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2007 CEO of the year

Chipotle's Steve Ells pursues fast-casual perfection

By Mike Taylor

"I ate the first burrito. Steve prepared it for me at his house. It wasn't even Chipotle yet. It was 1992ish, I was back in town, and Steve called me up and asked my father and me to go to his house for dinner that night. I would ALWAYS accept those invitations. I was hoping he'd go into some detail about some wonderful thing he was making. But this time he said 'burritos.' I had this sinking feeling in my stomach. The excitement I'd had the moment before started to vanish. Because I thought, 'Burrito? Well, it'll be OK, but how good could a burrito really be?'"

"We showed up, and Steve had created the Chipotle burrito. He even had the mini basket with the basket liner. He prepared it wrapped in foil just like they are today, but he had prepared them in his kitchen in Boulder.

"It's funny because Steve never really looks to what others think. He sort of knew it was good and so he was like, 'Here's what I'm going to do.' But he did want our feedback. And by the way, you should have tasted that first burrito."

— Chipotle President Monty Moran on company founder and CEO Steve Ells

Skipping ahead 15 years, Steve Ells now heads a Chipotle Mexican Grill empire that's increased to 670 restaurants nationwide and is on track in 2007 for its 10th straight year of double-digit same-store revenue growth. For the third quarter of this year, Chipotle's net income increased 75 percent, and revenue increased 36 percent over the same quarter in 2006.

Ells might be the only fast-casual restaurant CEO in the country who is a classically trained chef. After earning a degree in art history from the University of Colorado, he went on to graduate from the Culinary Institute of America in Hyde, N.Y. Then, while working as a line cook at Stars restaurant in San Francisco, he noticed the long lines that formed for the inexpensive giant burritos in the city's Mission District.

Ells saw the potential, only he would improve on it: Giant burritos would become the vessels for serving up fine-restaurant quality ingredients like cilantro lime rice, black and pinto beans, guacamole and salsas made only with freshly chopped tomatoes, onions and peppers.

He returned to Denver and borrowed \$85,000 from his dad, a pharmaceutical executive, to open the first Chipotle on East Evans Avenue near the University of Denver campus. The restaurants multiplied, helped by an eight-year partnership with McDonald's.

Since the company went public in January 2006, its opening-day price of \$22 has increased more than fivefold. Jim Cramer, the ubiquitous TV stock picker, has been a fan almost since Chipotle opened its first restaurants in New York's financial district in 2003, and Cramer noticed his staff going there for lunch every day. Ells has been a guest on Cramer's "Mad Money" show several times.

But it's how Ells has built Chipotle that earned him ColoradoBiz magazine's 2007 CEO of the Year award. Under Ells' direction, the company began using naturally raised pork seven years ago, and today all of its

restaurants serve the pork raised humanely and hormone-free. About 80 percent of the restaurants serve naturally raised chicken, and nearly half of them serve naturally raised beef, with those percentages increasing as more suppliers are lined up to serve more markets. Some regions, including Colorado, use nothing but naturally raised meat already.

Ells' background in art and culinary school is rare if not unprecedented among CEOs of publicly traded national restaurant chains, but it's evident that training hasn't gone to waste as he points out some of the form and function contained inside the Chipotle on Alameda Avenue and Logan Street in Denver: the corrugated metal walls, the exposed ceiling ducts, wood and metal chairs, steel tables, stools with leather seats on steel posts bolted to the floor. The only difference between this and the first Chipotle is the concrete floor, which Ells decided is more durable and easier to clean than the wood of the original restaurant.

"The aesthetics came from what I thought might look cool, but it also came from not having much money but wanting something that was really durable and timeless," says the slightly built Ells, who on this November morning is dressed in jeans, a black T-shirt, black corduroy blazer, black-frame glasses and black Chuck Taylor sneakers.

He looks and sounds more like a celebrity chef than a CEO, like when he talks about an appointment later in the day to sample some new salsa made from roasted rather than fresh tomatoes. Ells, 42, creates all Chipotle recipes and is the final judge on whether they'll go on to be tested in the market.

"I don't like serving things that are not in season," he says. "Tomatoes should only be served sort of in the late summer, so we want to see if we can change everybody's eating habits when it comes to tomatoes."

Then there's the brown rice Chipotle is now testing in some restaurants.

"It's so much better for you," Ells says. "And it tastes better. I mean, Chipotle's pretty bold — all the flavors. And this rice has just a little bit more of a texture and kind of an intimate nuttiness. It's not health-food-tasting."
Intimate nuttiness?

"We've done it in 14 stores, and we're just going to see how it goes," Ells says. "Everybody's frigging nervous and freaking out, and I just said, 'Do it.'"

But with Ells, the topic always returns to sustainability and a companywide ethos dubbed "Food with Integrity." The seed was planted in 1999 when Ells read about the Niman Ranch in Ed Behr's "The Art of Eating Quarterly." The Niman Ranch is a network of more than 600 independent farms and ranches that adhere to strict standards for raising animals humanely using sustainable methods and without hormones.

This led Ells in 2000 to visit Paul Willis, a hog farmer and Niman Ranch network member in Thornton, Iowa. All seem to agree that the visit resulted in an epiphany of sorts for Ells.

"We saw pigs living outdoors running through grassy pastures and things like this," says Willis, who manages the pork aspect of the Niman Ranch network that's based in California. "He was sort of horrified to learn that the pork that they had been using was coming from traditional industrial-raised factory farms. I don't know if you've been in those confinement buildings, but air quality is really a problem. The waste is in pits underneath the building and it produces a lot of ammonia and hydrogen sulfide. They have pit fans and so on to pump those gases out, but the smell in those buildings is overpowering, and if you go in there, it's immediately in your skin and hair and clothes. Those animals live there all the time, and that actually becomes part of the flavor. He was not happy with that and was looking for something else. So that was the beginning. We started selling some pork to Chipotle. They were really quite taken with the difference in the eating quality as well."

Switching to naturally raised pork resulted in Chipotle charging \$1 more for pork or "carnitas" burritos, but soon sales more than doubled.

Meat from naturally raised animals is just one piece of the emotional experience of dining as Eells sees it. But it's the topic he talks about most.

"I'm very sensitive," Eells says. "When I see animals mistreated in factory farms, I cry. Terribly. In a fast-food restaurant" — Eells holds his hands over his eyes in mock horror — "I don't want to know where the food comes from!"

"The more transparent we are, the better the emotional bond with our customers. There's not one discussion, not one process that I'm ashamed of, that I wouldn't want our customers to know about. In fact, if they knew more about it, they'd come more often. Conversely, to say the same thing for fast food, if it had that level of transparency, people would go less. So that alone I think is pretty amazing."

Monty Moran and Eells were classmates at Boulder High and CU, then went their separate ways, Moran to law school and Eells to culinary school. But they kept in touch. And not long after the evening that he sampled Eells' burrito prototype in 1992, Chipotle was launched. Moran often counseled the fledgling company on legal matters over the years. In time he rose simultaneously to official general counsel for Chipotle and CEO of the law firm Messner & Reeves. In 2005, he became Chipotle's president.

Asked if he ever considers the irony of a classically trained chef devoting his talents to such a simple food, Moran responds, "The burrito is sort of the canvas upon which Steve decided to paint. It could have been any one of a number of different things. But he brought his classical training and his extreme talent in classical cooking methods to bear upon ingredients which have historically been thought to be Mexican ingredients, like beans, rice and braised meats.

"But really, you could put his skill as a chef in any sort of food and it would taste terrific. The burrito happened to be the lucky winner."

SIDEBAR

CEO of the Year finalists

John Griffith

Alpine Waste & Recycling

Griffith, 37, is the founder and president of Alpine. He launched the company in 1999, starting with one truck that he drove himself. Alpine now has 32 trucks and 63 employees. The company's revenues have increased an average of 40 percent annually. Alpine recently opened a 31,000-square-foot recycling center in Denver.

Tim Marquez, Venoco Inc.

Marquez is the founder and CEO of Venoco, a publicly traded energy company. For the first six months of 2007, Venoco's oil and natural-gas revenues totaled \$164.2 million, a gain of 29 percent over the same period in 2006. He and his wife, Bernie, are the co-founders of The Denver Scholarship Foundation.

Jill Smith, DigitalGlobe

Smith 49, joined the satellite-imagery company in November 2005 and oversaw its successful September launch of WorldView1, a spy satellite that can collect more images more quickly than previous commercial satellites and with greater accuracy.

DigitalGlobe is the provider of imagery for Google's interactive mapping program.

Peter Beaupré, PCL Construction Enterprises Inc.

PCL, which employs 170 workers in the Denver area, placed third in the Best Companies to Work For competition for small companies in the ColoradoBiz annual ranking. On the finance side, PCL was ranked No. 2 on the ColoradoBiz Top 250 private companies list, marking 32 percent revenue growth from 2005 to 2006.