Chipotle shares rise after founder Steve Ells takes over as sole CEO

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Ells has changed the company motto and plans to simplify operations

Chipotle Mexican Grill Inc. shares rose 2.6% on Monday after the fast-casual chain announced that founder Steve Ells has been named sole chief executive of the company. Co-CEO Monty Moran will step down from his role and his board seat, effective immediately, and will retire from the company in 2017.

By TONYA GARCIA, REPORTER
Ells will stay on as chairman of the board.

Chipotle CMG, +3.34% has been trying to battle back from a collapse in traffic and sales following illness outbreaks that began in late 2015. However, the recovery has been long and slow. At a Barclays conference last Tuesday, Chipotle said that it was “nervous about the guidance” it gave during its most recent earnings call.

Ells also discussed the need to simplify operations, one of the objectives outlined in Monday's announcement. The company has thrown 80 different operational changes at crew members this year, 10 times more than the usual eight that the company enacts, Ells said. It has led to problems with turnover and customer service.

Ells plans to remove “unnecessary complexity from [Chipotle's] operations,” he said in a statement on Monday, while also improving guest experience, revamping the company's employee incentive program and making other improvements.
Analysts at The Buckingham Research Group say they’re sorry to see Moran go, but Chipotle has been criticized for the co-CEO structure, the compensation package, and the slow recovery from the outbreaks.

“[Moran’s] departure sets the stage to bring in new individuals and amplify the executive team with a skill set more closely aligned to addressing the company’s current issues,” analysts wrote in a Monday note.

Buckingham Research rates Chipotle shares buy with a $547 price target.

The public has been watching Chipotle’s recovery efforts closely. The company’s efforts rank as the top food news story of the 2016, according to Hunter Public Relations’ Annual Food News Study. Hunter Public Relations specializes in food and beverage marketing communications.

The remaining topics in the top five in order are: the honey bee decline, listeria outbreaks, the genetically modified organism labeling bill, and the no-tip policy at restaurants.

Chipotle is following in the footsteps of another food company that has experienced its share of public relations problems. Whole Foods Market Inc. WFM, +0.03% announced last month that it was ending its dual-CEO structure, with co-founder John Mackey to serve as the lone chief executive. Walter Robb will step down as co-CEO on Dec. 31.

Whole Foods has been hurt, not only by its perceived high prices, but also by coverage of a pricing scandal and concerns about food safety.

Ells has already announced a new company mission for Chipotle: “Ensure that better food, prepared from whole, unprocessed ingredients is accessible to everyone.” It replaces the old motto: “Change the way people think about and eat fast food.”

Chipotle will host an investor call at 5 p.m. Eastern Monday, but notes the company will not be updating third-quarter financials during the event.

Chipotle shares are down 32.8% for the past 12 months while the S&P 500 index SPX, -0.11% is up 12.2% for the same period.