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BWLD - Q3 2014 Buffalo Wild Wings Inc Earnings Call

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OVERVIEW:

Co. reported 3Q14 revenue of $373.5m, net earnings of $21.8m and diluted EPS of $1.14. Expects 2014 net earnings growth to exceed 28%.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Buffalo Wild Wings third-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 third-quarter 2014 results. I'm 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 third-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, unforeseen obstacles and 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 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 third quarter. After that, Mary will provide further detail on the quarter and comment on trends to date in the fourth quarter.

Finally, Sally will share some initial thoughts on our outlook for 2015. We will then answer questions. So with that, I'll turn things over to Sally.

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

Thank you, Heather, and good afternoon everyone. We are pleased with our results in the third quarter.

Same-store sales increased 6% to company-owned restaurants, and 5.7% at franchise locations. Our strong same-store sales continued during the World Cup tournament, introducing the brand to new guests. Fantasy football draft parties helped maintain the sales momentum through the quarter.

Our restaurant teams were excited for the start of college and professional football and are delivering a great game-day experience to our guests. Our cost of sales percentage was lower than in prior years, driven by a decrease in the price per pound per traditional chicken wings and leverage for menu price increases taken over the last 12 months.

We're nearing completion of staffing of all of our 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 and are an integral component of our guest experience strategy. Our strong sales growth, lower food cost, and a lower effective tax rate more than offset the increased labor cost of the Guest Experience Captains producing net earnings growth of 21.7% and earnings per diluted share of $1.14 in the third quarter.

As part of our capital strategy, we acquired three Buffalo Wild Wings franchise restaurants in Arizona during the third quarter. In October, we completed the acquisition of 10 franchise locations in Florida.

Another acquisition of six units is expected to close in the fourth quarter. Because these transactions are occurring late in the year, we anticipate they will have minimal impact to net earnings in 2014.

Internationally, a fourth franchise Buffalo Wild Wings opened in Mexico. Development is moving along in Dubai, Saudi Arabia, and the Philippines, and we are looking forward to expanding across the globe.

We continue to invest in small emerging brands, and we opened our second PizzaRev location in Minnesota in August. PizzaRev is growing both Company-owned and franchised restaurants. There are now 19 PizzaRevs in California, Minnesota, Texas, and Utah.

We also took a majority position in Rusty Taco, a fast casual concept founded in Dallas, Texas. Rusty Taco serves up fast, affordable, street-style tacos made from scratch with fresh ingredients in a friendly and fun atmosphere. There are nine Rusty Taco locations in Texas, Minnesota and Colorado.

We're excited to be part of the growth plans for both of these concepts. Mary will now provide additional details on the third and fourth quarters.

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

Thank you, Sally. Our revenue in the third quarter reached $373.5 million, increasing 18.3% over the same period last year. Systemwide sales at our Company-owned and franchised restaurants were $812.3 million for the quarter, an increase of 16.2% over the third quarter of 2013.

Company-owned restaurant sales for the third quarter increased to $350.5 million, an 18.5% increase over the same period in the prior year. Same-store sales at Company-owned Buffalo Wild Wings restaurants were 6% for the third quarter, with sales being strong throughout, compared to 4.8% for the same period last year.

Menu price increases and adjustments taken during the past 12 months at Company-owned restaurants were about 1.9%. We had 44 additional Company-owned Buffalo Wild Wings restaurants in operation at the end of this quarter versus third quarter last year, a 10.6% unit increase.

Average weekly sales increased by 7.3% in the third quarter, 130 basis points higher than the same-store sales percentage. The average weekly sales calculation benefited by 110 basis points from newly opened locations during the last 15 months. The remaining 20 basis point increase is from the closing of older, lower-volume locations during the last 12 months.

Our royalty and franchise fee revenue for the third quarter grew 14.1% to $22.9 million versus $20.1 million last year with an additional 47 franchise Buffalo Wild Wings units in operation at the end of the third quarter versus a year ago. Same-store sales at franchise Buffalo Wild Wings restaurants increased by 5.7% in the quarter compared to a 3.9% increase in third quarter last year.

Franchise average weekly sales volumes at Buffalo Wild Wings in the United States for the quarter increased by 4.5%, 120 basis points lower than the same-store sales percentage. The average weekly sales calculation was 160 basis points lower for franchise restaurants open during the last 15 months. There was a positive 40 basis point impact from the closure of older -- closing of older, lower-volume locations during 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, their results are immaterial, 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 third quarter was 29.1% of restaurant sales compared to 30% in third quarter last year, a 90 basis point improvement.

Traditional wings were $1.50 per pound in the third quarter, $0.21 or 12% lower than last year's average of $1.71. Traditional wings were 21% of restaurant sales compared to 20% in the same period last year.

Boneless wings were 21% of restaurant sales, flat compared to last year. Food and non-alcoholic beverage sales were 80% of restaurant sales in the third quarter, up from 79% last year.

Cost of labor for the third quarter was 31.9% of restaurant sales, 160 basis points higher than third quarter last year. Hourly wages as a percentage of restaurant sales were higher as we added Guest Experience Captains at 84 Company-owned restaurants, incurred minimum wage rate increases in California and Minnesota, and we recorded higher bonus expense.

In the third quarter, restaurant operating expenses as a percentage of restaurant sales was 14.9%, a decrease of 20 basis points from the prior year, resulting from the lower pay-per-view fees and leveraging on same-store sales. Occupancy costs were 5.6% as a percentage of restaurant sales compared to 5.8% last year, leveraging on same-store sales growth.

In summary, restaurant level cash flow, which is calculated before depreciation, amortization and preopening expenses, was $64.6 million or 18.4% of restaurant sales. This compares to restaurant level cash flow of [$65.3] million or 18.7% in the third quarter last year. This 30 basis point decrease in cash flow is a result of the higher cost of labor partially offset by lower cost of sales.

Depreciation and amortization for the third quarter was 6.6% of total revenue, 20 basis points lower than the prior year. General and administrative expenses were $27.8 million in the third quarter or 7.4% of total revenue, compared to $24.7 million or 7.8% in the prior year.

Excluding stock-based compensation of $2.6 million in the third quarter and $3.3 million in the prior year, G&A expenses for the third quarter would have totaled $25.2 million or 6.7% of total revenue compared to 6.8% last year. G&A expense in the third quarter was lower than we estimated due to the timing of Management training and several technology initiatives.

We opened nine company-owned Buffalo Wild Wings restaurants during the third quarter and closed one older, lower-volume location. This compares to eight new Buffalo Wild Wings locations opened in the third quarter of 2013. In addition, we completed one acquisition of three franchise restaurants in the third quarter.

Preopening expenses for the quarter totaled $3.6 million versus $3 million last year. The $3.6 million includes $1.4 million of preopening expenses for future openings that are under construction, and in the third quarter last year, we incurred $1.3 million related to future openings.

Preopening costs for Company-owned Buffalo Wild Wings averaged $314,000 per new restaurant during the quarter compared to $268,000 in the third quarter last year. We estimate that preopening expenses for openings in the fourth quarter will average about $285,000.

The loss on asset disposals for the third quarter totaled $1.4 million compared to last year of $902,000. The loss on asset disposals includes the impairment of one Company-owned restaurant. We reported an other loss of $236,000 for the quarter compared to other income of $383,000 in 2013.

Our effective tax rate during the third quarter was 26.9%, compared to 30.4% in the prior year. We recorded the benefit for a large California tax credit in the third quarter, and this aided our quarterly earnings by $0.08. We estimate our effective tax rate in 2014 will be about 31.5%.

In summary, our net earnings in the third quarter of 2014 grew 21.7% to $21.8 million, producing earnings per diluted share of $1.14 compared to $0.95 in the prior year. On our balance sheet on September 28, 2014, our cash, cash equivalents and marketable securities totaled $100.3 million compared to $65.1 million at the end of 2013. We ended the quarter with $767 million in total assets and $551 million in total equity.

Cash flow from operations was $44.4 million for the quarter. We spent $40.5 million for capital expenditures in the third quarter of 2014, and we estimate that our annual capital spending will be $146 million exclusive of our investments in emerging brands and franchise acquisitions.

Now I will highlight trends and provide some comments on the fourth quarter of 2014. For the first four weeks of the fourth quarter, Buffalo Wild Wings same-store sales are trending at about 5.4% at Company-owned restaurants and 5.1% at our franchise locations as compared to same-store sales trends for the first four weeks in the fourth quarter last year of 5.3% at Company-owned restaurants and 3% at franchised locations. For the full fourth quarter of 2013, our same-store sales were 5.2% at Company-owned and 3.1% at franchised locations.

In the fourth quarter, we expect to open 22 Company-owned Buffalo Wild Wings restaurants, two of which are relocations of three older locations that will close. As a reference point, in the fourth quarter of 2013, we opened 18 new Company-owned locations and closed one restaurant. We also expect that our franchisees in the United States and Mexico will open 18 restaurants during the fourth quarter.

For cost of sales, the traditional wing market has risen significantly since July, resulting in our cost of chicken wings for the first two months of the fourth quarter to average about $1.88 per pound. This compares to last year's average cost for the fourth quarter of $1.64. The current market rate for wings is $1.98 per pound.

We anticipate higher labor cost in the fourth quarter as a percentage of restaurant sales compared to the prior year as we complete our implementation of the Guest Experience Captain position and several states have higher minimum wage rates. We estimate that labor costs could be 130 basis points higher than last year's fourth quarter of 30%.

Given the trends and wing prices and known raises and certain minimum wage rates, we are increasing menu prices an average of 3% at the end of November. The effective menu price benefit from this and other increases and adjustments taken in the last 12 months is 3.4% for the fourth quarter.

In the fourth quarter, we anticipate that G&A expenses exclusive of stock-based compensation expense will be approximately $26 million. Fourth-quarter stock-based compensation expense is estimated to be $3.7 million, a decrease of $500,000 compared to fourth quarter last year. Stock-based compensation expense for the year is estimated to be approximately $14 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.

With our results for the first nine months and our outlook for the fourth quarter, we believe net earnings growth will exceed 28% for 2014. Please review the risk sections outlined in our SEC filings including our Form 10-Q for the third 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 color on our fourth quarter and our initial thoughts on 2015.

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

Thank you, Mary. We're looking forward to finishing the year with strong sales.

We significantly increased the number of Fantasy Football draft parties held at our restaurants compared to last year and believe they have kicked off a great football season at Buffalo Wild Wings. In the fourth quarter, we will promote holiday gift card sales in restaurants, and guests who purchase $25 gift cards will receive a Blazin' bonus card.

Our menu panel that launches on November 3 features items great for fall days and football. We have two pumpkin-flavored cocktails: an old-fashioned and a martini.

Chipotle Cherry Sting will be the next limited-time sauce from our Sauce Lab. The Sauce Lab has been popular with guests and we will continue this program in 2015. Through our partnership with Pepsi, we're creating Mountain Dew cocktails and we're exploring codevelopment on food products.

We're also making investments beyond food and beverage innovations to deliver long-term sustained growth. We will complete the rollout of Guest Experience Captains at Company-owned restaurants in the fourth quarter.

Captains are essential to engaging with our guests, making them feel welcome and customizing their experience, ensuring that Buffalo Wild Wings is their first choice for sports and entertainment. Captains help promote the new technology in our restaurants which we believe encourages guests to stay longer, visit more frequently and order more. In addition, Captains actively engage in their communities with local store marketing efforts.

Our new Guest Experience technology continues to be installed at more locations, adding entertainment options and empowering our guests to create their own ultimate social experience for sports fans. By year end, tabletop tablets will be at 75% of the Buffalo Wild Wings systems including nearly all Company-owned locations.

GameBreak is a unique way we can connect with our guests inside and outside our restaurants. Guests can play the competitive fantasy games through the GameBreak app on their mobile devices, online or on tablets at B-Dubs. And to increase awareness, GameBreak will be featured on the back panel of our Buffalo Wild Wings-inspired Ruffles potato chips at retail locations next month.

We're thrilled to be the title sponsor of the Buffalo Wild Wings Citrus Bowl to be held on January 1 in Orlando, Florida, and we are the official hangout for New Year's Day football. Guests don't have to be at the game to be part of the excitement. At our restaurants, we'll have GameBreak Live, a big day of play where we will have big games, big questions and big prizes for guests.

We know our guests' needs vary by occasion and believe in offering guests the choice of ordering directly on the tablet or from servers. By enabling both guests and team members with technology to place orders, we will create a more engaging and efficient experience.

Our test of the tablet menu order and server handheld devices are underway. Our goal is to fully implement tablet ordering in 2015 and to begin the rollout of server handhelds next year as well.

We're in discussions with multiple partners regarding payment methods including mobile pay and will begin testing several options in the first half of 2015. The Buffalo Wild Wings loyalty program is under design, and we anticipate a pilot in late 2015 with a systemwide launch in 2016.

In 2015, we look to bring Buffalo Wild Wings to more hungry sports fans, building toward our goal of 1700 units in the United States and Canada. We expect to open approximately 50 new Company-owned restaurants in 2015, representing 10% of Company-owned unit growth.

Our franchise partners in the United States anticipate opening [840] new Buffalo Wild Wings locations next year. International franchisees expect to open eight to 10 Buffalo Wild Wings.

We also plan to open a total of five Company-owned Rusty Taco and PizzaRev locations, and both brands will continue their expansion through franchising. Our focus remains on providing Buffalo Wild Wings guests with great tasting food and beverage in an engaging sports viewing environment. And we believe our planned unit growth and ongoing operational diligence, we can achieve 18% net earnings growth 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*

Thank you, Sally. We will now move to the question-and-answer session of our third- quarter earnings call. We will end the call promptly at the top of the hour.

(Caller Instructions)

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

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Jeff Farmer, Wells Fargo.

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

Great. Thanks. Mary, in building your 2015 EPS growth forecast, does your menu pricing scale with wing inflation? I guess what I'm trying to say is can we assume that you would look at additional menu pricing above the 3% level or so you're taking in November if you were to see wing inflation above and beyond what you are currently forecasting as we get deeper into 2015? So again, bottom-line, are you up for additional menu pricing if necessary, and is that how the model currently flexes?

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

Well, we would look at menu pricing in 2015 based on the facts at that time. I will walk through what our effective menu pricing will be by quarter end 2015 based on the November menu price increase that we're going to be taking.

Our first quarter 2015 menu price in effect will be 4.3%, second quarter is 3.6%, third quarter is 3.4%, and by fourth quarter, we would be down to 1.8%. So we will look at the fact pattern at the time and 2015 as we have different opportunities to update menus and make a decision at that time on whether we would take additional menu pricing.

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 from the wing price side, it seems like the recent spike has caught a lot of people off guard.

I'm just wondering if you can talk a little bit about what you learned about the drivers of the spike and what you're learning from your suppliers and whether or not there's any potential to maybe contract more than what you've done in the past, which has been obviously very limited. And whether or not with the pricing you're currently assuming, whether we should still believe it reasonable on 2015 to be in the high 20%s or 29% range, below that 30% that you talked about as a long-term.

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

Well, let's talk through where wing prices are now. So for the first two months of the fourth quarter, we will be averaging about $1.88. The current market's at $1.98.

Based on that, we do believe that the fourth quarter our cost of sales will be over 30%, and then depending on what the wing market does between now and the end of November, we could be approaching 31% cost of sales. It really is hard to predict what wing prices will be over the long term.

What we do know is what our current price is into our locations and then the current market being at $1.98. What industry sources are suggesting is that the market will remain high through the rest of 2014 and perhaps into the beginning of 2015. So based on that, as well as the minimum wage increases that we talked about, that is the impetus for us taking our menu price increase at the end of November.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Is there contracting potential into 2015, and is the goal to still keep it at that 29% or sub 30% perhaps for 2015 as a percentage of sales?

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

We do talk with our suppliers all the time. We've not found a long-term price that would be favorable to the Company, so we are floating with the market on a monthly basis and see that continuing into 2015.

As it relates to our chicken breast meat contract, that is contracted through the end of March 2015. We do not -- have not entered into a new contract yet at this time.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Thank you.

Operator

Keith Siegner, UBS.

Keith Siegner - *UBS - Analyst*

Mary, just to follow-up on that last one on the chicken breast contracts, could you help us get a sense for maybe where is the price of that contract, say versus where chicken breasts are right now? So for example, if you were to re-up that contract or even roll off that contract and move the floating prices for chicken breasts, what are we looking at? Because I don't have a good frame of reference for where the pricing is set in the current contract. Thanks.

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

Yes. We don't give separate guidance on what we pay per pound on our boneless wings or on our other breast meat stuff. The market, since we did contract at year ago, has fallen slightly. So we are hopeful that there will be a little bit lower price than 2015, but that's a wait and see until we have the contract on.

Keith Siegner - *UBS - Analyst*

Thanks.

Operator

John Glass, Morgan Stanley.

John Glass - *Morgan Stanley - Analyst*

Thank you. On the guidance for 2015, does that include those 19 units, and could you walk through your view on how those build up to accretion?

Our quick look at it would suggest it's a pretty material addition to the earnings growth for 2015. So are they included in it and how much of a benefit are they giving you in 2015?

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

Yes. 19 stores that we intend to acquire, so 13 of them already acquired and then six that pending transaction. It does consider them into 2015.

What we do find is that in the first year after acquisition is really an adjustment year for the restaurant. Typically we run pretty high repairs and maintenance expense, pretty high training expense. And as the year progresses, then those locations come closer to the run rate that we would have from our other company-owned locations. So the accretion level in the first year is not as high as what you would anticipate it being in the second and third year as it acts more like the rest of our company base does.

John Glass - *Morgan Stanley - Analyst*

But there is some benefit, right? We figured it was a penny per store per year, and you're saying it's not nearly that high in the first year but it is something -- it is somewhat accretive.

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

Yes. Not in the first year, but it's still accretive. Correct.

John Glass - *Morgan Stanley - Analyst*

Got you. Okay. Thank you.

Operator

Brian Bittner, Oppenheimer.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Thank you. When I think about the wing price dynamics, if they stay where they are today for the first quarter and then you get the full effect, the full quarter effect of the menu pricing that you talked about, would we still be seeing 30%-plus college margins or would it come down below 30%?

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

It wouldn't come down below 30% if the market is staying close to the $2 mark.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay. So in your 2015 guidance then, are you assuming that we come down throughout the year to a more normalized wing price? Is that in the assumption?

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

When we did our 2015 guidance, being at -- achieving net earnings growth of 18%, we do look at various combinations of same-store sales, wing prices, labor cost, G&A expense levels. And when we look at those combinations, it allows us to achieve 18% net earnings growth. Obviously based on where we end 2014, as well as updated outlook on where same-store sales begin the year and where wing trends are at our February call, we will be updating our outlook for 2015 at that time.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay. But at this moment then, it's probably safe to assume that you're going to get more earnings growth in the second half within your internal assumptions than in the first half of 2015?

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

I would say as an overall thought, is that wing prices in 2015 will be higher than they have been in 2014 on an annual basis. And so we would lose some of our cost of sales margin, and we would show some improvement in efficiency and leveraging on our labor.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay. And so now that the Guest Experience Captain is fully rolled, that line item -- the labor line item in 2015 on a reasonable same-store sales assumption, you think you will be able to leverage that?

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

Yes. Both from efficiency as well as from leveraging on same-store sales and menu price increases.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay. Thank you.

Operator

Will Slabaugh, Stephens Incorporated.

Will Slabaugh - *Stephens Inc. - Analyst*

Yes. Thanks guys. I wanted to ask about G&A. It came in quite a bit below where you guided. And I know you mentioned some training and tech initiatives that fell into a different quarter. Is that something that we may incur in 4Q, or is that going to be a 2015 event?

And then the larger question is we have G&A up as a percentage of sales this year despite the big sales increases. I know that that's a big investment year for you. Want to look into 2015, should we be able to see G&A come down as a percent of sales next year as you mentioned labor might as well?

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

So as it relates to the first part of your question, we did have some IT infrastructure initiatives that we were working on in the third quarter that didn't get as far along as we thought they would. We do anticipate that we will spend that money in the fourth quarter, and it is included in the $26 million that we are estimating for the fourth quarter for G&A. As it relates to whether we leveraged on our G&A in 2014 and 2015 because of the initiatives that we have going on as well as our investment in international and emerging brands and Guest Experience, it really is dependent on the level of same-store sales we achieved both this year and next year on whether we have leveraging or not.

Will Slabaugh - *Stephens Inc. - Analyst*

Thank you.

Operator

Alex Slagle, Jefferies.

Alex Slagle - *Jefferies & Company - Analyst*

Thanks. Just a question on development and if you could make any comments toward what portion of your 2015 pipeline is on the coast and if there's any regions out there in your view becoming more saturated where it's harder to find good sites to pursue?

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

I don't know the exact percentage of what's on the coast. We still have tremendous opportunity in California and in certainly New England and Florida. So my guess is that's still a fair portion of is on the coast. I think as you continue to build out, having that discipline around what sites you approve and go forward with is very important. And we certainly will take our time.

I've got a great real estate team, and they're always looking for sites to do an analysis of how it might impact stores in the area. We do expect in some cases we will have some cannibalization, and we analyze that very carefully so we don't have an overextension of that.

But no, we're still pleased with our opportunities to continue to develop and to continue develop. I think 50 company stores in 2015 is a good strong number. It's a 10% increase in unit growth, and franchisees will open 40 units. So again, still a lot of territory left to develop in the United States.

Alex Slagle - *Jefferies & Company - Analyst*

Thank you.

Operator

Matt DiFrisco, Buckingham Research.

Matt DiFrisco - *Buckingham Research Group - Analyst*

Thank you. I just had one question about the commodity market and your comment on that and then also just a clarification if I heard you right about the Guest Captains.

First on the commodity market, is there anything out there right now on the wing prices that would make you think that 1Q possibly could come down or that you're seeing historically? I think 1Q has averaged 8 of the last 10 years higher than the fourth quarter. So I would think to be conservative you would be looking at $2 in the first quarter when they are peak should happen then. Or is there anything telling you now that the peak could be happening earlier?

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

Yes. Other than people in the industry saying that the market will remain high into the beginning of next year, I'm not sure -- I don't think we have a more exact comment on when that peak might be. I wish it was today. But that might not be the case.

Matt DiFrisco - *Buckingham Research Group - Analyst*

Understood. And then just on the Labor Captains, within the guidance area, I thought you said within that 130 basis point deleverage in the fourth quarter for labor, that there's more stores receiving Guest Captains or I'm confused. Are you completely done? Or are you still rolling out in the fourth quarter?

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

We are still rolling out in the fourth quarter. At the end of third quarter, we had about 440 company restaurants with the Guest Experience Captains. So we're rolling it out to the remainder in the fourth quarter. We'll be done just about the end of November with the roll for the company restaurants.

Matt DiFrisco - *Buckingham Research Group - Analyst*

And then with that deleverage, that 130 basis points was 160 last quarter. Presumably in a world where you're doing 5% and 6% comps, you would have to surpass the 5% to 6% comp in the first half of 2015 to get leverage on those stores as well, otherwise you're going to be seeing labor deleverage in the first half of 2015 attributed to the Guest Captains that received in the second half, correct?

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

No. I think a couple of things. We do expect labor to leverage. A lot of that has to do with inefficiency of scheduling as you are rolling these out to new stores.

So again, we've had close to 50% of the system roll out in the second and third quarters. Significant numbers. Or through 2014.

And so you've got some inefficiency of scheduling. Understanding what the right number of hours are to have. And it takes probably 3 to 5 months to get fully up to speed with that position. So once we start lapping that, we do expect leverage on just normalized same-store sales.

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

And there also is training dollars involved when we introduce Guest Experience Captains to a restaurant, so that expense reflects more than just the ongoing get labor for the Guest Experience Captains.

Matt DiFrisco - *Buckingham Research Group - Analyst*

So, on sequential basis relative labor, we shouldn't really look at the fourth quarter as a model for the first quarter of 2015, I could be meaningfully below that in the first quarter 2015?

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

We'd like to start making the march down. I don't know what meaningful is, but we expect that quarter over quarter in 2015 we'll be working on improving.

Now you will still have some that rolled out in October and November this quarter that will affect the first quarter of 2015 as we become efficient. But we would expect that we will continue to work that number down as we go through 2015.

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

And you need to remember also that there are other headwinds related to labor right now. You've got minimum wage increases. They've got more of those go into effect the first of the year. Plus we do think there will be some incremental costs related to the effectiveness of the Affordable Care Act.

Matt DiFrisco - *Buckingham Research Group - Analyst*

Understood. Thank you.

Operator

David Tarantino, Robert W. Baird.

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

Hi. Good afternoon. My question really relates to the pricing actions that you're taking, and I just wanted to maybe ask your perspective on how much ability do you think you have to push pricing higher? And would you expect to see an offsetting impact on the traffic? And the context of the question is it seems like you're taking a fairly aggressive posture on pricing given where wing costs are, and I'm just wondering what you think the potential offset to that could be related to the traffic side.

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

Yes. I think right now we give a lot of thought and consideration to a price increase before we take it. And so we do think that we can sustain traffic pretty well even with this price increase. I mean we've seen some very strong same-store sales.

Our guest satisfaction -- our guest loyalty index is high right now, so we do think that we can support the price increase. Might there be a little bit of traffic reduction? Maybe. But we don't believe it would be significant.

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

Got it. Great. And then I think this got asked earlier, but just in that context, would that make you maybe a little bit more patient as you think about future price increases?

So I think historically you've taken some pricing around the January and February timeframe pretty consistently. Would you forgo pricing in that timeframe and maybe be more patient as you move throughout 2015 to see what the impact of this price increase is?

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

Yes. We would not anticipate taking another menu price increase until we roll -- we'll be rolling a new menu in the July timeframe. And we would not anticipate any additional price increase until that time.

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

Great. That's helpful. And then Mary, what's the right tax rate to use for 2015 in our models?

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

Hard to know. Depending on whether or not the work opportunity credits end up getting renewed or reinstated, it would probably be closer to the 33% range without them. And obviously we have a benefit this year because of the California tax credits, and we wouldn't have that repeating next year as well.

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

Okay. Thank you very much.

Operator

Andrew Strelzik, BMO Capital Markets.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Hi. Thanks for taking my question. Just looking at the balance sheet, wondering how you guys are thinking about capital allocation and potentially returning cash to shareholders. In the past you talked about wanting to see excess cash, and I'm wondering if you might begin to see that in 2015.

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

We do generate sufficient cash to fund our growth plans in the United States and Canada, international, our emerging brand as well as to fund the acquisition of up to 19 franchise locations this year and hopefully more in 2015. And we have stated that longer-term, if we do have excess cash that we don't need for our growth strategies, that we are open to considering share repurchases or cash dividends.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Great. Thank you.

Operator

Greg McKinley, Doherty.

Greg McKinley - *Dougherty & Company - Analyst*

Yes. Thank you. Wondering if you could just refresh our memory on the current functionality of the tablets in the stores, and then what the staging is for adding functionality either later this year or into 2015. And then maybe comment on the role that that will play perhaps in labor leverage next year. Does that give you an opportunity to pull some waitstaff hours off the floor later in the year as you add in ordering and guest payment features, et cetera?

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

Yes. We've got a lot going on right now with our tablets. The tablets as they are in the restaurants right now, we have some basic arcade games. And of course and that's how you access Buzztime, play trivia and the online poker. We've got a lot in test, and we are testing right now paid arcade and paid music in our Phoenix market. We hope to roll that early in 2015.

We have just gone into test with menu ordering. Our core menu in one of our restaurants in Minneapolis, and we hope to roll that also in the middle of 2015. We're adding -- I think GameBreak is actually going to be available on our tablets in early November, so that's being added.

Other functionality that we plan to add in 2015 would be a special device connection where you will be able to communicate directly with your Guest Experience Captains. So you can -- would be able to communicate and they would be able to communicate with guests, so that functionality will be coming. We are also in test right now for server handhelds in one of our restaurants in Minneapolis.

I think it's still early, but the initial reaction of our guests on menu ordering is they like the option of using the guest experience technology. I think we have a very tech-savvy customer, so we expect that that will be well received as we begin to roll it. The server ordering is also early indication that it does create some efficiency.

So as you role that technology, will there be opportunities I think to look at your restaurant operating model? Yes. I think there will be those opportunities.

Greg McKinley - *Dougherty & Company - Analyst*

Okay. Thank you. And then just real quickly, what were your wing costs as a percentage of COGS for the quarter?

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

22.8%.

Greg McKinley - *Dougherty & Company - Analyst*

Okay. Thank you. And then maybe just lastly, AUV growth expanded here sequentially. Were there regions of where new stores were developed this year that stood out with particularly strong openings, and anything to attribute that to?

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

I don't think there's anything different than what we've talked about in past calls. Certainly the dense populations on the coasts typically see higher average unit volumes, and that's where most of our new development has been in the last couple of quarters.

I think that holds true for this quarter as well. We don't -- nothing else stands out, but it was a pretty typical quarter from opening.

Greg McKinley - *Dougherty & Company - Analyst*

Thank you.

Operator

Mark Smith, Feltl and Company.

Mark Smith - *Feltl and Company - Analyst*

Mary, any change in sports calendars as we look at the fourth quarter?

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

Yes. We have one more Thursday night NFL game. So there's some positives in the fourth quarter. One more Thursday night NFL.

One -- a Saturday NFL on December 20, and -- with two games and then three more NCAA bowl games. The negatives would be fewer games in major league baseball playoffs. And we have a Halloween on a Friday versus a Thursday. And then the shift of Christmas Eve and Christmas Day from a Wednesday/Thursday versus the Tuesday/Wednesday.

Mark Smith - *Feltl and Company - Analyst*

If World Series goes seven games, does it make up at all for major league baseball playoffs being a little shorter?

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

I think as long as the games are really close and exciting, it certainly helps. I don't know if it makes up for it.

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

So the World Series last year went six games. We'd like it to go seven games this year. The playoffs were all incorporated into our four week same-store sales for October, and we have awesome same-store sales. So I don't think there's any negative impact from a shortened playoff season.

I will highlight just a couple things on 2015 and especially for the first quarter. The positives for the quarter would be that there is an additional bowl game, and then the NCAA football championship is a 14 playoff. We think that is a positive for us.

The negative would be that there isn't a Winter Olympics in the first quarter. And then as you look at the year overall, just one thing to note which would be that because of the way our calendar lines up, we will have one less week of NFL in our third quarter in 2015.

Mark Smith - *Feltl and Company - Analyst*

And then if I can squeeze one more in, Sally, you talked a little bit about draft parties being up. I don't know if you can quantify that at all or talk about how big of an impact that maybe has.

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

I think that -- certainly our continuing ongoing strong same-store sales reflect strong draft parties. What we know is based on the number of kits we send out to each restaurant, that increased significantly over prior year versus how many -- versus number of returns.

We also -- what we did in making sure that we could host more draft parties is we really increased the Wi-Fi in every restaurant, made a significant investment in making sure that our restaurants could handle more parties, and I think that's reflective of the number of kits being up significantly. We just think that drives a great mark into football.

The other thing is it comes with a free food offer. In the past it was $100 that you could use any time. In this case, it's staged over each week. So it's in order to take advantage of the dollars off on the food, it drives you back in the restaurant every week.

Mark Smith - *Feltl and Company - Analyst*

Excellent. Thank you.

Operator

Nick Setyan, Wedbush Securities.

Nick Setyan - *Wedbush Securities - Analyst*

Yes. There was a lot of commentary on labor even into 2015, and just to clarify, do you expect deleverage in Q1 of 2015 on the labor line or leverage on the Q1 of 2015?

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

We haven't given a specific breakdown on a quarterly basis. Just overall for the year we do expect to leverage on our labor year-over-year.

Nick Setyan - *Wedbush Securities - Analyst*

Okay. And does your guidance incorporate any additional franchise acquisitions next year? I knew know you mentioned something about hopefully there could be a few more franchisee acquisitions next year.

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

No. It doesn't. It only includes the 19 that we anticipate purchasing this year.

Nick Setyan - *Wedbush Securities - Analyst*

Okay. And then is -- can you order on the tabletop tablets as of now? Or is it at some point next year that that's going to be fully rolled out?

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

That will be at some point next year. It's just in preliminary test right now.

Nick Setyan - *Wedbush Securities - Analyst*

Do we know the timeline of that rollout?

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

Well, we hope to have it to begin the rollout in the first half of 2015.

Nick Setyan - *Wedbush Securities - Analyst*

Okay. And the order at the table with the waiters -- that's going to be tested in the first half and the rollout starts in the second half?

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

The server handhelds -- that's about -- yes. That would be around midyear that we hope to start to roll that out.

Nick Setyan - *Wedbush Securities - Analyst*

Perfect. Thank you very much.

Operator

David Carlson, KeyBanc.

David Carlson - *KeyBanc Capital Markets - Analyst*

Hey. Thank you. I hope you guys are doing well. Just on the price increase in general, what gives you guys confidence that taking this 3% pricing won't affect menu mix or traffic and then I have one follow-up.

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

Well, again, I think it's the strength that we see in our same-store sales currently. And then also the strong guest satisfaction scores, that those two things in particular give us confidence in supporting the price increase.

David Carlson - *KeyBanc Capital Markets - Analyst*

Fair enough. And I know you guys talked on -- to the chicken breast contract that expires in I believe March 2015. When you exclude wings, what do you guys currently modeling for the nontraditional wing portion of the basket in 2015? Is there any sense that we can use in trying to figure out what 2015 might look like from a cost of sales perspective?

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

Excluding traditional wings and boneless wings, we would expect that -- we have just a few commodity items that we expect to be up next year, beef and pork. But they're a pretty small part of our overall commodity basket, so we would overall believe that we are going to have either flat or slightly down on our commodity basket ex chicken.

David Carlson - *KeyBanc Capital Markets - Analyst*

Okay. Perfect. Thank you.

Operator

Andrew Strelzik, BMO Capital Markets.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Thanks for taking the follow-up. If I think about the chicken production outlook and some of the leading production indicators would indicate you're going to get it pretty significant ramp-up in production, would you be more inclined to let the breast contract -- to let the breast prices float? Why or why not?

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

We haven't typically had our breast contract slow. It is something that's easier to get long-term pricing on. That tends to be favorable. So it is in our current thoughts that we will see as we get closer to the renewal date.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Okay. Thank you.

Operator

Diane Geissler, CLSA.

Diane Geissler - *CLSA Limited - Analyst*

Good afternoon. I may have missed this, but could you tell me what your CapEx was on the technology side from 2014 and your expectations for 2015?

And then I think you said that you were 75% rolled on the tablets into your stores? Could you talk little bit about a launch of a loyalty program? And how that fits in with the -- what you're going to do in 2015 in terms of ordering at the table, et cetera? I just want to get a little bit more holistic viewpoint on technology at your stores.

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

Right. As it relates to tablets at the unit level, that cost for us is about $12,000 to $15,000 per location, and we will have all of our company stores rolled or nearly all of them rolled by the end of the year. As it relates to other IT infrastructure technology related expenses for the year, it's in the $4 million range to $6 million region. And I will let Jim talk about the loyalty program.

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

Yes. Our loyalty program is in development. We -- it's really -- we are building a very customized program, not an off the shelf program. So we're really going to take our time, test it and develop it this year with the thought in 2015 that we would roll it in 2016. That really is separate and apart from our ordering on the tablets and the server handhelds, which again we expect to be putting in place in the -- by the middle of the year.

Diane Geissler - *CLSA Limited - Analyst*

Okay. Great. Thank you.

Operator

That does conclude our question and answer session. I'd now like to turn the call back to management for any closing remarks.

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

Okay. Well, thank you everyone for calling in and listening to our third quarter conference call. We're very pleased with our performance, and I do want to thank again everybody that makes that happen. Our team members, our franchisees and our vendors. We look forward to updating you with our full-year in our February conference call as well as talking more about the first quarter and 2015 in total. Thanks a lot.

Operator

Ladies and gentlemen, this does conclude today's teleconference. We thank you for your participation.
