Chipotle Mexican Grill, Inc.

Franchise Value and Competitive Advantage Like None Other

NYSE: CMG

Highlights

We view Chipotle's long-term outlook as a very positive one with sustained barriers to entry for a long time to come.

Chipotle has two key competitive advantages in its industry, customer captivity and no debt. In the restaurant industry most companies need debt to fund rapid expansion of their franchise. With all of the capex spending and operating costs in the restaurant industry, it can be very difficult for a restaurant chain to expand significantly without taking on any debt. However, because Chipotle has no debt it has amassed a ton of cash on its balance sheet. Its short-term cash and cash equivalents equates to $758.1 million and long-term investments equals $496.1 million, which consists of certificates of deposit and U.S. treasuries. With a compound annual growth rate for free cash flow over the past five years of 13.4%, Chipotle is generating massive amounts of cash.

Founder Steve Ells used only cash flow to open his second store back in 1995, and since then the company has grown conservatively (in terms of debt funding), unlike most restaurants; it has paid off handsomely. Also, Chipotle has landed in a time in America where consumers are more conscientious about what they are eating and Chipotle's mission statement, "Food with Integrity", has really driven customers to its fast casual restaurants. It's not often you can find "fast food" that is organic and hormone/antibiotic free while tasting good and being relatively inexpensive. The combination of the two has enabled the company to surround itself with an economic moat that we feel will be hard to break.

So what is this Franchise actually worth?

We used Bruce Greenwald's Earnings Power Value (EPV) to determine what the franchise is actually worth and we conducted a 15-year DCF analysis using conservative estimates to come up with a price target for the company today.

EPV is defined as the firm's earnings after certain adjustments times 1/*R*, with *R* representing the current cost of capital. Chipotle's EPV with a cost of capital of 5.2% is about $10.2 billion and with an adjusted book value of $2.1 billion that makes Chipotle's EPV five times its book value or reproduction cost of its assets. Provided our estimate of EPV is reasonably accurate, there are only two possible explanations for this divergence. Either the balance sheet understates the reproduction cost of the assets, or the company has an enormously valuable franchise, roughly $8.1 billion dollars on $2.1 billion in assets. We believe the latter to be the case and will examine this further.

For our DCF analysis we feel were very conservative with our estimates; we still feel Chipotle is in growth mode and will continue to expand and open more and more stores for the next 10-15 years. Chipotle has been averaging revenue growth of about 24% per year for the last ten years. However, we assumed growth of a growth/mature company at about 6% per year for the next 15 years with margins staying almost completely flat. This is probably the opposite of what you would expect from a growth company turning into a mature one, where it would hopefully increase its operating margins. The 15-year DCF analysis produced a price target of $1,196 dollars for a share of CMG.

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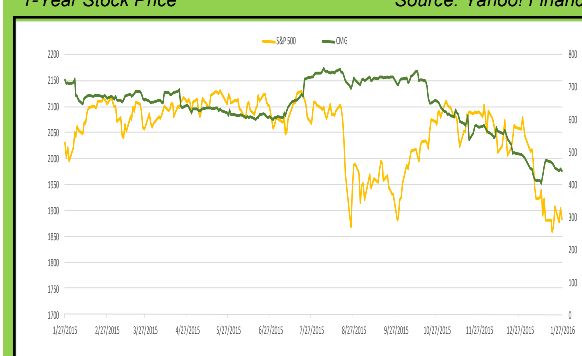
Key Ratios and Statistics

DCF Price Target	$1,195.97
Upside to price target	170.2%
Share price, close (01/26/2016)	$442.64
52-Week High	$758.61
52-Week Low	$399.14
Shares Outstanding (M)	31.5
Market Cap (B)	$13.80
Beta	0.41
P/E TTM	27.03
P/E (FWD)	17.5
Institutional Ownership	92.40%
Insider Ownership	1.58%
EPV w/ WACC @5.2% (B)	$10.22
Adjusted Book Value of CMG (B)	$2.08
Franchise Value of CMG (B)	$8.14
6-Month Return	-39.48%
1-Year Return	-38.64%

10-Year Stock Price *Source: Yahoo! Finance*

1-Year Stock Price *Source: Yahoo! Finance*



Competitive Advantage: How is Chipotle different than any other fast casual dining restaurant?

We feel Chipotle (CMG) is in an industry segment by itself. Chipotle operates in the fast casual dining space. Some of its competitors include Shake Shack, Qdoba, Burgerfi, Moe's Southwest Grill, McDonald's and Taco Bell to name a few. But in reality the restaurants listed aren't truly its competition. Chipotle operates in a niche market by itself. It offers healthy/organic/hormone free food in the Mexican restaurant industry. Taco Bell, Qdoba, and Moe's might compete with them on the Mexican restaurant side, but they do not offer the same food choices Chipotle offers, and for that reason we feel Chipotle has a true competitive advantage within its market segment. Today's society wants "Food with Integrity" as Chipotle puts it. Many of Chipotle's customers are time-constrained office workers who are willing to pay more for CMG's food. When Chipotle raised its prices back in 2014 many of its customers didn't even notice the difference. If a burrito costs $6.00 one week and $6.75 the next, it wasn't going to break it's customers bank. Chipotle's biggest customers are millennials, (people between the ages of 23 and 36, 20% of the U.S. population) people who are willing to skip traditional fast food for the likes of Chipotle's healthy eats. Most millennials prefer quality over price and we aren't just talking food quality. Chipotle's customer experience is raved about by its customers and investors. Chipotle also puts in a ton of effort in recruiting and advancing employees within its organization. Chipotle takes time to focus on hiring, training, and promoting employees from within. And, by not franchising, Chipotle is able to offer better employee advancement. Managers at Chipotle can make over $100k a year.

Chipotle has targeted its marketing and branding campaigns on how the company differs from its competition. It focuses on marketing organic, locally-produced ingredients and meat from "naturally raised" animals. This has led Chipotle to be able to deliver a product in a fast food space that has been different from most fast food restaurants. Chipotle's product has also been strengthened by the shift in consumer priorities to healthy, quality food. Chipotle doesn't have to spend massive amounts on its marketing campaigns because there simply aren't many companies operating in its same space.

Chipotle has built a brand and an image around a group of people whom are extremely happy with CMG's product. Chipotle was a visionary and saw an industry where its customers had a set of values that weren't being reflected in that industry; people will always want things done quickly, but they also care about the quality of the product as well. Chipotle's strategy has ensured them with barriers to entry for a time to come.

Figure 1

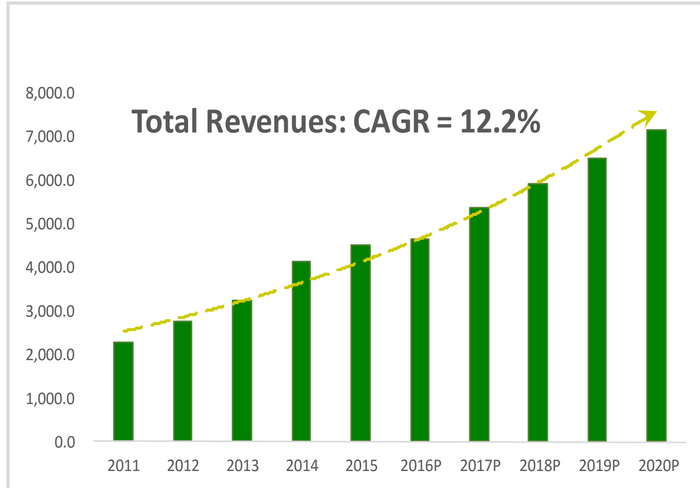


Figure 2

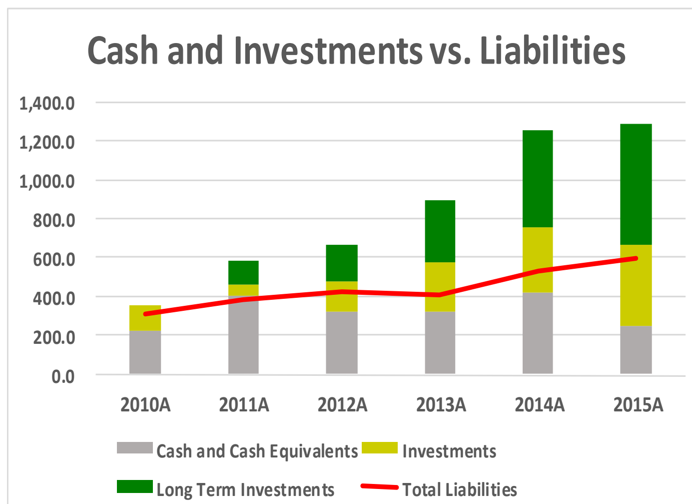
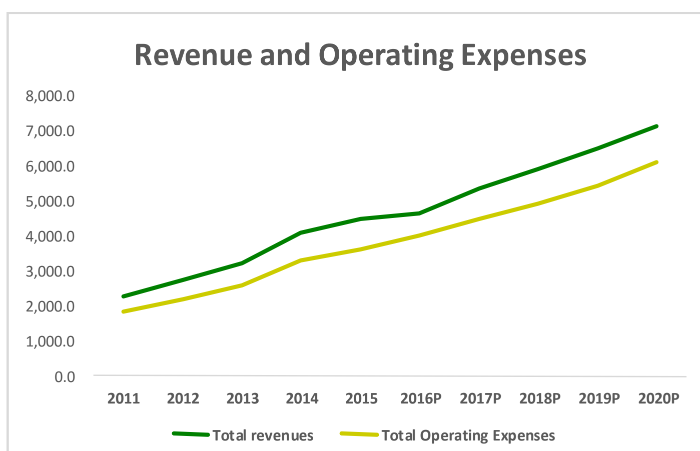
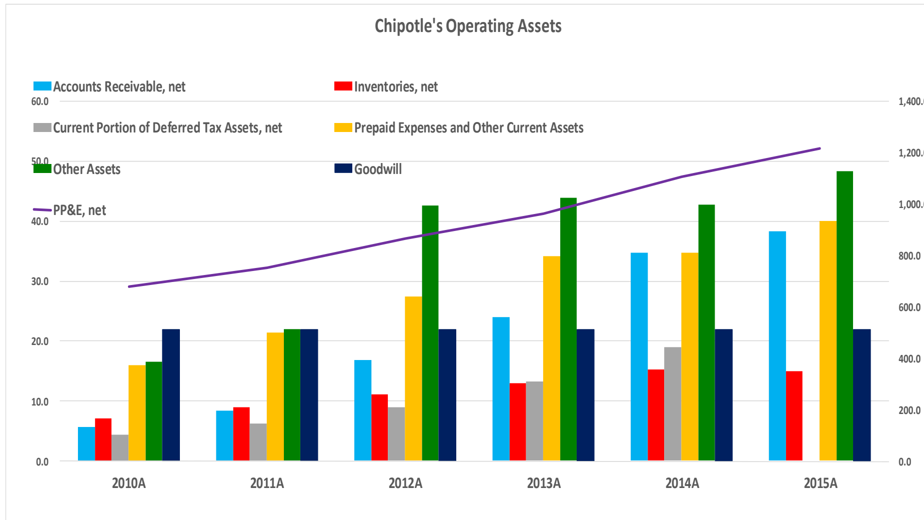


Figure 3



Competitive Advantage: Balance Sheet Structure

Figure 4



Chipotle (CMG) has $2.5 billion in total assets with current assets representing 35% of its total assets. However, if you subtract out cash and cash equivalents then the current assets only make up 4.7% of its total assets. Cash and cash equivalents make up the biggest part of Chipotle's current assets, 86%, and also account for 30% of its total assets. If you include Chipotle's "long-term investments", which are certificates of deposit and U.S. Treasuries then its cash and investments make up 50% of its total assets (see figure 2). The largest operating asset Chipotle has is its PP&E which accounts for 44% of its total assets (see Figure 4, right axis value). If you subtract PP&E out of CMG's operating assets then operating assets only account for 7.3% of Chipotle's total assets, and when included, operating assets make up 51% of Chipotle's total assets. This compares to the industry average of almost 90%. Chipotle is generating sales of $4.1 billion (see Figure 1) on $1.3 billion in operating assets. So one can see CMG is making great use of its operating assets. Chipotle's return on operating assets is double the industry average, 34% versus 17%. Since Chipotle uses fresh food and doesn't hold on to its inventory very long, while also having its customers pay with cash, debit and credit cards, it is able to make great use of its cash conversion cycle which was minus 4 days for 2015. Chipotle's management is doing an incredible job of managing of its working capital. This type of cash conversion cycle is usually seen in a software industry where cash is collected before products are delivered.

Chipotle has $245 million in current liabilities which makes up 46% of its total liabilities. Accounts payable accounts for 100% of its current liabilities. Chipotle has no short or long-term debt and has financed all of its assets with equity. This compares to the average debt to assets ratio of 69% for the industry. This is what separates Chipotle from the pack. Most companies need to fund its assets with debt in order to be able to expand, but chipotle has been able to grow without taking on any debt. To replicate Chipotle's business model it would be almost impossible to expand as fast as Chipotle did without taking on any debt. Even if a company did want to challenge Chipotle for market share it would almost certainly have to take on debt to do so. To be able to generate an EPV of $10.2 billion on $2.1 billion in assets is really an astonishing feat when you consider Chipotle has no debt.

Using a 69% debt to assets ratio, debt for an average entrant into Chipotle's market would equate to $1.8 billion on $2.5 billion in assets. So assuming Chipotle would match the entrant's debt to asset ratio, then this would bring CMG's weighted average cost of capital (WACC) to 3.8% based on 69% debt/assets and a 3% interest rate on the debt, which we consider fair considering todays interest rate environment (see Table 5). The new per share EPV would be $443.96, which is about what the shares are trading at today (see Table 5).

Here we have clearly established Chipotle's competitive advantages: its demand advantage is its customer captivity ,and its supply-demand advantages with economies of scale is the fact that Chipotle has built itself this large with no debt. This enables CMG to earn more on its assets than possible in a more competitive environment. Chipotle is able to lower prices to a level where it alone is profitable and can increase its share of the market or eliminate all profit from competitors who match its prices (see Table 8). With Chipotle's high degree of customer captivity and economies of scale in a market (organic/healthy Mexican dining) where Chipotle doesn't have many competitors, an entrant would not be able to catch up to them and would probably stay on the wrong side of profitability if they chose to enter the market. So far there hasn't been many entrants into Chipotle's market; one could argue that Shake Shack, Burgerfi, Qdoba, and Moe's occupy the same space as Chipotle. However, most of them do not. Shake Shack and Burgerfi do produce healthy food, but they are both burger places, and Qdoba and Moe's do have the same style of Mexican food, but do not serve the healthy/organic style of food Chipotle offers.

What is EPV and how did we get here?

EPV is defined as the firm's earnings after certain adjustments times 1/*R*, with *R* representing the current cost of capital. The adjustments are:

- Undoing accounting misrepresentations such as frequent one time charges.
- Resolving discrepancies between depreciation and amortization, as reported by the accountants, and the actual amount of reinvestment the company needs to make in order to restore a firm's assets at the end of the year to its level at the start.
- Taking into account the business cycle and other transient effects.
- Applying other modifications as are reasonable, depending upon the situation.

Table 1

CMG Sales, EBIT, Net Income, and Margins

	2010A	2011A	2012A	2013A	2014A
Sales	1,835.9	2,269.5	2,731.2	3,214.6	4,108.3
EBIT	287.8	350.6	456.0	532.8	710.8
Less Adjustment	(0.5)	(0.5)	(0.5)	(0.5)	(0.5)
EBIT Adjusted	287.3	350.1	455.5	532.3	710.3
EBIT Margin	15.6%	15.4%	16.7%	16.6%	17.3%
Net Income	178.9	214.9	278.9	328.2	443.4
Net Income Margin	9.7%	9.5%	10.2%	10.2%	10.8%

The purpose of these adjustments is to arrive at a figure which represents free cash flow. Rather than making all the necessary adjustments for 2015 because of the E. Coli problem, we conducted the analysis using 2014 figures. The adjustment for Chipotle was a $5 million dollar loss in credit card transactions as result of a security breach. Assuming this happens to Chipotle once every 10 years we subtract $500k for each year (see Table 1). The next adjustment is for the business cycle; we went back to the Great Recession and saw the revenue growth rate only dip slightly, so we did not need to adjust for cyclicality. Depreciation and amortization also did not require any adjustments. Chipotle's depreciation charge is small as a percentage of revenue because the company leases most of its stores, so it doesn't own a lot of real estate which would give it big depreciation charges. Looking at Table 2, we can see Chipotle has had higher D&A charges than what it is spending on its maintenance capex, which should be expected from a firm that is still growing its store base. The biggest difference came in 2014 and amounted to $88.5 million dollars. Looking at everything put together we can see distributable cash flow (EBIT after tax adjusted) for 2014 was much different than the net income reported (see Table 3). The difference is about $88.0 million dollars. Once we calculated our adjusted earnings for Chipotle we came up with our EPV value. EPV = Adjusted Earnings x 1/*R*. We calculated our cost of capital *R* using the capital asset pricing model (CAPM). Chipotle has no outstanding debt, so its WACC calculation is based on its equity, with a Beta of 0.41, a risk free rate of 1.92% and an expected market return of 9.93%, its cost of capital came out to be 5.2% (see Table 4). Next we can determine our EPV with varying costs of capital (see Table 5). As you can see from Table 5 the varying cost of capital rates significantly change our EPV value.

Table 2

CMG Depreciation and Capital Expenditures

	2010A	2011A	2012A	2013A	2014A
Depreciation and Amortization	68.9	74.9	84.1	96.1	110.5
Maintenance Capex	31.3	39.3	77.9	75.2	22.0
Difference	37.6	35.6	6.2	20.9	88.5

Table 3

CMG Adjusted Earnings

	2010A	2011A	2012A	2013A	2014A
EBIT Adjusted	287.3	350.1	455.5	532.3	710.3
Tax rate	38%	39%	39%	39%	38%
EBIT after tax	177.8	215.1	276.7	326.2	442.9
Depreciation and Amortization	68.9	74.9	84.1	96.1	110.5
Maintenance Capex	31.3	39.3	77.9	75.2	22.0
EBIT after tax adjusted	215.5	250.8	282.9	347.1	531.4
Net Income	178.9	214.9	278.9	328.2	443.4

At a cost of capital of 5%, CMG's EPV is $10.6 billion and if the cost of capital is 8%, then the EPV falls to $6.6 billion. Assuming our WACC calculation is correct then EPV for Chipotle is $10.2 billion. Since EPV assumes all capital is equity capital; it ignores interest paid on debt and interest received on cash. In Chipotle's case there is no debt, so we only need to add back the excess cash, bringing our EPV to $11.5 billion or $363.64 a share. With Chipotle's EPV much higher than the reproduction cost (see Table 6) of its assets, we feel Chipotle exhibits a significant competitive advantage with strong barriers to entry.

Table 4

WACC Calculation

Company Name:	Chipotle
Current Share Price:	$ 442.60
Effective Tax Rate:	38.0%
Toggle Discount Rate (WACC):	5.2%

Risk-Free Rate	1.92%
Beta	0.41
Expected Market Return	9.93%
Market Capitalization ($B)	$13,800.0
Cost of Equity	5.20%

Effective Tax Rate	38%
ST Debt	-
LT Debt	
Bond Rate	0.0%
Cost of Debt	0%

Market Cap	$ 13,800.0
Total Debt Value	-
Capital Structure	**$ 13,800.00**

	Weight	Cost	Weight x Cost
Equity	100%	5.2%	5.2%
Debt	0%	0.0%	0.0%
WACC			**5.2%**

Table 5

Earnings Power Value of CMG with Different Cost of Capital Rates (net income = $443.4 million)

***assumption with a D/A ratio = 69%**

Costs of Capital Rates	EPV	Per Share	Plus Cash-Debt Adjustment of $1235	Per Share
3.8%*	13,984.6*	443.96*	13,419.6*	426.02*
5.0%	10,628.3	337.41	11,863.3	376.61
5.2%	10,219.5	324.43	11,454.5	363.64
5.5%	9,662.1	306.73	10,897.1	345.94
6.0%	8,856.9	281.17	10,091.9	320.38
7.0%	7,591.6	241.00	8,826.6	280.21
8.0%	6,642.7	210.88	7,877.7	250.09

Table 6

CMG Reproduction Cost of Assets

	2014	Adjustment	Reproduction
Assets			
Cash and Cash Equivalents	419.5	0	419.5
Accounts Receivable, net	34.8	1.2	36.0
Inventory	15.3	0	15.3
Current Portion of Deferred Tax Assets, net	19.0	0	19.0
Prepaid Expenses and Other Current Assets	34.8	0	34.8
Income Tax Receivable	16.5	0	16.5
Current Assets	539.9	1.2	541.1
Investments	338.6	0	338.6
PP&E, net	1,107.0	0	1,107.0
Long Term Investments	496.1	0	496.1
Other Assets	42.8	0	42.8
Goodwill	21.9	0	21.9
Total Assets	2,546.3		2,547.5

Chipotle has written off $1.2 million in bad debts against its receivables, so a competitor would likely experience the same allowance. Inventory for Chipotle is a combination of its ingredients, beverages, and supplies, and they are turned over very quickly, so no adjustment is needed. Although Chipotle's menu is not very extensive, one can see that its customers are willing to a pay a premium for its menu items. Chipotle has spent a good deal on marketing its "Food with Integrity", about 11% of revenue. And if a competitor was going to replicate Chipotle's business model they would have to spend much more, so we shall consider the item an off-balance sheet asset. We assumed three years of marketing to get the competitor's brand off the ground, which equated to $1.3 billion of a quasi-asset. If we total up all the assets we get a total asset value for the firm of $3.9 billion. From this we subtract spontaneous liabilities and deduct the excess cash, or cash in excess of what the company needs to run its operations (see Table 7).

Table 7

CMG Reproduction Cost of Assets, Including Adjustments for Cash and Non-Interest Bearing Liabilities

	Reproduction Value
Total assets, as adjusted above	2,547.5
Three years of marketing, promotion	1,302.6
Reproduction cost of all assets	3,850.1
Minus non-interest bearing liabilities	(314.5)
Minus deferred rent	(219.4)
Minus excess cash and investments	(1,234.0)
Total Reproduction Cost	2,082.2

EPV with WACC of 5.2%	10,219.5
Adjusted Book Value of CMG	2,082.2
Franchise Value of CMG	$ **8,137.3**

The Value of the Franchise

The extra earnings power value between EPV and Chipotle's (CMG) assets is called its franchise value (see Table 7). Here we have established Chipotle's assuredly high franchise value of $8.1 billion dollars on $2.1 billion in assets. In this case, we believe Chipotle to benefit from significant competitive advantages, which enables it to earn more on its assets than others in the same competitive environment. So what would it take for an entrant to take market share from Chipotle? Even if a potential competitor lowered its prices by 15% and had the same market share as CMG, the entrant's return on investment would be too small to make the effort worth appealing (see Table 8). However, its more likely for a competitor to split the market with CMG as shown in the second set of columns in Table 8. Assuming Chipotle matched the competitors prices, and with 25% of the market, the entrant would take a huge part of CMG's returns, but the potential entrant would lose money on its investment. It is for this reason we think Chipotle's barriers to entry will hold up for some time. These barriers to entry that protect Chipotle, customer loyalty built up through their inexpensive, high quality food, along with its branding and marketing, will be tough to overcome for any potential entrant. Along with customer satisfaction, economies of scale keep profits high and entrants at bay should anyone try to undercut Chipotle on price. For Chipotle's EPV to hold up, it must maintain its barriers to entry into the future indefinitely.

The E. Coli Scare at Chipotle

With the recent E. Coli scare at Chipotle, only time will tell how forgiving its consumers are. However, if history has taught us anything its that consumers are generally very forgiving and stock prices are not affected by the longer term. Taco Bell experienced a similar scare back in 2006 when the CDC reported that 71 people had been affected in five states with E. Coli. Taco Bell's same-store sales fell 5% in Q406 and the following quarter they plunged 11%, and the downturn continued for two more quarters after that (see Figure 5). If Chipotle's outbreak plays out the same, the company could be facing much more than a single quarter of negative same-store sales. Chipotle's CFO, Jack Hartung, said "2016 is going to be messy in terms of margins and earnings and that Chipotle won't be the same efficient business model that everyone has come to know". However, he does expect Chipotle to win back most of its customers by 2017. Chipotle has run some great marketing and ad campaigns in trying to win back consumers. They have offered consumers dollar burritos and plan to offer different free items in 2016 to win back customers. By 2017 the storm will have blown over and everyone will have forgotten about the scare. One of the main problems for Chipotle today compared to Taco Bell in 2006 is the evolution of social media. Bad news travels extremely fast these days and things tend to get blown out of proportion. It also doesn't help that Chipotle's motto is "Food with Integrity". However, the good news for us is the stock has sank quickly, but it has fundamentals that still look impeccable. People may stay away for a little while, but ultimately Chipotle will recover, and it will be business as usual. The E. Coli outbreak was unfortunate, but it will be hard for people to think this was anything more than an unfortunate accident.

Figure 5

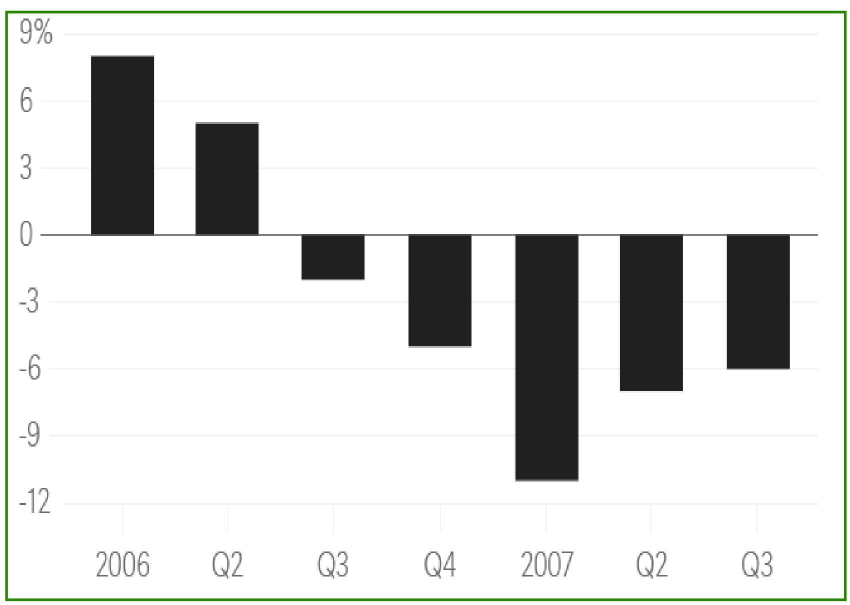


Table 8

Returns for CMG and a Potential Entrant under Different Assumptions Regarding Market Share

	Each with 100% Current Market		Realistic Market Shares with Competition	
	CMG	Competitor	CMG	Competitor
Market Share	100%	100%	75%	25%
Sales	4,108.3	3,492.1	2,619.0	873.0
COGS	2,990.5	2,990.5	2,242.9	747.6
Operating Expenses	296.5	296.5	296.5	296.5
EBIT	821.3	205.1	79.7	(171.1)
EBIT after tax	509.2	127.1	49.4	(106.1)
Investment	2,082.2	2,082.2	2,082.2	2,082.2
Return on investment	24%	6%	2%	(5%)

What is Growth Worth?

Table 9

The Growth Value Matrix

	(A)	(B)	(C)	(D)	(E)	(F)
ROC/R	1.0	1.5	2	2.5	3.0	3.5
(1) G/R 0.25	1.00	1.11	1.17	1.20	1.22	1.24
(2) G/R 0.50	1.00	1.33	1.50	1.60	1.67	1.71
(3) G/R 0.75	1.00	2.00	2.50	2.80	3.00	3.14

The only kind of growth that adds value to a firm's intrinsic value is growth within a franchise or growth that, because of competitive advantages within a firm, can earn more than the cost of capital to support it. So for Chipotle (CMG), diversification into other markets could hurt or destroy some of its value. Management hasn't given us any reason to believe CMG will diverge from its market.

Chipotle's EPV per share value is $363.64 (see Table 5). Table 9 represents our growth related multiplier to EPV. The first ratio ROC/R is return on capital (ROC) to the company's cost of capital (R). The second ratio is the projected growth rate (G) to the cost of capital (R). As long as ROC/R exceeds one, then more growth will lead to a larger value of the company. The magnitudes of the growth related multiplier (i.e. PV/EPV) for different ranges of ROC and growth rates are shown in Table 9. We used three different assumptions for growth (G) to the cost of capital (R) at 25 percent, 50 percent, and 75 percent. In column A where return on capital is the same as the cost of capital, growth adds nothing to EPV (see Table 10). But as we move over to column B where ROC/R = 1.5, we can see how growth matters. If the growth rate is 25% of the cost of capital, then the multiplier is 1.11. So if the cost of capital is 8 percent and the return on capital is 12 percent (ROC/R = 1.5), a business that grows at 2% per year is worth 11% more than one with no growth. For Chipotle we have to first look at its growth compared to its cost of capital. We used growth in earnings from 2010-2014 (see Appendix 4, revenues, margin growth). We can see that G/R easily fits into the lowest row of Table 9, where growth is at least 75% of its cost of capital. The other variable we need is return on capital. We can use either return on invested capital (ROIC) or return on equity (ROE) as our ROC figure; either choice (see Appendix 4, profitability ratios) will land us past column F. However, to be conservative, let's say our ROC/R ratio is 2.5 as shown in column D of table 10. This will land us at a per share value for Chipotle of $1,018.18. From table 10, one can see that growth is used as the margin of safety in our analysis. If growth is at least 50% the cost of capital (G/R, Table 10), then growth clearly adds value to the current market price of Chipotle. EPV is a measure that assumes no growth and only paranoid value investors will assume no growth in their calculations, but for Chipotle the growth will provide the margin of safety for investors. Only firms protected by barriers to entry can continue to earn excess returns or returns above its cost of capital, even if challenged by new entrants. We feel Chipotle has significant upside and will continue to grow and earn well above its cost of capital for a time to come.

Table 10

The Growth Value Matrix with EPV Per Share Values

	(A)	(B)	(C)	(D)	(E)	(F)
ROC/R	1.0	1.5	2	2.5	3.0	3.5
(1) EPV 0.25	$363.64	$403.64	$425.45	$436.36	$443.64	$450.91
(2) EPV 0.50	$363.64	$483.64	$545.45	$581.82	$607.27	$621.82
(3) EPV 0.75	$363.64	$727.27	$909.09	$1,018.18	$1,090.91	$1,141.81

DCF Valuation

CMG: Discounted Cash Flow Analysis

Fundamentals and valuation indicate a Buy Rating.

The analysis of the intrinsic value of CMG, in addition to the estimate of earnings power value valuation method, confirms Chipotle is a strong buy. For our DCF analysis, we have a target price of $1,195.97 a share, which offers 170.2% of upside to where it is trading at today (see Figure 6). If one changes the terminal FCF growth rate to 4.0% instead of the 3.5% number we used, then the upside jumps to 261.9% with CMG valued at $1602.03 a share. We think Chipotle's FCF growth rate is closer to 4.0%, but to be conservative we used a growth rate of 3.5% (see Appendix 6).

Discounted Cash Flow Model: Unlevered Free Cash Flow

We used the unlevered FCF model to value Chipotle for two reasons: Chipotle does not pay out dividends, and free cash flows provide an economically sound basis for valuation. In addition, the FCF model considers the time value of money, and assumes a long-term perspective.

Assumptions of DCF: Fifteen-Year Projected Cash Flows, Terminal Value

Sales Forecast

We think Chipotle's revenue in the near term will continue to grow year over year, however we wanted to be conservative in our estimates. In our model revenue is expected to grow at a decreasing rate over the next 15 years. In a mature company one would think a company would start to focus on increasing operating margins, but being conservative with our estimates, we had Chipotle's margins stay relatively flat for the next 15 years and in some instances we decreased margins (see Appendix 7).

Terminal Value

The terminal value is determined by the assumed perpetual growth rate and any changes will significantly impact the discounted cash flows. Again, we believe that our 3.5% assumption for FCF growth is conservative given Chipotle's FCF growth historically (see Table 11).

Capex

We estimated Capex to grow as percent of revenue based on historical figures, but we assumed that it would grow ahead of D&A.

Change in Working Capital

To project CMG's working capital numbers, we analyzed historical ratios of each component of working capital against the relevant income statement comparable. To forecast cash and receivables, we hadn't witnessed any significant factors tied to revenue, so we used an average of 3.0% of revenue for working capital, based on historic figures.

Cost of Equity & WACC

The cost of equity was calculated using the CAPM model, utilizing the 30-year government bond risk-free rate of 1.92%, a market risk premium of 9.93%, and a beta of 0.41 to arrive at 5.2% for the cost of equity (see appendix 6). Since Chipotle has no debt then the cost of equity yields a WACC of 5.2%.

Figure 6

Equity Value Per Share:	**$**	**1,195.97**
Premium / (Discount) to Current:		**170.2%**

Table 11

Terminal Value - 15-Year DCF:		
Enterprise Value:	**$**	**37,672.9**
Less: Net Debt:		-
Implied Equity Value:		37,672.9
Shares Outstanding:		31.5
Equity Value Per Share:		$1,195.97

Figure 7

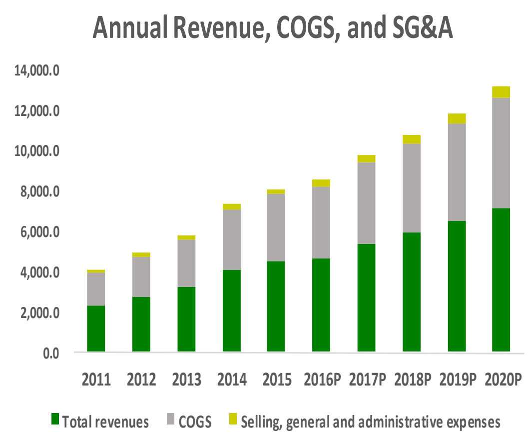


Table 12

Sensitivity of Equity Value to Discount Rate:		
Discount Rate		Equity Value
4.50%	$	2,052.18
4.75%	$	1,636.21
5.00%	$	1,358.99
5.20%	$	1,195.97
5.50%	$	1,012.64
5.60%	$	963.19
5.75%	$	897.27
6.00%	$	805.02
6.50%	$	666.76
7.00%	$	568.12
8.00%	$	436.87

Appendix 1: Income Statement

Income Statement

$mm (except per share data)	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E
Revenue	$1,835.9	$2,269.5	$2,731.2	$3,214.6	$4,108.3	$4,501.2	$4,636.2	$5,378.0	$5,915.8	$6,507.4	$7,158.2
y/y change		*24%*	*20%*	*18%*	*28%*	*10%*	*3%*	*16%*	*10%*	*10%*	*10%*
Restaurant Operating Costs											
Food, beverage and packaging	561.1	738.7	891.0	1,073.5	1,421.0	1,503.8	1,622.7	1,989.9	2,188.9	2,407.7	2,791.7
% of revenue	*31%*	*33%*	*33%*	*33%*	*35%*	*33%*	*35%*	*37%*	*37%*	*37%*	*39%*
Labor	453.6	543.1	641.8	739.8	904.4	1,045.7	1,020.0	1,183.2	1,242.3	1,366.6	1,503.2
% of revenue	*25%*	*24%*	*23%*	*23%*	*22%*	*23%*	*22%*	*22%*	*21%*	*21%*	*21%*
Occupancy	128.9	147.3	171.4	199.1	230.9	262.4	259.6	301.2	331.3	364.4	400.9
% of revenue	*7%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*	*6%*
Other operating costs	202.9	251.2	286.6	347.4	434.2	515.0	695.4	591.6	650.7	715.8	787.4
% of revenue	*11%*	*11%*	*10%*	*11%*	*11%*	*11%*	*15%*	*11%*	*11%*	*11%*	*11%*
Total COGS	$1,346.5	$1,680.3	$1,990.8	$2,359.8	$2,990.5	$3,326.9	$3,597.7	$4,065.8	$4,413.2	$4,854.5	$5,483.2
y/y change		25%	18%	19%	27%	11%	8%	13%	9%	10%	13%
% of revenue	*73%*	*74%*	*73%*	*73%*	*73%*	*74%*	*78%*	*76%*	*75%*	*75%*	*77%*
Gross Profit	$489.4	$589.2	$740.4	$854.8	$1,117.8	$1,174.3	$1,038.5	$1,312.2	$1,502.6	$1,652.9	$1,675.0
Gross Margin	*27%*	*26%*	*27%*	*27%*	*27%*	*26%*	*22%*	*24%*	*25%*	*25%*	*23%*
Operating Expenses											
General and administrative	118.6	149.4	183.4	203.7	273.9	250.2	370.9	376.5	473.3	520.6	572.7
% of revenue	*6%*	*7%*	*7%*	*6%*	*7%*	*6%*	*8%*	*7%*	*8%*	*8%*	*8%*
Other operating expenses	14.1	14.3	16.9	22.2	22.6	30.1	46.4	43.0	47.3	52.1	57.3
% of revenue	*0.8%*	*0.6%*	*0.6%*	*0.7%*	*0.6%*	*1%*	*1%*	*1%*	*1%*	*1%*	*1%*
Total Operating Expenses	132.7	163.7	200.3	225.9	296.5	280.3	417.3	419.5	520.6	572.7	629.9
y/y change		*23%*	*22%*	*13%*	*31%*	*(5%)*	*49%*	*1%*	*24%*	*10%*	*10%*
EBITDA	356.7	425.5	540.1	628.9	821.3	894.0	621.3	892.8	982.0	1,080.2	1,045.1
EBITDA Margin	19%	19%	20%	20%	20%	20%	13%	17%	17%	17%	15%
Depreciation and Amortization	68.9	74.9	84.1	96.1	110.5	130.4	139.1	161.3	177.5	195.2	214.7
% of revenue	*4%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
Operating Income (EBIT)	$287.8	$350.6	$456.0	$532.8	$710.8	$763.6	$482.2	$731.4	$804.6	$885.0	$830.3
Operating Margin	*16%*	*15%*	*17%*	*17%*	*17%*	*17%*	*10%*	*14%*	*14%*	*14%*	*12%*
y/y change		*22%*	*30%*	*17%*	*33%*	*7%*	*(37%)*	*52%*	*10%*	*10%*	*(6%)*
Other Income (Expense), net	1.2	(0.9)	1.8	1.8	3.5	6.3	2.5	3.2	3.5	3.8	3.8
Income Before Taxes (EBT)	289.0	349.7	457.8	534.6	714.3	769.9	484.7	734.6	808.0	888.8	834.2
Income Taxes	110.1	134.8	179.7	207.0	268.9	294.3	184.2	279.1	307.0	337.7	317.0
Effective Tax Rate	*38%*	*39%*	*39%*	*39%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*	*38%*
Foreign currency adjustment	-	-	0.8	0.6	(2.0)	(7.8)	-	-	-	-	-
Net Income	$178.90	$214.90	$278.90	$328.20	$443.40	$467.80	$300.49	$455.45	$500.97	$551.05	$517.20
Net Margin	*10%*	*9%*	*10%*	*10%*	*11%*	*10%*	*6%*	*8%*	*8%*	*8%*	*7%*
Diluted EPS	$5.64	$6.76	$8.77	$10.49	$14.07	$14.85	$9.54	$14.46	$15.90	$17.49	$16.42
Diluted Shares Outstanding	31.7	31.8	31.8	31.3	31.5	31.5	31.5	31.5	31.5	31.5	31.5

Appendix 2: Balance Sheet

Balance Sheet

$mm (except per share data)	2010A	2011A	2012A	2013A	2014A	2015A
Assets						
Cash and Cash Equivalents	224.8	401.2	322.6	323.2	419.5	248.0
Accounts Receivable, net	5.7	8.4	16.8	24.0	34.8	38.3
Inventories, net	7.1	8.9	11.1	13.0	15.3	15.0
Current Portion of Deferred Tax Assets, net	4.3	6.2	8.9	13.2	19.0	0.0
Prepaid Expenses and Other Current Assets	16.0	21.4	27.4	34.2	34.8	40.0
Income Tax Receivable	23.5	0.0	9.6	3.7	16.5	58.2
Investments	124.8	55.0	150.3	255.0	338.6	415.2
Total Current Assets	406.2	501.1	546.7	666.3	878.5	814.7
PP&E, net	676.9	752.0	866.7	963.2	1,107.0	1,217.2
Long Term Investments	0.0	128.2	190.9	313.9	496.1	622.9
Other Assets	16.6	22.0	42.6	43.9	42.8	48.3
Goodwill	21.9	21.9	21.9	21.9	21.9	21.9
Total Assets	1,121.6	1,425.2	1,668.8	2,009.2	2,546.3	2,725.0
Liabilities and Shareholders' Equity						
Accounts Payable	33.7	46.4	58.7	59.0	69.6	85.7
Accrued Payroll and Benefits	50.3	60.2	71.7	67.2	73.9	65.0
Accrued Liabilities	39.0	50.8	56.3	13.0	102.2	129.3
Total Current Liabilities	123.0	157.4	186.7	139.2	245.7	280.0
Deferred Rent	127.3	146.8	170.4	192.7	219.4	252.0
Deferred Income Tax Liability	50.5	64.4	48.9	55.4	40.5	32.3
Other Long-term Liabilities	9.8	12.4	16.5	23.6	28.3	32.9
Total Liabilities	310.6	381.0	422.5	410.9	533.9	597.2
Preferred Stock	0.0	0.0	0.0	0.0	0.0	0.0
Common Stock	0.3	0.3	0.4	0.4	0.4	0.4
Additional Paid-In Capital	594.3	676.7	816.6	919.8	1,038.9	1,172.6
Treasury Stock	(240.9)	(304.4)	(521.5)	(660.4)	(748.8)	(1,234.6)
Accumulated Other Income	0.6	0.2	1.0	1.6	(0.4)	(8.3)
Retained Earnings	456.5	1,044.2	949.5	1,276.9	1,722.3	2,197.9
Total Shareholders' equity	810.8	1,417.0	1,246.0	1,538.3	2,012.4	2,128.0
Total Liabilities and Shareholders' Equity	1,121.4	1,798.0	1,668.5	1,949.2	2,546.3	2,725.1

Appendix 3: Common Size Balance Sheet

Common Size Balance Sheet

$mm (except per share data)	2010A	2011A	2012A	2013A	2014A	2015A
Assets						
Cash and Cash Equivalents	20.0%	28.2%	19.3%	16.1%	16.5%	9.1%
Accounts Receivable, net	0.5%	0.6%	1.0%	1.2%	1.4%	1.4%
Inventories, net	0.6%	0.6%	0.7%	0.6%	0.6%	0.6%
Current Portion of Deferred Tax Assets, net	0.4%	0.4%	0.5%	0.7%	0.7%	0.0%
Prepaid Expenses and Other Current Assets	1.4%	1.5%	1.6%	1.7%	1.4%	1.5%
Income Tax Receivable	2.1%	0.0%	0.6%	0.2%	0.6%	2.1%
Investments	11.1%	3.9%	9.0%	12.7%	13.3%	15.2%
Total Current Assets	36.2%	35.2%	32.8%	33.2%	34.5%	29.9%
PP&E, net	60.4%	52.8%	51.9%	47.9%	43.5%	44.7%
Long Term Investments	0.0%	9.0%	11.4%	15.6%	19.5%	22.9%
Other Assets	1.5%	1.5%	2.6%	2.2%	1.7%	1.8%
Goodwill	2.0%	1.5%	1.3%	1.1%	0.9%	0.8%
Total Assets	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Liabilities and Shareholders' Equity						
Accounts Payable	10.8%	12.2%	13.9%	14.4%	13.0%	14.4%
Accrued Payroll and Benefits	16.2%	15.8%	17.0%	16.4%	13.8%	10.9%
Accrued Liabilities	12.6%	13.3%	13.3%	3.2%	19.1%	21.7%
Total Current Liabilities	39.6%	41.3%	44.2%	33.9%	46.0%	46.9%
Deferred Rent	41.0%	38.5%	40.3%	46.9%	41.1%	42.2%
Deferred Income Tax Liability	16.3%	16.9%	11.6%	13.5%	7.6%	5.4%
Other Long-term Liabilities	3.2%	3.3%	3.9%	5.7%	5.3%	5.5%
Total Liabilities	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Preferred Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Common Stock	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Additional Paid-In Capital	73.3%	47.8%	65.5%	59.8%	51.6%	55.1%
Treasury Stock	(29.7%)	(21.5%)	(41.9%)	(42.9%)	(37.2%)	(58.0%)
Accumulated Other Income	0.1%	0.0%	0.1%	0.1%	(0.0%)	(0.4%)
Retained Earnings	56.3%	73.7%	76.2%	83.0%	85.6%	103.3%
Total Shareholders' equity	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Total Liabilities and Shareholders' Equity	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Appendix 4: Ratio Analysis

Liquidity Ratios

	2010A	2011A	2012A	2013A	2014A	2015A
Current	3.30x	3.18x	2.93x	4.79x	3.58x	2.91x
Quick	2.89x	2.95x	2.62x	4.33x	3.23x	2.51x
Cash	2.84x	2.90x	2.53x	4.15x	3.09x	2.37x
Cash Conversion Cycle	-7 days	-6 days	-6 days	-5 days	-3 days	-4 days
Efficiency Ratios						
Inventory Turnover	258.58x	255.00x	246.05x	247.28x	268.52x	300.08x
Days of Inventory on Hand	1 days	1 days	1 days	1 days	1 days	1 days
Receivables Turnover	322.09x	270.18x	162.57x	133.94x	118.05x	117.52x
Days of Sales Outstanding	1 days	1 days	2 days	3 days	3 days	3 days
Payables Turnover	39.96x	41.96x	37.88x	40.10x	46.51x	42.84x
Number of Days of Payables	9 days	9 days	10 days	9 days	8 days	9 days
Fixed Asset Turnover	2.71x	3.18x	3.37x	3.51x	3.97x	3.87x
Total Asset Turnover	1.64x	1.78x	1.77x	1.75x	1.80x	1.71x
Leverage Ratios						
Debt to Assets	N/A	N/A	N/A	N/A	N/A	N/A
Debt to Capital	N/A	N/A	N/A	N/A	N/A	N/A
Debt to Equity	N/A	N/A	N/A	N/A	N/A	N/A
PP&E to Sales	0.4x	0.3x	0.2x	0.2x	0.2x	0.2x
Profitability Ratios						
Gross Profit Margin	26.7%	26.0%	27.1%	26.6%	27.2%	26.1%
Operating Profit Margin	15.7%	15.4%	16.7%	16.6%	17.3%	17.0%
Net Profit Margin	9.7%	9.5%	10.2%	10.2%	10.8%	10.4%
Return on Assets	22.5%	25.0%	26.8%	28.4%	33.2%	31.8%
Return on Equity	22.0%	15.2%	22.2%	21.2%	22.0%	22.2%
Return on Invested Capital	59.5%	94.8%	80.2%	81.7%	153.7%	95.2%
Margins						
Revenues	1,835.9	2,269.5	2,731.2	3,214.6	4,108.3	4,501.2
EBIT After Tax Adjusted	215.5	250.8	282.9	347.1	531.4	445.8
COGS Margin	73.3%	74.0%	72.9%	73.4%	72.8%	73.9%
SG&A Margin	7.2%	7.2%	7.3%	7.0%	7.2%	6.2%
EBITDA Margin	19.4%	18.7%	19.8%	19.6%	20.0%	19.9%
Net Working Capital	3.2%	(2.5%)	1.4%	6.3%	5.2%	6.4%

Profitability Ratio Growth

	2010A	2011A	2012A	2013A	2014A	2015A
Gross Profit Margin		(2.6%)	4.4%	(1.9%)	2.3%	(4.1%)
Operating Profit Margin		(1.5%)	8.1%	(0.7%)	4.4%	(1.9%)
Net Profit Margin		(2.8%)	7.8%	(0.0%)	5.7%	(3.7%)
Return on Assets		10.7%	7.5%	5.9%	17.0%	(4.4%)
Return on Equity		(30.8%)	46.2%	(4.5%)	3.8%	0.6%

Margin Growth

	2010A	2011A	2012A	2013A	2014A	2015A
Revenues		23.6%	20.3%	17.7%	27.8%	9.6%
EBIT After Tax Adjusted		16.4%	12.8%	22.7%	53.1%	(16.1%)
COGS Margin		0.9%	(1.5%)	0.7%	(0.8%)	1.5%
SG&A Margin		(0.2%)	1.7%	(4.2%)	2.7%	(13.7%)
EBITDA Margin		(3.5%)	5.5%	(1.1%)	2.2%	(0.6%)
Net Working Capital		(179.6%)	(154.0%)	363.2%	(18.1%)	22.7%

Appendix 5: Drivers

Income Statement Drivers

$mm (except per share data)	2010A	2011A	2012A	2013A	2014A	2015A	2016E	2017E	2018E	2019E	2020E	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E
Revenue	$1,835.9	$2,269.5	$2,731.2	$3,214.6	$4,108.3	$4,501.2	$4,636.2	$5,378.0	$5,915.8	$6,507.4	$7,158.2	$7,587.7	$7,967.0	$8,285.7	$8,617.1	$8,961.8	$9,320.3	$9,693.1	$10,080.8	$10,484.1	$10,903.4
y/y change		24%	20%	18%	28%	10%	3%	16%	10%	10%	10%	6%	5%	4%	4%	4%	4%	4%	4%	4%	4%
Restaurant Operating Costs																					
Food, beverage and packaging	561.1	738.7	891.0	1,073.5	1,421.0	1,503.8	1,622.7	1,989.9	2,188.9	2,407.7	2,791.7	2,959.2	3,107.1	3,231.4	3,360.7	3,495.1	3,634.9	3,780.3	3,931.5	4,088.8	4,252.3
% of revenue	31%	33%	33%	33%	35%	33%	35%	37%	37%	37%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%	39%
Labor	453.6	543.1	641.8	739.8	904.4	1,045.7	1,020.0	1,183.2	1,242.3	1,366.6	1,503.2	1,517.5	1,593.4	1,657.1	1,637.3	1,702.7	1,770.9	1,841.7	1,915.4	1,992.0	2,071.7
% of revenue	25%	24%	23%	23%	22%	23%	22%	22%	21%	21%	21%	20%	20%	20%	19%	19%	19%	19%	19%	19%	19%
Occupancy	128.9	147.3	171.4	199.1	230.9	262.4	259.6	301.2	331.3	364.4	400.9	424.9	446.2	464.0	430.9	448.1	466.0	484.7	504.0	524.2	545.2
% of revenue	7.0%	6.5%	6.3%	6.2%	5.6%	5.8%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.6%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%	5.0%
Other operating costs	202.9	251.2	286.6	347.4	434.2	515.0	695.4	591.6	650.7	715.8	787.4	834.6	876.4	911.4	947.9	985.8	1,025.2	1,066.2	1,108.9	1,153.2	1,199.4
% of revenue	11%	11%	10%	11%	11%	11%	15%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%	11%
Total COGS	$1,346.5	$1,680.3	$1,990.8	$2,359.8	$2,990.5	$3,326.9	$3,597.7	$4,065.8	$4,413.2	$4,854.5	$5,483.2	$5,736.3	$6,023.1	$6,264.0	$6,376.7	$6,631.8	$6,897.0	$7,172.9	$7,459.8	$7,758.2	$8,068.5
y/y change		25%	18%	19%	27%	11%	8%	13%	9%	10%	13%	5%	5%	4%	2%	4%	4%	4%	4%	4%	4%
Gross Profit	$489.4	$589.2	$740.4	$854.8	$1,117.8	$1,174.3	$1,038.5	$1,312.2	$1,502.6	$1,652.9	$1,675.0	$1,851.4	$1,944.0	$2,021.7	$2,240.5	$2,330.1	$2,423.3	$2,520.2	$2,621.0	$2,725.9	$2,834.9
Gross Margin	27%	26%	27%	27%	27%	26%	22%	24%	25%	25%	23%	24%	24%	24%	26%	26%	26%	26%	26%	26%	26%
Operating Expenses																					
General and administrative	118.6	149.4	183.4	203.7	273.9	250.2	370.9	376.5	473.3	520.6	572.7	607.0	717.0	745.7	775.5	806.6	838.8	872.4	907.3	943.6	981.3
% of revenue	6.5%	6.6%	6.7%	6.3%	6.7%	5.6%	8.0%	7.0%	8.0%	8.0%	8.0%	8.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Other operating expenses	14.1	14.3	16.9	22.2	22.6	30.1	46.4	43.0	47.3	52.1	57.3	60.7	63.7	66.3	68.9	71.7	74.6	77.5	80.6	83.9	87.2
% of revenue	0.8%	0.6%	0.6%	0.7%	0.6%	0.7%	1.0%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Total Operating Expenses	$132.7	$163.7	$200.3	$225.9	$296.5	$280.3	$417.3	$419.5	$520.6	$572.7	$629.9	$667.7	$780.8	$812.0	$844.5	$878.3	$913.4	$949.9	$987.9	$1,027.4	$1,068.5
y/y change		23%	22%	13%	31%	(5%)	49%	1%	24%	10%	10%	6%	17%	4%	4%	4%	4%	4%	4%	4%	4%
Depreciation and Amortization	68.9	74.9	84.1	96.1	110.5	130.4	139.1	161.3	177.5	195.2	214.7	227.6	239.0	248.6	258.5	268.9	279.6	290.8	302.4	314.5	327.1
% of revenue	3.8%	3.3%	3.1%	3.0%	2.7%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%

Appendix 6: WACC and Terminal Value

WACC Calculation

Company Name:	Chipotle
Current Share Price:	$ 442.60
Effective Tax Rate:	38.0%
Toggle Discount Rate (WACC):	5.2%

Risk-Free Rate	1.92%
Beta	0.41
Expected Market Return	9.93%
Market Capitalization ($B)	$13,800.0
Cost of Equity	5.20%

Effective Tax Rate	38%
ST Debt	-
LT Debt	
Bond Rate	0.0%
Cost of Debt	0%

Market Cap	$ 13,800.0
Total Debt Value	-
Capital Structure	**$ 13,800.00**

	Weight	Cost	Weight x Cost
Equity	100%	5.2%	5.2%
Debt	0%	0.0%	0.0%
WACC			**5.2%**

Terminal Value - 15-Year DCF:

Terminal FCF Growth Rate:	3.5%
Terminal Value:	$ 64,606.3
PV of Terminal Value:	30,202.2
Sum of PV of Free Cash Flows:	7,470.7
Enterprise Value:	**$ 37,672.9**
% from PV of Terminal Value:	80.2%
Less: Net Debt:	-
Implied Equity Value:	**37,672.9**
Shares Outstanding:	31.5
Equity Value Per Share:	**$ 1,195.97**
Premium / (Discount) to Current:	**170.2%**

Sensitivity of Equity Value to Discount Rate:

Discount Rate	Equity Value
4.50%	$ 2,052.18
4.75%	$ 1,636.21
5.00%	$ 1,358.99
5.20%	$ 1,195.97
5.50%	$ 1,012.64
5.60%	$ 963.19
5.75%	$ 897.27
6.00%	$ 805.02
6.50%	$ 666.76
7.00%	$ 568.12
8.00%	$ 436.87

Terminal Value - 15-Year DCF:

Terminal FCF Growth Rate:	4.0%
Terminal Value:	$ 91,967.7
PV of Terminal Value:	42,993.2
Sum of PV of Free Cash Flows:	7,470.7
Enterprise Value:	**$ 50,463.9**
% from PV of Terminal Value:	85.2%
Less: Net Debt:	-
Implied Equity Value:	**50,463.9**
Shares Outstanding:	31.5
Equity Value Per Share:	**$ 1,602.03**
Premium / (Discount) to Current:	**261.9%**

Sensitivity of Equity Value to Discount Rate:

Discount Rate	Equity Value
4.50%	$ 3,871.23
4.75%	$ 2,574.46
5.00%	$ 1,926.14
5.20%	$ 1,602.03
5.50%	$ 1,277.97
5.60%	$ 1,196.97
5.75%	$ 1,092.84
6.00%	$ 954.02
6.50%	$ 759.76
7.00%	$ 630.33
8.00%	$ 468.73

Appendix 7: DCF Analysis

Aurelius Gremont Model - FCF Projections:	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030
	Historical						Projected														
Revenue:	$ 1,835.9	$ 2,269.5	$ 2,731.2	$ 3,214.6	$ 4,108.3	$ 4,501.2	$ 4,636.2	$ 5,378.0	$ 5,915.8	$ 6,507.4	$ 7,158.2	$ 7,587.7	$ 7,967.0	$ 8,285.7	$ 8,617.1	$ 8,961.8	$ 9,320.3	$ 9,693.1	$ 10,080.8	$ 10,484.1	$ 10,903.4
Revenue Growth Rate:		23.6%	20.3%	17.7%	27.8%	9.6%	3.0%	16.0%	10.0%	10.0%	10.0%	6.0%	5.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
COGS	1,346.5	1,680.3	1,990.8	2,359.8	2,990.5	3,326.9	3,597.7	4,065.8	4,413.2	4,854.5	5,483.2	5,736.3	6,023.1	6,264.0	6,376.7	6,631.8	6,897.0	7,172.9	7,459.8	7,758.2	8,068.5
COGS as percentage of Sales:	73.3%	74.0%	72.9%	73.4%	72.8%	73.9%	77.6%	75.6%	74.6%	74.6%	76.6%	75.6%	75.6%	75.6%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%	74.0%
SG&A	118.6	149.4	183.4	203.7	273.9	250.2	370.9	376.5	473.3	520.6	572.7	607.0	717.0	745.7	775.5	806.6	838.8	872.4	907.3	943.6	981.3
SG&A as percentage of Sales:	6.5%	6.6%	6.7%	6.3%	6.7%	5.6%	8.0%	7.0%	8.0%	8.0%	8.0%	8.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%	9.0%
Other Operating Expenses	14.1	14.3	16.9	22.2	22.6	30.1	46.4	43.0	47.3	52.1	57.3	60.7	63.7	66.3	68.9	71.7	74.6	77.5	80.6	83.9	87.2
Other as a percentage of Sales:	0.8%	0.6%	0.6%	0.7%	0.6%	0.7%	1.0%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%	0.8%
Operating Income:	356.7	425.5	540.1	628.9	821.3	894.0	621.3	892.8	982.0	1,080.2	1,045.1	1,183.7	1,163.2	1,209.7	1,396.0	1,451.8	1,509.9	1,570.3	1,633.1	1,698.4	1,766.4
Operating Margin:	19.4%	18.7%	19.8%	19.6%	20.0%	19.9%	13.4%	16.6%	16.6%	16.6%	14.6%	15.6%	14.6%	14.6%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%	16.2%
Less: Taxes, Excluding Effect of Interest:	(110.1)	(134.8)	(179.7)	(207.0)	(268.9)	(339.7)	(236.1)	(339.2)	(373.2)	(410.5)	(397.1)	(449.8)	(442.0)	(459.7)	(530.5)	(551.7)	(573.8)	(596.7)	(620.6)	(645.4)	(671.2)
Net Operating Profit After Tax (NOPAT):	246.6	290.7	360.4	421.9	552.4	554.3	385.2	553.5	608.9	669.7	648.0	733.9	721.2	750.0	865.5	900.1	936.1	973.6	1,012.5	1,053.0	1,095.1
Adjustments for Non-Cash Charges:																					
Depreciation & Amortization:	68.9	74.9	84.1	96.1	110.5	130.4	139.1	161.3	177.5	195.2	214.7	227.6	239.0	248.6	258.5	268.9	279.6	290.8	302.4	314.5	327.1
% Revenue:	3.8%	3.3%	3.1%	3.0%	2.7%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Equity-Based Compensation:	21.4	41.4	64.3	63.7	96.4	57.9	90.8	106.8	113.1	123.5	129.4	145.1	151.6	156.3	162.1	168.3	176.4	183.0	190.1	197.6	205.6
% Revenue:	1.2%	1.8%	2.4%	2.0%	2.3%	1.3%	2.0%	2.0%	1.9%	1.9%	1.8%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%	1.9%
Other Non-Cash Items:	(4.0)	(27.0)	(91.0)	(36.0)	(41.0)	(35.8)	(68.9)	(83.2)	(70.4)	(78.3)	(89.1)	(101.2)	(103.8)	(104.0)	(109.3)	(114.8)	(120.1)	(124.0)	(128.5)	(134.0)	(139.6)
% Revenue:	(0.2%)	(1.2%)	(3.3%)	(1.1%)	(1.0%)	(0.8%)	(1.5%)	(1.5%)	(1.2%)	(1.2%)	(1.2%)	(1.3%)	(1.3%)	(1.3%)	(1.3%)	(1.3%)	(1.3%)	(1.3%)	(1.3%)	(1.3%)	(1.3%)
Provision for Doubtful AR and Product Returns:	6.7	10.0	6.5	7.2	7.0	13.2	8.4	8.7	8.5	8.8	9.1	9.5	8.8	8.9	9.0	9.0	9.1	9.0	9.0	9.0	9.0
Total Non-Cash Adjustments:	93.0	99.3	63.9	131.0	172.9	165.7	169.4	193.7	228.7	249.3	264.2	281.0	295.6	309.8	320.3	331.4	345.0	358.9	373.0	387.2	402.2
Changes in Working Capital:																					
Accounts Receivable	(0.7)	(3.0)	(9.4)	(7.2)	(11.0)	(3.5)															
Inventory	(1.5)	(1.8)	(2.2)	(2.0)	(2.3)	0.3															
Prepaid Expenses and Other	(1.6)	(5.4)	(6.0)	(6.8)	(0.7)	(5.3)															
Other Assets	(9.0)	(7.4)	(20.5)	(1.4)	1.1	(5.6)															
Accounts Payable	7.0	9.4	7.8	2.1	2.2	19.5															
Accrued Liabilities	16.6	17.5	21.3	12.0	35.0	(7.4)															
Income Taxes Payable and Receivable	13.2	66.6	59.4	44.3	8.8	32.8															
Deferred Rent	17.3	19.6	23.8	25.7	27.0	32.9															
Other Long-Term Liabilities	3.0	2.6	4.1	3.9	4.8	4.8															
Net Change in Working Capital:	44.2	98.1	78.2	70.6	65.0	68.5	139.1	161.3	177.5	195.2	214.7	227.6	239.0	248.6	258.5	268.9	279.6	290.8	302.4	314.5	327.1
% Revenue:	2.4%	4.3%	2.9%	2.2%	1.6%	1.5%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Less: Capital Expenditures:	(113.2)	(151.1)	(197.0)	(199.9)	(252.6)	(257.4)	(324.5)	(376.5)	(414.1)	(455.5)	(501.1)	(531.1)	(557.7)	(580.0)	(603.2)	(627.3)	(652.4)	(678.5)	(705.7)	(733.9)	(763.2)
% Revenue:	6.2%	6.7%	7.2%	6.2%	6.1%	5.7%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
Free Cash Flow:	$ 270.6	$ 337.0	$ 305.5	$ 423.6	$ 537.7	$ 531.0	$ 369.1	$ 532.1	$ 600.9	$ 658.7	$ 625.8	$ 711.3	$ 698.1	$ 728.4	$ 841.2	$ 873.1	$ 908.3	$ 944.7	$ 982.3	$ 1,020.8	$ 1,061.2
Growth Rate:	*N/A*	*24.5%*	*(9.3%)*	*38.7%*	*26.9%*	*(1.2%)*	*(30.5%)*	*44.1%*	*12.9%*	*9.6%*	*(5.0%)*	*13.7%*	*(1.9%)*	*4.3%*	*15.5%*	*3.8%*	*4.0%*	*4.0%*	*4.0%*	*3.9%*	*4.0%*