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EPS of \$0.93 **beats by \$0.11** | Revenue of \$927.20M (4.04% YY) **beats by \$1.49M**

The Cheesecake Factory Incorporated (NASDAQ:[CAKE](#)) Q1 2025 Earnings Conference Call April 30, 2025 5:00 PM ET

Company Participants

Etienne Marcus - Vice President Finance, Investor Relations

David Overton - Chairman and Chief Executive Officer

David Gordon - President

Matt Clark - Executive Vice President and Chief Financial Officer

Conference Call Participants

David Tarantino - Baird

Sharon Zackfia - William Blair

Andy Barish - Jefferies

Jon Tower - Citi

Brian Vaccaro - Raymond James

Brian Harbour - Morgan Stanley

Brian Bittner - Oppenheimer

Jim Salera - Stephens

Lauren Silberman - Deutsche Bank

Jim Sanderson - Northcoast Research

Jeffrey Bernstein - Barclays

Christine Cho - Goldman Sachs

Jeff Farmer - Gordon Haskett

Jon Ivankoe - JPMorgan

Operator

Ladies and gentlemen, thank you for standing by. My name is Abby, and I will be your conference operator today. At this time, I would like to welcome everyone to The Cheesecake Factory Incorporated First Quarter 2025 Earnings Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions]

Thank you. And I would now like to turn the conference over to Etienne Marcus, Vice President of Investor Relations and Finance. You may begin.

Etienne Marcus

Good afternoon, and welcome to our first quarter fiscal 2025 earnings call. On the call with me today are David Overton, our Chairman and Chief Executive Officer; David Gordon, our President; and Matt Clark, our Executive Vice President and Chief Financial Officer.

Before we begin, let me quickly remind you that during this call, items will be discussed are not based on historical facts and are considered forward looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could be materially different from those stated or implied in forward-looking statements as a result of the factors detailed in today's press release, which is available on our website at investors.thecheesecakefactory.com and in our filings with the Securities and Exchange Commission. All forward-looking statements made on this call speak only as of today's date, and the company undertakes no duty to update any forward-looking statements.

In addition, during this conference call, we will be presenting results on an adjusted basis, which excludes loss on extinguishment of debt associated with the partial redemption of our convertible senior notes, impairment of assets and lease terminations and acquisition-related expenses. An explanation of our use of non-GAAP financial measures and reconciliations to the most directly comparable GAAP measures appear in our press release on our website as previously described.

David Overton will begin today's call with some opening remarks and David Gordon will provide an operational update. Matt will then review our first quarter financial results and provide commentary on our financial outlook before opening the call up to questions.

With that, I'll turn the call over to David Overton.

David Overton

Thank you, Etienne. We delivered solid top and bottom-line results in the first quarter with revenues finishing towards the higher end of our guidance and profitability surpassing expectations. This resulted in a 27% year-over-year increase in adjusted earnings per share, marking our sixth consecutive quarter of 20% or higher growth.

Comparable sales at The Cheesecake Factory restaurants increased 1% for the first quarter with annualized unit volumes exceeding 12,500,000. These industry leading volumes underscore the strength and distinct positioning of The Cheesecake Factory as one of the most differentiated concepts in casual dining, a reflection of our unwavering commitment to deliver exceptional service, hospitality and delicious memorable experiences for our valued guests.

Our experienced operators capitalized on improving manager and staff retention to drive guest satisfaction to new heights, while effectively managing all facets of their restaurants. Their efforts led to year-over-year improvement in labor management and food efficiencies resulting in substantially greater restaurant level profitability.

In fact, The Cheesecake Factory four wall restaurant margins increased to 17.4%, up 140 basis points from the first quarter in 2024. On the development front, we're off to an excellent start with eight restaurant openings in the first quarter, including three North Italia, three Flower Childs and two FRC restaurants.

Subsequent to quarter end, we opened three restaurants including one Flower Child and two FRC restaurants and we expect to open as many as five more restaurants in the next two months for a total of eight new openings in the second quarter. This continued development cadence reflects meaningful progress towards our goal of accelerating new unit growth.

Looking ahead, we continue to expect to open as many as 25 new restaurants in 2025 and we anticipate two Cheesecake Factory restaurants to open internationally under licensing agreements. Underscoring the strength of our culture and values, we're proud to have been named once again to the Fortune Magazine 100 Best Companies to Work For list for the 12th consecutive year.

This recognition highlights our vibrant culture, exceptional training programs and commitment to our employees, all of which continue to support our ability to attract and retain talent as the employer of choice in the industry.

In summary, we delivered another strong quarter and as we look ahead, we remain steadfast in our commitment to our menu innovation, exceptional operational execution and maintaining the contemporary design and ambience of our restaurants. These are hallmarks of our more than 4.5 decades of excellence and we will continue to pave the way for future success.

With that, I will now turn the call over to David Gordon to provide an operational update.

David Gordon

Thank you, David. Our strong operational performance and notable results were driven by our talented team and our ongoing focus on staffing and retention. During the first quarter, we saw further improvement in our already industry-leading manager and staff retention, which we believe directly contributes to outstanding guest experiences, overall restaurant performance and ultimately sales growth and in fact, first quarter guest satisfaction scores improved both sequentially and year-over-year.

As David highlighted, we believe a significant driver of our margin expansion was improved operational execution, while maintaining the quality of our guest experiences and compelling value perception that are essential in today's increasingly competitive landscape.

Shifting to marketing, our latest new menu change, which featured more than 20 new items across a broad range of contemporary cuisines and categories garnered substantial media coverage with over 700 placements and more than 8 billion potential PR impressions, nearly double the coverage from Q1 of 2024. This success highlights our ability to effectively leverage social media, along with broadcast, print and digital channels to engage with our guests and further elevate brand awareness.

Turning to Cheesecake Rewards, we're pleased with the program's continued momentum. Member acquisition continues to exceed our expectations and guest feedback remains overwhelmingly positive with member satisfaction over indexing.

As we progress to the next phase of the program, our approach to offers has shifted from broad large-scale testing to a more personalized strategy, tailoring offers based on member behavior, activity and attributes. This shift has driven higher engagement as members respond to offers increasingly relevant to them.

Now turning to North Italia. First quarter annualized AUVs for North Italia increased 1% to \$7.75 million. Comparable sales declined 1% with the impact of the Los Angeles fires weighing more heavily on performance due to the concept's smaller comp base relative to The Cheesecake Factory. We opened three new North Italia locations during the quarter, including one in a new market, Salt Lake City.

All three restaurants opened with above average AUVs, reinforcing our belief in the strong consumer demand for an on-trend contemporary Italian dining experience like North Italia. Restaurant level profit margin for the adjusted mature North Italia locations improved meaningfully from the prior year to 16.6%. The margin expansion was primarily driven by operational improvements as well as more favorable commodity and labor inflation than anticipated.

Flower Child continues on a strong upward trajectory with comparable sales increasing by 5%, significantly outperforming the Black Box fast casual dining index, which declined 1%. This sales momentum drove average weekly sales of \$88,500 for an annualized AUV of over \$4.6 million, a 6% increase over the first quarter of 2024.

We also opened three new Flower Child locations during the quarter to solid demand with aggregate average weekly sales for the three restaurants reaching nearly \$80,500 for an annualized AUV of nearly \$4.2 million. Restaurant level profit margins for the adjusted mature Flower Child locations rose to 18.6% for the first quarter, reflecting continued operational improvements.

In summary, we are encouraged by the strong performance of our portfolio, fueled by consistent sales growth, operational enhancements and sequential margin expansion. We believe we are well positioned to achieve our long term unit growth objectives.

And with that, let me turn the call over to Matt for our financial review.

Matt Clark

Thank you, David. Let me first provide a high-level recap of our first quarter results versus our expectations I outlined last quarter. Total revenues of \$927 million finished towards the high end for the range we provided. Adjusted net income margin of 4.9% exceeded the high-end of the guidance range we provided.

Additionally, during the first quarter, we strengthened our liquidity position and balance sheet through the issuance of \$575 million of 2% convertible notes due 2030. The proceeds were allocated to repurchase \$276 million of our 2026 convertible notes, buy back 2.4 million shares of our common stock and fully pay down our revolving credit facility balance.

In total, we returned \$153.8 million to shareholders during the quarter through dividends and share repurchases including the \$130 million related to the common stock repurchase concurrently with the issuance.

Now turning to some more specific details around the quarter. First quarter total sales at The Cheesecake Factory restaurants were \$673 million, up 1% from the prior year. Comparable sales increased 1% versus the prior year supported by 22% off-premise sales mix.

Total sales for North Italia were \$83.4 million, up 18% from the prior year period. Other FRC sales totaled \$87.4 million, up 18% from the prior year. AM sales per operating week were \$139,700.

Flower Child sales totaled \$43.5 million, up 26% from the prior year and sales per operating week were \$88,500. And external bakery sales were \$12.7 million.

Now moving to year-over-year expense variance commentary. In the first quarter, we continued to realize some year-over-year improvement across several key line items in the P&L. Specifically, cost of sales decreased 100 basis points, primarily driven by favorable commodity costs. Labor as a percent of sales declined 30 basis points, primarily driven by the continued improvement in retention, supporting labor productivity gains and wage leverage.

Other operating expenses increased 40 basis points as expected, primarily driven by timing of marketing and rewards costs and slightly higher facility-related costs. G&A decreased 30 basis points, primarily driven by lower professional fees. Depreciation remained relatively flat as a percent of sales. Pre-opening costs were \$8.1 million in the quarter, compared to \$5.9 million in the prior year period.

We opened eight restaurants during the first quarter versus five restaurants in the first quarter of 2024. And in the first quarter, we recorded a pre-tax net expense of \$17.3 million related to loss on extinguishment of debt associated with the partial redemption of our convertible senior notes due 2026, FRC acquisition-related items and impairment of assets and lease termination expenses.

First quarter GAAP diluted net income per share was \$0.67. Adjusted diluted net income per share was \$0.93.

Now turning to our balance sheet and capital allocation. The company ended the quarter with total available liquidity of approximately \$501.9 million including a cash balance of \$135.4 million and approximately \$366.5 million available on our revolving credit facility. Total principal amount of debt outstanding was \$644 million including \$69 million in principal amount of convertible notes due 2026 and \$575 million in principal amount of convertible notes due 2030.

CapEx totaled approximately \$43 million during the first quarter for new unit development and maintenance. During the quarter, we completed approximately \$141.4 million in share repurchases and returned \$12.5 million to shareholders via our dividend.

Now let me turn to our outlook. While we will not be providing specific comparable sales and earnings guidance, we will provide our updated thoughts on our underlying assumptions for Q2 and full year 2025. Our assumptions factor in everything we know as of today including net restaurant counts, quarter-to-date trends, our expectations for the weeks ahead and anticipated impacts associated with holiday shifts.

To that end, we are updating our total revenue outlook to align more closely with the lower end of previous expectations. We believe this to be prudent in light of recent economic growth and real disposable income forecasts, which have been revised downward by approximately 1%.

Lastly and importantly, we continue to evaluate the potential impact of the tariffs along with the business levers we control to mitigate the effects. At this time, based on the tariffs as currently outlined, we believe we are well positioned to substantially absorb the impact without changing our adjusted net income margin expectations.

Specifically, for Q2, we anticipate total revenues to be between \$935 million and \$950 million. Next, at this time, we expect effective commodity inflation of low-single-digits for Q2. We are modeling net total labor inflation of low to mid-single-digits when factoring in the latest trends in wage rates and minimum wage increases, as well as other components of labor.

G&A is estimated to be about \$60 million. Depreciation is estimated to be approximately \$27 million. We are estimating pre-opening expenses to be approximately \$9.5 million to support the eight planned openings in the quarter and early Q3 openings. Based on these assumptions, we would anticipate adjusted net income margin to be about 5.3% to 5.4% based on the sales range provided.

For modeling purposes, we are assuming a tax rate of 9% to 10% and weighted average shares outstanding of just above 48 million shares.

Now for the full year, based on similar assumptions and no material operating or consumer disruptions, we anticipate total revenues for fiscal 2025 to be approximately \$3.76 billion at the midpoint of our estimates. For sensitivity purposes, we are using a range of plus or minus 1%. We currently estimate total inflation across our commodity basket, labor and other operating expenses to be in the low to mid-single-digit range inclusive of the currently proposed tariff levels.

We are estimating G&A to be about flat year-over-year as a percent of sales and depreciation to be about \$108 million for the year and given our unit growth expectations, we're estimating pre-opening expenses to be approximately \$34 million. Based on these assumptions, we continue to expect full year adjusted net income margin to be approximately 4.75% at the sales estimate provided.

For modeling purposes, we are assuming a 10% tax rate and weighted average shares outstanding relatively flat to 2024. With regard to development, as David stated earlier, we expect to open as many as 25 new restaurants in 2025 with as many as eight openings in the second quarter and the remainder in the back half of the year.

This includes as many as three to four Cheesecake Factories, six to seven North Italias, six to seven Flower Childs and eight to nine FRC restaurants. And we would anticipate approximately \$190 million to \$210 million in cash CapEx to support unit development, as well as required maintenance on our restaurants.

In closing, we are pleased with our first quarter performance, which reflected steady sales trends, solid operational execution and continued profitability improvements. Our operators executed well across key performance drivers and our new restaurant openings were met with strong demand delivering solid early sales results.

The consistency of our execution and the strength of our concepts continue to reinforce our confidence as we progress through the year. We remain focused on making progress against our long term priorities, growing comparable restaurant sales, expanding margins and accelerating new unit development.

While the broader macroeconomic environment has become more uncertain, our experience and success operating through a variety of economic cycles underscores the durability of our business. With a strategy that has delivered consistent results and enhanced financial flexibility, we believe we are well positioned to manage near term uncertainty and continue delivering sustainable long term value.

With that said, we'll take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] And your first question comes from the line of David Tarantino with Baird. Your line is open.

David Tarantino

Hi, good afternoon. Matt, I think you mentioned in your guidance that you're assuming or at least factoring in the uncertain macro environment. And I guess my question is, is that something you're already seeing in your business? Have you already seen that kind of creep in at the end of Q1 and early Q2 like we've heard from some others? Or is this just a projection that it might creep in as the year goes on?

Matt Clark

Yes, David, this is Matt. I mean, I think it's an understatement to say that there's been a lot of noise in the first four months of this year. We're talking about unprecedented weather, the fires in Los Angeles, the holiday shifts, the potential that there's a lot of pull forward of spending into March from consumers. So, I would say it's a little bit of both. I mean, certainly we hit the number in the first quarter.

The business remains very stable, very predictable. But the environment doesn't feel as robust as maybe three months ago and so it seems like a pretty prudent perspective to assume that continues throughout the balance of this year. And we feel good about where we're at. We're managing it exceptionally well. Our flow through is excellent. And so we've built a lot of credibility over the past year-and-a-half with our results and that's our intention to continue to build on that.

David Tarantino

Makes sense. And then just a clarification. I think your prior revenue range I believe assumed comps up 1% to 2% like you've been running for most of 2024. And it looks like your total revenue came down by about a point. So is the right way to think about it that the new guidance assumes comps may be flat to up one instead of up one to two

Matt Clark

I mean, think the math is pretty straightforward as you indicated and that aligns with our overall perspective of where GDP and disposable income is likely to fall out and so it's similarly in the comp.

David Tarantino

Got it. Thank you very much.

Operator

And the next question comes from the line of Sharon Zackfia with William Blair. Your line is open.

Sharon Zackfia

Hi, good afternoon. I appreciate the comments on tariffs. I guess if you could help quantify kind of where you would expect to see tariffs hit your P&L and kind of the magnitude? And when you're talking about absorbing, is that through incremental efficiencies? Is that through price? If you could kind of walk us through your thoughts.

Matt Clark

Sure, Sharon, this is Matt. Thanks for that question. I think it's an important topic to cover. And certainly as we're talking about it, it's really reflective of where things are at today and it's as everybody knows it's an uncertain future with respect to that. But probably the biggest impact we would see particularly as a percentage of the actual spend would be in other operating expenses.

Obviously, we're importing a preponderance of our small wares and to go packaging and things like that whereas really if you think about on the true commodities for the cost of goods for the food side of that most of that is coming from the United States. And so it's probably going to taper in because a lot of the items were either brought in advance or on ship for the second quarter.

And then, it will probably build a little bit into the third and then we'll be at a sort of a steady state at that point in time. As we said, we're not going to change our margin outlook regardless of that or the sales piece. We've been running favorably in labor and cost of sales. Some of those pieces are offsetting it naturally. So I think that that's a benefit. I do think we'll look for actionable reduction in costs in other areas.

If we have to implement a little bit of pricing in the future, it's somewhere in the 50 to 75 basis points. We'll evaluate that, as well. We'll also just continue to work with our vendors. We have very strong long term relationships. We'll evaluate whether there can be some offsets on their end to support that and/or if there needs to be different supply options for us in the more medium to longer term.

So it's just it's all on the table. We have a pretty good book here from the COVID years of how to navigate challenging supply chains and we're pretty confident that everything will be pretty seamless in near term.

Sharon Zackfia

And I wanted to touch too upon like loyalty and marketing, because those are certainly loyalty is nascent and marketing I feel like has never been a huge part of The Cheesecake Factory story historically, but you kind of got my attention with the media impressions comment that you made for the first quarter and then loyalty maybe gives you a new lever if you can get more segmented on kind of driving consistency in a more volatile environment.

Can you kind of talk through how important you think these could be for you in '25? Or is it more still learning and iterative and more of like a '26 and beyond driver?

David Gordon

Sure, Sharon. Hi. This is David Gordon. That's a great question. And we certainly got some great PR around the new menu that has been rolling out for the past couple of months. A lot of publicity around the types of cuisines and the fact that we added roughly 20 new menu items. And thus far, guest reception to that new menu has been really terrific.

So, anytime we can get that type of PR around menu innovation, which is a key component and competitive advantage for us. We're going to look to continue to garner that as we work on the next menu change that will be coming up in summer.

In regards to rewards, we continue to be very pleased with member acquisitions. It continues to exceed our own internal expectations. Member set, guest satisfaction scores, average check and frequency continue to be very, very promising. We spent a good amount of time in Q1 working with our marketing and IT teams to collaborate to be able to enable very specific daypart offers.

And that's something that as we move into the second quarter, we think we're going to be able to do and throughout the remainder of this year, be much more targeted with rewards members. We certainly see that when we're able to personalize those behavior or personalize those offers, that the behavior of those guests have higher redemption rates than just broad based rewards when we when we have launched them throughout last year. So, I think it is a promising lever for us moving forward.

I think we're set up really well internally to continue to pull that lever and drive some incrementality if we need to, to specific day parts and to specific parts of the check. So it's a lever we haven't historically had. We've worked hard for the past few years to get to the point we're at today and we're excited to be able to launch a lot of it throughout the remainder of the year.

Sharon Zackfia

Okay. Thank you.

Operator

And your next question comes from the line of Andy Barish with Jefferies. Your line is open.

Andy Barish

Hey guys. Wondering if you could just give us the quick same-store sales components at The Cheesecake and your gap versus Black Box. And then, you mentioned some of the calendar stuff. I assume the later Easter was a little bit of a headwind in the 1Q, but then helps in the 2Q. Am I remembering that correctly?

Matt Clark

Yes, Andy, this is Matt. That is correct. So specifically for cake, we were at about 4% effective pricing. Traffic was a negative 1.2% and so mix was the difference on that. It was about where we expected to given the weather and we've given that number in the prior call and that's the primary impact on traffic. The mix piece, keeping in mind the large menu change that David Gordon mentioned, we put a lot of newer items with lower price points on.

We actually took some higher price point items off. And so there was a little bit of a rollover here that is continuing that. But we think that's important to stress the value and to drive the long term for the guests. And so we'll continue to lean into that. We don't necessarily see that as an impediment of bringing in new lower priced items.

And generally speaking, I think the trends have been very, very consistent absent some of those pieces. I don't have the black box right in front of me. I know we're looking at it both on a one and a two year because of the whole calendar shift and I think on a two year basis, we're still pretty favorable.

Andy Barish

Got it. And then, just on North, I assume beverage alcohol is still a little bit of a headwind as consumers adjust and maybe it's a little bit of a secular thing. So, is that kind of what you're seeing along with a small comp base in that brand?

Matt Clark

Yeah. I mean, there are a couple of things, right? The fires were more impactful as David Gordon mentioned. If you look at the fire and the weather combined, it would have been basically the same comp as it was in the fourth quarter. And so, yeah, there's a little bit of that alcohol piece, a little bit of the idiosyncratic, but it was also much more stable than maybe that number looks like, right, I mean and predictable.

And I think you can also see that in the margin improvement. Obviously, when you've got sales trends that the operators are able to see and to manage to, that's one of the ways that you get a significant boost in the four wall margins that we saw in the first quarter for North, which is a really promising sign.

Andy Barish

Got it. Thank you very much.

Operator

And your next question comes from the line of Jon Tower with Citigroup. Your line is open.

Jon Tower

Hey, thanks for taking the question. Maybe just on the labor productivity side, you guys have obviously done a great job of leveraging that line over time and sales have held in there nicely. I'm just curious, it's down I think on a per store week basis another roughly 2% this quarter year-over-year.

And I'm just thinking about it going forward, are you anticipating this kind of level of continued improvement going forward? It sounds like you're not anticipating much by way of inflation ticking higher or are there anything in the horizon with respect to initiatives that we should be aware of that would alter kind of the path on a per week spending basis? Just trying to make sure we're not missing anything going forward.

Matt Clark

Yeah, John, this is Matt. I mean, I just give the operators all the credit really with the retention and the focus on back to basics over the past 18 months as well. We've seen productivity improvements, reduction in training expenses, reduction in overtime. I think it was our seventh sequential improvement in retention and so, I don't know that we get better. I mean, it's are by far leading the industry.

But certainly we'll continue to lap over if we just hold the line, right? And so, I think that you'll continue to see some benefit in that metric, but it may be tapering a little bit over the course of the balance of the year.

Jon Tower

Okay. Great. And then I know we discussed a little bit earlier the rewards program and marketing. I'm just curious maybe if you could provide a little bit more by way of metrics, natural numbers in terms of how many members you've got signed up? And perhaps I know you also had spoke to it being a bit of a drag on the P&L this quarter. I think that line, the other OpEx line was up about 40 basis points year-over-year. Can you quantify how much of a drag that actually was on a basis point basis?

Matt Clark

Yeah, John, this is Matt. I'll start with that. It was probably about 15 for sort of the marketing/rewards piece of it, so it's not significant. And then as we had talked about before the facilities related and there might be some of the utilities and the non-cash rent that hits that. So it was pretty much right where we thought it would be.

And then from a technical perspective, the number of members that we have is a lot. That's the number we're going to give you for this call.

David Gordon

Which is a little more than we gave you on the last call.

Jon Tower

All right. I appreciate it. Thanks for taking the questions.

Operator

And your next question comes from the line of Brian Vaccaro with Raymond James. Your line is open.

Brian Vaccaro

Hi. Thanks and good evening. Just a question back on the commodity inflation piece. What was the inflation in the first quarter? Are there any savings or other initiatives that are worth quantifying playing out? And then, how do you expect q two second half inflation on the commodity side to play out?

Matt Clark

Yeah, Brian, this is Matt. It was pretty close to breakeven on the commodities in the first quarter overall. And I think also related to the retention, the teams are doing a great job with food efficiencies. And so, it remains again with our broad market basket very, very stable relative to all the puts and takes, right? All of the kind of ups and downs of eggs and everything all of that. Looks pretty decent in the second quarter as well maybe a tick up from that still low-single-digits.

And certainly there's an anticipation of a little bit of pressure with the tariffs going into the back half of the year specifically. But even with all of that, it's still low single digits in our model at this point in time.

Brian Vaccaro

Okay. That's helpful. And then I wanted to ask I think there's a Cheesecake Factory closure, happening in this week, maybe in Seattle. I think I saw some headlines. Can you confirm that? But then also, are there any other closures we should be mindful of that relates to your annual guidance?

Matt Clark

That is correct. We had mentioned on the last call that we had a mid Q2 Cheesecake closure and the location is Seattle and there are no other planned or forecasted at this point in time to make people aware of.

Brian Vaccaro

Okay. And then, last one for me, just on the Flower Child side. Obviously, you mentioned the continued strong comps at 5%. In in a slowing environment, softer environment, maybe just talk about, what you think is differentiating that brand's performance. Maybe just some color or context on the comps you're seeing there would be great. Thank you.

David Gordon

Sure, Brian. This is David Gordon. We continue to be very pleased with the performance of Flower Child. So we opened in a new market in the quarter in Indianapolis and saw guests standing in line for that opening. So new markets and existing markets, I think that the concept continues to resonate because of the food quality, because of the offerings.

And I think the stability of the operations team there, the restaurants are running very, very well. They've had the same stable team in place now for a while and they've been able to open new restaurants well and maintain things like productivity, ramp up the restaurants quickly, really a focus on retention, the same type of focus on people that we have at Cheesecake Factory has spread to Flower Child North and all the FRC concepts.

And I think that's giving them a bit of a competitive advantage. It's a tough staffing market in the fast casual segment. But Flower Child being a little bit more like a full-service restaurant, I think it offers a good employment opportunity for people. And so that stability has helped operations. But most importantly, I think that delicious food, the experiential element of Flower Child, the design of the restaurants is very attractive to today's consumer along with the price points.

And it's just really continuing to resonate, and we're really happy about that and looking forward to the continued growth this year.

Brian Vaccaro

All right. Thanks very much.

Operator

And your next question comes from the line of Brian Harbour with Morgan Stanley. Your line is open.

Brian Harbour

Yeah, hey, guys. Good afternoon. Is 4% still your pricing expectation for this year? Or I guess did anything change with the new menu you just released?

Matt Clark

Ryan, this is Matt. No, that's our expectation and as you know, we'll change our menu twice a year. We will evaluate pricing at each of those turns based on all of the factors that we know at that point in time. But I would say for modeling purposes, that that's a good estimate to use for the balance of the year.

Etienne Marcus

Okay. Cool. And out of curiosity, I don't know if you've talked about this before, but do the other concepts besides Cheesecake have sort of like a different margin structure in terms of what cost of sales versus labor versus OpEx looks like? And I guess, like, as those grow, would we see a different food cost ratio or a different labor cost ratio? I don't know if that's played into any of what's going on recently, but, curious about that longer term too.

Matt Clark

Yes, Brian, that's a really interesting question. I appreciate that because it does add a little bit of context to particularly how the P&L might look today versus say twenty nineteen and people are kind of modeling it over time. Certainly, when we look at the other concepts coming from FRC, whether it's a North or a Flower or any of the others, they'll have a little bit more in the other OpEx line. I think that that's where you've seen a little bit of that creep and we talk about that being permanent.

Some of that has to do with the rent and the way that the lease accounting works and some other components. But by and large, it's close enough. It's really not that different, just a little bit different there and maybe a little bit different on the cost of sales and sort of netting out on labor. Each of those maybe only though 10, 20 basis points off.

And so overall, using Cheesecake as a baseline you're going to get pretty close.

Etienne Marcus

Okay. Thanks.

Operator

And your next question comes from the line of Brian Bittner with Oppenheimer. Your line is open.

Brian Bittner

Thanks. I think that's three Brian's in a row. I think this has happened before, actually. I Want Matt - I wanted to ask, you gave specific revenue guidance for 2Q just to level set. Is that this is just quick math on my end, so I could be wrong. Is that just like kind of flat to down one comps for Cheesecake and North Italia to get there for 2Q?

Matt Clark

No, it's pretty similar to the whole guide that David Tarantino. It's closer to zero to one. The other factors in there obviously would be Seattle and we ended up closing that a little bit earlier than we saw some of the trends on the third-party bakery sales. For us the fourth of July weekend is a negative. So all of that's being factored in and it's closer to that range.

Brian Bittner

Okay. That's helpful. And just on your financial guidance initially, I think the implied restaurant margins were around 15 to 25 basis points of expansion. Obviously, the first quarter, you put up 80 basis points of expansion overall in that line item. So you're well ahead. And I realize COGS were a helper with that flat food cost.

But you didn't change the net income margin guidance. So are you still expecting kind of 15 BPS to 25 BPS of restaurant margin expansion? Are you just building in some conservatism there now with the tariff talk and all the rest of it?

Matt Clark

Yeah. Yeah. Brian, we are still expecting that for the four wall and you're right, really the part of the difference from where we ended up in Q1 versus the outlook is that we have assumed the tariffs as they are right now in expectations, right? And so we are absorbing quite a bit of that expense and that all sits in the four wall perspective.

And so certainly, we feel good about being able to do that and leverage the underlying fundamental momentum that we have and not have to either pass it on to consumers or pass it on to our shareholders. It's kind of a win-win given our situation.

Brian Bittner

Okay. Thank you.

Operator

And your next question comes from the line of Jim Salera with Stephens. Your line is open.

Jim Salera

Yes, good afternoon. Thanks for taking our question. I apologize if I missed this earlier. You guys gave the same-store sales composition per cake. Can you give it for North as well, just the break between ticket and traffic?

Etienne Marcus

Yes, Jim. This is Etienne. Sure. The North Italia mix was negative 2%. So actually a slight improvement from where it was last year. Price is between 4.55%. Traffic was negative 4%. Just note, as Matt mentioned earlier, that was affected by the LA fires and the weather impact was a little greater just given our concentration in Texas.

Jim Salera

Okay, great. And then if I think about the outlook for the rest of the year in the consumer, can you maybe talk through how same-store sales progressed through the quarter? And any color you could give on exit rate in April?

Because I'm just trying to parse, is it that you're seeing some of the trends actually materialize or pretty consistent trends through 1Q and you guys are just kind of being prudent given a lot of the uncertainty. But if things kind of stay as they are in terms of a run rate basis, it would actually imply maybe a little bit better than that flat 200 basis points.

Matt Clark

Yes, Jim, this is Matt. I mean, I think it's there's a couple of factors. One is, as I noted, just a lot of noise. So, being able to triangulate between the weather, the fires, the holiday shifts, the retail pull forward in March, That's a lot to parse out over the first four months probably more dynamic than it has been in five years on the sales front really. And I think obviously, we finished near the high end, but it wasn't at the high end of our guide. The sales are very predictable and stable.

But I would say that the environment overall feels not quite as robust as we expected. And then all of the news and all of the economists are saying expect a 1% or so impact in the back half of the year. So I think combining those two components it just seems prudent.

Jim Salera

Okay. Great. I appreciate that. I'll hop back in queue.

Operator

And your next question comes from the line of Lauren Silberman with Deutsche Bank. Your line is open.

Lauren Silberman

Thank you very much. Just a bit of a follow-up, if we could dissect comps a little bit more. Any differences that you're seeing in performance across regions or days? Any discernible changes in consumer behavior?

Matt Clark

Lauren, this is Matt. I was just looking at all of that this morning in anticipation of your question. The dayparts remain incredibly consistent. The days of week remain consistent. I think any of the regional discrepancies that we've seen can be substantially attributed to weather or holiday shifts and the spring breaks that each of the areas observed can be significantly different and particularly for Cheesecake Factory that can be a major influence.

And so the good news is while the environment isn't as robust as I think any of us would like, the predictability and the consistency of our sales patterns remains.

Lauren Silberman

Great. On that mix dynamic, I know that we've talked about alcohol like over the past several quarters. You spoke to the menu change component this quarter. I guess how do you expect mix to trend as we move through the rest of the year?

Matt Clark

Yeah, I would say that given the menu change that we did and I think our probably anticipation of continuing to lean into value with the future menu changes in this environment, which has been our historical norm and consumer preferences moving from particularly alcoholic to non-alcoholic where we've seen a significant bump up in attachment, but obviously at a lower price.

I would continue to expect the mix to be negative for us and I don't know exact number, but that 1.5% to 2% range for modeling purposes is probably pretty good.

Lauren Silberman

Great. And then just last one on the off-premise channel. Are you seeing any differences in terms of demand in deliveries or other channels in off-premise? Thank you.

David Gordon

Yeah. Hi, Lauren. This is David again. Incredible consistency in off-premise Cheesecake Factory was at 22% total off-prem, which was exact same as, Q1 of 2024 and up 1% sequentially from last quarter. So the consistency is really remarkable with Cheesecake, and the mix of that is about 10% delivery, 7% phone and walk up and 7% digital ordering.

And then North sits about 14% total off-prem, also right in line with where they were in Q1 of 2024 and the consistency there is very similar to Cheesecake, 10% of that mix is delivery and phone and walk up, make up the rest of it. So it's a part of our business that has remained very, very stable. I think guests continue to use Cheesecake Factory for off premise, number one for food quality and variety, but also for value and the operator is doing a great job of consistent performance in the off-premise channel.

Lauren Silberman

Great. Thank you so much.

Operator

And your next question comes from the line of Jim Sanderson with Northcoast Research. Your line is open.

Jim Sanderson

Hey, thanks for the question. I wanted to go back to development, asking if you were noticing any impact on build costs or materials costs related to tariffs on Chinese goods or if there's any impact you're noticing on your ability to procure and to sustain your development targets for the next one to two years?

Matt Clark

Hi Jim, this is Matt. It's a good question. It's an important part of our growth and certainly we continue to target that 25 openings this year. We'll target for the first half 16. So I think that that's a really good cadence for us and so we're ahead of schedule.

For this year, the preponderance of those orders, right, have already been made and shipped. And so we're not really anticipating any significant tariff impacts to construction costs, which have by the way come back really nicely in line with our long-term expectations following the COVID inflation. So we're feeling really good about where all our CapEx is coming in for this year.

And with respect to the longer term, we'll see where the tariffs play out and we'll adapt as we always have. But I don't have any twelve or eighteen month prognosis on that really, but it'd be dependent on the policy at the government level.

Jim Sanderson

No, understood. Is your supply chain built such that you won't really see an impact until sometime in 2026, because you've already procured enough.

Matt Clark

That's exactly right. Yes, exactly right. So we'll watch right now and see how things play out and we're constantly on a rolling ordering schedule for large pieces of equipment and for all of those pieces. And speaking to our development team, we haven't seen any impact on the construction front or the construction labor front or any of those components that would keep us from hitting our goals.

Jim Sanderson

Okay, and a quick follow-up. Any change in sentiment you're picking up from real estate developers as you discuss longer term projects and building out on a multi-year basis?

David Overton

Hi, Jim, this is David. No. Actually, things continue to look promising. I think our portfolio of brands continue to attract landlords that want experiential dining in their projects, whether that's Cheesecake Factory or North Italia or fast casual like Flower Child. So, we're sitting in a really good place. We continue to feel, as Matt said, really good about the growth moving forward and our ability to hit the targets that we've talked about.

Jim Sanderson

All right. I'll pass it on. Thank you very much.

Operator

And your next question comes from the line of Jeffrey Bernstein with Barclays. Your line is open.

Jeffrey Bernstein

Great. Thank you very much. The first question was just a follow-up on the comps. With all the data you have on your consumer, just wondering whether there's any noticeable change by income level or by ethnicity or mix changes towards value? I know you mentioned you have a new menu, which is more value-friendly, but I'm wondering whether there's any conscious shift you're noticing.

I know your core customer tends to be more affluent than the average, but it does seem like no one is immune. So just trying to get your sense for, based on the data you have, what trends you've seen? And then I had one follow-up.

David Overton

Sure, Jeff. This is David again. Our consumer remains incredibly consistent. We really have not seen a change in ordering patterns. If you look at dessert sales for Cheesecake Factory, they're still sitting at 17% of total sales. We've talked a lot about the dip in alcohol sales. But if you really go back and look at the past four quarters now, it's not like that's taken another step down.

It's very consistent to where it was in Q1 of last year. So, we're not seeing a real change in any consumer behavior. Other than the mix shift that Matt talked about earlier, we don't see incident rate changes in any dramatic way. So I think our consumer thus far has been really, really resilient. We'll see what happens throughout the remainder of the year.

Jeffrey Bernstein

Gotcha. That's good to hear. And then my follow-up is just more curiosity's sake. Obviously, have a lot of international units, and I would think Cheesecake Factory is well recognized as a US brand. So I'm wondering whether there's any sign of pressure or change in behavior. There's a lot of talk about geopolitics and anti-American sentiment.

So just curious, as you have stores in so many different markets and you are kind of a US brand, any thoughts there would be great.

Etienne Marcus

Sure Jeff. Certainly, there's a lot of turmoil out there in the world. I think we're really pleased with the performance in all of our international locations. They all comped positive in the first quarter in all those different geographies. So the brand continues to resonate everywhere around the world. And we'll see, obviously, when it unfolds throughout the rest of this year. But there was certainly nothing in Q1 that would give us pause that people are pulling back from enjoying all the benefits of eating at a Cheesecake Factory around the world.

Jeffrey Bernstein

Positive comps at all your international units. That's incredible. Thank you.

Operator

And your next question comes from the line of Christine Cho with Goldman Sachs. Your line is open.

Christine Cho

Thank you for taking my question. So, I wanted to tap into your four decades of Cheesecake Factory experience. Historically, casual dining demand has had more macro sensitivity versus kind of the QSRs. But some recent surveys seem to suggest that it is actually holding up relatively better this time around. Firstly, would you agree with this observation? And if so, are there any structural or behavioral changes that you're seeing that might explain why this time it could play out differently? Thank you.

Matt Clark

Hi, Christine, this is Matt. I do think that that's true. I think our data would support that. I think some of the components of that that are possibly different now than 10 or 20 years ago. Number one, overall consumer behavior has shifted more towards eating away from home than eating at home and that has been driven much more by full-service, right?

So consumers have become more accustomed to getting a meal replacement or an experience in going out to a full-service restaurant. If you look at percentage of wallet share over time it has grown. So I won't say there's a dependency, but I think there's an expectation in the American consumer today to go out to eat to full-service, where I think QSR has been more ubiquitous for longer.

And it's also a little bit more sensitive to the lower income cohort whereas our cohort the income it depends on the slowdown, but incomes aren't slowing down, right? So our income of 100 plus K those jobs are going away. There's not mass layoffs. So if you look at the reasons for slowing down, I think that would also be a structural reason to say that there's a lot of potential here for resiliency.

And I think really people are different today too having grown up watching the food network and all of those other attributes is just part of their everyday routine. So I do think that structurally things are different today than they were and it helps support stability in our business.

Christine Cho

Thank you so much.

Operator

And your next question comes from the line of Jeff Farmer with Gordon Haskett. Your line is open.

Jeff Farmer

Thank you. Just have one question. So improved retention has come up several times this afternoon. So Matt, I was just hoping you could level set us meaning how much retention has improved year-over-year, however, whatever metric you might use to sort of demonstrate that. And then moving forward, is there still a pretty sizable incremental retention opportunity? Thanks.

David Overton

Hi, Jeff. This is David. The retention in the restaurants at the management level and the staff level continues to be incredibly consistent over the past six quarters now. Our management attrition in Q1 was in the mid-teens, which is as low as it's been historically. Our staff level attrition ranged between 60% and 70%, best-in-class in the industry and as we our outlook for the rest of this year is to maintain those levels.

That's sort of what we've set for the operators. Certainly, we'll see what happens with the macro labor force, but I think we're set up to continue to be able to retain that same amount of attrition moving forward. Our operators are very focused on ensuring that the culture in the restaurant continues to be as strong as it's been historically.

Being on the Fortune 100 best places to work for list now for 12 years in a row is meaningful to the people that work for us today. And so it's giving us a competitive advantage and our goal is to continue to maintain where we are thus far throughout the main remainder of the year.

Jeff Farmer

All right. Thank you. Appreciate it.

Operator

And your next question comes from the line of Jon Ivankoe with JPMorgan. Your line is open.

Jon Ivankoe

Hi. Thank you. The question is on the COGS and really as a percentage of sales and where you think that should land longer term? I know, years ago if we would have talked about sub 22% COGS, we all probably would have looked at each other funny. So it's obviously a very low number relative to the history of the industry. I understand all the reasons for it.

But when you kind of think about that number and look at things like burger combos that are pressing 20 and pastas that can be in the mid-20s, are we kind of nearing certain breakpoints on the menu that you really don't want to get above? I mean, I understand a lot of value with Cheesecake outside of just set price very clearly in terms of the total experience.

But are you sensitive in terms of where some of the absolute price points are and any unwillingness to go above those?

Matt Clark

Hey, Jon, it's Matt. It's a great question, totally fair and absolutely. I mean, David and David and the culinary team, they pour over that menu and they agonize over all of the pricing, right? Because you really have set that dual mandate and here over in finance I'm pushing for the margins and they're pushing for the guests and we have to find that middle ground. I mean, really do look at it as sort of the core cost.

And I know you've talked about it that way as well and if you think about there has been a transition over time to heavier labor because of the wages and probably a lower COGS in the industry in general. Certainly for us, I think we have a competitive advantage when it comes to that because of the fact that we bring in everything fresh into our restaurants.

And so, we're bypassing a component of labor and delivery costs that some of our competitors have when they use the commissary. So that's an initial savings, but longer term it also emboldens or it burdens you with these incremental components that necessarily aren't as flexible when you see the benefit of commodity inflation at flat, right?

And so I think we're getting some benefit but we'll continue to make sure that we have price points across the menu. So over time, who would have thought that we would ever have burgers over \$15. Well, the industry crossed that line five years ago and we're not going to look back. But we want to make sure that we continue to have it on both sides of the ledger. And so we'll always focus on bringing new items in at very attractive price points to offset the need to take that pricing. It's that art and science over time.

Jon Ivankoe

And let me ask this, I think it's related. I've had almost all the new menu. I think I have had all the new menu. And obviously a real focus on vegetables, maybe more so than what I've seen before and it's actually become pretty noticeable on the menu. Is your relationship with Flower Child informing any of that? I mean, is it just overall consumer trends?

Obviously, it's maybe the ticket isn't as high as certain vegetable type of or vegetarian type of items, but the margin can be quite good. Just tell me if I'm right in kind of seeing that shift and maybe what drove some of that and whether there's even greater future direction in the menu in that way.

Etienne Marcus

Sure, Jon. I think, we've always been known for the no veto vote. Right? So as vegetarian dining options have become more popular and more prominent, we want to be able to put those on the menu. So I don't know if that's necessarily informed by anything we see at Flower Child.

I think it's following consumer trends and what we know people want and certainly ensuring that we're attracting every single guest, not only every price point, but every type of cuisine, which is something we have always done, every demographic, every age demographic. And I think this menu, we were really strategically trying to go after that and do it.

It's something we'll continue to do, whether that's putting on different types of epic cuisines. This menu has a few more Mediterranean items on it, and that's become more popular in the past few years. It's a strength of Cheesecake Factory and we'll continue to lean into menu innovation and be able to put on what we believe people want to eat today.

Jon Ivankoe

Thank you.

Operator

And ladies and gentlemen, that concludes our question-and-answer session and today's conference call. We thank you for your participation and you may now disconnect.

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