Operator: Greetings, ladies and gentlemen, and welcome to Diversified Restaurant Holdings' Second Quarter 2016 Financial Results Conference Call. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the presentation. If anyone should need operator assistance, please press star, zero on your telephone keypad. It is now my pleasure to introduce your host, Ms. Deborah Pawlowski, Investor Relations for Diversified Restaurant Holdings. Thank you. You may begin.

Deborah Pawlowski: Thank you and good afternoon everyone. We certainly appreciate your time today and your interest in Diversified Restaurant Holdings. Joining me on the call are Michael Ansley, our Chair, President, and Chief Executive Officer; and David Burke, our Chief Financial Officer. Michael and David are going to review our second quarter results and give an update on the Company's outlook and strategic progress. We'll then open up the call for question and answers.

You should have a copy of the financial results that were released today as well as the spinoff announcement separately released, and if not, you can access both of these at our website, diversifiedrestaurantholdings.com. As you 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 risks 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 www.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 today's earnings release.

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

Michael Ansley: Thank you, Deb, and good afternoon, everyone. Let me first provide a brief overview of our results, update you on our strategic alternatives review and decision to spin off of Bagger Dave's, which we announced today, and where we are on our Management Succession Plan. I'll then turn it over to David for the review of our financials, business strategy and what we are doing to address the macro sales environment.

Our focus on strengthening our financial performance is clearly demonstrated in our results. New stores drove higher revenue and many actions we have taken over the last year have resulted in significant improvements in operating income and, most importantly, EBITDA. We are using the cash we generate to stick to our plan to reduce debt.

Today, we also announced the proposed spinoff of Bagger Dave's. This decision was a result of the strategic alternatives review for our Bagger Dave's business that we announced in late May. The Board concluded that, at this time, a spinoff of Bagger Dave's will be in the best interest of the Company and provide the best potential for enhancing shareholder value. Our BWW business is already the primary focus of our growth efforts and investments. At the same time, we have made significant investments over the last year to redesign the Bagger Dave's concept to make operational, menu, and service improvements. In fact, we're seeing positive results from these efforts. Realistically, our strong focus on building our BWW business limits the attention and resources we can give Bagger Dave's going forward.

Another important consideration in deciding to spin off Bagger Dave's is that these are two distinct concepts that differ in several respects. There is the fact that BWW is a franchise brand, whereas we own the Bagger Dave's brand. BWW is, of course, a mature brand, while Bagger Dave's is still in the early stages. We also have learned that the more complex menu and food preparation we have at Bagger Dave's requires very different management and personnel. Separating these two very different businesses will enable each to better pursue their strategy and growth plans independently.

The separation of our BWW and our Bagger Dave's businesses into two separate public companies will be structured as a tax free spinoff of Bagger Dave's to DRH Shareholders. The separation process requires several actions and securing customary, legal, and regulatory approvals for establishing Bagger Dave's as an independent company that will trade over-the-counter. We've already begun developing a

separation plan to guide the spinoff process, which we expect to be completed by year end. Additional information will be provided as the process moves forward.

At the end of May, we also announced our Management Succession Plan. For DRH, I will remain active as the Executive Chairman, and David Burke will be promoted to President and Chief Executive Officer. This is an ideal leadership transition. Our focus and energy is on the broader long-term strategic plan for DRH, while David, who's been our CFO for six years, can drive the operations. He knows our restaurants, markets and industry extremely well and is a proven leader within our organization. His strong financial expertise and deep knowledge of our business are well suited for us as we focus on deleveraging our balance sheet and improving profitability. I don't want you to underestimate his capabilities at driving sales. He will be taking on broader advertising marketing and promotional areas of the BWW business too. As we look forward, we expect to have a much stronger balance sheet and to be achieving our financial performance goals. We believe this paves the way for opportunities to prudently expand our business further. Jason Curtis will continue in his role of Chief Operating Officer. He has been our operations lead for almost 15 years and has developed a deep knowledge of the Buffalo Wild Wings business operations, but also has the hands-on experience that drives our top-tier performance.

We are in the early stages of our recruiting process for a new CFO. Once we find the right candidate, David will assume the CEO position or, otherwise, he will be CEO on January 1, 2017. The spinoff of Bagger Dave's is a positive shift in our strategic direction and we're confident this will put us in excellent position to take both businesses to higher levels. We already are the largest Buffalo Wild Wings franchise and part of a great national brand in the casual dining sector, which gives us the strong platform for growth. The Bagger Dave's concept is definitely gaining traction on its own. We have the opportunity to mature the concept and focus on independent success. In fact, Bagger Dave's most recent net promoter scores of 65% are an all-time high, well up from the 23% just two years ago. We believe the change is moving us in the right direction, given the enhancements we have made to the concept as well as the operations. The consolidation down to the best performing restaurants provides an excellent platform for its growth. We believe Bagger has a great future ahead.

I'll now turn the call over to David.

David Burke: Thanks, Michael. Good afternoon, everyone. Our total revenue increased almost 26% to $46.4 million in the second quarter, with the increase driven by growth in our restaurant portfolio, including the acquisition of 18 Buffalo Wild Wings locations in 2015, and nine new restaurant openings. We added five new Buffalo Wild Wings and four Bagger Dave's since our last year's second quarter. This restaurant growth offset the impact of 2015 restaurants closures, as well as soft same store sales.

The transformational acquisition of 18 Buffalo Wild Wings restaurants in St. Louis just over a year ago brought the total number of our Buffalo Wild Wings restaurants to 64, a 40% increase. We are proud to be the largest franchisee of the Buffalo Wild Wings Grill and Bar System. This acquisition also provided incremental revenue for us to leverage our operating structure and drive margin improvement. It's important for us to point out that, while the acquired restaurants were actually quite profitable, we believe they sacrificed sales for savings and were not operating at their full potential. Our plans are to grow average unit volumes and increase sustainable profitability through the implementation of our best practices.

In the quarter, we opened two Buffalo Wild Wings restaurants in Florida and the last Bagger Dave's in our development pipeline for the year. That wraps it up for 2016. We've intentionally reduced new unit development to focus on increasing profitability and reducing debt.

Total Buffalo Wild Wings sales increased 38% to $41 million and were 88% of our total revenue. Sales from our 59 comparable Buffalo Wild Wings stores were down 2.7%. We were hit with the macro trends impacting the entire casual dining sector, as well as events specific to our local markets. As you are likely aware, casual dining has been weak nationally. The trend is evident in recent CPI data, which shows the relative value of casual dining is down measurably versus grocery.

We had local market challenges as well. Sporting events have not aligned well for us so far this year. Chicago was hit hard as the Blackhawks and the Bulls had 28 fewer playoff games compared with prior year. Tampa also missed the Stanley Cup Final, and the Detroit Tigers started out really strong last year,

but are way off their game so far in 2016. Our sports fans are a huge driver of our business and, when their teams aren't doing well, we feel the pain. We also had great weather in our markets in the quarter. While great to enjoy, unfortunately, this results in our customers preferring outdoor activities versus eating in our restaurants.

We and Buffalo Wild Wings have a number of actions in process to increase our value proposition in this very competitive environment for the casual dining dollar. For example, we have stepped up the promotion of Tuesdays and Thursdays Wings Special. In June, we began testing a phased rollout of Buffalo Wild Wings' new Blazin' Rewards loyalty program in the St. Louis market. Other initiatives that we're testing to drive sales include the 15-minute lunch, in-restaurant large parties and banquets, and home delivery, which we are highlighting right now in 18 locations as of this week. We are working with Grubhub and Doorstep and expect to have 35 or more restaurants with delivery service by the end of the year.

We also continue to move forward with the remodel of more restaurants to the stadium design, which features stadium-style seating. It has proven to be a big hit with our sports minded customers and a great sales driver in locations where it's been implemented.

We believe we are advantaged in this weak casual dining environment, because Buffalo Wild Wings brings us the competitive edge of being a leading nationwide casual dining operator with a great track record for taking share in recent years. We don't have hard data to confirm this, but based on our knowledge of the markets, it would appear revenue reflects the overall consumer decline and that we are not losing market share to our competition.

Revenue from Bagger Dave's in the quarter was $5.4 million from 19 restaurants. Average weekly volume was up over 5%, or approximately $1,100, to $22,600. Average weekly volume was also up modestly in strong headwinds from $22,500 in the trailing first quarter. We are realizing positive results from our enhancement concepts and benefited from the one new opening during the quarter. Although not yet at the level we'd like it to see, the improvement is very encouraging.

We are also making solid progress on the expense and earnings front. The St. Louis acquisition added incremental operating expenses on every line item; however, as a percentage of revenue, several line items were lower. Key beverage and packaging costs were up $2.5 million and declined 50 basis points as a percentage of revenue to 28.1%. The price of chicken wings was up year-over-year, but pricing and deflation on other items, such as beef, offset this impact.

Consolidated compensation costs were up 20 basis points to 26.7% of revenue from higher labor cost partially offset by pricing. G&A expenses declined $2.9 million and were 6.1% of sales, down 930 basis points. This represented the effectiveness of our operating leverage, the closure of underperforming locations, concerted efforts to reduce cost and the exclusion of approximately $2 million in atypical expenses last year.

As a result of G&A savings, operating income increased measurably to $1 million, a $6.5 million improvement from last year's operating loss of $5.5 million. Interest expense in the quarter increased by $900,000 to $1.4 million on higher debt levels from the St. Louis acquisition combined with slightly higher interest rates. Net loss for the quarter was $182,000, a $3.1 million improvement from last year's net loss of $3.3 million.

We believe Adjusted EBITDA, a non-GAAP measure, is a good metric to monitor our performance and, given all that we've accomplished over the last year, it was up 96%, or $2.8 million, to $5.7 million over the same time last year. Adjusted EBITDA margin expanded a good 430 basis points to 12.2%. Restaurant level EBITDA also improved by nearly 28% to $8.2 million and, despite same store sales pressures, was up 40 basis points as a percentage of revenue to 17.7%.

Turning to our balance sheet, at second quarter end, cash and cash equivalents were $5.5 million compared with $14.2 million at the end of 2015. Capital expenditures to date were $10.2 million. We invested $2.7 million in the quarter for the completion of three new restaurants, some refreshes and for the upgrade of one restaurant to the new Stadia design. We now have 28 restaurants with the Stadia design and expect to begin construction on three more before the year ends, one of which will be completed next week. Total debt at the end of the quarter was $122.3 million. We've reduced it by

$4 million since the end of 2015, making additional discretionary principal payments of $5 million on top of normal amortization, even as we used our line for upgrades. Our plan is to use cash that's available after capital investments to further pay down debt. We would pay off at least $15 million this year and our goal is to reach a net debt to EBITDA covered ratio of three times in 2018.

Regarding our outlook for 2016, we now expect sales of $185 million to $190 million, down from our previous estimate of $194 million to $200 million. The change reflects the severe impact of macro factors impacting the casual dining sector and market-specific challenges, such as sports and weather. Our Buffalo Wild Wings restaurants are expected to provide approximately $164 million to $168 million in sales, while Bagger Dave's is expected to generate $21 million to $22 million of sales. Based on these lower sales forecasts, we're also adjusting restaurant level EBITDA guidance to $33 million to $35 million from $36 million to $38 million. Consolidated Adjusted EBITDA is now expected to be in the range of approximately $21 million to $23 million, down from our previously provided guidance of $24 million to $26 million. Excluding one-time costs to spin off, SG&A is expected to be about 6%. Remaining planned capital expenditures of $4 million to $6 million give us a range of about $14 million to $16 million for the year. Our post spinoff pro-forma Buffalo Wild Wings restaurant level EBITDA is expected to be $33 to $35 million. We expect to reduce G&A expenses by approximately $1.5 million to $2 million from the spinoff.

We believe the many strategic decisions made and implemented over the last 12 months have positioned us very well to grow shareholder value. We are laser-focused on strengthening our balance sheet to driving profitability. We've taken major costs out of our system with restaurant closures while we increased operating leverage with the acquisition. We believe the planned spinoff of Bagger Dave's business sets us on a path to fully develop that concept. We are excited about our future and confident in the opportunities for Bagger Dave's and our Buffalo Wild Wings franchises operating as separate companies.

With that, let me open it up for questions. Operator?

Operator: Thank you. Ladies and gentlemen, we will now be conducting a question-and-answer session. If you'd like to ask a question, please press star, one on your telephone keypad. A confirmation tone will indicate your line is in the question queue. You may press star, two if you'd like to remove your question from the queue. For participants using speaker equipment, it may be necessary to pick up the handset before pressing the star key. One moment please, while we poll for questions.

Our first question comes from the line of Mark Smith with Feltl & Company. Please proceed with your question.

Mark Smith: Good afternoon. First off, can you just walk us through the moving parts that are going into the other operating costs at the restaurant level and any opportunity to maybe get more leverage on that line?

David Burke: Yes, sure. Other operating costs for Buffalo Wild Wings, as you know, include a royalty expense and our national advertising fee, which makes up 8% of sales, so that's a big portion of it. Outside of that, it's going to be a lot of your supply costs, which are usage-based and somewhat volume-based. There is a variable component to that, utilities, etcetera. From the spinoff perspective, you see better leverage of these costs on the Buffalo Wild Wings side, obviously, just due to the volume itself, but as we've talked about in the past, we've had quite a few cost savings initiatives across the board in really every cost category as a result vendor consolidation where you can get some better supply agreements with them from a national standpoint and just managing each individual cost category and reviewing those independently. So, we're seeing some progress and getting a little bit of leverage.

Mark Smith: So again, looking at G&A, it looked good during the quarter. Can you just give us early thoughts on how you get the $1.5 million to $2 million savings post-spinoff?

David Burke: Sure, two major components really. One is going to be salaries, so we have dedicated employees for Bagger Dave's predominantly on the operating side; and then, we also have marketing expense, which is included in our G&A. So, those two components will add up to that and that gets pulled out of the DRH piece and into the Bagger Dave's.

Mark Smith: Okay. So I guess it's fair to say that, post-spinoff, G&A at a minimum would look to be close to 10% or high single-digits as a percent of Bagger Dave's revenue?

David Burke: That sounds about right.

Michael Ansley: Yes.

Mark Smith: Then, I know you have nothing else this year, but can you just remind us what you have for leases signed and how early in 2017 before we start looking at new Buffalo Wild Wings restaurants getting opened?

Michael Ansley: There's one that will start toward the end of the year and will probably open in the second quarter, and then two later in the year.

Mark Smith: Then, can you give us any update on the restaurants in St. Louis, that market and their impact on restaurant level margins within the Buffalo Wild Wings system for you during the quarter?

David Burke: Yes, sure. We're still very excited about that acquisition, but we also still have some room to grow as I previously stated from an AUV standpoint. We purchased that as a very high margin restaurant, so they're more or less on par with our overall system, EBITDA range, so there's not really a lot of dilution there, but we're anticipating some accretion value once we drive some of the sales of our initiatives in place.

Mark Smith: If you can remind me, it seems like all along this was more than just a 12-month plan to get this accretion from these restaurants. This was something that was going to take a little more time to fully develop. Is that fair?

David Burke: Yes. There's no question. A lot of this is really revenue and not going to happen overnight. You really have to reach out to your customer base with all of these different types of marketing initiatives, some of which we're doing incrementally as we discussed earlier with delivery, etcetera. But some are just more the traditional marketing methods with drive time radio and bill boards and putting the money in the right places and keeping the customer base and re-familiarizing them with the brand to drive some of the revenue. It's a Midwest region, not dis-similar to the Detroit and Chicago regions that we're in right now, so we have a lot of confidence that we can get those AUVs up.

Michael Ansley: We're also starting to see those service scores improve as well, Mark. So unfortunately, that takes word-of-mouth advertising from customers to pass that along.

Mark Smith: Then lastly from me, it's kind of a big picture question, looking back a handful of years ago, you used to talk a lot about the positioning of Bagger Dave's and Buffalo Wild Wings as what you called ultra-casual, so kind of a straddle in between fast casual and casual dining. Do you still feel like both chains can fit within there? Do you feel like the chains maybe got away from it, due to commodity prices and from having to take some pricing that was maybe excessive or what's the big picture of how you feel about that?

Michael Ansley: I think ultra-casual probably is more suited for Buffalo Wild Wings, because of the entertainment, the sports, the buzz time trivia, and the fact that customers tend to be more mobile in that environment. It's louder. A lot of the tables and chairs are easy to move together for big groups, and we try to mimic that a little bit at Bagger Dave's. Let's say Bagger Dave's is more into casual dining than Buffalo Wild Wings. Obviously there's a slowdown everywhere and we're seeing that impact. I think the weather in the Midwest, I don't know about Minneapolis, but it's been incredible in Michigan, and I know St. Louis and Chicago aren't much different, so I am hopeful that, with the Summer Olympics, the new football season and we'll see how these baseball teams do, we'll start to see some of that traffic improve, especially at Buffalo Wild Wings, this fall.

Mark Smith: As a follow-up on that, do you feel like the Tuesday-Thursday promotion that you are pushing heavier that some of these items may push more of a value promotion for customers? Do you feel like they're working yet?

Michael Ansley: It's too early to tell. A lot of them are new. We didn't mention this, but in Tampa, we are using a new message as a test with Buffalo Wild Wings. Instead of using $0.70, it's half off on Tuesdays and Thursdays and that includes the celery and the blue cheese and the ranch. The Florida market is extremely competitive, you know. With Buffalo Wild Wings, there are a lot of competitors down there, so that value message started in early June and it can take 90 days or so for people to realize that that promotion is in effect. Corporate Buffalo Wild Wings backed it with advertising, but it still takes time for folks to come in there and understand the promotion. It is much more value driven. Those are days that have always been there, but we thought maybe the message wasn't resonating as much as it used to. Back when I started in 1996, it was $0.20 Wing Tuesdays and now it's gotten up to $0.70 and then we were still charging additional for blue cheese, celery, and ranch. So, we think this new message is going to resonate better.

Mark Smith: Perfect, that's helpful. Thank you.

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

David Burdick: Hi. This is David Burdick in for Jeremy. Thanks for taking my question. First, I just wanted to start out with the same store sales that declined 2.7%. It seems to be coming in a little lower than average franchise restaurant decline of 2.6% and, in the past year and a half or so, you've consistently outperformed that average. So I just wanted to get your thoughts on why you think you underperformed the average franchise restaurant this quarter?

Michael Ansley: I think David spelled it out pretty clearly. The Blackhawks and Tampa Bay Lightning both played in the Stanley Cup last year and they both did not make it this year, so that impacted about a third of our restaurants.

David Burdick: Are you able to quantify that type of impact, as well as maybe the lift you saw from St. Louis?

Michael Ansley: David, can you speak to that?

David Burke: Yes, we made an attempt at that. It's not a perfect science, obviously. We believe that it's a good 100 basis points as a result of the sporting environment side of sales if you look at the individual days of the games and do a comparable analysis versus last year.

David Burdick: Okay; and then, in terms of how much price did you take in Q2?

David Burke: We took about just over 2%.

David Burdick: Okay. So it seems like you don't follow corporate when it comes to taking price. How do you go about evaluating that and making that decision?

David Burke: I wouldn't say we don't follow them. We record it with them on the prices of the new menu twice a year, spring and fall, so we work hand-in hand with them. The markets that we're in are completely different; some are more mature, some are less mature. You have to really look and see where there is value and where you make or leave your money on the table. We've made those assessments. We've done quite a few different acquisitions, and you take a look at those restaurants and you look at how they're performing versus the pricing tier they're on versus the pricing of some of your other stores and you make some assessments. Sometimes it's not just taking up a modest increase. Sometimes it's actually tempered to a different menu tier, because we believe that we have the ability to do so. We're not dissatisfied with our performance at all, looking at what the costs were and what we're overcoming from prior year. I mean, we are over 4% since Q2 of last year, following off of almost 7.5% to 8% in the first quarter last year, so your tier costs are really good. It is not sustainable forever, so we've always been relatively aggressive with price, given the environment with, obviously, food cost inflation and labor inflation and all these headwinds. I'd rather stay in front of it than get behind it.

David Burdick: Got it; and then, did you mention the wing cost per pound in Q2? What was the cost?

David Burke: In Q2 of this year, we're averaging around $1.92 a pound versus about $1.77, so it actually was about 8.5% higher this year than last year. Despite that, we had a better overall cost of sale

percentage due to some of the pricing that we took and some of the deflationary impacts from other commodities.

David Burdick: Okay; and then, what is the cost that's implied in the back half of your guidance?

David Burke: It's actually a little higher than what we're currently at right now. We're just under $1.80.

David Burdick: Okay. All right. That will be it. Thank you. I appreciate it.

Operator: Thank you. As a reminder ladies and gentlemen, if you'd like to ask a question, please press star, one on your telephone keypad.

Our next question comes from the line of Kevin Gruneich, a private investor. Please proceed with your question.

Kevin Gruneich: Thanks. I have just two questions. You mentioned the $1.5 million to $2 million G&A rate that is moving from Diversified to Bagger Dave's. Is there additional G&A because of incremental office and separate public market costs that you need to tack on to that for Bagger Dave's going forward?

Michael Ansley: Actually, there's not a lot. We are going to be doing some different things over there that we think we can get pretty creative with. In fact, a lot of it is already in process.

Kevin Gruneich: So no additional public market cost?

David Burke: Very limited, because it's going to be an OTC-traded stock. We've been there before. That's where DRH started, so we have a lot of experience in that environment and some of those costs are reduced because of that.

Kevin Gruneich: Got it and then second question, I apologize if this has been answered before. I've just started looking at your company and that is, with the exit of the Rams to LA, for the St. Louis stores, are you modeling any second half hits to revenue and EBITDA per store?

Michael Ansley: It's interesting. We, obviously, were aware of that when we acquired the stores, that it was probably going to happen. They had such a poor following that we're not expecting a huge hit. In fact, in some cases, we think, since there is not a team there and there was such a big following for the Chicago Bears, the Green Bay Packers and the Kansas City Chiefs, that folks are going to be forced to potentially go to our restaurants to watch all these other teams because we have NFL Ticket versus potentially going downtown or watching a game. So, we're not expecting a huge hit, not expecting a huge positive impact from it; it may be more of a neutral environment.

Kevin Gruneich: Got it. Thank you.

Operator: Thank you. At this time, there are no further questions. I'd like to turn the floor back to Mr. Ansley for closing comments.

Michael Ansley: I just wanted to say before we left today that, after a lot of hard work by our board, by some investment banks that we engaged, and a lot of the management team, we're really excited about the new growth strategies for both companies and we appreciate your time today. Thank you.

Operator: Thank you. Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines this time. Thank you for your participation.