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BWLD - Q4 2016 Buffalo Wild Wings Inc Earnings Call

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OVERVIEW:

BWLD reported FY16 net earnings of \$94.7m and diluted EPS of \$5.12. 4Q16 revenues were \$494.2m, net earnings were \$15.6m and diluted EPS was \$0.87. Expects FY17 EPS to be \$5.60-6.00.



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PRESENTATION

Operator

Good afternoon, ladies and gentlemen. Welcome to the Buffalo Wild Wings' fourth-quarter 2016 conference call.

(Operator Instructions)

I would like to remind everyone that this conference is being recorded. I will now turn the call over to Heather Pribyl, Director of Investor Relations for Buffalo Wild Wings. Please go ahead.

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

Good afternoon, and thank you for joining us as we review our fourth-quarter 2016 results and fiscal year end. I am Heather Pribyl, Director of Investor Relations for Buffalo Wild Wings.

Joining me today is Sally Smith, President and Chief Executive Officer; Alex Ware, Chief Financial Officer; and Jim Schmitt, Chief Operating Officer. By now everyone should have access to our fourth-quarter earnings release. Copies are available on our investor 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 a form 8K concurrent with its release and in our other filings with the SEC. On today's call Sally will provide an overview of our performance for the fourth quarter and fiscal year. After that, Jim will provide further detail on the sales initiatives in the quarter and our development plans for 2017.

In our earnings release we've added additional information on our financial statement, which we have previously covered in our prepared remarks on the call. Alex will cover certain variances for the quarter in his remarks and our 2017 outlook. He will then address cost savings initiatives, portfolio optimization and our capital rebalancing.

Sally will then share some final thoughts. We will open the call up to the questions at that time. With that, I'll turn things over to Sally.

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

Thank you Heather, and good afternoon everyone. I want to welcome Alex to his first earnings call as CFO of Buffalo Wild Wings. We're thrilled to have him onboard, and appreciate the perspective, insight and experience he brings to B-Dubs. For those who have not met Alex yet, you will have the opportunity to do so over the course of 2017 as he makes the rounds at investor conferences.

I'm also pleased we've added Santiago Abraham to our leadership team as Chief Information Officer. Santiago is leading our IT team, and within his first 12 months is expected to oversee the rollout of loyalty, an updated dot-com site, online ordering and delivery technology.

Now turning to our results. We are all aware of the challenging restaurant environment, variety-seeking consumers, a proliferation of restaurant choices and competition from delivery. At Buffalo Wild Wings we pride ourselves on overcoming external factors and delivering strong results for our shareholders.

We know performance needs to improve in 2017. While we are clearly disappointed to report that same-store sales decreased 2.4% at Company-owned restaurants and 2.7% at franchise locations for the year, we have been aggressively addressing our offerings and our teams has worked incredibly hard.

During the year we added several new programs to extend day parts and drive traffic including Fast Break Lunch, half-price Wing Tuesday and our Blazin' Rewards loyalty program. We focused on improving the takeout experience and launched a 100 restaurant pilot of third-party delivery.

Despite a tough December we are pleased with the momentum we're seeing from the various initiatives. And Jim will give further information on how each of these programs is progressing.

Beyond these near-term initiatives we've undertaken significant quantitative and qualitative consumer research to develop programs for mid- and long-term sales growth. Several initiatives will launch this year. Two of the initiatives further differentiate the in-restaurant experience and one explores an alternative format for Buffalo Wild Wings.

Our Buffalo Wild Wings mobile app got a major refresh this past quarter with an updated brand look, ability to save past orders and menu favorites, as well as offers based on the fan's preferences. Online ordering adoption has been extremely successful, accounting for 19% of our takeout orders at Company-owned restaurants in the fourth quarter compared to 12% in the prior year.

In October we launched a new burger platform with a new hand-smashed 100% ground chuck patty, a new bun and new toppings. Since the launch, burger sales have increased 25%. In 2017 we will continue to refresh several categories of our menu, including salads and appetizers, improving the quality of our ingredients.

Looking beyond the United States, we are excited with how Buffalo Wild Wings, the concept, is being accepted internationally. We currently have 25 locations outside the US and Canada, all of which are franchised.



During this year we will bring the B-Dubs experience to three new countries, India, Oman and Vietnam. With approximately 20 new locations opening this year, the number of international locations will nearly double with significant opportunity for additional international growth.

In our international locations we've modified the concept to be less dependent on sports viewing and focused more on social connection through competition. All new international Buffalo Wild Wings will feature a gaming wall, and the restaurant in India will be the first with virtual reality.

As you may have seen during the final weeks of football season, we executed a multifaceted marketing campaign featuring Hall of Famer Brett Favre. The campaign reintroduce the notion that Buffalo Wild Wings has the power to impact the biggest of games, something our fans have long believed.

We kicked it off with a teaser commercial before the NFC Championship game, and from there it unfolded across our social, digital channels and culminated with a second TV spot airing on Sunday during Super Bowl pregame. The campaign received more than 1.5 billion earned media impressions and 95 million social impressions online.

As we look to March Madness, we plan to further the conversation around our unseen force, and will launch a fully integrated marketing campaign featuring traditional advertising, social and digital that showcase our love of the sports fans. When the fans have a will, Buffalo Wild Wings has a way to make amazing things happen.

Additionally this year we've teamed up with Capital One, the official sponsor of the NCAA March Madness bracket, and will offer a \$5 coupon for those who complete the bracket. I will now turn it over to Jim to share some additional detail on fourth-quarter sales and our traffic-driving initiatives.

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

Thank you, Sally. Our revenue in the fourth quarter reached \$494.2 million, increasing 0.8% over the same period last year. Systemwide sales at our Company-owned and franchised restaurants were \$941.1 million for the quarter, also an increase of 0.8% over the fourth quarter of 2015.

Company-owned restaurant sales for the fourth quarter increased to \$470.5 million, a 0.9% increase. Same-store sales at Company-owned Buffalo Wild Wings restaurants declined 4% for the fourth quarter compared to 1.9% increase for the same period last year.

The historic World Series between the Cubs and the Indians was a positive influence on sales, and October and November trended in line with the rest of the year. Like many other restaurant companies we had an extremely challenging December that was exacerbated by the calendar shift of the Christmas holiday.

We estimate that the shift negatively impacted same-store sales by 90 basis points for the quarter. This was more than we anticipated, as traffic was soft leading up to Christmas but rebounded nicely in the following week, which is in our fiscal first quarter.

Menu price adjustments taken during the past 12 months in Company-owned restaurants were about 1.4% in Q4. We had 31 additional Company-owned Buffalo Wild Wings restaurants in operation at the end of the quarter versus fourth quarter last year, a 5% unit increase.

Average weekly sales decreased by 4.6% in fourth quarter, 60 basis points lower than the same-store sales percentage. Average weekly sales benefited by 10 basis points from the closing of older, lower volume locations during the last 12 months. Average weekly sales were negatively impacted by 70 basis points due to a mix shift of smaller market restaurants opened during the last 15 months.

Our loyalty and franchise fee revenue for the fourth quarter decreased 0.4% to \$23.7 million versus \$23.8 million last year. We had 30 more franchise Buffalo Wild Wings units in operation at the end of fourth quarter versus a year ago.

Same-store sales in franchise Buffalo Wild Wings locations decreased by 3.9% in the quarter compared to a 0.1% increase in the fourth quarter last year. Average weekly sales [for] franchised Buffalo Wild Wings locations in the United States for the quarter decreased by 4.1%, 20 basis points



lower than the same-store sales percentage. Average weekly sales benefited by 40 basis points from the closing of older locations, but was offset by 60 basis points from newly opened franchise locations during the last 15 months.

During 2016 we implemented several initiatives to drive traffic. Our Fast Break Lunch program delivers speed, value and variety. Lunch is free if our fans don't receive their lunch in 15 minutes or less.

Same-store sales for weekday lunch were positive in the fourth quarter. In 2017 we're making Fast Break Lunch an evergreen program to continue our focus on the weekday lunch day part. We were pleased with our fourth-quarter execution on the 15-minute guarantee, with 99.2% of the lunch orders under the program delivered on time.

Tuesdays were one of our weaker days in the first half of 2016. We strengthened the value promotion and amplified the messaging for this value day on social media as well as radio.

Fourth quarter was the first full quarter results for Half-Price Wing Tuesday, and the result have been effective in driving sales and traffic. Our loyalty program, Blazin' Rewards, continues to further engage fans with our brand. Today there over 480 locations offering Blazin' Rewards, and the rollout to the entire Buffalo Wild Wings system will be complete by the end of the second quarter.

In addition to the wealth of fan data and business insights generated from the program, there has been a positive impact on sales. The consumer's rapidly adopting convenience and personalization in their dining occasions.

We added third-party delivery to 100 Company-owned restaurants in the fourth quarter. Fan demand has been extremely positive.

We are looking forward to expanding, as the average check for delivery is 30% higher than the average check for takeout. We will aggressively pursue to add third-party delivery to more restaurants throughout 2017.

We have implemented several one-day events throughout the year to drive traffic and thank our fans. This quarter we celebrated the service of active and retired military men and women with free wings and fries on Veterans Day.

We also created a one-day promotion on boneless wings to surprise our fans and drive traffic. During what we called the Boneless Blitz that took place on December 14, fans who purchased one small boneless wing order got a second one for free.

We saw an extraordinary increase in sales and traffic that day. Advertising for the Boneless Blitz was entirely on social, and the promotion's positive sales and profitability results underscored the importance and effectiveness of this platform in reaching our fans.

Our teams are delivering a great guest experience in our restaurant, while executing all of the initiatives I have just outlined. Our goal for 2017 is to see a sustained rebound in sales with a focus on driving positive traffic. The efforts of the last year have begun to pay off, as we have seen modestly positive traffic first quarter to date.

Finally, I want to discuss our new unit development and remodels for 2017. There continues to be ample opportunity to grow the footprint for Buffalo Wild Wings.

During the downturn that began in 2008 we were able to celebrate our growth and acquire sites at reasonable cost, resulting in very attractive returns. Over the past few years we've seen inflationary construction costs, increased competition for real estate and changing consumer preferences.

As such, we are moderating our development of the traditional 5,400 square foot B-Dubs to 15 Company-owned units in 2017. And we are exploring alternative formats for Buffalo Wild Wings.

We're pushing quickly to pilot several smaller format Buffalo Wild Wings with both Company and franchise locations. There will be different variations of what this footprint will look like, along with possible changes to the menu.



As urban populations are increasing, we are exploring how a location in a downtown area would best function. Another iteration of the small format can be a unit dedicated solely to takeout and delivery, or possibly just delivery. These options improve our reach and market share potential, as our research tells us that the number one barrier to trial is a location nearby.

Our remodel work will also slow in 2017 to approximately 23 Company-owned locations. Our real estate team has done a tremendous job over the last three years catching up on Stadia remodels, and we now have a more normalized cadence.

Given the sales initiatives I've outlined and our work around alternative formats, we are looking forward to sustained improvement in traffic, market share and profitability in 2017 and beyond. Alex will now provide some additional color on the fourth quarter and areas of opportunity to improve shareholder value at Buffalo Wild Wings.

Alex Ware - *Buffalo Wild Wings, Inc. - CFO*

Thank you, Jim. I'm very excited to join the B-Dubs team and help to rebound from a challenging quarter. After highlighting a couple of items on our financials and our outlook for 2017, I will address our plans for cost savings, portfolio optimization and capital rebalancing.

In addition to weaker than expected same-store sales, cost of sales up 31.1% for the fourth quarter were also higher than expected, mostly due to higher traditional wing pricing. Traditional wings were \$1.99 per pound in the fourth quarter, 9.9% higher than last year's fourth-quarter average of \$1.81. Cost of labor also ran higher than expected in the fourth quarter at 31.8% of restaurant sales, up 90 basis points from prior year reflecting sales deleverage partially offset by lower guest experience captain hours.

Restaurant level cash flow, which is calculated before depreciation, amortization and pre-opening expenses, was \$73.2 million, or 15.6% of restaurant sales, compared to \$86.7 million, or 18.6% in Q4 last year, predominantly due to sales deleverage, higher wings and labor. General and administrative expenses were \$29.4 million in the fourth quarter compared to \$31.2 million in 2015. Excluding a stock-based compensation impact of \$2.1 million in the fourth quarter and an expense of \$2 million in the prior year, G&A expenses for the fourth quarter would have totaled \$31.5 million, or 6.3% of total revenue compared to 6% last year.

In summary, our net earnings in the fourth quarter of 2016 decreased 38.2% to \$15.6 million, producing earnings per diluted share of \$0.87 compared to \$1.32 in the prior year. For the full FY16, net earnings decreased 0.3% to \$94.7 million, earnings per diluted share increased 3% to \$5.12 compared to \$4.97 in FY15 as a result of our share repurchase activity. Increasing our line of credit draw to \$170 million at year end, we repurchased 827,639 B-Wild shares for \$126.9 million at an average price of \$153.26.

Looking ahead, let me provide some comments on notable items in the first quarter. Menu price increases and adjustments taken in the last 12 months will add 0.8 [basis point] to our pricing for the first quarter.

We expect to open three Company-owned Buffalo Wild Wings restaurants in the first quarter, with two already opened. As a reference point, in the first quarter of 2016 we opened seven new Company-owned restaurants.

Our costs for traditional chicken wings for the first two months of the year remains elevated and is averaging about \$2.02 per pound, with heavier wings as well. This compares to last year's average cost for the first quarter of \$1.97.

In the first quarter we anticipate that G&A expenses exclusive of stock based compensation expense will be approximately \$34 million, up from \$30.3 million in prior year, and excludes any additional proxy-related expenses. First-quarter stock-based compensation expense is estimated to be \$800,000, a decrease of \$600,000 compared to first quarter last year.

For the full year 2017 we expect operating income growth of 9% to 13%, including the 53rd week. We expect to reinvest the benefit of this stub week into improving operating and technology infrastructure at the restaurant level and home office, adding takeout and delivery, productivity and expansion tools, as well as resetting performance-based pay to historical target levels.



With our move to 1.5 times net debt to EBITDA, our interest expense is targeted at \$15 million for the year. Tax affecting results in an impact to net income of \$10.5 million.

The higher debt proceed support our planned share repurchase activity of \$450 million to \$500 million in 2017. As a result we project EPS in the range of \$5.60 to \$6, or growth of 9% to 17%.

Please note that given the uncertain timing and magnitude, no impact is included in guidance for portfolio optimization or additional proxy activity. In addition, we expect free cash flow of \$160 million to \$170 million for the year, up from \$141 million in 2016.

During my first 100 days working alongside the B-Wild team, I've gained a deeper understanding of the business and the potential it holds to drive shareholder returns. Specifically, we are aligned and dialed in on five key areas for 2017 and beyond.

First, improving same-store sales. You already heard from Jim regarding our near- and mid-term programs. These initiatives are built around the unique sports theme platform that differentiates Buffalo Wild Wings and defines our special fan connection.

Second, continued unit growth, both large and small units in the US and internationally, both franchise and company-owned. Third, improving our cost structure.

Fourth, optimizing our portfolio with Company-owned and franchised restaurants. And fifth, rebalancing our debt and equity to lower our cost of capital.

Now let me expand on the last three: costs, portfolio and capital. Buffalo Wild Wings has a strong history of terrific earnings growth and shareholder value creation, fueled mostly by same-store sales growth and new unit openings.

As we have reached sufficient scale in our Company-owned restaurant base, now is the time to do a thorough review of our cost structure to identify opportunities for new efficiencies. We are currently undertaking an in-depth review of our operating and managerial activities and are in the midst of several projects to benchmark and identify what we call doing the right work in the right place with the right resources.

This work begins in our restaurants where we are seeking to identify tasks that can be improved, retooled or moved out of the restaurant to allow our teams to refocus on our guests, our service, our food quality, and driving guest traffic. Examples of potential improvements include moving some portioning and prep work upstream to our suppliers, establishing centralized call centers for dial-in orders, improving labor forecasting and scheduling, and reducing in-store pre-opening and prep time.

In addition we are also assessing our field support structure, home office spending and improve procurement opportunities. Based on our initial work, we estimate these findings will help us achieve our 20% restaurant level margin target. Some of the initiatives will be able to be implemented this year, while others are dependent on additional systems and will be deployed in 2018 and 2019.

In addition to evaluating our cost structure, we have reviewed each of our Company-owned restaurant's performance with the goal of optimizing our portfolio. B-Dubs was strategic and fortunate to be able to largely build out its Company-owned portfolio during favorable market conditions.

Buffalo Wild Wings built 158 Company-owned restaurants at a reasonable cost during the 2008 through 2011 downturn, as well as acquired 117 restaurants via acquisitions at attractive multiples since 2010. As you can imagine, there is a wide distribution of performance in a portfolio of over 600 Company-owned restaurants.

That the vast majority of our restaurants are meeting or exceeding our operating ROIC expectations. We have performed a mapping analysis and identified target geographies where we will continue to build, own and operate units, and in some cases pursue franchise acquisitions based on opportunities to create value.



We've also identified geographies where we may not have sufficient scale. And as a result, would view these areas as better suited to be run by our franchisees or others with greater local scale and resources. These are markets that we will evaluate selling as part of our first optimization effort. At this stage we have identified about 10% of our Company-owned restaurants for re-franchising, and are reviewing advisors to assist us in the potential sales.

We've identified a second set of restaurants where our focus is to quickly improve unit performance. Our performance plans for these restaurants and regions include restaurant-specific game plans designed to revive sales and improve margins. Again, this improvement process will be dynamic and results focused to boost returns and shareholder value.

This portfolio optimization will be an ongoing process. We will continually evaluate our portfolio. And we will pursue the appropriate strategies, whether to own units, sell units or intensively improve the performance of units, not to reach a predetermined ownership target but rather to increase shareholder value by taking into account market conditions and performance potential.

Finally, we've accelerated the timing to rebalance our debt and equity portfolio to reduce the cost of capital. Our timing to achieve the 1.5 times net-debt-to-EBITDA target is now the end of 2017. Proceeds from the additional debt will be used to repurchase shares, and we'll be active in both the open market and blackout periods to achieve this goal.

To summarize our goals, in addition to unit and same-store sales growth, we are focused on improving our cost structure, continuously evaluating and optimizing our portfolio, and reducing our cost of capital as drivers to deliver meaningful shareholder return. In reaching this set of priorities, we and our advisors have carefully evaluated other franchise ownership models, including 90%.

In order for that outcome to create value requires four assumptions all to be realized. Selling nearly 500 stores at multiples higher than we believe are achievable; however, we will soon be testing the market on a smaller scale. It involves G&A to be reduced to levels well below those of casual dining companies of comparable size.

Next, assumes substantial share repurchases at prices below fair value. And finally, trading multiple expansion to levels significantly higher than demonstrated on a sustained basis by casual diners. As a result, the path chosen is not market dependent but pragmatic and based on specific goals and initiatives that we can control, and yet supports an openness to exploring the market and determining how value may best be built over time. With that, let me turn it back to Sally.

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

Thank you, Alex. We look forward to building shareholder value in 2017 through improving sales, aligning costs, new restaurant builds, optimization of our restaurant portfolio and balancing our debt and equity to lower our cost of capital. We thank our team members, our franchisees and our vendor partners for their passion and their continued dedication to our success. And to our investors, we look forward to continuing to engage with you in aligning on the proper path to building sustainable value.

Before I turn to the Q&A portion of today's call, I want to briefly address the recent announcement made by Marcato Capital Management regarding its nomination of four individuals for the election to the Company's Board of Directors at our 2017 annual meeting. The Governance Committee of the Board has a thorough process in place to evaluate prospective Directors, including those suggested by shareholders, and it will consider Marcato's nominations in accordance with that process.

As a reminder, the purpose of today's call is our fourth-quarter and full-year 2016 financial results and our 2017 outlook. We would appreciate it if you would keep your questions focused on these topics. I'll now turn it back to Heather.

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

Thank you, Sally. We will now move to the question-and-answer session of our fourth-quarter earnings call. We will end the call promptly at the top of the hour.

(Caller Instructions)

Operator, please open the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Brian Bittner, Oppenheimer.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Thank you. Thanks very much. Alex, thanks for all the commentary on the strategy. First question -- I have a couple of questions. First question is just more mathematical in the 2017 guidance. I think the thing that stands out to me the most is the G&A.

It's about \$20 million higher than your previous high in 2015 and it represents almost a \$0.50 EPS headwind delta versus what the consensus was modeling for 2017. What's going on with the G&A line item in 2017 versus previous years, or just for 2016? Why is so much higher than we would've thought it would be?

Alex Ware - *Buffalo Wild Wings, Inc. - CFO*

Good afternoon, Brian. This is Alex. Thanks for the question. As we built the G&A for 2017 there were several things that we factored into that. One is the incremental projects that I outlined that was the result of the reinvestment of the 53rd week. Most of that reinvestment shows up on the G&A line.

Those are longer-term top-line growth driving and capability enabling initiatives that we'll be undertaking. In addition it's some of the deployment of the opportunities that are being identified through our benchmarking work will require some investment in order to be able to achieve those. And then finally, the reset to the performance compensation, some of which drove favorability throughout 2016, is also a factor as we target that returning to traditional levels.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay, thanks for that. The second question I have is more on your strategic comments. You said two things that I thought were interesting.

You have identified 10% of the portfolio that you want to re-franchise. Can you talk about that as far as what's the economic impact? Why those, what is unique about those 10%?

And then the 10% you selected to intensify the operational improvements on, what could potentially be the economic benefit there? And what is it about those that particularly make them so interesting? Are they very low AUVs or are they poorly managed? If you could just give color on both of those items a little more that would be great.



Alex Ware - *Buffalo Wild Wings, Inc. - CFO*

Sure. The first set that we've identified, the 10% there, our stores that, as I said, are effectively sub-scale in their geographies. We think they are going to be better managed in the hands of others versus ourselves.

In some cases, they came with acquisitions, they are in islands that are not contiguous to existing operations or they are in geographies that we don't have an operating model that works effectively in those territories. So we think they will be better run by others.

Those that have performance improvement opportunities are in geographies that we like. We think we can do well in. But it runs the gamut of AUV opportunities to cost structure to labor management opportunities.

So we're going to be focusing on putting the intensive toolkit to work in those markets. Much of the benchmarking and best practice identification process that we're going through now will be targeted at those improvement markets. So they will be the first ones to be the test cases, if you will, for embedding in some of these better practices and improvements.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay. Thanks, Alex. I will go ahead and pass the mike.

Alex Ware - *Buffalo Wild Wings, Inc. - CFO*

Just to finish that point, we would expect that any of these improvements to the two groups of markets that we've identified will be accretive to us from a EPS and ROIC perspective.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Okay, thanks.

Operator

John Glass, Morgan Stanley.

John Glass - *Morgan Stanley - Analyst*

Thanks very much. If I can ask about your comp guidance for the year and for the commentary on January. How do you build up to the 1% to 2% for the year? I presume pricing outside the first quarter or roll-off pricing is not included, so this'd be traffic.

Can you just walk us through how you think about how that's the right number? And then specifically for January, you talked about, I think, comps or traffic being positive. How is that relative to the industry? I think the industry was better in January. Do you think you're getting better relative to the industry or just getting better with the industry?

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

This is Jim Schmidt. As we look at the 1% to 2%, it's really we get there through the various programs and initiatives that I had explained. It's a combination of Wing Tuesday, the promotion there, continued good performance at lunch.



We believe loyalty can have an impact. Our one-day events we think can have an impact. So there's a series of initiatives that I discussed that we believe can have an impact throughout the year.

Actually based on the data I have seen, period one casual dining continue to struggle in period one of 2017. At least quarter to date we're again seeing separation between us and the rest of the segment.

John Glass - *Morgan Stanley - Analyst*

That's helpful. And if I could just follow up. In terms of the unit reduction, do you feel like this is a semipermanent way we should think about unit growth for the brand, or is this a one-year pause? I know you've got some other formats in the hopper, but realistically is this the new -- roughly the new run rate for the business in your mind, given the maturity of the concept, or not?

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

Again, I don't think it's due to the maturity of the concept. I think it is more us pausing and taking a look at the environment out there and what is -- we believe there is plenty of room for further market penetration for our brand. So the question we're trying to answer is, okay, what is the most effective way to continue to penetrate market.

So we're going into pilot very quickly with alternative formats based on those results. I really think later in the year we will be able to give a little more guidance as to what we expect the pace to continue to be. Again, from our perspective there is still plenty of opportunity to penetrate our markets out there. It's just exactly what the best format will be to do that.

John Glass - *Morgan Stanley - Analyst*

Okay. Thank you.

Operator

Andrew Charles, Cowen and Company.

Andrew Charles - *Cowen and Company - Analyst*

Great, thank you. First question (technical difficulties) earlier. Can you help us with what the AUVs and restaurant margins were in 2016 for the 10% of the stores you're looking to sell? I think that will help us as we kind of think about with the accretion would possibly be? I know you mentioned the ROI as well as EPS accretion, but will this be EBITDA accretive as well?

Alex Ware - *Buffalo Wild Wings, Inc. - CFO*

Just to clarify the point, we are at the beginning of the process. We've identified the markets where we are reviewing advisors to help us with the sale process. And so it's unlikely to see a material impact in 2017.

Of the markets that we end up -- we expect will be transacting more at the market level. And of the markets that we end up moving on, my guess is that only a few percent of those get moved, or conceived in 2017. The bulk of those will occur in 2018.



Andrew Charles - Cowen and Company - Analyst

Got it. And then I know at the Analyst Day, 20% restaurant margins was the target for 2020. Do you feel like this, obviously the franchisers are going to help you get closer to it. But is that number still in play or is that number that, just given the performance of the business in recent times, might be more of a stretch here?

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

As you mentioned, we did talk about 20% margin goals for 2020 and with the steps we're undertaking, we think that is very achievable. While we want it certainly to be in the area of cost and improvement and cost of sales and in labor and in operating expenses, also the sale and re-franchising of that first group incrementally improves margins.

And that's not the way you want to get it, you want to get it through cost savings. And the work that we're doing with an outside company gives us all great comfort and how we're going to execute that. So yes, that's still our target.

Andrew Charles - Cowen and Company - Analyst

Okay. I'm sorry, it was 20%, I think it was 2018, I apologize if I said 2020.

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

At the end of 2018. That's still our target.

We've got a ways to go, and it depends again on same-store sales certainly, and chicken wing prices. Those are the two big components to getting to that margin.

Andrew Charles - Cowen and Company - Analyst

Great, thank you.

Operator

Dennis Geiger, UBS.

Dennis Geiger - UBS - Analyst

Great. Thanks for the question. Just to build on that 20% restaurant level margin target, anything you can say a little bit more as far as the sensitivity there? Obviously a lot of opportunity on the margin efficiencies, cost savings, et cetera. Anything you can add as it relates to the sensitivity of that target to same-store sales?

Not just, say, that you need to give a number for 2018. But just how much flexibility you have should same-store sales be a bit light this year or next year relative to your internal targets. Any color you could provide on that sensitivity?

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

I can't provide specifics about it, but I do want to add one thing to my previous comment, and that is obviously as we look at our re-franchising and the sale of those 10% of stores. If we don't see same-store sales rebounding or we can't effectively work toward that 20% margin, we will explore other alternatives.

So this is a dynamic process. It's an ongoing process, and we do have a number of things that we think we can pull the trigger on and that will help us really drive same-store sales throughout 2017 and 2018 with that goal of getting to our 20% restaurant operating margin.

Dennis Geiger - UBS - Analyst

Thank you.

Operator

Jeffrey Bernstein, Barclays.

Jeffrey Bernstein - Barclays Capital - Analyst

Great. Thank you very much. Also had two questions. One, as you now look back on 2016, this looks like the first negative comp you've had this century. So I'm just wondering as you kind of size it up, when you break that down between the macro versus the Company specific, where would you say, how much of that was more macro versus where you would acknowledge that maybe there was fault to the Company?

Maybe your confidence in returning to the sustained industry outperformance. It would seem like it's just harder to do on the large numbers as you get so big. Wondering if you can assess the 2016 performance and how you think about it into 2017?

Jim Schmidt - Buffalo Wild Wings, Inc. - COO

This is Jim Schmidt. Obviously we never like to blame external factors, but it was a challenging environment in 2016. I think while we've been able to separate from casual dining, I think some of the same headwinds that were affecting casual dining affected us in 2016 also.

I think the shift in consumer preference to takeout and delivery, I think we've got great plans to react to that and to capture that trend. And then also you value sensitive customer, again I think we've done a nice job of reacting to it.

There were external headwinds. I feel comfortable with the actions we've taken and the programs we put into place, and they are showing traction right now. As I mentioned, so far at least in P1, we now are seeing some separation again from general casual dining. So it was a challenging year that way, but I feel very comfortable with what we've done to react to it.

Jeffrey Bernstein - Barclays Capital - Analyst

Got it. [As I look] to 2017 from a cost of margin perspective, I think you mentioned in your guidance specifically what you thought the traditional chicken wings would be. But more broadly can you just size up what you think your food and labor overall basket is going to be?

I think that you mentioned earlier that pricing is rolling off. How we should think about overall food and labor basket versus should we assume any pricing in 2017 once you lap what's leftover?



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

Jeff, for our boneless wings and other wings we should see about a 20 basis point benefit to our cost of goods. Certainly some of that is slightly dependent on where same-store sales end up, but we will have dollars savings on the cost there. The rest of the commodity basket outside of traditional wings and the boneless chicken is anticipated to be relatively flat for this year on the COG.

Looking at labor, we are expecting another inflationary year with hourly labor increasing probably at that 3% to 4% range. And then also we are anticipating a slight increase of about 10 basis points for healthcare cost in 2017.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Got it. Just to clarify one thing you said earlier when you talk about the 10% re-franchising. I just want to make sure, you have 600 or so Company-operated units. You're taking about re-franchising 60 of those or are you talking about taking your overall mix up 10% and therefore it would be 120 units and going to more like a 60/40 split? Which way am I interpreting that?

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

Jeffrey, we're talking about 10% of our Company-owned stores. So of the 600 or so that we carry today.

Jeffrey Bernstein - *Barclays Capital - Analyst*

More of a 5% shift in the overall mix.

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

Yes, it's our Phase 1.

Jeffrey Bernstein - *Barclays Capital - Analyst*

Got it. Thank you.

Operator

Jeff Farmer, Wells Fargo.

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

Thank you. Two questions. Just coming back to delivery for second. What percent of sales do you believe are incremental, and what profit flow-through do you see on those sales versus in-restaurant sales? Any information? I know it's early, but anything would be helpful on that front.

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

Yes, so far most of our data suggests that it tends to be incremental, delivery. So we are not seeing cannibalization. And actually in fact in stores where you have delivery, we are also seeing a slight increase in takeout.



So it definitely does not appear to be cannibalizing our other sales. Margins on delivery, we're in the early pilot phase of it. We certainly are looking at alternatives with the goal of improving profitability. Initially you are saying a lower margin because of the cost of delivery, but we certainly are going to be pursuing options as we continue to expand delivery to improve our margin with delivery.

Jeff Farmer - Wells Fargo Securities, LLC - Analyst

That's helpful. And then a lot of conversation obviously about same-store sales on this call. But I guess my question is, as you guys continue to study, or you've had four to five quarters to get a better understanding to what's going on, or as to what's going on as you've lost some market share again over that four- to five-quarter period.

I'm just curious what you've learned, and most specifically, as it relates to either competitive encroachment, cannibalization, or both? Any fresh insight as you guys looked harder at this to figure out how some of this market share loss has taken place?

Jim Schmidt - Buffalo Wild Wings, Inc. - COO

Again, in looking at all of our customer research indicates it's really customer behavior with the shift to takeout and delivery and that convenience factor. So a lot of it then is to say, okay we have enhanced takeout, we're on delivery. So continue to figure out how do we deliver our experience to our customer while at the same time inviting them back in.

So it's really been, I think, that behavioral shift that is been the biggest factor, as well as you have been in a deep discounting environment for, really, the past year which it's hard not to have that effect, at least certain day parts and certain aspects of your business.

So that's really are the two combinations, what we've seen. Again, I feel comfortable that all the initiatives we're undertaking, some of which are still in the future but we've started work on, are set to address those shifting consumer behaviors.

Jeff Farmer - Wells Fargo Securities, LLC - Analyst

Thank you.

Alex Ware - Buffalo Wild Wings, Inc. - CFO

I may just add onto that. I think from a competitive perspective, the sofa is a competitor at this point. And that's where with delivery, wings are the second most requested item, which creates a tremendous opportunity for us to be able to capture a whole new consumer set that never would've come through our doors. So enables us a great touch-point with those new potential consumers, the bounce-back activity, et cetera, to get them to come into our stores once we have engaged them as a consumer on delivery.

Operator

Alex Stagle, Jefferies.

Alex Slagle - Jefferies LLC - Analyst

Thank you. I just wanted to get a clarification on the traffic commentary for the first quarter, quarter to date. Is that inclusive of menu mix?



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

Can you repeat the question again?

Alex Slagle - Jefferies LLC - Analyst

The traffic trend quarter to date, is that menu mix and traffic together, or is that just the traffic piece?

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

We didn't call out a specific number, but we are seeing a modestly positive traffic number in total. We do have some pricing quarter to date in Q1, but that's really being completely offset by a decline in average check right now due to some of our promotional offers we have right now.

Alex Slagle - Jefferies LLC - Analyst

Okay. A question on the investments in new concepts. I was wondering if you could talk to your current thinking about additional investments there in your growth concepts? Any changes to how you're thinking about it now that you have some more stores under your belt now up and running, what you were thinking?

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

Sure. Just as a reminder, we had a minority interest in PizzaRev, and while we have two Company-owned PizzaRevs, we don't anticipate any additional Company-owned PizzaRevs. They are continuing their growth through franchising.

And on our R. Taco investment, a majority position, we will open, I think, our plans are for two Company restaurants in 2017. I think both -- I think they're both in Colorado. But we will then really expand our franchise base and expect to open 12 to 15 franchised R. Tacos.

Alex Slagle - Jefferies LLC - Analyst

Thank you.

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

And then there is no other concepts on the horizon right now that we anticipate making an investment in. Rather, we will use our investment dollars to look at alternative formats for Buffalo Wild Wings.

Operator

Matthew DiFrisco, Guggenheim Securities.

Matthew DiFrisco - Guggenheim Securities LLC - Analyst

Thank you. I just want to clarify, I guess you just said -- and then I've got a question. The positive traffic and price of 0.8 basis point being added to the 1.4%. So you're currently running 2.2 price but that's being offset by primarily the mix of promotions?

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

No. The 1.4% was the fourth-quarter number, Matt. We're going to run about 0.8 basis point in Q1. What we're seeing right now is that's being offset by average check. So we are seeing those two essentially, you're giving back your pricing right now.

Matthew DiFrisco - *Guggenheim Securities LLC - Analyst*

I misinterpreted that. I thought you were adding that to the 1.4%. But that's going to be on a year-over-year basis, got it.

Okay. And then I guess if I just look at the guidance on the restaurant margin line, back in August at the Analyst Day look like there was a lot of attention paid to labor and it seemed like there was some low-hanging fruit there. I know you're seeing 3% to 4% inflation, but that still doesn't seem to be that high of a number.

It seems like a guidance is interpreting that a lot of the restaurant margin improvement is coming primarily from COGS, given the basket and given the pricing that you're running. But why not see more labor improvements in some of the initiatives you detailed in August to be reflected in 2017's restaurant margin line where it seems like you're almost embedding 200 basis points improvement in 2018 to get to your 20% target? Which seems, historically most companies when they set a goal like this they sort of look over a two-year period and progressively getting there rather than a significant ramp-up and dependent on 2018 of seeing that 200 basis point improvement.

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

Sure, I will start and then I will ask Jim and Alex if they want to add in. A couple of things with regard to labor. One of the things we've identified is the need to improve our sales forecasting as we look out and both from a gains and to better utilize our hours in restaurant. And that will take a little bit of time to get that in place.

So the labor improvements that we see, that we believe we will see will happen through the latter part of 2017. We're also working with the company to look at the right kind of structure in restaurant and in field operations. Alex mentioned some of the things in restaurant that we're going to do, whether it's pre-portioning, looking at the pre-opening time in the restaurant, how do we reduce that, we've taken a look at what our franchisees do.

So that's where we will see some labor improvements. I'd certainly like to have that spread out a little bit more evenly over the two years, and hopefully we can bring some of that forward in 2017. Again, dependent on with very modest same-store sales anticipated in 2017, I think it'll be just a little bit harder to leverage that.

Matthew DiFrisco - *Guggenheim Securities LLC - Analyst*

Okay. Then just had a follow-up with respect to reinvesting that extra operating week, how is that going to manifest itself throughout the year? Are you spending throughout the whole year, or is that in the fourth quarter, a level of higher reinvestment so offsetting what you would've gotten from that accretion from that extra operating week? Or are you looking at it holistically throughout the whole year?

Alex Ware - *Buffalo Wild Wings, Inc. - CFO*

It's going to be holistic, Matt. It'll be investments that we're making starting here in Q1. And then obviously those investments will be throughout the year, and then you will see the benefit at the tail end. So from an operating income perspective, we expect that Q4 -- Q1, excuse me, to be slightly negative and then improving across the quarters to a strong finish in Q4 reflective of that 53rd week.

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

Matt, this is Sally again. I had one additional thing as we think about labor. Part of the additional 2017 labor will include a normalizing of the incentive plans for the restaurants, given the same-store sales. That incentive expense or component of labor was diminished in 2016. So we will be building that back up, and that's what we're projecting for 2017.

Matthew DiFrisco - Guggenheim Securities LLC - Analyst

Okay. Thank you.

Operator

Jeremy Scott, CLSA.

Jeremy Scott - CLSA - Analyst

I just wanted to clarify the commentary around labor. It seems like the majority of that is just cutting hours in 2018. I just wonder if that is going to hamstring you should you get a comp resurgence?

Alex Ware - Buffalo Wild Wings, Inc. - CFO

Jeremy, this is Alex. I think, as we described through the right work, the right place with the right resources. This is not about cutting hours, it's about changing the work so that we can simplify the work that's going on in store making for a better experience for the employee and for the guest.

It's working smarter and not just cutting hours, but really reengineering the way that we operate in store. And so there will be some investments required to get there.

The one I referenced was a [tail-sale] center is under consideration to handle our dial-in orders. But that's an example of the nature of some of the changes that, to the point, are not going to be delivered in 2017, but those benefits would really start to flow through in 2018.

So we've got a number of initiatives, as we indicated, the benchmarking and the work that we're going through we're in the middle of now. Expect to have more detail to share with you around specifics on timing, levels of benefit, where that's going to show up in the P&L. We will have more to share with you on our Q1 call.

Jim Schmidt - Buffalo Wild Wings, Inc. - COO

And nothing has changed with respect to our strategic focus on delivering a great experience to our guests in the restaurant. So we will certainly make sure that the changes don't negatively impact delivering that great guest experience.

Jeremy Scott - CLSA - Analyst

Got it. Can you just speak to how the comp should flow throughout 2017? I noticed you didn't call out the decline in NFL ratings this year, but can you give indication of how the third quarter versus the fourth quarter did in terms of traffic and what that might mean for traffic in 2017? Should you see an uptick in traffic throughout the year?

Jim Schmidt - Buffalo Wild Wings, Inc. - COO

In fourth quarter, and I think we mentioned it in the script, that the P10 and P11 were kind of acting like the rest of the year and then we saw a significant downturn in P12. So certainly as we lap P12 next year we would be hopeful to see improved performance then.

I don't know if we go throughout the year, again I think we will be lapping fairly consistent performance throughout the year last year. So I think we will have the opportunity throughout the year to improve.

Alex Ware - Buffalo Wild Wings, Inc. - CFO

It will be week to week and quarter to quarter shifts, just based on sports calendars, et cetera, but there is no significant event that we're overlapping that's going to drive significant change to the calendarization, other than the very steep drop we saw at the very end of 2016.

Jeremy Scott - CLSA - Analyst

Okay. Thank you.

Operator

David Tarantino, Baird.

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

Hi. Good afternoon. I have a couple of follow ups on comps. Heather, I just want to clarify one last time your comment on the quarter to date.

Were you meaning to signal that comps are slightly positive and traffic's slightly positive with check contribution being flat? Is that the right way to think about it?

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

Yes, that is correct.

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

Okay, great. Thank you. Then I guess on that point, the turnaround from what you saw in December is very dramatic. I just wanted to get a sense of how you are viewing that improvement, whether there's something underneath the surface that might not continue, or was one-time in nature. Do you think this is more of a trend that you think you can sustain as you think about the rest of this quarter and into the next several?

Jim Schmidt - Buffalo Wild Wings, Inc. - COO

We still are only in the quarter, so we're hopeful to continue what we're seeing but it is still early. I think as you really look at P12, I mean the factors again the week before Christmas and that shift of the Christmas holiday, didn't just impact us on Christmas Eve and Christmas Day, it shifted the day that everyone takes for Christmas holiday to the week following the year end.

So it really had a significant impact that particular week. And then I think we probably saw the same impact I think a lot of the industry saw, which with fewer people going out, the move to online shopping, I think that had an impact in December. So we definitely are viewing December, though, separate from what we anticipate to see ongoing.

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

And I guess just following that up, Jim, is it right to think that based on the comparisons being similar for the rest of the year that you would think that kind of that comp is a 1% to 2% might apply to most of the quarters this year? Are you thinking you need to see improvement to hit that number?

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

Well again, we are seeing kind of a steady state throughout the year. Now, we will be -- more of our programs that we expect to drive sales will be coming online, loyalty will complete rollout in Q2, delivery will continue to ramp up. So there could be that impact that will have more sales driving initiatives in place as we go through the year, which could have an impact.

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

Great. Thank you.

Operator

Nick Setyan, Wedbush Securities.

Nick Setyan - *Wedbush Securities - Analyst*

Thank you. Can you guys hear me?

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

Yes.

Nick Setyan - *Wedbush Securities - Analyst*

Okay, perfect. I just want to get back to the guidance for restaurant level margin improvement of 10 to 30 basis points. Clearly your commentary indicates that labor should continue to see some deleverage. COGS, if I interpreted the commentary correctly, is more or less flattish. And so, I guess, is it just other operating and occupancy that we expect the leverage to come from?

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

I think you'll get a little bit a leverage because of the same-store sales. We're looking hard at our operating cost as well. And those should leverage with the positive same-store sales.

Nick Setyan - *Wedbush Securities - Analyst*

You're also taking a lot less price than you were taking last year. I guess, maybe is there any more particularity you can give us in terms of where that leverage is going to come from?



Jim Schmidt - Buffalo Wild Wings, Inc. - COO

The occupancy is one area that we're going to expect to get a bit of leverage on the year, as we've got -- we will get the same store growth leveraging the rental expense that we have. And then as we start to implement these initiatives, our expectations are that we will get more productivity around labor, as well as greater efficiency around some of the operating expenses at the store level.

So those are going to be the primary, the quick win areas that we're going to be focused on. I would say in addition we've got some areas of contract opportunities that we are going to be pursuing that we are hopeful will bear some fruit by the end of the year as well. Much of that will be back-weighted.

Nick Setyan - Wedbush Securities - Analyst

Okay. And then just follow up on the franchisee development. I guess, have you guys spoken? What is their attitude regarding the reasons why they are not building out at a quicker pace? Is it really, does it just come down to the fact that rents are too high and they are not meeting their ROIC hurdles? Also, what's the appetite for potentially when you guys are maybe taking their pulse on potentially acquiring some Company-owned stores?

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

Sure, a couple of things. Our franchisees are looking forward to development. We've got our larger ones that are actively either pursuing additional development or they are working to acquire some of the franchises that are up for sale that we have passed on.

Some of their territories are built out. That's one of the reasons we're taking a look at alternative formats for them so they can do some infill. And they are looking at the same thing we are, looking for that right site.

We have seen rents and build-up costs increase. So rather than choosing a good site, they are looking for that same great site we are.

As we rationalize and optimize our portfolio, there may be some territory that had been slated for Company development that we'll look to package with existing stores that will help induce, not induce, but they that'd be looking for that development. I've got several that have indicated as soon as we're ready, to let them know what territories and they're interested in pursuing development.

So I don't -- the fact that they're opening 15 this year just happens to be the number that worked out from development schedules. But no, they are very appreciative of the opportunity to develop, and looking forward to working with us as we look at our portfolio.

Nick Setyan - Wedbush Securities - Analyst

Thank you very much.

Operator

Jason West, Credit Suisse.

Jason West - Credit Suisse - Analyst

Thanks. Just had a similar question around the margins. You guys just had a 300 basis point decline in the restaurant margin in 4Q, which I think surprised most people. Was that just the comps deleverage, and especially the weak finish to the year? Or was there anything else in there that was causing that deleverage that then will go away here as we move into 1Q?



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

I think a couple of things. One, it is the comp deleverage, but in particular the comp deleverage in December. You can react to labor scheduling, but only so much.

We also saw our wing pricing for December increase significantly along with reduced yield because of bigger wings and birds. So it was kind of like the trifecta in December that really impacted that operating margin.

Our operating margin had held up pretty well throughout the year despite negative same-store sales throughout the year. And it was really -- it kind of lost it in December.

Jason West - *Credit Suisse - Analyst*

Okay, got it. And then the pricing outlook, you guys are talking about 80 basis points in the first quarter. Does your guidance around comps and margins assume that that number rolls off to zero throughout the year, or what is the direction of that pricing that's embedded in your guidance?

Alex Ware - *Buffalo Wild Wings, Inc. - CFO*

It's going to hold in at about that level until the fourth quarter, and we would expect we would take our customary price increase again sort of mid-Q4. So we would expect to see, I think the estimate is in the 1.5% to 2% range at mid-Q4.

Jason West - *Credit Suisse - Analyst*

Okay, so comps (multiple speakers).

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

Our increases will be very targeted. It won't be necessarily across the board, it'll be targeted for markets where we think it's most appropriate.

Jason West - *Credit Suisse - Analyst*

But no new pricing until middle of the fourth quarter?

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

No, we don't expect that. We have a menu that rolls in May, it may have a little bit. But it would be negligible at best.

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

There may be some of the markets that we talked about in the performance opportunity markets, and those are ones where we may be a bit more aggressive and experimental around different pricing and promotion programs within those markets. But again, it's a small subset of the overall.

Jason West - *Credit Suisse - Analyst*

Got it. Okay, thank you.

Operator

Will Slabaugh, Stephens.

Will Slabaugh - *Stephens Inc. - Analyst*

Thanks. I wanted to ask about the margins again. So just given the traffic focus that we are seeing right now, and what sounds like a little bit of ticket that we are giving up, should we anticipate the margin to be a little bit stronger in the back half? And maybe the guidance to be a little bit back-half weighed in terms of EPS? Or do you think that we can hold the margins in sort of (inaudible) expectation in the first half of the year despite giving up a little bit of ticket?

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

Yes, I think based on all the discussion that we have had around the timing of the initiatives and when they are going to get traction in the marketplace and the incremental pricing and the build of top-line programs into the marketplace, we would expect the performance to accelerate as we go throughout the year, moving from a negative to a positive as we drive throughout the year, culminating with the strong P12 with the 53rd week.

Will Slabaugh - *Stephens Inc. - Analyst*

Got it. And if I could just follow up on the comment on the loyalty program. You mentioned that as an initiative that you think is helping to drive that traffic that you're seeing here in the first part of the year. I wonder if you could comment, first of, what element you think is working well there? How you feel about both the traffic driving impact and then also the profitability impact, just given that it seems like it incentivizing some customers to come in a little bit more often?

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

So what excites us about loyalty as we complete the rollout in Q2, first is the very -- the great customer data you get and what you learn about your customer and your consumer. I think it's an exciting platform for the future for us in that it will really allow us to do very targeted one-on-one marketing to our consumer.

If there's one thing we learned with the recent Blitz promotions we did is the impact we can have through social and digital advertising, and really being able to hone in on our customers. And yes, what we do see as the loyalty program matures, it gets implemented in a restaurant and hits a run rate, that we do also see sales lift in those restaurants from the loyalty program. So we're very excited because we really, again, think it will be the platform for the future for us.

Will Slabaugh - *Stephens Inc. - Analyst*

Thank you.

Operator

Karen Holthouse, Goldman Sachs.

Greg Ohm - *Goldman Sachs - Analyst*

This is actually Greg [Ohm] on for Karen today. Just had a quick follow up on delivery. I was wondering if you could maybe give some early reads on execution and consumer feedback? Specifically any sense of order accuracy, food arriving on time, et cetera? And then if you could just remind us what partners you're currently working with?

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

Sure. I don't have any specifics around customer feedback as it relates to delivery. Certainly when it's takeout and anything else we want the order to be accurate. Training in the store will be important as this rolls out.

In terms of timing and length of delivery, that is really up to the companies that we're partnering with, and obviously we want them to be as accurate as possible as well. I think we currently are working with Door Dash and GrubHub are the two major ones, and there may be some additional ones that franchisees are working with on a local basis. From an overall where we are piloting it, those would be the two.

Greg Ohm - *Goldman Sachs - Analyst*

Thank you.

Operator

Brian Vaccaro, Raymond James.

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

Just a couple of quick clarifications. Wanted to ask about the quarter-to-date comp. I know you mentioned there was a 90 basis point headwind in the fourth quarter related to calendar shifts, but there was a noticeable benefit related to calendar shift or sporting event calendar in your slightly positive quarter-to-date comp that you've identified?

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

The first week was beneficial to us, but we have seen fairly consistent performance throughout the quarter so far.

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

Okay, all right. Also wanted to circle back, on the normal incentive comp and store level bonus payouts versus the depressed level in 2016, could you quantify the year-on-year impact you're expecting in the store level labor cost line and then also in the G&A line, understanding that part of that G&A line is the higher stock-based comp that you highlighted?

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

On the store level, it's around 50 basis points to bring it back to normal from where we ended up in 2016. It's based on a number of measures, certainly same-store sales, pace, the things that the store can impact. That's, I guess, part of the headwind of the 2017 labor.

On the G&A, I know that our stock comp normally runs, what, \$12 million to \$14 million a year. And I think we actually have zero expense in 2016 for stock comp, close to zero expense. So got to refill that bucket in the G&A.

An earlier comment was that G&A over 2015 was going up \$20 million. Well, \$13 million or \$14 million of that is stock comp. And in terms of short-term incentive, I don't of the exact dollar amount on that. And then it would be just the normal growth and inflation, as well as some of the investments that we are making to meaningfully impact our restaurant level margins.

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

All right, great. Then last one, sorry if I missed it, but what was chicken wing cost as a percent of total costs in fourth quarter? Do you have that handy?

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

It was 28.5%, Brian.

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

Great. Thanks so much.

Operator

That concludes our question-and-answer session for today. I'd like to turn the conference back over to Sally for any additional or closing remarks.

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

Great. Thank you everyone for joining us for our fourth-quarter and 2016 earnings call. We look forward to engaging with many of you as we're out on the road at investor conferences and meeting with shareholders. As well as I hope you will join us at the end of April for our first-quarter 2017 earnings call. Thanks again, everyone.

Operator

And that concludes today's presentation. We thank you all for your participation, and you may now disconnect.

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