

## Cheesecake Factory (CAKE)

**\$26.34** (As of 08/10/20)

Price Target (6-12 Months): **\$28.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 10/23/18)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:C

Value: B

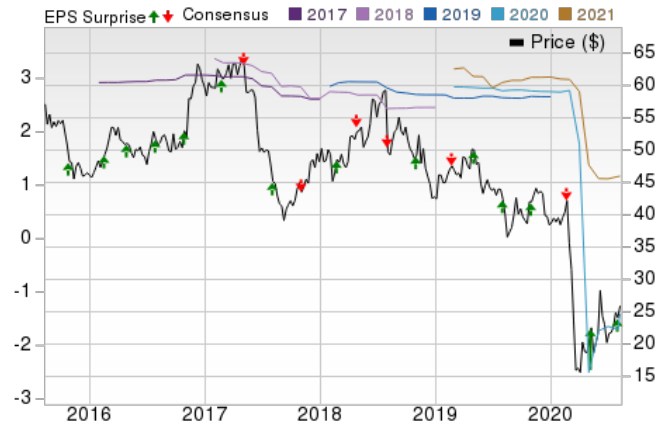
Growth: D

Momentum: B

### Summary

Shares of Cheesecake Factory have underperformed the industry in the past year. Recently, the company reported mixed second-quarter fiscal 2020 results, wherein earnings beat the Zacks Consensus Estimate but revenues lagged the same. However, both the metrics declined year over year. Considering the panoptic impact of the coronavirus pandemic on the business and industry, the company's performance is likely to be negatively impacted in 2020. However, initiatives like contactless menu, text paging, and operational changes and other technology upgrades are likely to aid the company going forward. Also, it possesses enough liquidity to survive the coronavirus pandemic for some time. Earnings estimates for 2020 have increased over the past 30 days, depicting analysts optimism regarding the stock's growth potential.

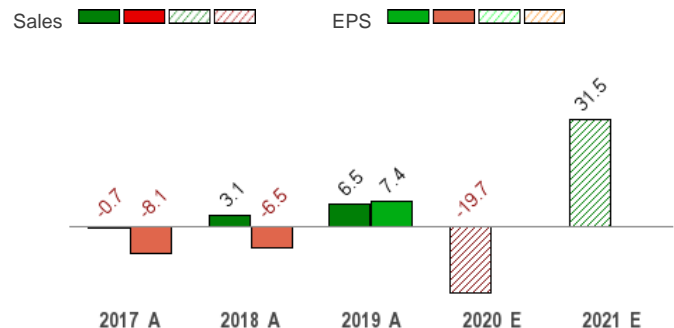
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$45.24 - \$14.52
20 Day Average Volume (sh)	2,093,419
Market Cap	\$1.2 B
YTD Price Change	-32.2%
Beta	1.38
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Retail - Restaurants</a>
Zacks Industry Rank	Top 49% (124 out of 253)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	18.7%
Last Sales Surprise	-3.7%
EPS F1 Est- 4 week change	14.3%
Expected Report Date	11/03/2020
Earnings ESP	0.0%
P/E TTM	77.5
P/E F1	NA
PEG F1	NA
P/S TTM	0.6

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	634 E	654 E	664 E	686 E	2,623 E
2020	615 A	296 A	491 E	586 E	1,995 E
2019	599 A	603 A	587 A	694 A	2,483 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.16 E	\$0.37 E	\$0.35 E	\$0.36 E	\$1.15 E
2020	\$0.04 A	-\$0.87 A	-\$0.49 E	\$0.02 E	-\$1.43 E
2019	\$0.62 A	\$0.82 A	\$0.59 A	\$0.58 A	\$2.61 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 08/10/2020. The reports text is as of 08/11/2020.

## Overview

As of Jul29, 2020, Cheesecake Factory operated 293 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 26 The Cheesecake Factory restaurants under licensing agreements. It also operates two bakery production facilities.

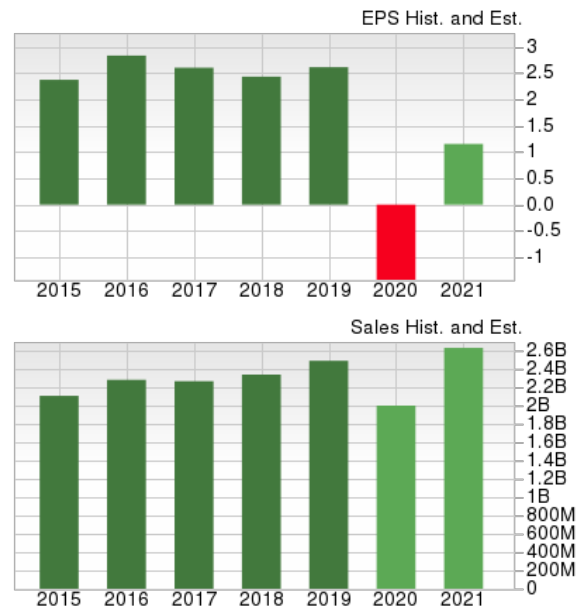
All the restaurants provide a full-service bar, where the restaurants' entire menu is served. The two segments through which the company operates are The Cheesecake Factory (which accounted for 81.5% of total fiscal second-quarter 2020 revenues) and Other (18.5%).

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.



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## Reasons To Buy:

▲ **Sales-Building Efforts:** 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 fourth-quarter 2017. In 2018 and 2019, its total revenues grew 3.2% and 6.4%, respectively, compared with the prior-year level on increased comparable sales. Notably, menu-innovation and advanced digital capabilities are the primary fortes of the company. Going forward, it intends to carry on with menu innovation by adding new Super Food items and the famous indulgences of The Cheesecake Factory. Super Foods program has increased consumer awareness of brands.

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

Although some states have reversed course on their reopenings, restaurant operators have initiated the opening and expansion of patios around the perimeter of restaurants to attract more guests. Notably, this flexible seating layout allows the company to boost sales despite capacity restrictions. Currently, 146 Cheesecake Factory locations have indoor dining rooms open, 36 are open for outdoor dining only and 22 locations are operating an off-premise only model in accordance with local mandates.

▲ **Digitalization to Drive Growth:** 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. 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. Further, off-premise business accounted for 17% of total sales in fourth-quarter 2019. The uptrend continued in first-quarter 2020, as off-premise sales accounted for nearly 22% Cheesecake Factory sales.

Even though the company has reopened the majority of dining rooms with limited capacity, off-premise operations continue to be a driving factor for overall sales. From the start of the third quarter to Jul 29, off-premise sales contributed approximately half of its total sales. For restaurants that are operating only in an off-premise model, weekly sales are \$4.2 million on average per unit on an annualised basis.

It also continues to perform well in the delivery channel. In order to boost consumer convenience, the company has implemented operational changes and technology upgrades, which include contactless menu and payment technology, as well as text paging.

▲ **Enough Liquidity to Tide Over Coronavirus Crisis:** Cheesecake Factory possesses enough liquidity to survive the coronavirus pandemic for some time. As of Jun 30, 2020, the company's cash balance totaled nearly \$250.2 million, compared with \$81 million at the end of first quarter 2020. As of Jun 30, its long-term debt (including Operating lease liability) stands at \$1.6 billion, almost flat sequentially. Nonetheless, at the end of second-quarter 2020, the company had a debt-to-capital ratio of 0.8x, which further indicates that its debt levels are manageable.

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## Reasons To Sell:

- ▼ **Coronavirus to Hurt Future Results:** The coronavirus outbreak is hurting the industry. The restaurant industry has been facing declining traffic for quite some time now. We believe the coronavirus outbreak will further hurt traffic and sales in the coming quarter. The company announced it is constantly re-evaluating the reopening schedule of restaurants. However, it believes that on-premise dining will be impacted for some time due to the social distancing protocols.
- ▼ **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, higher labor expenses as well as additional cleaning costs — are likely to hurt profits.

For fiscal second-quarter 2020, cost of sales — as a percentage of revenues — increased 210 basis points (bps) year over year to 24.4%. Meanwhile, labor expenses — as a percentage of total revenues — was 41.5%, up 530 bps from the year-ago quarter. Other operating costs represented 41.1% of revenues compared with 24.7% in the prior-year quarter. General and administrative (G&A) expenses accounted for 12.1% of revenues, up 590 bps from the prior-year quarter. For the fiscal second quarter, pre-opening expenses accounted for 0.7% of revenues, up 30 bps year over year.

- ▼ **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.
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The coronavirus pandemic, fluctuating consumer discretionary spending along with high costs remain potent headwinds

## Last Earnings Report

### Cheesecake Factory Q2 Earnings Top Estimates, Fall Y/Y

The Cheesecake Factory reported mixed second-quarter fiscal 2020 results, wherein earnings beat the Zacks Consensus Estimate but revenues lagged the same. However, both the metrics declined year over year.

In the quarter under review, adjusted loss per share came in at 87 cents, narrower than the Zacks Consensus Estimate of a loss of \$1.07. In the prior-year quarter, the company had reported adjusted earnings of 82 cents per share. The downside can be primarily attributed to rise in labor and other operating expenses.

Let's take a closer look at the numbers.

Quarter Ending **06/2020**

Report Date	Jul 29, 2020
Sales Surprise	-3.71%
EPS Surprise	18.69%
Quarterly EPS	-0.87
Annual EPS (TTM)	0.34

### Detailed Revenue Discussion

During the fiscal second quarter, total revenues of \$295.9 million missed the Zacks Consensus Estimate of \$307.3 million by 3.7%. Moreover, the top line declined 50.9% on a year-over-year basis. Notably, the decline can be primarily attributed to the coronavirus pandemic. During the reported quarter, comps at Cheesecake Factory restaurants declined 56.9%.

### Costs in Detail

Cost of sales, as a percentage of revenues, increased 210 basis points (bps) year over year to 24.4% in the fiscal second quarter. Meanwhile, labor expenses, as a percentage of total revenues, was 41.5%, up 530 bps from the year-ago quarter.

Other operating costs represented 41.1% of revenues, compared with 24.7% in the prior-year quarter. General and administrative (G&A) expenses accounted for 12.1% of revenues, up 590 bps from the prior-year quarter. In the fiscal second quarter, pre-opening expenses accounted for 0.7% of revenues, up 30 bps year over year.

### Balance Sheet

As of Jun 30, 2020, Cheesecake Factory's cash and cash equivalents totaled \$250.2 million compared with \$58.4 million as of Dec 31, 2019.

During the fiscal second quarter, the company issued 3,694 preferred shares to meet a payment-in-kind dividend of \$18.47 per share.

Long-term debt totaled \$376 million in the fiscal second quarter, compared with \$290 million as on Dec 31, 2019.

### Developmental Details

As of Jul 29, the company had reopened indoor dining rooms with limited capacity across 71% of its restaurants (which includes 146 Cheesecake Factory locations).

As per the dining restriction mandates in California, Florida and New Mexico, approximately 16% of the company's restaurants (which includes 36 Cheesecake Factory locations) are operating with reopened patios and social-distancing protocols.

Notably, 22 Cheesecake Factory locations are currently operating in an off-premise only model, while 16 locations across the company's concepts (including one Cheesecake Factory restaurant) are closed.

In terms of restaurant openings, no new developments were made during the fiscal second quarter. However, with eight locations under development, operating conditions are being closely monitored for carrying out new unit openings in the respective markets.

### Other Business Updates

With indoor dining rooms reopened, Cheesecake Factory recaptured nearly 80% of prior-year sales levels (on average quarter-to-date) on the back of its strong off-premise sales. Currently, weekly off-premise sales are approximately \$4.2 million per unit (on average) on an annualized basis.

However, since the start of the fiscal third quarter to Jul 26, comps at Cheesecake Factory (across all operating models) declined approximately 32%.

## Valuation

Cheesecake Factory's shares are down 32.2% in the year-to-date period and 32.5% over the trailing 12-month period. Stocks in the Zacks sub-industry are down by 2.9%, but Zacks Retail-Wholesale sector are up by 26.8% in the year-to-date period. Over the past year, the Zacks sub-industry was down by 9.5%, but sector was up by 40.1%.

The S&P 500 index is up by 3.9% in the year-to-date period and 16.4% in the past year.

The stock is currently trading at 77.47x trailing 12-month earnings, which compares with 40.05x for the Zacks sub-industry, 40.03x for the Zacks sector and 23.69x for the S&P 500 index.

Over the past five years, the stock has traded as high as 78.15x and as low as 6.02x, with a 5-year median of 19.46x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$28 price target reflects 82.35x trailing 12-month earnings.

The table below shows summary valuation data for CAKE.

Valuation Multiples - CAKE					
		Stock	Sub-Industry	Sector	S&P 500
P/E TTM	Current	77.47	40.05	40.03	23.69
	5-Year High	78.15	40.05	40.03	23.69
	5-Year Low	6.02	22.98	23.33	15.98
	5-Year Median	19.46	26.04	26.47	19.26
P/S F12M	Current	0.5	3.68	1.25	3.66
	5-Year High	1.35	3.93	1.25	3.66
	5-Year Low	0.24	2.81	0.82	2.53
	5-Year Median	0.97	3.32	0.97	3.05
P/CF	Current	11.64	21.59	14.85	15.64
	5-Year High	12.08	21.59	17.08	22.73
	5-Year Low	3.18	8.61	11.01	11.7
	5-Year Median	9.18	16.81	13.21	16.37

As of 08/10/2020

## Industry Analysis Zacks Industry Rank: Top 49% (124 out of 253)



## Top Peers

Company (Ticker)	Rec	Rank
Arcos Dorados Holdings Inc. (ARCO)	Neutral	3
Cracker Barrel Old Country Store, Inc. (CBRL)	Neutral	4
Chipotle Mexican Grill, Inc. (CMG)	Neutral	3
DINE BRANDS GLOBAL, INC. (DIN)	Neutral	3
Darden Restaurants, Inc. (DRI)	Neutral	3
Texas Roadhouse, Inc. (TXRH)	Neutral	3
The Wendys Company (WEN)	Neutral	3
Brinker International, Inc. (EAT)	Underperform	5

Industry Comparison Industry: Retail - Restaurants				Industry Peers		
	CAKE	X Industry	S&P 500	CMG	DRI	EAT
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Underperform
Zacks Rank (Short Term)	3	-	-	3	3	5
VGM Score	C	-	-	C	F	A
Market Cap	1.20 B	371.35 M	23.56 B	32.47 B	10.59 B	1.34 B
# of Analysts	6	6	14	17	14	10
Dividend Yield	0.00%	0.00%	1.71%	0.00%	0.00%	0.00%
Value Score	B	-	-	D	C	B
Cash/Price	0.21	0.13	0.07	0.03	0.07	0.13
EV/EBITDA	11.11	12.32	13.39	51.22	59.60	9.86
PEG Ratio	NA	4.52	2.92	5.78	1.84	2.38
Price/Book (P/B)	3.40	2.23	3.18	19.05	4.54	NA
Price/Cash Flow (P/CF)	5.73	8.36	12.69	52.86	14.22	3.71
P/E (F1)	NA	34.72	22.16	111.31	28.32	23.79
Price/Sales (P/S)	0.55	0.80	2.55	5.78	1.36	0.40
Earnings Yield	-5.43%	0.59%	4.33%	0.90%	3.53%	4.19%
Debt/Equity	4.60	1.29	0.77	1.65	2.23	-4.49
Cash Flow (\$/share)	4.60	1.81	6.94	21.96	5.73	8.03
Growth Score	D	-	-	C	F	A
Hist. EPS Growth (3-5 yrs)	-11.97%	3.47%	10.41%	14.24%	12.20%	5.16%
Proj. EPS Growth (F1/F0)	-154.66%	-66.06%	-6.51%	-25.76%	-8.03%	9.31%
Curr. Cash Flow Growth	-1.46%	3.07%	5.26%	34.05%	-30.15%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	2.15%	5.23%	8.55%	1.89%	2.15%	-1.24%
Current Ratio	0.85	0.95	1.34	1.59	0.61	0.61
Debt/Capital	83.81%	70.06%	44.59%	62.24%	69.07%	NA
Net Margin	0.20%	0.24%	10.13%	4.55%	-0.67%	3.62%
Return on Equity	1.55%	-8.26%	14.59%	17.24%	16.68%	-24.65%
Sales/Assets	0.81	0.89	0.51	1.09	0.79	1.51
Proj. Sales Growth (F1/F0)	-19.66%	-7.96%	-1.54%	6.69%	-3.76%	6.15%
Momentum Score	B	-	-	A	B	A
Daily Price Chg	1.93%	0.58%	0.91%	-1.66%	3.12%	0.34%
1 Week Price Chg	7.67%	3.68%	2.30%	2.20%	4.16%	10.45%
4 Week Price Chg	25.31%	7.18%	8.54%	6.62%	11.84%	33.27%
12 Week Price Chg	33.23%	14.79%	13.68%	16.26%	8.06%	32.27%
52 Week Price Chg	-32.50%	-30.59%	3.71%	42.81%	-32.44%	-25.22%
20 Day Average Volume	2,093,419	298,744	2,015,804	345,474	2,065,401	1,912,559
(F1) EPS Est 1 week change	2.66%	0.00%	0.00%	0.00%	0.00%	0.94%
(F1) EPS Est 4 week change	14.27%	4.41%	1.67%	12.95%	1.13%	0.94%
(F1) EPS Est 12 week change	18.39%	14.74%	2.27%	39.85%	13.33%	-22.81%
(Q1) EPS Est Mthly Chg	10.16%	9.76%	0.67%	26.28%	3.45%	2.96%

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## 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.

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### 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	<b>B</b>
Growth Score	<b>D</b>
Momentum Score	<b>B</b>
VGM Score	<b>C</b>

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.

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