Chipotle Mexican Grill Inc, Q4 2021, Earnings Call 2022-02-08

Presentation

Operator

Good day, and welcome to the Chipotle Mexican Grill Fourth Quarter and Full Year 2021 Results Conference Call. Please note, this event is being recorded.

I would now like to turn the conference over to Ashish Kohli, Head of Investor Relations. Please go ahead.

Ashish Kohli

Hello, everyone, and welcome to our fourth quarter and fiscal year-end 2021 earnings call. By now, you should have access to our earnings press release. If not, it may be found on our Investor Relations website at ir.chipotle.com.

I'll begin by reminding you that certain statements and projections made in this presentation about our future business and financial results constitute forward-looking statements. These statements are based on management's current business and market expectations, and our actual results could differ materially from those projected in the forward-looking statements. Please see the risk factors contained in our annual report on Form 10-K and in our Form 10-Qs for a discussion of risk that may cause our actual results to vary from these forward-looking statements.

Our discussion today will include non-GAAP financial measures. A reconciliation to GAAP measures can be found via the link included on the presentation page within the Investor Relations section of our website.

We will start today's call with prepared remarks from Brian Niccol, Chairman and Chief Executive Officer; and Jack Hartung, Chief Financial Officer. After which, we will take your questions. Our entire executive leadership team is available during the Q&A session.

And with that, I'd like to turn the call over to Brian.

Brian R. Niccol

Thanks, Ashish, and good afternoon, everyone. 2021 was an outstanding year for Chipotle, highlighting the organizational strength and resiliency of our brand. Despite an unprecedented environment, our employees remain passionate about their work, dedicated to delivering excellent guest experiences and aligned with our purpose and values. Our business is as much about people as it is about food, and I strongly believe that we have the best in the industry. I'm very grateful for our team members' monumental efforts. And together, we accomplished many incredible things and accelerated business momentum, all of which was fueled by our multipronged growth strategy.

For the fiscal year, this resulted in sales growing 26% to reach $7.5 billion driven by a 19.3% comp; digital sales of $3.4 billion, which grew 25% versus the prior year; restaurant-level margin expanding 520 basis points year-over-year to reach 22.6%; adjusted diluted EPS of $25.42, representing 137% growth over last year; and we opened 215 new restaurants.

I'm also delighted with our fourth quarter performance even with the surge in Omicron cases that began in December. For the quarter, we reported sales of $2 billion, representing 22% year-over-year growth, which was fueled by a 15.2% increase in comparable restaurant sales, restaurant-level margin of 20.2%, was 70 basis points higher than the 19.5% we reported last year; earnings per share adjusted for unusual items of $5.58, representing an increase of 60% year-over-year; digital sales growth of nearly 4% year-over-year, representing 42% of sales; and we opened 78 new restaurants, including 67 with the Chipotlane. We're encouraged by the recent performance but really excites us with the longer-term opportunity as we believe our powerful economic model will deliver best-in-class returns while achieving AUVs well beyond $3 million and significantly expanding the number of Chipotle restaurants in North America, which I'll elaborate on shortly.

There's no doubt in my mind that our 5 key strategies still have a long runway and are positioning us to win today while we create the future. We've revamped them slightly to reflect this transitioning from our turnaround phase to a sustainable growth phase. These now include: Number one, running successful restaurants with people, accountable culture that provides great food with integrity while delivering exceptional in-restaurant and digital experiences. Number two, sustaining world-class people leadership by developing and retaining diverse talent at every level. Number three, making the brand visible, relevant and love to improve overall guest engagement. Number four, amplifying technology and innovation to drive digital growth and productivity at our restaurants and support centers. And number five, expanding access and convenience by accelerating new restaurant openings.

Let me provide a brief update on each of these, starting with restaurant operations. The key to happy customers is a wonderful guest experience that provides consistently great-tasting food prepared and served quickly. This hasn't been easy, especially if the number of COVID cases spiked and, at times, impacted our staffing capabilities. But we're fortunate to have amazing employees at our restaurants who have stayed focused on safety, reliability and excellent culinary while adapting seamlessly to the dynamic environment. Their execution, whether it be on new menu introductions or managing the balance between digital and in-restaurant orders, has been exemplary.

As always, throughput remains a key focal area and something that we're determined to improve, especially as more guests come back to the front line. The critical success factor is ensuring we have proper staffing, which is currently a challenge for many companies. However, ongoing investments in our people, including competitive starting rates, enhanced benefits, debt-free degrees, development programs and transparent career progression opportunities, are resulting in better employee recruitment and retention as well as allowing us to make progress on labor challenges.

But we know there's more work to do, especially to support our future growth. As a result, we are focused on increasing our staffing stability through investing in human capital technology that will enhance our hourly team member experience. Specifically, we are in the process of implementing a new digital scheduling program as well as upgrading our learning management portal. Also, I know we've mentioned this before, but it's worth highlighting again the importance of the GM role. Their leadership is crucial in executing the fundamentals of our business and setting the standard for how we run great restaurants every day. Additionally, our GMs help grow the brand and the careers of countless team members, many of whom end up being top-performing leaders in our organization. In fact, during 2021, 90% of our restaurant management roles were internal promotions. Overall, we've promoted almost 19,000 team members in 2021. Our goal is to develop and retain diverse talent at every level of the organization and be the employer of choice, a message we will emphasize at our all-manager conference in March.

After all, our employees need to be ready to support the consistent demand our talented marketing team creates by making Chipotle more visible, more relevant and more loved. This is done using different advertising channels, including traditional media to enhance brand awareness and stay relevant. A wonderful example is our short animated film called A Future Begins, which is a sequel to our award-winning 2011 film Back To The Start, and shines a light on the modern-day challenges the next generation of farmers are facing. While many young farmers value sustainability and ethics and farming like we do, they're struggling with new problems like climate change, technology costs and access to farmland. Launching this film is one of the ways that we are raising awareness of our mission to influence the 2023 farm bill that would facilitate equitable access to up to 1 million acres of land for the next generation of farmers.

We also utilized creative social media to successfully drive culture, drive difference and ultimately drive a purchase. We celebrated the 21-year anniversary of Boorito by providing $5 digital orders and serving up $1 million in free Booritos through a virtual Chipotle restaurant on roadblocks. We're the first restaurant brand to create a virtual experience on the interactive roadblocks platform, which resulted in Halloween 2021 having the most digital transactions of all time at Chipotle. This is a great illustration of us reaching consumers in a unique way to build sales today and the brand for tomorrow.

Enhancing our marketing efforts is a consistent cadence of 2 to 3 new menu items per year, using a disciplined approach to innovation. Not only do these items help bring new guests in the Chipotle family, but they also drive frequency with existing users and give us another opportunity to highlight the brand.

In 2021, we launched cauliflower rice in January, followed that with quesadillas in March and, finally, debuted smoked brisket in September. All of these new items performed very well, driving an increase in both check size and transactions.

In 2022, we have already launched plant-based chorizo for a limited time across our U.S. restaurants. This entree is made using all real fresh ingredients grown on a farm, not in the lab, and proves that you don't have to sacrifice flavor to enjoy a vegan or vegetarian protein. It is off to a terrific start and is helping drive cultural buzz for its health and environmental benefits.

And there's more on deck. Pollo Asado, the first menu innovation with chicken in our 28-year history, has been successfully validated as part of our stage-gate process, and our culinary team is in the early stages of developing other exciting menu items. So stay tuned.

Another important growth driver that accelerated during the pandemic has been our technology transformation, which is helping Chipotle become a real food-focused digital lifestyle brand. During the fourth quarter, digital sales grew 4% year-over-year to $811 million and represent 42% of sales. We're pleased to see our digital sales dollars continue to grow despite lapping tough comparisons, and our overall digital mix remained steady in what seems like a new normal. Incredibly, our full year digital sales of $3.4 billion is nearly 3.5x what we did pre-COVID in 2019.

Digital has proven to be sticky as it's a frictionless and convenient experience that has been aided by continuous investments, and you will likely see us increasing technology enablement for our restaurants and support centers to amplify innovation, enhance the customer experience and optimize efficiencies to improve operational execution.

As a result of this pandemic, many new consumers were introduced to Chipotle via our digital channels and are now using us for alternative and, at times, incremental occasions. Having 2 large and growing businesses that are supported by separate make-lines makes it easy for guests to access Chipotle through different channels and is a key point of differentiation. Currently, about 2/3 of our guests use in-restaurant as their exclusive channel, with the remainder using Chipotle's digital ecosystem to conveniently access our real food. This dynamic gives us several future opportunities, including adding more guests, converting more of our in-restaurant guests into higher frequency digital users and leveraging our expanding loyalty program.

We now have more than 26.5 million members in our rewards program, which is a key enabler of our digital flywheel. We're focusing a lot more on personalization by creating journeys, primarily for new and at-risk customers that can influence guest behaviors and ultimately drive more frequency. As the program grows and we gain more experience, we are constantly learning, evolving and optimizing. For example, offering greater customization and flexibility to redeem rewards as well as gamifying the program with personalized challenges and badges that helped drive engagement and deepen relationships with our guests.

Not only have we seen strong positive responses from our most loyal fans, but even more exciting is that these program enhancements have increased engagement from our medium and low-frequency guests. We are delighted with our progress to date and believe ongoing investments and further leveraging of data-driven insights will make us even better.

Our last strategic driver is to expand access and convenience, which today is the #1 request from consumers. And we're listening. I'm excited to share that over the long term, we now believe we can operate at least 7,000 Chipotle restaurants in North America, up from our prior goal of 6,000 based on the success of small town opportunities that are delivering unit economics at or better than our traditional locations. We're also in the early stages of testing alternate formats, including seam locations, which, if successful, could further expand our addressable market. Additionally, given healthy and improving cash-on-cash returns, we are building a real estate pipeline that will allow us to accelerate new unit growth to be in the range of 8% to 10% per year, with greater than 80% of new restaurants having a Chipotlane. And of course, we continue to look for ways to enhance convenience with Chipotlanes, alternative formats, delivery and catering to provide many ways for our guests to Chipotle.

In closing, I can't thank our employees enough for everything they've done to elevate the brand and cultivate a better world for each other, our guests and our communities no matter what external restrictions came our way in 2021. As I've said before, challenges create opportunities, and we are now in a much stronger competitive position than we were 2 years ago.

While we're still navigating through what we all hope is the last phase of this pandemic, I look forward to the future with optimism and can't wait to see what 2022 holds for Chipotle.

Okay. With that, here's Jack to walk you through the financials.

John R. Hartung

Thanks, Brian, and good afternoon, everyone. We ended the year on a positive note, with sales in the fourth quarter growing 22% year-over-year to reach $2 billion as comp sales grew 15.2%. Restaurant-level margin of 20.2% expanded 70 basis points over last year. And earnings per share adjusted for unusual items was $5.58, representing 60.3% year-over-year growth. The fourth quarter had unusual expenses related to legal expenses, our previously disclosed 2018 performance share modification transformation costs as well as restaurant asset impairment and closure costs, which negatively impacted our earnings per share by $0.89, leading to GAAP earnings per share of $4.69.

As we look ahead to 2022, there remains uncertainty on several fronts, including COVID impacts as well as staffing and inflationary pressures that limit our visibility, and therefore, make it difficult to provide full year comp guidance. These headwinds were significant in January, which also included some challenging weather, which led to a January comp of around 5%. We remain optimistic that as these challenges ease that our comps will accelerate from the January level. While it's difficult to predict the comp for Q1 with precision, we expect it to land somewhere in the mid to high single-digit range, assuming the effects of COVID continue to subside.

There's no doubt our restaurant-level margin is indiscernible in the near term. So let me provide some perspective on Q4 and what we expect moving forward. Besides ongoing labor pressures, our Q4 margin was impacted by a higher level of commodity inflation than we originally expected, primarily due to elevated beef and freight costs. As a result, we took a 4% menu price increase in the middle of December to help offset these headwinds. Given the timing of this pricing action, it had little impact in the quarter, resulting in our Q4 margin being at the lower end of our 20% to 21% guidance range. However, if you look ahead to Q1 where we will see the pricing benefit for the full quarter, our restaurant level margin is expected to be nearly 22%. And normalizing for the elevated marketing spend expected this quarter as well as transitory COVID-related cost pressures, the underlying Q1 margin would be in the low to mid-23% range. The bottom line is that our underlying margin remains healthy, and we believe we still have pricing power to use as needed if inflation continues to rise going forward. Of course, we'll be thoughtful and patient as we consider these actions to make sure we continue to deliver an excellent value and dining experience to our guests.

Now let me go through the key P&L line items, beginning with cost of sales. While our supply chain team continues to do an admirable job keeping our restaurants and supply of key ingredients and managing the cost of doing so, external challenges were quite extreme in Q4, which led to food cost being 31.6%, an increase of 60 basis points from last year. As I just mentioned, inflation on beef and freight, and to a lesser extent, avocado costs more than offset the leverage from our menu price increases. As we think about Q1, the successful premium brisket LTO has ended, and we get the full benefit of our December pricing. These tailwinds will be partially offset by a full quarter of elevated beef prices as well as seasonally higher avocado pricing. As a result, we expect our Q1 food cost to be in the 30% to 30.5% range.

Labor costs for the fourth quarter were 26.4%, an increase of about 100 basis points from last year. This increase was driven by our strategic decision to increase average nationwide wages to $15 per hour in May of last year, which was partially offset by menu price increases and sales leverage. While we're expecting elevated wage inflation to continue, especially given higher exclusion and overtime pay because of the Omicron variant, our December menu price increase should provide some offset, resulting in labor costs being in the low 26% range for Q1.

Other operating costs for the quarter were 16.3%, a decrease of about 160 basis points from last year, due primarily to price and sales leverage. Marketing and promo costs for the quarter were 3.6%, about 30 basis points lower than we spent last year, but as expected, 120 basis point sequential increase from Q3 to support smoke brisket and the latest brand messaging under our Behind The Foil campaign. Like Q4, Q1 tends to be a higher marketing quarter to support new menu items like plant-based chorizo. Therefore, we expect marketing to be in the high 3% range in Q1 but to remain around 3% for the full year. Overall, other operating costs are expected to be in the mid-16% range for the first quarter.

G&A for the quarter was $116 million on a GAAP basis or $133 million on a non-GAAP basis, excluding $18 million related to the proposed settlement of legal matters, $7.6 million for the previously disclosed modification to our 2018 performance shares and $1.3 million related to transformation expenses. G&A also includes about $100 million in underlying G&A, $30 million related to noncash stock compensation, $1.8 million related to higher performance-based bonus accruals and payroll taxes and equity vesting and stock option exercises, and roughly $1.4 million related to our upcoming all-manager conference. We expect our underlying G&A to be around $101 million in Q1 and grow slightly every quarter thereafter as we continue to make investments, primarily in technology and people, to support ongoing growth. Despite the elevated spend, our goal remains to deliver leverage on this line item relative to our sales growth, just like we did in 2021.

We anticipate stock comp will be likely around $30 million in Q1, although this amount could move up or down based on our performance and subject to the 2022 grants which are issued in Q1. We also expect to recognize around $4 million related to employer taxes associated with shares that vested during the quarter as well as about $17 million related to our all-manager conference.

Our effective tax rate for Q4 was 20.3% on a GAAP basis and 18.7% on a non-GAAP basis. Both rates benefited from option exercises and share vesting at elevated stock prices. In addition, our GAAP tax rate included a benefit for the write-off of uncertain tax position reserves in the fourth quarter of 2021. For fiscal 2022, we estimate our underlying effective tax rate will be in the 25% to 27% range, though it may vary based on discrete items.

Our balance sheet remains healthy as we ended the year with $1.4 billion in cash, restricted cash and investments, with no debt, along with the $500 million untapped revolver. During the fourth quarter, we repurchased $169 million of our stock in average price of $1,750. And we continue to -- we expect to continue using excess free cash flow to opportunistically repurchase our stock.

We're privileged to have the financial strength with which to make ongoing strategic investments, including restaurant design and real estate development growth. I'm really impressed by the hard work of our development and operations team as they opened 78 new restaurants in the fourth quarter with 67, including a Chipotlane. This is despite all the construction inflationary pressures, subcontractor labor issues, critical equipment shortages and landlord delivery delays. For the full year, we exceeded our guidance and opened 250 new restaurants with 81% or 174, including a Chipotlane. We ended 2021 with 355 Chipotlanes, including 16 conversions and 11 relocation. And overall, these formats continue to demonstrate a stellar performance. Furthermore, we're gaining more confidence in our conversion and relocation strategy, which will allow us to enhance the Chipotlane opportunity and provide more access and convenience for our guests. As a result, we expect to open between 235 and 250 restaurants in 2022 with more than 80%, including a Chipotlane. And this guidance includes 5 to 10 relocations to add a Chipotlane. Looking past the pandemic, we expect to be able to accelerate openings in 2023 and beyond and move towards the high end of the 8% to 10% openings range that Brian mentioned.

Let me end by expressing my gratitude for our nearly 100,000 team members in the restaurants and in the support centers for overcoming countless issues in the past year to safely serve and delight our guests. Their focus and strong execution have brought us to where we are today and I believe will be critical to sustaining our industry leadership in the future.

With that, we're happy to take your questions.

Question and Answer

Operator

And the first question will come from Dennis Geiger with UBS.

Dennis Geiger

Wanted to focus a little bit more on the margin. I guess both for kind of the 1Q, I think Jack and Brian, you talked to, I think, low to mid-23 sort of underlying. Wondering if you could just talk a little bit more about what goes into that. And just kind of the go forward, if you could kind of give any kind of color as we go through the year, what that margin trajectory looks like and related -- as it relates to that long-term algorithm you provided, if there's any change there or if it's kind of consistent with what you've messaged prior.

Brian R. Niccol

Yes. So I'll start, Jack. To answer your question, the long-term algorithm, we still believe we will achieve it. And it's a combination of the sales growth and, obviously, pricing where we need to, when we need to. And then we've got a lot of initiatives going on, make sure that we're as efficient as possible. So long term, we've got 100% confidence in what we can achieve. To your specific question about some of the stuff happening in the short term, I'll turn that over to Jack.

John R. Hartung

Yes. The key things that are happening as you move from Q4 to Q1, are the menu price increase we took, we only -- we got like less than 100 basis points of impact in the fourth quarter as we took that in December. We'll get the full benefit of that in Q1. That's going to be offset somewhat by the fact that beef inflation has continued. We keep thinking that beef is going to level off and then go down. It just hasn't happened yet. And so while we got a partial quarter of beef inflation during the fourth quarter, we'll get a full quarter of inflation during that month.

So we're just -- mainly those 2 things alone and then brisket -- actually brisket does -- it's a premium priced item, but it also is a premium cost item. So that has a drag on the margin as well. And so that ended during the fourth quarter. So when you look at what our margin is expected to be in Q1 without considering timing adjustments, it's in that kind of high 22% range. But we're going to spend more than average on marketing because we're going to support -- we already have supported new menu items. We're going to support our next campaign. And so when you adjust for the timing of that and some other timing differences, that's where our normalized underlying margin should be in that kind of 23% range.

And then the other thing I would just add is typically, our winter months are not our high-margin months. So it, of course, depends on what happens with inflation throughout the year. But if inflation doesn't get too much worse, we would hope that we would see margin at or above that 23% range going forward.

Operator

The next question will be from Jared Garber from Goldman Sachs.

Jared Garber

I wanted to ask about menu innovation. And 2021 was a year in which you had several really successful innovation come through the menu. I wanted to just get a sense of how you're thinking about that as we approach '22 or head into further into '22 and how you think about lapping and maybe what those -- where you're focused on the menu.

Brian R. Niccol

Yes. Sure. Yes. Well, you touched on the first part. We're really happy with how all of our initiatives performed. I think it's a testament to our discipline around ensuring what we launch has a high probability of success and that we're able to execute, supply it and then deliver a great experience. So really delighted with what we did in '21.

As I mentioned this in my earlier remarks, the plant-based chorizo is off to a great start. If you haven't had a chance to try it, I highly recommend to give it a try. It's really terrific. But the way we think about it is we obviously want to listen to what our customers say they would like to see on the menu. That's why we've done things like quesadillas, improved the queso. We want to listen to what habits and trends are happening. So that's why you see us do things like leading with cauliflower rice, plant-based chorizo. And then we're going to lead consumer pallets. And that's why we're really excited about this Pollo Asado program that we just tested. Obviously, Carne Asada was something that we're really excited about. And hopefully, you had a chance to try the brisket. That was just, I thought, outstanding.

And so we're going to continue to probably do 2 to 3 innovations a year. We're going to use kind of those guardrails is where our culinary team is looking. And then we're going to continue to use our disciplined approach so that we have a pretty good idea of how it's going to perform when we do roll it out nationally.

Operator

The next question will be from David Palmer from Evercore ISI.

David Sterling Palmer

Question on pricing. Is the current year-over-year run rate 12% after that latest increment? And what's going to dictate your pricing strategy through the year? And in particular, I know people are curious about how you view your pricing power. What informs your view about Chipotle's pricing power? And basically, how does that dovetail with your pricing strategy?

Brian R. Niccol

Yes. So David, I think we're more in the 10% range right now as you look at Q1. And if we were to take any more pricing for the balance of the year, that ultimately ends up being about a 6% or more -- probably a little bit more than 6% for the year.

To answer your question on when and why we would take pricing, Jack can touch on this. We continue to see pressure on wages. We want to make sure that we continue to be competitive on that front. We feel like we're in a really good position right now. As a result, our restaurants are staffed better than they were pre-COVID and, frankly, better than they have been for the last 2 years through this whole COVID period. So we don't want to slip on our wages. So we're going to keep a close eye on that. And then, obviously, we'll look for any inefficiencies to help mitigate that, but we do have the pricing lever there.

And then as Jack mentioned, beef and freight and some of these other things that continue to stay elevated, if we don't see it abate, we'll have to take some additional pricing there. So it's really the last thing we want to do, but we're fortunate that we can pull it. And we see no resistance to date with the levels that we're currently at.

And I think I mentioned this in my earlier remarks or maybe this was in the interview I did earlier, I mean, keep in mind, when we talk about these percentages, I'd like to run people the absolute dollar. The chicken Boorito for most parts of the country is still less than $8. Chicken bowl is still less than $8. And that's phenomenal value, especially when I see where, frankly, food that I would question the caliber not being what our caliber is nor what the customization is, right in that price point, if not higher. So we've got a lot of pricing power. Our customers appreciate the brand, appreciate the culinary. And we're fortunate to be in that position.

Operator

And the next question will be from Peter Saleh with BTIG.

Peter Mokhlis Saleh

Brian, I think you just touched on this a little bit, but I'm hoping you can elaborate a little bit. You guys just took another price increase, and you're running with about 10%, but what about the value proposition? And how do you ensure you just don't outprice some of your consumers? Is there a benchmark that you're looking at to price against? Or is there something else we can look at to get a sense on how much inflation you guys are willing to take on?

Brian R. Niccol

Yes. So look, we do a couple of things. One, we have internal work where we're constantly evaluating the value strength of our brand through, call it, traditional market research. And we also do the analytical side of things, where after we take pricing, we really do analyze what happens to transactions. And the good news is we have so much data now with our loyalty database that we're able to understand are there any behavioral impacts from what we're seeing. And we see very little resistance there.

And then obviously, we look out into the marketplace. You look at -- and all this stuff, right, pricing usually has something to do with your relative options. And when you look at the options, again, this is why I think we get such strong value scores to get our food with our customization, with our access, and frankly, the quantity that you're also able to get. We're kind of in our own space, and we're very fortunate to be in that space. And there's a lot of headroom from what we can tell. And I really hope we never have to use all of it, but we'll be judicious. And when we need to, we will.

Operator

And the next question is from David Tarantino from Baird.

David E. Tarantino

My question is about the unit growth outlook accelerating. I guess first question is just wanted to gauge your confidence level in being able to ramp up to those types of numbers in the current labor environment we're in given how tight the labor market has become. I guess is there certain things you're doing on the staffing side ahead of that acceleration that are worth talking about?

And then the second question related to this is, Jack, I was wondering if you could give us an update on what the return profile looks like for the Chipotlanes that you're developing.

Brian R. Niccol

So yes. So David, your first question, we continue to feel really good about, one, the performance of our restaurant openings, right? So we opened 215, and the performance was excellent. That's a testament to our real estate development team, on our operators to ensure those restaurants were staffed for the opening. And one of the things -- I think I mentioned this in the script, we promoted something like 19,000 people to the manager level.

And the one thing that's great about our company is as we close in on having 3,000 restaurants and 4,000 restaurants, our goal is to internally develop our future of leaders. And the reason why that's important is it's a lot easier to prepare for 300 openings when you're working off of a base of 3,000 or 4,000. Or whatever number of openings we want to achieve, the bigger our base is, the more talent we can develop. And I think we're demonstrating we can develop that talent with the fact that we just promoted 19,000 employees. So they'll stay with us. They'll grow with us. They're excited about the growth opportunity.

I will tell you, obviously, COVID made it very hard to open 215 restaurants. That wasn't an easy thing. And again, I'd give a real hats off to our team for being able to execute that type of new restaurant opening quantity as well as quality.

And the last thing I'll say before I hand over to Jack is the pipeline is very strong. And we're fortunate people want Chipotle in their towns, the landlords want Chipotle in their centers. And we just demonstrated now we also have the small town opportunity to add to the Chipotlane opportunity.

So we're in a really good position. Obviously, I'm hoping we're in the last phase of COVID and some things get a little bit easier versus harder going forward. But it's a real testament to the strength of our operations, the strength of our development team that we're able to open 215 high-quality new units.

So Jack, I'll let you talk to David's question on Chipotlanes.

John R. Hartung

Yes. David, Chipotlanes continue to outperform our non-Chipotlane restaurants. That's why you've seen us quickly get up to now 80% of our new restaurants have a Chipotlane. They have higher volume. They skew more towards digital, and that SKU comes from order-ahead, which is a higher margin transaction. And the investment is only modestly higher, call it, in that $75,000 range. So if a non-Chipotlane opening get a cash-on-cash return within a couple of years as the sales grow in that 55% to, call it, 60% return, a Chipotlane is going to generate cash-on-cash returns in the 65% to 70% returns. So clearly, exceptional returns.

And then what Chipotlane is also allowing us to do is go into these small towns where we have another convenient access point. And then also, we're starting to get into these seam locations. We only have a few open. But with the extra convenience channel at Chipotlane, it just makes it more doable from a financial standpoint and a convenience standpoint to go into these small towns and seam locations that generate superior returns. So yes, Chipotlane continues to perform at exceptional levels.

Operator

And the next question will be from Brian Bittner with Oppenheimer & Company.

Brian John Bittner

Can you just update us again on the pace of the loyalty membership trajectory as we enter 2022? Is it still showing a healthy pace of growth? And with this now a very large base of members in this immense digital ecosystem, Brian, what do you believe is the biggest strategic or operational unlock that still sits in front of you as it relates to loyalty that you believe can be incremental to the business moving forward?

Brian R. Niccol

Yes. Sure. So yes, look, we are very fortunate that we continue to grow the loyalty population in a meaningful clip. Obviously, it's not at the same speed it was a year or 2 ago, but it's one of the things that's kind of interesting. As we add more restaurants and we get people more access, the loyalty/rewards program becomes even that much more of an appealing program that they want to be a part of. So we continue to see people join.

One of the big unlocks for us, frankly, is we still have a lot of people that are only dining room people, and then we have a lot of people that are only digital people. And there's a small group that's doing both. And call it the 50%, 60% that are dining room-only people, I think if we get those people to have a really positive experience using the rewards program, it's just a tremendous unlock for what that rewards program can grow to be.

As you mentioned, there's a lot of incremental opportunity in that. And just within the universe of people that we have, the guys have really, I think, learned quite a bit about how to do these journeys so that they communicate and engage the right way, so that we get the behavior more frequency, or if we see somebody lapsing, we get them to come back into the business.

So there's incremental opportunities on just getting all those people that are exclusive dining room people to become at least comfortable with using our digital platform. Even if they don't want to order through it, they can at least take the benefits of it. And then, look, as that database grows, we get smarter in the journeys. We definitely have demonstrated inside here that we can use this tool to influence behavior both in frequency as well as staying with the business.

Operator

And the next question is from Andrew Charles with Cowen.

Andrew Michael Charles

Brian, you were very proactive getting the average wage to $15 an hour back in May of last year, but I was curious about your multiyear view for where wages could go as more national retailers enact formalized programs to get to $17 an hour as you strive to keep Chipotle as an employer of choice.

Brian R. Niccol

Yes. Look, I think wages are going to continue to go up. And I think the combination of having the right wage and the right development or growth opportunity is what gets people excited to be a part of the company. And that's why I think it's really important. That's why I chose to share it. Look, even in a tough environment, we're still promoting 19,000 people, which tells you 2 things. One, they grew with us, and they stayed with us. So we're going to always make sure that we've got the right wage to get people into our company. And then we also want to make sure that we're growing them so that they're excited to stay with our company.

And I think your point is a good one. I don't want to fall behind. I like being in the position of people viewing Chipotle as a leader in this space. I think our jobs are great. I think our company is special. And if we can get people to experience that, they have a real opportunity to grow with us and ultimately change their lives and potentially their families. So that's one of the luxuries, I think, we get to have at Chipotle is you can really change people's lives with a career here.

Operator

The next question is from John Glass with Morgan Stanley.

John Stephenson Glass

I wanted to circle back on the small town opportunity. One, how many are there today? Like what's the evidence that you have for this incremental opportunity? Years ago, there was something called an A model. So it was like a lower capex, good return, but lower volume unit. Are these lower volume but better returns because they're lower capex? Or how should we think about both the returns and the volume calculus as we think about the small market opportunity? And just how many there are so far so we can gauge where you are on that?

Brian R. Niccol

Yes. I mean the one thing that is nice is it's definitely a little bit higher margin because the cost of the lease is a little bit lower. And what we're seeing, though, is no trade-off in volume. Actually, it's probably an outsized, call it, revenue or sales. So it's kind of a really great proposition because a little bit cheaper to putting some of the fixed cost, and then people view us as an employer that they want to be a part of. So we have a really good success rate in staffing them. And then the towns are really excited to have a Chipotle. So we see great sales -- opening sales and then sales that stay with us.

So look, we feel really good about it. I think there's hundreds of these that we can easily find and build. And Jack, you'll have to correct me here. But I think when we're talking about small town, we're not talking about 5, 10 -- we're talking about like 40,000-plus. So it's still pretty good size. It's small for Chipotle. But I want to make sure we quantify that for you so you realize what we're talking about when we say small town. But Jack, I don't know if you want to add anything to that.

John R. Hartung

Yes. And there are some that will be smaller than that, but it might be like on an expressway or something. But I think the key is that these are restaurants that are not in a metropolis. So it's not in the area with a lot of Chipotlane -- or Chipotles. So they tend to have 0 impact. The margins are higher. The volumes are about the same. So the returns are higher as well. Typically, the construction cost is higher as well.

The challenge really is just to make sure that we have a strategic process or strategic approach so that we can keep an eye on these. So a field leader, for example, they have to travel 300 miles to get to a remote small town location. That's very hard to do. But if you string a bunch of small towns together where there's one that's 50 miles away and another that's 50 miles away, you string these along so that a field leader can, over a number of days, make sure that he gets touches with those restaurants, develops the leadership in those restaurants. From a financial standpoint and from a bringing a special dining experience to these small towns, it's a home run.

Operator

The next question is from Joshua Long with Piper Sandler.

Joshua C. Long

Want to see if we could circle back into loyalty and the growing digital base of users that you have. And curious how that's informing your lifetime value considerations for your customers. I think maybe that dovetails into the -- some of the journeys that you talked about. But curious if you're able to act on any of that now or how you think about that working into your pipeline going forward?

Brian R. Niccol

Yes. Look, it's a high, high priority. We were really excited about the size of the database. And then we're really excited about how much learning we've had over the last couple of years so that we can do exactly what you just talked about. We know when we get people into the rewards, call it, system, the average ticket goes up and the frequency at which they shop with Chipotle goes up. So we're winning share of occasions, and that's ultimately what we're after.

I think making access easier, making people aware of that access, really engaging with people in a personalized way, we're able to gain more occasions. And that's really what we use the data to understand. And then the other thing that's powerful, too, in the data is we can see where we maybe aren't executing the experience we want to, and it gives us the opportunity to save what was a less-than-ideal experience, to turn that person from being a lapsed user into coming back to the business and staying with us.

So that's really the mission, and we're very fortunate that we've got such a robust data set now, and we've got a really talented team that's, I think, eager to learn every day and build on what we've done to date. We're not going to be complacent, right? We have a real opportunity here to build on the momentum that we have.

Operator

The next question is from Brian Vaccaro with Raymond James.

Brian Michael Vaccaro

I wanted to circle back on labor, if I could. And with 7 to 8 months under your belt since increasing wages and making the other labor investments, I guess I'm just curious to get your assessment of how effective those changes have been. And obviously understanding Omicron's had an impact, but how much of an underlying improvement have you seen in retention application flow or, say, the percentage of stores that are still significantly understaffed? And then if you think needs -- more needs to be done, what form would that likely take? Is it more wage increases? Or is it more than just the money issue in the stores that remain meaningfully understaffed?

Brian R. Niccol

Yes. I mean, look, what I'll tell you is we -- we've made tremendous progress. And even with the Omicron surge, I would tell you we've learned a lot, right, over the last 2 years so that we knew how to go into the markets where we're having a problem. We put a very focused effort on making sure people knew. Those employees that go out on an exclusion, they're coming back. So you're not -- your team has not all of a sudden lost the folks that went out on exclusion. They're coming back.

And oh, by the way, as your business grows, what we call being at model, we are out actively recruiting so that you're going to have staff so that you can perform as this business grows. So I think we've just gotten a lot better at, one seeing, okay, this restaurant is about to have a real challenge. We've put a very focused effort on that restaurant. We ensure we catch the right wage, the right communication of what this job is all about.

And I'll tell you what, the one thing that we were probably surprised by, and we weren't leveraging enough initially, is telling people the growth story. Like the number of people that I've met that have joined Chipotle that might have been a multiunit operator at another organization, but they were willing to join our organization as a team member, ultimately maybe a service manager, because they want the opportunity to grow with us, because they felt like they were capped out where they were. And so we've really ramped up that communication. And you'll see that in our marketing materials on what it means to get a job at Chipotle. It's not just the job you're getting now, but you're -- potentially, if you want to stay with us, what you can grow into.

So -- but we've made tremendous progress. I think we made the right choice with using the DML as the tool to throttle up and down based on the challenges we were having with staffing. I'm happy to say that's now happening in like less than 2% of our restaurants, which is great.

And the reason why it's so low is because our staffing is so much better across the enterprise. So -- but with that said, we're about to move into the season where we sell even more Booritos, and it's going to require even more employees. So we're staying after it. We think we've learned a lot. And we're seeing pretty good yield as a result of our efforts to date.

So we love the position we're in. I really hope we don't have another surge. But putting that aside, I love what Scott and Maurice have done to ensure that our restaurants are staffed.

Brian Michael Vaccaro

All right. That's great. And I guess I'll circle back on the food cost situation, if I could. And Jack, I think you said you saw beef and freight and a little bit of avocado pressure. But I'm curious to what degree you're seeing inflation on the chicken side, which I believe is your #1 protein. And I know visibility is low, and a lot of things can change on a dime during this environment, it seems. But your best guess or view of the outlook here. Is it reasonable to expect high single-digit inflation for a couple more quarters, perhaps, and then you start to lap some of the increases moving through the second half of '21? Or just curious to get your broad perspective there if it differs from that materially.

John R. Hartung

Yes. Listen, I'm glad you said it's really hard to predict the future because this has been the toughest I've seen in terms of predicting the future about availability and about pricing early in my whole career. Having said that, I would say it's going to take at least a few quarters. Like I wouldn't expect to see much relief. Hopefully, things won't get too much worse over the next few quarters. But we're not expecting to see much of a relief until later in the year.

Having said that, you asked about chicken in particular. Chicken, knock on wood, has not been that bad. We've had some near misses during the year. It was more driven by availability of labor and people who had to be excluded because they were -- either they came down with COVID or were with somebody who had COVID. And so there were some near misses in terms of our suppliers maybe being unable to meet our demand.

Our supply chain team with Carlos have done a great job of working with suppliers and moving capacity around as needed. And what we've seen over the last several months and what we expect we'll see more of in the future, more pressure on beef, more pressure on freight. Avocados, we think, that's more of seasonal thing, that's more of a cyclical thing. That doesn't feel like a classic kind of supply chain issue that we're seeing in this environment. But I wouldn't be surprised if there's going to be another ingredient or 2. There's just been so many disruptions.

So hopefully, things will be reasonably normal. We think we've taken the pricing action we need to for what we've seen so far, and then we'll wait and see what happens in the next quarter or 2.

Operator

And the next question will be from John Ivankoe with JPMorgan.

John William Ivankoe

I wanted to get back to the conversation on store level staffing but focusing on the GM. Has there been any change in turnover throughout '21? Has there been any unusual maybe blips in the quit rate that you've noticed? And as you think, obviously, about a growing business going forward, is there anything about training or compensation or the type of person that you're looking for perhaps looking to promote that may change with Chipotle as Chipotle grows as you think about the next era?

Brian R. Niccol

Yes. No. Look, I got to tell you, we're very fortunate with the general managers we have in our company because those guys, through all this, showed up to the restaurants every single day and figured out how to flex with whatever new thing came their way, whether they were people calling off, whether it was people unfortunately coming down with COVID. There was a time period where people, they didn't really know what COVID was, and these guys and women showed up every day to lead their teams. And we're very fortunate to have that caliber of leader running our restaurants. And we're also very fortunate that because we're a growing company, those leaders are the leaders that then become our field leaders and our team directors and then ultimately our VPs. And they see it. And one of my favorite things to do in my company is have the opportunity to go visit them in their restaurants. And I'll tell you what, they are so proud of their team. They're so proud of their results, and they're so proud of where we are.

So we're working on being better with our learning and training tools. I think we mentioned this in the call, we're rolling that out for them. We're rolling out for them a new labor scheduling tool. And then, obviously, we're looking for ways to make the job more efficient, more consistent so that they can continue to do the great work that they do on the culture and the people and the culinary.

So we're very fortunate. We've not seen the great resignation that you read about -- or hear about at our company, and definitely not at our general manager level. So hopefully, some of them are listening right now because I would brag about them for this whole call, if I could. So thanks for asking the question.

Operator

And the next question is from Brian Mullan with Deutsche Bank.

Brian Hugh Mullan

Just a question on the international development opportunity outside of North America. Can you share what the focus is right now in the existing markets, France, Germany, U.K.? And are you also exploring new markets in Western Europe or even elsewhere at this point in time or just really focused on those existing markets right now?

Brian R. Niccol

Yes. So for right now, we are just focused on those existing markets and really just France and the U.K. As you probably have read or know, Germany has been very slow to kind of get out of the COVID challenges. But look, I'm optimistic on what all Western Europe can be. And fortunately, we've had some really good recent openings in both France and the U.K. And I'm optimistic about how we can grow in those countries. And once we feel like we're in a really good spot there, we'll definitely think about how we expand beyond it.

So one thing I know for sure is when you look at consumers in other countries, they like our proposition: clean food, food with integrity, high levels of customization, culinary happening right in front of you, labors that resonate, chicken, rice and beans, those are pretty globally accepted ingredients. So I'm optimistic about the future. But right now, we're focused on making sure we've got a winning proposition in the markets that we're currently in, and then we'll expand from there accordingly.

Operator

The next question is from Chris Carril with RBC Capital Markets.

Christopher Emilio Carril

So can you expand on delivery mix today and how the margins for those orders compare to other channels with the incremental delivery menu pricing you've taken over the past year plus? And how are you thinking about delivery mix and impact to margins from delivery as we move further into '22?

Brian R. Niccol

Yes. Sure. So obviously, delivery, we've got 2 kind of businesses there, right? We've got our in-app delivery business or what we call white label and then, obviously, the third-party partnerships we have with like Uber Eats and DoorDash in marketplace. And you mentioned this, we took some pricing so that the margin issue became less of an issue. And unfortunately -- or I guess the reality is that channel comes with additional cost. If you want that convenience, it comes with some additional cost.

And what we've seen is people recognize that and are willing to accept that for those occasions. So our digital business is roughly 42% of the business. Today, delivery is about probably a little less than 20%, roughly 20%. And the good news is our order-ahead business continues to grow as we build Chipotlanes and as we continue to, frankly, market against the idea of order-ahead and pick up yourself.

So not nearly the margin dilution that delivery used to be, but still our best margin transaction as the digital transaction where you order-ahead and pick up.

Jack, I don't know if you want to add anything to that.

John R. Hartung

Yes. No. Brian, you said it perfectly.

Operator

And the next question will come from Andy Barish with Jefferies.

Andrew Marc Barish

Just wanted to circle back on some of the operational efficiencies, Brian, that you've mentioned a couple of times now, making kind of the team members' jobs a little bit easier or implementing technology. Can you give us an example or 2 of where you're heading down that road? And what -- maybe also what things would be a nonstarter in terms of Chipotle's credo?

Brian R. Niccol

Yes. Sure. So look, we're trying to find -- well, first of all, as I mentioned, right, just getting a better labor scheduling tool that uses artificial intelligence and analytics that doesn't rely on just looking back past 4 weeks but can look at things happening real time so that the team is able to prep accordingly. We should then end up in a scenario where we don't run out of guacamole at the end of the day, right? And so we're working on technology where just that occurs. How do we help our team members know when to cook more chicken throughout the day, when to make guacamole and how much guacamole to make after lunch because we want to be in the Chipotle business from open to close. Nothing disappoints our teams more than when a customer shows up at 8:00 or 9:00 and they're out of something. And so if we can give them tools where they don't have to worry about making too much or not making enough, it just makes their job so much easier. It eliminates one stress. They don't want a disappoint a customer.

So we're working with that type of technology to help them do just that. And then we're also looking at technology, whether it's robotics, automation, how do we get rid of the jobs people frankly don't love doing, right? Cleaning dishes all day, not a fun job; hard job, frankly; wet job. And it's like if we can find ways to eliminate those tasks, right, like we're always going to be cutting and coring avocados. But if there was a way to cut and core the avocados so that all our team number has to do is mash and add the salt, add the lime, add the onions, that would make their job so much better.

So it's those types of things. We're not going to walk away from having great culinary. You're always going to see our chicken sizzling on the poncho, all right? That's just one of the sounds and sites of Chipotle and, frankly, the smell that I think makes our experience unique.

And then obviously, we're looking for ways to be even more accurate, more timely on the digital make-line. So there's real opportunities there. I think we've got a great system, and I think we can build on what has really been something that's worked really well for us. So that kind of gives you a flavor of the various things we're looking at.

Operator

Ladies and gentlemen, this concludes our question-and-answer session. I would like to turn the conference back over to Brian Niccol for any closing remarks.

Brian R. Niccol

All right. Thanks. And thanks, everybody, for all the questions and dialing in. Obviously, very proud of our team, everybody in the restaurants. 2021 was a lot of ups and downs, but I think couldn't be prouder of the results to deliver a comp north of 19%, business now bigger than $7.5 billion, a $3.5 billion digital business. These are all big milestones for our company. We opened over 200 -- we opened 215 restaurants. I mean we're literally achieving new highs in all fronts. Our average unit volumes are well beyond the $2.5 million now. So obviously, the fourth quarter had some challenges. Inflation is something that we'll continue to deal with. Staffing, we've made tremendous progress on. And as I look at where we are in 2022, I just believe we're positioned to execute the Chipotle business better than we probably have in a while. And it's exciting to be staffed at pre-COVID levels again. It's exciting to see people getting promoted in our organization. And it's exciting to see the customer reward us with their business every day.

So again, really, strong position for our company. I think it demonstrates our pricing power, our resilience and the strength of our culture and people. And luckily, we get to celebrate with everybody at our all-manager conference in March and look forward to catching up with everybody next quarter.

So thank you for all the questions. And hopefully, you get out there and try the plant-based chorizo. All right. Take care, guys. Thank you. Bye.

Operator

And thank you, sir. The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.