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The Cheesecake Factory Incorporated (CAKE) Q3 2025 Earnings Call Transcript

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Q3: 2025-10-28 Earnings Summary

Insights



EPS of \$0.68 **beats by \$0.08** | Revenue of \$907.23M (4.82% Y/Y) **misses by \$5.40M**

The Cheesecake Factory Incorporated ([CAKE](#)) Q3 2025 Earnings Call October 28, 2025 5:00 PM EDT

Company Participants

Etienne Marcus - Vice President of Finance & Investor Relations

David Overton - Founder, Chairman & CEO

David Gordon - President

Matthew Clark - Executive VP & CFO

Conference Call Participants

Andrew Barish - Jefferies LLC, Research Division

Brian Vaccaro - Raymond James & Associates, Inc., Research Division

Jon Tower - Citigroup Inc., Research Division

Sharon Zackfia - William Blair & Company L.L.C., Research Division

David Tarantino - Robert W. Baird & Co. Incorporated, Research Division

Hyun Jin Cho - Goldman Sachs Group, Inc., Research Division

Sara Senatore - BofA Securities, Research Division

Brian Bittner - Oppenheimer & Co. Inc., Research Division

Brian Harbour - Morgan Stanley, Research Division

Jeffrey Bernstein - Barclays Bank PLC, Research Division

Lauren Silberman - Deutsche Bank AG, Research Division

John Ivankoe - JPMorgan Chase & Co, Research Division

Dennis Geiger - UBS Investment Bank, Research Division

Jeffrey Farmer - Gordon Haskett Research Advisors

William Prause - Stephens Inc., Research Division

Presentation

Operator

Thank you for standing by. My name is Tina, and I will be your conference operator today. At this time, I would like to welcome everyone to the Cheesecake Factory, Inc. Third Quarter 2025 Earnings Conference Call. [Operator Instructions]

It is now my pleasure to turn today's conference over to Etienne Marcus, Vice President of Finance and Investor Relations. Please go ahead.

Etienne Marcus

Vice President of Finance & Investor Relations

Good afternoon, and welcome to our third 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. 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. 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 up the call to questions.

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

David Overton

Founder, Chairman & CEO

Thank you, Etienne. Our third quarter results were solid with consolidated revenues within our guidance range and earnings and profitability finishing above the high end of our expectations. Our performance was led by the Cheesecake Factory restaurants delivering positive comparable sales results amid a more challenging and competitive environment, underscoring the strength and resilience of our brands.

While we, along with the broader restaurant industry, are navigating a softer macro and consumer environment, our overall performance remained stable, in line with expectations. These results highlight the healthy demand for our high-quality concepts, the strength of our operators and the durability of our business model. Specifically, comparable sales at the Cheesecake Factory restaurants increased 0.3% for the third quarter with annualized unit volumes averaging over \$12 million.

We believe our strategic focus on menu innovation remains a key point of differentiation, supporting our broad consumer appeal and strong relevance with guests. Our new menu offerings are resonating well, reflecting the success of our culinary innovation. We will continue to lean into this core strength to keep our menu highly relevant while providing exceptional value without relying on discounting. Supported by improved retention, our operators once again executed at a high level, driving year-over-year improvements in labor productivity and wage management, resulting in meaningful profitability growth.

The Cheesecake Factory's restaurant-level profit margin increased 60 basis points year-over-year to 16.3%, with margin improvement also realized at North Italia and Flower Child.

Turning to development. In the third quarter, we opened 2 FRC restaurants and 2 Cheesecake restaurants opened in Mexico under a licensing agreement. Subsequent to quarter end, we opened 1 additional FRC restaurant. With 19 restaurant openings so far this year, we're well positioned to meet our objective of opening as many as 25 new restaurants in 2025. Looking ahead to 2026, we plan to further accelerate development with as many as 26 new restaurant openings across our portfolio of concepts.

As we move forward, we will remain focused on delivering exceptional food, service and hospitality, the hallmarks of our success while continuing to execute against our long-term growth strategy.

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

David Gordon

President

Thank you, David. Our teams once again demonstrated strong leadership and operational discipline this quarter, delivering improvements across multiple areas of the business while maintaining consistently high levels of guest satisfaction. Their efforts were instrumental in driving profitability and ensuring our guests continue to receive the exceptional service and hospitality that sets us apart.

These results are a direct outcome of our sustained investment in our people. We remain committed to developing and supporting our managers and staff members, and that focus has yielded meaningful results. Over the past several quarters, we have achieved notable year-over-year improvements in both manager and hourly staff retention. In addition, our already strong team engagement scores have remained at historically high levels, underscoring the strength of our culture and the effectiveness of our people-first approach.

As part of this ongoing commitment, we hosted our General Manager conference last month, where we emphasized culinary excellence, focusing on elevating the quality of the food we serve every day and further optimizing our kitchen systems to ensure consistent execution of our broad and complex menu.

Speaking of our menu, as David noted earlier, our recent additions are resonating strongly with guests. The new bites have driven higher appetizer attachment rates, while the new bowls are among some of the most frequently ordered new items we've introduced in recent years. Together, these new offerings have contributed to an improvement in check mix and demonstrated the success of our menu innovation efforts.

Turning to Cheesecake Rewards. We remain highly encouraged by the program's positive momentum. Membership growth remains strong and member satisfaction continues to over-index. In a recent internal survey, members shared positive feedback, noting that the program is easy to use, delivers clear value and encourages them to dine with us more often. This validation reinforces our confidence that we are on the right path in delivering meaningful value to our most loyal guests. Earlier this year, we shifted to a more personalized strategy and the results have been promising with a notable uptick in member engagement.

Looking ahead, we will continue refining offers to improve their effectiveness and look for ways to enhance the overall guest experience, including how we engage with our members. To that end, we're currently developing a dedicated rewards app, which we believe will provide a more seamless and impactful way to engage with our guests.

Turning to North Italia. Third quarter annualized AUVs reached \$7.3 million. Comparable sales declined 3%, reflecting sales trends in the broader industry, which softened in the quarter and continued pressure from some sales transfer from recently opened restaurants as well as the lingering impact of the Los Angeles fires. That said, our strong manager and staff retention enables us to execute at a high level, and we remain confident in our ability to compete effectively in a more challenging and competitive environment. Restaurant level profit margin for the adjusted mature North Italia locations improved 70 basis points from the prior year to 15.7%.

The margin expansion was driven by operational improvements as well as more favorable commodity inflation. Flower Child continues to perform exceptionally well with third quarter comparable sales increasing 7%, significantly outpacing the fast casual segment. This strong sales performance translated into annualized AUVs of \$4.6 million.

The combination of robust top line growth and disciplined operational execution drove restaurant-level profit margins for adjusted mature Flower Child locations to 17.4% in the third quarter, an improvement of 140 basis points year-over-year. And lastly, we expanded our FRC portfolio with the openings of Culinary Dropout in Franklin, Tennessee, and The Henry in Carlsbad, California. Both restaurants opened to strong demand and early sales momentum with average weekly sales surpassing \$200,000.

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

Matthew Clark

Executive VP & CFO

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 \$907 million finished near the midpoint of the range we provided. Adjusted net income margin of 3.7% exceeded the high end of the guidance we provided, and we returned \$13.8 million to 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 \$651.4 million, up 1% from the prior year. Comparable sales increased 0.3% versus the prior year. Total sales for North Italia were \$83.5 million, up 16% from the prior year period. Other FRC sales totaled \$78 million, up 16% from the prior year, and sales per operating week were \$115,600. Flower Child sales totaled \$48.1 million, up 31% from the prior year, and sales per operating week were \$88,200. And external bakery sales were \$18 million, up 20% from the prior year period.

Now moving to year-over-year expense variance commentary. In the third quarter, we continued to realize some year-over-year improvement across several key line items in the P&L. Specifically, cost of sales decreased 80 basis points, primarily driven by favorable commodity costs. Labor as a percent of sales declined 30 basis points, primarily driven by the continued improvement in retention, supporting labor productivity gains and wage leverage.

Other operating expenses increased 50 basis points, primarily driven by higher facility-related costs. G&A remained relatively flat as a percent of sales. Depreciation increased 10 basis points from the prior year. Preopening costs were \$6.6 million in the quarter compared to \$7 million in the prior year period. We opened 2 restaurants during the third quarter versus 4 restaurants in the third quarter of 2024. And in the third quarter, we recorded a pretax net expense of \$0.8 million, primarily related to FRC acquisition-related expenses.

Third quarter GAAP diluted net income per share was \$0.66. Adjusted diluted net income per share was \$0.68. Now turning to our balance sheet and capital allocation. The company ended the quarter with total available liquidity of approximately \$556.5 million, including a cash balance of \$190 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 \$37 million during the third quarter for new unit development and maintenance. During the quarter, we completed approximately \$1.2 million in share repurchases and returned \$12.6 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 Q4 2025 and full year 2026.

Our assumptions factor in everything we know as of today, including net restaurant counts, quarter-to-date trends, our expectations for the weeks ahead, anticipated impacts associated with holiday shifts and the recent softness in industry sales trends and a more cautious consumer environment. Specifically, for Q4, we anticipate total revenues to be between \$940 million and \$955 million, representing an approximate 1% step down from the Q3 sales trend. Next, at this time, we expect effective commodity inflation of low single digits for Q4.

We are modeling net total labor inflation of low to mid-single digits when factoring in the latest trends in wage rates and minimum wage increases as well as other components of labor. G&A is estimated to be about \$60 million. Depreciation is estimated to be approximately \$28 million. We are estimating preopening expenses to be approximately \$8 million to \$9 million to support the 7 planned openings in the quarter and early Q1 openings.

Based on these assumptions, we would anticipate adjusted net income margin to be about 5.1% at the midpoint of the sales range provided. And importantly, even with the current top line headwinds, our full year outlook for 4.9% net income margin remains intact, underpinned by prudent financial management and operational efficiency. For modeling purposes, we are assuming a tax rate of approximately 12% and weighted average shares outstanding 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 continue to anticipate approximately \$190 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.

Turning to fiscal 2026. This reflects our initial outlook based on what we know today. And given the dynamic macro backdrop, we'll continue to update our assumptions as conditions evolve. First, with regard to development, as David stated earlier, we plan to continue accelerating unit growth next year. At this time, we expect to open as many as 26 new restaurants in 2026, with roughly 3/4 of those openings planned for the second half of the year.

Next, based on our estimates for net operating week growth and depending on the length of the current softer consumer environment, we are targeting total revenue growth of approximately 4% to 5% for 2026 over full year 2025, with sales trends expected to improve as the year progresses. 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.

And we expect G&A, depreciation and preopening expenses to remain essentially flat as a percent of sales compared to 2025. Based on these assumptions, we would expect full year net income margin to be approximately 5% at the midpoint of the sales range provided. For modeling purposes, we are assuming a tax rate of approximately 12% and weighted average shares outstanding relatively flat to 2025. And we would anticipate approximately \$200 million to \$210 million in cash CapEx to support unit development as well as required maintenance on our restaurants.

Note that the total CapEx estimated range assumes a similar mix of new restaurant openings by concept as 2025. In closing, we delivered another quarter of stable performance and strong profitability despite a more cautious consumer backdrop. Our operators executed at a high level. Our portfolio of high-quality concepts remains well positioned and our balance sheet and cash flow provide a solid foundation for growth. We remain confident in our ability to navigate a dynamic macro environment as we have successfully done so in the past. And we believe our strong execution and resilient business model will enable us to emerge even stronger. With our scale and financial strength, we are well positioned to continue creating meaningful long-term shareholder value.

With that said, we'll take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Our first question comes from the line of Andy Barish with Jefferies.

Andrew Barish

Jefferies LLC, Research Division

Just kind of wondering what you're seeing in terms of consumer behavior that's driving a little bit more caution in the current environment? Is it regional? Is it check management? Or is it just kind of been a little bit of a drop-off in the traffic trends?

Matthew Clark

Executive VP & CFO

Andy, it's Matt. Thanks for the question. Really, it's the last piece. It's mostly in the traffic. I think we've seen pretty stable As David Gordon noted too, the bites and bowls are going well, and we're getting good attachment there. And I would say, really, the more cautionary tone is associated with the fourth quarter. And I think, frankly, there's probably been an impact from the government shutdown and we're looking forward to having that resolved. And overall, things remain pretty predictable, just slightly below where we have been.

Operator

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

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Just a bookkeeping question to start, if I could. Could you just provide the breakdown of comps for both Cheesecake Factory and North Italia traffic price mix?

Matthew Clark

Executive VP & CFO

Sure. This is Matt, Brian. So for Cheesecake, pricing was about 4% as it has been. Traffic was a negative 2.5% and then obviously, mix was the difference there. Etienne, do you have North?

Etienne Marcus

Vice President of Finance & Investor Relations

Yes, Brian. For North, price was 4%, mix was negative 1% and traffic rounded to negative 6%.

Brian Vaccaro

Raymond James & Associates, Inc., Research Division

Okay. Great. And as you think about the margin outlook just here in the near term in the fourth quarter, and sorry if I missed it, Matt, but what was the commodity inflation in the third quarter? And how do you see the fourth quarter playing out from a commodity inflation perspective?

And then if you could just kind of round out some of the store margin dynamics, obviously, a little bit of sales deleverage. But beyond sales deleverage, is there anything worth calling out in the fourth quarter margin outlook?

Matthew Clark

Executive VP & CFO

Yes, Brian, that's a really important question. So thank you for asking that. This is Matt. So when we think about commodities, obviously, beef has moved up another step. So we wouldn't expect to see the same degree of year-over-year favorability that we did certainly in the third quarter. It was about flattish in the third quarter, and I would think it would be more like a full 2%, really all of that delta coming from beef and so thinking about those margin line items, you can do the math there that the favorability will be cut in half or something like that on the cost of sales.

On the labor piece, the really important thing to note here is about group medical in the fourth quarter comparison. So we still believe, based on the best-in-class retention and improving year-over-year in the third quarter that we will continue to garner some productivity improvements, some great wage management from our operations. But there's about a 50 basis point impact on just the comparison of group Medical.

A lot of that is just timing, as you know, it depends on when some of the big claims hit last year, we had a credit. So if you think about that piece alone, on the true operational labor side, we still think it will be 10 to 20 basis points favorable. On the last major piece there of the 4-wall, really on the other OpEx, some of that was also timing, but we do continue to see a little bit of negativity related to facility, maybe 20 basis points negative in other OpEx for the fourth quarter. So really pretty stable outside of group medical and the beef. Really operationally, we have a really firm hold on the business.

Operator

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

Jon Tower

Citigroup Inc., Research Division

Maybe just two. You're speaking to a softer consumer right now showing up in the business and Lord knows the factors that are causing it. But -- and you're speaking to guests with bowls and bites, lower price points than what you traditionally have in your menu. How are you thinking about, one, promoting that next year more or are you considering promoting that more so into next year than you have been currently? And then two, how are you thinking about pricing at the core Cheesecake Factory into 2026?

David Gordon*President*

Jon, this is David Gordon. Maybe I'll take the first half, and then I'll turn it over to Matt. I think we're executing on the bites and bowls really well. I think the increased awareness through our social media channels and all of our marketing campaigns, along with our strategy to have the bites and bowls on the separate menu card has paid off really well. We're seeing strong attachment rates, and we're not really seeing the check impact.

So that's a very positive sign. It's what we were expecting to have happened, and it has played out that way. As we move into our winter menu change beginning of next year, we would anticipate using the card again and using the same methodology to make guests aware along with the Cheesecake Rewards program, which is a great way to make guests aware of those new items and those new price points.

And I think you can anticipate a few new items in maybe both of those sections, along with other new items as well. We're going to continue to lean into menu innovation wherever we can come up with delicious new menu items that are craveable. And we think that's how we'll continue to win in the long run.

Matthew Clark*Executive VP & CFO*

And Jon, this is Matt. Just speaking to the pricing. So in Q4, it's already going to be down to about 3.5%. We would continue to expect that to moderate into next year. And keep in mind, because of the lower price points and the adoption rate, the effectiveness is about 100 basis points less than that. So if we're at 2.5% effectively to the consumer, and we're going to maybe a 2% in the first half of next year, that's really well below the food-away-from-home inflation that's been reported in the mid-3s. So we feel very competitive about that while still keeping the brand where it should be.

Jon Tower*Citigroup Inc., Research Division*

Okay. And then just looking to North Italia, I appreciate the headwinds for the industry and the hit on traffic. But can you speak to the cannibalization impact or the sales transfer you spoke to hitting their comps in the period? And when thinking about development for 2026, are you building out a schedule such that you're not going to see the same level of sales transfer next year as perhaps we've seen this year?

Matthew Clark

Executive VP & CFO

Yes, Jon, this is Matt. I think as we've said, it could be a little bit bumpy because as we think about sites, it's always about getting the best site. And whether there could be some near-term pressure on existing regional performance is not really what's going to define the investment returns that we're looking for. That being said, really is kind of what we had said previously is about 1 point from the L.A. fires and maybe about 2 points from the cannibalization.

Really, the difference that we've seen is more in North quarter-to-quarter is a little bit more in the macro environment. I think you saw more in the higher end, slightly higher price point and a little bit in the midweek lunch is where we can attribute. And we know from 5 decades of history of managing in this space, that's the first place that when you see consumers pull back, you get a little bit of pressure there. So I think from an execution standpoint, we're doing a great job.

And we'll keep everybody informed. If we think there's going to be a material shift in those patterns around the transfer, we'll try to let you know in advance to build that into your models.

Operator

Our next question comes from the line of Sharon Zackfia with William Blair.

Sharon Zackfia

William Blair & Company L.L.C., Research Division

I guess I wanted to build on the commentary around the government shutdown. Did you just start to see the softness in October? Or did you start to see some waning in the latter part of the third quarter?

Matthew Clark

Executive VP & CFO

We saw, I would say, a little bit of choppiness, Sharon, sorry, this is Matt. We saw a little bit of choppiness in September, but there was a little bit of movement relative to some of the rewards programs that we had done the year before. So it wasn't really meaningful. I would honestly say that the bigger shift has come in October. I think we saw this in the industry in the start of 2019 during the last shutdown.

I went back and looked at some of the old data there. There appeared to be a 1% to 2% shift down for a month there. So it sort of correlates to what I think some of the data is and the indices that are out there seems to corroborate that.

Sharon Zackfia

William Blair & Company L.L.C., Research Division

And then the thought process on sales getting better as '26 progresses, is that related to any specific initiatives or marketing plans or is that just a function of expecting to have easier comparisons in the back half?

Matthew Clark

Executive VP & CFO

Sharon, I think it's a little bit of both. I mean, certainly, by the time we get to, say, the middle of the second quarter, will have gone through 3 pretty significant menu changes, right, all enhancing the value proposition. We'll have a materially lower effective price point. So those things certainly will benefit us, we believe, in terms of traffic as well as the mix side of things.

So I think those will help. And then frankly, that will lap around kind of the beginning of some of the consumer noise this year that started in early April. And assuming the shutdown ends and we get some trade deals, at least the reports that I've been reading have been much more constructive on the consumer outlook for next year. So I think it's a combination of both.

Operator

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

David Tarantino

Robert W. Baird & Co. Incorporated, Research Division

My question is on some of the labor productivity benefits you've been getting. I think you mentioned maybe lower turnover is part of that. But I just wanted to ask, I mean, it's a little unusual to see such improvement in the margins when you have slightly negative traffic.

So I guess, could you just maybe talk about the sustainability of that? And how much more room you think you have as you move into next year to achieve productivity savings even in the face of maybe a soft industry environment?

Matthew Clark

Executive VP & CFO

Sure, David. This is Matt. I would say we definitely take credit for the benefits that we've seen related to the retention, and those do ripple through in productivity. And some of that is also in more stable wage environment. I think that's probably a balance between the internal efforts and the external job hugging, if you will, in this situation where you're just seeing some lower turnover there.

And the fewer people turn over, the fewer -- the less pressure there is to sort of adjust wages for the existing base. So I think that's part of it as well. But whether that's sustainable or not, I mean I think at this point in time, our goal every quarter is really just to hold the line, but we've gotten better year-over-year each quarter.

So there's still a tailwind going into next year, given that even through the third quarter, we were better year-over-year on retention. And we continue to invest in cross-training during these times as well. So I feel pretty good about being able to manage the margins even in a slightly softer environment. I think it's kind of an overall important point for the investors, right?

You can -- traders will trade on 100 basis points of sales, and that's what they do. But I think for the long-term investors, the P&L has the potential to be much more resilient in this environment because of the stable labor environment and the relatively stable and lower commodities. And so I think we're well positioned to manage into next year, and that's the guidance that we gave.

Operator

Our next question comes from the line of Christine Cho with Goldman Sachs.

Hyun Jin Cho

Goldman Sachs Group, Inc., Research Division

So very impressed by the resilient comp trends at Flower Child. And with many of the fast casual brands experiencing a broad-based deceleration, could you provide some insights into what might be driving Flower Child's relative strength and how the trends are tracking so far in fourth quarter?

David Gordon

President

Sure, Christine. This is David Gordon. I think we continue to believe that Flower Child is very differentiated from those other fast casuals and guests are appreciating everything from the menu variety to the very strong price points. Our ability to not have to take the type of price that many in the fast casual space have had to take, which perhaps has impacted them a bit over the past 12 months and the higher level of hospitality and food quality.

And as we move Flower Child into new markets or existing markets, we continue to see an affinity for the brand being very, very strong and we would anticipate that continuing into the future. So we're really, really pleased. We're looking forward to continuing the growth of Flower Child, getting more restaurants open next year and bringing it across the country.

Hyun Jin Cho

Goldman Sachs Group, Inc., Research Division

Great. Just a follow-up. So I think you mentioned earlier that bowls and bites are doing its job at Cheesecake Factory. But how do you think about the value proposition at North Italia? Any additional plans to communicate value differently amid the current backdrop and the increasing focus on kind of that lower fixed dollar prices and entry-level price points?

David Gordon

President

Yes, that's a great question, Christine. I think Matt mentioned that North plays a little bit more in that polished casual sort of space with the higher check average. But that doesn't mean we can't find ways to continue to leverage the menu. As an example, currently, we have a promotion in North that is a small plate and a pasta at lunch for \$25.

So that's a great price point for somebody to get those two menu items with some great variety, made fresh from scratch. And we're using all of our internal marketing avenues to be able to share that with guests and make them aware. And so those are the type of things we will continue to do along with menu innovation like we've done at Cheesecake Factory.

We actually have our new seasonal menu for North rolling out tomorrow across the country with a couple of new menu items and a lot of the seasonal changes that we make on a regular basis. And we know that, that's very effective, and it gives us some good marketing to talk about with our current guests and to attract new guests.

Operator

Our next question comes from the line of Sara Senatore with Bank of America.

Sara Senatore

BofA Securities, Research Division

I guess I wanted to ask maybe a little broader macro. You mentioned North, which, as you said, plays kind of more polish. I guess the higher income customer has been more insulated. So to the extent that your business is a read on that, are you seeing some of this weakness kind of percolating higher up on income? Because up until now, it's primarily been lower and maybe middle. So that was one question on the macro.

And then the other piece is, I think you talked about more competition. Is that coming from other polished casual chains? Is it more from independents? We seem to be getting kind of a mixed read on kind of how some of the smaller operators are doing.

Matthew Clark

Executive VP & CFO

Sure, Sara. This is Matt. I think it's -- every environment is going to be a little bit different, but some of the things we can carry from our past experiences. Obviously, North, like I said, has a little bit of an idiosyncratic situation, but there may be a little bit more pressure at that midweek lunch. And whether that's an insight on to the higher-end consumer, I mean, sometimes what we've seen in these environments is you do get trade down even from those that are being insulated based on sentiment.

They may still have the job and a good income. But for whatever the reasons are that things are going down. They're still going out to eat and still spending, which would give you a positive read on their overall spend profile, but they may be taking it down a notch to a slightly lower price point experience, right? So that might be one of those opportunities. I think in terms of competition, really, the competitive environment today is twofold.

Number one, that's surrounding the deals, right? So you think about the competitive environment isn't just a number of competitors, but the extent to which every restaurant is offering some sort of BOGO or discount or whatnot. And I think I've seen some research that says this is -- it's at an all-time high. So that, I think, one defines a competitive environment. And I think the second part is that it's a little bit of a harder read today. I think probably the independents are having a harder time. But for the chains, whether it's casual dining or fast casual or any of the different layers, the capacity is very different to measure today because of the off-premise, right?

And so much has moved from on-premise to off-premise that has actually expanded capacity. So it's not necessarily a number of competitors, but it's the way that the consumers use them that has made the environment also, I would just as we discussed it, more competitive in general. So hopefully, that helps.

Operator

Our next question comes from the line of Brian Bittner with Oppenheimer.

Brian Bittner

Oppenheimer & Co. Inc., Research Division

Just as it relates to the new menu, I know you anticipated some pressure on mix a little bit from the bites and bowls, just given those are more affordable options and you talked about how the customer is navigating those nicely. So is that playing out exactly how you thought from a mix perspective? And if so, how should we anticipate mix to impact the comp moving forward in 2026?

Matthew Clark

Executive VP & CFO

Yes, Brian, this is Matt. I think so, to be honest, it's pretty -- been pretty much in line with our forecast and actually in the initial read has been a benefit to mix, which has come into the low 1 percentages so far. But we would anticipate kind of holding that line. There is still economic pressure out there for the consumer.

You still might see some trade down. So we're really pleased with the first round. And as David Gordon mentioned, we'll probably lean in more to it next year as well. So I would just think about around a negative 1% for next year, just as an ease of modeling.

Operator

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

Brian Harbour

Morgan Stanley, Research Division

Maybe just a couple of clarification questions. In North, I thought in the past, we had sort of talked about some honeymoon effects in these restaurants. I think your comment was more about sales transfer. Is it both? Is it more one or the other?

Matthew Clark

Executive VP & CFO

Brian, this is Matt. We're definitely talking about sales transfer in this environment. Now that's driven in some instances by both phenomenon. If the newer restaurants in the market has a substantially higher opening rate than we thought, then that can drive the sales transfer in that market, right, if that makes sense.

Brian Harbour

Morgan Stanley, Research Division

Okay. Understood. Your comment, I think, about point step down in growth. Was that just overall top line growth? Or was that also roughly what you'd expect from same-store sales? I know sometimes there's also just revenue dynamics from how many stores you're opening and what brands you're opening, but could you comment on that?

Matthew Clark

Executive VP & CFO

For sure. I would say it's total revenue, but it's predicated on traffic, right? So we would just anticipate in the fourth quarter based on sort of the impact, as we've noted more recently and likely relative to the shutdown amongst other economic factors that we would be about 1% less in traffic than third quarter.

Operator

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

Jeffrey Bernstein

Barclays Bank PLC, Research Division

Matt, just curious, the sequential trends through the third quarter and thus far into October from a comp perspective, I mean, I think we're all assuming maybe a deceleration that maybe ramped up through the third quarter and maybe continued in the fourth quarter. Just curious at your core casual dining brands of late, how you're thinking about that sequential trend and maybe what your assumption is for closing out 2025.

I know you mentioned maybe one less point of traffic in the fourth quarter, but are you assuming trends stabilize from here? Or are you assuming the trend continues to ease? Just curious because we're sitting at what appears to be an inflection point of slowing trends?

Matthew Clark

Executive VP & CFO

Yes. Like I said, Jeff, this is Matt, I mean, I think the first 2 periods were pretty consistent in Q3. We did see a little bit of choppiness. I mean, in hindsight, maybe 0.5 point of that was already some easing of the consumer, but we're also lapping a bigger rewards program. And it's always in the moment, hard to tell.

I definitely said and would reiterate that in the fourth quarter, we would anticipate a 1% lower traffic run rate. Generally, we are continuing to be predictable and steady and have the ability to manage the P&L. So we feel good about the guidance we're giving. And again, historically, looking at some of the trends these types of events tend to be based more on a macro component and not that long-lived. So I think we're confident in our ability to manage the business in this near-term environment.

Jeffrey Bernstein

Barclays Bank PLC, Research Division

Got it. And just following up, I appreciate the color you gave on 2026. I'm guessing most of your peers probably wouldn't give that level of granularity, so it's encouraging. I think you mentioned for commodities or for commodities and labor, you kind of talked about low single digit to mid-single digit, which is somewhat of a broad range.

But I know you talked about beef being on the rise. How should we think about commodities as we think about 2026 more broadly? I mean, do you have any insights into where that could fall out relative to that range you suggested or where maybe beef is headed?

Matthew Clark

Executive VP & CFO

Sure. And don't think that we're not giving a little bit of a broader range on purpose, Jeff, just to be clear. But the reality is that we are booking more commodities and feel better about it than some years, right? So we've seen the dairy complex really look positive on a year-over-year basis based on the capitulation of butter in late summer. And we have a much broader market basket than most. So beef will likely continue to be a pressure point.

It's just not as big of a component for us. I think some of the crop yields came in very, very strong. And so that supports some of the other proteins like chicken, right, which is really driven off the feeder corn piece of it. It supports some of the grocery and oil complexes with soybeans where they're at and bread. So overall, it feels pretty good. I don't know that I would go back to the teen years where it was negative or 0, but certainly a 1% to 2% feels achievable at this point in time and labor being maybe a little bit above that.

Operator

Our next question comes from the line of Lauren Silberman with Deutsche Bank.

Lauren Silberman

Deutsche Bank AG, Research Division

I want to start with following up on the comp side. Are you seeing the deceleration broad-based across geographies or certain markets weaker, which is kind of informing your view on the impact from government shutdowns? And I guess are you assuming these similar trends continue at least into the first half of '26?

Matthew Clark*Executive VP & CFO*

Yes. I mean, generally, Lauren, this is Matt. Geographically, Cheesecake is usually pretty stable. There are certainly outliers. I mean, the closer you get to D.C., the more prone, I think anyone is to pressure in this, but that's kind of like an anomaly. Generally speaking, we think this will potentially continue into the first quarter.

I think a lot of it depends on the ability for government to get back to work and trade deals to get done to give businesses and consumers more certainty, right? Everybody wants to be able to plan their lives and add jobs to the economy and all of those attributes that help drive restaurant sales. But I think that we're going to be cautious until we see that turn. I would say maybe the closest analogy to go back and track, I referenced the last shutdown.

But really, if you look at 2017, we saw a very, very similar trend in the industry. And it was about a 6-month -- 6- to 8-month period of time. So we're sort of planning on that without any better information, and we'll manage the business appropriately.

Lauren Silberman*Deutsche Bank AG, Research Division*

Got it. Helpful. And then on the restaurant margin side, you guys have obviously seen really strong 4-wall performance in the last couple of years. A 2-part question. One, as you think to '26, what are you embedding in 4-wall restaurant margin? And then two, Cheesecake Factory 4-wall is now exceeding 2019 levels. As we think ahead, is the future RLM expansion more driven by improvements in margin from North and other concepts or do you still see room for Cheesecake?

Matthew Clark*Executive VP & CFO*

Sure. Yes. I mean I think what we've been talking about all along for like the last 6 to 9 months for next year is that we'd like to get 25 basis points of 4-wall margin. And based on the tax rate and the G&A and all the other pieces, you can pretty much back into that in the guidance. And I do think that Cheesecake really will focus on margin stability and that we have opportunities to improve margins across some of the more early-stage concepts for sure, and longer term, that would absolutely be the case.

Operator

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

John Ivankoe

JPMorgan Chase & Co, Research Division

Two questions, if I may. First, on the labor side. Obviously, I know you guys use E-Verify, and I understand that your turnover remains low, but it's kind of an industry or maybe a market-specific question in terms of just maybe demand for labor and kitchen labor specifically that you're seeing going up. Obviously, the industry has -- the broad industry has a decent amount of undocumented workers that are in it, not a Cheesecake Factory, but are in it broadly. And I was just curious if there was any tightening of this important labor segment that you're seeing in any various markets?

David Gordon

President

Yes. Thanks for the question, John. This is David Gordon. We really haven't seen any change by geography. We have continued terrific applicant flow across the country. We have a couple of openings coming up for Cheesecake Factory, where we've had over 1,000 applicants for those restaurants. So the marketplace really has not changed for us in the kitchen nor in the front. And our continued best-in-class retention has helped us to not need as many staff members as others may have had now or historically.

So the marketplace seems very steady and very stable. It's allowed us to keep our wage inflation in line with expectations. And as Matt said, we'll continue to build on this momentum moving into next year. And the stable environment, we think will sustain itself because of the employer of choice that we are.

John Ivankoe

JPMorgan Chase & Co, Research Division

And secondly, I think I heard in your prepared remarks an app at Cheesecake Factory, which at least for what I can find, just still doesn't exist. So remind us why you haven't had an app in the past? I mean, what kind of functionality that you might be able to do with it, how the loyalty program might change and if you think it's a potentially big idea for you or more evolutionary in nature?

David Gordon

President

Thanks, John. I think it's evolutionary. You're right. We don't have one. And I know you're a Cheesecake fan, and so you would know before anyone else when that app launches. But we are currently today in scope of trying to get an app launched in the first half of next year, and I think we're going to meet that goal. And it's sort of an evolutionary part of the rewards program, which will allow guests to make reservations and see their history in an easier way.

It will certainly allow guests to order off-premise in an easier way, repeat their orders from previous orders in a more seamless way and track their history of rewards and redemption. So we think there's good benefits to it. We want to create a program that really works for casual dining and guests will find a lot of value in. And we think we're on the right path to do that, and we'll hopefully get it launched here next year.

John Ivankoe

JPMorgan Chase & Co, Research Division

And can I ask what was the sticking point in the past several years of having one? Why are we waiting until '26 for this?

David Gordon

President

I think without a rewards program, it became a little more challenging to find the value proposition for the consumer, right? So we really wanted to make sure that it made sense for somebody to take up that real estate on their phone when your average guest is coming 4 to 6 times a year. And we think with the reward -- amount of rewards members we have today and their high frequency that we will really find the benefit in downloading the app and using it on a regular basis.

Operator

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

Dennis Geiger

UBS Investment Bank, Research Division

One more on loyalty there following up. As it relates to the app and just kind of the momentum that you talked about with the membership growth and the customer satisfaction with the program. As we think about -- or you think about benefits to '26, is it -- does it look similar to maybe what we saw in '25? Or again, based on your response to the last question, do we build on that? I think you guys have talked maybe about 100 basis points from a contribution perspective. Is that still the right level to be thinking about from loyalty?

Matthew Clark

Executive VP & CFO

Dennis, this is Matt. I think we're continuing to evolve the program. We definitely know that we're getting incremental contribution from it. But certainly, in the very near term, when you've got a little bit more of a bumpy consumer, just making sure that we're not overstating where we're at with that. I think as David Gordon mentioned with the app, we want to really reduce friction and improve kind of if you think about it, the holistic guest experience, not just within the 4 walls, and we think that there is a lot of opportunity. We're only now about 6 months into the more refined, more specific analyses that will help us develop the cohorts that we believe will drive even more incrementality. So again, we think it's a long-term proposition. And yes, there is some benefit today. We would expect to continue to build on that next year, but I don't think we're specifying that yet.

Dennis Geiger

UBS Investment Bank, Research Division

Great. And then just a quick one. Just anything on delivery, where that shook out in the quarter? Was that stable similar to off-prem? Or any changes sequentially on the delivery performance side of things?

Matthew Clark

Executive VP & CFO

Yes, Dennis, off-premise continues to stay very, very stable. Total off-premise was 21% of sales, right in line with Q2 and last year. Of that, delivery was about 10% and the rest of it was made up of 5% of online ordering and a little over 5% of phone and walk-up still. So very, very stable business. We continue to think Cheesecake is a great value in the off-premise channel, and we'll continue that way.

Operator

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

Jeffrey Farmer

Gordon Haskett Research Advisors

You guys largely answered the question with a 1-point step down in traffic. But what is the implied Q4 Cheesecake same-store sales range with that \$940 million to \$955 million revenue guidance?

Matthew Clark

Executive VP & CFO

It's about a negative 1 to 0, right? I mean that's kind of in the range if you look at where the comp was in the third quarter, roughly.

Jeffrey Farmer

Gordon Haskett Research Advisors

Okay. And then just more macro -- one more macro question. So a lot of discussion, obviously, about lower income cohorts for the last really 18 months or so. But over the last couple of quarters, a little bit more discussion about that sort of younger demo or that 35 and under consumer cohort. Have you seen that consumer behavior or that consumer see a change in behavior across your portfolio of concepts?

Matthew Clark

Executive VP & CFO

I don't know if we would parse it down to that. I mean I read an analyst report recently that said the challenged groups were the lower income, the Hispanic, the liberal, the younger, the tourists. So I don't know who was left.

Operator

Our final question comes from the line of Tyler Prause with Stephens Inc.

William Prause

Stephens Inc., Research Division

Two questions from my end. Regarding media and advertising, what are you seeing in terms of consumer engagement per ad spend? I appreciate the color around flat G&A as a percent of sales in '26. But given the more competitive environment, could there be a need for more marketing dollars in '26?

Matthew Clark*Executive VP & CFO*

Tyler, that's a super interesting question. This is Matt. I mean I think we have continued to spend more, but really just in the rewards program, right? So we're not going to try to do national TV advertising, but we are increasing the amount that we are doing with rewards. So I think that's the on-brand way. And I think it's a fair point goes back to the question about how do you let guests know about the value proposition. And so I think social media also is where we would probably dedicate more funding rather than really ad placement.

William Prause*Stephens Inc., Research Division*

Great. That's super helpful. And you kind of touched on this just now, but although you're a different occasion, some fast casual concepts have called out a headwind from the Hispanic consumer, just given the tighter immigration policies in recent months. Just curious if you've seen any noticeable step change within that particular cohort?

Matthew Clark*Executive VP & CFO*

I don't know that we -- again, we would parse it out. I think it's just -- what it says to us is that it's more broad-based, right? It's what you've seen in the back half of the year, and if I can claim this, back in April, we said that we thought the environment would soften in the back half of the year based on just macroeconomic factors, right?

Tariffs cause lower discretionary income. There's been fewer jobs created and consumer sentiment is at a low point. And so I don't know that I would say we're pointing out one cohort or another. I think it's an accumulation of those factors. But we also don't think it's permanent, right? I mean this is -- we operate in what's called the consumer discretionary category, which tends to be cyclical. And while it has stabilized much more over the past 10 to 15 years to become a little bit more stable, there tends to be a little bit of movement, like I said, 100 basis points here or there, but we're confident that with our execution and best-in-class operators and concepts that it will normalize in the next 3, 4, 5 months.

Operator

Thank you. And with no further questions in queue, this does conclude today's conference call. You may now disconnect.

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