SmallCAPS Investment Research

Transcript of initial interview with Mr. Michael D. Pruitt

Chairman and CEO of Chanticleer Holdings Inc.

CHANTICLEER HOLDINGS

NASDAQ: HOTR

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Michael D. Pruitt - Chairman and Chief Executive Officer. Michael Pruitt founded Avenel Financial Group, a boutique financial services firm concentrating on emerging technology company investments, in 1999. In 2001, he formed Avenel Ventures, a technology investment and private venture capital firm. In February 2005, Mr. Pruitt formed Chanticleer Holdings, Inc., which commenced operations in June 2005 with him as Chairman of the Board of Directors and President, roles he continues to serve today. In January 2011, Mr. Pruitt became a director of the board of Hooters of America, LLC. Mr. Pruitt received a Bachelor of Arts degree from Coastal Carolina University in Conway, South Carolina, where he sits on the Board of Visitors of the E. Craig Wall Sr. College of Business Administration, the Coastal Education Foundation Board, and the Athletic Committee of the Board of Trustees.

Smallcaps Investment Research: Welcome everyone to a new interview on Smallcaps Investment Research. We're very pleased to have Mr. Mike Pruitt, the Chairman and CEO of Chanticleer Holdings with us today. Chanticleer Holdings owns, operates and franchises fast casual restaurants in the United States and abroad. Several events have recently taken place that give us reason to believe that the Company is on the verge of solid growth. The Company is listed on NASDAQ with ticker symbol HOTR. Mike it's a pleasure to have you with us, welcome.

Michael D. Pruitt: Thank you.

As this is our initial interview, can you give us an introduction of Chanticleer Holdings, its history and its current activities?

Sure. As you eloquently pointed out we are a holding company in the restaurant sector, with operations primarily in the U.S., but also some abroad. The past few years, our efforts have been focused on the fast casual better burger category where we've made acquisitions of regional brands that are very well thought out with great unit level economics.

We acquired those brands because we felt there was opportunity to grow both in the areas where they currently are active in, as well as through franchising and joint ventures. In some cases, we may even take their concept abroad.

Where do you want to take the Company? What are your growth plans for the next few years in terms of number of restaurants and sales?

Last year at the end of the second quarter, we had 55 active units, and we stated that we could double the size of the business to 110 units by the year 2020. At the same time, we gave guidance that in 2017 we would open 8 to 10 new units. I'm pleased to say that we're well on our way to achieve both targets.

A couple of weeks ago, we opened our fourth restaurant of the year and by late summer we hope to open another Little Big Burger in Charlotte, North Carolina and a BGR restaurant in Washington, D.C.

In addition, two of our franchise partners also have restaurants under construction.

Finally, we have three Little Big Burger restaurants in Seattle, WA that are in the permitting stage. As soon as we receive the permits, we can move ahead and open them later this year.

Most of our growth will come from our Little Big Burger brand, which is based out in Portland, Oregon, and our BGR - Burgers Grilled Right – brand, which is based in Washington D.C.

You currently operate five different restaurant brands. Let's discuss them in a bit more detail so that listeners get a overview of the Company. First, Little Big Burger. How is this brand performing and what are its growth prospects?

Little Big Burger is performing amazingly. The Little Big Burger stores had greater than

25% EBITDA margin, making them one of the top performing restaurants in the United States.

We attribute that success to the limited menu, and the cult-like following of our customers. Through our joint venture franchise partners we are actively looking to grow the brand.

Second is BGR, or Burgers Grilled Right, which has the highest number of stores. This one is a bit different from the previous brand in that a majority of the restaurants are owned by franchisees. Would you expand a bit on this brand and its growth plans?

We acquired this brand early 2015 and it has been a success ever since. BGR has been awarded the best burger and best fries in Washington D.C. for a couple of years in a row now. A true honor.

The differentiating factor between BGR and Little Big Burger is that the burger is bigger and that it is actually baked on an open flame, which gives it a unique flavor and presentation.

The menu at BGR also has more products on it. For example, it has a turkey burger, a veggie burger, an ahi tuna burger, and it also has sweet potato fries and asparagus of all things, as a side item.

As for the growth plans of this brand, soon after the original founders of BGR opened their first restaurants, they initiated a franchising program. Consequently, at this moment there are slightly more franchise locations than Company stores. We are very comfortable with that situation. Going forward, we plan to even broaden the distance between the number of franchise locations and company locations.

Next is American Burger. What makes this brand stand out and where are the restaurants located?

The original American Burger restaurant is located in Long Island, New York. It is one of our top three performing burger restaurants. In fact, the number one performing burger restaurant in our portfolio is also an American Burger unit, located in Charlotte, NC where we have six locations in total.

Also at American Burger, the menu is quite broad. We have no less than ten specialty burgers. They were developed in cooperation with a chef that was involved with the Culinary School of Johnson & Wales. He came up with some ideas for burgers that one would never think of.

In addition, American Burger serves really good milkshakes and excellent fries. Over the years, we've been voted the best turkey burger in Charlotte by a couple of a different publications.

Chanticleer also owns and operates nine Hooters restaurants in the Unites States and abroad. For people not familiar with the iconic brand, could you explain the concept of these stores?

At this moment, Chanticleer owns a number of Hooters restaurants in the Unites States, South Africa and the UK.

Three things have made Hooters famous. First, the Hooters Girls, which are the waitresses that work in each of our restaurants. Second, the chicken wings of which Hooters was the original purveyor. And third, it was the brand that invented the sports bar where you could go in and watch multiple sporting events on televisions. Whereas today we take that for granted, because it has become an incredibly popular concept.

Lastly, we have Just Fresh, which is majority owned by Chanticleer. As the name suggests, the offering in these stores is different from the previous brands. What's the idea behind owning these types of restaurants?

Well, Just Fresh was really an opportunistic acquisition. Shortly after the Charlotte press published that we bought American Burger, we were approached by a bank that had for sale the majority stake in the Just Fresh restaurant brand. They had obtained it because it was pledged as collateral on a defaulted loan.

When we looked at the opportunity, it seemed like an offer that we couldn't refuse. That feeling even got better when we spoke with the minority partners, who previously were the majority owners of Bojangles, a Southeastern regional chain of fast food restaurants, when it was sold for over a $170 million.

After having discussions with them, they agreed to stay minority partners in the business because they loved the space that Just Fresh participated in. Having them as partners, we felt that it was an opportunity we couldn't pass up on. And quite frankly, we were right. It's been a great business. We are evaluating where to go with it from here.

A couple of weeks ago, you announced financial results for first quarter, ended March 31, 2017. Can you give us a brief overview of those results?

A couple of things stood out for the quarter. A third of our restaurant profits come from the Little Big Burger restaurants in Charlotte, NC as well as the gaming machines that rest inside of the Hooters location in Portland, OR. Unfortunately, both Portland and Charlotte had a monster storm that hit them in early January, which resulted in us losing four days of revenue. That obviously had a negative one-time impact on our results.

Another ongoing issue the past few years is the fact that the U.S. dollar has strengthened against most currencies around the world. Because we report our results in U.S. dollars that too has had a negative impact on our financials.

A final item in the first quarter was that, similar to our competitors, we saw unusual softness in the market. I had no explanation for it, but January and February was particularly soft. Fortunately, it bounced back in March.

As for the second quarter, April and May were also strong. June is too soon to tell. Moreover, all of the stores that we opened this year have exceeded our expectations and we hope those results continue as we open additional stores.

Last month, you completed a six million dollar private placement, which showed a strong commitment of several large shareholders of Chanticleer. Would you explain how this financing strengthened the Company?

The previous creditor who's debt came due at the end of last year had no interest in continuing as a creditor of Chanticleer. So a couple of our largest shareholders, who really believe in our better burger concept, stepped up and agreed to recapitalize the business by paying off our creditor.

In addition, they agreed to reduce the interest rate on the debt, while giving us some extra money to open a few new Little Big Burger and BGR company stores.

Incidentally, one of the two investors is providing additional capital in a joint venture for a Little Big Burger, and the other one became our first franchises for Little Big Burger.

As a reaction to the financing, our stock more than doubled. However, since then it has pulled back, which is perplexing giving the fact that the same financing is still in place and that we've opened three additional stores that are performing well.

Can you tell us a little bit about yourself and the other key executives of the Company?

I am the founder of Chanticleer. My background was more to be an investor having run a microcap value fund. One of our early investments was in Hooters. After the founder of Hooters passed away, I was given the opportunity to buy the business. So, along with some partners, we bought the Hooters brand six years ago and it has been an amazing investment since.

Given the experience that we gained on the board of Hooters, we made a decision to focus the resources of the Chanticleer investment fund on the restaurant space.

Like most, if not all great businesses, it's about people. When we entered the better burger space, it was really on the back of Rich Adams, who ran the franchising arm of Bojangles for a period of time. Prior to that he spent over 20 years in the Carl's Jr, which is in the burger space. Rich currently runs our burger business.

We also attracted Mark Roberson as our Chief Operating Officer a little over two years ago. Mark first was Head of Financial Reporting for Krispy Kreme Doughnuts, a hugely successful doughnut and coffeehouse brand. Then he became the CFO and later president of PokerTek, Inc., a NASDAQ-listed gaming company, up until it was sold.

Eric Lederer, our Chief Financial Officer, already worked for me in a previous company. Then he left for Pokertek, where he worked for Mark. About four years ago, he joined Chanticleer.

More details about those bios can be found on our website www.chanticleerholdings.com.

We already spoke about your longer term growth plans earlier in our conversation, but what's you're outlook for Chanticleer for the next 12 months?

Well so far we've only given guidance for 2017. Our main goal this year is to open 8 to 10 new burger units. We're incredibly confident that we'll achieve, if not exceed, that goal.

Secondly, we have a commitment for 10 Little Big Burgers in the Pacific Northwest, with funding provided by a financial partner. So far, we have opened four stores under that agreement, with a fifth under construction. We're confident that we'll be able to announce additional leases signed and locations built in the next six months.

Furthermore, we hope to announce more franchising relationships in the next three to four months that will help us meet our target of doubling the size of the business by 2020.

Before we go, what would you say are the two or three most compelling reasons for a long term investor to consider Chanticleer today?

The restaurant market is a cyclical one, and unfortunately it has been in a downward trend over the last couple of years. But the market always bounces back. At this moment, we're preparing Chanticleer for the next upswing both through acquisitions and organic growth. Making this a perfect entry point for investors. I continue to buy shares myself in the open market.

Even given the fact that the market is in a downward cycle, Chanticleer is trading at a significant discount to its peers. Whether it be Shake Shack, The Habit Burger Grill, or any of the others, they're trading at the industry average of two times revenue and most of the restaurant analysts are evaluating them based on 20 times 2018 EBITDA estimate. Chanticleer on the other hand, is nowhere near that valuation.

Yet in the case of store performance, Chanticleer is one of the better ones out there. For example, when comparing Little Big Burger with The Habit Burger Grill, we think our store performance is much more favourable than theirs, although they have 100 stores while we had only 8 at the end of 2016.

In addition, when we acquired our brands, we worked really hard to make sure that we made them leaner without sacrificing any of the customer experience. We demonstrated that with Little Big Burger. After we bought it, we didn't open any new stores until we grew the profits of existing stores with more than 15%.

Finally, I'd like to add that I always welcome calls or emails from your listeners and readers. If they have any questions, or they want to speak with me, I’m always available to do so.

Fantastic. Mike, we really appreciate the time you've taken to speak with us today. All the best to you and Chanticleer, and I look forward to speaking with you again soon.

I appreciate you giving me this opportunity to talk to you and your audience. I look forward to updating your audience when you think it’s time.

Interview Feedback

We welcome your questions and feedback regarding this interview at:
http://www.smallcaps.us/chanticleer-holdings-ceo-mike-pruitt-provides-details-on-impressive-growth-strategy

Transcripts are edited for clarity.

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