

1 **Noble Roman's, Inc.**

2 **2021 2<sup>nd</sup> Quarter Conference Call**

3 **August 12, 2021**

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5 **SCOTT MOBLEY:**

6 Good afternoon, and welcome to the Noble Roman's conference call.  
7 We appreciate you joining in. Today we will discuss the second quarter  
8 and comment on the current business environment – at the end we will  
9 address any questions you may have.

10  
11 My name is Scott Mobley, and I am President and CEO of the company.  
12 Also on the line is Paul Mobley, our Executive Chairman and CFO. We  
13 will begin today's call with Paul's review of financial highlights.

14  
15 As usual, I would first like to refer you to the Safe Harbor Statement  
16 contained in the earnings press release. This conference call will contain  
17 forward-looking statements of the kind referred to in that statement, so  
18 those provisions apply to this conference call as well.

19  
20 So, with that out of the way, I will turn the call over to Paul to discuss the  
21 financial highlights. Paul . . .

22

23 **Paul Mobley:**

24 Thank you Scott and I want to thank the attendees very much for their  
25 participation on this call.

26

27 First, it has been very exciting to announce that revenues increased 38%  
28 year-over-year as the company expansion of Craft Pizza & Pub  
29 continues despite the COVID-19 environment.

30

31 Some specific financial highlights from the second quarter 2021 include:

32 • Revenues of \$3.6 compared to revenues of \$2.6 in the same period  
33 in 2020

34 • Net income of \$85,000 compared to \$441,000 in the same period  
35 2020, however the 2020 quarter includes the benefit of \$715,000  
36 from the Paycheck Protection Plan (“PPP”) which is not repeated in  
37 the 2021 quarter

38 • EBITDA of \$600,000 compared to \$1,117,000 in the same period in  
39 2020, however the 2020 quarter includes the benefit of \$715,000  
40 from the Paycheck Protection Plan (“PPP”) which is not repeated in  
41 the 2021 quarter

- Company-owned Craft Pizza & Pub revenues increased to \$2.3 million from \$1.4 million in the same period in 2020
- Company franchising revenue increased to \$1.2 million from \$1.1 million in the same period in 2020

We are extremely pleased with the financial performance of our existing Craft Pizza & Pub restaurants open greater than one year, with an average annual revenue per location of approximately \$1.2 million and store level EBITDA averaging above 15%. Newer locations opened in 2020 are averaging \$1.4 million in annual sales per location with store level EBITDA ranging from 17% to 20%. As the company continues its expansion of the Craft Pizza & Pub concept, we anticipate continued gains in both revenue and EBITDA going forward.

For the six-month period, the company reported total revenue of \$6.9 million compared to \$5.3 million in the corresponding period last year. Operating profit before interest and taxes for the six-month period was \$1.6 million which was the same as the corresponding period in 2020. Net income for the six-month period was \$913,000, or \$.04 per share, compared to \$441,000, or \$.02 per share, for the corresponding period

62 last year. Both this year's six-month period and last year's six-month  
63 period was aided by a loan/grant from the Paycheck Protection Program.

64  
65 For the six-month period total revenue from the Craft Pizza & Pub venue  
66 was \$4.4 million compared to \$2.5 million in the corresponding period  
67 last year. Gross margin contribution to the overall company was \$1.2  
68 million compared to \$700,000 in the corresponding period last year. This  
69 improvement primarily came from the opening of additional company-  
70 owned Craft Pizza & Pub locations opening in March, October and  
71 November of 2020. Cost pressures on most all operating expenses have  
72 been significant but we have been able to compensate for those  
73 pressures. In fact we were able to lower our occupancy costs from  
74 15.5% down to 10.4% to help offset that impact.

75  
76 Revenue from the franchising venue did show a decrease to \$2.3 million  
77 from \$2.6 million for the six-month period compared to the corresponding  
78 period last year. This decrease reflects the effects of the pandemic in  
79 non-traditional locations where many were closed as a result of different  
80 government mandates related to COVID-19 as well as resulting from  
81 capitalization and liquidity issues of those non-traditional franchisees.

83 A portion of the decrease in revenue and margin contribution was a  
84 decrease in revenue from the grocery store take-n-bake. The grocery  
85 store take-n-bake had not been a focus of the company's efforts for two  
86 reasons. First, the company believes the strong economy prior to the  
87 pandemic favored non-traditional franchising as a more viable and  
88 attractive revenue growth strategy. Second, during the COVID-19  
89 pandemic through current time, groceries have experienced a significant  
90 increase in traffic and a simultaneous decrease in available labor  
91 causing them to focus on basic operational issues rather than revenue  
92 generators that require dedicated labor and management time.

93  
94 The good news is the increase in revenue in the non-traditional segment  
95 in the second quarter reflected a slow improvement from the significant  
96 impact of the pandemic. Gross margin contribution from this venue  
97 decreased to \$1.4 million from \$1.8 million compared to the  
98 corresponding period in 2020. The margin contribution was still strong at  
99 63.5% of revenue for this venue.

100  
101 At this point I should make what is likely an obvious statement. The  
102 uncertainty and disruption in the U.S. economy caused by the pandemic  
103 are likely to continue adversely impacting the volume and resources of

104 both the company's Craft Pizza & Pub locations and especially that of  
105 existing and potential franchisees of non-traditional locations, at least  
106 until greater normalcy stabilizes over a significant period. This return to  
107 normalcy started but has recently been interrupted in the face of rapidly  
108 rising cases attributed to the new 'Delta variant' of COVID-19, which the  
109 company believes is impacting consumer, employee and supplier  
110 behavior.

111  
112 Moving on, from a corporate standpoint, depreciation and amortization  
113 for the six-month period was \$307,000 compared to \$164,000 for the  
114 corresponding period in 2020. The increase was the result of new  
115 company-owned Craft Pizza & Pub locations opening March, October  
116 and November and, in addition, expensing certain preopening costs in  
117 the amount of \$118,000. The company intends to open three additional  
118 company-owned Craft Pizza & Pubs in 2021 and two of those three are  
119 currently under development.

120  
121 General and administrative expenses were \$780,000 for the six-month  
122 period compared to \$794,000 in the corresponding period in 2020.  
123 Certain expenses were reimbursed from the PPP loans in both years  
124 partially offset by a very small increase in various operating expenses.

125

126 Interest expense for the six-month period was \$673,000 compared to  
127 \$1.25 million for the corresponding period in 2020. The primary reason  
128 for the difference was the financing that occurred in 2020 resulting in  
129 one-time non-cash write-offs of the original loan costs for the former  
130 bank loan that the company refinanced and the private placement of  
131 subordinated debt which in the aggregate was \$658,000.

132

133 The company's current ratio was 4.7-to-1 as of June 30, 2021 compared  
134 to 2.6-to-1 as of December 31, 2020. The current ratio was improved  
135 significantly with the PPP funding in February 2021 and the net income  
136 from operations.

137

138 That concludes the financial overview. Now I will turn the meeting back  
139 over to Scott.

140

141 **Scott Mobley:**

142 Thanks Paul. Next, we will turn to a discussion of operations and recent  
143 events.

144

145 It has already been said, but these days no discussion of business  
146 operations gets too far off the ground without discussing the current  
147 impact of COVID-19, and the second quarter is certainly no exception.

148 The second quarter was, in fact, extremely difficult to manage, one of the  
149 most difficult ever, with a consistent flow of issues and hurdles to  
150 overcome. Supply and distribution issues were, and are, frequent, and  
151 there are consistent pressures on cost structures from both labor and  
152 ingredients.

153  
154 An example is chicken. Chicken is a very volatile commodity these days  
155 from a supply and pricing standpoint. As you are aware from the  
156 Shareholder Presentation, if you were present for that or had the  
157 opportunity to look at it later, our non-traditional venue has rolled out a  
158 chicken menu extension as a growth vehicle for franchisees and for  
159 selling new franchises. Our supplier, which at this point was actually our  
160 back-up supplier, notified us one afternoon that they were unable to  
161 acquire the necessary raw materials to process our product, and that  
162 even if they had the raw material, they had insufficient staffing to  
163 operate. They informed us that there would be no more production for  
164 the foreseeable future, effective immediately.

165



166 Fortunately, we had a small, emergency supply under our control which  
167 we were able to draw from while we went into emergency mode  
168 identifying, qualifying and coming to terms on pricing and manufacturing  
169 with a new processor on an extremely expedited basis. Not an easy task  
170 in normal times, it was made more difficult this time since many  
171 manufacturing options normally available had similar supply or staffing  
172 issues and could not complete their existing manufacturing obligations let  
173 alone take on any new business. But with a lot of effort we were able to  
174 solve the crisis quickly and product continued to franchisees without  
175 interruption.

176  
177 Clam shell boxes are another example. These small boxes are used by  
178 our non-traditional units to merchandise product for sale. If you can't  
179 merchandise it, you can't sell it! And it may seem an easy item to  
180 manufacture, but the boxes have to be manufactured to withstand heat  
181 tolerances in our warmers, have plastic window viewing that is anti-fog,  
182 and be customized to carry our control markers used for maintaining  
183 freshness and hold times. In this case, our primary distributor was  
184 expecting a shipment from the manufacturer and it did not arrive. After  
185 getting involved ourselves, we learned the manufacturer could not

acquire the necessary raw material linerboard and was unable to wield enough staff to manufacture all of their products.

Again, fortunately we had a limited back-up supply under our control and we were able to cover the shortfall until the manufacturer was able to run our product and resupply our distributor.

Those are just two examples. Problems such as these have become par for the course recently. They are just challenges that have to be overcome, and we have been fortunate to be prepared enough and assertive enough on solutions that we have not run out of anything, nor have we had to eliminate any menu items from our offerings.

In the non-traditional venue, we have continued our franchising sales efforts and we are continuing to make progress despite the barriers presented by COVID. This week, we are supervising two new openings, one in Indiana and one in Kentucky, and another opening is scheduled for next week, with several more on the schedule after that. We have sold 19 non-traditional franchisees so far this year, and we have a solid pipeline of prospects we are continuing to build and work into sales. The process is slower than usual on bringing many of these prospects to

207 fruition, as these prospects deal with their own issues related to COVID  
208 and staffing.

209  
210 On the Craft Pizza & Pub front, the primary focus has been on managing  
211 through the market labor shortage, price escalations in labor and  
212 ingredients, and, on the pro-active side, setting the groundwork for new  
213 WOW factors to keep things exciting. Throughout COVID we have tried  
214 to keep development on track and we have tried to keep pizza fun for  
215 guests.

216  
217 On the staffing front, the company Craft Pizza & Pubs are currently  
218 staffed fairly well – much better, we believe, than most restaurants.  
219 August is usually a transitional month for employment, and we are  
220 dealing with that as expected, but our very aggressive approach to filling  
221 hourly employee staffing needs has been paying off. It has certainly  
222 been a time consuming battle. The labor shortage is real, and as it  
223 relates to the restaurant industry, the causes have been grossly  
224 misrepresented and reinforced by many pundits.

225  
226 I will be happy to answer any questions on this issue in Q&A, but you  
227 can also get more insight by looking at the Shareholder Business

228 Presentation from July, which is available at noble romans dot com.  
229 However, I would like to point out that attracting and developing the  
230 professional class, salaried restaurant managers remains a key to  
231 developing new Craft Pizza & Pub units. The difficulties with recruiting  
232 that group have nothing to do with pay rates, contrary to what you have  
233 heard, since our GMs individually make more than the average Indiana  
234 household in salary alone. Rather, their issue is largely the frustration of  
235 battling the hourly labor workforce shortage and dealing with other  
236 COVID related difficulties.

237  
238 The hourly workforce in restaurants is – and always has been - in  
239 significant part transitory and part-time. A significant percentage of these  
240 part time folks work for extra household income, for extra spending  
241 money, for income while they are attending college and for many other  
242 reasons – and contrary to what you may hear, scheduling flexibility is  
243 actually an advantage for this group, not a disadvantage. However,  
244 when you flood the economy with stimulus checks, monthly  
245 unemployment bonuses, extra food assistance debit cards, IRS checks  
246 for children and the elimination of the risk of rental eviction, a lot of  
247 incentive to work part time for extra cash is eliminated. And, again, part-  
248 timers are a significant portion of our workforce.

249

250 Indiana had opted out of the additional government unemployment  
251 bonus payments, which resulted in an immediate resurgence of  
252 applications, but this was quickly squashed when court challenges  
253 reversed that decision. However, with the federal program set to expire  
254 in September, we are hoping that the labor market revives some after  
255 Labor Day. Our professional manager class would certainly appreciate  
256 the reduction in staffing stress.

257

258 Cost pressures from manufacturers and commodities have also been an  
259 issue. To help combat that and the labor cost pressure, I authorized a  
260 menu price increase in corporate Craft Pizza & Pub units that went  
261 effective on August 4<sup>th</sup>. It is difficult to give firm guidance on the impact  
262 of that increase yet because our sales mix is still in a high state of flux,  
263 and future commodity and pricing pressures are obviously still unknown.  
264 However, we were targeting a net 5% increase on a weighted average  
265 sales mix basis. Again, it is still too difficult to judge what the impact will  
266 be on margins at this point as consumer behavior remains fluid.  
267 Nonetheless, this increase should help relieve the pressure for now on  
268 the inflationary front, and the menu price increase was implemented  
269 flawlessly by our operations teams and without guest complaint.

270

271 As we previously announced, we are continuing with the growth in  
272 company-owned and operated Craft Pizza & Pub units. Two restaurants  
273 are in development now, one in the Greenbriar area of Indianapolis,  
274 which is on the north central side of town, and one in Franklin, Indiana,  
275 which is a community south of Indianapolis on Interstate 65. The first is  
276 scheduled to open at the end of the third quarter and the second  
277 sometime during the fourth quarter. Also in the works would be a third  
278 new location for 2021 to open near the end of the fourth quarter.

279

280 Both of the new locations under development utilize the smaller square  
281 footage footprint along with the other enhancements introduced in the  
282 two previous openings. In fact, both of the units under development are  
283 slightly smaller than the previous two.

284

285 As I mentioned, we are focusing on fun for our guests, and this weekend  
286 and next we have an exciting event scheduled for the Craft Pizza &  
287 Pubs. We will be featuring our own Chef Tyler at our Carmel restaurant  
288 and then our Brownsburg restaurant where he will be in the dining room  
289 cooking and providing samples of our newest, dare-you-to-try-it pizza –  
290 we call it: The Hottest Taco Pizza on the Planet. The pizza sauce is

made from Ghost Peppers, which is basically one of the hottest peppers known – they're more than 250 times hotter than a Jalapeno. The pizza also has sliced Habanero Peppers as well. We have been promoting this on social media and the local news media as well as our email club – we are offering folks a \$20 Noble Roman's Gift Card if they can finish an entire slice. Frankly, I'm only able to eat two to three bites myself, and I like things hot! Anyway, we think it will be a lot of fun and will attract some market wide attention. People these days are tired of the stress of COVID and they are anxious for life to be fun again.

Even more exciting, this September after Labor Day, we will be launching a limited time only new pizza we are calling Mediterranean Flatbread Pizza. We have developed a special, unleavened dough recipe using our high protein flour, eggs, Greek yogurt, olive oil, a touch of sugar and plenty of rosemary. These pizzas will be rectangular, about 12" by 7", and they will come with up to 3 toppings for a fixed price of \$9. The pizza is served with a cold Greek Sauce drizzle on top. We will be promoting this special pizza through social media and some internet advertising. It has been a hit in our testing, and we think it will be a popular promotion. Depending on how it goes as a limited time offering, we can make the item permanent, or we can keep it as a product we

312 recycle on a limited time, special basis. We will be releasing more  
313 information on this product soon, but if you want to see a photo of it,  
314 there is a great one in the Shareholder's Presentation, which again is  
315 online at noble romans dot com.

316  
317 Finally, a quick update on some consumer metrics. Our recent trend has  
318 been about 47% dine-in, 18% third party delivery and 35% carry-out. I  
319 say 'about' because the metrics are still unstable with substantial  
320 deviation day-to-day. The good news is that the third-party delivery  
321 metric has not been moving upward, though in recent weeks we have  
322 seen what appears to be a slight re-shift from dine-in back to carry-out.  
323 We believe consumer sentiment is being heavily influenced with the  
324 news on the so-called "Delta variant" of COVID-19, and the prevalence of  
325 mask wearing in the marketplace is seemingly on the increase here  
326 locally. Though there are no government mandated mask requirements  
327 in Craft Pizza & Pub marketplaces at this time, many companies are  
328 initiating their own mandates. The bottom line is that COVID-19 is going  
329 to continue to direct much of our actions and metrics for some time to  
330 come.

331



One final announcement before Q and A. We will be launching a new investor website for you, which will go live very soon. It will have its own URL but it will also link from noble romans dot com and n r pizza pub dot com. This site will be a one-place connection for business overviews, press releases, SEC filings, presentations, earnings call transcripts and more. Again, it is almost complete and should be launched soon, so you can watch for that announcement for more details.

OK, on that note we are wrapping up 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 name when you joined the call, press 5 then the STAR key on your phone – that will que 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 que, then we will get started.

{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!

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