

SCHOOL of MANAGEMENT

Definition of Ratings:

Buy: Undervalued by 20%

Hold: Fairly Valued

Sell: Overvalued by 20%

Time Frame: 12 Months

Industry: Restaurants

Market Cap: \$1.79 B

Shares Outstanding: 49.60 MM

Price: \$36.18 /share

52 -wk High: \$43.55 /share

52 -wk Low: \$24.90 /share

Target Price: \$ 23 /share

EPS: \$0.92/share

Beta: 1.24

Cheese Cake Factory (CAKE)



*You can't have your cake
and eat it.*

- Sell!

Executive Summary

- Although the company is enjoying reputation and success coming from its unique concept composed of broad and creative menu, quality, quantity, ambiance/décor, and location, we believe the market is excessively optimistic about the growth prospect of the company.
- The company's P/E is stable and slightly higher than the sector (specialty restaurants)'s average. In another word, it's not cheap.
- The company's growth depends on growths from same store sales and revenue of new stores. Assuming that same store sales stay flat or increase slightly, the main engine of growth is the new store component of their strategy.
- The company's management, led by a highly creative and impassioned CEO and assisted by a hard-core CFO, is regarded as one of the best in the restaurant industry.
- However, although the fundamentals are quite good, according to our valuation, the stock is currently overvalued. Our target price is \$29 according to the management's expansion plan, with a possible range from \$24 to \$38 per share. Therefore, we are suggesting a sell strategy for this stock in the future 12 months.



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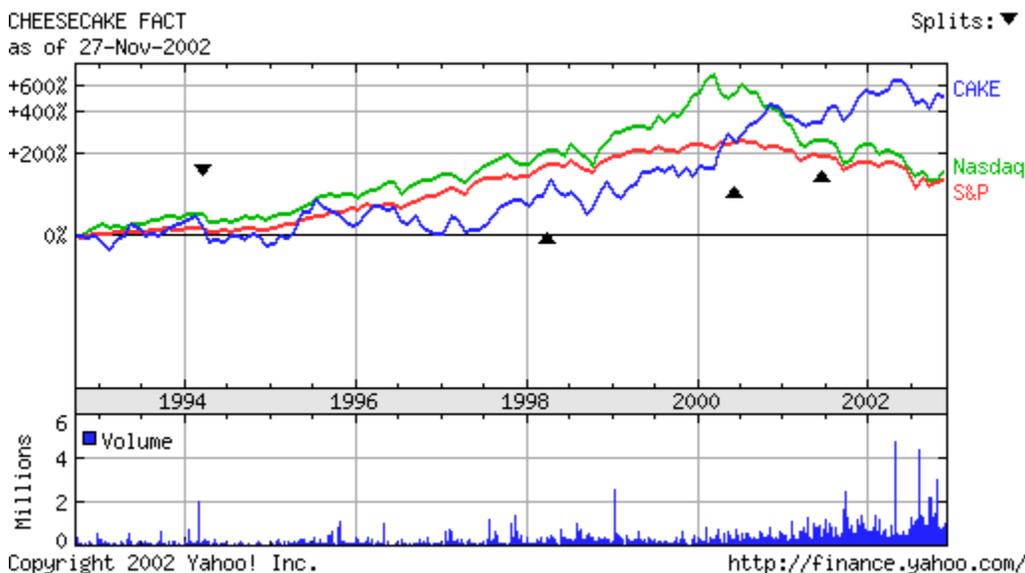
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Recent Developments

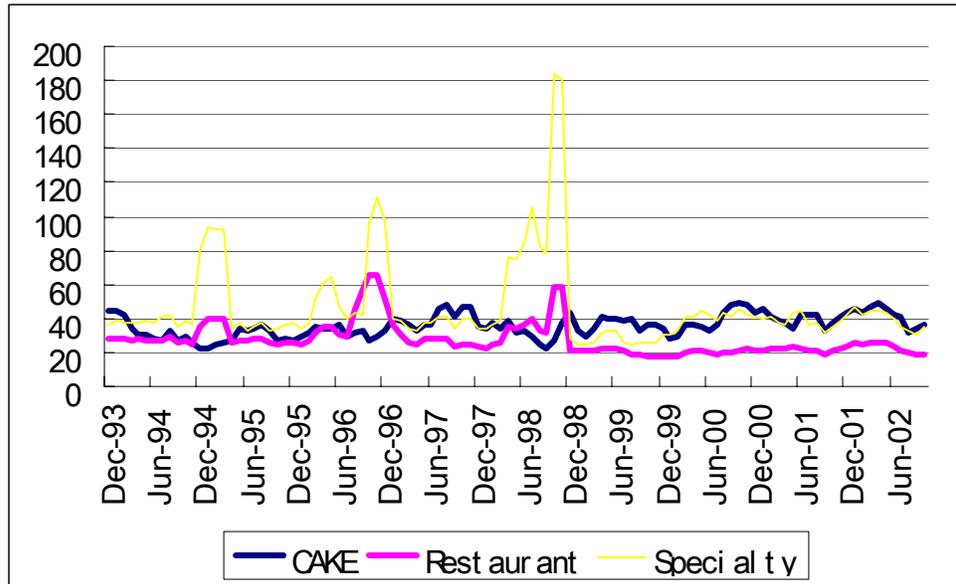
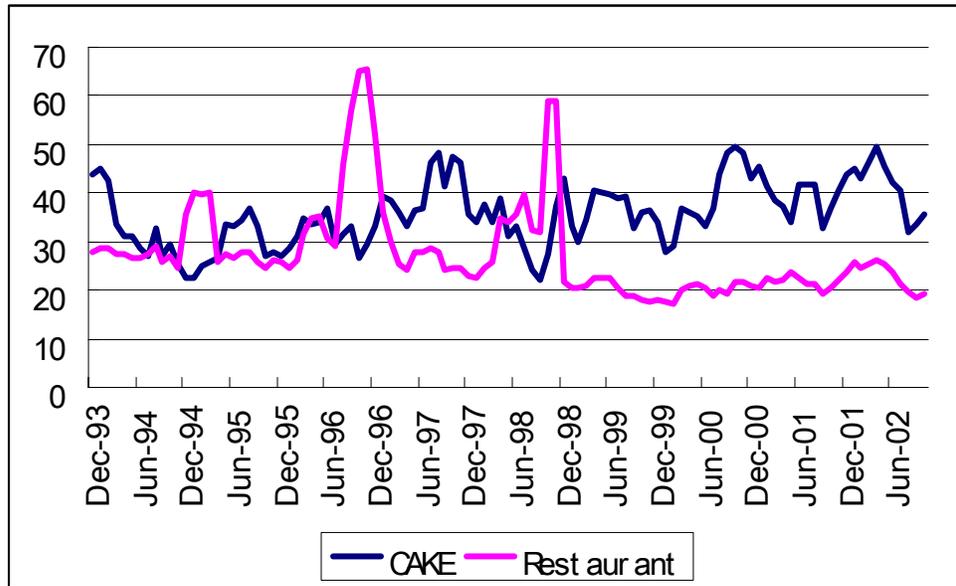
- By now, eleven of the promised 12 new restaurants have already opened, with the last one in Charlotte, North Carolina still in the process.
- The Company currently plans to open as many as 14 full-service Cheesecake Factory restaurants during fiscal 2003, of which all potential locations have been identified. Five signed leases are in hand for potential 2003 openings, and the Company expects to have signed substantially all of the leases for the remainder of the potential 2003 locations by the end of the current year.
- The Company's bakery operations have requalified as an approved supplier to Darden Restaurants. "We are grateful to have the opportunity to continue our 16-year relationship with Darden, one of the world's most highly respected restaurant companies," commented Overton.
- Gerald Deitchle has been appointed President of The Cheesecake Factory Incorporated. Deitchle will retain the title of Chief Financial Officer and will remain the primary analyst contact for the Company. Michael Dixon, the Company's Vice President - Finance, Controller and Chief Accounting Officer, will assume some of Deitchle's prior duties. Peter D'Amelio has been appointed President and Chief Operating Officer of the Company's Grand Lux Cafe Restaurants. D'Amelio joined the Company in 1990 and has steadily advanced through the Company's operations organization, with his most recent position as Senior Vice President - Operations.

Trading Performance



P/E Ratio comparison: CAKE vs. Restaurant Index vs. Specialty Restaurant Index





Data Source: Finance Yahoo! Specialty Index consists of KKD, PNRA, SBUX, BUCA, CAKE, CEC, CMPP, CPKI, PFCB, RARE

The above is the price performance comparison between Cheesecake Factory, S&P and NASDAQ. We can see that Cheesecake’s price has been growing slower than the two indexes in its trading history before 2000-2001. After later 2000 and 2001, the price has been boosting much faster than the two indexes, mainly because the economy recession began during that time, investors transfer their money from tech-bubbles to look for other opportunities, and Cheesecake is the kind of company growing faster than the market but relatively stable compared to the tech-stocks. Currently, CAKE has been traded above \$30 per share, with the most recent price of \$36.18 per share.

Price to Earnings

Looking at the P/E ratio comparison graphs among Cheesecake, Restaurant Index, and Specialty Index, Cheesecake has been traded at a premium to the whole restaurant industry, especially after 1998. Compared with the specialty restaurant index, Cheesecake has been more stable, and roughly follows closer and closer to the trend of the index.

Presently, the firm has a Price/Earnings of 39.24 (11/27/2002), while the major restaurant companies are traded at an average P/E of 22 times and the major specialty restaurants are traded at an average P/E of 35.8.

Valuation

Our DCF valuation result gives us a target price of \$29 per share, with a range of \$24 to \$38 per share by assuming the company can expand its business following the management's plan. If using the expansion plan based on our more conservative assumption, the target price will be lowered to \$23 per share, within a range from \$18 to \$27. Our P/E multiple valuation result gives us a price of \$34 per share that is also lower than the current trading price. Overall speaking, we suggest a "sell" position for this company's stock based on the above valuation conclusions. (Please see valuation appendix)

The following will be devoted to analyze the company's business concept and its growth strategy, revenue drivers, cost structures, its management competence and major risks.

Business Concept

Cheesecake Factory offers an innovative and successful restaurant formula that rests on a foundation with five components:

- **Broad and creative menu** – The "something for everyone" approach ensures that virtually all individuals in large groups can find what they want, which eliminates the "veto-vote". Furthermore, this strategy attracts repeat business from customers that would ordinarily tire from a limited menu. The menu offers over 200 items including – pizza, seafood, steaks, chicken, international dishes, burgers, pastas, specialty items, salads, sandwiches, omelets, and desserts which include approximately 50 varieties of cheesecake such as Original Cheesecake, White Chocolate Raspberry Truffle[®], Chocolate Peanut Butter Cookie-Dough, Kahlua Almond Fudge, Dutch Apple Caramel Streusel, Fresh Strawberry and Triple Chocolate Brownie Truffle[®].
- **Quality** – The Company's wide menu is based on high quality ingredients and virtually all of the meals are prepared on restaurant premises using fresh ingredients based on innovative proprietary recipes. This resonates well in the current health conscious environment.
- **Quantity**: The Company offers generous food portions at moderate prices thereby presenting an exceptional value for consumers.



- **Ambiance/Décor:** The restaurants possess a distinctive, contemporary design and decor that creates a high-energy ambiance in a relaxed, casual setting.
- **Location:** The Company locates the stores in excellent locations characterized by high traffic levels

These five components ensure a strong value proposition to consumers and consumers have flocked to Cheesecake restaurants in droves, resulting in double-digit growth for the past decade. While many other restaurant chains offer one or more of the components that make Cheesecake Factory successful, few if any offer all five components.

Growth Strategy

The company's uses a two-prong growth strategy: increases in same store sales and increasing number of stores. Assuming that same store sales stay flat or increase slightly, the main engine of growth is the new store component of their strategy. Presently, the Company operates about 50 stores across the United States, which approximates one store per state. The saturation point for Cheesecake's specialty concept is about five restaurants per state, which equates a total of about 250 stores. Consequently, the company may be able to increase in size to about five times the present level before reaching saturation point. This level may seem low compared to chains such as McDonalds, with over 13,000 restaurants in the US and reportedly has a restaurant within 50 miles from any location in continental United States. However, for specialty concepts, expansion is limited to markets that can support that particular concept.

It is important to note that the company does not franchise their stores. The firm can raise all the capital it needs to open new stores through internally generated funds and its banking relationships and therefore the company does not pursue a franchise based growth strategy. Furthermore the firm wants to maintain control of their stores to ensure high quality standards.

Revenue

CAKE's revenue is made up of restaurant sales (91%) and bakery sales (9%). From 1997 to 2001, restaurant sales and bakery sales had CAGR of 27% and 20% respectively.

Growth in restaurant sales was mainly due to sales generated from new stores. Unlike the rest of the restaurant industry, the same store sales of CAKE have been growing at low single digits. This is due to the fact that existing CAKE restaurants were growing at or near full capacity. In most cases, there were 2 hours waits during peak dining period – an illustration of the pent-up demand for CAKE.

Table: Same store sales growth¹

	2001 Q1	2001 Q2	2001 Q3	2001 Q4	2002 Q1	2002 Q2	2002 Q3
Growth	2.4%	2.0%	0.9%	NA	2.4%	1.6%	1.1%

¹ Source: JMP and company estimates



Same store sales growth for the company had been growing at an annual rate of about 5% to 6% for the past two years because of CAKE’s ability to increase prices without giving up too much sales volume. For example, CAKE recently increased menu prices by 1.5% to 2% while only facing only a 0.5% decline in traffic count. In our growth projections, we assume that same store sales growth will be decreasing over the years to about a constant rate of 2%. The reasons for the declining growth rates are that we feel that there is a limit to how much prices can be raised further and that the opening of new stores might result in slower growth rates in existing stores.

Management has expressed intentions to grow operating weeks by more than 24% annually. The table below shows the number of new stores that CAKE will have to open in the following years in order to achieve their targets.

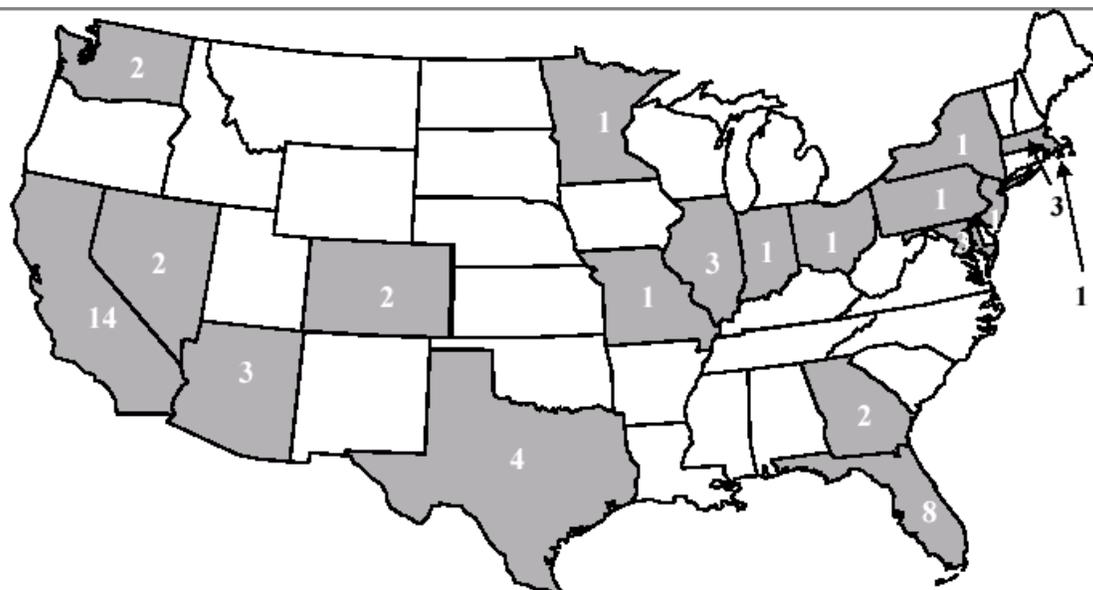
Table: Number of stores to be opened (according to management’s plan)¹

	2002	2003	2004	2005	2006
Number of new stores	12	15	18	23	28
Total number of stores	51	66	84	107	135

While we are skeptical whether management is able to roll out the number of new stores as planned, we do think that the US market is big enough to sustain more than 250 stores.

As we can see the locations of CAKE’s restaurants in the map below, there are still growth opportunities for CAKE in the next ten years.

Map of restaurant locations:



¹ Source: TWP estimates

This should be closely watched since the valuation of CAKE is highly dependent on its growth and in turn, dependent on the number of new stores opened in the next few years. Aside from valuing the company based on the company's projections on the number of new stores to be opened, we also have a separate valuation, assuming that the number of new stores will be opened at a slower rate. Despite the phenomenal success and popularity of CAKE, it is probable that the uncertainty of the current economic situation may slow down CAKE's expansion.

Although CAKE had CAGR of 20% in terms of bakery sales, the company experienced a 36% decline in bakery sales for Q3 2002. This was due to a bacteria contamination in one of their bakery factories, which was quickly rectified by the management. We believe that the company will recover from the incident and will recover the lost in sales by Q1 of 2003.

Costs

Table: CAKE's cost margins

Cost margins	1997	1998	1999	2000	2001	2002 Q1	2002 Q2	2002 Q3
Restaurant cost of sales	26%	27%	26%	25%	25%	24%	24%	23%
Bakery cost of sales	41%	49%	47%	46%	48%	48%	48%	43%
Labor expenses	31%	31%	30%	30%	30%	31%	31%	31%
Other operating expenses	23%	23%	22%	22%	22%	23%	22%	24%
General and administrative expenses	5%	7%	6%	6%	5%	5%	5%	5%
Depreciation and amortization expenses	3%	3%	3%	3%	3%	3%	3%	4%

Expenses for CAKE have been fairly constant for the past few years. With the increase in restaurants, it is possible that the company may enjoy economics of scale in cost of sales. In our projections, we assume that cost of sales for CAKE will remain at about 24% for restaurant sales and 48% for bakery sales.

In our projections, we see that other expenses for the company will continue to be at the same percentage of sales revenue.

Management

The management team is led by the founder, David Overton, who is by all accounts one of the most creative and impassioned restaurant operators since Ray Kroc. His creativity and passion is balanced by a hard-core finance manager – the CFO, Gerald Deitchle.



Many analysts consider Deitchle one of the most competent CFOs in the restaurant industry¹.

Risks & Concerns

- **Valuation Risks:** The firm's shares are traded at lofty levels by our DCF valuation.
- **Growth Risks:** The firm may not be able to maintain rapid expansion.
- **Competition:** This is not a major concern at the present time as there are virtually no competitors with the same concept offering the same value proposition. Therefore there are no price wars or other firm-specific competitive pressures on the firm. The concept is difficult to replicate, a would be competitor must assemble expertise in diverse factors such interior design (for the locations), a menu of over 200 offerings, a process to produce each item on the menu in a timely fashion, and management of every ingredient.

Import Disclaimer

Please read this document before reading this report.

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¹ Jolson Merchant Partners: May 20, 2002: Cheesecake Factory Report: An incredible concept at a rich price.

Appendix
Cheesecake Factory

Appendix I:**Cheesecake Factory Inc. - Assumptions****General Information**

Project Name	CAKE
Fiscal Year	31-Dec
Update Time	1-Dec
Years of Cash Flow	5

Terminal Value

Perpetual Growth Rate (%)

Perpetual Growth Rate (%)	2.00	3.00	4.00
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WACC

	10.07%	11.07%	12.07%
Risk Free Rate	4.25%		
Risk Premium	6%		
Beta	1.24		
Cost of Equity	11.07%		

Appendix II:**Cheesecake, Inc. - Financials**

Based on management's expansion plan												
in \$000, except per share data												
	Historical							Projections				
	1,998	1,999	2,000	2,001	Q1'02	Q2'02	Q3'02	Q4'02E	2,002	2,003	2,004	2,005
Income Statement												
Revenue	265,223	347,482	438,281	539,130	150,234	165,360	161,982	181,636	659,212	827,677	1,067,905	1,366,635
<i>Growth Rate %</i>		31.0%	26.1%	23.0%					22.3%	53.5%	29.0%	28.0%
Restaurants	243,415	320,450	406,947	499,519	137,637	151,203	152,916	166,900	608,656	769,462	998,047	1,282,805
<i>Growth Rate %</i>		31.6%	27.0%	22.7%					21.8%	54.0%	29.7%	28.5%
Bakery sales	21,808	27,032	31,334	39,611	12,597	14,157	9,066	14,736	50,556	58,215	69,858	83,829
<i>Growth Rate %</i>		24.0%	15.9%	26.4%					27.6%	47.0%	20.0%	20.0%
Cost of Goods Sold	218,033	278,224	346,688	431,236	119,788	130,080	129,058	144,150	523,076	659,560	849,731	1,086,094
Costs of food, beverages, and supplies	65,480	82,496	102,994	127,005	33,420	35,991	35,763	41,091	146,265	184,671	239,531	307,873
<i>as % of Restaurant Revenue</i>		26.9%	25.3%	25.4%	24.3%	23.8%	23.4%		24.6%	24.0%	24.0%	24.0%
Bakery costs	10,626	12,685	14,466	19,153	6,081	6,725	3,937	7,000	23,743	27,943	33,532	40,238
<i>as % of Bakery Revenue</i>		48.7%	46.9%	46.2%	48.4%	48.3%	47.5%		47.5%	47.0%	48.0%	48.0%
Operating expenses:												
Labor	81,475	105,796	133,287	164,372	46,262	50,681	50,248	55,302	202,493	256,580	331,050	423,657
<i>as % of Revenue</i>		30.7%	30.4%	30.5%	30.8%	30.6%	31.0%		30.4%	30.7%	31.0%	31.0%
Other	60,452	77,247	95,941	120,706	34,025	36,683	39,110	40,757	150,575	190,366	245,618	314,326
<i>as % of Revenue</i>		22.8%	22.2%	21.9%	22.4%	22.2%	24.1%		22.4%	22.8%	23.0%	23.0%
Total:	141,927	183,043	229,228	285,078	80,287	87,364	89,358	96,059	353,068	446,946	576,668	737,983
Gross Margin	47,190	69,258	91,593	107,894	30,446	35,280	32,924	37,486	136,136	168,117	218,173	280,541
<i>as % of Revenue</i>		17.8%	19.9%	20.0%	20.3%	21.3%	20.3%		20.6%	20.7%	20.4%	20.5%
Depreciation and amortization	8,540	10,913	13,682	17,457	5,179	5,532	5,909	6,371	22,991	24,830	32,037	40,999
<i>as % of Revenue</i>		2.5%	3.1%	3.2%					3.5%	3.0%	3.0%	3.0%
Restaurant and bakery operating profit	38,650	58,345	77,911	90,437	25,267	29,748	27,015	31,115	113,145	143,287	186,136	239,542
<i>as % of Revenue</i>		14.6%	16.8%	17.8%	16.8%	18.0%	16.7%		17.1%	17.3%	17.4%	17.5%
Pre-opening expense	3,603	6,217	5,943	7,069	2,686	2,247	2,192	3,600	10,725	9,000	10,800	13,800
General and administrative	17,333	21,266	25,831	27,929	7,559	8,314	7,580	9,067	32,520	41,384	53,395	68,332
Operating income	17,714	30,862	46,137	55,439	15,022	19,187	17,243	18,448	69,900	92,903	121,941	157,410
<i>as % of Revenue</i>		6.7%	8.9%	10.5%	10.3%	10.0%	11.6%		10.2%	10.6%	11.2%	11.4%
Interest Expense (net)	2,955	2,807	4,660	4,328	996	994	1,048	958	3,996	6,787	8,757	11,206
<i>as % of Revenue</i>		1.1%	0.8%	1.1%	0.8%	0.7%	0.6%		0.5%	0.6%	0.8%	0.8%
Other income (expense)	435	555	(439)	1,654	411	423	499	500	1,833	1,333	1,720	2,202
<i>as % of Revenue</i>		0.2%	0.2%	-0.1%	0.3%	0.3%	0.3%		0.3%	0.3%	0.2%	0.2%
Non-recurring												
Income before Tax	21,104	34,224	50,358	61,421	16,429	20,604	18,790	19,906	75,729	101,024	132,418	170,818
Pretax margin	8.0%	9.8%	11.5%	11.4%	10.9%	12.5%	11.6%	11.0%	11.5%	12.2%	12.4%	12.5%
Provision for taxes (benefit)	7,073	12,492	18,257	22,112	5,865	7,356	6,708	7,106	27,035	36,065	47,273	60,982
Tax rate	33.5%	36.5%	36.3%	36.0%	35.7%	35.7%	35.7%	35.7%	35.7%	35.7%	35.7%	35.7%
Net income before non-recurring	14,031	21,732	32,101	39,309	10,564	13,248	12,082	12,799	48,693	64,958	85,145	109,836
Non-recurring charge	6,347											
Net income after non-recurring	7,684	21,732	32,101	39,309	10,564	13,248	12,082	12,799	48,693	64,958	85,145	109,836
<i>as % of Revenue</i>		2.9%	6.3%	7.3%	7.3%	7.0%	8.0%		7.0%	7.4%	7.8%	8.0%

Appendix III

Appendix V.**Cheesecake, Inc. - Financials**

Based on conservative expansion plan												
in \$000, except per share data												
	1998	Historical						Projections				
		1999	2000	2001	Q1'02	Q2'02	Q3'02	Q4'02E	2002	2003	2004	2005
Income Statement												
Revenue	265,223	347,482	438,281	539,130	150,234	165,360	161,982	181,636	659,212	808,470	1,009,516	1,255,476
<i>Growth Rate %</i>		31%	26%	23%					22%	50%	23%	24%
Restaurants	243,415	320,450	406,947	499,519	137,637	151,203	152,916	166,900	608,656	750,255	939,658	1,171,647
<i>Growth Rate %</i>		32%	27%	23%					22%	50%	23%	25%
Bakery sales	21,808	27,032	31,334	39,611	12,597	14,157	9,066	14,736	50,556	58,215	69,858	83,829
<i>Growth Rate %</i>		24%	16%	26%					28%	47%	20%	20%
Cost of Goods Sold	218,033	278,224	346,688	431,236	119,788	130,080	129,058	144,150	523,076	644,578	804,188	999,390
Costs of food, beverages, and supplies	65,480	82,496	102,994	127,005	33,420	35,991	35,763	41,091	146,265	180,061	225,518	281,195
<i>as % of Restaurant Revenue</i>		27%	26%	25%	24%	24%	23%	25%	24%	24%	24%	24%
Bakery costs	10,626	12,685	14,466	19,153	6,081	6,725	3,937	7,000	23,743	27,943	33,532	40,238
<i>as % of Bakery Revenue</i>		49%	47%	48%	48%	48%	43%	48%	47%	48%	48%	48%
Operating expenses:												
Labor	81,475	105,796	133,287	164,372	46,262	50,681	50,248	55,302	202,493	250,626	312,950	389,198
<i>as % of Revenue</i>		31%	30%	30%	31%	31%	31%	30%	31%	31%	31%	31%
Other	60,452	77,247	95,941	120,706	34,025	36,683	39,110	40,757	150,575	185,948	232,189	288,759
<i>as % of Revenue</i>		23%	22%	22%	23%	22%	24%	22%	23%	23%	23%	23%
Total	141,927	183,043	229,228	285,078	80,287	87,364	89,358	96,059	353,068	436,574	545,139	677,957
Gross Margin	47,190	69,258	91,593	107,894	30,446	35,280	32,924	37,486	136,136	163,892	205,328	256,086
<i>as % of Revenue</i>		18%	20%	21%	20%	21%	20%	21%	21%	20%	20%	20%
Depreciation and amortization	8,540	10,913	13,682	17,457	5,179	5,532	5,909	6,371	22,991	24,254	30,285	37,664
<i>as % of Revenue</i>		3%	3%	3%	3%	3%	3%	3%	3%	3%	3%	3%
Restaurant and bakery operating profit	38,650	58,345	77,911	90,437	25,267	29,748	27,015	31,115	113,145	139,638	175,042	218,421
<i>as % of Revenue</i>		15%	17%	18%	17%	18%	17%	17%	17%	17%	17%	17%
Pre-opening expense	3,603	6,217	5,943	7,069	2,686	2,247	2,192	3,600	10,725	9,000	10,800	13,800
General and administrative	17,333	21,266	25,831	27,929	7,559	8,314	7,580	9,067	32,520	40,424	50,476	62,774
Operating income	17,714	30,862	46,137	55,439	15,022	19,187	17,243	18,448	69,900	90,214	113,766	141,848
<i>as % of Revenue</i>		7%	9%	11%	10%	10%	12%	10%	11%	11%	11%	11%
Interest Expense (net)	2,955	2,807	4,660	4,328	996	994	1,048	958	3,996	6,629	8,278	10,295
<i>as % of Revenue</i>		1.1%	0.8%	1.1%	0.8%	0.7%	0.6%	0.5%	0.8%	0.8%	0.8%	0.8%
Other income (expense)	435	555	(439)	1,654	411	423	499	500	1,833	1,302	1,626	2,023
<i>as % of Revenue</i>		0.2%	0.2%	-0.1%	0.3%	0.3%	0.3%	0.3%	0.3%	0.2%	0.2%	0.2%
Non-recurring												
Income before Tax	21,104	34,224	50,358	61,421	16,429	20,604	18,790	19,906	75,729	98,146	123,671	154,165
Pretax margin	8%	10%	11%	11%	11%	12%	12%	11%	11%	12%	12%	12%
Provision for taxes (benefit)	7,073	12,492	18,257	22,112	5,865	7,356	6,708	7,106	27,035	35,038	44,150	55,037
Tax rate	33.5%	36.5%	36.3%	36.0%	35.7%	35.7%	35.7%	35.7%	35.7%	35.7%	35.7%	35.7%
Net income before non-recurring	14,031	21,732	32,101	39,309	10,564	13,248	12,082	12,799	48,693	63,108	79,520	99,128
Non-recurring charge	6,347											
Net income after non-recurring	7,684	21,732	32,101	39,309	10,564	13,248	12,082	12,799	48,693	63,108	79,520	99,128
<i>as % of Revenue</i>		2.9%	6.3%	7.3%	7.3%	7.0%	8.0%	7.5%	7.0%	7.4%	7.8%	7.9%

Appendix VI. Comparable Companies

Ticker	Stock Price	Number of Shares	Market Cap	Beta	Revenue	EBITDA	Net Earning	Leverage Ratio	P/E	Price/Book	Price/Sales	Short Ratio
Specialty												
Krispy Kreme Doughnut KKD	37.67	55.4	2090	1.39	442.6	63.1	32.5	0.19	61.75	9.56	4.72	18.96
Panera Bread Co PNRA	36.95	29	1080	0.55	243.4	39.9	16.8	0	58.01	7.56	4.24	6.53
Starbucks Corp SBUX	22.44	388.3	8710	1.06	3110	508.6	209.9	0	41.48	5.19	2.71	3.14
BUCA Inc. BUCA	9.3	16.6	154	0.37	225.1	24	8.81	0.17	17.89	1	0.7	11.61
Cheese Cake Factory CAKE	36.18	49.6	1790	1.24	626.3	88.6	46.8	0	39.24	5.02	2.93	2.91
CEC Entertainment CEC	32.05	27.5	882.2	0.61	593.9	152	68.9	0.11	13.21	2.31	1.53	2.17
Champs Entertainment CMPP	10.76	12.4	133.2	0.81	165.2	14.3	5.78	0.41	24.07	2.56	0.84	2
California Pizza Kitch CPKI	25.3	18.6	473.8	0.68	292.4	35.7	14.3	0	33.25	3.69	1.62	12.24
P.F.Chang's China Bis PFCB	36.25	24.9	904.4	0.68	395.5	49.2	19.2	0.02	48.85	5.39	2.37	6.01
Rare Hospitality Intern RARE	27.15	21.9	597.1	0.69	575	68.2	30.8	0.11	19.99	2.04	1.06	5.04
Mean			1,681.47	0.81	666.94	104.36	45.38	0.10	35.77	4.43	2.27	7.06
Median			893.30	0.69	419.05	56.15	25.00	0.07	36.25	4.36	2.00	5.53



Appendix VII.**Cheesecake, Inc. - Financials**

Based on conservative expansion plan in \$000, except per share data												
	Historical						Projections					
	1998	1999	2000	2001	Q1'02	Q2'02	Q3'02	Q4'02E	2002	2003	2004	2005
Working Capital Schedule												
Accounts Receivable	5,333	4,877	5,700	4,800	5,000	5,200	7,100	7,100	9,665	12,068	15,009	
<i>Turnover</i>	6	4	4					4	4	4	4	
<i>as % of Revenue</i>	1.5%	1.1%	1.1%					1.1%	1.2%	1.2%	1.2%	
Inventory	8,121	9,328	10,800	12,400	14,100	14,800	13,400	13,400	17,433	21,750	27,030	
<i>Turnover</i>	11	10	9					9	10	10	10	
<i>as % of COGS</i>	2.9%	2.7%	2.5%					2.6%	2.7%	2.7%	2.7%	
Miscellaneous receivables	6,760	15,112	13,300	8,100	13,300	11,600	16,500	16,500	21,213	26,465	32,889	
<i>Turnover</i>	9	16	11					12	12	12	12	
<i>as % of COGS</i>	2.4%	4.4%	3.1%					3.2%	3.3%	3.3%	3.3%	
Other Account Receivable	2,552	2,184	5,300	5,600	3,500	5,400	6,000	6,000	6,318	7,889	9,811	
<i>as % of Revenue</i>	0.7%	0.5%	1.0%	3.7%	2.1%	3.3%	3.3%	0.9%	0.8%	0.8%	0.8%	
Total Current Assets excluding cash and TS	22,766	31,501	35,100	30,900	35,900	37,000	43,000	43,000	54,629	68,173	84,739	
<i>as % of Revenue</i>	6.6%	7.2%	6.5%	20.6%	21.7%	22.8%	23.7%	6.5%	6.7%	6.7%	6.7%	
Accounts Payable	13,104	17,700	18,900	14,400	18,600	16,000	23,500	23,500	30,579	38,152	47,412	
<i>Turnover</i>	17	19	16					16	17	17	17	
<i>as % of COGS</i>	4.7%	5.1%	4.4%					4.5%	4.7%	4.7%	4.7%	
Other Payables	19,832	25,427	35,400	36,000	37,800	38,600	53,800	53,800	50,094	62,498	77,669	
<i>as % of COGS</i>	7.1%	7.3%	8.2%					10.3%	7.8%	7.8%	7.8%	
Total Current Liability	32,936	43,127	57,100	59,900	65,700	64,000	80,700	80,700	80,674	100,650	125,081	
Working Capital			(11,626)	(22,000)					(37,700)	(26,044)	(32,477)	(40,342)
Change in WC				(10,374)					(15,700)	(4,044)	(6,432)	(7,865)
PP&E Schedule												
PP&E Beginning Balance			135,512	161,223		264,166	161,223	161,223	219,125	275,103	328,016	328,016
Capex	38,616	39,216	74,518					78,244	82,156	86,264	90,577	90,577
<i>Growth Rate %</i>			1.6%	90.0%				5.0%	5.0%	5.0%	5.0%	
Depreciation	10,913	13,682	17,457	5,179	5,532	5,909	6,371	22,991	24,254	30,285	37,664	37,664
<i>as % of Total PP&E</i>	7.5%	34.9%	8.3%					9.6%	10.0%	9.9%	10.3%	
PP&E Ending Balance	135,512	161,223	218,284				278,200	219,125	275,103	328,016	376,692	
Cash Flow Statement												
EBIT	30,862	46,137	55,439	15,022	19,187	17,243	18,448	69,900	90,214	113,766	141,848	
Tax	11,265	16,748	19,958	5,363	6,850	6,156	6,586	24,954	35,038	44,150	55,037	
Depreciation & Amortization	10,913	13,682	17,457					22,991	24,254	30,285	37,664	
Change in Working Capital	-	-	10,374					15,700	4,044	6,432	7,865	
Capex	38,616	39,216	74,518					78,244	82,156	86,264	90,577	
Free Cash Flow	(8,106)	3,855	(11,206)					5,393	1,318	20,070	41,763	

Appendix VIII.**Cheesecake Factory Inc. - Valuation Matrix**

Based on conservative expansion plan									
	2002	2003	2004	2005	2006	2007			
Earning/share	0.98	1.27	1.60	2.00	2.47	3.05			
EBIDTA/share	1.87	2.31	2.90	3.62	4.48	5.52			
Revenue/share	13.29	16.30	20.35	25.31	31.20	38.18			
Free Cash Flow / share	0.11	0.03	0.40	0.84	1.38	2.03			
Number of shares	49,600.00								
Total Debt (mrq)	0.00								
Total Cash (mrq)	21,800.00								
Net Debt	-21,800.00								
Discount Rate	10.07%			11.07%			12.07%		
Perpetual Growth Rate (%)	2%	3%	4%	2%	3%	4%	2%	3%	4%
2008-2012 Growth rate	8%	9%	10%	8%	9%	10%	8%	9%	10%
PV of Cash Flows (2002-2007)	162,145.98	162,145.98	162,145.98	208,011.56	208,011.56	208,011.56	200,691.58	200,691.58	200,691.58
PV of Cash Flows(2008-2012)	298,182.44	300,943.38	241,771.10	285,116.30	277,235.62	223,751.10	209,201.80	260,358.85	207,238.99
Terminal Value	677,713.42	781,155.08	918,679.65	550,441.85	624,715.46	719,999.99	452,942.76	507,811.53	576,278.51
Enterprise Value	1,138,041.84	1,244,244.45	1,322,596.74	1,043,569.71	1,109,962.64	1,151,762.64	862,836.14	968,861.96	984,209.08
Terminal Value as % of EV	60%	63%	69%	53%	56%	63%	52%	52%	59%
Equity Value	1,159,841.84	1,266,044.45	1,344,396.74	1,065,369.71	1,131,762.64	1,173,562.64	884,636.14	990,661.96	1,006,009.08
Price/share	23.38	25.53	27.10	21.48	22.82	23.66	17.84	19.97	20.28
Implied Multiples (2003E)									
P/E	18.38	20.06	21.30	16.88	17.93	18.60	14.02	15.70	15.94
EV/EBITDA	9.94	10.87	11.55	9.12	9.70	10.06	7.54	8.46	8.60
P/Revenue	1.43	1.57	1.66	1.32	1.40	1.45	1.09	1.23	1.24
P/Cash Flow	879.70	960.25	1,019.67	808.04	858.40	890.10	670.96	751.38	763.02

