Consumer Cyclical - Restaurants



By Kevin, Reed, Aj, & Sean

Competitor Comparison

Market Cap	$63.39 Billion
Revenue	$9.871 Billion
D/E	0.08
Beta	1.27
Unlevered Beta	1.20

Market Cap	$215.07 Billion
Revenue	$25.493 Billion
D/E	0.25
Beta	0.74
Unlevered Beta	0.62

Market Cap	$36.6 Billion
Revenue	7.076 Billion
D/E	.03
Beta	1.169
Unlevered Beta	1.07

Market Cap	$113.09 Billion
Revenue	$35.975 Billion
D/E	-3.08
Beta	0.9906
Unlevered Beta	0.84

Financial Data as of 12/31/23

Chipotle Overview

- Chain of fast casual restaurants specializing in bowls, tacos, and burritos
- Headquartered in Newport Beach, California
- Founded in 1993 by Steve Ells
- McDonald’s Corp became a major investor in 1998 and divested in 2006
- Originally was exclusively located in Colorado, including the headquarters



Historical Revenue Growth

- 4-year Growth Rate from 2020 - 2023
  - 2020 Revenue: $5.984B
  - 2023 Revenue: $9.871B
- Excel Rate Function
  - =RATE(4,0,-$5.984, $9.871)
- Revenue Growth Rate = 13.33%

1st Year Revenue Growth	13.33%
2nd Year Revenue Growth	11.30%
3rd Year Revenue Growth	9.28%
4th Year Revenue Growth	7.25%
5th Year Revenue Growth	5.23%
Perpetual Growth Rate (g)	3.20%

Cost of Debt

NOTES

- Tax Rate = Provision / OI
- After Tax Cost of Debt
  - (Interest Expense / Total Debt) *

    (1 - Tax Rate)

Cost of Debt		
Operating Income	$	1.633
Provision for Inc. Tax	$	0.391
Tax Rate		24%
Total Debt	$	4.982
Interest Expense	$	-
After-Tax Cost of Debt		0%

Cost of Equity

- Unlevered Beta
  - Beta/1 + (1-Tax Rate) * D/E
- Re-Levered Beta
  - Mean * (1+(1 - Tax Rate)) * D/E
- CapM Cost of Equity
  - 10 yr UST + Re-Levered Beta * (Market Rate - 10 yr UST)

Industry Comps			
	Beta	Unlevered	Mean
MCD	0.740	0.62	0.95
YUM	1.169	1.17	
SBUX	0.96	0.82	
CMG	1.27	1.20	

Cost of Equity (CapM)	
10 yr UST rate	3.866%
Market Rate of Return	10.00%
Levered Beta	1.006
Cost of Equity (CapM)	10.04%

WACC

9.31%

(Cost of Equity * %Equity + Cost of Debt * %Debt)

Growth Rate

3.20% Terminal Growth Rate

Green Flags

- Opportunity for continued expansion in industry
- Technological integration with strong mobile order platform
- Demonstrated consistent growth in revenue
- Digital only kitchens and drive through

Red Flags

- Past food safety concerns
- Labor and staffing challenges
- Intense pressure from competitors in the industry
- Rising prices of ingredients can affect margins and profitability

Valuation & Sensitivity

Growth Rate Sensitivity

3.20%	$11.91
4.00%	$13.73
5.00%	$16.94

Market Rate Sensitivity

5%	$61.64
10%	$11.91
15%	$5.29

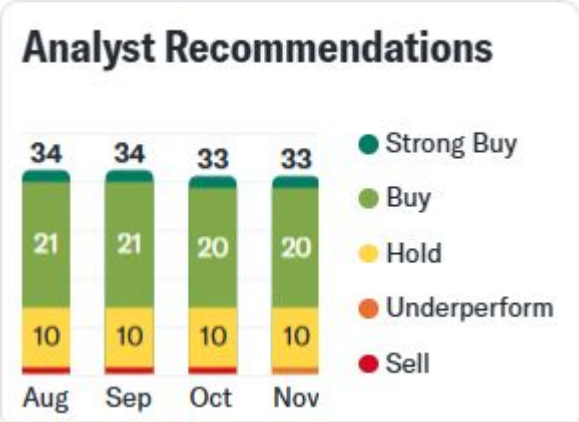
Valuation vs. Stock Price

Actual Value per Share:	$45.74
Model Value Per Share:	$11.91
Premium to Intrinsic	283.83%

Benchmarks

Discounted Cash Flow	YR End	Est 2024	Est 2025	Est 2026	Est 2027	Est 2028
Date	*12/31/2023*	*12/31/2024*	*12/31/2025*	*12/31/2026*	*12/31/2027*	*12/31/2028*
Time Periods		*1*	*2*	*3*	*4*	*5*
Revenue	$ 9.871	$ 11.19	$ 12.45	$ 13.61	$ 14.59	$ 15.36
Less: CoR	*$ 7.285*	*$ 8.26*	$ 9.19	$ 10.04	$ 10.77	$ 11.33
Less: Op Expenses	*$ 0.952*	*$ 1.08*	$ 1.20	$ 1.31	$ 1.41	$ 1.48
Operating Income	$ 1.633	$ 1.85	$ 2.06	$ 2.25	$ 2.42	$ 2.54
Less: Taxes	*$ 0.391*	*$ 0.44*	*$ 0.49*	*$ 0.54*	*$ 0.58*	*$ 0.61*
NOPAT	$ 1.242	$ 1.41	$ 1.57	$ 1.71	$ 1.84	$ 1.93
Plus: D&A	$ 0.319	$ 0.35	$ 0.38	$ 0.42	$ 0.45	$ 0.50
Less: Capex	*$ 0.814*	*$ 0.84*	*$ 0.87*	*$ 0.89*	*$ 0.92*	*$ 0.95*
Unlevered FCF	$ 0.747	$ 0.917	$ 1.082	$ 1.235	$ 1.369	$ 1.478
Discount factor	-	*0.915*	*0.837*	*0.766*	*0.700*	*0.641*
Transaction CF	-	$ 0.84	$ 0.91	$ 0.95	$ 0.96	$ 0.95

Analysts recommendations



Analyst rating

Current Average Recommendation	1.63
Previous Recommendation (1 Month Ago)	1.63
Change in Average Recommendation	0.00
Number of Analysts Reporting	30



McDonalds Company Overview

- Quick service fast food restaurant operating in over 100 countries
- Founded in 1940 by Richard & Maurice McDonald
  - Ray Kroc introduced to the company in 1954, bought it in 1961
- Headquartered in Chicago, Illinois
- Known for its popular products such as the Big Mac, Quarter Pounder, Chicken McNuggets, and Happy Meal





Historical Revenue Growth

- 4 year growth rate from 2020-2023
  - 2020 Revenue: $19.207B
  - 2023 Revenue: $25.493B
- Excel Rate Function
  - =RATE(4,0,-19.207,25.493)
- Revenue Growth Rate = 7.33%

1st Year Revenue Growth	7.33%
2nd Year Revenue Growth	6.51%
3rd Year Revenue Growth	5.68%
4th Year Revenue Growth	4.85%
5th Year Revenue Growth	4.03%
Perpetual Growth Rate (g)	3.20%



$ in billions

Cost of Debt

NOTES

- Tax Rate = Provision / OI
- After Tax Cost of Debt
  - (Interest Expense / Total Debt) * (1 - Tax Rate)

Cost of Debt		
Operating Income	$	11.48
Provision for Taxes	$	2.05
Tax Rate		17.89%
Total Debt	$	53.09
Interest Expense	$	1.36
After-Tax Cost of Debt		2.10%



$ in billions

Cost of Equity

- Unlevered Beta
  - Beta/1 + (1-Tax Rate) * D/E
- Re-Levered Beta
  - Mean * (1+(1 - Tax Rate)) * D/E
- CapM Cost of Equity
  - 10 yr UST + Re-Levered Beta * (Market Rate - 10 yr UST)

Industry Comps			
	Beta	Unlevered	Mean
MCD	0.740	0.62	0.95
YUM	1.169	1.17	
SBUX	0.96	0.82	
CMG	1.27	1.20	

Cost of Equity (CapM)	
10 Yr UST Rate	3.866%
Market Rate of Return	10.00%
Relevered Beta	1.052
Cost of Equity (CapM)	10.32%

WACC

8.67%

After Tax Cost of Debt	2.11%
% Debt Financing	20.12%
Cost of Equity (CAPM)	10.32%
% Equity Financing	79.88%

(Cost of Equity * %Equity + Cost of Debt * %Debt)

Growth Rate

Terminal Growth Rate: 3.20%

Green Flags

- Strong brand recognition
- Franchise model
  - Majority of locations are franchised, generates stable revenue with low operational costs
- Global presence
  - Operates in over 100 countries
- Innovation & adaptability
  - New technology, healthier options, sustainability

Red Flags

- Health conscious trends
  - Many consumers prefer healthier foods
  - Still have unhealthy reputation
- Intense Competition
  - Rising threat from fast casual restaurants
- Economic sensitivity
  - Rising food & labor costs squeeze profit margins

Valuation & Sensitivity

Growth Rate Sensitivity

3.20%	$160.00
5.20%	$272.74
7.20%	$691.95

Market Rate Sensitivity

8%	$261.32
10%	$160.00
12%	$106.35

Valuation vs. Stock Price

Actual Value Per Share	$288.04
Model Value Per Share (3.2% Rate)	$160.00
Premium to Intrinsic	80.03%

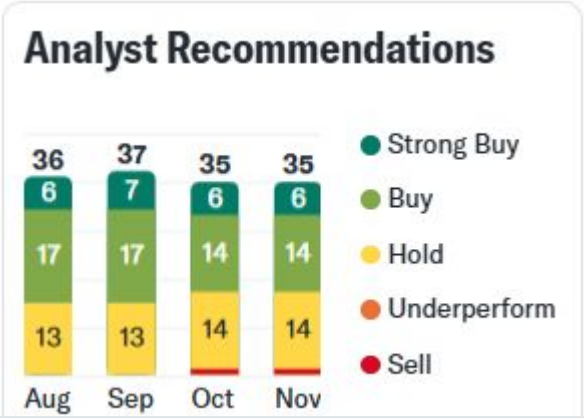
$ amounts in per share values

Benchmarks

Discounted Cash Flow	YR End	Est 2022	Est 2023	Est 2024	Est 2025	Est 2026
Date	*12/31/23*	*12/31/24*	*12/31/25*	*12/31/26*	*12/31/27*	*12/31/28*
Time Periods		*1*	*2*	*3*	*4*	*5*
Revenue	$ 25.493	$ 27.36	$ 29.14	$ 30.80	$ 32.29	$ 33.59
Less: CoR	*$ 10.931*	*$ 11.73*	$ 12.50	$ 13.21	$ 13.85	$ 14.40
Less: Op Expenses	*$ 2.816*	*$ 3.02*	$ 3.22	$ 3.40	$ 3.57	$ 3.71
Operating Income	$ 11.746	$ 12.61	$ 13.43	$ 14.19	$ 14.88	$ 15.48
Less: Taxes	*$ 2.053*	*$ 2.20*	*$ 2.35*	*$ 2.48*	*$ 2.60*	*$ 2.71*
NOPAT	$ 9.693	$ 10.40	$ 11.08	$ 11.71	$ 12.28	$ 12.77
Plus: D&A	$ 0.381	$ 0.40	$ 0.42	$ 0.44	$ 0.46	$ 0.49
Less: Capex	*$ 2.464*	*$ 2.54*	*$ 2.62*	*$ 2.71*	*$ 2.79*	*$ 2.88*
Unlevered FCF	$ 7.610	$ 8.261	$ 8.877	$ 9.443	$ 9.947	$ 10.375
Discount factor	-	*0.920*	*0.847*	*0.779*	*0.717*	*0.660*
Transaction CF	-	$ 7.60	$ 7.52	$ 7.36	$ 7.13	$ 6.85

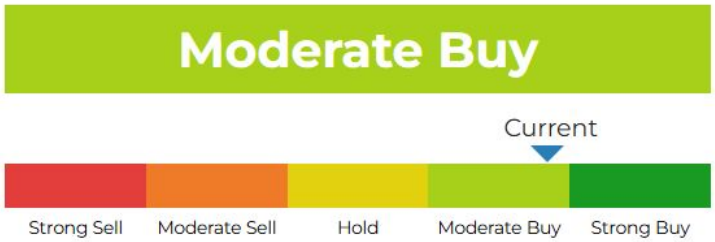
$ in billions

Analysts recommendations



Analyst rating

Current Average Recommendation	1.87
Previous Recommendation (1 Month Ago)	1.75
Change in Average Recommendation	0.12
Number of Analysts Reporting	34



YUM Brands! Overview

- YUM Brands! Is the largest restaurant company in the World
- Has over 59,000 restaurants operating in 155 countries and territories
- Founded in 1997 when it split from Pepsi.co and went public June 27th, 2007
- Headquartered in Louisville Kentucky



Historical Revenue Growth



- 4-year Growth Rate from 2020 - 2023
  - 2020 Revenue: $5.984B
  - 2023 Revenue: $9.871B
- Excel Rate Function
  - =RATE(4,0,-$5.984, $9.871)
- Revenue Growth Rate = 13.33%

1st Year Revenue Growth	5.78%
2nd Year Revenue Growth	5.26%
3rd Year Revenue Growth	4.75%
4th Year Revenue Growth	4.23%
5th Year Revenue Growth	3.72%
Perpetual Growth Rate (g)	3.20%

Cost of Debt

NOTES

- Tax Rate = Provision / OI
- After Tax Cost of Debt
    - (Interest Expense / Total Debt) * (1 - Tax Rate)



Step 1: Finding Cost of Debt	
Interest Expense	0.513
Total Debt	0.012
Cost of Debt	4275.00%
Income Tax Expenses	0
Income Before Tax	2
Effective Tax Rate	12.16%
Cost of Debt after Tax: (Kd*(1-t))	3755.32%

Cost of Equity

NOTES

- Tax Rate = Provision / OI
- After Tax Cost of Debt
  - (Interest Expense / Total Debt) * (1 - Tax Rate)

Industry Comps			
	Beta	Unlevered	Mean
MCD	0.740	0.62	0.95
YUM	1.169	1.17	
SBUX	0.96	0.82	
CMG	1.27	1.20	

We used to be a country.

A proper country.



Step 2: Finding Cost of Equity	
Risk Free Rate	3.866%
Beta	1.069
Market Return (S&P 500 Average Return)	10.00%
Cost of Equity	10.42%

WACC

Step 3: Finding Weight of Debt and Equity		
Total Debt	$	0.012
Market Capitalization	$	37
Total	$	37
Wd		0.03%
We		99.97%

Step 4: Finding WACC	
WACC	11.63%



Growth Rate



Green Flags

- Strong brand Portfolio
- Resilience in economic downturns
- Global market presence
- Strong and consistent financials

Red Flags

- Heavy competition in food industry
- Growing healthier food options
- One controversy for a franchise could greatly affect total company revenue

Valuation & Sensitivity



Growth Rate Sensitivity

7.2%	171.57
5.2%	122.75
3.2%	97.05

Market Rate Sensitivity

8.5	119.57
9.5	103.55
10	97.05

Valuation vs. Stock Price

Actual value per share	130.66
Model Value per share	97.05
Premium to Intrinsic	34.63%

Benchmarks



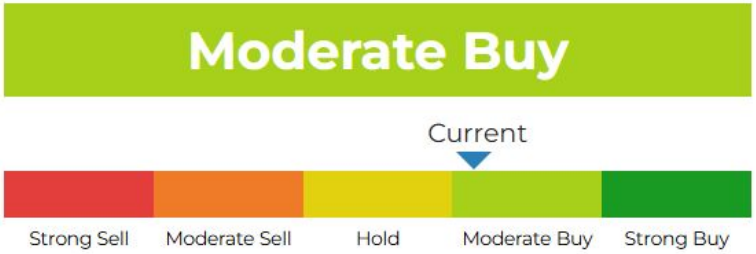
Discounted Cash Flow	YR End	Est 2024	Est 2025	Est 2026	Est 2027	Est 2028
Date	*12/31/2023*	*12/31/2024*	*12/31/2025*	*12/31/2026*	*12/31/2027*	*12/31/2028*
Time Periods		*1*	*2*	*3*	*4*	*5*
Revenue	$ 7.076	$ 7.48	$ 7.88	$ 8.25	$ 8.60	$ 8.92
Less: CoR	*$ 3.580*	*$ 3.79*	$ 3.99	$ 4.18	$ 4.35	$ 4.51
Less: Op Expenses	*$ 1.193*	*$ 1.26*	$ 1.33	$ 1.39	$ 1.45	$ 1.50
Operating Income	$ 2.303	$ 2.44	$ 2.56	$ 2.69	$ 2.80	$ 2.90
Less: Taxes	*$ 0.2210*	*$ 0.23*	*$ 0.25*	*$ 0.26*	*$ 0.27*	*$ 0.28*
NOPAT	$ 2.082	$ 2.20	$ 2.32	$ 2.43	$ 2.53	$ 2.63
Plus: D&A	$ (1.332)	$ 0.38	$ (0.11)	$ 0.03	$ (0.01)	$ 0.00
Less: Capex	*$ (1.284)*	*$ 0.36*	*$ (0.10)*	*$ 0.03*	*$ (0.01)*	*$ 0.00*
Unlevered FCF	$ 2.034	$ 2.216	$ 2.314	$ 2.429	$ 2.531	$ 2.625
Discount factor	-	*0.896*	*0.802*	*0.719*	*0.644*	*0.577*
Transaction CF	-	$ 1.99	$ 1.86	$ 1.75	$ 1.63	$ 1.51

Analysts recommendations



Analyst rating

Current Average Recommendation	2.43
Previous Recommendation (1 Month Ago)	2.28
Change in Average Recommendation	0.15
Number of Analysts Reporting	27



Starbucks Corp. (SBUX)



- Founded: March 30th, 1971
- Founders: Gordon Bowker, Jerry Baldwin, Zev Siegl
- CEO: Brian Niccol (September 2024 - Present)
- Headquarters: Seattle, Washington



- Starbucks is an American multinational chain of coffeehouses and roastery reserves possessing over 35K+ locations in various shopping centers, malls, drive-thrus, and stand alone shops.

Historical Revenue Growth

- 4 Yr Growth Rate from (2020 - 2023)
  - 2020 Revenue: $23.518B
  - 2023 Revenue: $35.975B
- Excel Rate Function
  - =RATE(4,0,-23.518, 35.975)
- Revenue Growth Rate = 11.21%

1st Year Revenue Growth	11.21%
2nd Year Revenue Growth	9.61%
3rd Year Revenue Growth	8.01%
4th Year Revenue Growth	6.40%
5th Year Revenue Growth	4.80%
Perpetual Growth Rate (g)	3.20%

Cost of Debt



NOTES

- Tax Rate = Provision / OI
- After Tax Cost of Debt
  - (Interest Expense / Total Debt) * (1 - Tax Rate)

Cost of Debt			*All numbers
Opertaing Income	$	5.50	measured in
Provisions for Taxes	$	1.28	billions*
Tax Rate		**23%**	
Total Debt	$	24.60	
Interest Expense	$	0.55	
After-Tax Cost of Debt		**2%**	

Cost of Equity

- Unlevered Beta
  - Beta/1 + (1-Tax Rate) * D/E
- Re-Levered Beta
  - Mean * (1+(1 - Tax Rate)) * D/E
- CapM Cost of Equity
  - 10 yr UST + Re-Levered Beta * (Market Rate - 10 yr UST)

Industry Comps			
	Beta	Unlevered	Mean
MCD	0.740	0.62	1.03
YUM	1.069	1.07	
CMG	1.27	1.20	
SBUX	0.9906	0.84	

Cost of Equity (CAPM)	
10 YR UST Rate	3.866%
Market Rate of Return	10.00%
Relevered Beta	1.181
Cost of Equity (CAPM)	11.11%

WACC



9.35%

((Cost of Equity * %Equity)) + ((Cost of Debt * %Debt))

Growth Rate

Terminal Growth Rate: 3.20%

Green Flags

- Strong Brand & Market Position
  - Brand Loyalty
  - 40% Market Share
- Resilience During Economic Downturns
  - Beta:
- Resilient Supply Chain
- Consistent Revenue Returns & Expansion of Free Cash Flow

Red Flags

- Rising Debt levels after diminishing year-by-year Total Debt
- Commodity Price Volatility (Supply Chain)
- Labor Issues/Strikes
  - (Rising Operating Costs)
- Declining Customer Traffic
  - Boycotting


1D
5D
1M
3M
YTD
1Y
5Y
All
Key Events
19.78%
130.00
120.00
110.00
99.80
90.00
80.00
70.00
60.00
2021
2022
2023
2024

Valuation & Sensitivity

Growth Rate Sensitivity

7.2%	$36.35
5.2%	$9.88
3.2%	$0.62

Keeping expected Market Return constant.

Market Rate Sensitivity

8.5	$6.55
9.5	$2.26
10	$0.62

Keeping Perpetual Growth Rate constant.

Valuation vs. Stock Price

Actual Value per Share:	$96.01
Model Value Per Share:	$0.62
Premium to Intrinsic	15385.43%

Benchmarks

All numbers represented in billions

Discounted Cash Flow	YR End	Est 2024	Est 2025	Est 2026	Est 2027	Est 2028
Date	12/31/23	12/31/24	12/31/25	12/31/26	12/31/27	12/31/28
Time Periods		1	2	3	4	5
Revenue	$ 33.975	$ 37.78	$ 41.41	$ 44.73	$ 47.60	$ 49.88
Less: CoR	$ 26.129	$ 29.06	$ 31.85	$ 34.40	$ 36.60	$ 38.36
Less: Op Expenses	$ 4.343	$ 4.83	$ 5.29	$ 5.72	$ 6.08	$ 6.38
Operating Income	$ 3.503	$ 3.90	$ 4.27	$ 4.61	$ 4.91	$ 5.14
Less: Taxes	$ 1.277	$ 1.42	$ 1.56	$ 1.68	$ 1.79	$ 1.87
NOPAT	$ 2.226	$ 2.48	$ 2.71	$ 2.93	$ 3.12	$ 3.27
Plus: D&A	$ 1.362	$ 1.44	$ 1.53	$ 1.62	$ 1.72	$ 1.82
Less: Capex	$ 2.650	$ 2.81	$ 2.98	$ 3.16	$ 3.35	$ 3.55
Unlevered FCF	$ 0.938	$ 1.110	$ 1.266	$ 1.397	$ 1.492	$ 1.545
Discount factor	-	0.915	0.836	0.765	0.699	0.640
Transaction CF	-	$ 1.02	$ 1.06	$ 1.07	$ 1.04	$ 0.99

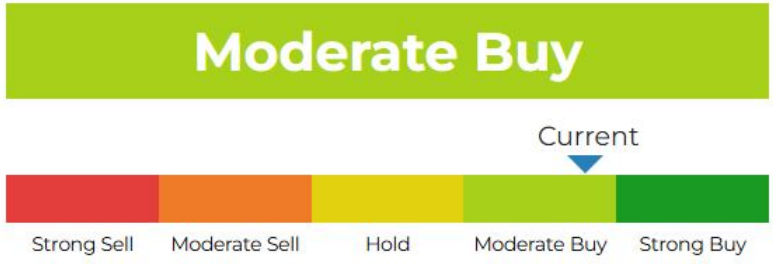
Estimated Terminal Value	
PV of Perp of Yrs 6+	$ 25.930
Discount factor	0.640
Discounted value of Perp	$ 16.587

Analysts recommendations



Analyst rating

Current Average Recommendation	1.91
Previous Recommendation (1 Month Ago)	1.91
Change in Average Recommendation	0.00
Number of Analysts Reporting	28



Conclusion

Chipotle current price: $59.27

Yum Brands current price : $135.26

Starbuck Corp. Current Price: $99.80

McDonalds current price: $298.19