

## Cheesecake Factory (CAKE)

**\$18.52** (As of 05/15/20)

Price Target (6-12 Months): **\$21.00**

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:B

Value: B

Growth: C

Momentum: A

### Summary

Shares of Cheesecake Factory have underperformed the industry in the past year. Considering the panoptic impact of coronavirus (COVID-19) pandemic on its business and the industry, the company's performance is likely to be hurt in 2020. Recently, it reported preliminary first-quarter fiscal 2020 results, wherein both the top and the bottom lines beat the Zacks Consensus Estimate. However, both the metrics declined sharply year over year due to the coronavirus pandemic. Moreover, in view of the ongoing crisis, the company has suspended its share repurchase activity, dividend payment program and new unit developments. Estimates for 2020 have witnessed sharp downward revisions. However, the company announced it had enough liquidity to survive the pandemic. The company is witnessing robust off-premise sales as dine-in services have been closed.

### Data Overview

|                            |                                             |
|----------------------------|---------------------------------------------|
| 52 Week High-Low           | <b>\$48.69 - \$14.52</b>                    |
| 20 Day Average Volume (sh) | <b>3,886,217</b>                            |
| Market Cap                 | <b>\$841.7 M</b>                            |
| YTD Price Change           | <b>-52.4%</b>                               |
| Beta                       | <b>1.39</b>                                 |
| Dividend / Div Yld         | <b>\$1.44 / 7.8%</b>                        |
| Industry                   | <b><a href="#">Retail - Restaurants</a></b> |
| Zacks Industry Rank        | <b>Bottom 30% (179 out of 254)</b>          |

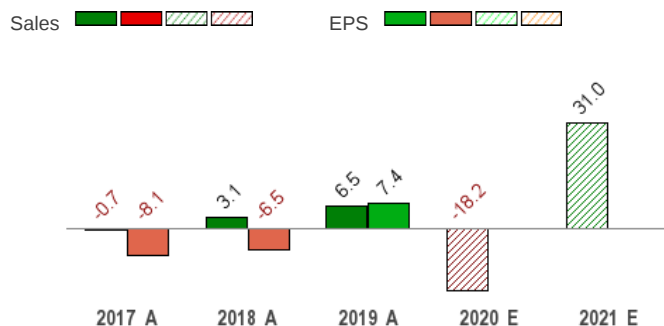
|                           |               |
|---------------------------|---------------|
| Last EPS Surprise         | <b>108.7%</b> |
| Last Sales Surprise       | <b>0.2%</b>   |
| EPS F1 Est- 4 week change | <b>-6.1%</b>  |
| Expected Report Date      | <b>NA</b>     |
| Earnings ESP              | <b>0.0%</b>   |

|         |            |
|---------|------------|
| P/E TTM | <b>9.1</b> |
| P/E F1  | <b>NA</b>  |
| PEG F1  | <b>NA</b>  |
| P/S TTM | <b>0.3</b> |

### Price, Consensus & Surprise



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



### Sales Estimates (millions of \$)

|      | Q1    | Q2    | Q3    | Q4    | Annual* |
|------|-------|-------|-------|-------|---------|
| 2021 | 640 E | 669 E | 677 E | 703 E | 2,661 E |
| 2020 | 615 A | 301 E | 482 E | 621 E | 2,032 E |
| 2019 | 599 A | 603 A | 587 A | 694 A | 2,483 A |

### EPS Estimates

|      | Q1       | Q2        | Q3        | Q4       | Annual*   |
|------|----------|-----------|-----------|----------|-----------|
| 2021 | \$0.08 E | \$0.41 E  | \$0.28 E  | \$0.33 E | \$1.10 E  |
| 2020 | \$0.04 A | -\$1.16 E | -\$0.69 E | \$0.06 E | -\$1.75 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 05/15/2020. The reports text is as of 05/18/2020.

## Overview

As of Mar 31, 2020, Cheesecake Factory operated 294 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.

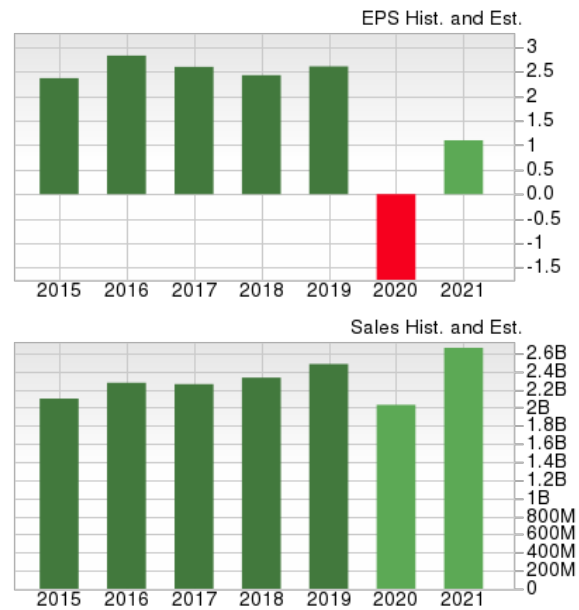
All the restaurants provide a full-service bar, where the restaurants' entire menu is served. The two segments through which the company operates are The Cheesecake Factory (88% of total revenues in 2019) and Other (12%).

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. Notably, Cheesecake Factory's consumer packaged goods business continues to sustain momentum, more so, because of the new branded refrigerated puddings in partnership with Lakeview Farms.
- ▲ **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. The off-premise sales are currently the backbone of the company as dine-in services have been closed on account of the coronavirus pandemic. Currently, digitalization represents 80% of the company's sales.
- ▲ **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.
- ▲ **Enough Liquidity to Tide Over Coronavirus Crisis:** Cheesecake Factory stated it possess enough liquidity to survive the coronavirus pandemic for some time. As of Apr 30, 2020, the company's cash balance totaled nearly \$260 million. Moreover, the company also anticipates \$40 million cash inflow in fiscal 2021 from the NOL carryback provision in The CARES Act. At the end of first-quarter 2020, the company had long-term debt of \$380 million. The company believes it has sufficient liquidity to withstand an off-premise-only operating model for the next 18 to 24 months.

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

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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 reevaluating the reopening schedule of restaurants. However, it believes that on-premise dining will be impacted for some time due to the social distancing. Moreover, due to uncertainty revolving around the COVID-19 pandemic, the company has suspended its share repurchase activity, dividend payment program and new unit developments.
- ▼ **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 2019, the labor expense ratio was 36.3%, up 50 bps from the year-ago period. Other operating costs accounted for 25.5% of revenues, up 80 bps from the year-ago quarter. In the coming quarters, the company is likely to witness increase in costs due to the coronavirus pandemic.
- ▼ **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.

The coronavirus pandemic, fluctuating consumer discretionary spending along with high costs remain potent headwinds

## Last Earnings Report

### Cheesecake Factory Q1 Earnings Top Estimates, Fall Y/Y

The Cheesecake Factory reported preliminary first-quarter fiscal 2020 results, wherein both the top and the bottom lines beat the Zacks Consensus Estimate.

The company reported preliminary results on an adjusted basis, which do not include impairments of long-lived assets, goodwill and other intangible assets and the revaluation of contingent consideration associated with the acquisition of Fox Restaurant Concepts as well as corresponding tax effects as a result of the impact of COVID-19. The company has also delayed the filing of 10-Q as evaluation is in process. The aforementioned items are non-cash in nature and impact on reported results is likely to be material.

In the quarter under review, adjusted earnings came in at 4 cents per share, comparing favorably with the Zacks Consensus Estimate of a loss of 46 cents. However, the bottom line plummeted 93.5% from the prior-year number. This downside can be primarily attributed to higher operating and acquisition-related costs.

**Let's take a closer look at the numbers.**

#### Detailed Revenue Discussion

Total revenues of \$615.1 million in the reported quarter beat the Zacks Consensus Estimate of \$614 million. Moreover, the top line improved 2.6% year over year. Notably, the company benefited from the acquisitions of North Italia and Fox Restaurant Concepts on Oct 2, 2019.

However, comps at Cheesecake Factory restaurants declined 12.9% against 1.3% growth recorded in the year-ago quarter.

#### Costs in Detail

Cost of sales, as a percentage of revenues, increased 20 basis points (bps) year over year to 22.9% in the first quarter. Meanwhile, labor expenses, as a percentage of total revenues, was 38.7%, up 250 bps from the year-ago quarter.

Other operating costs represented 27.3% of revenues, up 170 bps from the year-ago quarter. General and administrative (G&A) expenses accounted for 7.1% of revenues, up 60 bps from the prior-year quarter. In the first quarter, pre-opening expenses accounted for 0.5% of revenues, up 10 bps year over year.

#### Balance Sheet

As of Mar 31, 2020, Cheesecake Factory's cash and cash equivalents totaled \$81 million compared with \$58.4 million as of Dec 31, 2019.

Moreover, on Apr 20, the company announced the closing of \$200 million convertible preferred investment from affiliates of Roark Capital. As of Apr 30, 2020, the company's cash balance totaled nearly \$260 million.

Long-term debt totaled \$380 million in the fiscal first quarter.

However, due to uncertainty revolving around the COVID-19 pandemic, the company has suspended its share repurchase activity as well as dividend payment program.

#### Developmental Details

During the fiscal first quarter, the company opened one North Italia and one Flower Child restaurant.

However, going forward, the company has suspended new unit developments until more clarity on the restaurant industry operating environment emerges.

**Quarter Ending** **03/2020**

|                  |                     |
|------------------|---------------------|
| Report Date      | <b>May 05, 2020</b> |
| Sales Surprise   | <b>0.21%</b>        |
| EPS Surprise     | <b>108.70%</b>      |
| Quarterly EPS    | <b>0.04</b>         |
| Annual EPS (TTM) | <b>2.03</b>         |

## Recent News

### Cheesecake Factory Q1 Comps to Decline Due to Coronavirus - Apr 2, 2020

The Cheesecake Factory recently provided first-quarter fiscal 2020 preliminary sales update. The company expects first-quarter fiscal 2020 comparable restaurant sales to be down nearly 13%. The company's results reflect quarter to date through February comparable sales growth of roughly 3%, above the broader casual dining industry trend during that period. Due to coronavirus pandemic, comparable sales declined nearly 46% in March.

The company announced that its off-premise model is in operation at the moment. Since fiscal fourth-quarter 2019, the company's off-premise sales have increased 85%.

## Valuation

Cheesecake Factory's shares are down 52.3% in the year-to-date period and 61.4% over the trailing 12-month period. Stocks in the Zacks sub-industry is down by 12.9%, but stocks in the Zacks Retail-Wholesale sector are down by 3.2% in the year-to-date period. Over the past year, the Zacks sub-industry is down 9.8%, but the sector is up 13.8%.

The S&P 500 index is down by 10.9% in the year-to-date period, but up 0.8% in the past year.

The stock is currently trading at 9.12x trailing 12-month earnings, which compares with 26.08x for the Zacks sub-industry, 29.03x for the Zacks sector and 18.46x for the S&P 500 index.

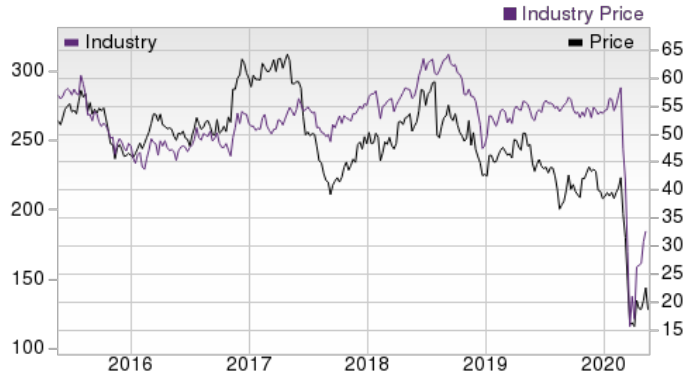
Over the past five years, the stock has traded as high as 26.32x and as low as 6.02x, with a 5-year median of 19.66x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$21 price target reflects 8.04x trailing 12-month earnings.

The table below shows summary valuation data for CAKE.

| Valuation Multiples - CAKE |               |       |              |        |         |
|----------------------------|---------------|-------|--------------|--------|---------|
|                            |               | Stock | Sub-Industry | Sector | S&P 500 |
| P/E TTM                    | Current       | 7.67  | 22.83        | 27.46  | 17.67   |
|                            | 5-Year High   | 26.32 | 29.76        | 31.59  | 22.17   |
|                            | 5-Year Low    | 5.79  | 22.83        | 23.46  | 15.91   |
|                            | 5-Year Median | 19.7  | 26.17        | 26.5   | 18.95   |
| P/S F12M                   | Current       | 0.4   | 3.48         | 0.99   | 3.19    |
|                            | 5-Year High   | 1.35  | 3.93         | 1.11   | 3.44    |
|                            | 5-Year Low    | 0.24  | 2.82         | 0.8    | 2.54    |
|                            | 5-Year Median | 1     | 3.3          | 0.93   | 3.01    |
| P/CF                       | Current       | 4.05  | 15.03        | 13.87  | 14.69   |
|                            | 5-Year High   | 12.41 | 20.59        | 15.21  | 22.67   |
|                            | 5-Year Low    | 3.18  | 8.61         | 10.76  | 11.67   |
|                            | 5-Year Median | 9.32  | 16.8         | 12.86  | 16.41   |

As of 05/04/2020

## Industry Analysis Zacks Industry Rank: Bottom 30% (179 out of 254)



## Top Peers

| Company (Ticker)                              | Rec          | Rank |
|-----------------------------------------------|--------------|------|
| Arcos Dorados Holdings Inc. (ARCO)            | Neutral      | 3    |
| Cracker Barrel Old Country Store, Inc. (CBRL) | Neutral      | 3    |
| Texas Roadhouse, Inc. (TXRH)                  | Neutral      | 3    |
| The Wendys Company (WEN)                      | Neutral      | 3    |
| Chipotle Mexican Grill, Inc. (CMG)            | Underperform | 5    |
| DINE BRANDS GLOBAL, INC. (DIN)                | Underperform | 5    |
| Darden Restaurants, Inc. (DRI)                | Underperform | 5    |
| 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   | -          | -         | Underperform   | Underperform | Underperform |
| Zacks Rank (Short Term)                            | 3         | -          | -         | 5              | 5            | 5            |
| VGM Score                                          | B         | -          | -         | D              | A            | A            |
| Market Cap                                         | 841.71 M  | 243.08 M   | 18.98 B   | 27.10 B        | 8.41 B       | 886.08 M     |
| # of Analysts                                      | 11        | 6          | 14        | 17             | 14           | 10           |
| Dividend Yield                                     | 7.78%     | 0.00%      | 2.21%     | 0.00%          | 0.00%        | 7.71%        |
| Value Score                                        | B         | -          | -         | F              | B            | A            |
| Cash/Price                                         | 0.06      | 0.09       | 0.06      | 0.03           | 0.04         | 0.20         |
| EV/EBITDA                                          | 9.80      | 11.19      | 11.60     | 43.19          | 11.40        | 8.67         |
| PEG Ratio                                          | NA        | 4.33       | 2.58      | 8.67           | 3.00         | 1.82         |
| Price/Book (P/B)                                   | 1.45      | 1.61       | 2.59      | 16.21          | 3.65         | NA           |
| Price/Cash Flow (P/CF)                             | 4.03      | 6.37       | 10.28     | 44.25          | 8.03         | 2.45         |
| P/E (F1)                                           | NA        | 33.04      | 19.01     | 130.29         | 29.98        | 18.17        |
| Price/Sales (P/S)                                  | 0.34      | 0.53       | 1.92      | 4.76           | 0.96         | 0.27         |
| Earnings Yield                                     | -9.45%    | 0.77%      | 5.06%     | 0.77%          | 3.33%        | 5.53%        |
| Debt/Equity                                        | 2.59      | 1.05       | 0.75      | 1.65           | 2.24         | -4.49        |
| Cash Flow (\$/share)                               | 4.60      | 1.81       | 7.01      | 21.96          | 8.66         | 8.03         |
| Growth Score                                       | C         | -          | -         | B              | A            | A            |
| Hist. EPS Growth (3-5 yrs)                         | -0.49%    | 7.65%      | 10.82%    | 7.65%          | 17.80%       | 5.16%        |
| Proj. EPS Growth (F1/F0)                           | -166.98%  | -96.35%    | -10.48%   | -46.92%        | -60.10%      | -72.39%      |
| Curr. Cash Flow Growth                             | -1.46%    | 4.82%      | 5.68%     | 34.05%         | 15.99%       | -3.96%       |
| Hist. Cash Flow Growth (3-5 yrs)                   | 2.15%     | 6.59%      | 8.52%     | 1.89%          | 14.41%       | -1.24%       |
| Current Ratio                                      | 0.40      | 0.73       | 1.27      | 1.62           | 0.41         | 0.61         |
| Debt/Capital                                       | 72.13%    | 68.47%     | 44.25%    | 62.31%         | 69.14%       | NA           |
| Net Margin                                         | 3.86%     | 3.60%      | 10.54%    | 5.95%          | 7.25%        | 3.62%        |
| Return on Equity                                   | 16.40%    | 2.29%      | 16.29%    | 23.90%         | 32.51%       | -24.65%      |
| Sales/Assets                                       | 1.03      | 1.04       | 0.54      | 1.14           | 0.99         | 1.51         |
| Proj. Sales Growth (F1/F0)                         | -18.15%   | -10.22%    | -2.55%    | -1.65%         | -10.41%      | -6.00%       |
| Momentum Score                                     | A         | -          | -         | D              | B            | A            |
| Daily Price Chg                                    | 1.70%     | 1.09%      | 0.20%     | 4.24%          | 4.43%        | 4.18%        |
| 1 Week Price Chg                                   | 11.48%    | 1.89%      | 3.23%     | 5.82%          | 6.97%        | 2.42%        |
| 4 Week Price Chg                                   | 4.60%     | 5.56%      | 0.88%     | 23.51%         | 20.06%       | 35.93%       |
| 12 Week Price Chg                                  | -56.18%   | -39.51%    | -23.26%   | 4.76%          | -42.32%      | -51.51%      |
| 52 Week Price Chg                                  | -60.92%   | -45.94%    | -12.56%   | 37.07%         | -41.48%      | -51.48%      |
| 20 Day Average Volume                              | 3,886,217 | 285,403    | 2,553,422 | 677,552        | 3,610,825    | 4,102,708    |
| (F1) EPS Est 1 week change                         | 2.19%     | 0.00%      | 0.00%     | 0.00%          | 0.00%        | 1.31%        |
| (F1) EPS Est 4 week change                         | -6.08%    | -19.90%    | -5.57%    | -16.63%        | 0.03%        | 405.63%      |
| (F1) EPS Est 12 week change                        | -164.02%  | -98.23%    | -16.22%   | -59.44%        | -63.57%      | -74.99%      |
| (Q1) EPS Est Mthly Chg                             | 21.26%    | -20.80%    | -11.63%   | -173.08%       | 1.92%        | 30.20%       |

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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>C</b> |
| Momentum Score | <b>A</b> |
| VGM Score      | <b>B</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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