IFMA/IFDA Presidents Conference Keynote Address -- SALLY SMITH
President & CEO
Buffalo Wild Wings, Inc.

Good morning and thank you for inviting me to speak at this year's President's Conference.

I do wonder what I was thinking, though, when I agreed to address a group of presidents and executive officers.

When I saw the conference brochure that promoted my "best-in class" perspective…quite frankly, I was intimidated at the thought of being placed in that position in front of such a distinguished group.

I'd much prefer to be in the audience listening!

It <u>is</u> a privilege to be here with you today.

We've all heard the phrase "it takes a village to raise a child" – well, it takes a supply chain to serve a guest.

And what a great opportunity this is for all of us -- manufacturers, distributors, and operators -- to get together to share perspectives and ideas.

You might be surprised to know that Buffalo Wild Wings used to be its own little supply chain. When I first joined the company, we had our own commissary and distribution system.

Our distribution route wasn't exactly a model of efficiency – we had restaurants in Ohio, Indiana, and Michigan…and… let's see…two restaurants in Texas and two in Florida -- with nothing in between.

We even leased our own trucks...

Fourteen of them.

I did a quick calculation and figured out that if we had kept our commissaries… with our current number of restaurants, we'd now have about 60 commissaries and 280 trucks.

You won't be surprised to know I prefer letting the pros handle it!

…And I definitely have a great appreciation for the vital role our manufacturers and distributors play in Buffalo Wild Wings' ability to serve our guests a great product.

There's no doubt this is a challenging time for all of us as we struggle through today's tough economy.

In September Ben Bernake, the chairman of the Federal Reserve, said the recession is "very likely over." Yet Technomic is predicting that it will be late 2011 or early 2012 before the restaurant industry returns to real growth.

Many have asked what the secret to Buffalo Wild Wing's success is, especially in light of this economy.

There are many other success stories out there, and I'm honored you've chosen to hear ours.

So this morning I'd like to share Buffalo Wild Wings' story and what I believe have been key factors in helping us achieve and maintain our results.

To fully appreciate where we are today, you really have to understand where we came from. Buffalo Wild Wings has been in business for 28 years, so ours is not a story of overnight success. It's a story of overcoming challenges…gaining discipline and focus…but mostly it's a story of learning and growing.

And it all started with two hungry guys.

Our founders, Jim Disbrow and Scott Lowery, were in Ohio in the early '80s when they went searching for the spicy chicken wings they had loved to eat when they lived in Buffalo, New York. But they couldn't find a restaurant that served the wings they craved.

They thought..."How hard can it be to open a wing restaurant? So they found a vacant building and opened a restaurant near the Ohio State University in Columbus.

They originally named their restaurant Buffalo Wild Wings and Weck…a weck being a type of sandwich roll popular in upstate New York. They didn't let the fact that they had no restaurant or business experience stand in their way.

Within two years, they added another partner, Mark Lutz, who traded his college tuition for stock. Over the next 10 years they opened several more restaurants. Customers nicknamed the restaurants bw-3, or "b-dubs," and loyal customers began to follow wherever a b-w3 opened…a foreshadowing of the excitement generated today whenever a new Buffalo Wild Wings opens.

Thinking they might be onto something, the partners added a franchise information request form to the corner of their restaurant menus. “Ever think of Wingin’ it on your own?” was the headline.

Ironically, that phrase turned out to be a pretty accurate description for franchisees during the company’s early years. The partners began to get franchising requests, and in 1991, the first franchised restaurant opened in Cleveland. The franchisee was a college student from Ohio State, who, I’m sure, went home on break and said “Dad, have I got a deal for you!”

By 1994 the company had grown to about 30 restaurants -- 25 franchised and 5 company-owned -- in several states.

The partners wanted to expand, but they needed money to make it happen.

Jim Disbrow turned to his father-in-law, Ken Dahlberg, who had started Miracle Ear -- where I happened to be employed as Chief Financial Officer. Ken was a very successful businessman and investor who throughout his life provided seed capital to many entrepreneurs.

A year earlier, Ken had sold his Miracle Ear business to Bausch & Lomb. When Bausch & Lomb acquired Ken’s company, I found I didn’t enjoy working in a small division of a very large company. I was ready for a new opportunity, and I had several job offers. But the one that intrigued me most was a little restaurant company.

Ken Dahlberg had already invested in his son-in-law’s restaurant business, but now he was being asked to make a further investment. And this time, he wanted to see financial statements. And, although the partners were passionate about their concept, passionate about their guests, and passionate that they could turn anyone into an operator… they would be the first to tell you they weren’t all that passionate about financial matters.

Ken Dahlberg likes to tell the story that when he asked to see the financials, Jim pulled out his wallet with $29 in it, and said “This is it.” Little did Ken know at the time that Jim’s comment was pretty close to the truth.

So I was hired as the Chief Financial Officer for this fledgling restaurant chain… to develop financial statements, set up an accounting system, but most importantly to try to raise money to fund the company’s growth.

I had the right background for the job – I graduated with a degree in business and accounting from the University of North Dakota, and worked for 4 years in public accounting at KPMG, before joining Miracle Ear.

During my 11-year tenure there, I gained financial management experience in manufacturing, retailing and franchising…as the company grew from $9 million to over $125 million dollars in sales…and from just starting to franchise the Miracle Ear Hearing Center concept to having over 1,000 franchised and company locations.

I've never considered myself a huge risk taker, but looking back, making this move was one of the riskiest things I have done. I had a good, well-paying job at Miracle Ear, which now had a new owner with deep pockets. I would be taking a huge pay cut – about 50%. Still, I was ready for a change. I just had no idea what a change it would turn out to be!

I didn't know that Jim had told their few investors that I would be taking the company public within the next year!

As I delved into the limited business records that existed, I found the company's situation was more precarious than anyone had understood – including the founders…including Ken and the other investors…and definitely including me!

There were no financial statements, no general ledger, no list of bank accounts, or equipment leases, or what franchisees owed… And never mind the fact the IRS was auditing them because they hadn't filed tax returns.

The main financial record was a Quicken spreadsheet that showed how much money should have been in the bank – approximately. But most significantly, despite the spreadsheets, there was no cash.

And you know things are bad when the company's bank has you on speed dial to ask you about overdrafts.

One day a General Manager called me to see if it was okay to get his toaster repaired!

If the company had been a patient in the hospital, it would have been in the ICU...On life support.

On the positive side, there was incredible guest loyalty. Bw-3 had an almost cult-like following.

I was the first "outside" person hired at the company who had not come up through the restaurant ranks so I was met with a lot of skepticism… both inside the company and outside... as I met with investment banker after investment banker in an attempt to find financing for the company's growth. I worked hard to become an expert.

Somehow I convinced Mary Twinem to join the company as the controller. Mary and I had worked together at Dahlberg and I knew how good she was. She, too, took a huge cut in pay -- and her first office was a closet.

Today Mary is our Chief Financial Officer.

Mary worked to straighten out the financial mess while I met with venture capitalists and investment bankers to try to raise money.

I was also meeting with franchisees trying to get them to pay us… analyzing leases…and meeting with contractors and architects to try to resolve their overcharges. At the same time, we were trying to get a handle on our distribution system.

I mentioned before that we were our own little supply chain. We actually had commissaries in Cleveland, Chicago and Chattanooga; 14 trucks distributing wings, cheese, and sauce; as well as an entire distribution and logistics warehouse in Columbus, Ohio.

Product would be shipped from the commissaries out to the restaurants – and the trucks would backhaul wings from Alabama and Mississippi. Our distribution route was a logistics nightmare.

I was working on a five-year plan to present to potential investors. But it was tough to plan when our growth centered on making the decision: Do we build a restaurant or do we get another truck?

Mary and I convinced several other people we knew to come to work with us at our small office in Minneapolis. Times were pretty lean – if you wanted to work there, you had to bring your own table and chair. We had about 60 restaurants at the time.

I remember holding our first office lunch and the tremendous anxiety I had when I realized I had hired people away from good jobs, and that I was responsible for their livelihoods and their families. I never could put together financial statements for 1994.

We reported a loss in 1995 because we decided to close three restaurants and had to buy our way out of the leases.

By 1996 we were profitable, though we had no cash flow. Year-end planning was particularly challenging – we never knew how much money we would have for growth, and we didn't know where it was coming from.

Yet each year we would commit to our board of directors that we would open more restaurants.

We were in desperate need of investors. It was a tough time. There was no room for mistakes. Every decision we made HAD to work, and every dollar we spent had to have a benefit. Our marketing campaigns had to be right on target. Our franchisees had to open on time and start paying royalty fees right away.

We were a little restaurant company with BIG plans.

As we looked toward the future and the kind of business we wanted to become, we realized that, as hard as it was, we needed to be more selective.

In 1997 we turned down as many franchisees as we accepted, and we closed as many locations as we opened. And we made the decision to get out of the distribution business. After talking with a number of companies – and I'm trying hard to avoid using the word "pleading" – we convinced UniPro to be our distributor. We were fortunate that one of UniPro's independent distributors agreed to take over the leases on our trucks.

Letting go of our commissary was a major step in our evolution. However, we still had a long way to go. We had no brand awareness, especially outside of Ohio. The logo was a small wooden buffalo nickel. And with their low ceilings and dark interiors, our restaurants looked like bars…and our food to alcohol sales were 50/50… and on game day, it was probably more like 20/80.

If we wanted to attract capital and grow, we needed to be a restaurant.

It was a comment I heard over and over from investment bankers.

In 1997 I made our first in a number of unpopular decisions with franchisees -- changing our name to Buffalo Wild Wings Grill and Bar, as well as updating our logo and revamping the look of our restaurants. Eventually we would change our service style from counter service to full wait service.

Our goal was to broaden our customer base. We didn't mandate the change for our franchisees. Rather we decided going forward we would only open Buffalo Wild Wings Grill and Bars with the new name, signage and interior.

It's an understatement to say that most of our original franchisees were unhappy with the idea.

But as new franchisees opened with the new look… and the original franchisees saw average unit volumes increase by 50% in the new units… most of them were convinced to make the change.

It was a big leap forward in our transformation from a restaurant concept to a restaurant brand.

Now if we could just get our advertising in line.

Individual franchisees were doing their own advertising, and, to put it politely, it wasn't pretty. That led to Unpopular Decision Number Two: We established a National Advertising Fund, which all of our company and franchised restaurants contributed to. We even produced our first TV commercial for local markets.

Mind you our budgets were still small, so we had to use stock footage, but we were making progress.

» VIDEO: "parachute" commercial

Thank goodness this never made it to national TV!

Despite the fact that the company was profitable and our restaurants were producing strong sales and earnings, it was a particularly frustrating quest to find investors to help us expand our business.

It was the late 90s, and money was definitely flowing in the investment world – it's just that it was all going to the dot coms. No one wanted to invest in a restaurant company...Especially one headed up by a woman with no restaurant experience.

After several failed efforts, including an attempt to go public in 1997, we were finally able to raise $8.5 million dollars of private equity money from venture funds in 1999. Five years after I joined the company, that money helped us grow to almost 200 restaurants.

By 2003, we had finally generated enough interest from several investment banks that we decided to pursue what became a very successful Initial Public Offering…In fact it earned the distinction of being the best IPO in Minnesota in 2003…however it was the only IPO in Minnesota in 2003. We raised $50 million dollars of much-needed funds to greatly accelerate our growth.

Fast forward to 2009.

Today Buffalo Wild Wings is a national brand with 633 locations in 41 states, and we're working on plans to expand internationally. System-wide sales will approach 1.5 billion dollars this year. Earlier this year, Fortune magazine placed us 82nd on their list of “100 Fastest Growing Companies.” And just last week we were ranked #39 on Forbes “200 Best Small Companies” list.

Our restaurant performance continues to lead the casual dining segment.

When we went public in 2003, our plan was to become a national chain of 1000 restaurants in 8 to 10 years. We’re more than halfway to that goal, and we’re in the process of establishing a new vision with a much higher goal to include our international expansion plans.

Today, our strong brand identity blends the core of our past with our vision for the future. Our restaurants still serve up hot wings and cold beer, carrying on Jim and Scott’s dream. But we’ve taken it a few steps further.

We strive to create a unique guest experience that is a combination of sights, sounds, tastes, hospitality, and camaraderie. We describe it as “Every Day is Game Day,” and it really connects with our guests. They’ve chosen our restaurants for birthday celebrations, bridal showers and marriage proposals. We’ve even had guests who have visited 50 or more Buffalo Wild Wings restaurants while on a road trip across the country.

The cult-like following of those first restaurants continues!

Our Marketing team has done an excellent job communicating a clear brand image. It’s not just about the beer, wings or the sports. It’s all that and more, the total Buffalo Wild Wings experience.

Which looks something like this:

» VIDEO: Football “Overtime” Commercial

A little better than the parachute commercial!

It’s been a great journey.

So when I’m asked “How is Buffalo Wild Wings profiting in this tough economy?”... the answer is a little more complicated than a one-liner.

Although I wouldn’t choose to re-live the early days of our transformation, those days are an essential part of who we are today and what makes us successful. The “bring your own chair” days instilled values and discipline that continue to this day at Buffalo Wild Wings.

Lessons we learned then influence the decisions we make now, especially the financial decisions we make for the company. I wish I could tell you we’ve found the magic bullet for success in this economy.

But as we all know, there are no magic formulas, no one-size-fits-all business solutions.

But I do think there are certain factors that put Buffalo Wild Wings in a strong position to weather these stormy economic times.

First, our restaurant experience provides value to our guests.

We have a unique restaurant atmosphere that combines food and entertainment, and we believe this distinctive guest experience is a competitive difference. Our guests come for more than the food.

For the price of a meal, they also get sports, trivia, the whole package that adds value above and beyond what our competitors offer for the same cost. And that's an advantage anytime, but especially in this economy where consumers want to get more for their money.

One recent article noted that guys haven't cut back on eating wings and drinking beer while watching sports. That's definitely been to our advantage, too!

Second, we have an incredible team.

A major factor in our ability to succeed is the amazing team of people that have chosen Buffalo Wild Wings for their careers. I have the privilege of being the face of Buffalo Wild Wings, but I would not be here if not for an exceptional team whose creativity and dedication constantly inspire me.

It's important to note the tenure of our Leadership Team because I believe it, too, is a factor in our success. Most of us have worked together ten or more years.

We are a cohesive team, which makes planning and decision-making a much smoother process.

Third, we've been able to fund our own growth.

Back to lessons learned from the bring-your-own-chair days: We very carefully manage the financial side of the business. As a result, not only have we remained profitable since 1996, we have no debt…and we have more than $50 million in the bank.

This has been an especially important factor in our ability to grow in this challenging economy.

We don’t have to depend on outside financing -- we’re able to fund our growth from our operating results.

Fourth, we focus on what we can control.

We can’t control the economy, but our attitude is that there are many factors within our businesses we CAN control. And that’s the message we keep repeating to our Managers and Team Members during these tough times:

Stay focused on what you can control.

Most importantly, we can control the GUEST EXPERIENCE and TEAM MEMBER EXPERIENCE.

We can control – or at least strongly influence -- whether or not our guests will choose to return to our restaurants, and whether or not we are able to attract and retain great Team Members.

When a guest steps into one of our restaurants, we are in control of creating a unique, memorable experience for them – from the cleanliness and appeal of our facility…

to our hospitality and service…

to the food taste and quality…

to the sports and trivia programming…

to the atmosphere that is a combination of all of the above.

In a similar way, we are in control of creating the kind of fun, respectful atmosphere that attracts and retains great Team Members.

We also can control the way we manage our costs.

One of the advantages of having overcome adversity is that we don’t take things for granted.

We very carefully manage our costs, just as we did when we had no cash in the bank.

In our restaurants, we have an initiative that focuses on better managing our portions and waste. It takes into account everything from a dropped tray where the products need to be thrown away to the amount of Buffalo chips we send out with each order.

On the supply side, “managing our costs” doesn't mean we always choose the lowest-priced option.

For those of you who are our partners, I think you’ve seen – I hope you’ve seen – that while we negotiate and price is definitely a factor, that’s not our only concern.

First, compromising on quality isn’t an option. Our traditional bone-in wings are fresh, not frozen. Our signature sauces are made with quality spices, not artificial flavorings.

And second, we are interested in developing true partnerships with our suppliers, in a way that is mutually beneficial. We want to develop long-term business relationships… so we’re as interested in the financial strength of our partners’ businesses as they as they are in ours.

Just as our restaurants strive to deliver value that goes beyond the food, we applaud and appreciate our suppliers who deliver value beyond the products they supply.

For example, as we begin to plan for international growth, a number of our partners -- including Eco-Lab, CocaCola and Cargill -- have provided country-specific consumer research, and contacts within countries, which helps shorten our learning curve. That’s where our relationships truly become partnerships.

We can control our outlook, or point of view. At Buffalo Wild Wings, our view is future-focused. We strive to make our decisions for the long-term success of the brand. Our Leadership Team believes that what we choose NOT to do is as important as what we choose to do.

When we make a decision for the brand, we ask two questions:

1. Will it enhance the Buffalo Wild Wings experience?

2. Will it help us achieve our financial goals?

For example, although we’ve been approached many times to sell our signature sauces or frozen wings in grocery stores, we have deliberately chosen not to. On the other hand, we have chosen to open in airports because we can offer our full menu and great audio visual package, and replicate our guest experience.

In fact we recently opened at Houston Hobby Airport, and we will be serving guests at JFK International Airport before year end.

We have a habit of continuous learning and improvement.

It's important to celebrate successes, and we do.

At the same time, we believe it's just as important to consider what we can improve. We try to learn from our mistakes. So I'm not sure if it's a positive thing to say "We've learned a lot."

One of the most notable "learning opportunities" we had was about six years ago when we opened six stores in Atlanta in 18 months. All but one had weak sales. It probably won't surprise you to know that our board wanted to know "WHY?" So we used the "blameless autopsy" approach Jim Collins talked about in his excellent book "Good to Great."

We learned that we hadn't put enough resources into the opening. We didn't open strong. That experience led to the development of a long-term strategic initiative we called "Open Strong."

The initiative evolved to "Open Strong, Stay Strong" – focusing not only on the opening, but on maintaining strong financial performance in new store. And to its current evolution "OPEN STRONG, STAY STRONG, GROW STRONG" – which also looks at how we can continue to grow business in our older restaurants.

Atlanta was an example of a BIG learning opportunity. But we also seek to learn from everyday opportunities.

Each quarter, no matter what our results, we have a thorough operations and financial review with our key people. We talk about what went well during the quarter, and what we can improve on for the next quarter. It keeps us on track, and keeps us focused on the goals.

Buffalo Wild Wings has climbed a long way up the mountain path to success. We still have a long way to go before we reach our goals, but we're encouraged by looking back and seeing how far we've come.

The economy has made the current terrain rocky, so we're keeping our eyes on our surroundings to ensure secure footing. But our most important view… is the mountaintop.

And I can speak for the team when I say that Buffalo Wild Wings is exactly where we want to be and need to be in this economy -- on solid footing, looking toward future success.

The little restaurant company with big plans has become a restaurant brand with even bigger plans.

It’s not a bad place to be …for a story that started with two hungry guys.

* * *