Moderator: From the restaurants team here at Oppenheimer, we're very pleased to welcome Diversified Restaurant Holdings. We have CEO David Burke and CFO Phyllis Knight here with us today. And with that, the floor is yours.

David Burke: Thank you. Good morning everyone, I'm David Burke, President and CEO of Diversified Restaurant Holdings. I'd like to present you with a little bit about the company, where we stand and how we relate to the brand Buffalo Wild Wings. There has been a lot of changes recently, so I'll start off with just a high level of who we are. Before I do that, though, pay attention, please, to the Safe Harbor statement on the screen.

We are one of the largest Buffalo Wild Wings franchisees in the system. We have 65 locations amongst 5 different states, but 4 predominate regions – St. Louis, Chicago, Detroit, where our headquarters is based, and Tampa, so we're kind of spread out around there. What's unique about us as a company from your perspective is, we have a very high cash flow yield. We've been touted as being very good operators, and I think when you stack up our financials against the franchisor, when they were public, or other franchisees, when you're looking at AUVs and the flow-through of the profitability at the restaurant level, we're very efficient. That's one of our core competencies going forward, so please keep that in mind as we discuss our future.

Buffalo Wild Wings, as most of you are probably aware, is wings, beers and sports. It's a sports bar concept that has been around for quite a long time. It grew out of the Midwest and now there are over 1200 locations system-wide as they have evolved into some other countries overseas. The franchisor owns about half of those, roughly 600, and the franchisee units own the other half. We own 65 of those, so we're just under 11%.

Again, it's wings, beers and sports; mostly draft beer when it comes to the alcohol piece of it. We're working through that going forward, which I'll get into in a little bit.

So Diversified Restaurant Holdings is unique, again, in that high cash flow yield. I look at this as, we are a highly levered company, but when you take a look at it through a private equity lens, we are not that highly levered. This would be the strategy and how you want to go about that, to really take advantage of the leverage so you can get a high ROI on this going forward. As you could see, our leverage is really all relatively low cost of capital. Senior secure lending; nothing out of the ordinary there. Relatively low cost. We aree fixed at just over 5% overall through a swap contract, etc.

From a return perspective, I look at a number of different ways to go about this. The first one, obviously, is delevering. That, to me, is very mechanical. We have an amortization schedule where we pay down $12.5 million in debt a year. We've been doing that for a number of years now, and we plan to continue to do that. It's very automated. So there's a return there just from your debt and equity conversion. This isn't anything significant or anything that you don't understand here. As we reduce that cost to capital, obviously, we come down on the pricing list, the tiers. When we get cheaper cost of capital, lower interest rates, etc., profitability goes up. So we're really focused on that as a company.

Not as much on unit growth. We went through a period of about five years where we were acquisitive. So roughly half of the restaurants that we own, we built greenfield. That's how we started out. And then, the other half we purchased. We purchased the St. Louis market; we purchased the Chicago market; and we purchased a few in the Tampa region to really own that market completely.

In addition to deleveraging, profitability is another big piece of the puzzle. We've been going through some harder times in the last few quarters with our top-line sales and there has been a lot of turmoil at the franchisor level up until recently. Let me just give you a brief overview on that. There was an activist investor in Buffalo Wild Wings; there was a lot of turnover at the management level; and then, they were going through a sale process. That led to some situations that I think put us where we are today, in terms of marketing, with what they have done and what they haven't done, starting really in Q4 of last year and then continuing here in Q1 and Q2, from a marketing perspective and the strategies behind it. The good news is, the Roark deal closed in February and they are an incredible team. They have really embraced the franchisee community. We have had a lot of face time with them, working on a new positioning statement to really start getting some traction into Q4 when football season starts, again, which is a really big season for us, and into March of next year with March Madness, which is another big season for us. And, also really revitalizing the brand and reinventing ourselves to get back to the point where we were years ago in terms of really owning who we are and owning the space of the sports bar.

That, in and of itself, is going to really help us drive the revenue growth that we need. We will get about a 40% cash flow or conversion of that revenue going forward. Over the past year, Phyllis and I and Jason, our COO, and the rest of the team have really worked hard to get us as lean as we can be, from an operations efficiency standpoint. Again, this has always been a claim to fame for us. We run really good margins at the restaurant level with a pretty lean administrative team. We are running about 5% G&A on top of that. We're very proud of that. The benefit of that is we are going to come out even stronger once we get our AUVs up.

I'm very confident. I have never been more confident and excited about what's happening with the Buffalo Wild Wings brand under the new leadership. They've proven themselves time and time again with multiple concepts. Specifically, Paul Brown, who turned around Arby's. He's the CEO of Inspire Brands, who owns Arby's and Buffalo Wild Wings; and, potentially, more concepts down the road. He and his team have done a fantastic job in repositioning the brand. And on a go-forward basis, I couldn't be more optimistic.

In addition to that, we talked about the efficiency of our cost structure, which is going to benefit us as well with lower input costs. So another benefit of having somebody like Inspire leading the charge is the efficiencies you will get on the purchasing side, across pretty much everything, except labor. You will see a cost of sales line item through contracts with chicken manufacturers, other food purveyors, alcohol, etc.; also on the op ex line item. So, anywhere from insurance down to point-of-sale, to quite a few different large contracts, which really adds up to significant savings for the BWW system, and significant savings for Diversified Restaurant Holdings owning 65 restaurants.

We are not talking about a few basis points here. We are talking about some significant upside potential on the input costs, which is going to drive higher profitability, in addition to the sales leveraging that, optimistically, we believe we will start seeing in the later part of the year.

All of these kind of work together here, but with deleveraging and a higher profitability, your multiples look a little bit better from a debt multiples standpoint. You really start getting the attention from investors, and we start seeing multiple expansion. We are trading at about 7.5 times EBITDA multiple at this point, but I think with what we have, with our ability to do and our ability to grow, not just in the Buffalo Wild Wings franchise system, but potentially in other systems, other franchisees, that could be better. We are Diversified Restaurant Holdings, but we are diversified with one concept at this point, so there is a lot of opportunity and a lot of landscape that we can attack. That is going to be a primary objective for us going forward.

So we will continue to get higher multiple expansion as we delever and increase our profit, which is going to lead to access to capital, whether it's debt capital or equity capital, to further expand our business. All of these kind of work hand in hand. We have stopped our growth trajectory over the last year and a half or so to really tighten up the operation piece and get ready for the next phase. I believe in growth, but believe you also have to take a pause and absorb and digest. We did a large acquisition, which was about 50% of our business, in the summer of 2015. We digested that now and I believe we are ready now to get back in the market and start looking for some new opportunities to further expand and really leverage our G&A infrastructure and our operational expertise and apply that to another brand, for instance.

So another attribute that is unique to Diversified Restaurant Holdings, given the buyout of Buffalo Wild Wings -- they're no longer a public company, they are private with Roark -- is that we are the only real way to invest in Buffalo Wild Wings, and the success of it, and the turnaround story that's involved with Roark. That is a very unique proposition for Diversified Restaurant Holding; and a very unique proposition for you. If you have any understanding or appreciation for what Roark can do, particularly for restaurants and franchised brands, this is an opportunity to getting there, by leveraging us, given our size, scope and diversity across multiple states.

The next slide kind of puts it in numbers, so you can see how this all works. I'll have Phyllis, our CFO, come up here to explain and walk you through it. And then, she'll walk you through some of the financials from Q1 to give you a little better perspective on how we will operate going forward. Phyllis.

Phyllis Knight: Thank you and good morning. So what I want to do is take a few minutes and walk you through what the free cash flow and the business looks like. And this is really just an illustrative model that shows, very simply, what the current entry point in DRH looks like. I have a current state box up there. That $19.9 million of adjusted EBITDA was for the 2017 full year period.

There were a few things that went on in 2017, not only because of everything David talked about and the pressure on the system as a result of what was going on with the franchisor, but we also had an odd run-up in chicken wing pricing, which is, as you might imagine, our major input cost. We think net-net that situation with the wing cost -- which I'll show you in a few minutes -- is really back under control now, but it probably took $3 million off our top-line last year.

So our current state is around $20 million of EBITDA. Last year, we had capex of close to $5 million. Our interest run rate last year was a little over $6 million, it should be closer to $5.5 million in the current year. Let's just plug free cash flow into what our debt is. Our mandatory principal payments are $12.5 million. And if you think through the mechanics of how that works, because of everything that's gone on with the system and the top-line, our market cap's pretty low right now. We are a thinly traded stock with our 52-week range roughly between a buck and four bucks. It's a pretty big range. We are trading closer to a buck today with an equity market cap of around $38 million. And if you just look at the mechanics of paying down the debt with free cash flow over the next few years, you can see how that accretes to equity value, even if nothing changes.

So if sales stay challenged, you do not get a bounce from Inspire Group and what they are doing with the brand, and things just kind of stay the same and DRH just continues to run its business and pay the debt down. We are paying down $12.5 million a year; we're bringing the net-debt to EBITDA down over a couple years, to the low 4s and presumably converting that debt to equity value.

And so, I just think that is important when you are looking at an entry point in a stock. With the trading value and the market cap as it is today, there is a pretty decent return, all things considered, that could be out there just from the deleveraging on the balance sheet.

Then, if you take it a step forward and you say, well, what does a business normalization look like? It is not hard to imagine getting back to a $25 to $26 million EBITDA in this business. Not through growth and store count, not through doing acquisitions, but just through getting top-line back in place, getting the AUVs back up. We reported in Q4 down 6.8% comp and in Q1 we reported down 8.5%. The system is under a lot of pressure right now and it has a lot to do with just marketing strategies and lack of focus and all the turmoil around the brand.

If you just get those sales back and get into a normal chicken wing price environment, you can easily see a path to get the EBITDA back in the mid-20 range. And you can see obviously the impact that can have. You can either supercharge the debt pay down or get into more investment in the stores on the capex line.

So I just wanted to walk you through that, because we believe it is an important baseline to understand. And this is just a chart that basically converts all of those numbers into the illustrative value creation that's available in the stock with the current equity market cap.

So with that, I'd like to give you a few basic facts about the business. Our trailing 12-month sales is about $160 million. In 2016, we were at $166.5 million. We opened one new store in 2017, so had things stayed the same, presumably we'd have been closer to $170 million with the new store. You can see what the top-line pressure with the system has done to that number. So, 65 stores as we sit today. This is the history on EBITDA, again, with the 2016 on the higher sales; we did about $23.3 million.

At the restaurant level, we have a long history of converting close to 20%. We're down in the 17% range today with some of the sales deleveraging that we're dealing with. This is sort of our four wall margins and what their track record has been by quarter. And again, you can see a long history in the 20% range, but we are under pressure right now. You can see we have had the variability in cost of sales and I have a slide to walk you through what happened there with chicken wing prices. Now, that has normalized with last quarter being down around 28% on the cost to sales line. Labor has ticked up a little bit, but we have a big focus on controlling labor costs and, really, where you see that ticking up is the fixed layer of management in the restaurants. It is the management team, not the hourly staff, which has stayed pretty tight. In op ex, we have had some deleveraging. Then, we have our franchise fees broken out. We pay a little over 8% to the franchisor. Occupancy is really good in this business with the location of our restaurants, a heavy Midwest presence where our rents are pretty low. And then, the EBITDA line.

We wanted to just touch on the EBITDA outlook for a minute. As David said, we have put significant changes into this business while we have been under pressure the last couple of years. We have done a lot with our own store level marketing, media and promotional strategy, but I have to say, the bulk of this is really at the franchisor level, in terms of driving sales and driving people back into the restaurants. Regarding cost of sales, the wing market has corrected, which I'll show you. On the labor side, we have done a lot to put improvements into our system. I think the big thing is we have really taken a heavy look at our G&A level. We have a target of staying at or below 5% of sales. Even in a depressed environment, we have been able to do that.

I mentioned wing prices, and you can just take a quick look at this chart. The red line is 2018; the blue line is what happened to us in 2017. Basically, we buy chicken wings system-wide off a spot market on a 30-day look back. It is a corporate Buffalo Wild Wings negotiated contract. There is a lot of history to what drove up wing prices last year, but it was really just an imbalance on supply and demand. That has more than corrected itself to where chicken wing prices today are getting closer to historical lows than the highs that we saw last year. And like I said, that situation alone was about a $3 million hit to our EBITDA last year.

And then, a little bit more on the cost of sales front. You can see with the red line what wing costs as a percentage of cost of sales were doing to us. We were going through the strange environment that we dealt with last year. You could see from the chart I had up there before that wings typically have some seasonality to them, because of the demand curve. They are pretty high through March Madness; they tend to fall during the summer months; and then start to go back up in August in prep for football season when a lot more wings get consumed.

So if I just go back here real quickly you can see that the falls we were having early in the year through February and March were a little bit unusual; and it has kind of stabilized. Our guess is it will stabilize through the summer, and then we will see it start to tick back up somewhat in the Fall, as our volumes go up.

Regarding G&A run rate, our estimate for 2018 is to be in the mid 7s. That compares to close to $9 million back in fiscal year 2016, so we've taken a lot of costs on a run rate basis out of G&A.

David Burke: Thanks, Phyllis. With regards to the wings, we don't want to beat this to death, but it is such a huge component of our business, obviously, and not only did we experience high wing prices, but we had a lot of promotional activity, which changed the product mix. So, when you are selling wings at half price on Tuesdays, for instance, that has a big impact on your overall cost of sales as well, which contributed to that $3 million hit that we took last year, as a result of traditional wings in general.

This is just kind of a recap. I cannot emphasize enough how important that is to us and how excited I am for it. All you have to do is look at the Arby's brand and some of the other work concepts and what they have done to turn things around. Obviously, there's some real energy and excitement behind that.

And when I say repositioning and revitalization, we are talking about new menu enhancements – just a better value proposition. You always equate wings with Buffalo Wild Wings, but there is a lot of other people that can do wings, so we are really trying to re-invent ourselves to re-differentiate ourselves, which is going to drive higher traffic, etc.

So we will gain traction from these changes, particularly in the later part of the year as the media strategies change. I did not really get into that in detail, but it is a significant key to this puzzle. There were a lot of missteps starting in the Fall of last year through Q1 and Q2 that they were not able to change, because you have to buy forward on the media packages through Q2. In the third quarter and in Q4 are going to be a completely different story, back to basics, back to sports - ESPN, NBC Sports, ABC Sports, and Fox, etc. - and really focusing on owning football.

And again, we are best in class. Look at the history. You can put us up against pretty much anybody, when you look at our AUVs and our restaurant level profitability. I'm very proud of the team and what they are able to do and I'm even more excited about what we will be able to do and how that translates once we start getting under the AUVs a little bit further.

So with that, we are happy to answer any questions you have.

Audience: Thanks. Can you talk about delivery? Do you like it, not like it? I assume you'd rather have people come in, sit down and watch a football game for three or four hours than just do takeout or delivery.

David Burke: Yeah, a lot has changed on that side of the business. Deliver didn't exist just a few years ago, quite frankly, but before that began, takeout was incremental to our normal business. It was nice to have a takeout counter and it wasn't a big deal. It was back in 2015 when we, as a system, got online ordering. We had the same point-of-sale and we were able to do an online order. That really started increasing our takeout, in general, and then, later on delivery. We're in the low 20% of sales in a lot of our stores for total takeout, which includes delivery.

There are instances, like our Lincoln Park store, for instance, where our delivery sales are double digits, so they are well into the teens just for delivery alone. And then, when you put on takeout, you are up to 30% or 35%, so a third of their business is takeout. That changes the dynamic in how you think about the business. This is something that we are looking at as a system, to embrace that and not just look at it as an incremental sale to the business. It's really another revenue stream and you have to look at it from a promotional standpoint, on how you market it and, operationally, how you handle that, whether it's a place in the kitchen and a carryout stand and everything. It's something we cannot ignore. It is, obviously, nothing we ever marketed that much before, but it has come to us. We are very conducive to takeout and delivery, just because of the food. We are aligned with a lot of the pizza delivery, because wings is their secondary product. We are wings, it carries very well. It's one of the American staple foods for sports, whether it be dine-in or takeout, so we are going to embrace it.

That said, to your point, dine-in is a very important piece for us. We do not want to lose that. We want to build that business up. And that is all about the experience. That is the differentiator that any delivery or takeout cannot compete with.

Audience: And then, I know you don't want to talk too much about the brand relaunch, but just general speaking, what are one or two things that are the most exciting for you, whether it be the media or the menu innovation, whatever it might be?

David Burke: No question, both of those. On the media side, it's really beefing it up, the team, the activation, social media, leveraging all those touch points and having a really focused strategy, from a television perspective and ad campaign, and the creativity behind it. What we have never done in the past as a system for Buffalo Wild Wings is any promotional television. If you recall, all the ads had the overtime theme – this was a couple years ago – where they'll have something that's creative and then catchy and funny, but it's all about the brand. It's about being in a sports bar. It had nothing to do with any of the food or the offerings that we provided.

So as we increase the offerings, improve the presentation of our offerings and really step up our game, we have a lot of opportunity to not only promote the sports bar atmosphere, but really promote our product. We are a restaurant first, so I think there is a lot of opportunity there. I know there is. And they have a great team in place; they've been moving swiftly to get that aligned up with some veteran industry individuals who understand the different facets of this holistic marketing campaign.

From a food and innovation standpoint, it is very similar. I think we have lost our way with the presentation of the food and the paper boats and a lot of the branding that they use in-house. I think we can get a little more sophisticated. We can improve that value proposition. It doesn't necessarily mean we are going to increase the check or anything like that, it is just that we can increase the value so that it is a much better value proposition for the amount of money that you spend there. So I think that in and of itself is going to attract a lot more traffic.

Audience: Lastly, can you talk about loyalty, raising awards? What does that look like in say 12 to 18 months? Is that going to undergo a big relaunch? It seems like everybody's doing loyalty now, so how do you think about actually locking in consumers today and using it to your advantage?

David Burke: Yeah, everyone has a loyalty program, but I wouldn't say that everybody's doing loyalty. There is a difference. We are still in the very early stages of our loyalty program with Blazin' Rewards, and the reason I say that, particularly with casual dining, is that it is difficult to be loyal or to have a loyalty program. When you have a Starbucks, for instance, where the frequency is literally daily for some people and its counter service and you have a bar code reader, that transaction is easier and you can keep people engaged with loyalty a little easier.

When you have a lower frequency of visits in a casual dining restaurant, whether you are there once a month or what have you, it is more difficult. But that being said, Buffalo Wild Wings is more conducive, in my opinion, to attracting loyal guests than a lot of other concepts. And this is all going to work hand-in-hand. The more we can differentiate ourselves, the better we could do with loyalty.

Now, you have to remember that the background of the management team from Inspire is Hilton and Arby's and a lot of other areas where they are very good at loyalty and they understand it. It's not just about hooking people with hey, if you buy five of these, you get one free. The analytics behind it is understanding your guests, leveraging loyalty so that any type of promotion you run, ultimately should run through that program. If you want to enjoy the free wings here today or enjoy that happy hour beer, then you just need to be a part of our loyal guest program. And get everybody hooked up and engaged in it and have a lot of fun with it. There is a lot of cool things that we can do.

And again, we are in the early stages of it, but we are already experimenting as a franchisee. We tend to raise our hand first to say we want to try this. You can use the loyalty program to target individuals in a particular city, in a particular restaurant, given special circumstances. Whether it be a high school football team that happens to be State Champs, you can target those people in that area, leveraging the loyalty program. Similar to what you can do with Facebook, or some of these other social media outlets, but I think a loyalty program is obviously more tailored to our guests.

Audience: Anything going on with the minimum wage regulations in your operating areas?

David Burke: There is always something going on. In Michigan, there is a ballot initiative right now to make some changes on whether it be tip credit or paid time off. Those issues are always in the spotlight, but there is a lot of good pressure coming from the other way too. Maine was a perfect example, where they passed a ballot and initiatives and then the hourly restaurant employees, the hourly employees banded together to get rid of it, so we are confident that's not going to stick. Our states in general are Michigan, Illinois, Missouri, Florida and Indiana. In Cook County, Illinois, we have one store that is probably the riskiest. It's a little more volatile in that area, but outside of that, I feel pretty confident that we will be able to combat that.

Audience: So after the menu rework, what percentage of your main dishes are going to be chicken-related versus beef?

David Burke: Chicken is dominant right now. Over 70% of our product mix has a chicken component to it. We have traditional chicken wings, boneless wings, wraps with chicken in them, whether it's grilled chicken or breaded chicken, chicken sandwiches, you name it. I don't see that changing significantly. Chicken is definitely a core product of ours; however, we do have hamburgers. We do have an incredible steak nacho and a steak sandwich. So I don't necessarily think there is a strategy to say that we want to be 50% chicken, 50% beef. We have a pork product as well. But with chicken wings being a core product, it is going to stay the number one item for sure.

I think the key there is to diversify the chicken products and not just be solely wings. The more we can go upscale and get closer to buying the entire bird, the better leverage we have on our chicken costs. So there is a lot of thought processes and discussion around that. Some of it revolves just with the Buffalo Wild Wings brand, some of it revolves in the fact that we have a lot of buying power as an Inspire Brands, if you will.

Moderator: Thank you for being here with us today.

David Burke: Thank you. We appreciate it.

Phyllis Knight: Thank you.