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Q2: 2024-07-31 Earnings Summary

[Play Call](#)[Press Release](#)EPS of \$1.09 **beats by \$0.08** | Revenue of \$904.04M (4.37% Y/Y) **misses by \$5.13M**

The Cheesecake Factory Incorporated (NASDAQ:[CAKE](#)) Q2 2024 Earnings Conference Call July 31, 2024 5:00 PM ET

Company Participants

Etienne Marcus - Vice President of Finance and Investor Relations

David Overton - Chairman of the Board and Chief Executive Officer

David Gordon - President

Matt Clark - Executive Vice President and Chief Financial Officer

Conference Call Participants

David Tarantino - Baird
Andy Barish - Jeffries
Jon Tower - Citigroup
Brian Mullan - Piper Sandler
Katherine Griffin - BofA Securities
Brian Vaccaro - Raymond James
Brian Harbour - Morgan Stanley
Dennis Geiger - UBS
Jim Salera - Stephens
Matt Curtis - William Blair
Jim Sanderson - Northcoast Research
Jeffrey Bernstein - Barclays
Jeff Farmer - Gordon Haskett
John Ivankoe - JP Morgan

Operator

Good afternoon. My name is Brianna and I will be your conference operator today. At this time, I would like to welcome everyone to The Cheesecake Factory Incorporated Second Quarter 2024 Earnings Conference Call. Please note that this call is being recorded. [Operator Instructions]

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

Etienne Marcus

Good afternoon and welcome to our second quarter fiscal 2024 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 that are not based on historical fact 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 exclude 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 second quarter financial results and finish up with some commentary on our outlook for the third quarter and full year 2024 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 another solid quarter with revenues finishing towards the higher end of our expected range and profitability surpassing expectations resulting in 24% year-over-year growth in adjusted earnings per share. The third consecutive quarter of 20% or greater growth. Comparable sales at the Cheesecake Factory Restaurants were 1.4% for the second quarter once again meaningfully outperforming the casual dining industry, resulting in record-high Cheesecake Factory Restaurants average weekly sales, as well as total company consolidated revenues. Annualized unit volumes at the Cheesecake Factory reached \$12.5 million for the quarter, and our newest restaurant in Orem, Utah, opened to tremendous demand, underscoring the strong affinity for the Cheesecake Factory brand and the unique dining experiences we provide for our guests.

Operational performance within the 4-wall was once again excellent in the second quarter, with our operators intensely focused on fostering an environment where delivering delicious, memorable experiences for our guests is the top priority while effectively managing their restaurants. To this point, they drove year-over-year improvements in food efficiencies, labor productivity, overtime and wage management, contributing to significantly enhanced restaurant-level profitability. In fact, the Cheesecake Factory restaurants 4-wall margin was 17.7% for the quarter, the highest level in the past six years.

Moving on to development, we successfully opened five restaurants in the second quarter, including one Cheesecake Factory, one North Italia, one FRC restaurant, and two Flower Child locations, all of which have opened to impressive demand, reinforcing our confidence in the strength of our experiential brands and their long-term growth potential. One Cheesecake Factory restaurant also opened in Asia. Additionally, subsequent to quarter end, we open one Blanco in Southern California. With 11 restaurant openings so far this year, we are well-positioned to meet our objective of opening as many as 22 new restaurants in 2024, including as many as three Cheesecake Factories, six to seven North Italias, six to seven Flour Childs, and seven to eight FRC restaurants.

In closing, we delivered another quarter of consistent and competitively strong results, supporting our belief that our strategy of focusing on what we do best, delivering exceptional service, hospitality, and delicious, memorable experiences for our valued guests will continue to differentiate us in the industry and allow us to drive profitable sales growth over the long term. With that, I will now turn the call over to David Gordon to provide an operational update.

David Gordon

Thank you, David. During the second quarter, our best-in-class operators not only drove significant profitability improvement, but just as important, continued to make incremental advances in guest satisfaction with virtually every key on-premise and off-premise Net Promoter Score metric that we tracked for the Cheesecake Factory, ending the quarter at an historic high, which we believe contributed to comparable traffic exceeding the Black Box Casual Dining Index by 280 basis points. These improvements are driven by our uncompromising commitment to operational excellence and the ongoing investments we make in our managers and staff to drive strong staff engagement and retention.

As we've said before, we believe our staffing success has been a key contributor to our operational execution. And in the second quarter, we continue to produce year-over-year improvements in both manager and hourly staff retention. And our already high staff engagement scores increased even further from a year ago.

Now turning to sales trends. Cheesecake Factory, off-premise sales remained relatively stable at 21% of sales for the second quarter, which equates to over \$50,000 in off-premise average weekly sales, more than double the average of our next closest peer. North Italia second quarter comparable sales increased 2% from the prior year, resulting in annualized AUVs of \$7.9 million. Notably, our second quarter new restaurant opening and the Charlotte market, Valentine, opened to tremendous demand with average weekly sales of over \$188,000 for the first seven weeks. Restaurant level profit margin for the adjusted mature North Italia locations was 15.3% for the quarter. In the second quarter, we also opened a culinary dropout in Dallas and two Flower Child locations, one in Ballantine, across from the New North Italia, and the other in the St. Louis Market. Similar to the New North Italia location, all three open to higher than expected demand, bolstering our confidence in the developing concepts in our portfolio and their ability to meaningfully contribute to our overall growth going forward.

Other Fox Restaurant Concepts, annualized AUVs, were \$7 million. And lastly, we just eclipsed the one-year anniversary of the launch of the Cheesecake Rewards Program, and we remained very pleased with the program's performance. Acquisitions continue to exceed our internal expectations, and we remain encouraged by the level of member activity and engagement that we are seeing. This year, in celebration of National Cheesecake Day, rewards members were able to enjoy any slice or half price on any dine-in visit on both Monday, July 29th and Tuesday, July 30th. This is an example of a marketable moment with rewards members receiving an exclusive benefit to drive member engagement and ultimately, incremental traffic for our business over the long term. 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 second quarter results versus our expectations I outlined last quarter. Total revenues of \$904 million finished towards the higher end of the range we provided. Adjusted net income margin of 5.9% well exceeded the high end of the guidance we provided. And we returned \$17.7 million to our shareholders in the form of dividends and stock repurchases.

Now turning to some more specific details around the quarter. Second quarter total sales at the Cheesecake Factory Restaurants were \$677 million, up 4% from the prior year. Comparable sales increased 1.4% versus the prior year. Total sales for North Italia were \$75.5 million, up 15% from the prior year period. Other FRC sales totaled \$73.6 million, up 12% from the prior year and sales for operating week were \$134,100. Flower Child sales totaled \$35.7 million, up 7% from the prior year and sales for operating week were \$85,900. And external bakery sales were \$13.6 million down 12% from the prior year.

Now moving to year-over-year expense variance commentary. In the second quarter, we continue to realize improvement across several key line items in the P&L. Specifically, cost of sales decreased 90 basis points, primarily driven by higher menu pricing than commodity inflation. Labor as a percent of sales decreased 20 basis points, primarily driven by higher menu pricing than labor inflation and labor productivity improvements, partially offset by higher management labor due to our improved staffing position as a result of increased retention. Other operating expenses increased 20 basis points. G&A decreased 40 basis points, mostly driven by lower legal fees, and depreciation increased 10 basis points as a percent of sales. Pre-opening costs were \$7 million in the quarter compared to \$6 million from the prior year period.

We opened five restaurants during the second quarter versus three restaurants in the second quarter of 2023. And in the second quarter we recorded a pretax net expense of \$1 million primarily related to FRC acquisition related expenses and impairment of assets and lease terminations income. Second quarter GAAP diluted net income per share was \$1.08. Adjusted diluted net income per share was \$1.09.

Now turning to our balance sheet and capital allocation. The company ended the quarter with total available liquidity of approximately \$277 million including a cash balance of about \$41 million and approximately \$237 million available on a revolving credit facility. Total debt outstanding was unchanged at \$475 million in principal. CapEx totaled approximately \$29 million during the second quarter for new unit development and maintenance. During the quarter, we completed approximately \$3.9 million in share repurchases and returned \$13.9 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 Q3 and full year 2024. The assumptions factor in everything we know as of today which includes net restaurant counts, quarter to date trends, what we think will happen in the weeks ahead in the effect of any impacts associated with holidays, and it assumes no material operating or consumer disruptions. For Q3, we anticipate total revenues to be between \$855 million and \$870 million, which represents year-over-year growth similar to Q2. Next, at this time, we expect effective commodity inflation of low single digits for Q3, as our broad market basket remains very stable. We are modeling net total labor inflation of 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 \$57 million.

Depreciation is estimated to be approximately \$25 million. Based on these assumptions, we would anticipate net income margin to be about 2.6% to 3% based on the sales range provided.

Now for the full year. Based on similar assumptions, we would anticipate total revenues for fiscal 2024 to be approximately \$3.58 billion. For sensitivity purposes, we are using a range of plus or minus 50 basis points. We currently estimate total inflation across our commodity baskets, labor, and other operating expenses to be in the low to mid-single digit range and fairly consistent across the quarters. We are estimating G&A to be about 10 basis points higher year-over-year as a percent of sales and depreciation to be about \$101 million for the year. And given our unit growth expectations, we are estimating preopening expenses to be approximately \$28 million, which includes support for some early 2025 openings. Based on these assumptions, we would expect full year net income margin to be approximately 4.3% to 4.4% based on the sales range provided.

Now let me provide some additional context to our underlying assumptions that I just outlined. First, we incorporated two Cheesecake Factory Restaurants closures, one of which closed mid-July related to a lease exit, and the other expected to close mid-August related to condemnation of the center our location is in. We adjusted expectations for our bakery external sales to be more in line with our performance in the first half of the year. And, we updated sales projections for some of our lesser established concepts, which are performing more in line with broader casual dining sales trends during the first half of 2024.

Importantly, our core and growth concepts, the Cheesecake Factory, North Italia, and Flower Child have outperformed the industry, and this has contributed to our overall sales stability and enhanced profitability relative to our expectations and last year's results. As such, we are increasing our net income margin projections for the full year 2024. In total, we believe we remain on track for both the top line and bottom line, as well as new unit openings relative to our range of expectations at the beginning of the year. Specifically, with regard to development, as David Overton highlighted earlier, we still plan to open as many as 22 new restaurants this year across our portfolio of concepts with four to five openings in the third quarter and the remainder in the fourth quarter continuing our balanced cadence of new restaurant openings for the year and we would anticipate approximately \$180 million to \$200 million in CapEx to support this year's and some of next year's unit development as well as required maintenance on our restaurants.

In closing, we are leveraging the Cheesecake Factory's broad consumer appeal and high degree of relevance to drive sales. Our operators continue executing an exceptionally high level to drive NPS and profitability and our development pipeline remains intact. We have now delivered three consecutive quarters of strong results including stable sales and significant profitability growth. We believe we are well positioned to continue generating our historically consistent operational and financial results and making progress towards our longer term goal of shareholder value creation and with that said, we'll take your questions.

Question-and-Answer Session

Operator

[Operator Instructions]

Our first question comes from the line of David Tarantino with Baird.

David Tarantino

Hi, good afternoon. Matt, I guess my first question is on guidance for the year, the revenue guidance. It seems like you may have tweaked that lower. I think last time you said \$3.6 billion and now it's \$3.58 billion and I know \$3.58 billion rounds to \$3.6 billion, but it does, I guess your comments made it sound like that was lowered and you called out a few factors. So I guess my question is first, have you changed your outlook at all for the core brands, the Cheesecake Factory brands or North Italia in that guidance?

Matt Clark

Yes David, this is Matt. That's a super question to lead off with. No, the core outlook for Cheesecake, North and Flower Child remains intact. And we have a couple of, I won't call them random events because stuff happens in business all the time, but maybe more ancillary impacts to that aggregate top line business. We noted the two cheesecake closures. That's about \$10 million right there. So that's like half of it. And then we've seen a little bit of softness in the retail segment. So those are really the biggest drivers. And it's just, it is like you said, it rounds to it, but we just want to provide some context for sort of tweaking or refining that number for everybody.

David Tarantino

Great. That's helpful. And then I think on the last call, you mentioned that you're running kind of flattest traffic at the Cheesecake Factory. Can you just give an update on where you ended the second quarter on that metric and what you're assuming for the rest of the year?

Matt Clark

Sure. So we ended a negative 0.2% on traffic and frankly, the Sunday before the 4th of July week, we were still slightly positive. I think everybody knows that week in the industry kind of bookended some negative news on either side of it. So I would say to be totally fair, we were right on track for that flattish number as we expected to be. And our expectations for the year have remained the same to run in that ballpark for the full year as well.

Operator

Our next question comes from the line of Andy Barish with Jeffries.

Andy Barish

Hey guys. The 17.7% Cheesecake margins really impressive. But when you look at kind of a gap to the enterprise margin that was reported, it looks like it's a little bit wider than what I recall about 150, 160 basis points, is there something else going on there with increased growth in the new concepts or how should we think about sort of the early openings and maybe, just the drag that some of those newer concepts create?

Matt Clark

Yes, Andy, this is Matt, it's a good question. We were really pleased with the 17.7% for Cheesecake Factory for sure, as you noted, and we've made a ton of progress there. We've always talked about a 1% to 2% range from the core concept to the consolidated metric. And it ebbs and flows depending upon how many new restaurants are opening and all of the other concepts. And certainly if you think about our outlook and where we're opening and how many of each concept, it was disproportionately newer concepts in the first half of the year, right. It was really just Orem of the Cheesecake Factory and that was just the very last week of the quarter. So all of those other new concepts opened up, which we had 10 openings in the first half of the year, which is, I think, really incredible for us too. So that's really the difference of why. You might have seen a 1% sometimes that could be 1.6% or something is what you said, and it's really the growth of those new concepts for that period of time.

Andy Barish

Got you. And then, just the comps that at North slowed down, obviously still really high unit volumes there, and it sounds like new stores are opening well, but anything that you would point out, I know it's a relatively small comp pace in the 2% number you reported in the 2Q.

Matt Clark

Yes, and I would also just echo what I talked about the whole 4th of July. I think it literally rounded to 3% that Sunday, so it was just a fractionally different than expectations, nothing more than that.

Operator

Our next question comes from the line of Jon Tower with Citi.

Jon Tower

Great, thanks for taking the questions. Maybe just from a high level, kind of going back to the margin piece, it's impressive to hear Cheesecake close to 18% this quarter. And I'm just curious, when kind of zooming out and looking at the company over time, obviously you've made some pretty good progress from where you were on store level margins, but trying to think about the brands or the enterprise over the longer term, do you see a path to reaching say above pre-pandemic levels when it comes to consolidated store level margins? So closer to that 16%, 17% that you had '18, '19 timeframe?

Matt Clark

Jon, this is Matt. Yes, we do. I mean, we think that the business should operate between 16% and 18%. That's sort of like echo on when we're supplying demand, meet and casual dining. It certainly will depend on the rate of growth in any given period of time. So think about pre-pandemic. Also, we just didn't have as much growth. And that doesn't weigh on the enterprise margin for that period of time, right. So I think that is a going to be a piece of it. I mean, that being said, the more progress we make in Cheesecake, the more we'll absorb that growth. And I think, getting in over 16% is still our goal. And given the progress that we've made over the past 18 months, it's definitely in our sights.

Jon Tower

Okay, and in terms of thinking about that timeline, are you thinking, this is something achievable over the next five years? Or do you think that's more beyond that because your system needs to continue to grow to reach that?

Matt Clark

I would say it's less than five years. I mean, I think, the trajectory that we're on is positive. The underlying fundamentals of the business are stable. When you look at things like wage growth and commodities being relatively benign, it gives us an opportunity to rebuild, much like we did when we came out of a financial crisis, right, I think it was a real parallel at this point in time. So, I don't know about a specific time, but certainly well in advance of five years for sure.

Jon Tower

Got it. Then just one clarification on the bakery comments that you made earlier, the growth going forward. Are you expecting the percentage growth to stay the same or dollars in terms of the back half of the year relative to what we saw in the first half?

Matt Clark

Percent, really the percentage. So it's just a little bit of pressure on the branded retail. I think you've seen that from other big CPG companies so.

Operator

Our next question comes from the line of Brian Mullan with Piper Sandler.

Brian Mullan

Hey, thank you. I just wanted to ask on California, just given your exposure there, I wanted to ask what you're seeing from that consumer over the last few months. Are the trends much different than the rest of the system? Does anything surprise you one way or the other in terms of consumer response to some of the changes on the non-full service? Any color would be great.

David Overton

Hi, Brian. This is David Overton. Thanks for the question. We're seeing pretty consistent trends across all geographies. Really no additional pressure in California. I know that has been reported recently, probably a little bit more in the QSR world, but we're not seeing that certainly. We're also not really seeing any impact yet on wages at all from the FAST Act, which are two positive signs for us. So really no change.

Brian Mullan

Okay. Thanks. Then just some of the comments where the core brands are outperforming the industry and then maybe some of the FRC brands are more in line with the industry. When you're seeing that in what is a pretty tough industry environment, does that make you evaluate or rethink how many non-core brands units you'd want to open in the years ahead or I know the flip side of that is maybe not because those units could, one of those could turn into the next core brand, but I'd just be curious to get your thinking and if you evaluate that from time to time.

Matt Clark

Brian, this is Matt. We, of course, look at that. I mean have tremendous faith in all of those concepts. We view the environment as being relatively tough and transitory, notwithstanding the outperformance in some of our concepts. I think we've seen a little bit of alcohol trade down, which has resulted in that, but the unit economics across the FRC concepts are tremendously strong still and worthy of growth. So we're going to continue to invest, as we always have for the long term and not for one quarter or the next.

Operator

Our next question comes from the line of Katherine Griffin with Bank of America.

Katherine Griffin

Hi, thank you. First, I wanted to ask a clarification on the unit growth outlook. It looked to me like you raised the guidance for some of the -- for the Fox restaurant concepts, which I believe doesn't include, Flower Child. So I think the Flower Child guidance is intact, but you're -- you raise the guidance for some of the other concepts. But I'm trying to square that, I guess, with some of your comments about the outperformance of North Italia and Flower Child relative to your expectations and I guess, yes, what's essentially behind that increase and in the unit growth outlook that we should be considering.

Matt Clark

So, Katherine, this is Matt. I would think about it as a fungible pool over time. Now, one of those locations that we've been targeting opening will not go unopened over time. It just may be in the fourth quarter. It could be in the first quarter of next year. So, frankly, I just wouldn't read anything into the specific movement of one or another in a given year. It's really about the optimizing of the timing and when that makes the most sense from construction standpoint and our resources for our new opening teams. We were completely bullish on our pipeline. We think we're in really great shape for this year and frankly for next.

Katherine Griffin

Great, thank you. And then the second question is just, if you're seeing anything as far as a quarter to date trends that as far as like changes in seasonality. I know you spoke to seeing some like pretty resilient comps up until July 4th, but I'm just curious if you're seeing any differences, whether that's impacts from hybrid work or extended, summer vacations that are embedded in your 3Q top line expectations.

Matt Clark

Yes, Katherine, it's Matt. I do think the one thing to call out, which I think has been noted in many others, as hot as it has been in so many parts of the country, it can impact patio utilization, right. And so I think that just can ebb and flow depending on I don't know if it's a permanent change in seasonality or sometimes it's more in June and July than it is in August and September. But all of that's factored into to our expectations. Otherwise, we do believe that things are slightly different than 10 years ago, but that had started really before COVID too. So I think it's just returning to what a normal seasonal pattern would be, post -pandemic.

Operator

Our next question comes from the line of Brian Vaccaro with Raymond James.

Brian Vaccaro

Hi, thanks and good evening. Matt, on Cheesecake Factories comps, could you comment kind of specifically on the cadence that you saw through the quarter and any color on what you're seeing in July? It seems like the casual dining segment data has softened up. Curious if you're seeing that. Any changes in consumer behavior or one-off items you think are worth highlighting?

Matt Clark

Katherine, we've been obviously paying a lot of attention to that and doing a lot of analytics. The year has been very consistent for us in Cheesecake Factories particularly. Whether you're looking at a one-year stack, a two-year stack, or a five-year stack, it just hasn't moved that much. And I'm talking about, plus or minus or percent over months is not a very, very big variance. And so we feel pretty good about the predictability and the stability of that concept and weathering the storm well. I think, as I noted to Katherine, in July, the one thing I would call out is weather. I mean, that was tremendously hot in parts of the Northeast, all across the country, really. I think that did impact the patio usage, which we're able to accurately assess and sort of understand. But otherwise, I feel like our trends for the past six, seven months have been in a very tight range.

Brian Vaccaro

Okay, and can you remind us on Cheesecake patio business, what percent of sales this time of year come from the patio or seats overall, or patio Cheesecake?

Matt Clark

Yes, I think it's a, I'll double check why we can get you something specific. I'll comment off the top of my head, but at the end of the team, we'll make sure it's right. I think it's around 15%, but certainly peak summer is less than that. That's more like an annualized number. So it could be 10 in peak summer, spring and fall have highest, for obvious reasons. But winter is then strong in Arizona and Florida. So it kind of depends. So we'll get a specific number for you.

Brian Vaccaro

Okay, thank you. And sorry if I missed it earlier, but could you just run through the components for both Cheesecake and North?

Matt Clark

Yes, for Cheesecake, like I said, the traffic was a negative 0.2%. The pricing was 4.5% and the mix was a negative 2.9%. So I think all of those factors came in pretty much right in line with where we expected them to. And did you have the North ones in front of you?

David Gordon

I do.

Matt Clark

Great.

David Gordon

So North traffic was negative 1%, price was 6% and mix was negative 3%.

Brian Vaccaro

Okay great and then just last one, if I could on the G&A, you said that the second quarter came in quite a bit more favorable. I think you mentioned legal costs but maybe you could just flush that out a little bit for us but I think you also raised your G&A guide for the year a little bit. Any color on that would be helpful. Thank you.

Matt Clark

Sure. I think that we in the last quarter said we'd be up 10 basis points which would that now was a slight increase over Q1 so but we're maintaining that same perspective kind of like I said in the last call G&A can be a little bit lumpy not everything is a 100% controllable quarter-to-quarter. We did have one or two particularly large settlements last year and we've just seen some favorable management in the legal area that contributed to some savings. So honestly too, given the environment, we're just buckling down, and everybody's watching every penny, right. So we're just trying to make sure that we're in line with sales and driving profitability.

Operator

Our next question comes from the line of Brian Harbour with Morgan Stanley.

Brian Harbour

Yes, thank you, good afternoon. Matt, maybe just another small cost question, but you're seeing kind of favorability in the labor and food lines. There's still a little bit of pressure on the other OpEx line. Could you comment on what's driving that? Do you think that still kind of continues in the second half?

Matt Clark

Yes, I mean, as we've talked about, there are multiple factors, but we obviously are spending more on marketing because of the rewards program. So I think we call that out that we're still lapping that in the second quarter. So absent that, it's pretty much in line. We didn't see any, there was like a 10th here, but a positive 10th there, it was nothing material outside of it. So again, for the balance of the year, we would expect to be similar to last year as a percent of sales.

David Gordon

Yes, pretty flattish as a percent of sales, particularly for the third quarter, and maybe a little bit of benefit in the fourth quarter, but that's pretty much what we're thinking at this point in time.

Brian Harbour

Okay, got it, makes sense. North Italia comps, you said it was kind of in line with your expectations. I guess, are some of the older stores consistent with that number? Are they drastically different? What do you think kind of can drive North Italia comps over time, if perhaps they were to pick up?

Matt Clark

I think it's pretty consistent. There's always, it's a small base, Brian, so there's always going to be one restaurant here or there that's slightly different than the other. We're pretty happy. I think in the long term, we target about 3% or right in the ballpark for that. I think if you think about Cheesecake Factory managing through a little bit of the negative mix component there, and they have a little bit too on the alcohol side, but we feel like it's pretty stable. And so we're not concerned, we feel like it's right on track. As David Gordon mentioned, our newest opening was one of the best we've ever had. So we know it's resonating. But I think there's just a little bit of recalibration on the mix that I think stabilizes in the course of the next six to 12 months.

Operator

Our next question comes from the line of Dennis Geiger with UBS.

Dennis Geiger

Great, thank you. Matt, you might have just touched on some of this just there, but as it relates to that mixed breakdown, I think you've given some good detail in prior quarters in thinking about alcohol, sizes, group order. Can you do that a little more and provide some more specific color there? And I think you kind of talked about the mixed outlook a little bit there, but can you go into that a little more? Can we still maybe get to a flattish by the end of the year or maybe not quite yet? Thank you.

Matt Clark

Sure, Dennis. I think honestly, we feel really good about the predictability and trajectory there because it's come in now three quarters in a row, kind of right where we would think. The big picture is when we lapped around some of the social, not just restrictions, but how people felt. We got more big parties back in, the big parties per capita buy a little bit less than a two top or four top, but what we've seen really is very consistent spend per person by party size. The Cheesecake Factory has 46 years or so of experience, right. And such a broad menu.

And so it's not a big surprise that it will return to the norm. And we definitely believe that you're going to see give or take another 1% improvement in Q3 and a 1% in Q4. And sort of our expectations generally for mix is plus or minus 1%. So I think we'll get back to a normal range, whether it's exactly flat, that we'll see, right. That's still six months to go, but it should be fast approaching it over that time.

Dennis Geiger

Helpful. And maybe one other, just on price from here as it relates to, I think you spoke previously about what we should expect for price over the coming quarters. What does that look like in the absence of additional price and anything to share kind of on the next round of price? Thank you.

Matt Clark

Yes, we think we're going to be a little just a hair over 4% for the back half of the year. And then we feel like in this environment, we should be able to get back next year to kind of that normal 2.5% to 3%, knock on wood all things being equal. So we believe we've done a good job and not seen pressure as evidenced by the flat traffic over the last three quarters absent, the January weather. So we feel like that's been a balance that we've been able to maintain. But at the same time, we'd like to add back down to normal levels. We've talked a lot about over the years that we kind of managed to the average. I'm pretty sure when I saw the latest U.S. inflation data, it was, restaurant pricing was up 4.2%. And so we're right in the middle and we're right in the middle of the groups that we track. And so, we're maintaining our value proposition well.

Operator

Our next question comes from the line of Jim Salera with Stephens Inc.

Jim Salera

Hi, guys. Thanks for taking our question. I wanted to drill down a little bit on the rewards program. I think historically you guys mentioned one of the value propositions there. Is that it helps alleviate some of the wait times and improves the overall guest experience? Can you just mesh that up with the better than industry trends that you're seeing on traffic and does that help support traffic Cheesecake and support acquisition as kind of added value prop?

David Gordon

Sure. Hi, Jim. This is David Gordon. I think what you're referring to really is one of the published offers as part of the program which is exclusive access to reservations for reward members and we are seeing reservations activation being very, very solid. We know the guests when we ask them before the program what they would really appreciate about a rewards program is to not have to wait in a Cheesecake Factory. So certainly convenience and people being pressed for time today as important as ever and knowing that you can get into Cheesecake Factory and perhaps not have to wait as you have historically on every single visit is a real big benefit of the program.

The other published rewards being a complimentary slice of Cheesecake on your birthday. We're seeing strong utilization there as well and just overall acquisition continues to be very strong or increased membership enrollment is very, very strong. People are very engaged in the program so I think along with reservations all aspects of the program seem to be resonating with Cheesecake rewards guests so far. And just pointing back to National Cheesecake Day which I mentioned earlier and we just completed National Cheesecake Day Monday and Tuesday of this week and as we compare to last year's NCD which was on the same days, our comps were up mid -single digit. We had twice the enrollment that we had last year and we had four times the member redemptions versus last year's. So the increased numbers have been effective. People are really engaged in the program.

We'll continue to, I know we keep saying it's early, but we are only a year in. So we're going to continue to test and learn, analyze the information and make sure that our unpublished offers, which are an important part of the program as well, where we're taking an individualized approach to drive incrementality, continue to be meaningful and get us really strong returns without any additional cost.

Jim Salera

Okay, that's super helpful. And maybe keeping that same train of thought, but thinking about North Italia, I know historically the Italian space has a lot of mom and pop competition that probably don't have any digital or very limited digital offerings. Is there anything you can do taking your learnings from that and maybe bridge it to North Italia, or is it just not big enough of a concept yet to kind of warrant a full-fledged program alongside the offering there?

David Gordon

Certainly down the road as we continue to learn what resonates with guests as part of the program or any offerings whatever might make sense for North Italia or fit down the line would be something we can look at. North is historically taken reservations. And it's a meaningful part of how guests utilize North today. We haven't changed that program don't really have any intention of changing it. So I would say down in the future we can talk about that a little bit more right now because of the size of the concept and the continued growth. I wouldn't anticipate anything in the near term any type of loyalty reward program.

Operator

Our next question comes from the line of Matt Curtis with William Blair.

Matt Curtis

Hi, good afternoon We've heard some other casual dining brands talk about keeping up marketing spend in the second half a year. So I was just wondering if you talk about what your plans are at the Cheesecake Factory to remain top of mind and what looks like it's becoming a more promotional and [inaudible] environment.

David Gordon

Matt, this is David Gordon again. I think I would just lean back into the rewards program. I don't think that we need to take a look at a spend that's additional to what we've already talked about being that the rewards program is already built into our plan for the year. And since we do have a higher than anticipated membership rate thus far, we're going to continue to communicate to those guests and try and drive incrementality whether that's trying to drive them to a specific day of the week or a specific day part or introduce them to new and different products that perhaps they have in order before or off the menu gives us I think leverage that we haven't historically had. And we know that it works because we've seen it so far this year and that's how we'll continue to do marketing in a way that works for Cheesecake.

Operator

Our next question comes from the line of Jim Sanderson with Northcoast Research.

Jim Sanderson

Thanks for the question. Just following up on the discussion of the loyalty program. Is there a plan in the back half of the year to increase the number of events similar to the free cheesecake giveaway that yielded mid-signal digit comps? Just wondering if the plan is to increase the number of events that would be incremental in the back half.

David Gordon

Well, unpublished offers are happening all the time. So how we utilize those unpublished offers or what they're going to be, obviously we haven't talked about yet, but we'll continue to understand guests and how they're utilizing us and we certainly know that that's a powerful tool. We've tested numerous different offers over the past six months. Not just half off of a complimentary, half off of a slice of cheesecake, but a lot of different offers. So we'll continue to do that and we know what's most effective and we want to continue to do it in a way that protects margins at the same time.

Jim Sanderson

Understood. And then a follow-up question on store closures. Are there any other expectations that you'll see units potentially at risk of having to be closed based on some of the leasing issues or other issues in the next two to four quarters?

Matt Clark

I would always say there could be one or two, right. It's -- the leasing environment continues to be pretty dynamic. I think we've built a great pipeline of openings. But we're always looking at the portfolio. We have almost 350 restaurants. Many of them come up on lease on an annual basis. And we've had a great amount of success when we move trade areas. So we're always going to evaluate if a site comes up for its lease, then we'll look and see if there's a better location and if that makes sense. So every day, there's always a probability of one to two in that kind of timeframe.

Operator

Our next question comes from the line of Jeffrey Bernstein with Barclays.

Jeffrey Bernstein

Great. Thank you very much. Just two questions. The first one, just on the competitive environment, clearly, we've seen some aggressive discounting from other casual diners. I know that's not a strategy you guys typically pursue, but would you say there's any noticeable impact on you or the broader industry or maybe changing your value scores or maybe you're seeing your own consumer shift to more value-oriented items while still coming, but maybe shifting down to more less costly items? Any thoughts there? And then I had a follow-up.

David Gordon

Hi, Jeff. It's David Gordon again. This isn't the first time that we've seen marketing out there in casual dining ramp up. It's happened historically over our 45-plus years, and generally we don't see it have an impact to us and our guests or value perception from our guests because others are offering a lot of different type of value. So we wouldn't anticipate in this cycle that we would see it have any sort of negative impact to our long-term and short-term plan. And we haven't seen that in the recent activity that's probably picked up in the past few months.

Jeffrey Bernstein

Understood. And then my follow-up is the comments you made about the lesser-known brands, I think you said it's compelling, more similar to broader casual dining, so below perhaps your core brands, wondering whether there are any initiatives you have to reaccelerate that traffic or whether those brands actually take a more aggressive approach to drive traffic or whether you're okay with them kind of lagging your core brands because you're not in the game of trying to drive short-term traffic, just trying to get a feel for some of those other brands relative to your core. Thank you.

Matt Clark

Sure. Jeff, it's Matt. We're always looking to drive traffic. So that never, the gas pedal is always on, and like I said, I think some of it is transitory. I think some of it is mixed on alcohol, right, which is not necessarily related to the guest traffic side of things, and so those are two different equations. We're not necessarily in this environment looking to push it, check, right. I don't think that's a wise strategy. So if our guest traffic is relatively stable, but we have a little bit less incident rate, that's one trajectory. That's where we think we're at right now. And we're always going to be, in every one of our concepts, looking for ways, whether it's through more unique advertising, menu items, or operational initiatives to drive that. So, no, there's nobody's just watching that happen, we're aggressively attacking all fronts.

Operator

Our next question comes from the line of Jeff Farmer with Gordon Haskett.

Jeff Farmer

Thank you. You called out delivering improvements in food efficiencies, labor productivity, I think over time, wage management, along with the things in the Q2 at the restaurant level. My question is what is the opportunity to drive further efficiencies or improvements as we get into Q3 and Q4?

David Gordon

Jeff, this is David Gordon again. I think we're always looking to improve upon previous performance. One thing we haven't touched much on is just the stable staffing and retention of the restaurants. And I think that, again, I was just looking at the month that just ended. And we're seeing best-in-class retention at the staff level and at the management level, which is why we're seeing increased efficiencies, lower over time, better wage management, and higher NPS scores. And I would anticipate that to happen this coming quarter as well and into the fourth quarter because of the stability we have in each one of those locations where you have staff members that are more comfortable doing their job. We're able to continue to cross train them, which increases productivity. So the more time we have that stability, the more we would anticipate that each one of those metrics, when it comes to labor or food efficiency or food waste, will continue to improve quarter-over-quarter.

Jeff Farmer

All right, thank you for that. And just one quick bookkeeping. Matt, you might've talked about it, I might've missed it, but did you share the commodity and wage inflation numbers in Q2?

Matt Clark

Q2, the commodity is about 1%, and wage inflation has kind of dipped in about 4-ish percent, continues to improve, so those are both very solid based on historical kind of references, if you will.

Operator

Our next question comes from the line of John Ivankoe with JP Morgan.

John Ivankoe

Hi, thank you. Years ago, and hopefully it's still the case now the industry measured the perceived price and its price service value from a food perspective that they were giving their guests through prime costs. And your prime costs are actually relatively low for casual dining, at around 57%. And that's obviously anchored by COGS that are getting down to the low 22% range. So, when you do think about longer term margin expansion across your portfolio, can this prime cost go even lower? Could or should those COGS go even lower? Or when you think about longer term, the ability to expand your margin, should we expect it to be more volume driven through the fixed cost side? Thank you.

Matt Clark

Yes, John, this is Matt. That's a good question. It's an interesting dynamic for sure. One thing that I like to remind our investors is that we tend to have slightly higher labor and slightly lower commodity costs because we make everything from scratch in the restaurant every single day. And many of our competitors, frankly, don't do that and have a commissary. And so the mix of those two, can be a little bit misleading. I think 57% is a strong number, but it's probably right in line historically with where we've been, keep in mind, too, that we benefit from the vertical integration of the Cheesecake Factory bakeries. So I think that skews a little bit. I think from the efficiencies David Gordon talked about relative to retention, there still is an opportunity without taking anything away from the guests and keeping our huge portions and, great food and great service to get a little bit better, right.

So if we can keep even more of our people, it makes the training and everything he talked about get a little bit better. So we're always going to try for that. At the same time, I would also like to see volume pick up and have a little bit of leverage. I mean, the ideal status to get a little bit above.

Operator

There are no further questions at this time. This will conclude today's conference call. Thank you all for your participation. You may now disconnect.

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