

Buffalo Wild Wings, Inc.

Restaurants April 26, 2010

Company Description: Buffalo Wild Wings, Inc. operates 232 casual dining restaurants in the U.S. and franchises 420 additional restaurants across 42 states. Known for its authentic New York style chicken wings with 14 signature sauces and restaurant atmosphere, Buffalo Wild Wings is one of the 10 fastest growing restaurant chains in the United States. The company's headquarters are in Minneapolis, Minnesota.

1Q:10 earnings preview, improving consumer and alcohol sales should boost results (BWLD - \$51.33) BUY

Key Points

- Buffalo Wild Wings (BWLD) reports 1Q:10 results on April 27th after the market close.
- The operating environment has improved for BWLD, in our view, with stronger consumer restaurant spending and higher alcohol sales.
- The commodity outlook is mixed for BWLD with chicken wings down from recent highs, but chicken breasts moving higher.
- BWLD is one of the fastest growing restaurant companies and appears undervalued relative to peers.
- We are maintaining our estimates.
- We reiterate our BUY rating and \$58 price target.

	1Q:09 Actual	1Q:10 Estimate	Variance	Consensus
Total Revenue	\$131,555	\$155,223	18.0%	\$154,400
Gross Profit	\$34,217	\$39,806	16.3%	na
Operating Income	\$12,718	\$15,386	21.0%	\$15,310
Net Income	\$8,486	\$10,443	23.1%	\$10,370
Diluted EPS	\$0.47	\$0.57	21.5%	\$0.57

BWLD reports 1Q:10 results on April 27th after the market close. Management will host a conference call to discuss results that day at 4:00 p.m. Central; the call can be accessed on the investor relations section of the company's website, www.buffalowildwings.com. We maintained our 1Q:10 estimates of \$0.57 on \$155.2mm revenue. We think BWLD had a strong quarter with 21% year-over-year EPS growth compared to the annual guidance of 20%. We project same-store sales growth of 0.8% at company-operated restaurants and 1.1% at franchised locations. We think traffic trends turned more positive later in the quarter as weather improved and the company benefited from a strong March Madness tournament. Additionally, we think the Olympics may have benefitted sales. BWLD was more aggressive with TV advertising during the college basketball tournament. We think margins were impeded during 1Q:10 by high chicken wing prices, but prices declined late in the quarter. We project restaurant-operating margins declined 30 basis points year over year to 18.2%.

The commodities outlook is mixed for BWLD. Chicken wing prices began to decline during 1Q:10 (wing prices peaked in late January), but were still approximately 8% higher year over year, in our view. We are encouraged by declining wing prices which are currently tracking down in the mid-single digits year over year for 2Q:10. However, chicken breast prices have moved higher, currently about 20% higher than year ago levels. Traditional chicken wings accounted for 21% of sales in 2009 while boneless wings (chicken breasts) accounted for 19% of sales. Additionally, the futures market for beef and other commodities has moved higher. We think BWLD has more pricing power than other casual dining peers given the draw to the restaurants is sports and the dining experience is not easily replicated at other chains.

We think alcohol sales are improving. We are encouraged by recent commentary from two of BWLD peers with high alcohol sales. Last week both Cheesecake Factory (CAKE – NC) and BJ's Restaurants (BJRI – NC) reported better than expected results and had positive results from alcohol sales. BJRI's management stated that they, "are beginning to see a little greater incidence in alcoholic beverage sales" and CAKE's management stated that alcohol

Please see important disclosures on pages 4 to 6.

Financial Summary

Rev(mil)	2009A	2010E	2011E
Mar	\$132	\$155E	\$188E
Jun	\$130	\$153E	\$184E
Sep	\$133	\$157E	\$187E
Dec	\$145	\$170E	\$220E
FY	\$539	\$636E	\$779E
P/Sales	1.7x	1.5x	1.2x

EPS	2009A	2010E	2011E
Mar	\$0.47	\$0.57E	\$0.68E
Jun	\$0.39	\$0.49E	\$0.57E
Sep	\$0.38	\$0.43E	\$0.52E
Dec	\$0.46	\$0.55E	\$0.76E
FY	\$1.69	\$2.04E	\$2.53E
P/E	30.4x	25.2x	20.3x

Price:	\$51.33
52-Week Range:	\$52.99-\$30.87
Target:	\$58.00
Rating:	BUY
Shares Outstanding:	18.1 mil
Mkt. Capitalization:	\$927 mil
Ave. Volume:	384,300
Instit. Ownership:	87%
BV / Share:	\$11.54
Debt / Tot. Cap.:	0%
Est. LT EPS Growth:	20%

sales have stabilized. Alcohol sales at BJRI account for approximately 22% of sales and CAKE reports approximately 13% of sales are from alcoholic beverages. We think this trend bodes well for BWLD which did approximately 24% of sales from alcoholic beverages in 2009 and has seen declining trends during the recession.

BWLD shares are undervalued relative to other high growth restaurant companies, in our opinion. Despite being one of the fastest growing restaurant companies, BWLD trades at a slight discount to its peers. BWLD currently trades at 20.3x our 2011 EPS estimate and 7.5x EV/2011 EBITDA, while its peers trade at approximately 24x forward earnings and 10.0x EV/2011 EBITDA. We project BWLD will grow earnings long-term at an approximate 20% rate, inline with management's 2010 guidance, while BWLD's fast growing peers are expected to grow long-term earnings at an approximate 19% rate. On a PEG basis, BWLD is trading at approximately 1.0x our estimate while peers are trading between 1.0x-1.4x PEG. We think comparing BWLD to other fast growing restaurant companies is more relevant than comparing BWLD to all other casual dining restaurants due to BWLD's growth potential and the slow growth of many of the casual dining peers. BWLD's casual dining peers trade at approximately 18.5x 2011 EPS estimates and 7.5x EV/EBITDA, but we think BWLD deserves a premium multiple due to its high sales and earnings growth and a clean balance sheet.

Ticker	Company	(2011)	EV/EBITDA	P/E	Growth %	PEG
BJRI	BJ'S RESTAURANTS INC		10.5	33.0	24.0%	1.38
CMG	CHIPOTLE MEXICAN GRILL INC		11.9	25.4	19.0%	1.34
PNRA	PANERA BREAD CO		8.6	21.2	17.0%	1.25
THI	TIM HORTONS INC		9.1	15.4	15.0%	1.03
<i>Average</i>			10.0	23.8	18.8%	1.27
BWLD	BUFFALO WILD WINGS INC		7.5	20.3	20.0%	1.02

Source: First Call and Feltl and Company research

INVESTMENT THESIS

We reiterate our BUY rating. We are encouraged by an improving operating environment with chicken wing prices coming down from recent highs and an improving outlook for consumer spending. We think 1Q:10 results were buoyed by high traffic during the Super Bowl and March Madness and better weather late in the quarter. We maintained our estimates. We are seeing positive indications that alcohol sales may be improving; declining alcohol sales have been a large concern for us. We note that same-store sales comparisons get easier beginning in 2Q:10. BWLD has maintained a pristine balance sheet despite the difficult environment and the high growth. We reiterate our BUY rating. BWLD currently trades at 20.3x our 2011 estimate, a slight premium to its casual dining peers, but a discount to other high growth restaurant companies. BWLD's clean balance sheet and proven track record in difficult times behoove a premium multiple, in our view. We derive our \$58 price target by applying a 23x multiple to our 2011 EPS estimate of \$2.53. Our target implies an approximate 8.5x EV/2011 EBITDA multiple which is still a discount to its peer group.

Table 1: Buffalo Wild Wings, Inc. Income Statement

(Dollars in thousands, except where noted)

	2008	Mar	Jun	Sept	DecA	2009A	Mar	Jun	Sept	Dec	2010E	Mar	Jun	Sept	Dec	2011E
Revenue																
Restaurant revenue	\$379,686	\$119,424	\$117,763	\$120,290	\$131,225	\$488,702	\$141,027	\$139,243	\$142,630	\$154,761	\$577,660	\$170,889	\$167,876	\$170,534	\$201,025	\$710,324
Franchise revenue	42,731	12,131	11,859	12,451	13,781	50,222	14,196	14,123	14,680	15,467	58,466	16,789	16,285	16,620	18,839	68,534
Total revenue	422,417	131,555	129,622	132,741	145,006	538,924	155,223	153,366	157,310	170,228	636,127	187,679	184,162	187,154	219,864	778,858
year-over-year % change	28.1%	35.3%	32.4%	25.1%	19.6%	27.6%	18.0%	18.3%	18.5%	17.4%	18.0%	20.9%	20.1%	19.0%	29.2%	22.4%
Costs and expenses																
Restaurant expenses																
Cost of Sales	113,266	36,208	35,922	35,809	39,720	147,659	42,788	42,204	42,332	45,887	173,211	51,609	50,195	50,478	59,503	211,785
Labor and benefits	114,609	35,549	36,056	36,369	38,581	146,555	41,956	42,399	42,789	45,035	172,179	50,754	50,950	50,990	58,498	211,192
Operating expenses	60,205	17,987	17,966	19,416	20,989	76,358	21,577	21,179	22,749	24,375	89,880	25,975	25,484	27,115	31,561	110,135
Occupancy expenses	25,157	7,594	7,924	8,256	8,588	32,362	9,096	9,218	9,841	10,446	38,602	10,903	11,046	11,596	13,670	47,215
Total costs and expenses	313,237	97,338	97,868	99,850	107,878	402,934	115,417	115,000	117,712	125,743	473,872	139,241	137,675	140,179	163,232	580,327
Gross profit	109,180	34,217	31,754	32,891	37,128	135,990	39,806	38,365	39,597	44,485	162,254	48,438	46,486	46,975	56,632	198,532
Gross margin	25.8%	26.0%	24.5%	24.8%	25.6%	25.2%	25.6%	25.0%	25.2%	26.1%	25.5%	25.8%	25.2%	25.1%	25.8%	25.5%
Depreciation and amortization	23,622	7,495	7,888	8,267	8,955	32,605	9,520	9,750	10,050	10,650	39,970	11,300	11,600	12,200	12,950	48,050
General and administrative expenses	40,151	11,420	11,773	12,943	13,268	49,404	13,150	13,900	14,900	15,000	56,950	16,150	16,750	17,800	18,950	69,650
Pre-opening expenses	7,930	2,409	1,673	1,149	2,471	7,702	1,250	1,400	2,650	3,900	9,200	1,950	2,050	2,200	3,150	9,350
Loss on asset disposal	2,083	175	272	842	639	1,928	500	400	580	350	1,830	500	550	650	550	2,250
Total operating expenses	73,786	21,499	21,606	23,201	25,333	91,639	24,420	25,450	28,180	29,900	107,950	29,900	30,950	32,850	35,600	129,300
Operating income	35,394	12,718	10,148	9,690	11,795	44,351	15,386	12,915	11,417	14,585	54,304	18,538	15,536	14,125	21,032	69,232
Operating margin	8.4%	9.7%	7.8%	7.3%	8.1%	8.2%	9.9%	8.4%	7.3%	8.6%	8.5%	9.9%	8.4%	7.5%	9.6%	8.9%
Interest income (expense)	970	76	413	379	209	1,077	200	400	420	510	1,530	410	420	420	435	1,685
Pretax income	36,364	12,794	10,561	10,069	12,004	45,428	15,586	13,315	11,837	15,095	55,834	18,948	15,956	14,545	21,467	70,917
Pretax margin	8.6%	9.7%	8.1%	7.6%	8.3%	8.4%	10.0%	8.7%	7.5%	8.9%	8.8%	10.1%	8.7%	7.8%	9.8%	9.1%
Income tax expense (benefit)	11,929	4,308	3,586	3,197	3,666	14,757	5,143	4,394	3,906	4,981	18,425	6,253	5,266	4,800	7,084	23,402
% of pretax income	32.8%	33.7%	34.0%	31.8%	30.5%	32.5%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%	33.0%
Net income (GAAP)	24,435	8,486	6,975	6,872	8,338	30,671	10,443	8,921	7,931	10,113	37,409	12,695	10,691	9,745	14,383	47,514
EPS	1.36	0.47	0.39	0.38	0.46	1.69	0.57	0.49	0.43	0.55	2.04	0.68	0.57	0.52	0.76	2.53
EPS (GAAP)	1.36	0.47	0.39	0.38	0.46	1.69	0.57	0.49	0.43	0.55	2.04	0.68	0.57	0.52	0.76	2.53
EPS growth rate	23.6%	30.6%	25.8%	52.0%	7.0%	24.3%	21.3%	25.6%	13.2%	19.6%	20.7%	19.3%	16.3%	20.9%	38.2%	24.0%
Diluted shares	17,995	18,041	18,070	18,098	18,208	18,177	18,275	18,350	18,400	18,500	18,381	18,600	18,700	18,800	18,900	18,750
Number of restaurants period end:																
Company-owned (incl joint venture)	197	206	215	220	232	232	235	237	248	266	266	275	284	293	306	306
Franchised	363	373	383	400	420	420	431	443	458	476	476	489	500	514	534	534
Total	560	579	598	620	652	652	666	680	706	742	742	764	784	807	840	840
Same-store sales (yoy pct. chg.):																
Company-owned	5.9%	6.4%	2.8%	0.8%	2.6%	3.1%	0.8%	4.3%	5.4%	2.6%	3.3%	4.2%	1.5%	0.2%	3.5%	2.4%
Franchised	2.8%	6.0%	3.7%	1.9%	2.0%	3.4%	1.1%	2.4%	4.0%	2.3%	2.5%	4.0%	1.6%	0.4%	1.8%	2.0%
EBITDA	59,016	20,213	18,036	17,957	20,750	76,956	24,906	22,665	21,467	25,235	94,274	29,838	27,136	26,325	33,982	117,282

Analyst Certification

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Strong Buy: The stock is expected to have total return potential of at least 30%. Catalysts exist to generate higher valuations, and positions should be initiated at current levels.

Buy: The stock is expected to have total return potential of at least 15%. Near term catalysts may not exist and the common stock needs further time to develop. Investors requiring time to build positions may consider current levels attractive.

Hold: The stock is expected to have total return potential of less than 15%. Fundamental events are not present to make it either a Buy or a Sell. The stock is an acceptable longer-term holding.

Sell: Expect a negative total return. Current positions may be used as a source of funds.

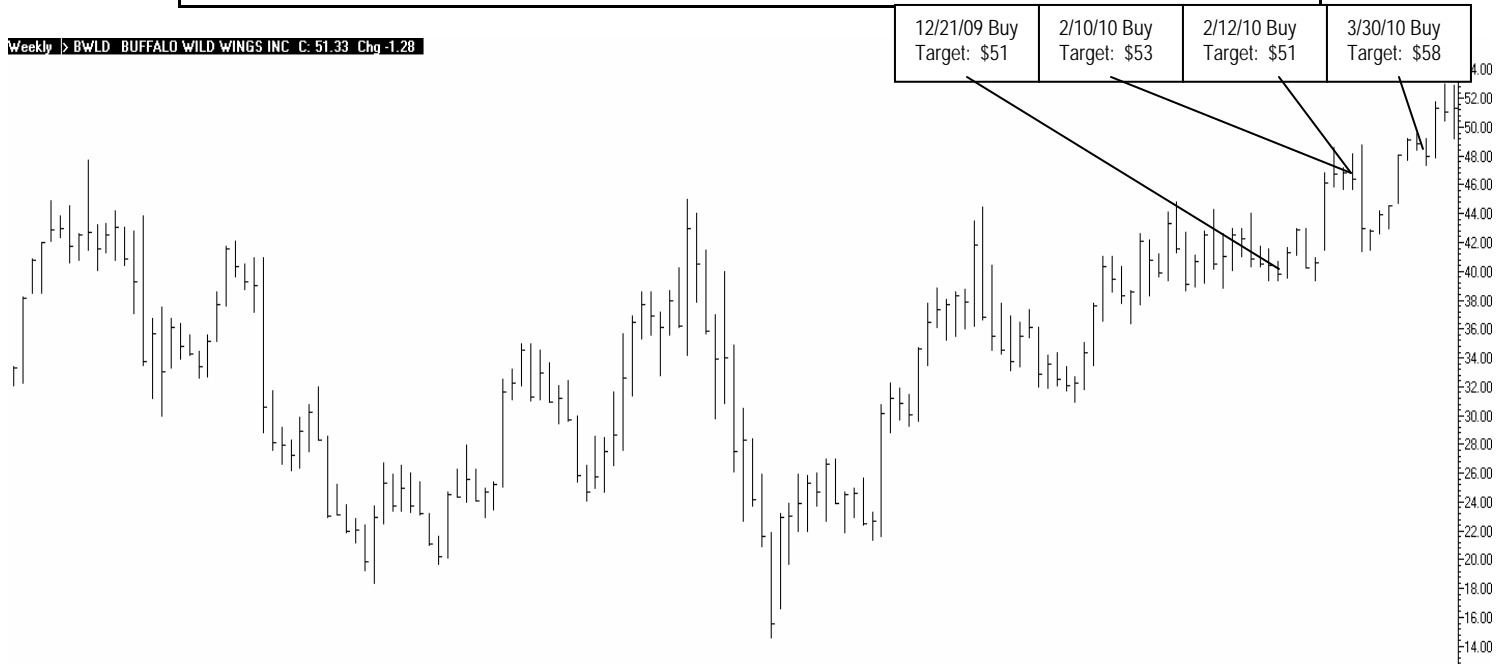
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Ratings Distribution for Feltl and Company

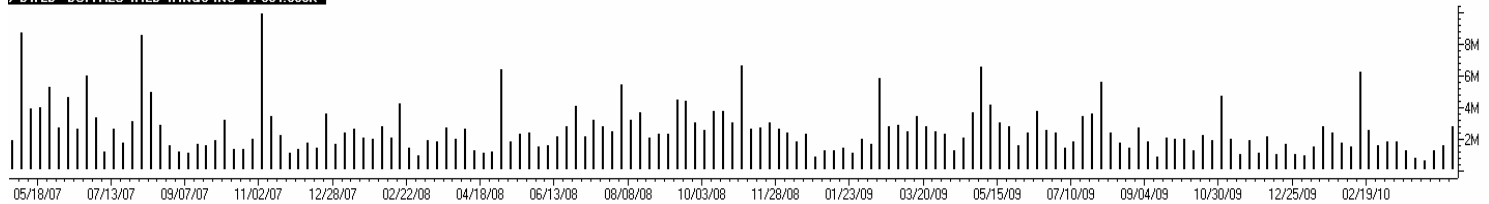
Rating	Number of Stocks	Percent of Total	----- Investment Banking -----	
			Number of Stocks	Percent of Rating category
SB/Buy	35	69%	2	6%
Hold	15	29%	0	0%
Sell	1	2%	0	0%
	<u>51</u>	<u>100%</u>	<u>2</u>	<u>4%</u>

The above represents our ratings distribution on the stocks in the Feltl and Company research universe, together with the number in (and percentage of) each category for which Feltl and Company provided investment-banking services in the previous twelve months.

Weekly > BWLD BUFFALO WILD WINGS INC. C: 51.33 Chg -1.28



> BWLD BUFFALO WILD WINGS INC. V: 894.695K



Date	Nature of Report	Rating	Price Target
12/21/09	Initiation @ \$41.34	Buy	\$51.00
2/10/10	Raised price target to \$53	Buy	\$53.00
2/12/10	Lowered price target to \$51	Buy	\$51.00
3/30/10	Raised price target to \$58	Buy	\$58.00

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Valuation and Price Target Methodology:

We derive our \$58.00 price target by applying a 23x multiple to our 2011 EPS estimate of \$2.53.

Risks to Achievement of Estimates and Price Target:

- Buffalo Wild Wings business may be impacted by consumers' discretionary spending and confidence. Macroeconomic factors such as increasing gasoline prices, unemployment and generally tough economic times may negatively impact consumers' restaurant spending. Changing customer tastes or health trends could also have a negative impact on sales.
- Volatile commodity prices may affect earnings. BWLD is highly dependant on chicken wings; approximately 21% of a restaurant's food costs. Volatile chicken prices have historically had a substantial impact on the company's operating results.
- There is no guarantee that Buffalo Wild Wings restaurants will be successful in new markets. Restaurants are currently operated in 41 states, but the company will experience significant growth in next several years. In our view, this risk is lowered through growth in new markets from franchisees.
- The restaurant business is extremely competitive and competition for customers through lower prices may negatively impact BWLD's returns. Discounted prices at any of BWLD's large competitors may cause the company to lower prices to maintain its market share. Additionally, BWLD must compete with other restaurant companies for reliable franchisees.
- Our growth projections are dependent on BWLD's ability to recruit, sign and retain competent franchisees. Lower demand for franchised restaurants could slow restaurant development and expected returns. We view BWLD's relationship with its franchisees as favorable.
- Readers should recognize that the risks noted here do not represent a comprehensive list of all risk factors or potential issues, nor all factors that may preclude achievement of our forecast or price target. Additional risk factors exist and are outlined in the Company's SEC filings

Other Disclosures:

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RESEARCH DEPARTMENT

Brent R. Rystrom
Director of Equity Research
(612) 492-8810

Ernest W. Andberg, CFA
(612) 492-8836

Jay M. Meier
(612) 492-8847

Mark E. Smith
(612) 492-8806

Joshua J. Elving
(612) 492-8872

Scott R. Berg
(612) 492-8857

Shawn P. Bitzan
(612) 492-8816

INSTITUTIONAL SALES: (866) 338-3522

Thomas J. Pierce
(612) 492-8817

Mark A. Hagen
(612) 492-8846

Ryan M. Quade
(612) 492-8807

Brandt B. Wendland
(612) 492-8855

John E. Stratton
(612) 492-8826

Jeff R. Sonnek
(612) 492-8825

Matt J. Rasmussen
(612) 492-8860

TRADING: (866) 777-9862

William W. Koop
Director of Equity Trading
(612) 492-8830

Thomas J. Walters
Equity Trading
(612) 492-8829

Elliott M. Randolph
Institutional Sales Trading
(612) 492-8867

Cory N. Carlson
Institutional Sales Trading
(612) 492-8858

Luke J. Weimerskirch
Institutional Sales Trading
(612) 492-8832