Noble Roman's, Inc.

2023 3rd Quarter Conference Call

November 15, 2023

SCOTT MOBLEY:

Good afternoon, and welcome to Noble Roman's conference call. My name is Scott Mobley, and I am President and CEO of the company. Also with us is Paul Mobley, Executive Chairman and CFO. Today we will provide some comments on the third quarter, some subsequent events and the current business environment. At the end we will be happy to take your questions.

We will begin today's call with Paul's review of financial highlights. But first, I want to refer you to the Safe Harbor Statement contained in the earnings press release. This conference call will contain forward-looking statements of the kind referred to in that statement, so those provisions apply to this conference call as well.

With that, I will turn the call over to Paul . . .

Paul Mobley:

Thank you Scott and I want to thank the callers for joining us today.

I would like to start by giving a brief historical perspective of the last few years as it relates to our strategic focus. During the various stages of the pandemic, the market shifted dramatically so the company had to change its emphasis to continue to grow and keep up with the changing environment. In 2017 and 2018 the company created Craft Pizza & Pub to grow simultaneously with and in addition to growth from non-traditional locations inside other host businesses with existing traffic. When the pandemic became official in the spring of 2020, non-traditional and traditional were both compromised but the primary opportunity at that time was growth through company-owned CPPs so that is where we placed the company's emphasis, as franchising opportunities did not exist. In fact, revenue from franchising declined nearly $1 million a year as host facilities relating to recreation and entertainment were forced to close by government regulations for almost two years.

Now after the pandemic, the CPPs saw unstable consumption patterns due to a softening of consumer spending resulting from an increase in credit card debit, increase in gas prices and overall inflation of products and services in general. Nearly the same time host facilities for non-traditional franchise prospects recognized the need for a quality food operation as an avenue for them to increase revenue and increase their margin which led to a great growth opportunity for Noble Roman's in convenience stores and travel plazas. The company recognized that trend and shifted its internal emphasis away from expanding company-owned CPP restaurants to focus on growing the non-traditional franchising without increasing its overhead.

As a result, in the latter part of 2022 and the first nine months of 2023, the company generated 54 new franchised locations for opening and opened 40 of them during that period. This focus also allowed selling more non-traditional franchise locations with higher average potential volumes. This trend is continuing and we still have a significant backlog of prospects to expand the franchise locations. In addition to that trend, on October 27, 2023, the company entered into a development agreement with Majors Management LLC for 100 locations to be developed over the next three years and Majors has plans to development many more than the 100 locations now signed for. The signing of that development agreement was written up in convenience store news publications and has created franchising interest among other companies as well.

So in summary, changing market conditions have dictated our focus. During COVID, non-traditional and traditional were both compromised, but the primary opportunity was in company-owned CPP growth. The post-COVID economy has been tougher on the CPP market, but has allowed much more vigorous growth in the non-traditional segment. These factors explain the focus shift we have had from the one period of time to the other.

Now for the financial review. The company reported a net income of $154,516, or $.01 per share, and $1.35 million, or $.06 per share, for the three-month and nine-month periods ended September 30, 2023 compared to a net income of $3,852 and a net loss of $183,105 for the comparable periods in 2022. The net income for the three-month period largely reflected growth in the franchising venue and was unaffected by the Employee Retention Tax Credit refund. However, since the credit was recorded in the first quarter it is reflected in the results for the nine-month period.

The company generated approximately $1.06 million in net cash from operating activities for the nine months ended September 30, 2023 compared to approximately $23,000 for the comparable period in 2022.

The largest contributor to the improvement in results has been the continuous growth in the non-traditional franchising segment, which has a net contribution of $3.7 million towards overall earnings for the nine months in 2023 compared to $1.8 million in 2022. This is primarily the result of the continued growth in non-traditional franchising and is expected to expand even more with the signing of the development agreement with Majors Management, LLC on October 27, 2023 for 100 new locations. The development agreement requires Majors to have 31 new locations open by June 30, 2024, 50 by December 31, 2024, and the remainder of the 100 locations open on or before September 2026. The development agreement allows for the locations to be developed throughout the 48 contiguous states, but the major concentration of the locations will be in Texas, Alabama, Georgia and Tennessee.

Total revenue for the three-month and nine-month periods ended September 30, 2023 was $3.7 million and $11.0 million, respectively, compared to $3.9 million and $11.1 million for the comparable periods in

2022. Franchising revenue for the three-month and nine-month periods was $1.3 million and $3.7 million compared to $1.1 million and $3.2 million in the comparable periods in 2022. Company-owned Craft Pizza & Pub revenue for the three-month and nine-month periods was $2.2 million and $6.6 million compared to $2.6 million and $7.4 million for the comparable periods in 2022. The revenue for the periods in 2022 reflected relatively higher, grand-opening sales from a few locations that opened late in the previous year which disrupts their comparability. In addition, same store sales declined during this period due to a softening of consumer spending resulting from an increase in credit card debt, an increase in gas prices and overall inflation resulting in less disposable income for the ordinary consumer.

Even though the company-owned CPP locations had a sales decline in the 3rd quarter, they continue to make significant margin contributions to the overall profitability of the company. The margin contribution for the first nine months of 2023 has been nearly $750,000 despite considerable inflationary pressure on ingredients and labor over the last year. The company has not implemented any menu price increases in its CPP operations in over a year, having determined from its extensive set of daily consumer data that a slowdown in guest spending due to the economy might be a likelihood, which was in fact experienced in the 3rd quarter.

Depreciation and amortization expense were $95,517 and $286,550 for the three-month and nine-month periods ended September 30, 2023 compared to $112,555 and $337,994 for the comparable periods in 2022, respectively. The decrease in depreciation expense was the result of not opening any new corporate-owned locations to date in 2023.

General and administrative expenses were $519,291 and $1,564,433 for the three-month and nine-month periods ended September 30, 2023, compared to $518,466 and $1,598,689 for the comparable periods in 2022, respectively. This reflects the Company's focus on minimizing costs while growing revenue through franchising.

Operating income was $513,947 and $2,744,056 for the three-month and nine-month periods ended September 30, 2023 compared to $381,860 and $822,587 for the comparable periods in 2022, respectively. The increase was a result of growth in the franchising venue with a slight decline in Craft Pizza & Pub profitability while actually obtaining a small reduction in administrative expenses. The nine-month period results also benefited from the recognition of the ERTC in the first quarter of 2023.

Interest expense was $359,431 and $1,121,505 for the three-month and nine-month periods ended September 30, 2023 compared to $378,008 and $1,067,605 for the comparable periods in 2022, respectively. The interest expense was reduced by the monthly principal payments required by the loan agreement in addition to voluntary payments to reduce principal totaling $578,897.

The Company's current ratio was 1.8-to-1 as of September 30, 2023, compared to 1.3-to-1 as of December 31, 2022.

That concludes the financial overview. Now I will turn the call back over to Scott.

Scott Mobley:

Thanks Paul.

Today, we will start our business review with the non-traditional segment. As you know from previous calls and the helpful summary Paul just went through, we refocused a considerable amount of company development effort towards expanding the number of non-traditional franchises this year. As a result of that effort, the company generated new franchises totaling 54 units in the first nine months of 2023 that we can now work to bring online. In fact, we have already opened 40 locations during the first nine months of this year.

We continue to diligently manage the remaining sold but unopened units into the now open category. For example, in the last couple of weeks we opened locations in Jacksonville Florida, Port Arthur Texas, Red Rock Texas, Cypress Texas, Folkston Georgia, and one here locally in Indianapolis. Coming up in the next couple of weeks we start opening the initial group of 11 new units from the recent development agreement with Majors. The first several of those will be in Tennessee and Georgia, and we anticipate that those initial openings will happen immediately after the Thanksgiving weekend.

As we pointed out in the press release and reiterated by Paul a moment ago, the non-traditional side of the business is progressing in a very attractive way given the number of new, royalty producing units that have and will continue to come online, and given that we are growing our pipeline of interested prospects for future franchise sales. Of course, the recent 100 unit development agreement provides another big boost to that growth trajectory.

So now let's turn to the Craft Pizza & Pub segment. A significant consideration here continues to be managing around the high cost of goods and the high cost of labor that has continued to escalate over the last year. And to manage that without devaluing the consumer experience without resorting to less ingredients or less service.

We continue to believe that a menu price increase would not be sustainable, both due to the competitive environment and even more because of the fragile state of consumer spending, which proved to be a bigger issue in the third quarter. We have not had a menu price increase now in over a year, so we have had to get very creative on ways to gain cost advantages in negotiations and through systems and procedure improvements. Controls remained relatively good in the third quarter, but we did have a headwind with renewed escalation in cheese prices.

As we have been noting for nearly a year, guest purchasing patterns been unstable, and consumer spending became a problem for us fairly early in the 3rd quarter. The CPP's are at the more premium end of the pizza scale, not at the commodity end occupied by price competitors like Papa Johns and Dominos. Trying to play that same pricing game with our existing product runs the very significant risk of devaluing the perception of the brand and the concept as whole, with long lasting risk beyond the current economic environment.

We did run through a couple of promotions, but without significant traction, while we worked on development of a value-oriented product that we could promote that was both in-line with our reputation and without the risk of devaluing our current menu. That is the origination of the new, oversized XL Pizza discussed in the press release, which was introduced last Thursday and Friday.

To recap, the "oversized" XL Pizza is a high-value, quality pizza with a starting menu price of just $9.99 for a cheese-only version, with toppings running at $2.50 each. The oversized, rectangular pizza is baked on an 18 inch by 13 inch half sheet-pan baking tray using the company's traditional dough recipe and it is approximately 40% larger than a round, 14 inch large traditional pizza. Modeled loosely on what is known on the East Coast as "Beach Pizza" or "Bakery Pizza", the XL Pizza has significantly more cheese and toppings per square inch than those, better fitting Midwestern and CPP guest expectations.

The XL Pizza is a totally different pizza from either our traditional hand-tossed style pizza or our Deep-Dish Sicilian pizza. There are a great many complexities involved in this type of product development, but we pushed it through very quickly, and it gives us the ability promote on a limited time only basis without value risk to our regular menu.

During the first weekend of the promotion, our expectations were substantially exceeded, having sold approximately 750 XL Pizzas in the 9 company-operated units. Social media and online advertising began its first full week this week.

With off-premise sales still exceeding pre-COVID norms as a percentage of our business, we also sought to increase the WOW factor of that segment with three new service enhancements. They are: one - free drink while you wait; two - pop the box; and three - free breadstick for the ride. When guests are in-store waiting for a carry-out order, we now offer them a free self-serve soft drink while they wait. With pop-the-box, we open every carry-out box for each guest and have them visually inspect their order before they leave. And then we offer all carry-out guests a free, hand-rolled breadstick and mini cheese dip to enjoy on the ride home. Obviously, all three services are well received by guests and create a value enhancement for the brand.

On the labor front, the availability of hourly employees has continued in an improved state here in recent months, which has allowed us to slow the growth in wages and to increase hourly productivity. However, the same is not true of salaried management. That labor pool continues to be in very short supply, and it is harder within the existing supply to find good candidates. This is an issue that continues to require a great deal of time and effort to manage. Post COVID, a sizeable number of talented restaurant management professionals have exited the industry, and have yet to return. Upward pressure on salaries is the result, and I think this will be a continuing challenge for CPP as well as the industry as a whole.

Finally, from an operational standpoint, our 60-day rolling Google Star rating for all 9 company operated restaurants combined has climbed to an average of 4.8 out of 5, which we are very pleased with. Last time we computed it directly, I believe this compares to something in the low to mid threes for some national concepts operating in this market on the more commodity side of the pizza marketplace.

OK, with that we are concluding the presentation portion of the call. Next, Paul and I will take questions. If you want to ask a question and you logged in with your full name when you joined the call, press 5 then the STAR key on your phone – that will queue you in line. Again, that is 5-STAR. When it is your turn to ask a question, you will hear a voice saying that your line has been un-muted. Hearing that your line has been un-muted is your go-ahead to ask a question. So again, press 5-STAR if you have a question. There will be a few moments of silence here as we build the queue, then we will get started.

{Build Queue}

We are back and ready to answer your questions. Like before, when you are called on, please keep it to one question and we'll answer after we have you off line. You can always use 5 Star again if you have another question.

{Q&A SESSION}

OK, that is all the time we have today, and we are now done with the call. Thanks again for participating and have a good evening! We will be terminating the session connection now. Thank you!

The statements contained above concerning the company's future revenues, profitability, financial resources, market demand and product development are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995) relating to the Company that are based on the beliefs of the management of the Company, as well as assumptions and estimates made by and information currently available to the Company's management. The Company's actual results in the future may differ materially from those indicated by the forward-looking statements due to risks and uncertainties that exist in the Company's operations and business environment, including, but not limited to the continuing effects of the COVID-19 pandemic and its aftermath, competitive factors and pricing and cost pressures, non-renewal of franchise agreements or the openings contemplated by the development agreement not occurring, shifts in market demand, the success of franchise programs, including the Noble Roman's Craft Pizza & Pub format, the Company's ability to successfully operate an increased number of Company-owned restaurants, general economic conditions, changes in demand for the Company's products or franchises, including its new XL Pizza, the Company's ability to service its loans, the acceptance of the remaining quarter amended federal Form 941 returns relating to the ERTC, the impact of franchise regulation, the success or failure of individual franchisees and inflation, other changes in prices or supplies of food ingredients and labor and, as well as the factors discussed under "Risk Factors" contained in this Company's Annual Report on Form 10-K for the year ended December 31, 2022. Should one or more of these risks or uncertainties materialize, or should underlying assumptions or estimates prove incorrect, actual results may vary materially from those described herein as anticipated, believed, *estimated, expected or intended. If activist stockholder activities ensue, the Company's business could be adversely impacted.*

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