



Midwest IDEAS Investor Conference 2017

August 30, 2017



**BUFFALO
WILD
WINGS**

Owned and Operated by
Diversified Restaurant Holdings, Inc.

David Burke, *Chief Executive Officer*

Phyllis Knight, *Chief Financial Officer*

The information made available in this presentation contains forward-looking statements which reflect the Company's current view of future events, results of operations, cash flows, performance, business prospects and opportunities. Wherever used, the words "anticipate," "believe," "expect," "intend," "plan," "project," "will continue," "will likely result," "may," and similar expressions identify forward-looking statements as such term is defined in the Securities Exchange Act of 1934. Any such forward-looking statements are subject to risks and uncertainties and the Company's actual growth, results of operations, financial condition, cash flows, performance, business prospects and opportunities could differ materially from historical results or current expectations. Some of these risks include, without limitation, the impact of economic and industry conditions, competition, food and drug safety issues, store expansion and remodeling, labor relations issues, costs of providing employee benefits, regulatory matters, legal and administrative proceedings, information technology, security, severe weather, natural disasters, accounting matters, other risk factors relating to our business or industry and other risks detailed from time to time in the Securities and Exchange Commission filings of DRH. Forward-looking statements contained herein speak only as of the date made and, thus, DRH undertakes no obligation to update or publicly announce the revision of any of the forward-looking statements contained herein to reflect new information, future events, developments or changed circumstances or for any other reason.

This presentation will discuss some non-GAAP financial measures, which the Company believes are useful in evaluating our performance. You should not consider the presentation of this additional information in isolation or as a substitute for results compared in accordance with GAAP. The Company has provided reconciliations of comparable GAAP to non-GAAP measures in tables found in the Supplemental Information portion of this presentation.

Who We Are



NASDAQ: SAUC

IPO: 2008

Largest Buffalo Wild Wings Franchisee

- › *Leading operator*
- › *Strong cash generator*
- › *65 BWW locations*

Market capitalization \$57M

- › *Recent share price \$2.15*
- › *52 week range \$0.70 - \$4.12*
- › *Insider ownership 50%*
- › *Institutional ownership 17%*
- › *Shares outstanding 26.7M*

Pure play franchisee with scale and track record of accretive acquisitions



Wings. Beer. Sports.®

DRH
diversified restaurant holdings inc.

- Total of 1,237 restaurants system wide¹
- DRH owns 65 of 611 franchised locations¹ (11%)
- Distinctive branding
- Exceptional guest experience
- Wings, signature sauces and seasonings
- Domestic, imported and craft beers

¹ as of Q2 2017



Sales and Unit Growth

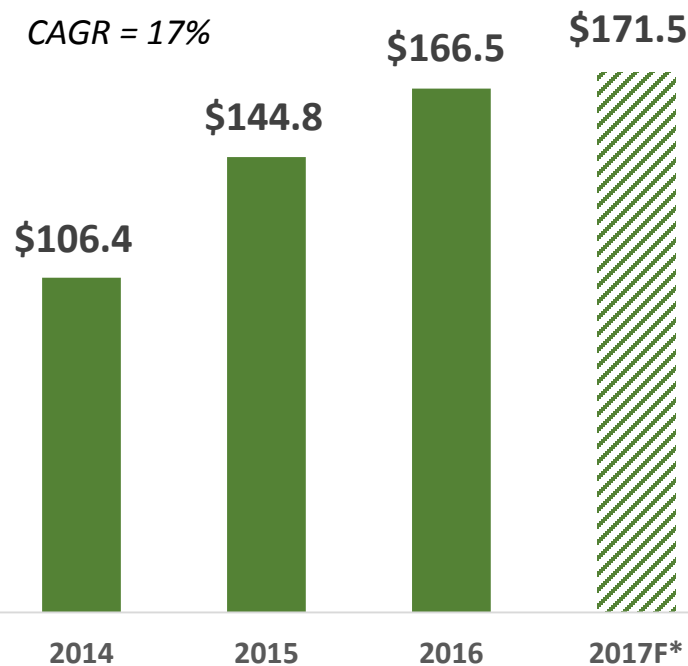
Added 43 locations over the last 5.5 years,
making us the largest BWW franchisee in the system

Net Sales

\$ Millions

2014-2017F*

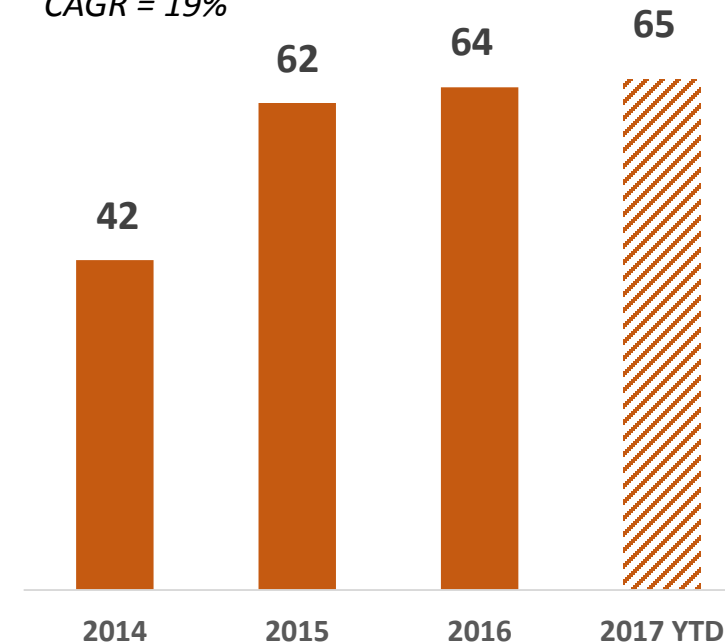
CAGR = 17%



Store Count

2014-2017 YTD

CAGR = 19%

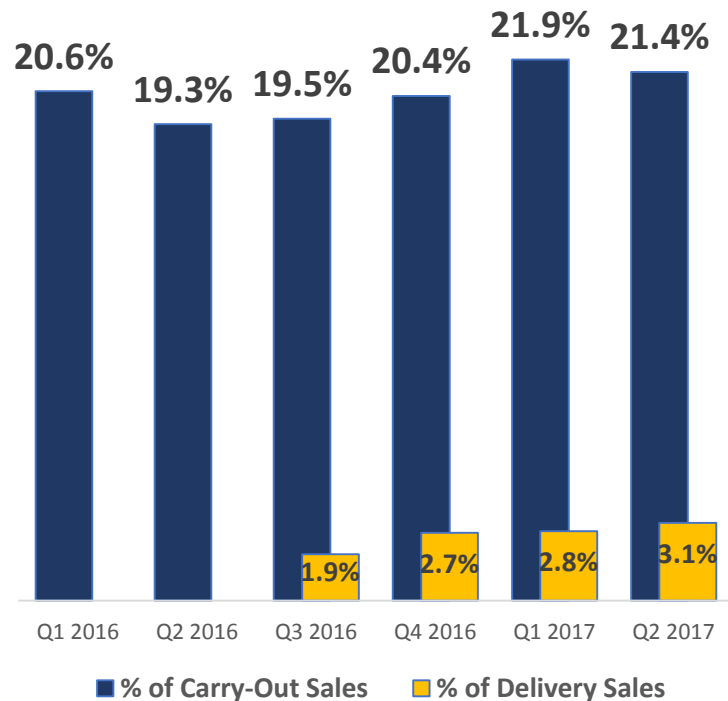


* 2017 guidance provided as of August 3, 2017 (midpoint of range)

Sales Driving Initiatives: Delivery

The delivery channel continues to show strong growth and to date we see no evidence that delivery sales cannibalize higher margin carry-out business

Delivery and Carry-Out Sales as % of Total



Delivery Drives Incremental Sales

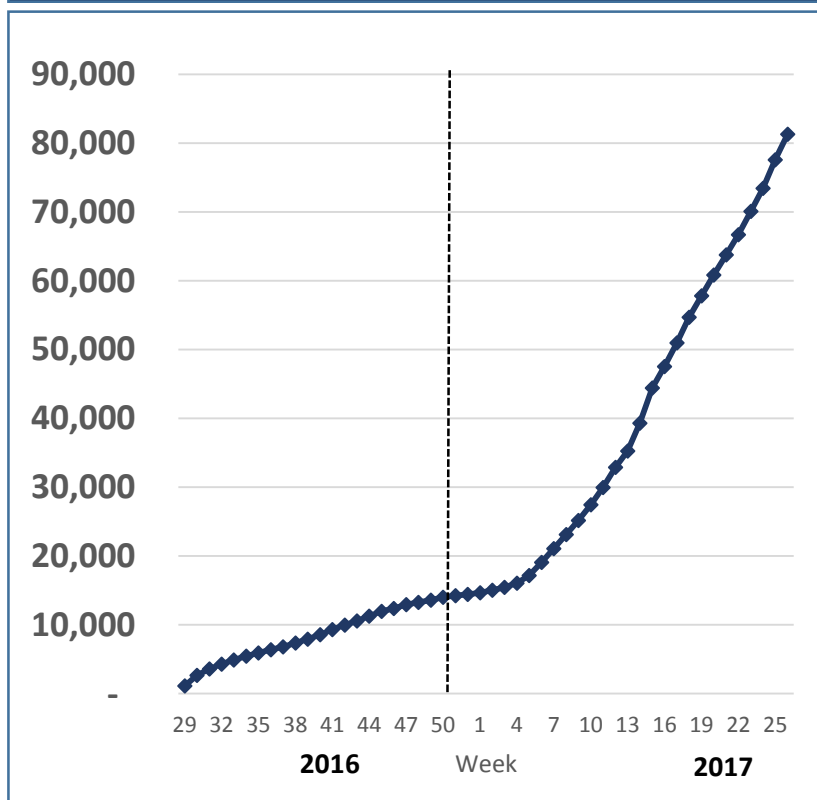
- 38 locations now offer delivery service through third parties (up from 26 last year)
- 2017 delivery sales are expected to reach \$1.5-\$2M
- Average delivery check is 13% higher than dine-in and 17% higher than carry-out



Sales Driving Initiatives: Blazin' Rewards Loyalty

Roll-out began in St. Louis market in mid-2016 and ramped up with remaining locations in Q1 2017 – the average loyalty check is currently 17% higher than non-loyalty

Blazin' Rewards Members



*Loyalty Attachment Rates

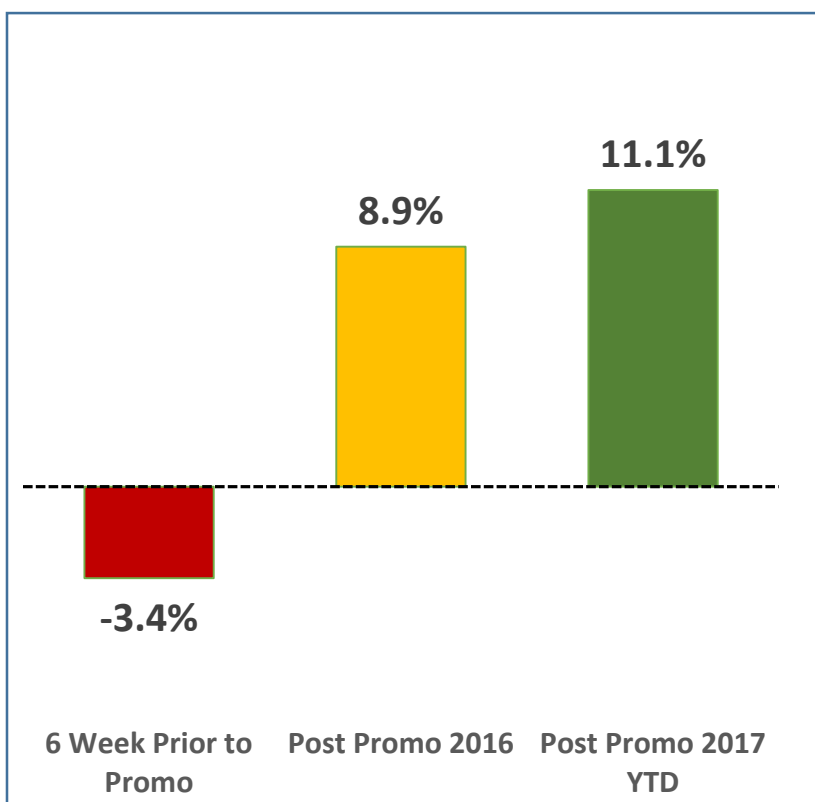


* Loyalty attachment rate = loyalty checks as a percentage of total checks

Sales Driving Initiatives: Promotions

The Tuesday wing promotion has proven to drive significant traffic in throughout all dayparts on an otherwise low volume day; we're testing a BOGO offer in captive markets with promising early results

Tuesday SSS % Trends



Half-Price Wing Tuesday vs. BOGO

Metric	BOGO Markets	
	HPWT 4/25 – 5/30	*BOGO 6/6 – 8-22
Tuesday Same-Store Sales %	10.7%	11.4%
Average Price/Wing	\$0.62	\$0.68
Average Check \$	\$19.85	\$22.58
Average Check B/(W) PY %	-9.8%	3.0%
**Check Count B/(W) PY %	22.7%	8.2%
***Wing COS %	75.2%	69.5%

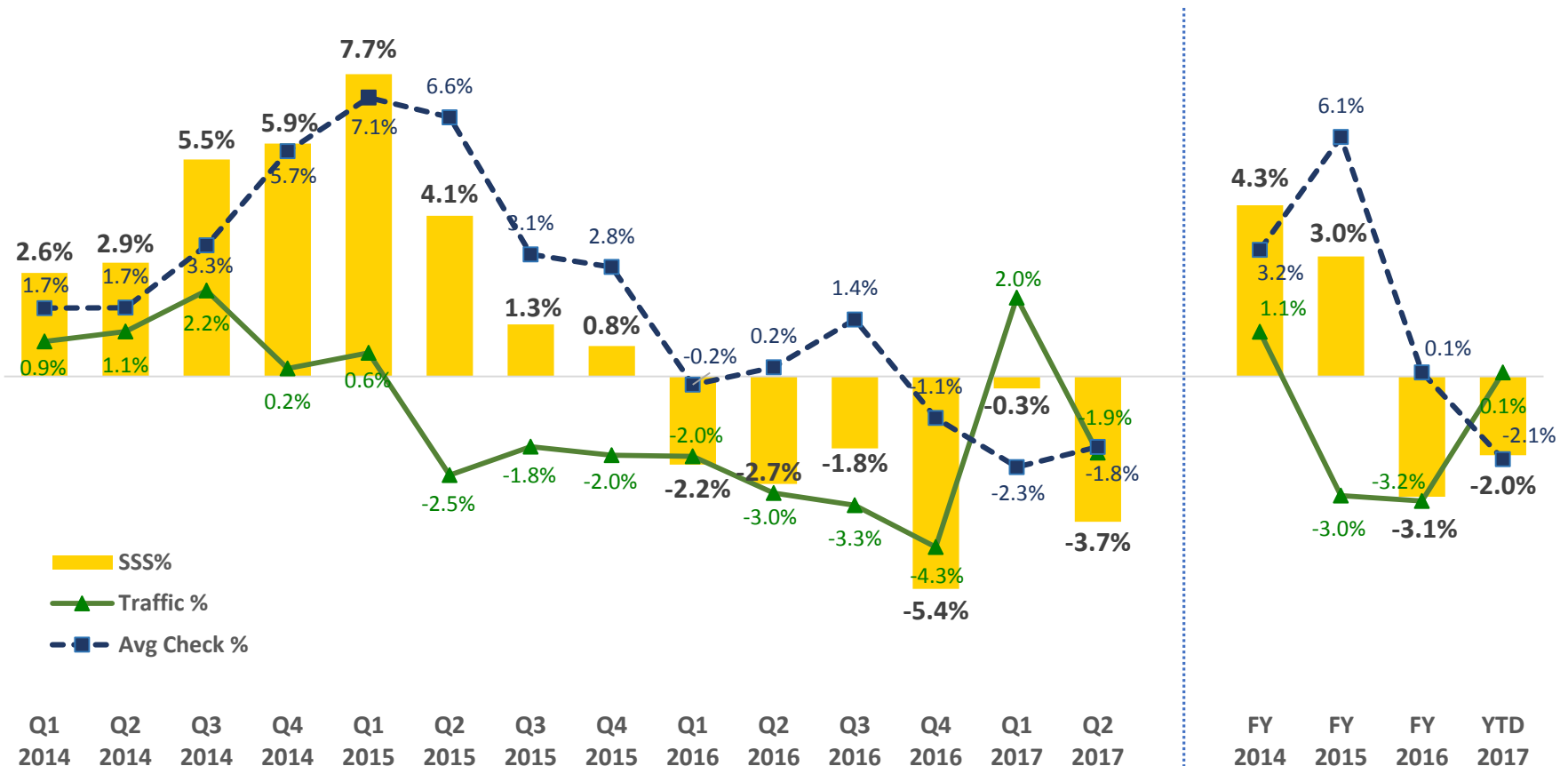
* Excludes July 4th holiday

** Check Count may not be a good proxy for traffic given the nature of the BOGO promotion

*** COS % excludes waste and cost that is not attached to a menu item (i.e. fryer oil)

Average Check and Traffic Trends

Traffic was negatively affected in Q2 by the Easter shift vs. 2016 and significant drop in play-off games for the NHL and NBA teams in our core markets – more positive trend in June as these events primarily impacted April and May



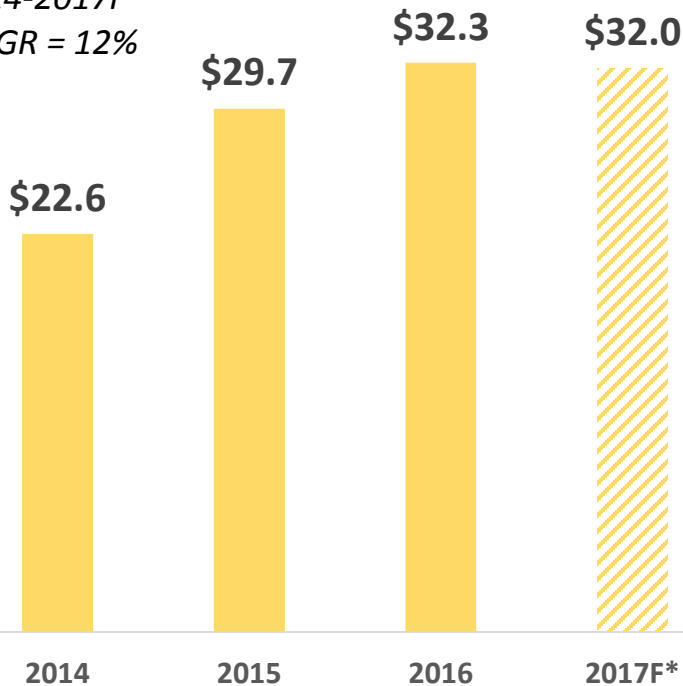
NOTE: Average check is predominantly driven by price but is also influenced by product mix and, to a lesser extent, average guests per check.

The 2015 St. Louis acquisition drove significant growth in both Restaurant-Level EBITDA and Adjusted EBITDA

Restaurant-Level EBITDA¹

\$ Millions

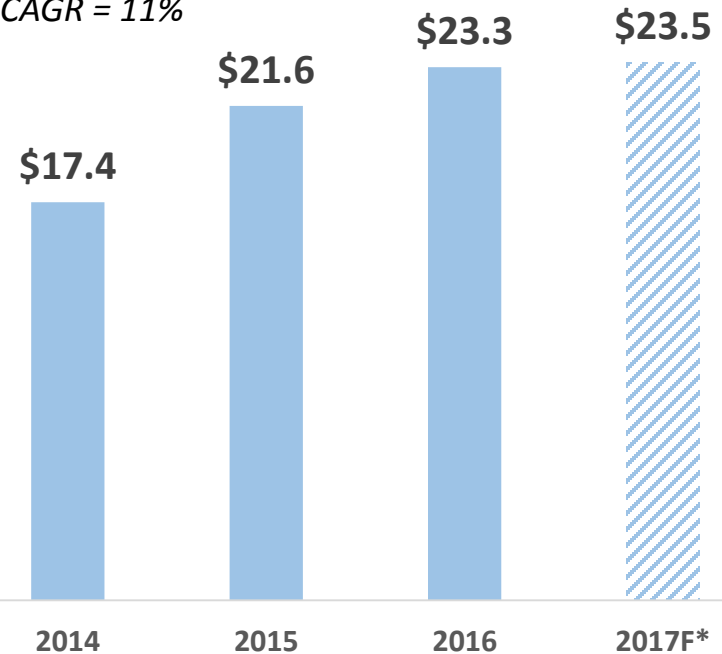
2014-2017F*
CAGR = 12%



Adjusted EBITDA¹

\$ Millions

2014-2017F*
CAGR = 11%

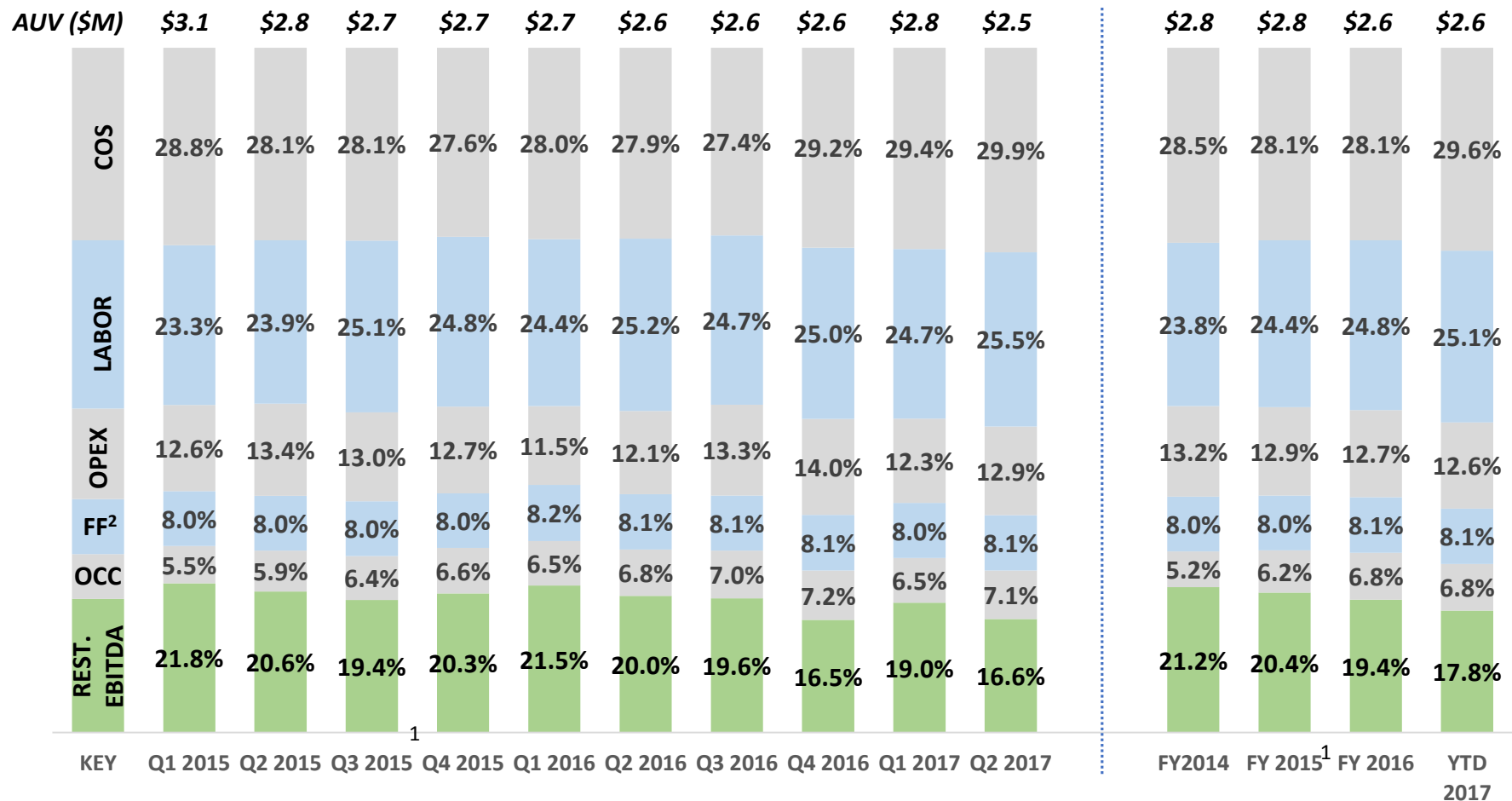


1 – Adjusted for pre-opening expenses and other non-recurring expenses. See EBITDA reconciliation slide.

* 2017 guidance provided as of August 3, 2017 (midpoint of range)

Quarterly Restaurant EBITDA Trends

Record high chicken wing prices coupled with sales deleveraging placed added pressure on Q2 margins

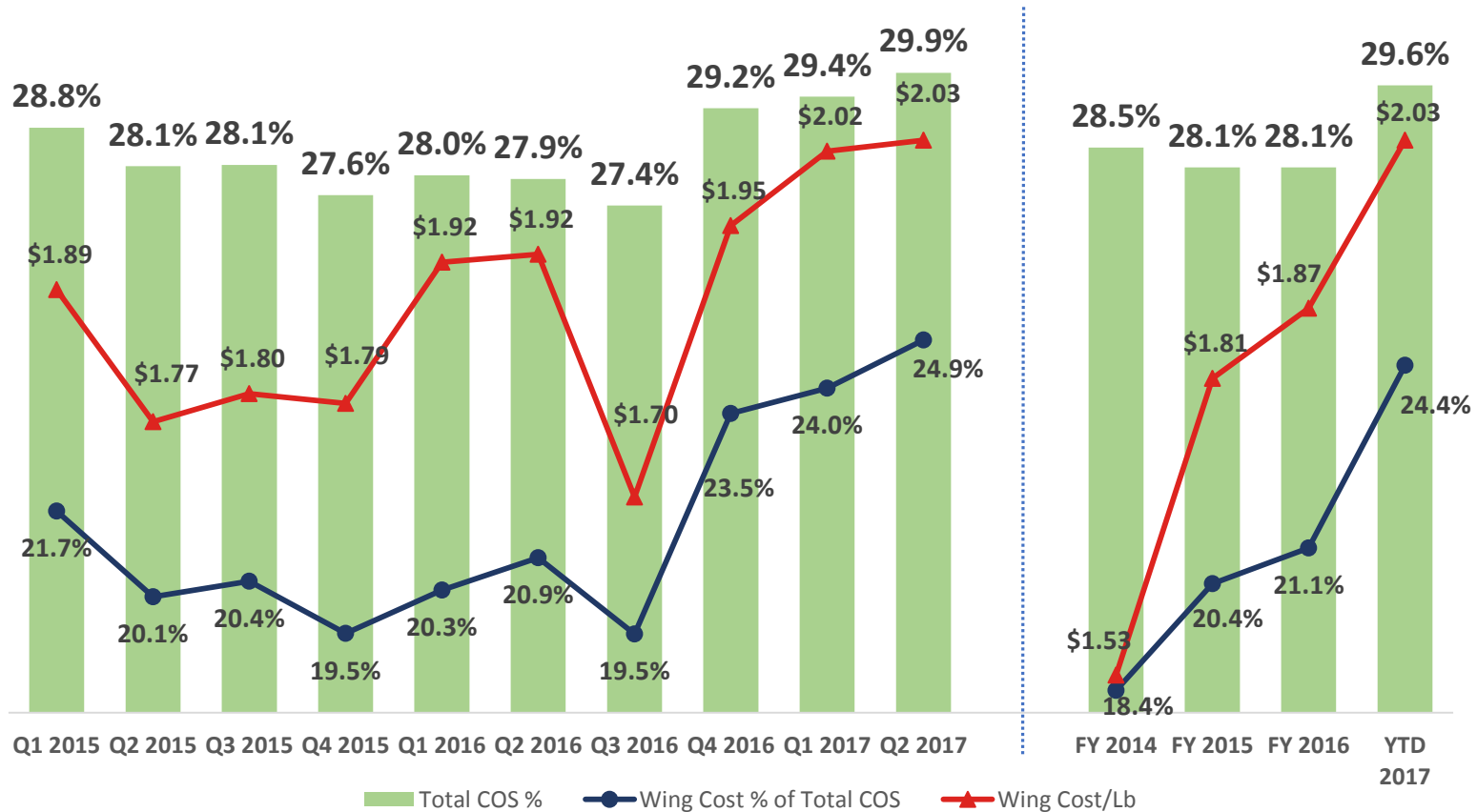


1 – On June 29, 2015, we acquired 18 locations in the St. Louis market to add to our existing 44 units, which had a dilutive AUV of \$2.3 million

2 – FF = Franchise-related fees which includes 5.0% royalty and 3.0 – 3.15% NAF (national advertising fund)

COS Trends and Wing Impact

Traditional wing costs hit record highs in Q2 2017 and have remained high in early Q3; wings as % of total COS spiked to 24.9%

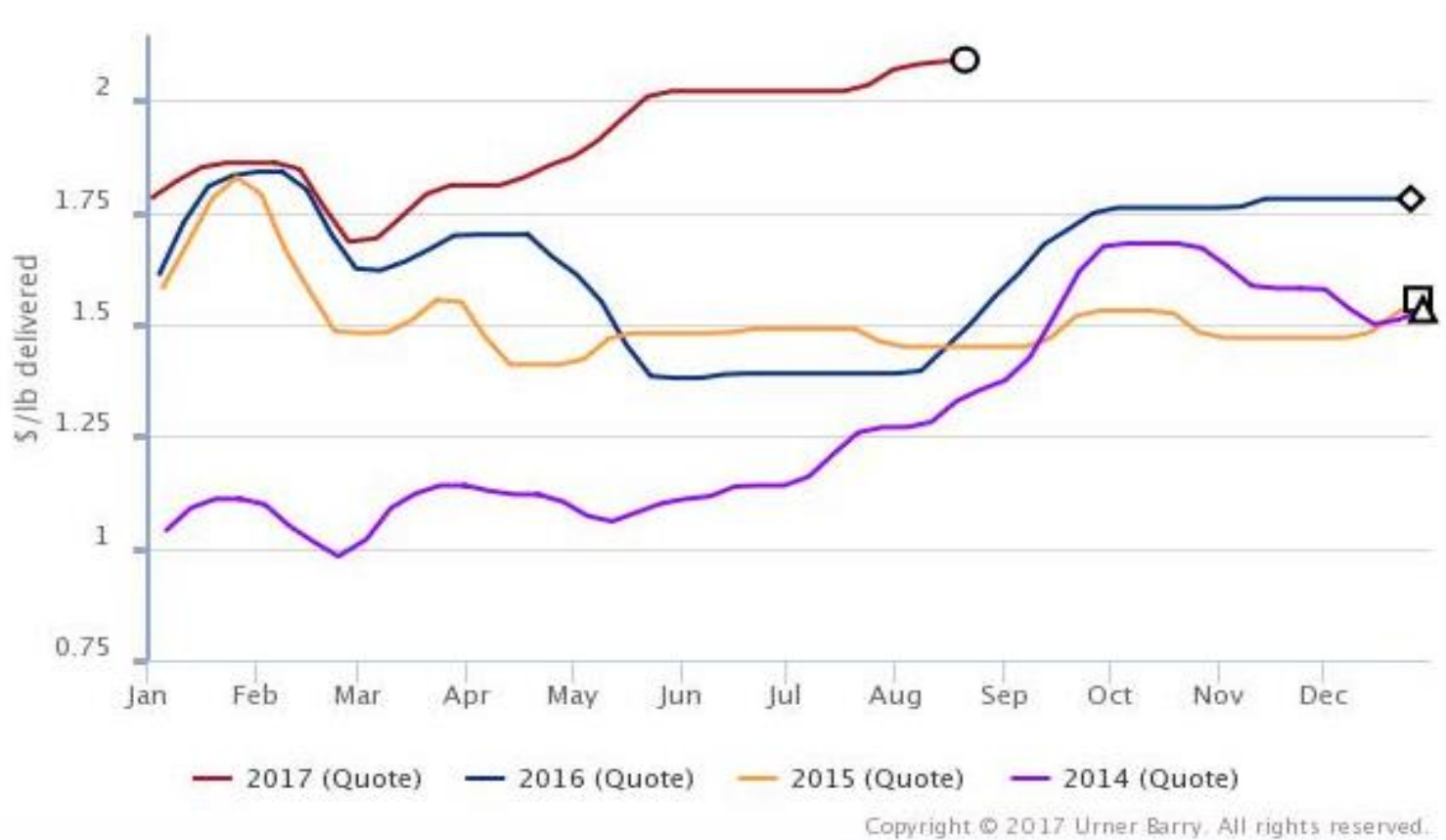


NOTE: Wing prices shown are the average price paid per pound of fresh, jumbo chicken wings – including distribution costs of approximately \$0.29 per pound

Historical Wing Prices

Volatile fresh wing spot prices have ranged between \$1.41 and \$1.87/lb. since 2015; late Q2 and early Q3 prices (\$2.02 - \$2.09) are record highs

\$ / lb. Fresh Jumbo Northeast Chicken Wing Spot Prices



Source: Urner Barry Comtell™ UB Chicken – Northeast Jumbo Wings
NOTE: Logistics cost to restaurants is \$0.29 / lb. over the spot price

Cost Saving Initiatives

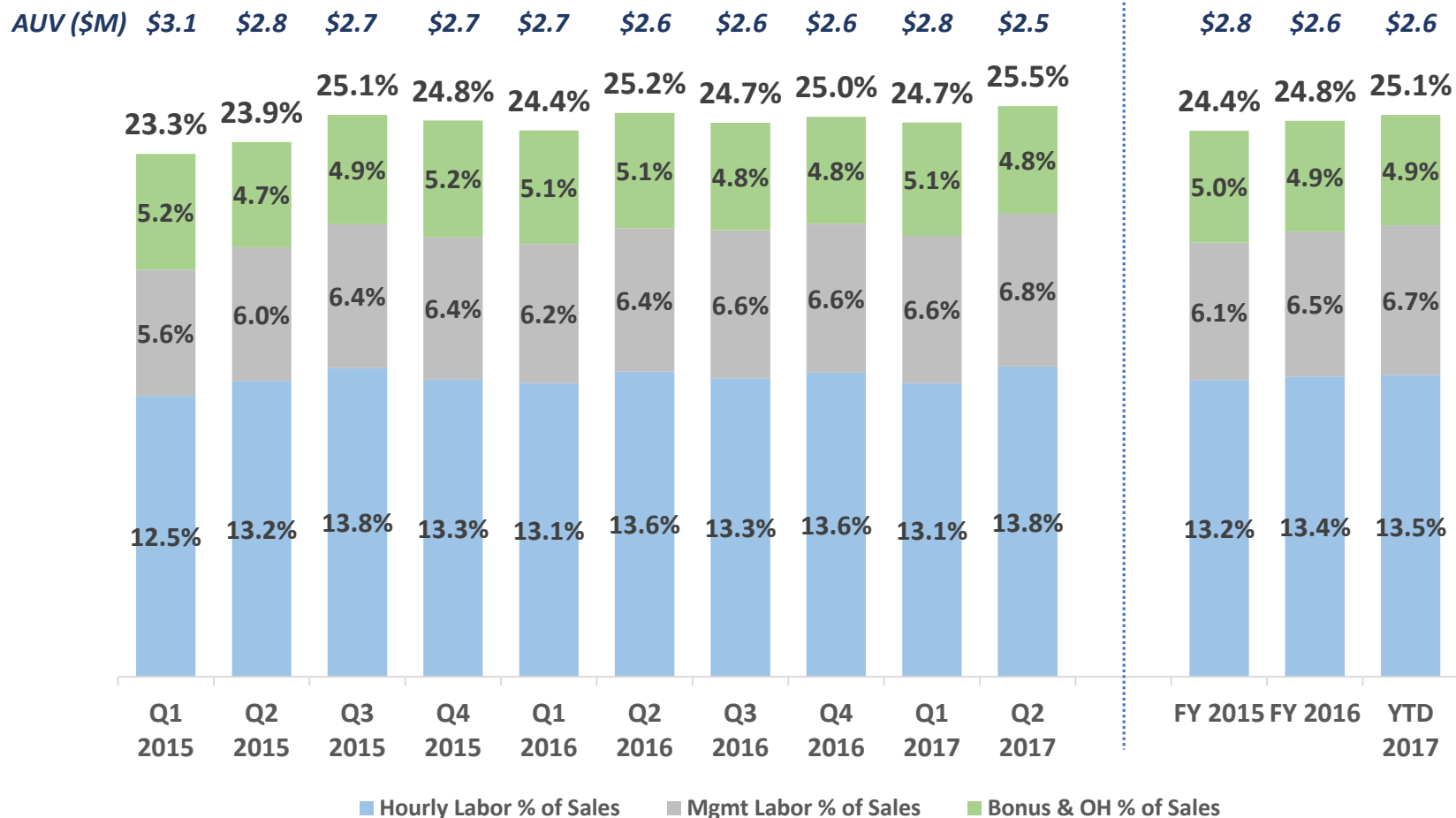
To combat the impact of inflationary traditional wing costs, DRH has implemented a number of high value initiatives to drive down cost of sales.

Targeting savings in the **\$3 – 4 million range** (annualized), including the following:

- ✓ Implemented a wing portioning adjustment in early June
- ✓ Testing a revised Tuesday promotion in captive markets since mid-June (BOGO offer on snack/small menu items only) – with favorable early results
- ✓ Driving down the impact of comps and promos through –
 - Implementation of new guidelines and policies
 - Introducing aggressive targets to management incentive plans beginning in Q3 2017

Total Labor Trends

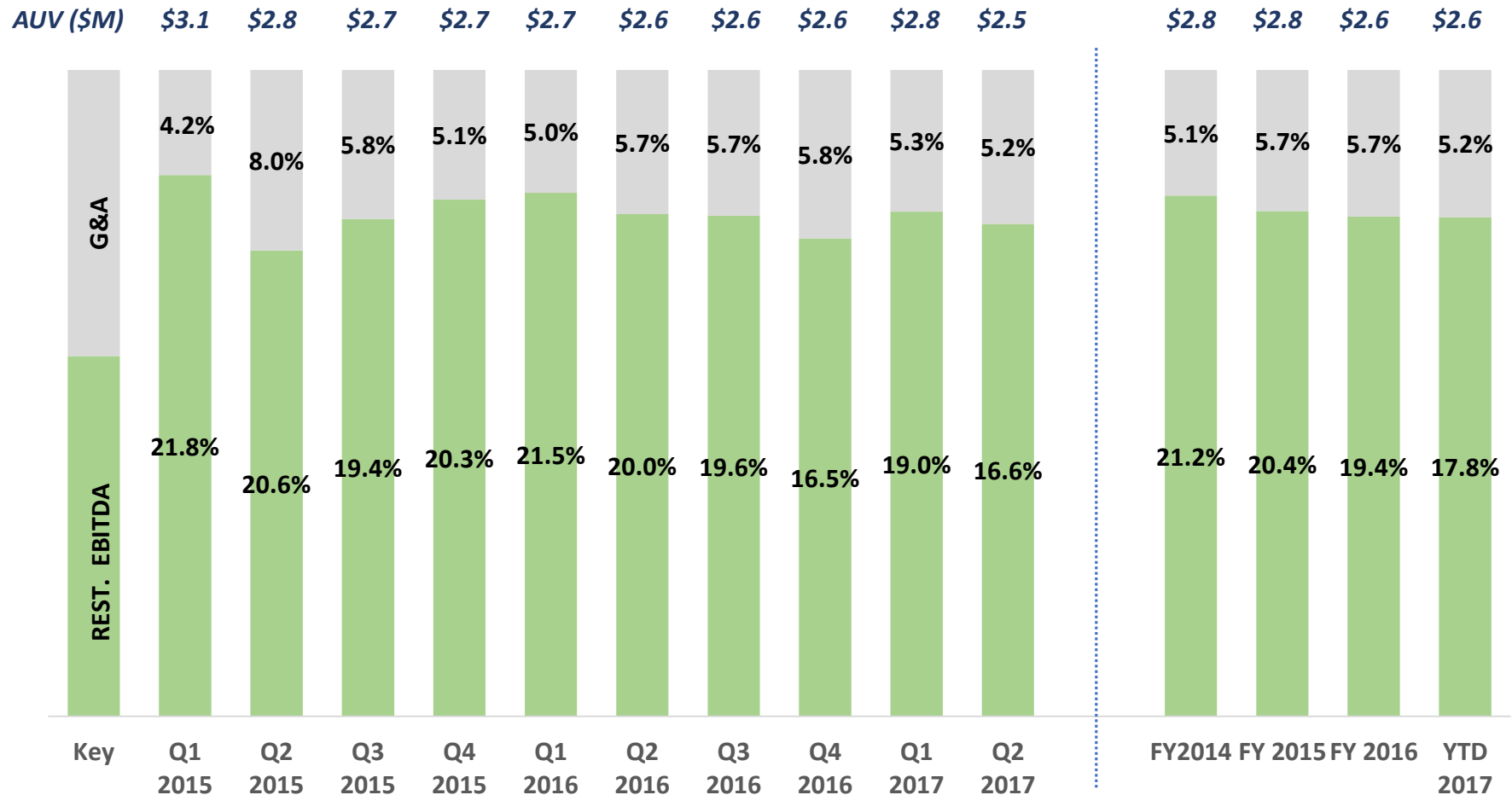
Hourly and total labor costs continue to be held in check as we push productivity initiatives as a means of offsetting wage inflation



NOTE: OH = Overhead labor costs including payroll taxes, FUTA, SUTA, health benefits and retirement plan.
 Bonus is typically between 1.0-1.2% of sales.

Adjusted EBITDA Trends

Targeting G&A expense at 5.0% of net sales by the second half of 2017 – on pace



- ✓ Targeting second half run rate of 5%
 - \$1 million run rate savings target
- ✓ Post – Bagger Dave’s spin-off overhead restructuring coupled with tight spending controls
 - Reductions in salaries and support office expenses
- ✓ Reduced (more targeted) local marketing spend
 - Better leveraging of National Ad Fund spend
 - More targeted local spend

Fiscal 2017 Guidance¹

	Guidance	Comments
Revenue ²	\$170 - 173 million	Slower than anticipated Q2 comp sales; topline impact of promotions
Restaurant - level EBITDA	\$31 - 33 million	Impact of record high traditional chicken wing costs on COS
Adjusted EBITDA	\$22.5 - 24.5 million	Lower restaurant-level earnings partially offset by G&A reductions
Capital Expenditures	\$5 - 6 million	One new restaurant opened June 2017 and two remodels completed in Q2; maintenance

¹ 2017 guidance provided as of August 3, 2017

² Revenue guidance implies SSS for 2017 in range of -0.6% to -2.5%, excluding week 53 of the fiscal year

Value Creation - St. Louis Acquisition

In 2015, DRH acquired 18 locations in a fully-levered \$54 million acquisition. At the time, it was 40% of our size. We managed to significantly scale the business and de-lever admin costs at a historically low cost of capital with little cash.

Five Year Leverage Model

St. Louis	Entry Year 0	Maturity Year 5	Value Creation
Sales	\$ 42.0	\$ 45.0	< \$2.3 to \$2.5M AUV appreciation
EBITDA	\$ 9.0	\$ 9.5	< Higher cash flow driven by increased sales volume
Net Debt	\$ 54.0	\$ 27.5	< Debt to equity conversion through repayment
Equity	\$ 2.0		< \$2.0M represents transaction/transition costs
EV	\$ 56.0		
EV Multiple	6.2x		< See Multiple Sensitivity Analysis below
Value per Share (VPS)	\$ 0.08		

Multiple Sensitivity Analysis

DRH Multiple	7.5x	8.5x	9.5x	10.5x	11.5x	12.5x
Enterprise Value (\$M)	\$ 70.9	\$ 80.3	\$ 89.8	\$ 99.2	\$ 108.7	\$ 118.1
Equity Value (\$M)	\$ 43.4	\$ 52.8	\$ 62.3	\$ 71.7	\$ 81.2	\$ 90.6
Value per Share (VPS)	\$ 1.64	\$ 1.99	\$ 2.35	\$ 2.71	\$ 3.06	\$ 3.42
Admin Adjust	\$ (0.40)	\$ (0.45)	\$ (0.50)	\$ (0.55)	\$ (0.61)	\$ (0.66)
Adj VPS	\$ 1.24	\$ 1.54	\$ 1.85	\$ 2.15	\$ 2.46	\$ 2.76
IRR% (5 years)	75.1%	82.9%	89.6%	95.4%	100.7%	105.4%

Value Creation

The fully-levered St. Louis acquisition creates significant value and high returns by taking advantage of:

Multiple Expansion

**Debt to Equity
Conversion**

Increased Cash Flow

NOTE: Maturity projections at Year 5 is for illustrative purposes only and although representative of expected outcomes, it is not a forecast.

Value Creation – Going Forward

Value Proposition

- Best in class operations
- Proven integration skills
- Strong positive cash flow
- Financial strength and flexibility
- Tax benefits to offset over \$50 million in pre-tax income

Current Environment

- Roll-up of other BWW franchisees ready for exit as cycle turns
- Potential future involvement in BWLD re-franchising activity
- Opportunities with new franchised concepts

Growth Strategy

- Disciplined, value-accretive growth through acquisition
- Supplemented by opportunistic new unit development



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Supplemental Slides

Management Team

David Burke
*Chief Executive Officer,
President*

- Appointed President and Chief Executive Officer in October 2016
- Served Chief Financial Officer and Treasurer since 2010; has served as a member of the Board of Directors since inception of the Company
- Prior to DRH, employed by Federal-Mogul with roles in finance, corporate development and marketing

Phyllis Knight
*Chief Financial Officer,
Treasurer*

- Appointed Chief Financial Officer and Treasurer in October 2016
- More than 30 years of finance, accounting and leadership experience
- Prior to DRH, served as EVP and CFO of Polar Corporation and Champion Enterprises

Jason Curtis
Chief Operating Officer

- Held the Chief Operating Officer position since 2002
- Named to the BWLD Leadership Council to serve as a liaison between franchisees and the BWLD corporate office
- Certified by the National Restaurant Association as a Foodservice Management Professional

EBITDA Reconciliation

DIVERSIFIED RESTAURANT HOLDINGS, INC. AND SUBSIDIARIES
Reconciliation between Net Income (Loss) and Adjusted EBITDA and Adjusted Restaurant-Level EBITDA

	Three Months Ended (Unaudited)		Six Months Ended (Unaudited)	
	June 25, 2017	June 26, 2016	June 25, 2017	June 26, 2016
Net Income (Loss)	\$ (409,090)	\$ (182,426)	\$ 422,030	\$ 247,978
+ Loss from discontinued operations	117,747	416,770	82,207	1,278,795
+ Income tax expense (benefit)	(604,560)	(251,546)	(582,296)	166,808
+ Interest expense	1,642,306	1,440,552	3,218,260	2,885,492
+ Other income, net	(25,140)	(36,265)	(52,307)	(76,007)
+ Loss on asset disposal	264,015	136,927	286,074	184,151
+ Depreciation and amortization	3,271,541	3,824,076	6,904,795	7,586,179
EBITDA	\$ 4,256,819	\$ 5,348,088	\$ 10,278,763	\$ 12,273,396
+ Pre-opening costs	294,473	445,941	325,843	569,384
+ Non-recurring expenses (Restaurant-level)	—	—	14,300	71,184
+ Non-recurring expenses (Corporate-level)	71,457	161,436	161,554	225,390
Adjusted EBITDA	\$ 4,622,749	\$ 5,955,465	\$ 10,780,460	\$ 13,139,354
<i>Adjusted EBITDA margin (%)</i>	11.6 %	14.5 %	12.8 %	15.6 %
+ General and administrative	2,066,409	2,347,052	4,423,375	4,521,343
+ Non-recurring expenses (Corporate-level)	(71,457)	(161,436)	(161,554)	(225,390)
Restaurant-Level EBITDA	\$ 6,617,701	\$ 8,141,081	\$ 15,042,281	\$ 17,435,307
<i>Restaurant-Level EBITDA margin (%)</i>	16.6 %	19.9 %	17.8 %	20.7 %

EBITDA Reconciliation cont.

Restaurant-Level EBITDA represents net income (loss) plus the sum of non-restaurant specific general and administrative expenses, restaurant pre-opening costs, loss on property and equipment disposals, depreciation and amortization, other income and expenses, interest, taxes, and non-recurring expenses related to acquisitions, equity offerings or other non-recurring expenses. Adjusted EBITDA represents net income (loss) plus the sum of restaurant pre-opening costs, loss on property and equipment disposals, depreciation and amortization, other income and expenses, interest, taxes, and non-recurring expenses. We are presenting Restaurant-Level EBITDA and Adjusted EBITDA, which are not presented in accordance with GAAP, because we believe they provide an additional metric by which to evaluate our operations. When considered together with our GAAP results and the reconciliation to our net income, we believe they provide a more complete understanding of our business than could be obtained absent this disclosure. We use Restaurant-Level EBITDA and Adjusted EBITDA together with financial measures prepared in accordance with GAAP, such as revenue, income from operations, net income, and cash flows from operations, to assess our historical and prospective operating performance and to enhance the understanding of our core operating performance. Restaurant-Level EBITDA and Adjusted EBITDA are presented because: (i) we believe they are useful measures for investors to assess the operating performance of our business without the effect of non-cash depreciation and amortization expenses; (ii) we believe investors will find these measures useful in assessing our ability to service or incur indebtedness; and (iii) they are used internally as benchmarks to evaluate our operating performance or compare our performance to that of our competitors.

Additionally, we present Restaurant-Level EBITDA because it excludes the impact of general and administrative expenses and restaurant pre-opening costs, which is non-recurring. The use of Restaurant-Level EBITDA thereby enables us and our investors to compare our operating performance between periods and to compare our operating performance to the performance of our competitors. The measure is also widely used within the restaurant industry to evaluate restaurant level productivity, efficiency, and performance. The use of Restaurant-Level EBITDA and Adjusted EBITDA as performance measures permits a comparative assessment of our operating performance relative to our performance based on GAAP results, while isolating the effects of some items that vary from period to period without any correlation to core operating performance or that vary widely among similar companies. Companies within our industry exhibit significant variations with respect to capital structure and cost of capital (which affect interest expense and tax rates) and differences in book depreciation of property and equipment (which affect relative depreciation expense), including significant differences in the depreciable lives of similar assets among various companies. Our management team believes that Restaurant-Level EBITDA and Adjusted EBITDA facilitate company-to-company comparisons within our industry by eliminating some of the foregoing variations.

Restaurant-Level EBITDA and Adjusted EBITDA are not determined in accordance with GAAP and should not be considered in isolation or as an alternative to net income, income from operations, net cash provided by operating, investing, or financing activities, or other financial statement data presented as indicators of financial performance or liquidity, each as presented in accordance with GAAP. Neither Restaurant-Level EBITDA nor Adjusted EBITDA should be considered as a measure of discretionary cash available to us to invest in the growth of our business. Restaurant-Level EBITDA and Adjusted EBITDA as presented may not be comparable to other similarly titled measures of other companies and our presentation of Restaurant-Level EBITDA and Adjusted EBITDA should not be construed as an inference that our future results will be unaffected by unusual items. Our management recognizes that Restaurant-Level EBITDA and Adjusted EBITDA have limitations as analytical financial measures.