Analyst: Daniel Macek

Restaurant

Buffalo Wild Wings, Inc.

Recommendation	**NEUTRAL**
Target (today's value)	$155
Current Price	$150
52 week range	$122-$175

Share Data	
Ticker:	BWLD
Market Cap. (Billion):	$2.72
Inside Ownership	1.3%
Inst. Ownership	91.6%
Beta	0.95
Dividend Yield	N/A
Payout Ratio	N/A
Cons. Long-Term Growth Rate	19.3%

	'14	'15	'16E	'17E	'18E
Sales (billions)					
Year	$15.2	$18.1	$20.2	$22.4	$24.3
Gr %		19.1%	11.6%	9.8%	8.4%
Cons	-	-	$20.0	$22.1	$23.5
EPS					
Year	$4.98	$5.00	$5.61	$6.83	$7.79
Gr %	19.6%	0.5%	12.2%	21.7%	14.5%
Cons	-	-	$5.51	$6.47	$6.51

Ratio	'14	'15	'16E	'17E	'18E
ROE (%)	18.1%	15.5%	15.5%	16.6%	22.1%
Rel Industry	17.0%	20.9%	20.9%	17.8%	21%
NPM (%)	6.2%	5.2%	5.2%	5.1%	5.0%
Rel Industry	6.3%	7.3%	7.3%	7.2%	8.0%
A. T/O	1.94	1.88	1.88	1.85	1.94
ROA (%)	12.1%	9.9%	9.9%	9.4%	9.7%
Rel Industry	8.9%	10.0%	10.0%	9.6%	11.2%
A/E	1.54	1.52	1.49	1.64	1.69

Valuation	'15	'16E	'17E	'18E
P/E	33.3	30	27.1	23.1
Rel Industry	33.8	45.6	55.5	26.9
P/S	1.74	1.54	1.35	1.23
P/B	4.6	4.8	4.7	5.6
P/CF	12.4	10.7	9.8	8.5
EV/EBITDA	23.5	21.2	19.3	18.3

Performance	**Stock**	**Industry**
1 Month	-3.2%	5.3%
3 Month	2.3%	17.0%
YTD	-3.2%	5.3%
52-week	-0.1%	41.8%
3-year	5.4%	34.2%

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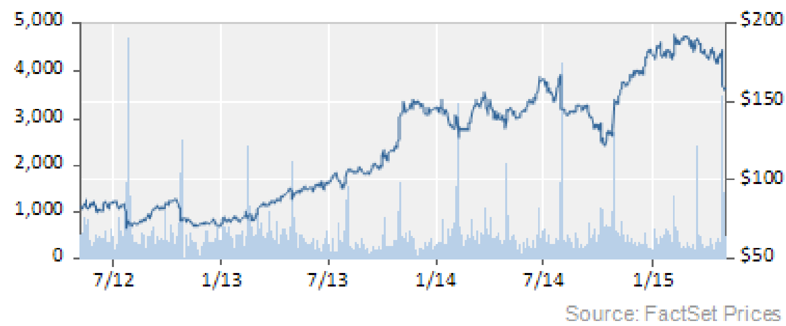


Summary: I recommend a neutral rating with a target of $160. BWLD is growing rapidly and has an untapped international market, but the slow of growth within the US over the past year is a headwind. The stock is fairly valued based on relative, DCF, and multiple analyses.

Key Drivers:

- Store expansion: BWLD has been growing rapidly since its IPO in 2003. The company currently has about 1190 owned or franchised restaurants and plans to own or franchise 3000. With only 4 restaurants open outside of the US, the international market is still wide-open. I expect it to open about 75 restaurants per year.

- Same-store sales: While the restaurant has been rapidly expanding stores, the company must maintain its loyal customers. Same-store sales are down in 2016.

- Margins: Fluctuating costs of chicken and labor directly cut into BWLD's margin. It has initiated plans to offset this volatility, but it still exists.

- Consumer habits: BWLD is still growing so it is not as cyclical as its mature competitors, but it still relies on loyal customer traffic. With its large market of sports fans, it was hurt over the last year by poorer NFL ratings.

Valuation: Using a relative valuation approach, BWLD appears to be fairly valued in comparison to the restaurant industry. As a growth stock, the restaurants multiple is the best way to value the stock. Assuming a declining P/E to 23 in 2023 as growth slows, the stock value is about $146 and currently trades at $150.

Risks: Threats to the business include maturity, fluctuations in operating costs, consumer habits, and competition.

Company Overview

Buffalo Wild Wings is an American restaurant and sports bar famous for its Buffalo, New York-style chicken wings paired with its 16 signature sauces and five signature seasonings. Each restaurant features a full bar and numerous televisions and projectors for mostly sports-viewing purposes. Buffalo Wild Wings appeals to its consumer market with its slogan “Wings. Beer. Sports.” BWLD also operates R Taco, a fast casual taco restaurant, as well as Pizza Rev, a fast casual pizza restaurant.

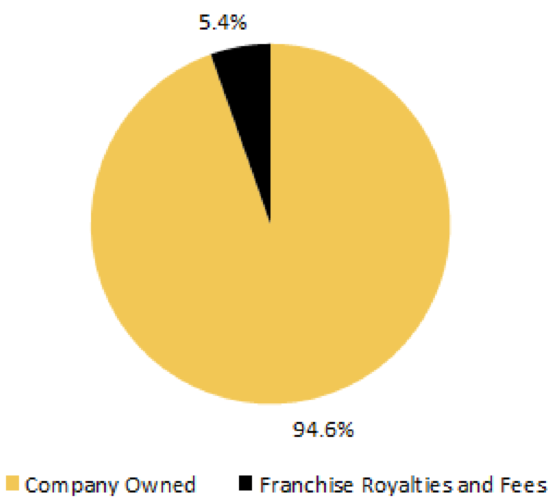
Originally called “Buffalo Wild Wings & Weck” (hence the nickname “BW3”), Buffalo Wild Wings was founded by Jim Disbrow and Scott Lowery at a location near The Ohio State University. The two had just moved from New York and were craving Buffalo, New York-style chicken wings. The original restaurant was very popular and so the founders began to expand. The company began franchising in 1991 and in 2003 completed its IPO. The restaurant has won “Best Wings” and “Best Sports Bar” awards throughout the US. To some sports fans, “B-Dub’s” is the place to be when the game is on.

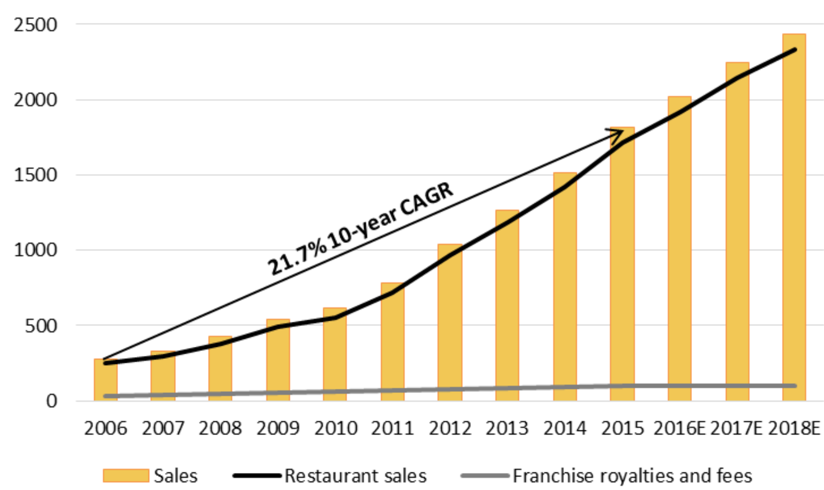
With corporate headquarters in Minneapolis, Minnesota, there are approximately 1190 Buffalo Wild Wings restaurants in the United States and Canada. Buffalo Wild Wings has a few restaurants outside of the United States as well, with ten restaurants in Mexico, two in the Philippines, one in Saudi Arabia, and one in the United Arab Emirates. These restaurants target the different interests of each culture. The plan for Buffalo Wild Wings is to own or franchise a total of 3000 restaurants in the United States. As far as same-stores, the company plans to continue growth through innovation such as new technologies for the convenience of guests and the most up-to-date entertainment systems. Internationally, the company plans to open 400 restaurants in the next 10-12 years.

Buffalo Wild Wings generates:

- Revenues from company-owned stores
- Royalties and fees from franchised stores

Figures 1 and 2: Revenue sources for BWLD, EOY 2015 (left) and revenue units since FYE 2005 (right)





Source: Company annual reports

Business/Industry Drivers

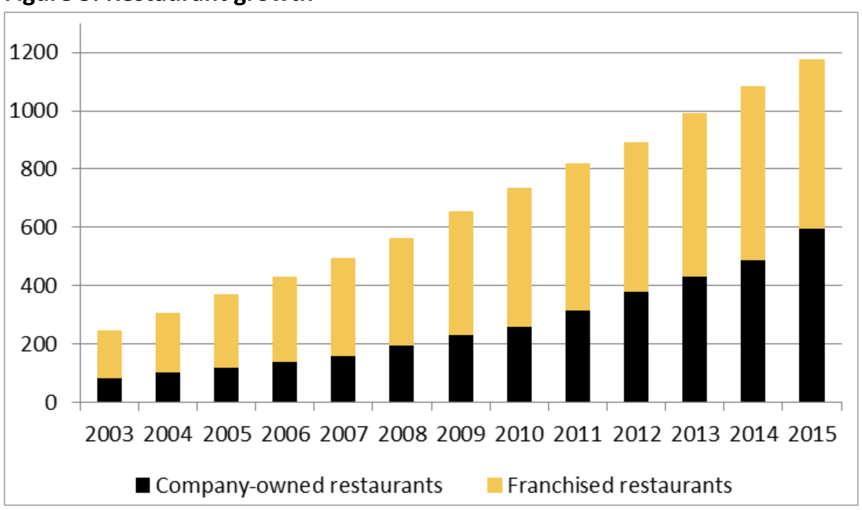
Though several factors may contribute to Buffalo Wild Wings future success, the following are the most important business drivers:

1) Business growth strategy
2) Same-store sales
3) Consumer habits
4) Margin

<u>Store Expansion</u>

Buffalo Wild Wings has been growing rapidly. At its IPO in 2003, BWLD had 245 restaurants. The company currently has approximately 1,190 company owned restaurants and franchised restaurants. Internationally, Buffalo Wild Wings didn't have any restaurants outside of the United States at the time of its IPO. The company now owns 13 restaurants outside of the United States. The company plans to open 400 restaurants internationally. I forecast 75 new company-owned stores per year through 2018. This estimate is important because I use it to forecast sales through FYE 2018.

Figure 3: Restaurant growth



Source: Company reports

Buffalo Wild Wings business strategy is as follows:

"We aspire to be a growth enterprise of restaurant brands, with more than 3,000 restaurants creating the ultimate guest experience worldwide. To escalate our strategy, we will:

- Continue to strengthen the Buffalo Wild Wings® brand domestically and internationally;
- Identify, invest in and develop emerging restaurant concepts beyond Buffalo Wild Wings;
- Continuously develop and deliver unique guest experiences;
- Offer crave-able menu items with broad appeal;
- Create an inviting neighborhood atmosphere;
- Focus on operational excellence;
- Open restaurants in new and existing domestic and international markets; and
- Increase same-store sales, average unit volumes, and profitability."

Buffalo Wild Wings rapid growth has led to a 22.2% CAGR since its IPO in 2003. During this time, the company has seen sales rise from FYE 2003 of $126.5 mil, to FYE 2015 of $1715 mil, with sales continuing to grow every year.

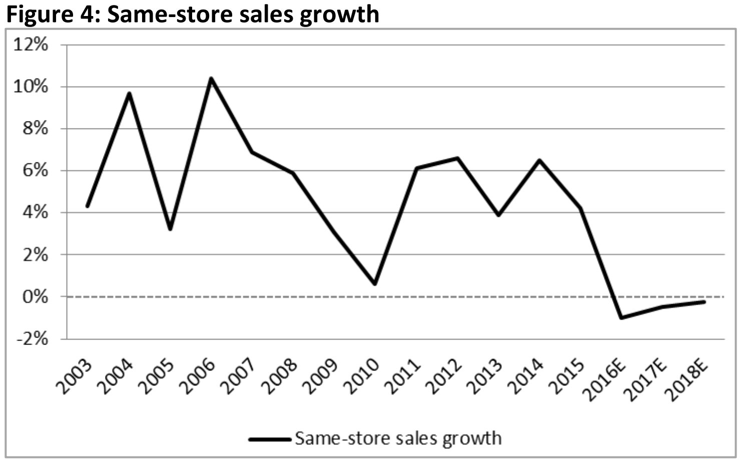
Same-Store Sales

The "Buffalo Wild Wings" name gives the company a sustainable competitive advantage.

Buffalo Wild Wings measures same-stores as stores that have been operating for 15 months or more. Since its IPO 13 years ago, the company experienced growth in same-store sales. BWLD has a relatively loyal fan-base. The name "Buffalo Wild Wings" is a sustainable competitive advantage, or "MOAT," as the restaurant is known as the first restaurant focused on wings. Sports fans pile into their local Buffalo Wild Wings to watch their favorite team, which creates a more consistent sales base.

In 1Q16, Buffalo Wild Wings saw a decrease in same-store sales growth for the first time in the company's existence. This decline could be attributed to cannibalism between Buffalo Wild Wing's rapidly expanding stores, or possibly the maturity of the company. The recent decline in NFL viewership also means less traffic for BWLD same-stores, as I will discuss later.

Figure 4: Same-store sales growth

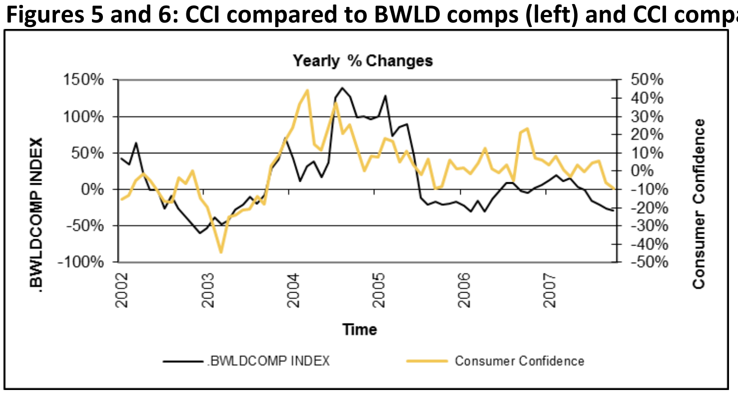


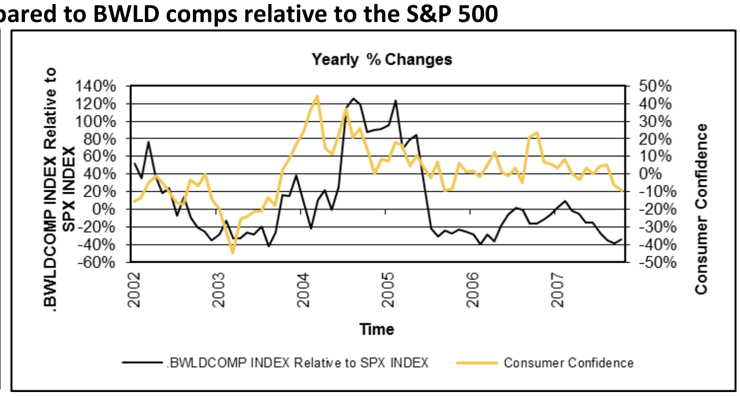
Source: Company reports

Consumer Confidence Index

The Consumer Confidence Index (CCI) is a measurement of consumer's degree of optimism about the state of the economy. The index has been on the rise since the subprime mortgage crisis, with a 12.4% CAGR since it bottomed-out in 2009. In December of 2016, the CCI reached its highest point since before the internet bubble burst in 2001. However, with Buffalo Wild Wings' rapid growth, the economy has not played a huge factor in earning performance; however the comps are still correlated with the CCI.

Figures 5 and 6: CCI compared to BWLD comps (left) and CCI compared to BWLD comps relative to the S&P 500



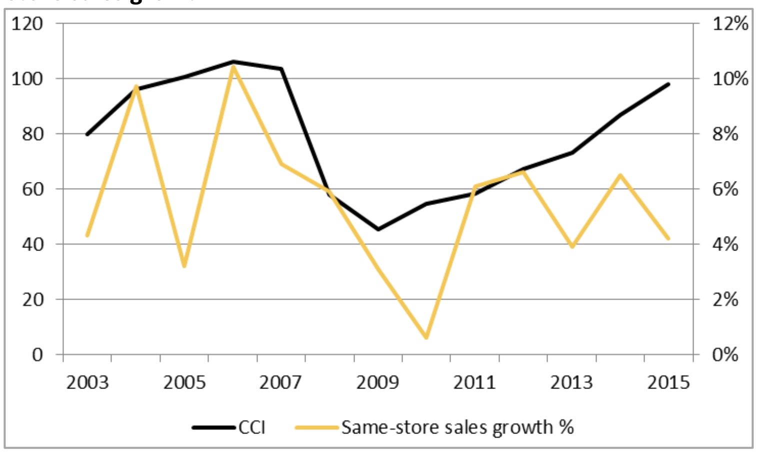


Consumer confidence will have a stronger relationship with BWLD as the restaurant matures.

When confidence rises, consumers are more likely to eat out. Thus, it is not surprising that Buffalo Wild Wing's restaurants comps have a strong 0.7 correlation with consumer confidence. As the firm matures, the economy should impact the stock more than in the past.

The CCI can be best compared to Buffalo Wild Wing's same-store sales, as these sales more accurately reflect consumer's willingness to spend during different states of the economy; this is the majority of BWLD's growth, which is derived from its newly opened stores. Once store expansion slows, the CCI will have a stronger correlation with earnings. Same-stores has a correlation of 0.51 with the CCI, with an R^2 of 0.26.

Figure 7: Consumer Confidence Index (CCI) compared to same-store sales growth



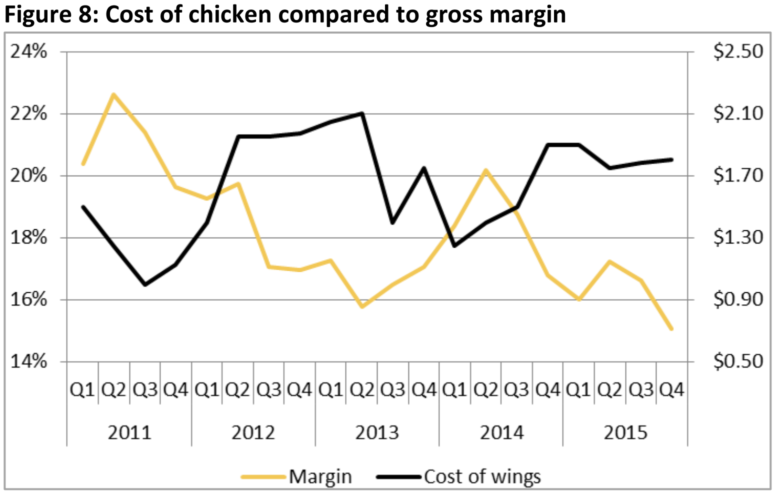
Source: FactSet, company reports

<u>Cost of chicken $/lb</u>

The cost of chicken wings makes up 25% of BWLD's cost of sales.

As the name would suggest, chicken wings are Buffalo Wild Wings primary food product. The restaurant serves both bone-in chicken wings as well as boneless chicken wings, made from chicken breasts. The cost of chicken wings has an inverse relationship with Buffalo Wild Wing's margin, making up about 25% of BWLD's cost of sales. The cost of sales make up 36% of BWLD's operating expenses. Figure 8 shows the inverse relationship between the cost of chicken and Buffalo Wild Wings margin. Over the past 5 years, the company's margin and the cost of wings have a correlation of -0.7. As you can see, this hurt margins in 2015.

Figure 8: Cost of chicken compared to gross margin



Source: Company reports

Over the past ten years, the cost of chicken wings per lb. has risen about 22%. As the cost of chicken wings rose at the end of 2011, Buffalo Wild Wings worked to maintain margins by:

- Introducing new menu items
- Marketing promotions
- Avoiding waste
- Menu price increases
- Supplier cost-splitting

In 2013, after the swift increase in chicken wing costs in 2012, BWLD began selling wings by weight rather than quantity. This tactic provided guests with a consistent amount of chicken, as well as decreased yield fluctuations to Buffalo Wild Wing's cost of sales. The price of chicken wings is the average of the previous month's wing market plus a processing and distribution mark-up. In order to negate risks due to the fluctuations of wing prices, BWLD set a monthly average threshold in the contracts with suppliers. This way, if the monthly average price of chicken wings exceeds the upper threshold or falls below the lower threshold the damage is split between the two parties.

In 2013, after the price of wings increased, Buffalo Wild Wings was able to increase the prices of its wings because of the strength of its brand. Now that the price of wings has steadied, BWLD has begun a marketing campaign in an effort to increase traffic in 4Q16. The headline of this campaign is half-priced "Wing Tuesday,' which is offered to 1,100 of Buffalo Wild Wings restaurants. Another effort to drive in customers was a hard-hitting advertising campaign promoting the new football season. Unfortunately, America's most watched sports TV ratings are down.

<u>Viewership of Sporting Events</u>

> NFL viewership declined 11% in the first month of the regular season

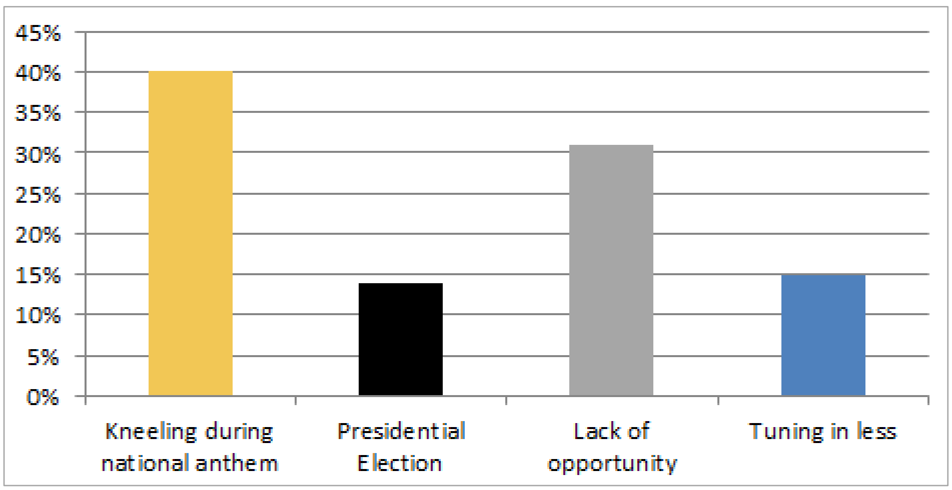
Sports fans make up a large portion of BWLD's customers. The NFL is the most popular sport in the United States, according to ESPN, and so in the summer of 2016 BWLD began its heavy marketing campaign to bring in football fans. The problem for BWLD isn't that fans are going elsewhere to watch the game- it's that a lot fewer fans are watching it. According to CNN, after the first two weeks of the NFL regular season, NBC's "Sunday Night Football" viewership was down 12%, ESPN's "Monday Night Football" was down 12%," and CBS' "Thursday Night Football" plunged down 26%. The decrease in viewers means a decrease in traffic at Buffalo Wild Wings. This decrease in traffic could be seen in a same-store sales decline in 3Q16, the third consecutive quarter of declining same-store sales. The restaurant began to offer half-priced wings on Tuesdays in September in order to increase traffic. James Schmidt, COO of the company, stated in 3Q16 earnings call that BWLD is "seeing significant traffic increase and also a nice lift in sales on that day (Tuesday)," and went on to say "we don't believe we're cannibalizing the other days." It is hard to say that this tactic worked- same-store sales declined but not by as much as the previous two quarters.

The NFL remains confident that this fall's decrease in ratings during the early stages of the NFL season won't be sustained over the long-term. A letter from NFL senior executives Brian Rolapp and Howard Katz stated, "While our partners, like us, would have liked to see higher ratings, they remain confident in the NFL and unconcerned about a long-term issue," and that football "continues to be far and away the most powerful programming on television and the best place for brands and advertisers." They aren't wrong to state that the NFL still remains the most watched TV program. In fact, the top 20 most-viewed programs in US history are all Super Bowls, except for the M*A*S*H series finale at number 8 on the list.

The NFL believes the drop in ratings won't be sustained, but studies are concerning

The league went on to state that the large drop in ratings is likely because of the 2016 presidential election. The first debate of election 2016 was the most watched presidential debate to date. The letter from Rolapp and Katz went on to state that the NFL saw a similar ratings decline during the 2000 presidential election. NFL Players kneeling during the National Anthem is another speculative reason as to why ratings have declined, but the NFL has denied this theory, saying that there is no evidence as to that being a factor in the decline of ratings, and adding, "in fact: our own data shows that the perception of the NFL and its players is actually up in 2016." This statement is contradictive to a survey of 1,136 people taken by Yahoo/YouGov. The results of the survey are shown in figure 9. The survey found that 29% of respondents were watching fewer NFL games, and of that 40% said that the reason they were watching fewer games was because of protest during the national anthem.

Figure 9: Why are people watching fewer NFL games?



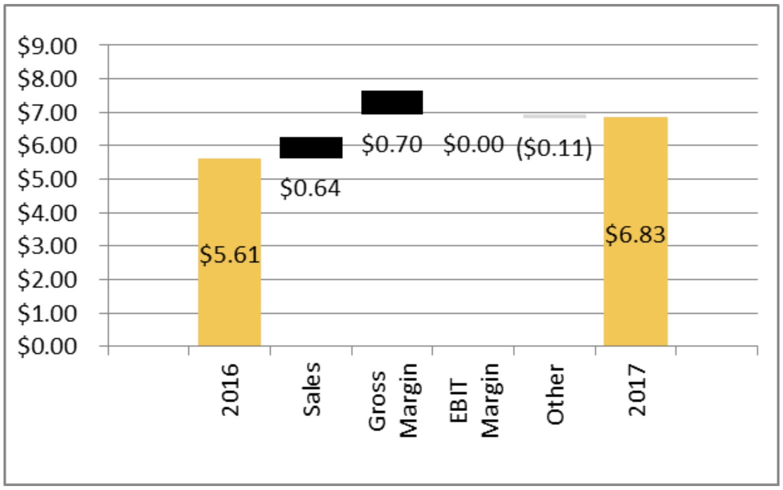
Source: Yahoo!

Financial Analysis

Buffalo Wild Wings is a growing company. The company has about 1200 restaurants open, and plans on having 3000. Though the company has seen its first decline in same-store sales, it will continue to open new restaurants.

My 4Q16 forecast is above consensus earnings and EPS. We have seen strong economic data throughout 4Q16, including the CCI reach its highest tick since the burst of the internet bubble. In 2017 I anticipate EPS to increase from $5.19 to $6.86. As BWLD continues to expand, sales will lead to a $0.60 increase in EPS. BWLD has seen decreasing margins over the past five years. This is probably due to the high cost of chicken wings and, recently, the introduction of $0.50 wing days at BWLD restaurants. After poor same-store sales and low margins relative to the company's history, CEO Sally Smith stated in BWLD's 3Q16 earnings call that a point of emphasis is to improve same-store sales back to industry-leading levels, as well as increasing restaurant level margins to 20%. The improvement of gross margin from 15% in 2016 to 16% in 2017 will lead to an increase in EPS of $0.70. This increase in gross margin will negate the impact that EBIT margin has on EPS. CEO Sally Smith stated that the company will look to increase debt, aiming for a debt-to-EBITDA ratio of 1.5. This is interest payment will be slightly offset by a decrease in corporate taxes in 2016, leading to a $0.11 decrease to EPS.

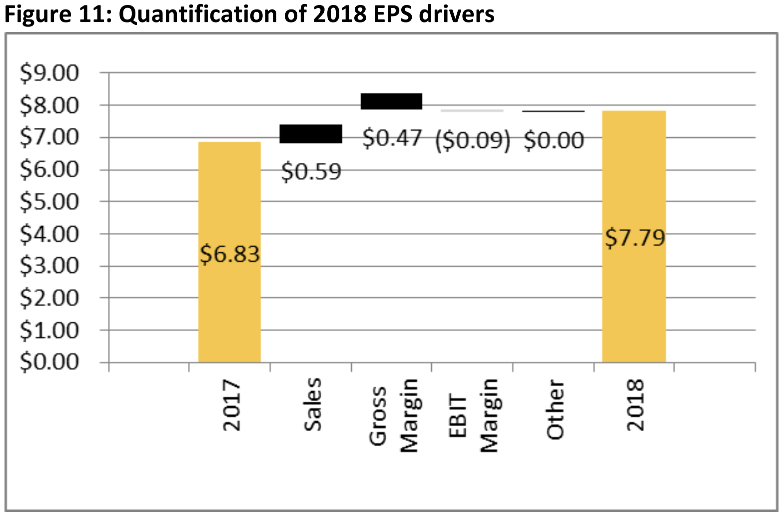
Figure 10: Quantification of 2017 EPS drivers



Source: Company reports, IMCP

In 2018, EPS will continue to grow with sales, painting a similar picture to 2017. Sales growth will contribute $0.59 to EPS. EBIT margin will take a slight fall as percentage of sales, as BWLD continues to look for ways to improve its margin to the company's goal of 20%. SG&A, R&D, and other will continue to rise proportionately to the company's sales growth.

Figure 11: Quantification of 2018 EPS drivers



Source: Company reports, IMCP

<u>Sales Forecast</u>

Figure 12 shows my sales model. This model shows the impact of same-store sales and new store sales on total revenue. BWLD classifies stores that are open for more than 15 months as same-store sales, so the column "15-mo of sales existing stores" was created to show the total sales that same-store sales contributed over its 15-month period.

My revenue estimates are above consensus. The company has planned to buy back previously franchised stores and for this reason I see about 70 new BWLD restaurants. I estimate higher sales growth/new stores because of strong economic data going into 4Q16. I see this figure falling as BWLD continues to grow, as new stores are likely to be somewhat cannibalized by same-stores, regressing to the company's historical average of new sales growth/store of 2.5.

Figure 12: Sales forecast model

Year	Comp-Owned Restaurants	Comp-Owned sales	YOY Sales Growth	YOY Abs. Cnge.	Same-store sales growth	Same-store Abs. growth	Sales from new stores	15-mo of sales existing stores	Implied SSS % growth	Sales w/o new stores	New Stores	New stores % of sales growth	New sales gr/store	Franchise fees	Total Revenue
2003	84	113			4.3%	3.3								14	127
2004	103	152	34.8%	39	9.7%	10.0	29.3			123	19	74.5%	1.54	19	171
2005	122	186	22.1%	34	3.2%	4.5	29.1			157	19	86.6%	1.53	24	210
2006	139	278	49.7%	92	10.4%	18.1	74.3	130	14.0%	204	17	80.4%	4.37	31	309
2007	161	330	18.5%	52	6.9%	15.7	35.8	166	9.4%	294	22	69.5%	1.63	37	367
2008	197	422	28.1%	93	5.9%	16.3	76.4	222	7.3%	346	36	82.4%	2.12	43	465
2009	232	539	27.6%	117	3.1%	11.1	105.4	304	3.6%	434	35	90.5%	3.01	50	589
2010	259	613	13.8%	74	0.6%	2.6	71.8	364	0.7%	542	27	96.5%	2.66	58	671
2011	319	717	17.0%	104	6.1%	31.1	73.0	455	6.8%	644	60	70.1%	1.22	67	784
2012	381	964	34.4%	247	6.6%	41.6	205.0	562	7.4%	759	62	83.1%	3.31	77	1,041
2013	434	1,185	23.0%	221	3.9%	33.2	188.2	667	5.0%	997	53	85.0%	3.55	81	1,266
2014	491	1,423	20.0%	238	6.5%	70.3	167.3	807	8.7%	1,256	57	70.4%	2.94	93	1,516
2015	596	1,715	20.5%	292	4.2%	51.1	240.9	1,049	4.9%	1,474	105	82.5%	2.29	98	1,813
2016E	666	1,920	11.9%	205	-1.5%	-19.5	224.0	1,299	-1.5%	1,696	70	109.5%	3.2	100	2,020
2017E	741	2,145	11.7%	225	0.5%	7.6	217.5	1,518	0.5%	1,927	75	96.6%	2.9	100	2,245
2018E	816	2,332	8.7%	188	0.0%	0.0	187.5	1,742	0.0%	2,145	75	100.0%	2.5	100	2,432

Source: Company reports

Figure 12 is a model using BWLD's real same-store sales figures to forecast sales.

Strong economic data (highest CCI since 2001) should lead to an increase in same-store sales growth for BWLD, bringing same-stores sales growth up from -1.7% in 3Q16 to -1.5% in 2016. This implies a $19.5 million decline in same-store sales in 2016. Buffalo Wild Wings opened a lot of restaurants between 2011 and 2015 (50-105 per year). In the nine months ended after 3Q16, BWLD opened 21 company-owned restaurants and 23 franchised restaurants. Historically, BWLD opens a lot of stores in 4Q, it opened 23 company-owned restaurants in 4Q15 last year. The company is probably preparing for sporting events that drive in traffic in the first quarter, including the NCAA Men's Basketball Championship, of which the restaurant is a big sponsor, the college football playoff, the NFL's Super Bowl, and the holiday season. I believe the restaurant will continue this trend, especially after a disappointing first three quarters of 2016. I have forecasted about $3.2 million sales per new store, which is slightly higher than usual because of strong economic data. Franchise fees and royalties will be about the same as same-store sales are negative.

In 2017 and 2018, Buffalo Wild Wings will continue to open both company-owned and franchised restaurants. Same-store sales may rebound to 0.5% in 2017 as the economy improves, as some of the firm's marketing initiatives kick-in, and as NFL ratings improve.

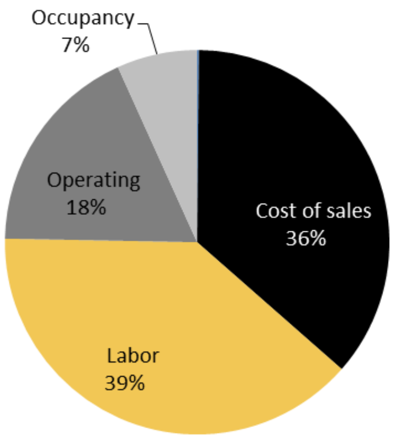
Figure 13: Sales forecast model

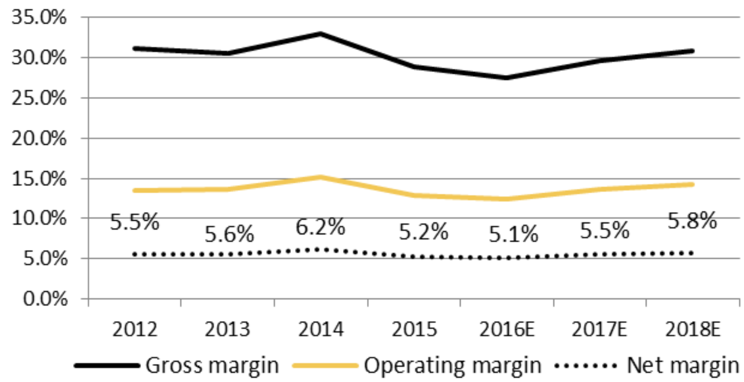
	2016	2017	2018
Revenue	2020	2245	2432
Consensus	2010	2208	2349
EPS	5.61	6.83	7.79
Consensus	5.52	6.51	7.57

Margins

Gross margins fell in the first 9 months of 2016. Costs include labor and cost of sales. I expect gross margin to rise from 15.2% in 2016 to 16.5% in 201 as chicken prices normalize and the company strives for efficiency with its marketing initiatives. EBIT margin will rise with gross margin from 7.3% in 2016 to 8.5% in 2018, this figure will grow proportionately to sales.

Figures 14 and 15: Components of operating expenses (left) and margin history (right)





Source: Company reports

Figure 16: Operating income and estimates

	2012	2013	2014	2015	2016E	2017E	2018E
Sales	$1,041	$1,267	$1,516	$1,813	$2,020	$2,245	$2,432
Direct costs	856	1,052	1,245	1,523	1,713	1,885	2,031
Gross Margin	185	215	271	289	307	359	401
SG&A, R&D, and other	102	114	135	151	160	177	195
Operating Income	83	101	136	138	147	182	207

Return on Equity

ROE declined in 2015 as margins fell (6.25% to 5.25%), despite higher leverage (1.50 to 1.57). In 2016, flat margins have not helped, and the main culprit for falling ROE is asset turnover. This is directly negatively impacted by same-store sales growth. Higher leverage helps ROE in 2016. In 2017 and 2018, margins and leverage increase, and asset turnover improves leading to a higher ROE.

Figure 17: 3-stage DuPont analysis

	2012	2013	2014	2015	2016E	2017E	2018E
Net income / sales		5.60%	6.20%	5.20%	5.10%	5.50%	5.80%
Sales / avg assets		1.95	1.94	1.88	1.8	1.85	1.86
ROA		11.00%	12.10%	9.90%	9.10%	10.20%	10.70%
Avg assets / avg equity		1.53	1.5	1.57	1.66	1.72	1.78
ROE		16.90%	18.10%	15.50%	15.20%	17.60%	19.10%

Free Cash Flow

FY 2015 free cash flow was low because BWLD began to repurchase franchised stores, began paying interest on the largest sum of debt the company has taken on in its history, and bought back shares of $25 million. The company plans to continue to repuchase shares. In the years 2017 and 2018 BWLD will continue to repurchase a small amount of shares, but the restaurant will not repurchase such a large amount of previously franchised restaurants.

Figure 18: Free cash flow

	2012	2013	2014	2015	2016E	2017E	2018E
NOPAT	$57	$71	$94	$97	$104	$127	$145
Growth		*25.2%*	*32.6%*	*2.4%*	*7.9%*	*22.2%*	*13.7%*
NWC*	(46)	(49)	(44)	(48)	(50)	(55)	(60)
Net fixed assets	466	523	590	875	868	976	1,106
Total net operating capital*	$419	$474	$546	$827	$819	$921	$1,046
Growth		*13.1%*	*15.1%*	*51.5%*	*-1.0%*	*12.4%*	*13.6%*
- Change in NWC*		(3)	5	(4)	(2)	(6)	(5)
- Change in NFA		57	67	285	(6)	107	130
FCFF*		$16	$23	-$185	$112	$25	$20
Growth			*39.2%*	*-916.6%*	*-160.9%*	*-77.4%*	*-22.1%*
- After-tax interest expense		(0)	0	2	3	3	3
+ Net new short-term and long-term debt		6	5	113	41	-	-
FCFE		-$14	-$9	$9	$0	$0	$0
Growth			*-34.9%*	*-200.0%*	*-104.9%*	*-100.0%*	*-198.4%*

Valuation

I have valued Buffalo Wild Wings using multiples and a 3-stage discounted cash flow analysis. Based on earnings multiples, the stock is historically more expensive than the industry due to its above average growth; however, it now trades at about the multiple of the peers (see figure 18) as growth has slowed. A P/B vs. ROE valuation methodyielded a discounted target price of $143.78. Lastly, DCF analysis produces a value of $146.

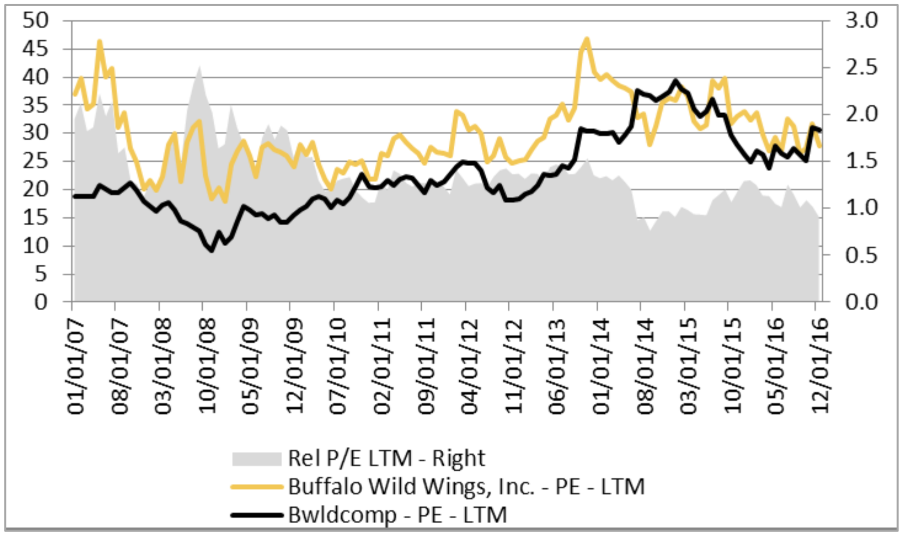
Figure 20 is a table of comparable companies.

Assuming the firm maintains a LTM P/E of 25 at the end of 2017, it should trade at $165 by the end of the year:

- P = P/E x EPS = 25 x $6.83 = 171

Discounting this value at the cost of equity yields a price today of $155.

Figure 19: Price-to-earnings



Source: FactSet

Figure 20: BWLD comparable companies

		Current	Market	Price Change						Earnings Growth								LT Debt/	S&P	LTM Dividend	
Ticker	Name	Price	Value	1 day	1 Mo	3 Mo	6 Mo	52 Wk	YTD	LTG	NTM	2015	2016	2017	2018	Pst 5yr	Beta	Equity	Rating	Yield	Payout
BWLD	BUFFALO WILD WINGS INC	$151.85	$2,764	(1.7)	(9.7)	8.2	8.1	(4.9)	(1.7)	19.3	9.9%	0.4%	12.8%	21.8%	14.1%	18.8%	0.47	14.8%	B+	0.00%	
DRI	DARDEN RESTAURANTS INC	$72.06	$8,869	(0.9)	(4.0)	17.4	14.4	13.2	(0.9)	10.5	19.5%	6.5%	34.2%	11.3%	9.7%	1.0%	0.02	23.8%	A-	2.92%	62.2%
PLAY	DAVE & BUSTER'S ENTMT INC	$55.84	$2,349	(0.8)	17.5	37.7	20.6	33.8	(0.8)	15.6	10.5%	100.0%	34.9%	15.1%	11.4%		0.75	64.5%		0.00%	
CAKE	CHEESECAKE FACTORY INC	$59.43	$2,819	(0.8)	(1.7)	19.0	24.5	28.9	(0.8)	14.3	11.6%	20.3%	19.8%	8.1%	10.4%	11.3%	0.12	16.7%	B+	1.47%	31.1%
CMG	CHIPOTLE MEXICAN GRILL INC	$374.77	$10,849	(0.7)	(6.3)	(13.0)	(4.9)	(21.9)	(0.7)	9.7	213.7%	6.9%	-89.6%	475.8%	41.7%	21.8%	0.11	0.0%	B+	0.00%	0.0%
CBRL	CRACKER BARREL OLD CTRY STOR	$163.15	$3,922	(2.3)	(1.7)	23.5	(3.9)	28.6	(2.3)	9.2	3.4%	21.1%	10.7%	9.9%	8.7%	17.7%	0.45	73.1%	A	2.69%	55.1%
TXRH	TEXAS ROADHOUSE INC	$47.82	$3,372	(0.9)	0.6	23.6	5.4	33.7	(0.9)	11.5	17.5%	11.4%	29.2%	13.0%	15.5%	11.4%	0.77	7.1%	A-	1.58%	44.6%
WING	WINGSTOP INC	$29.58	$850	(0.0)	(4.1)	0.9	4.4	29.7	(0.0)	20.0	23.5%	27.0%	21.3%	14.0%	23.1%		0.69	-192.5%		9.80%	
Average			$4,474	(1.0)	(1.2)	14.7	8.6	17.6	(1.0)	13.8	38.7%	24.2%	9.2%	71.1%	16.8%	13.7%	0.42	0.9%		2.31%	38.6%
Median			$3,096	(0.8)	(2.9)	18.2	6.8	28.8	(0.8)	12.9	14.5%	15.8%	20.6%	13.5%	12.8%	14.5%	0.46	15.7%		1.52%	44.6%
SPX	S&P 500 INDEX	$2,258		0.8	3.0	4.5	7.4	10.5	0.8			1.0%	0.6%	12.0%	11.6%						

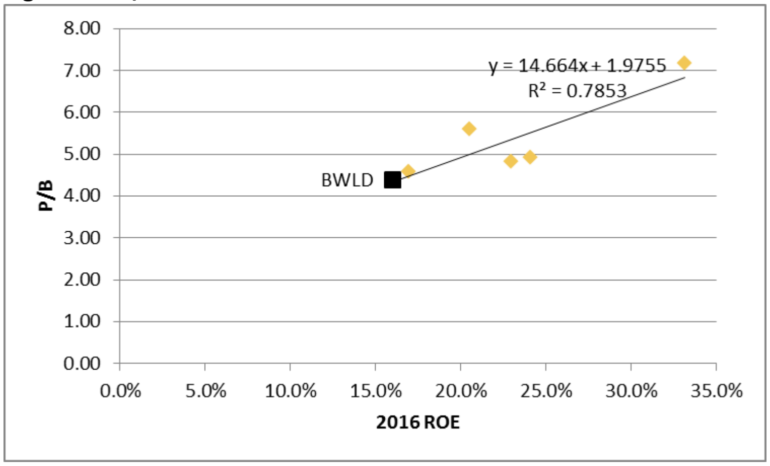
		2016		P/E							2016	2016			EV/	P/CF	P/CF	Sales Growth			Book
Ticker	Website	ROE	P/B	2014	2015	2016	TTM	NTM	2017	2017E	NPM	P/S	OM	ROIC	EBIT	Current	5-yr	NTM	STM	Pst 5yr	Equity
BWLD	http://www.buffalowildwings.com	16.2%	4.39	30.7	30.6	27.1	27.3	24.9	22.2	19.5	5.1%	1.37	7.9%	14.6%	21.2	10.3	13.5	7.8%	11.5%	24.2%	$34.57
DRI	http://www.darden.com	24.1%	4.92	29.2	27.4	20.4	21.1	17.7	18.3	16.7	6.3%	1.28	9.5%	11.3%	14.7	11.1	10.0	2.9%		-1.6%	$14.64
PLAY	http://www.daveandbusters.com	20.6%	5.60	73.5	36.7	27.2	27.9	25.3	23.7	21.2	8.6%	2.34	14.8%	8.7%	16.9	13.1		13.2%	13.9%	10.7%	$9.97
CAKE	http://www.thecheesecakefactory.co	23.0%	4.81	30.2	25.1	20.9	22.0	19.7	19.4	17.5	5.9%	1.24	8.8%	17.8%	14.1	12.1	10.9	7.5%	3.9%	4.8%	$12.36
CMG	http://www.chipotle.com	3.2%	7.54	26.5	24.8	238.7	155.5	49.6	41.5	29.3	1.2%	2.77	3.5%	23.0%	18.6			14.9%	14.2%	19.6%	$49.72
CBRL	http://www.crackerbarrel.com	33.2%	7.17	29.0	23.9	21.6	20.0	19.3	19.7	18.1	6.2%	1.35	10.0%	20.3%	14.4	13.0	12.5	3.1%		3.6%	$22.77
TXRH	http://www.texasroadhouse.com	17.0%	4.58	38.9	34.9	27.0	28.8	24.5	23.9	20.7	6.2%	1.68	9.3%	14.3%	17.3			10.0%	8.9%	12.5%	$10.43
WING	http://www.wingstop.com	-20.5%	-10.63	79.9	62.9	51.9	58.0	47.0	45.5	37.0	17.9%	9.28	31.5%	12.2%	28.1	48.0		15.2%			-$2.78
Average		14.6%	3.55	42.2	33.3	54.4	45.1	28.5	26.8	22.5	7.2%	2.66	11.9%	15.3%	18.2	17.9	11.7	9.3%	10.5%	10.6%	
Median		18.8%	4.87	30.4	29.0	27.1	27.6	24.7	23.0	20.1	6.2%	1.53	9.4%	14.5%	17.1	12.6	11.7	8.9%	11.5%	10.7%	
spx	S&P 500 INDEX			19.3	19.1	19.0			17.0	15.2											

Source: FactSet

Figure 21 is an analysis of P/B and ROE. The regression's R^2 indicates that about 72% of BWLD's P/B can be explained by its NTM ROE. I have excluded outliers Wingstop and Chipotle Mexican Grill- Wingstop has negative ROE and P/B, and Chipotle has seen unusually low ROE because of the recent Ecoli outbreak. Using this regression:

- Estimated P/B = Estimated 2017 ROE (14.7%) x 14.664 + 1.9755 = 4.556
- Target Price = Estimated P/B (4.131) / Current P/B (4.39) x Current Price (151.85) = 157.59
- Discounted Target Price = 157.59 / (1+cost of equity of 9.6%) = $143.78

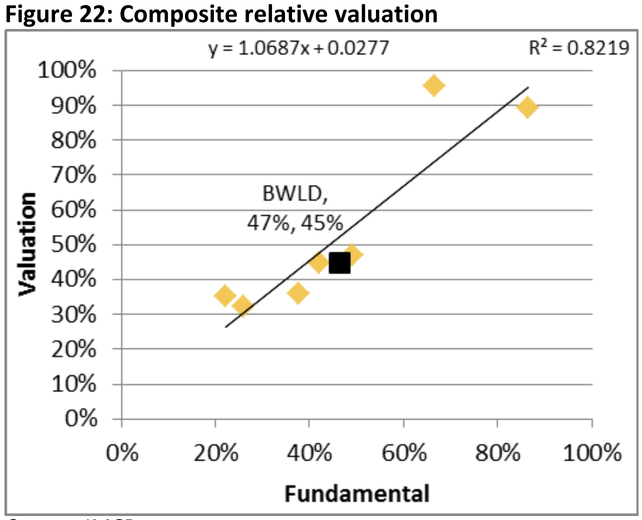
Figure 21: P/B vs NTM ROE



Source: FactSet

For a final comparison, I created a composite ranking of several valuation and fundamental metrics (see figure 20). Since the variables have different scales, each was converted to a percentile before calculating the composite score. An equal weighting of NTM earnings growth and NTM sales growth was compared to a NTM P/E with a weighting of 85% and P/S of 15%. The regression line has an R^2 of 0.8219. BWLD is below the line meaning it is inexpensive based on its fundamentals.

Figure 22: Composite relative valuation



Source: IMCP

<u>Discounted Free Cash Flow</u>

I also used a three stage discounted cash flow model to value BWLD.

In this model, I use a cost of equity for BWLD of 9.6%, calculated using CAPM. In this model, I have made the following assumptions:

- An expected return of the market of 10% (roughly average annual return of S&P 500).
- A risk free rate of the current US ten year Treasury bond yield of roughly 2.5%.
- A beta of 0.95, as BWLD's growth has kept it from seeing the full risk of the market.

Figure 23: Cost of equity

Cost of equity	
Market return	10.0%
- Risk free rate	2.50%
= Market risk premium	7.5%
* Beta	0.95
= Stock risk premium	7.1%
$r = r_f$+ stock RP	**9.6%**

Stage One - The model's first stage discounts fiscal years 2017 and 2018 free cash flow to equity (FCFE). These per share cash flows are forecasted to be $1.20 and $0.85, respectively. Discounting these cash flows, using the cost of equity calculated above, results in a value of $1.80 per share. Thus, stage one of this discounted cash flow analysis contributes $1.80 to value.

Stage Two - Stage two of the model focuses on fiscal years 2019 to 2023. During this period, FCFE is calculated based on revenue growth, NOPAT margin and capital growth assumptions. The resulting cash flows are then discounted using the company's 9.6% cost of equity. I assume 7% sales growth in 2019, falling to gradually falling to 5.5% in 2023. Based on my financial analysis, I keep all other ratios constant in stage 2 from 2018 values. Stage 2 discounted FCFE is $16.69.

Figure 24: FCFE and discounted FCFE

	2017	2018	2019	2020	2021	2022	2023
FCFE	$1.20	$0.85	$4.27	$4.84	$5.33	$5.78	$6.45
Growth		*-29.0%*	*403.2%*	*13.3%*	*10.1%*	*8.5%*	*11.6%*
Discounted FCFE	$1.09	$0.71	$3.24	$3.35	$3.37	$3.33	$3.39

Stage Three – Net income for the years 2019 – 2023 is calculated based upon the same margin and growth assumptions used to determine FCFE in stage two. EPS is expected to grow from $6.83 in 2016 to $10.55 in 2021.

Figure 25: EPS

	2017	2018	2019	2020	2021	2022	2023
EPS	$6.83	$7.79	$8.34	$8.88	$9.43	$10.00	$10.55

Stage three requires an assumption for PE. The PE will decline closer to that of the market as the company matures. Therefore, I assume a PE of 23 in 2023, which is still a premium to the market, but down significantly from its PE of 27.

Given the assumed terminal earnings per share of $10.55 and a PE of 23, I calculate a terminal value of $242.62. Discounting this value with BWLD's assumed cost of equity of 9.6% yields a discounted terminal value of $127.52. Including the prior stages, the stock is worth $146 ($1.80+$16.69+$127.52). Given BWLD's current value of $155, the stock is fairly valued.

<u>Scenario Analysis</u>

The first scenario analysis assumes BWLD is able to achieve constant sales growth of 10% and therefore a constant PE of 27. Using the same 3-stage DuPont analysis yields a terminal value of $172.

Figure 26: Bull scenario

First stage	$1.80	Present value of first 2 year cash flow
Second stage	$15.48	Present value of year 3-7 cash flow
Third stage	$155.30	Present value of terminal value P/E
Value (P/E)	**$172.58**	Value at beg of fiscal yr 2017

A second scenario analysis assumes slowed sales growth and a terminal PE of 20. The 3-stage DuPont analysis yields a terminal value of $124.73.

Figure 27: Bear scenario

First stage	$1.80	Present value of first 2 year cash flow
Second stage	$18.61	Present value of year 3-7 cash flow
Third stage	$104.32	Present value of terminal value P/E
Value (P/E)	**$124.73**	Value at beg of fiscal yr 2017

Business Risks

BWLD's growth could slow more than I forecast- this decline in same-store sales could be a sign of cannibalization, and BWLD will be unable to successfully open new stores. Another factor is the timing of this growth- how rapidly the company opens new stores. The following are risks associated with Buffalo Wild Wings business strategy:

Lack of Growth

The biggest potential risk for the company is that its planned strategy to open 3000 stores worldwide will fail. A few years ago this would not have been discussed, but it seems more relevant now that BWLD posted its first same-store sales decline. This could mean that BWLD has matured, or that newly opened restaurants are cannibalizing same-stores. The international market is wide-open for BWLD, but the restaurant may not be accepted internationally.

In addition, the cost of opening new restaurants is expensive. There are many factors in opening these restaurants including negotiating the lease, building of the new restaurant, competition, and marketing to make customers aware of the restaurants opening. Also, cultures differ and other countries may not like its food or be as enthused by sports.

Negative Publicity

Recently, professional football player Jared Cook found that one of his "wings" from Buffalo Wild Wings was the cooked and breaded head of a chicken. Due to his popularity, Cook's tweet a photo of this became widespread. This incident and those like it, even if unavoidable, present the restaurant in a negative light. This could potentially harm Buffalo Wild Wings strong brand.

Fluctuations in Operating Costs

BWLD's growing sales means growing costs. The majority of the company's operating costs are labor and cost of sales (directly related to the cost of chicken). If either of these two factors were to go up in price, it would be out of Buffalo Wild Wings control, and the restaurant would have to find ways to maintain a healthy margin.

Consumer Preferences and Spending Habits

Times are currently good, but this could quickly and unexpectedly change and have a direct impact on BWLD. The popularity of wings could diminish because of health issues. The habits of consumers, driven by consumer spending and consumer confidence, could become unfavorable in a recession.

Appendix 1: Sales forecast

Year	Comp-Owned Restaurants	Comp-Owned sales	YOY Sales Growth	YOY Abs. Cnge.	Same-store sales growt	Same-store Abs. growth	Sales from new stores	15-mo of sales existing stores	Implied SSS % growth	Sales w/o new stores	New Stores	New stores % of sales growth	New sales gr/store	Franchise fees	Total Revenue
2003	84	113			4.3%	3.3								14	127
2004	103	152	34.8%	39	9.7%	10.0	29.3			123	19	74.5%	1.54	19	171
2005	122	186	22.1%	34	3.2%	4.5	29.1			157	19	86.6%	1.53	24	210
2006	139	278	49.7%	92	10.4%	18.1	74.3	130	14.0%	204	17	80.4%	4.37	31	309
2007	161	330	18.5%	52	6.9%	15.7	35.8	166	9.4%	294	22	69.5%	1.63	37	367
2008	197	422	28.1%	93	5.9%	16.3	76.4	222	7.3%	346	36	82.4%	2.12	43	465
2009	232	539	27.6%	117	3.1%	11.1	105.4	304	3.6%	434	35	90.5%	3.01	50	589
2010	259	613	13.8%	74	0.6%	2.6	71.8	364	0.7%	542	27	96.5%	2.66	58	671
2011	319	717	17.0%	104	6.1%	31.1	73.0	455	6.8%	644	60	70.1%	1.22	67	784
2012	381	964	34.4%	247	6.6%	41.6	205.0	562	7.4%	759	62	83.1%	3.31	77	1,041
2013	434	1,185	23.0%	221	3.9%	33.2	188.2	667	5.0%	997	53	85.0%	3.55	81	1,266
2014	491	1,423	20.0%	238	6.5%	70.3	167.3	807	8.7%	1,256	57	70.4%	2.94	93	1,516
2015	596	1,715	20.5%	292	4.2%	51.1	240.9	1,049	4.9%	1,474	105	82.5%	2.29	98	1,813
2016E	666	1,920	11.9%	205	**-1.5%**	-19.5	224.0	1,299	-1.5%	1,696	**70**	109.5%	**3.2**	100	2,020
2017E	741	2,145	11.7%	225	**0.5%**	7.6	217.5	1,518	0.5%	1,927	**75**	96.6%	**2.9**	100	2,245
2018E	816	2,332	8.7%	188	**0.0%**	0.0	187.5	1,742	0.0%	2,145	**75**	100.0%	**2.5**	100	2,432

Appendix 2: Income Statement

	2012	2013	2014	2015	2016E	2017E	2018E
Sales	$1,041	$1,267	$1,516	$1,813	$2,020	$2,245	$2,432
Direct costs	856	1,052	1,245	1,523	1,713	1,885	2,031
Gross Margin	185	215	271	289	307	359	401
SG&A, R&D, and other	102	114	135	151	160	177	195
EBIT	83	101	136	138	147	182	207
Interest	-1	-1	0	2	3	5	6
EBT	83	102	135	136	144	177	200
Taxes	26	30	41	41	42	53	60
Income	57	72	94	95	102	124	140
Net income	57	72	94	95	102	124	140
Basic Shares(billions)	18.6	18.8	18.9	19.0	18.2	18.1	18.0
EPS	$3.08	$3.81	$4.98	$5.00	$5.61	$6.83	$7.79

Appendix 3: Balance Sheet

	2012	2013	2014	2015	2016E	2017E	2018E
Cash	21	58	93	11	96	58	18
Operating assets ex cash	95	118	151	177	193	214	232
Operating assets	116	175	244	189	289	272	250
Operating liabilities	141	166	195	225	242	269	292
NOWC	-25	9	50	-37	46	2	-42
NOWC ex cash (NWC)	-46	-49	-44	-48	-50	-55	-60
NFA	466	523	590	875	868	976	1,106
Invested capital	$441	$532	$639	$838	$915	$978	$1,063
Marketable securities	10	8	20	9	9	9	9
Total assets	$591	$706	$853	$1,072	$1,166	$1,257	$1,364
Short-term and long-term debt	$28	$34	$38	$151	$192	$232	$277
Other liabilities	39	40	46	40	41	41	41
Debt/equity-like securities	-	-	-	-	-	-	-
Equity	383	466	574	656	691	714	755
Total supplied capital	$450	$539	$659	$847	$924	$987	$1,072
Total liabilities and equity	$591	$706	$853	$1,072	$1,166	$1,257	$1,364

Appendix 4: Ratios

	2012	2013	2014	2015	2016E	2017E	2018E
Profitability							
Gross margin	17.70%	17.00%	17.90%	16.00%	15.20%	16.00%	16.50%
Operating (EBIT) margin	7.90%	8.00%	9.00%	7.60%	7.30%	8.10%	8.50%
Net profit margin	5.50%	5.60%	6.20%	5.20%	5.10%	5.50%	5.80%
Activity							
NFA (gross) turnover		2.56	2.73	2.48	2.32	2.43	2.34
Total asset turnover		1.95	1.94	1.88	1.8	1.85	1.86
Liquidity							
Op asset / op liab	0.82	1.05	1.25	0.84	1.19	1.01	0.86
NOWC Percent of sales		-0.60%	1.90%	0.40%	0.20%	1.10%	-0.80%
Solvency							
Debt to assets	4.70%	4.80%	4.50%	14.10%	16.50%	18.50%	20.30%
Debt to equity	7.30%	7.20%	6.70%	23.10%	27.80%	32.50%	36.70%
Other liab to assets	6.60%	5.60%	5.40%	3.70%	3.50%	3.20%	3.00%
Total debt to assets	11.30%	10.40%	9.90%	17.80%	20.00%	21.70%	23.30%
Total liabilities to assets	35.10%	34.00%	32.70%	38.90%	40.80%	43.20%	44.70%
Debt to EBIT	0.34	0.33	0.28	1.09	1.3	1.28	1.34
EBIT/interest	-109.57	-149.65	428.15	59.03	49.14	34.26	32.46
Debt to total net op capital	6.40%	6.30%	6.00%	18.00%	21.00%	23.70%	26.10%
ROIC							
NOPAT to sales		5.60%	6.20%	5.30%	5.20%	5.70%	6.00%
Sales to IC		2.61	2.59	2.45	2.3	2.37	2.38
Total		14.60%	16.10%	13.10%	11.90%	13.40%	14.20%
Total using EOY IC	12.90%	13.40%	14.70%	11.50%	11.40%	13.00%	13.60%
ROE							
5-stage							
EBIT / sales		8.00%	9.00%	7.60%	7.30%	8.10%	8.50%
Sales / avg assets		1.95	1.94	1.88	1.8	1.85	1.86
EBT / EBIT		100.70%	99.80%	98.30%	98.00%	97.10%	96.90%
Net income /EBT		70.50%	69.50%	69.80%	70.60%	70.00%	70.00%
ROA		11.00%	12.10%	9.90%	9.10%	10.20%	10.70%
Avg assets / avg equity		1.53	1.5	1.57	1.66	1.72	1.78
ROE		16.90%	18.10%	15.50%	15.20%	17.60%	19.10%
3-stage							
Net income / sales		5.60%	6.20%	5.20%	5.10%	5.50%	5.80%
Sales / avg assets		1.95	1.94	1.88	1.8	1.85	1.86
ROA		11.00%	12.10%	9.90%	9.10%	10.20%	10.70%
Avg assets / avg equity		1.53	1.5	1.57	1.66	1.72	1.78
ROE		16.90%	18.10%	15.50%	15.20%	17.60%	19.10%
Payout Ratio		0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
Retention Ratio		100.00%	100.00%	100.00%	100.00%	100.00%	100.00%
Sustainable Growth Rate		16.90%	18.10%	15.50%	15.20%	17.60%	19.10%

Appendix 5: 3-stage DCF

	Year						
	1	2	3	4	5	6	7
First Stage			**Second Stage**				
Cash flows	2017	2018	2019	2020	2021	2022	2023
Sales Growth	*11.1%*	*8.4%*	*7.0%*	*6.5%*	*6.2%*	*6.0%*	*5.5%*
NOPAT / S	*5.7%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
S / NWC or S / NOWC	*(40.55)*	*(40.55)*	*(40.55)*	*(40.55)*	*(40.55)*	*(40.55)*	*(40.55)*
S / NFA (EOY)	*2.30*	*2.20*	*2.20*	*2.20*	*2.20*	*2.20*	*2.20*
S / IC (EOY)	*2.44*	*2.33*	*2.33*	*2.33*	*2.33*	*2.33*	*2.33*
ROIC (EOY)	*13.8%*	*13.8%*	*13.8%*	*13.8%*	*13.8%*	*13.8%*	*13.8%*
ROIC (BOY)		*15.7%*	*14.8%*	*14.7%*	*14.7%*	*14.7%*	*14.6%*
Share Growth		*-0.6%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*	*0.0%*
Sales	$2,245	$2,432	$2,602	$2,772	$2,943	$3,120	$3,292
NOPAT	$127	$145	$155	$165	$175	$186	$196
Growth		*13.7%*	*7.0%*	*6.5%*	*6.2%*	*6.0%*	*5.5%*
- Change NOWC	-6	-5	-4	-4	-4	-4	-4
NOWC EOY	*-55*	*-60*	*-64*	*-68*	*-73*	*-77*	*-81*
Growth NOWC		*8.4%*	*7.0%*	*6.5%*	*6.2%*	*6.0%*	*5.5%*
- Chg NFA	107	130	77	77	78	80	78
NFA EOY	*976*	*1,106*	*1,183*	*1,260*	*1,338*	*1,418*	*1,496*
Growth NFA		*13.3%*	*7.0%*	*6.5%*	*6.2%*	*6.0%*	*5.5%*
Total inv in op cap	102	125	73	73	74	76	74
Total net op cap	921	1046	1119	1191	1265	1341	1415
FCFF	$25	$20	$82	$92	$101	$110	$122
% of sales	*1.1%*	*0.8%*	*3.1%*	*3.3%*	*3.4%*	*3.5%*	*3.7%*
Growth		*-22.1%*	*313.5%*	*12.9%*	*9.8%*	*8.4%*	*11.3%*
- Interest (1-tax rate)	4	4	5	5	5	6	6
Growth		*20.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*	*6.0%*
FCFE w/o debt	$22	$15	$77	$87	$96	$104	$116
% of sales	*1.0%*	*0.6%*	*3.0%*	*3.1%*	*3.3%*	*3.3%*	*3.5%*
Growth		*-29.4%*	*403.2%*	*13.3%*	*10.1%*	*8.5%*	*11.6%*
/ No Shares	18.1	18.0	18.0	18.0	18.0	18.0	18.0
FCFE	$1.20	$0.85	$4.27	$4.84	$5.33	$5.78	$6.45
Growth		*-29.0%*	*403.2%*	*13.3%*	*10.1%*	*8.5%*	*11.6%*
* Discount factor	0.91	0.83	0.76	0.69	0.63	0.58	0.53
Discounted FCFE	$1.09	$0.71	$3.24	$3.35	$3.37	$3.33	$3.39
Third Stage							
Terminal value P/E							
Net income	$124	$140	$150	$160	$170	$180	$190
% of sales	*5.5%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*	*5.8%*
EPS	$6.83	$7.79	$8.34	$8.88	$9.43	$10.00	$10.55
Growth		*14.1%*	*7.0%*	*6.5%*	*6.2%*	*6.0%*	*5.5%*
Terminal P/E							23.00
* Terminal EPS							$10.55
Terminal value							$242.62
* Discount factor							0.53
Discounted terminal value							$127.52

Summary		
First stage	$1.80	Present value of first 2 year cash flow
Second stage	$16.69	Present value of year 3-7 cash flow
Third stage	$127.52	Present value of terminal value P/E
Value (P/E)	**$146.00**	= value at beg of fiscal yr 2017

Appendix 6: Porter's Five Forces

Threat of new entrants: **Medium**

Any restaurant can sell chicken wings, or specialize in them. Buffalo Wild Wings' strong brand name helps to offset this.

Threat of Subsitutes: **High**

There are many alternatives to chicken wings, and, while BWLD offers many menu items, customers could be looking for something else to eat. Customers may not know that Buffalo Wild Wings sells more than wings, or they may think that, with chicken wings being BWLD's specialty, other foods are not appealing.

Supplier Power: **Medium**

BWLD's strong brand helps its position with suppliers, but the price of chicken wings is out of the restaurants control.

Buyer power: **Medium**

Again, BWLD's strong brand gives it power over buyers. In 2014, for example, when BWLD changed the price of the chicken to weight rather than quantity, the restaurant still maintained its loyal customer base and saw solid same-store sales growth.

Intensity of Competition: **High**

There are a lot of restaurants that specialize in wings, and a lot more restaurants that offer wings but do not specialize in them.

Appendix 7: SWOT Analysis

Strengths	Weaknesses
• Strong national brand appeal in North America • Popular among a large market of sports fans • Loyal customers, consistent same-store sales before FY2016	• Might be deterring non-sports fans • Relatively expensive wings, though the company uses its strong brand to justify prices • Recognition as a wing based restaurant is good for the company, but may deter customers craving other food items
Opportunities	**Threats**
• International and national expansion planned • Diversification of menu items • Delivery services • Dividend policy	• Competitors- anyone can sell chicken wings • The high cost of sales and labor • A US market that is currently trying to eat healthier • An untapped international market that has a different tastes and consumer habits