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BWLD - Q2 2014 Buffalo Wild Wings Inc Earnings Call

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OVERVIEW:

BWLD reported 2Q14 revenue of $366m and net earnings of $23.7m or $1.25 per diluted share.

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PRESENTATION

Operator

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

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

Good afternoon and thank you for joining us as we review our second-quarter 2014 results. I am Heather Pribyl, 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 everyone should have access to our second-quarter earnings release. Copies are available on our investor website at 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 market; unforeseen obstacles in developing sites including nontraditional and non-US locations; 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 campaign; and our ability to control restaurant labor and other up-front 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 second quarter. After that, Mary will provide further detail on the quarter and comment on trends to date in the third quarter. Finally, Sally will share some additional thoughts about the remainder of the year. We will then answer questions.

So with that, I will turn things over to Sally.

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

Good afternoon, everyone. We are pleased with our strong results in the second quarter. Same store sales increased 7.7% at Company-owned restaurants and 6.5% at franchise locations. Same-store sales were strong during in the Final Four and continued through the NBA and NHL playoffs. We love it when playoffs series have more games and extend into overtime.

With the 2014 World Cup we had an opportunity to showcase the brand and capture sales from the growing US soccer audience. We marketed Buffalo Wild Wings on radio, social, and digital media as a place to catch the action. We created soccer-themed games and the free Kick Challenge was played over 320,000 times.

Our restaurant teams delivered the ultimate soccer experience to guests during the World Cup. Sales during the tournament were robust, contributing 100 basis points to our Company-owned same-store sales increase for the quarter.

Our cost of sales percentage was lower than last year primarily driven by decrease in the price per pound for traditional chicken wings. Strong sales growth combined with lower costs and leveraging expenses produced net earnings growth of 43.8% and earnings per diluted share of $1.25.

Our first PizzaRev restaurant in Minnesota opened in May. We're pleased with how well the community has accepted the brand and look forward to our second location, opening in late August.

Mary will now provide additional details on the second quarter.

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

Thank you, Sally. Our revenue in the second quarter reached $366 million, increasing 20% over the same period last year. System-wide, sales at our Company-owned and franchised restaurants were $803.4 million for the quarter, an increase of 18.9% over the second quarter of 2013.

Company-owned restaurant sales for the second quarter increased to $343.1 million, a 20.2% increase over the same period in the prior year.

Same store sales at Company-owned restaurants were 7.7% for the second quarter compared to 3.8% for the same period last year. We had a negative 40 basis point impact on the quarter from Easter shifting into the second quarter that was more than offset by our strong sales performance during the NBA and NHL playoffs and the World Cup tournament. Menu price increases and adjustments taken during the past 12 months at Company-owned restaurants were about 2.6%.

We had 41 additional Company-owned Buffalo Wild Wings restaurants in operation at the end this quarter versus second quarter last year, a 10.1% unit increase. Average weekly sales increased by 8.5% in the second quarter, 80 basis points higher than the same-store sales percentage. The average weekly sales calculations benefited by 60 basis points from newly opened locations during the last 15 months and the remaining 20 basis points increase was from the closing of lower, older lower-volume locations during the last 12 months.

Our loyalty and franchise fee revenue for the second quarter grew 16.6% to $22.9 million versus $19.6 million last year with an additional 54 franchise units in operation at the end of the second quarter versus a year ago. Same store sales at franchise locations increased by 6.5% in the quarter compared to a 4.1% increase in the second quarter last year. Franchise average weekly sales volumes for the quarter increased by 6.3%, 20 basis points lower than the same-store sales percentage.

The average weekly sales calculation was 50 basis points lower for franchise locations opening during last 15 months as compared to last year's non-comping group. And this was partially offset by a 30 basis point benefit from the closing of older, lower-volume locations during last 12 months.

The following comments will focus on the performance of our Company-owned restaurants. Cost of sales for the second quarter was 28.2% of restaurant sales compared to 30.4% in second quarter last year, a 220 basis point improvement. Traditional wings were $1.42 per pound in the second quarter, $0.19 or 12% lower than last year's average of $1.61. We estimate that the cost of sales also benefited by about 70 basis points from our July 2013 transition to selling wings by portion.

Traditional wings were 21% of restaurant sales compared to 19% in the same period last year. Boneless wings were 20% of restaurant sales, flat compared to last year. Food and nonalcoholic beverage sales were 80% of restaurant sales in second quarter, up from 78% last year.

Cost of labor for the second quarter was 31.3% of restaurant sales, 10 basis points higher than second quarter last year. Hourly wages as a percentage of restaurant sales were higher as we added guest experience captains at 95 Company-owned restaurants.

In the second quarter, restaurant operating expenses as a percentage of restaurant sales were 14.6%, an increase of 20 basis points from the prior year. The deleverage on operating expense in the quarter is due to higher repairs and maintenance expense.

Occupancy costs were 5.6% as a percentage of restaurant sales compared to 5.9% last year leveraging on our strong same-store sales.

In summary, restaurant-level cash flow, which is calculated before depreciation and amortization, and pre-opening expenses, was $69.6 million, or 20.3% of restaurant sales exceeding our goal of 20%. This compares to restaurant level cash flow of $51.8 million, or 18.1% in the second quarter last year. This 220 basis point increase in cash flow is primarily a result of the lower cost of sales percentage.

Depreciation and amortization for the second quarter was 6.5% of total revenue, 40 basis points lower than the prior year. General and administrative expenses were $30.2 million in the second quarter or 8.3% of total revenue compared to $23.6 million or 7.7% in the prior year. Excluding stock-based compensation of $4.1 million in the second quarter and $3.1 million in the prior year, G&A expenses for the second quarter would have totaled $26.1 million, or 7.1% of total revenue compared to 6.7% last year.

Given our strong financial performance in the second quarter, we accrued additional expenses for incentive compensation plans as compared to a forecast. We also had higher travel expenses for our manager-in-training programs.

We opened six Company-owned Buffalo Wild Wings restaurants during the second quarter, as well as our first PizzaRev location compared to 10 new Buffalo Wild Wings in the second quarter of 2013.

Pre-opening expenses for the quarter totaled $2.2 million versus $2.4 million last year. The $2.2 million includes $725,000 of pre-opening expenses for future openings that are under construction and in the second quarter last year we incurred $533,000 related to future openings.

Pre-opening cost per Company-owned Buffalo Wild Wings averaged $269,000 per new restaurant during the quarter compared to $347,000 in the second quarter last year. We estimate that pre-opening expenses for openings in the third and fourth quarters will average about $291,000.

The loss on asset disposals for the second quarter totaled $1.2 million compared to $229,000 last year as we had seven more remodels in the quarter compared to the prior year.

We reported other income of $235,000 for the quarter compared to an other loss of $84,000 in 2013.

Our effective tax rate during the second quarter was 32.8% compared to 31.2% in the prior year. We estimate our effective tax rate in 2014 will be about 33% based on current tax law and would decrease to 32% if Congress reinstates the employment tax credit.

In summary, our net earnings in the second quarter of 2014 grew 43.8% to $23.7 million, producing earnings per diluted share of $1.25 compared to $0.88 in the prior year.

On our balance sheet on June 29, 2014, our cash, cash equivalents, and marketable securities totaled $101.1 million compared to $65.1 million at the end of 2013. We ended the quarter with $731 million in total assets and $527 million in stockholders' equity. Cash flow from operations was $51.2 million for the quarter, a 4.6% increase over last year.

We spent $29.1 million for capital expenditures in the second quarter of 2014 and we made an additional $3 million equity investment in PizzaRev, increasing our minority interest. We estimate that our annual capital spending will be $146 million which does not include funds that we may spend for emerging brand investments or franchise acquisition.

We also have available $100 million unsecured line of credit that provides us flexibility for future acquisitions and investments. In May we extended the maturity date of the facility to February 7, 2017.

Now I will highlight trends and provide some comments on the third quarter of 2014. For the first four weeks of the third quarter, our same store sales are trending at about 8.2% at Company-owned restaurants and 7.4% at our franchise locations as compared to same-store sales trends for the first four weeks in the third quarter last year of 1.5% at Company-owned restaurants and 1.2% at franchise locations.

The first four weeks of July 2014 include a benefit of 330 basis points from the World Cup.

For the full third quarter of 2013 our same store sales were 4.8% at Company-owned and 3.9% at franchise locations.

In September, we will roll out a new menu and it includes 0.6% of incremental pricing at Company-owned restaurants. The effect of menu price benefit from increases and adjustments taken in the last year is 1.9% for the third quarter and 2.1% for the fourth quarter.

In the third quarter we expect to open 10 new Company-owned Buffalo Wild Wings restaurants, with one of these already opened. One older Company-owned location closed at the end of last week. As a reference point, in the third quarter of 2013 we opened eight new Company-owned locations. In addition, we plan to open our second PizzaRev location in the Twin Cities.

We also expect that our franchisees in the United States will open about 13 restaurants during the third quarter and a franchisee in Mexico will open one new Buffalo Wild Wings.

For cost of sales the traditional wing market has risen slightly since April resulting in our cost of chicken wings for the first two months of the third quarter to average about $1.46 per pound. This compares to last year's average cost for the third quarter of $1.71. As a reminder, the cost per pound that we pay is calculated on the average of the prior month's wing market plus markup for processing and distribution.

July 15 was the anniversary of our rollout of wings by portion and we have lapped the incremental cost of sales benefit in the third quarter.

We anticipate higher labor costs as a percentage of restaurant sales compared to prior year and the second quarter. We are adding guest experience captains at nearly 80 additional Company-owned restaurants in the third quarter. And California and Minnesota's minimum wage increases go into effect this quarter. With these increases in hourly labor, we estimate that labor could increase 50 basis points sequentially over last quarter.

With our growth we're making additional investments that will enable us to remain a high-growth company in the future. These investments are primarily in IT infrastructure and training and development programs. Depending on our same-store sales trends for the remainder of the year, we may not leverage G&A as a percentage of revenue in 2014.

In the third quarter we anticipate that G&A expenses, exclusive of stock-based compensation, will be approximately $27 million. Third-quarter stock-based compensation expense is estimated to be $3.7 million, up $400,000 compared to third quarter last year. Stock-based compensation expense for the year is estimated to be approximately $15 million and will vary depending on the level of net earnings achieved for 2014 as well as for estimates of net earnings in future years.

In summary, we're very pleased with our sales momentum in the first seven months of 2014. We are investing for long-term growth and delivering impressive net earnings growth to Buffalo Wild Wings shareholders. Based on our year-to-date performance, our current same store sales trends, and anticipated food costs and labor expense, we believe net earnings growth will exceed 25% for 2014 and could reach 30%.

Please review the risks section outlined in our SEC filings including our 10-Q for the second quarter which will be filed shortly as well as our Safe Harbor statement for factors affecting our forward-looking statements.

Now Sally will share some additional thoughts about the third quarter and the year.

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

Thank you, Mary. We've had a good first half of the year, and we have more to look forward to and several initiatives we have launched should complete their rollouts at Company-owned restaurants. In the back half of the year, more of our restaurants will operate with the guest experience business model. As Mary mentioned, we added guest experience captains to 95 Company-owned restaurants in the quarter ending with captains at 335 restaurants. We will complete the rollout of captains in Company-owned locations by the end of the year.

Our rollout of tabletop tablets continued and we have 440 Buffalo Wild Wings with tablets including 300 Company-owned and 140 franchised. We are excited to begin testing tablet ordering for our core menu in the third quarter in the Minneapolis market.

Buffalo Wild Wings has some great new menu items on the menu. The B-Dubs Sauce Lab is currently featuring three limited-time flavors including the sweet Salted Caramel BBQ; the citrus-flavored Classic Margarita; and the very hot Ghost Pepper.

Beer is a cornerstone of our brand and July marks the one-year anniversary of the introduction of Game Changer ale brewed by Redhook. To celebrate we had created a Game Changer brat that is featured on our current menu panel.

In addition to our innovative beer program, we are creating unique cocktails including the Mountain Dew Rum Runner and during football we will kick up our Bloody Marys, and we will feature a twist on the classic mimosas called the [beermosa].

Looking ahead, we are preparing for our favorite time of the year, football season. This year we will increase the promotion of fantasy draft parties through our partnership with Pepsi and their affiliation with the NFL. Best of all, guests can enter to win a trip to host their 2015 fantasy draft party at NFL headquarters in New York. Buffalo Wild Wings is the best place to host your fantasy football draft party and to watch all the games with friends. We believe that draft parties kick off a great football season at Buffalo Wild Wings.

On September 2 we're launching our new gaming platform called Game Break. This is a new opportunity for guests to interact with our brand. Game Break will be accessible on the Web at BDubsGameBreak.com and be an app for Android and iOS devices and of course on our tablets at Buffalo Wild Wings. For the football season, Game Break will have three games including an exclusive game for our restaurants featuring real-time questions about football games.

We are actively pursuing franchise acquisitions in 2014 and expect to complete several transactions in the second half of the year. Outside of the United States and Canada, international franchising for Buffalo Wild Wings continues. We expect our franchise partners will open seven to nine restaurants in 2014. To build a globally connected brand, we are looking to add new franchise partners to expand our international presence.

PizzaRev's development in the Southern California market -- continues development in the Southern California market and they are franchising across the United States. We will open our second Company-owned PizzaRev in Minnesota in August and we continue to explore other investment candidates to build a portfolio of diversified brands for long-term sustained growth.

We thank our team members, our franchisees and our vendor partners for their passion and their continued dedication to success.

I will not turn it back to Heather.

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

Thank you, Sally. We will now move to the question-and-answer session of our second-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.

Jim Schmidt, Chief Operating Officer for Buffalo Wild Wings, will join us today for Q&A. Operator, please open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Jeff Farmer, Wells Fargo.

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

I'm just curious, in reference to the tablets, what ordering functionality do you expect to have with these test tablets? And knowing that you haven't really seen them in test yet, I'm curious what your vendors have told you about all the perks, bells, and whistles that these tablets could have. I'm sure they have shared with you some experiences at other restaurant concepts. I'm just trying to get a better sense as to what, ultimately, having this tablet in the restaurant could mean to both sales and margins for you.

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

Initially, Jeff, it is going into test on our tablets with our core menu ordering. Over time we will look at adding additional functionality. And as we get into the test I think later in the year we will be able to give a little more guidance on what we think the impact of the ordering will be. But initially it is going to be our core menu item that we're testing.

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

And just also to add that part of our tablets is not only just menu functionality but it's also some of the other aspects -- the online, the games, the music. And so this is a unique tablet to Buffalo Wild Wings.

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

Okay. Thank you.

Operator

Jeffrey Bernstein, Barclays.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Just one question and one clarification. Just on the question -- in terms of the labor line I think you said the third quarter you would expect to be up 50 bps versus the second quarter which was 31.3. I'm just wondering -- I think you mentioned minimum wage and the captains. Should we assume that both of those pressures therefore continue into the fourth quarter and into early 2015? Or are there additional pricing opportunities? Just trying to get a sense of the labor line as we look to the back half and then into 2015 and then I have that one clarification.

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

Yes, as we look at Q3 we're going to be converting about another 80 restaurants to the guest experience captain in Q3. We will we be finishing off about 20 in Q4.

I would say it takes us at least a few months to really get efficient with the guest experience model. So, I would expect the inefficiencies to continue through Q3 and Q4. I think will be able to give you a little better guidance at the end of Q3, what we expect to see as we enter 2015.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Got it. And otherwise in terms of the guidance for earnings, I think you said that it could reach the 30%. I'm just wondering what are the specific assumptions you are using for the [T] comp and wing costs relevant to current levels. I'm just wondering -- I think you mentioned last quarter that you are assuming both comps and wing cost favorabilities ease. I'm just wondering to what magnitude you are assuming those both eased to come up with that approaching 30%.

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

Well, we have looked at our model at various levels for both the same-store sales and the wing prices and there are multiple ways that we are confident on the 25% level and that we can reach the 30% level. So we will provide additional guidance on the goal for the year when we have our October conference call and we have another quarter underneath our belts.

Jeffrey Bernstein - *Barclays Capital - Analyst*

But is it safe to assume you are assuming both comps flow from these elevated levels and that wing prices go up from here? Or is that not directionally actually accurate.

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

Again, you can run the model with different levels on both same-store sales and wing assumptions and still come up with an answer that has 25% to 30% growth.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Got it. Thank you.

Operator

David Tarantino, Robert W. Baird.

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

Mary, just a follow-up question on the earnings guidance for this year. It does imply fairly modest earnings growth in the second half even if you look at the 30% level for the year. So, I was wondering if you could maybe talk at a high level what the key factors are that are weighing on the earnings growth in the second half relative to the first half. I know labor is likely one of them but also perhaps G&A. But is there anything else underpinning the relatively soft outlook for the second half of the year that you have provided?

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

I think those are the two main things. And then when you look at wing prices we do see them moving up in the third quarter. Not sure how high they will go in the fourth quarter. And we are starting to get closer to what year-over-year levels would have been on wing prices.

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

Great. And then perhaps maybe a clarification on the last question on labor. How much of the increase either sequentially or year over year is related to inefficiencies around this guest captain rollout that might not continue and how much of it is more structural in nature? And in other words, a labor ratio above 31% is historically high for you and just wondering how you think about how that level of labor.

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

As I said, I think we're going to know more as we complete the conversion entering Q4 and we get through to the end of Q4. Obviously, we do hope to gain some efficiencies with the guest experience model. We know we can gain some inefficiencies as we have all the stores converted. But I don't think we're at a point yet where we can give you some clear guidance going into 2015.

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

Okay. Thank you very much.

Operator

Jason West, Deutsche Bank.

Jason West - *Deutsche Bank - Analyst*

Thanks. Just wanted to clarify, Mary, I think you said the outlook assumes you are going to close on some franchise acquisitions in the back half. Just want to make sure I heard that right.

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

Yes, you did. We have got to one agreement signed. We have exercised a few rights of first refusal. We still have a few issues to work through, but our expectation is we may acquire up to 19 franchise restaurants before year-end.

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

And that is not factored into our guidance of 25% net earnings growth that could reach to 30%. We have not made assumptions as it relates to franchise acquisitions in those numbers.

Jason West - *Deutsche Bank - Analyst*

Okay. But I am assuming those would normally be targeted at accretion or do they tend to be breakeven.

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

Right. Depending on their timing, they are probably close to breakeven. We will have some expenses that we take on to put them into our group on a pre-opening style. Not to the extent of a pre-opening, but we will have some training expenses. And depending on how late those transactions would happen in either third or fourth quarter, they will have very little impact from a cash flow standpoint.

Jason West - *Deutsche Bank - Analyst*

Okay, got it.

And then just again on the sales outlook, I think the comparisons are going to get a lot tougher starting in August. Just wanted to get your sense of any moving parts we should be thinking about for the second half -- same-store sales around any timing issues. I think you talked about the pricing, but anything else we should be aware of would be helpful.

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

Yes, when we look at the third quarter, we had the World Cup in July to those incremental year over year. The rest of it is pretty equal year over year. Same amount of UFC fights. There is a Mayweather fight in both this year and last year.

Last year did have incrementally higher same-store sales later in the quarter because they had one extra weeks of NFL compared to 2012. We don't have that happening this year. We do have equal weeks of NFL in the third quarter.

And then the fourth quarter, pretty similar as well. The only small difference is at the end of the year, around Christmas, there's a few extra NFL games on a Saturday and on a Thursday. So I think the end of the year, the last couple of weeks might be just a tad bit -- have the benefit of that compared to prior year. Otherwise the NFL season lines up pretty much the same.

Jason West - *Deutsche Bank - Analyst*

Great. Thank you.

Operator

John Glass, Morgan Stanley.

John Glass - *Morgan Stanley - Analyst*

Just a couple of follow-ups. First you mentioned G&A has some investments in it. Is this a one-quarter investment or is this entering a sustained period where G&A has to be a little higher than historical averages? And can you talk about how much those investments are?

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

The spend will be up in both third and fourth quarter. The main pieces being some IT infrastructure stuff we want to work on in preparation for 2015 as well as developing out some of our training programs and development programs for our team members. So that piece will be in both third quarter and fourth quarter. And the reason for our comment on we may not leverage on the G&A line in 2014, again dependent on what same-store sales end up being for the same period of time.

When we talk about 2015 in our G&A in 2015, that would be a conversation that we can have in October conference call as we look at some what we are looking at for new unit development in 2015 as well as overall net earnings growth goals.

John Glass - *Morgan Stanley - Analyst*

Okay. And then just same question on the maintenance and repair, which was elevated. Was that just some catch up because you have had higher traffic recently? Or are you entering a period where you do have to do more sustained maintenance on the restaurants and that also ends up being more elevated going forward?

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

Yes, maintenance repairs really just the timing. We have a focus on it in the second quarter to get stuff done prior to the NFL season starting out. So that isn't as likely to be something that would continue on.

John Glass - *Morgan Stanley - Analyst*

Thank you.

Operator

Will Slabaugh, Stephens.

Will Slabaugh - *Stephens Inc. - Analyst*

I wanted to ask about pricing. And I appreciate the detail on the back half guidance. I'm wondering from a 2015 or longer-term view that if wings remain in the range that allows you to hit your target of around 30% gross margins without taking more pricing, would you be okay theoretically with only having the 0.6% on the menu as the rest of your pricing rolls off or if you would like to have a little bit more cover than that? I'm just asking for more of a minimum pricing that you'd like to have on the menu going forward.

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

I think we look at pricing every time we have a menu rollout. If wings stay in the range, in the historical range, in the normalized historical range, we certainly wouldn't need pricing to cover that. But I think we have -- there's some minimum wage. There is affordable care, a number of things on the labor line that you may end up taking pricing for that aren't for commodity costs.

Will Slabaugh - *Stephens Inc. - Analyst*

Understood. Thank you.

Operator

Chris O'Cull, KeyBanc.

Chris O'Cull - *KeyBanc Capital Markets - Analyst*

Mary, I just had a follow-up question to the guidance. It sounds like the number of guest captains that you plan to introduce in the third quarter is going to be similar to the second quarter. And you guys also mentioned the additional pricing to help offset some of the minimum wage increases. So I'm struggling to understand why labor is going to be pressured more in the third than in the second.

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

In the second quarter it doesn't have the full effect from the ones that rolled because they did roll throughout the quarter. So we will have the full effect of all of those captain restaurants in the third quarter as well as the additional ones that are being done prior to the NFL season starting.

On the minimum wage in California and Minnesota, we did take menu price increase. We didn't take enough to offset the increases we're going to have in those two states so there is still some ongoing factor as it relates to that.

And then we are seeing when we looked at the third quarter of last year we did have fairly low bonus expense at the restaurant level. We have been incurring higher bonus expense this year. And so we think that is most likely to continue in the third quarter as well.

Chris O'Cull - *KeyBanc Capital Markets - Analyst*

Okay. That is great color.

And then also I think you're reducing the number of hours for captains. Is that still going to benefit the third quarter?

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

As it's currently being rolled, we had really revised our schedule for captains coming into this year. So they are being rolled with the new schedule for the guest experienced captains. I just think we're experiencing some inefficiencies. When you initially convert these restaurants, it takes them a while to get the scheduling proper and also to get the anticipated sales lift that come from the guest experience captain model.

Chris O'Cull - *KeyBanc Capital Markets - Analyst*

Okay, great. Thanks.

Operator

Keith Siegner, UBS.

Keith Siegner - *UBS - Analyst*

Just want to just about the pipeline of new stores. In the second half of last year there were some changes having moved from some higher AUV market to some smaller ones that led to some changes in new store productivity.

Just wondering if you could talk about may be how the back half of this year's pipeline looks in terms of new markets or coastal markets and how that compares to the back half of last year. Thanks.

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

I think last year we had a good, strong year with openings and this year a lot of them on the Company side. We're still opening a lot of our restaurants on the East and West Coast where we typically do see strong volumes and sales volumes. So I would anticipate we will have a pretty strong back half of the year with openings on the Company side.

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

Yes, we would say that that's a little bit different on the franchise openings and the reason why their average weekly volumes are more similar to their same-store sales increases is that they -- when we look at it, they do have a higher proportion of their development is in these smaller markets than it was, say, back in 2012 and early 2013. And so as that class of 2012 is moving into that group we aren't seeing that their delta on average weekly volumes sustain as strong as what ours is.

Keith Siegner - *UBS - Analyst*

Thank you.

Operator

Nick Setyan, Wedbush Securities.

Nick Setyan - *Wedbush Securities - Analyst*

Just a quick clarification and then a question. On the pricing I think you said Q3 is about 1.9%; Q4 is 2.1% in terms of menu price. Now, is that inclusive of the extra 60 bps you expect in September?

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

It does, yes. September 1 is the rollout, so the effect -- we don't get the full effect of that in the third quarter so the reason why it is 1.9% for third quarter then moves up to 2.1% in the fourth quarter.

Nick Setyan - *Wedbush Securities - Analyst*

Got it. And then my question is around some of the strength in the new units. Obviously, we're seeing a couple of quarters now of average weekly sales well ahead of comp growth. And looking forward, is it possible you may reevaluate how you their thinking about your unit growth rates? And maybe -- maybe a different way to ask that question is what is limiting factor in terms of number of units being billed? Why can't we got to maybe north of a 50-type of unit additions per year?

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

I think a couple of things. One, certainly as we continue to build out markets, the easy locations when you go into a new market, the first one, two to five, or whatever, it's pretty clear where you want to be and you -- it lets you go into a market that can ultimately hold 20 locations. You have 20 different spots to choose from, so the chances of finding five are pretty good. As you continue to fill in that market the locations become more limited and you really do spend time waiting for the right one to come.

So that is part of it. And as you look -- we are thinking and looking at 2015 and 2016 from a unit development standpoint that this point. Other than that, we could accelerate perhaps smaller towns' development but, again, our franchisees are just starting that development. We want to make sure that they have -- that the model is right before we continue that.

That and you make decisions about cannibalization or sales transfer: how close do you want to locate to an existing market, especially in a dense area. So those are all things that factor into how many units we want to open at any given point for company and franchise.

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

But we are very comfortable that for the next several years we can sustain the current pace of volume for domestic development.

Nick Setyan - *Wedbush Securities - Analyst*

Thank you.

Operator

Greg McKinley, Dougherty & Company.

Greg McKinley - *Dougherty & Company - Analyst*

Yes, thank you. Wonder if you can just tell us your wing cost as a percentage of cost of sales, number one.

And then secondly, on your testing of the tablets, will there be any accompanying labor test that go along with that in terms of reduced wait staff hours or anything like that that will accompany the technology test?

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

For the wings -- the question on what were wings as a percent of the cost of sales dollars, that amount for the second quarter was 21.3%.

Greg McKinley - *Dougherty & Company - Analyst*

Okay.

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

On the technology, we have a lot of things going into tests and a lot of really positive things happening in guest technology area. We're testing guest ordering through our tablets; we are going to start to test mobile paying through people's own devices. We're going to start testing server handheld.

I think, yes, do I think there is the opportunity as you implement this guest technology to find labor savings? Absolutely. Until we get into test and really start to see how our customer uses it, I think we will provide you with some additional guidance as we move forward. But we certainly believe that opportunity exists.

Greg McKinley - *Dougherty & Company - Analyst*

Okay, thank you. And then is there any color you can make on either regions or markets where you are seeing attractive franchise acquisition opportunities?

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

No, not at this time.

Greg McKinley - *Dougherty & Company - Analyst*

Okay. Thank you.

Operator

Mark Smith, Feltl and Company.

Mark Smith - *Feltl and Company - Analyst*

First, can you talk a bit about new franchisee unit health and how these restaurants are opening? Mary, you talked a little bit about locations and that impacting. But is there anything to read into the average weekly sales delta between your new stores and theirs?

And also, how many of these are Stadia and how that concept is going?

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

Well, the stores that they are opening now are mostly Stadia. They do have some that were in the works prior to the beginning of this year, but any building plans that we received from franchisees after the first of the year had to have Stadia components integrated into them. And I think everybody is excited about that and how the guests are liking than new Stadia look.

I think overall our franchisees [still] have higher average weekly volumes than we do. They have a bigger base of stores out there. And I think that the mix that we are seeing is really a reflection of franchisees that are taking additional territory in smaller markets around their existing territories in order to continue to expand with us.

I don't really read anything into its other than it's just a different style of development in a little bit more in the smaller markets then we have seen compared to two years ago.

Mark Smith - *Feltl and Company - Analyst*

If I can squeeze one more in, alcohol sales as a percent were down a little bit year over year. Do you see a delta between your new stores opening now compared to perhaps 2012 with lower alcohol mix?

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

I think what we have seen is as stores have higher sales volumes you do see the food piece being what is leading, and that especially if they have stronger lunch and midday sales. And so we do think as you have higher volume in your restaurants you're more likely to higher food as a percent of sales.

Mark Smith - *Feltl and Company - Analyst*

Thank you.

Operator

Diane Geissler, CLSA.

Diane Geissler - *CLSA Limited - Analyst*

I wanted to ask about the football season. Two questions -- so one, what are you planning on the draft? Do you have a different sponsor this year? I think you were with Yahoo! last year on your draft day parties.

And then the second question I had is regarding the Thursday night football that is moving from cable to broadcast TV. Wouldn't you expect some lift from that, because I have to believe the NFL is going to shift what they perceive to be as exciting games off of cable onto CBS so that those games will be successful?

If you could just provide some commentary around what you see when you see shows move off of the NFL channel on to broadcast -- like what does that do in terms of traffic flow. That would be great. Thanks.

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

Actually, we are really excited about our fantasy football program this year because with our new partnership with Pepsi we get the opportunity through them to use the NFL logo, feature NFL players, and we have an exciting prize. As part of participating in our fantasy football draft you can qualify for sweepstakes where the winning fantasy football team gets to go and hold their NFL draft party for 2015 at NFL headquarters. So we are really very, very excited about our NFL fantasy football draft package for this year.

As far as the Thursday night football, to be honest with you, we haven't really considered anything different this year related to that. I hope you are right that they put very attractive football games on Thursday night. That certainly will help drive sales, but we really haven't worked anything specific related to that into our projections for the back half.

Diane Geissler - *CLSA Limited - Analyst*

Okay. Fair enough. Thanks.

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Operator

(Operator Instructions)

Matt DiFrisco, Buckingham Research.

Matt DiFrisco - *Buckingham Research Group - Analyst*

I have a question, but I just have a follow-up on that last question. What has been the history when you have had other things come from cable back on to broadcast knowing that broadcast has broader dissemination so more households have it. Are we still in an environment where there is a scarcity value that not everybody has the NFL Network so they come to your places on a Thursday night to catch the game versus everybody having CBS?

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

I don't know that we have anything that we can point to that jumped from cable to broadcast as a comparison. I think that certainly that is one of the things that it is perhaps easier to watch. But again, we think we create great environment where people want to watch the game together. And so if it is a really compelling matchup, I can see it being a benefit for Buffalo Wild Wings.

Matt DiFrisco - *Buckingham Research Group - Analyst*

Okay. And then on the other operating expense line, I missed it so I apologize if you said it, but did you quantify how much -- the infrastructure spending in other operating expenses sounds like it was confined to 2Q. Did you quantify in basis points, how much that was for the maintenance expense?

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

No, we didn't. Yes, we were just up slightly year over year. I think we would have been down just slightly if we had leveraged normally on that line.

Matt DiFrisco - *Buckingham Research Group - Analyst*

Okay, that's helpful. And then in that line, anything incremental on marketing spend? Or on a year-over-year basis was marketing spend in line; growing with sales; was it flat as a relative percent of sales?

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

I believe it was pretty much the same relative to sales. Our national ad fund is a percent of sales, so you don't leverage on that line typically. I think there wasn't anything that stood out year over year.

Matt DiFrisco - *Buckingham Research Group - Analyst*

Okay. Last question. Big picture, just thinking, some of your peers have talked a lot about digital like even Starbucks for instance have talked about digital. And speaking about the cadence of how you look at it as an investment and then becoming up point of leverage, would it be aggressive to think that 2015, as early as 2015, you'd be able to gain the fruits of that investment? Or is there software, pickups of point of sale and catchups on updates on point of sale and things of that nature, and training, that maybe come first before the leverage is produced? Or could it be as soon as 2015 that we see leverage on those points with digital and moving on to ordering on tablets, et cetera?

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

Okay. For digital I'm not sure if you are talking about advertising on digital media or technology.

Matt DiFrisco - *Buckingham Research Group - Analyst*

No, purely talking about digital interface into to your restaurant -- bringing it in as a point of sale, the tablets and the training around that.

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

Technology in restaurants what you are referring to then?

Matt DiFrisco - *Buckingham Research Group - Analyst*

Yes.

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

A lot of what's we're putting into tests now be it guest ordering, mobile pay, server handheld, that will all be rolling throughout 2015 into the restaurant. So, I would assume you may start to see some impact from that in 2015.

But also as we talk about, our philosophy around technology -- it is -- the possible labor efficiencies are really only one small part of our overall technology strategy. And our technology strategy focuses a lot on creating a great guest experience in the things we hope to bring in that area with our premium arcade games; our premium music. I tell you, Game Break has got some very exciting competitive gaming options on it.

So for us, it's going to not just be -- can technology drive some labor efficiencies? It is going to be how it enhances that guest experience, eventually drives revenue over time.

Matt DiFrisco - *Buckingham Research Group - Analyst*

Thank you.

Operator

And we have no further questions. I will turn the call back over to our speakers for any additional or closing remarks.

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

Okay. Again, we're very pleased with our second-quarter performance and hope we have given some guidance as to what we expect for the remainder of the year. It is exciting at Buffalo Wild Wings, and we're looking forward to football. We look forward to updating you on the third quarter and providing a little more information as we go into 2015 on our third-quarter conference call at the end of October.

Thanks again for your great questions, and we will be back to you in three months.

Operator

This does conclude today's conference. We do thank you all for your participation.

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