THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

BWLD - Q2 2015 Buffalo Wild Wings Inc Earnings Call

EVENT DATE/TIME: JULY 28, 2015 / 9:00PM GMT

OVERVIEW:

Co. reported 2Q15 revenues of $426.4m, net earnings of $21.5m and diluted EPS of $1.12.

THOMSON REUTERS

CORPORATE PARTICIPANTS

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

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

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

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

CONFERENCE CALL PARTICIPANTS

John Glass *Morgan Stanley - Analyst*

Keith Siegner *UBS - Analyst*

Brian Bittner *Oppenheimer & Co. - Analyst*

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

Karen Holthouse *Goldman Sachs - Analyst*

Andrew Charles *Cowen and Company - Analyst*

Brett Levy *Deutsche Bank - Analyst*

Jeffrey Bernstein *Barclays Capital - Analyst*

Jeff Farmer *Wells Fargo Securities, LLC - Analyst*

Matt DiFrisco *Guggenheim Securities LLC - Analyst*

Jason West *Credit Suisse - Analyst*

Chris O'Cull *KeyBanc Capital Markets - Analyst*

Andrew Strelzik *BMO Capital Markets - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Buffalo Wild Wings second-quarter 2015 conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will be conducting a question-and-answer session, and instructions will be provided at that time for you to queue up for questions. I would like to remind everyone that this conference call is being recorded. I would now like to turn the call over to Heather Pribyl, Director of Investor Relations for Buffalo Wild Wings. Please go ahead.

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

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

By now, everyone should have access to our 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 markets, unforeseen obstacles in developing sites, including non-traditional and non-US locations, success of acquired restaurants, success of investments in new or emerging concepts, the cost of commodities and supply-chain consistencies, the success of our key initiatives and our advertising and marketing campaign, our ability to control restaurant label -- 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 second quarter and comment on franchise acquisitions. 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 thoughts on our 2015 outlook. We will then answer questions.

With that, I'll turn things over to Sally.

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

Thank you, Heather, and good afternoon, everyone. We are pleased with our second-quarter same-store sales increases of 4.2% at Company-owned restaurants and 2.5% at franchise locations. Guest traffic at Company-owned restaurants was positive for the quarter with strong sales throughout the period, demonstrating our ability to drive traffic with fewer year-over-year sporting events. Compared to the second quarter last year, we had Easter and the Final Four weekend, 14 fewer NBA and NHL playoff games, two fewer pay-per-view boxing events and no men's World Cup.

This spring, we created World of Sports, which highlighted the playoffs women's World Cup and unique sports from around the globe to help drive sales over our strong same-store sales last year. Guests at Buffalo Wild Wings cheered on the United States women's soccer to a gold-medal finish.

B-Dubs Fast Break, a system-wide lunch program, launched in April and is performing well. We created the program to offer guests value, variety and speed during their lunch hour and supported that campaign with national and local advertising. Our goal for Fast Break is to increase our lunch sales for both ticket and traffic while improving our cost-of-goods-sold margin.

Same-store sales for our lunch day part are improving. This trend is encouraging, as we believe our lunch guests can become a happy hour and dinner guest. Our solid sales performance in the second quarter was offset by a challenging cost environment. We achieved earnings per diluted share of $1.12 in the second quarter, a decline from 2014 primarily from increased food and labor costs. The price per pound for traditional chicken wings was 26% higher than the prior year. The wing market remained elevated at the time of year when we typically see wing prices decline, and our outlook for wings in the back half of the year -- in the back half of 2015 is slightly higher than our prior expectations.

Favor as a percentage of sales increased due to increases in wage rates and benefit costs and the addition of guest experience captains that was completed in the fourth quarter last year. With high employment rates nationally, the labor market is competitive and our average rates of pay for our team members is increasing. In addition, claims levels in both our health insurance and workers' compensation were higher than the prior year's quarter.

Also this quarter, we announced a significant franchise acquisition for 41 locations that is expected to close in August. This is in addition to the 7 units we acquired in the first quarter and 9 locations purchased in the second quarter. 2015 marks the highest number of restaurants we have acquired in a year, representing over 11% unit growth in Company-owned restaurants from 2014 year-end.

With these franchise location acquisitions, the percentage of Company-owned restaurants in the United States and Canada will be greater than 50%. We don't have a set target for Company-owned and franchise location mix, but believe Company ownership mix could increase as we continue to build out new Company-owned restaurants and evaluate future acquisition opportunities as they are presented to us. Our purchase of franchise locations provide long-term net earnings and cash flow growth. Acquisitions also gives us the ability to accelerate change through remodels and technology implementation.

Mary will now provide additional details on the second and third quarters.

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

Thank you, Sally. Our revenue in the second quarter reached $426.4 million, increasing 16.5% over the same period last year. System-wide sales at our Company-owned and franchise restaurants were $889 million for the quarter, an increase of 10.7% over the second quarter of 2014. Company-owned restaurant sales for the second quarter increased to $401.9 million, a 17.1% increase over the same period in the prior year. Same-store sales at Company-owned Buffalo Wild Wings restaurants were 4.2% for the second quarter, compared to 7.7% for the same period last year. Menu price increases and adjustments taken during the past 12 months at Company-owned restaurants were about 3.8%.

We had 64 additional Company-owned Buffalo Wild Wings restaurants in operation at the end of this quarter versus second quarter last year, a 14.3% unit increase. Average weekly sales increased by 4.3% in the second quarter, 10 basis points higher than the same-store sales percentage. New restaurants opened in the past 12 months increased average weekly sales by 30 basis points, and this was fully offset by locations acquired from franchisees. The remaining 10-basis-point increase is from the closing of older lower-volume locations during the last 12 months.

Our royalty franchise fee revenue for the second quarter grew 7.3% to $24.5 million versus $22.9 million last year, with an additional 8 franchise Buffalo Wild Wings units in operation at the end of the second quarter versus a year ago. Same-store sales at franchise Buffalo Wild Wings locations increased by 2.5% in the quarter, compared to a 6.5% increase in second quarter last year. Franchised average weekly sales volumes at Buffalo Wild Wings restaurants in the United States for the quarter increased by 3.3%, 80 basis points higher than the same-store sales percentage. There was a 60-basis-point benefit from the closing of older lower-volume locations and a 30-basis-point benefit for franchise locations sold to the Company in the last 12 months. This benefit was partially offset by 10 basis points for franchise locations opened during the last 12 months.

Cost of sales for the second quarter was 29.3% of restaurant sales compared to 28.2% in second quarter last year, a 110-basis-point increase. Traditional wings were $1.79 per pound in the second quarter, $0.37 or 26% higher than last year's average of $1.42. Traditional wings were 21% of restaurant sales, flat compared to the same period last year. Boneless wings were 21% of restaurant sales, an increase from 20% in the prior year. Food and nonalcoholic beverage sales were 80% of restaurant sales in the second quarter, the same as prior year.

Cost of labor for the second quarter was 32.2% of restaurant sales, 90 basis points higher than second quarter last year. As compared to our expectations for the quarter, health and workers' compensation expenses were higher, as were hourly wages.

In the second quarter, restaurant operating expenses as a percentage of restaurant sales was 14.1%, a decrease of 50 basis points from the prior year, driven by lower event fees from fewer events and leverage on sales growth. Occupancy costs were 5.6% as a percentage of restaurant sales, flat compared to the same quarter last year.

In summary, restaurant-level cash flow, which was calculated before depreciation and amortization and pre-opening expenses, was $75.5 million or 18.8% of restaurant sales. This compares to restaurant-level cash flow of $69.6 million or 20.3% in the second quarter last year. This 150-basis-point decrease in cash flow is a result of the higher traditional wing costs and increased labor as a percentage of restaurant sales.

Depreciation and amortization for the second quarter was 6.9% of total revenue, 40 basis points higher than the prior year, resulting from additional depreciation for free-standing and newly acquired franchise locations and higher technology depreciation. General and administrative expenses were $33.7 million in the second quarter or 7.9% of total revenue, compared to $30.2 million or 8.3% in the prior year. Excluding stock-based compensation of $4.5 million in the second quarter and $4.1 million in the prior year, G&A expenses for the second quarter would've totaled $29.2 million or 6.8% of total revenue, compared to 7.2% last year.

We opened 9 Company-owned Buffalo Wild Wings restaurants during the second quarter. This compares to 6 new Buffalo Wild Wings and one PizzaRev location opened in the second quarter of 2014. Pre-opening expenses for the quarter totaled $3.2 million versus $2.2 million last year. The $3.2 million includes $1.1 million of pre-opening expenses for future openings that are under construction. And in the second quarter last year, we incurred $725,000 related to future openings. Pre-opening costs for Company-owned Buffalo Wild Wings averaged $291,000 per new restaurant during the quarter, compared to $269,000 in the second quarter last year.

The loss on asset disposals for the second quarter totaled $2.3 million, compared to last year of $1.2 million. This includes the active disposal for 18 remodels and normal asset retirements, as well as expenses related to the closure of 2 restaurants. We reported investment income of $41,000 for the quarter, compared to $235,000 in 2014.

Our effective tax rate during the second quarter was 32.4%, compared to 32.8% in the prior year. We estimate our effective tax rate in 2015 will be about 33% based on federal and state tax rates and credit currently in effect.

In summary our net earnings in the second quarter of 2015 declined 9.3% to $21.5 million, reducing earnings per diluted share of $1.12, compared to $1.25 in the prior year.

On our balance sheet on June 28, 2015, our cash, cash equivalents and marketable securities totaled $91.9 million, compared to $112.9 million at the end of 2014. In July, we increased our unsecured line of credit from $100 million to $200 million, and it currently has a zero balance. In August, we anticipate using $80 million from the line of credit and $80 million in cash to fund the $160 million franchise acquisition in Texas, New Mexico and Hawaii.

We ended the quarter with $876 million in total assets and $630 million in total equity. Cash flow from operations was $53.5 million for the quarter.

We spent $41.5 million for property and equipment capital expenditures in the second quarter of 2015, and we estimate that our annual capital spending will be $177 million inclusive of our franchise acquisitions and investment in emerging brands. Year to date, we have spent $49 million in franchise acquisitions for 16 locations, and we will spend $160 million in August for 41 additional locations.

Now I will highlight trends and provide some comments on the third quarter of 2015 and the full year. For the first four weeks of the third quarter, Buffalo Wild Wings same-store sales are trending at about 4.8% at Company-owned restaurants and 2% at our franchise locations. This compares to same-store sales trends for the first four weeks in the third quarter last year of 8.2% at Company-owned restaurants and 7.4% at franchise locations, reflecting our strong sales performance during men's World Cup in 2014.

For the full third quarter of 2014, our same-store sales were 6% at Company-owned and 5.7% at franchise locations. We will have one less week of college and NFL football in our third quarter this year. We estimate that this shift will have a 50-basis-point negative impact to our same-store sales for third quarter. The end of the regular season and start of bowl games for college football is similar year over year. The NFL season provides an additional week of games in the first quarter of 2016.

To help offset rising wage rates, expected draft beer cost increases and elevated wing prices, we are initiating menu price increases on alcohol in August, increasing Wing Tuesday and Boneless Thursday pricing in about 25% of our Company-owned restaurants in September, and including an increase in pricing on our November 2 menu. After these price adjustments, the cumulative impact of the menu price increase taken in the last 12 months is expected to be 3.9% in the third quarter and 4.2% in fourth quarter.

In the third quarter, we expect to open 20 Company-owned Buffalo Wild Wings restaurants, 6 of which are already open. As a reference going into third quarter of 2014, we opened 9 new Company-owned Buffalo Wild Wings locations and one PizzaRev and closed one Buffalo Wild Wings restaurant. We also expect that our Buffalo Wild Wings franchisees will open 10 restaurants during the third quarter.

For cost of sales, our cost for traditional chicken wings for the first two months of the third quarter averages $1.79 per pound. This compares to the average cost for the full third quarter last year of $1.50 per pound. We anticipate labor as a percentage of restaurant sales in the third quarter to be approximately 32%, and our estimate includes labor inefficiencies from the franchise acquisition.

For the full year, our current outlook is that labor as a percentage of restaurant sales will be higher than the prior year. We have near-term pressures from the franchise acquisitions as well as rising wage and benefit costs. We remain committed to delivering the ultimate guest experience while exploring opportunities including server handheld, managed labor costs over the long-term.

In the third quarter, we anticipate that G&A expenses exclusive of stock-based compensation expense will be approximately $30 million. Third-quarter stock-based compensation expense is estimated to be $4.2 million, an increase of $1.6 million compared to third quarter last year. Stock-based compensation expense for the year is estimated to be about $15 million and will vary depending on the level of net earnings achieved for 2015, as well as for estimates of net earnings in future years.

I will now provide some additional color on the pending acquisition of 41 franchise locations in Texas, New Mexico and Hawaii that is scheduled to close in August. 39 of the restaurants are currently open, with average unit volumes of $3.4 million. The restaurant-level cash flow percentage is slightly better than average of Company-owned locations. We anticipate remodeling 13 of the restaurants in the next 18 months. We expect to incur $5 million of transition costs associated with the acquisition. For 2015, we expect the transaction to be dilutive to net earnings given the timing of close, and incremental depreciation and amortization. In 2016, the acquisition should be positive to both net earnings and cash flow.

As a result of the expenses for the franchise acquisition, our net earnings growth goal is revised to 13% for 2015.

Please review the risk sections outlined in our SEC filings, including our Form 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 on our Company initiatives.

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

Thank you, Mary. We remain confident that the Buffalo Wild Wings brand is strong, and we are investing in many initiatives to support long-term revenue and net income growth. Innovation is critical for sustainability, and our Stadia restaurant design is a great example of how we look at innovation. Stadia receives great guest feedback and is helping increase sales.

In 2015, we are actively remodeling 50 Company-owned restaurants, and our franchisees anticipate remodeling 40 locations. Combined with new restaurant development, nearly 30% of the Buffalo Wild Wings locations are planned to be Stadia at the end of the year.

Labor as a percentage of restaurant sales remains elevated to prior year from our strategic decision to add guest experience captains and from rising wage rates, a factor that is affecting the entire industry. In the near-term, we are working on labor efficiencies but keeping our primary focus on delivering a great guest experience. We reduced captains' hours at certain lower-sales-volume restaurants and are focused on minimizing team member turnover and overtime costs. We are also focused on better managing labor at acquired restaurants to achieve standard operating levels more quickly.

Server handheld tests have proven to help our team members be more efficient in entering orders and taking payment, improving speed of service and guest satisfaction. We plan to expand to another 30 locations in the next few months and will assess further expansion based on the results of the additional restaurants.

We are undertaking several initiatives to help further build guest loyalty and drive incremental sales. A common point-of-sale platform is necessary for many initiatives, and our franchisee implementation should be completed by the end of 2015. Blazin' Rewards, the Buffalo Wild Wings loyalty program, is being piloted this fall at 50 restaurants in Company-owned markets. Our goal is to offer differentiated ways to earn points and meaningful rewards for our guests. After a successful pilot, we look forward to launching the program system-wide in 2016.

Tablets are currently in over 90% of Buffalo Wild Wings restaurants, including all Company-owned locations. We've successfully tested menu order via tablet in 2 concept locations, and the functionality works. However, we believe the real driver to achieve guest adoption will be payment via tablet or guest device. We will be testing both methods in the second half of 2015, and we are delaying the rollout of menu order on tablet until it is paired with payment.

In the second half of 2015, B-Dubs TV will be added to 300 Company-owned restaurants. B-Dubs TV gives us the opportunity to air distinctive content from our vendor partners as well as local content. From Hometown Highlights, guests can upload clips from their teams' amazing moments or game-winning plays, and each week the top 10 are aired on B-Dubs TV. Hometown Highlights is currently in one market and expanding to other markets.

We have been busy working on all the innovations I've just highlighted to further differentiate our brands and drive long-term success for the Company.

Not only are we excited for our long-term prospects, but we are also looking forward to the start of football season. Fans are scouting players for their fantasy football teams, and Buffalo Wild Wings is the place for fantasy football draft parties. Our draft kit is available for guests hosting their draft party at B-Dubs. Guests can also enter to win a trip to NFL headquarters in New York with their fantasy team to host their 2016 draft party. Our media airing this fall focuses on the great football-watching environment Buffalo Wild Wings offers guests, from our audio-visual package to our food and beverage offering.

Our beer-inspired menu panel launched last week and features some great items to enjoy from the opening kickoff until the final play of the game. There is a Boston Lager burger and Oktoberfest beer cheese dipper. Our featured beer cocktails include a vanilla-berry lager made with Sam Adams, and a hard peach cider. The Sauce Lab features Angry Orchard fiery applesauce with a hint of cinnamon from Fireball whiskey.

Sauce Lab started in 2014 and has been a success for Buffalo Wild Wings, as our guests are very passionate about their favorite sauces. This fall, we will model two of the 2014 Sauce Lab sauces as a fundraiser for Team Up for Kids. ,our charitable-giving program supporting youth sports programming at Boys and Girls Clubs of America. Our guests -- we asked our guest to pick which sauces on Twitter, and they chose Big Easy Bourbon Honey Mustard and Ghost Pepper.

Outside the United States and Canada, international franchise expansion continues, and I am pleased to announce that we signed 2 new franchise partners. One is in Bangalore, India, for 15 franchise locations, and another is in Panama for 3 units. Development is moving along for our other international franchisees, and they are scheduled to achieve our goal of 10 international openings in 2015.

We are excited to be part of the growth plans for both Rusty Taco and PizzaRev. Rusty Taco should open one location in Dallas in the second half of the year. PizzaRev continues their Company-owned development in the Los Angeles area, and they are actively franchising across the United States.

We have many great opportunities for the Buffalo Wild Wings brand domestically. We are seeing our international presence grow, and we started to look at long-term growth prospects with emerging brands. Our Company is well poised to continue to deliver sales and net income growth in 2016 and beyond.

We thank our team members, our franchisees and our vendor partners for their passion and their continued dedication to our success. We also thank our shareholders for their confidence in our Company and, finally, our guests for their passion for Buffalo Wild Wings.

I will now turn the call back to Heather.

Heather Pribyl - *Buffalo Wild Wings, Inc. - Director 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. Operator, we can now open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). John Glass, Morgan Stanley.

John Glass - *Morgan Stanley - Analyst*

Thanks very much. Mary, if you could maybe just help understand a little bit how you're thinking about the back-half guidance. There's just a lot of puts and takes. I think labor is going to be slightly less -- or more unfavorable than you thought before. Wing prices haven't given you the relief, and yet you're still thinking about roughly mid-30% growth rate in the back half. And I think the acquisition is also dilutive. So how do you weigh all that against what you thought initially? How do you get there? Is it all the pricing that's offsetting it, or are there some other elements that I am missing?

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

There are several things as it relates to our thoughts in the beginning of the year and where we sit today. Our same-store sales are stronger than we would have initially thought for 2015 and (inaudible) use, as you can see with our trends in July. Our cost of sales is actually better than we expected even though wings are higher than what we would have projected the year to be. They have remained pretty flat the last couple of months; this week, we had seen them come back -- come down a few pennies. We hope that's a trend that continues. But overall, cost of sales is more favorable than we initially would have anticipated.

And then we do have the additional menu pricing in the third and fourth quarter that we are taking as it relates to alcohol and Wing Tuesdays and Thursdays, and then our rollout in November. So that combination as well as operating expense leveraging, G&A remaining stable and really the delta between the 18% and the 13% being the incremental expenses as it relates to this large acquisition.

John Glass - *Morgan Stanley - Analyst*

Thank you.

Operator

Keith Siegner, UBS.

Keith Siegner - *UBS - Analyst*

Thanks. I'm going to ask one question and one completely unrelated follow-up. First on the sales, especially looking at the quarter to date and the strength, can you talk about some of the adjustments, the national marketing campaigns that you have run in recent months? Maybe some of the other promos like the World of Sports. How have the guests received these? Were you pleased with some of the effects of those? If you could talk about some of those adjustments and how that might be contributing, that would be great. Thanks.

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

We certainly -- we have increased the advertising in Q2. We were on national media more than I think we typically would be, and that continued into July. We had the World of Sports promotion, which is tough to track specifically what that did because you don't have an event-to-event comparison. And then of course, I think the women's World Cup helped a lot, and I just think we are executing at very high level in our restaurants, and our guests' loyalty scores are staying very strong.

Keith Siegner - *UBS - Analyst*

Thanks. I'll get back in queue. Thanks.

Operator

Brian Bittner, Oppenheimer and Company.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Thanks. Just a clarification, then my question. Clarifying here, so are you saying that the EPS guidance reduction is all attributable to the $5 million in costs in the extra D&A. If that didn't happen, you would have maintained the guidance based on the puts and takes and how you answer John's question?

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

Yes, with one caveat. It is a net earnings growth goal, it's not an EPS growth goal. There's a little bit of a difference based on the share count. But yes, our net earnings growth goal of 18%, we would have held at this call, except for the additional cost from the acquisition.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay. That helps clear some understanding from my viewpoint. I want to ask about the franchisee acquisition. So when you cut through the noise of this one-time stuff and you look at this on a normalized annual run rate basis, obviously trying to figure out where this could be accretive to earnings per share in a clean year. So if you are making 5% of the revenue of these stores as franchise units, and that's your operating income from these units, how should we think about the operating income or operating margin of these stores as a Company-owned business? Obviously you have the restaurant margins, but then after marketing, after G&A and after D&A, how can we think about the operating margin of these 40 stores?

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

I'll give you some help as it relates to the units again. So on the 41 units, their average volumes are $3.4 million, which is higher than ours. We are going to be remodeling 13 of them in the next 18 months, and we do believe that's an additional sales driver for those locations.

From an operating environment, Texas is a good state to operate in, and the volumes that we have at the New Mexico and Hawaii locations are above the average. So overall, we expect the cash flow from this group of stores to be better than what our average cash flow is from Company-owned locations.

The caveat on the bottom line is remember that we will have higher depreciation and amortization at these units with the amortization of the reacquired franchise rights, so you do need to model that in differently than you would for a new restaurant opening. And then we don't give specific guidance as it relates to the ongoing G&A, but there are regional managers and directors that will be employed for these locations. So there is some incremental G&A that will occur.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay. Thank you.

Operator

David Tarantino, Robert W. Baird.

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

Good afternoon. Mary, I wanted to follow up on how you're thinking about the franchise acquisition as it relates to next year. And I know you're not ready to give specific guidance on 2016, but I was just wondering with the one-time cost you're seeing this year, and those -- assuming those don't repeat next year, and then you get accretion from the acquisition next year, is next year shaping up in your mind to be a well-above-average earnings growth year relative to your long-run target?

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

Well, there is -- we have never bought as many stores in a year before. So when you add the new restaurant openings for this year, many of which are happening in the last part of the year, and you add into that all of the acquisitions that we have in 2015, that is about a 20% or more increase in our Company-owned units for 2016. And that does help us continue to grow our bottom line strongly.

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

Maybe I can ask it a different way, Mary. So the right way to think about it is take the $5 million of cost out of next year and then look at the business maybe on a run rate from that level. Is that the right way to think about next year?

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

Well, the $5 million of acquisition expenses or transition expenses are things that will not be reoccurring. So things like the regional manager and director of ops that we will have those locations we did not include in our calculation of the incremental G&A for this year in the last part of the year.

So we do anticipate that there is some higher labor at the store level that factored into our 32% estimation for Q3. And of that $5 million, it's about half of it would be on the G&A line and the other half would be incremental operating and cost-of-labor stuff that will occur between now and the end of the year.

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

And as you look at moving into 2016 with the large acquisition, it does take us a period of time to reach kind of what we call the standard run rate for acquired restaurants. I would not anticipate that they would've reached that run rate (technical difficulty) 2016. It would be sometime during the year.

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

Great, that's helpful. Thank you.

Operator

Karen Holthouse, Goldman Sachs.

Karen Holthouse - *Goldman Sachs - Analyst*

Congratulations on a strong comp performance on the quarter and quarter to date. On (technical difficulty) decision to tie mobile ordering also to the payment piece of it, I think I understand the logic. But then really on the payment side, what's different in terms of operational complexity or integration complexity? And then in a best-case scenario, what would we -- how could we think about the timeline for starting to move that out of test into a broader test, and ultimately to a rollout? Thanks.

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

I think when we talk about time payment ordering, that's on the tablets. And what we have found as we've put tablets and started doing proof-of-concept tests with tablets was the usage and adoption rate is pleasant there when you only had an ordering function. So we pulled back on that, and until we are ready to pair it with payment, that we don't think we should move forward with tablet ordering.

We do anticipate that by the end of this year we will have identified and we will be ready to start testing both order and pay in tablet form. We also anticipate that by year-end we will be ready to start order mobile, where you can pay over your mobile device through our app, which we hope to have that in place by year-end. And then the third initiative underway kind of in that area is the server handhelds that we are utilizing now and seeing very good results from, and will be expanding their usage as we enter Q4 and look for further expansion based on the results of that initial -- we are expanding to 30 restaurants in Q4.

Karen Holthouse - *Goldman Sachs - Analyst*

Great. Thank you.

Operator

Andrew Charles, Cowen & Co.

Andrew Charles - *Cowen and Company - Analyst*

Great, thanks. A few months ago you alluded to potentially acquiring 2 or 3 more franchisees by the end of 2015. With the recent increase authorization of the revolver, should we still expect another franchise acquisition or two in the coming months?

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

We know of -- we don't have anything in the works right now. We do know of a couple others that there is a potential. Whether we'll be the winning buyer or not, we don't know. But we are always open to opportunities as franchisees, if they decide to sell or divest themselves of some of their holdings. So I have nothing specific, but we are always open.

Andrew Charles - *Cowen and Company - Analyst*

Thanks.

Operator

Will Slabaugh, Stephens.

Unidentified Participant

This is actually Unidentified Participant on for Will. And congrats on a great quarter. One real quick clarification for you, Mary. I'm sorry; I wasn't able to hear you. What did you say the pre-opening expenses averaged per store during the quarter?

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

$291,000.

Unidentified Participant

$291,000. Okay. Thank you. And then just one broad question. How do you feel about the choice to not show the Mayweather-Paquio fight at all the Company-owned stores? I think it's probably safe to say it was one of the largest pay-per-view events in recent memory. I didn't know if you were able to maybe, one, quantify the drag you might've seen from not showing it. And, two, do you think this will cause you to reconsider how you handle maybe less expensive pay-per-view events going forward?

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

I think we feel we made the right decision in this case not to view the program. There's a lot of complications that come with a fight of that nature, especially one that, because of the cost, it kind of fell to people to charge cover charges. So there's a lot of complexity that comes in when you do that. So we felt very comfortable with our decision not to air that particular fight.

I think in the future it will be a case-by-case basis as to whether or not we think it makes sense to air a fight. And in most cases it would be more we would air it at certain locations within a market, not at all restaurants. And as far as the impact on sales, we are really pleased with how we ended up Q2, so it didn't have an adverse effect overall on our sales.

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

I'll add one comment to that, and that is with regard to airing other fights, we've always been selective. And so we may have other programming events that aren't showing at every restaurant, but I think we do a really nice job of letting our guests know where they are being shown. And so that's not a significant change going forward.

Unidentified Participant

Thanks for that clarification, and congrats again.

Operator

Brett Levy, Deutsche Bank.

Brett Levy - *Deutsche Bank - Analyst*

Good afternoon. Just a couple of questions on labor if we can. First, just some generic ones -- turnover rates, wage rate inflation, what you are seeing on those. And then more specifically for the acquired units, what kind of labor increase do you think you're going to need at these new ones? What percentage of them will need to add guest experience captains? How much more of an incremental labor as a percentage of sales should we see at the roughly 50-plus units you are adding this year? Thank you.

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

I'm not sure I can answer all of those questions with regard to the acquisitions. We would anticipate adding guest experience captains to all of those. We have learned a lot along the way, so we will be adding efficient hours.

Wage rates are going up, and it's really on a, as you know, city-by-city, state-by-state basis. And we are seeing -- and, I think, other people are seeing that as well.

And we've seen some nice trends in turnover. I don't know that we would give out specific information on manager turnover, but we have seen our management turnover declining this past year. It's been an initiative of ours. And we think that's obviously a way to increase guest loyalty and a guest's experience if we have managers that are there (inaudible) tend to stay together.

So I'm not sure I'm answering your question other than in a very broad sense. There is pressure on labor and wage rates. But we think that pricing will certainly help with that, and then just continue monitoring of how we effectively use our hours. We did see increases in our health insurance and workers' comp plans. We don't know -- we think that the workers' comp is likely to continue to be at about -- at a slight increase because we are entering some states with higher workers' comp plans, or we are now in states with higher workers' comp plans. Health insurance, a couple of large claims, and so that often changes on a quarter-by-quarter basis.

Operator

Jeffrey Bernstein, Barclays.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Great. Thank you very much. Just one follow-up on what you just said and then a separate question. The pricing to offset those cost pressures, I think you said this past quarter you were running in the high threes. And I think with three different incremental price increases, you are talking about later this year you are now going to be pushing north -- pushing on the 4% range.

So I'm just wondering if there's any -- you get the sense of any noticeable impact on traffic? Or how do you measure your pricing power was just what I wanted to follow up with.

And then a separate question was just on the balance sheet leverage that you mentioned. It looks like you increased your line of credit from $100 million to $200 million. And I think you mentioned $80 million of that is pretty much just going into the acquisition. So just wondering how you think about that leverage. It would seem like that's still conservative level of leverage relative to the industry. Just wondering what keeps you from maybe taking on that incremental leverage above and beyond acquisitions to maybe return some incremental cash to shareholders. Thanks.

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

As far as the menu price increase, we did have a fairly significant increase last December. I can just tell you based on that experience, we were able to absorb that price increase. We did not see a negative impact on traffic. Guest loyalty and value scores stayed strong. So based on that experience, I think we are confident that this increase will not result in a negative traffic impact for us.

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

And as it relates to your other comment regarding capital structure and capital allocation, it is something that we review with our Board of Directors on a regular basis. And historically we have used our excess cash to reinvest in the business, whether that's through franchise acquisition or new restaurant openings or remodels or technology or whatever. And as we review that for the future, we will look at our excess cash as well as our debt capacity. And if we don't need it for our growth strategies, which has always been a priority for us, we will consider how we would return capital to our shareholders.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Thank you.

Operator

Jeff Farmer, Wells Fargo.

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

Company restaurant same-store sales looks like through the first four weeks, as you said roughly 4.8%. You are lapping that 300-plus basis-point World Cup tailwind from the prior year. So should we be viewing the current over underlying -- or I should say normalized same-store sales growth trend in the current quarter as something closer to 7%? Is that a fair way to think about it, lapping that material headwind from the year-ago quarter?

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

I don't recall what the impact on the first four -- in the first four weeks of World Cup, if we called out 300 basis points. I know that we are 300 basis points (technical difficulty) that second -- that first four weeks we are at what, 7%, 8%?

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

8.2% last year.

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

But I don't recall what we called out due to World Cup.

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

It was 330 basis points.

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

Okay.

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

I do think we saw a nice -- I think the women's World Cup helped us when we were going up against last year's comps. We did have, again, some additional advertising in July as compared to a year ago, which also I think helped us pop over that amount. We don't give specific same-store sales guidance on a go-forward basis. We are hitting that time of year when we get excited about football, and our fantasy football program is stronger than ever. It will be going out here over the next month. So we hope to maintain momentum. But I don't -- we are not predicting specific same-store sales.

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

Okay. Just one more, Mary. I think in terms of -- I don't think you touched on this, but the balance of the commodity basket that is not traditional wings, what is the updated thinking on the inflation level, again, for the balance of the commodity basket that is not represented by traditional wings?

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

Slightly down year over year.

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

Okay. Thank you very much.

Operator

Matt DiFrisco, Guggenheim securities.

Matt DiFrisco - *Guggenheim Securities LLC - Analyst*

I just had a couple of clarifications I just needed on the stores, and then I had a question. With respect to the stores, I think you said with the franchisees, 8 different -- 8 more stores than a year ago, but then the release says 14 more, and you are flat on a sequential basis. Can you just tell us outright how many Buffalo Wild Wings franchise stores were open in Q2, and closures, just that metrics?

And then also just on a clarification, the remodels. Are we supposed to -- how long should they be out the acquired stores from Texas that you're going to remodel? Are they going to be down for any extended period of time? And then I had a question on the same-store sales.

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

So from the count for franchise location, at the end of second quarter of this year there was 587 that were Buffalo Wild Wings franchise locations, and there were 6 that were Rusty Taco. And so that may be some of the confusion on the total count. From a roll-forward on Buffalo Wild Wings, we started the quarter with 587 franchise locations, we opened 11, closed 2 and acquired 9. So the beginning of the quarter to the end of the quarter, we were flat on Buffalo Wild Wings franchise locations.

(multiple speakers) And then the question on the remodels, typically our stores are down for four to five days when a remodel happens, so that will be pulsed through the next 18 months. We typically try to do them in our lower-volume times, so month of July and August. A lot of times we have remodels, sometimes we will sneak one in after Super Bowl and before March Madness, so that would be a time period that we would be looking to do some of those remodels as well.

Unidentified Participant

Great. And then can you comment a little bit on the spread that we are seeing that sort of emerged last quarter and into July here between the franchise and the Company stores? How many of the franchise stores have rolled out the guest captain? I'm wondering is that just basically -- is that the primary difference between your comp sales, the incremental labor hours and the guest captain presence in the Company-owned stores versus being out in the franchise stores? Thanks.

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

We currently have about 35 franchise restaurants that have converted to the guest experience captain. So it's still only a small percentage in the franchise community. We certainly believe that our overall adoption and execution (technical difficulty) guest experience business model that includes the guest experience captains, which claims a good portion of the incremental difference in same-store sales, along with Stadia. We are ahead of them in the number of restaurants that we have that are in our Stadia model. I think also sometimes menu price increase when they take those increases and also have a little bit of an impact on those same-store sales.

Matt DiFrisco - *Guggenheim Securities LLC - Analyst*

Is there any connection between the guest captains and the rollout of the tablets? So would you be able to roll out order-and-pay and -- order-and-pay from the tablets at a franchisee if you didn't have the guest captains?

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

Yes. We could do that.

Matt DiFrisco - *Guggenheim Securities LLC - Analyst*

Okay. Thank you.

Operator

Jason West, Credit Suisse.

Jason West - *Credit Suisse - Analyst*

Mary, just one quick one on the D&A increase from the acquired units. I know you mentioned the amortization of the franchise rights. It would be helpful maybe if you could give us what that number might be incrementally, or maybe what the D&A as a percentage of sales is on those units versus an average.

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

So looking forward to the large acquisition that will be coming up in August, we don't have a breakdown on that one yet. So we will be able to share that in October, but it is incremental expense over and above what normal depreciation would be.

On a year-over-year basis, so if we are looking at second quarter this year versus last year, amortization is only up about 10 basis points. So that isn't fully embedding all of the acquisitions that we have had to date. So there will be some additional amortization in the third quarter as it relates to our most recent acquisitions in the second quarter.

The bigger difference on depreciation is the new restaurant openings and the depreciation on the remodels that we've had sequentially more year over year. And then depreciation on our acquisitions tends to be faster. We do take -- because of used and if our lease term is shorter, where we are taking the locations mid-term, we do take an aggressive approach as it relates to the timing of that depreciation.

Jason West - *Credit Suisse - Analyst*

Okay. And then just a separate question on the pricing that's rolling out. Are you guys doing sort of a nationwide price increase as part of the November menu update, or are you trying to target these things more regionally and locally depending on where minimum wage rates are moving up more aggressively and things like that? Just trying to understand how strategic and sort of tactical the pricing is versus sort of widespread.

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

It's a system-wide roll of the menu price increase, but it is based upon each market to determine what level they are going to be at. So, yes, we will look at specific markets to determine what the appropriate price increase is for that market area.

Jason West - *Credit Suisse - Analyst*

Thank you.

Operator

Chris O'Cull, KeyBanc.

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

I had a follow-up on the pricing, the planned pricing. Typically franchisees are more aggressive with pricing than the franchisors. Are franchisees keeping up with the pricing? And if so, are their traffic counts negative?

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

At 2%, we don't have specifics on their sales mix to know what their exact menu pricing is across the franchise base. But we do think it's a little bit less than what we have in effect in 2015. So that makes their sales levels look slightly less than what they are likely or equal to what they have from a menu price standpoint.

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

What's the -- why do you think the Company has more pricing power, or at least the ability to take pricing, without affecting transactions whereas the franchisees don't? And then just as a follow-up, Mary, based on the planned pricing, what would that apply for pricing in the first half 2016 as well?

THOMSON REUTERS

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

In the first half of 2016 we would be in the 3's for the first half, and then we will have some that will roll off as we get to the second quarter of next year. I think we have a great guest experience. I think we are confident in our ability to take menu pricing at our Company stores. Franchisees will be taking increases this fall, along with us. They will have a decision market by market just as we have, and I think the motivators for us as well as our franchisees are the rising wage rates that we see in many of our markets. And we also have a belief that the draft beer pricing is going to be increased by the major brewers this fall, and so that will be something that would affect all of us together. On Wing Tuesdays and Thursdays, we are going market by market on that, so some will have an increase, some will not. About 25% of our Company stores will see an increase in that area, and I would imagine franchisees will look at it market by market as well.

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

I would add just one thing on franchisee pricing, and that is we have some franchisees in the larger metropolitan areas, certainly in California where costs are higher, where they already have higher menu prices. And so that if you are trying to strategically price and not go over $1.00 -- a certain dollar point, it may afford a smaller price increase than if you are willing to get over -- it's kind of menu price strategy if you want to go from that $4.99 or go to the $5.25. So you might get a smaller price increase in some of those markets that already have higher prices.

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

Great. Thanks.

Operator

Andrew Strelzik, BMO Capital Markets.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Just had a question about how you're thinking about your normalized food cost percentage, which I think previously you communicated is in the 29% to 30% range. But you came in kind of at the lower end of the range, with wings above normal, and you have some favorability in terms of the breast price contract pricing in Fast Break. So I'm just wondering do you still think that's the right level, or you think it's kind of inching lower? Or just any update or thoughts on that would be helpful.

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

I think our overall goals at the restaurant level is cash flow of 20% or greater. In the past, that was pegged to have a cost of sales that would be 29% to 30%. I think that what we're looking at now is that whole P&L on the restaurant level. And what type of pricing do we need to have, what kind of labor, what kind of operating expenses and where can we find leverage points among all of that?

So targeting a specific cost-of-sales percent isn't the focus as much as when we are in times like this with high health insurance, workers' comp costs, rising wage rates. Do we have to take menu pricing that may make that cost of sale be less than it has been historically? But it's necessary to keep our unit economics intact.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Understood. Thank you.

Operator

Ladies and gentlemen, that does conclude today's question-and-answer session. I will now turn the call back over to Sally Smith for any additional or closing comments.

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

Great. Thank you, everyone, for taking the time to call in and ask your questions. We look forward to sharing our third-quarter results with you in October. And everyone get out there and pick your fantasy football teams, and we are very excited football is starting. So thank you, everyone.

Operator

Once again, that does conclude today's conference, and we thank you for your participation.
