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BWLD - Q4 2014 Buffalo Wild Wings Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 05, 2015 / 10:00PM GMT

OVERVIEW:

BWLD reported 4Q14 revenues of $408.9m, net earnings of $20.3m and diluted EPS of $1.07. Expects 2015 net earnings growth to be 18%.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Buffalo Wild Wings fourth quarter 2014 conference call. (Operator instructions) I would like to remind everyone that this conference call is being recorded. I will now to the call over to Heather Pribyl, Director of Investor Relations for Buffalo Wild Wings. Please go ahead.

Heather Pribyl - *Buffalo Wild Wings Inc - IR Contact*

Good afternoon and thank you for joining us as we review our fourth-quarter 2014 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; and Mary Twinem, Executive Vice President and Chief Financial Officer.

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

Before we get started, I remind you that during the course of today's call various remarks we make about future expectations, plans, and prospects for the Company constitute forward-looking statements. Actual results may vary materially from those contained in forward-looking statements based on a number of factors, including but not limited to, our ability to achieve and manage our planned expansion; the sales and other growth factors at our Company-owned and franchise locations; our ability to successfully operate in new markets including non-US markets; success of acquired restaurants; success of investments in new or emerging concepts; the cost of commodities; the success of our key initiatives and our advertising and marketing campaigns; our ability to control restaurant labor and other restaurant operating costs; economic conditions, including changes in consumer preferences or consumer discretionary spending; and other factors disclosed from time to time in our filings with the US Securities and Exchange Commission.

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 detail on the quarter and comment on trends to date in the first quarter. Finally, Sally will share some thoughts on our initiatives and outlooks for 2015. We will then answer questions. So with that, I'll turn things over to Sally.

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

Thank you, Heather, and good afternoon everyone. Buffalo Wild Wings had a great year. We grew our net earnings over 31% in 2014 achieving earnings per diluted share of $4.95. Our 2014 same-store sales increased 6.5% at Company-owned restaurants and 5.6% at franchise locations. With wall-to-wall televisions and big screens, Buffalo Wild Wings remains the place to cheer on your favorite sports team.

Our restaurants deliver memorable game-day experiences to guests no matter what the season. In 2014, we continued to lay the foundation for our ongoing growth. Among the highlights are opening 46 new Company-owned Buffalo Wild Wings restaurants, with nearly all built in our stadia design. Launching Sauce Lab allowing us to capture current flavor trends in our sauces. It gives guests a sense of urgency to come in to B-Dubs and try a new sauce before it's gone.

Completing the staffing of all Company-owned Buffalo Wild Wings restaurants with Guest Experience Captains. These team members engage our guests to deliver the ultimate social experience for sports fans. Deploying tabletop tablets at over 70% of Buffalo Wild Wings with differentiated content by GameBreak, which is our fantasy competitive gaming platform.

Opening 5 franchise locations in Mexico. While still, early we are pleased with how the brand is being embraced internationally. And finally, continuing to build a portfolio of emerging restaurant brands with our investments in Rusty Taco and PizzaRev to support long-term sustained growth.

We are exceptionally pleased with our restaurants' performance in the fourth quarter, and in particular, with our same-store sales results of 5.9% at Company-owned restaurants and 5.1% at franchise locations. As previously communicated, we anticipated higher food and labor costs compared to the prior year. Food costs rose as the cost-per-pound for traditional chicken wings increased over the fourth quarter last year. Labor, as a percentage of restaurant sales, increased primarily due to expansion in states with higher wage rates and staffing of all Company-owned restaurants with Guest Experience Captains. Captains are an essential part of the guest experience business model.

We achieved net earnings per share of $1.07 for the quarter, a slight decline from the prior year as the result of the increased food and labor cost. Mary will now provide additional details on the fourth quarter as well as the first quarter to date. Then I will return to talk about the first quarter and full-year 2015.

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

Thank you, Sally. Our revenue in the fourth quarter reached $408.9 million increasing 19.7% over the same period last year. Systemwide sales at our Company-owned and franchised restaurants were $861.1 million for the quarter, an increase of 15% over the fourth quarter of 2013.

Company-owned restaurant sales for the fourth quarter increased to $384.4 million, a 20.2% increase over the same period in the prior year. Same-store sales at Company-owned Buffalo Wild Wings restaurants were 5.9% for the fourth quarter, compared to 5.2% for the same period last year.

Menu price increases and adjustments taken during the past 12 months at Company-owned restaurants were about 3.4%. We had 53 additional Company-owned Buffalo Wild Wings restaurants in operation at the end of this quarter versus fourth quarter last year, a 12.2% unit increase. This increase includes the acquisition of three franchise restaurants in the third quarter of 2014, 10 franchise locations in the fourth quarter and the sale of one Company-owned restaurant to a franchisee in the fourth quarter.

Average weekly sales increased by 6.7% in the fourth quarter, 80 basis points higher than the same-store sales percentage. The average weekly sales calculation benefited by 80 basis points from newly-opened locations during the last 15 months and by 40 basis points for the closing of older lower volume locations during the last 12 months. There was a 40 basis point decline from locations acquired from franchisees during the last 12 months.

Our loyalty and franchise fee revenue for the fourth quarter grew 13% to $24.5 million versus $21.7 million last year, with an additional 25 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 5.1% in the quarter compared to a 3.1% increase in fourth quarter last year.

Franchise average weekly sales volumes at Buffalo Wild Wings in the United States for the quarter increased by 4.5%. 60 basis points lower than the same-store sales percentage. The average weekly sales calculation declined by 190 basis points for franchise locations open during the last 15 months.

There was a 90 basis point benefit from the closing of older lower volume locations and a 40 basis point increase for franchise locations sold to the Company in the last 12 months.

Although the restaurant operating cost section of our statement of earnings includes the activity of our Company-owned emerging brand locations, these results are not yet material and the following comments on restaurant operating costs pertain to the performance of our Buffalo Wild Wings Company-owned restaurants.

Cost of sales for the fourth quarter was 30.6% of restaurant sales compared to 29.8% in fourth quarter last year, an 80 basis points increase. Traditional wings were $1.90 per pound in the fourth quarter, $0.26 or 16% higher than last year's fourth quarter average of $1.64. Traditional wings and boneless wings were both 21% of restaurant sales compared to 20% in the same period last year. Food and nonalcoholic beverage sales were 79% of restaurant sales in the fourth quarter, up from 77% last year.

Cost of labor for the fourth quarter was 31.1% of restaurant sales, 110 basis points higher than fourth quarter last year. As expected, hourly wages as a percentage of restaurant sales were higher than the prior year, primarily from expansion in states with higher wage rates and from the staffing of all of our Company-owned restaurants with Guest Experience Captains.

In the fourth quarter restaurant operating expenses, as a percentage of restaurant sales, was 15.1%, an increase of 30 basis points from the prior-year, resulting primarily from higher repair and maintenance expense from acquired franchise units.

Occupancy costs were 5.4% as a percentage of restaurant sales, compared to 5.7% last year, leveraging on same-store sales growth. In summary, restaurant level cash flow which is calculated before depreciation, amortization, and preopening expenses, was $68.1 million or 17.7% percent of restaurant sales. This compares to restaurant level cash flow of $63.2 million or 19.8% in the fourth quarter last year.

This 200 basis point decrease in cash flow as a percentage of restaurant sales is primarily a result of the higher cost of sales and labor. Depreciation and amortization for the fourth quarter was 6.6% of total revenue, 10 basis points higher than the prior year. General and administrative expenses were $31.9 million in the fourth quarter or 7.8% of total revenue, compared to $26.6 million or 7.8% in the prior year.

Excluding stock-based compensation of $4 million in the fourth quarter and $4.2 million in the prior-year, G&A expenses for the fourth quarter would have totaled $27.9 million or 6.8% of total revenue compared to 6.6% last year. G&A expenses were higher than our initial estimate for the quarter resulting from higher bonus accruals, IT projects, and expenses related to the acquisition of franchise locations.

Preopening expenses for the quarter totaled $5.2 million versus $5 million in the fourth quarter last year. The $5.2 million includes $269,000 of preopening expenses for future openings that are under construction. In the fourth quarter last year, we incurred $855,000 related to future openings.

Preopening costs for the 22 Company-owned Buffalo Wild Wings averaged $284,000 during the quarter compared to $290,000 for the 19 Company-owned restaurants opened in the fourth quarter last year. A loss on asset disposals for the fourth quarter totaled $458,000 compared to last year of $1.6 million. The loss on asset disposals include the impairment of two Company-owned restaurants and a gain on sales from one Company-owned restaurant.

We reported an investment loss of $189,000 for the quarter compared to investment income of $30,000 in 2013. Our effective tax rate during the fourth quarter was 27.1% compared to 29.8% in the prior year. We recorded a benefit for the workers opportunity tax credit in the fourth quarter. For the year, our effective tax rate was 30.5%.

In summary, our net earnings in the fourth quarter of 2014 were $20.3 million, producing earnings per diluted share of $1.07 compared to $1.10 in the prior year. For the full year 2014 our net earnings grew 31.5% to $94.1 million, producing earnings per diluted share of $4.95.

On our balance sheet on December 28, 2014, our cash, cash equivalents, and marketable securities totaled $112.9 million compared to $65.1 million at the end of 2013. We ended the quarter with $853 million in total assets and $574 million in total equity.

Cash flow from operations was $74.2 million for the quarter. We spent $42.2 million for capital expenditures in the fourth quarter of 2014 excluding franchise acquisitions.

Now I will highlight trends and provide some comments on the first quarter of 2015. For the first five weeks of the first quarter, Buffalo Wild Wings same-store sales are trending at 11.9% at Company-owned restaurants and 11.1% at our franchise locations, as compared to same-store sales trends for the first five weeks in the first quarter last year, of 4.8% at Company-owned restaurants and 2.1% at franchise locations.

For the full first quarter of 2014 our same-store sales were 6.6% at Company-owned restaurants and 5% at franchise locations. Menu price increases and adjustments taken in the last 12 months will be 4.3% for the first quarter. Earlier this week we acquired six franchise locations. We expect to open four Company-owned Buffalo Wild Wings restaurants in the first quarter with one already opened.

As a reference point, in the first quarter of 2014, we opened nine new Company-owned locations. We also expect that our franchisees in the United States and Philippines will open 15 restaurants during the first quarter with four already open.

Our costs for traditional chicken wings for the first two months of the first quarter are averaging about $1.90 per pound. This compares to last year's average cost for the first quarter of $1.36.

In an effort to decrease the range of volatility in our cost of sales from traditional chicken wings, we have entered into modified pricing agreements for about 2/3 of our traditional chicken wings supply. These agreements will be in place by April and effectively narrow the range of cost per pound that we will pay when traditional wings are at historically high and low market prices. The other third of our traditional wings supply continues to be purchased based on the average of the prior month's market price plus the markup for processing and distribution.

Effective in April of 2015 we also secured slightly lower pricing for our boneless wings which will provide a very small improvement in our cost of sale.

We anticipate higher labor costs in the first quarter as a percentage of restaurant sales compared to the prior-year as we completed the staffing of all of our Company-owned restaurants with Guest Experience Captains, incur higher hourly wage rates, and anticipate some inefficiencies in labor from newly acquired and opened restaurants. We estimate that labor cost would -- could be 50 basis points higher than last year's first quarter of 30.5%.

In the first quarter we anticipate that G&A expenses exclusive of stock-based compensation expense, will be $28 million to $29 million. First-quarter stock-based compensation expense is estimated to be $3 million, a decrease of $600,000 compared to first quarter last year. Stock-based compensation expense for the year is estimated to be approximately $16 million to $17 million and will vary depending on the level of net earnings achieved for 2015 as well as for estimates of net earnings in future years.

We estimate our effective tax rate in 2015 will be about 33%. We remain confident in our 18% net earnings growth goal for 2015. For 2015 we estimate that our capital expenditures, exclusive of franchise acquisitions in emerging brand investments, will be $177 million. We anticipate generating cash from operations in excess of our planned capital spending and will be strategic in franchise acquisitions, emerging brand investments, and return to shareholders as options to deploy excess cash to maximize shareholder value.

Please review the risk sections outlined in our SEC filings including our 10K for FY14 which will be filed this month, as well as our Safe Harbor statement for factors affecting our forward-looking statements.

Now, Sally will share some color on 2015.

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

Thank you, Mary. 2015 is off to an excellent start with strong same-store sales results of 11.9% at Company-owned restaurants and 11.1% at franchised locations for the first five weeks.

Sales were particularly strong during the college bowl games including the Buffalo Wild Wings Citrus Bowl and the national championship game. Sunday's Super Bowl between the New England Patriots and the Seattle Seahawks was an exciting game to watch and hungry fans consumed more than 11 million wings from B-Dubs.

Now that the Lombardi Trophy is in Boston, Buffalo Wild Wings is gearing up for the excitement and intense competition that leads up to the NCAA college basketball tournaments. As the official hangout of NCAA March Madness we have got a great game plan to execute.

We signed with a new creative agency and their first media campaign will air nationally during the tournament with a unique commercial for each round. Our menu panel that launches February 9th includes food and beverages inspired by the tournament's four regions. For example, from the East region we will feature Sam Adams Boston Lager with a New York-style pastrami sandwich on a pretzel bun. In addition the regional favorite, Sauce Lab will feature buttery maple, a sweet and savory sauce.

To foster the spirit of healthy competition among our guests, GameBreak will feature four mini games for the NCAA tournament in addition to its traditional bracket challenge. And don't sweat it if you're bracket is busted after the first round, GameBreak will have a backup re-pickems for the Sweet 16 and Final Four.

In 2015, to increase lunch sales we'll launch a nationwide lunch program in April that highlights what guests want from our lunch occasion. Variety, value, and speed. We conducted several tests and believe our Pick 2 approach will help drive traffic during lunch, will optimize in the speed in the kitchen, to ensure guest satisfaction.

Our guest experience technology continues to be installed at more locations. Tabletop tablets are installed in over 70% of all Buffalo Wild Wings restaurants. We will test tablet menu ordering in two of our major markets shortly, with the goal of fully implementing in Company-owned restaurants in 2015. Several hand-held tests were also going well and we anticipate implementation after updated technology is available from our point-of-sale provider in late 2015.

Our 2015 unit development plan remains the same, as discussed in our October earnings call. We expect to open approximately 50 new Company-owned restaurants in the United States and our franchise partners will open an additional 40 locations this year. International franchisees expect to open eight to 10 Buffalo Wild Wings. We plan to open a total of five Company-owned Rusty Taco and PizzaRev locations and both brands will continue their expansion through franchising.

We also anticipate completing 50 remodels at Company-owned Buffalo Wild Wings and our franchisees will complete 40 remodels. 2015 will be an exciting year for Buffalo Wild Wings. We have great plans for food and beverage, new advertising, exciting interactive game facing technology, and coast-to-coast restaurant development. We are building the foundation for long-term sustained earnings growth and we remain confident in our 18% net earnings growth goal for 2015. We thank our team members, our franchisees, and our vendor partners for their passion and their continued dedication to our success. I'll now turn it back to Heather.

Heather Pribyl - *Buffalo Wild Wings Inc - IR Contact*

Thank you, Sally. We'll now to the question-and-answer session of our fourth-quarter earnings call. We'll 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 or follow-up. Jim Schmidt, Chief Operating Officer for Buffalo Wild Wings, will join us for Q&A today. Operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Farmer, Wells Fargo.

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

Thank you and good afternoon. Just right off the bat here, what will your new contract strategy mean for your wing prices in 2015 and over the longer term? I realize that's a hard question answer but can you just give us a little bit more detail on how this is going to work and what it could potentially mean to prices in the near and longer-term?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

We will continue to have volatility in our cost of sales percentage. What the modified pricing agreement allows is that it will narrow the range so when the market gets to historic highs or lows we will have a narrow range of what we're paying compared to that. So it is really to mitigate the impact of being out of what we consider a normal range for wings.

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

Okay. I will leave that there. Just one more on the same-store sales, and you touched on it. In reference to those 11%-plus same stores sales numbers for the first 5 weeks of the quarter, again obvious question, but any type of calendar shift, shorter term driver in play? Any benefit you potentially won't see as you move through the balance of the quarter?

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

Let's see. I am trying to take a look at any calendar.

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

There was an additional of one college football bowl game in the first five weeks as well as one additional UFC compared to the five weeks of the year, and then --

James Schmidt - *Buffalo Wild Wings Inc - COO*

And then in February we are going to -- we won't have the Olympics.

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

Correct.

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

Okay, thank you.

Operator

John Glass, Morgan Stanley

John Glass - *Morgan Stanley - Analyst*

Thank you. I am just trying to frame out how we should think about store margins for overall for 2015. I know wings are probably the biggest unknown factor but do you expect this new pricing protocol to have a real influence in the back half and mitigate any price swings, and particularly does it add to cost if wings are not on those extremes? Also can you sequence through on labor, where minimum wages begin to lap most significantly? I believe it's in the back half where Guest Captains begin to lap -- that seems to be more of a continuum, but maybe if there's a drop off point where it's less burdensome?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

As we look at cost of sales as we go through the year, we do believe that wing prices on the market are going to moderate. We're higher than prior year right now. We do believe that wing prices will go down from here. and that our cost of sales range will return into that 29% to 30% range.

From a labor standpoint, we also will improve as we go through the year. We think there are efficiencies that we can gain and we would look for on an annual basis leveraging overall. From a G&A standpoint we have added capabilities for guest innovation, technology, food and beverage in 2014. We do believe that we will leverage on these investments as we grow throughout 2015.

John Glass - *Morgan Stanley - Analyst*

Is a contract meant to keep COGS between 29% and 30% is that how we should look at it?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

It wouldn't necessarily. We do believe the market itself is going to keep the contracts -- or is going to keep the prices between 29% and 30% as we go through the year. We could be above 30%.

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

Okay. Thank you.

Operator

Jeffrey Bernstein, Barclays

Jeffrey Bernstein - *Barclays Capital - Analyst*

Great, thank you very much. Just two questions as well. First on the very strong comp quarter to date, I'm just wondering if you can share any insight. It would seem like that was probably ahead of your internal expectation, but just looking to confirm that and whether -- I know it's early in the year but I would presume that gives you increasing confidence in that 18% earnings for the full year. Obviously too soon to be touching that full-year guidance but just trying to get a sense for how the start of the year has played out versus your expectation and then I have one follow-up.

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

Sure. It is definitely too early to make any comments about full-year guidance. I think our script did a good job of saying we are comfortable with 18%. There's a lot of ways you can get there. Certainly strong sales to begin with are certainly helpful. We saw very strong results of sales during the college bowl games. Both the championship game and on New Year's Day. So it's always great to start off the year with strong same-store sales. We are going up against higher sales as we continue on through the rest of the first quarter but we're off to a great start

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Jeffrey Bernstein - *Barclays Capital - Analyst*

And then a follow-up, just wondering whether you can get any feedback to date on the tablet menu ordering. I know you have had in test, just wondering what we should expect as you now, sounds like you roll it out by the end of this year, whether it's speed of service color or average check or and anything along those lines, that would be helpful.

James Schmidt - *Buffalo Wild Wings Inc - COO*

We're still, we are early in the test with the tablets. Obviously, tablets do provide you with an opportunity to drive incremental sales through suggestive selling. They can also be a source of revenue through premium gaming that we will be charging for. And they do, I think -- tablets, combined with the ability to order and pay, ultimately provide you with some opportunity for some labor efficiencies and we are factoring that in when we look at saying we think we can leverage on labor for the year and find [some of that].

Jeffrey Bernstein - *Barclays Capital - Analyst*

Great, thank you very much.

Operator

Alex Slagle, Jefferies

Alex Slagle - *Jefferies & Company - Analyst*

I might have missed this but I wanted to follow up on the cost of goods discussion, if you gave any outlook or range for what you expected in the first quarter?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

We stated that we thought while wing prices for the first two months are $1.90 and based on that we do believe we would be over 30% on our cost of sales with the higher wing prices.

Alex Slagle - *Jefferies & Company - Analyst*

Then with the franchise acquisitions late 2014 and early 2015 is there any pressure on the D&A lines that start to delever a little bit after those?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

Just a little bit. We will have some additional amortization in 2015 for the re-acquired franchise rights related to that. It is pretty minimal. It seems to me it's about 10 basis points year-over-year.

Operator

Brian Bittner, Oppenheimer & Company

Brian Bittner - *Oppenheimer & Co. - Analyst*

Question here on the cash flow. You know your operating cash flow is going to continue to grow and CapEx is going to decelerate and you're actually going to start really generating some good free cash flow starting in 2015 and beyond. Just love to hear any thoughts you have on what you're thinking about doing with that cash, possibly initiating a buyback plan, and also how you think about the balance sheet as that cash flow really starts to grow?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

You're correct, Brian, we do believe we're going to generate sufficient cash to fund all of our growth plans in the US and Canada, international, emerging brands as they exist today. We have used cash in the past to fund acquisition of franchise locations. We think there is going to be additional opportunities in 2015 as well. If we have excess cash and we don't need it for our growth strategies we will consider returning it to capital to the shareholders in some way that we think most maximizes value.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay. And, I also want to follow up the sales. The sales acceleration that you are seeing, you definitely talk a lot about the strength during the bowl games and the Super Bowl but are those events really what is driving the acceleration? Are you seeing a more normalized trend similar to 4Q outside those events? Are those events really driving that big of a comp lift for the overall five weeks?

James Schmidt - *Buffalo Wild Wings Inc - COO*

I mean they certainly were a contributing factor but we also took a menu price increase at the end of November. I'm happy to report that we were able to support that increase. We haven't seen any pushback from that increase so I think that certainly helped drive our sales. I think we're executing very well in our restaurants right now and really providing our guests with a great experience. So I think it's a combination of factors that lead us up to that same-store sales number.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Makes a lot of sense. Thank you.

Operator

David Tarantino, Robert W Baird.

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

Good afternoon. Mary, just a clarification on the wing costs contract that you've entered. Would you be willing to share what the cap and the floor is on that contract?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

We would not.

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

It was worth a shot. Thank you. (Laughter) I guess one of my questions about the Guest Experience Captain and now that you have it rolled out what have your learnings been so far in terms of executing that position and do you think there's been a measurable increase in the same-store sales resulting from that extra position in the units?

James Schmidt - *Buffalo Wild Wings Inc - COO*

I think it's always important to remember that our view is the Guest Experience Captains are one component of an integrated guest experience business model. So we really isolate and focus on what just is that one component returning to us, we look at everything we are doing that comes together to create that guest experience. That said, I think year-over-year we've seen a reduction in our guest experience cost, additional labors, we have become more efficient with it. We certainly think it is contributing to the strong same-store sales that we're reporting. Year-over-year, we've seen a 70 basis point increase in our guest loyalty index for systemwide and again we think the model which the captains are part of is contributing to all of that success.

Operator

Keith Siegner with UBS

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Keith Siegner - *UBS - Analyst*

Thank you. Question on the marketing given that we don't have the Olympics this year, we don't have the World Cup. Can you put a perspective for us what was the marketing spend in 4Q and for 2013? How do you see that moving to -- trending into 2015 as we again don't have those two big events. Is it a higher percentage of sales? Is it not? Do you run more promotions? Help us think through those moving pieces, please.

James Schmidt - *Buffalo Wild Wings Inc - COO*

Our marketing is a consistent percentage of our sales. We have an ad fund and we have a consistent percentage that is contributed to our ad fund based on our systemwide sales, so that fund grows year after year just based on our sales increase. What varies during the year sometimes how we allocate those dollars behind what portion of the year, what promotions, that's really where the variability occurs in our marketing and on a year-to-year basis.

Keith Siegner - *UBS - Analyst*

I would like to ask just one quickly to you. It sounds like just to pull all of this together, the acquisition had a drag on a couple of different line items as you outlined. Can you pull that together for us? What was the total drag from the repair and maintenance and other somewhat nonrecurring items in 4Q and how much do we expect to continue into 1Q with the additional acquisitions?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

On the operating expense line, the 10 basis points, that can mostly be attributed to the acquisition piece. We haven't broken it out specifically, it did have some impact in our G&A expenses as well as -- and then there is some of the hourly labor in the fourth quarter that was higher at those locations.

Operator

Will Slabaugh, Stephens

Will Slabaugh - *Stephens Inc. - Analyst*

Congrats on a great year. Wanted to ask you about mobile and about technology. You talked about the tablets; I know you weren't willing to share too much yet given you're not fully rolled out there. But wondering how soon can we think about that being integrated or think about mobile being another piece of that technology bucket, and if you are thinking about loyalty, thinking about mobile pay, thinking about some sort of additional app you could launch and something like that that could be another sort of boost to loyalty and to the same-store sales?

James Schmidt - *Buffalo Wild Wings Inc - COO*

We certainly are taking a look at mobile and pay with your own device. I think we're looking at various solutions. I don't think we will have anything on that though until later in the year. But that is definitely part of our overall technology strategy.

Operator

Greg McKinley, Dougherty & Company

Greg McKinley - *Dougherty & Company - Analyst*

I wonder if you can talk a little bit about your outlook for alcohol mix trends. Those have been down a little bit here in recent quarters. Is that part of your business performing strong and just being mixed down with food being stronger? Any comments or color there would be helpful. And then we can you tell us what wings were as a percentage of COGS for the quarter, please?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

I will do wings for a percentage of COGS first, it was 26.4%.

James Schmidt - *Buffalo Wild Wings Inc - COO*

And I will take the beer. (laughter) We have no concerns with that slight dip in alcohol percentage. We have had strong takeout sales which obviously affects the mix, And then historically we've seen as volumes grow it's not that we sell less beer. It is just the mix tend to shift a little bit with higher -- overall higher volumes. We don't have any concerns. We think we still have a very vibrant atmosphere in our restaurants on game days, in particular our Stadia restaurants and the new design with the centralized bar is being very well received by our customers. We have no concerns about the mix shift.

Operator

Peter Saleh with Telsey Advisory Group

Peter Saleh - *Telsey Advisory Group - Analyst*

Great, thanks. I appreciate the commentary on the wings and the new contract. Could you just talk a little bit about the rest of the basket and what you expect the overall inflation to be in the remainder of the basket?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

We do expect to have increases in a few of our commodities like beef and pork. But they are a very, very small part of our overall commodity basket. Than we have declines, we talked about the small decline in price for boneless wings also, like on cheese and sauces we are seeing declines. So overall when you exclude traditional wings we do believe that our overall commodity basket will be down compared to 2014.

Peter Saleh - *Telsey Advisory Group - Analyst*

Just real quick on the technology implementation, at what point -- will it be this year where you have 100% of the restaurants with all the tablets installed?

James Schmidt - *Buffalo Wild Wings Inc - COO*

I would say we are projecting right now probably the Company will be by April and then the franchise system will be complete before year-end.

Operator

Diane Geissler with CLSA

Diane Geissler - *CLSA Limited - Analyst*

Hello. You had mentioned in your prepared remarks that you were remodeling a certain number of stores, Company-owned I think 50 into the Stadia design and 40 on the franchise side. Can you just tell me what is the average cost of remodel? And then to the extent that you have data on the Stadia designs that were opened in 2014, what your estimate is in terms of how the AUVs would look in a remodeled unit versus an unremodeled unit or the previous design format?

James Schmidt - *Buffalo Wild Wings Inc - COO*

Yes, the remodels vary based upon the level of remodel, we have different tiers. The cost varies between about $300,000 to $600,000. As far as sales, I think for new restaurant opening we obviously also saw some very strong sales for our new restaurants last year and we certainly attribute that in part to the Stadia model. With Stadia remodels we do see same-store sales that outpace the general same-store sales. We do see a lift when we do a Stadia remodel.

Diane Geissler - *CLSA Limited - Analyst*

If I wanted to look at your total portfolio, so the old design versus the Stadia, can you tell me how long you think it will take to remodel whatever piece of the portfolio you think needs to go to Stadia? Is that like a four-year deal, a three-year deal?

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

We take a look at remodels about halfway through the lease term whether it's Company or franchise. Some are more moderate remodels. In 2015, we think that we will have about 41% of our Company locations will be Stadia versus about 19% at the end of this year, at the end of 2014. So significant improvement. I don't have the exact numbers for franchise, but we think about 30% -- about 30 locations for franchise will be of Stadia by the end of this year and remodeled. End of 2015.

Operator

Steve Anderson with Miller Tabak

Steve Anderson - *Miller Tabak - Analyst*

Good afternoon. The reason I'm calling is I wanted to see if you've spoken to suppliers on why you are seeing the broad divergence between your bone-in wing prices and your boneless wing prices. Certainly with corn -- the feed prices being at five-year lows I did not expect wing prices to head lower from this 30%-plus range, or rather as a percentage of total costs in the COGS line to go below 30%.

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

Well, the wing prices had gone up through the end of the fourth quarter, we do believe they're going to moderate as we go through this year as production increases across the United States.

Steve Anderson - *Miller Tabak - Analyst*

Okay, thank you.

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

Boneless wings are a -- are a breast product and certainly chickens are grown for the breast product and as supply increases our suppliers are able to keep pricing relatively flat and as our volume increases we certainly can take advantage of some economies of scale with regard to the boneless wings. Traditional wings are fresh wings. They differ significantly from boneless wings.

Operator

Mark Smith with Feltl

Mark Smith - *Feltl and Company - Analyst*

You took price in November, can you talk about your next opportunity to take price and how much you feel is available in 2015?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

We have a menu refresh tentatively scheduled for October, we haven't made any decision as it relates to menu pricing on that. I will walk through by quarter then what our existing pricing is in effect. In first quarter it is 4.3%, in the second quarter it will go down to 3.6%, third-quarter 3.4%, and then by fourth quarter 1.8% if we don't do any additional pricing with that menu refresh.

Mark Smith - *Feltl and Company - Analyst*

Perfect. And then can you talk about the opt in on Guest Experience Captains in the franchise system, what you are seeing today?

James Schmidt - *Buffalo Wild Wings Inc - COO*

Can you repeat that please? Opt in. We are beginning to roll at all the franchises and will be rolling it throughout this year. We are pacing ourselves and making sure we learn from each franchisee who we work with to initiate it. I would anticipate it will take us a couple years to convert the entire franchise system to the model.

Operator

Andre Strelzik, BMO Capital Markets.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Good evening, everyone. You made a comment about wings going down sequentially from these levels but I think that would follow the pretty normal seasonal pattern. I wondering if you look historically when production, chicken production, is up meaningfully the way it is and likely will be in 2015, you usually see a meaningful decline in wing prices. So I am wondering if you expect lower year-over-year wing prices in 2015 and if you are not wiling to explicitly say that, is there anything either on the supply or demand side that would make this year different and not hold to that historical perspective?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

We do think it's -- that they're going moderate from where they are now and by the end of the year, fourth quarter of 2015 we will be under where we saw fourth quarter 2014 to be. But the pacing on how that happens, we will have to watch the market to know.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Then I'm just wondering why you would enter into the wing contract now, obviously the outlook is you are coming off of pretty inflationary wing prices and the outlook is better going forward so I am just wondering why you would choose to do that now.

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

We have modeled in a declining market into our approach on picking the ranges and again to remind people there still will be volatility in our cost of sales, it's really to avoid the extreme highs in order to do that you do give up some of the extreme lows. We don't believe this year's going to be either one of those. So if wing prices or the market acts as we project our pricing our wings will be very similar to what it is today. From a calculation standpoint.

Operator

Matthew DiFrisco with Buckingham Research Group.

Matthew DiFrisco - *Buckingham Research Group - Analyst*

Thank you. I'm trying to reconcile the labor guidance of 50 basis points of deleverage with the quarter to date five-week trend of 11% same-store sales. I am just curious in what type of same-store sales range are you using where 50 basis points you would still get deleverage. I would think most would think an 11% comp you would get leverage even with the incremental allowance from guest captains. Than a follow-up on the wings, I just wanted to fully clarify here, not to beat a dead horse, with respect to the contract. The catalyst to get lower wing prices is the actual underlying market has to come back from where it is today. It is not necessary the contract that you entered in, it gets increasingly favorable on wing prices in the out quarters, correct?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

Correct.

James Schmidt - *Buffalo Wild Wings Inc - COO*

I think on the labor estimate we are looking at as we finish up the year we have minimum wage increases. We are a little uncertain about exactly what our healthcare costs are going to be as we enter the year. You're still seeing I think some labor costs related -- you know, we just finished the GEC roll so there's -- rollout so there's still some inefficiencies related to that. But also we just completed the acquisition of the restaurants a month or two ago in Orlando and so we typically see some inefficiency. I think what you're seeing there is us looking at those various factors and trying to be realistic about how quickly we can gain efficiencies as we enter 2015.

Matthew DiFrisco - *Buckingham Research Group - Analyst*

And then on the wings?

Mary Twinem - *Buffalo Wild Wings Inc - EVP, CFO, Treasurer*

On the wings, if I understood your comment, it was would we see an immediate decrease in what we're paying in April because of the contract. The answer to that would be no, it would really depend on what the market was. If the market is moderating like we believe it will, the pricing that our wings would be calculated on is very similar to what it is today.

Matthew DiFrisco - *Buckingham Research Group - Analyst*

I guess on your initial response for the labor are then assuming you would have 50 basis points of deleverage even if in a perfect world you stay in double-digit same-store sales in the first quarter?

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

You know, it is hard to tell. I would love to stay in the double-digits same-store sales. Our same store sales will be increasing as we go through the first quarter. We do have some calendar shift things happening. We have got some significant minimum wage increases that will happen that we are still -- besides Minnesota and California that are happening in the first half of the year.

Jim talked a little bit about the guest experience. Just completing that rollout in the fourth quarter and having a little bit of -- still experiencing some higher labor costs. The acquisition of the Orlando group later in the fourth quarter and we just acquired, New York, 6 more locations on Long Island area in New York and that will have some labor conversions along with our normal openings. So it's hard to say. I don't want to say we're not expecting 11% comps but we are going up over higher comps as the quarter continues.

Operator

Robert Derrington, Wunderlich Securities

Robert Derrington - *Wunderlich Securities, Inc. - Analyst*

Yes, thank you. Sally, you had talked in the past about the relationship with Pepsi and the possibility of ultimately seeing some of the recipes and some of the things that Pepsi has been involved with ultimately help your business. Can you give us any update on what we might see in 2015 from that?

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

Sure. We continue to work with Pepsi. I think 2014 was the year to get to know each other and get the product rolled into our system. I just returned from spending some time with Pepsi last week and hot on their list or on ours as well is both leverage and food innovation, and I'm hoping that throughout 2015 we will continue to work with them and be able to report something.

Robert Derrington - *Wunderlich Securities, Inc. - Analyst*

Okay. But nothing you can share this point?

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

No, nothing at this point.

Robert Derrington - *Wunderlich Securities, Inc. - Analyst*

And then second question you also talked about previously the company really going out of its way during the World Cup of 2014 to try to make sure that guests had a really good experience and ultimately you thought it would add some tailwind to traffic trends. Do you think in fact that's what's helping the business? And secondarily, what is your plan for 2015's World Cup, the women's World Cup for FIFA?

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

It doesn't hurt. Certainly, what we were able to do during the World Cup of 2014 was we felt introduce new people to Buffalo Wild Wings as a place to celebrate their game. So it's a combination of things I think. As we went into the fourth quarter we were operating and executing very well as we had during the World Cup, and I'm hoping that given the strong comps and into the first quarter, perhaps they selected to watch their bowl game for the first time at Buffalo Wild Wings. So it doesn't hurt.

Certainly, we are cognizant of the fact that in the second quarter we'll have the World Cup to go up against. We've got some interesting things that we are working on, and again we will have more details on that and probably at the end of our first-quarter conference call as we highlight what happening in the second quarter. We're aware of it and we're working with vendor partners on what we can do to make that timeframe very special and drive traffic in the stores.

Operator

Greg McKinley, Dougherty & Company

Greg McKinley - *Dougherty & Company - Analyst*

My question was answered. Thank you.

Operator

There are no more questions in the queue. I will turn it back over to Sally for additional closing remarks.

Sally Smith - *Buffalo Wild Wings Inc - President & CEO*

Thank you, everyone, for calling in and for your thoughtful questions surrounding our fourth quarter and 2014 earnings call. We will be back to you at the end of April with our first-quarter conference call, and my thanks to the teams out there, our vendors, our franchisees, and our home office and restaurant teams for the great job that they did in completing 2014 and as we move into 2015. Thank you.

Operator

Thank you for your participation, this does conclude today's call.

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