



Transcript of initial interview with Mr. Paul W. Mobley



Chairman and CEO of Noble Roman's Inc.



OTCQB: NROM

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Paul W. Mobley - Chairman and Chief Executive Officer. Mr. Mobley has been Chairman of the Board, Chief Executive Officer and Chief Financial Officer of Noble Roman's since December 1991 and a Director since 1974. From 1975 to 1987, Mr. Mobley was a significant shareholder and president of a company which owned and operated 17 Arby's franchise restaurants. Mr. Mobley has a B.S. in Business Administration from Indiana University and is a CPA.

Smallcaps.us: Hi everybody, and welcome to a new Smallcaps.us interview. We're excited to have Mr. Paul Mobley with us today. He's the Chairman and CEO of Noble Roman's, a franchisor of Noble Roman's Pizza and Tuscano's Italian Style subs. The Company is based in Indianapolis and is listed on the OTCQB market under ticker symbol NROM. Paul, it's wonderful to have you here so we can learn more about your interesting Company and its potential for investors. Welcome!

Paul Mobley: Thank you.

S.us: As this is our first interview, could you give us a brief summary of Noble Roman's activities and its goals?

PM: Yes, Noble Romans was started in 1972. We sell and service franchises and license primarily for non-traditional food service operations under the trade name Noble Roman's Pizza, Noble Roman's Take-N-Bake, and Tuscano's Italian Style Subs. Our Tuscano's Italian Style subs is kind of an add-on, it's a supplement to Noble Roman's. Noble Roman's Pizza and Noble Roman's Take-N-Bake are the primary concepts. And our concepts include high-quality pizza and sub sandwiches along with other related menu items.

We have simple operating procedures, fast service times, and labor memorizing operations with attractive food cost and overall affordability.

Since 1997, we've focused primarily on franchising and license for non-traditional locations. Part of that time we had full service restaurants. We've now have franchises or licenses in 49 of the 50 states plus Washington D.C., Puerto Rico, Bahamas and Canada, and we're primarily focused on selling franchise for

non-traditional locations in convenience stores, entertainment facilities, and also license agreement for grocery stores that sell Take-N-Bake.

S.us: Well thank you. So, Noble Roman's is basically organized around two lines of business. Let us first take a closer look at your franchise business in so-called non-traditional locations. How do you organize the distribution to all of those convenience stores?

PM: We have a distribution network setup that we built over the years. We have 12 different primary distributors strategically located in various parts of the country, so that we can have a weekly distribution to all of our franchisees anywhere in the 49 states.

S.us: Great, and could you go into a bit of detail about the revenue model and its margins for this business?

PM: Yeah, we don't really sell anything. We provide the services, franchises and licenses. And so our revenue model is all fees off of that. We contract with manufacturers from various parts of the country, to produce all of our proprietary products, which go into the pizza and the other products that we sell. These manufacturers then sell those products to our network of 12 distributors at a cost that we negotiate. Next, the distributor assembles them all together in their warehouse, so, they can deliver a complete package to all the franchisees that use our product.

The revenues that we earn with that are equal to roughly 10-12% of sales for the licensees or franchisees. Our revenue model currently is at about 40% of our revenue falls into earnings before taxes and interest.

S.us: Okay, terrific. Now, recent press has revealed that you've closed deals with The Pantry and Hucks, two convenience stores chains. What can you tell us about these partnerships?

PM: Those are franchisees. Hucks, for instance, is a 112-unit chain, headquartered in Southern Illinois, but they have convenience stores in five states surrounding where their headquarters are -- Indiana, Illinois, Kentucky, Missouri. Initially they bought eight franchises. Before they got any open, they came back and bought two more. So, they now have 10 franchises. About a month ago, they opened up the first one. Three more units are scheduled to open in the first week of July, some more later in July, and the final ones in August. Their full intent is to continue adding to that with new license agreements and expand into other locations.

The same with The Pantry, The Pantry has about 1,650 convenient stores primarily in the south-eastern states of the United States. So far, they bought one franchise. Due to organizational problems they had to organize the expansion, the opening was delayed a couple of times. But the first unit will open August. This is kind of a prototype unit to see what it does and hopefully they will continue to expand throughout the rest of their chain.

S.us: Okay, and do you envision Noble Roman's breaking out to become a nationally recognized brand?

PM: We're already over the entire country. We're in 49 of the 50 states and we are recognized pretty much in the convenience store industry, entertainment industry and getting that way in the grocery store industry. We do not promote it to the general public like a Domino's or Pizza Hut, where you're educating the whole public and the whole country on the product. The reason for that is that we're going into non-traditional facilities. In other words we're not the only draw.

When we go into a convenience store, our marketing for that store is focused on the people who stop in the lot to get gas or the

people coming in to the convenience store for some other reason. So, our marketing again is limited to a small radius around that store. Same thing with grocery stores, we don't advertise to the public to get them into the grocery store. We advertise within the grocery store to take advantage of the traffic they have to sell our pizza.

S.us: Now let's take a look at your other line of business, the "Take-N-Bake" program you've created in partnership with grocery stores. Could you expand somewhat on the expected growth for this line and tell us a bit about the margins on this type of product?

PM: Yes. We started the Take-N-Bake program for grocery stores in October of 2009. Since then, we have signed agreements for about 1,125 locations, of which 975 locations are now open. The others will be opening in a short while.

The way that process works is the grocery store signs a pretty simple license agreement, basically it says they will only make our products with our proprietary ingredients and they won't use those proprietary agreements for anything else. That's the essence of that contract. Then when they sign, we assist them in placing their first order with their distributor, we take point of purchase material because that's the advertising for that grocery store and help them place it within the grocery store in particular around the case where they're displaying our product. Next, we train them on assembling the product by a color-coded chart.

The ingredients for the product all comes in fully prepared ready to use. All they have to do is assemble them together, shrink wrap them with a little machine that cost them \$199 if they don't already have one and then they put them in our pizza box which is a decorative box, advertising our concept on the box. On the back of the box it has the ingredients and the baking instructions. It simply tells the customer to take it out of the shrink wrap, place it on a cookie sheet, or a baking pan, put it in a pre-heated oven at 455 degrees and bake it for 8-10 minutes until it's golden brown.

S.us: Now, before we move on to the financials, I'm curious to find out how you came up with the ingredient formula of the pizzas? I mean, everybody that I spoke with about Noble Roman's in preparation for this interview told me they loved the taste.

PM: Yeah, we promote primarily through trade shows. We get new licensees and franchisees by going to convenience store trade shows, grocery store trade shows and through our distributor's food shows. Our product has tremendous taste and quality acceptance and we developed that over the years.

We started out with the totally fresh, handmade crust back in the early 70's. Our crust has a lot of yeast in it, and that's how you develop flavor in crust, by aging the dough with yeast. The trick is to thaw the frozen pizzas under controlled conditions to properly age the dough. You thaw it one day to use two days later, so, the aging process develops the flavour.

Of course that still had a variable in it because it was dependent upon the operators to follow that proofing process, as they thawed it. So we worked for about five or six years on developing that crust so we could proof it in the factory, in very controlled conditions where it was the same all the time. Basically, it's mixed in a big vat, it's poured into dies and the dies form the shape of the pizza. Then put a lip around the edge and then it goes on to a conveyer belt and it travels for several miles back and forth on this conveyer belt through this heat controlled, humidity controlled environment and that's aging and proofing the dough.

Then at the end of that process, we flash the dough with real intense heat about 700 degrees for just about two seconds. That's enough to kill the yeast, so, now it's very shelf-stable, we can ship it all over the country or all over the world in a controlled environment.

The other part of our pizza that's gives it such a good taste and quality, and which is probably very unique, is that we have our tomatoes picked once a year from vine-ripened tomatoes. They're canned immediately, they're crushed in

can, they're not watered down, they're not cooked down. They're crushed, fresh tomatoes with our spices in it. Because they're vacuum packed, they have about an 18 months shelf life in a vacuum packed container even at room temperature. So, we have the combination of the crust, which is proofed and developed in an extensive process in the manufacturing and then we have the sauce, which is fresh canned, never condensed, never frozen, crushed tomatoes.

S.us: Well that's very interesting. Now, results for the first quarter of 2012 were recently posted and included a net income of two cents per share. What else can you tell us about those results?

PM: Well the results are pretty much on target. Just to remind you that in the development of the non-traditional, we had grown very rapidly up until 2008 when the financial markets collapsed. In 2009 and 2010 there was not much lending going on, so, franchisees were not expanding very much. They had to have their own capital in order to expand because they couldn't borrow it because the lending was too tight. And those who had their own usually didn't want to spend it.

So our growth in the non-traditional slowed down through that and it only started ramping back up again in the last part of 2011. So, we're signing those agreements now and they'll be hitting the income stream in the third and fourth quarter of this year and even more into 2013.

The same ramping up process has been going on with the Take-N-Bake grocery stores. At the end of 2011 we had opened in the Take-N-Bake about 784, but we started out the year with only 300. So, we opened those and a lot of those openings came in the last part of the year and they tend to grow as they develop customer loyalty, people sample it, love it and they come back to buy more. So, it's a ramping up process and that growth that we're expecting this year and next year, a lot of that has not yet hit our P&L to a significant effect. But we'll start seeing it around the third quarter and continue ramping

in the fourth quarter, and then the big ramp up for next year.

S.us: For a couple of years now, Noble Roman's has been involved in a litigation battle. We've recently heard that the Company stands to receive a sizable amount of money as a result of this process. Can you briefly explain the litigation for us and what you expect to be the result?

PM: Yes. The litigation was by a group of traditional franchisees. It didn't involve any of the non-traditional franchisees that we are working with now. This was a result of some of those traditional franchises we sold in 2005 and 2006. Unfortunately they were not capable of managing their business successfully. Instead they found a plaintiff's lawyer that got together and sued us for all sort of things including fraud, misrepresentation, et cetera.

We've been totally cleared of that, the judge ruled a summary judgement dismissing those charges on December 23, 2010. But they continued the appeal process and motions to reconsider all through 2011. They have no appeal process left and all those charges against us have all been dismissed.

At the time that they terminated their contracts and filed a lawsuit, they violated the terms of their contract in paying us fees that we had already earned plus paying us fees for the future which they were obligated to under the terms of the contract. So, we filed a counter claim against that group of plaintiffs, which totals close to \$6 million. Now we have already been granted summary judgement as to liability. So the court has already said, plaintiffs you're liable for reimbursing them for their attorney's fees paying them for future fees, paying them for past fees. All that totals about \$6 million.

But the summary judgment could not determine the amount because the plaintiffs are entitled to a hearing to determine the amount of those damages. That hearing is set for late October, and then the court will rule as to the amount of those damages. In all likelihood we will be granted judgement of probably \$5 to \$6million.

However, we don't believe that that's all collectible. We don't think for a minute we're going to get that much money from them, but we believe that maybe \$2 million or \$2.5 million of that is collectible.

S.us: Okay. Now, the Company only has about 40 employees. With all the expected growth in both the non-traditional locations and the Take-N-Bake program, do you think you'll be able to maintain such a lean organisation?

PM: Well we'll be able to maintain a very lean organization. We have the infrastructure in place for that growth except we have to - as we get more and more units - we have to add a few more field people that go out and help them set up and help them train to get open. But it's very minimal in relation to the additional revenue from the stores opening.

S.us: And when you realize the expected growth in the quarters to come, what are your plans with the generated free cash flow? I mean, will you start paying a dividend or prefer to pay down some debt or maybe even initiate a stock buyback program?

PM: Well our current plans are that we want to use all the excess cash flow to get the debt paid off entirely. That debt is leftover debt as it was not created from the concepts that we're doing today. It was created when we were operating full service, sit down restaurants and that was in different facilities, lease-held improvements, et cetera. That debt has been paid down from about \$20 million down to \$3.9 million right now, and we want to go ahead and continue to pay it off and then we'll be a totally debt-free company.

At that point, it doesn't require investment of capital to grow our business plan. We don't invest in inventory, we don't invest in products, we just provide services. And so, all of our cash flow beyond covering our overhead will be used to pay dividends after the debts paid off, which I expect to happen in the next two to two and a half years.

S.us: I see. And what would you say are the two or three most compelling reasons for a long-term investor to consider Noble Roman's today?

PM: Well I think we developed a pattern of the Take-N-Bake sales and grocery store, we proved its liability over the last two and a half years and we have the distribution in place. Not only the 12 primary distributors, but now we've added another 12 grocery store distributors and we're expanding that base along the way. We're talking to four or five different ones right now to add to that. Each time we add to a grocery store distributor, that means that we get access for their customer list and we have another list of stores to promote to. As for the non-traditional we're signing up these chains with developing plans.

We don't put out any projections on earnings, but just to give you a visual concept of what I think it will be for 2013. I think our revenue, which was \$7 million last year will go up to maybe \$10 or \$11 million and I think our net

income before taxes, which was a about \$2.4 million in 2011, by the end of 2013, I think it'll be running at around pace of \$6 million.

Then, with the leverage built up from these chains that we're dealing with, if it's \$10 or \$11 million revenue in 2013, that should be \$13 to \$14 million in 2014 and instead of \$6 million income before taxes in 2013, it will be up in the range of \$8.5 million. So, it's a pretty rapidly leveraging structure that we have, and so I think that's the most compelling reason.

S.us: And finally, does the Company have a website where investors can get more information?

PM: Yes, go to www.nobleromans.com.

S.us: Fantastic. Paul, it's been a pleasure talking with you today. We'll be keeping track of the Company's progress and look forward to having you back for an update.

PM: Thank you very much.

Interview Feedback

We welcome your questions and feedback regarding this interview at: <http://www.smallcaps.us/noble-romans-non-traditional-and-take-n-bake-pizza-business-expand-significantly>

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