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BWLD - Q1 2015 Buffalo Wild Wings Inc Earnings Call

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OVERVIEW:

Co. reported 1Q15 revenue of $440.6m, net earnings of $29.1m and diluted EPS of $1.52.

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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Buffalo Wild Wings first-quarter 2015 conference call. (Operator Instructions). I would like to remind everyone this call is being recorded.

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

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

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

By now, everyone should have access to our first-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 nontraditional and non-US locations; success of acquired restaurants; success of investments in new or emerging concepts; the cost of commodities and supply chain consistency; 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 first quarter. After that, Mary will provide further detail on the quarter and comment on trends to date in the second quarter. Finally, Sally will share some thoughts on our 2015 outlook. We will then answer questions.

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

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

Thank you, Heather, and good afternoon, everyone.

We are pleased with our first-quarter same-store sales of 7% at Company-owned restaurants and 6% at franchise locations. Sales were exceptionally strong during the college football bowl games, as well as the NFL playoffs.

Buffalo Wild Wings really came alive during March Madness and we launched a new advertising campaign, the first campaign with our new lead creative agency. Nine B-Dubs commercials were made with unique spots for each round, starting with the focus on Buffalo Wild Wings being the place to watch all the tournament action and ending with a good night to March Madness.

For the first time during the tournament, all Company-owned restaurants had guest experience captains who, along with the rest of our team members, delivered memorable game-day experiences. Our food and beverage offerings centered around the four regions of the tournament and our guests consumed more than 100 million wings during March Madness.

The winner of our bracket challenge received a trip to the 2016 Final Four.

Turning to our bottom-line performance for the first quarter, our sales growth leveraged operating, occupancy, and general and administrative costs. As anticipated, cost of sales and labor as a percentage of restaurant sales were higher than the prior year, which tempered our net earnings growth. The price per pound for traditional chicken wings increased 41% versus the prior year's unusually low price.

We achieved net earnings growth of 2.6% and earnings per diluted share was $1.52 in the first quarter. Mary will now provide additional details on the first and second quarters.

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

Thank you, Sally. Our revenue in the first quarter reached $440.6 million, increasing 19.8% over the same period last year. Systemwide sales at our Company-owned and franchise restaurants were $923.4 million for the quarter, an increase of 14.8% over the first quarter of 2014.

Company-owned restaurant sales for the first quarter increased to $415 million, a 20.3% increase over the same period in the prior year.

Same-store sales at Company-owned Buffalo Wild Wings restaurants were 7% for the first quarter, compared to 6.6% for the same period last year. Menu price increases and adjustments taken during the past 12 months at Company-owned restaurants were about 4.3%.

We had 53 additional Company-owned Buffalo Wild Wings restaurants in operation at the end of this quarter versus first quarter last year, a 12% unit increase.

Average weekly sales increased by 6.4% in the first quarter, 60 basis points lower than the same-store sales percentage. 30 basis points of this decline is due to locations acquired from franchisees, which was offset by a 20 basis-point increase from the closing of older, lower volume locations during the last 12 months. The remaining 50 basis-point difference is due to fewer non-comping weeks as a percentage of total weeks in the calculation as compared to the prior year.

Our royalty and franchise fee revenue for the first quarter grew 11.8% to $25.6 million versus $22.9 million last year, with an additional 18 franchised Buffalo Wild Wings units in operation at the end of the first quarter versus a year ago. Same-store sales at franchised Buffalo Wild Wings locations increased by 6% in the quarter, compared to a 5% increase in first quarter last year.

Franchised average weekly sales volumes at Buffalo Wild Wings in the United States for the quarter increased by 5%, 100 basis points lower than the same-store sales percentage. There was a 90 basis-point benefit from the closing of older, lower volume locations and for franchised locations sold to the Company in the last 12 months. This benefit was more than offset by franchised locations opened during the last 12 months.

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

Cost of sales for the first quarter was 30.3% of restaurant sales, compared to 28.3% in first quarter last year, a 200 basis-point increase.

Traditional wings were $1.92 per pound in the first quarter, $0.56 or 41% higher than last year's average of $1.36. Traditional wings were 21% of restaurant sales, flat compared to the same period last year. Boneless wings were 22% of restaurant sales, increasing from 21% last year. Food and nonalcoholic beverage sales were 80% of restaurant sales in the first quarter, up from 79% last year.

Cost of labor for the first quarter was 31.4% of restaurant sales, 90 basis points higher than first quarter last year, primarily from the addition of guest experience captains. As compared to our expectations for the quarter, bonus and payroll tax expense was higher than anticipated.

In the first quarter, restaurant operating expenses as a percentage of restaurant sales were 14.1%, a decrease of 10 basis points from the prior year. Occupancy costs were 5.3% as a percentage of restaurant sales, compared to 5.5% last year, leveraging on sales growth.

In summary, restaurant-level cash flow, which is calculated before depreciation, amortization, and preopening expenses, was $78.4 million or 18.9% of restaurant sales. This compares to restaurant-level cash flow of $74.1 million or 21.5% in the first quarter last year. This 260 point decrease in cash flow is the result of the higher traditional wing costs and increased labor as a percentage of restaurant sales.

Depreciation and amortization for the first quarter was 6.4% of total revenue, 20 basis points higher than the prior year. General and administrative expenses were $30.5 million in the first quarter or 6.9% of total revenue, compared to $28.2 million or 7.7% in the prior year.

Excluding stock-based compensation of $2.7 million in the first quarter and $3.6 million in the prior year, G&A expenses for the first quarter would have totaled $27.8 million or 6.3% of total revenue, compared to 6.7% last year. This is a $1 million lower -- this is $1 million lower than we estimated, due to timing of professional fees.

We opened three Company-owned Buffalo Wild Wings restaurants during the first quarter. This compares to nine new Buffalo Wild Wings locations opened in the first quarter of 2014.

Preopening expenses for the quarter totaled $1.3 million versus $2.6 million last year. The $1.3 million includes $513,000 of preopening expenses for future openings that are under construction, and in the first quarter last year, we incurred $446,000 related to future openings. Preopening costs for Company-owned Buffalo Wild Wings restaurants averaged $329,000 per new restaurant during the quarter, compared to $330,000 in the first quarter last year.

The loss on asset disposals for the first quarter totaled $605,000, compared to last year of $787,000. We reported an investment loss of $75,000 for the quarter, compared to a loss of $127,000 in 2014.

Our effective tax rate during the first quarter was 33.3%, compared to 33.4% in the prior year. We estimate our effective tax rate in 2015 will be about 33%, based on federal and state tax rates and credits currently in effect.

In summary, our net earnings in the first quarter of 2015 grew 2.6% to $29.1 million, producing earnings per diluted share of $1.52 compared to $1.49 in the prior year.

On our balance sheet on March 29, 2015, our cash, cash equivalents, and marketable securities totaled $113.6 million compared to $112.9 million at the end of 2014. We ended the quarter with $834 million in total assets and $602 million in total equity. Cash flow from operations was $47.4 million for the quarter.

We spent $25.8 million for property and equipment capital expenditures in the first quarter of 2015 and we estimate that our annual capital spending will be $177 million, exclusive of our investments in emerging brands and franchise acquisitions. We believe investing in our business through the purchase of franchised locations is an appropriate use of capital.

There are several upcoming transactions that will use a portion of our cash balance. We are finalizing the purchase of two single unit deals in the second quarter and we recently announced we exercised our right of first refusal to acquire nine existing and three Buffalo Wild Wings restaurants under development. In addition, we are aware of other potential franchised acquisitions in our system.

Now, I will highlight trends and provide some comments on the second quarter of 2015 and the full year. For the first four weeks of the second quarter, Buffalo Wild Wings' same-store sales are trending at about 4.2% at Company-owned restaurants and 1.8% at our franchised locations, as compared to same-store sales trends for the first four weeks in the second quarter last year of 5.7% at Company-owned restaurants and 4.4% at franchised locations.

Easter fell during the Final Four weekend this year, which we believe had a slight negative impact.

For the full second quarter of 2014, our same-store sales were 7.7% at Company-owned and 6.5% at franchised locations, reflecting the strong sales during the men's World Cup tournament. The effect of menu price benefits for adjustments taken in the last 12 months is 3.8% for the second quarter and includes a small alcohol price increase taken in March.

Looking at events for the rest of the quarter, we have the women's World Cup taking place in Canada beginning in mid-June and there is the Mayweather-Pacquiao fight this upcoming weekend. Due to the significantly increased cost of the fight, we will be airing the fight only in a handful of Company-owned locations and will be charging a cover.

In the second quarter, we expect to open 11 Company-owned Buffalo Wild Wings restaurants, one of which is already opened. As a reference point, in the second quarter of 2014 we opened six new Company-owned Buffalo Wild Wings locations and one PizzaRev and closed one restaurant. We also expect that our Buffalo Wild Wings franchisees in the United States and Mexico will open 14 restaurants during the second quarter.

For cost of sales, our cost of traditional chicken wings for the first two months of the second quarter averages $1.77 per pound. This compares to the average cost for the full second quarter of $1.42 per pound last year.

I will pause here to briefly discuss the avian influenza outbreak in the United States, confirmed in both turkey and chicken flocks. To date, there has been no immediate impact to the Buffalo Wild Wings chicken supply, and we intend to continue to monitor the situation closely with our supply partners. We have great confidence in the US food supply and safety requirements and have not seen a shift in our guest behaviors.

We anticipate labor as a percentage of restaurant sales in the second quarter to increase approximately 30 basis points compared to last year's second quarter of 31.3% as we begin lapping the addition of guest experience captains in the prior year. For the full year, our current estimate is that labor will be flat to the prior year and we will continue to explore opportunities to efficiently manage labor costs while delivering an excellent guest experience.

In the second quarter, we anticipate that G&A expenses exclusive of stock-based compensation expense will be approximately $29 million. Second-quarter stock-based compensation expense is estimated to be $4.8 million, an increase of $700,000 compared to second quarter last year. Stock-based compensation expense for the year is estimated to be about $16 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.

With our results for the first quarter and our outlook for the remainder of the year, our net earnings growth goal is 18% for 2015, with this growth occurring in the back half of the year.

Please review the risks sections outlined in our SEC filings, including our Form 10-Q for the first 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 color on our second quarter and 2015.

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

Thank you, Mary.

Our guests' desire for the Buffalo Wild Wings experience doesn't end with the game and we have the opportunity to drive additional traffic at lunch. We know guest needs vary by location and occasion during the lunch hour and they are looking for speed and value.

B-Dubs Fast Break, a systemwide lunch program, allows guests to pick two from a choice of seven entrees and sides, like chicken tortilla soup and salads. Handspun wings with fries are also available.

We are promoting Fast Break through national television and radio, social media, and digital advertising.

Our 2015 playoffs limited-time menu panel launched April 13 and features barbecue five ways to enjoy while cheering on your favorite team in the basketball and hockey playoffs. Ribs basted with your choice of one of our signature sauces, a honey barbecue chicken salad, a hickory pork sandwich, and housemade barbecue kettle chips are some of the featured items.

Working with our beverage partner, we created a limited-time sauce, Blue Moon BBQ, and we're also featuring Blue Moon Belgian white beer on the menu panel.

Sales comparisons will be more difficult in June and July, given our strong sales performance during last year's men's World Cup, but we're not sitting on the sidelines. This summer, we're bringing the world of sports to Buffalo Wild Wings. Each week, we will highlight fun and unique sports from around the world, including women's World Cup.

Our menu panel during this time will have fresh and flavorful items from across the globe and the sauce lab will feature Moroccan Fire.

To further engage guests, we have new games to play in restaurant with prizes awarded daily and weekly, including a trip to see a rugby match in the UK or a sumo wrestling match in Japan. Continued technology investments enhances Buffalo Wild Wings' guest experience and a central touch point of the experience is tabletop tablets. Tablets are in 80% of the Buffalo Wild Wings system, including all Company-owned locations, and our franchise rollout will be complete by year-end.

We will be in a two-market test for tablet menu order in the third quarter, which is behind our initial timeline as we have identified additional development needs. Our guests place great emphasis on speed of service, and to help our servers take orders more efficiently, we have begun a two-market test on server handheld devices.

Guests want choice in payment, and we're working to build out payment capabilities that will ultimately include several solutions for faster payment.

And finally, we want to recognize our most loyal guests and our loyalty program is under design as we move forward to a systemwide launch in 2016.

All of these technology initiatives aim to create an even better sports viewing experience and gaming experience for our guests. And we continue innovation with GameBreak, our fantasy competitive gaming platform.

To drive recruitment and continuously improve retention, Buffalo Wild Wings is further investing in our team member experience by creating new training and learning opportunities and leadership development programs.

We are excited to expand our international locations with Dubai and Riyadh opening their doors soon. International growth through franchise partners continues to be part of our strategy for long-term, sustained earnings growth, as does investments in emerging concepts such as Rusty Taco and PizzaRev. We're excited to be strategic partners for both of these brands.

We thank our team members, our franchisees, and our vendor partners for their passion and their continued dedication to our success. I will now turn it 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 first-quarter earnings call. Jim Schmidt, Chief Operating Officer for Buffalo Wild Wings, will join us for Q&A today.

We will end the call promptly at the top of the hour. In order to get to as many participants as possible, please limit yourself to one question and queue up again if you have additional questions.

Operator, please open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Keith Siegner, UBS.

Keith Siegner - *UBS - Analyst*

First question on the monthly cadence within the quarter of the same-store sales. We knew what the start of the quarter was, so clearly there was some material slowing, but if you think about March, you had new ads. You had guest captains in place for March Madness for the first time. You talked about the bracket challenges and so on.

Can you talk about that monthly cadence and maybe was March a disappointment relative to some of those bigger initiatives that you launched?

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

No, I think -- a couple of things. I think you have to go back and look at our same-store sales from the prior quarter, first-quarter 2014. We escalated on same-store sales during that quarter, so it's quite likely that we would see some deceleration and we expected that. If you look at our two-year comps, we're still in double-digit year over year.

So, we felt that we had a good, strong March Madness showing. It can vary from year to year, of course, depending on the teams and the matchups, but we were very pleased with our creative and our messaging and our execution in stores.

Keith Siegner - *UBS - Analyst*

If I could sneak in just a quick housekeeping one. Heather, would you mind running through quickly the store count reconciliation by brand -- opens, closures, ending units? Any data there would be helpful. Thanks.

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

Yes, sure, no problem, Keith.

On the Company side, Buffalo Wild Wings would have started with 487 units. We opened three and acquired six from franchise, ending at 496. Rusty Taco Company-owned, we started with 2 and acquired 1 to end at 3. And then, PizzaRev remained at the 2, and that gets you to the total of 501 Company-owned units.

On franchised side, Buffalo Wild Wings, there was opening -- our beginning started at 585, openings of 10, close or relo of 2 locations, and sold to the Company was 6, so that ends at 587. Rusty Taco franchise would have started at 7, sold 1 to end at 6, and that gets you to the total of the 593 for franchised locations.

Keith Siegner - *UBS - Analyst*

Thank you.

Operator

John Glass, Morgan Stanley.

John Glass - *Morgan Stanley - Analyst*

Could you first maybe just talk a little bit about the labor line? It was above your expectations on a percentage of sales. Dollars came in where we thought. So I am not sure if your comment was the dollars were higher than you thought or just the sales were lower, so maybe you could clarify that.

And when you look at labor dollars per store in this quarter, is this the right run rate going forward or were some of the things you saw this quarter one time and will fade -- not be present the next couple quarters?

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

Our comments are based on cost of labor as a percent of restaurant sales. We had guided that would be about 50 basis points over last year. We ended at 90.

We were on track as it related to our expectation of the additional guest experience captain expense. Where we were off on our guidance is that the bonus expense and the related payroll taxes to that were higher than we anticipated. I think that was a reflection of the strong same-store sales we had in January and February.

When we look forward to the second quarter, we are guiding about 30 basis points over last year. We will begin to lap the guest experience captain additions that were made in the second quarter of last year, and when we look at the bonus expense on a year-over-year basis, we think we will be flat. So we feel good about the 30 basis points [op].

John Glass - *Morgan Stanley - Analyst*

That's helpful, and then just going back to the sales question, there was an Easter shift discussion around March Madness, and then you talked about the more difficult compares in June and July. What is that Easter shift or what do you think that caused -- what do you think that hurt comps by? And then, remind us just where the comps were in the June/July period last year around the World Cup specifically.

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

As it relates to the Easter, we do think there was a slight negative impact in our four-week comp number for the month of April because it was in the Final Four weekend this year.

From a positive that things that we think will positively impact our same-store sales in the second quarter, our World of Sports promotion that we have, that's fully integrated with our marketing and advertising. We feel very confident about it and we also had the women's World Cup.

The negative, the Easter, which was a slight down, would be one of them. There is also two fewer boxing matches year over year. We did mentioned in the script that we are not running the Mayweather-Pacquiao fight in -- just only a handful of our Company store locations. We don't believe there is too much of a negative on that. We also don't have the men's World Cup, I don't think we called out specifically.

John, for what we called out for World Cup and the 7.7% comp that we had in Q2 last year, that 100 basis points was attributed to World Cup, and then for the first four weeks of Q3, so that July period, we reported a 8.2% and we said World Cup was about 330 basis points of that.

John Glass - *Morgan Stanley - Analyst*

Got you. Okay, that's helpful. Thank you.

Operator

Jeff Farmer, Wells Fargo.

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

Does your 18% guidance number reflect an expectation for lower wing prices in coming quarters? And I only ask because it looks like for the balance of the three quarters, you guys need to put up something close to 25% EPS growth. So, again, I am just curious what the assumptions are as you move forward.

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

It is our assumption that wings will be lower in the second half than they were in the first half. We have seen them fall as we go through the second quarter. We are at $1.77 on a blended for the first two months, so now we are only 25% higher than prior year, whereas in the first quarter, we were 41% higher.

So we do believe that they will be higher as we go -- that they will go lower as we go through the second half of the year. And it is -- as we noted in the script, it is a year where our growth comes in the second half of the year.

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

All right, thank you.

Operator

Matthew DiFrisco, Guggenheim Securities.

Matthew DiFrisco - *Guggenheim Securities LLC - Analyst*

I wonder if you could just follow up on that, if you could just talk a little bit about pricing also in the back half of the year. I think you said 3.8% is what you will be carrying in 2Q. I guess if we are doing the math right, are you going to come down to below 2% by the fourth quarter?

And then also, similarly, if you could just talk about the growth of G&A in the second half of the year as well, just to complete that tail earnings growth acceleration. Thank you.

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

So based on menu pricing that's currently in effect, second quarter, our menu price increase would be 3.8%. In Q3, it would be 3.5%, and by Q4, it would be 2%. We are planning a menu refresh in October. We haven't made a decision at this point on what type of menu price increase we would take.

From a G&A standpoint, we are guiding for the second quarter at $29 million, which is similar to what we thought first quarter would be. Some of that is just shifting of expenses from a professional fee standpoint on some projects we have in place that will occur now in the second quarter instead of the first quarter.

Matthew DiFrisco - *Guggenheim Securities LLC - Analyst*

And then, just a follow-up, if you don't mind. As far as the new store volumes, I guess, the average weekly sales both on the Company and the franchise seem a little bit lighter than previous years where they were actually expanding faster than same-store sales. Is that -- can you talk about the dynamic of that?

With the stadia format and everything and the new bells and whistles in all the stores, I would have thought bigger volumes with those stores, or is it smaller markets and a smaller investment cost? So just curious if you could talk about the performance of those stores versus guidance and -- or expectations internally and your return on invested capital. Thank you.

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

Yes, let me talk about Company stores first. So, most of it is just a calculation -- comments on the calculation. When same-store sales are higher, the impact of our new restaurant openings is less, as well as when the base of the same-store sales gets bigger, our new restaurant openings also have less of an impact over last year.

And those two are the case in the first quarter. Our new restaurants are opening above the average. It's just that their percent impact on the calculation is not as great as it was in the prior year.

As it relates to franchisees, they have those same two factors going on. Their one nuance to them is that their new restaurant openings are a little bit closer to their average weekly volume, where we still have a bigger delta on our Company stores. Again, not enough in order to make an impact when you have higher same-store sales quarters.

Matthew DiFrisco - *Guggenheim Securities LLC - Analyst*

Thank you.

Operator

David Tarantino, Robert W. Baird.

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

Mary, I wanted to come back to the full-year earnings outlook of 18% and perhaps ask, at a high level, it does require a lot of earnings growth in the second half, so could you help us walk through some of the elements that are going to drive that earnings growth higher in the first half relative to what you are seeing -- or higher in the second half, excuse me, relative to what you are seeing in the first half?

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

It is how we expected the year to go, so when we look at our results for the first quarter, it is very much in line to where we would believe our first quarter would be.

Based on the number of units that we had open very late in the year last year, the strength of our same-store sales as we go through this year, our belief that wing prices are going to moderate as we go through the year, it is a year where the third and the fourth quarters are really where our net income growth is accomplished.

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

And is it solely based on the wing cost moderation or is there other factors? It seems like maybe labor is going to flip to leveraging in the second half. Is G&A also going to be a big leverage point in the second half, relative to the first half?

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

We do believe that for labor we will be flat for the year, where we are up year over year right now. On G&A, we always expect to leverage on that. That is a focus point of ours and I think we have shown a nice job of doing that in the first quarter.

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

Great, that's helpful. And then one clarification, Mary. On the labor, what changed in the outlook there? I think the last call you expected to get leverage and now you are saying you expect it to be flat. Was it purely the Q1 performance or is there something underpinning the overall labor outlook that isn't obvious to us?

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

We thought we would work our labor down quarter by quarter as we went through the quarter. I think 30 basis points is what we feel is realistic for the second quarter, and as we commented in the script, we will continue to look for other opportunities as we go through the year to really leverage on how we are utilizing the guest experience captains, our management structure, our hourlys, and still provide a really wonderful guest experience to our guests.

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

Great, thank you very much.

Operator

Jason West, Credit Suisse.

Jason West - *Credit Suisse - Analyst*

Just wondering if you guys could talk a bit more about the tablet rollout. You said there were some delays in the timeline there, due to some additional development needs, so if you could explain a little bit more what happened there.

And on the rollout this year with ordering, I believe you had said you're not going to be able to order alcohol on the tablets. Is that a temporary issue or is that something that will be a permanent -- you will only be able to do food on those? Thanks.

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

That is temporary and, yes, we did identify some additional development that we wanted to do on the tablet ordering after it had been in proof of concept. So we're working on that now.

We do anticipate rolling it in the back half of the -- in Q4, starting to roll, but at the same time we're also working on the payment. And I really think for the tablet ordering to be effective, we will have to pair it with a payment, and so I think all of those will probably come together as we enter, at this point, 2016 when we will really be able to effectively roll this with both ordering and payment.

We are separately working on the beverage ordering piece of it, and so that will also be coming as we enter 2016.

Jason West - *Credit Suisse - Analyst*

Okay, thanks. And just a follow-up on the gap between the franchisee comps and the Company comps, particularly in April, was somewhat notable. I don't know if you guys had any explanation of why the gap there.

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

I think there's a couple things. First, I believe we are in, I think, our seventh quarter of Company outpacing franchise and I think some of that is -- we believe that is attributable to we're ahead of them in the rollout of the guest experience business model and also converting to stadia.

Now as you look at the first month of April, you can be significantly impacted by matchups at this time of year. So a lot of it, I think, maybe just -- some of that April is probably just attributable to matchups in the playoffs, who is in, what days they play on, et cetera.

Jason West - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Chris O'Cull, KeyBanc.

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

Sally, in the past you have talked about targeting a gross margin or a cost of food as a percentage of sales longer term. What do you think is the optimal labor cost structure for the restaurant, not just this year, but longer term? Do you have a target that you are trying to accomplish?

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

We have talked about cost of sales of being in that 29% to 30% range, and if we can hit in that range, we feel we are doing a good job.

On labor, we have made that investment in guest experience captains. We have also seen some impact to minimum wage, which we took price to cover that. We are seeing some pressure beyond those people just earning minimum wage.

But I think we would like to get back to closer to historical levels, given the fact that we will have perhaps some basis points attributable to guest experience. We do think that is driving higher same-store sales.

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

Do you expect to get back to that lower cost of sales primarily through sales -- or, I am sorry, that lower labor cost number primarily through sales increases or do you think the tablets or some other initiative can help reduce the expense?

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

Yes, I do think there are opportunities to leverage labor through technology. I think the whole industry will be looking at that as we move forward and you start to see the wage pressure.

I also think we tend to look at the entire restaurant P&L, and our goal is aspirational to, say, 20%, but we look at the whole P&L. So in the end, if labor has to be a little higher, but it's driving higher same-store sales, we would look and try to look at other lines of the P&L where we can recapture that.

And I think one example is we are doing a good job of leveraging occupancy right now. So, we will continue to look at the entire P&L with the thought of maximizing that, rather than merely focusing on the labor line.

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

Great, thank you.

Operator

Diane Geissler, CLSA.

Diane Geissler - *CLSA Limited - Analyst*

You may have mentioned this and I may have just missed it, I know you announced a couple acquisitions of franchisees, but did you update your store opening targets for this year? And if not, can you give us some color on store openings?

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

Yes, we are targeting 50 store openings for Company and 44 for franchised on the Buffalo Wild Wings side. International, we still believe eight to 10 feels like about the right number, and then (multiple speakers)

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

A couple Rusty Taco and PizzaRevs, up to 5 this year, so that's exclusive of acquisitions that we make.

Diane Geissler - *CLSA Limited - Analyst*

Okay, and then just in terms of the stadia design, assuming the 50 that open this year will all be in stadia, and then what percentage of the existing store base has been remodeled into the stadia format?

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

Yes, all of the Company restaurants that opened this year should be in stadia. We have -- let me see. Yes, we have 45 additional remodels we will be doing on the Company side. We anticipate ending the year with about 193 Company restaurants in the stadia model and, let's see, about 115 franchise in stadia.

Diane Geissler - *CLSA Limited - Analyst*

And what is the average spend on the CapEx on the reformatting?

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

You mean for a remodel?

Diane Geissler - *CLSA Limited - Analyst*

Yes, when you remodel it into the stadia design format, what --

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

No, it ranges from $500,000 to $600,000, depending on the extent that you need to do, if it needs signage or other equipment that you're going to go ahead and put in when you're doing the remodel.

Diane Geissler - *CLSA Limited - Analyst*

Okay, and any word on what the lift is when you take an older format and move it onto the stadia design?

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

Yes, we see nice increases in our sales. They are trending higher than our comp-store average. Sometimes you are doing remodels just remain defensive. Obviously, you want to protect your brand, but overall we have been very pleased with the results of stadia remodels.

Diane Geissler - *CLSA Limited - Analyst*

Okay. And then, sorry, I am going to sneak another one, if you don't mind. Can you just talk about what you're seeing on takeaway business or catering, however you term it, in terms of people coming into the store and picking up and taking it away for consumption elsewhere?

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

Takeout has been strong for us. We are seeing strong takeout sales. I think that's probably even an industry trend, but our takeout sales have been strong and we are at 15.5% takeout right now, so it's been a very strong area for us.

Diane Geissler - *CLSA Limited - Analyst*

Okay, great. Thanks so much.

Operator

Mark Smith, Feltl and Company.

Mark Smith - *Feltl and Company - Analyst*

Can you talk about, just following up on remodels, any remodels that happened during the quarter and maybe days that were closed that might have been negative on the sales?

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

You asked us to -- sorry, you came through very light. You asked us to talk about remodels and days the stores might have been closed because of the remodels?

Mark Smith - *Feltl and Company - Analyst*

Yes, during this quarter. Yes.

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

It would not be material to our same-store sales.

Mark Smith - *Feltl and Company - Analyst*

Okay. Then, second, if I can, can you just talk, and I have asked it before, about the alcohol trend, down again year over year. Any concerns there and is that squeezing margin at all in the restaurants?

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

No, with the increasing percentage of takeout, you do -- you will see a lower alcohol percent, so from a dollar standpoint, we are still on track or we are very comfortable with where we are at from -- on alcohol sales. It is primarily due to takeout.

Operator

Andrew Charles, Cowen and Company.

Andrew Charles - *Cowen and Company - Analyst*

I wanted to check in about the GameBreak content upgrade and what we can expect to be enhanced come the fall.

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

We are currently testing premium games -- well, no, GameBreak. GameBreak's part of all of our promotions, and so we will have Fantasy Football back and we usually incorporate that in some fashion in all of our promotions. It's not part of World of Sports because of some issues, regulatory issues we couldn't overcome.

But typically you will see it back with Fantasy Sports in the fall, and then as part of our promotions that will be coming out within the fall, there will be a GameBreak piece of that.

Andrew Charles - *Cowen and Company - Analyst*

Okay, and then I know there are some pushes and pulls when comparing average weekly sales growth to same-store sales growth, but broadly, do you continue to see sales on the coast outpacing sales in the core?

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

I just think it's partly due to the population and the density of the population on both coasts, particularly -- well, obviously, California and Washington, New York, New Jersey versus the middle part of the United States. That's where most of our development has been this past year.

Andrew Charles - *Cowen and Company - Analyst*

Is the growth, though, still -- in those new regions or in the coastal regions still outpacing the growth in the core, though?

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

We're opening more units on the West and the East Coast.

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

Although it's a little more balanced this year. It's not quite as focused on the coasts as I think it has been in the last few years.

Andrew Charles - *Cowen and Company - Analyst*

Great, thank you.

Operator

Nick Setyan, Wedbush Securities.

Nick Setyan - *Wedbush Securities - Analyst*

With respect to the acquisitions of franchisees, do you guys expect some level of accretion within your guidance this year or do you still think that within the first year they are dilutive?

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

We think -- it depends on the timing of the closure or when we close on the deal, so the right of first refusal that we exercised for the nine units, plus the 3 in development, that is most likely timed towards the later part of this year, and so their effect on the bottom line would be immaterial.

Nick Setyan - *Wedbush Securities - Analyst*

Okay. So basically the earlier they close in the year, the more accretive they will be, and if they -- but it's not like they are going to be dilutive?

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

Correct, for the first full year. Yes, and then really it's just timing as it relates to whether or not they are dilutive or flat.

Nick Setyan - *Wedbush Securities - Analyst*

Okay. And then, just belaboring G&A on depreciation, we have seen a couple of quarters now where we are seeing some deleverage even as the number of stores comes down. Is that just a function of that? Is that part -- is part of it the acquisition of the stores, you have to have some accelerated depreciation? Is it the remodels? Is it the increased spending on IT? How should we think about D&A going forward?

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

On the D&A piece, the increase year over year on that is a function of a couple things, more freestanding and more converted sites in our development process, as well as increased depreciation we have for stores that we acquired in the last part of last year. And there is -- some of that is accelerated and some of it is just -- some of them are very large locations.

Nick Setyan - *Wedbush Securities - Analyst*

And going forward, that trend is going to continue. Should we think about that as more of a line that is going to delever year over year?

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

I think at some point we are going to be fairly flat on that. We're actively remodeling our locations. We have been opening up more freestanding and seen more conversions the last couple of years. So it would be our goal that it doesn't continue to delever.

Nick Setyan - *Wedbush Securities - Analyst*

Okay, and then just percent of COGS that were wings for the quarter?

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

26.5%.

Nick Setyan - *Wedbush Securities - Analyst*

Thank you.

Operator

Greg McKinley, Dougherty.

Greg McKinley - *Dougherty & Company - Analyst*

Thanks. All my questions have been answered, except for just a point of clarification on franchise acquisitions. How many additional stores are contemplated in your guidance at this time?

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

The acquisition of the two single units in the second quarter are contemplated and then acquiring the 12 through that right of first refusal. Again, we think it's going to happen late in the year and so the impact is minimal.

Greg McKinley - *Dougherty & Company - Analyst*

And can you just -- any color you can provide us on the health or performance of those acquired stores?

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

You mean, the ones that we have already acquired or the --

Greg McKinley - *Dougherty & Company - Analyst*

The ones you will be.

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

We approach that with a look towards if we built it, what would the cost be to build out a new location? What do we expect the cash flow from it to be?

They are well run and we think there is still opportunity, but it made sense for us to acquire them. It meets our internal thresholds for what we want to achieve on our return on capital.

Greg McKinley - *Dougherty & Company - Analyst*

Thank you.

Operator

Andrew Strelzik, BMO Capital Markets.

Andrew Strelzik - *BMO Capital Markets - Analyst*

I just wanted to ask again on the change in the labor guidance for the year. Is there any change in the way you're thinking about the back half of the year in terms of labor or is most of the change just due to the first quarter being -- coming in higher than you expected? Or maybe is the delay in the order rollout playing a role in that as well? Just how you are thinking about the back half.

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

Well, I think we believe -- as we look at the year, I think we provide a little bit of additional cushion throughout the year on labor in our guidance.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Okay, thank you.

Operator

Steve Anderson, Miller Tabak.

Steve Anderson - *Miller Tabak - Analyst*

I just wanted to have a question for you on SG&A, where you -- I joined toward the end of the call, so where you see SG&A spending through the year and if you can provide any color on the incremental amount of SG&A spending you contemplate for the rollout of the loyalty program that you are testing and plan to roll out early next year? Thank you.

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

We don't give overall year guidance. On the dollar amount of G&A, we did mention that we expect to leverage on that line for the year. For second quarter, we provided that we estimate $29 million in G&A. That is up from first quarter, but some of the fees related to projects that we thought we would incur in the first quarter, we haven't, and we believe that will occur as we go into the second quarter.

As it relates to the development of the loyalty program, some of those expenses are being captured through our national ad fund, and any impact as it relates to the loyalty program is considered in our guidance on leveraging on the G&A line.

Steve Anderson - *Miller Tabak - Analyst*

All right, thank you.

Operator

Brian Bittner, Oppenheimer.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Sorry, guys, I got to ask another question on labor here and the margins. I just think it's important because you do have the assumptions that you will leverage labor in the back half to get to the earnings guidance, and you obviously had these issues in the first quarter that don't recur, but in the second quarter you lap the guest experience and some of those issues dissipate. But there is still going to be some deleverage.

So I am trying to get my head wrapped around really what happens in the back half relative to the second quarter that will drive better leverage? Is it being further along the learning curve of the absorption of those guest experience captains or is there actual hard math on a year-over-year basis that is going to help you better leverage labor in the second half of the year than the second quarter?

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

Well, we do see that we are becoming more efficient as it relates to the guest experience captains that have rolled out, so we did roll them out last year, the biggest rollout pieces being in second and third quarter and then still some that finished up in the fourth quarter. So, we will be lapping that, as well as the training that went along with that rollout in the middle part of the year.

We do believe in the second quarter we will still be up year over year as relates to that, but when we look at our first quarter and where we had moved our guest experience captains on a year-over-year basis, we feel comfortable about the 30% in our comment regarding flat for the year on our labor.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay, so basically you start rolling over in the second quarter, but the last will be a lot easier in the second half as -- from the guest experience captain perspective?

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

Correct.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay. All right, thank you.

Operator

Peter Saleh, Telsey Advisory Group.

Peter Saleh - *Telsey Advisory Group (TAG) - Analyst*

Can you just talk about the decision not to air the Pacquiao fight, and why air it in only a handful of stores? And also, just, are franchisees planning on airing this fight?

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

The decision was based on the cost of the fight. I think it's about $5,100 a restaurant, and so we did not feel comfortable with the cost. And then, also, with the time of the fight being at 8 o'clock Central, for our stores on the West Coast it would be right in the middle of our dinner hour.

So because of that, we decided to only air it at a handful of restaurants on the Company side. I believe on the franchise side, we have around 70 restaurants that are going to be airing it on the franchise side. I think on the franchise side, they are more comfortable charging a cover. We're going to try it for the first time on the Company side really with the restaurants we are holding it in, but I think franchisees tend to charge to cover more frequently than we do.

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

And then, the focus we have in the restaurants is really on takeout for that day, so we do believe we are going to capture some additional sales by having that focus.

Peter Saleh - *Telsey Advisory Group (TAG) - Analyst*

Great, and then just real quick on the tablets. I know you said 80% of the tablets -- 80% of the system today, 100% by the end of the year. Do you still plan to have the full capability to order from the menu completed by the end of this year or sometime this year, or is that more of a 2016 type of initiative?

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

At this point, I believe that will be first half of 2016.

Peter Saleh - *Telsey Advisory Group (TAG) - Analyst*

All right, thank you very much.

Operator

Will Slabaugh, Stephens.

Will Slabaugh - *Stephens Inc. - Analyst*

I want to ask about the cash balance and uses of cash as we think about this year and next. So you built up $113 million or so, haven't been aggressive in the past about either repurchases or thinking beyond small acquisitions, so just want to come back to that.

As you think about growth slowing into the high single digits in terms of unit growth, I know there are still some acquisitions out there, but does a share repurchase more consistently make sense at this point? And if not, what would make you reconsider that?

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

We are aware of other franchise acquisition opportunities in the system, so for the time being we do want to see how that shakes out and what type of use of cash may occur because of that. As it relates to cash that continues to be in excess, we are open to other methods of returning that to our shareholders.

Will Slabaugh - *Stephens Inc. - Analyst*

Got it, thank you. Just one quick follow-up, if I could, on the guest experience captain. In your view, has this been a big success? Has this position really carried its own weight at this point? Or, in other words, have we hit a point that the incremental sales that the position really drives outweighs his or her expense, or am I looking at that too much in a dollars-and-cents way as opposed to you feel like it enhances the overall experience of the guest?

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

Yes, I think -- we don't tend to break it into components. We look at the guest experience business model in a holistic sense as a comprehensive model, which the guest experience captains are one component. And as I mentioned, I think we attribute a lot of what we are seeing on same-store sales and the strength of same-store sales to that business model.

And again, we are clearly outpacing the casual dining industry. We are outpacing our franchisees who have not yet fully implemented the model. So we feel pretty confident that the model is bringing value.

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

I would just add one thing to that, and that is as we look at those guest experience captains, the primary purpose in 2014 was to get them in the store, get it rolled out everywhere, and now we will be looking at not only their ability to work and provide a great experience for our guests, but also community outreach. How are they going to work in the community on marketing?

So, we will look at are there dollars that were typically or historically marked for local store marketing that we can shift to that guest experience captain.

Will Slabaugh - *Stephens Inc. - Analyst*

Thank you.

Operator

Robert Derrington, Wunderlich Securities.

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

Quick question on the weather's impact. And I know, Mary, you all hate to talk about that, but I know in a lot of -- a number of areas in the Southeast, literally the roads were impassable due to ice. Have you collected any lost store days that you can share with us in this past quarter?

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

We did not fully quantify it. We heard -- and we could see some affect on, say, Super Bowl when there were pretty heavy snowstorms in Chicago and some other markets where it was obvious that those sales were affected by it. But we haven't quantified it specifically, and I think many times people forget the positive effects of bad weather from the year before in those comparisons.

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

Got you. And then, secondarily, have UFC fights lost their luster as being an attractant for crowds? And depending on what your answer is, is it because of Ronda Rousey and her short fights?

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

I don't think that -- I don't think we have done a lot of analysis around UFC fights. I do think that every fight is different. We would, of course, just like we like things to go into overtime, we like the fights to go every round. I think that we have been performing, if you look at it year over year. It's been a positive for us.

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

And we do carry it broadly across our Company stores.

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

(multiple speakers). I do think the fight I heard this past Saturday night was not as attractive of a card as some other fights, so I think it probably varies by event.

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

Maybe if you sponsor Ronda, she will take longer fights. (laughter). Anyway, thanks, guys.

Operator

At this time, I would like to turn the call back over to Sally Smith for any additional or closing remarks.

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

Thank you, again, for dialing in and listening to our first-quarter conference call. We are pleased with where we ended up for the quarter and we will look forward to providing you another update on our second-quarter call at the end of July. Thanks so much.

Operator

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