

Cheesecake Factory (CAKE)

\$39.74 (As of 01/09/20)

Price Target (6-12 Months): **\$42.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 10/25/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:C

Value: A

Growth: C

Momentum: F

Summary

Shares of Cheesecake Factory have underperformed the industry in the past year. However, the company's differentiated menu, operational distinction and unique ambiance appeal to customers. Further, its expansion initiatives bode well. To boost sales, Cheesecake Factory's various initiatives like menu innovation, roll out of an improved server training program, launch of mobile payment app and focus on delivery are commendable. These apart, the company is consistently focusing on returning wealth to its shareholders via dividends and share repurchases. Nonetheless, Cheesecake Factory is not free from overhangs. Its profits continue to suffer from higher labor and pre-opening costs along with expenses related to sales initiatives. Fluctuating consumer spending associated with intense competition is also a pressing concern.

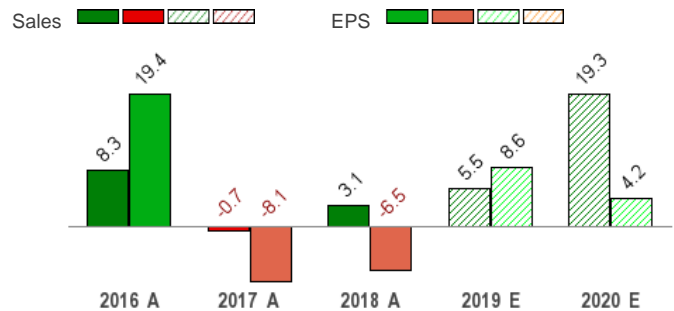
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.15 - \$35.83
20 Day Average Volume (sh)	723,743
Market Cap	\$1.8 B
YTD Price Change	2.3%
Beta	0.42
Dividend / Div Yld	\$1.44 / 3.6%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 32% (81 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	9.3%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	-0.2%
Expected Report Date	02/19/2020
Earnings ESP	4.9%
P/E TTM	15.1
P/E F1	14.5
PEG F1	1.3
P/S TTM	0.8

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	727 E	732 E	727 E	749 E	2,936 E
2019	599 A	603 A	587 A	670 E	2,461 E
2018	591 A	593 A	581 A	585 A	2,332 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	\$0.64 E	\$0.86 E	\$0.62 E	\$0.63 E	\$2.75 E
2019	\$0.62 A	\$0.82 A	\$0.59 A	\$0.61 E	\$2.64 E
2018	\$0.56 A	\$0.65 A	\$0.62 A	\$0.60 A	\$2.43 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/09/2020. The reports text is as of 01/10/2020.

Overview

Founded in 1972 and based in Calabasas Hills, CA, The Cheesecake Factory operates upscale, casual and full-service dining restaurants in the United States, including Puerto Rico.

As of Oct 1, 2019, Cheesecake Factory operated 289 restaurants throughout the United States and Canada under brands including The Cheesecake Factory and North Italia, and a collection within the Fox Restaurant Concepts subsidiary.

Internationally, the company operates 24 The Cheesecake Factory restaurants under licensing agreements. It also operates two bakery production facilities.

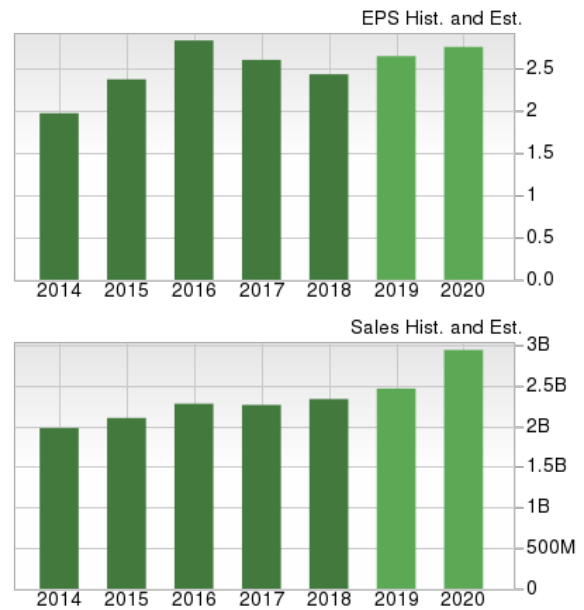
All the restaurants provide a full-service bar, where the restaurants' entire menu is served. The two segments through which the company operates are The Cheesecake Factory (91.2% of total revenues in 2018) and Other (8.8%).

The 'Other' segment includes Grand Lux cafe, outside bakery sales and international licensing.

Notably, during fiscal 2016, the company entered into a strategic relationship with Fox Restaurant Concepts LLC ("FRC") with respect to two of its brands: North Italia and Flower Child. Per the terms of the agreements, Cheesecake Factory made initial minority equity investments in and will provide ongoing growth capital for, these concepts.

The company allows its menu to be consumed off the premise except for alcoholic beverages. In fact, in 2018, Cheesecake Factory's off-premise sales constituted 14% of total restaurant sales. The company also works with a third party to provide delivery services. Additionally, there is online ordering service for to-go sales at all domestic locations.

The Cheesecake Factory menu features approximately 250 items, including items presented on supplemental menus, such as SkinnyLicious menu, which offers menu with 590 calories or less. The company's core menu also includes appetizers, pizza, seafood, burgers, steaks, chicken, pastas and salads, etc.



Reasons To Buy:

▲ **Sales-Building Efforts Including Menu and Digital Innovations:** Cheesecake Factory is committed to bolstering sales to stay afloat in the competitive environment. The company's efforts to improve guest experience have been stabilizing sales trend from the fourth quarter of 2017. In 2018, its total revenues grew 3.2% compared with the prior-year level on increased comparable sales. In fiscal third-quarter 2019, the company's revenues grew 2% year over year, following a gain of 2.6% in second-quarter 2019. Notably, menu-innovation and advanced digital capabilities are the primary fortes of the company.

Cheesecake Factory's aggressive expansion initiatives and efforts to boost sales and margins are commendable.

On the menu innovation front, Super Foods program has increased consumer awareness of brands. The company launched its brown bread in grocery stores in the Southeast with nationwide distribution capabilities. Notably, Cheesecake Factory's consumer packaged goods business continues to maintain momentum, more so, because of the new branded refrigerated puddings in partnership with Lakeview Farms. Going forward, the company intends to carry on with menu innovation by adding new Super Food items as well as the famous indulgences of The Cheesecake Factory.

Cheesecake Factory's technology-enabled initiatives are doing well with feedback on its mobile payment app, CakePay, being positive. The company signed an exclusive national delivery partnership with DoorDash. It expects to reap benefits from these collaborative marketing opportunities. The company is also witnessing incremental sales from its delivery service, which continues to roll out nationwide. DoorDash, in conjunction with BuzzFeed, introduced a channel named Tasty on BuzzFeed's YouTube. It highlights the company's fresh quality ingredients and advanced cooking techniques. The video captured nearly 700,000 views. It continues to improve its to-go business including online ordering capability. This is a major contributor to growth of the company's strong off-premise sales channels. Resultantly, its off-premise business reached 14% of total sales in 2018 compared with 12% in 2017. Also, in the fiscal third quarter of 2019, off-premise business accounted for 16% of total sales.

▲ **Continued Comps Growth:** In order to boost comps, Cheesecake Factory is focusing on improving its speed of service and training its servers so that they render higher level of service. In addition to labor productivity, the restaurant is primarily focusing on menu innovation and digital improvements. In the fiscal third quarter, comparable sales improved 0.4%, following a gain of 1% in the preceding quarter. For 2019, the company expects approximately 1% increase in comparable sales at its restaurants. Earnings estimates for next quarter is also trending upwards ver the past 60 days.

▲ **Focus on Expansion:** Cheesecake Factory has been expanding in the domestic as well as international markets. The company is of late foraying into lucrative markets like the Middle East, North Africa, Central and Eastern Europe, Russia, Turkey, Mexico, Kuwait and Lebanon and Chile. In 2019, the company plans to open five company-owned restaurants — including the Gainesville, FL location that opened during the fiscal third quarter. Moreover, during the reported quarter, it opened its second restaurant in Abu Dhabi and debuted in Macau. During the fourth quarter, it expects to open three additional locations and one North Italia restaurant. Management believes that the company has potential to open more than 20 new restaurants — including as many as six Cheesecake Factory locations, six North Italia restaurants and eight restaurants within the FRC subsidiary — by 2020.

On Oct 2, 2019, the company closed the acquisitions of North Italia and Fox Restaurant Concepts. Backed by these acquisitions, the company is expected to deliver solid top-line growth, going forward. Notably, the integration of North Italia is on track.

▲ **Efforts to Expand Margins:** Cheesecake Factory is evaluating different approaches to limit its costs. It installed a cost management system with substantial capabilities across production, planning and inventory management a few years ago to help analyze usage and waste. The company's portfolio management and diversification are expected to support restaurant level margins over time. The long-term aim of management is to recapture the historical average adjusted operating margin of roughly 7.5%. The company plans to achieve it by stabilizing the formal margins and leveraging its bakery infrastructure, international and consumer packaged goods revenue streams, and general & administrative (G&A) over time. Amid the current retail environment, such efforts to control costs would help improve margins.

▲ **Cash Deployment Strategy:** Cheesecake Factory continuously returns wealth to shareholders via dividends and share repurchases. The company returned \$175 million in cash via share buybacks and dividends in 2017. In fact, the company has continuously paid quarterly dividends since it announced its first dividend payment of 12 cents per share in 2012. Since then, the company has increased its dividend five times by 17%, 18%, 21%, 20% and 21% in 2013, 2014, 2015, 2016 and 2017, respectively. In fiscal third-quarter 2019, the company repurchased approximately 263,000 shares of its common stock for \$11.4 million. In 2018, Cheesecake Factory had bought back approximately 2.3 million shares of common stock for \$109.3 million.

The company's board of directors declared a quarterly cash dividend on its common stock of 36 cents per share. The new dividend is payable on Nov 26, 2019 to its shareholders of record at the close of business on Nov 12, 2019.

Reasons To Sell:

- ▼ **Share Price Movement:** Shares of Cheesecake Factory have underperformed the industry in the past year. Slow growth in the share price can be attributable to its lower-than-expected earnings in four of the trailing eight quarters.
- ▼ **Rising Costs Might Hurt Profits:** High costs remain a concern for the company. Pre-opening costs of outlets, given the company's unit expansion plans, expenses related to sales initiatives and higher labor expenses, are adding to the costs and likely to hurt profits. In 2018, labor expense ratio was 35.8%, up 140 basis points (bps) from the previous year. This was primarily driven by higher hourly labor, including more wages, overtime and training costs. General and administrative expenses accounted for 6.6% of revenues in 2018, up 40 bps from the prior-year quarter. Notably, pre-opening expenses were 0.5% of total revenues, flat from the prior year.

In third-quarter fiscal 2019, the labor expense ratio was 36.4%, up 100 bps from the year-ago period. Other operating costs accounted for 25.5% of revenues, up 100 bps from the year-ago quarter. G&A expenses accounted for 6.8% of revenues, up 30 bps from the prior-year quarter. Pre-opening expenses decreased 20 bps year over year to 0.4% in the fiscal third quarter. The company projects food inflation in 2020 to be approximately 2%. Wage inflation is anticipated to be about 5.5% in 2020.

- ▼ **Industry Susceptible to Consumer Discretionary Spending:** Cheesecake Factory operates in the retail restaurant space that is highly dependent on consumer discretionary spending. Consumers' propensity to spend largely depends on the overall macroeconomic scenario. Although higher disposable income and increased wages are favoring the industry right now, it can change with the slightest disruption in the economy. The company, therefore, is highly vulnerable to the inconsistent nature of consumer discretionary spending. If it does not make pragmatic use of advanced technologies to innovate across value chains, it has high chances of fading out like many other restaurant retailers.
- ▼ **Cutthroat Competition:** The restaurant space is highly competitive as numerous restaurant operators are ongoing advanced and prudent strategies to increase their sales. In fact, going by the current retail scenario, adapting to shifting demand has become a major precedence for retailers. Companies with continual digital innovation, focus on product customization, and launch and delivery of seamless consumer experience can only thrive in the competitive space. This puts a lot of pressure on Cheesecake Factory to continuously change its strategies in correspondence to the fickle consumer demand.

Fluctuating consumer discretionary spending along with high costs remain potent headwinds

Last Earnings Report

Cheesecake Factory Earnings Surpass Estimates in Q3

The Cheesecake Factory Incorporated reported mixed third-quarter fiscal 2019 results, wherein earnings surpassed the Zacks Consensus Estimate but revenues missed the same. While the bottom line outpaced the consensus mark for the third straight quarter, the top line missed the same for the fifth consecutive quarter.

In the quarter under review, adjusted earnings came in at 59 cents per share, outpacing the Zacks Consensus Estimate of 54 cents. However, the bottom line declined 7.8% from the prior-year quarter number.

Let's take a closer look at the numbers.

Detailed Revenue Discussion

Total revenues of \$586.5 million in the reported quarter missed the Zacks Consensus Estimate of \$594 million. However, the top line improved 2% year over year on the back of increased comparable sales.

Comps at Cheesecake Factory restaurants increased 0.4% compared with growth of 1.5% in the year-ago quarter.

Costs in Detail

Cost of sales ratio decreased 30 bps year over year to 22.7% in the third quarter. Meanwhile, the labor expense ratio was 36.4%, up 100 bps from the year-ago quarter.

Other operating costs were 25.5% of revenues, up 100 bps from the year-ago quarter. General and administrative (G&A) expenses accounted for 6.8% of revenues, up 30 bps from the prior-year quarter. Notably, pre-opening expenses decreased 20 bps year over year to 0.4% in the third quarter.

Balance Sheet

As of Oct 1, 2019, Cheesecake Factory's cash and cash equivalents totaled \$306.3 million compared with \$26.6 million as of Jan 1, 2019.

In third-quarter 2019, the company repurchased approximately 263,000 shares of its common stock for \$11.4 million. In 2018, Cheesecake Factory bought back approximately 2.3 million shares of common stock for \$109.3 million.

The company's board of directors declared a quarterly cash dividend of 36 cents per share of the common stock. The new dividend is payable Nov 26, 2019, to its shareholders of record at the close of business on Nov 12, 2019.

Development Details

In fiscal 2019, Cheesecake Factory anticipates opening five Cheesecake Factory restaurants, which includes the inauguration of one in Gainesville, FL during the third quarter.

Q4 Outlook

For the fourth quarter, adjusted earnings per share are estimated to be 61-66 cents based on anticipated comps growth of 0.5-1.5% at Cheesecake Factory restaurants. The Zacks Consensus Estimate for fourth-quarter earnings is pegged at 62 cents.

Fiscal 2019 Guidance

For the fiscal year, Cheesecake Factory expects earnings of \$2.65-\$2.70 per share compared with of \$2.58-\$2.68 projected earlier. Meanwhile, the company expects comps to grow 1%, compared with earlier estimate of 1-1.5%.

Quarter Ending **09/2019**

Report Date	Oct 29, 2019
Sales Surprise	-1.31%
EPS Surprise	9.26%
Quarterly EPS	0.59
Annual EPS (TTM)	2.63

Recent News

Cheesecake Factory on Expansion Spree, Opens Outlet in Orlando- Dec 10, 2019

To expand presence in the domestic market, The Cheesecake Factory Incorporated announced the opening of its new restaurant in Orlando, FL. The restaurant, located in Vineland Pointe, will offer more than 250 menu items along with over 50 signature cheesecakes and desserts.

Cheesecake Factory Opens Outlet, Expands Presence in Florida- Nov 27, 2019

In a bid to expand presence in the domestic market, The Cheesecake Factory Incorporated announced the opening of its new restaurant in Coral Gables, FL. The restaurant will offer more than 250 menu items along with more than 50 signature cheesecakes and desserts.

Cheesecake on Expansion Spree, Concludes \$308M Buyout Deal - Oct 2, 2019

The Cheesecake Factory Incorporated recently completed the acquisitions of North Italia and Fox Restaurant Concepts, including Flower Child, for \$308 million. In the past three years, Cheesecake Factory had invested \$88 million in the North Italia and Flower Child concepts, with an intention to purchase the same.

Fox Restaurant Concepts has operations in 47 restaurants across eight states and Washington D.C. Currently, North Italia operates in 21 locations across 10 states and Washington D.C.

Valuation

Cheesecake Factory shares are down 13.8% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 19.2% and 19.5%, respectively.

The S&P 500 index is up 24.5% in the past year.

The stock is currently trading at 14.39x forward 12-months Price to Earnings value, which compares to 24.6x for the Zacks sub-industry, 25.3x for the Zacks sector and 18.82x for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.18x and as low as 13.23x, with a 5-year median of 18.23x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$42 price target reflects 15.22x forward 12-months Price to Earnings value.

The table below shows summary valuation data for CAKE.

Valuation Multiples - CAKE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F 12M	Current	14.39	24.6	25.3	18.82
	5-Year High	23.18	26.41	26.13	19.34
	5-Year Low	13.23	20.45	18.99	15.17
	5-Year Median	18.23	23.25	22.91	17.44
P/S F 12M	Current	0.6	3.55	1.07	3.49
	5-Year High	1.35	3.85	1.1	3.49
	5-Year Low	0.58	2.91	0.8	2.54
	5-Year Median	1.01	3.25	0.9	3
P/CF	Current	7.79	17.06	14.41	22.8
	5-Year High	12.41	20.39	15.11	22.8
	5-Year Low	6.59	8.5	10.69	11.78
	5-Year Median	9.5	16.46	12.81	16.23

As of 01/09/2020

Industry Analysis Zacks Industry Rank: Top 32% (81 out of 254)



Top Peers

Arcos Dorados Holdings Inc. (ARCO)	Outperform
Cracker Barrel Old Country Store, Inc. (CBRL)	Neutral
Chipotle Mexican Grill, Inc. (CMG)	Neutral
DINE BRANDS GLOBAL, INC. (DIN)	Neutral
Darden Restaurants, Inc. (DRI)	Neutral
Brinker International, Inc. (EAT)	Neutral
Texas Roadhouse, Inc. (TXRH)	Neutral
The Wendys Company (WEN)	Neutral

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	CAKE Neutral	X Industry	S&P 500	CMG Neutral	DRI Neutral	EAT Neutral
VGM Score	C	-	-	C	B	A
Market Cap	1.77 B	432.31 M	23.94 B	23.98 B	14.02 B	1.59 B
# of Analysts	10	5	13	16	14	8
Dividend Yield	3.62%	0.00%	1.78%	0.00%	3.08%	3.57%
Value Score	A	-	-	D	B	A
Cash/Price	0.18	0.03	0.04	0.03	0.01	0.02
EV/EBITDA	13.14	14.81	13.97	54.86	16.34	10.67
PEG Ratio	1.31	2.09	2.03	2.46	1.97	1.31
Price/Book (P/B)	3.32	2.86	3.33	14.78	6.17	NA
Price/Cash Flow (P/CF)	8.65	11.51	13.73	52.64	13.20	5.31
P/E (F1)	14.37	21.86	18.79	48.50	17.95	10.05
Price/Sales (P/S)	0.75	0.90	2.64	4.46	1.62	0.49
Earnings Yield	6.92%	4.49%	5.32%	2.06%	5.57%	9.95%
Debt/Equity	2.43	0.94	0.72	1.63	2.30	-4.28
Cash Flow (\$/share)	4.59	1.53	6.94	16.39	8.66	8.03
Growth Score	C	-	-	A	B	A
Hist. EPS Growth (3-5 yrs)	3.09%	7.71%	10.56%	-6.46%	19.97%	5.15%
Proj. EPS Growth (F1/F0)	4.16%	8.35%	7.49%	28.07%	9.51%	7.89%
Curr. Cash Flow Growth	-4.40%	7.73%	14.83%	29.44%	15.99%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	1.58%	6.24%	9.00%	1.62%	14.41%	-1.24%
Current Ratio	1.04	0.63	1.23	1.51	0.34	0.34
Debt/Capital	70.81%	61.12%	42.99%	61.96%	69.72%	NA
Net Margin	3.99%	3.14%	11.08%	5.77%	7.23%	4.41%
Return on Equity	21.61%	8.47%	17.16%	23.97%	32.25%	-19.76%
Sales/Assets	1.21	1.17	0.55	1.30	1.12	2.06
Proj. Sales Growth (F1/F0)	19.28%	3.08%	4.20%	12.35%	5.94%	10.01%
Momentum Score	F	-	-	D	D	F
Daily Price Chg	0.25%	0.04%	0.53%	0.69%	0.47%	-0.35%
1 Week Price Chg	1.02%	0.28%	-0.30%	3.39%	4.05%	1.38%
4 Week Price Chg	-1.12%	1.21%	1.92%	6.34%	-1.62%	0.50%
12 Week Price Chg	3.33%	1.78%	6.54%	4.05%	4.81%	5.21%
52 Week Price Chg	-13.46%	2.17%	22.58%	69.28%	8.14%	-13.69%
20 Day Average Volume	723,743	174,276	1,580,816	286,891	1,659,487	508,793
(F1) EPS Est 1 week change	-0.03%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-0.17%	0.00%	0.00%	0.00%	-0.12%	-0.13%
(F1) EPS Est 12 week change	-1.15%	-0.23%	-0.50%	3.59%	-0.13%	1.70%
(Q1) EPS Est Mthly Chg	1.02%	0.00%	0.00%	0.25%	-1.41%	-0.20%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	A
Growth Score	C
Momentum Score	F
VGM Score	C

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

Disclosures

This report contains independent commentary to be used for informational purposes only. The analysts contributing to this report do not hold any shares of this stock. The analysts contributing to this report do not serve on the board of the company that issued this stock. The EPS and revenue forecasts are the Zacks Consensus estimates, unless indicated otherwise on the reports first page. Additionally, the analysts contributing to this report certify that the views expressed herein accurately reflect the analysts personal views as to the subject securities and issuers. ZIR certifies that no part of the analysts compensation was, is, or will be, directly or indirectly, related to the specific recommendation or views expressed by the analyst in the report.

Additional information on the securities mentioned in this report is available upon request. This report is based on data obtained from sources we believe to be reliable, but is not guaranteed as to accuracy and does not purport to be complete. Any opinions expressed herein are subject to change.

ZIR is not an investment advisor and the report should not be construed as advice designed to meet the particular investment needs of any investor. Prior to making any investment decision, you are advised to consult with your broker, investment advisor, or other appropriate tax or financial professional to determine the suitability of any investment. This report and others like it are published regularly and not in response to episodic market activity or events affecting the securities industry.

This report is not to be construed as an offer or the solicitation of an offer to buy or sell the securities herein mentioned. ZIR or its officers, employees or customers may have a position long or short in the securities mentioned and buy or sell the securities from time to time. ZIR is not a broker-dealer. ZIR may enter into arms-length agreements with broker-dealers to provide this research to their clients. Zacks and its staff are not involved in investment banking activities for the stock issuer covered in this report.

ZIR uses the following rating system for the securities it covers. **Outperform-** ZIR expects that the subject company will outperform the broader U.S. equities markets over the next six to twelve months. **Neutral-** ZIR expects that the company will perform in line with the broader U.S. equities markets over the next six to twelve months. **Underperform-** ZIR expects the company will underperform the broader U.S. equities markets over the next six to twelve months.

No part of this report can be reprinted, republished or transmitted electronically without the prior written authorization of ZIR.