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Q3: 2024-10-29 Earnings Summary

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EPS of \$0.58 **beats** by \$0.09 | Revenue of \$865.47M (4.25% Y/Y) **misses** by \$653.79K

The Cheesecake Factory Incorporated (NASDAQ:[CAKE](#)) Q3 2024 Earnings Call October 29, 2024 5:00 PM ET

Company Participants

Etienne Marcus - Vice President, Investor Relations

David Overton - Chairman and Chief Executive Officer

David Gordon - President

Matt Clark - Executive Vice President and Chief Financial Officer

Conference Call Participants

Jim Salera - Stephens

Drew North - Baird

Catherine Griffin - Bank of America

Jeff Farmer - Gordon Haskett

Karen Holthouse - Citi

Jim Sanderson - Northcoast Research

Andy Barish - Jefferies

Sharon Zackfia - William Blair

Brian Vaccaro - Raymond James

Operator

Ladies and gentlemen, thank you for standing by. My name is Christa and I will be your conference operator today. At this time, I would like to welcome everyone to The Cheesecake Factory, Incorporated Third Quarter 2024 Earnings Conference Call. [Operator Instructions] Thank you. I would now like to turn the conference over to Etienne Marcus, Vice President of Investor Relations. You may begin.

Etienne Marcus

Good afternoon and welcome to our third 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 excludes 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 third quarter financial results and provide commentary on our financial outlook before opening the call to questions.

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

David Overton

Thank you, Etienne. In the third quarter, we once again delivered strong and dependable results with stable revenue, solid operational execution and substantial profitability growth. To this point, Cheesecake Factory restaurant comparable sales and traffic again meaningfully outperformed the industry, underscoring the strength and consistency of consumer demand for our brand and our ability to capture market share. Solid sales and exceptional operational execution in the quarter resulted in adjusted earnings per share growth of 49% from the prior year. Over the past four quarters, we have delivered cumulative adjusted earnings per share growth of over 31% versus the prior four quarters.

Turning to development, we successfully opened 4 restaurants in the third quarter, including 3 FRC restaurants and 1 Flower Child locations. Subsequent to quarter end, we opened 3 restaurants in North Italia and a Blanco in Phoenix and our first Flower Child in Salt Lake City. With 17 restaurant openings so far this year, we are well positioned to meet our objective of opening as many as 22 new restaurants in 2024. Looking ahead to 2025, we expect to further accelerate our unit growth with the opening of as many as 24 new restaurants across our portfolio of concepts.

Before handing it over to David, I'd like to briefly provide some perspective on our approach to value creation. Our focus on delivering value to our shareholders means we are always evaluating opportunities for our concepts. In the restaurant industry, scale and timing are key factors for their consideration in evaluating how to maximize the value creation potential of our company. The results announced today demonstrate the power our larger platform provides reinforcing our competence in our strategy to drive sustainable growth and value going forward. Looking ahead, we will continue to review and optimize our portfolio as we have in the past, as we remain committed to achieving our goals and maximizing shareholder value 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. Our excellent staffing position, supported by strong staff engagement and industry leading staff and management retention has enabled our tenured operators to maintain their focus on the fundamentals of the restaurant industry, great food, great service and great ambience, as well as on reinforcing the operational standards that the Cheesecake Factory has been built on. And we are seeing these improvements in virtually every key facet of operations, including record high guest satisfaction scores across all dine-in and to-go metrics, which we believe continues to contribute to both comparable sales and traffic, meaningfully exceeding the Black Box casual dining index by 310 and 380 basis points respectively in the third quarter. Additional operational benefits include better-than-expected flow-through, labor productivity, overtime and wage management, lower food waste, which are contributing to improved restaurant level margins.

Cheesecake Factory restaurant level margins for the quarter improved by 180 basis points from Q3 of 2023 and have averaged 16.4% over the past four quarters within our long-term margin target of 16% to 18%.

Now turning to sales trends, Cheesecake Factory off-premise sales remains stable at 21% of sales for the third quarter, which annualized equates to \$2.5 million in off-premise sales per restaurant, nearly double the average of our next closest peer. North Italia third quarter comparable sales increased 2% from the prior year, resulting in annualized AUVs of \$7.4 million. Importantly, restaurant level margin for the adjusted mature North Italia locations was 15%, a 250 basis point improvement from the prior year. Flower Child average weekly sales were \$85,200, up more than 6% from the third quarter of 2023. Other Fox Restaurant Concepts' annualized AUVs were \$6.1 million.

And lastly, we continue to be very pleased with the performance of The Cheesecake Rewards program. Demand continues to surpass our internal expectations and we remain encouraged by the level of member activity and engagement that we are seeing with guest satisfaction scores for members over-indexing, reinforcing our belief that we are on the right path. As I've said in the past and will continue to reiterate, we are developing the program very thoughtfully and deliberately with a long-term perspective. That said, further results have demonstrated we are driving incremental visits from existing guests and attracting new guests.

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 third quarter results versus our expectations I outlined last quarter. Total revenues of \$865 million finished towards the higher end of the range we provided. Adjusted net income margin of 3.3% exceeded the high end of the guidance we provided and we returned \$14.2 million through our shareholders in the form of dividends and stock repurchases.

Now, turning to some more specific details around the quarter. Third quarter total sales at the Cheesecake Factory restaurants were \$647.8 million, up 3% from the prior year. Comparable sales increased 1.6% versus the prior year. Total sales for North Italia were \$71.9 million, up 15% from the prior year period. Other FRC sales totaled \$67 million, up 14% from the prior year and sales per operating week were \$116,500. Flower Child sales totaled \$36.6 million, up 14% from the prior year and sales per operating week were \$85,200 and external bakery sales were \$14.9 million.

Now, moving to year-over-year expense variance commentary. In the third quarter, we continued 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 40 basis points, primarily supported by menu pricing leverage relative to labor inflation and labor productivity improvements partially offset by higher health insurance costs, mostly related to high cost claims in the quarter.

Other operating expenses increased 10 basis points. G&A was in line with prior year. And depreciation increased 10 basis points as a percent of sales. Pre-opening costs were \$7 million in the quarter compared to \$6.7 million in the prior year period. We opened 4 restaurants during the third quarter versus 2 restaurants in the third quarter of 2023. Note that last year we experienced some higher pre-opening costs relative to the number of openings due to delays in opening dates. And in the third quarter, we recorded pre-tax net income of \$2.5 million primarily related to lease terminations. Third quarter GAAP diluted net income per share was \$0.61. Adjusted diluted net income per share was \$0.58.

Now turning to our balance sheet and capital allocation, the company ended the quarter with total available liquidity of approximately \$289 million including a cash balance of about \$52 million and approximately \$237 million available on a revolving credit facility. Total debt outstanding was unchanged at \$475 million in principal. CapEx totaled approximately \$54 million during the third quarter for new unit development and maintenance. During the quarter, we completed approximately \$1.1 million in share repurchases and returned \$13.1 million to shareholders via our dividend.

Now, let me shift 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 Q4 2024 and full year 2025. 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, and the effect of any impacts associated with holidays and assumes no material operating or consumer disruptions.

For Q4, 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 Q4 as our broad market basket remains very stable. 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 above \$58 million. Depreciation is estimated to be approximately \$26 million. Based on these assumptions, we would anticipate adjusted net income margin to be about 4.8% to 4.9% based on the sales range we provided.

With regard to development, as David Overton highlighted earlier, we plan to open as many as 22 new restaurants this year across our portfolio of concepts with as many as 8 openings in the fourth quarter. This includes as many as 3 Cheesecake Factory's, 6 North Italia's, 6 to 7 Flower Childs and 8 FRC restaurants. And we continue to anticipate approximately \$180 million to \$200 million in cash CapEx to support this year's and some of next year's unit development as well as required maintenance on our restaurants and for clarity, with approximately 20% to 25% of these expenses reflected in operating lease assets in the cash flow statement.

Turning to fiscal 2025, based on this year's performance and assuming no material operating or consumer disruptions, we anticipate total revenues for fiscal 2025 to be approximately \$3.75 billion at the midpoint of our sensitivity modeling. We currently estimate total inflation across our commodity basket, 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 lower year-over-year as a percent of sales and depreciation to be about \$106 million for the year. And given our unit growth expectations, we are estimating pre-opening expenses to be approximately \$30 million.

Based on these assumptions, we would expect full year net income margin to be approximately 4.75% at the sales estimate provided. For modeling purposes, we are assuming a 10% to 11% tax rate and weighted average shares outstanding relatively flat to 2024. With regard to development, as David stated earlier, we plan to continue accelerating unit growth next year. As such, at this time, we expect to open as many as 24 new restaurants in 2025. And we would anticipate approximately \$190 million to \$210 million in cash CapEx to support unit development as well as required maintenance on our restaurants. This also includes our preliminary CapEx estimate for the initial phase of development for the third bakery facility. Note that the total CapEx estimated range assumes a similar mix of new restaurant openings by concept as 2024.

In closing, we have delivered four consecutive quarters of strong results, including stable sales, solid operational execution and significant profitability growth. We are looking to build on this momentum to continue generating our historically consistent operational and financial results and to make further progress towards our goal of shareholder value creation.

With that said, we'll take your questions.

Question-and-Answer Session

Operator

Thank you. [Operator Instructions] Your first question comes from the line of Jim Salera with Stephens. Please go ahead.

Jim Salera

Hey, guys. Thanks for taking our question. I really wanted to drill down on maybe first of all the components of same-store sales just given that you guys continue to post really solid results in a more strained environment. So if you could just give like the breakdown for traffic mix pricing and how that kind of comes together?

Matt Clark

Sure. This is Matt. Pricing in the quarter was 4.5%. Mix was a negative 2.1%, so continues to come down pretty much in line with what we've been expecting all year. And then traffic was a negative 0.8%, but really that was I would say related to July. I think what everybody saw we were improving throughout the quarter flattish in August and then positive traffic in September.

Jim Salera

Okay, great. And I guess building off that, what do you think is driving the traffic trends just given some of the softness that other full service peers are experiencing? If you can just kind of touch on what you're seeing at your concepts relative to the broader industry?

David Gordon

Hey, Jim. This is David Gordon. I think number one the stability of our staff retention and management retention in the restaurants has led to great execution. I think our teams are doing a terrific job. We have all-time high net promoter scores whether that's dine-in or in off-premise. So I think we are taking some market share just through execution. Our food quality is as good as it's ever been. Hospitality is strong as it's ever been. I think we are seeing a little bit of incremental lift maybe from our rewards program, which has been good to see since we are still really in the first full year of executing that program. So I think some of our strategic marketing through the program is paying off. So probably those two things are the biggest attributes that has remained helping us see some consistent outperformance to the rest of the industry.

Jim Solera

That's great. Appreciate all the color guys. I'll hop back into queue.

Operator

Your next question comes from the line of Jeffrey Bernstein with Barclays. Please go ahead.

Unidentified Analyst

Hi, this is [indiscernible] on for Jeff Bernstein. I wanted to ask about the consumer and if you've seen any change in behavior in recent months whether that be by income cohort or any mix changes? Thanks.

Matt Clark

Yes, this is Matt. I think based on the sales commentary, it's been very consistent, I think across all of our concepts and certainly at the namesake Cheesecake Factory, really looking at day part or day of the week or attachment, I think everything has been pretty much as expected and slightly better in Q3 than in Q2, right. So I think all-in-all the trends are stable, predictable and improving.

Unidentified Analyst

Thank you.

Operator

Your next question comes from the line of Drew North with Baird. Please go ahead.

Drew North

Hey, thanks for taking the question. It was just regarding your portfolio approach to the business and your comments related to evaluating opportunities to maximize shareholder value. We've seen the media reports that one of your shareholders is pushing for you to possibly separate some of the growth brands from the core Cheesecake Factory business and appreciate your proactive comments on the call. But I was wondering if you could expand on if you'd be willing to consider such a plan currently or in the future and maybe how that would work if it were a consideration?

Matt Clark

Drew, this is Matt. Thanks for the question. Certainly, we are happy that our investors like our concepts and think that they have great potential. So, I think first and foremost, I think that's important to note. I think the Board regularly reviews the portfolio and other strategic options to maximize shareholder value. So I don't think that's new notwithstanding the recent media. That's something that happens on an ongoing basis. As David Overton noted in the prepared remarks, we think we are doing a great job incubating these concepts and that there could be a time or place for further strategic assessments for them, but there is probably a little bit more development work that needs to go on. You are talking about concepts that have between 30 and 40 locations and \$100 million to \$300 million in sales. And so the ability of The Cheesecake Factory ecosystem to benefit those concepts at this point in time can't be underestimated. So, we'll see what the future holds, but we will be open to reviewing and drive shareholder value and believe that these concepts will continue to grow profitably and support our shareholders one way or another.

Drew North

Thanks for that perspective. And then one more if I may. On the 2025 outlook as it relates to unit development where could we see the incremental openings as we think about '24 versus as many as '22 this year? And is there opportunity for a more balanced cadence of openings in 2025 relative to the back weighted openings we've seen in recent years?

David Gordon

Thanks Drew. This is David. Actually this year has been more balanced than it had been in previous years. So we are pretty enthused by that. And we do have some openings in the first quarter of next year. So we are hoping to continue to have a more balanced approach wherever we can. And as far as the actual concepts, it will be very similar to this year as far as how many Cheesecake Factory's North, Flower Child and FRC, so similar cadence, similar amount of each one of the concepts to this year's numbers.

Drew North

Thank you. I'll hop back into queue.

Operator

Your next question comes from the line of Catherine Griffin with Bank of America. Please go ahead.

Catherine Griffin

Hi, thank you. My first question is on Flower Child last quarter you gave some color on the like directional comp performance of that business versus North Italia and Cheesecake. So I was curious if you could give an update there? And then maybe if you could contextualize the performance of Flower Child just given its geographic SKU, I am curious if that region is kind of outperforming the Southeast region. And then also if Flower Child is taking share in its category kind of where you think it's taking share from? Thank you.

Matt Clark

Sure, Catherine. This is this is Matt. Yes, the Flower Child comps continue to be the strongest in our system running mid single-digits and we feel like with room to accelerate a little bit here into the fourth quarter. The geography is pretty national. Maybe it's the smile shape, because we do go up into the DC area and then kind of down around and all the way into California and it's been pretty consistent across the board. We've seen some really nice gains in all-in-all of our locations and positive traffic certainly. And it would look like based on the data we've seen in black box that we are well ahead of the overall fast casual category and I think part of that is the breadth of the Flower Child offering. It's, we like to talk about it. It's fast casual, but it's maybe a little bit higher end, fast casual and kind of like Cheesecake has a little bit of a moat, given the breadth of the offering. It balances really well, it's slightly above 50% to go, but it – that means it's almost 50% on premise. Certainly that's very differentiated in fast casual space and probably a little bit more balanced on lunch and dinner. So we think it's the execution is probably a big drive as that as well, with all of the things we do to continue to incubate it. But overall please with the trajectory of the concept.

David Gordon

I think I would just add, Catherine, that the two new markets that we entered into this year. As David mentioned earlier and Salt Lake City and Utah, just a couple weeks ago have been outperforming our expectations and in the suburbs in St. Louis earlier this year, also a brand new market really outperforming. So we're really happy as we moved into new markets as well.

Catherine Griffin

That's great. Thank you. And then I wanted to just ask another question on the portfolio approach. The Cheesecake Factory has. Can you remind me sort of what the benefits are of having these growth concepts like we can maybe speak just on Flower Child and The Cheesecake Factory portfolio, sort of how these brands are better positioned as it relates to integrating supply chain and deploying things like reporting platforms and operational dashboard? Just any color you can give there as far as how you're thinking about – the opportunities to leverage costs with the growth concepts part of the portfolio. Thank you.

Matt Clark

Sure, Catherine. This is Matt. I'll start off again and then David will add some additional color. But certainly you touched on one of the big areas. I mean, I think just really the scale benefit overall is very important still at this stage certainly being able to leverage G&A in the low 6% compared to most of the high growth concepts that are smaller are in the mid-teens for D&A, right. So they're just out of the gate. That is a benefit supply chain is certainly one of the larger areas, and that's with commodities, but it's also with other types of purchasing whether that could be insurance or construction related. There are benefits that to go directly to the P&L that that are very meaningful at this point as well. And then I think from the people side, there's a lot of best practices that The Cheesecake Factory has that we're able to deploy and you mentioned the dashboards for operations et cetera. So we feel like we're doing exactly what we thought, when the board decided to make this acquisition. The thesis was that we could provide a great way to grow them and add general their value and we continue I think to do that very effectively.

David Gordon

Yes, I guess I would. I would state a few items. One would just be our 45 year history of running great high volume restaurants and just our operational expertise that we're able to add to any of those concepts and in any way. Part of that is our ability to have strong analytics and operating performance dashboards to give more insight into each one of the concepts, whether that's an opportunity for more throughput or an opportunity to be more effective when it comes to productivity or food efficiencies, all areas that we have a lot of view into, we also are able to leverage our DoorDash relationships. So when it comes to off premise sales The deal we have with DoorDash covers all of the different concepts, So, certainly financially, if you think about Flower Child, example, as Matt stated earlier, with over 50% off premise sales and a portion of that coming through DoorDash, that's a direct cost benefit to the total company and to those other concepts as well.

Catherine Griffin

Thank you. Appreciate it.

Operator

Your next question comes from the line of Jeff Farmer with Gordon Haskett. Please go ahead.

Jeff Farmer

Thank you. You pointed over the last couple of quarters to a steady moderation of the mix headwinds that you have been seeing. So, I assume as you move forward, you do expect that to happen, but can you give us some color on some of the factors that would contribute to that smaller mix headwind as you move forward?

Matt Clark

Yes, sure. Jeff, this is Matt. I mean really it comes down to predominantly lapping around the party size math and so we started to see that, really, in 2023 where we started more large parties back than in the sort of immediately post-COVID times. And as we talked about, party of six or eight, the per capita spend is about 20% less than a party of two. And so that is just rebalancing, and sort of, I will call it dovetailing back to pre-pandemic levels. And so that's why we feel like it's been predictable and measurable, because we see it sort of approaching that baseline on a very linear path. So, we would expect Q4 to be, call it negative 1%. And then for next year, our initial planning would be relatively flat for the year, all is being equal.

Jeff Farmer

Alright. That's helpful. And then just as a quick follow-up, anything you can offer on menu pricing over the next couple of quarters, how you guys were more sort of high level thinking about pricing as you move into 2025?

Matt Clark

Well, our objective would be to take only the amount of pricing that we need to offset inflation. We are seeing labor inflation become a little bit more manageable, I think in the industry as well. So, we are right now in the process of reviewing our commodities outlook and engaging with our suppliers on contracts for next year. So, that will give us a lot to inform pricing decisions. But I would suspect it would be coming down from this year's level, which has been between 4.8% and migrating back more towards our historical call it three, but it will really depend on those factors, as we see them play out in the next couple of months.

Jeff Farmer

So, just one quick follow-up, the Q4 expected pricing, what's that number?

Matt Clark

4.5, same exactly as Q3.

Jeff Farmer

Alright. Thank you, Matt.

Matt Clark

You're welcome.

Operator

Your next question comes from the line of Jon City – with Jon Tower with Citi. Please go ahead.

Karen Holthouse

One quick model clean up, and then I have an actual question. Sorry, this is Karen Holthouse on for Jon, what was commodity inflation in the past quarter?

David Overton

It was 1%. Good to hear from you, Karen.

Karen Holthouse

And then great to hear about your rewards engagement and that you think the program is you are doing what's supposed to with both new and existing customers. Very more color you can give on kind of how people are engaging with it. And what I am really trying to get at is kind of how important the access to reservations has been in terms of driving interest and uptake.

David Overton

Sure. Karen, this is David, certainly, we see a high level of usage of reservations. So, that would tell us that people are enthusiastic about reservations being part of the program. We definitely thus far are happy that the guests we are seeing are moderate and frequent guests, and that's really our goal. The program is to drive moderates and frequent one or two more visits a year, and that the guest satisfaction scores of those guests are even higher than guests that are not members. So, that tells us that enthusiastic about the program. Overall reservations appear to be working. And I think some of the unpublished rewards that we have been using over the past few quarters are also been – have also been meaningful, and that's somewhere where we will continue to test and learn and try and be even more pinpointed with the offers that are out there to continue to drive incrementality with the right guest, so that it remains margin neutral for us and could be a powerful tool to drive traffic in long run.

Karen Holthouse

Okay. Great. Thank you. I will pass it on.

Operator

Your next question comes from the line of Jim Sanderson with Northcoast Research. Please go ahead.

Jim Sanderson

Thanks for the question. Just wanted to get a little bit more feedback on, I believe the closure of some Cheesecake stores in the quarter, and if you can affirm what the net unit growth count will be for the end of the year. And then the same question for 2025.

Matt Clark

Sure. Jim, this is Matt. Just on the Cheesecake locations, one of them was actually a site condemnation. I have never had that happen in my career before, but the entire facility was – center was condemned, and so we had no choice but to close. And the other one was a lease exit opportunity in a location that was underperforming and had some safety concerns, so very unique for us to have that situation, particularly twice in one quarter. But again, we have estimated number of total...?

David Overton

Net in total will be about plus-20.

Matt Clark

All concepts included.

Jim Sanderson

And for 2025?

David Overton

Well, we said as many as 24, with about the same mix as this year. So, roughly speaking, you could take this year's and maybe there is one more Cheesecake and one more Flower Child for modeling purposes.

Jim Sanderson

Okay. Just wanted to make sure there wasn't any expectation of incremental closures beyond what we have seen so far.

David Overton

Just to make sure is, we always qualify that there could always be one here or there for unforeseen reasons, right. So, I think it will keep people abreast of that, but those are our plans at the moment, yes.

Jim Sanderson

Understood. Is there any increase in G&A spending expected with the acceleration in unit growth for 2025, or should that keep pace, or kind of lag revenue growth?

David Overton

Yes. Our objective would be to scale a little bit. So, even though we are opening a couple of more units, we are targeting to have G&A as a percentage of sales decreased by it.

Jim Sanderson

And then last question for me, just wanted any feedback you had on, perhaps advanced bookings or retail activity, what your exposure is to shopping centers, and how you are looking at the holiday season this quarter?

David Overton

We do a lot of private dining in some of our smaller concepts. It seems to be going consistent with historical patterns. So far, we haven't seen anything too different. Our outlook is for a very consistent and predictable trend that like we have seen in the last couple of quarters. So, nothing new or different than what we have seen recently.

Jim Sanderson

Alright. No concern with the shortened shopping season between Black Friday and Christmas?

David Overton

Yes. I think that's much more of a retail consideration than a restaurant consideration, at least, that's what I have read. It doesn't seem to be as much of an issue when we have studied it in our past results.

Jim Sanderson

Understood. Thank you very much. I will pass it on.

Operator

[Operator Instructions] Your next question comes from the line of Andy Barish with Jefferies. Please go ahead.

Andy Barish

Hey guys. Just taking the holiday stuff in a slightly different direction, and the bakery business, any signs of kind of stabilization in some channels, and maybe the holiday season bookings in that business looking a little bit better than where things have been heading recently?

Matt Clark

Andy, this is Matt. What I would say is, we are moving forward in some new channels that I think have some good promise to backfill. Of course, in that segment, it does take a little bit longer, but we did just close a pretty good long-term agreement with a prominent grocery chain that has about 2,000 locations. And it's for a slightly smaller lower priced product. So, we think that's part of what you need to do to compete in CPG today. We are also seeing some green shoots internationally, and have signed two master distribution agreements in the first half of this year. But – so, I think we will see some improvement in return to growth in 2025, but it's just a longer tail for that category.

Andy Barish

Great. Appreciate it. And then on the development side, nice to hear, quantitatively, the numbers going up. Qualitatively, how do you kind of see the pipeline in '25 and the things that have been challenges in terms of permitting and utilities, we are on the spectrum, are we in terms of returning to some level of new normalization there?

David Overton

Hey Andy, this is David. I think that we are feeling pretty confident about next year, finishing this year right on target. We haven't had any hiccups here as we are coming into the fourth quarter. Permitting has gotten easier. On the equipment side, we are very, very confident. We really feel great about the markets we are moving into next year, whether they are existing or new markets. So, it's full steam ahead for 2025 with a lot of confidence.

Andy Barish

Good to hear. Thank you.

Operator

Your next question comes from the line of Sharon Zackfia with William Blair. Please go ahead.

Sharon Zackfia

Hey. Thanks for taking the question. I guess I wanted to kind of come back to the unit level margins with Cheesecake Factory and North Italia. I think if I got them right, they were 16.4 for the last four quarters for CAKE. And I think the discussion around North Italia is 15 at maturity. And I have been around long enough, I remember when CAKE used to be in the high teens. And I know things have kind of changed in a lot of ways. But is there a path for CAKE, getting back to the high teens? And can you kind of walk us through that? Is it just a matter of more sales? Is it that easy? And then on North Italia, is 15 a good number, just given the alcohol mix there, do you think that's something that can get closer to kind of CAKE over time?

Matt Clark

Yes. Sharon, this is Matt. So, first on North, our target there is similar to Cheesecake. We believe it should be a business that operates in the 16% to 18% range. We have been more cautious over the past couple of years, catching up on the pricing. And so we have been pretty open about CAKE being behind, but North as well. And so I think we are pretty confident in the initiatives that we have in place and that concept sales to be able to leverage that into the same level as CAKE. And then sort of to that point, we probably peaked in the high teens or almost 20%. There have been some accounting changes that basically put our range where we say 16% to 18% now takes into consideration things like lease accounting, right. So, when we had to adopt that, I don't know if anybody remembers at this point, because it was pre-COVID, but that was about 100 basis points swing between the depreciation and operating lines, right. So, we are just taking all of those things into consideration. We do feel like we can still move it higher. So, past four quarters for CAKE is average 16.4 and the trajectory is still moving up, right. So, it is sales, but it's also the operational effectiveness, the ability to have best-in-class and best ever retention rates for our staff, right. So, there are other factors. I think supply chain is another one that we continue to benefit on the increasing scale of our company, and leveraging that a little bit. So, we feel really good about the trajectory, and it's still moving in the right direction.

Sharon Zackfia

Thanks for that. And then on the reservations, I assume you guys aren't holding tables, right? Is this just kind of giving people priority seating when they come in, so you are not losing any kind of productivity on the tables?

David Overton

Yes. Certainly, productivity is always a goal. We don't want to have any open tables for any length of time. We do want a reservation to actually be met. So, we have very strong perimeters – parameters, excuse me, for the restaurants. Nobody should be waiting more than five minutes if they do have a reservation. But in no way are we holding tables, and they are very limited reservations that are actually available within each hour, so that we – even if somebody wasn't operating within our parameters, it wouldn't impact throughput and our ability to drive sales.

Sharon Zackfia

Okay. Thank you.

Operator

Your next question comes from the line of Brian Vaccaro with Raymond James. Please go ahead.

Brian Vaccaro

Hi. Thanks and good evening and sorry if you covered this earlier. I jumped on a little bit late. But Matt, the 2025 net margin guidance, can you just walk us through the puts and takes, as you see it today, as it relates to kind of what that looks like for Cheesecake Factory segment margins, and what your expectations at North Italia might be?

Matt Clark

Yes. I would say, just to simplify it, I think the general direction is for company level four wall to improve 25 basis points to 35 basis points. I think we will still see a little bit of leverage on the commodity side, and a little tailwind on labor, other OpEx, as you know, we have been guiding to relatively flatish, and then maybe a little, a tenth on G&A. I think there is a little bit more room for North and Cheesecake, obviously, where they are positioned today. But Cheesecake makes a bigger swing because of the size of it. So, a little bit less on Cheesecake, a little bit more on North to get to those weightings.

Brian Vaccaro

Okay. And then the North Italia segment margins, did you say what the mature units were within that?

Matt Clark

Well, we did. What was it?

David Overton

15% for the third quarter.

Brian Vaccaro

15%. Okay. Great. Thank you. I will pass it along.

Operator

We currently have no more questions that are queue at this time. I would now like to conclude today's conference call. Thank you for your participation and you may now disconnect.

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