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EPS of \$1.04 **beats by \$0.12** | Revenue of \$920.96M (5.01% Y/Y) **beats by \$8.08M**

Call Start: 17:00 January 1, 0000 6:05 PM ET

The Cheesecake Factory Incorporated (NASDAQ:[CAKE](#))

Q4 2024 Earnings Conference Call

February 19, 2025, 05:00 PM ET

Company Participants

Etienne Marcus - Vice President Finance, Investor Relations
David Overton - Chairman and Chief Executive Officer
David Gordon - President
Matt Clark - Executive Vice President and Chief Financial Officer

Conference Call Participants

David Tarantino - Baird
Brian Vaccaro - Raymond James
Jon Tower - Citi
Andy Barish - Jefferies
Brian Bittner - Oppenheimer
Jim Salera - Stephens
Jeffrey Bernstein - Barclays
Christine Cho - Goldman Sachs
Catherine Griffin - Bank of America
Jeff Farmer - Gordon Haskett
Jim Sanderson - Northcoast Research
Lauren Silberman - Deutsche Bank
Brian Harbour - Morgan Stanley

Operator

Ladies and gentlemen, thank you for standing by. My name is Krista, and I will be your conference operator today. At this time, I would like to welcome everyone to The Cheesecake Factory Fourth Quarter 2024 Earnings Conference Call. [Operator Instructions]

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

Etienne Marcus

Good afternoon, and welcome to our fourth quarter fiscal 2024 earnings call. On the call with me today are David Overton, our Chairman and Chief Executive Officer; David Gordon, our President; and Matt Clark, our Executive Vice President and Chief Financial Officer.

Before we begin, let me quickly remind you that during this call, items will be discussed that are not based on historical fact and are considered forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could be materially different from those stated or implied in forward-looking statements as a result of the factors detailed in today's press release, which is available on our website at investors.thecheesecakefactory.com and in our filings with the Securities and Exchange Commission. All forward-looking statements made on this call speak only as of today's date, and the company undertakes no duty to update any forward-looking statements. In addition, during this conference call, we will be presenting results on an adjusted basis, which exclude impairment of assets and lease terminations and acquisition-related expenses. An explanation of our use of non-GAAP financial measures and reconciliations to the most directly comparable GAAP measures appear in our press release on our website as previously described. David Overton will begin today's call with some opening remarks, and David Gordon will provide an operational update. Matt will then review our fourth quarter financial results and provide commentary on our financial outlook before opening the call up to questions.

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

David Overton

Thank you, Etienne. Before I begin, I'd like to take a moment to acknowledge the recent devastating wildfires in the Los Angeles area and extend our deepest sympathies to all those affected. These events highlight the dedication of our firefighters and first responders who work tirelessly to protect our communities, and we are very grateful for their service.

Now turning to our results. We ended the year on a high note, once again delivering consistent and dependable results with The Cheesecake Factory restaurant comparable sales and traffic outperforming the industry, leading to fourth quarter revenues, earnings and unit development exceeding our guidance.

In fact, in 2024, we generated record high annual revenues and adjusted earnings per share, while also opening more new restaurants in a single year than ever before in our company's history. As I've said before, our performance is a reflection of our steadfast focus on menu innovation, maintaining the contemporary design and decor of our restaurants and delivering exceptional food quality, service and hospitality.

To this point, we are in the midst of rolling out our latest menu, which features more than 20 new items across a broad range of contemporary cuisines, categories and price points. The menu has been well received by our guests with positive feedback highlighting the variety and the quality of our new offerings.

Our ongoing menu innovation drives a high degree of relevance without the need for discounting, and we believe, coupled with our best-in-class operators, will continue to set us apart in the competitive landscape.

Turning to development. We opened 9 restaurants in the fourth quarter to strong consumer demand, including 2 Cheesecake Factories, 3 North Italia, 2 Flower Child and 2 FRC restaurants. Subsequent to quarter-end, we opened 5 restaurants, including a North Italia, 2 Flower Child and 2 FRC restaurants. And we expect to open as many as 3 more restaurants in the coming weeks for a total of 8 new openings in the first quarter.

We're looking to build on our development momentum, and we now expect to open as many as 25 new restaurants in 2025. Additionally, we anticipate as many as 2 Cheesecake Factory restaurants to open internationally under licensing agreements.

In closing, consumer demand for the distinct high-quality dining experiences we provide our guests across our experiential concepts reinforces our confidence in the long-term growth potential of our portfolio, and our results demonstrate the power of our larger platform provides, reinforcing our confidence in our strategy to drive sustainable growth and value going forward.

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

David Gordon

Thank you, David. The results David highlighted would not be possible without our operators' exceptional execution and relentless focus on delivering delicious and memorable guest experiences while effectively managing their restaurants. And once again, we saw improvements across the business, including in our record high guest satisfaction scores and better-than-expected profit flow-through and labor productivity, contributing to higher restaurant level margins.

To this point, Cheesecake Factory restaurant level margins for the fourth quarter were 18.4%, marking the highest level in over 7 years. Importantly, our industry-leading management and staff retention continued to improve, which we expect to support ongoing operational improvements in many of these areas.

Now turning to sales trends. Fourth quarter Cheesecake Factory comparable sales increased 1.7% from the prior year. And importantly, traffic once more meaningfully outperformed the industry, exceeding the Black Box casual dining index by 110 basis points. The comparable sales growth contributed to annualized AUVs of \$12.5 million, supported by an off-premise mix of 21%, in line with recent quarters.

North Italia fourth quarter comparable sales increased 1% from the prior year with annualized AUVs of \$7.9 million. In the fourth quarter, we opened 3 new North Italia restaurants in existing markets to tremendous demand with their aggregate average weekly sales exceeding \$193,000 for an annualized AUV of over \$10 million. This supports our thesis that there is significant demand for an on-trend contemporary Italian offering such as North Italia.

Restaurant-level profit margin for the adjusted mature North Italia locations improved meaningfully from the prior year to 18.8%. The margin expansion was predominantly driven by operational improvements and a menu price increase of 2% implemented in October.

We continue to be highly optimistic about Flower Child's growth potential with sales trending substantially higher across the concept. This momentum was evident in the fourth quarter. Flower Child comparable sales increased by 11%, significantly outpacing the Black Box fast casual dining index, which was relatively flat for the quarter. The sales improvement resulted in average weekly sales of \$83,000, up 10% from the fourth quarter of 2023.

Additionally, in the fourth quarter, we opened 2 new Flower Childs to solid demand with aggregate average weekly sales for the 2 locations reaching nearly \$88,000 for an annualized AUV of over \$4.5 million. Restaurant level profit margin for the adjusted mature Flower Child locations was 16.4% for the fourth quarter.

With strong consumer demand and experienced operations team, the support infrastructure in place and an attractive unit economic profile, we believe Flower Child is poised for accelerated growth. Other FRC annualized AUVs were \$7.2 million.

In summary, we are very encouraged by the performance of our portfolio, driven by sustained sales strength, operational improvements and sequential margin expansion across our concepts. We believe we are well positioned to support our unit growth objectives moving forward.

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

Matt Clark

Thank you, David. Let me begin with a high-level overview of our fourth quarter and fiscal year results. Fourth quarter total revenues of \$921 million and adjusted net income margin of 5.6% exceeded the high end of the guidance we provided.

For the fiscal year, we delivered total revenues of \$3.58 billion, adjusted earnings per share of \$3.44, a 28% year-over-year increase and adjusted EBITDA of \$329 million.

Now turning to some more specific details around the quarter. Fourth quarter sales at The Cheesecake Factory restaurants were \$669.4 million, up 2% from the prior year. Comparable sales increased 1.7% versus the prior year. North Italia sales were \$81.3 million, up 21% from the prior year. Other FRC sales totaled \$85.1 million, up 20% from the prior year, and sales per operating week were \$139,300. Flower Child sales totaled \$38.2 million, up 25% from the prior year, and sales per operating week were \$83,000, and external bakery sales were \$17.1 million.

Now moving to year-over-year expense variance commentary. In the fourth quarter, we continued to realize improvement across several key line items in the P&L. Specifically, cost of sales decreased 70 basis points, primarily driven by higher menu pricing and commodity inflation. Labor as a percent of sales decreased 100 basis points, primarily supported by menu pricing leverage relative to wage inflation and labor productivity improvements. Other operating expenses were in line with the prior year.

G&A increased 10 basis points from the prior year. Depreciation increased 20 basis points as a percent of sales. Preopening costs were \$7.6 million in the quarter compared to \$9.6 million in the prior year period. We opened 9 restaurants during the fourth quarter versus 9 restaurants in the fourth quarter of 2023. Note, this year's Q4 openings included 2 Cheesecake Factory relocations, which required lower preopening costs than standard new restaurant openings.

And in the fourth quarter, we recorded a pretax net expense of \$14.4 million, primarily related to impairment of assets and lease termination expense, partially offset by FRC acquisition-related income. Fourth quarter GAAP diluted net income per share was \$0.83. Adjusted diluted net income per share was \$1.04.

Now turning to our balance sheet and capital allocation. The company ended the quarter with total available liquidity of approximately \$341 million, including a cash balance of about \$84 million and approximately \$257 million available on our revolving credit facility. Total debt outstanding was \$455 million.

CapEx totaled approximately \$40 million during the fourth quarter for new unit development and maintenance. During the quarter, we completed approximately \$0.5 million in share repurchases and returned \$13.2 million to shareholders via our dividend.

Now let me shift to our outlook. While we will not be providing specific comparable sales and earnings guidance, we will provide our updated thoughts on our underlying assumptions for Q1 2025 and full year 2025. The assumptions factor in everything we know as of today, which includes net restaurant counts, quarter-to-date trends, what we think will happen in the weeks ahead and the effect of any impacts associated with holidays and assumes no material operating or consumer disruptions.

For Q1, we anticipate total revenues to be between \$920 million and \$930 million. This includes an estimated impact of approximately \$7 million in sales due to inclement weather experienced so far in the quarter.

Next, at this time, we expect effective commodity inflation of low single digits for Q1 as our broad market basket remains very stable. We are modeling net total labor inflation of low to mid-single digits when factoring in the latest trends in wage rates and minimum wage increases, as well as other components of labor.

G&A is estimated to be about \$60 million. Depreciation is estimated to be approximately \$27 million. We are estimating preopening expenses to be approximately \$10 million to support the 8 planned openings in the quarter and early Q2 openings. Based on these assumptions, we would anticipate adjusted net income margin to be about 4.3% to 4.4% based on the sales range provided. For modeling purposes, we are assuming a tax rate of approximately 8% and weighted average shares outstanding of approximately 50 million shares.

Turning to fiscal 2025. Based on similar assumptions and no material operating or consumer disruptions, we anticipate total revenues for fiscal 2025 to be approximately \$3.8 billion at the midpoint of our sensitivity modeling. For sensitivity purposes, we are using a range of plus or minus 1%.

We currently estimate total inflation across our commodity basket, labor and other operating expenses to be in the low to mid single-digit range and fairly consistent across the quarters. We are estimating G&A to be about 10 basis points lower year-over-year as a percent of sales and depreciation to be about \$109 million for the year. And given our growth expectations, we are estimating preopening expenses to be approximately \$34 million. Based on these assumptions, we would expect full year net income margin to be approximately 4.75% at the sales estimate provided.

For modeling purposes, we are assuming a 10% tax rate and weighted average shares outstanding relatively flat to 2024. With regard to development, as David stated earlier, we plan to continue accelerating unit growth this year. As such, at this time, we now expect to open as many as 25 new restaurants in 2025 with as many as 15 openings in the first half of the year and the remainder in the back half. This includes as many as 3 to 4 Cheesecake Factories, 6 to 7 North Italias, 6 to 7 Flower Childs and 8 to 9 FRC restaurants. And we would anticipate approximately \$190 million to \$210 million in cash CapEx to support unit development, as well as required maintenance on our restaurants.

In closing, we delivered strong financial and operational performance for both the fourth quarter and full year, highlighted by solid sales, exceptional operational execution and significant profitability growth. The strength of our concepts and the dedication of our operating teams continue to drive our success, positioning us well as we move into 2025. As we build on this momentum, we remain focused on growing restaurant comparable sales, expanding restaurant operating margins and accelerating accretive unit growth to drive meaningful shareholder value going forward.

And with that said, we'll take your questions.

Question-and-Answer Session

Operator

Thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of David Tarantino with Baird. Please go ahead.

David Tarantino

Hi. Good afternoon. Matt, just a quick clarification question on your guidance. I think you said \$3.8 billion in revenue at the midpoint. And I think last time you might have said \$3.75 billion. So just wondering what changed? Is it really the unit growth outlook? Or did you change your comp assumption? I guess, what's driving that, I guess, minor change?

Matt Clark

Hi, David, it's Matt. Yes. The unit growth went up, right? We opened one more restaurant than originally guided to last year, and then we increased this year by one as well. And then the timing, right? So we've got 15 restaurants in the first half of the year. So we're just getting more operating weeks in. So that's driving the upside. Our comp assumptions remain consistent as our performance last year, a continuation of that.

David Tarantino

Got it. Thank you. And then I guess on the outlook for this year, that doesn't seem like you're assuming much margin expansion. So just wondering, after a year where you had a really nice improvement in year-over-year margin performance. I guess, is your 2025 guidance conservative in that respect? Or are there factors that you're not anticipating kind of carrying over in the momentum that you saw maybe exiting 2024?

Matt Clark

Sure. This is Matt again. So there's a couple of dynamics. Number one, the preopening spend is probably 15 basis points year-over-year as we continue to increase and then lap a couple of the Cheesecake relocations and plan for even early '26 locations. I think with the number of openings as front-loaded as it's ever been in our history, we also have some newer unit weeks that - an increase in that, and that's probably 10 basis points to 20 basis points.

So certainly, at the mature level, our assumptions continue to be consistent with where we guided to the last time. At the mature level, we'd still expect to see that 30 basis points to 40 basis points of margin expansion, and we feel very confident about that.

And I also think it's just early in the year, right, to your point, and nobody needs to be a hero coming out of the gate. We want to make sure that we set the expectations appropriately. We feel really great about the momentum and everything is still moving forward as we expected it to.

David Tarantino

Great. Thank you very much.

Operator

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

Brian Vaccaro

Hi. Thanks and good evening. I just wanted to ask about the fourth quarter margin performance. And could you just unpack what some of the upside drivers were in the margins? And I think you noted labor productivity, obviously, some strong labor leverage this quarter. Maybe you could unpack that, I guess, potentially even getting into Cheesecake Factory versus North Italia because each brand saw some nice margin expansion. Thank you.

Matt Clark

Sure, Brian. This is Matt. I think there are two things that I would call out. Number one, obviously, it was a strong sales quarter for us, handily beating the upside of the guidance. And there was some great flow-through. I think our restaurants delivered on the extra sales piece of that. And you see that specifically by concept and Flower Child, for example, had tremendous sales and increased profitability.

Certainly, at Cheesecake Factory, the continued stability and predictability of our sales trends, coupled with yet again another sequential quarter of improving retention to an all-time high level, has major contributions to the financial statements, particularly in that labor category, right?

And so we've just seen a great trend that continued into the fourth quarter and exceeded the third quarter's productivity levels. So I think it's a combination of the sales piece for all of our concepts and then the retention piece. And those two together are really the main drivers. And we did see, I think, exceptional margin performance across the portfolio.

Brian Vaccaro

All right. That's helpful. And sorry if I missed it, but could you walk through the comp components for both Cheesecake Factory and North in the quarter?

Matt Clark

Yes. So for Cheesecake Factory, the net pricing, the effective pricing was about 4.2%. Traffic was a negative 0.4, and so the mix was about a negative 2. And just a little color there because that was probably a little higher than our original guide. About negative 1.5 was on-premise, so a little bit of the off-premise component to it.

And I think in that as we continue to see normalization of our party size, we saw a little bit of alcohol component. I think that's been pretty common in the industry. So I think we felt pretty good about where the comp came in, in total. And the pieces are all individually within the ranges that we have. And I'm going to have to look for the North. We'll come back to you on that. We'll find. I don't have it quite in front of me.

Brian Vaccaro

All right. Thanks very much. I'll pass it along.

Operator

Your next question comes from the line of Andy Barish with Jefferies. Please go ahead. Your next question comes from the line of Jon Tower with Citi. Please go ahead.

Jon Tower

Hey, great. Thanks for taking the questions. Maybe first, a clarification, Matt, on the guidance for '25 for the net interest margin, does that contemplate refinancing of the convertible that's coming due in June?

Matt Clark

Yeah. That's a great question, Jon. I mean we've been in active discussions with our Board about looking into that, particularly as we get in closer to the June current status, if you will, the stock moves. So we are actively contemplating that. And we have some sort of broad stroke assumptions incorporated into that guidance.

Jon Tower

Okay. So it does or does not. Sorry I just want to clarify.

Matt Clark

It does. It does.

Jon Tower

Okay, yeah. Great. And then maybe just in terms of thinking about the rewards program because I think that was - last call, we discussed it a little bit, but I was just expecting perhaps a little bit more color on this call in terms of how it's impacting your business at the core Cheesecake brand. And frankly, if you see an opportunity for this to spill across the portfolio and being able to leverage it, whether it be at North Italia or perhaps Flower Child over time? Or I'm just curious if you could provide some updates on the platform itself.

David Gordon

Sure. Hi, Jon. This is David Gordon. Thanks for the question. We continue to be very bullish on Cheesecake Rewards, specifically at Cheesecake Factory. Member acquisition continues to exceed our own internal expectations throughout Q4 and even into January, it was positive. So it's great to see.

Our members continue to show very high guest satisfaction scores, sort of over-indexing on our NPS scores that are already at an all-time high. And we're continuing to test acquisition tactics and different activation campaigns to continue increasing enrollment and to drive frequency. We're seeing that our best guests are coming frequently, and that's the goal of the program to get 1 or 2 more visits out of our average guest and our best guests and to drive their level of engagement and make sure that it's margin neutral and we have profitable growth throughout the program.

So our plan for now is to keep it focused at Cheesecake Factory and not to be moving cross concept with the rewards program to continue to make it something that from a guest perspective is attractive. and like we do for most things Cheesecake Factory, keep it unique and still not a points-based program, but more experiential with surprise and delight and then some of the tent poles that have always been part of the program with the published rewards the guests are also able to access.

Jon Tower

Any color in terms of either sign-ups in total or percentage of sales at peak that are coming through the rewards or reservation platform?

David Gordon

We actually still are not sharing that information. I appreciate you asking it again, but we'll see in the future.

Jon Tower

Okay. Then lastly, on pricing for '25, with the new menu that just rolled out or is rolling out now, are there any incremental expectations for pricing?

Matt Clark

No, John, this is Matt. It's going to be around that 4level effectively at this point in time. And so we're just kind of lapping over. And then we'll see where we get to in the summertime, a long time between now and then, but pretty consistent.

Jon Tower

Okay. Thank you.

Operator

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

Andy Barish

Try that one more time. Sorry about that. Just on the new menu, anything to call out? I know this is a regular part of what you guys do. But anything on sort of more of a selection of lower-priced menu items or I haven't seen it yet, but anything you'd highlight there?

David Gordon

Sure, Andy. This is David Gordon. So it's a large menu change, obviously, with up to 20 items, a few of those are beverages. And I think it crosses different price points, different cuisines, some very unique items and then some sort of right up middle of the road Cheesecake Factory items like a smash burger that we put on the menu.

There's also some great vegetarian options, some new baby roasted carrots, some Asian cucumbers, some Chicken & Jalapeno Fritters. So you name the type of cuisine. We've always said there's nothing that we can't put on our menu that America might want. And I'd say this menu is a great representation of that across all types of cuisine and all types of price points. So I would encourage you to either go out there and try it in the restaurant or feel free to jump on DoorDash and have it delivered.

Andy Barish

Yeah. I appreciate that. And then on the Flower Child comps and AUVs tracking up kind of 10%. So I assume the fourth quarter comp of 11% that you noted has kind of been ramping. What's going on there? Is it just the level of awareness for the brand in markets as you build out? Or just kind of help us understand sort of reaching that - those kind of double-digit comp numbers.

Matt Clark

Andy, this is Matt. Yeah, thanks for that question. We're really happy about the performance there. And it doesn't mean that it's going to stay at double digits forever, but we've done a lot of different pieces to pull that together. And you're right that it has been ramping up throughout the year. A couple of those levers were the introduction of catering specifically, that's been adding to the comp.

We've been gaining traffic, certainly the brand awareness, but also the execution. Remember that we did quite a bit of work to put in things like KDS to improve the coordination between the on-premise and the off-premise component of it. And certainly, the re-launch of their rewards program for Flower Child basically at the beginning of 2024 was a contributor. So I think it's not one piece, but it's in aggregate, each one of those pieces continues to contribute a couple of points to the growing comp.

Andy Barish

Thank you very much.

Operator

Your next question comes from the line of Brian Bittner with Oppenheimer. Please go ahead.

Brian Bittner

Thanks. Thanks for taking the question. In your long-term framework, you target average annual revenue growth of 7% to 8% on a 1% to 2% comp. When I look at 2025, your revenue growth target is about 6% on the 1% to 2% comp.

So I'm just curious what the unlock is moving forward to get revenue growth to that 7% to 8% on the underlying comp range? Is it just better contribution of new units after 2025? Or how would you answer that question?

Matt Clark

Yeah, Brian, it's Matt. It's actually really just a simple math going back to last year where we had those two unplanned closures of Cheesecake Factory and then really the two openings that were relocations, right? So you think about like in a normal world, that's about 2% of comp right there. So if that situation, which essentially was very unique, doesn't happen, we'd be at an 8% this year.

So I think we're already there from a run rate perspective on the opening. The contribution from the new units is fantastic, as David Gordon alluded to in our planned comments. I mean, the North openings in the fourth quarter averaging \$10 million out of the gate. So no, we feel like we're - we've hit that run rate and feel great about the future in terms of getting that 7% to 8% on a consistent annual basis.

Brian Bittner

Okay. And you've talked about your 2025 revenue outlook being underpinned by kind of a 1% to 2% comp. And within that, you've talked about mix, which has been negative flattening out in 2025. Obviously, that's a really important component of the comp build. Is the mix flattening out still something you feel good about that you have visibility into, particularly with this new menu that you just rolled out?

Matt Clark

Yeah, I do. I think, look, it was probably 0.5% higher in the fourth quarter, but that's not material in terms of the total guide, right? So because traffic continues to be very, very consistent. So even with that, we were still above consensus on the Cheesecake comp at 1.7%. So I feel like the business is extremely predictable.

And I do think, to your point, the new menu will only help with that, right? So we have some attractive price points. Quite a few of them are appetizers or sides, and we are also focused this year on rolling out some incremental non-alcoholic beverages because that's the one category, I think that the industry has seen a little bit of pressure in. So we certainly are addressing all of that, and we feel like the business continues to be predictable and that comp range is definitely attainable.

Brian Bittner

Okay. Thank you.

Operator

Your next question comes from the line of Jim Salera with Stephens. Please go ahead.

Jim Salera

Hey guys. Good afternoon. Thanks for taking our questions. I wanted to ask maybe a clarifying point on the FRC restaurants for the year. You guys called for 8 to 9, and I believe you said 2 were already opened in 1Q, but the size of the boxes varies pretty drastically. And so we're just trying to think about the contribution of those new units for the full year.

Can you just give some color around average size of the restaurants you expect to open under the FRC portfolio this year? And then like when we should expect them? Are they going to be more front half or kind of spread out throughout the year?

Matt Clark

Yeah, Jim, this is Matt. So pretty spread out, although I would say for the FRC specific, think about it like three in the first, second and third quarters, probably maybe near the end of the third, early fourth. Average size, pretty much around 5,000 to 6,000 square feet and average contribution of about 6 million, which is kind of what they're doing. So we don't see in aggregate that there will be any difference than what the trend has been for them. So that's kind of a mathematical way to model them in.

Jim Salera

Okay. Great. And then maybe shifting gears a little bit. I believe you talked in the past average Cheesecake guest visits, call it, 1 to 2 times per year, but the best guests come significantly more frequently, maybe even double-digit times per year.

How do we think about the other concepts, North Italia, Flower Child, the frequency between really strong guests versus people that have just been introduced to the brand? And how do you expect that frequency to kind of expand as you get more density with some of these concepts building out more units?

David Gordon

Sure, Jim. This is David Gordon. I think the average Cheesecake is a little more like 4 to 5 a year. Our aspirational guests at Cheesecake that's maybe coming for a celebration is more like the 1 to 2. And when you look across the breadth of other concepts, certainly, Flower Child being a fast casual, you have a use case where people could be coming very frequently, a few times a week using it in a completely different way, primarily especially for lunch, considering the lunch mix is probably more like 65 lunch, 35 dinner and it's 55% off-premise versus the other concepts.

So it has probably a different unique profile of frequency. The other FRC concepts in North, very similar to Cheesecake Factory is I think what we've seen thus far and the data that we can look at, whether that's at reservations through OpenTable, which is a good source of data for all the other concepts at FRC and for North.

Jim Salera

Okay, great. Thank you.

Operator

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

Jeffrey Bernstein

Great. Thank you very much. My first question is just on the more recent trends. It seems like for the broader industry, after seeing improving trends for most of the fourth quarter, things maybe slowed a little to close the fourth quarter and that continued thus far in the first quarter. I know many have talked about weather and holiday shifts. I think you noted maybe a \$7 million weather hit.

Just trying to get a sense for whether you believe there's anything else to the past couple of months, if you've seen it at all, maybe you haven't. But whether you've seen any change in underlying consumer behavior or whether your comp has been stable through the fourth quarter and thus far in the first quarter? And then I have one follow-up.

Matt Clark

Jeff, this is Matt. I think when you model in even the range that we've now provided, it shows that there's pretty steady comps from quarter-to-quarter. So I think Cheesecake Factory and other concepts are incredibly resilient. We've been through these weather cycles before. And so it's pretty easy to see in the data, the differentiation when there's 2 feet of snow in Pittsburgh and you have an impact to sales, right? Or because we're not really - we're not talking about just some of the coming and going of temperature or whatever, those are weather events. And so even despite that, we feel very confident that our comps have been consistent, and that's what the guide lays out. So I do feel like we're in a good spot overall.

Jeffrey Bernstein

That's great. And just my follow-up for North Italia and Flower Child, I know you talked about 20% type annual unit growth. For most companies, people are always asking, can you accelerate it? What's the gating factor to going faster? With you guys doing that 20% plus, I feel like the reverse is in order. Just wondering your comfort level in managing that degree of growth, whether it's at the manager level or staffing or real estate. And I'm just looking back, I mean, Cheesecake hasn't had that level of growth in 20 years. So just trying to get a sense for your confidence in being able to sustain that 20% type unit growth at those, again, North Italia and Flower Child brands. Thank you.

David Gordon

Great question, Jeff. This is David Gordon. I think for the past few years, we have been working hard on retention and manager development and growth, specifically at North and Flower Child because we want to ensure we have the talent in place to be able to grow at that 20% rate. So some of the benefits that we've seen at Cheesecake Factory with improved management retention, we've also seen in North.

So we feel really good about the pipeline of management talent to enable execution that we need for new restaurant openings with highly talented general managers and executive chefs across all of the concepts. Certainly, on the infrastructure side, we have very strong opening teams across all of our corporate center that help us open all the restaurants, make sure that they're planned for properly and open on time. And on the construction, design, real estate team, we've been working on these pipelines now for years and feel very confident that we have the right talent in the right place to be able to hit those targets.

Jeffrey Bernstein

And does it feel like the North Italia units are generally located reasonable proximity to Cheesecake Factory? I feel like they're similar big box, a little bit more affluent than the average. It seem like you'd have a competitive advantage if you already knew the market you want to go into. Like what percentage of the North Italia units are typically in close proximity to a Cheesecake?

David Gordon

Probably the majority of them, depending on what you would consider close proximity. But if you're staying within 10 miles, probably all of them because those are the right demographic, the right guest profile that we would look for in a North, very similar to a Cheesecake Factory.

Jeffrey Bernstein

Great. Thank you.

Operator

Your next question comes from the line of Christine Cho with Goldman Sachs. Please go ahead.

Christine Cho

Hi. Thank you so much. So I just wanted to follow up on the labor efficiency. I know in 2024, the stable labor market has been a huge tailwind for you. Do you expect this to continue into 2025? And what are some of the key variables here? And do you see some room for further improvement here even from these levels? Thank you.

David Gordon

Sure. Hi, Christine. This is David Gordon again. Certainly, one of our goals for this year is to maintain the levels that we were able to achieve last year. As Matt stated earlier, these are all-time lows in attrition for the company. So we've talked to the operators and set some goals around ensuring on the management and staff side that the programs we have in place and the execution we have in place remain solid because they know that it's been a key contributor to everything across the restaurant from profitability to sales, just to guest satisfaction.

So we think we can maintain those levels. The macro world seems to be relatively stable so far. Even in January, we saw some really terrific numbers around attrition. So when it comes to the people side of the business, we think it's one of the things that we are best at. We continue to be a best-in-class employer. People want to come work for us because of the stability and the hours and the culture. I think we've done a good job of spreading that culture across the other concepts now as well, and they've seen increased improvement in retention. So I think we feel good about it and have the programs in place to maintain where we are for this year.

Christine Cho

Great. Thank you. And it does feel like the stepped-up value narrative across the space is here to stay. And so are you approaching your key messaging to your guests any differently versus prior years in turn? You did mention the CSAT scores are record high, but what is your consumer intelligence telling you about kind of cake's relative value proposition relative to peers? Thank you.

David Gordon

Well, certainly, this is David again. We - I think our guests look at value a few different ways. One is definitely price points. And as we talked about earlier, this new menu has a great range of price points, everything from \$12.95 to \$31. So if you're looking for value at a lower price point with an appetizer, it's there or if you want some of the best steak treats you've ever had at \$31, which is a great value if you compare that to a high-end steakhouse when it comes to what our offering is, we are meeting all those different price points.

So I think Cheesecake has always played well on the price point because of so many different options for guests. And of course, the value proposition of the experience, the experience of the size of the portions that allows people to share and have leftovers for the next day. And the overall experience of dining at Cheesecake is a large part of the value proposition that people are looking for today.

Operator

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

Catherine Griffin

Hi. Thanks for the question. First, I wanted to ask about North Italia comps. I just want to make sure I can contextualize them just given that for the last several quarters, growth has outpaced core Cheesecake pretty meaningfully, and this is the first quarter where that trend didn't happen. So is there anything like in the monthly cadence that's worth calling out in terms of or if there's anything like period-over-period comps just to comparisons, just to think about why you might have seen slower growth at North Italia versus Cheesecake in the fourth quarter?

Matt Clark

Catherine, this is Matt. I'm glad you brought that up because it gives me the window to get back to Brian's question. So the traffic for North was very similar to Cheesecake Factory, just slightly negative. The pricing was similar too, as was in the mid-4s. The mix was a little bit of a heavier impact for North. It has been kind of for the past 2 to 3 quarters. And really, again, that's in the alcohol category. If you think about North has just a heavier component there.

But we feel really good. It was very, very consistent and very stable. And you could see with the North margins that David Gordon commented on, the mature margins were up very strong and very, very similar to Cheesecake Factory. So we feel like everything is really very consistent at this point in time and just a little bit of a differential in the alcohol mix component.

Catherine Griffin

Okay. Thank you. And then in the past, you've spoken about the new unit inefficiencies at - I think it was North Italia specifically that it takes a few years for AUVs to build up so that you can leverage your cost. I'm curious if that trend is also something you see at Flower Child or if maybe there's more of a honeymoon there versus North Italia?

Matt Clark

Kristine - Catherine, it's Matt again. I think it depends on the market, right? So when we go into existing markets for both North and Flower, we see the sales ramp up faster because of the brand awareness. But when you think specifically about the margin profile, Flower Child is a different level, right? It's fast casual, and they are able to get up to the targeted margins faster regardless.

And so either way, the - that period of time is probably more like 1 year to 1.5 versus the 3 years. So it's a much shorter period of time, even at the different sales volumes, whether it's a new or existing market, it's just faster for that team to be able to get up to speed overall.

Catherine Griffin

Thank you.

Operator

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

Jeff Farmer

Thank you. Just following up on Jeff's earlier question. A couple of restaurant management teams, including one today, acknowledge that they're seeing an increasingly anxious consumer in recent weeks. So this is sort of beyond weather and some calendar shifts. I'm just curious how you guys are seeing this sort of what you're thinking about an increasingly anxious consumer, whether or not that's happening for your concepts?

Matt Clark

Jeff, this is Matt. I mean I wouldn't say that we see that in the data today. I would think that we would be able to parse it out. I mean the weather impacts have been very, very clear to us. We had a tremendous Valentine's Day. I think people still want to go out and have experiences regardless. And so if they're cutting back, it might be more on the quick-serve side or those types of things. But I mean, I think we're off to a good start, and we have optimism for the year.

The Cheesecake Factory brand particularly shows incredible resilience throughout cycles. And I think you saw that. I know people are talking about anxious consumer. I feel like that's been talked about for 2 years, right? It was the coming recession that never happened. And so I think we weathered the storm and people see Cheesecake Factory as being a very unique, I think, experience and value proposition, as David Gordon highlighted. And we feel like our business is still pretty predictable.

Jeff Farmer

All right. Thank you for that. That does make sense. And then somewhat related and again, a little bit of a follow-up. But again, in terms of listening to management teams through the first, let's call it, two thirds of this earnings season, definitely a lot more cautious sort of commentary around menu pricing across 2025. Implying that there's some heightened price sensitivities out there. You sort of acknowledge that, but I'm just curious what you're seeing at the core Cheesecake specifically as it relates to price sensitivities.

Matt Clark

Well, regarding like say, attachment rates, if you will, we're still above 2019 levels. And so through all of the inflation and the waves and pricing that we've needed to take, right, to support the business, I think we've really straddled that line very well. We always talk about the dual mandate to protect guest traffic and to protect the margins. And I think we've been very effective about distributing it across the menu to preserve that value proposition.

We never get into the discounting wars, right? And I think that's where some of the challenges come in that people that are looking for that and they're trading off of that, and that's not what the Cheesecake Factory does to drive traffic,

And so we'll continue to monitor the pricing. I mean, I think in the full service space, we're still pretty much within the middle of the range. I think a lot of those discussions because most of the first half of the earnings calendar, frankly, is centered around quick service. And so that wouldn't surprise me that, that commentary was coming from that side of the fence.

Jeff Farmer

Okay. Appreciate it. Thank you. Matt.

Operator

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

Jim Sanderson

Hey, thanks for the question. Just wanted to clarify, as far as '25 guide for unit growth, what closures are embedded in that, if at all?

Matt Clark

Right now, we do anticipate one closure with Cheesecake Factory. We haven't specified that. But - so we would have the 25 new and we'd have one closure around the middle of the year for Cheesecake. And that's included in the revenue outlook.

Jim Sanderson

Very good. Thank you. I just want to talk also a little bit more about the margin potential for North Italia and Flower Child. Given your mature locations are reporting pretty strong margins, is there maybe some text you can provide on what you see as far as potential goes for the long-term margin of those banners or brands?

Matt Clark

Sure. I mean we talk about the full-service category and Flower Child is fast casual, but it's a little bit hybrid, really operating between 16% and 18% on a regular basis depending on the business cycle. And certainly, for Cheesecake Factory, we're right there for the full year already and I think still improving. And so as long as the environment remains supportive, I think we can continue to push that towards the higher end.

And I would think that North mature would look and feel and operate a lot like Cheesecake Factory, right? And so that is what we saw in the fourth quarter. And certainly, there's always going to be the drag from the new units. But the mature, we feel like we'll operate very similar to Cheesecake. And the same for Flower Child, right? So for the full year, Flower Child mature were 17% same as Cheesecake Factory. So pretty consistent, Jim. I think overall, our business models kind of work similarly, and we target similar returns. And we think the margin profiles are lining up pretty equivalent.

Jim Sanderson

Very good. Thank you very much.

Operator

Your next question comes from the line of Lauren Silberman with Deutsche Bank. Please go ahead.

Lauren Silberman

Thanks. So I just wanted to follow up on, I think, both of Jeff's questions, a lot of noise exiting '24 and to start the year. Can you give some color on the cadence of trends that you saw throughout the quarter? And then I think it was like 100 basis points headwind that you're talking to 1Q. To confirm, do you expect to be in that 1% to 2% range on comp in the first quarter?

Matt Clark

So business was pretty steady and predictable through the fourth quarter. I think that there wasn't a lot of noise, and we talked about there was a little blip around the election that was kind of assumed in our guidance and that came true and then a little bit of the holiday shifts, but those were all as pretty much spot on expected. It was eerily consistent with our own expectations there.

And then I think if you if you look at the guide, the answer would be yes. And we're not giving specific comps, but we feel like even inclusive of the weather, we're experiencing consistent trends similar to what we did all last year.

Lauren Silberman

Great. Thanks. And then a follow-up on the prior question, really impressive Cheesecake 4-wall [ph] margins. I think you mentioned 18.4% this quarter, highest in over 7 years. Is there a restaurant margin level where you think about reinvesting in price? Or are you sort of - do you still see room to get to, I guess, the high end of 16% to 18% is how you're thinking about it?

Matt Clark

Yeah. Two things on that, right? Keep in mind that Q4 tends to be a higher margin for us given the seasonality effect and the flow-through. So it's a great question. We would think about it more on an annual basis, though, because you kind of have a little bit Q1 tends to come back down because of sales volumes and then Q2 goes back up. And - but so we were 17% for Cheesecake for the full year. So it feels good, right? That feels like we're in a good spot. I mean, plus or minus a few basis points is right in the middle of the range we targeted. So we'll continue to watch that and monitor it.

And there's also other ways of sort of reinvesting. I mean we're certainly not cutting back on any of the training that we do with our teams, the menu development, all of the other components of the business. We've never taken portion sizes down or taken anything away from the guests that many of our competitors did to get their margins up in the first place. And so part of the reinvestment, I will say, is keeping it the same.

Lauren Silberman

Thanks so much.

Operator

Your next question comes from the line of Brian Harbour with Morgan Stanley. Please go ahead.

Brian Harbour

Thanks. Good afternoon, guys. Matt, just on kind of the margins as we think about this year. I mean, obviously, in '24, you had quite a bit of favorability on the food line. 4Q, it looks like you had very good favorability on the labor line. Is - how should we think about that in '25? I mean, do you think there is still food favorability? Is this more of sort of a labor opportunity, and it does seem like your stores are very focused on that. Could you talk about some of those different pieces of the cost side?

Matt Clark

Yeah, Brian, great question. Just to give some color for everybody here. I do think there is a little bit of room in both of those. I think, again, this is consistent with what we said in the last call. And the great news is the business continues to be predictable and consistent. So I think there's some room on both COGS and labor, although not as much, right? I mean we captured quite a bit.

But I do think that we'll see 20 basis points to 30 in each of those for full year, but maybe a little bit of pressure in other OpEx. And we've seen that the cost of utilities has gone up a little bit faster possibly. So maybe a slight offset on the other OpEx and then certainly, the preopening costs that we talked about are the other kind of key components there.

But as we've seen retention continue to improve even into January of this year, we should lap around some of those benefits on the labor line regardless of any of the other pieces. And on the commodities, it continues to be fairly benign outside of eggs [ph] of course. I mean that's a huge flash point for everybody, and we're watching that. But any one piece isn't going to, I think, derail our momentum in that given the broad market basket.

Brian Harbour

Okay. Makes sense. Thanks. And quickly, could you just comment on what the impairment was related to for the other FRC segment?

Matt Clark

Yeah, we did, and Ari reminded me here for Jim's question on the closures. We did actually have one culinary dropout in Atlanta that we did have to close and impair in a market where there was like 15 restaurants that closed on basically this one street, it kind of - the development just didn't happen. And so we wanted to continue to focus on the other areas of positivity. So that was like 80% of everything right there, Brian.

Brian Harbour

Okay. Thanks.

Operator

Your next question comes from the line of Rahul Krotth [ph] with JPMorgan. Please go ahead. I

Unidentified Analyst

Hi, guys. I wanted to dig in a little more on the Flower Child. What would be the potential average volumes for a fully mature box? And what kind of margin profile would you target over time? Because I think the format, looking at the fast casual boxes out there, there seems to be a lot more opportunity than the 17%. And I'm also looking at the Slide 31, you don't seem to model a lot of AUV growth from here when I look at the revenue potential. So I'm curious how you guys like to think about this? And also, any comments on the sales to investment ratio today and how you can improve will be helpful.

David Gordon

Sure. Rahul, it's good questions. And like we've said, we're super happy about the performance of Flower Child. And you're right, we didn't model out AUV growth, I think, just to be conservative there. And certainly, there are upside potential associated with that. We have units in the system that are doing in excess of \$6 million, right? So there's significant capacity potential in the build-out. But I think there's, again, no reason to overshoot this early stage.

We feel great about the mature margins being at 17%. They do continue to accelerate. I don't think that we're ready to give sort of a definitive answer. But when we think about the returns and we're comparing to, say, fast casual and you think about a \$4.5 million AUV, the dollar contribution is very, very significant coming out of 3,300 or 3,400 square feet relative to a lot of fast casuals that are in the \$2.5 million AUV, right?

So it's a little bit of a unique play, and we think that's the competitive moat, right? I mean nobody is doing what we're doing there. So we're super excited about the accretive returns that it can bring and the magnitude of the business that we think it can become. And I think this is just the first sort of salvo as we grow that brand.

Unidentified Analyst

Do you mind like sharing the off-premise mix for this brand?

David Gordon

Sure. It's about 50-50, roughly speaking. So we're about 50% on-premise, 50% off-premise. Again, we think that's incredibly unique, right, because you have standard fast casual, it's much higher off-premise. If you have standard full service, it's much lower off-premise. And so we don't think anybody is really doing the business the way that we're doing it at Flower Child today.

Unidentified Analyst

Thanks for all the color.

Operator

Our final question today comes from Brian Vaccaro with Raymond James. Please go ahead.

Brian Vaccaro

Hi, thanks. I just wanted to squeeze one quick one in on North Italia. And you mentioned some very strong new unit openings there for the brand recently. Are there any common threads you'd highlight there that are driving those higher volumes?

David Gordon

Well, Brian, they were certainly in great markets. If we look at the busiest one was in Cerritos out here in California, where we have one of our busiest Cheesecake factories. Another was in Henderson. So they are in markets where we currently have a good presence with North. So as Matt mentioned earlier, when we go into not necessarily an infill situation because there's only two now in Nevada. But when we have that awareness, we certainly see those heightened sales. That was part of the benefit in Q4.

Brian Vaccaro

Okay. Great. And the margins also, I mean, the mature margins sitting at 18.8, quite a nice improvement, especially relative to comps that were up about 1%. Could you just elaborate a little bit on what drove that specifically? And in your view, is the brand starting to hit sort of a higher gear where you would expect the store margins on the mature stores to be in that 16% to 18% going forward? Thanks for all the time.

Matt Clark

Yeah, Brian, this is Matt. I think so. Again, there's seasonality, right? So certainly, North Italia plays well in the holiday season and special occasion and drove really strong volumes at the mature level. And so we would anticipate that the mature store would continue to be on an annual basis between 16% and 18% at this point in time.

As we said during last year, we got a little behind on pricing. As noted in the commentary, we caught that up finally. And so I think it's a combination of just great operations and improving brand awareness and then being sort of fully stable on the pricing versus inflation.

Brian Vaccaro

Thank you.

Operator

Ladies and gentlemen, that does conclude our question-and-answer session. And that does conclude today's conference call. Thank you for your participation. And you may now disconnect.

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