



Transcript of update 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:** Welcome everyone and thanks for joining Smallcaps.us. About a year ago, we introduced Noble Roman's on our website. Since then, the Company has made some significant progress, so we figured it was time for an update interview with its Chairman and CEO, Mr. Paul Mobley. Noble Roman's is listed on the OTCQB market under ticker symbol NROM. Paul, it's a pleasure to have you with us again, welcome.

**Paul Mobley:** Thank you.

**Because it's been a while that we spoke, can you start by giving us a brief recap of Noble Roman's and your three business segments: non-traditional, grocery stores and stand alone?**

Noble Roman's is a franchise company, we strictly franchise, and we're not in the business of operating stores. We have an older segment: the traditional franchises. Although they're still quite productive and doing well, we're not increasing the number we have.

But the three growth segments are:

- Non-traditional which is locations inside some other facility. We do convenience stores, we do in universities, military bases, hospitals, basically they're inside some other facility;
- Then we have the grocery store. They assemble our pizza fresh in the deli and they shrink wrap it, put it in the box, and put it in the shelf, and customers take it home and bake it. It's a take and bake product. We started that segment late 2009.
- Then our most recent venue is a stand alone take and bake. We created a store layout and design for a stand alone facility that only does take and bake.

We don't cook anything in the store, we assemble the product, and the customer takes it home and bakes it.

**Well thank you. Let's delve a little deeper into your three business segments. First of all, what products do you offer in each of them?**

Well, the basic product is pizza, and we offer the same pizza in all 3 different growth venues. But then in the non-traditional, some locations have a breakfast, we have a breakfast menu of biscuit sandwiches, cinnamon round, baked sandwiches, cold sandwiches, breadsticks, cheesy sticks with cheese dip.

In the grocery store, our offering is much more limited as we have to keep it simple for them to keep it stocked and shelved and operated properly. We offer 10 varieties of pizza in the grocery store take and bake, there's 10 different topping varieties.

And then in the stand alone take and bakes we offer 3 crust styles. We have our traditional crust, which is the biggest seller of course. And then we have the super thin crust, and we have a Sicilian crust, which is a much thicker crust but it's not any heavier dough weight, it's just light and aerated and rises quite a bit. We also offer cheesy sticks and cheese dip. We offer breadsticks and cheese dip and salads. We have a few other ancillary items that go along with that, but that's the primary basis of the menu.

**OK. Again for the three segments, how many customers have you signed up to date and how many are you projecting to add over the next 12 months?**

Well, we've been in the non-traditional business for many years now and we had 755 locations

open at the end of 2012. We've signed 30 new franchise agreements so far this year, and we expect that number to be about 50 by the end of the year.

In the grocery store take and bake, which we started in the fourth quarter of 2009, we've signed to date approximately 1,650 grocery stores licenses to operate our program. We expect that to be probably close to 2,000 by the end of this year.

And then the stand alone take and bakes, which we started at the very end of 2012, we have signed to date, 20 franchise agreements for the stand alone take and bake. We had started the year targeting we'd do 25 to 30. It looks like we're going to exceed that, so we'll probably do 40 or so this year. That will be the big growth vehicle going forward because each unit contributes a lot more income to us than either of the other two venues.

**That very interesting. Another thing I'm curious about, how do you find new potential prospects and how do you screen them before entering into an agreement with them?**

Well that's different for the different venues. For the non-traditional, we primarily get those prospects through attending various trade shows. We attend several convenience store shows, we attend entertainment facility shows, we've attended college university shows in the past, so most of our prospects come from attending those shows.

However, we have a large list of convenience stores, military bases, universities, etc., that we have put together over the years, and we periodically send mailers, or post cards, or emails to those prospects. The ones we meet in the trade shows, we follow up after each show and continue following up depending on their timeframes by telephone.

On the grocery store take and bake, we primarily get our leads from attending various distributor food shows. We attend about 15 or 20 food shows with grocery store distributors

through the year, and we meet and talk to people there. In those shows we set up a little booth that actually makes pizza, bakes pizza and serve samples, so they can sample them.

Finally, for the stand alone take and bake, we're using three different internet portals: Franchise Gator, Franchise Click, and Franchise Direct. People who are interested in franchising go to those portals. They send in leads and then we follow up by immediately calling them. We eliminate a lot of those leads after the first conversation because they don't have the financial ability or whatever. Subsequently, we continue those discussions back and forth until eventually they have to make a trip to Indianapolis where they visit our headquarters and we interview them. But most of the ones we're not interested in have been screened out before they get to that level.

**And can you tell us what percentage of revenues is derived from each segment and their respective gross margins?**

Well I can tell you how it's been in the past. Let's just take the first quarter of this year. Of our ongoing royalties and fees, 70% was from the non-traditional franchising which we've been doing for a number of years. About 4.5% was from the old traditional restaurants that we're not expanding anymore, but which are going to be around for a number of years. The grocery stores accounted for about 24%. At that point in time, only 1.5% of our revenues were coming from stand alone restaurants.

Now I don't know exactly how to answer your question about margins but let me give it this way, out of each new non-traditional franchise that we sign we receive about \$8,000 upfront fees. Then we get ongoing royalties and fees of about \$20,000 to \$22,000 a year. As for the grocery stores, for each new one that we add, we expect to do about \$2,000 per year in ongoing royalties and fees. They're low volume units but they're big in number and they're a lot of them. Now for the stand alone, although it's new, it's been growing rapidly. We receive \$50,000 to \$60,000 per year in ongoing

royalties and fees. Additionally, we earn a one-time upfront fee on those of about \$18,000.

**As a final question about the segments, does Noble Roman's help the store owners grow their business in any way?**

Oh yeah, it depends again on which venue you're talking about. The basic thing is, we design lots of marketing material and point of sale material, that's what's important in the convenience stores and also in the grocery stores. In convenience stores you don't try to draw people off the street, into the convenience store to buy pizza, you try to get people that are on the lot buying gas to come into the store to buy pizza. So our marketing is mostly focused on that location. The same goes for non-traditional venues like entertainment centers.

On the grocery stores, again you're leading off the traffic that's already existing in the grocery store. And we design a lot of point of sale material and other types of banners, figures that can attract attention to the counter that's displaying our product. And so you're promoting the traffic that's in the facility.

In stand alone, you have to get traffic off the street and into your facility. We do that by the signage, by the banners, by material that they can use in their local market for door hangers, for flyers. We also use ADVO, which is a direct mail piece. We design a lot of those and have them available for their use.

**Well that's terrific. Over to the financial side of the business now. Early May, you announced first quarter results for 2013. Can you give us an overview of those results?**

Yes, our total revenue was up 1.89 million or 15.5%. Our upfront franchise fees and commissions were up 46%. Our royalties and fees, less the upfront fees, were up about 16.9%. And the non-traditional, other than grocery stores, were up about 14.4%. Our fees from grocery store take and bake were up 22%. And our royalties and fees from the old traditional locations were about the same.

Operating margin was about 39.4% and net income was \$418,000 or 2 cents per share.

**And how does the rest of the year look like?**

Well the rest of the year is looking pretty good to us at this point. Our revenues are continuing to grow. We're opening quite a number of new stand alones and we signed up several new stores for the balance of the year. And our non-traditional is very stable and growing. Then our grocery store take and bake probably will not match the 22% that we grew in the first quarter, but we think it'll probably still be 15% or 16% for the whole entire year.

**Now an interesting development in the United States is the 'Supplemental Nutrition Assistance Program', or Food Stamp program. Can you explain that program briefly to us and can you also share how much revenues Noble Roman's derives from it?**

Well I can explain the program briefly in non-technical terms. Basically there are income requirements, and the size of the family matters as well. Families are rewarded food stamps, or EBT credits, as they call them now. It's almost like a credit card or debit card that you put in, and so each month the government fills your EBT card. And that money is for those families to use over the course of the month.

Now those EBT credits can be used for non-prepared food, so it can't be used in restaurants. It's good in the grocery stores and other places where you can buy non-prepared food.

Since the stand alone take and bakes are non-prepared food, because nothing's been cooked, it's just assembled, that makes it eligible for payment with EBT cards. The program is growing enormously in the United States. Today, about 1 out of 6 people in this country are covered by the food stamp program. And in the stand alone take and bakes, approximately 25% of the sales, are derived by EBT cards.

**Well that's certainly impressive. Now, people who have been following the Company know that you've been involved in a litigation battle for the past few years. Can you give us a brief update on that?**

We don't have any liability in this litigation. It was dismissed in December of 2010. However they've gone through an appeal process two different times: the Appeals Court, and then finally to the Indiana Supreme Court. Those courts have all upheld their ruling that we're dismissed entirely of any obligation. So we're totally cleared of any liability.

Now, we filed counter claims against those people for breach of contract, unpaid fees, and for attorney's fees in defending what we're entitled to by the terms of the contract. The judge has already granted us those fees and those attorney's fees as to liability. However, he has not ruled on the amount of those fees.

In October there will be a hearing where each inside gets to present its case to determine the amount. The judge then will rule sometime after that within, usually within a month after the hearing. So nothing will happen until October.

**And as a final question, where would you like to see Noble Roman's in two years?**

Well we're going to continue what we're doing. We're focusing strictly on franchising, and we're not going to start owning and operating stores. We think the revenues from those efforts will grow from about \$7 million in 2012, to \$8 million in 2013, and \$10 to \$12 million in 2014.

**Well great. Paul, we greatly appreciate the time you've taken to speak with us today. I wish all the best to you and Noble Roman's.**

Thank you.

## **Interview Feedback**

We welcome your questions and feedback regarding this interview at: <http://www.smallcaps.us/noble-romans-ceo-reveals-growth-strategy-for-2013-and-beyond>

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