

Problem 1. Business Strategy Analysis

(i) Chipotle emphasizes ‘Food With Integrity’ as a key element of its business strategy. Identify two key success factors associated with this aspect of Chipotle’s business strategy. **[4 points]**

1. First key success factor

2. Second key success factor

(ii) Identify two key risks associated with Chipotle’s emphasis on ‘Food With Integrity’. **[4 points]**

1. First key risk

2. Second key risk

Problem 2. Accounting Analysis

- (i) Briefly describe how Chipotle currently accounts for its restaurant leases. **[2 points]**
- (ii) Assume that instead of using its current accounting practice for restaurant leases, Chipotle instead recognized rent expense equal to rent paid for the period. Estimate the Income from operations that Chipotle would have reported for the fiscal year ended December 31, 2009. **[4 points]**
- (iii) Assume that instead of using its current accounting practice for restaurant leases, Chipotle instead used the capital lease method. Provide a brief qualitative explanation of how this would have impacted Chipotle's Income from operations for the fiscal year ended December 31, 2009 (i.e., would income from operations have been higher or lower and which income statement line items would have been impacted?) **[6 points]**

Problem 3. Financial Analysis

- (i) Compute Net Profit Margin ratios for Chipotle and Brinker for fiscal year 2009. **[4 points]**

Net Profit Margin for Chipotle =

Net Profit Margin for Brinker =

- (ii) What are the primary explanations for the difference between the Net Profit Margins that you computed above? Please be specific, referring to particular line items in the financial statements where possible. **[6 points]**

- (iii) Compute the Average Inventory Holding Period (in days) for Chipotle and Brinker for fiscal year 2009. **[6 points]**

Average Inventory Holding Period for Chipotle =

Average Inventory Holding Period for Brinker =

- (iv) Briefly identify the key reason(s) for any difference in the Average Inventory Holding Periods that you computed for Chipotle and Brinker above. **[4 points]**

Problem 4. Forecasting

- (i) The Deutsche Bank research report provided in the financial statement booklet forecasts that Chipotle's EPS will grow from \$5.20 in fiscal year 2010 to \$6.37 in fiscal year 2011. Identify the key forecasting assumptions driving this EPS growth (be as specific as possible). **[5 points]**
- (ii) The Deutsche Bank research report forecasts that Chipotle will generate free cash flow of \$188.8 million in 2011. What does the Deutsche Bank research report forecast that Chipotle will do with this free cash flow in 2011? **[3 points]**
- (iii) The cash flow model on the final page of the Deutsche Bank research report forecasts an amount of \$19.4 million for **Deferred rent** in fiscal 2011. Briefly evaluate the plausibility of this forecast. **[4 points]**

