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CONFERENCE CALL PARTICIPANTS

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PRESENTATION

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Alright. So we will get started. Good afternoon, I'm Sara Senatore, Bernstein's Restaurant Analyst. Thank you for attending today and for joining us. I know, towards the end of the day, we've seen a lot of companies, but I certainly think this will be an interesting discussion. I want to offer special thank you to our guests up here on the dais with me Buffalo Wild Wings CEO and President, Sally Smith. Also, we have Heather Pribyl in the audience, Head of IR, and she can answer questions as well.

Let me just say a few words about Buffalo Wild Wings and also about Sally who's got a very sort of long 10-year history with the Company and then we'll -- then we'll dive into questions. So as I'm speaking and as I'm asking the first couple of questions please fill out your question cards that are on the seats, because that allows to get audience participation and a real robust discussion today. So I think I'm sure most of you know Buffalo Wild Wings, but it is a sports bar and family dining restaurant known for Buffalo New York-style chicken wings and 16 signature sauces and 5 signature seasonings. Buffalo Wild Wings offers guests an in-restaurant experience that includes an extensive multimedia system, a full bar and an open layout that appeals to sports fans and families. Guests can view sporting events or other popular programs on projection screens and approximately 60 additional television screens complete -- they can compete in both [fun] trivia and play video games, so real interactive experience. Sally has served as Buffalo Wild Wings Chief Executive Officer and President since July of 1996 and a Director since August of that year. She was CFO from 1994 to 1996. And prior to joining the Company, she was the CFO of Dahlberg, Inc., a manufacturer and franchiser of Miracle-Ear hearing aids. She is also on the Boards of the National Restaurant Association and Alerus Financial Corporation. So, Sally has a tremendous amount of industry expertise and insight as well as of course a deep insight into the Buffalo Wild Wings business.

So with that, let me kick off with a question or two and then again please do send your cards out to us. So, we're talking before I have to ask the question, what is going on in the industry?

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

What's going on in the industry? Well, it's one that we've talked about a fair amount today in our one on ones and the previous conferences that we've been asked as well as I just returned from the National Restaurant Association Board Meeting that was held last weekend, I guess. And I think that you see a couple of different things. One and some have been written about kind of this overcapacity in the restaurant industry. Someone did some research on somewhere between 3,000 and 4,000 outlets or more restaurants than there are seats or there are more restaurants than population growth. So, I think that, that's one thing, I think you've seen certainly and you've probably heard comments about a tremendous discounting environment out there, so lapping of some beef and pork prices, allowing commodities and so you are seeing quick service doing a fair amount of discounting as well as some casual dining and then the thought, even though the economic numbers support that the consumer is stronger, whether it's retailer restaurants, I think you're seeing not a real strong consumer out there.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

So, we have some sounds like structural combined with potentially cyclical discounting. Presumably as commodities level off, we might start to see that. Maybe we could talk a little bit about your sales-driving initiatives with the idea that assuming the environment doesn't get dramatically better given overcapacity and consumer is still cautious, what are you doing to drive performance? I think you laid out four real initiatives on the last call and maybe you could talk about those.

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

And I should preface that by saying, we don't dwell a lot on the macro environment. We like to look at what we can control and how do we [highly] rise up against that macro environment, and so a lot of times when I'm asked about the consumer or the industry, I would say, well, whatever you're hearing from others probably applies to us. Sometimes, it's very difficult, because we are quite event-driven with sports to discern whether or not, was it the weather, there is always weather, we don't usually call that out, it's a gasoline price as well. If others are saying it's probably affecting us. So we look at how we can drive revenue and this past quarter was one of -- was our first since 2010 of having negative same-store sales. We were going up against some tremendously high comps from the prior year. And I think we called out in our call that March Madness just was not the same robust that we've seen in the past, so some big schools closing early, you had some later night games no Sundays, and I don't think we're real compelling for that -- that few year and come out to watch weather was it Buffalo Wild Wings or into somewhere else. And just some of the match ups, so you had contacted the year before that was undefeated. So March Madness overall I think you saw that in viewership and certainly in our numbers and you had Easter in the first quarter. So, on the first quarter call, we did talk about -- so how are we going to drive sales between now and the rest of the year and longer term than that? We think there's an opportunity at lunch and again, I may get the question, why are you even focusing on lunch when fast casual seems to own that? Well, we still think there's an opportunity for that to gain some momentum there and it's our biggest probably from an overall standpoint so we've a past break lunch. We're implementing and testing and we will have, we actually will call testing we're rolling it out to make sure we have all the kinks, but we will roll by this fall a service guarantee, so that you can get in and out. The consumers that are I guest is that we want to get in and out of Buffalo, we don't come to lunch because it's going to take too long. So how do we make sure they're getting their food quickly and so that they can think about Buffalo Wild Wings as an alternative. So that is going to happen throughout the rest of 2016 and on into 2017. Shorter term, you have the Copa America Soccer Championship starting this Friday, running through July, as well as the Euro Cup, that's about 80 plus games, we are showing it as we've been training around it so that our guest experience captains, our servers, our bartenders, people know when the games are, who is playing, just some general soccer knowledge, you can find information on our website. So we're doing advertising there and we'll be tagging any national advertising, we've partnered with Heineken. So Soccer Lives Here is the kind of the tag line for that and so we're geared up for that. We think that's an additional sales driver that you didn't have last year. You have the Olympics, I don't expect that to be a huge sales driver, but it's another reason for people to go out. Typically, Summer Olympics are not as strong for us as Winter Olympics and Olympics in general aren't as strong, but winter at least, you have hockey teams and you have some national following there. On a local level, you might have some (inaudible) I don't know when Michael Phelps swam last time he's breaking a record. So you could see pockets of sales drivers and then we will have our national ad campaign back for fall. We had to pull our campaign last year in September, which did affect the October through December, which we believed it. We had some replacement commercials, but nothing like an integrated campaign. So those are really kind of the sales that when we think about specific sales drivers, that's it.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

And let me ask you I guess about the kind of lunch and in particular value and I think also sort of longer term, you talked about takeout. Some of these strike me as not -- don't benefit or leverage the kind of experiential part of Buffalo Wild Wings as well as kind of a dinner occasion. So are your customers telling you that they want that or I guess, what are you seeing in your data that suggests that maybe -- or maybe let me put it this way, how big can takeout be, how big can lunch be as a percentage of mix, or you really need to get the evening, the dinner daypart?

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

I mean we're pretty strong on the dinner daypart. There isn't a lot of capacity left there or I mean there is capacity on certain days though. It's maybe a Wednesday night or a Monday night when it's not Monday Night Football and when it's not a sporting event, when it's not football in the fall. And so, our guests had given us permission to do takeout, they do use us for takeout. When someone decides to do takeout, they're eating at home. So you want to have a really great offering and environment that they have a good experience, make it easy to order, easy to pay. So, even online apps, you can order or on the website or phone-in and we're seeing gradually a shift to online ordering. That ticket tends to be higher than that phone call in and I think we've made it easy for the guests to use. Takeout already represents about 16% of our sales. But that's a blended average across 1,200 restaurants, and if there is a -- sure, there are some markets that are at 5%, how do we move them higher? And then, on a lunch, lunch overall represents about 20% of our sales. Weekday lunch represents about half of that. So half of our lunchtime is happening on a Saturday or Sunday. I think you have capacity there and if we can grow that, that does give us incremental. And our guests are telling us either

through our research or through our loyalty program, they will use us for lunch and they'll still come back for the game. So they might be coming with a different group of people at lunch, people they work with versus their friends or family that they watch a game with.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Understood, so it's cannibalistic of the dinner daypart. And I guess when you think about percentage and take out 2016, I think one of your competitors Olive Garden casual dining broadly has that they could get to be 20%. Have you thought about what share of mix it could look like?

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

Sure, I think that I think we can grow that. Could it be 20% to 25%? I think so. I think especially as the consumer begins to think about takeout in a different way, so they're eating at home or they're eating at home more often.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Yes, and we certainly -- and I want to come back to that. We've certainly seen off-premise, that's a theme that I've seen emerge broadly for the industry and so I want to talk a little bit about that. But I have a question from the audience, which is results in the first quarter suggested new stores were softer than existing. Does that say anything about again ultimately saturation or your expansion and I guess I'll add to that? You mentioned that you haven't had a negative comp in six years. Are you seeing anything that might signal it has to do with the size of your store base, particularly as this question points out the capacity in the context of oversupply that you mentioned for the industry.

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

Sure, so I'll talk a little bit about our average unit volumes. Sometimes, it's just a mathematical equation. So how many stores did you build in the previous quarter that are coming into the comp group versus how many are affecting your average unit volume and I can't recall the specifics, but I do recall in the first quarter, it was partly mathematical, meaning we had our stores come into the comp group after 15 months and I may ask even how they're addressed, but there was something about stores rolling in. And as we've opened a few stores in smaller markets as part of our strategy and a smaller footprint, you are going to have smaller unit volumes that do get calculated in the mix, doesn't necessarily mean or imply that your -- the performance of new stores is any different than they've been in the past. So that's one. And then, I mean certainly your overcapacity, I did start out talking about that. We're very thoughtful on how and where we locate. And as I go to visit cities and look at how many competitors are out there and at what point is there the tipping point, but we've mapped out and we still have a lot of territory that is undeveloped, whether it's the California or Florida or the Coasts and again, for those restaurants that are at capacity or overcapacity or underweight, sometimes the best thing you can do is add that restaurant maybe 5 miles away knowing you're going to cannibalize for a short period of time, but the two together still meet or exceed your return requirements.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

And I think on the call, you mentioned that you're pushing out some of the developments into I think next year, maybe in this context, are you still seeing a lot of white space or opportunities for growth. What exactly is that you're looking to do or what sort of -- why push it out a little bit, yes?

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

Yes, we bid off a lot last year in the third and fourth quarter undertaking a significant acquisition of our Texas New Mexico franchisee. I think it was 38 to 40 locations, plus we opened probably half of our development in the last half of the year. So well over 100 new Company stores in 2015 alone. As we looked at this year, we saw so much of it back weighted again into December, really that timeframe from Thanksgiving to December and we want to make sure these restaurants opened really strong and so holding off again saying okay, if you were going to open 20 in mid-November



to end of December, why not open 10, open them really well and have 10 open in January, February? They are already in process. So it has more to do with capacity and helping the teams have a little bit more balance to the job they have ahead of them. And you do want these stores to open well. You have one chance of opening and we want to do it right. So, it is not a signal as some of the markets are not as good as --

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

No, no, okay, alright, that's helpful context. And then, I guess, let me -- I said I wanted to go back to people thinking about takeout differently in that idea, again one of the things that I think covering the restaurant industry broadly that I see is sometimes it feels like themes emerge, so off premises now is very -- it's a market that a lot of companies are going after. What -- and there are a few other initiatives that I will mention where I think a lot of people are kind of focusing on them at the same time. To what extent do you think you have an advantage or something that allows you to attract that market differently from other casual diners that are also identifying off-premises as a real target and also some fast casual, so that's one theme I would that we've seen emerged. I've also heard a lot of people now focus on the bar, so that's sort of core strength of yours that maybe talk a little bit about with other restaurants trying to attack both of those, how do you maintain or gain share?

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

Sure The fact that we've had strong takeout I think bodes well for -- or maybe we have strong takeout. We know how to do it, making sure that our teams have the right training behind them to continue to execute. Our research shows that the guest rates their takeout experience significantly on picking up their food. So, making sure that that server or guest experience captain takes the time to greet the first and maybe make a comment about the game, suggest, gee, are you a soccer fan, are you coming back this weekend? So as we've dealt into it, I think it's the training around, it's not just handing in the bag and saying, here's your food, making sure the order is right and I think if you have a good takeout experience, she will come back. I think Wings is different, it's a different kind of take out than you have -- it's not sandwiches, it's not [raps], it's just -- it's different. So I think being able to maintain and grow that takeout is important. From a bar standpoint, we've always -- we have a good -- I think we have a compelling -- I mean we've got a great bar. We did put in more tax over the last five years as we realized craft beer was going to be growing. So you can tailor, you'll have two to four top handles per restaurant that will -- that the general manager gets to decide what craft beer per restaurant. We have beer TVs rolling out at all of our stores and it is a rotating, I don't want to call it advertisement, because there's no dollars behind it, but it's our beer menu and talking about the different beers that we have available. So that's new. It's not on every TV, but it will be on select throughout the restaurant. That's new. We have a new bar menu and then really working with some of our beverage people to have a great margarita. What do we need to do and we've added some margaritas and wines. We've really upped our program there. And we're currently at what 20%, 21% of bar sales, I think that and we've been as high probably as 30%. I think we can get back there, but you do see more off-premise consumption of beer. I mean you can look at the numbers coming out at any of the beer producers and see that, but how do we capture that? So compelling Happy Hour program. We have Happy Hour -- we used to have 23 ounce or (inaudible) and now we're introducing a pint as well with Happy Hour dollars behind it.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Right. So some of this is offering value?

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

Yes, I think it's important to have a value offering for Happy Hour.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

And I guess on that topic, how -- I know you've gotten some questions about pricing. I think you're going to have, if you don't add -- if you don't take any more price -- selling upwards of 3% this year, do you think -- is that -- that's roughly in line I think where we think food away from home



will be, but again, you have different proteins. You have some of these burger places that are able to do some [deep discounting]. Do you think that's an issue for you?

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

So a couple of things and I've heard that, did you take too much price -- are you still the value you used to be? We do have different proteins, so we had to take price last year. Wings stayed stubbornly high and it was going to really erode bottom line if we didn't take price. Our pricing in November really tried to price in some of the labor costs that were -- that we anticipate and that are happening and so we may have been a little bit early on price for labor. But if you're not going to add some price with, whether it's minimum wage, whether it's overtime although we won't be affected by overtime. You are going to have to get it somewhere. We expect that any price increases in 2016 to be minimal. Our May price increase was about 0.5% and it was just tweaked in a couple of areas, particularly in the California market, where we were probably underpriced on the beverage side and I wouldn't anticipate. We think -- wings have just started to come down. But I think we're kind of at a new normal. So I don't think you're going to see a significant decrease in wings, but I don't think you're going to see a significant increase either. So I think we won't need pricing to cover wings or labor.

Sara Senatore - Sanford C. Bernstein & Co., LLC - Analyst

Okay. And so that's helpful, especially, I have a question here from the audience which I will get to, but they want to talk about labor. You managed it very, very well in the most recent quarter. I guess maybe you could just talk a little bit more about -- are there more opportunities to do that, particularly as it feels like the industry is girding for just continuous upward pressure on labor cost?

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

So labor is, I mean you can lose the quarter in labor pretty quickly. So given your managers, the tools try to accurately predict what volumes are going to be. We were very focused on hourly labor and we did leverage on hourly labor, or I think kept flat hourly labor despite negative same-store sales. We didn't leverage on manager labor which you wouldn't expect to, but we've offset that, but with manager bonuses where you have negative same store sales, you probably don't have the same bonus opportunity, you have to be careful on that in that you can have that for a little while, but pretty soon, you need to be looking at the program, so you're not losing good managers for things that they can't control.

Sara Senatore - Sanford C. Bernstein & Co., LLC - Analyst

Yes, that's sort of a short-term offset, you don't want to pay people down too long. This question is about Rusty Taco --.

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

You're calling it RTaco?

Sara Senatore - Sanford C. Bernstein & Co., LLC - Analyst

Yes, yes, RTaco now and PizzaRev. The question is how are they performing and also I've heard questions about typically, the conventional wisdom is, when you start investing in other concepts, [this isn't basically] about the core business, how close you are to saturation and I guess, that's now -- that question has re-emerged a little bit when I talk to investors just again because this topline has been a bit softer recently. So maybe if you could start with how those two concepts are doing and then again back to the kind of --?

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

Well, let me go back and talk a little bit about our strategy of investing in emerging brands and it was truly a long-term play. It was just say, okay, someday, Buffalo Wild Wings is not going to have the same number of units that it can open year after year after year. This isn't to say that we don't want to continue to drive traffic within the restaurant itself, but [people will say, okay], how do we double our average unit volumes? We have done it before. So that's kind of the big [area] goal that I've set for out there.

So when you get down to the end, I mean, you can't -- you can say, okay, we're going to be a dividend and a stock repurchase company and kind of very stayed. But is there something we can do today to make small investments in a number of concepts that have a pension founder or group of people that really want to grow their business and we can offer strategic guidance. I have a whole separate team for that, separate from Buffalo Wild Wings. No one on operations works on it. There is a little accounting overlap, but nothing that would take your eye off of Buffalo Wild Wings.

We made our first investment I think three years ago and a year and a half ago or two years ago for RTaco. And again, they were going to be small incubation that just grows, don't even think about them. And that when you did run-in or that when you did start having less and less unit volume growth for Buffalo Wild Wings, these could perhaps step in along with international to continue to be a high-growth company. And so our investment in that wasn't a signal that why we're slowing down, but you can't get to the end of the rope and all of a sudden say, well, now what should I do? And again, we're still learning about both concepts, both are -- and if I can find other ones that we'd like to invest in, we're not, we wouldn't say that we wouldn't wouldn't do it.

I think it's still early. Are they meeting what we hoped performance wise, we actually just opened an RTaco out of the Texas market company store in Texas. If you come to our Analyst Day or in Colorado, come to our Analyst Day, August 16, in Denver, you'll get to see the new RTaco and we're still learning about that consumer with 11 locations in very disparate places. I can't tell you who that consumer is yet. And so by opening a few more, making it small, again, none of this if I close them all today, it's going to be immaterial to the Company. But why not give it a try and does it provide us that growth opportunity five to 10 years from now?

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

And so I think that just sort of the paraphrase just to make sure, so every sort of metric that you laid out that you would like to see their meeting.

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

So far.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

And that's helpful context because as you said that core business, you saw big goals for that, can you talk about in that context, the loyalty program and what that does for meeting some of these [NAV] goals and targets you have for (inaudible)?

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

So we launched our loyalty program in October this past year in 50 locations. It is a combination of the points program, so you get points for purchase as, but you also get points for showing up. So we might be offering double points on a certain day or if you come in with a group of four you the person buying, don't get just, you get points for everybody that shows up, if they are on our loyalty program they get points as well. And you can redeem those points for right now our menu, the full menu, it's not just you can redeem for desert or something like that. And it's not dollars off, but you can get redeem for order points. Eventually, we'd like to add merchandise to that and not just Buffalo Wild Wings merchandise, but some of the merchandise that we have for vendors, so could you have a really great Taco promotion with Heineken and get Heineken glasses during the Euro Cup or Copa America or the Euro Cup. And then eventually experiences, that's a ways it's all. We will roll the royalty program to another 80 to 90 locations in the next, within the next month. Some are rolling now with kind of our rolling. What's getting us is an interesting



research or information about our guests. And then for those guests that out and again, you don't want to be shadowing these people and scaring them off. But if you re-find your soccer fan and you often any tell us that information, we can tell you about the soccer game that's coming up. So I'm very excited about the loyalty program.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

When you talk about obviously that it improves the guest experience, I guess two things. One is, have you been able to detect yet whether in fact it does increase traffic or ticket, where you think you'll get the biggest benefits?

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

It's still early, I think we need to have about a year under our belt to really understand that guest. It is giving us some guest information. We used to think that that Tuesday guests, that value discount guests, didn't necessarily use those other days of the week, they do. And so, and then, and you can get order adjacencies and all kinds of things from it. And again, it may not make that really loyal, loyal frequent customer come more, but that maybe that second tier or that third tier customer might increase, and so, it's a way to retain guests and reward them.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

So let me ask you, I don't necessarily need to comment on what other companies are doing, but we have seen let me call it mixed sort of results from royalty launches, in particular we see one in the Bar & Grill shift back to the [20 program], sort of like shared platform as opposed to doing it -- is there a -- to your mind, is there a type of concept that lends itself to loyalty better, is there a reason that some restaurants have a better price experience or more sort of a clearly incremental benefit from loyalty?

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

Sure. I think I would say that I mean a costly loyalty program makes all kinds of sense to me, especially if you have lots of choices of where they're going to have get your coffee. I think the fact that we can add merchandise and experiences. So with our partners, you can save your points. This is very lofty, but could you enter your points and give away for tickets to the Super Bowl. So partnering with some of -- for the NCAA or NFL or ticket giveaways are experiences. We've been very careful. I mean, what we don't want to do is come out with a program and not have it be what the guests want. And so are we slowly rolling it out? Yes, we are, but we want to do it right and we want to understand what's the most important thing to the guest, not try to guess what it is, but let's go back and now say, okay, in those 50 locations, what have we learned. Yes, we do opt in and tell us what it is, how this program working.

We had a limited number of menu items that they could choose from to redeem their points. They said, no, we really like everything on your menu. So we went through and re-crafted that and say, okay, everything, which has a point potential.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

All right. It's a continuous learning and you learn that.

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

Yes.



Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Okay. So let me ask you about another sort of like I said [that scene] that's emerged your technology. I know it's sort of on the back-of-the-house perspective. You are kind of behind this non-customer base. You are still like -- you talked about franchisees all having the same point of sale. I know you have tablets that are in test. Can you maybe talk about some of the initiatives, what you see as there potential for the best growth driver?

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

Sure. So critical to launching an online ordering, to launching the loyalty program, to launching just about anything else you wanted to do. We needed to get everybody on a common PoS system and we accomplished that in 2015, it was a huge undertaking. You had to convince and convert your franchisees. Well, first, you need to your company stores got all the kinks out. So that's done. Tablets, a couple of thoughts behind the tablet. So ideally, I would love to be ordering and paying right now on tablets at the restaurant. I think that the guest eventually -- I mean it's going to want that -- that next generation, you order, you do a lot of things online. But as we look at it, we have always been known for gaming and trivia in our restaurants and we use Buzztime tablets. So we wanted to have a tablet that allowed both our gaming and our trivia to be on the same tablet as your order, which we accomplished, but we hadn't been able to figure out the pay cart. These are tablets that are using wireless and the PCI and the security around credit cards has just been much more difficult to accomplish than we thought. There was not an off-the-shelf solution for us. There was for order and pay, but not to have our games on it. So you would have ended up with two different tablets. And so we felt that was really important. We have order and pay in a handful of company stores with -- tweaking those last little things, I think we've got it right now and we're going to be able to roll that out.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

So --.

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

Throughout 2017 to both Company and Franchise. And our guests told us, not only did they want order, they want pay on the tablet as well.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

And have you seen anything -- again, service times, anything like that that you quantify by saying --?

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

I think a couple of things, I would say anecdotal. So whether it's your server handheld, which we had in some of our higher-wage states or tablets is with the kitchen really likes it, because the orders are coming in much more smoothly instead of that server who maybe visits three tables, then goes to PoS, puts that in. So you've got a smoothing out of orders in the kitchen are much more accurate when the guests does it as well themselves or when the server does that on the handheld right in front of them. The guest likes it and -- again, it's very limited, but when they are ordering themselves, we have seen about a 10% higher ticket price.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Okay. So you are seeing a 10% lift in the --

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

But again, (multiple speakers) right.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Understood. And are you turning tables faster?

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

If they are in for the game or dinner, it isn't necessarily about turning tables. It's about ordering more.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Right, yes. And minimizing the sort of pain of having a [flag up, server down or --]

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

And again, that order going in more quickly, so a service delivery, that promptness of that food coming out.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Let me ask you about, I wanted to sort of step away a little bit from technology, go back to we were talking about earlier drivers, soccer, it's sort of an emerging sport in the US, is that does it have a like sort of potential to grow and be a real driver or what are you seeing among your customers?

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

I think it does. I think it may take a generation. I won't probably be at the helm to see it, a generation or two from now, but soccer is currently had great, we had great results for the Men's World Cup throughout the entire tournament, you had the Women's World Cup wasn't as long or -- but it was still great results. This is 80 games that we don't have that are new that we don't have this year. Youth Soccer's always been big and driving those youth teams and between their soccer matches. I just think soccer is on the cusp of being a more major sport.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Outside of soccer, if you think about this year, you talked a little bit about, and maybe there some differences in terms of the calendar of this lane, if you think about going forward, do you see any other variables in reporting calendar that we did all sort of being cognizant.

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

Well, there is a couple of days here and there. So Halloween is on a Monday versus a Saturday that's better for us. Christmas is on a Sunday versus a Friday that's worse for us, but the NFL has moved most of their games to Christmas Eve. We think that will be kind of a net neutral. So there's always a lot of little sporting noise, but not anything that I would necessarily call out. I did want to point out that we did sign a sponsorships with Turner E-League which is televising people -- watching other people play video games, it's huge in Asia. And the first one was Friday night and our stores, we're ready for it. So we think there is an opportunity, hopefully, I mean the ESPN has a drop-down menu now for eSports and people watch, people pay video games, we are also testing video walls in our restaurants where you could actually come in and play. So we did a Madden 16 pre-launch with EA Sports in the fall last year. Several of our restaurants got that game ahead of time, that generated traffic. So we're looking at all kinds of different competition.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

And [it creates me] -- I think I read that one of the highest grossing YouTube channels. I think --.

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

Twitch. Yes.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Twitch, right.

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

(multiple speakers) being able to broadcast Twitch along with these E-League games. We think it's just another -- it gives us an opportunity to get that guest -- a different guest into a Buffalo Wild Wings.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Right. And does the proliferation of all these thousands of different, people talk a lot about the media and the Internet as kind of fragmented the market. Does that have any impact on people that not want come in and watch together. They are sitting watching in their computer.

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

I think they are still going to watch their computer, they are still going to watch -- they are going to watch on their phone, they are going to watch on the screen as well. But as they -- and I think we benefited a little bit from cutting the cord, as they got rid of cable, and maybe didn't have the same kind of broadcast. So what's new and differentiated from a viewing standpoint that that we can have access to.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

So, I think, why don't, if I bring this back to kind of sticking through, in the short term, I think the IP of it, the goal or the guidance was to be positive in same-store sales by the fourth quarter. If you could kind of water maybe order the drive, what's going to get you there? Is it going to be maybe a little bit more stabilization in demand environment, maybe a little bit discounting will come off? Is it more company specific things that --?

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

As we did our number, as we looked at it, we really focused on what we as a company can do. So we are not looking at an improvement in the overall environment. I can't -- we can't do anything about that, we can't do anything about people discounting or not discounting. But what are the drivers that we thought we could -- that we could control. So launched speed of service. Taco having a full complement of football and the media campaign behind it and getting our message on our value days. So value soccer on lunch taking our national commercials as well as our radio commercials with that message is really as we look at kind of the matrix that how we're going to drive sales. Those are the components for 2016 that get us there.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Will you change your marketing budget or where you advertise to the median?

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

We did take a look at it after the first quarter and understanding so we'd really spread out, the dollar amount doesn't change. It's about 3%, 3.5%, but it did go back and we took a look to say, okay, if you had, we had perhaps -- we used to have -- you could advertise in January, March, September, October and maybe November. But as we grew, we had that ability to spread it out. We went back and looked and said, okay, let's make sure our media weight is in the fall. Fish when the fish are fit or biting, that's when people are coming to Buffalo, let's make sure our media weights there are enough without sacrificing May and June. So we did a little tweaking, but not anything noticeable.

Sara Senatore - Sanford C. Bernstein & Co., LLC - Analyst

So in terms of as you think about like how you're communicating with customers and television versus online, what is that mix look like and change?

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

So any growth in our advertising budgets has been our TV dollar spend has been pretty steady. I don't see that growing where we've had a growing presence is in online and in a bit in radio.

Sara Senatore - Sanford C. Bernstein & Co., LLC - Analyst

And that's really where you do kind of your call to action?

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

The call to action happens online and radio. And then, I think it's really important though that our TV commercials are tagged with, so we'll produce a 22nd commercial was a -- and 10 second tag, reminding people about lunch, about soccer, about Happy Hour, about whatever is that we're focusing on.

Sara Senatore - Sanford C. Bernstein & Co., LLC - Analyst

And you think you met near to 3% and 3.5% of sales, is that need to be high --?

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

I don't think so. I think if anything, I wonder if there is down as they need to be spent, I think giving the stores and not to be able to implement local store marketing programs, sponsorships that kind of thing. It's important and we have thought it went from like 3% to 3.25% in the last couple of years, it seems like a good number, I guess.

Sara Senatore - Sanford C. Bernstein & Co., LLC - Analyst

Okay. Let me ask you a little bit, you mentioned local, one of the things that we have seen a lot in the QSRs, a little bit less so in -- is the franchising mix to shift it and much more to franchise. I think you've gone a little bit the other way or brought in some -- maybe you could talk about on the franchise, -- so you brought in, are you happy with that decision? What does the portfolio look like going forward?



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

Sure. So, we did make -- last year, we acquired 58 restaurants, three different franchise groups are being 38 to 40 in August. We've been opportunistic in our acquisitions. So, I have franchisees that have been in the system 20, 25 years. So, they are retiring, they don't have someone to take over. You've had private equity coming in and finding great value in the franchisees. We have slowly been growing our Company store ownership, I think we've run our restaurants really well and we've outpaced our franchisees on same-store sales growth, I think over the -- all the two quarters over the last, I don't know, eight years, something like that. Fast food, a much easier model to execute from a franchise standpoint versus the dollars required that you put in on the Company side and just the program. So the POS, the loyalty, all the things. I've got great franchisees and they are growing as well. So they are acquiring some franchisees that are perhaps retiring.

And there has been a couple of cases where we've sold a couple of Company stores to a franchisee because it was in the middle of their territory and they wanted to grow around it and it made sense. So we've taken in that way analyze it saying, okay, build or buy and is there opportunities, so I don't want to buy. No one wants and hopefully -- and luckily, we don't have failing franchisee. So the goal is to buy under -- isn't to buy poor performing, but to rather say is there an opportunity to add additional units, so they may have territory. I think we thought we could add another 10 plus in the Texas, New Mexico and Hawaii acquisition. Are there pockets where their sales, their average unit volumes are under what we think they should be given the population, whether it's relocating or remodeled. So again, we want to have growth opportunities in our acquisition of franchise locations. And there have been a few that we have said, no, we'll let somebody else buy it.

Sara Senatore - Sanford C. Bernstein & Co., LLC - Analyst

And do you ever look at them from a margin standpoint and say, okay, but the sales look okay, but we think we can run a more efficient business?

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

Yes. When we looked at -- when we do our analysis, we put our numbers in there. We don't use what they're doing. So if they're running incredible labor, we're wondering why they're running incredible labor. Maybe there isn't enough labor in there. So we'll use our labor numbers. Texas was a very -- from a labor standpoint, a great state to acquire from a minimum wage standpoint versus I'd be hard-pressed to acquire something in Seattle, because I don't think you can make the numbers work from a wage standpoint and from a buildout cost, but I know we used our numbers in analyzing it.

Sara Senatore - Sanford C. Bernstein & Co., LLC - Analyst

And do you think just -- last couple of minutes, I'll ask for the bigger picture longer term from a profitability standpoint, do you feel like your margins are -- [a client asked me], look, commodities are probably not going down. It's a little less relevant I think to Wings, labor costs are going up. Is there any reason to believe that restaurant margins can go anywhere, but down from here? And I guess, I will pose that question to you.

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

Yes. I mean, I think if you look at over the long term that we've had pretty stable restaurant margins, I mean, it's really slowed quite a bit with Wings. Wings is the big piece. We think we've priced in for that. We're working with our suppliers to develop, is there a way to do a cost plus on wings so that becomes even more stable. We have a collar on it finally. And you've got all of our wing purchases on that collar. So bringing your producers along with you, I think, you look at ways to become more efficient and then you look in the middle and say, okay, what else can you tweak? Do you [just rent] have to give, do you look for more efficient credit card processing and then beyond that, what can you do from a corporate standpoint of your G&A, where if your restaurant is going to give up a 100 basis points, you are going to have to find that in your G&A.



Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Can technology play a role in.

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

I think technology definitely will help play a role in the labor standpoint. We're looking at both server handhelds and tablets to increase the number of tables that a server can handle. They like it because they're tipped. The total sales on their tip would go up. But having guest experience captains to still make sure that our guest has that great experience. So they came into watch hockey and they are in Kansas City, [we've find] this any game anywhere guarantee, no matter where you are, if it is showing on TV, you should be able to watch at it Buffalo. So all of our franchisees, all of our company stores subscribe to the NFL ticket or the NHL ticket, the NBA, Major League Baseball. So if you're a fan, even though if you're in a completely different area and should be able to watch it at Buffalo Wings. Our guests experience Captains have to be able to help direct you, you need to tell them, they'll turn, you get the channel on. While our servers are handling all of the other things.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

The idea to use technology to enhance, I guess.

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

Enhance it, right, as well as we hope leveraged labor.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Enhance it, right, as well as we hope leveraged labor.

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

I think that it we'll continue adding somewhere between 60 and 80 Buffalo Wild Wings a year, certainly this year, that is closer to that 70 to 80 range as you have the number of units that's going to diminish, you'll see continued and I think robust growth on the international side, perhaps close to doubling their unit volume or their units over the next few years and then that will slow a little bit and RTaco and our PizzaRev, again if you can prove out who that gets to, so you can really offer what that -- it's all about what the guest wants than what we think they want. We think that can accelerate growth wise.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

Very, very good. Thank you so much.

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

Sara, thank you.

Sara Senatore - *Sanford C. Bernstein & Co., LLC - Analyst*

It's a pleasure.

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

Alright, thanks.

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