



CAIRN
INVESTMENT
GROUP

COMPANY SPOTLIGHT:

The Cheesecake Factory

COMPANY DESCRIPTION

Headquartered in Calabasas Hills, CA, The Cheesecake Factory is involved in the restaurant and baking industry. David Overton, CEO and Chairman of the Board, founded the company with his parents in 1978. Today they own and operate over 200 upscale yet casual dining restaurants in 36 states and Puerto Rico under the names 'The Cheesecake Factory,' 'Grand Lux Café,' 'RockSugar Southeast Asian Kitchen,' and 'Social Monk Asian Kitchen.'

COMPANY HIGHLIGHTS AND FINANCIALS

With strong brand recognition and customer loyalty, The Cheesecake Factory is a leader in the upscale, casual, and eclectic dining space. In 2018, their sales surpassed US\$2.3 billion. Though mature, the company's core Cheesecake Factory brand offers consistent sales growth and cash flows which they supplement by diversifying their restaurant portfolio across dining concepts. Fueling growth outside of their core brand, expansion plans involve healthy but fast casual dining opportunities via the brand Flower Child, which features locally sourced ingredients for vegetarian and vegan customers, and Social Monk, which is a modern Asian kitchen experience. They additionally hold a minority stake in North Italia, which focuses on upscale, made-from-scratch Italian cuisine in a modern urban atmosphere. The Cheesecake

Factory plans to acquire the entire brand in late 2019 and open six new North Italia restaurants per year over the next few years (there are currently 23 locations).

KEY POINTS

- :: Diversified domestic and foreign growth opportunities
- :: Strong balance sheet with little debt
- :: Strong history of raising dividends
- :: Consistent returns on capital and free cash flow generation
- :: Compelling valuations based on historical operating metrics and future growth projections

VALUATION AND RISKS

The Cheesecake Factory is trading at attractive valuation levels. At their current sales and cash flow multiples, they are trading at a 20% discount compared to their historical operating performance. Investor concerns over rising wage costs and core brand growth are putting short-term pressure on shares. Based on conservative growth assumptions that The Cheesecake Factory will grow cash flows in tandem with broad economic growth, shares should be valued at close to \$65, not the mid \$40's. These growth rate assumptions are much lower than their historical operating performance. If our assumptions turn out to be incorrect, we believe this supplies a margin of safety.

Risks that we will monitor going forward involve growth rates of new concept restaurants and wage inflation pressures. Weighing both potential rewards and risks, we are optimistic that The Cheesecake Factory is a good long-term investment.

—Patrick Mason, Investment Analyst, Cairn Investment Group



ABOUT CAIRN INVESTMENT GROUP Cairn Investment Group is an independent fee only Registered Investment Advisor based in Portland, Oregon. Cairn staff has the experience and capabilities to serve our investors with a level of personal attention that only a smaller, independent company can provide. We pride ourselves on working in close contact with our investors.

503.241.4901 :: 877.241.4901 :: cairninvestment.com

121 SW Morrison, Suite 1060 :: Portland, Oregon 97204

© 2019 Cairn Investment Group

Cairn Investment Group and its affiliates ("Cairn") produces Company Spotlight reports ("Reports") for its clients and the general public. The Reports are impersonal and do not provide individualized advice or recommendations for any specific investor or portfolio. Investing involves substantial risk. Cairn makes no guarantee or other promise as to any results that may be obtained from using the Reports. Past performance should not be considered indicative of future performance. No reader should make any investment decision without first conducting his or her own research and due diligence. At various times Cairn may own, buy or sell the securities discussed for purposes of investment or trading. Cairn disclaims any and all liability in the event any information, commentary, analysis, opinions, advice and/or recommendations in the Reports prove to be inaccurate, incomplete or unreliable or result in any investment or other losses.

The Reports commentary, analysis, opinions, advice and recommendations represent the then current views of Cairn, and are subject to change at any time. The information provided in the Reports is obtained from sources the author believes to be reliable. However, the author has not independently verified or otherwise investigated all such information.

This is not a solicitation or offer to buy or sell any securities. Cairn does not receive any compensation from any of the companies featured in the Reports. Any redistribution of the Reports or the information contained therein, without the written consent of Cairn is strictly prohibited.