INVESTMENT ANALYSIS OF THE CHEESECAKE FACTORY

15 October 2016

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INVESTMENT ANALYSIS OF THE CHEESECAKE FACTORY

Investment Thesis

1. Are the long-term economic characteristics of the business attractive and can they be evaluated with some certainty?	TCCF operates a successful, proven, differentiated and operationally-efficient restaurant business model and has some brand equity in consumers' minds. TCCF has potential for further growth in domestic and international markets. International expansion especially, is at a budding stage.
2. Is management effective, rational, visionary and see itself owing a sense of duty to shareholders?	Management is focused on earning a high return on capital and has set out a clear growth plan for the company. After taking into account business and growth needs, management has returned all free and available cash to stockholders.
3. Over an extended period, can the business employ large amounts of incremental capital at very high rates of return?	TCCF's business model has a track record of earning 15% ROIC. Even if EBIT margin deteriorates to 5%, TCCF could still earn ROIC of about 9%.
4. Is there a margin of safety in the share price?	TCCF is likely fully-valued at current share price of ~US$50. Based on earnings yield target of 9%, a safe entry price would be about US$30.

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1. Are the long-term economic characteristics of the business attractive and can they be evaluated with some certainty?

<table>
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<tr><td>TCCF operates upscale casual dining restaurants.</td><td>
<table>
<tr><th colspan="5">Restaurant Industry Segments</th></tr>
<tr><th rowspan="2">Fine dining</th><th colspan="3">Casual dining</th><th rowspan="2">Quick service</th></tr>
<tr><td>Upscale casual</td><td>Core casual</td><td>Fast casual</td></tr>
</table>
</td></tr>
<tr><td>Upscale casual dining is a consumer discretionary purchase.

When economy is weak, guest traffic drops, ability to raise prices is reduced and competition is likely to engage in price-competition.</td><td>▪ The largest drop in comparable restaurant sales was in 2008 with a decrease of 4.5%.</td></tr>
<tr><td>In the U.S., TCCF operates three concepts.

Only one concept–The Cheesecake Factory—appears successful.</td><td>▪ Three restaurant concepts. 201 self-operated restaurants in the U.S. as of February 2016.
– The Cheesecake Factory: 188
– Grand Lux Café: 12
– RockSugar Pan Asian Kitchen: 1</td></tr>
</table>

1. Are the long-term economic characteristics of the business attractive and can they be evaluated with some certainty?

TCCF operates a successful, proven, differentiated and operationally-efficient restaurant business model and has some brand equity in consumers' minds. TCCF has potential for further growth in domestic and international markets. International expansion especially, is at a budding stage.

Differentiation: Large size of restaurant, complex menu and culinary-operations derive competitive advantages:

- **Customer mindshare**
- **Economies of scale (rental psf and adoption of IT and systems)**
- **Greater employee engagement (room for career advancement)**

▪ Restaurant-unit level economics:
  – Restaurant size: ~10,000sqft
  – Furnishings, fixtures and equipment ("**FF&E**") per interior square foot: ~US$800
  – Pre-opening costs per restaurant: ~US$1.5mn (e.g. wages, training costs)
  – Annual sales per restaurant: ~US$10mn
  – Sales per productive square foot: US$1,000
  – Average check: ~US$20

▪ Differentiation versus other restaurants:

Strategy	Results
Premier location Lavish decor (high investment per square foot)	Upscale casual Extensive menu High-energy restaurant environment
Menu innovation	High sales productivity (wide appeal, high spending, return customers, tourist attraction)
Assembly-line kitchen Established SOPs (quality control, guest forecasting) Leverage IT (Kitchen Management System)	High production efficiency Cost control
Systematic training	

1. Are the long-term economic characteristics of the business attractive and can they be evaluated with some certainty?

Growth in comparable sales driven largely by menu price increase.

TCCF targets to raise menu prices by 2% annually—a reasonable rate.

- TCCF targets to raise menu prices by 2% annually.
- TCCF has raised prices by ~2% in each of the last 10 years, even in years when consumer spending was weak.
- For illustration, after 10 consecutive years of 2% increments, an average check size of US$20 would compound to ~US$25—a reasonable level.

	2015	2014	2013	2012	2011
Comparable restaurant sales	2.6%	1.5%	1.1%	2.2%	2.0%
Menu price increase	2.2%	2.0%	1.8%	1.9%	1.6%
Economic conditions	0.4% decrease in guest traffic.	1.0% decrease in guest traffic.	Decrease in guest traffic.	Improved guest Traffic.	Improved guest Traffic.

	2010	2009	2008	2007	2006
Comparable restaurant sales	2.0%	-2.3%	-4.5%	0.3%	-1.1%
Menu price increase	1.4%	2.0%	2.0%	2.2%	1.0%
Economic conditions	Improved guest Traffic.	Reduced traffic caused primarily by the macro economic factors.	Reduced traffic caused primarily by the macro economic factors.	Reduced traffic caused primarily by the macro economic factors.	Rise in oil prices which, in turn, drove gasoline prices and home heating bills. Increase in interest rates and their impact on adjustable rate mortgages.

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Potential for growth in both domestic and international markets. International expansion especially is at a budding stage.	▪ TCCF has a long-term goal of operating 300 restaurant locations (~200 currently) in the U.S. This goal has been unchanged since it was stated in TCCF's 2010 Annual Report. In the past nine years, TCCF has added about eight restaurants per year in the U.S.. ▪ TCCF generates royalties and bakery sales from licensed international locations. Global expansion started in 2012. Since then, TCCF has entered into licensing agreements with franchisees to develop up to: 24 restaurants in the Middle East, 12 restaurants in Mexico and Chile, and 14 restaurants in North Asia. As of February 2016, 11 The Cheesecake Factory branded restaurants operates in the Middle East and Mexico.

2. Is management effective, rational, visionary and see itself owing a sense of duty to shareholders?

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<tr><td>Management is focused on earning a high return on capital.

ROIC has averaged about 15% in the past four years.</td><td>▪ TCCF targets a company-level return on invested capital of approximately 15%, by targetting a fully capitalized cash return on investment, of approximately 20% at the restaurant-unit level.

▪ TCCF's ROIC has averaged about 15% in the past four years.</td></tr>
<tr><td>Management is not "playing it safe" or "hugging the coastline", has set out a clear growth plan for the company.</td><td><u>Domestic</u>
▪ TCCF added 69 restaurants in the past nine years, an average of about eight restaurants per year.
▪ TCCF has a long-term goal of operating 300 restaurant locations in the U.S. This goal has been unchanged since it was stated in TCCF's 2010 Annual Report.
▪ TCCF guided that it expects to open as many as eight restaurants domestically in 2016.

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<tr><td>Restaurants</td><td>200</td><td>189</td><td>180</td><td>177</td><td>170</td><td>163</td><td>160</td><td>159</td><td>152</td><td>131</td></tr>
<tr><td>Change</td><td>+11</td><td>+9</td><td>+3</td><td>+7</td><td>+7</td><td>+3</td><td>+1</td><td>+7</td><td>+21</td><td></td></tr>
</table>

<u>International</u>
▪ TCCF has started to expand internationally through franchising agreements with capable restaurant-operators.</td></tr>
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Management has utilised all of free cash flow for dividends and share repurchases.

	2011	2012	2013	2014	2015
Cash provided by operating activities	196	195	205	240	235
Cash used in investing activities	78	88	108	116	156
Free cash flow	**118**	**107**	**97**	**124**	**79**
Proceeds from exercise stock options	**17**	**42**	**81**	**32**	**40**
Cash dividends paid	-	13[#]	27	30	36
Treasury stock purchases	172	101	184	140	109
Dividends + stock purchases	**172**	**114**	**211**	**170**	**145**

[#] Started paying dividends in 2012.

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Shareholders suffer dilution as shares are issued under equity compensation plans.

- Over the years, total number of outstanding shares has decreased as TCCF purchased treasury stock.
- Nevertheless, stockholders' economic interest has been diluted by shares issued under equity compensation plans.
- Compensation for restaurant General Managers and Executive Kitchen Managers includes an equity incentive component to better retain their employment and align their interests with stockholders.
- *"In July 2013, our Board increased the authorization to repurchase our common stock by 7.5 million shares to 48.5 million shares. Under this and all previous authorizations, we have cumulatively repurchased 44.1 million shares at a total cost of $1,263.4 million through December 29, 2015 (i.e. US$29/share). During fiscal 2015, 2014 and 2013, we repurchased 2.1 million, 3.1 million and 4.5 million shares of our common stock at a cost of $104.8 million (i.e. US$50/share), $143.2 million (i.e. US$46/share) and $183.7 million (i.e. US$41/share), respectively. Our share repurchase authorization does not have an expiration date, does not require us to purchase a specific number of shares and may be modified, suspended or terminated at any time. We make the determination to repurchase shares based on several factors, including an evaluation of current and future capital needs associated with new restaurant development, current and forecasted cash flows, including dividend payments, a review of our capital structure and cost of capital, our share price and current market conditions. Our objectives with regard to share repurchases are to offset the dilution to our shares outstanding that results from equity compensation grants and to supplement our earnings per share growth."* – TCCF 2015 Annual Report

Weighted Average Shares Outstanding

In thousands / YE Dec	2011		2012		2013		2014		2015	
Basic	56,378		53,185		52,229		49,567		48,833	
Diluted	58,190	103%	55,211	104%	54,377	104%	51,584	104%	50,605	104%

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Take the view that key man risk is not that critical for TCCF as 1) much of the strengths of TCCF has been institutionalized in daily operations and 2) TCCF has some brand equity in the minds of consumers.

David Gordon, President, also provides leadership continuity.

- Estimate that David Overton owns about 6% of outstanding shares.
- David Overton, Founder / Chairman / CEO, age 69 in 2015.
- David Gordon, President, age 51 in 2015, joined TCCF since 1993.

Equities

	Vote	Quantity	Float		Company-owned shares		Total Float
Share A	1	93,702,076	44,720,810	*47.7%*	45,622,532	*48.7%*	47.7%

Shareholders

Name	Equities	%
BlackRock Fund Advisors	3,858,295	8.02%
The Vanguard Group, Inc.	3,344,266	6.96%
David M. Overton	2,950,042	6.14%
Wellington Management Co. LLP	1,564,485	3.25%
SSgA Funds Management, Inc.	1,498,248	3.12%
Neuberger Berman Investment Advisers LLC	1,422,744	2.96%
Dimensional Fund Advisors LP	1,233,310	2.57%
Kayne Anderson Rudnick Investment Management LLC	1,197,622	2.49%
Findlay Park Partners LLP	1,158,948	2.41%
T. Rowe Price Associates, Inc.	1,092,990	2.27%

http://www.4-traders.com/

3. Over an extended period, can the business employ large amounts of incremental capital at very high rates of return?

TCCF's business model has a track record of earning 15% ROIC. Even if EBIT margin deteriorates to 5%, TCCF could still earn ROIC of about 9%.

At the restaurant-unit level, TCCF targets a fully capitalized cash return on investment, of approximately 20%.

At the company-level, TCCF's ROIC has averaged about 15% in the past four years.

- At the company-level, TCCF's ROIC has averaged about 15% in the past four years.
  - With asset turnover of about 1.7X.
  - With leverage on operating capital of about 1.6X.
  - With EBIT margin of about 8%.

Invested Capital

(Source: Annual Reports)

US$'mn / YE Dec	2011		2012		2013		2014		2015	
Operating assets	1,023	100%	1,092	100%	1,124	100%	1,161	100%	1,233	100%
Current operating liabilities	223	22%	253	23%	264	24%	322	28%	350	28%
Non-current operating liabilities	125	12%	131	12%	141	13%	151	13%	161	13%
Operating capital	**675**	66%	**708**	65%	**719**	64%	**688**	59%	**722**	59%

ROIC

US$'mn / YE Dec	2011	2012	2013	2014	2015
NOPAT	99	102	118	106	121
Average operating capital		691	713	704	705
ROIC		**15%**	**16%**	**15%**	**17%**

3. Over an extended period, can the business employ large amounts of incremental capital at very high rates of return?

TCCF's business model has a track record of earning 15% ROIC. Even if EBIT margin deteriorates to 5%, TCCF could still earn ROIC of about 9%.

P&L
(Source: 2015 Annual Report)

US$'mn / YE Dec	2011		2012		2013		2014		2015	
Revenues	**1,758**	**100%**	**1,809**	**100%**	**1,878**	**100%**	**1,977**	**100%**	**2,101**	**100%**
Revenues % yoy			*2.9%*		*3.8%*		*5.3%*		*6.3%*	
Cost of sales	448	26%	450	25%	456	24%	490	25%	504	24%
Labor expenses	567	32%	580	32%	603	32%	646	33%	685	33%
Other operating costs and expenses	428	24%	440	24%	453	24%	479	24%	501	24%
General and administrative expenses	96	5%	104	6%	115	6%	119	6%	137	7%
Depreciation and amortization expenses	72	4%	74	4%	79	4%	83	4%	86	4%
Impairment of assets and lease terminations	2	0%	10	1%	(1)	0%	1	0%	6	0%
Preopening costs	10	1%	12	1%	13	1%	14	1%	17	1%
Total costs and expenses	**1,624**	**92%**	**1,670**	**92%**	**1,717**	**91%**	**1,832**	**93%**	**1,935**	**92%**
Total costs and expenses % yoy			*2.8%*		*2.8%*		*6.7%*		*5.6%*	
Income from operations	**133**	**8%**	**139**	**8%**	**161**	**9%**	**145**	**7%**	**165**	**8%**
Income from operations % yoy			*3.9%*		*16.0%*		*-10.1%*		*14.2%*	
Interest and other expense, net	(4)		(5)		(5)		(6)		(6)	
Income before income taxes	**129**		**134**		**156**		**139**		**159**	
Income tax provision	33		36		42		37		43	
Net income	**96**		**98**		**114**		**101**		**117**	
CIT rate	*26%*		*27%*		*27%*		*27%*		*27%*	

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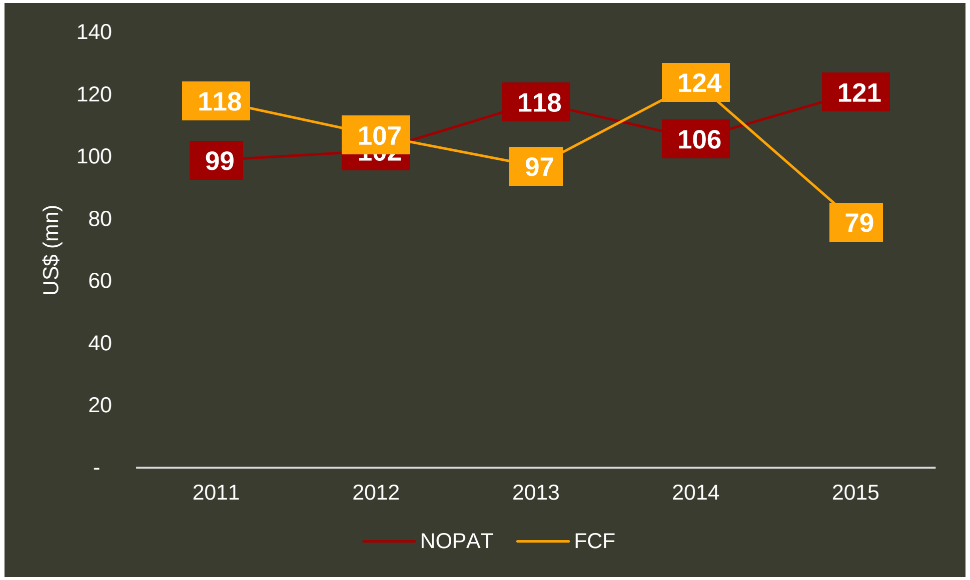
NOPAT does not diverge substantially from FCF. Take NOPAT to be a fair & reasonable representation of underlying economic earnings.



4. Is there a margin of safety in the share price?

TCCF is likely fully-valued at current share price of ~US$50. Based on earnings yield target of 9%, a safe entry price would be about US$30.

Opening of new stores does not guarantee a steady growth in operating profit. Operating profit is susceptible to margin compression.

Between 2011 and 2015, operating profit grew at a CAGR of 6%.

More recently, between 2013 and 2015, operating profit grew at a CAGR of 1%.

P&L
(Source: 2015 Annual Report)

US$'mn / YE Dec	2011		2012		2013		2014		2015	
Revenues	1,758	100%	1,809	100%	1,878	100%	1,977	100%	2,101	100%
Revenues % yoy			*2.9%*		*3.8%*		*5.3%*		*6.3%*	
Income from operations	133	8%	139	8%	161	9%	145	7%	165	8%
Income from operations % yoy			*3.9%*		*16.0%*		*-10.1%*		*14.2%*	

Restaurant Data
(Source: 2015 Annual Report)

US$'mn / YE Dec	2011		2012		2013		2014		2015	
Comparable restaurant sales	2.0%		2.2%		1.1%		1.5%		2.6%	
Restaurants open at year end	156		162	+ 6	168	+ 6	177	+ 9	187	+ 10

In 2008, comparable restaurant sales fell 4.5% and OPM was 5.6%.

	2015	2014	2013	2012	2011	2010	2009	2008	2007	2006
Adjusted OPM	8.2%	7.3%	8.6%	8.2%	7.7%	7.7%	6.4%	**5.6%**	7.3%	8.1%

TCCF does not carry any debt.

- *"We borrowed on these credit facilities during both fiscal 2015 and 2014 to fund a portion of our stock repurchases and repaid the respective balances within each fiscal year."* – TCCF 2015 Annual Report

TCCF does not carry a large balance of cash or financial investments.

- Cash balance represents just about 3% of annual OPEX. Presumably, this low cash balance is sufficient as TCCF's business model generates cash on a daily basis.

Cash

US$ (mn) / YE Dec	2011	2012	2013	2014	2015
Cash and cash equivalents	48	84	62	58	44
Cash as % of OPEX	3%	5%	4%	3%	2%

4. Is there a margin of safety in the share price?

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Project that net income could range from negative growth to +7% CAGR.

Assumptions

	Pessimistic	Fairly Optimistic	Optimistic
Economic outlook	Economy enters into recession	Economy remains subdued	Economy improves, positive consumer sentiments
New restaurants added	Zero	Four new restaurants added per year	Six new restaurants added per year
Comparable sales	Decrease 5% and never recover as U.S. consumers habitualise to eating out less	Grow 1% yoy with menu price increase of 2% offsetting drop in guest traffic	Grow 2.5% yoy supported by menu price increase of 2%
Operating profit margin	Deteriorate to 7% Mitigation actions by TCCF help maintain OPM at 7%	OPM maintains at 7.9% with support from franchisees' royalties	OPM improves to 9% with support from franchisees' royalties

Results

	Pessimistic	Fairly Optimistic	Optimistic
Average net income for next 10 years	16% lower than 2015A	17% higher than 2015A	46% higher than 2015A
Net income 10-year CAGR	(2%)	+3%	+7%

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Fairly Optimistic

Assumptions / US$'mn / YE Dec	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
No. self-operated restaurants in U.S.	200	204	208	212	216	220	224	228	232	236	240
Change in no. restaurants		4	4	4	4	4	4	4	4	4	4
Revenue per restaurant	10.50	10.61	10.71	10.82	10.93	11.04	11.15	11.26	11.37	11.49	11.60
Change in comparable sales		1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%
Operating profit margin	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%	7.9%

Forecast / US$'mn / YE Dec	2015A	2016F	2017F	2018F	2019F	2020F	2021F	2022F	2023F	2024F	2025F
Revenues	2,101	2,164	2,229	2,294	2,361	2,429	2,497	2,567	2,639	2,711	2,784
Revenues % yoy		*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
Income from operations	165	170	175	180	186	191	196	202	208	213	219
Income from operations % yoy		*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*	*3%*
Interest and other expense, net	(6)	(6)	(6)	(6)	(7)	(7)	(7)	(7)	(7)	(8)	(8)
Income before income taxes	159	164	169	174	179	184	189	195	200	206	211
Income tax provision	43	44	45	47	48	50	51	52	54	55	57
Net income	117	120	124	127	131	135	139	142	146	150	154
CIT rate	*27%*	*27%*	*27%*	*27%*	*27%*	*27%*	*27%*	*27%*	*27%*	*27%*	*27%*
Average 10-year net income	**137**	**17.47% change from 2015A.**									

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Current Market Capitalisation		US$'mn
Share price (US$) at Oct 2016		50
No. of shares (mn)	(A)	51
Current market capitalisation		**2,550**

Earnings Forecast		Pessimistic	Fairly Optimistic	Optimistic
Average profit for next 10 years (US$'mn)	(B)	**98**	**137**	**170**

Safe Entry Price		Pessimistic	Fairly Optimistic	Optimistic
Earnings yield target	(C)	9%		
Market cap target	(D) = (B) / (C)	1,089	1,522	1,889
Share price target (US$)	(D) / (A)	**21**	**30**	**37**

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TCCF is likely fully-valued at current share price of ~US$50. Based on earnings yield target of 9%, a safe entry price would be about US$30.

Bearish investor sentiment as seen in pre-2013 can provide buying opportunities.

About $5 in Nov2008

Yahoo Finance

5. Interesting stuff

"We can get you more specifics on that. I could tell you from historical analysis, Karen, that clearly what we call the big four shifts when you are thinking about kind of late Friday through the Sunday brunch, we have a significant amount of wait in many of our restaurants ranging from 30 minutes to 90 minutes or more in some of those really busy locations. And I think we're not that different than the industry if you were to take those shifts and look at a percentage of the total sales. You know it's going to be more than, slightly more than 50% of the week compared with the other sort of 4.5 days. So, I think that that's probably still true today." – 1Q2016 earnings call transcript @ Seeking Alpha