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BWLD - Buffalo Wild Wings Inc at Oppenheimer Global Consumer Conference

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Judy Shoulak *Buffalo Wild Wings Inc. - EVP-President, North America*

CONFERENCE CALL PARTICIPANTS

Brian Bittner *Oppenheimer & Co. - Analyst*

PRESENTATION

Brian Bittner - *Oppenheimer & Co. - Analyst*

Again, welcome everybody to our consumer conference. I am Brian Bittner, the restaurant analyst at Oppenheimer. Really pleased to be at the segment where we have Buffalo Wild Wings.

As most of you know, this is an outperform rated stock here at Oppenheimer.

They're going to give a brief introduction and we are going to do mostly Q&A. So, of course we have Heather Pribyl, Director of Investor Relations here, but we are also really pleased to have Judy Shoulak, who runs the entire North American business for Buffalo Wild Wings with us as well.

Sally was supposed to be here; but she is welcoming a grandchild into the world, so unfortunately she had to stay back in Minneapolis. But she is here in spirit.

So with that, I'll let you go ahead and give a little brief overview.

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

Thank you, Brian and Oppenheimer, for having us at the conference today. Before I get started I will remind you of our Safe Harbor statement. Please take a moment to read it during today's presentation.

Judy and I will make question -- or answer questions and the comments that are forward-looking in nature, of which you should not place undue reliance. Just a brief overview for Buffalo Wild Wings for those of you that might be new to the story.

We are a sports bar and grill founded in 1982 in Columbus, Ohio. And as our tagline so simply says, we are all about wings, beer and sports.

Today, there are over 1,100 Buffalo Wild Wings locations across the United States, Canada, Mexico, Panama, Dubai, Saudi Arabia and the Philippines. We are about half Company-owned, half franchise. 2015 we reached $3.6 billion in systemwide sales, and of that, about $1.8 billion was revenue for Buffalo Wild Wings, and $95 million in net earnings.

We know to be the ultimate -- give guests the ultimate social experience for sports fans, we must continue to evolve our brand and we do that through both our menu, our facility, our service strategy, as well as technology in our restaurants.

So, our main food product is our award-winning New York's -- our Buffalo New York style chicken wings, and we showcase them in a variety of 21 sauces and seasonings. We encourage guests to customize other menu items with the sauces and seasonings, and we do have limited time offer sauces that we come out with probably anywhere from five to seven a year that capture current flavor profiles, and we call that Sauce Lab. So if you are in restaurant, you can see that on the menu panel. And the current one right now is strawberry sriracha.

Beyond wings, we do offer a full menu from appetizers to desserts and burgers to flatbreads. Most of our items are shareables, great for watching the game with family and friends.

The perfect complement to our award-winning wings is beer. So we do -- most of our locations have about 30 drafts on tap, and then about seven to 10 of those are left open for local crafts. Beyond draft beer, we do have a significant selection of bottled beer as well as a full bar in our restaurants.

Shown here is our new stadia restaurant design. This would have came out in about 2013. It has new signage on the exterior, an integrated patio as well as a separate entrance for take-out. And on the interior of stadia, there really is no bad seat in the house. It's got a awesome audiovisual package. The fixtures and finishes are updated, more modern, more bright, and that it also has a central U-shaped bar.

By the end of the year, from Company development, Company remodel, as well as franchise development and franchise remodel, will be at about just under 40% of the system in the stadia look and design.

On our most recent earnings call, we talked about four same-store sales drivers for us in 2016, so I will highlight each of those briefly.

The first is take-out. We will continue to execute a strong take-out program and gain share. Today, our take-out sales are probably between 15% to 16% of our restaurant sales and as we see these sales increase, we are well-positioned to capture additional opportunity. We would have just launched online order and mobile order for take-out systemwide at the end of 2015, and that represents about 14% of the take-out sales. So that will continue to grow.

We also have a focus on our fast-break lunch menu, and we would have launched the menu in 2015, and we take the menu has the value and variety guests want at lunch. We are looking at strengthening this over with the speed of service guarantee. That is the 15-minute guarantee, otherwise your lunch is free. Judy will talk more about that in a minute.

And after take-out and lunch is our value offerings. So we believe we offer good value to guests, especially on our value days of Tuesday and Wednesday, where you can get wings at a discounted price. We will be promoting this with more advertising as well as looking at perhaps a different wing offering on Tuesday, with half-price wings. And again, Judy will touch on that in some of our question and answers.

But behind our lunch and Wing Tuesday, we have put some more advertising spend. And we have been taking the last 10 seconds of our national TV commercials with both of these. So here's what it looks like.

(video playing)

And the fourth opportunity we highlighted is really winning the market for soccer viewership. In 2014 and 2015, the brand did an excellent job of introducing Buffalo Wild Wings to soccer guests during the World Cup for men and women. We are looking forward this year to the Copa America and Euro Cup tournaments that are out there. We partnered with Heineken as well as Pepsi for certain parts of the tournament. And we even created a soccer-specific ad which is airing on national TV right now.

(video playing)

And with that, that concludes our prepared remarks and what we had to highlight for commercials and sales driving activity. So we will turn it over to Brian and questions and answers from the audience as well.

QUESTIONS AND ANSWERS

Brian Bittner - *Oppenheimer & Co. - Analyst*

(Operator Instructions) I am just going to kick things off first. The first quarter, you were lapping a tough comparison. It felt like there was a perfect storm of ugliness in March for the quarter. And it kind of got you guys to start really working on some of these drivers that you put in place and talked about here with the value and highlighting Bone Tuesdays and Bone Thursdays, soccer. Just on the value front first, you already have a big value foundation in place with the Tuesdays and Thursdays. They are not new. You are just kind of now highlighting them.

What's the consumer reaction been, not necessarily asking what the comps are, but are people now becoming aware of those days more because of the ads? Is the value things that you are putting in place starting to resonate with the consumer a little bit more?

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

We actually just started that at the beginning of June, so we have several markets that are just marketing our Tuesday offer the way it is. You're right. It's already a strong value day for us. So we are just marketing our current offer in some markets, and then in other markets, we decided to strengthen that offer to half-price wings. We just think that it's really a strong offer and worth shouting. So we are doing some testing about those markets right now and we are going to watch our results over 90 days.

But if we see strong results in the first 45 days, then we might move to a stronger offer sooner.

Judy Shoulak - *Buffalo Wild Wings Inc. - EVP-President, North America*

And in terms of what we've done historically, Brian, we have not highlighted a Wing Tuesday or a Boneless Thursday in advertising for a while. It is something that is known in our established markets, but in newer markets you -- we definitely have an opportunity to increase awareness of the offer we have on those days.

Brian Bittner - *Oppenheimer & Co. - Analyst*

On the goal to win in soccer, we are obviously in the full swing of some very important soccer stuff. We have USA Argentina tonight (multiple speakers)

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

And everyone should watch it at a Buffalo Wild Wings (multiple speakers)

Judy Shoulak - *Buffalo Wild Wings Inc. - EVP-President, North America*

9 o'clock.

Brian Bittner - *Oppenheimer & Co. - Analyst*

(multiple speakers) which I'm sure you guys are excited about, biggest USA game ever. What are you doing over the very short term, but also the long term to really capture what seems to be a secular trend in soccer? Obviously, that commercial, that's the first time I've actually seen that. Is there anything else you are doing in the near term to drive people into the B-Dubs for these soccer games?

Judy Shoulak - *Buffalo Wild Wings Inc. - EVP-President, North America*

I would say for one thing, as Heather mentioned in her remarks, we really started with World Cup. And then we had a very strong women's World Cup last year.

This year, we've really been focusing on the viewing environment in our restaurants, making sure that we have this on a lot of televisions, that every restaurant had the appropriate packages to be able to show the soccer games. We have the commercial. We also are doing some digital media, and then again partnering with Heineken and Pepsi for some of the tournament.

So, a lot of it has been really just driving that home within our restaurants as well as external messaging.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Another one of the opportunities you guys brought up was the weekday lunch. I think when people think about Buffalo Wild Wings, it's got to be where probably the most competition you face is, just because the lack of sporting events during the lunch daypart.

So what else is it that you are doing with this fast-break lunch spot that is much different going forward than, say it was the last six to nine months to try to improve that lunch business?

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

Right. So our lunch has been focused on speed and value, and we really do believe that we hit the mark with regard to our variety and what our value offerings are. But we think that one of the biggest opportunities we have is to really execute better and be stronger about that time that people can get in and out of Buffalo Wild Wings for lunch.

So we started at the beginning of June testing about 40 restaurants, this fast-break lunch where we have the service guarantee. And it has been 15 minutes or their lunch is free. It has been, I would say in the initial stages, very well-received from our team members and our guests. We really wanted to start it slow, make sure we could execute well against that, and all Company restaurants will be on that program as of June 27, as well as our franchisees that would like to opt in. And then we will start marketing at the beginning of July.

So, I think it is just important to really send the message that Buffalo Wild Wings is a place to go for lunch, because there is so much competition in that space and so much, really, promotional effort around lunch and value.

Brian Bittner - *Oppenheimer & Co. - Analyst*

And the guidance you guys gave on your last earnings call was for, hopefully, comps to turn positive by the fourth quarter. Is just thought process there is all these things coming together is ultimately how we get there?

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

Yes.

Brian Bittner - *Oppenheimer & Co. - Analyst*

And while we are on sales, not all of your sales growth is comp growth, obviously. So I want to just jump in on how we are thinking about the longer-term unit growth story of the Company. I think as of the end of 1Q you had slightly under 1,200 units in North America with a target of 1,700 Buffalo Wild Wings. This still suggests a lot of growth left as we look over the next several years.

Where do you see the majority of this growth occurring within North America? And is that 1,700 a firm target? It has been a moving target in the past. Is there upside risk to that target? Is there a risk of getting to that target? How do you think about that target?

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

For the target, the 1,700 in North America is still the target for our domestic Buffalo Wild Wings in US and Canada is how we define North America. And about 1,600, 1,650 of those are going to be in the United States.

Where the growth really is going to come is on the East and West Coast; I mean here in Boston, you are a little ways out from a Buffalo Wild Wings location. You won't quite reach the density that you see in some markets like you see in our legacy market of Ohio. I know a lot of analysts will take a look at population density and try to and extract that and get to about a 2,200 unit target. That is not what we are anticipating for the coast, but there is still some fill-in, in the US in existing markets in the Midwest and South as well to go. But the majority of the development opportunity is on the East and West Coast for us.

Unidentified Audience Member

Thanks. First, I've got two questions. First on comps, related to your remodels that you are going to have about 40% of your store base done by the end of this year, what does that look like in 2018 and 2019? And then what is the comp lift associated with those remodels? And secondarily, I had a question on wing prices.

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

So, on stadia remodels on same-store sales, typically we look to remodel our restaurants about every seven to 10 years. This is actually our fifth version of a Buffalo Wild Wings look and feel to it. It would be about our fifth generation. And we actually view remodels as very defensive, that you have to do that to maintain a fresh and vibrant brand. Especially in the sports viewing environment, you want to be inviting. You don't want to look stale, a 20- or 30-year-old restaurant.

So, part of the capital outlay for that is very defensive for the business model.

In most cases, you do see a little bit of a sales lift. We have not quantified that externally. It can vary greatly, depending on where the restaurant is located, what type of remodel we did, because we do have about three different packages to it; and then of course you end up with this -- you are looking at a comp and you can end up with either market performance, so if you had a market that had a team in the playoffs last year but not this year and you're trying to evaluate that, that same-store sales performance, it does get a little muddy to take a look at.

But on average, there is a little bit of a lift.

Unidentified Audience Member

So, just steady as she goes, in other words; nothing (inaudible). In terms of wing prices, heard tell they are coming down sequentially. Can you comment on that? And then comment on what the Company's reaction to falling wing prices have been historically.

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

Well, right now, wing prices are down, and they have come down from the Q1 results where we would've had wing at about $1.94-ish in the quarter -- or that was the first two months, sorry, Q2. Typically you do see a seasonal decline in wing prices in the summer, so our reaction to wing prices is not a menu price up, menu price down. It's what we think is the long-term outlook for winks.

What you have seen in wing prices happening in June will come into pricing into our COGS in July. So it's not until Q3 that you will see that benefit in wing prices. And just given where we were at for the first two months, and how May price -- wing prices will be up year over year in Q2 for us yet.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Piggybacking on his question about that, when you guys constructed the EPS guidance for the year, did you assume that they had come down and then maybe go back up into the football season? Or did you just assume they were just going to stay where they were when you gave the guidance?

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

We look at multiple ranges on wing prices, but our overall outlook when we gave guidance was that wings would be slightly inflationary for the year. They will definitely end up through the first half of the year with inflationary wings; and it gets really hard to estimate what wing prices are going to look at. That was kind of the input we looked at. It was slightly inflationary wings [in guidance].

Brian Bittner - *Oppenheimer & Co. - Analyst*

While it's really difficult to predict wing prices, and it has been a very volatile piece of your model, you also have talked recently about potentially changing the way that you contract wings as we look into 2017. I think you mentioned previously moving off earner [buried] prices into more stable contracts. What does this look like? You have not talked that much about it.

What is the timeframe? What kind of positive impact could this have on your visibility into the business, relative to what you have had to deal with in the past?

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

Yes, traditionally, what we found is that the chicken producers are a little hesitant, to put it mildly in some cases, to contract for wing prices. There's always fear of losing out on the upside and having significant downside exposure on there.

So, our head of supply chain is working with our chicken suppliers on developing a input-based model for winks, and that would guarantee them a specific margin, as well as us a specific price. So, it is -- they are going through some of the beta testing on the financial model around that will have more detail on that, probably at our analyst day in August, for you to tune into.

But ultimately, where we would love to be able to get to is to a place where we have a contracted price for wings for the year. That can help us determine pricing for the year. That gives us better insight into that, and then the goal for the producers is always to guarantee a margin on that as well.

So, it would be a win-win for both us and our suppliers, so we get the guaranteed supply as well as pricing them. We get guaranteed margin.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Technology is a big part of what you're doing at Buffalo Wild Wings in the experience there ranging from I think you are starting to look at mobile order and pay, the loyalty program. You have tableside tablets now, I think, in all of you units. Can you just talk about where you are with technology with the North America system and is that a driver of your business? Is it just something you need -- you feel the need to have in place because of the technology wave that is going through consumer? How do you think about technology with the business going forward?

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

I would say in general, it is somewhat transactional for the majority of restaurants. We do have a transactional component, but we also have this experiential component that we would like to come along with our technology. So we are currently testing two types of tablets where you can order, pay and have experience on those tablets with games that are trivia and things like that.

So we are testing two different methods of tablets right now, and we should be able to make a decision by the end of this year. So we can have like one consistent tablet in all the restaurants next year. We also have an order man, a way of taking our orders on a handheld device, and that we do think has guest experience benefits, because our orders go directly to the kitchen, and there isn't this cause in between taking in order and perhaps getting interrupted before you get to the PLS.

We also believe that there is a waiver implication of that when we can take more tables, because we are able to do this more efficiently. So, that's currently being tested in about 50 restaurants -- three high-wage states and one that is not a high-wage state, and we believe that will probably roll -- we would like to roll another 50 of those by the end of the year.

Brian Bittner - *Oppenheimer & Co. - Analyst*

I also wanted to just talk about the strategy for acquiring restaurants. You guys have been an acquirer of franchisees in the past. You were in a big way in the second half of 2015. I think there was some kinks that ran through the numbers in the second half of 2015. You get to roll over that.

I guess one question is, is rolling over those kinks a tailwind because -- is the franchise acquisition in a better place today is the one question. The second question is, are you an acquirer going forward of franchisees, and if so, why?

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

I will let Judy address the franchise operation performance of the large acquisition that we did. But we do evaluate franchise acquisitions.

We are a brand that has franchisees that are in the system for about 15, 20 years. That's typically when you start to see franchisees look to monetize their investment in a particular concept, and so we will continue to evaluate them.

What we like when we evaluate the franchise acquisitions is we like the opportunity for upside in sales volumes. We also like it is this particular Texas/New Mexico/Hawaii one that we did in August, we also saw the opportunity for existing development within the franchise territory, so we do believe that there is about another 10 units or so to go in there. And we do think we run a great company restaurant out there.

That being said, we do not purchase every franchise acquisition that comes to market. We do have -- I should mention, we do have the right of first refusal on all franchise transactions that are there. I believe there is probably another franchise sale that is going to happen this year, and that would likely be from existing franchisee to another existing franchisee.

Brian Bittner - *Oppenheimer & Co. - Analyst*

But if you wanted it, you could --

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

[If] we would, but our thought process on that is not in this case.

Judy Shoulak - *Buffalo Wild Wings Inc. - EVP-President, North America*

(multiple speakers) Yes, we do evaluate (multiple speakers) each one individually. I would say just to speak to the operational issues around acquisitions, it was a huge acquisition obviously with 50 restaurants, really does take quite a bit of resources around the country to be able to bring the help to those restaurants, to help convert them.

Oftentimes, franchisees are much more involved in their businesses and so their management teams are not quite as involved in really creating those results in the restaurants, so it's quite a transition for the Company side when a lot of times a general manager on the franchise side will end up being an assistant general manager on the Company side. So it's quite a bit of effort and we are pleased with how the restaurants are operating from those 40 units. I visited all of them except for Hawaii, so something is wrong with that (laughter).

But we are really pleased. Even from starting with the basics of just making sure from a food safety standpoint, everything is really being done according to standards and that sometimes the sales just like a bit because franchisees have a tendency to run more specials on things and we really have to transition away from that, normally when we come in on the Company side. So we are pleased but it's a little bit slower than probably originally anticipated. Also time with the overall slowdown in rails, too, so with that, I think it's timing as well.

Brian Bittner - *Oppenheimer & Co. - Analyst*

And on the labor front, labor is a popular topic right now, especially amongst Company-operated restaurants, can you just talk about where you are seeing labor inflation this year with the tightening of labor market? How are you dealing with it in the near term? In the long term, I mean in the first quarter, you leverage your labor on negative comp. I know some of that was some year-over-year bonus tailwinds, but still pretty incredible. How did you do that, and how are you managing the environment going forward?

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

Obviously, when we have softening sales, then we didn't really -- deleverage on the management labor line. But there has been just a huge focus on the hourly line, and really looking -- we look really at sales to labor hour as a really important metric that we should be improving there. And we are. And then we look at the wage rates and monitor that very closely.

So I think just our focus on it intensely, because we know it is one of our most significant controllable lines on P&L, which has been a very strong focus on most efficiently using our labor, especially as we see -- as we monitor sales and make sure that we are matching.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Is there any other questions from the audience? Can we get the microphone over there?

Unidentified Audience Member

I think historically you guys have always beaten the Knapp-Track average; in the last two quarters you have been below it. To you think that's because of your own execution? Or do you think just certain competitors have gotten better, and where do you think that share is going competitively?

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

I don't know Knapp-Track numbers exactly, because we contribute and subscribe to black box. Historically, I would say there are a couple Company-specific issues as well as overall environment and competitive.

Obviously October of last year is when you saw the significant discounting and bundling by a lot of QSR people out there. It does -- it can have an impact on your nonsports viewing occasions out there, but we would not think it would have an impact obviously on where you go to watch the game, which is really where we want to be absolutely defensive around our business.

A couple other things out there that we think from a macro perspective are impacting the industry. It's just the oversupply of restaurant seats across all categories. There is a proliferation of choice out there, so we do believe that is another macro trend. And then, from a sports viewership standpoint, with us you can always get into calendar matchups on a year-over-year basis. We were actually pretty pleased where we ended January, up comping over January of.

We would have had significant success around the college bowl championships in early January and really comp positively over that. On our earnings call we talked specifically about the March Madness tournament being weaker this year. The championship game in April was down 40% in viewership and we saw and heard from some of our operators when they moved some of the tournament games to a 9 PM start on Sunday night, you weren't driving people into the restaurant for a game that was starting that late. And then you also just didn't have some of the national draw and stories around it. You didn't have Kentucky being undefeated. You didn't have Tyus Jones, the true freshman at Duke. And then we also had Wisconsin to not make it. A lot of the Big Ten teams that we can sometimes overindex, too, didn't fare so well in the tournament this year.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Just kind of finishing up here, on the new EPS guidance for 2016, you appeared to have constructed it in a way where heroic sales are certainly not required here. I think in fact you expect flattish comps in the second quarter and the third quarter.

What are some of the levers that you have given yourself credit for in the model to be able to hit the earnings guidance if you don't rekindle the sales? If some of these strategies don't really drive a resurgence in the comp?

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

Yes, we definitely -- you're right, Brian, we haven't baked in any sort of heroic sales recovery in that. As we were constructing the model, we looked closely at history in the last time we would have been negative same-store sales, which was 2011 -- or our 2010, and then kind of looked at the stack on a two-year basis from 2009, 2010 and 2011 and really when did that start to recover. And as our thought it's probably about four quarters. Judy highlighted some of the initiatives that will start in third quarter with lunch and Wing Tuesday for us.

So we do think it's about four quarters for a sales recovery in that, that's implied with our commentary about positive same-store sales. In the fourth quarter, other levers within the model, there is going to be a little bit of bonus component in both the labor line item for restaurant level managers, as well as the G&A line item for field level managers as well as the Company.

And then you very specifically look at whether it's rehiring and attrition. Can you pause and use that opportunity if someone leaves the Company to perhaps shift the workload differently where you are not rehiring the position, you take a look at all other items and contracts on there when you have a software sales environment like we do today.

Brian Bittner - *Oppenheimer & Co. - Analyst*

Great. Well thank you, really appreciate you guys being at our conference. Thanks very much.

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

All right, thank you.

Judy Shoulak - *Buffalo Wild Wings Inc. - EVP-President, North America*

Thank you for the opportunity.