90,400(1.06) / (.104 - .06) = \74.42 ; FCF 2017 using 2015 info = $425,898(1.06)/(.104-.06) = \350.59 . Using the cash flows from 2015 provides an answer much closer to the actual price of \$377.32.
14. Average PE of competitor firms = 33.45 x 2015 EPS of \$15.30 = \$511.79; significantly higher than Chipotle's current price. If Chipotle could return to prior EPS results, the PE ratio would be representative of its current stock price ($\$377.32/33.45 = \11.28 per share).
15. A lot of Chipotle's value is tied up in their ability to return to previous profit levels. There's a lot of competition in the casual fast food industry. Customers must be enticed to return. Chipotle might need to create new product offerings to attract new clientele and restore its prior levels of product demand. In addition, costs should be managed properly to maintain adequate margins and profitability for future payouts and investments.
16. Pershing Square will continue to manage the Chipotle investment carefully, positioning the firm to improve revenues and reduce expenses and restore confidence in the brand. Continued international expansion of stores into markets that have not been penetrated by other competitors in the casual fast food market is also likely. Pershing may also suggest a change in management and new hires to generate fresh ideas and enthusiasm for moving the company forward.

CONCLUSION

Students identify and evaluate a takeover decision through a real-world scenario, including the implications for both organizations. This case illustrates a complex situation where both the acquisition target and the acquirer are underperforming. Students are required to think deeply about what drives the takeover decision by the acquiring firm, in conjunction with traditional techniques for valuing equity investments.

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APPENDIX

Table 1. Chipotle Mexican Grill, Inc. and S&P 500 Monthly Returns, 2012 – 2017

Return statistics were generated using stock prices from www.Yahoo.Finance , Historical Returns for the periods of analysis.

TABLE 1		
CMG and S&P 500 Monthly Returns, in decimals		
January 1, 2012 through January 1, 2017		
Date	CMG	S&P 500
1/1/12	0.087493365	0.043583042
2/1/12	0.062430209	0.040589464
3/1/12	0.071190608	0.031332315
4/1/12	-0.009210541	-0.007497453
5/1/12	-0.002607719	-0.062650726
6/1/12	-0.080180101	0.039554982
7/1/12	-0.230609349	0.012597574
8/1/12	-0.012622626	0.01976337
9/1/12	0.100124697	0.024236154
10/1/12	-0.19843172	-0.01978941
11/1/12	0.036341492	0.002846717
12/1/12	0.12768213	0.00706823
1/1/13	0.032105222	0.050428097
2/1/13	0.031855636	0.011060649
3/1/13	0.028662476	0.035987724
4/1/13	0.11452422	0.018085768
5/1/13	-0.006029907	0.020762812
6/1/13	0.009279795	-0.014999302
7/1/13	0.131521839	0.04946208
8/1/13	-0.009944881	-0.031298019
9/1/13	0.050542603	0.029749523
10/1/13	0.228941198	0.044595753
11/1/13	-0.005901638	0.028049472
12/1/13	0.017027535	0.023562792
1/1/14	0.035999835	-0.035582906
2/1/14	0.024005362	0.04311703
3/1/14	0.005024621	0.006932166
4/1/14	-0.122436387	0.006200789
5/1/14	0.097472471	0.02103028

6/1/14	0.08302104	0.019058332
7/1/14	0.135001922	-0.015079831
8/1/14	0.009145017	0.037655295
9/1/14	-0.017770569	-0.015513837
10/1/14	-0.042889971	0.023201461
11/1/14	0.040156732	0.024533589
12/1/14	0.031478881	-0.004188588
1/1/15	0.037004597	-0.031040806
2/1/15	-0.063211504	0.054892511
3/1/15	-0.021700217	-0.017396107
4/1/15	-0.044885713	0.00852082
5/1/15	-0.009366863	0.010491382
6/1/15	-0.017107535	-0.021011672
7/1/15	0.226846712	0.01974203
8/1/15	-0.020290203	-0.062580818
9/1/15	-0.009516321	-0.026442832
10/1/15	-0.11110034	0.082983118
11/1/15	-0.094778429	0.000504869
12/1/15	-0.172029996	-0.017530185
1/1/16	-0.056017515	-0.050735322
2/1/16	0.124047957	-0.00412836
3/1/16	-0.075005897	0.065991115
4/1/16	-0.106163874	0.002699398
5/1/16	0.049861011	0.015324602
6/1/16	-0.088695768	0.000910921
7/1/16	0.052711241	0.035609801
8/1/16	-0.024198635	-0.001219243
9/1/16	0.023614407	-0.001234451
10/1/16	-0.148146375	-0.019425679
11/1/16	0.098597339	0.034174522
12/1/16	-0.047965031	0.018200762
1/1/17	0.116929906	0.017884306

Table 2: Chipotle Mexican Grill, Inc. includes the consolidated income statements for the 5-years ended December 31, 2016. These reports are prepared in accordance with US-based, generally accepted accounting principles. The information in Table 1 was compiled using Chipotle Mexican Grill, Inc. 10K SEC filings at <http://ir.chipotle.com/phoenix.zhtml?c=194775&p=irol-sec&secCat01.1 rs=31&secCat01.1 rc=10&control searchbox=&control selectgroup=0>

Table 2. Chipotle Mexican Grill - Consolidated Income Statement for Years 2012-2016

CHIPOTLE MEXICAN GRILL, INC.					
CONSOLIDATED INCOME STATEMENT					
(in thousands, except per share data)					
Year ended, December 31	2016	2015	2014	2013	2012
Revenue	\$ 3,904,384	\$ 4,501,223	\$ 4,108,269	\$ 3,214,591	\$ 2,731,224
Restaurant operating costs:					
Food, beverage and packaging	1,365,580	1,503,835	1,420,994	1,073,514	891,003
Labor	1,105,001	1,045,726	904,407	739,800	641,836
Occupancy	293,636	262,412	230,868	199,107	171,435
Other operating costs	641,953	514,963	434,244	347,401	286,610
General and administrative expenses	276,240	250,214	273,897	203,733	183,409
Depreciation and amortization	146,368	130,368	110,474	96,054	84,130
pre-opening costs	17,162	16,922	15,609	15,511	11,909
Loss on disposal and impairment of assets	23,877	13,194	6,976	6,751	5,027
Total operating costs	3,869,817	3,737,634	3,397,469	2,681,871	2,275,359
Income from operations	34,567	763,589	710,800	532,720	455,865
Interest and other income, net	4,172	6,278	3,503	1,751	1,820
Income before income taxes	38,739	769,867	714,303	534,471	457,685
Provision for income taxes	(15,801)	(294,265)	(268,929)	(207,033)	(179,685)
Net income	\$ 22,938	\$ 475,602	\$ 445,374	\$ 327,438	\$ 278,000
Other comprehensive income (loss), net of taxes					
Foreign currency translation adjustments	(1,291)	(6,322)	(2,049)	596	827
Unrealized gain (loss) on investments, net of taxes	1,402	(1,522)	-	-	-
Other comprehensive income (loss), net of taxes	111	(7,844)	(2,049)	596	827
Comprehensive income	\$ 23,049	\$ 467,758	\$ 443,325	\$ 328,034	\$ 278,827
Earnings per share					
Basic	\$ 0.78	\$ 15.30	\$ 14.35	\$ 10.58	\$ 8.82
Diluted	\$ 0.77	\$ 15.10	\$ 14.13	\$ 10.47	\$ 8.75
Weighted average common shares outstanding					
Basic	29,265	31,092	31,038	30,957	31,513
Diluted	29,770	31,494	31,512	31,281	31,783

Table 3: Chipotle Mexican Grill, Inc. includes the consolidated balance sheets for the 5-years ended December 31, 2016. These reports are prepared in accordance with US-based, generally accepted accounting principles. The information in Table 2 was compiled using Chipotle Mexican Grill, Inc. 10K SEC filings at <http://ir.chipotle.com/phoenix.zhtml?c=194775&p=irol-sec&secCat01.1 rs=31&secCat01.1 rc=10&control searchbox=&control selectgroup=0>

Table 3. Chipotle Mexican Grill - Consolidated Balance Sheet for Years 2011-2016

CHIPOTLE MEXICAN GRILL, INC.						
CONSOLIDATED BALANCE SHEET						
(in thousands, except per share data)						
December 31	2016	2015	2014	2013	2012	2011
Assets						
Current assets						
Cash and cash equivalents	\$ 87,880	\$ 248,005	\$ 419,465	\$ 323,203	\$ 322,553	\$ 401,243
A/R, net	40,451	38,283	34,839	24,016	16,800	8,389
Inventory	15,019	15,043	15,332	13,044	11,096	8,913
Current deferred tax asset	-	-	18,968	13,212	8,862	6,238
Prepaid expenses	44,080	39,965	34,795	34,204	27,378	21,404
Income tax receivable	5,108	58,152	16,488	3,657	9,612	-
Investments	329,836	415,199	338,592	254,971	150,306	55,005
Total current assets	522,374	814,647	878,479	666,307	546,607	501,192
Leasehold improvements	1,303,558	1,217,220	1,106,984	963,238	866,703	751,951
Long term investments	125,055	622,939	496,106	313,863	190,868	128,241
Other assets	53,177	48,321	42,777	43,933	42,550	21,985
Goodwill	21,939	21,939	21,939	21,939	21,939	21,939
Total assets	\$ 2,026,103	\$ 2,725,066	\$ 2,546,285	\$ 2,009,280	\$ 1,668,667	\$ 1,425,308
Liabilities & shareholders' equity						
Current liabilities						
Accounts payable	\$ 78,363	\$ 85,709	\$ 69,613	\$ 59,022	\$ 58,700	\$ 46,382
Accrued payroll and benefits	76,301	64,958	73,894	67,195	71,731	60,241
Accrued liabilities	127,129	129,275	102,203	73,011	56,421	50,830
Total current liabilities	281,793	279,942	245,710	199,228	186,852	157,453
Deferred rent	288,927	251,962	219,414	192,739	170,443	146,813
Deferred income tax liability	18,944	32,305	40,529	55,434	48,947	64,381
Other liabilities	33,946	32,883	28,263	23,591	16,499	12,435
Total liabilities	623,610	597,092	533,916	470,992	422,741	381,082
Preferred stock	-	-	-	-	-	-
Common stock	358	358	354	352	349	344
Additional paid-in-capital	1,238,875	1,172,628	1,038,932	919,840	816,612	676,652
Treasury stock	(2,049,389)	(1,234,612)	(748,759)	(660,421)	(521,518)	(304,426)
Accumulated other comprehensive income	(8,162)	(8,273)	(429)	1,620	1,024	197
Retained earnings	2,220,811	2,197,873	1,722,271	1,276,897	949,459	671,459
Total shareholders' equity	1,402,493	2,127,974	2,012,369	1,538,288	1,245,926	1,044,226
Total liabilities and shareholders' equity	2,026,103	2,725,066	2,546,285	2,009,280	1,668,667	1,425,308

Table 4: Chipotle Mexican Grill, Inc. includes the consolidated cash flows for the 5-years ended December 31, 2016. These reports are prepared in accordance with US-based, generally accepted accounting principles. The information in Table 3 was compiled using Chipotle Mexican Grill, Inc. 10K SEC filings at <http://ir.chipotle.com/phoenix.zhtml?c=194775&p=irol-sec&secCat01.1 rs=31&secCat01.1 rc=10&control searchbox=&control selectgroup=0>

Table 4. Chipotle Mexican Grill - Consolidated Cash Flow for Years 2012-2016

CHIPOTLE MEXICAN GRILL, INC.					
CONSOLIDATED CASH FLOW					
(in thousands, except per share data)					
Year ended, December 31	2016	2015	2014	2013	2012
Operating activities					
Net income	\$ 22,938	\$ 475,602	\$ 445,374	\$ 327,438	\$ 278,000
Adjustments to reconcile net income to net cash					
Depreciation and amortization	146,368	130,368	110,474	96,054	84,130
Deferred income tax	(14,207)	11,666	(20,671)	2,103	(18,057)
Loss on disposal and impairment	23,877	13,194	6,976	6,751	5,027
Bad debt allowance	(262)	(23)	9	19	1,046
Stock-based compensation expense	64,166	57,911	96,440	63,657	64,276
Excess tax benefit on stock based comp	(1,320)	(74,442)	(21,667)	(38,379)	(73,210)
Other	(604)	582	104	507	522
Changes in operating assets and liabilities:					
Accounts receivable	(1,923)	(3,504)	(10,966)	(7,238)	(9,438)
Inventory	(91)	262	(2,307)	(1,950)	(2,180)
Prepaid expenses and other CA	(4,259)	(5,259)	(658)	(6,806)	(5,954)
Other assets	(4,855)	(5,619)	1,071	(1,354)	(20,539)
Accounts payable	(6,734)	19,525	2,168	2,052	7,849
Accrued liabilities	33,491	(7,440)	35,019	12,020	21,307
Income tax payable/receivable	54,340	32,756	8,831	44,334	59,357
Deferred rent	37,030	32,911	27,025	25,715	23,765
Other long-term liabilities	1,287	4,826	4,845	3,857	4,062
Net cash provided by operating activities	349,242	683,316	682,067	528,780	419,963
Investing activities					
Purchases of leasehold improvements	(258,842)	(257,418)	(252,590)	(199,926)	(197,037)
Purchases of investments	-	(559,372)	(521,004)	(387,639)	(213,462)
Maturities of investments	45,000	352,650	254,750	159,250	55,000
Proceeds from sale of investments	540,648	-	-	-	-
Net cash provided by (used in) investing activities	326,806	(464,140)	(518,844)	(428,315)	(355,499)
Financing activities					
Acquisition of treasury stock	(837,655)	(460,675)	(88,338)	(138,903)	(217,092)
Excess tax benefit on stock based comp	1,320	74,442	21,667	38,379	73,210
Stock plan transactions and other financing activities	52	(207)	(66)	173	348
Net cash used in financing activities	(836,283)	(386,440)	(66,737)	(100,351)	(143,534)
Effect of exchange rate changes on cash and ce	110	(4,196)	(224)	536	380
Net change in cash and cash equivalents	(160,125)	(171,460)	96,262	650	(78,690)
Cash and cash equivalents, beg of year	\$ 248,005	\$ 419,465	\$ 323,203	\$ 322,553	\$ 401,243
Cash and cash equivalents, end of year	\$ 87,880	\$ 248,005	\$ 419,465	\$ 323,203	\$ 322,553
Supplemental disclosures of cash flow information:					
Income taxes paid	\$ 23,862	\$ 248,547	\$ 280,687	\$ 160,973	\$ 138,385
Increase (decrease) in purchases of leasehold improvement	\$ (1,781)	\$ (2,870)	\$ 9,424	\$ (1,736)	\$ 4,455
Increase (decrease) in acquisition of treasury stock	\$ (22,878)	\$ 25,178			

Table 5: Chipotle Mexican Grill, Inc. and Competitor PE Ratios

The following PE ratios were obtained using the following website:

<http://www.nasdaq.com/symbol/cmgi/competitors?page=3>

Company	Stock Price	PE Ratio
Buffalo Wild Wings	\$124.25	26.89
Chipotle	\$393.422	119.58
Del Taco Restaurants	\$13.27	23.70
Panera Bread Company	\$314.82	47.48
Papa John's	\$76.29	26.96
Restaurant Brands International Inc.	\$61.27	42.25
Average (without Chipotle)		33.45

