

Cheesecake Factory (CAKE)

\$20.51 (As of 03/19/20)

Price Target (6-12 Months): **\$22.00**

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:A

Value: A

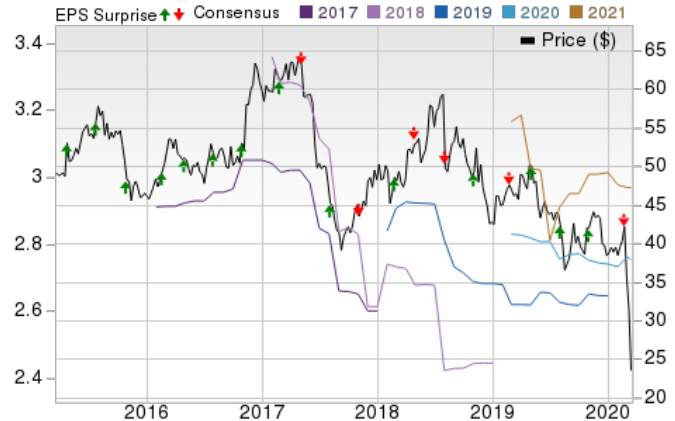
Growth: C

Momentum: A

Summary

Shares of Cheesecake Factory have underperformed the industry in the past year. The downtrend is likely to continue as the coronavirus outbreak continues to hurt the industry. Moreover, the company reported fourth-quarter 2019 results, wherein both earnings and revenues missed the estimate. Estimates for current quarter and year have witnessed downward revisions. 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. Apart from this, the company is consistently focusing on returning wealth to shareholders via dividends and share repurchases.

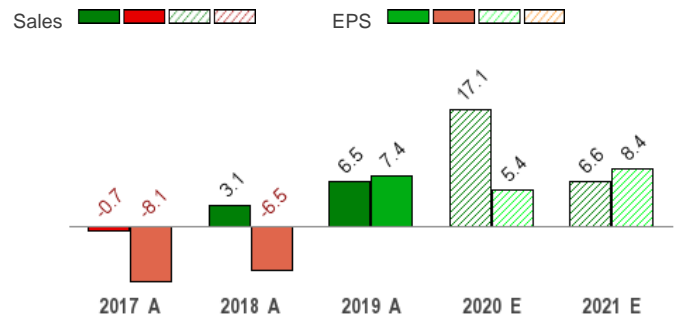
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$51.15 - \$14.52
20 Day Average Volume (sh)	2,496,497
Market Cap	\$922.2 M
YTD Price Change	-47.2%
Beta	0.57
Dividend / Div Yld	\$1.44 / 7.0%
Industry	Retail - Restaurants
Zacks Industry Rank	Top 39% (100 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.9%
Last Sales Surprise	-1.4%
EPS F1 Est- 4 week change	0.8%
Expected Report Date	05/06/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	760 E	768 E	759 E	783 E	3,100 E
2020	719 E	725 E	716 E	738 E	2,908 E
2019	599 A	603 A	587 A	694 A	2,483 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.75 E	\$0.92 E	\$0.64 E	\$0.61 E	\$2.98 E
2020	\$0.71 E	\$0.87 E	\$0.62 E	\$0.57 E	\$2.75 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.

P/E TTM	7.9
P/E F1	7.5
PEG F1	0.7
P/S TTM	0.4

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/19/2020. The reports text is as of 03/20/2020.

Overview

As of Dec 31, 2019, 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.

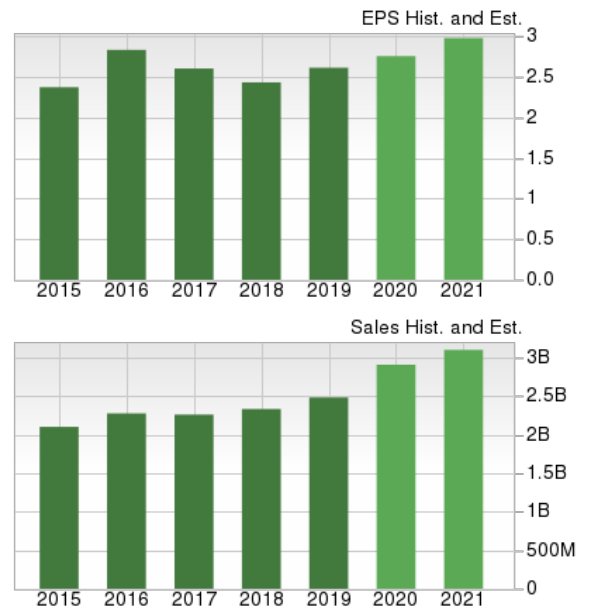
All the restaurants provide a full-service bar, where the restaurants' entire menu is served. The two segments through which the company operates are The Cheesecake Factory (88% of total revenues in 2019) and Other (12%).

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.



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 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.

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

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, in fourth-quarter 2019, off-premise business accounted for 17% of total sales.

- ▲ **Continued Comps Growth:** In order to boost comps, Cheesecake Factory is focusing on improving speed of service and training servers so that they render higher level of service. In addition to labor productivity, the restaurant is primarily focused on menu innovation and digital improvements. In the fiscal third quarter, comparable sales improved 0.6%, following a gain of 0.4% in the preceding quarter.
- ▲ **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 six company-owned restaurants. 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 by 17%, 18%, 21%, 20%, 21%, 13.8% and 9.1% in 2013, 2014, 2015, 2016, 2017, 2018 and 2019, respectively. In the fourth quarter, the company repurchased approximately 10,000 shares of its common stock for \$0.4 million. In 2019, Cheesecake Factory bought back 1.1 million shares of common stock for \$51 million.
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Reasons To Sell:

- ▼ **Coronavirus Might Hurt Results:** The coronavirus outbreak is likely to hurt 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. Shares of the company have fallen 48.3% in the past three months, compared with the industry's decline of 31.2% owing to the outbreak of the deadly virus.
- ▼ **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. 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 Q4 Earnings Lag Estimates, Fall Y/Y

The Cheesecake Factory reported fourth-quarter fiscal 2019 results wherein both earnings and revenues missed the Zacks Consensus Estimate. Following lower-than-expected results, shares of the company declined 3.4% in after-hours trading on Feb 19.

In the quarter under review, adjusted earnings came in at 58 cents per share, lagging the Zacks Consensus Estimate of 61 cents. Moreover, the bottom line dipped 7.9% from the prior-year number. This downside was primarily attributed to higher operating and acquisition-related costs.

Quarter Ending **12/2019**

Report Date	Feb 19, 2020
Sales Surprise	-1.41%
EPS Surprise	-4.92%
Quarterly EPS	0.58
Annual EPS (TTM)	2.61

Let's take a closer look at the numbers.

Detailed Revenue Discussion

Total revenues of \$694 million in the reported quarter missed the Zacks Consensus Estimate of \$704 million. However, the top line improved 18.6% year over year on the back of increased comparable sales.

Comps at Cheesecake Factory restaurants slipped to 0.6% growth from the 1.9% rise in the year-ago quarter.

The Cheesecake Factory Incorporated Price, Consensus and EPS Surprise

The Cheesecake Factory Incorporated Price, Consensus and EPS SurpriseThe Cheesecake Factory Incorporated price-consensus-eps-surprise-chart | The Cheesecake Factory Incorporated Quote

Costs in Detail

Cost of sales ratio decreased 20 bps year over year to 22.8% in the fourth quarter. Meanwhile, the labor expense ratio was 36.2%, up 40 bps from the year-ago quarter.

Other operating costs represented 26% of revenues, up 200 bps from the year-ago quarter. General and administrative (G&A) expenses accounted for 6.8% of revenues, up 50 bps from the prior-year quarter. However, in the fourth quarter, pre-opening expenses were flat at 0.9% year over year.

Balance Sheet

As of Dec 31, 2019, Cheesecake Factory's cash and cash equivalents totaled \$65.4 million compared with \$26.6 million as of Jan 1, 2019. In the fiscal fourth quarter, the company repurchased approximately 10,000 shares of its common stock for \$0.4 million. In 2019, Cheesecake Factory bought back 1.1 million shares of common stock for \$51 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 Mar 20, 2020 to its shareholders of record at the close of business on Mar 9, 2020.

Developmental Details

In fiscal 2020, Cheesecake Factory anticipates opening 20 new restaurants including six Cheesecake Factory locations, six North Italia restaurants and eight restaurants within the FRC subsidiary. It also expects to launch four Cheesecake Factory restaurants internationally under licensing agreements

2019 Highlights

Total revenues of \$ 2,482.7 million were up 6.4% year over year. Adjusted earnings per share (EPS) for the year ended Dec 31, 2019 was reported at \$2.61 compared with \$2.51 as on Jan 1, 2019. In fiscal 2019, Comps at Cheesecake Factory restaurants slid to 0.8% rise from growth of 1.7% a year ago.

Q1 Outlook

For the first quarter, adjusted EPS is estimated to be 69-74 cents based on anticipated comps growth of 1-2% at Cheesecake Factory restaurants. Total revenues for The Cheesecake Factory restaurants are estimated in the range of \$715-\$720 million.

Fiscal 2020 Guidance

For the fiscal 2020, Cheesecake Factory expects earnings of \$2.70-\$2.86 per share. Its mid-point of \$2.78 is above the current Zacks Consensus Estimate of \$2.73. Meanwhile, the company expects comps to grow in the range of 1-2%. Total revenues for fiscal 2020 are estimated at \$2.9 billion.

Valuation

Cheesecake Factory's shares are down 47.2% in the year-to-date period, and 54.9% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down by 31.3% and 18.1% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down by 25.3% and 16.7%, respectively.

The S&P 500 index is down by 25.4% in the year-to-date period and 16.7% in the past year.

The stock is currently trading at 7.33x forward 12-month earnings, which compares with 16.85x for the Zacks sub-industry, 20.94x for the Zacks sector and 14.12x for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.18x and as low as 6.05x, with a 5-year median of 18.06x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$22 price target reflects 7.88 forward 12-month earnings.

The table below shows summary valuation data for CAKE.

Valuation Multiples - CAKE					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.33	16.85	20.94	14.12
	5-Year High	23.18	26.6	26.2	19.34
	5-Year Low	6.05	16.85	19.07	14.12
	5-Year Median	18.06	23.12	23.01	17.42
P/S F12M	Current	0.31	2.41	0.86	2.58
	5-Year High	1.35	3.9	1.11	3.43
	5-Year Low	0.26	2.41	0.8	2.54
	5-Year Median	1	3.27	0.92	3
P/CF	Current	4.03	11.94	11.84	12.55
	5-Year High	12.41	20.5	15.19	22.67
	5-Year Low	4.03	8.56	10.75	11.78
	5-Year Median	9.44	16.7	12.87	16.38

As of 03/19/2020

Industry Analysis Zacks Industry Rank: Top 39% (100 out of 254)



Top Peers

Cracker Barrel Old Country Store, Inc. (CBRL)	Outperform
Texas Roadhouse, Inc. (TXRH)	Outperform
Arcos Dorados Holdings Inc. (ARCO)	Neutral
Chipotle Mexican Grill, Inc. (CMG)	Neutral
DINE BRANDS GLOBAL, INC. (DIN)	Neutral
Darden Restaurants, Inc. (DRI)	Neutral
Brinker International, Inc. (EAT)	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	A	-	-	C	A	A
Market Cap	922.16 M	168.59 M	16.45 B	14.89 B	5.20 B	411.10 M
# of Analysts	11	6	13	16	15	7
Dividend Yield	7.02%	0.00%	2.67%	0.00%	8.30%	13.83%
Value Score	A	-	-	F	A	A
Cash/Price	0.29	0.06	0.06	0.05	0.02	0.02
EV/EBITDA	9.97	8.98	10.36	24.86	8.80	7.51
PEG Ratio	0.62	1.31	1.49	1.51	0.75	0.40
Price/Book (P/B)	1.60	1.47	2.16	8.85	2.22	NA
Price/Cash Flow (P/CF)	4.46	4.99	8.92	24.41	4.90	1.37
P/E (F1)	6.79	9.03	13.12	29.08	6.93	2.62
Price/Sales (P/S)	0.37	0.37	1.72	2.67	0.59	0.12
Earnings Yield	13.41%	9.31%	7.54%	3.44%	14.43%	38.13%
Debt/Equity	2.59	0.97	0.70	1.59	2.24	-4.33
Cash Flow (\$/share)	4.60	1.79	7.01	21.96	8.66	8.03
Growth Score	C	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	1.90%	7.72%	10.85%	0.15%	19.97%	5.13%
Proj. EPS Growth (F1/F0)	5.47%	6.06%	4.90%	31.23%	5.20%	6.54%
Curr. Cash Flow Growth	-1.46%	5.49%	6.03%	34.05%	15.99%	-3.96%
Hist. Cash Flow Growth (3-5 yrs)	2.15%	6.08%	8.55%	1.89%	14.41%	-1.24%
Current Ratio	0.40	0.60	1.23	1.61	0.41	0.41
Debt/Capital	72.13%	63.25%	42.57%	61.41%	69.14%	NA
Net Margin	5.13%	3.89%	11.57%	6.27%	7.25%	4.21%
Return on Equity	21.28%	7.33%	16.74%	25.14%	32.51%	-22.42%
Sales/Assets	1.06	1.09	0.54	1.16	0.99	1.76
Proj. Sales Growth (F1/F0)	17.13%	3.03%	3.13%	12.90%	5.11%	8.83%
Momentum Score	A	-	-	F	B	D
Daily Price Chg	-1.63%	5.73%	1.03%	15.25%	24.18%	44.23%
1 Week Price Chg	-25.22%	-19.08%	-11.01%	-12.82%	-25.90%	-43.39%
4 Week Price Chg	-51.46%	-51.73%	-33.45%	-42.20%	-64.85%	-72.96%
12 Week Price Chg	-47.59%	-48.39%	-30.67%	-36.07%	-61.05%	-73.89%
52 Week Price Chg	-54.90%	-54.90%	-23.69%	-20.03%	-63.47%	-74.55%
20 Day Average Volume	2,496,497	498,532	3,981,936	1,049,161	3,688,757	2,425,264
(F1) EPS Est 1 week change	0.00%	0.00%	-0.01%	0.00%	-1.80%	0.00%
(F1) EPS Est 4 week change	0.80%	-1.58%	-0.85%	0.27%	-3.96%	-2.80%
(F1) EPS Est 12 week change	0.50%	-2.09%	-1.70%	3.65%	-3.99%	-0.64%
(Q1) EPS Est Mthly Chg	15.15%	-0.63%	-0.88%	-0.27%	-15.73%	-1.60%

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	A
VGM Score	A

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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