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BWLD - Q1 2017 Buffalo Wild Wings Inc Earnings Call

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OVERVIEW:

BWLD reported 1Q17 revenue of $534.8m, net earnings of $21.5m and diluted EPS of $1.25. Co. expects 2017 EPS to be $5.20-5.50 and adjusted EPS to be $5.45-5.90.

CORPORATE PARTICIPANTS

Alexander H. Ware *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

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

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

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

CONFERENCE CALL PARTICIPANTS

Andrew Michael Charles *Cowen and Company, LLC, Research Division - VP*

Brett Saul Levy *Deutsche Bank AG, Research Division - VP*

Brian John Bittner *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

David E. Tarantino *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

Jason Taylor West *Crédit Suisse AG, Research Division - Senior Analyst*

John Michael Zolidis *The Buckingham Research Group Incorporated - Research Analyst*

John Stephenson Glass *Morgan Stanley, Research Division - MD*

Karen Holthouse *Goldman Sachs Group Inc., Research Division - VP*

Matthew James DiFrisco *Guggenheim Securities, LLC, Research Division - Director and Senior Equity Analyst*

Peter Mokhlis Saleh *BTIG, LLC, Research Division - MD and Senior Restaurant Analyst*

Will Slabaugh *Stephens Inc., Research Division - MD*

PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Buffalo Wild Wings First Quarter 2017 Conference Call. (Operator Instructions) I would like to remind everyone that this conference is being recorded. I would now like to turn the conference over to Ms. Heather Pribyl, Director of Investor Relations for Buffalo Wild Wings. Please go ahead, ma'am.

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

Good afternoon, and thank you for joining us as we review our first quarter 2017 results. I'm 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 Alex Ware, Chief Financial Officer. By now, everyone should have access to our first quarter earnings release. Copies are available on our Investor Relations website at 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 forward-looking statements due to many factors, including the risks and uncertainties identified in today's earnings release, which we filed on Form 8-K concurrent with this release and in our other filings with the Securities and Exchange Commission.

On today's call, Sally will provide updates on our initiative and business strategies. After that, Jim will provide insight on our sales and initiative in the quarter. And finally, Alex will cover our bottom line performance, portfolio optimization, fiscal fitness and update for our 2017 guidance.

So with that, I'll turn things over to Sally.

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

Thank you, Heather, and good afternoon, everyone. We're pleased same-store sales turned positive for company-owned and franchise locations, outperforming both the negative restaurant industry and casual dining segment. Our traffic was nearly 200 basis points above casual dining in the quarter. We continue to see great progress with our initiatives launched in 2016 to improve sales momentum, including Half-Price Wing Tuesdays, FastBreak Lunch, Blazin' Rewards and delivery. All of these initiatives are exceeding or meeting our expectations against the backdrop of a continued challenging industry.

In the overall restaurant landscape, consumer behavior is shifting rapidly. Delivery is an addressable opportunity for Buffalo Wild Wings as more consumers are eating at home. We are rapidly deploying third-party delivery in company-owned restaurants, growing where our partners offer delivery. We're under development for 2 company-owned, small-format Buffalo Wild Wings, launching our pilot of a small-format restaurant designed to address the growing consumer need for speed and convenience. Both locations are expected to open in our third quarter.

Restaurants are also faced with the challenge of rising labor costs, and we have the unique headwind of chicken wing price inflation. Given these cost headwinds and our scale opportunities, we completed a 16-week review of our cost structure with an industry-leading consulting firm working with our team members and franchisees to identify areas of opportunity to streamline work and create efficiencies. This will result in estimated savings of $40 million to $50 million over the course of 2017 and 2018. Alex will discuss the financial impact and details later on the call.

Separately, we reviewed our field management structure to determine how to more effectively and efficiently manage and support our restaurants. In mid-April, we implemented a new field management structure by consolidating layers to rightsize the field organization while at the same time enhancing our local field marketing, training and talent management support. While these changes are expected to drive cost savings, more importantly, this new structure brings field leaders closer to our restaurants to improve sales and restaurant level margins and positions us to address the evolving needs of our fans and team members.

Following our announcement in February and as we've continued to assess our portfolio of restaurants, we've initiated the process to sell approximately 13% of our company-owned Buffalo Wild Wings. This is increased from the initial 10% we previously told you about as we've made adjustments to create more attractive packages for sale. To facilitate the sale process, we've engaged the Cypress Group, and they are favorable on the market condition.

With value-driven occasions resonating with customers across the industry, our Half-Price Wing Tuesdays drove significant traffic in our restaurants during the first quarter. The successful promotion of Half-Price Wing Tuesdays put pressure on our cost of sales as wing prices remained stubbornly high, and we're experiencing a lower yield on wings as well. The increase in promotional mix, wing prices and yield had a $0.37 impact on EPS from increased cost of sales. When Half-Price Wing Tuesdays was developed last summer, wings were $1.70, and external commodity experts were anticipating a 10% decline in wing prices in 2017. Today, wing prices remain elevated and we're increasing our wing price forecast to include an 8% to 10% increase over 2016. As such, we're aggressively evaluating other offers for Half-Price Wing Tuesdays that still offer a value to our fans that help protect our margin. Jim will provide detail on the sales initiative, but I wanted to take some time to share highlights about our Blazin' Rewards loyalty program.

Through the Blazin' Rewards program, Buffalo Wild Wings is positioned to utilize guest level data to retain and grow valuable guests, to motivate and reward repeat visits and to optimize marketing and promotional spend. Currently, there are nearly 1,000 restaurants on loyalty, and our roll-out to the entire system will be completed next month. Today, over 1.6 million loyalty members have joined the program, and we expect enrollment to continue to grow rapidly as our fans realize the program benefits and as we complete the restaurant roll-out. We're pleased with the rate that we're seeing loyalty attachment to check growth, and we are already seeing more than 21% of our sales tied to loyalty member checks.

The Blazin' Reward app was also updated in January. In addition to enhanced user experience, the app included a new feature that allows the fans enter their points if they didn't do so in restaurant with their server. As our Blazin' Rewards members accumulate points, we're recording a deferral of revenue to account for the accrual of points until points begin to be redeemed or expire. In the first quarter, this deferral was a $1.5 million reduction to revenues. Additional details will be provided in the 10-Q.

Our international business is off to a strong start in 2017. We've learned that if the first location in a country opens strong and stays strong, it is critical to accelerating development, and we've enhanced our support for franchise openings. As a result, we've seen new franchisee development agreements speed up their time to initial opening, and subsequent franchise openings have dramatically accelerated after the opening of the first restaurant. Our international franchisees opened 2 locations in Mexico and another 2 restaurants in Saudi Arabia in the first quarter, and there are now 27 Buffalo Wild Wings in 5 countries. Franchisees in India and Vietnam will open their first B-Dubs locations in 2017 as we are confident in our goal of 20 international openings this year.

We've had several recent achievements in our international approach. We're pleased that the [MO] Group's new restaurant opening in Tijuana broke their NRO sales record, reflecting their advanced planning, successful opening and continued growth of our brand in Mexico and beyond. And the Buffalo Wild Wings in Jumeirah Beach, Dubai just won the silver award for the best sports food and beverage menu of the year at the Sports Industry Awards in Dubai.

Jim will now provide additional details on the first and second quarters.

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

Thank you, Sally. We've launched several programs to drive sales in the near term against a continued challenging restaurant environment. While television viewership for March Madness was up compared to prior year, our sales were down slightly, reflecting increased restaurant competition and competition from home viewership. In order to capture sales from those fans who chose to dine at home, we focused on takeout and delivery. For the first quarter, takeout delivery accounted for 18.2% of our company-owned restaurant revenues compared to 16.6% last quarter -- or last Q1, third-party delivery available in 180 restaurant add $2.7 million of company-owned sales in the quarter. Delivery is incremental to the business as we've seen our takeout continue to grow in restaurants that offer delivery. By the end of the year, we anticipate having delivery available in 250 company-owned restaurants and could accelerate as our delivery partners expand their coverage areas.

Sauce Lab features 2 sauces: Mandarin Kick and Scorpion Rum. Even hotter than Blazin', Scorpion Rum has the sting of scorpion peppers with Myers's Dark Rum to provide a hint of sweet. These wings come with a taste of vanilla ice cream that help cool you down. Menu prices will be opportunistically adjusted in some of our company-owned restaurants. Overall, it will be a 50 basis point increase on the main menu. This results in menu price increases and adjustments taken in the last 12 months of 0.7% in the second quarter.

We'll continue to focus on bringing in our soccer fans and have matches from the UEFA Champions League, U.S. Men's National Team World Cup qualifiers, and the CONCACAF Gold World Cup this summer. Soccer fans that watch Friday or Sunday MLS games will have the opportunity to enjoy Heineken at a discounted price.

We're continuing our sponsorship of [indiscernible] growing the Buffalo Wild Wings brand presence in the emergent -- in the emerging and rapidly growing eSports space, showing that B-Dubs is truly a brand for all sports fans. I'm pleased with its success in initiatives we have to drive traffic in our emerging opportunities. We know from our research that our fans would prefer to order Buffalo Wild Wings delivery from our mobile app or dot-com site. We're exploring adding the capability on both platforms and anticipate this to be available in test markets later this year. We will expand -- we're exploring -- this will expand the number of options where fans can order delivery from and will reduce the commissions paid to third-party providers.

As part of our technology strategy, we prioritized and enhanced our digital ordering capabilities in 2016, and it's starting to pay off. Digital ordering accounts for 22% of takeout sales over $20 million compared to 13% in first quarter 2016. The conversion rate on transactions in the digital platform is up 34% year-over-year. Enhancements we made enabled company and franchise restaurants to take digital orders on Super Bowl Sunday, resulting in our highest revenue day online of $1.5 million. We also streamlined the checkout process, adding up-selling capability and released an updated version of the app.

Our FastBreak Lunch program continued its momentum and had positive same-store sales in the first quarter. We also created our own single-day events to drive traffic and profitability. In the first quarter, we had 2 boneless blitz promotions that were promoted entirely on the digital platform and offered our fans a "buy one get one" on boneless wings. This result was a great sales lift in incremental profit per restaurant.

In summary, our revenue for the first quarter reached $534.8 million, increasing 5.2% over the same period last year. System-wide sales at our company-owned and franchise restaurants were $1 billion for the quarter, achieving a significant milestone.

I'll now turn it over to Alex to cover the financials.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Thank you, Jim, and good afternoon, everyone. We've got a lot to cover on our portfolio optimization and cost-saving work. So I will keep my comments on the quarter focused on large variances. Further detail on quarterly deltas, please see our earnings release, which is available at ir.buffalowildwings.com.

The promotion-seeking consumer has expanded for the industry and B Wild in Q1, with about 2% more of our sales being on deals than in prior quarters. As Sally mentioned, product mix, high wing prices and lower wing yields put pressure on cost of sales, which rose to 31.4% of restaurant sales compared to 29.7% last year, 170 basis point increase. From the EPS impact perspective, this promotional mix shift, higher wing cost and heavier wings was a $0.37 per share drag on Q1 results.

Traditional wings were $2.05 per pound in the first quarter or 4% higher than last year's first quarter average of $1.97. Traditional wings as a percentage of our cost of sales in the first quarter was 29.6% while only 23% of our sales mix. Our floor-to-ceiling contract for traditional wings was recently renewed, and while it does buffer the monthly swings, it does not prevent the rising costs we continue to see in the market. As a result of the higher wing cost, we are evaluating several alternative promotions to provide a consumer continuing value and also address the higher wing costs and yields.

Cost of labor for us in the first quarter was 31.6% of restaurant sales, 80 basis points higher than the first quarter last year, due largely to higher health care and anticipated compensation increases.

Restaurant operating expenses as a percentage of restaurant sales were 15.2%, an increase of 80 basis points, resulting primarily from timing increases and repair and maintenance expense and sports programming. Commissions to third-party delivery fees are also booked in OpEx and will continue to rise commensurate with our expanding delivery.

Restaurant-level profit, which is calculated before depreciation, amortization and preopening expense, was $82.2 million or 16.1% of restaurant sales. This compares to restaurant-level profit of $94.6 million or 19.5% in the first quarter last year. We know this margin must improve, and we'll share details on our overall cost savings plan shortly.

General and administrative expenses were $32.8 million in the first quarter compared to $31.1 million last year, inclusive of stock-based compensation. The year-over-year increase is primarily attributed to higher professional fees from activist advisory and consulting services of $2.8 million, offset by higher -- by a lower bonus accrual. We recorded an asset disposal and impairment charge in the quarter of $1.7 million largely related to one restaurant.

In summary, our net earnings in the first quarter of 2017 decreased by 34.2% to $21.5 million, producing earnings per diluted share of $1.25 compared to $1.73 in the prior year. After evaluating our public restaurant peers, we've adopted an adjusted earnings per share metric by adjusting infrequent expenses and noncash charges to give you a better understanding of our underlying operating performance. Going forward, these adjustments will include noncash asset disposal and impairment, consulting and activist advisory fees, acquisition and divestiture costs, and legal fees or settlements pertaining to significant cases. After adjusting for these nonrecurring and noncash items, our net income of $247 million drove adjusted EPS of $1.44 compared to $1.78 last Q1.

There are efforts to continue rebalancing our debt and equity to lower our cost of capital. We repurchased nearly 1.4 million B Wild shares during the first quarter of 2017 for $212.3 million. As discussed on our Q4 2016 conference call in February, to achieve our 1.5x net debt to EBITDA target by year-end, we are on track to execute stock repurchases of $450 million to $500 million for the full year.

Now I'll highlight a few trends and provide some comments on the second quarter. In Q2, we expect to open 3 company-owned Buffalo Wild Wings restaurants. We also expect that Buffalo Wild Wings franchisees will open 3 new restaurants in the U.S. and our international B-Dubs franchisees will open 2 restaurants this quarter. For cost of sales, our cost for traditional chicken wings for the first 2 months of Q2 are $2.02 per pound and cost of sales should be slightly above 31%, reflecting continued elevated levels of cost. In the second quarter, we anticipate that G&A expense will be approximately $40 million, including $3.5 million for stock-based compensation expense and $3 million to $5 million for proxy-related matters.

Now let me move to 2 areas of strategic focus: portfolio optimization and fiscal fitness. As we assessed our portfolio of restaurants, we've determined to sell approximately 13% of our company-owned Buffalo Wild Wings restaurants. To facilitate the sale process, we've engaged with Cypress Group, and roughly 80% are -- the 80 restaurants in our portfolio optimization process have an average unit volume of $2.5 million, with restaurant-level margins of 9.8% on a trailing 12-month basis. The specific impact of our -- on our financials is dependent on the actual market sold, their timing and pricing. And we anticipate providing that detail on each transaction as it closes in each of our quarterly calls.

During the last earnings call, we outlined our plans to evaluate ways to improve restaurant-level margin and income from operations. Over the last several months, a major consulting firm has studied both company and franchise restaurants versus relevant industry benchmarks and identified best practice opportunities to simplify, streamline and improve restaurant labor, procurement, home office and field management structure. These priority areas (inaudible) to capture efficiencies were not impacting the quality or value of our fan experience. Through the end of 2018, our fiscal fitness program will deliver $40 million to $50 million in net savings divided between our restaurant-level margin lines and G&A.

Within restaurant-level margin, we are undertaking several initiatives that will total approximately $15 million to $17 million in savings in the second half of 2017, and $24 million to $26 million in 2018, as follows: This month, we eliminated the guest experience captain position in 90% of our restaurants and shifted their core responsibilities to other team members in store. We are currently rolling out process and productivity improvements in daily restaurant opening activities as well as portioning procedures with a corresponding reduction in labor hours. Beginning in the second half of this year, a streamlined managerial structure and lower volume units and food waste improvements in items, including sides and condiments, will be rolled out.

Next year, we'll introduce procurement improvements and value engineering largely in the areas of food, beverage, restaurant maintenance and utilities. Also, beginning next year, we will develop a new activity-based labor model and improved sales forecasting and labor scheduling tools to tailor hours more tightly to demand at -- on game and off. We intend to ensure the realization of these benefits and ongoing performance management of our company-owned restaurants through a streamlined field leadership team. In mid-April, we implemented a new field management structure that consolidated layers and increased spans of control, netting the right-sized field organization that is closer to our restaurants and better positioned to address the evolving needs of our fans and team members.

Our G&A expense will also benefit from procurement and consumption savings beginning later this year. We believe this structure and our purchasing improvements will drive our effectiveness while creating efficiency, netting a cost savings in G&A of approximately $3 million in 2017 and $3 million more in 2018, excluding onetime severance and outplacement expenses.

By controlling what we can, the net impact of these savings and the portfolio optimization will enable us to offset the slowing consumer traffic in the sector, greater promotional activity, higher wing costs and labor headwinds and still deliver the 20% restaurant-level margin target exiting 2018. This 20% target assumes same-store sales of 1% to 2% and wing prices to mitigate from today's $2.05 level. We anticipate achieving the target from a combination of 100 basis point leverage from sales, 100 to 120 basis point from our fiscal fitness program, and the remainder from our phase 1 restaurant refranchise. We're excited about the value this work will deliver to all of our shareholders and look forward to providing ongoing updates regarding our progress on our quarterly calls.

Now turning to our 2017 guidance. With continuing industry softness, our same-store sales forecast for the year is now approximately 1% at the low end of our range. We're pleased with our outperformance in Q1 compared to the industry and the strong traffic our sales initiatives have driven. However, the underlying casual dining environment is weaker than expected. At the same time, tighter wing supply is pressuring traditional wing prices, up 8% to 10% for the year, persisting in the $2 to $2.05 to $2.10 range. Along with the success of our promotional activity, this will be a headwind in 2017 -- to 2017 restaurant-level margins. G&A expense for the year of $143 million to $147 million includes stock-based compensation of $10 million to $11 million and proxy cost and consulting and advisory fees of $6 million to $8 million. Despite almost $20 million of cost reductions in the second half, these top line and wing cost challenges will reduce our adjusted earnings per share range to $5.45 to $5.90. We also now have greater certainty on the unusual items, most significantly the cost of activist advisory and proxy solicitation fees, which will now total $6 million to $8 million and bring our EPS guidance down to $5.10 -- or $5.20 to $5.50.

Now I'll turn it back to Sally for closing comments.

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

As you read last week, Judy Shoulak, President of North America Buffalo Wild Wings, announced retirement at the end of June. I want to thank Judy for her nearly 16 years of service at Buffalo Wild Wings. She's been an instrumental leader, and her passion for the brand and how she lives our values is inspiring for our home, office and field. We wish her the very best in her retirement.

Buffalo Wild Wings is on track, making the strategic decisions to improve sales and profitability for the long run. Near-term sales initiatives include Blazin' Rewards, revitalizing Wing Tuesdays, FastBreak Lunch and delivery. And as Jim mentioned, we're looking into the future and developing several new initiatives. We continually assess our portfolio of investments and determined to sell approximately 13% of our company-owned restaurants. We're encouraged by initial interest from our existing franchisees as well as potential new operators to the Buffalo Wild Wings brand. And as Alex just detailed, we've undergone a thorough review of our cost structure with the goal of improving efficiencies in our field labor, organizational structure and third-party spend. This results in savings of $40 million to $50 million in restaurant-level expenses and G&A through 2018. These savings are part of our longer path to achieving a restaurant-level margin of 20% and improving our net -- our operating margin to deliver value to our stakeholders and shareholders, ensuring Buffalo Wild Wings' success for many years to come.

Before turning the call back to Heather, I want to briefly address recent statements and filings made in connection with our upcoming 2017 Annual Meeting of Shareholders. The Buffalo Wild Wings board and management team continue to innovate and pursue cost savings initiatives in the face of challenging market conditions in order to remain a distinct experience and stay ahead of the competition. As always, we focus on improving the performance of our restaurants, executing best practices, raising returns and growing sales, maintain our record of industry leadership and creation of shareholder value. Further in line with the board's responsibility to act in the best interest of all of our shareholders, we have continued to enhance oversight most notably through our proposed Board of Directors, which brings fresh perspective, financial acumen and great enthusiasm for our business and all of our shareholders. We look forward to meeting with investors over the coming weeks to discuss the strength of our leadership and governance practices as well as our strategy to create long-term value for all of our shareholders.

That said, the purpose of today's call is to discuss our first quarter results, and we would appreciate if you would keep your questions during the Q&A session focused on this. With that, I'll now turn it back to Heather to open the line for questions.

Heather L. 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. (Operator Instructions) Operator, please open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from David Tarantino with Baird.

David E. Tarantino - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

I guess my questions are on sort of the restaurant-level margin performance and your strategies to deliver that in terms of cost savings. So first, Alex, if you could just clarify on your cost savings objectives for this year, I think you mentioned $15 million to $17 million in -- or in the second half of this year. Is that a run-rate that you expect to exit the year with? Or is that the actual amount that will hit the P&L this year? And then I have a follow-up for that.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Sure, David. We've got -- that savings is split into 2 buckets. So the $15 million to $17 million is the savings amount that we expect to deliver within the restaurant-level margin lines. And then we've got an additional $3 million that we expect in the G&A line, so totaling $18 million to $20 million range.

David E. Tarantino - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

Got it. And I guess I'm trying to reconcile that with your updated guidance because it looks like -- I guess, the math on the savings, perhaps you already included some of that in your prior guidance, but with the wing inflation change that you mentioned and then net of some of the SG&A and restaurant-level margin savings, it seems like there's a plug in there that would suggest some weakness in the underlying performance of the business. That goes beyond, I guess, the reduction in the comps guidance. So I'm trying to reconcile if there is something else going on underneath the surface here that's pressuring the margin.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Sure. The other component -- so the 3 factors that are driving the compression that we saw in restaurant-level margins were the level of promotional activity that we saw in the first quarter that we are anticipating will continue through the balance of the year. We're going to be piloting some programs that will help reduce and offset that -- the focus against traditional wings. But promotional activity and the mix shift into those promotions is probably the -- a large driver there. We have the pricing factor, and then we also have the yield increase. So we're seeing heavier birds coming out of the farms these days, and so that's driving fewer wings per pound, driving up the effective cost on each basket served.

David E. Tarantino - *Robert W. Baird & Co. Incorporated, Research Division - Associate Director of Research and Senior Research Analyst*

And then if I could just clarify on the promotional activity that you did focused on the wings, I guess it's the wing -- is a promotion, how big of a factor was that in the first quarter comps? So if I'm trying to gauge it, if you pull back on that, is that going to pose a risk to your same-store sales outlook?

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

It was a driver, certainly a driver of our same-store sales. We're seeing very good sales on Wing Tuesday. We're contemplating adjustments to the offering that we think will still be very attractive to our customer but, at the same time, improve our margins. So there could be some impact on same-store sales on Tuesday. But overall, we're seeing really good momentum with all of our sales-driving initiatives, not just Wing Tuesday, although it is a major factor. We are seeing also good traction with delivery, takeout and our loyalty program. So everything we're working on is showing good, positive results. So it's not just Wing Tuesday, although it is a significant contributor.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

It is fair to say each of the incremental initiatives is -- we're executing on; in the case of Wing Tuesday, a little bit ahead of expectations on that one. And then the offset is just the weaker traffic that the industry is seeing. As we noted, it's been weaker than what we anticipated.

Operator

We'll now take our next question from Matthew DiFrisco with Guggenheim Securities.

Matthew James DiFrisco - *Guggenheim Securities, LLC, Research Division - Director and Senior Equity Analyst*

I just have a couple of follow-up questions along those lines as well. I guess if you look at the comment you made with respect to 90% of your stores, the company-owned stores, are going to eliminate the guest captain -- so it sounded like it was in the last month. So that did not have any effect on the first quarter yet on labor line?

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

It went into effect for the last month of the quarter. So there was some contribution to the labor line from the elimination of that position.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

And that's not pure savings.

Matthew James DiFrisco - *Guggenheim Securities, LLC, Research Division - Director and Senior Equity Analyst*

Can you quantify? That's not pure savings.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

It's not your savings. We reinvested a portion of that savings back into more front-of-house hours, where they were picking up the initiatives and the activities that the guest experience captains were performing.

Matthew James DiFrisco - *Guggenheim Securities, LLC, Research Division - Director and Senior Equity Analyst*

Can you quantify how much of a savings there will be from that?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Well, we have got our pools broken out. And so where we've got our $15 million to $17 million of savings for the year, a portion of that -- a significant portion of that was the guest experience captain role shift and then the reinvestment into front-of-house labor.

Matthew James DiFrisco - *Guggenheim Securities, LLC, Research Division - Director and Senior Equity Analyst*

Okay. So the guest captains are part of the $15 million to $17 million, okay. That wasn't clear to me.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

(inaudible)

Matthew James DiFrisco - *Guggenheim Securities, LLC, Research Division - Director and Senior Equity Analyst*

Okay. And then I guess when you talk about Wing Tuesday being a success, in what way are you looking at that area? Are you looking at those being incremental to traffic or incremental to profits? Because it does seem to be every quarter now, you're shifting more and more to traditional wings as a percentage of COGS. And it doesn't seem to be driving restaurant margin leverage. I'm wondering how we're viewing this as -- what are the hurdles you need to get with respect to it being successful? And is it meeting its marks?

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

Look, from a sales and traffic-driving perspective, it has been highly successful. Wing costs have escalated on us, and as a result of that, we have not seen the margin -- the profit contribution we would have hoped to see from these strong sales. So what we are going to be doing then is looking at our offering and making adjustments to it. We'll go into market with those before the end of the quarter or by the end of the quarter and with the intention of still creating a very attractive offering to our customer but improving the margins.

Matthew James DiFrisco - *Guggenheim Securities, LLC, Research Division - Director and Senior Equity Analyst*

But I guess just to play devil's advocate, wing costs have been sort of sitting around $2 to $2.05 for the last 2 quarters. So they shouldn't be really a surprise, the level they're at. But I thought we were going to be going towards boneless wings also. I thought that was in the last conference call you were going to talk about that.

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

Yes. In boneless, we've relied on more our -- for our Blitz promotion, and it's done very well, part of our Blitz promotion. As part of what we're looking at with Wing Tuesday, we may look at adjusting and looking at driving boneless more also so that may be part of the (inaudible) for the margin. And typically, we see wings drop in price after March Madness -- that they typically drop. And so we were anticipating if we could get through the first quarter that we would then see a drop, which would make Wing Tuesday more profitable. That hasn't occurred, and we've now adjusted our forecast based on information we're getting from industry experts that are suggesting we will not drop as they seasonally do during the middle of the year this year.

Matthew James DiFrisco - *Guggenheim Securities, LLC, Research Division - Director and Senior Equity Analyst*

Okay. And then my last question, I guess, where do we stand -- or where do you stand as far as your comfort with the marketing campaign, your advertising agency? I mean, I think -- do you view missing an opportunity with March Madness popularity being up this year and also having a favorable calendar shift that it wasn't interrupted by the holiday that your sales were down during that tournament? Do you think that there's an opportunity that you're missing perhaps with the marketing agency and maybe looking at that as under review?

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

We kind of returned to our theme of the unseen force for March Madness, and the commercials were, I think, very well received. We've received a lot of very positive press and comments around the advertising. I really think it's just a factor of, again, people dining at home. Even though viewership was up, there are -- people aren't necessarily going out or competing with the couch. And then just -- we've noticed really over the last several years that it was a -- that there's a lot more competition out there for March Madness viewing among the restaurant.

Matthew James DiFrisco - *Guggenheim Securities, LLC, Research Division - Director and Senior Equity Analyst*

So March Madness lagged your overall comp. So it would have been stronger had it not had March Madness in it if you excluded that week?

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

Matt, I'm not sure entirely what your question is.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

But we were -- we said -- yes, we shared, Matt, that we were slightly negative on March Madness days. So I guess it would have been the equivalent of the other days it could have lifted us.

Operator

We'll now take our next question from Brian Bittner with Oppenheimer.

Brian John Bittner - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

Going back to David Tarantino's question, just trying to fully understand the dynamics here. So you're talking about $15 million to $20 million of cost savings that you've recently found that are going to hit this year in the second half, but you did bring your EPS guidance down. So I'm trying to understand how much of the cost savings you found is going to be net accretive. It seems like -- and just correct me if I'm wrong, but the $15 million to $20 million that you're talking about, it sounds like that's less than offsetting headwinds that are equating to over $20 million that have recently arisen, which has caused you to, despite the cost savings, bring your guidance down. Am I reading that correctly? Or am I missing something?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

That's a fair read. We've got (inaudible) the overall same-store sales are going to be moving our guidance down to the lower end of our same-store sales range to be around 1%. So we're not getting the level of leverage that we expected on our same-store growth. We've got the higher wing cost. We've got the higher yield on the wings, and then we've got the mix shift to more promotional activity. So those 4 factors are offsetting the benefit that we're going to get from the fiscal fitness program in this year. You will find most of the savings areas there are going to be labor-driven this year. Next year, it's going to be more sort of program-driven around procurement activities.

Brian John Bittner - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

And I've heard you talk about yield a couple of times, but I thought that with the birds getting bigger, that the Buffalo Wild Wings menu had changed away from selling by the wing to selling by the pound to always have a year-over-year equal yield. Has something changed with that? Have they gotten so big that you've had to go back to selling them by the wing and not by the pound?

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

So we had some minimum specifications on our menu for the -- our different order sizes, snack, small, medium and large. And it's the wings that we knew we were going to deliver to the guest. And unfortunately, you can't serve half a wing. You have to serve that whole wing. So as the weight has continued to increase, if our snack -- well, our snack always has 5. But if our small was always 10, it was now at a 9 yield -- wings were coming in. That 9 weighed the same as 10 did last year, and they were still putting 10 in. So we're going to go back, and we're going to adjust the specifications in the kitchen. That's one of the initiatives that we will get out there in the next, I'd say, 45 to 60 days to have -- so that we move down the number of wings for anything above a snack to take care of that yield issue.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

The same amount of protein that they were targeted to get is just in a slightly smaller wing quantity.

Brian John Bittner - *Oppenheimer & Co. Inc., Research Division - MD and Senior Analyst*

I understand. Then last question on 2018, is it -- should it just be assumed that there's going to be $30 million to $35 million of more incremental savings coming in '18 versus '17 to hit the $40 million to $50 million?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

So as I laid out, we've got $15 million to $17 million coming this year in the restaurant-level margin lines, and then $24 million to $26 million next year, restaurant-level, then (inaudible) this year and next.

Operator

We'll now move on to our next question from Brett Levy with Deutsche Bank.

Brett Saul Levy - *Deutsche Bank AG, Research Division - VP*

I have just one question on -- if you could talk a little bit more about the competitive landscape. You've brought that up a little bit more often in this call than in prior ones. Where are you seeing your guests going if they're not dining out at you, obviously, aside from when they're dining at home? And I just have one housekeeping follow-up.

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

Well, I think in the -- generally, in the casual dining industry, you're really seeing a decline on -- in in-restaurant traffic. In the casual dining restaurant -- the whole restaurant industry, I think we're outperforming on both the sales and traffic, the entire restaurant industry, I believe, in Q1. So you're seeing the shift from in-restaurant dining, takeout delivery, and that drop has been, I think, more severe than we were anticipating in the industry as we came into the year. So that is what just we've seen those headwinds being more severe than we had anticipated. Did that help?

Brett Saul Levy - *Deutsche Bank AG, Research Division - VP*

Sure. And as we're taking out the -- as you're restating these loss and asset disposal charges, what should we be thinking of as a clean number for 2016?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Good question. Wait for just a moment. Hold on. 2016 at $8.4 million.

Brett Saul Levy - *Deutsche Bank AG, Research Division - VP*

Is that tax adjusted?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

That's not. That's pretax, and that's a direct quote from (inaudible). We're basically re-classing that line, and we'll be treating that as an adjusting entry going forward.

Brett Saul Levy - *Deutsche Bank AG, Research Division - VP*

Right. But you restated the tax number for '16 as well for the first quarter.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

We did, correct.

Brett Saul Levy - *Deutsche Bank AG, Research Division - VP*

Right. So how should we be thinking about that both in terms of what kind of add-back we should have for our 2016 EPS, giving us a base to work off of for '17?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Yes. I think the -- just the 30% tax rate would be appropriate to apply to that for the 2016.

Operator

Our next question comes from Andrew Charles with Cowen and Company.

Andrew Michael Charles - *Cowen and Company, LLC, Research Division - VP*

I wanted to ask a little bit more about lowering the 2017 sales guidance to the lower end of the range. I mean, sales were a little better than we were expecting in 1Q. So I mean, if you talk about the cadence during the quarter, does this imply -- we know January was obviously positive; February, March, missing your target due to tax refund delays and softness around March Madness. But in addition to that, were there -- are there worries about the shift off of Wing Tuesday, a soft start to April? Can you help us kind of fill in the dots a little bit more?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

I think it really just gets back to those industry headwinds, again, were a little more severe than we anticipated. So we're being somewhat cautiously optimistic in what we're seeing but -- and Wing Tuesday, we mentioned all of our sales-driving initiatives right now are either meeting or exceeding our expectations. So we've got a lot of positive indicators right now. It's just because of the headwinds were being, I think, prudent in recognizing how severe it is out there. But as I look at our sales-driving initiatives, takeout is exceeding our internal goals. Delivery, Q2 to-date, is well in excess of our internal goals. Loyalty, we're at almost double our internal goals quarter-to-date on attachment and sales. So we're seeing a lot of positive indicators on the sales front that give us reason to be optimistic. Wing -- our Tuesday sales, the same-store sales continue to increase, which gives us some confidence that we can make an adjustment and still see good same-store sales on Tuesday even with an adjusted offering. So we're seeing positive signs. I think we just believe it's a really tough environment out there right now.

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

And when we build our model, we start with what the industry run-rate is or where the -- at least casual dining is forecast to be. We start with that as the base. And then from that, we build our initiatives off of that to come up with what, we believe -- along with any sports changes or calendar changes, what we believe our same-store sales will be. And because that -- as we've seen results for February and March, that base that we start with, that kind of that industry base is lower than when we did our plan in the fourth quarter of 2016.

Andrew Michael Charles - *Cowen and Company, LLC, Research Division - VP*

Great, that's helpful.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

And just from a calendarization perspective, as we think about top line and bottom line, we will be moderately worse in Q2. And then Q3, we'll start to see the benefits flowing through on the cost savings, the fiscal fitness work. So those impacts will start to become more favorable going through, and then we've got a very strong Q4 with the impact of the 53rd week addition as well.

Operator

Our next question comes from Will Slabaugh from Stephens.

Will Slabaugh - *Stephens Inc., Research Division - MD*

I wanted to ask about delivery and takeout. And with delivery first, with what you've seen so far, why are we convinced that delivery is incremental first? And then are there any metrics around that test you'll be willing to share in terms of either sales or profitability? With just the idea -- wondering if delivery being ahead of internal goals from a traffic perspective is dropping dollar profit to the extent that we're able to measure at this point?

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

We believe it's incremental because the -- when we look at what happens to takeout in a restaurant that starts to deliver, it -- actually, we -- it stays consistent, if not increases. And then we look at the base also for in-restaurant dining and don't see a -- what appears to be an impact. So just by looking at the various -- the breakdown of in-restaurant dining, takeout delivery, it appears to be incremental.

Will Slabaugh - *Stephens Inc., Research Division - MD*

Got it. And then as a quick follow-up on takeout, it sounds like that's been a pretty significant driver for you here recently. So I'm curious how you're focusing that messaging to drive the guest to use you in that way and if there were any changes in terms of execution or disruption that you've experienced. Has that's been growing a little faster than maybe what you thought?

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

I'm not -- we haven't really specifically gone out and advertised takeout and pushed it. I think what we do -- what we have been doing though is improving our website and our mobile ordering app to make it easier to use us for takeout. We're working at improving our execution around takeout in restaurant. So I think we're capturing the existing consumer trend by making sure we deliver a good experience for our takeout customer.

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

And our stadia design has a separate pick-up area for takeout, which is -- it makes it easy for the customer to use. We're going back and looking at, because of the increased amount of takeout, are there additional pieces of equipment that keep the food hot and cold so that the guest has a great experience, and then an operational focus on having the right people that are greeting the guest who are there for takeout, a dedicated person.

Operator

We'll now take our next question from Peter Saleh with BTIG.

Peter Mokhlis Saleh - *BTIG, LLC, Research Division - MD and Senior Restaurant Analyst*

I just wanted to ask about the decision to eliminate the guest experience captain. Can you just talk a little bit about that decision, kind of what's changed in your mindset? And why deploy the labor hours? And what exactly is the reason behind deploying the labor hours versus dropping them to savings?

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

So the -- a little bit of history of the guest experience captain. When we first started to test and pilot the guest experience captain, we certainly saw a verifiable lift in same-store sales. We then rolled it throughout the entire company base. The -- we certainly attribute -- we had incredibly strong company-owned same-store sales in '14 and most of '15. We certainly believe the guest experience captain program was a contributor to that. I do think as we rapidly grew in '15 and '16, we did have some challenges in executing it at scale. I think those challenges could have been overcome, but at the same time, we saw then labor rate inflation. We started to see the industry headwinds on same-store sales and the shift to takeout and delivery. So I think considering all those factors, we did not think, "At this point, it's time to try to execute it at scale," and made the decision to pull back. It is still in approximately 10% of our company-owned restaurants. A lot of those are our best restaurants, high volume, well-executing restaurants, and they love the guest experience captain model. So it still does provide a benefit, but we made the decision in the current environment it was best to pull back. The guest experience captains were doing certain functions in the restaurant that we still need to provide our guests, and that's why we then repurposed some of their work to the existing staff members.

Peter Mokhlis Saleh - *BTIG, LLC, Research Division - MD and Senior Restaurant Analyst*

Great. And then just on the refranchising plans, can you just talk about the appetite among franchisees for this refranchising? Will these be new franchisees coming into the system or existing franchisees? And just if you can give us a little bit of color around regionally, where a lot of these restaurants will be refranchised, that would be helpful.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Sure. Peter, we've gone through -- we looked at the markets we had identified preliminarily. We ended up expanding that group by a little bit based on geographic proximity, making sure we've got sort of healthy clusters of markets that we're bringing to market. We're not going to comment at this stage on where those geographies are until we're ready to go public with the offering for those markets, which should be in the next 4 to 6 weeks. So it will be fairly quick. In terms of levels of interest, we've got lots of interest from our existing franchisees. We've got interest from other multiunit operators as well. So we'll be entertaining a broad universe of bidders.

Operator

We'll now take our next question from John Glass with Morgan Stanley.

John Stephenson Glass - *Morgan Stanley, Research Division - MD*

First, can I just follow up on the profitability of the delivery sales? You talked about it being incremental on the top line, but you've got a take rate. And I'm guessing but maybe you could just verify, is the mix skewed heavier to wings so you may actually end up getting another problem or wings grow faster? So maybe what is the mix for delivery versus sort of dine-in? And what do you think about the overall profitability after the take rate of the delivery business versus the dine-in business?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Certainly, the dine-in guest is the most valuable guest for us. So we are going to be -- our programs and promotions, some of the things that we're working on for later this year are geared towards the dine-in guests and really capitalizing on the game experience in-store. That being said, we're also looking at things that we can do to enhance the profitability of our delivery and takeout business, including beverage, where we can. We're exploring alternatives to broaden out the bundle of products that we can be driving through. But as Jim said, delivery is typically incremental to us. So to the extent we can get a side, we can get a beverage into those orders, it certainly helps the profitability.

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

We're also working with a third-party aggregator so that we want to work on getting orders coming through our website or our mobile app. We have a new website launching later this year, and that will have enhanced capability for delivery. Those orders coming in through our website or the mobile app will go to that third-party aggregator, who will then go out to market, get a bid, and the orders come back in then to us and we fulfill them. It's at a significantly reduced cost versus what the commission that you pay now to a third-party deliverer. And I think that will put pressure on those third-party deliverers to bring that cost down. As Alex said, we are exploring. I think it's 4 states right now where delivery of alcohol is legal, and so we're moving forward with that. And certainly, that should help with that, with the margin that you have on delivery.

John Stephenson Glass - *Morgan Stanley, Research Division - MD*

And just the mix on delivery, is it much more skewed to wings or not?

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

I don't know if I know that off the top of my head. Wings are certainly a part of it. It actually is typically a higher-priced transaction. So it has...

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

It's actually a more diverse ticket than what we see with takeout, with the takeout package. So it's a more attractive economic offering than takeout. People typically are ordering in an entire meal on...

John Stephenson Glass - *Morgan Stanley, Research Division - MD*

Okay. That's what I was looking for. Can you just talk about what your decision on cost savings? Two questions, I guess. One is, what are the mitigating factors that you couldn't bring more of it into '17 versus '18? Are the -- is a lot of it just contact renewals and such you can't get to until 2018? And when you had consultants looking at the cost opportunity, were there things that they recommended that you just said no to, like there's more opportunity but there are things that you just ring-fenced and said, "I don't want to do it?" Or maybe what was on and off the table when you thought about cost reductions?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Yes, a good question. So as we looked at those things, I would say generally, there wasn't much that we said no to. We set out sort of -- there was an open -- a blank sheet as they started the process. They went through and they identified many areas of opportunity. Part of the problem is -- it would be great if those were in 3 or 4 areas. The reality is it was spread into 50 different areas in smaller dollar amounts. So the ability to go out and capture each of those opportunities is going to take longer than if it were just a few areas of significant opportunity. Some of it is process change. Some of it requires development of new tools and capability, the labor scheduling. It's one that is going to be a pretty significant project to get that built and optimized. And then some things require contractual renewals and working with our suppliers. So it's a range of different things, and it's pretty highly fragmented. So it falls across a lot of different departments and areas of business.

Operator

We'll now take our next question from Jason West with Credit Suisse.

Jason Taylor West - *Crédit Suisse AG, Research Division - Senior Analyst*

I just want to circle back on some of the adjustments you're talking about making to address wing cost issues and the environment. Did you say that you're thinking about changing the structure of the Wing Tuesday, getting away from the half-price and -- or maybe you're replacing the wing offer with a different type of offer?

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

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So we are -- when we initiated Half-Price Wing Tuesday, as I said in the call, we anticipated, based on experts and chicken experts out there, that wing prices would come down and that we would do see the normal progression off of the highs that we see typically in February -- or January and February. That didn't happen. So we've had a couple of tests out in both company stores and in franchise stores. They've only been going for about 3 or 4 weeks, using a -- something other than half-price wings but still traditional wings because we have -- you can do half-price boneless. You could try to move that to Tuesday, but really, the only thing that moves the needle on Tuesdays is that traditional wing. But we're looking at ways also to mitigate that. So I'm not going to talk about the specific offers because they're out in test, but it would be changing of that half-price wing.

Jason Taylor West - *Crédit Suisse AG, Research Division - Senior Analyst*

Okay, got it. And then one on the cost benchmarking that you guys did, did you guys consult with the franchisees at all because there's been a lot of talk about some of the franchisees have some benchmarks that are pretty attractive on the margin side and maybe trying to dig into those areas a bit? Was that part of the process? Or was this really more of an internal focus on your company stores and the consultant feedback?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

So in fact, we were -- we searched -- we left few stones unturned in finding best practices, and so we included some of our best-performing franchisees in terms of their cost structure. So they were a part of the process. We learned a bit, and many of the things that we're implementing are things that we learned through that process. Fundamentally, the difference has come down to hours and rates on the labor side. And so some of it is philosophical and -- but there are other areas where we see -- recognize it's a better practice and a better process. Opening hours would be a great example. We're reducing our opening hours, getting the stores open more efficiently than we had in the past, and that will be one of the things that we're actually rolling out this month. So that change in practice is something that we learned from our -- one of our better performing franchisees on the [cost side].

Operator

We'll now take our next question from John Zolidis with Buckingham.

John Michael Zolidis - *The Buckingham Research Group Incorporated - Research Analyst*

A question on the refranchising. Can you talk about why the percentage of stores has moved up to 13 from 10? And then with the metrics that you supplied on those locations, they're below the company averages. How do you think that's going to impact the price that you're going to be able to get when you sell those? And when you think about the cost savings that you're expecting in the core business going forward, is that something that can be applied to these stores as well? So there's really an opportunity for much better margins at those stores than is currently implied by the numbers that you put in the press release.

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Yes, a good question. So as we expanded the group, the 10% number we cited was probably at the conservative end. We were closer to the 11%, 12%, and then we added a few more stores into the group to bring it up to the 13%. And those additions were just based on continuous geographies, what made sense based on putting together a contiguous package for sale processes. So we are -- we -- I think we identified 10 to 11 markets previously. We're going to aggregate those and look to go to market in bigger bundles, and it made sense to add a few more stores into those bundles as we took them out. And then in terms of the cost savings, we have factored in the impact for those items that we think we can get implemented in 2017. We have factored that in, and we'll pick up a little bit of improvement. We're not going to get, frankly, paid very much. We're just a few months of favorability coming through on those results in those -- in the 13% of stores we've identified. And then we've stripped those out of the savings expected in 2018 because we don't anticipate they'll be part of the portfolio at that point.

John Michael Zolidis - *The Buckingham Research Group Incorporated - Research Analyst*

So just to be clear, the expected sale of that 13% of the store base that are lower-margin stores and lower average unit volumes is factored into the revised guidance for the full year?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

No, it is not. For 2017, we don't have that impact factored in. For 2018, we have not included -- in the cost savings number that we laid out for 2018, we have not included the 13% of stores that were -- that we franchised.

Operator

We'll now take our final question from Karen Holthouse with Goldman Sachs.

Karen Holthouse - *Goldman Sachs Group Inc., Research Division - VP*

Sorry to beat a dead horse on the sort of comp trajectory through the year, but you're looking at -- the guidance for the year implies a pretty moderate acceleration from the first quarter. At the same time, compares are getting easier, and some of the benefits from these programs should be ramping. Just the expansion of the footprint for delivery would seem to say that's going to be another, like, at least 50 bps to the comp over the balance of the year. But I guess, is there an underlying deceleration in the industry built in or you're building in some conservatism and potential promotional changes? What's the offset?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Well, as we think about the performance for Q2, is giving us a little bit of pause as we think about the balance of the year. And then we are also anticipating the impact of some shift to the promotional calendar over the -- over Q4 -- or Q3, excuse me. And then Q4 is where we expect to see significant growth. So again, (inaudible) the addition of the week as well (inaudible)

Karen Holthouse - *Goldman Sachs Group Inc., Research Division - VP*

Okay. And then one, just making sure I'm doing the math correctly. It's -- there were 100 units with delivery at the end of the last quarter, 180 this quarter, $2.8 million in revenues assuming that the roll-out was even a little bit front-end-weighted. In the quarter, you would get to like $18,000 in sales per week per unit. Is that ballpark the right way to be thinking about it?

Alexander H. Ware - *Buffalo Wild Wings, Inc. - CFO, EVP and Treasurer*

Sure. I think -- yes, that's fine. I think that will help you get to -- looking at the average flow-through per week based on the calendar shift for -- particularly for Q4 and the 53rd week, yes.

Operator

That concludes today's question-and-answer session. I would now like to turn the conference back over to Sally Smith for additional or closing remarks.

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

Great. Thank you for joining us on our first quarter earnings call. We have work ahead of us and have tried to laid out how we're going to improve our cost structure as well as identify those items that really help us drive same-store sales. I look forward to providing an update at -- on our second quarter conference call, which will take place at the end of July. Thanks, everyone.

Operator

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