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BWLD - Q4 2015 Buffalo Wild Wings Inc Earnings Call

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OVERVIEW:

Co. reported 4Q15 revenue of $490.2m, net earnings of $25.3m and diluted EPS of $1.32. Expects 2016 net diluted EPS to be $5.95-6.20.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Buffalo Wild Wings fourth-quarter 2015 conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. Instructions will be provided at that time for you to queue up for questions. I would like to remind everyone that this conference call is being recorded.

I will now turn the call over to Heather Pribyl, Director of Investor Relations for Buffalo Wild Wings. Please go ahead.

Heather Pribyl - *Buffalo Wild Wings, Inc. - Director of IR*

Good afternoon. And thank you for joining us as we review our fourth-quarter 2015 results and fiscal year-end. I'm Heather Pribyl, Director of Investor Relations for Buffalo Wild Wings. Joining me today is Sally Smith, President and Chief Executive Officer; Mary Twinem, Executive Vice President and Chief Financial Officer; and Jim Schmidt, Chief Operating Officer.

By now, everyone should have access to our fourth-quarter earnings release. Copies are available on our Investor website at ir.buffalowildwings.com.

Before we get started, I remind you that today's call will contain forward-looking statements, and actual results may vary materially from those discussed in forward-looking statements, due to many factors, including the risks and uncertainties identified in today's earnings release, which we filed on a Form 10-K -- or an 8-K concurrent with this release, and in our other SEC filings.

On today's call, Sally will provide an overview of our performance for the fourth-quarter and fiscal year. After that, Mary will provide further details on the quarter, and comment on trends to date in the first quarter and our 2016 outlook. Finally, Sally will share some thoughts on our initiatives and outlook for 2016. We will then answer questions.

So, with that, I'll turn things over to Sally.

Sally Smith - *Buffalo Wild Wings, Inc. - President and CEO*

Thank you, Heather, and good afternoon, everyone. Our 2015 same-store sales increased 4.2% at company-owned restaurants and 2.5% at franchise locations. Same-store sales growth in the fourth quarter of 1.9% at company-owned restaurants and 0.1% at franchise locations did not meet our expectations, although they continued to outpace the casual dining industry.

We estimate the holiday shifts for Halloween and Christmas negatively impacted fourth-quarter same-store sales by 30 basis points. Although we're not pleased with our fourth-quarter same-store sales, we are actively executing on several sales initiatives and have confidence Buffalo Wild Wings will gain sales momentum. We also believe we have an opportunity to improve performance in a few markets, and our operations team have a heightened focus in these areas.

Another factor, though hard to measure, was at the end of our third quarter, we had to replace our national TV advertising campaigns, which necessitated a swift replacement campaign. Our brand home scores remain high, including scores for overall satisfaction, value, and likelihood to recommend Buffalo Wild Wings to a friend. We'll continue to improve the guest experience at Buffalo Wild Wings, and I'll speak more on our 2016 initiatives later.

Our restaurant sales increased 21.3% on the fourth quarter and was driven by 105 additional restaurants this year. This increase, and leveraging on food and labor costs as a percentage of restaurant sales, led to a net earnings increase of 24.4% during the fourth quarter. Depreciation and amortization as a percentage of total revenue increased compared to the prior year as a result of our new restaurant development and franchise acquisitions.

We also recorded $3.3 million in pretax loss on asset disposals and impairments during the quarter. These non-cash charges tempered our earnings growth for the year. In 2015, we opportunistically purchased several franchises that will deliver sales and earnings growth in 2016. In addition, we continued to build new Buffalo Wild Wings restaurants, remodel existing locations, and invested in our guest experience and technology to support future growth and brand strength.

When a franchisee decides to monetize their investment in Buffalo Wild Wings, we review the deal and, on occasion, we are the purchaser. There was more activity this year, and we used $204 million to purchase four franchise deals, representing 54 opened locations. We incurred one-time costs when we transitioned the franchise locations to company-owned restaurants, as well as higher ongoing non-cash expenses such as depreciation and amortization.

We are excited to operate these restaurants as company-owned locations and believe they will be accretive to earnings per share in 2016. We also continued our development in the United States, opening 51 company-owned Buffalo Wild Wings restaurants, and we remodeled 50 existing company-owned locations to our studio restaurant designs. We believe remodels are important to keep our brand vibrant and relevant to our guests. And our guests like the new design, creating a financial benefit with same-store sales at remodeled units, outpacing the company-owned average.

During 2015, we completed the implementation of a new point-of-sale system, bringing all company-owned and franchise locations on a common platform. This enables us to deliver many of the technology initiatives we've been working on, such as online ordering and menu order on tablet. With this POS implementation complete, we now have online ordering at 94% of systemwide locations, allowing guests to order take-out online or through our mobile app.

We've seen great adoption of online ordering, with 15% of take-out orders coming through online or mobile, and the average ticket for online take-out orders coming in 10% higher than call-in orders. Online order adoption was supported by limited digital media in the fourth quarter and we intend to put more marketing behind this initiative this year.

The pilot of Blazin' rewards, the Buffalo Wild Wings loyalty program, launched in the fall. We want to offer meaningful rewards experience to increase guest affinity and loyalty. The five-market pilot is progressing well and we are learning how our guests utilize the programs. As we learn more about guest behavior and financial impacts, and make appropriate adjustments, we'll review our timeline for implementation on future calls.

In 2015, several of our domestic Buffalo Wild Wings set all-time sales records for the brand with annual unit volumes over $8 million. The average unit volume for all locations in the United States has increased to $3.3 million. Newly-opened franchise locations in the Middle East are performing extremely well, and their sales volumes are comparable to our higher volume US restaurants.

Franchise locations in Mexico open more than 15 months are showing double-digit same-store sales increases. The Buffalo Wild Wings brand is well-accepted by our guests internationally, and we look forward to continued international expansion through franchise partners in 2016.

I'd like to briefly address the media attention around our Buffalo Wild Wings restaurant in Overland Park, Kansas. We take food safety very seriously. And following a report Saturday of potential illness by the Health Department, we followed our standard practices and closed the restaurant to allow for a third-party specialist to conduct a thorough cleaning. The restaurant reopened on Sunday, and we continue to work closely with the Health Department.

Mary will now provide additional details on the fourth-quarter, the first-quarter-to-date, and fiscal-year 2016 outlook.

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

Thank you, Sally. Our revenue in the fourth quarter reached $490.2 million, increasing 19.9% (technical difficulty). Same-store sales at company-owned Buffalo Wild Wings restaurants were 1.9% for the fourth quarter compared to 5.9% for the same period last year. Menu price increases and adjustments taken during the past 12 months at company-owned restaurants were about 4%.

We had 103 additional company-owned Buffalo Wild Wings restaurants in operation at the end of the quarter versus fourth-quarter last year, a 21% unit increase. This increase includes the acquisition of 54 franchise restaurants in 2015. Average weekly sales decreased by [0.02%] in the fourth quarter, 210 basis points lower than the same-store sales percentage.

The average weekly sales calculation benefited by 10 basis points from the closing of older lower-volume locations during the last 12 months, and was negatively impacted by 160 basis points from newly-opened locations during the last 15 months, and by 60 basis points from locations acquired from franchisees during the last 12 months. Our royalty and franchise fee revenue for the fourth-quarter decreased 2.9% to $23.8 million versus $24.5 million last year. We had 11 fewer franchise Buffalo Wild Wings units in operation at the end of the fourth quarter versus a year ago. Same-store sales at franchise Buffalo Wild Wings locations increased by [0.1%] in the quarter compared to a 5.1% increase in fourth-quarter last year.

Franchise average weekly sales volumes at Buffalo Wild Wings in the United States for the quarter increased by [0.1%], the same as the same-store sales percentage. Cost of sales for the fourth quarter was 29.5% of restaurant sales compared to 30.6% in fourth-quarter last year, a decrease of 110 basis points. Traditional wings were $1.81 per pound in the fourth quarter, $0.09 or 5% lower than last year's fourth-quarter average of $1.90.

Traditional wings as a percentage of our cost of sales were 24.7% in the fourth quarter compared to 26.4% in the prior year. Traditional wings and boneless wings were both 21% of restaurant sales, the same as fourth-quarter last year. Food and nonalcoholic beverage sales were 79% of restaurant sales in the fourth quarter, flat compared to last year. Cost of labor for the fourth quarter was 30.9% of restaurant sales, 20 basis points lower than fourth-quarter last year.

In the fourth quarter, restaurant operating expenses, as a percentage of restaurant sales, was 15.4%, an increase of 30 basis points from the prior-year, resulting from higher repair and maintenance expenses. Occupancy costs were 5.6% as a percentage of restaurant sales compared to 5.4% last year, deleveraging from lower same-store sales.

In summary, restaurant level cash flow, which is calculated before depreciation, amortization and preopening expenses, was $86.7 million or 18.6% of restaurant sales. This compares to restaurant level cash flow of $68.1 million or 17.7% in the fourth quarter last year. This 90 basis point increase in cash flow as a percentage of restaurant sales is primarily a result of the lower cost of sales and labor percentages.

Depreciation and amortization for the fourth quarter was 7.5% of total revenue, 80 basis points higher than the prior year, resulting from amortization of reacquired franchise rights and higher depreciation related to capitalized leases. General and administrative expenses were $31.2 million in the fourth quarter or 6.4% of total revenue compared to $31.9 million or 7.8% in the prior year. Excluding stock-based compensation of $2 million in the fourth quarter and $4 million in the prior year, G&A expenses for the fourth quarter would have totaled $29.2 million or 6% of total revenue compared to 6.8% last year.

Preopening expenses for the quarter totaled $4.9 million, flat compared to the prior year's quarter. The $4.9 million includes $523,000 of preopening expenses for future openings that are under construction. And in the fourth quarter last year, we incurred $269,000 related to future openings. Preopening costs for the 22 company-owned Buffalo Wild Wings averaged $274,000 during the quarter, the same as fourth quarter last year. Preopening costs for the year 2015 were $271,000 per new Buffalo Wild Wings restaurant compared to $299,000 in 2014.

The loss on asset disposals and impairments for the fourth quarter totaled $3.3 million compared to last year $458,000. This loss includes the impairment of one company-owned Buffalo Wild Wings and two company-owned PizzaRev restaurants, and the write-down of some experimental technologies. We reported interest and other expenses of $912,000 for the quarter compared to an expense of $189,000 in 2014, primarily a result of increased interest expense from capitalized leases.

Our effective tax rate during the fourth quarter was 24.7% compared to 27.1% in the prior year. We recorded a benefit for the renewed workers opportunity tax credit in the fourth quarter. For the year, our effective tax rate was 30.3% compared to 30.5% in 2014.

In summary, our net earnings in the fourth quarter of 2015 increased 24.4% to $25.3 million, producing earnings per diluted share of $1.32 compared to $1.07 in the prior year. For the fiscal year 2015, net earnings increased 1% to $95.1 million, resulting in earnings per diluted share of $4.97 compared to $4.95 in fiscal year 2014.

On our balance sheet on December 27, 2015, our cash, cash equivalents and marketable securities totaled $20.3 million compared to $112.9 million at the end of 2014. We ended the year with $1.1 billion in total assets and $646 million in total equity. Our line of credit balance reflected in long-term debt on our balance sheet was $34.5 million at year-end compared to zero in the prior year.

Cash flow from operations was $70.8 million for the quarter, a 4.5% decrease over the prior year. We spent $48.3 million for capital expenditures in the fourth quarter of 2015. Under our $200 million share repurchase authorization, we repurchased nearly 156,000 shares during the fourth quarter of 2015 for $25 million.

Now I will highlight trends and provide some comments on the first quarter of 2016. For the first four weeks of the first quarter, Buffalo Wild Wings same-store sales have trended at [0.3%] at company-owned restaurants and a negative 1.5% at our franchise locations, as compared to same-store sales trends for the first four weeks in the first quarter last year of 12.7% at company-owned restaurants, and 12.4% at franchise locations.

The Super Bowl did not occur in either of these four-week periods. The fourth week of 2016 contained an extra week of NFL football. However, we didn't see the benefit anticipated due to winter storm Jonah and the temporary closure of 33 company-owned restaurants on the East Coast. We estimate the closures impacted same-store sales for the first four weeks of 2016 by at least 40 basis points.

As we believe a four-week trend isn't predictive of quarterly same-store sales, we are discontinuing disclosing our quarter-to-date comparable after this quarter. For the full first quarter of 2015, same-store sales were 7% at company-owned restaurants and 6% at franchise locations. Menu price increases and adjustments taken in the last 12 months will be 3.1% for the first quarter.

We expect to open six company-owned Buffalo Wild Wings restaurants in the first quarter, including one relocation with four already open. As a reference point in the first quarter of 2015, we opened three new company-owned locations.

Our cost for traditional chicken wings for the first two months of the first quarter is averaging about $1.87 per pound. This compares to last year's average cost for the first quarter of $1.92. We have a 12-month renewal on our pricing agreement for traditional chicken wings beginning in April 2016. The price paid per pound for traditional chicken wings is based on the prior month's average plus a mark-up for processing and distribution. If the monthly average exceeds the upper limit set in the contract or falls below the lower limit, we split the difference with our suppliers.

We have also entered into renewed contracts for further processed chicken, which includes our boneless wings. This 12-month pricing contract begins in April, and we estimate it will reduce our cost of sales percentage by approximately 10 basis points. We anticipate slight leveraging and labor costs as a percentage of restaurant sales in the first quarter of 2016 compared to the prior-year. We expect increases in average rates of pay and benefit costs will be offset by menu price increases and labor efficiencies.

In the first quarter, we anticipate that G&A expenses, exclusive of stock-based compensation expense, will be approximately $30.5 million. The first quarter stock-based compensation expense is estimated to be $3 million, an increase of $300,000 compared to first-quarter last year. Stock-based compensation expense for the year is estimated to be approximately $15 million compared to $13.7 million in 2015, and will vary depending on the level of net earnings achieved for 2016, as well as for estimates of net earnings in future years.

For the full-year 2016, we estimate that our net earnings per diluted share will be $5.95 to $6.20, representing growth of 20% to 25% over fiscal 2015. These estimates are based on the following expectations. Single-digit same-store sales increase. Within this expectation, we have known menu pricing [of] 2.4% and are expecting modestly positive traffic.

We anticipate 2016 will be a year of deflationary food costs, excluding traditional chicken wings. Our current outlook for traditional chicken wings is for a relatively flat year compared to 2015. However, this is subject to change based on market conditions.

Depreciation and amortization expense of $155 million to $160 million, which includes $12 million of amortization expense in 2016 compared to $7.4 million in 2015. And we anticipate allocating approximately $100 million of our capital to execute our share repurchase program.

For 2016, we estimate that our capital expenditures, which does not include franchise acquisitions and emerging brand investments, will be $200 million. We anticipate generating cash from operations in excess of our planned capital spending, and with our debt capacity, we'll be strategic in franchise acquisitions, emerging brand investments, and return to shareholders as options to maximize shareholder value.

Please review the risk sections outlined in our SEC filings, including our Form 10-K for fiscal 2015, which will be filed this month, as well as our Safe Harbor statement for factors affecting our forward-looking statements.

As this is my 49th and final earnings call, I would like to thank our analysts and investors for your support of BWLD. For 21 years, I've had the honor of being part of the Buffalo Wild Wings team and the incredible growth we've delivered to our shareholders. I look forward to cheering on BWs from the sidelines in my retirement. And as a long-term shareholder, I am excited about the future.

So, to our team members, franchisees, vendor partners, and especially the Board of Directors and leadership teams, a heartfelt and gratitude-filled thank you.

Sally Smith - *Buffalo Wild Wings, Inc. - President and CEO*

Thank you, Mary. Buffalo Wild Wings interacts with our guests in their daily lives from restaurant visits, take-out occasions to guest-facing digital engagements. Our integrated advertising campaign is accessible to our guests in the many ways that they want to view content, from traditional media to social and digital.

In 2015, we launched B-Dubs live events where we chose digitally-engaged guests to have a unique experience with Buffalo Wild Wings, and create content to showcase the brands. B-Dubs TV is in company-owned locations, and our franchisees have begun their implementation, which will continue throughout the year. B-Dubs TV allows us to showcase unique and local content, utilizing our vendor partners and our guests.

To enhance the experience, guests can play arcade games on the tablets at no charge, and we have great statistics for guest engagement and usage of our tablets. We'll continue development of our game arcade by offering premium titles later this year. GameBreak, which can be played on tablet, online or via the app, has a triple bracket challenge for March Madness. If the Cinderella team upsets your bracket in the first round, you'll have a chance to reset it with GameBreak.

We are also making progress on digital order and payment, and anticipate being in market tests for menu order and payment on tablet soon. Buffalo Wild Wings is entering 2016 with many exciting opportunities to drive sales. And 2016 will focus on areas within our operational control, such as enhancing the beer experience, improving execution in the weekday lunch, increasing our take-out business, and driving the guest experience business model.

Beer is an important component of our brand, and Buffalo Wild Wings offers an outstanding beer experience. Your local Buffalo Wild Wings has about 30 taps, with 10 to 7 of them dedicated to local craft beers. To further our guests' awareness of the depth of our beer offerings, we launched a new drink and dessert menu in January that puts more focus on local beers offered in each location. Our servers and bartenders are also participating in additional education on beer flavor profiles to help our guests with their beer selection.

In addition, we are launching electronic beer menus that will be on several screens in our restaurants. The weekday lunch is a daypart we continually look to improve. In 2015, we launched fast-break, a systemwide lunch program offering guests speed and value over their lunch hour through PIX2 menu. The program helped us capture margin during this daypart that we believe improved restaurant execution with a focused approach, and additional media will help improve sales.

Take-out is a rapidly growing part of our business. Our take-out is already leading casual dining, and we believe we can capture additional take-out with online ordering. In 2016, we are looking to improve suggestions for drinks and desserts to drive higher check average. Our large order take-out menu will be available online this year, and we'll add group ordering as well. Take-out will also be supported by additional media, encouraging guests to bring the flavors of Buffalo Wild Wings home.

When we launched the guest experience business model, it was a significant change in the day-to-day responsibilities of our restaurant managers. In 2016, our general managers will have more responsibility for executing sales-driving initiatives in restaurant and the community. We believe what our general managers and guest experience captains are visible in their local markets promoting fast-break lunch or the fund-raising opportunities of HomeTeam advantage and Eat Wings/Raise Funds, it brings the local connection to our guests and helps drive visits.

We are returning to a fully integrated advertising campaign for March Madness called Back in April, and you may have already seen the first national TV commercial, which began airing in January. The TV commercials would be supported by coordinated messages in radio, social and digital advertising. We are excited to bring humor to our B-Dubs to our guests in classic B-Dubs fashion.

We're looking forward to 2016 and growth in sales through unit expansion and our sales initiatives. In 2015, our earnings-per-share growth was tempered, as we invested in the brand, and we believe those investments will support significant earnings-per-share growth of 20% to 25% in 2016. We thank our team members, our franchisees, and our vendor partners for their passion and their continued dedication to our success.

And finally, I want to take a moment to thank Mary Twinem for hanging in here for 21 years. She's been an integral part of the success of the brand, providing great leadership to the Company, and we wish her well in retirement.

I will now turn it back to Heather.

Heather Pribyl - *Buffalo Wild Wings, Inc. - Director of IR*

Thank you, Sally. We will now move to the question-and-answer session of our fourth-quarter earnings call. We will end the call promptly at the top of the hour. In order to get to as many participants as possible, please limit yourself to one question and queue up again if you have additional questions.

Operator? Please open the call.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Tarantino, Robert W. Baird.

David Tarantino - *Robert W. Baird & Company, Inc. - Analyst*

First, Mary, congratulations on a great run that you had at Buffalo Wild Wings and best wishes for your retirement.

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

Thank you, David.

David Tarantino - *Robert W. Baird & Company, Inc. - Analyst*

My question really is around the comp trends that you saw in Q4. You said it fell short of your expectations. So, as you dissect the business and look at some of the factors that may have driven that weaker-than-expected result, I guess could you elaborate on some of the things that you think may have been headwinds during the quarter, either from an operations -- or, I think, Sally, you mentioned that the television advertising changed, and perhaps was that an issue? Any additional color would be helpful. Thanks.

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

Sure. Yes. This is Jim Schmidt. The -- I think it was a combination of factors. I don't think -- and they are all very difficult to measure. I think a couple of the primary ones, particularly in the back-half of the quarter, we were up against some very strong comps -- comp sales from the prior-year. We had high-single-digit/double-digit comps in many of our major markets in fourth-quarter of 2014.

So we had a really challenging comp environment to go up against. I think you combine that with just the general challenges in the retail and restaurant market in Q4 -- the casual dining, I think, was slightly negative. I know I saw some data that retail, during the shopping season retail -- online retail sales were up 20%, which would suggest people just weren't out quite as much during the holiday shopping season. And I think that was reflected in our restaurants.

And then as Sally mentioned, while our replacement commercial tested well with our focus group, and we didn't give any data to directly suggest otherwise, I think common sense tells you it probably had some impact.

David Tarantino - *Robert W. Baird & Company, Inc. - Analyst*

And then I guess, Jim, as you reconcile some of that, and it's the early Q1 trend, I guess, in light of the comparison, looks fairly reassuring. So is there something in there that maybe helps to stabilize the trend, at least on a two-year basis? I know you mentioned comparisons in Q4, but it looks like the comparison in Q1 is a lot more difficult. So how are you thinking about the business as you enter this year?

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

Well, actually, the -- I would say the first four weeks of Q1 are really similar to the back-end of Q4 on comparisons, in that you again have major markets up double-digits. And we were -- I think we feel good that we were able to be slightly positive in those first four weeks.

So, the comparisons get easier as we move forward from here. I think we feel really good about our focus areas for the year. We were back on air on national TV. Also, as we look at our advertising this year, you will see a greater focus in all channels of advertising on a traffic driving message. So we've got, I think, the focus on take-out, lunch, and then we'll also be talking about our value days more as we go through the year. So, we feel good about our lineup, as we move into this year, that we are focused on the right things to drive sales.

David Tarantino - *Robert W. Baird & Company, Inc. - Analyst*

And then, lastly, I'm sorry for all the questions here, but I guess one of the theories out there in the marketplace is that you might have taken too much pricing and that's hurting your trendline on the traffic side. Is there any -- anything that that you would say relative to the value proposition that has changed in your mind over the past six or 12 months?

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

Well, in the last year, we had about 4% pricing, which, for us, that's on the higher end of what we typically take. Since we took the menu price increase, we did see a slight dip in value scores, but that's typical that we'll see a slight dip. So what we're seeing and what we typically see after taking a menu price increase.

Our next menu will roll in May. I can tell you we are anticipating, at best, a minimal increase. We also have greatly enhanced our menu pricing capability over the last year. And I think we are in a stronger position than ever to really look at, not just on a market-by-market basis, but individual stores looking at competitive pricing, and to really customize that pricing on a per-store/per-market basis. And not just the pricing but also within the menu, we have the ability to customize pricing at a level greater than we ever have.

So we feel like we are in a good position to monitor it moving forward. And, at this point, we are anticipating we'll see what we've seen in the past, which is your value scores dip for a period of time and then recover.

David Tarantino - *Robert W. Baird & Company, Inc. - Analyst*

Great. Thank you very much.

Operator

John Glass, Morgan Stanley.

John Glass - *Morgan Stanley - Analyst*

So, Mary, I'd like to add my congratulations. Always been a pleasure. And 21 sounds like a lucky number, so, good; well-played on that.

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

(laughter) Thank you, John.

John Glass - *Morgan Stanley - Analyst*

The question relates just as a follow-up on the sales. The competitive environment has intensified, I think, at least in the fourth quarter, has been discounting in the Bar and Grill segment. When you look at your sales trend, can you tie any of that weakness back to the competitive environment? I don't think you cited that for a while, but there had been a time, at least before, when maybe you tied that back to the competitive environment.

And then I guess just on the offense side, thinking about your value scores and need to drive traffic, have you thought more about maybe tactics that you would deploy that you haven't deployed in the past to drive sales, and thinking about tactically discounting or promoting or some other way to stimulate traffic in the first quarter?

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

We don't have any direct evidence tying our sales performance to what others are doing in that area. Historically, when others have gone kind of the deep discount route, we have not followed. And that approach has worked for us. As far as value, I think we have some good values. We've got Wing Tuesday, Boneless Thursday, our fast-break lunch. We do Happy Hour specials.

I think what you will see this year -- again, more than what you would have seen last year -- is we'll be talking about Happy Hour, we'll be talking about lunch and take-out. So -- and so you'll just see more -- in our food and beverage products, you're going to see a stronger traffic-driving message in all channels of our advertising this year.

Okay. Maybe I could just follow-up on one question I have to ask. Have you seen an impact from the Kansas City restaurants, either in the local market -- I presume you did -- or a broader impact? And are you monitoring things like social media to make sure you understand what's being said about the brand? I say that in the context of obviously there's been some other food-related issues in the industry that have had much more adverse impacts than I think initially you thought.

Sally Smith - *Buffalo Wild Wings, Inc. - President and CEO*

Sure. And I think that heightens the awareness certainly for media and for our guests. But we have -- we take food safety very seriously and we always have. This incident occurred this past weekend. And voluntarily we, when contacted by the Health Department, we closed the restaurant on Saturday for a deep cleaning. And working with the Health Department, we reopened on Sunday.

Again, we don't have anything that conclusively links us to these guests. They happen to have been at Buffalo Wild Wings, but there's a number of other factors of groups and teams and where else they've been. It has -- the norovirus has been reported in the Kansas City area in close proximity to another restaurant, close to Buffalo Wild Wings.

We have not seen any fallout. Obviously, the media has picked it up, because it is top-of-mind for every restaurant company out there, and we are no different. And our manager said that the restaurant was busy today. So, I would expect that we will absolutely address this. As I said, we take it very seriously. And we followed all of the procedures we'd normally follow when we have any report of a food illness.

John Glass - *Morgan Stanley - Analyst*

Have you seen sales pressure as a result of it more broadly than just that individual store or market?

Sally Smith - *Buffalo Wild Wings, Inc. - President and CEO*

No. I mean, as I said, it's just coming out in the media. But no. There's been -- hopefully, with that single restaurant being busy, or reports of it being busy, and no other information or happening in Kansas City -- and again, we have not been tied conclusively to any outbreak; just that we had a report from the Health Department, so we were proactive.

John Glass - *Morgan Stanley - Analyst*

Okay, thank you very much.

Operator

Brian Bittner, Oppenheimer & Co.

Brian Bittner - *Oppenheimer & Co. - Analyst*

I know this is going to get repetitive, but I couldn't imagine asking a question without thanking you, Mary, as well for all you've done and congratulating you. I want to try to better understand the 2016 earnings guidance for 20% to 25%.

You are expecting positive traffic for the year. And by my calculation, that means you are expecting revenue growth in the 20%-plus range. So with that kind of as a starting point, can you just help me understand why it is that you assume your earnings only grow at a similar rate as your sales?

And I ask that because you are lapping so many headwinds from 2015, like the acquisition dilution. And on top of that, you're going to get margin leverage, particularly on the COGS line, which is incredibly sensitive to your earnings model. So I would just think that the earnings would potentially grow a lot higher than the revenue growth.

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

Well, I do like your optimism, Brian. I'm going to let Heather kind of walk through our assumptions as it relates to why we chose guidance of 20% to 25%.

Heather Pribyl - *Buffalo Wild Wings, Inc. - Director of IR*

So, Brian, we do -- looking at our wings and in our COGS basket, Mary had mentioned that we do expect the Boneless Wing contract to be a benefit of about 10 basis points in COGS, and that will begin in April when that contract renews. We are anticipating a relatively flat outlook at this point in time for traditional wings. And obviously our quarterly EPS can vary greatly depending on what traditional wings do.

When we are taking a look at the labor line, we are factoring in some additional labor costs. In particular, average rate of pay is increasing about 4.5% to 5%; when we are looking at our model as well as we are assuming increased adoption of our health plans this year, as well as increased cost per team member on the plan. And then we do anticipate some slight leverage in G&A.

If everything behaves and wings are a little bit lower, there may be upside -- potentially upside. Those are the main factors when we are looking at the guidance. But the other big one that you'll notice is the non-cash [each] of depreciation and amortization going up pretty significantly. Amortization is about $12 million in our model for next year.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay. And as far as the labor, you said you are expecting a little more labor costs. So you expect labor to leverage in the first quarter. What's different about what happens -- because I would assume that the first quarter you are probably expecting the lowest comp of the year. So what happens going forward that could cause labor to not leverage? Is it just the healthcare that you talked about? Because you are already seeing the wage rate inflation in the first quarter, right?

Heather Pribyl - *Buffalo Wild Wings, Inc. - Director of IR*

Well, we do see the wage rate inflation in terms of California minimum wage. There are additional minimum wages that they are increasing later in the year. And then we are -- they have the experience this year where benefit costs picked up more significantly in Q2 and Q3 for us. So that's what we're looking at as well.

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

And then also as you look at last -- Q1 of last year, we had some high bonus expense with really high sales, so that the comparison takes that into account.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay. Thank you.

Operator

Keith Siegner, UBS.

Keith Siegner - *UBS - Analyst*

Thank you very much, and Mary, I'm very jealous. Please enjoy it on my behalf. I'm going to live vicariously through you, if I can.

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

You'll be old enough soon.

Keith Siegner - *UBS - Analyst*

We've been talking tech for quite some time. And industry adoptions really accelerated. Many of them have highlighted positive results across a number of aspects of their models. Considering the focus on take-out, the POS is complete. I know you mentioned that the tests are going to broaden out a little bit here, but how might this year progress? If things go well, if you're happy with the test, how might that trajectory progress for this year?

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

Well, we are going into test with pay and order on tablets in Q2. And I don't want to predict exactly what's going to happen from there because that's why we are testing it. But hopeful we'd make a decision back-half of the year on what our solution there is going to be.

I do think when it comes to take-out, we are going to look at enhancing our experience for both our app and online ordering as the year goes by. So I think there is a real opportunity for us to enhance the user experience there. And we will continue to focus on how to enhance that experience. So I think you will see continual progression from us. It's difficult to predict exactly when or what until we have the solution ready to launch, though.

Keith Siegner - *UBS - Analyst*

While we're talking about the POS, Jim, a lot of companies talk about all the other benefits beyond, for example, in your case, the ability to roll tech. Are there some other benefits that you get now from having a cohesive POS system that maybe you could highlight for us as opportunities over the next couple of years?

Sally Smith - *Buffalo Wild Wings, Inc. - President and CEO*

This is Sally. Absolutely. That's one of the reasons why we felt it was critical that we had one common POS system throughout the Company. And not every company has that. Our ability to slice -- gather information, slice and dice, and be able to research adjacencies on what sells, what doesn't sell, market-by-market data, as well as our loyalty program, which we have in test in five markets.

You need a common POS system to have a common loyalty program throughout the country. So that no matter what Buffalo Wild Wings you go into, you can participate in our Blazin' rewards and have those points whether you are in a franchisor company and your ability to redeem through that. We think online ordering as well -- is there an ability to centralize that information so that it can send out that order to the right restaurant? -- among other things, as we certainly order and pay with tablets.

And that was critical to have a common POS. So there are many benefits. I don't think we would have gone through the heartburn and the headache, and what we've put the IT teams through in order to roll it out if there weren't benefits.

Keith Siegner - *UBS - Analyst*

Thank you very much.

Operator

Matthew DiFrisco, Guggenheim Securities.

Matthew DiFrisco - *Guggenheim Securities LLC - Analyst*

And Mary, good luck on the next stage and definitely enjoy it. We will all miss you. I wanted to ask a couple of questions also a little bit on the topline and a couple of the initiatives.

For one, I'm curious -- the timing of Easter, I know last year, it happened right around on the Final Four weekend. It looks like this year, Easter, which is somewhat tied to college spring breaks, et cetera, falls on the Great Eight and sort of leaves us on -- begins with the Sweet 16 into the Great Eight and then ends with the Final Four the following week.

Is this a net benefit having the timing of Easter not fall directly on the Final Four? Or is the more games a greater impact?

Sally Smith - *Buffalo Wild Wings, Inc. - President and CEO*

I certainly would prefer to have it fall on the Final Four than the Elite Eights -- more games, more viewership, more teams still in it, more fans. So, I don't think it's a benefit, no.

Matthew DiFrisco - *Guggenheim Securities LLC - Analyst*

Okay. Take out -- you gave a lot of detail on that. I'm sorry if I missed it, but did you tell us what it currently stands at as a percentage of sales right now?

Heather Pribyl - *Buffalo Wild Wings, Inc. - Director of IR*

It is about 15.2% of sales in the fourth quarter. And then, Matt, a little bit more clarity on Easter, we are actually estimating a negative 50 basis -- or 40 basis point impact in Q1 for Easter moving into the first quarter, and we're predicting about a 60 basis benefit -- point benefit for Easter moving out of Q2.

Matthew DiFrisco - *Guggenheim Securities LLC - Analyst*

Okay. And that doesn't, though, include Easter, though, also falling on March Madness? Or is that just pretty much Easter the holiday itself? Or have you incorporated that in there as well?

Heather Pribyl - *Buffalo Wild Wings, Inc. - Director of IR*

Easter falling on March Madness as well.

Matthew DiFrisco - *Guggenheim Securities LLC - Analyst*

Okay. Then also just lastly with these tests for -- in all the new mobile order and pay capability on the common everything, how about delivery? What's your thoughts on that these days? And that -- obviously that would open you up to a much broader meal occasion and meal replacement for the at-home occasion a lot more, if you did have delivery with the third parties out there as they are emerging. Have you entertained testing that at all in any regions?

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

Well, as part of our focus on take-out, we are doing a deep dive in a lot of research right now with our guests. So we are going to explore what does our guest want out of their take-out experience with us? And part of that would be to at least ask questions around delivery. And depending on what our guest tells us, we may explore in the future.

Matthew DiFrisco - *Guggenheim Securities LLC - Analyst*

Okay, thank you.

Operator

Jeff Farmer, Wells Fargo.

Jeff Farmer - *Wells Fargo Securities, LLC - Analyst*

Congratulations, Matt and Mary. Obviously sad for us but excellent for you. It's late in the call and at this point there's just a lot of commodity questions I want to ask. So, hopefully bear with me, I'll go through these pretty quickly. But at ICR, one of your restaurant peers was pointing to rising cold storage levels for both chicken breast and chicken wings. He was just suggesting that that could be supportive of chicken complex pricing in coming months. And I'm just curious what your supply chain has seen and whether or not they share a similar view?

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

Yes, when we talked to our suppliers about the rising cold storage data, Jeff, they are indicating it is inventory spoken for ahead of Super Bowl, and that we would expect cold storage to come down pretty significantly after Super Bowl probably.

Jeff Farmer - *Wells Fargo Securities, LLC - Analyst*

Okay. That is helpful. And then just again sticking with commodities, a couple more. So I think you mentioned -- you guided to 10 basis point benefit to cost of goods sold from chicken breast. Did I hear that right? Was it 10?

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

Correct.

Jeff Farmer - *Wells Fargo Securities, LLC - Analyst*

Okay. And that just caught me a little off guard in the sense that I would have expected a slightly bigger number, given essentially where we see chicken prices now, or chicken breast prices now, and to the commodities -- relatively large weighting in your commodity basket. So I'm just curious why you are theoretically not seeing a bigger benefit from breast?

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

Well, it is the chicken breast but also includes all the further processing, such as breading on our tenders and boneless wings. And what you don't know is where our pricing is versus market, and we do have great pricing with our suppliers already on contracts.

Jeff Farmer - *Wells Fargo Securities, LLC - Analyst*

Okay. And then just final question finishing out commodities. I think cheese, soy, I can't remember -- beer, whatever else matters. Is there any other color you can provide? I know again you said everything ex-traditional wings deflationary, but just in terms of thinking about this a little bit more on a commodity by commodity basis, what is the discussion about cheese, soy, and beer as you head into 2016?

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

Well, beer, typically the major vendors take their pricing in the fall, so we'll have updates later throughout the year, as we are in discussions with our suppliers there. And then we are looking for the rest of the commodity basket to be down slightly year-over-year.

Jeff Farmer - *Wells Fargo Securities, LLC - Analyst*

Okay. I'll leave it there. Thank you, guys.

Operator

Paul Westra, Stifel.

Paul Westra - *Stifel Nicolaus - Analyst*

And I'd also like to extend a fond farewell to Mary. Congrats on a really distinguished career and you will certainly be missed. I have one question -- a new question and I guess a follow-up. I guess the new question is, can you talk a little bit about how we should think about the Olympics this summer and maybe how it's going to impact obviously your marketing and as well maybe your sales in the second, third quarter?

Sally Smith - *Buffalo Wild Wings, Inc. - President and CEO*

Yes. Well, it's an extra -- it's extra events. I mean, so that's always good. We don't -- it's really hard to tell because they're -- they do come, I guess, every four years for the summer and interspersed with the winter in between. Winter is a little more problematic in that it's competing with basketball.

We will typically see a local impact, if there is an athlete from a town or city that's coming out to support him, or if someone is going to break a record, seven gold medals, eight gold medals -- you know, they -- we don't plan on any specific advertising around the Olympics at all.

It is as we lead into football season. So, I'm not sure if we are going to have any media buys in August where you might remind people that football is coming to Buffalo Wild Wings. But it's a good thing certainly in that there is a reason for people to go out and watch sporting events.

Paul Westra - *Stifel Nicolaus - Analyst*

So certainly a net positive on the sales trends. And the cost of your ad spend is a little higher but net-net it's still a benefit?

Sally Smith - *Buffalo Wild Wings, Inc. - President and CEO*

Oh, yes. I mean, we build that in. And we've become -- certainly as we've looked at our media, whether it's online or digital or TV or radio, have become very efficient at buying as well.

Paul Westra - *Stifel Nicolaus - Analyst*

Okay. And then just maybe the follow-up just maybe one more time on the 2016 implied near-flattish margin outlook for Brian's question, certainly seems you are going to get leverage on the cost of goods sold and G&A. You're sort of suggesting the labor line may delever most if not all of that prospective benefit.

Is it safe to assume that's a quick synopsis? And I guess where could there be upside if you had to point to -- it sounds like you are baking a pretty significant increase in the health plan perhaps an assumption that might turn out to be better?

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

So I think on the labor side, Paul, if we do see a pickup in same-store sales, you could see some leverage potentially on the year. We do have a few other initiatives that we are looking at, such as server handhelds. We are in 50 restaurants with that. We are looking at an expansion in 2016. We're also looking at labor efficiencies and how we use our labor in restaurants.

So it may be a year that labor may have a little bit of leverage slightly but it also may de-lever really depending on where sales come in. But I think for us, really the biggest component that you will see the difference on versus the prior year is the depreciation and amortization expense.

Paul Westra - *Stifel Nicolaus - Analyst*

Okay. And is there any other sort of maybe one-time impacts from the acquisitions, at least as you lap the first half of the calendar year?

Sally Smith - *Buffalo Wild Wings, Inc. - President and CEO*

No. There really shouldn't be.

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

Not on the expense side. We are expecting for the large acquisition that we did, that a couple more months to ramp up sales to the level that they were at.

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

Yes, I really think the potential upside is regaining momentum on sales.

Paul Westra - *Stifel Nicolaus - Analyst*

Okay, that's helpful. Thank you.

Operator

Jeffrey Bernstein, Barclays.

Jeffrey Bernstein - *Barclays Capital - Analyst*

And congratulations, Mary. Your replacement has some big shoes to fill. A couple of follow-up questions. Just one on that last question related to, I guess, the earnings growth algorithm. And it sounds like you are shifting from earnings growth to EPS growth. Presumably, that's with the share repo now in the mix. And it would seem like that share repo is going to add a few points to the growth.

So just trying to again back into the details a bit. It seemed like there was definitely the lacking of the potential outsized accretion from that franchise acquisition. I don't know if you are able to quantify what benefit that would provide, even if it is in the first half of the year? Because again, as I say, backed out the share repo, it would seem that you were talking about maybe in the mid to high-teens earnings-per-share growth. I'm just wondering what the acquisition might be contributing?

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

Well, we usually don't break that out specifically, but I would -- with an acquisition, particularly one of this magnitude, it typically takes us -- really we expect about one year until we are at what I would call kind of a typical run rate for those restaurants. So, the benefit will come later in the year and it -- again, it really takes a year before you start to capture the full benefit that you expect.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Got it. And then following up on the comp discussion. Wondering if there's any color in terms of regional trends? There's lots of talk around Texas, which I know you have significant exposure there, and I guess the acquired units, some of them are in that market as well.

So can you talk about any regional disparities? In fact, I think you mentioned that there were some opportunities to focus on certain markets where you were lagging. So, those could be tied together perhaps.

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

Well, with respect to Texas, actually we've been pretty pleased with what we've seen there. We had good same-store sales in Dallas and Houston. In Q4 at least, they were at least slightly above the average for Company. And that was even with the Dallas Cowboys not performing all that well.

I think the cowboy restaurants -- well, the acquisition from the summer acquisition -- that's our codename for it -- was -- you know, they've been -- we've been pleased with the progress of the restaurants in Texas. We've got a few smaller markets that have been impacted by the downturn in the oil industry, but really not anything significant in our Texas market.

You look at the acquired restaurants in New Mexico, there we are seeing a little greater impact from the downturn in the oil industry. Franchise side Oklahoma, you are going to see a little impact. But we really have not seen, overall, a significant impact from the downturn in the oil industry.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Got it. And then just my last question on the unit growth outlook. Is it safe to assume that this is now kind of the steady absolute opening run rate for the next few years? Maybe 45 to 50 company and similar number for the global franchise? Or is there any reason to believe that maybe we'd be slowing the growth from here? Seems like your average weekly sales were below comps. So whether there's some reason to believe that we are kind at that tipping point where the absolute number of openings each year should start to decline every year from here forward?

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

Well, I think the Company, for the next few years, we feel we can kind of say somewhere in that -- domestically in that 40 to 50 range. Franchise, I think those opportunities may start to drop off slightly more domestically. I think internationally, you're going to see us continue to gain momentum over the next few years. And I actually think it will do more than replace what we are losing on the domestic side when it comes to franchising.

When you look at the average weekly sales number and the contribution of new restaurants this past year, I think what we saw was, first, more restaurants opening in small markets than the prior year; a few less high-volume opportunity restaurants in very densely populated areas. So we had a few -- slightly fewer high-op high-sale opportunities, more in smaller markets.

And then I do think we had a handful of -- we have a handful of restaurants or so that have opportunities to improve performance. As I look at this year, I think the mix of small market and densely populated markets is about the same as 2015. But I would expect overall performance to be slightly better this year for our new restaurant openings.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Understood. Thank you very much.

Operator

Karen Holthouse, Goldman Sachs.

Karen Holthouse - *Goldman Sachs - Analyst*

Thank you for taking the question. One quick housekeeping. What's the tax rate embedded in 2016 guidance?

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

32% is our current outlook for that.

Karen Holthouse - *Goldman Sachs - Analyst*

All right. And then it seemed like the biggest -- sorry?

Mary Twinem - *Buffalo Wild Wings, Inc. - EVP and CFO*

Sorry, Karen, it's 31% currently.

Karen Holthouse - *Goldman Sachs - Analyst*

All right. And then, it seems like where I sort of had made the biggest mistake of my model was on other operating expense at the store level, where repair and maintenance was called out in the comments. Trying to just get a sense how much of that might relate to the -- if you look at the year-over-year pressure, how much of that might relate to the acquired units? And is there a sort of typical timeframe for going in? And if some things have been put off, getting units cleaned up where we could maybe expect a little bit more normalization there?

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

Quite a bit of it was attributable to the acquired restaurants. It really takes a number of months, I think, to really get all the repairs and maintenance, and get them up to speed. I think we are probably past most of that at this point.

Karen Holthouse - *Goldman Sachs - Analyst*

Great. Thank you.

Operator

And we do have time for one more question. We will take our final question from Brian Vaccaro with Raymond James.

Brian Vaccaro - *Raymond James & Associates, Inc. - Analyst*

Mary, just a quick one. I wanted to ask about the average weekly sales growth in the fourth quarter, and the growth lags same-store sales growth by about 2%, as you mentioned. And mostly it looks like -- it sounds like, due to the impact of new unit openings. And I was just hoping you could give a little bit more color on the performance of the unit openings. Anything that's changed.

It sounds like maybe it's a small market versus large market. But anything that's changed? And then just sort of how we should think about that gap going forward?

Jim Schmidt - *Buffalo Wild Wings, Inc. - COO*

Well, yes -- again, yes. If you looked at 2015, there was significantly more small markets than there had been in 2014. And plus, the opportunity for really opening -- we had more openings on the coast in very densely-populated markets in 2014 than 2015. So, that started to bring the average -- the volumes -- opening volumes down somewhat.

I also do think we had a handful or so of opportunity stores where we could be performing better. So as I look at 2016, I think the blend is similar to 2015 for small market, large market restaurants. I do think we have an opportunity to perform better this year, though, than we did in 2015. Does that help?

Brian Vaccaro - *Raymond James & Associates, Inc. - Analyst*

Yes, thank you.

Operator

And this does conclude our question-and-answer session for today. I will turn the call back to Sally Smith for closing remarks.

Sally Smith - *Buffalo Wild Wings, Inc. - President and CEO*

All right. Thank you, everyone, for joining us on today's call. We look forward to sharing our first-quarter 2016 results with you at the end of April. And if you haven't done it, I hope that you are all planning on filling out your basketball March Madness breakfast, and that you do it at a Buffalo Wild Wings. Thanks so much.

Operator

And this does conclude today's conference call. Thank you again for your participation and have a wonderful day.

Sally Smith - *Buffalo Wild Wings, Inc. - President and CEO*

Thank you.
