Operator: Greetings, and welcome to the Diversified Restaurant Holdings Inc. Fourth Quarter and Full Year 2017 Financial Results. As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Craig Mychajluk, Investor Relations for Diversified Restaurant Holdings. Thank you, Mr. Mychajluk. You may begin.

Craig Mychajluk: Thank you, and good morning everyone. We appreciate your time today and your interest in Diversified Restaurant Holdings. Joining me on the call is David Burke, our President and Chief Executive Officer; and Phyllis Knight, our Chief Financial Officer and Treasurer. David is going to provide an overview of the quarter and full year, then Phyllis will review our financials, and then we'll open up the call for questions.

You should have a copy of the financial results that were released after markets closed yesterday, and if not, you can access that at our website, www.diversifiedrestaurantholdings.com. There is also a slide presentation posted on the website that we will refer to during today's call.

If you would, please refer to Slide 2. As you are aware, we may make some forward-looking statements on this call during the formal discussion, as well as during the Q&A. These statements apply to future events that are subject to risk and uncertainties, as well as other factors that could cause actual results to differ materially from what is stated on today's call. These risks and uncertainties and other factors are provided in the earnings release, as well as with other documents filed by the Company with the Securities and Exchange Commission. These documents can be found on the company's website or at sec.gov.

During today's call, we will discuss non-GAAP measures, which we believe will be useful in evaluating our performance. The presentation of this additional information should not be considered in isolation or as a substitute for results prepared in accordance with GAAP. Reconciliations of non-GAAP to comparable GAAP measures are provided with the tables accompanying the earnings release.

So with that, let me turn over to David to begin. David?

David Burke: Thanks Craig. Good morning everyone. While 2017 was a very challenging year with multiple headwinds, many of which were out of our control, we're pleased with the way our entire team focused on operational excellence and tightly managed the controllable aspects of our operating margins.

We made meaningful impact with productivity initiatives and other cost controls as we battled record high chicken wing prices and sales deleveraging throughout the year. Hourly and total labor costs continue to be held in check and our overhead expenses have been measurably reduced nearing on target of 5% of sales despite lower than anticipated sales. As a leaner and more efficient organization, we are well positioned to leverage an already improved wing cost environment and future improvement in sales.

Our fourth quarter sales were up 2.8% to $41.9 million and were favorably impacted by week 53, the increase in average ticket and a new restaurant opening, which contributed about $700,000 in the quarter. Our full-year of sales of $165.5 billion were off about $1 million and were impacted by $600,000 of lost sales related to Hurricane Irma, an unfavorable number of major sporting events in our core markets, and negative overall traffic. Also our first year of revenue deferral related to the Blazin' Rewards loyalty program reduced sales by approximately $400,000 for the year. Slide 10 provides the sales bridge for both the fourth quarter and fiscal year 2017.

There was slower traffic across the system throughout much of 2017 particularly in the fourth quarter due to promotional shifts away from Half Price Wing Tuesdays and by a major strategic shift in the franchisor media strategy during our most critical fourth quarter sports season. As a result, there was a decline of same-store sales of 6.8% in the quarter and 3.7% for the full-year. Same-store sales excludes week 53.

Our average check size has steadily improved, increasing 5.5% in the fourth quarter, driven by pricing increases, promotional shift and our significant push to improve penetration of the Blazin' Rewards loyalty program. The loyalty program was rolled out to all of our locations in the first quarter of 2017 and it continues to attract customers and drive higher tickets with an average check 17% higher than non-loyalty transactions. We reached our target attachment rate of 20% in January of 2018 and we're well on our way to achieving our next targeted level of 30% by mid-2018.

Ramping up delivery service was an important part of our strategy and delivery continues to demonstrate growth as we now offer this service at 38 locations, up from 26 last year. Our average delivery check is 13% higher than dine-in and 17% higher than carry-out. We expect to achieve delivery sales over $2 million in 2018.

We are still offering the Tuesday boneless BOGO wing promotion in markets where we believe it is the most impactful based on demand and messaging efficiency. And we are running a BOGO traditional wing promotion in about half of our restaurants, where the buy one, get one structure is limited to smaller orders. Ultimately, given the change in the franchisor ownership and the work they are doing to analyze and improve our promotional and marketing strategies, we expect to roll out a more unified promotional structure by mid-2018.

We generated $12.7 million of cash from operations during the year and strong free cash flow of $8.6 million, primarily due to tightly controlled capital spend. We used this cash flow to reduce our debt level by $7.3 million during the year. The core element of our capital plan in 2018 is to further reduce our debt by maintaining a low level of capital spending and continuing to focus on tight margin management.

We are excited about the changes being made at the franchisor under new ownership. They have a demonstrated track record of success and there is an incredible focus on targeting the customer with the right products and improved marketing to drive incremental traffic and return the brand to its successful roots. While we don't expect these efforts to result in improvements overnight, the vision and process is almost certain to result in medium and longer-term improvements. Meanwhile, we are determined to strengthen our balance sheet in 2018, improve our customer experiences and monetize our operating leverage.

With that, I'll turn it over to Phyllis for a detailed look at the financials and then we will be happy to answer your questions. Phyllis?

Phyllis Knight: Thanks David. Before getting into the details of the financials, just a quick reminder that the spinoff of Bagger Dave's was completed at the end of 2016 and, as a result, the financials we are discussing today are from continuing operations.

Our restaurant-level EBITDA margin was 17.1% in the fourth quarter, up 60 basis points over last year's fourth quarter. Slide 14 provides a breakout of our historical quarterly restaurant-level margin trends. You can clearly see the impact that record high chicken wing prices placed on our cost of sales beginning in late 2016 and throughout all of 2017, with the most severe wing cost increases hitting in this year's fourth quarter. The good news is that our wing costs have fallen precipitously since peaking in November. In fact, our cost of sales in the first quarter of 2018 is expected to be closer to the levels we experienced dating back to early 2016 in the range of 28%. And while we obviously don't have perfect visibility into the future of wing costs, the more recent trends give us confidence that 2018 will see a return to more normal levels in terms of cost of sales. Traditional wings as a percentage of total cost of sales peaked at 25.3% in the third quarter of 2017 and for the full year came in at 24.7%, up an unprecedented 360 basis points over 2016.

For the full year, restaurant-level EBITDA was $28.3 million, or 17.1% of sales. Cost of sales accounted for nearly 57% of the year-over-year decline in our restaurant-level EBITDA. Operating expenses were held in check despite the sales headwinds. Slides 5 and 6 provide additional details on the drivers of the change in EBITDA.

Moving to labor cost, our historical labor trends are presented on Slide 18 and you can see that we continue to manage and control hourly labor in the face of sales headwinds and declining AUVs. Hourly labor as a percent of sales was 13.6% in the fourth quarter, a second consecutive quarterly improvement and consistent with last year's fourth quarter despite the lower AUV. While labor will continue to be an area of primary focus for DRH as we push productivity initiatives to offset wage inflation, given the current environment we are planning for a slight increase in labor costs in 2018.

Adjusted EBITDA for the quarter was up over 10% to $4.9 million, or 11.8% of sales, an increase of 90 basis points compared with last year. Our G&A costs continue to trend down as our cost savings initiatives take effect. In 2017, before one-time expenses, G&A was down approximately $500,000 to $8.4 million. We expect to see a further reduction of approximately $500,000 in 2018 to just under $8 million.

The enactment of the Tax Cuts and Jobs Act during the 2017 fourth quarter required the Company to revalue its deferred tax assets using the 21% federal statutory income tax rate and, in addition, we had to reevaluate our ability to realize these benefits. As a result, a one-time tax expense of $19.0 million was recorded. Absent this impact, we would have achieved positive net income from continuing operations during the quarter. The Company has net operating loss and tax credit carry-forwards sufficient to offset over $70 million of pre-tax income going forward.

Capital expenditures were $4.7 million during 2017 and were primarily for one new restaurant, two remodels and restaurant maintenance. We will be reducing our capital spend even further this year to focus more of our cash flow on debt reduction. In 2018, we anticipate our capital expenses will range between $1.0 million and $1.5 million and will be for minor facility upgrades and general maintenance-type investments. We do not expect to develop any new restaurants in 2018 nor are we required to complete any remodels.

Total debt at the end of the year was $113.9 million, down $7.3 million. The Company entered into a revised agreement with its lenders on February 28, which both waived our financial covenant compliance requirements for the fourth quarter of 2017 and reset the required levels for quarterly compliance through the end of 2019.

And as we noted in the release, we have elected to not provide any further specific financial guidance for 2018 given the anticipated improvements, but the unknown timing of their impact, in connection with the ownership change of Buffalo Wild Wings.

With that, I'll turn it back to the operator for questions.

Question-and-Answer Session

Operator: Our first question comes from the line of Jeremy Hamblin with Dougherty and Company. Please proceed with your question.

Jeremy Hamblin: Nice job considering the tough environment there is on sales and kind of pullback on marketing strategies. I want to start by looking at Slide 5 for a second. In terms of your EBITDA bridge between 2016 and 2017, you note that cost of sales was $2.9 million drag. Of that $2.9 million how much of it was related to the record high wing prices?

David Burke: It's roughly $2 million.

Phyllis Knight: Pure cost and then the rest of it is more the volumes from the promotion impact earlier in the year, kind of first three quarters.

Jeremy Hamblin: As you noted we really have seen fairly dramatic change here with the wing prices and I think last was in the $1.45 a pound on the spot. In terms of thinking about the potential benefits on that, I don't know whether or not a $1.45 is right but we have gone from prices that were up 30% year-over-year to now we're kind of down in the 15% to 20% range. Is it fair to assume, given that there's been a little bit of maybe a mix shift to more boneless versus traditional, can we be thinking that might be a $1 million or more positive contribution this year or how should I be sizing up the kind of wing impact?

Phyllis Knight: We did include if you had a chance to look through the presentation on Slide 16 a Q1 to-date cost of sales number with actual through February and we're at about 28% cost of sales and you can compare that back to recent quarters. So the wing price spot market is down to about $1.35, it's been there for almost three weeks. There's still forecast out there, depending on who you look at, that it's probably going to go up from this low but we're in a traditionally high priced part of the year, right as we get through March Madness. And so, I think we're optimistic that we're going to hold that cost of sales number somewhere closer to the 28% kind of range which is more normal, given our history if you look at more normal wing price environments. And so you can kind of do the math, make a sales assumption compared with 29.5% give-or-take where we ended in 2017.

David Burke: I think 2017 is a really bad year to use as a comp basis just because there's a lot of noise and the wing price fluctuation, along with the volume that we dealt with promotions et cetera. Look at 2015, 2016 for a more stabilized overall cost of sales including wing cost stabilization, as well as product mix in general. I think that will be more rough percentage of our outlook for this year.

Jeremy Hamblin: I have to ask a follow up question, just in terms of the driver of the change in wing prices. We think that probably the two largest buyers out there of wings, pivoted almost at a pretty similar time to more boneless deals and promotions and that seems to correlate almost directly with where we saw prices start to recede lower. Do you have any direction from corporate, is it just that simple that we've kind of moved away from that. It sounds like corporate at least had seemed committed to that there was a higher demand for boneless and then this could be a more permanent change. Any color that you've received from new ownership in terms of directionally, are we migrating just a little bit away from the traditional wings? And is this something that can maybe carry forward for an extended time?

David Burke: There's no coincidence that the wing prices dropped whenever corporate stores switched off of the Tuesday Half Price promotion. So yes, we control a very large portion of the market as a buyer. So we will influence the market as a result of that with volume of wings.

Going forward all I can say is that we spent a lot of time with them talking to the CEO of Inspire, as well as meeting the new management team. We just had a Buffalo Wild Wings conference this week and nothing but positive outlook as I am concerned. I've never been more energized and also heard about the strategic outlook. I can't get into specifics here, it really includes revisiting it and looking at how we do our promotions. We are wings, beers, and sports, so you're not going to get away from traditional wings, that's who we are.

With that being said, our promotional strategies could be more - I think designed a little bit better so that we never run into these problems that we've had in the past. Here you're dealing with the product that's fresh, it's highly volatile. You want to get engage your risk there and one of the levers you can pull is how you promote it.

So, and clearly like you alluded to, boneless is definitely a very popular product for us. I think that will continue to be. So we can we can leverage that. As in the frozen product and you can have longer term hedges on that. So it's much more stable and we are okay selling more of those.

Jeremy Hamblin: And in terms of a more comprehensive sense of what the strategy is going to be, can you give us any clarity on the timing of when we may see more definitive corporate rollout for the brand of how that strategy might pivot moving forward? I mean is the timing kind of three months from now, six months from now or any color that you could share on that, I think would be really helpful?

David Burke: There are a lot of initiatives that you can imagine. They have a stellar track record with these types of situations and time is of the essence, as you can imagine with them. So, that said they're very prudent on how they do things and there's going to be zero shooting from the hip or instinctive decisions.

I look at this as there is going to be short term benefits, mid-term and longer term benefits. And you have to kind of categorize all these. Short term benefits are going to be the low hanging fruit like looking at all our contracts. Leveraging their scale, the current scale, leveraging the future scale that they've already alluded to as Inspire builds up. So that is something that can happen relatively quickly, contracts of our suppliers. And then mid-term, there are a lot of strategies and we're already making changes as we speak. We're testing some new value propositions that we are starting this weekend, it's an everyday value over the weekend that we have never really tried before. So I'm highly encouraged by that, and strategically, what they're doing and how they put the data behind it, how they're testing it and how they're rolling it out. It's very refreshing.

And the longer term obviously, this is more strategic in nature and understanding the position of Buffalo Wild Wings and how that's going to change. Looking at things like the menu, looking at the food, and the quality of the food, just the entire brand, and all the elements of the brand. How we go to market, the creative side of it, et cetera. Those are longer term propositions that's not going to happen overnight nor would you want it to happen overnight. So I couldn't be more excited to be frank, it's refreshing. Seeing what they've done with Arby's from the Inspire brand standpoint, nothing but great things to say about their new leadership team. And really looking forward to some of the changes that will come down the pipeline.

Jeremy Hamblin: I have to agree. The Arby's transformation, in my 20 plus years in the business, is one of the most remarkable I've ever seen for a brand that I thought was dead. So it certainly provides an optimistic outlook here. In terms not having corporate now as a public company, could you provide any comments in terms of, there clearly was a tail off here in Q4 and comps. Some of that I think or maybe more than some of it, had to do with a kind of pullback on promotions and marketing, and corporate as they're trying to close that transaction. Can you give us a sense for how things are shaping up here early in 2018?

David Burke: The fourth quarter was rough. I think we tried to explain it as a part of the portfolio that we have and they outperformed. Just look at the distribution. The West Coast and Texas outperformed the Midwest and some of the more, the older markets if you will or mature markets at Buffalo Wild Wings anyway. And you know it wasn't pulling back on the marketing necessarily, it was strategically the changes that went through and it gets pretty complex, but at the end it was a move towards getting away from lot of sports media and a lot of promotional media on entertainment television. The allocation of media was drastically different and we felt the impact of that. We can speculate all day exactly what it was, but I'm confident that going forward that is all changing and it is changing as we speak or have this conversation. So, nothing but a positive outlook in 2018 from that regard.

Jeremy Hamblin: So, any comment on kind of quarter to date performance?

David Burke: Not really at this time. I think we need a little more time as there hasn't been enough change and we need more time for that to get some traction before we start seeing some major developments there.

Jeremy Hamblin: Last one then I will hop out of the queue. In terms of when we have a change of ownership sometimes there are capital requirements needed, where they feel like they need to refresh the way the locations look. But it kind of feels like we've just gone through this stadia redesigns. Any comment that you can make at this point on whether or not there would be any major refresh in terms of how the restaurants look, in terms of what I'd call significant capital needs or anything you can share on that front. I think that would be helpful just in terms of given your debt situation assuring that there's not significant needs that we're going to have over the next two years?

David Burke: Yes, nothing outside the norm. We have our current remodel schedule and we're not going to do anything this year and we will start ramping that up into next year little bit. We've always been, actually proud of ourselves being ahead of game when it comes to refreshes, though there is really no one store that we need to upgrade at this time.

In terms of new ownership and their new direction there, it's definitely too early to tell. I will say that is on the table though to take a look, they are looking at everything right, so when you are looking at new positioning for Buffalo Wild Wings, it's not really completely starting over but it's like which direction means go, we will take a look at the food, we're going to take a look at the branding and look at the presentation of the food. You would want to take a look at facilities and see this is really conducive to the brand and what we're trying to sell and targeting the right audience.

But that being said, nothing has really been telecasted for going through any type of drastic change in capital equipment as a result of potentially any change out there. I really don't see that happening. And I can say that just because of the tone of the conversation we had with a lot of the leadership team and the fairness, the transparency and the way they view the franchisor and franchisee relationship is a true partnership in a true sense and that in and of itself is highly refreshing today.

Jeremy Hamblin: Okay. Helpful. Can you give us a little guidance maybe on the CapEx side of the equation, should we be thinking of another kind of $5 million this year in that range or anything that is helpful that you could provide on that?

Phyllis Knight: Yeah. Jeremy, for this year we will be closer to the $1 million range. We said between $1 million and $1.5 million for kind of maintenance only. No remodels, no new store builds. Then when you look a little bit further out, you get back more in the range of what we did in 2017 that you're looking at kind of climbing back up maybe closer to the $5 million range. But for 2018, maintenance only, a kind of bare minimum as we focus on debt on the balance sheet.

Jeremy Hamblin: Okay. Fair enough. You kind of had some impressive return of free cash flow, is it fair for me to assume that, given wing prices are lower and that comment on where CapEx should be that we would expect higher level of free cash flow this year in 2018?

David Burke: Yeah. I mean it is predicated on the topline development. We are very proud of what our team has accomplished this year in terms of really heading off some of the sales deleveraging and keeping our cost in line. Our margins are not where we want them to be, I like the 20% range, but given the circumstances I'm happy what we've done. We have taken a lot of cost out from a productivity standpoint both on the G&A line item and on the OpEx line item. All of that is going to be leveraged as we increase sales. So that is the beauty of this as bringing in the new owner and using that experience and help with the media and strategy standpoint; what we're going to do over the next few quarters is inspiring. So we are looking forward to that.

Jeremy Hamblin: Great. Thanks for taking my questions. Best of luck this year.

David Burke: No problem. Thanks.

Operator: Our next question comes from the line of David Kanen with Kanen Wealth Management. Please proceed with your question.

David Kanen: Good morning.

David Burke: Good morning.

David Kanen: Good job on managing expenses and the increase in restaurant-level EBITDA. So the first question is, can you give me a sense of the cadence in Q4 for same-store sales, was it strong in the first half of the quarter and then weakened in the back half or any color you can provide there would be appreciated?

David Burke: Yeah. I will give you little color. There was no drastic change month-to-month unfortunately as we said taking into account this changing marketing strategy which in the beginning it is hard to really pinpoint that cause. What is going on with the root cause and looking at it and in constant I really do believe that that was a misstep, in hindsight, and it was pretty consistent walking into the football season. So pretty much all the months had a very similar flavor.

David Kanen: Okay. And then it seems the past several quarters there has been a decoupling of your same-store sales in comparison to Buffalo Wild Wings corporate. Historically, sometimes you guys are better than them, they are better than you, but it's usually pretty close, but there has been more significant decoupling. So, clearly they are doing things a little differently. Could you share with us some of the things that they are doing that are working better for them and if you made those adjustments that will be learning from them and hopefully implementing some of the things they're doing to close that gap hopefully?

David Burke: Yeah. Sure. It is volatile, but I don't think they are doing anything drastically different that we're not doing. I challenge myself and then the rest of the team daily on this, trying to understand why there's such a dynamic shift.

That's why we put slide 9 in and we did it for Q3 as well. What we do is, we look at the casual dining market and we look at what is it looking like by region for the same-store sales. We found that, regionally, the West Coast, Texas and some of these areas are outperforming; they are over indexing from the CDR standpoint from when you're looking at the national mix. They are under indexing in Florida, the Northeast and the Midwest, and unfortunately, that is where our portfolio lies.

It's not an excuse. We're really trying to understand the question of why is that happening; that is, ultimately, what we're trying to figure out in Buffalo Wild Wings. They are working with us on this, too. Maybe they want to understand it better as these tend to be some of our more matured markets.

So I think it's more competitive in some instances, but this is where looking at new menu content, new food elements and really a new promotional strategy and media strategy that includes advertising, creative, the whole bit, is really going to make a big difference in how we come out of this. It's discouraging and it's not something we're happy with. We work with them very closely on promotional strategies and everything that we do, so there is not a huge departure in terms of what they're doing versus what we are doing. So that, in and of itself, gives me some comfort.

We look at our guest experience scores and a variety of different survey results, and we're over indexing on those as well relative to our peers and other Buffalo Wild Wings, so we feel confident that DRH is doing everything we can from a guest experience perspective and we're trying out new marketing promotional strategies as we speak to try to gain some more traction there. I understand now how powerful the national media is in working with the franchisor and how critical that could be to the success of any franchisees.

David Kanen: Okay. And then, being that Q1 is almost over at this point, can you give us some sense of the same-store sales trends? Are they similar to Q4 or have they improved a little bit where same-store sales are down less? Any color or sense would be appreciated seeing that the quarter is almost over at this point.

David Burke: We typically don't give this type of guidance, but I will let you know that there has not any drastic departure from what we've seen from the trend perspective. That is really all that I can tell you at this point.

Phyllis Knight: We haven't really seen a change, David, in the media strategy.

David Burke: Right.

Phyllis Knight: The Roark acquisition closed in early February, so the new team is just getting there. The pressures that we were feeling from the media strategy in Q4 are the same currently.

David Burke: But that is changing right now.

Phyllis Knight: Yes. It is changing.

David Burke: There is going to be some new media strategy coming out there shortly. We have some new promotional strategies that are kicking off as soon as this weekend and then a couple of others that will be pushing off right before March Madness, so we are very excited about that. I think these are all very traffic driving; all very focused on traffic driving, so we are pretty pumped about it.

David Kanen: Is that TV or online or both?

David Burke: It's a little of everything. So TV-wise, yes, Buffalo Wild Wings is changing things up and I think, in the short-term, they are doing the best they can do with what they have and I think it is absolutely right thing to do. They have a lot of good TV media content out there from the recent past that they can reuse. It is good for the brand, right. It has worked in the past, so let's continue to do it. This is all short term.

Radio-wise, they have national media play, but we also supplement that with on our own. We're doing that the same and the same with digital, so it really covers the gambit. These media strategies are a combination of TV, radio and digital media.

David Kanen: Okay. And then, Phyllis, if you could help clarify for me, I know Jeremy asked this question about cost of wings and going from like 29.4% to 28%. What is the dollar amount of savings if we can get to 28% this year? What's the dollar savings total?

Phyllis Knight: All I can say is, you can look at that percentage impact on 2017 sales. We're not giving guidance on sales for 2018, for the reasons that we talked about. We know there are positive impacts coming down the road, but it's pretty difficult for us to assess what the timing of that will look like and how soon we start to see those changes, which is why we're not giving topline guidance this year. So you can run that against your own thoughts on topline. I think we certainly expect the back half of the year to see some impact.

David Burke: It's Dave. I can give you a high level - I am doing the math on my own here. You are going to be looking at $1.5 million up to $2 million. A lot of it just depends upon what happens throughout the year. And then, we are at $1.35 now, spot price, but we're not enjoying that yet, because there's a 30-day lag on that with the contract work. So, looking at April prices, our buy price will be very low. It's going to be as low as it's been in years. So, there's a bit of a lag and, again, it depends on what happens throughout the year.

David Kanen: Okay. So, if I was daring and wanted to predict your sales, and I said that you'd do $160 million in sales, I would just take about 1.5% of that and I would crop some.

David Burke: Yes.

David Kanen: Okay. And then, on the amendment to the credit facility, I see the interest expense was up slightly and I know LIBOR was up a little bit throughout the year. Did you take a little bit of an increase on the formula or is it just that LIBOR went up?

Phyllis Knight: It's really just the latter. The pricing formula has not changed. We're priced at LIBOR plus 350, so we're hedged, but not 100% hedged. When LIBOR goes up, we eat a little bit of that. That's the only difference. And then, obviously, early in the year, we were a little bit higher on debt, but it came down as the year proceeded right. But we did draw against the facility to fund the new store that we opened in June.

David Kanen: Okay. And then, again, I think Jeremy had said $5 million in CapEx and then you clarified. I saw in your press release when I read it quickly that you expect to be between $1 million and $1.5 million. Is that correct for the year? I know you're not giving guidance, but even if EBITDA were to come in around $20 million for the year, $5 million or so in interest expense, we would in theory generate $12 million, $13 million or more in free cash flow? Is my math right kind of back of the envelope?

Phyllis Knight: I think that's right, David. I don't really see as a scenario where we're going to launch remodels this year. Given what's going on with the brand and the step back to look at everything with the new ownership, even if we were having a blowout year, we're going to sit tight on remodels until we get better clarity on what the future looks like. So I think the $1 million to $1.5 million should be a very safe number for this year in CapEx.

David Kanen: Okay. All right. Well, good luck, and I hope Paul Brown and his team can really address the issues that are needed to improve same store sales. It seems like the most important things here are, number one, growing traffic in same store sales and, number two, growing traffic in same store sales doing a good job on the other stuff. Hopefully, they do that and we can do a little bit better this year. Thanks for your time and we'll talk soon. Thank you.

David Burke: Thanks, David.

Operator: Our next question comes from the line of Rick Reiss with Georgica Advisors. Please proceed with your question.

Rick Reiss: Hey, David. You sort of answered all of the questions in a lot of detail. I'd just like to comment that the frustrating thing here from the standpoint of investors is, we're looking at a market capitalization of $38 million, the equity value, and there's been real slippage in the amount of free cash flow that you've generated and therefore the amount of debt that you can pay down, so you're captive of the debt. I'm not telling you anything you don't know, but it's just frustrating. It sounds like we're still looking at another year of being on hold in terms of whether things that the parent company has under study are going to work, whether it's going to be a different kind of remodel opportunity and stuff like that, so it's just another year of looking forward and it's hard to see what is going to drive the equity value. I'd like you to comment on that.

But the second part of it is, are there some parts of your system which, long-term, are not necessarily important or key as strategic to you? And are there or will there be buyers for those which would allow you to get sufficiently or on the way to getting sufficiently de-levered, so that you could take advantage of this for us and buy back stock at a big discount to intrinsic value. Yeah, business out there is tough, okay. We're in a tough industry and business is tough and you had a terrible situation with the parent and all of the bad, when you're captive of sales and captive of the baseball games, the football games and all that stuff. That's sort of a long statement, but it just strikes me that, for the benefit of all of us who own this, and I gather a couple of your big shareholders are on the phone, you have to step up and figure out a way to take advantage of this for your shareholders.

David Burke: I hear your frustration. It's nothing that we don't already know or are not aware of. This year, strategically looking at other options, obviously, we're optimistic about seeing some sales lift, particularly at the tail end of the year. That's going to help us. We have not departed from our original strategy of paying down debt. I know it's not as fast as you would like to see, not as fast Iwould like to see, but we're flying every bit of free cash flow that we have towards additional amortization payments, trying to keep that intact. All I can say is, I hear you. In terms of what else can we do to try to accelerate this a little bit to get the changes so we can get some appreciation on the equity side, no idea.

Rick Reiss: Looking at some of your markets, do you view every single place where you operate as a core market for you? Is it absolutely essential for you to be there and could not being there for the next few years give you an opportunity?

David Burke: I really don't think there's an opportunity there. I'm not going to say that there is favoritism in certain markets, some markets perform better than others, but there's an impact to it and they all contribute. If you were to, theoretically, carve out a market and sell that market, the multiple that you'd have to get to actually make sense for the business is highly unlikely, I think, just looking at what multiples are right now, because you're still going to have the debt leverage, right. And so, generally speaking, I think it's going to have the same problem as a smaller company, and I'd rather have a larger portfolio in a larger company. I think there's more opportunity long-term.

Phyllis Knight: Rick, just super simplistically, is there a market you could sell at a multiple that's greater than your debt leverage and, right now, we just don't see the possibility for that. I mean, with the amendment structure the way it was, it kept the interest rate low and protected the ability to continue to amortize the debt down. I think, as soon as we see some improvements in the business then we can start to think about some other alternatives to drive shareholder value, but unfortunately, the ability to go out and unload a market and de-lever with it, just isn't realistic.

David Burke: It's not the time. And again, Rick, I hear your frustration and I'm with you 100%. I really believe that we'll see opportunity come to light as we start to see the turnaround on the top-line. And I've never been more optimistic about that, to be honest with you, with what I've seen.

Is it going to happen tomorrow? Maybe, maybe not, but going forward, yes, that is going to give us some traction. I think we're going to start seeing some higher valuation as a result of that, because the opportunities really start presenting themselves. With the shake-up in corporate over the last few quarters, coupled with some of the marketing strategies and what's happened there, that has put a lot of pressure on us and we're feeling it.

We're doing everything we can as an organization, internally, to ward that off and I think now that we have that intact that's sustainable, all these savings and cost savings are all sustained, as we start to steep the leverage from sales increases, that's going to be even more beneficial in trying to get back to our some of these margins, so that we can start paying down debt a little faster and potentially open up other opportunities for us to continue to grow again.

We have not lost that. We continue to think about how we are going to grow. We are not just buckling down and rolling over, waiting for things settled here. I think it is important that you understand that we are not being passive here. We are doing everything right now just to keep it under control, but we do want to be a real company, which is what we are.

Rick Reiss: Okay. Thank you.

David Burke: Thank you.

Operator: Our next question comes from the line of John Bair with Ascend Wealth Advisors. Please proceed with your question.

John Bair: Good morning. Thank you for taking my call. Touching on that last conversation there, it seems to me that, if you find something that you can tweak that works in one of your geographic areas, then you might roll it out to the other ones. It's sort of like a very well-known big burger chain now trying that fresh beef concept that another one has used for many years. I can see where, hopefully, if you find something that works better, whether it's coming from corporate or something that you apply to your local market that you can then rollout in some of your other markets, maybe that will give you the kind of leverage you need.

My question, one of my questions, is, in your November release, you indicated that you were evaluating strategic alternatives and I was wondering if you could comment a bit on that, whether that is ongoing or if that's on hold given the changes at the corporate level. Could you talk about that a little bit, or not?

David Burke: Sure. It's hard to say. Strategically, it is always ongoing in my mind. At least, we're always looking at that, but there is definitely more of a holding pattern as a result of the changes that, again, are all positive. So I would say that the right answer is it's a hold right now. We did go through a covenant change in that side of things, so that's a very important piece of it.

Phyllis Knight: Right. So I don't want to say that's the culmination of the process, because it certainly wasn't, but between last fall and the early part of this current year, we looked at a lot of different potential directions we could take the company and, ultimately, the decision was let's amend the covenant structure of the debt and let's stay focused on paying down debt as fast we can.

We certainly haven't quit looking at other alternatives, but, at least for the time being, that was ultimately decided as the best thing we could do in the current environment. Give the new ownership some time to get their hands on what's going on, hopefully see some traffic driving initiatives in the second half of the year and, if that happens, then other opportunities will open up for us.

David Burke: Right. And I said this before but I want to say it again… we talk about how it's going to take time and it is for certain aspects of it, but these guys are moving fast. They're prudent but they move quickly. I think, if you put yourself in their shoes, right, they just spend $3 billion, but we're aligned in terms of urgency. So, just keep that in mind, I think there are some short-term wins that we can take advantage of that ultimately impact our profitability.

John Bair: Right. One last quick one and that is, how far ahead can you lock in wing prices? Is that a month to month kind of thing? Prices have dipped down and that could improve your margins and so forth. Can you lock them in for a longer period of time? How does that work?

David Burke: We don't do that. That's not our contract. That's a franchisor contract, first of all, high level there. It's a fresh product and they're locked in based on a trailing 30-day look back, so average spot price of the last four weeks dictates the next 30 days.

John Bair: Okay. All right. Thank you very much. I appreciate you taking my questions.

David Burke: No problem. Thank you.

Operator: There are no further questions in queue. I'd like to hand the call back to management for closing comments.

David Burke: Thank you, everyone, for joining us on today's call and for your interest in Diversified Restaurant Holdings. We will be presenting at two conferences in March, the ROTH West Coast Conference this upcoming Monday; and then, on March 29, we will be in New York at the Sidoti Conference. Please feel free to reach out to us at any time and we look forward to talking to you again for the first quarter results.

Operator: Ladies and gentlemen, this does conclude today's teleconference. Thank you for your participation. You may disconnect your lines at this time and have a wonderful day.