

## **Conclusions about Cheesecake factory**

### **1. What is your company's main line of business and the primary industry it operates in? (Maximum 4 sentences)**

The main line of business for the Cheesecake Factory is in the retail food and restaurant industry. The American company operates 336 restaurants in the US and Canada, as well as 34 restaurants internationally. The Cheesecake Factory offers culinary services that focus on American dishes and a wide variety of cheesecakes. It is one of the most popular restaurants in the US, known for its delicious dishes, generous portions, and affordable prices.

### **2. Based on your time series and cross-sectional ratio analysis, what can you say about the overall financial health of your company? Would you invest in your subject company and why? Your answer should be as complete as possible by linking all pieces together.**

Overall, we are optimistic about the prospects of Cheesecake Factory and believe that it is in a healthy financial state, poised to become even healthier. In terms of profitability, although the Cheesecake Factory experienced a drop in profitability in 2022, with return on equity, return on assets, and net profit margin fairing poorly compared to its peers, this was due to particular supply chain challenges that the company faced that year. These challenges raised expenses and consequently dropped net income. However, we can see that the Cheesecake Factory was able to bounce back and greatly improve its supply chain management, resulting in decreased expenses and higher net income. So, in terms of profitability, Cheesecake is performing very well, and we are optimistic that this trend will continue.

In terms of efficiency, Cheesecake effectively generates revenue from its assets and operates more efficiently than the industry average. With efficiency showing a positive trend from 2021 to 2023, we believe that Cheesecake will continue to grow and generate more profits from its resources over time, as seen in the last three years.

Regarding the operating cycle, Cheesecake has an overall performance that is better than most of its peers in the industry. Their inventory days, average collection period, and consequently operating days are excellent and slightly lower than the industry average. This demonstrates that Cheesecake has good operating efficiency without imposing strict policies on accounts receivables that may deter customers and cause potential loss of sales and profits. Additionally, it manages to avoid losing potential sales due to stock shortages. Therefore, it is commendable that the company has achieved a great balance in its operational management, maintaining numbers that are neither excessively high nor too low relative to industry competitors.

However, one concerning issue is how early the Cheesecake Factory pays its suppliers, resulting in Accounts Payable days being less than half of the industry average and their external financial need days being more than eight days higher on average than their competitors. While this may have some advantages, such as allowing Cheesecake to create better relationships with its suppliers and potentially benefit from discounts and more flexibility, it also suggests that Cheesecake may not be efficiently utilizing the available cash and may need to take on liabilities associated with interest expenses that could have been avoided.

In terms of liquidity, Cheesecake Factory's current ratio and quick ratio are still below 1, which generally implies that a company's assets are not enough to cover its liabilities. However, in the restaurant industry, companies typically hold a minimal amount of inventory due to the perishable nature of the goods sold, and cash flows are usually predictable and stable. Furthermore, we would only be concerned if liquidity were low compared to other companies in the industry, but fortunately, liquidity is similar to the industry average, indicating that Cheesecake, relative to its competitors, is fairly able to meet its short-term obligations.

In terms of solvency, Cheesecake Factory's performance is excellent in terms of its ability to pay interest to its shareholders, with a times interest earned ratio that is double the average. However, its very high debt-to-equity ratio compared to the average could be alarming, as having a lot of debt can be risky since the company is obligated to pay interest even if it does not have sufficient income. Fortunately, we can see that Cheesecake Factory does not have a problem paying interest, and it also benefits from borrowing money, which includes a higher income tax return due to the deduction of interest expenses, and stockholders can maintain control over the company.

Regarding the market, the challenges Cheesecake Factory faced in 2022, related to profitability, led to a decrease in earnings per share, subsequently making investors pessimistic about buying shares in Cheesecake Factory. These circumstances caused the market share price to fluctuate negatively in 2023, even though Cheesecake Factory was able to overcome the challenges in 2022, generate more profits, and more than double their earnings per share.

It is also important to note that Cheesecake Factory has been a staple American restaurant company for the past 40 years. It is highly reputed internationally for its high-quality food at affordable prices, making it ideal for family dining. It was even rated #1 for food quality & ambiance by Consumer Picks in 2022. This indicates that Cheesecake Factory is an established company that has no problem generating sales. Therefore, if good management is maintained, the company is set to remain a major player in the restaurant industry.

With all that said, we believe that investing in Cheesecake Factory is a wise decision. The company is in good financial health and on track to become even healthier. While Cheesecake

faced challenges in 2022, its ability to bounce back the following year and regain financial stability in a record time indicates that investing in the company is a safe, stable, and wise decision.

**3. Is the stock price performance of your subject company consistent with their Financial Statement based ratios you calculated? (Hint: You should plot the daily stock price of your company in the past 3 years and see if it matches with the trend in various relevant ratios and its relative performance compared to the peers: i.e. industry mean and median in the last year). Make sure the start and end time of your graph matches with Financial Statements. On the same graph, also plot the SP500 Index. Comment. (Hint: you can use Bloomberg for this plot)**

In 2021, many restaurant stocks, including Cheesecake Factory, faced challenges due to the COVID-19 pandemic. The company's stock performance during this period reflected fluctuations and operational disruptions caused by lockdowns and restrictions, and supply chain issues. The first two quarters of 2021 saw continued uncertainty and volatility as the pandemic persisted. However, as restrictions eased in some regions, there were signs of recovery, leading to some optimism among investors, as reflected on the figure below for the following quarters.

However, during the last two quarters of 2021 and moving into 2022, the stock's performance drastically decreased, suggesting it could have been impacted by the pace of economic recovery, inflation concerns, labor shortages affecting the restaurant industry, and any shifts in consumer behavior as pandemic-related restrictions further eased or returned in certain areas. At this time, Cheesecake Factory's stock price performance reflected the company's overall poor health in various fields of profitability, solvency, and market.

By 2023, Cheesecake Factory's stock performance reflected its ability to adapt to the post-pandemic landscape, execute its growth strategies, and navigate ongoing challenges in the restaurant industry as it slowly increasingly recovered from the 2022 decline. This reflects the company's current general performance in solvency and market as it has steadily increased over the last quarters of the company's operations, improving into more promising numbers.

As for the SP 500 index, it generally reflects the overall performance of the U.S. stock market and is influenced by various factors, including macroeconomic indicators, monetary policy decisions, geopolitical events, and corporate earnings. The index might have experienced volatility and fluctuations over the quarters of 2021 to 2023 in response to changes in these factors. In relation to Cheesecake Factory's, there are more similarities and correlation than there are differences as detailed on the figure below.



Figure 1. Cheesecake's factory stock price starting March 2021 through December 2023 from Bloomberg.

Compared to its industry peers, Cheesecake Factory seems to follow a similar pattern in stock price performance as most of its competitors out-matching most of them and only falling short to one major industry peer—Darden Restaurants (DRI US Equity).



Figure 2. Cheesecake Factory's Stock Price Performance, SP500, and Industry Peers From Bloomberg.

**4. What's the Consensus Analyst Recommendation on Bloomberg (i.e. buy, hold, sell)? What's the 12-month target price? Do you agree with the Analyst recommendations? Why or why not? Hint: you can use ANR function on Bloomberg to get this information. Please include a screenshot of the relevant section of Bloomberg screen with your answer.**

According to Bloomberg, and as detailed in Figure 3. below, 30% of the analysts would buy, 55% would hold, and 15% would sell, and the company's 12-month target price is 36.47. We share these analyst recommendations as well due to Cheesecake Factory's financial Performance. Similarly to the analysts, we evaluated Cheesecake Factory's financial metrics, including revenue growth, profitability, and cash flow generation.

Cheesecake Factory has had a period of low statistics, but over the past year, they have increased in normal and potentially strong statistics indicating a fairly steady financial performance, which could lead to more favorable recommendations and higher target prices. Therefore, for the moment, we would hold as well, with a strong penchant into buying since we anticipate more positive figures in the following quarters.

Additionally, Cheesecake Factory's performance since it has expanded has settled and remained competitive compared to industry peers and various macro economic factors. Similarly to the analysts, we considered broader economic factors such as interest rates, inflation, and consumer confidence levels, which can impact consumer spending on dining out. Cheesecake Factory's statistics in profitability and efficiency make us even more convinced in the fact that the company is on a good run to recover from its 2022 low to future more positive numbers as 2023 has so far proven.

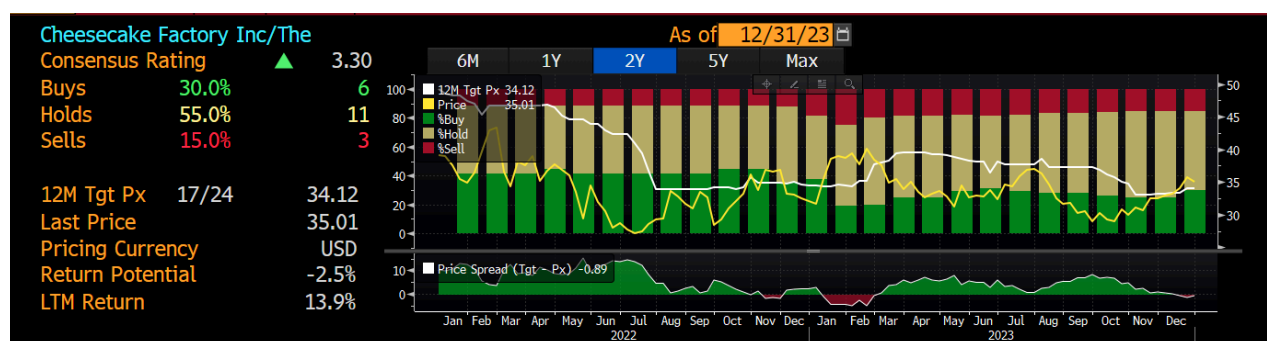


Figure 3. Cheesecake Factory's Consensus Analyst Recommendation from Bloomberg.

**5. When you compare your company's performance relative to the industry it is in, would you rather use Industry Mean or Industry Median? Why or why not?**

When comparing Cheesecake factory's performance, we would rather use Industry Median in comparison to Industry Mean. This is because their pros outweigh the cons in comparison to using Industry Mean, as explained here.

Using industry median to evaluate Cheesecake Factory's performance with profitability, efficiency, operating cycle, liquidity, solvency, and market, we evaluated a few advantages and weighed them against its disadvantages plus the industry mean disadvantages, and came to the conclusion that using Industry Median to evaluate Cheesecake Factory was a better choice. Using Cheesecake Factory's performance carries three major advantages.

Firstly, the Industry Median represents the middle value in the distribution of performance metrics, offering a robust measure of central tendency. In most of Cheesecake factory's ratios, the industry median offers a more favorable and appealing comparison as it better represents the industry conditions, reflecting Cheesecake Factory's competitiveness compared to its peers. Secondly, the industry median is less affected by outliers compared to the mean, making it suitable for industries with skewed distributions or a few extreme values. In some of Cheesecake Factory's analysis, the industry mean was very vulnerable to outliers, sometimes making the calculations and therefore analysis seem incomparable to peers. However, this situation is less drastic when considering the industry median over the mean. Thirdly, the industry mean provides a more accurate reflection of typical industry performance, especially in industries with significant variability. In this case, as mentioned above, Cheesecake Factory's performance was sometimes difficult to compare to peers due to the distracting outliers, but using industry median, this was less of an issue compared to the mean.

However, using industry median also has its limitations. Firstly, Industry Median is prone to distortion by outliers or skewed distributions, particularly in industries with a wide range of performance levels. However, in this case, the industry mean distortion caused by outliers is more drastic compared to the industry median distortions caused by outliers. Secondly, Industry Median may not accurately represent the typical performance of companies, especially if a few high-performing or low-performing companies significantly influence the mean. However, in this case, industry median is more reflective of the industry overall performance, and thus, Cheesecake Factory's.

While Industry mean has its own advantages, such as its ability to reflect the average performance of all companies in the industry, providing a comprehensive overview and it being useful for industries with relatively symmetrical distributions of performance metrics, its merits in Cheesecake Factory's case do not outweigh its demerits considering the Industry Median. Thus, our choice to favor Industry Median instead of Industry Mean while evaluating Cheesecake Factory's performance.