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BWLD - Q3 2017 Buffalo Wild Wings Inc Earnings Call

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OVERVIEW:

Co. reported 3Q17 revenues of $496.7m, net earnings of $18.2m and diluted EPS of $1.17. Expects 2017 adjusted EPS to be $4.85-5.15.

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PRESENTATION

Operator

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

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

Good afternoon, and thank you for joining us as we review our third quarter 2017 results. I'm Heather Davis, Director of Investor Relations for Buffalo Wild Wings. Joining me today is Sally Smith, President and CEO; and Alex Ware, CFO.

By now, everyone should have access to our third quarter earnings release and 10-Q. Copies are available on our investor website at ir.buffalowildwings.com.

Before we get started, I'll 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 in a Form 8-K concurrent with this release and in our other filings with the Securities and Exchange Commission.

Today's commentary will discuss certain non-GAAP financials. The reconciliation between our GAAP results and non-GAAP can be found in our earnings release on our investor website.

On today's call, Sally will provide updates on sales and initiatives, and Alex will cover third quarter financials and our outlook.

I will now turn things over to Sally.

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

Thank you, Heather, and good afternoon, everyone. We're making progress against our initiatives as reflected in our third quarter performance. Our teams in the field and at the home office are executing on the cost savings initiatives of our fiscal fitness program and we're exceeding our goals on savings. As Alex will explain in more detail, we have some accrual favorability in the third quarter results, but even without these benefits, we feel good about delivering on the bottom line performance and our operating momentum.

Our adjusted earnings per diluted share was $1.36, with $0.27 related to accrual adjustments and the balance attributable to operating improvements and cost savings.

During the third quarter at company-owned restaurants, we completed the Tuesday promotional transition from half-price traditional wings to a boneless BOGO. As expected, this impacted same-store sales in the quarter but helped sequentially increase profitability. This promotional change benefited our cost of sales margin by 40 basis points year-over-year.

Of the traffic loss from the Tuesday promotion change, about 50% is on takeout checks under $10, which are a very low-margin transaction. We're focused on improving the consistency of our guest experience and the corresponding sales mix to drive profitability. We continue to work toward alignment on a systemwide Tuesday solution as a majority of our franchisees have stayed with the traditional wing promotion.

Our thoughts are with the communities affected by natural disasters as they work to rebuild. A total of 71 restaurants were closed for 200 operating days in the third quarter due to the hurricanes. As a reminder, a restaurant is excluded from our same-store sales calculation if it is closed for 3 days or more in a month. We estimate this reduced company-owned revenue and franchise royalty fees by $2.7 million. The EBITDA impact is $1.6 million as we paid team members for lost wages, incurred lost inventory and repair and maintenance expenses. We estimate this was an $0.08 impact to earnings per diluted share in the quarter.

The real story is the generosity of our team members as they rallied to help their impacted colleagues through donations to the team member assistance fund. In addition, our fans donated nearly $100,000 to the Red Cross relief efforts in restaurant fundraising, which Buffalo Wild Wings is matching.

I'd also like to thank Rollins for their donations of uniforms to affected team members so our restaurants could get back to serving their communities.

As part of our fiscal fitness savings target, we transitioned our restaurants to a dynamic restaurant management structure that will inspire synergy and connection between teams. It connects restaurant management to the overall Buffalo Wild Wings strategy, matches industry standards and provide an operated -- opportunity for role-based manager training.

Roles and activities are defined to help leaders execute strategies and initiatives with clarity and continue to build a vibrant sales culture in our restaurants. This management structure reduces spans to provide realtime feedback and coaching to team members, with the goal of reducing our turnover.

Our same-store sales have a high correlation with our guests' willingness to recommend and fans rate this attribute on friendliness, exceptional food and beverage quality, a clean atmosphere, all the while meeting their needs for speed and convenience. As we seek to gain momentum on improving our same-store sales trends, it's an important reminder that it's all about the fundamentals in the restaurant industry.

In 2004, we kicked off our restaurants' wildly important goal of service excellence. A back-to-basics approach will help create a more loyal guest, improving frequency and increasing average check. Our goal is to increase our willingness to recommend a store by over 200 basis points by the end of 2018 to help drive same-store sales.

The Blazin' Rewards Loyalty Program currently has 3.5 million members, 50% higher than expectations. At this point, enrollment, attachment and incremental revenue associated with loyalty are exceeding expectations. We're getting a wealth of information on our guest affinities, preferences and spending behavior. We are actively using the data to personalize the offers we are presenting to them, such as targeting the lapsed guests with bonus loyalty points on their favorite day of the week or using specific visual assets in our messaging based on the guest's past food purchases.

Early indications are that the hyper-targeted campaigns are resulting in more profitable engagement with the brand.

Takeout and delivery grew to 19.2% of sales in the third quarter, up from 16.8% in Q3 last year, with delivery accounting for $4.2 million in sales. Takeout growth is moderating, coming off its recent highs, as we've moved off the Half-Price Wings Tuesday offer. We currently have delivery in 258 company-owned restaurants, and we recently unveiled the all-new buffalowildwings.com. This site streamlines online ordering into one integrated platform, bringing the ordering experience to a whole new level for wing lovers. With countless customization options and a visually dynamic menu, fans are able to quickly create their favorite Buffalo Wild Wings menu items from their mobile device or computer. The site also features exclusive content for sports fans, detailed restaurant information and specific promotions based on the user's selected location.

In the third quarter, Buffalo Wild Wings online orders represented 24% of takeout sales, up from 18% during the prior year. We expect this growth to continue as we further optimize the site and layer in media to raise awareness.

Alex will now provide additional details on the third and fourth quarters.

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

Thank you, Sally. Last quarter, I described the 3 areas of focus: one, moving our promotional activity off of the traditional wings in company-owned restaurants which we accomplished by quarter-end and are seeing positive results; two, driving same-store sales through service excellence, which Sally described, and the training is well underway; and three, delivering our fiscal fitness savings which are running ahead of targets today. So overall, we are making progress in building momentum.

Turning to the quarter. Adjusted earnings per share of $1.36 were favorably impacted by $0.15 for the recognition of breakage in our rewards loyalty program; $0.12 for out-of-period adjustments for benefit accruals; and the remaining $0.29 was for ongoing operational improvements due to our promotional change in cost savings in excess of our targets in our fiscal fitness program.

Our revenue in the third quarter reached $496.7 million, increasing 0.5% over the same period last year, with total system sales of $942.2 million. Earnings per diluted share totaled $1.17 in the third quarter, and adjusted EPS was $1.36.

Over the past 3 quarters, we've built up our loyalty point accrual as the program expanded, and we've taken a deferral of $6.5 million of revenue since the inception of the loyalty program through the second quarter. With the program history, we are now able to recognize favorability to revenue in the third quarter of $2.9 million as we established our program-specific breakage rate.

Menu prices and adjustments taken during the last 12 months were 0.9%. We are selectively taking price in certain markets with our November menu, accounting for a 1.2% increase to partially offset continued wing inflation -- wage inflation and wing cost increases.

In Q3, we made significant progress on improving our cost of goods sold on a sequential basis in an inflationary commodity environment for traditional chicken wings. Traditional wings were $2.16 per pound in the third quarter or 26% higher than the $1.72 last year. The transition to Boneless Tuesdays at company-owned restaurants was completed in the third quarter. Cost of sales were 30.8% of restaurant sales, a 130 basis point decrease from the second quarter this year.

As we roll this program across company units throughout Q3, the weighted average percentage of company restaurants that were on the boneless promotion was 41%.

Compared to the prior year, COGS was 190 basis points higher due to the higher wing prices and lower yields, partially offset by a 40 basis point benefit from the Tuesday promotion change. The price of traditional wings for the first 2 months of the fourth quarter is $2.18, increasing by $0.02 from Q3 and compares to $1.99 to last year's fourth quarter.

Turning to labor. Cost of labor in the third quarter was 31.4% of restaurant sales, 70 basis points lower than the third quarter last year due to improving preopening, closing and portioning procedures across the restaurant and included a benefit of $2.6 million related to out-of-period adjustments for benefits accruals.

Through our fiscal fitness program, we achieved a total of $5.8 million in labor savings. Wage inflation continues to be a headwind, rising 5% in the quarter, but these savings enabled us to overcome inflation and deleverage to deliver lower costs.

Restaurant operating expenses as a percentage of restaurant sales was 15.2%, a decrease of 40 basis points from the third quarter last year, resulting from lower liability insurance and favorability in repair and maintenance expense that was offset by the addition of third-party delivery fees.

Restaurant level profit, which is calculated before depreciation, amortization and preopening expense, was $78.5 million or 16.6% of restaurant sales. This compares to restaurant level profit of 17.6% in the third quarter last year.

General and administrative expenses were $31.1 million in the third quarter compared to $32.3 million last year, inclusive of stock-based comp of $2.4 million this year and $300,000 last year.

The year-over-year decrease in total G&A is primarily attributable to favorability in salaries from a leaner organization and reduced travel expenses. Over the past 6 months, we've taken action to flatten the organization from home office through field leadership, speeding up communication, accountability and decision-making.

We recorded an asset disposal and impairment charge in the quarter of $4.1 million, resulting from the impairment of 2 restaurants and a write-down of unused software licenses.

With additional interest expense of $2.9 million versus 2016, our net earnings in the third quarter of 2017 decreased 19.7% to $18.2 million, producing earnings per diluted share of $1.17 compared to $1.23 in the prior year. After adjusting for the noncash impairments, our net income of $21.2 million drove an adjusted EPS of $1.36 compared to $1.29 last Q3.

Now looking ahead to the fourth quarter. Beyond service excellence, our sales initiatives in the fourth quarter include game-time -- game-day offers, connecting local teams in the community through our revitalized Home Team Advantage program and introducing takeout programs for holiday parties. We anticipate the benefit of the move to the Tuesday boneless BOGO at company-owned restaurants will continue to sequentially improve our cost of sales to approximately 30.5% of restaurant revenues in Q4, 60 basis points lower than last year despite wing costs increasing by roughly 50 basis points.

With our labor savings from our fiscal fitness initiatives in the fourth quarter offsetting wage inflation and training costs, we anticipate labor to be approximately 32%.

Moving on to our fiscal fitness program, we achieved approximately $9.2 million in total savings in Q3 and $15.3 million year-to-date. Our team members have done an excellent job on focusing on cost controls and identifying areas of opportunity.

For Q4, we anticipate a reduction in our expenses of approximately $8 million, primarily in labor, and we are on track to achieve the $40 million to $50 million in savings by the end of 2018.

For the full year 2017, we are increasing our guidance and now anticipate adjusted earnings per share in the $4.85 to $5.15 range. With the 53rd week in 2017, we do have some calendar shifts to be aware of on a year-over-year basis. The highest volume week of December 26 through the 31st falls in our fourth quarter 2017, containing a number of College Bowl games and is a heavy gift card redemption period post holidays. While we are confident in our initiatives and momentum, we anticipate losing such a large week will be a 160 basis point dislocation to Q1 2018 same-store sales.

And now back to Sally for some closing comments.

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

Thank you, Alex. This is my 56th earnings call as CEO of Buffalo Wild Wings, and as I'm nearing my retirement, I wanted to close with my sincere gratitude and thank you to all of the team members, franchisees, board members, vendor partners and to our investors who helped build Buffalo Wild Wings from a 34-unit concept when I joined the company in 1994, to an international brand with over 1,240 locations in 9 countries. A search for my successor is well underway by the Board of Directors. The board and I are committed to ensuring a smooth transition, and I look forward to cheering B Wild on from the sidelines as a shareholder for many years to come.

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 third quarter earnings call. In order to get to as many analysts as possible, please limit yourself to one question and queue up again if you have an additional question. Operator, please open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) We'll take our first question from Brian Bittner with Oppenheimer & Co.

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

Alex, just a question on EPS in general. What's the right base for 2017 EPS that you want us using as we build -- or as we use a base to build our 2018 estimates kind of versus the stated EPS guidance, kind of asking, when you take out all the nonrecurring benefits, particularly this quarter, what type of base do you want us using in '17 as a platform?

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

Well, certainly, we've got the impact of the 53rd week, Brian, so that's about a $0.35 impact to us in the quarter, and then the impact of the onetime items that we called out was about $0.27.

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

Okay. That's helpful. And just for the COGS going forward, you gave us good guidance on the fourth quarter, and I'm assuming that's basically a full effect of the promo shift. Under the current wing price construct, is that the type of COGS margin you would expect going forward as well, or is it going to continue to evolve?

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

We would expect that structure to stay roughly in place. It was a 40 basis point benefit to us in Q3. I think our estimate is it's about a 100 basis point impact to us in Q4. So coming off of a -- if you adjust or normalize our cost of goods, we were about 31% in Q3. And then we're looking at about a 100 basis point benefit from the program in Q4, offset by a 50 basis point increase in wing cost. So we would expect this structure to carry through going forward, obviously subject to future fluctuations in wing cost.

Operator

We'll go next to Jeff Farmer with Wells Fargo.

Jeffrey Daniel Farmer - *Wells Fargo Securities, LLC, Research Division - MD and Senior Restaurant Analyst*

How did the recognition of the $2.9 million in deferred revenue in the quarter impact your 3Q same-store sales number, if it did at all?

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

It did not. We are not slowing the -- that loyalty impact is not calculated as part of our same-store sales.

Jeffrey Daniel Farmer - *Wells Fargo Securities, LLC, Research Division - MD and Senior Restaurant Analyst*

Okay. And then just one other quick follow-up. I'm just trying to get a read on now the declining NFL viewership could be impacting the business. Anything you guys can share in terms of how your same-store sales are looking on those Sundays, Mondays, Thursday nights, any of those that have the NFL viewership time periods?

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

I think we can say that we're expecting our Q4 number to be about -- our same-store sales to be about in line with what we saw in Q3, so we don't expect to see much movement across the quarter. Obviously, we'll see some sequential improvements as we get towards the back half of the quarter and some of the lap get a little bit easier. But overall, for the quarter, we would expect roughly the same trend.

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

It certainly also depends somewhat on the matchups as you go through the quarter, as teams advance or are eliminated, depending on where we have the most stores. So probably similar, as Alex said, to what we've seen.

Operator

We'll go next to Brett Levy with Deutsche Bank.

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

Just continuing on with respect to the top line. You've obviously seen some benefits from the -- on the margin from the Tuesday shift. What else are you seeing? Last quarter, you called out about a 200 basis point improvement versus the industry on traffic, and you just basically gave us a flattish trend on 4Q comps versus 3Q. But what kind of lift can we expect from boneless going in for the full quarter, from your delivery and your off-premise promotions? And just how should we -- how do you feel about the cadence for comps as we move into 1Q ex the extra week?

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

Yes, I'll start and then Sally can join in. So we didn't feel very good about the comps that we called out. As Sally mentioned in her script, the -- much of the traffic loss that we're seeing on Tuesdays is very small tickets, under $10 on average. That was about -- slightly over 50% of our traffic loss was specifically on takeout traffic under $10. So we're seeing -- we're losing traffic on the very small checks of lower levels of profitability, and so we're optimistic about how this is going to evolve as we migrate through the program.

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

And I wouldn't expect that our traffic would increase significantly. Well, this is a traffic decline we expected and actually is probably welcome as we look at our stores on Tuesday. And the volume, the profitability certainly is nice. Takeout, as a result, will probably be flattish in the fourth quarter as those takeout sales from Tuesday decline. We're also working on a Thursday promotion that we should be able to -- that we're starting to test. And we'll have more information on the fourth quarter earnings call on that.

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

And just one follow-up. You talked about better execution and how that's got a -- how that has a nice correlation to same-store sales improvements. What have you seen in the units where you've had the earliest integration of the better customer service and the better execution?

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

Yes, at this point, we discussed it a bit on the last call, we spent the last several months building the training around that program, and the training is just being implemented as we speak. So it's just going into market, but we're looking forward to having more to share on our Q4 call.

Operator

We'll go next to Jeffrey Bernstein with Barclays.

Jeffrey Andrew Bernstein - *Barclays PLC, Research Division - Director and Senior Research Analyst*

And congratulations as well, Sally. 2 questions, just one from a comp perspective. Clearly, the comps aren't where you want them to be. Obviously, you delivered from a cost side this quarter. So I'm just wondering, specific to the comp, could Buffalo maybe prioritize the opportunities you think to drive the improvement, whether it's specific promotions or technology? I mean, it just seemed like you had a lot of levers. To date, it doesn't seem like they have improved much. It seems like you're still lagging in the industry. But how would you rank-order what you think had the most impactful potential comp improvement opportunities as we look to '18.

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

Sure. I think there's a couple of things. First of all, as we roll out the service excellence, we expect to have a -- our metrics, our 200% increase in our likelihood to recommend, which we believe is correlated to same-store sales. So we'll be focusing on that. The new website, certainly, which makes it much easier to order online, and we've seen the ticket averages are higher on takeout orders done online. So that just rolled out in the last couple of weeks. We do believe that will continue to drive online ordering, while reducing errors and probably the likelihood to return for that takeout order will be higher. We are doing a thorough review of our marketing and promotional activities for 2018 as we get ready to determine how --

our allocation between our media as well as our promotional strategies. And then we've engaged a third-party consultant to work on menu development from both a value and quality standpoint.

Jeffrey Andrew Bernstein - *Barclays PLC, Research Division - Director and Senior Research Analyst*

Got it. And then the topic that was coming up a couple of quarters ago in terms of the refranchising. And I know you guys initially set up to do, I think, 75-plus stores, or I think it's north of 10% of your company-average stores. But can you give us any feedback in terms of the demand or whether there's demand for more than that or who they're potentially being sold to or potential multiples? Or any kind of progress report on how we're doing thus far with the refranchising of the early stores?

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

Yes, a good question, and we don't have any progress to share at this point. We've been working carefully with potential parties and with our board to make sure that we're coming up with the right outcomes here. So nothing to share at this point, but we'll be sure to update on progress as we have it available.

Jeffrey Andrew Bernstein - *Barclays PLC, Research Division - Director and Senior Research Analyst*

Alex, just to clarify one thing. Did you say -- when you said that 50% of the traffic loss was, I think, the takeout sub-$10, are you quantifying how much the actual traffic loss was with this shift or you're just kind of giving us guardrails in terms of the breakout of what they were?

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

Yes, we're just giving you the sense for the type of traffic loss that we're seeing. And so it's -- we do believe its favorable as we're losing those very low-margin guests and retaining those that are looking to have a complete dine-in experience.

Operator

We'll go next to David Tarantino with Baird.

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

Alex, I wanted to follow up on that very last question. I guess it would be helpful for all of us if you could break out the impact on comps or traffic from this promotional shift so that we can understand what the underlying trend looks like, excluding that promotional shift. Would you be willing to do that?

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

Well, it is early, so we just completed our last conversion at the end of Q3. So it's in -- the nature of the performances, we always see them maturing as we go through the weeks as the program is rolled out, and so we probably won't have what I would call is a normalized read until sort of the middle of the quarter at this point. So it's a bit early to be able to give you good quality color there.

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

The other thing, David, that we've done is we have -- we're working with a third-party consultant to analyze the sales and any effect that could have on the rest of the week, and we'll be sharing that with our franchisees when they're all in here in 2 weeks. We're not -- as I mentioned in my script, the company has shifted to boneless, we have some franchise locations that have made the shift, but most are still on that traditional Tuesday. So we have not put any national advertising behind a boneless wing Tuesday. And that certainly should have some effect on traffic as well, provided the majority of the system moves that way. But again, they will get all those results in a couple of weeks from that third party.

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

Okay. And then my question's back on the initiative you have to improve the operations. I guess I was wondering kind of what the historical context of that initiative is. Is it based on some research or analysis you did in the business that you had to address some issues? And if so, can you highlight what issues are you trying to address specifically as you attack the operations side?

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

So I think there's a couple of things. One, speed of service comes up as an opportunity for us as we looked at consumer research, likeliness to return, all of our guest segmentation studies. Certainly, a value comes up as an opportunity, whether that's price, promotions or perceived quality. While that's not addressed specifically in service excellence, certainly, hot food, hot, and cold beer, cold, is addressed in service excellence, which does impact the guest ideas on quality. And so it was a variety of measures. And it's funny. I think maybe every 5 or 6 years, restaurants tend to go back and say, okay, we had a focus on this before, positions change, there's turnover, there's people, and it's just time to go back into restaurants and retrain. So it was just slowly over time, new things are introduced, and sometimes you just need a comprehensive retraining.

Operator

We'll go next to Alex Slagle with Jefferies.

Alexander Russell Slagle - *Jefferies LLC, Research Division - Equity Analyst*

I wanted to get your perspective on how we should think about a bridge to seeing higher store-level margins in the next year or 2? I mean, any rough guardrails for what a reasonable target might be, assuming the 20% target for '18 would probably be a bit aggressive.

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

Well, certainly, part of the move to the boneless program at the company restaurants is with the view of reducing the volatility around the commodities, the unhedgeable wing. And so trying to provide more stability around our margin structure is a key step. I would say that, coupled with the cost savings initiatives around fiscal fitness, is a key component, the $40 million to $50 million is an important component to getting there. And then the service excellence to help drive the top line are all going to be factors that will help us get there. At this point, I think we're going to step away from a specific target, just in light of the commodity volatility that we've dealt with over the last 2 quarters. But certainly, each of the pieces, we think, will play a meaningful role in boosting our margins above what they are today.

Alexander Russell Slagle - *Jefferies LLC, Research Division - Equity Analyst*

Understood. And then just effective pricing. What was your effective pricing in the third quarter and expectation for the fourth quarter? I might have missed that.

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

So 0.9 in Q3 and then moving to 1.7 in Q4, taking some really selective pricing across the menu in pockets where we had opportunity.

Operator

We'll go next to Andrew Charles with Cowen and Company.

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

Can you help us with the extra week and the contribution from same-store sales? I mean, the math shows a little bit of a deceleration, I should say more than a little, a steep deceleration in 4Q trends. I know you're going to have the extra week that's going to be a big contributor to heavy sales volume week. So how are you accounting for that?

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

The extra 53rd week is not included in the same-store sales calculation, only the first 13 weeks of the quarter. And so that 14th week is excluded from same-store sales.

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

Unfortunately.

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

Yes. Of course. And then just the Boneless Thursday promotion, can you talk a little bit about what you're seeing there? I mean, obviously, now you're having 2 boneless wings per week now. What are you seeing there in terms of the trend?

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

Certainly, having 2 boneless programs during the week is less than ideal, but we intend to keep the Thursday program in place for the time being and then looking to supplement that with an additional program. That will be a topic that we'll be addressing with our franchisees in the weeks ahead to determine what the right next best addition might be for the Thursday guest.

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

Okay. Good. And my last one, just any update on the CEO search in terms of are you still doing first rounds or are you kind of doing the final interviews, inside the restaurant industry, outside the industry, just a little more color there would be helpful.

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

So I think the board certainly took a broad view of potential candidates. So my guess is that it included both inside the industry and outside of the industry. I know that interviews have taken place. But again, not wanting to speak on behalf of the board, it's certainly their #1 priority right now. I know they have spent time together and are working hard to get my replacement named in the short term. I would say, certainly, in the next couple of months, we should be able to provide some additional color.

Operator

We'll go next to Will Slabaugh with Stephens.

William Everett Slabaugh - *Stephens Inc., Research Division - MD and Associate Director of Research*

I wanted to ask about the labor savings and where it's coming from, more specifically, if you could talk about what's happening sort of front-house, back of house and then in the field. And then if you have any concerns around either those labor savings or G&A savings in general that could either keep the top line from reaccelerating or is there anything guest-facing in there, and how we should think about that.

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

Yes, good question. I think all of the, I'm just really counting, all of the fiscal fitness initiatives are designed to take labor, optimized labor in ways that are not guest-facing. So it's focusing on home office, it's focused on our field leadership as well as sort of organizing the management teams in the restaurant to be as more efficient and more effective in their roles, not purely to drive cost savings at the expense -- potentially at the expense of traffic and revenue. So we've tried to be very wise about where we pared back. So all of the store labor and the G&A are sort of designed to focus on the efficiencies. And to do that, we've really focused on changing the work, not just changing the hours. And in doing so, we've focused on portioning activities, preopening, closing activities. We've gone in and done some pretty extensive work around our fixed -- sort of the time and motion studies around our fixed activities, specifically, opening and portioning, so that we've got a much better sense of what should be expected as we open the restaurants or do each of those steps. And then we've got work that is ahead of us yet, that will be a big part of the 2018 opportunity, which is really around the labor scheduling. So it's doing a better job on sales forecasting and how that impacts our labor schedules, so that we can make sure we've got the right staffing in the stores at the right time and at the right levels. And so that's -- that will be a big focus of what's ahead. So the fundamentals are on changing the work and making sure it's as efficient as possible versus just changing headcount and changing hours.

William Everett Slabaugh - *Stephens Inc., Research Division - MD and Associate Director of Research*

Got it. And if I could follow up on one comment you made, Alex, earlier in your comments around the calendar shift, you said there would be 160 basis points of an impact. I'm assuming you mean that's a benefit to 4Q and it comes out of 1Q '18, is that correct?

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

Unfortunately, it's a lost week. It is our 53rd week. It's not -- it doesn't play into the comp. It is the largest week of the year, and it will not be in our Q1 number.

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

And it won't be in the Q4 number either.

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

The Q4 number.

Operator

We'll go next to Andrew Strelzik from BMO Capital Markets.

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

Yes, sorry. Where it was in the Q1 number last year, and so that's the headwind. Sorry. Go ahead, Andrew.

Andrew Strelzik - *BMO Capital Markets Equity Research - Restaurants Analyst*

My first question, just a point of clarification. The same-store sales guidance that you've given for the year, is that system comps or company-owned? Is it system? I know the company-owned piece is largely flattish for 3Q to 4Q. I just want to confirm, is that what you were saying?

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

That's just -- it's company, our company comp.

Andrew Strelzik - *BMO Capital Markets Equity Research - Restaurants Analyst*

Okay. So the guidance is for company comps. Okay. Great. Second question, can you break out where you're seeing the cost saves? It sounds like it's mostly labor and G&A. But can you give us those numbers? And in terms of realizing more, it sounds like it's more of a pull-forward than anything else, or just the timing, you're able to realize that sooner, is that right?

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

I'm not sure I understand that...

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

Yes, I'm not sure I did either.

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

He asked you being ahead of the $7 million that are -- that we talked about on the last call. Yes.

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

Oh, yes. Yes. So yes, it is -- so we have a little bit of, so I would describe as reinvestment in the fourth quarter that's going to cause the deceleration in Q4 around the fiscal fitness favorability. So we had some favorability in Q3 that will not recur at that same level as we've got a bit of reinvestment to do.

Andrew Strelzik - *BMO Capital Markets Equity Research - Restaurants Analyst*

Okay. And so my last question, and maybe that's the bridge that I'm missing. But if I look at the guidance, at the midpoint, you took the guidance up by $0.25. $0.40 to $0.45, it looks like, is from things that are outside of the restaurant, D&A and G&A, and interest in things like that, which would seem to imply that at the restaurant level, things are a bit softer. So I was wondering what was going on there, or maybe I was misinterpreting that, but it sounds like maybe there's some incremental reinvestment. And so that's the differential, is that the right way to read it?

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

Correct. There are a couple of different pockets of reinvestment that we have. We've got -- we've made an accommodation for some CEO, onboarding costs. We've got a little bit more R&M that we would expect in the quarter. So those are a couple of the areas of reinvestment that we see.

Andrew Strelzik - *BMO Capital Markets Equity Research - Restaurants Analyst*

And if I could just sneak one more in. Why do you think it is that the franchisees are not shifting to the promotion? Is it some hang-up on boneless wings specifically? And if so, does that mean when you come to some resolution on a systemwide promotion, we might have to go back to the bone and wing -- a type of bone and wing promotion? Or just how to think about that.

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

So a couple of things. One, you don't have to have a systemwide promotion. I mean, you can do -- I mean, that's not a requirement. Certainly, it would be great to have that. Bone and wings have been a legacy of the business for 35 years. And by nature, franchisees want to know that they want the most testing that you can possibly do, which is exactly what we've done. They wanted to see the company roll it out. We've shared with them, on a weekly basis, the information that we have on Tuesdays, and this third party will be able to analyze in a variety of ways any effect that shift on Tuesday has on other days of the week. And I think that's the information that they're waiting for. There are some traditionally heavier areas of the country that do lean toward bone-in wings, and there may be an opportunity to offer a bone-in wing special to our loyalty guests, for example. So these are the things that we'll explore with our franchisees, one, after we've reviewed the information that we have on the effect of our shift. And that's really the information they've been waiting for. I would love to see a systemwide promotion, but I certainly understand -- and I think we'll get there. I think we can bridge that gap by again offering that opportunity to have a bone-in special in another way. That and testing out a Thursday promotion, what is the driver for to replace boneless wings. That's something that we've committed to testing and providing to franchisees as well.

Operator

We'll go next to Peter Saleh with BTIG.

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

I just wanted to ask about the -- first, on the CapEx guidance. It looks like your CapEx guidance came down by about $20 million. But I don't really see much of a change in the unit projections, I guess, going forward. So any insight into what's changed on in terms of your spend going forward for this year?

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

So 2 main areas of savings. One is around some of the -- some of our technology investment that we had -- had a placeholder that's going to be deferred. It's not -- it's just being pushed a bit more into '18. And then on the remodels, we have taken a more tiered approach to our remodels and are identifying, making sure we're getting sort of maximum value for every remodel dollar and have gone to setting up basically 3 different tiers for remodels. And that's enabled us to be more efficient while still hitting the remodel number that we had posted.

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

Great. And then just as we think about next year's unit growth, should we be thinking that it's a deceleration from this year or something similar? What are you guys seeing in the pipeline right now for 2018?

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

Yes, that will be an important topic with -- that we'll be taking up with the board, and it will be coming forth in -- on our Q4 call with the full picture of what our build plan is for '18.

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

Great. And then just lastly, on the share repurchase. We had anticipated you guys will be buying back a little bit more stock this quarter. Has anything changed in your plan in terms of your guidance on share buyback for this year?

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

Yes, we didn't repurchase any shares in Q3 and would expect that same position to be in place for the time being. Again, another topic that the board and we are engaged in. And we'll have more news to share on that at the time we establish a capital policy there.

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

Is there any specific reason as to why that's changed? Or that's just the way for the board to make a different decision?

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

Yes. We had set the target of getting to a 1.5x debt-to-EBITDA. We achieved that target, and so I think the board is evaluating prudent use of capital.

Operator

We'll go next to Dennis Geiger with UBS.

Dennis Geiger - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Restaurants*

Beyond the boneless wing Tuesday promo and the new Thursday event, can you talk a little bit more about other value opportunities that exist or might be under consideration? I know you've highlighted the blitz opportunities previously. Is there anything else you can share, maybe anything around alcohol? Is that something that's possible?

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

Sure. One of the things that we're doing on it with our menu optimization and in working with a menu specialist will focus both on food and beverage, with the thought that, okay, instead of having it -- maybe there's an everyday low pricing. I think part of it, certainly with alcohol, is also reminding guests that we do have a great Happy Hour. We haven't had a lot of advertising behind it. So we're looking at that opportunity as well in 2018.

Dennis Geiger - *UBS Investment Bank, Research Division - Director and Equity Research Analyst of Restaurants*

Great. And then just a quick follow-up. I just wanted to ask about the removal of the wing and 2 wings from select order sizes. I just wanted to see what pushback, if any, you've seen from customers on that front. It seems like it could have a nice positive impact on margins as well. Anything you've seen there thus far?

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

It's been a seamless transition. It's gone very well. There's been very little discussion or pushback on it since it was implemented earlier this year.

Operator

We'll go next to John Glass with Morgan Stanley.

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

Just first on the -- back to the boneless wing change, how did traffic trend after you made the switch on a per unit basis? Did it immediately, you feel the impact and then it sort of leveled off? Or does it drift lower? I guess the question I'm trying to get at is, frequency generally in casual dining is not that high, so are all guests sort of aware of it? Or do Tuesday guests, are they higher frequency or has everyone sort of got the message on individual stores and they're not reacting incrementally from this?

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

Sure, sure. I think that's true. I think there is a sort of a tradition around the Tuesday program. And for that reason, we started announcing to guests sort of 2 weeks before we made the conversion in market to notify guests. And we have typically seen, on the business schedules, we've seen some -- the results have been sort of all over. In some cases, you will see that guest that does not return. In some cases, you'll see the guest that comes because of the program. We have radio and digital media behind it in several markets. So building out awareness out in the marketplace certainly enables the program. And we've got many guests that have switched from traditional to boneless as well and many that still come on Tuesday and now pay full price for traditional. So it's a variety of outcomes. But on balance, we feel very good about the overall margin, the traffic trade-off that we're seeing there.

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

And you believe on the -- based on the earliest stores you've converted, that the traffic has stabilized to whatever level. I know you're going to talk about it, but it isn't moving around still. Even as you get weeks and weeks away from it, it is not changing.

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

Correct. That's fair. So every week, we're learning more as we get more longitudinal data here. And we're pleased with what we're seeing with the trends and aren't seeing deterioration.

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

And just on the costs, the benefits you saw in the restaurant expense line were pretty significant and you called out lower repair maintenance and I think some insurance which are lower, but I'm not sure if it was high last year and lower this year, what it was. How much of those are onetime in nature, particularly on the insurance piece? And it sounded like some of that was going to reverse in the fourth quarter. Is that what you were saying in terms of the restaurant expense line?

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

Yes. It's one that -- it sort of ebbs and flows based on claim activity that you see at the restaurant level. And so as you may recall, on the casualty side, we had 4 claims that all came in, in Q2. So highly unusual that you would have that kind of a magnitude and hitting in 1 quarter. And if things reversed a bit this quarter, and we're hopeful that things will at least be stable. But it's one of those accounts that will always fluctuate based on underlying employee activity.

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

And repair and maintenance, does that go up in the fourth quarter?

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

We've got a few areas that we just want to make sure that we're investing behind. This year, we've started to put in much more of a preventative maintenance program, and so we want to make sure that all of our units are sort of caught up on that program before we close out the year.

Operator

We'll go next to Brian Vaccaro with Raymond James.

Brian Michael Vaccaro - *Raymond James & Associates, Inc., Research Division - VP*

Just a couple of clarifications, if I could. Back to the third quarter comp. Alex, I caught the 90 basis points of effective pricing, but could you provide what traffic and mix were in the quarter?

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

Yes. It's not a number that we generally provide. But I think all in, we are expecting that we'll see the Q4 result to be roughly in line with where we trended for Q3.

Brian Michael Vaccaro - *Raymond James & Associates, Inc., Research Division - VP*

Okay. And on that fourth quarter expectation, I think earlier in the call, did I hear you say that you expect comps to improve as the quarter progresses through the fourth quarter on easier comparisons, and does that suggest quarter-to-date as below sort of the implied quarterly guidance range?

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

It's a matter of degrees. I think if you look at our December number last year, that was things were trending along nicely the first 2 periods of the fourth quarter last year, and then December had a significant downdraft last year. So we're hopeful that we'll have an easier lap in December. Certainly, the industry traffic for December is a question mark, I think. It relates to mall traffic and holiday shopping patterns and whatnot. So we're pleased with what we've seen so far in the quarter and would expect that it's going to continue on trend.

Brian Michael Vaccaro - *Raymond James & Associates, Inc., Research Division - VP*

Okay. And on the effective menu pricing outlook, I think you said 1.7 in the fourth quarter. I just want to confirm that. But then if you took no additional pricing, where would your effective pricing fall in the first and second quarters?

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

That is correct. It's 1.7 for Q -- or for the fourth quarter. And looking at 2018, we'd be at about 2.1 in Q1 and 1.9 in Q2.

Brian Michael Vaccaro - *Raymond James & Associates, Inc., Research Division - VP*

Okay. Great. And then just last one for me. On that -- back to that fourth quarter labor cost guidance, I think you said about 32% and suggests some slight deleverage on that line despite the impact to cost savings. And I believe there's a benefit sort of on that margin percentage related to the extra week. Would it be -- could you be a little more -- am I reading that correctly, or is there a rounding issue maybe in that about 32% that we should be aware of?

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

Yes, there's a little rounding there. I think we may be a bit under that. We have some additional trainings. We talked about our service excellence training. Those costs are embedded in our labor line as well for Q4, so that's providing a bit of inflation. And we've got our underlying wage inflation of roughly 5% that's going to continue to be a headwind that our initiatives are offsetting.

Operator

We'll go next to Jason West with Crédit Suisse.

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

Just on the comps in the quarter, was there any impact from the hurricane on either you or the franchisees? I know you said some of the stores would have been removed from the comp base. So did that pretty much neutralize any hurricane impact?

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

Pretty much. There's likely some surrounding benefit for stores that weren't closed as part of the hurricane, but people are distracted or they aren't able to get to a restaurant that may have been open throughout the storms. That's going to be true in some cases. And in others, it was people were evacuating and moving to other areas. They were probably dining out more than they would if they were at home. So it's -- there's some puts and takes there, but I think, by and large, we would not expect to see a material impact.

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

Okay. Got it. And I was a little surprised that the same-store sales for the franchisees was worse than the company given that you made this fairly significant change in the promotional calendar and they didn't. So I don't know, maybe they were more impacted regionally for some reason. Or any explanation as to why your sales outperformed them despite that change?

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

2 areas of where the company side has probably pushed further ahead or more aggressively, one would be on loyalty. Our loyalty attachment is at a higher level than where franchisees are as we've pushed aggressively against that program, and then delivery. We've probably got more delivery-enabled markets as well than the franchisees do. So those will be 2 items I would point to.

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

Okay. Got it. And then just last thing, with the wing market being up so much in 2017, I know you guys have had this hedging collar in place. I don't think you've ever said what the levels are on that. But has that helped you at all this year to prevent some of the inflation on the wings side? And as you go into next year, is there any risk of those collars being less helpful as they get reset?

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

Yes and yes. It's unclear where the -- we haven't locked in on 2018 at this point, but the collars have been helpful to us this year to mute the benefit, and if -- we're going to be working with our suppliers on what's the optimal structure for our relations and their contracts next year.

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

The collars stay in effect through March of 2018. So we will start those discussions with them probably that first part of January.

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

Okay. So the collar was in play starting in March of this year then, or has it been there all year?

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

Well, we had one the prior year as well.

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

Okay. But from a modeling standpoint, I think it would be important for us to know kind of how that is going to influence the numbers next year. And assuming wings don't come down, I mean, is there any sort of order of magnitude of what we're looking at there?

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

Not at this point. There are many variables in play here, so we'll provide guidance along with our overall view for '18.

Operator

We'll go next to Nick Setyan with Wedbush Securities.

Nerses Setyan - *Wedbush Securities Inc., Research Division - SVP of Equity Research and Equity Analyst*

Sequentially, it seems like when consumption per unit was down, something like 15% based on the percent of COGS, as mentioned in the press release, why isn't that going to be down as much? I mean, given the fact that the way that stores were only -- was at 40%, I think you mentioned,

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you did great. Now that we're going to see the benefit of 100% in Q4, why couldn't wing consumption, in terms of bone-in wing, go down just as much in Q4 and render the benefit more than 50 basis points?

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

Yes, it's possible we'll see a greater decline in the wing consumption or more conversion to boneless under that program. It's early yet to understand what that impact is as it rolls through. But at this point, we've got about 100 basis points estimated. It is part of what that impact will be from the full rollout of the program.

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

The other thing we did mid-summer, as you know, was to change the quantity and the snacks, small and medium, or the snack and the small, and that would have impacted it.

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

Yes. Small, medium and large.

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

Small, medium, large, excuse me.

Nerses Setyan - *Wedbush Securities Inc., Research Division - SVP of Equity Research and Equity Analyst*

Okay. And then you kind of answered a previous question. You said $0.35 from the last week, $0.27 from other items, $0.15 is from the loyalty. Cool. What's the other $0.12?

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

And that was the benefit accrual favorability, the $2.8 million that we called out in labor.

Operator

And this concludes the question-and-answer session. I would like to turn the call back over to Sally for any additional or closing remarks.

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

Okay. Well, for the last time, I am signing off and I do want to thank you all for participating in our third quarter conference call. I'll look forward to hearing your questions from the other side of the phone for the fourth quarter, which will happen in February 2018. Thank you all.

Operator

This does conclude today's call. We thank you for your participation. You may now disconnect.
