

## The Cheesecake Factory, Inc.

NASDAQ:CAKE

**Analyst:** Thomas Marano

**Sector:** Discretionary

**BUY**

Price Target: \$60.82

### Key Statistics as of 11/21/2016

Market Price: \$58.50  
 Industry: Restaurants  
 Market Cap: \$2,636.69M  
 52-Week Range: \$44.16-60.16  
 Beta: 0.45

### Catalysts:

- Presidential Election
- Strong Q3

### Company Description:

Cheesecake Factory, INC. (NASDAQ: CAKE) currently has 193 restaurants under the traditional Cheesecake Factory brand, 13 under the Grand Lux Café, and one under RockSugar Pan Asian Kitchen Brand that currently operate in the United States. Established in 1978 in Beverly Hills California, The Cheesecake Factory is known for its delicious food and extensive menu. The company specializes in lunches, dinners, and desserts. Ranked as the number one casual dining brand for millennials in a survey by Technomics, clearly the cheesecake factory is attracting new customers while retaining past ones. The Cheesecake Factory provide their customers with an experience and product that keeps them extremely loyal while also attracting new customers due to strategic restaurant placement.



## Thesis

Too much surprise, while most restaurants may be suffering from current industry effects, The Cheesecake Factory has continued to grow through this downfall. Beating comparable last quarters EPS of \$.07 by \$.09 and increasing revenue by \$3.87 million the Cheesecake Factory is moving through quarter 4 2016 feeling great. With the plan to expand delivery services to all restaurant locations and increase number of Cheesecake Factory and RockSugar restaurants in 2017 this growth plan will support in outperforming their competitors. Increasing margins and revenue year after year support my opinion of a Buy of Cheesecake Factory.

## Industry Outlook

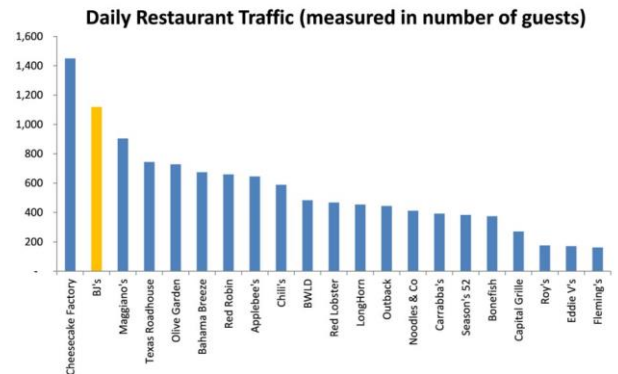
The Restaurant industry has been doing poor over the last few quarters due to consumer spending. With a health conscious America growing each day, more consumers have decided to stop dining out. Plus, as restaurant menu prices increase, grocery store prices decrease. Consumers are preferring at home dining as appose to restaurant dining. To combat this issue, some restaurants are now implementing discounts into their menus. Such as a 2 for 20 deal or various lunch specials. They're providing their customers with an incentive to dine at their restaurants over their competitors. With the overall goal of increasing customer traffic into their restaurants.

The Cheesecake Factory has implemented discounted menu hours, happy hours, and late night appetizer deals. They've also partnered with DoorDash, an on-demand restaurant delivery service. Through this partnership the Cheesecake Factory has seen an increase of 10% in their overall to go portion of revenue.

Cheesecake Factory along with many other restaurants have also developed smartphone app and online ordering software to increase efficiency and cut labor costs. The technology restaurants use will be a key component moving into a very heavily predicted technological future.

## Business Model

The Cheesecake Factory has the best traffic in the casual dining sector and is extremely profitable. With an on average sale of \$10.5 in food each year per store, CAKE is attracting new customers while retaining their current ones.



According to the chart above, when compared to some of its biggest competitors such as BJ's, Olive Garden, and Texas Roadhouse, the Cheesecake Factory is seeing approximately a little over 1400 customers daily. Greater than any of their competitors.

The Cheesecake Factory strategically places each of their restaurants based on constant criteria. Such as: parking, exterior, door, and all demographics. However, their main constraint being retail traffic throughout malls. Most of the Cheesecake Factory restaurants are in higher A to A- plus malls. In an attempt to pull hungry shoppers into their restaurant. Proportionally, the Cheesecake Factory also provides the mall with traffic due to their loyal customers.

## Strategic Relationship

Monday November 13<sup>th</sup> the Cheesecake Factory entered into a strategic relationship with Fox Restaurant Concepts. In which the Cheesecake Factory is making an equity investment in Fox's "North Italia and Flower Child". The agreement allows Cheesecake Factory to grow its financial position or acquire both restaurants and expand its brand.

North Italia will give Cheesecake Factory a chance to compete with top popular Italian casual dining restaurants.

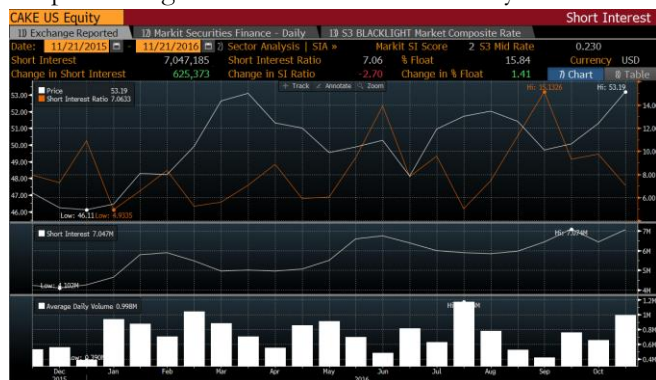
Flower Child will allow Cheesecake Factory to appeal to the health conscious Americans who are looking for a meal that is both quick and customized to their preferences.

This will provide Cheesecake Factory with many alternatives to expand in the coming years. Choosing

from the traditional Cheesecake Factory, RockSugar, Grand Lux Café, North Italia, or Flower Child.

## Ownership

According to the graph below showing short interest you can see Cheesecake Factory's short interest began to severely plunge from their all-time high in September. The decline is an indication that investors are beginning to sell their short positions, meaning investors possibly believe that the share price may pick up traction and raise again. This supports my thought for purchasing shares of Cheesecake Factory.



David Overton has been CEO since February 1992 and co-founded the Cheesecake Factory with both parents in 1972. Overton has racked up a number of professional honors as CEO including but not limited to the International Foodservice Manufacturers Association "Silver Plate Award", the "Executive of the Year Award", and The "MenuMasters Hall of Fame". These are just a few recognitions of how well the Cheesecake Factory is ran. Not all credit goes to David, As CEO he appoints a board of executive officers who support and aid in major decisions.

## Competition

COMPETITORS	SYMBOL
Texas Roadhouse, Inc.	NasdaqGS:TXRH
Panera Bread Company	NasdaqGS:PNRA
Cracker Barrels Inc.	NasdaqGS:CRBL
Bloomin' Brands, Inc.	NYSE:BLMN
Chipotle Mexican Grill, Inc.	NYSE:CMG
Darden Restaurants, Inc.	NYSE:DRI
BJ's Restaurants, Inc.	NasdaqGS:BJRI

As you can tell from the list above the Cheesecake Factory competes with a plethora of well-known great tasting restaurants. Therefore it is very important for CAKE to differentiate themselves from their

competition. Which they have by doing a number of things, Such as:

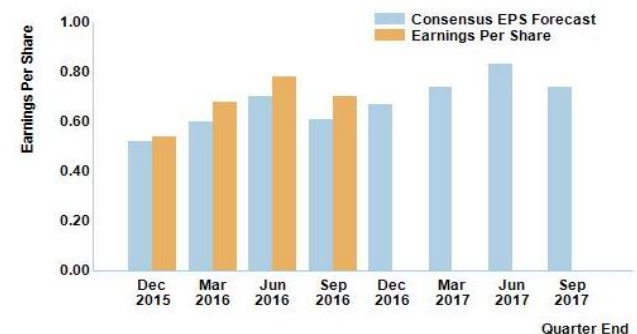
- Great quality food, which is all made from scratch excluding their cheesecake which is made in California.
- Having an award-winning broad menu which provides almost all customers with an entrée they'd like to eat.
- Excellent service and experience due to their extensive interview screening process.
- Smarter operations, since all food is made from scratch by actual cooks, the company uses nearly 98% of all the food purchases. Therefore there's not a significant number of wasted produce.

## Financials

ROIC /WACC		
	<u>History</u>	<u>LFY</u>
CAKE	1.15	1.48
Competitors	1.06	1.29

With an ROIC/WACC of 1.48 it's clear that Cheesecake factory is creating value. Even after comparison to their competition it's shown that they're creating value at a superior rate to their competitors. Cheesecake Factory also have an ROIC of 17.1% greater than the competitors at 12.2%.

As seen in the chart below, the Cheesecake Factory continues to exceed EPS forecasts quarter after quarter. This indicates the Cheesecake Factory's profitability is growing.



## Long Term Plan

- The Cheesecake Factory long plans include,
- continuing industry dominance by retaining current customers while also attracting new ones.
  - open up 107 cheesecake factory restaurants reaching a 300 store goal, while expanding new RockSugar, North Italia, Flower Child, and Grand Lux Café.
  - Increase profit margins and increase dividend payments and share repurchases.
  - Expand into new international markets and become globally known.
  - Establish delivery services in all restaurants by the end of 2017.

### **Important Dates and Catalysts**

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-Since President Trump plans on giving tax breaks to large corporations and individuals I believe this will drive the revenue of the Cheesecake Factory upward. Since they have a very diversified and loyal customer base, I believe that when consumers have extra funds to eat out they will chose Cheesecake Factory.

- The Cheesecake Factory had a very strong third quarter and beat many estimates and prior quarter comparable numbers. The strong quarter indicates they're financially stable. Cheesecake Factory is confident moving through Q4 and into 2017.

### **Conclusion**

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While operating in an industry that is currently struggling, Cheesecake Factory has continued to beat estimates and grow revenue. Their unique and versatile menu and setting keeps customers content and loyal. I believe that Cheesecake Factory will continue to expand all branches of their business and meet long term goals. I believe due to their stability through this down turn, and consistent growth that the Cheesecake Factory is a buy.

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**The Cheesecake Factory  
Incorporated (CAKE)**

**CENTER FOR GLOBAL FINANCIAL STUDIES**

**NEUTRAL**

Analysis by Thomas Marano

Current Price:

\$57.92

Intrinsic Value

\$55.84

Target 1 year Return: 6.48%  
Probability of Price Increase: 66.2%

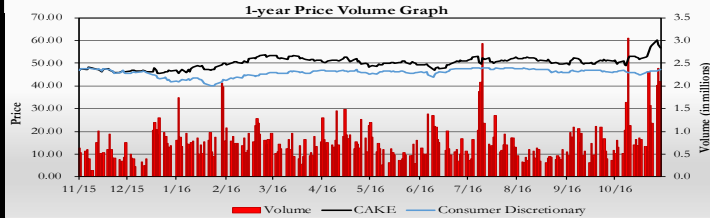
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Divident Yield:

1.5%

Target Price

\$60.82



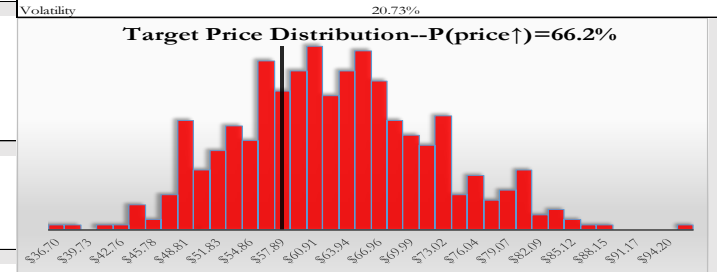
**Description**  
The Cheesecake Factory Incorporated operates full-service and casual dining restaurants primarily in the United States.

**General Information**  
Sector: Consumer Discretionary  
Industry: Hotels, Restaurants and Leisure  
Last Guidance: November 3, 2015  
Next earnings date: February 16, 2017  
Estimated Country Risk Premium: 6.25%  
Effective Tax rate: 40%  
Effective Operating Tax rate: 40%

Market Data	
Market Capitalization	\$2,636.69
Daily volume (mil)	0.94
Shares outstanding (mil)	45.52
Diluted shares outstanding (mil)	49.81
% shares held by institutions	74%
% shares held by investments Managers	86%
% shares held by hedge funds	10%
% shares held by insiders	7.90%
Short interest	15.48%
Days to cover short interest	8.78
52 week high	\$60.16
52-week low	\$44.16
Levered Beta	0.45
Volatility	20.73%

Past Earning Surprises	
Quarter ending	Revenue
9/29/2015	-3.48%
12/29/2015	-9.83%
3/29/2016	-2.22%
6/28/2016	-3.37%
9/27/2016	-2.70%
Mean	-4.32%
Standard error	1.4%

EBITDA	
9/29/2015	-5.31%
12/29/2015	-10.86%
3/29/2016	0.08%
6/28/2016	0.46%
9/27/2016	3.16%
Mean	-2.49%
Standard error	2.5%



Management	
Overton, David	Chairman and Chief Executive
Gordon, David	President
Benn, W.	Chief Financial Officer and
Zurzolo, Debby	Executive Vice President, Ge
Byfuglin, Max	President of the Cheesecake
Greene, Russell	Executive Vice President of

Profitability	
ROIC	11.0%
NOPAT Margin	8%
Revenue/Invested Capital	1.37
ROE	19.3%
Adjusted net margin	7%
Revenue/Adjusted Book Value	2.91

Invested Funds	
Total Cash/Total Capital	3.9%
Estimated Operating Cash/Total Capital	3.9%
Non-cash working Capital/Total Capital	-11.0%
Invested Capital/Total Capital	98.7%

Capital Structure	
Total Debt/Common Equity (LTM)	0.38
Cost of Existing Debt	6.26%
Estimated Cost of new Borrowing	6.15%
CGFS Risk Rating	D
Unlevered Beta (LTM)	0.36
WACC	5.99%

Peers	
Texas Roadhouse, Inc.	0.26% per annum over 5y
Buffalo Wild Wings Inc.	14.28% per annum over 3y
Panera Bread Company	0.26% per annum over 5y
Brinker International, Inc.	0.26% per annum over 5y
Chipotle Mexican Grill, Inc.	0.26% per annum over 5y
Bloomin' Brands, Inc.	0.26% per annum over 5y
Darden Restaurants, Inc.	N/M
Domino's Pizza, Inc.	N/M

Total return to shareholders	
9/29/2015	9.18%
12/29/2015	7.78%
3/29/2016	1.18
6/28/2016	15.20%
9/27/2016	6.57%
Mean	2.31
Standard error	2.59

Sensitivity Attribution Analysis	
Revenue	47.0%
Operating Expenses	43.6%
Dividends	0.2%
NWC	0.0%
CAPEX	8.8%
Operating Cash	0.3%

Porter's 5 forces (scores are out of 100)	
Bargaining Power of Suppliers	44
Bargaining Power of Customers	50
Threat of New Competition	71
Intensity of Existing Rivalry	42
Threat of Substitutes	75
<b>Overall</b>	<b>58</b>

Valuation	
Base Year	8.0%
9/27/2017	7.2%
9/27/2018	7.8%
9/27/2019	7.9%
9/27/2020	8.1%
9/27/2021	8.2%
9/27/2022	8.4%
9/27/2023	8.6%
9/27/2024	8.8%
9/27/2025	8.9%
9/27/2026	9.1%
Continuing Period	9.3%

Invested Capital	
Base Year	\$1,427.25
9/27/2017	\$1,463.56
9/27/2018	\$1,518.29
9/27/2019	\$1,520.44
9/27/2020	\$1,604.26
9/27/2021	\$1,677.06
9/27/2022	\$1,777.19
9/27/2023	\$1,916.33
9/27/2024	\$1,933.26
9/27/2025	\$1,946.72
9/27/2026	\$1,932.95
Continuing Period	

Revenue growth	
Base Year	6.1%
9/27/2017	4.1%
9/27/2018	4.4%
9/27/2019	4.4%
9/27/2020	4.3%
9/27/2021	4.3%
9/27/2022	4.3%
9/27/2023	4.2%
9/27/2024	4.2%
9/27/2025	4.1%
9/27/2026	4.1%
Continuing Period	4.1%

NOPAT margin	
Base Year	\$56.23
9/27/2017	\$60.90
9/27/2018	\$66.31
9/27/2019	\$72.04
9/27/2020	\$79.48
9/27/2021	\$85.56
9/27/2022	\$91.81
9/27/2023	\$98.23
9/27/2024	\$104.81
9/27/2025	\$111.53
9/27/2026	\$118.40
Continuing Period	

Net Claims	
Base Year	\$988.70
9/27/2017	\$996.49
9/27/2018	\$1,004.41
9/27/2019	\$886.25
9/27/2020	\$679.41
9/27/2021	\$514.11
9/27/2022	\$354.61
9/27/2023	\$178.86
9/27/2024	\$9.10
9/27/2025	-\$197.61
9/27/2026	-\$399.04
Continuing Period	

Price per share	
Base Year	\$56.23
9/27/2017	\$60.90
9/27/2018	\$66.31
9/27/2019	\$72.04
9/27/2020	\$79.48
9/27/2021	\$85.56
9/27/2022	\$91.81
9/27/2023	\$98.23
9/27/2024	\$104.81
9/27/2025	\$111.53
9/27/2026	\$118.40
Continuing Period	