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The Cheesecake Factory Incorporated (CAKE) Q2 2025 Earnings Call Transcript

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Q2: 2025-07-29 Earnings Summary

Insights



EPS of \$1.16 **beats by \$0.10** | Revenue of \$955.83M (5.73% Y/Y) **beats by \$8.52M**

The Cheesecake Factory Incorporated (NASDAQ:[CAKE](#)) Q2 2025 Earnings Conference Call July 29, 2025 5:00 PM ET

Company Participants

David M. Gordon - President

David M. Overton - Founder, Chairman & CEO

Etienne Marcus - Vice President of Finance & Investor Relations

Matthew Eliot Clark - Executive VP & CFO

Conference Call Participants

Andrew D. North - Robert W. Baird & Co. Incorporated, Research Division
Andrew Marc Barish - Jefferies LLC, Research Division
Brian John Bittner - Oppenheimer & Co. Inc., Research Division
Brian Michael Vaccaro - Raymond James & Associates, Inc., Research Division
James Jon Sanderson - Northcoast Research Partners, LLC
James Ronald Salera - Stephens Inc., Research Division
Jeffrey Daniel Farmer - Gordon Haskett Research Advisors
Jon Michael Tower - Citigroup Inc., Research Division
Rahul Krotthapalli - JPMorgan Chase & Co, Research Division
Sharon Zackfia - William Blair & Company L.L.C., Research Division

Operator

Hello, and thank you for standing by. My name is Tiffany, and I will be your conference operator today. At this time, I would like to welcome everyone to The Cheesecake Factory Incorporated Q2 2025 earnings conference call. [Operator Instructions] I would now like to turn call over to Etienne Marcus, Vice President of Finance and Investor Relations. Sir, please go ahead.

Etienne Marcus

Good afternoon, and welcome to our second 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 that 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 exclude acquisition-related items and impairment of assets and lease termination expenses. Explanations 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 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 M. Overton

Thank you, Etienne. Our second quarter results exceeded expectations with consolidated revenues and adjusted earnings per share, setting new milestones for the company. These solid financial results are fueled by operational excellence and sustained demand across our differentiated high-quality concepts.

Second quarter comparable sales at The Cheesecake Factory restaurants increased 1.2%, driving record high average weekly sales and further elevating our industry-leading and realized unit volumes to nearly \$12.8 million for the quarter. Strategic innovation in our menu has always been a key pillar of our success, reflecting that ongoing focus, we are now introducing our latest menu, which features 14 new dishes across 2 innovative categories. And tomorrow, in celebration for National Cheesecake Day, we are launching our newest Cheesecake Peach Perfect with Raspberry drizzle. We believe our continued focus on culinary innovation keeps our menu highly relevant without relying on discounting and combined with the strength of our best-in-class operators positions us to stand out competitive landscape.

Thanks to the outstanding execution of our operators, we delivered strong flow-through and meaningful improvement in profitability. In fact, Cheesecake Factory's 4-wall restaurant margin increased to 18.5%, up 80 basis points year-over-year and the highest level recorded in 8 years.

Turning to development, we successfully opened 8 restaurants in the second quarter, including 2 Cheesecake Factory restaurants, 1 North Italia, 3 Flower Child and 2 FRC restaurants. Subsequent to quarter end, we opened 1 FRC restaurants and 1 international Cheesecake factory restaurant in Mexico under our licensing agreement. We are pleased with the progress we've made on new unit growth so far this year and continue to expect to open as many as 25 new restaurants in 2025.

Additionally, we anticipate 2 Cheesecake Factory restaurants to open internationally under a licensing agreement. As we look ahead, the strong demand for our distinct dining experiences reaffirms our confidence in the long-term trajectory of our portfolio. Our results clearly demonstrate the strength of our platform and the effectiveness of our strategy to deliver sustainable growth and value.

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

David M. Gordon

Thank you, David. Our performance this quarter reflects the operational strength and disciplined execution of our teams who continue to manage their restaurants with precision and excellence. Notably, both hourly and management retention increased year-over-year, driving improvements in labor productivity, food efficiencies and wage management. As we've noted previously, our success in staffing continues to be a key driver behind the improvement in guest satisfaction scores.

Ultimately, it's our team members who make it all possible, bringing our vision to life and delivering exceptional dining experiences every day. To this point, our internal Net Promoter Score metrics improved across nearly all key areas this quarter including in both the dine-in and off-premise channels with notable gains in pace of experience, staff service and food quality.

Record Cheesecake Factory average weekly sales in the second quarter were supported by off-premise sales of 21%, consistent with the average of the prior 4 quarters. And our newest Cheesecake Factory restaurant in Naperville, a suburb of Chicago, open to remarkable demand, underscoring the strong affinity for the brand and the enduring value of our distinctive dining experience.

As David Mentioned, strategic menu innovation remains core to our success and we're bringing that to life with the launch of 2 new menu categories, bowls and Bites. Our new bowl selection includes 6 thoughtfully crafted options, such as the Teriaki Salmon bowl, orange color flower bowl and the Peruvian Chicken bowl. We also introduced a lineup of 8 new bites, smaller plates offered at an attractive price point. These are designed to drive interest and offer new ways to enjoy the menu.

With items like New Orleans cajun shrimp, chicken and biscuits and meatball sliders. These new offerings reinforce the relevance of our menu and the strength of our innovation strategy.

Together with our best-in-class operational execution, they drive sales and traffic and reinforce our leadership and experiential dining.

Moving to Cheesecake Rewards. The program continues to perform well with strong member growth and high satisfaction. As we evolve the program, we've shifted from large-scale testing to a more targeted data-driven strategy, delivering personalized offers aligned with member behavior and preferences. This refined approach has driven meaningfully higher engagement and deeper loyalty.

Turning to North Italia. Second quarter annualized AUVs increased 2%, reaching \$8 million. Comparable sales declined 1%, reflecting some continued impact from the Los Angeles fires weighing more heavily on performance due to the concept's smaller comp base relative to the Cheesecake Factory as well as some sales transfer impact from new restaurants.

We also successfully opened a new North Italian Boise, Idaho during the quarter, marking our entry into another market. Early performance exceeded expectations with average weekly sales trending approximately 40% above the Q2 system average, reaffirming strong consumer demand for the concept.

Restaurant level profit margin for the adjusted mature North Italian locations improved 290 basis points from the prior year to 18.2%. The margin expansion was primarily driven by operational improvements as well as more favorable commodity and labor inflation.

Flower Child continues on a strong upward trajectory with second quarter comparable sales increasing 4%, significantly outperforming the Black Box fast casual dining index, which was essentially flat for the quarter. The improvement resulted in average weekly sales of \$91,400 for an annualized AUV of over \$4.8 million, a new milestone for the concept. We also opened 3 new Flower Child locations during the quarter, including 2 in new markets. Collectively, these restaurants averaged nearly \$82,900 in weekly sales, translating to a solid AUV of approximately \$4.3 million annualized.

Operational enhancements continue to support strong performance with restaurant level profit margin for adjusted mature Flower Child locations reaching 20.4% in the second quarter. Our strong portfolio performance, fueled by sustained sales momentum, operational excellence and margin expansion positions us well to deliver on our long-term growth ambitions.

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

Matthew Eliot 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 \$956 million and adjusted net income margin of 5.8%, both exceeded the high end of the guidance ranges we provided.

Now turning to some more specific details around the quarter. Second quarter total sales at the Cheesecake Factory restaurants were \$683.3 million, up 1% from the prior year. Comparable sales increased 1.2% versus the prior year. Total sales for North Italia were \$90.8 million, up 20% from the prior year period.

Other FRC sales totaled \$90.2 million, up 22% from the prior year and sales per operating week were \$136,800. Flower Child sales totaled \$48.2 million, up 35% from the prior year. and sales per operating week were \$91,400. And external bakery sales were \$12.9 million. Now moving to year-over-year expense variance commentary. In the second quarter, we continued to realize some year-over-year improvement across several key line items in the P&L. Specifically, cost of sales decreased 70 basis points, primarily driven by favorable commodity costs. Labor as a percent of sales declined 20 basis points primarily driven by the continued improvement in retention, supporting labor productivity gains and wage leverage, partially offset by higher group medical costs.

Other operating expenses increased 40 basis points, primarily driven by higher facility-related costs. G&A increased 10 basis points from the prior year. Depreciation remained relatively flat as a percent of sales. Preopening costs were \$9 million in the quarter compared to \$7 million in the prior year period. We opened 8 restaurants during the second quarter versus 5 restaurants in the second quarter of 2024. And in the second quarter, we recorded a pretax net expense of \$1.2 million related to FRC acquisition-related items and impairment of assets and lease termination expenses. Second quarter GAAP diluted net income per share was \$1.14, and. Adjusted diluted net income per share was \$1.16. Now turning to our balance sheet and capital allocation. The company ended the quarter with total available liquidity of approximately \$515.3 million, including a cash balance of \$148.8 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 \$42 million during the second quarter for new unit development and maintenance. During the quarter, we completed approximately \$0.1 million in share repurchases and returned \$14.3 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 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.

Specifically, for Q3, we anticipate total revenues to be between \$905 million and \$915 million. Next, at this time, we expect effective commodity inflation of low single digits for Q3. 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 \$61 million. Depreciation is estimated to be approximately \$28 million.

We are estimating preopening expenses to be approximately \$7 million to \$8 million to support the 2 planned openings in the quarter and early Q4 openings. Based on these assumptions, we would anticipate adjusted net income margin to be about 3.25% at the midpoint of the sales range provided. For modeling purposes, we are assuming a tax rate of approximately 10% and weighted average shares outstanding of \$48.5 million.

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. 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 \$109 million for the year.

And given our unit growth expectations, we are estimating preopening expenses to be approximately \$34 million. Based on these assumptions, we now expect full year adjusted net income margin to be approximately 4.9% of the sales estimate provided.

For modeling purposes, we are assuming an 11.5% tax rate and a weighted average share count of approximately 50 basis points lower than 2024. To help with modeling, this implies a Q4 tax rate of 11% to 12% and WASO of \$49 million.

With regard to development, as David stated earlier, we expect to open as many as 25 new restaurants in 2025. This includes as many as 4 Cheesecake Factories, 6 North Italias, 6 Flower Childs and 9 FRC restaurants. And we would anticipate approximately \$190 million to \$200 million in cash CapEx to support unit development as well as required maintenance on our restaurants. In closing,

we delivered another quarter of strong financial and operational performance with record revenue continued margin expansion and earnings growth.

Our restaurant teams continue to execute at a high level and our differentiated experiential concepts remain well positioned to consistently deliver the delicious, memorable dining experiences our guests expect. As always, we remain focused on making steady progress toward our long-term value creation priorities: growing comparable restaurant sales, expanding operating margins and accelerating accretive unit development. With a stable foundation, a resilient business model and a clear strategic focus, we believe we are well positioned to continue generating consistent results and driving meaningful long-term shareholder value. With that said, we'll take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question comes from the line of Brian Bittner with Oppenheimer.

Brian John Bittner

As it relates to the increase in the net income margin for 2025 from 4.75 to 4.9, is this primarily operationally driven at the store level? Do you basically do you have a different assumption for the 4-wall margin expansion in 2025 versus I think 15 to 25 basis points of increase is what you had previously assumed?

Matthew Eliot Clark

Ryan, it's Matt. Thanks for the question. That's true. I think the 4-wall, our expectations now or that it will be better than we had originally expected. I mean clearly demonstrated by our Q2 results being above our expectations. And so I think we are committed to continuing to take it 1 quarter at a time, but our outlook has definitely increased based on operational excellence and overall sales trends. .

Brian John Bittner

And just lastly, as it relates to the third quarter, the revenue outlook you provided, there's a lot of moving pieces within the model these days. Does it basically assume a base case for Cheesecake Factory same-store sales that's relatively similar to the second quarter?

Matthew Eliot Clark

At the high end, that's right. So I would say we really didn't, we've seen very, very stable sales. And so we continue to have that stable outlook. But I still think there's no reason to get out ahead of our skis and try to forecast something greater until we see it happen.

Operator

Your next question comes from Drew North with Baird.

Andrew D. North

I wanted to follow up on the topic of labor. And my question is focused on labor retention, which has continued to be a good topic and positive for your business in the broader industry. But I was wondering if you could provide some perspective on where retention levels or turnover levels are maybe relative to pre-pandemic or prior peaks to help us understand how much further improvement could be made? Or I guess, higher level, how you're thinking about the opportunity to continue to leverage labor across in the back half of the year here?

David M. Gordon

Drew, this is David Gordon. We continue to be very pleased with our progress around staff and management retention. Our staff level retention today is as good as it's been historically in the company. So even exceeding pre-pandemic levels and the same thing for management retention, and best-in-class across the industry.

And we continue to believe that's because of the culture, the enduring culture of Cheesecake Factory and how we care for our staff and managers, the opportunities for them to continue to promote within the concept, whether that's to be more productive as an hourly staff member and learn new stations, which improves productivity in the long run for us over time. We think we'll continue to see the benefits of this ongoing retention, whether that's in lower overtime, lower training costs. We don't see why that's going to change in the near term. based on the current environment. Certainly, if things change in the macro environment that we don't have control of, we'll see what happens.

And on the management side, I think we continue to offer terrific career opportunities for people. for them to progress their career to work in a company that has really leading unit growth today and giving them lots of opportunities to grow in each level of management to go as high as they potentially want to go. And we continue to be an employer of choice on the selection side because of the stability of the restaurants, the stability of the sales are really staff members know they're going to ours.

The tip staff members know they're going to get good consistent tips that we have best-in-class benefits. So our challenge to the operators is to keep this up and to ensure that we make it through the second half of the year, maintaining the type of retention that we've seen thus far.

Andrew D. North

Very helpful. And then 1 on the comp, if I could. On Cheesecake Factory, can you share the Q2 breakdown related to price and mix and the implied traffic, I guess? And then how we should think about the cadence of pricing as we think about the second half?

Matthew Eliot Clark

Sure. Drew, this is Matt. The net effective pricing in Q2 is about 4% for Cheesecake. Traffic was a negative 1.1%, and then mix was the balance and effectively, that's what's encompassed in the guidance for the back half. We do anticipate with the value that we're putting on the menu that we might continue to see that level of mix continue, but we're really focused on getting that traffic back to the positive side of the ledger. So very, very stable sales throughout the quarter and predictable. And I think that's helped our operators deliver on the margins. And so that's what we're forecasting at the back half right now.

Operator

Your next question comes from Jeff Farmer with Gordon Haskett.

Jeffrey Daniel Farmer

You guys touched on it, but with that February menu update, you did shine a brighter marketing light on the new menu items. So I guess the question would be, did you guys see a customer response to that in terms of just in terms of the innovation aspect of the new menu?

David M. Gordon

Jeff, this is David again. Well, certainly, our approach with this next menu is very similar to the last menu change. We are taking all of the new menu items and putting them on a separate card to ensure that guests see them and they don't get lost in the menu early on in their life. We feel good about the stickiness of the menu items that we put on that the previous menu change that you mentioned in February. And as Matt touched on, we think that this new menu from a price point value perspective and also from a flavor profile perspective, should be as successful, if not more successful than the rollout that we had in February.

Jeffrey Daniel Farmer

Okay. And then just as a follow-up to that, as it relates to some of the lower price point menu items you put out there, do you think, 2 things that the consumer is aware of the lower prices or the lower price points? And are they responding to those lower price points?

David M. Gordon

Sure. Well, certainly, again, the fact that they're outside of the menu, if you're a guest that's already coming into the restaurant, you're going to see that lower price point right away. And we can see the order rates from the previous new menu that guests are responding to that. And as Matt touched on the mix, we're anticipating that there'll be some impact to the mix that we're planning on.

So we do think that it will continue to resonate and it's the right strategy. and people want to come in and add a bite to their meal, right, just like they did when we rolled out small plates and snacks, right? We had guests who were actually introduced to a new category and instead of even cannibalizing from previous sales, they were just adding something that perhaps they weren't planning

on ordering. And we think this will happen with the bites perhaps as well. And somebody will add something like chicken and biscuits along with an appetizer and an entree whereas before perhaps they were just going to get an appetizer and an entree.

So it will be interesting to study here in the next few months.

Operator

Your next question comes from Sara Senatore with Bank of America.

Unidentified Analyst

A quick follow-up and then a question on Flower Child. So just on the follow-up. I just wanted to make sure I understood. I know at the beginning of -- or the end of -- when you reported last quarter, you would you did some caution just given the operating environment. And sort of seems like that didn't materialize. I just want to make sure, is that the right read that the operating environment perhaps is a little bit healthier than you might have initially thought given some of the headlines. So that's a clarification. And then on Flower Child, is there any kind of color you can give on profitability or unit economics? That certainly seems to be a very successful concept. The comps are very strong, and I think you're adding units at a nice clip. So as you think about kind of the return profile of the company as a whole, anything you can say about how that might shift it in 1 direction or another.

Matthew Eliot Clark

Sure, Sara. This is Matt. Just to start with on the environment. I mean I think certainly for Cheesecake Factory, Flower child, all of our concepts, the environment has been very, very steady for us. I don't know that it's better or they're certainly not true for everybody, but I feel like we were weathering this environment in a very strong way. And I think it's a testament to our execution and as well as the brands that we have.

So I think it's prudent just to continue to take a little bit of a cautious approach. We feel really good about where we're sitting today. With regards to Flower Child and sort of the unit economics, as David Gordon mentioned in the prepared remarks, we're seeing exceptional performance. The mature unit margins cresting over 20% at 20.4% is a high mark for our company at the moment. And the AUV is getting up to in the quarter of 4.8%. So we're looking down at \$5 million up there, maybe in the near-term future.

So certainly, the returns that we're getting today are in the mid-30s, and we feel really positive about that and look forward to continuing to grow the concept and it seems to be working everywhere that we've been opening.

Unidentified Analyst

Okay. I apologize I missed the prepared remarks on that. But just as you think about it as potentially a driver, do you see like an inflection point in terms of is moving the needle on your results just because you haven't broken it out yet and yet it seems very, very attractive.

Matthew Eliot Clark

Yes. It's a little small from an accounting perspective in terms of segment reporting for sure. But you know our intention when we started this journey about 6 months ago was to continue to put more information every quarter. So we're continuing to add data to the ability for people to see the progress. And certainly, we would continue to expect to provide even more information. And certainly, the performance has inflected over the past 18 months with all of the work that the team has done, whether it's with a KDS system or the operational dashboards or the catering, right, has all come to fruition and really it is on a very strong trajectory. And I would suspect that it will play a bigger and bigger role as we go forward.

Operator

Your next question comes from Jim Salera with Stephens.

James Ronald Salera

To ask a couple on North Italia, if I could. First, just some housekeeping, if you could give us the comp breakdown there, price volume in mix for North for the quarter? And then if I recall correctly, in there were some headwinds from the fires in L.A. and some regional weather. And so I believe the comp was similar, if not maybe down or up a little bit, but just any comments on kind of continuing to contribute to softness there for North?

Etienne Marcus

Jim, this is Etienne. I'll just give you the breakdown here. So price was 4% in the second quarter. Mix was negative 1, traffic was negative 4%.

Matthew Eliot Clark

So let me just give some extra color there, Jim, because I think it's important for everybody to understand the performance at North is actually very, very strong. If you look at the AUVs of \$8 million, actually outpacing the comps, that's because the new units are coming on that much stronger. And we delivered 18.2% on the mature margins, right? And so the higher sales and the higher margins are making for great returns. But what we are seeing is there is a little bit of sales transfer in some markets. And then that's really what's weighing on it.

So if you take Charlotte as a good example, and it talks to our ability to penetrate markets at the pace that we expected, so we have 2 Cheesecake factories in Charlotte that are doing \$25 million, \$26 million, right, near the system average. We just opened our third north in that market. And the first full quarter was Q2, and it did on an annualized basis, \$10 million, right? And so as the third 1 there, in total, the 3 of them are averaging around \$8 million.

And the mature margins there are in the low 20%. And so they're great investments. But when you open up that strong, you're just moving a little bit of sales from 1 existing to another. And that's really the major drive towards the comp there. If we net that out, it's performing pretty much in line with Cheesecake Factory.

Like when we net out the sales transfer, it's probably a 1% comp with a negative on traffic. And so we're actually really, really pleased. They're just opening faster and bigger than we expected.

James Ronald Salera

Got it. That's super helpful. And maybe if I could just have 1 quick follow-up there. Just any color that you guys have on North in terms of trends by income bracket, if there's anything that you've noticed in some locations with lower end consumer to the extent that like an aspirational consumer would go to North as kind of an elevated experience.

Matthew Eliot Clark

Yes. I mean, I think it's similar to Cheesecake factory, but maybe it's a little more narrow. It's probably slightly higher income on average, but certainly, aspirational guest can still go to north and use the menu however they see fit, right? I mean they can get it in pizza and pasta and salads, all in the low 20s. And so I think that there's opportunity there. And every market that we're going into now, we're seeing really strong demand. We noted opening in Boise being 40% above the system average, right? And so that's telling us that guests of all walks of life of all income brackets of all demographics are going to north. You don't open up doing \$10 million and 6,500 square feet, if that's not the case.

Operator

Your next question comes from Brian Vaccaro with Raymond James.

Brian Michael Vaccaro

I wanted to ask about menu pricing at Cheesecake Factory. I think you've been running, you said around 4%, maybe the low 4s. Margins have obviously exceeded your expectations it still seems to be a pretty intense value environment, just broadly thinking about the consumer. So I guess how does that feed into your current thinking on your fall menu rollout, and I guess, why not let year-on-year pricing roll off a bit, given the tailwinds that you're seeing?

Matthew Eliot Clark

Yes, Brian, this is Matt. So in fact, it will we are taking less pricing going into the back half of the year. But also, we're introducing some items that have some inherently lower prices. So the effective pricing that we're taking is actually going down quite a bit more.

And David Gordon mentioned bowls and the bite. The bites are predominantly items that are understands and the bowls are in the \$15 to \$16 range with Cheesecake Factory portions. So when we look at what we're doing from a value perspective, on -- really on an effective pricing, I think it's going to be well below where the industry is at, and we're driving significant value for the consumer.

Brian Michael Vaccaro

Okay. Sorry, I might have misunderstood previous comments on the pricing. But what type of year-on-year pricing at Cheesecake would be reasonable for the second half?

Matthew Eliot Clark

Probably on a headline basis. But again, I would just reiterate that with the new menu items, there's probably another 100 basis points of negative mix inherently built into that. So right, so the real pricing is probably going to be more like 2% to 2.5% in terms of what the consumer feels.

Brian Michael Vaccaro

Okay. That's super helpful. I wanted to ask about margins as well and maybe dial in on the North Italia margins. Certainly encouraging improvement. I think our segment margin was nearly 15% if I did the rough math quickly. I guess can you just elaborate a little bit on what drove that improvement in a slightly negative comp environment? And I told the other OpEx line in particular, maybe 100, 130 basis points year-on-year. Maybe just some broader comments on those margin dynamics you're seeing at North.

Matthew Eliot Clark

Sure, Brian, this is Matt. I think generally, it's the stability of the business and operational execution. We did, if you remember, kind of catch up on pricing equivalently to Cheesecake at the end of last year. So some of that is flowing through at this point in time. But we've also seen some of the favorable commodities that we've had for the entire company. And really, if you think about the total sales, I mean, \$8 million AUV, we're leveraging those sales and driving profitability in the 4 walls. So we're super encouraged by that as well. The teams continue to stay intently focused on driving the sales because we know we can deliver the profitability when we get the sales.

Brian Michael Vaccaro

Great. And then just last quick clarification on North Italia comps, you mentioned the negative impact on the L.A. unit. Is it possible to quantify that and kind of what the comp would have been ex the L.A.?

Matthew Eliot Clark

It would have been flat without the L.A.

Operator

Your next question comes from Andy Barish with Jefferies.

Andrew Marc Barish

More of a high-level question and thought, I'd love to hear your perspective on it. I mean casual dining seems to be kind of having a moment right now, especially experiential. What do you guys kind of think and see as going on and obviously helping the success of your business?

David M. Gordon

Sure, Andy. This is David. I think that people want their dollars spent in the most productive way possible, you mentioned experiential dining. We believe that we will continue to be leaders in experiential dining and people want to go out to eat for great, wonderful, delicious food, but also as an experience. They want to be in an environment that has a lot of energy.

We think we provide that at all of our concepts from Cheesecake Factory to a higher-end fast casual Flower Child, which very much is an experience, not just a transaction. So as people maybe move away from -- especially younger people, move away from transactional purchases. I want to spend time together, our restaurants, highly designed, high-touch hospitality, today's consumer appreciates that, I think more than ever, they are more sophisticated than they've ever been about food. And we're making all of our food from scratch every single day in every single concept. And we believe we can take market share and have been taking market share because of that sustained quality I think the sustained level of great operations and all the way leading back to the retention numbers that we see at Cheesecake that have led to all-time high NPS numbers, which show consistency and people appreciate that consistency as well.

Andrew Marc Barish

Got it. And then just if you're willing to share, I guess, an early look at the '26 development pipeline, at least directionally, I'm assuming you're going to open more units? Is that something that you're honing in on as we sit here with only 4 or 5 months to go in 2025?

David M. Gordon

Yes. We certainly anticipate opening more units in the '25 that will open this year. We feel good about the pipeline. We feel good about the cadence of openings. So I think you can anticipate that, that number of percentage unit growth that we've shared in the past is 1 that we're going to continue to be able to hit moving forward.

Operator

Your next question comes from Sharon Zackfia with William Blair.

Sharon Zackfia

Sorry, we have new phones. Can you hear me now?

Okay. I have to learn to unmute. it's 2025. Sorry if you mentioned this. I was on another call and then hopped on here, but I wanted to ask about the rewards program for Cheesecake. I think you mentioned it, but I was hoping to get some more kind of meat on the bone in terms of kind of what you're seeing there, kind of in terms of percent of transactions that are involving rewards or incremental lift on spend for rewards members versus nonrewards. And if you have any data on frequency, kind of how that customer is visiting Cheesecake kind of before they joined rewards versus now or just versus the overall nonrewards population?

David M. Gordon

Sure, Sharon. This is David. I think we're going to still continue to keep things at a pretty high level. What I will share is that we continue to see month-over-month acquisition exceeding our internal expectations. So that's good to see. People are still enthused about the program and continuing to sign up at a higher level than we anticipate. Members continue to have higher frequency, higher check average, higher NPS scores than nonmembers. So all very, very positive signs. And as we move from the more broad approach that we took in 2024, a which had about a 1% redemption rate across very large swath of audiences, very broad, reaching everybody with the same type of offer.

As you know, this year, we've moved to more personalized offers that are more behavior-based based on the data we have about rewards members and timing based. We're seeing those redemption rates of about 4% or higher. So significantly better than the broad-based approach that we were taking before. We now have our internal team fully intact. We brought on board a Director of Rewards, who's leading our team to continue to do analysis to make sure we have the right type of data to ensure that the redemption rates moving forward are positive, accretive and very much in line with the margin profile around what we want to spend on the program overall.

Sharon Zackfia

Can I ask a follow-up? When you have the rewards with Flower Child as well, kind of are there similarities or differences that you would point out between how the customer kind of interacts with the Flower Child rewards versus Cheesecake?

David M. Gordon

Flower Child is much more of a traditional rewards program. It's an app-based program that has points for visitation and for spend. So we're really not comparing them because they are so different. We're very happy with the program at Flower Child and believe it is driving behavior for guests that are in the program. You can order within the app, you can order ahead all the typical things that you'd be able to do in a fast casual. And thus far, it's had a pretty positive response from guests, but completely different than the Cheesecake program, which is more of that published unpublished non-points program.

Operator

Your next question comes from Jim Sanderson with Northcoast Research.

James Jon Sanderson

I wanted to follow up a little bit more on Flower Child. I was wondering if you could give us a sense of where you think the store capacity could end up given your success on average weekly sales growth, I think you've more or less doubled sales volume over the past 7 years. But wondering where you think this brand can actually end up given the opportunity for catering and for off-premises?

Matthew Eliot Clark

Jim, it's Matt. It's a really interesting question. I don't think we know 100%. And then the reason I say that is because the operating team just keeps getting better and they're able to drive more throughput. And you mentioned 1 of those reasons, which is definitely catering they figured out a way to squeeze those sales in early before the store opens sometimes and maximize the total throughput.

I can tell you, we have locations doing between \$6.5 million and \$7 million. And so we know that there's a pretty good runway still for the overall brand to continue to grow. It's AUV on an organic basis, right, from traffic and transactions that's not from pricing. That's just from volume. So hopefully, we'll continue to increase that capacity, but we know we've got a long runway in the overall footprint here to go.

James Jon Sanderson

You mentioned those locations doing \$6.5 million to \$7 million. Are those the most mature locations or anything specific about those sites that might be.

Matthew Eliot Clark

Yes. They are some of the more mature locations. And so they've been building business for a longer period of time. Sometimes it can just be the idiosyncratic nature of the site just works particularly well. But in general, the business keeps growing. And so yes, the longer that the sites have been around, typically, the more traffic they have.

James Jon Sanderson

All right. And just a couple of questions on traffic trends. I think in the past, you'd mentioned sometimes your patio capacity is at risk when you have heat waves, things like that. Is there any change in traffic trends you noticed in the second quarter or in July to date related to weather or something unexpected?

Matthew Eliot Clark

No, it's been very steady across our company. Certainly, we do watch the weather. And you could have some pockets where it can impact it for a period of time, a week here or there. But really, if you take the bigger picture, it's been very steady and predictable.

Operator

Your final question comes from Jon Tower with Citigroup.

Jon Michael Tower

Just curious, I know it sounds like new menus coming now or are hitting now and it does sound like the bowls and the bites, lower price points, \$10, \$15 or so -- it sounds like those kind of would work well, particularly around the launch. So are you doing any sort of social marketing or just marketing in general to kind of hit that daypart, particularly during the weekdays when maybe your volumes aren't as robust as your bigger weekends.

David M. Gordon

Sure, Jim. This is David. I think as I mentioned earlier on the rewards program, that's the perfect opportunity for us to use the data that we have today to drive behavior to a specific day part, so we've been doing that throughout the first half of this year. We're going to continue to do that. And certainly, as we message the new menu, we actually let members know about the new menu earlier than the rest of the population.

And if we knew that you were a guest, maybe they hadn't come for lunch, maybe we sent that to you at a particular time, talked about a lunch promotion that made you aware of those new items all at the same time. So having the data really makes it more impactful for us to be able to do the right type of targeted messaging to drive specific daypart. And so we're going to be excited to do that through the rest of the year.

Matthew Eliot Clark

And it's really, Jon, 1 of the things, too, it's at lunch, but it's also channels right? We think that the bowl category will work really well for delivery. And as you know, we really don't take incremental pricing. So we have a \$15 or \$16 Cheesecake portion bowl. We think that stacks up pretty well in this environment to be delivered.

Jon Michael Tower

Yes. No, that's great. Maybe just pivoting just back to the Flower Child brand, obviously, you guys are -- the brand itself sounds like it's hitting on all cylinders today. and you're opening in a fairly healthy, I think mid-20s percent growth clip in terms of new stores.

And the returns sound like they're justifying this but is there a threshold at which you won't bump up against in terms of new store opening cadence? Are you guys not going above 30% a year, given human capital constraints or anything like that?

David M. Gordon

Sure, Jon. That's a great question. You've probably heard us talk about that before. And right today, we're comfortable with that 20% number. We could probably be a little bit higher than that. That team is very focused today on manager development and ensuring that we have the right general managers and executive chefs to open those restaurants and open them well, especially because so many of them are opening at such high volumes, and we want to make sure that, that guest experience is perfect from the get-go.

So management development is a key focus for the team. We're comfortable with where we are today at 20% or a little bit higher as we continue to build that pipeline. We certainly have the capacity from a company standpoint to build more and to do it faster, but we're going to be cautious and careful and make sure we can execute as well as we want to.

Operator

We have a question from Rahul Kro with JPMorgan.

Rahul Krotthapalli

Can you help understand the dynamics around the \$500 million converts. It looks like we are not far off from the conversion price here. And should we see this elected ahead? What kind of dilution would you anticipate after like expecting to pay a portion through cash? And also remind us how much of this is also hedged through call options?

Matthew Eliot Clark

Yes. So this is Matt. It's a great question. So the price -- the strike prices are 70, 71 sort of right in that zone. Certainly, with the Stub, the \$69 million we would watch and sort of decide to do something on that based on economics. And it would have to be around \$80 for the sort of cost of carry to net out for us to decide to extinguish those. And on the other is really what I can remember on the \$575 million is at, say, \$8, a \$10 increase over the strike price there you're talking about 1.5% dilution. It's not that meaningful in the bigger picture for us. And so certainly, that would be a high-cost problem. I think all investors would be happy if we were at \$80 and there was a 1.5% dilution at that point in time.

Operator

There are no further questions at this time. Ladies and gentlemen, this concludes today's call. We thank you all for joining. You may now disconnect.

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