Initiating Coverage:

The Cheesecake Factory ($CAKE)

Expansion through Restaurant Concepts & Value from Dining Experience

Consortium Research Group
Consumer | Food & Beverage
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Stock Rating:	Overweight
Price Target:	$67.00

Price:	$45.40
Potential Upside:	23.04%
Ticker:	$CAKE

Consumer Coverage Team

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Key Take-away: The Cheesecake Factory (or CAKE) is dismissed as a "boring chain." While consumers are dining out less frequently due to tighter conditions in the economy, casual sit-down restaurants such as The Cheesecake Factory are continuing to perform well. CAKE is known for its 225-item menu ranging from $12-$31, which truly allows customers to get a value for their money. CAKE posted Q2 FY2025 revenues of $956M. Beyond just its main Cheesecake Factory chain, a significant development was the July 2019 acquisition of Fox Restaurant Concepts (FRC), including fast casual brands like North Italia and Flower Child. The implementation of this deal has been a long-term goal, but the company's ability to fully scale these new concepts was significantly impacted by the COVID-19 pandemic. This deal was a major move for the brand to diversify the company's portfolio and enter the "experiential fast-casual" market.

Expansion through Fox Restaurant Concepts (FRC): North Italia is a concept focused on high-end wine that is catered towards higher-income diners. Flower Child is a fast casual and health-oriented chain with ingredients that are locally sourced. Another concept idea is Culinary Dropout, which is an event space with live music targeted to younger demographics. CAKE also plans for ~25 openings across these concept ideas and its main Cheesecake Factory units, hoping to reach their goal of 350+ locations across North America.

Increase in Consumer Value from Casual Dining: In a tighter economic environment where consumers are much more selective in terms of how they spend their discretionary income, CAKE stands out because it has a strong value per dollar rather than just competing on price. Although CAKE does cost more upfront than fast food chains, families view it as a better deal because its portion sizes are significantly larger and have leftovers that lower the cost per serving. CAKE has a 20+ page menu which allows it to service multiple demographics and fit different consumer preferences that narrower fast food chains do not target effectively. Another key differentiator is how restaurants such as Cheesecake Factory can service alcohol, which makes a difference in adults being able to enjoy a casual dining experience, adding to the value compared to fast food chains. Other chains are pushing value promotions to attract customers looking to eat an inexpensive meal, but CAKE benefits from offering value density through their dining experience to justify the tighter spending conditions.

Valuation: We initiate coverage with an Overweight rating and a $67.00 PT.

Company Overview

The Cheesecake Factory is a leading upscale casual dining chain. It was founded on a commitment to create an unforgettable guest experience for its customers. The company's origins trace back to the 1940s when Evelyn Overton perfected her famous cheesecake recipe. From then, the business was created in 1972 with a small bakery in Los Angeles, California, but it was her son, David Overton, who launched the first restaurant in Beverly Hills, California, in 1978 to showcase his mother's desserts. The company has since growth into a global brand, with over 360 restaurants in its current portfolio. CAKE's business is built in three main pillars: its namesake restaurants, a diversified portfolio of other brands, as well as its bakery division. This goes beyond a food chain, as management has shown a strategic move to build a family of concepts that appeal to different consumer demographics and dining occasions. The Cheesecake Factory is known for three main differentiating factors that set it apart from its competitors:

<u>The Giant Menu:</u> With approximately 225 items, the menu is The Cheesecake Factory's primary trademark. The rationale behind this vast selection of food options is its appeal to a wide range of diners, from families with different tastes to a group of people celebrating a special occasion. The company's profitability suggests that the benefits such as having a broader consumer appeal and higher customer satisfaction outweigh the operational complexities. Moreover, in a time where consumers are scrutinizing value because of rising costs, the endless options the menu offers along with the larger portions are selling points helping The Cheesecake Factory compete with other chains focused on discounting instead of offering a perception of greater value through their food choice and quality.

<u>Experiential Dining Model:</u> Unlike many other chains focused on a quick turnover, The Cheesecake Factory uses an "experiential" model where each restaurant is designed with a distinctive and lavish atmosphere that encourages its guests to order multiple courses and view their meals as an experience. The brand focuses on its hospitality and ambiance through the lighting, which is an essential component of its brand strategy.

<u>The Bakery Division:</u> The business was originally built on its desserts, and that legacy still remains a core part of the business. The Cheesecake Factory's bakery division supplies its signature cheesecakes to its own restaurants and to other businesses such as grocery stores. This solid foundation gives The Cheesecake Factory a stable revenue stream and an advantage over other casual dining competitors in the space.

Business Model and Strategic Developments: The Cheesecake Factory currently operates under a dual business model. Its main flagship brand provides a full service and high-volume dining experience known for generous portions and making most of their food in house. The company strategically places its restaurant's in high traffic areas such as shopping centers including malls to maximize both their visibility and foot traffic. Post pandemic, North Italia has been expanding significantly and hopes to hit 50 restaurants open by 2026. The brand's commitment to creating their own handcrafted pasta sets it apart from competitors along with the new additions the team is making, such as keeping the concept "local" while experimenting with Italian dishes and their alcohol offerings. Recently in November 2024, North Italia launched a fall and winter seasonal menu with special dishes. The chain has focused on shifting their strategy post pandemic while still having a 20% YOY growth and still opening new locations.

Looking forward, management has focused on opening more flagship locations internationally and enhancing the customer experience. The company has a long-term goal of achieving a 7% annual unit growth rate. The Cheesecake Factory has also made investments in technology, including a nationwide loyalty program (Cheesecake Rewards) to capture valuable customer data as well as increase off-premise sales. This approach demonstrates management's focus on improving the customer experience, which is the core of their business model.

Industry Overview

Labor and Wage Pressures: The restaurant industry continues to face significant challenges from the labor market. Restaurants that offer full service are still lagging behind pre-pandemic employment levels by approximately 4% as of mid 2025, despite overall job growth stabilizing. Meanwhile, wage inflation still remains as a big concern for operators. Since 2021, labor expenses have increased by an average of 4% per year, which are driven by rising minimum wage mandates and a competitive environment for talent. This expense increase is forcing companies to find new ways to manage costs such as becoming much more efficient in their operations or improving their technology.

"Trading Down" Effect: Consumers are becoming more intentional with their discretionary spending because of rising costs. Black Box Intelligence reported in March 2025 that same store growth in sales for the casual dining segment was negative for about two-thirds of all brands, and had an average drop of 6.9% for stores that were struggling. However, the report also explains that the casual dining and fast casual segment was one of the few to receive positive sales growth overall during the same period. This shows a market where some full service chains are thriving by offering a strong value proposition, such as CAKE, while others are struggling to compete with lower priced alternatives.

The Takeout Shift: The shift to dining off premise is continuing to increase. The National Restaurant Association found that food takeout, delivery, and drive-thru account for about 75% of all restaurant traffic. This trend is particularly driven by younger consumers such as Gen Z and Millennials, who view takeout as an essential part of their lifestyle. This presents as both a challenge and an opportunity for full service restaurant chains because they must keep the in person dining experience but also adapt by investing in dedicated takeout counters within their chains and curbside pickup options to capture more of the younger demographic market. This shift is the perfect opportunity for The Cheesecake Factory specifically as its broad menu and loyalty program allow it to benefit more than competitors focused on providing value for customers.

Supply Chain: Food and ingredient costs also remain a huge cost for restaurants. The U.S. Department of Agriculture predicts food-away-from-home costs to rise by 3.5% in 2025, which contributes to the trend of operators increasing their menu prices to offset expenses. In order to address these pressures, restaurants are implementing various strategies to save some of their costs, including adjusting portion sizes or using local ingredients. These efforts are important to maintain a competitive value proposition for consumers who are becoming more aware of menu price increases and being more cautious about their discretionary spending on dining and leisure experiences.

Peer Comparisons

Comparable Companies					
$mm					
Ticker	**Mkt Cap**	**EV**	**P/E LTM**	**Revenue LTM**	**EBITDA LTM**
🏛 BLOOMIN' BRANDS, INC. (XNAS:BLM	$586	$2,713	0.0x	$3,934	$349
🏛 TEXAS ROADHOUSE, INC. (XNAS:TXI	$10,853	$11,615	0.0x	$5,671	$716
🏛 BRINKER INTERNATIONAL, INC. (XN	$556	$7,231	0.0x	$6,484	$731
🏛 DARDEN RESTAURANTS, INC. (XNYS	$21,073	$28,912	0.0x	$12,364	$1,954
The Cheesecake Factory	$2,594	$4,546	0.0x	$3,670	$316

Ticker	**LTM EV/EBITDA**	**Gross Margin**	**EBITDA Margi**	**EBIT Margin**	**Yr Rev Growth Rate LF**
🏛 BLOOMIN' BRANDS, INC. (XNAS:BLM	7.8x	14.1%	8.9%	4.4%	2.5%
🏛 TEXAS ROADHOUSE, INC. (XNAS:TXI	16.2x	18.3%	12.6%	9.2%	14.6%
🏛 BRINKER INTERNATIONAL, INC. (XN	9.9x	18.2%	13.6%	9.7%	22.0%
🏛 DARDEN RESTAURANTS, INC. (XNYS	14.8x	21.8%	15.8%	11.7%	8.3%
The Cheesecake Factory	14.4x	39.9%	8.6%	5.8%	4.8%

High	16.22x	39.9%	15.8%	11.7%	22.0%
75th Percentile	14.80x	21.8%	13.6%	9.7%	14.6%
Average	12.61x	22.5%	11.9%	8.2%	10.4%
Median	14.39x	18.3%	12.6%	9.2%	8.3%
25th Percentile	9.89x	18.2%	8.9%	5.8%	4.8%
Low	7.77x	14.1%	8.6%	4.4%	2.5%

The Cheesecake Factory Relative Valuation		
Implied Enterprise Value (25th Percentile)	$	3,123
Implied Enterprise Value (Median)	**$**	**4,546**
Implied Enterprise Value (75th Percentile)	$	4,675
Implied Share Price (25th Percentile)	$	23.51
Implied Share Price (Median)	**$**	**52.05**
Implied Share Price (75th Percentile)	$	54.65

Source: Capital IQ

Investment Theses

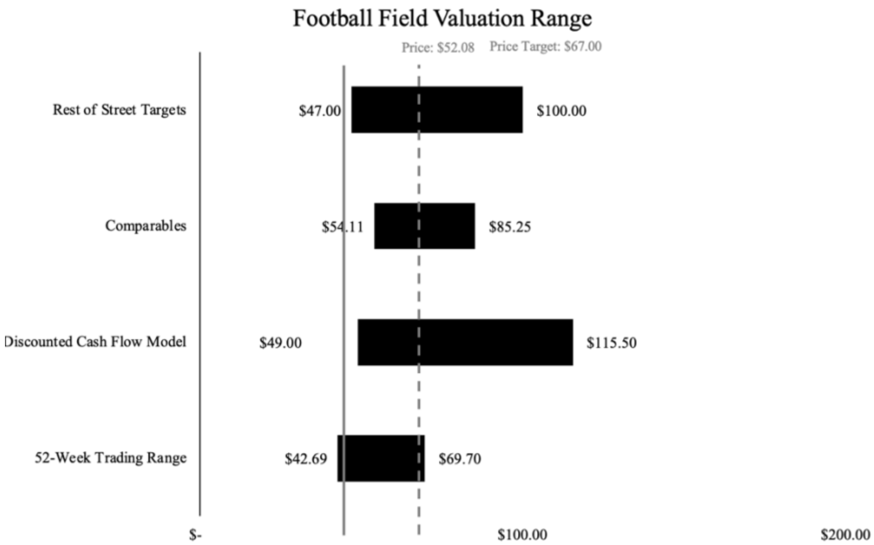
Failing to Account for Offshoots: The offshoots of CAKE will drive value, and the market doesn't see it yet. The market sees The Cheesecake Factory solely as its main flagship chain but does not fully capture the expansive growth through the FRC concepts, hence it is an undervalued growth stock. If the brand is able to execute the concepts, the stock will get re rated and the upside will come from the unit expansion of FRC. Also, CAKE is trading down compared to its peers, so we are arguing that the market is not seeing the potential growth.

Sustainable Pricing Power & Stability from Margins: The flagship Cheesecake Factory brand achieved its highest restaurant margins in eight years, reaching close to 18.5% in the second quarter of 2025. This margin comes from the decision to selectively increase the price of items on the menu because of its high experiential value. This profitable base provides the free cash flow needed to finance the new unit expansion of FRC brands. This high margin is sustainable because of their increased operational efficiency through employee retention and their experiential value, which allow management to raise menu prices without driving customers away, so they have pricing power. The customer would accept the price increases because the large portion sizes and dining ambiance create a high perceived value density of paying a low cost per meal especially with leftovers that competitors do not match.

Market Overstates Balance Sheet Risk: The stock's low Forward P/E of 11.25 is driven by the market overreacting to CAKE's high total debt load of ~$644M. This debt is better than people think because management has successfully executed debt restructuring, pushing large liabilities which drastically lowers immediate financial risk. For example, in the Q1 of 2025, CAKE repurchased a portion of its outstanding 0.375% convertible notes due 2026 using proceeds from a new 2030 note issuance. The perceived risk should disappear as CAKE directs its stable operational cash flow towards paying down its debt. This reduction in the balance sheet risk will force the stock's low P/E multiple to rapidly expand and match its peers, which will help increase share price.

Price Target & Valuation

Our analysis gives ($CAKE) a price target of $67.00 and an overweight rating.



Potential Upsides & Downsides to Our Rating

CAKE's high ~8.37% WACC and high fixed cost base make it highly sensitive to macroeconomic downturns. Any decline in their traffic at the core brand will lead to negative operating leverage.

Moreover, the planned 25 unit/year growth will be impacted by downsides such as inconsistent quality across chains or food safety incidents which could immediately hurt the brand's reputation. In addition to the high debt, the stock would trade at a discount which would confirm a ~10.0x EV/EBIT downside multiple.

Our Price Target: $67.00

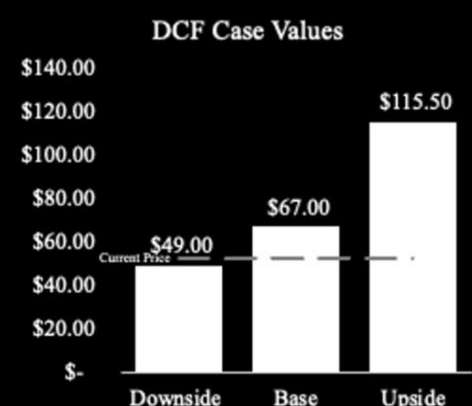
Our PT assumes that the CAKE's growth brands (North Italia and Flower Child) will expand the brand's profit margins, and the market will re rate the stock.

Our Upside Case: $116.00

Our upside case is based on CAKE significantly outperforming street expectations. This assumes that the FRC brands (North Italia and Flower Child) validate the growth strategy by achieving strong AUVs and margin expansions reaching beyond the 7.5% EBIT. We also assume that this success allows management to substantially pay down debt, reducing WACC and the stock to reflect higher investor confidence with a higher ~20.0x EV/EBIT multiple.

Our Downside Case: $49.00

Our downside case assumes that CAKE will be impacted by macroeconomic downturn resulting in traffic and sales to decrease. This will put pressure on the high debt. The expansion plan will also drain free cash flow as the restaurants underperform. It is also assumed that the high 8.37% WACC combines with decreasing margins and reduce the EV/EBIT multiple to ~10.0x



Projections

Income Statement ($mm)	2024A	2025E	2026E	2027E	2028E	CAGR%
Revenue	3,669	3,853	4,046	4,268	4,524	7.2%
EBITDA	(103)	495	445	480	520	-271.5%
EBIT	150	385	243	267	294	25.1%
NOPAT	429	356	335	394	150	-29.5%

Margin & Growth Data	2024A	2025E	2026E	2027E	2028E	AVG%
EBITDA Margin	-2.8%	12.8%	11.0%	11.3%	11.5%	8.8%
EBIT Margin	4.1%	10.0%	6.0%	6.3%	6.5%	6.6%
Revenue Growth	5.0%	5.0%	5.0%	5.5%	6.0%	5.3%
EBIT Growth	-61.9%	156.4%	-37.0%	9.9%	10.2%	15.5%

Valuation Metrics	2024A	2025E	2026E	2027E	2028E	AVG%
P/FCF	-16.7x	3.6x	16.0x	14.4x	12.9x	6.0x
EV/Sales	1.1x	1.1x	1.0x	1.0x	0.9x	1.0x
EV/EBITDA	-40.9x	8.5x	9.5x	8.8x	8.1x	-1.2x
FCF Yield	-6.0%	27.4%	6.3%	7.0%	7.7%	6.0%

About $CAKE

The Cheesecake Factory ($CAKE), founded in 1978 by David Overton and headquartered in Calabasas Hills, California, operates as a leading experiential upscale dining sector. It is mainly known for its restaurants featuring an extensive menu made from scratch with over 200 items, and a famous bakery division known for its wide variety of signature cheesecakes. The company's business model is centered on delivering a high quality and high volume dining experience and creating a strong value perception through generous portions. A key differentiator is its diversified portfolio which including a growing collection of fast-casual brands like North Italia and Flower Child, which were acquired as a growth strategy. The Cheesecake Factory's mission is to create a dining experience where its consumer satisfaction is the highest priority.

Disclosures & Ratings

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Appendix

The Cheesecake Factory

Discounted Cash Flow

Active Case:	**2 Base**
Current Share Price	$45.40

DCF Analysis ($mm)	FY2020 12/31/20	FY2021 12/31/21	FY2022 12/31/22	FY2023 12/31/23	FY2024 12/31/24	FY2025 12/31/2025	FY2026 12/31/26	FY2027 12/31/27	FY2028 12/30/28	FY2029 12/30/29	FY2030 12/31/30
Stub						0.89	1.89	2.89	3.89	4.89	5.89
Discount Period						0.05	0.61	1.61	2.61	3.61	4.61
Revenue	0	0	0	3,440	3,669	3,853	4,046	4,268	4,524	4,818	5,156
Revenue Growth	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*5%*	*6%*	*6%*	*6%*	*7%*
Total Revenue	1,983	2,928	3,303	3,440	3,669	3,853	4,046	4,268	4,524	4,818	5,156
0.00	-	-	-	-	-	0	0	0	0	0	0
0.00	2,276	2,261	2,332	2,483	1,983	0	0	0	0	0	0
EBIT	429	356	335	394	150	385	243	267	294	325	361
EBIT Margin	*5%*	*5%*	*5%*	*5%*	*5%*	*10%*	*6%*	*6%*	*7%*	*7%*	*7%*
Tax Expense	0	0	0	0	0	96	61	67	74	81	90
Effective Tax Rate	*0%*	*0%*	*0%*	*0%*	*0%*	*25%*	*25%*	*25%*	*25%*	*25%*	*25%*
NOPAT	428.65	356.36	334.83	394.49	150.25	288.97	182.05	200.07	220.56	243.93	270.67
D&A	139	157	99	127	(253)	110	202	213	226	241	258
Capex	(22)	17	(16)	5	32	(187)	202	213	226	241	258
Changes in NWC	-	(0)	(0)	0	0	(35)	40	43	45	48	52
UFCF	#VALUE!	497	450	516	(135)	620	142	157	175	196	219
PV of FCF						618	136	140	146	152	158

Terminal Value	
Perpetuity Growth Method	
2030 FCF	$219
Growth	2.50%
Terminal Value	$4,520
PV of Terminal Value	$3,261
PV of Projection Period	$1,350
PV of Terminal Value	$3,261
Implied TEV	$4,610
(-) Debt	$2,100
(+) Cash	$149
Implied Equity Value	$2,659
Basic Shares Outstanding	50
Implied Share Price	$53.35
Upside/Downside	17.51%

Implied Exit BF EV/EBIT	12.8x

Terminal Value	
Exit Multiple Method	
2030 EBIT	$361
EV/EBIT Exit Multiple	15.2x
Terminal Value	$5,486
PV of Terminal Value	$3,957
PV of Projection Period	$1,350
PV of Terminal Value	$3,957
Implied TEV	$5,307
(-) Debt	$2,100
(+) Cash	$149
Implied Equity Value	$3,355
Diluted Shares Outstanding	50
Implied Share Price	$67.32
Upside/Downside	48.3%

Implied PGR	1.7%

Blended Share Price	
Perpetutity Growth Method	0%
Exit Multiple Method	100%
Blended Share Price	$67.32
Upside/Downside	23.04%

Weighted Average Cost of Capital ($mm)	
Market Risk Premium	4.33%
Beta	0.98
Risk Free Rate	4.39%
Cost of Equity	4.91%
Weighted Average Cost of Debt	7.55%
Tax Rate	25.00%
Cost of Debt	2.43%
Total Equity	$2,263
Total Debt	$1,951
Equity/Total Capitalization	57.00%
Debt/Total Capitalization	43.00%
WACC	7.35%