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BWLD - Q1 2016 Buffalo Wild Wings Inc Earnings Call

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OVERVIEW:

BWLD reported 1Q16 revenue of \$508.3m, net earnings of \$32.8m and diluted EPS of \$1.73. Expects 2016 diluted EPS to be \$5.65-5.85.



CORPORATE PARTICIPANTS

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

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Andrew Charles *Cowen and Company - Analyst*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Buffalo Wild Wings first-quarter 2016 conference call. At this time, all participants are in a listen-only mode. Following the presentation, we will conduct a question-and-answer session. 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 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 of IR*

Thank you, James. Good afternoon and thank you for joining us as we review our first-quarter 2016 results. I am Heather Pribyl, Director of Investor Relations for Buffalo Wild Wings. Joining me today is Sally Smith, President and Chief Executive Officer, Jim Schmidt, Chief Operating Officer, and Jeff Sorum, Senior Vice President and Corporate Controller. By now, everyone should have access to our first-quarter earnings release. Copies are available on our investor website at www.ir.buffalowildwings.com.

Before we get started, I remind you that today's call will contain forward-looking statements, and actual results may vary materially from those discussed in the forward-looking statements due to many factors including the risks and uncertainties identified in today's earnings release which



we filed on a Form 8-K concurrent with its release and in our other filings with the Securities and Exchange Commission. A few calendar items to note. Our second quarter 2016 ends on June 26, and we tentatively plan to issue our earnings release after market close on July 27 with a conference call called at 4.00 PM CST. We will also be hosting our 2016 Analyst Day on August 16 in Denver, Colorado. And, our next 53-week year is our FY17.

On today's call, Sally will provide an overview of our performance for the first quarter and our sales initiatives. After that, Jim will provide further detail on the quarter, comments on trends to date in the second quarter, and our outlook for 2016. Sally will provide some final thoughts, and then we will answer questions. With that, I will turn things over to Sally.

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

Thank you, Heather, and good afternoon, everyone. Our total revenue in the first quarter increased 15.4% when compared to prior year, resulting from continued unit development and franchise acquisitions over the last 12 months. We are dissatisfied to report a same-store sales decline for Buffalo Wild Wings, and we are undertaking several sales-driving initiatives. We were able to manage costs and improve our restaurant level margin, and our earnings per diluted share increased 13.5% year-over-year to \$1.73.

There are a variety of factors that impacted our sales this quarter, but rather than talk about the weak macro environment, I am going to share with you what Buffalo Wild Wings is doing to regain momentum. Our sales-driving initiatives include -- first, continuing to execute a strong takeout program and gain additional share. Second, enhancing our Fast Break lunch with a speed-of-service guarantee. Third, improve and promote our value occasion. And, finally, winning the market for soccer.

As we see our takeout sales increasing, we are well positioned to capture additional opportunity. Takeout remains strong in the first quarter representing 16% of gross restaurant sales. Online and mobile order for takeout at Company-owned restaurants was 14% of takeout sales compared to 8% in the first quarter of the prior year. We're also seeing an increase in average check for online orders versus call-ins. We will be highlighting takeout with a large order takeout package as we celebrate the road to UFC 200. This special large order package will be available for UFC 198, 199, and 200.

Our Fast Break Lunch program delivers on the value and variety guests want at Buffalo Wild Wings. We're testing an enhancement to fast break to include a speed-of-service guarantee for guests who order off the fast break menu. We believe this combination of speed, value, and variety is an attractive offering to guests, and when combined with additional advertising spend around lunch, it will drive incremental sales.

Wing Tuesdays are a great way for traditional wing lovers to enjoy our hot wings and one of our signature sauces at a discounted price. Historically when we highlight wings and Wing Tuesdays, we see a lift in sales, and we plan to promote this value day with more advertising this year. Our team is also exploring different pricing and bundling options to make Wing Tuesday even more appealing.

On May 2, we launch a new happy hour menu. In addition to our current pricing on tall domestic and craft beers, it will include discounts at pints, wine, and our house margarita. When we tested the new happy hour offerings, we saw an increase in sales and traffic. We will promote our value offerings inside the restaurant on B-Dubs TV, in the communities using our guest experience captains, and through coordinated media campaigns.

During the 2014 Men's World Cup and the 2015 Women's World Cup, we introduced the Buffalo Wild Wings brand to soccer fans and had success in driving traffic during those tournaments. Our restaurants will be where soccer lives this summer during the excitement of the Copa America and Euro Cup tournament. We partnered with Heineken to promote Buffalo Wild Wings as the place to catch all the action on the pitch during the 80 games of the tournament. Soccer will carry increased media weight this summer, and we have a co-branded spot with Pepsi.

As soccer is a year-round sport, we intend to win the market for soccer viewership with our great food and beverage experience and unparalleled sports viewing environment. We're confident Buffalo Wild Wings will regain sales momentum by focusing on these initiatives that are within our operational control. Jim will now provide additional details on the first and second quarters.



Jim Schmidt - Buffalo Wild Wings, Inc. - COO

Thank you, Sally. Our revenue in the first quarter reached \$508.3 million, increasing 15.4% over the same period last year. System-wide sales at our Company-owned and franchised restaurants were \$967.3 million for the quarter, an increase of 4.8% over the first quarter of 2015. Company-owned restaurant sales for the first quarter increased to \$483.9 million, a 16.6% increase over the same period in the prior year.

Same-store sales at Company-owned Buffalo Wild Wings restaurants decreased 1.7% for the first quarter compared to an increase of 7% for the same period last year. Same-store sales were negatively impacted by 50 basis points from the Easter shift into March. Menu price increases and adjustments taken during the past 12 months at Company-owned restaurants were about 3.1%.

We had 100 additional Company-owned Buffalo Wild Wing restaurants in operation at the end of this quarter versus first quarter last year, a 20% unit increase. Average weekly sales decreased by 3.1% in the first quarter, 140 basis points lower than the same-store sales percentage. This is attributed to a 90-basis-point decline from Company-owned locations opened during the last 12 months and a 60-basis-point decline from the locations acquired from franchisees in the past year. This was partially offset by 10 basis points from the closing of older, lower volume locations.

Our royalty and franchise fee revenue for the first quarter decreased 5% to \$24.3 million versus \$25.6 million last year with seven fewer franchise Buffalo Wild Wings units in operation, at the end of the first quarter versus a year ago due to our franchise acquisitions. Same-store sales at franchised Buffalo Wild Wings locations decreased by 2.4% compared to a 6% increase in the first quarter last year.

Franchised average weekly sales volumes at Buffalo Wild Wings locations in the United States for the quarter decreased by 2.1%, 30 basis points higher compared to the same-store sales percentage. There was a 30-basis-point benefit from franchised locations sold to the Company in the last 12 months. The 10-basis-point benefit from the closing of lower, older-volume locations was offset from franchise locations opened during the last 12 months.

Cost of sales for the first quarter was 29.7% of restaurant sales compared to 30.3% in first quarter last year, a 60-basis-point decrease. Traditional wings were \$1.97 per pound in the first quarter, \$0.05 or 3% higher than last year's average of \$1.92. Traditional wings as a percentage of cost of goods in the first quarter was 25.9%. Our pricing agreement on traditional wings provided a savings of over \$1 million for the Buffalo Wild Wings system in the first quarter.

Excluding traditional wings, we had favorability in the remainder of our commodity basket. Traditional wings were 21% of restaurant sales, flat compared to the same period last year. Boneless wings were 22% of restaurant sales, also the same compared to the prior year.

Food and nonalcoholic beverage sales were 81% of restaurant sales in the first quarter compared to 80% in the same period last year. Cost of labor for the first quarter was 30.8% of restaurant sales, 60 basis points lower than first quarter last year. In the first quarter of 2015, we had higher bonus payouts on stronger same-store sales compared to the most recent quarter. Our restaurant teams managed their hourly labor well in a challenging sales environment.

In the first quarter, restaurant operating expenses as a percentage of restaurant sales were 14.4%, an increase of 30 basis points resulting from deleverage on the same-store sales decline. Occupancy costs were 5.5% as a percentage of restaurant sales, 20 basis points higher compared to the same quarter last year. Also, deleveraging on same-store sales.

In summary, restaurant-level cash flow, which is calculated before depreciation, amortization, and pre-opening expenses was \$94.6 million, or 19.5% of restaurant sales. This compares to restaurant level cash flow of \$78.4 million, or 18.9% in the first quarter last year. This increase in cash flow is a result of leveraging cost of sales and labor.

Depreciation and amortization for the first quarter was \$37.5 million, or 7.4% of total revenue. 100 basis points higher than the prior year resulting from increased amortization of required franchise rights and higher depreciation and deleveraging. General and administrative expenses were \$31.7 million in the first quarter, or 6.2% of total revenue, compared to \$30.5 million and 6.9% in the prior year. Excluding stock-based compensation of \$1.4 million in the first quarter and \$2.7 million in the prior year, G&A expenses for the first quarter would have totaled \$30.3 million, or 6% of total revenue compared to 6.3% last year.

We opened six new, Company-owned Buffalo Wild Wings during the first quarter and one R Taco. This compares to three new Buffalo Wild Wings restaurants opened in the first quarter of 2015. Pre-opening expenses for the quarter totaled \$1.9 million versus \$1.3 million last year. The \$1.9 million includes \$554,000 of pre-opening expenses for future openings that are under construction, and in the first quarter last year, we incurred \$513,000 related to future openings. Pre-opening costs for Company-owned Buffalo Wild Wings averaged \$288,000 per new restaurant during the quarter compared to \$329,000 in the first quarter last year.

The loss on asset disposals for the first quarter totaled \$1.2 million compared to last year of \$605,000. The increase is primarily due to an increase in the number of remodels as we remodeled 14 Company-owned restaurants in the first quarter compared to 6 in the prior year. We reported other income of \$27,000 for the quarter compared to other expense of \$75,000 in 2015. This included a \$1.1 million benefit for the valuation of a contingent consideration related to a 2015 franchise acquisition offset by interest expense of \$885,000.

Our effective tax rate during the first quarter was 29.9% compared to 33.3% in the prior year. We estimate our effective tax rate in 2016 will be about 30.5% based on federal and state tax rates and credits currently in effect. In summary, our net earnings in the first quarter of 2016 increased 12.8% to \$32.8 million producing earnings per diluted share of \$1.73 compared to \$1.52 in the prior year.

Our balance sheet on March 27, 2016. Our cash and cash equivalents totaled \$11.7 million compared to \$11.2 million at the end of 2015. Our unsecured line of credit had a balance of \$7.6 million as of the end of the quarter. Under our share repurchase authorization, we repurchased nearly 174,000 shares during the first quarter of 2016 for \$25 million. We ended the quarter with \$971 million in total assets and \$664 million in total equity.

Cash flow from operations was \$77.1 million for the quarter. We spent \$34.1 million for property and equipment capital expenditures in the first quarter of 2016, and we estimate that our annual capital spending will be \$190 million, including the \$3.9 million we spent on franchise acquisitions in the first quarter of 2016. Free cash flow in the first quarter, which is cash flow from operations less capital expenditures and acquisitions, was \$39.1 million compared to \$7.7 million in the prior year.

Now, I will highlight a few trends and provide some comments on the second quarter of 2016. Menu price increases and adjustments taken in the last 12 months is expected to be 3.5% in the second quarter. This includes a minimal price increase of 6.6% on our May 2 menu. In the second quarter, we expect to open six Company-owned Buffalo Wild Wings restaurants, three of which are already open. As a reference point, in the second quarter of 2015, we opened nine new Company-owned Buffalo Wild Wings locations and closed two restaurants. We also expect that Buffalo Wild Wings franchisees will open 12 restaurants during the second quarter.

For cost of sales, our cost for traditional chicken wings for the first two months of the second quarter averages \$1.93 per pound. This compares to the average cost for the full second quarter last year of \$1.79 per pound. Our outlook for the cost of traditional chicken wings for the full-year 2016 has increased compared to our view in February. We anticipate labor of as a percentage of restaurant sales in the second quarter to be slightly over 32%.

In the second quarter, we anticipate that G&A expenses exclusive of stock-based compensation expense will be approximately \$31.5 million. Second-quarter stock-based compensation expense is estimated to be \$4 million, a \$500,000 increase compared to second quarter last year and will vary depending on the level of net earnings achieved for 2016 as well as for estimates of net earnings in future years. Depreciation and amortization is expected to be \$38 million in the second quarter.

Turning to the full-year 2016. We are adjusting the opening days for several fourth quarter openings to first quarter of 2017 to ensure our restaurants open strong. Our new restaurant openings for Company-owned Buffalo Wild Wings in 2016 is now anticipated to be around 40 locations. We anticipate improving sales trends throughout 2016 with a return to positive same-store sales by fourth quarter, if not sooner.

Our expectations for earnings per diluted share in 2016 is \$5.65 to \$5.85. Our outlook does not contain any changes for the valuation for the contingent consideration from franchise acquisitions for the remainder of the year. Please review the risk 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 thoughts on our Company initiatives.

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

Thank you, Jim. During spring and summer, our guests are energized by the hockey and basketball playoffs and the start of baseball season. Our limited time offering will feature items to enjoy while watching the games. Sauce Lab updates include two sauces this summer, a summer [set] shandy and a spicy strawberry sriracha. We also feature a bacon double cheeseburger, Mexicali street corn, and loaded garlic fries.

Blazin Rewards, the Buffalo Wild Wings loyalty program, is expanding to additional pilot markets in the second quarter. We're currently in 50 locations and expect to expand to at least another 90 restaurants. Feedback on the program has been positive, and we are gaining valuable insights on guest behavior. The number of loyalty transactions is increasing in the pilot markets, and we are encouraged by the progress of Blazin Rewards.

I'm happy to report the much-anticipated test of tablet order and payment is underway. Our full food menu can be ordered on the tablet in test locations and guests can pay on the tablet as well. In addition, the payment on guest device tests through [payb-dubs.me] is progressing well. B-Dubs TV will finish up implementation in nearly all Company-owned restaurants at the end of our second quarter. Our franchisees are beginning their deployments, giving guests the opportunity to see differentiated content from our partners such as the 20 years of UFC highlights to celebrate UFC 200.

We are pleased with how well our international franchisees are growing the Buffalo Wild Wings brand. New locations recently opened in Mexico, Panama, and the Philippines. Today, there are 17 Buffalo Wild Wings locations outside the United States and Canada. R Taco is expanding this year, and we plan to open six new locations offering fresh Street-style tacos. PizzaRev continues their development in Southern California through franchising. A Buffalo Wild Wings franchisee has signed up as a PizzaRev franchisee, and their first location of PizzaRev is opening in Mexico shortly.

We're looking forward to sharing more details on these and other longer term initiatives at our Analyst Day on August 16 in Denver. We thank our team members, our franchisees, and our vendor partners for their passion and their continued dedication to our success. We thank our shareholders for the confidence in our Company and our guests for their passion for Buffalo Wild Wings. I will now turn it back to Heather.

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

Thank you, Sally. We will now move to the question-and-answer session of our first-quarter earnings call. Jeff Sorum, Senior Vice President and Corporate Controller will be joining us for Q&A. 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 to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Keith Siegner, UBS.

Keith Siegner - *UBS - Analyst*

Thanks. Could you please talk a little bit about where you are seeing some of the sales weakness? We haven't seen a comp like this from you folks in quite a few years. And, seeing that two of the four sales driving initiatives -- one is for lunch. One is for your promo nights. Is that the area where you are seeing the most weakness? Is this the [intrusion] at lunch? Could you please talk a little bit about -- by day part, by day of the week -- where are you seeing the weakness the most? Thanks.



Jim Schmidt - Buffalo Wild Wings, Inc. - COO

Keith, Jim Schmidt. I think we're actually seeing an overall weakness. I think as we look at the key trend we've been following has been, we've seen a shift to takeout occur. Where our takeout has continued to grow quicker than in-restaurant. And, I think because of that, we understand that there is a price-sensitive consumer out there right now, and I think we're trying to capture that opportunity with takeout and meet that need. That's why we are focusing on those day parts and promoting those day parts that really speak to that value, price-conscious consumer. And so, that's why we're focusing on lunch, takeout, Happy Hour, Wing Tuesday -- those promotions because we really haven't talked about those day parts and really advertised them a lot for a while. So, we're just refreshing those opportunities.

But, that's not to say that -- we always focus on creating that differentiating guest experience around sports, and really the highlight of Q2 as we move in it to me are our promotions around soccer. We're really excited about the soccer promotions. There are three things going on in soccer right now. You've got the champions league playoffs going on currently that I think end made 28, 29 in Madrid. You've got the Euro Cup in June and July and the Copa America, and we've really got to push around those a lot of media and attention around those events. And, in addition, we are doing some promotions around UFC 198, 199, and then 200 which actually falls in early July. We are pushing both ways to both meet the price sensitivity of the current consumer but continue to be who we are about wings, beer, and sports.

Keith Siegner - UBS - Analyst

Actually, if I may just have a follow-up off of that, please. You mentioned the price-sensitive consumer a couple times there. Yet, one thing we often hear from investors is that maybe you've taken more pricing than a lot of the peers, and that's happening again this quarter. Price increases in 2Q going to be a little higher than in 1Q. How do you come to the decision to raise prices a little more in 2Q than in 1Q? What's behind that decision? Do you believe your pricing is appropriate? Or, have you done an analysis on your value proposition as a whole? How did you come to the conclusion to raise the prices that way? Thanks.

Jim Schmidt - Buffalo Wild Wings, Inc. - COO

I think that it's a little deceptive the price increase because really what it is, Keith, is it is a few targeted areas where we think we can go up a menu tier specific to a restaurant or a market. And then, the other piece of that is our Happy Hour. We've raised the price on some beer, but we expanded our Happy Hour to cover wine, our margaritas, and then our pint beers. And, actually in tests, that was extremely well received by our customer. So, we don't think it will have an adverse impact for the vast number, the majority of our customers will not noticeably see any price increase at all.

Keith Siegner - UBS - Analyst

Thank you.

Operator

Brian Bittner, Oppenheimer.

Mike Tamas - Oppenheimer & Co. - Analyst

Thanks. This is Mike on for Brian. One quick follow-up and another question. Did you say that the plan is for comps to improve throughout the year and be positive by the fourth quarter? Implying that negative same-store sales for 2Q and 3Q is what we should be expecting? And then, I have another question. Thank you.



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

I think we are just being very cautious in our forecasting. We did some sensitivity analysis, and it doesn't imply negative. But, we know that what we forecast out at flat same-store sales.

Mike Tamas - *Oppenheimer & Co. - Analyst*

Okay, so flat for 2Q and 3Q and then positive in the fourth quarter. Is that correct?

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

That's correct.

Mike Tamas - *Oppenheimer & Co. - Analyst*

Okay, and then the real question is, can you just talk about the EPS guide down after only the first quarter? Maybe what the biggest buckets are as you are looking at the model from here? That would be helpful. Thank you.

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

It really is a decrease in same-store sales and then higher traditional wing prices as our outlook for the remainder of the year for when prices have changed since we would have updated by February.

Mike Tamas - *Oppenheimer & Co. - Analyst*

Okay. Great. Thank you.

Operator

Matthew DiFrisco, Guggenheim Securities.

Matt Kirschner - *Guggenheim Securities - Analyst*

This is Matt Kirschner on for Matt DiFrisco. I was just wondering if you could talk a little bit more about the Blazin Rewards? Just any possible restrictions to a further rollout? Or, any timing to a national rollout?

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

I will start and then Jim can add some color to it. But, we wanted to make sure -- one, we got it right and so any tweaks we have been through that the last probably six months as we rolled it out in 50 locations. We're adding now another group because again the training that goes behind it making sure that servers, guest experience captains, anyone associated with who really understand how it works. To continue to gather guest feedback on the program and make tweaks so that you don't have to make tweaks after you have a national rollout. That will -- this next rollout will be over the next quarter or two, and we're hoping that by early 2017 it will be a national rollout. We are going to expand it to another 90 restaurants in the next quarter or two.



Matt Kirschner - *Guggenheim Securities - Analyst*

Okay. And then, as far as the future development. Jim said that you [will aim] to do 40 Company stores in 2016 down from the 40 to 50. Do you see a particular area where the market might be oversaturated? Or, what drew you to that conclusion to open 40 locations in 2016?

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

The pushing of the locations was really just a factor. We're getting back-weighted in the fourth quarter, and we just decided to manage how many openings we were going to have in the fourth quarter. And, we had some delays as a result of some landlords just not delivering timely on their obligations. I think we feel good about that 40 to 45 pace still for the next several years. Just as you fill out markets, you're bound to have some be more cautious about possibly impacting other restaurants, but that has not been a significant issue for us.

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

It really has to do with just the bulk of restaurants that we are going to be opening in November and December and decided that we would rather push those a little bit to make sure that we are opening as strong as we can those restaurants that we do open this year.

Matt Kirschner - *Guggenheim Securities - Analyst*

Okay. And, is there any regional strength? Or, anything you'd point to as far as the different store openings where you are focusing and developing?

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

Where we have most of our development opportunities remains the same. We have opportunities certainly on the coast, the Northeast and California. But then, just some fill-in throughout. And, we are very deliberate about where we locate our restaurants. We do know that sometimes there will be cannibalization. We monitor that (inaudible).

Matt Kirschner - *Guggenheim Securities - Analyst*

Thank you very much.

Operator

Will Slabaugh, Stephens Incorporated.

Will Slabaugh - *Stephens Inc. - Analyst*

Wanted to ask on the cost side, you managed that a little bit better than we would've thought given the comp. Can you talk a little bit more about any room you may see to continue to improve on the labor front which actually leveraged year-over-year? And then, what exactly you are doing there? And then, lastly, what sort of flexibility you may see to continue to find either G&A improvements or other expenses that you could maybe find some savings on that we didn't notice previously.

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

I will talk a little bit first about the G&A. We're always watching G&A and looking at what we can -- how you spend your dollars. Sometimes you -- sometimes it's a short term spend. Sometimes it's a long-term what can you push a without impacting yourself significantly long-term. We've



always said that we expect to leverage slightly year after year. Not necessarily on a quarterly basis, but on an overall year-after-year basis. And, considering the sales, we're very pleased with where G&A came in.

On a labor front, same thing. I think the stores did an amazing job being able to manage their labor in light of slow sales, and we were able to [leverage] on hourly labor. And, it's just a heightened focus. It has been -- particularly, we had end of 2015 -- or throughout 2015 and even into 2014, we had seen labor start to climb. But, we put in -- did some forecasting on labor wages. That was part of why we took the price increase. It is not just commodity. We're seeing labor wage pressure there, and so I think operations just has had a strong focus on it. We expect that in the second quarter it will increase as a percent of total restaurant sales slightly. Mainly because of sales, and we always tend to see the second quarter as going up a little bit more than the first quarter. Again, a heightened awareness. Taking a look at all aspects from turnover to hiring, recruiting, and how we can move the needle there.

Will Slabaugh - *Stephens Inc. - Analyst*

Thank you.

Operator

Jeff Bernstein, Barclays.

Pratik Mehta - *Barclays Capital - Analyst*

Great. This is Pratik for Jeff. Just wondering if you could talk about new unit performance? How the coastal markets have been performing relative to the core markets?

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

Well, if you look at the mix of restaurants, we still have a fair amount of development on the coast. We had more, I think, in strong coastal markets in 2014, but we do still have development -- a fair amount of development on the coast. And, we do tend to see higher volumes there. But, also you are starting to see a mix of more small-town units so we have been combining small-town units in, and really the mix of openings will be, I think, pretty similar last year to a mix of both coastal, small towns, and then a fair amount of fill-in as we complete penetration of markets throughout the United States. I do think as we looked at the end of last year that we felt we did have an opportunity to improve performance in some of our new restaurant openings, and we are very focused on that this year.

Pratik Mehta - *Barclays Capital - Analyst*

That's very helpful. Thank you.

Operator

Andrew Strelzik, BMO Capital Markets.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Good afternoon. I wanted to follow up on an earlier question on the initiatives. They do seem like they are pretty targeted at specific occasions so I'm wondering -- my question is, have you looked at from a brand maturation perspective where the brand sits on that maturation curve? Not from a unit growth perspective, but from an operating perspective if maybe you need to more aggressively evolve or broaden those traffic-driving



initiatives to more everyday type of occasions? Whether it's the marketing levels? Or, the way you speak to the guests, or anything like that that may be a more broad change in how you drive traffic on an everyday basis?

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

I don't think we're anticipating any significant shift in how we approach. What differentiates our brand is the event and the experience we create in the restaurant that centers on sports and other activities in the restaurant. Again, I think we are focusing on -- we have always had value propositions. We're just enhancing them, reinvigorating them, and talking about them a little more in this current environment. But, our brand will always be the focus on what will drive -- our brand into the future is sports such as soccer that are an emerging sports. We are exploring the role that eSports will play over time in our restaurants. I think it is those types of differentiating experiences that will drive our brand into the future.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Great, thank you.

Operator

Robert Derrington, Telsey Advisory Group.

Robert Derrington - *Telsey Advisory Group - Analyst*

Thank you. A quick question about the acquired restaurants, Sally, that you purchased this last year. Can you give us any update on the regional trend you're seeing out of, for example, the large group of Texas restaurants which had seen some weakness earlier? Any trends there you can update us on?

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

Sure. By the script, you could see that they contributed to a decline in our average unit volumes of, I think, it was 30 basis points. Certainly, again, this is part of a macro trend. Some of those oil areas -- Houston, Midland -- that area are seeing some challenges in same-store sales. But, we are not far off of what we expected the stores to do. It typically takes a year-plus for us to go in, do the remodeling, retraining, hire people. Hire additional people. Perhaps discontinue bar discounting, that kind of thing. So, it's across the board in Texas is what I would say. It's more helmet hit in oil areas, certainly not in other areas of Texas, New Mexico, and Hawaii.

Robert Derrington - *Telsey Advisory Group - Analyst*

Got you. And, when do those roll into the same-store sales base? Is it 12 months after the acquisition itself closes?

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

It will be 15 months after the acquisition.

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

That will be November of 2016.



Robert Derrington - *Telsey Advisory Group - Analyst*

Got you. And then, Sally, do you have any color on, we are watching a pretty sizable increase in wings in cold storage, and I am just wondering if you have any view on -- I suspect that's probably contributing to a higher wing price? Any kind of color you can provide on that?

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

Sure. I will start and then Heather can jump in. We've heard the same thing. That cold storage wings -- cold storage is up. So, we are expecting that one of the bigger players perhaps, that we will have some sort of a promotion. We've seen that in the past, and I do think it has kept wing prices elevated at a time when we would normally see it decline a little bit. We built all of that into our forecast for the rest of the year, and certainly the collar contract that we've put in place has helped. We are working with our suppliers. As important as price is, supply is very important as well. We've been working with our suppliers and are very comfortable that we will have all the wings that we need throughout 2016. Heather, your additional comments?

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

What we have heard is demand for wings remains very strong out there in the market, and that some people may be putting wings into cold storage a little early for a promotion in the fall.

Robert Derrington - *Telsey Advisory Group - Analyst*

Great. Thank you.

Operator

Brian Vaccaro, Raymond James.

Brian Vaccaro - *Raymond James & Associates, Inc. - Analyst*

Good afternoon. Just a couple for me. I wanted to circle back on the shift in advertising that we're going to be making here in 2016, or how you are adjusting your strategy? Can you give us a sense of the relative [weights] of your ad spend that will be emphasizing value and lunch as we move through and how that compares to the prior year? Are you making any changes in terms of the mix of national versus local or the overall spend level?

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

We're not seeing a significant change, what we have seen is perhaps a spacing out. So, a more even advertising throughout the year. As we have grown, we certainly have dollars that's available. We don't see a significant shift from 2015 to 2016. What we do have is in some of the TV commercials -- or some of the advertising that we have, nationally we can do a -- it's a [2010] where you have a tag at the end of that commercial. So, you actually can say, get lunch or wings, and our radio is typically our call to action where we would advertise a specific day part or a specific promotions such as Wing Tuesday or lunch. But, from a national advertising -- from a TV, radio and social, not a significant change over 2015.



Brian Vaccaro - *Raymond James & Associates, Inc. - Analyst*

Okay, that's helpful. And, just given the near-term comp volatility and the calendar shifts for Easter and spring break and other things, I wanted to see are you willing to give a quarter to date update on your comp trends?

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

We're not. We announced in February that we were going to discontinue giving the quarter to date. This happens to be the first quarter to date that that happens, but we can talk about our overall that we expect for the year which we expect it to be positive by the end of the year. End the year with positive, overall annual same-store sales.

Brian Vaccaro - *Raymond James & Associates, Inc. - Analyst*

All right, fair enough. Last one for me, on menu pricing, if you took no additional pricing, can you help us with the pricing cadence rollout through the rest of the year. I know you said 3.5% for Q2, but help us with third and fourth quarter, please?

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

No problem, Brian. Third quarter will be 3.6%. Fourth quarter, 1.8%, and 2016 for the full year will be 3.0% with no additional pricing taken after the May 2 adjustment.

Brian Vaccaro - *Raymond James & Associates, Inc. - Analyst*

All right, thank you.

Operator

David Tarantino, Robert W. Baird.

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

Good afternoon. I want to come back to the sales weakness that you're seeing, and perhaps Sally or Jim, if you could comment on how much of that do you think is more driven by the macro environment we're in versus perhaps some internal issues with the brand? And, specifically, I am interested to know what you are seeing on your perceived value scores to whatever extent you measure them. What's the trend been like? And, do you think there's an issue with the brand's value proposition, or is this all responding to (multiple speakers)?

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

David, I will start, and then Jim can add in. We like to think and talk about the things that we can control. When it comes to sales or costs or those kinds of things. But, certainly the macro environment for casual dining has had a rough quarter and rough couple quarters probably. So, my guess is we are impacted by it as well. From a consumer standpoint, I just don't think that there is a robust consumer out there. Whether they are getting delivery, whether they are certainly trending toward fast casual, we have that.

From a brand perspective, I don't look at any internal issues that we have. I think that our [jump] scores are still strong. While we saw a slight dip in value in November when we did our price increase, it did rebound to former levels by January, and it has remained there. We're in the process of doing a -- some guest research on value. We will have more information on that, but that has not been a comment really that we have heard



from guests as we are constantly out there pulsating our Buffalo -- the Buffalo -- not the Buffalo circle, but the MVPs where we are gathering information. So, Jim other comments on perception or value within the brand?

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

Well, I would just reiterate we certainly don't think there's any fundamental brand issue. And, we think we have an opportunity. We are very focused on saying we have to make sure every restaurant is operating at a high level. We added a lot of restaurants in the last year, and we want to make sure we are functioning and operating at a high level, and we think that combined with the sales initiatives that we have underway -- we feel confident we will regain momentum.

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

Great. That's helpful. And then, on the focus on the promotional Wing Tuesdays, Sally, you mentioned that there would be differentiated pricing and bundling? I don't know if I heard that correctly. Could you maybe elaborate on what you're thinking there? And, how soon may we start to see the increased advertising emphasis on specifically the promotional days?

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

So, in June, we're going into market, testing a few different options for the promotion, and that's why we aren't talking about exactly what it is going to be because we're going to test a few variations. To be honest, as soon as we feel comfortable what we're seeing from the test, we're going to go. At the latest by the start of football season.

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

And, in those targeted markets, we will have -- some will be supported with advertising to see if that moves the needle. Just as you test some without advertising to see the effect of that.

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

Great. Thank you very much.

Operator

Nick Setyan, Wedbush Securities.

Nick Setyan - *Wedbush Securities - Analyst*

Hi, thanks. You are differentiated by your sports, obviously, so can you comment on what you think an impact was from the fact that there were -- the Big Ten was not very well represented in the March madness tournament this time around? And then, potentially also to what extent some of the weather that we've seen recently in Texas and Colorado, et cetera, is impacting your comp commentary?



Jim Schmidt - Buffalo Wild Wings, Inc. - COO

Yes, on March madness, obviously, matchups matter. And, it certainly is a more favorable March madness when you have more of the established teams -- be they Big Ten, ACC, SEC. When you have those big-name, established teams doing well, that always helps. This year, it wasn't from a matchup perspective wasn't the best March madness that we have seen.

On weather, I think we saw a little impact in Houston recently with the rain there. We did see some impact -- the one week we had additional -- got an additional NFL week, it was a winter storm that impacted us. So, we've seen a little bit weatherwise, but we really don't tend to focus all that much on the weather.

Nick Setyan - Wedbush Securities - Analyst

There's no way you can at least direction-wise talk about those big states -- obviously, Ohio, Indiana, Minnesota, et cetera. To what extent they trailed the overall system comp, et cetera?

Jim Schmidt - Buffalo Wild Wings, Inc. - COO

No, we usually don't break it down into regional.

Operator

Steve Anderson, Maxim Group.

Steve Anderson - Maxim Group - Analyst

I just wanted to talk a little bit more about the wing prices. I know that there has been an increase in some of the cold storage and was referenced earlier on the call that there may be a fall promotion going on. But, looking at some of the other [indicators], it looks like supplies are maybe flattish. Maybe up 1%, down 1% from the [egg sets] and the check placements. But, I wanted to see if there was any other factor you were seeing with wing cost in particular as you're seeing some of the other proteins are down. Beef, on a year-over-year basis. I'm interested to see if you have any color on that?

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

We don't sell much in terms of beef in our menu. We do have burgers, but it does not make up a big percentage and everything ex-traditional chicken wings is slightly deflationary for us year over year. What we're seeing is just strong demand for wings in the market right now. We've seen a little bit more elevated pricing of that \$1.94 for the first two months of second quarter where typically after March madness we see that start to decrease.

Steve Anderson - Maxim Group - Analyst

Boneless breast contract as well, when that was reset. And, what kind of event that you are seeing there?

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

Our new boneless contract went into effect at the beginning of April. And, we will see a cost savings on that of around 10 basis points per quarter going forward.

Steve Anderson - *Maxim Group - Analyst*

Okay, thank you.

Operator

Karen Holthouse, Goldman Sachs.

Karen Holthouse - *Goldman Sachs - Analyst*

Thank you for taking the question. A broader question just looking at where the targeted advertising and promotions are happening. It seems to be away from what I would think of as the core of the business of in-house, going to watch football, basketball, and hockey. So, it seems -- and I guess curious what the logic is for not more actively targeting what I would consider the majority of your business for how much of an increase do you have to drive in Wing Tuesday to really move the needle on the overall?

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

Karen, you will still see our focused brand advertising. Certainly, you saw it during March madness. You will see it for fall football. When we talk about promotional advertising, you'll typically see that in radio and that is not a change. Radio has always been our call to action where we talked about lunch. Where we talked about Wing Tuesday. We just have not promoted via advertising Wing Tuesday for some time, and it's just a good reminder in this price-sensitive environment that we have a compelling offer. So, that was the decision behind it.

But, not moving away from that Buffalo Wild Wings as sports viewing experience, gathering with friends and family at all. That is still strong, that's still the message. We will be able to tag that with an additional message, but it will be focused and you will see a new creative campaign in the fall for that.

Karen Holthouse - *Goldman Sachs - Analyst*

And then, one other quick one. With the test of tablet technology, is what's in market something that's built around the Buzztime platform, the internally developed platform? Or, working with an external partner?

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

We have both going in test. One is the Buzztime tablet, and another one is another external partner.

Karen Holthouse - *Goldman Sachs - Analyst*

All right, thank you.

Operator

Chris O'Cull, KeyBanc.

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

Thanks. Good afternoon. Sally, the second has been more aggressive with value message in the past few months and Buffalo Wild Wings has struggled to grow traffic during that same time. So, I'm trying to understand why the Company has been slow to respond with a value message, and why should we expect much improvement until we see the new value bundled promotions that are being tested in June?

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

Okay, the first part of your question is somebody -- someone has been doing value promotions?

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

The category has clearly been more aggressive at value promotion.

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

The category, right.

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

I'm trying to understand why you have been a little slower to respond to the need for value?

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

Sure, I think that certainly as we go into March madness, we want to focus on what the brand is and that it is about where Buffalo Wild Wings' [worth] was here. So, that was a decision there. Again, having perhaps advertising throughout the year allows us to do some of that. And, you are right, you probably - until we have a test and we have that Tuesday message, you are not going to see a lot of change. But, certainly, our lunch promotion and our advertising around lunch and the Fast Break Lunch has been going on.

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

And, we start a new Happy Hour promotion in early May.

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

Okay, and then just as a follow-up regarding the takeout opportunity. You mentioned that takeout sales have grown -- or the online ordering has grown as a percentage of the overall takeout sales. But, I am assuming you are seeing takeout sales growth. Is that coming from additional transactions or just primarily from the larger ticket?

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

I am not sure I understand your question there. Larger ticket are additional? I guess it's both. So, the ticket is larger on online sales, and then there are more transactions.



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

Okay. Are you going to be supporting the takeout opportunity with TV advertising, or any other media advertising to try to drive takeout sales?

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

Probably not TV advertising unless it's a tag. You might have a tag in the fall with it, but again, takeout almost a call to action is almost always both online and radio.

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

Okay. And then, I apologize if I missed this earlier, but Jim if you exclude the bonus impact during the first quarter, how did the labor costs compare year-over-year?

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

It was favorable year-over-year. I believe that we did a nice job of managing our hourly labor, particularly in light of the fact that sales were softer than anticipated.

Jeff Sorum - *Buffalo Wild Wings, Inc. - SVP & Corporate Controller*

Obviously, we would have delevered on our management labor which would have been a fixed salary.

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

Correct.

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

Okay, great. Thanks.

Operator

Alton Stump, Longbow Research.

Alton Stump - *Longbow Research - Analyst*

Sorry, can you hear me now?

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

Yes.

Alton Stump - *Longbow Research - Analyst*

Okay, sorry about that. Just on the comp front, one of the big questions that I've got from investors is just how choppy your comp results have been over the last -- call it, 12 months here. Even here in the first quarter, obviously, a pretty good two-year stack in January. A turn for the worse over the last couple months of the quarter. In that light, is there anything going on either externally or internally that would explain why comps have been more choppy than usual over the last 12 months? And, in that vein, what gives you confidence now that we could see a more consistent improvement to get back to positive comps by the end of the year?

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

You were chopping up a little bit so I'm going to do my best to answer. Certainly, we look back at the first quarter prior year, our January was very, very strong. So, redeemed gift cards. I think it was the first year of the new bowl game championship. We might have had an extra week of NFL. I have to go back and look. So, our January was very strong and that moderated throughout the year, or throughout the quarter, but still ended the quarter very strong.

Looking at our two-year stack, this is one of our lower stacks over the last couple of years. I don't expect -- we think that we can get back to -- I don't want to say a normalized comp it because it can be quite choppy depending on what's going on. Certainly, Men's World Cup does not repeat except every four years. And, same with Women's World Cup. Again, we're looking at what can we do off big events to help drive traffic so that soccer certainly is we want to be the place for soccer all year round. Again, how you drive Happy Hour, lunch and takeout so that you can ease some of that choppiness, but big matchups are still going to cause that. When you have a seven-game series whether it's hockey, basketball, or even baseball, that bodes well for us and can really help drive same-store sales.

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

I don't think we really saw any concerns with same-store sales last year until around October was when we started to see what we considered a softening that caused us some concern.

Alton Stump - *Longbow Research - Analyst*

Follow-up just on the pricing front, as mentioned a 3.5% for Q2. Does that include what I presume is going to be a bit more discounting whether behind the Tuesday wings or the value bundles that you are looking at over lunch. Is that inclusive of that effort?

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

Yes, that 3.5% is what we have taken over the last -- we will have taken over the last 12 months. And so, I'm trying to figure, trying to determine the wings bundle -- how that will -- it shouldn't affect it from a pricing standpoint one way or the other.

Jeff Sorum - *Buffalo Wild Wings, Inc. - SVP & Corporate Controller*

But, May added a 0.6% into that 3.5%.

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

Right.

Alton Stump - *Longbow Research - Analyst*

Okay, great. Thanks. Appreciate it.

Operator

Andrew Charles, Cowen and Company.

Andrew Charles - *Cowen and Company - Analyst*

Great, thank you. Just on Fast Break, what gives you the confidence the initiative given that it goes head-to-head with fast casual's dominant day part? In addition, I know that the menu was originally designed to be more operationally friendly, but with the guarantee was there something that went wrong with the execution there as well? Thanks.

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

No, we just think it's a great opportunity to remind people of that you can get in and out of a Buffalo Wild Wings just about as fast as you can for fast casual. And so, if you want an alternative to the sandwich or something like that, wings are a great alternative. We first launched the Fast Break menu and then by having the guarantee there is really a focus, and so stores will earn that right to have that guarantee. They have to show that they are operationally able to handle it and by putting some media behind, we think it's a compelling message.

Andrew Charles - *Cowen and Company - Analyst*

Okay, and have you seen the success in the first year of it? Just, obviously, it does go up to head-to-head against fast casual. Just curious about the results you've seen in the first year with it?

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

We've certainly seeing some positive results from our Fast Break lunch. But, this is an opportunity I think to really put some media behind it and a service guarantee to make it more attractive, and we're hoping to lure some new customers in and bring back customers who want that good-quality, fast lunch.

Andrew Charles - *Cowen and Company - Analyst*

Thank you.

Operator

That will conclude the question-and-answer session. I will turn the conference over to Sally Smith for any additional or closing comments.

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

Thank you all for joining us on the first-quarter 2016 conference call. We look forward to speaking with you again in July when we have our second quarter and hope you will consider coming to our analyst day in Denver on August 16.



Operator

Thank you all. That does conclude today's conference. Thank you for your participation.

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