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The Cheesecake Factory Incorporated (CAKE) Q3 2026 Earnings Call Transcript

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Q3: 2026-10-27 Earnings Summary

Insights

EPS of $1.02 beats by $0.06 | Revenue of $1.03B (13.91% Y/Y) beats by $28.70M

The Cheesecake Factory Incorporated (CAKE) Q3 2026 Earnings Call October 27, 2026 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

Jon Tower - Citigroup Inc., Research Division
Andrew Barish - Jefferies LLC, Research Division
John Ivankoe - JPMorgan Chase & Co, Research Division
James Salera - Stephens Inc., Research Division
Sharon Zackfia - William Blair & Company L.L.C., Research Division
Christopher O'Cull - Robert W. Baird & Co. Incorporated, Research Division
Sara Senatore - BofA Securities, Research Division
Jeffrey Farmer - Gordon Haskett Research Advisors
Brian Vaccaro - Raymond James & Associates, Inc., Research Division
Brian Bittner - Oppenheimer & Co. Inc., Research Division
Lauren Silberman - Deutsche Bank AG, Research Division

Presentation

Operator

Hello, everyone. Thank you for joining us and welcome to The Cheesecake Factory Incorporated Earnings Call for Q3 of 2026. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now hand the conference over to Etienne Marcus, VP of Finance and Investor Relations. Etienne, please go ahead.

Etienne Marcus
Vice President of Finance & Investor Relations

Good afternoon, and welcome to our third quarter fiscal 2026 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 based on historical facts and are considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could be materially different from those stated or implied in forward-looking statements as a result of the factors detailed in today's press release, which is available on our website at investors.thecheesecakefactory.com and in our filings with the Securities and Exchange Commission. All forward-looking statements made on this call speak only as of today's date, and the company undertakes no duty to update any forward-looking statements.

In addition, during this conference call, we will be presenting results on an adjusted basis, which exclude acquisition-related items, impairment of assets and lease termination expenses and other items. Explanations of our use of non-GAAP financial measures and reconciliations to the most directly comparable GAAP measures appear in our press release on our website as previously described.

David Overton will begin today's call with some opening remarks, and David Gordon will provide an operational update. Matt will then review our 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. We delivered an outstanding third quarter with revenues once again exceeding $1 billion. This marked our second consecutive quarter of record revenue, while margins and earnings also finished well above our expectations.

The Cheesecake Factory restaurants led our performance, delivering comparable sales growth of 15.2% and annualized unit volumes of more than $13.9 million. Comparable sales and traffic growth meaningfully outperformed the broader casual dining industry, underscoring healthy demand for our brand and continued market share gains.

Culinary innovation continues to be an important contributor to our sales growth and a key point of differentiation. Bowls & Bites are performing well and helping increase frequency. Our broad, made-from-scratch menu allows us to respond to changing guest preferences and offer compelling choices across a wide range of price points.

Our rewards program, app and broader marketing efforts are also driving awareness and engagement across the digital and social channels. We are especially encouraged by the traction we are seeing with our younger guests. The Cheesecake Factory has always had broad appeal, and our ability to attract the next generation of guests reinforces the enduring relevance of the brand.

Our impressive sales performance, together with exceptional operational execution, drove solid flow-through and margin expansion. The Cheesecake Factory's restaurant-level profit margin increased 240 basis points year-over-year to 18.7%.

Turning to development, we opened 6 restaurants during the third quarter, including 2 Cheesecake Factories, 1 North Italia, 1 Flower Child and 2 FRC restaurants. Subsequent to quarter end, we opened 2 Flower Child restaurants and 1 Henry. With 16 restaurant openings so far this year, we remain on track to open as many as 26 new restaurants in 2026. Looking ahead to 2027, we plan to open as many as 27 new restaurants across our portfolio.

In summary, we are extremely pleased with the quarter and performance of The Cheesecake Factory. At the heart of this success is what has always set us apart: delicious, made-from-scratch food, exceptional hospitality and memorable dining experiences. We are excited about the opportunities ahead and remain focused on delivering profitable growth and long-term shareholder value.

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

David Gordon
President

Thank you, David. Our remarkable sales results this quarter once again demonstrate the strength of our best-in-class operators and their ability to consistently execute at a high level and capture incremental sales, resulting in another record for annualized unit volumes in what is typically our slowest quarter of the year. Importantly, our sales growth was driven predominantly by outstanding traffic growth of 9.5%, outperforming the Black Box casual dining index by an impressive 940 basis points. Additionally, the improvement has been broad-based across geographies, dayparts, days of the week and channels, with off-premise remaining stable at approximately 21% of sales.

This performance reinforces our conviction in our strategy and reflects our continued focus on several key priorities: best-in-class operational execution supported by industry-leading retention, menu innovation and the ongoing growth and evolution of our Cheesecake Rewards and marketing efforts.

The Cheesecake Factory is a highly differentiated brand, and the breadth and visual appeal of our menu naturally lends itself to engaging and shareable social content. We are increasingly leveraging these attributes to create culturally relevant moments, amplifying organic engagement and discovery and extending the reach of the brand beyond our existing guest base. This provides a meaningful opportunity to introduce The Cheesecake Factory to new audiences and, ultimately, drive incremental restaurant traffic.

Taken together, we believe these efforts create a powerful combination. Our marketing initiatives are bringing guests through our doors, while our operators are executing at a high level to deliver the distinctive Cheesecake Factory experience that drives repeat visits and builds long-term guest loyalty.

Our latest Cheesecake Factory opening in Wichita is another great example of the affinity for the brand. The restaurant generated tremendous guest enthusiasm, delivering impressive sales during its first operating weeks, reinforcing the opportunity we see to continue expanding The Cheesecake Factory successfully into new markets.

Now turning to our other concepts. North Italia third quarter annualized AUVs totaled $7.2 million, and comparable sales declined 3%. Restaurant-level profit margin for the adjusted mature North Italia locations was 13.2% for the quarter versus 15.7% for the prior year. The change was primarily driven by sales deleverage.

As I outlined on our last earnings call, we are advancing a number of targeted initiatives aimed at improving sales performance and positioning North Italia for sustainable long-term growth. Our new menu, which was recently rolled out, includes new offerings and more accessible price points designed to enhance value and make North Italia more approachable to a broader range of guests. We've also refreshed our happy hour program with more attractive price points, new shareable dishes and an expanded selection of beverages to deliver compelling value while building on the atmosphere, hospitality and energy that make North Italia special.

We are meaningfully increasing our media investment in 2 markets to expand the brand awareness and introduce North Italia to a broader audience. These efforts will allow us to test our ability to translate increased awareness into guest trial and conversion.

Lastly, we're beginning to implement a kitchen management system designed to improve kitchen throughput, order coordination and execution, supporting a more consistent and efficient guest experience.

Collectively, these initiatives address the areas where we see the greatest opportunity at North Italia. We believe they provide the right framework to support improved performance over time and strengthen the brand for the long-term.

Flower Child performed extremely well and once again meaningfully outpaced the fast casual segment. Third quarter comparable sales increased 11%, with 2-year comp sales growth accelerating to 18%. This sales performance drove annualized AUVs of $5.1 million. Restaurant-level profit margin for the adjusted mature Flower Child locations was 20.2% in the quarter, an improvement of 280 basis points from the prior year.

Given the strength and consistency of Flower Child's performance, we believe the concept is well-positioned for a meaningful acceleration in unit growth. Over the past year, we have invested in the real estate pipeline, leadership team and operating infrastructure needed to support the brand's next phase of growth. With that foundation increasingly in place, we expect to further accelerate development beginning next year.

And lastly, we expanded the FRC portfolio with 2 Culinary Dropouts, one in Omaha and the other in Salt Lake City.

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 were over $1.033 billion, meaningfully above the high end of the range we provided. Adjusted net income margin was 5.1%, and adjusted diluted earnings per share was $1.02, both finishing well above our expectations. And we returned $16.6 million to our shareholders in the form of dividends and stock repurchases. We also generated quarterly net income of $61.3 million, and adjusted EBITDA increased 38% from the prior year to $98.7 million, marking another quarter of strong earnings growth.

Now turning to some more specific details around the quarter. Third quarter total sales at The Cheesecake Factory restaurants were $754.4 million, up 16% from the prior year. Total sales for North Italia increased 11% to $93 million. Other FRC sales totaled $90.3 million, up 16%, and sales per operating week were $120,100. Flower Child sales totaled $56.5 million, up 17% from the prior year, and sales per operating week were $97,500. And external bakery sales were $12.6 million.

Now moving to year-over-year expense variance commentary. In the third quarter, we realized year-over-year improvements across several key line items in the P&L. Specifically, cost of sales declined 60 basis points, primarily driven by lower dairy costs and sales mix related to lower external bakery sales, partially offset by higher beef and seafood costs. Labor as a percent of sales declined 80 basis points, primarily driven by sales leverage.

Other operating expenses decreased 50 basis points, primarily driven by sales leverage and lower insurance, partially offset by higher incentive compensation and electricity costs. G&A declined 10 basis points from the prior year, primarily driven by lower professional fees, partially offset by higher stock-based compensation expense, incentive compensation and relocation costs.

Depreciation declined 20 basis points from the prior year. Preopening costs were $11.2 million in the quarter compared to $6.6 million in the prior year period. We opened 6 restaurants during the third quarter versus 2 restaurants in the third quarter of 2025. And in the third quarter, we recorded a pretax net income of $12.9 million, primarily driven by the final true-up of contingent consideration associated with the FRC acquisition. Third quarter GAAP diluted net income per share was $1.19. Adjusted diluted net income per share was $1.02.

Now turning to our balance sheet and capital allocation. We ended the quarter with total available liquidity of $585.3 million, including a cash balance of $249.3 million and $336 million available on our revolving credit facility. Total principal amount of debt outstanding was $575 million, representing the principal amount of the convertible senior notes due 2030.

CapEx totaled approximately $58 million during the third quarter for new unit development and maintenance. During the quarter, we completed approximately $2.4 million in share repurchases and returned $14.2 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 2026 and the full year 2027. Our assumptions factor in everything we know as of today, including net restaurant counts, quarter-to-date trends, our expectations for the weeks ahead and anticipated impacts associated with holiday shifts. Specifically, for Q4, we anticipate total revenues to be between $1.04 billion and $1.05 billion.

Next, at this time, we expect effective commodity inflation of low single digits for Q4 as our broad market basket remains 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 approximately $68 million. Depreciation is estimated to be $30 million. And preopening expenses to be $13 million to support 13 openings in the quarter. Based on these assumptions, we would anticipate adjusted net income margin to be about 5.8% at the midpoint of the sales range provided.

For modeling purposes, we are assuming a tax rate of approximately 14% to 15% and diluted weighted average shares outstanding of approximately 52.5 million, including dilution from the convertible notes and stock-based compensation associated with a higher share price.

With regard to development, we remain on track to open as many as 26 new restaurants in 2026. This includes as many as 5 Cheesecake Factories, 8 North Italias, 7 Flower Childs and as many as 6 FRC restaurants. And we continue to anticipate approximately $210 million in cash CapEx to support unit development, as well as required maintenance on our restaurants. Note, this CapEx estimate includes some new restaurant construction expenses, which may be classified as operating lease assets instead of additions to property and equipment in the statement of cash flows.

Before I turn to our 2027 outlook, I want to acknowledge that while we are very encouraged by The Cheesecake Factory's recent sales inflection, it is early, and we believe it is prudent to remain measured in our outlook. As a result, our underlying sales growth and margin assumptions for 2027 are more closely aligned with our historical algorithm objectives. As we continue to gain greater visibility into these trends, we will update our expectations accordingly.

With that in mind, I'll now turn to our initial fiscal 2027 outlook, which reflects what we know today. First, with regard to development, as David mentioned, we plan to further increase development next year. At this time, we expect to open as many as 27 new restaurants in 2027, 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, we are targeting total revenue of approximately $4.425 billion for fiscal 2027. 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 relatively consistent across the quarters. And we expect some modest leverage from G&A, depreciation and pre-opening expenses of approximately 10 to 20 basis points in total compared to 2026.

Based on these assumptions, we would expect full year net income margin of 6.0% to 6.1% at the sales estimate provided, consistent with our long-term algorithm of 25 to 35 basis points of annual margin expansion. For modeling purposes, we are assuming a tax rate of approximately 12% and diluted weighted average shares outstanding of approximately 52 million, with the ultimate share count dependent, in part, on stock price performance.

And we would anticipate approximately $220 million in cash CapEx to support new unit development, as well as required maintenance on our restaurants. Note that the total CapEx estimate includes roughly as many as 5 Cheesecake Factories, 4 to 5 North Italias, 11 to 13 Flower Childs and 6 to 7 FRC restaurants.

In closing, what is most encouraging about the quarter is the breadth and consistency of our performance. Our operators are executing at a high level, menu innovation is resonating with guests, engagement with rewards and the app continues to grow and our broader marketing efforts are expanding awareness and attracting new guests to the brand.

Importantly, these are not isolated drivers. They are reinforcing one another and amplifying the underlying strengths of The Cheesecake Factory, helping us increase frequency and drive exceptional sales performance.

The impact is evident in our financial results, including record quarterly revenue, healthy flow-through, margin expansion and strong earnings growth. At the same time, we have a robust development pipeline and significant capital to reinvest in the business. Our balance sheet and cash generation provide the flexibility to accelerate unit growth while continuing to return capital to shareholders.

Taken together, we enter the fourth quarter from a strong position with multiple levers to support traffic and earnings. We remain focused on translating this momentum into profitable growth and long-term shareholder value.

And with that, we'll take your questions.

Question-and-Answer Session

Operator

[Operator Instructions] Your first question is from the line of Jon Tower with Citi.

Jon Tower
Citigroup Inc., Research Division

Maybe starting off, I was just wondering, on the labor cost side, you had mentioned, obviously, seeing some leverage year-over-year. It did expand by about 7.5%, I believe, year-over-year in the quarter. I'm just curious if you feel comfortable with that run rate going forward in terms of either percentage growth or even on a per-week basis. And from an incentive standpoint, I think you'd also mentioned in the other OpEx line, there was some incentive compensation. So maybe if you could speak to how to think about breaking that out.

Matthew Clark
Executive VP & CFO

Sure, Jon. This is Matt. Thanks for the questions. Just to take the second part first, as we had talked about with investors, we are taking the opportunity to reinvest in our business and, in particular, our frontline management that are making these amazing results happen. And so in that other OpEx line, there is about $4 million that would be attributable to that reinvestment in a discretionary one-time bonus.

With respect to the labor, I think we feel good. We caught up. I mean, obviously, the sales are very high, and so making sure that the restaurants are staffed is super important as we look to maintain our near-record-high NPS scores even with these volumes, right? So we feel good about where it's at. I think relative to the mix of the total company, Cheesecake Factory, obviously, outweighing makes the dollars per week look a little bit different, but if you do it by the concepts, I think we're feeling pretty good about that.

Jon Tower
Citigroup Inc., Research Division

Got it. And maybe just going to the marketing side, obviously, you guys have had quite a bit of success, it looks like, through social channels, and it sounds like you're dipping your toes in a little bit on a market-by-market basis at North Italia. Can you just maybe -- I think historically, the company has kind of shied away from marketing, and I think as a percentage of sales, it's a much lower number than a number of the competitors in the marketplace. How are you thinking about that growing over time?

David Gordon
President

Jon, this is David Gordon. Good to hear from you. Thank you for the question. I think that, first off, Cheesecake Factory has always been a word-of-mouth business, right? Number one for us is to make sure that we're executing as well as we possibly can so people continue to want to talk about their wonderful experiences, and our operators are doing a terrific job doing that.

The strategy over the past couple of years, as you know, has been to leverage the new rewards platform and to make sure that our member acquisition and activation of those new members continues to grow, and we saw that through all of Q3, great momentum in that program. And we have an increased focus on driving frequency, driving repeat visits, using all the data that we've been able to gather over the past couple of years to continue to offer personalized offers for guests who are part of that rewards program. So we feel really, really good about where that program sits today. As you know, we launched the app in the second quarter. We continue to see strong adoption of the app moving into the third quarter and really strong engagement. And it will continue to have a growing role in the program, whether that's the digital ordering or just direct guest engagement and communication through the app. So rewards will continue to remain a pretty important factor in The Cheesecake marketing trajectory.

Certainly, the social engagement in the quarter was strong. Cheesecake continues to be a highly differentiated brand, and the breadth and visual appeal of our menu really lends itself to really great shareable content. So we'll continue leveraging that visual appeal of the menu and all the social commentary to create those culturally relevant moments and amplify any organic engagement that we can where we feel it's appropriate, increasing that brand awareness and bringing new guests into the fold. And lastly, our traditional lead generation, paid search, appropriate influencer engagements will continue across all of our social channels, whether that's on TikTok or Instagram or Facebook, you name it.

And then lastly, I just touched on the execution, but I don't really think there's anything more important than ensuring that for those new guests that walk through our doors, we deliver on the execution promise that has been key to our long-term success and driving sustainable long-term traffic. We have the best operators in the business. Experiential dining is something that we believe firmly in and what guests continue to want and desire, and we can deliver and execute because of those operators and their passion for executing for all of our guests, whether they're visiting for that first time because they heard about us in a social channel or they're coming for their 100th time. We're going to continue to earn their loyalty.

Operator

Your next question comes from the line of Andrew Barish with Jefferies.

Andrew Barish
Jefferies LLC, Research Division

Yes, amazing results. Just it kind of feels like October has been a little softer for the industry. I mean, it's not a big month, but just wondering if you would kind of provide any thoughts on the start to 4Q. And I know you mentioned some calendar stuff, Matt, with Halloween on a Saturday and Christmas and New Year's. Can you just try to kind of frame up what you think the impact of those may be as well?

Matthew Clark
Executive VP & CFO

Andy. Sure, this is Matt, and certainly an important question, we know, for investors there. So we don't give quarter-to-date trends, but maybe I'll take this opportunity to contextualize the Q4 guidance and help people understand how we're seeing the business today. That guidance considers that the Q3 comp trends are durable and that we see that strength being able to be sticky, but with one little caveat: the last 3 weeks of the quarter are typically pretty much at capacity for Cheesecake Factory, given the holidays, and we modeled those just at our pricing of 3%, so just assuming that would be flat traffic. And so then we took those 2 parts and deducted 1% for the holiday shifts. So that's kind of how we get to the guide, and that gives you a little barometer that we feel pretty good about our business run rate.

Andrew Barish
Jefferies LLC, Research Division

Very helpful. And yes, just on putting this kind of same-store sales number up, I assume it's coming at all -- like, all hours and shoulders and late night, but to your point on capacity at peak, yes, is there something we're sort of missing that's allowed this kind of huge number in addition to some of the things you've already highlighted?

Matthew Clark
Executive VP & CFO

Well, as we noted in the prepared remarks, I mean, the breadth of the strength was really one of the key points, and it was across the country, it was every day of the week, it was every daypart. As you might imagine, a little bit less on like a Saturday night, of course. But we've talked about the capacity before, and while we ran a nearly $14 million AUV in what is historically the slowest quarter of the year for the restaurant industry, we do have restaurants that are of average size that are doing low 20s. And so capacity continues to not be a problem for us, and we were able to deliver on that virtually at every angle in the quarter.

Operator

Your next question comes from the line of John Ivankoe with JPM.

John Ivankoe
JPMorgan Chase & Co, Research Division

The question was on development for fiscal '27, and you may have said this, but I just wanted to make sure I can clarify some numbers. So in fiscal '26, we had 5 Cheesecake Factories, 8 North Italias, 7 Flower Childs and 6 non-FRC. So I mean, looking at these numbers, these results, which obviously speak for themselves, it would seem like you would have a significant opportunity to not only step up Flower Child, but maybe even find some more opportunity for Cakes.

But I ask that in the question that your aggregate development, 27 versus 26, is just up a single unit, 27 versus 26 in '26. So I just want to get -- and I guess it's just a coincidence that the years and the numbers are the same. I just want to get a sense of exactly what the numbers kind of read underneath the surface and if there's kind of a good guide, because we all have the model at this point, if there's a good guide or thinking in terms of how much further fiscal '28 could perhaps accelerate as you are signing deals currently today for that out-year.

David Gordon
President

Sure, John. This is David Gordon. Certainly, 26 matching '26 and 27 matching '27 is not a strategy; it's a coincidence. But we're excited about opening all 26 restaurants this year, and that number for 27 next year, I think, is a good mix. We're enthusiastic about accelerating the Flower Child unit growth and feel like we're in a very stable position to be able to do that. I know you've heard us mention in the past that we really wanted to make sure that we handled that growth in a way that was quality growth and we were able to execute all those new openings as well as we possibly can, and I think we're in a good place to do that.

To your point of Cheesecake Factory, it really is a site-based strategy, and as great projects become available, we, to your point, can open more Cheesecake Factories, right? We have all the sizes to be able to do that. The recent opening in Wichita at around 6,500 square feet was very, very successful. It gives us confidence that the smaller footprint is one that works really well for the operators and can deliver the type of ROI and sales generation that we need.

So as we look out to '28, I wouldn't expect that 28 is going to match '28. You might see a slight acceleration from there as more sites continue to become available. And we have the capacity, certainly, from everything we've done in the past at Cheesecake Factory to open up more Cheesecake Factories than 4 to 6 a year.

John Ivankoe
JPMorgan Chase & Co, Research Division

And can I ask, how many Flower Childs are you expecting in '27, and where will that leave us on potentially a run rate for the brand beyond '27 in terms of annual openings?

David Gordon
President

Yes, so it would be 11 to 13 for next year.

Matthew Clark
Executive VP & CFO

That would be roughly, John -- this is Matt -- roughly a 25% increase year-over-year at the midpoint. And we feel ready to do that with the people work that has been done. And if that is successful, then we should be able to continue that.

Operator

Your next question is from the line of Jim Salera with Stephens.

James Salera
Stephens Inc., Research Division

Very encouraging to hear about all the new guests coming into the restaurants. I was hoping you could share some details about frequency, types of things they order off the menu. And Matt, I think you touched on this a little bit, but have you seen any restaurants sort of hit the ceiling on capacity and what that might look like, even if it's during a specific daypart where you can only service a certain number of guests?

David Gordon
President

Jim, this is David. As far as capacity goes, historically, on those busiest shifts at Cheesecake Factory on a Saturday or Friday night when the wait is an hour, really what happens is it just extends the shoulder periods, and we might be busier at 9:00 or 10:00 at night. And we're open late night at Cheesecake Factory on the weekends, so there still is even capacity there. And to Matt's point about the restaurants that are doing $20 million a year in AUVs, there's still capacity. So we have a very stable off-premise business, just mentioning that as well, throughout the quarter, 17% off-premise, and there's still an opportunity to grow that business. We've seen some growth in the delivery business as well, so there's opportunity.

As far as new guest behavior, they tend to be very much in line with what we see historically. As you know, we did have some good social content around one particular menu item, the Cajun Salmon, and we did see a lot of new guests coming in and trying that salmon and, fortunately, bringing people with them. And when you look at the mix of those tickets, you see guests ordering a longtime favorite, Chicken Madeira, or Avocado Eggrolls along with trying that Cajun Salmon, which may have been the reason that they came in for the first time. Dessert order behaviors continue to remain very, very consistent as well.

Sorry, I just said 17% on the -- just real quick, I want to clarify on the off-premise, it's 21%. 17% was -- is the continued dessert sales as a percentage of sales.

James Salera
Stephens Inc., Research Division

Great. Just one thought on -- or one question on marketing. As you lean more into social, can you walk us through, as a kind of percentage of spend, should we see the brand marketing support kind of match their contribution to the portfolio, or is there maybe a tilt towards Flower Child and maybe some of the lesser-known brands, given that Cheesecake Factory, even though people are discovering it and kind of rediscovering it on social media, is, I feel like, much more prominent in sort of the consumer's mind that they know that brand versus some of the other ones they might not have as much familiarity with?

David Gordon
President

Well, certainly, as we bring the newer concepts into newer markets where they don't have as much awareness, then we would increase that marketing spend, whether that's for a North Italia or a Flower. To your point, we really don't have to do that with Cheesecake Factory. Wichita, again, is a good example that although it's a new market, people have been going to the Kansas City Cheesecake Factory for years, and the awareness of the brand is much stronger. So we might have an elevated spend at the newer concepts, especially in those new markets.

And as stated in the earlier comments, we are right now doing some pilot marketing to increase awareness in a couple of the markets for North Italia just to see if that improves some of the awareness in those new markets, even though maybe those restaurants have been there for 6, 12, 18 months thus far.

Operator

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

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

I wanted to delve a little bit into the younger demographics that you've been so successful with at the core concept over a late. Do you have any metrics on how durable kind of that customer is, and are you seeing kind of repeat metrics there that would be similar to other cohorts of Cheesecake Factory customers?

Matthew Clark
Executive VP & CFO

Sharon, it's Matt. Thanks for the question. We're very encouraged. The data that we have shows that a very large percentage of the guests that are coming in are younger, in general, and so it's always important for brand relevancy to continuously refresh that pipeline. It feels a bit early to think about the frequency; we're about 4 months in. But what we have seen so far is very consistent sales trends over the last 4 months, right? And so no matter what the cadence has been of some of the organic social, it really hasn't changed our sales trends up and down in waves; we've been very consistent. So that's a very positive, I think, marker for us.

And the consistency, as noted earlier, across the country, the dayparts and the days of the week, all of those things tell us that we're doing an excellent job in the four walls when those guests come in and that we are expecting to convert a good percentage of them to be more frequent over time.

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

Okay. And then, Matt, could you give us the traffic and ticket for the quarter?

Matthew Clark
Executive VP & CFO

Sure. It was 2.4% pricing, a positive 3.3% mix and 9.5% traffic.

Operator

Your next question is from the line of Chris O'Cull with Baird.

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

Congrats on the strong results. I had a follow-up question related to what's changed in the business. I mean, I've always considered Cheesecake Factory having strong execution, especially as it relates to menu innovation and service, and those aspects of the business seem relatively consistent. Marketing spending also hasn't changed materially, but the effectiveness of that spending clearly has improved. Can you just help us understand what you're doing differently today in marketing than you were a year ago and why it seems to be resonating more with consumers?

David Gordon
President

Sure, Chris. Thanks for the question. Well, certainly, I think we're engaging in the organic social content at a greater level and frequency than we were 12 months ago. 12 months ago, maybe we were a little more gun-shy to engage, and today, where appropriate, when appropriate, we're talking about the brand, we're sharing more about what we're doing that's new. We've actually taken a new approach in some of our content and how our menu items look in social, and we think that's resonating really, really well with guests also.

And I would say the experiential elements of Cheesecake Factory today are resonating as well as they ever have, whether it's the hospitality, the way the restaurants feel, the vast menu and the ability for people to get just about anything they want today and then share that content is really relevant. And so I think it's a little bit of what we're doing, and we're going to continue to do that. Certainly, we'll continue to monitor those social channels, influence them appropriately when we think we should and, most importantly, as I said earlier, execute against those new sales and the traffic growth because we don't want it to be a one-and-done situation. It never has been at Cheesecake Factory. We're building brand loyalty and guest loyalty for the long term.

Christopher O'Cull
Robert W. Baird & Co. Incorporated, Research Division

Okay. That's helpful. And then just one more. Matt, sales flow-through at the restaurant level looked lower in the third quarter than in the second, and that's despite the sharp acceleration in sales and if you adjust for those one-time bonuses. So how should we think about flow-through rate in the fourth quarter at the restaurant level?

Matthew Clark
Executive VP & CFO

Sure, Chris. That's a great question, and we're happy to provide that clarity. I think we had talked about Q2 being hyper-productive at that 35% rate, really, as sales started ramping up. And I would say where we were at relatively in Q3, adjusted for the sales, would be similar in Q4, right? So if the sales trends, because some of that in the holidays where we're at capacity, and so on a weighted total sales basis, we're still talking about 20% to 25% versus that Q2 35%, and I think that incorporates any other reinvestments similar to Q3.

Operator

Your next question is from the line of Sara Senatore with Bank of America.

Sara Senatore
BofA Securities, Research Division

I just wanted to follow-up, I guess, maybe a question on that, not the margin flow-through, but on the 4Q, sort of the outlook fiscal '27 on unit count versus comp and trying to reconcile those. I think, certainly, in 2027, it sounds like since you're opening more Flower Childs, maybe that lower AUV is a bit of a headwind. If I think about the comp implied for 4Q, it seems like it's a deceleration, still very, very strong, but maybe not that 15%, maybe something more in the high singles. And then, again, looking out to 2027, the revenue guide is fairly similar, I think, to what you'll end up doing this year, but the mix of stores is a little bit different. So I guess if you could give any kind of help on that, on balancing those 2 things.

And then just quickly on the converts, this is the first time, I think, your stock has been well above the conversion price. I know I think you can't call until 2028, but any thoughts on that?

Matthew Clark
Executive VP & CFO

Sure, Sara. Let me just reiterate one point that I think is most important is our guide for Q4, again, to reiterate this, doesn't necessarily call for a deceleration of the Q3 trends through the balance of the quarter. It's only the last 3 weeks where we feel like we're modeling today at only plus 3% pricing because of the capacity, and we're typically 25% to 30% busier in those weeks than others. So I just want to make sure that's our outlook on the quarter.

I think with respect to next year, certainly, we're modeling that Q1 is going to be stronger than normal, and -- but as we lap back around, that you're going to see some tapering as we cross over these really big quarters. And so I think at this point in time, we feel like that's sort of the appropriate level, and we'll continue to update as we see the trends continue into next year.

I think the convert is, obviously, as you noted, in the money. That's the dilution that is predominant in the guidance that we've given for way. So a little bit of that is with respect to the equity comp, but most of it is with regards to the convert. At this point in time, what we're talking about is kind of earning into that dilution, and it's early days with where the stock is at, and we'll see how that plays out over time. Certainly, we have tremendous financial flexibility with the cash flow that we have and the balance sheet that we have. So we're in a really good spot. We're happy for our bondholders; we're happy for our shareholders. And we hope to continue to just produce results that keep the bond in that territory.

Sara Senatore
BofA Securities, Research Division

Got it. And then just on the -- okay, I understand, so the weighted sales, I think I was doing the math wrong on 4Q, so understood. Thank you for that clarification.

And then on the outlook, right, you said you're lapping, but I guess as you expect, one of the things that we've seen is kind of a positive virtuous cycle where your revenues go up and your spending goes up. I guess, is there, I don't know, any thought on how the ROI or ROA on some of these advertising may shift and allow you to maybe maintain faster, greater momentum than perhaps you have in the past?

Matthew Clark
Executive VP & CFO

Yes, so let's contextualize it this way. If you take out sort of the outsized sales that we have and we're talking about a normalized environment again, what we've talked about is having a little bit more ownership of the sales trends vis-a-vis the rewards program and the marketing. And so we do feel good about that, and we would be on a normalized trajectory, instead of talking about 1% to 2%, maybe talking about a 3% or plus comp, right? And so I think that's still our view, and as we approach that lapping point in time, that'll be our objective.

Operator

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

Jeffrey Farmer
Gordon Haskett Research Advisors

Matt, I think you just mentioned a low 3% mix at Cheesecake. That looks like that's the highest number in years. I might have missed it, but can you help us understand what drove that?

Matthew Clark
Executive VP & CFO

Sure. Yes, it definitely is. I mean, I'd have to go back into the archives and see if, like, the post-COVID revenge spending was up there. It might have been. But a couple of things to note: the Cajun Salmon, with all of those hacks that we know went viral, is certainly at the upper end of our entrees, and so we did see disproportionate sales for that. But I also think it's important to note, when you look at The Cheesecake Factory overall and why guests are coming in, the experiential nature -- in fact, we're up in alcohol incident rates, right? And we're flat on cheesecakes, even though we're still at an all-time high. So what we're seeing is that the guests that are coming in, they're not bargain hunters, they're wanting experiential dining, and they're getting the full Cheesecake Factory experience, as we say.

Jeffrey Farmer
Gordon Haskett Research Advisors

That's helpful. And just sort of as a follow-up to that, just in terms of helping us understand sort of the pace, scale, however you want to phrase it, of menu innovation in 2026 relative to what you've done in prior years, you just talked about the success of the Cajun Salmon, but have you guys -- is it sort of measurable in terms of what the increase in menu innovation has been? And then how should we think about that pace of menu innovation as you get into 2027?

David Gordon
President

Sure, Jeff. This is David. Menu innovation has been key to Cheesecake Factory for nearly 50 years now, and the cadence of innovation has always been heightened, right? We're always looking for new ideas, we're always sharing new ideas, we're always working in our R&D kitchen to come up with what's next that we can put on The Cheesecake Factory menu. So that work is always being done and will continue to be done. The cadence is the 2 menu changes a year, and that will be the same cadence moving into next year and for the foreseeable future. I wouldn't anticipate that's going to change. The Cajun Salmon actually had been on the menu for a while. It wasn't even a new menu item. It had already been on the menu, and somebody just discovered it and decided to talk about it a little more loudly than they had before.

Operator

Your next question is from the line of Brian Vaccaro with Raymond James.

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

I just wanted to follow up on the other OpEx line in the quarter. You noted the $4 million of incentive bonuses, obviously, in the third quarter, but is there a level of bonuses that you've layered into the fourth quarter guidance? So that's the first question.

And then the second one, if you look at the third quarter and you took the $4 million out, it still looks like the cost per week in other OpEx, that Cheesecake Factory other OpEx, was still up around 10%, maybe. Is that higher marketing that we're seeing, or are there any other one-time items to call out, or maybe that's just line items that are tied to higher sales, like credit card fees and rent, et cetera?

Matthew Clark
Executive VP & CFO

Yes, Brian, I'll start with that one. I think you nailed it. It's just the higher sales levels. We did also call out higher electricity on a rate basis, so really, those are the 2 things. On a year-over-year basis, the marketing dollar percentage comparisons at Cheesecake aren't really that different.

And for the fourth quarter, everything that we talk about in terms of reinvestment is in there. So there is some incentive comp; there's also some marketing. David Gordon talked about that at North; that would fall in the other OpEx line. So there is some continuation of that. As we get the actuals, we'll be able to update everybody on the next call as to what actually transpires in the quarter, but we are forecasting some additional one-time costs there.

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

Okay. And then, if I may, just on a follow-up, with unit growth accelerating at Flower Child, can you share more on what the balance looks like on building out existing markets versus entering new markets? And maybe you could just level-set us on the unit economic targets for the brand, sort of targeted AUVs -- I know the mature margins are around 20% -- but AUVs, expected cost to build, that kind of thing.

Matthew Clark
Executive VP & CFO

Sure, I'll start with the economics, and then David Gordon can talk about the build-out expectations. Right now, we're super happy, really, to be on $5 million AUVs and 20% mature margins on a build-out cost that's been around $2.8 million to $3 million, and so pretty strong cash-on-cash returns. And frankly, they continue to accelerate. And so at that level, the business is great, and we'll look to expand the 11 to 13 that we are planning for next year. But the momentum is continuing, as you see with their comps and the stacking actually getting better, so there's room in both of those metrics to continue to improve.

David Gordon
President

And Brian, as far as the mix for next year, it's probably about a 50-50 new to existing markets, and I would expect that to continue. We see some great synergy when we're able to get that second and third restaurant open in an existing market, so we're happy to follow up in new markets and get a second and third in there relatively quickly. But I would expect that cadence to be probably the same in the outlying years in '28 and '29.

Operator

Your next question is from the line of Brian Bittner with Oppenheimer.

Brian Bittner
Oppenheimer & Co. Inc., Research Division

It seems like based on your '27 guidance, you're still expecting a pretty solid year next year, even with a big first quarter. It still seems like positive comps against tough laps. And so the question is, just as you analyze your sales data, are you seeing evidence that you can share with us, maybe other than the recent 4 months of momentum, that really gives you the confidence that this won't prove to be just a sugar high for the brand? And what do you believe is the biggest tool that you have to turn this traffic growth into sustainable business moving forward?

Matthew Clark
Executive VP & CFO

Brian, this is Matt. Thanks for the question. I mean, we're encouraged across many fronts, right? I think if you go and you look at how the business is performing, as I noted, we're still near record-high NPS scores even with all of these volumes. Guests are coming in for that full experience at Cheesecake Factory.

But beyond that component of it, really, the underpinnings that David Gordon mentioned are the rewards program and the new marketing, and we're seeing the effectiveness of those. We continue to have twice as many acquisitions per week with the rewards program than we did before the launch of the app. So it's important that we're bringing in new guests, and -- but then we're also engaging with them and continuing to drive the frequency. We know guests that are part of the rewards program have a higher frequency. So there's a lot of tail left in that to continue to grow the business outside of some of the social.

But in fact, the social continues as well. It does have a virtuous cycle to it, and we see that the more that we engage, the more that we get organic content created by our really rabid fans. And so we have seen that be very consistent and very durable to this point in time.

David Gordon
President

And Brian, I would just add that the tenure of our operators and their ability to execute as well as they have gives us the confidence that we can take market share, and experiential dining today is appreciated as much as ever. And I just want to give kudos again to those operators who have done such a terrific job throughout the quarter and have remained really stable in the restaurants to be able to execute on the higher volume.

Brian Bittner
Oppenheimer & Co. Inc., Research Division

And just my follow-up is diving into that earnings flow-through dynamic a bit more. Obviously, margins and earnings expanded nicely, and not taking anything away from you on that, but on a 15% Cheesecake comp, I think we would have expected a little more flow-through. And I just want to dive into the labor segment within Cheesecake. When you look at the per-operating cost -- per-operating-week labor costs, they really accelerated the same percentage as the comp accelerated from 2Q into 3Q, so that's why leverage was about the same year-over-year in 3Q despite the way higher comp.

So the question is, how do you want us thinking about these labor costs and the variability in them as comps naturally do fluctuate from here? And will there be an opportunity to maybe get more productive with this unprecedented higher sales level you're operating at now?

Matthew Clark
Executive VP & CFO

Yes, I think, for one, Brian, it's early in the sales lift to gauge that in completeness. But we were hyper-focused on making sure the restaurants got to staffing levels to deliver the service and the quality that our guests are expecting. In particular, if you think about these new guests, those aren't the ones we want to be hyper-productive on. We want to show them as much love and care as we possibly can to bring them back in, right? And so we view it all as investing for the future and making sure, and we feel pretty fantastic about the overall flow-through for the year that we're projecting.

So you're right, there's going to be quarters where the metrics don't seem quite as outstanding, but I think our view is that a 30% net income gain this year on top of what you talked about, which is a pretty good outlook, is leading the industry right now, and that's our goal, to continue to make sure we run the business for the long term.

Operator

Your last question is from the line of Lauren Silberman with Deutsche Bank.

Lauren Silberman
Deutsche Bank AG, Research Division

Congrats on the great results. I just wanted to go back to the assumption on traffic being flat during the holidays in the last 3 weeks, given how busy you are. Is there a scenario where you can continue to drive positive traffic, or are you just at full capacity? Like, any other times during the year where you're at peak capacity?

Matthew Clark
Executive VP & CFO

Yes, Lauren, that's a fair question. I mean, again, is there capacity during those weeks? There is, right? I mean, I'm not saying that every restaurant is full on a Tuesday night for all 3 of those weeks. I think for us, that just seems like a prudent approach at this point in time. And they are markedly more busy, right? There's no doubt about that. They are hugely more busy, 25% to 30% compared to sort of the average weeks in the other parts of the quarter. But hopefully, we'll be able to beat that number, but for the moment, that seems like the right way to model it.

Lauren Silberman
Deutsche Bank AG, Research Division

Okay. Understood. And then just on price, I think you mentioned Q3 was 2.4% and that Q4 is 3%. So are you assuming 3% in Q4, and is that how we should think about '27?

Matthew Clark
Executive VP & CFO

Yes, so a little bit of that was just the timing of year-over-year pricing. So 3% as sort of a run rate is good to use for next year as well at this point in time. Of course, we'll reserve the right to update that as we get into the menu change cycle and we see where our cost and sales trends are, but I think for everybody's modeling, that's a good start.

Operator

This concludes today's call. Thank you for attending. You may now disconnect.

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