Noble Roman's, Inc.

2022 First Quarter Conference Call

May 12, 2022

SCOTT MOBLEY:

Good afternoon, and welcome to the Noble Roman's conference call. We appreciate you joining in. My name is Scott Mobley, and I am President and CEO of the company. Also on the line is Paul Mobley, our Executive Chairman and CFO. Today we will discuss the first quarter as well as the current business environment. At the end we will address any questions you may have.

We will begin today's call with Paul's review of financial highlights. But first, I would first like 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.

So with that introduction, I will turn the call over to Paul for financial highlights. Paul . . .

Paul Mobley:

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

Financial highlights from the first quarter 2022 include:

- Revenues of $3.5 million compared to revenues of $3.3 million in the same period in 2021
- Net loss of $137,000 compared to a net profit $827,000 in the same period in 2021 - the company received a loan accounted for as a grant of $941,000 through the Payroll Protection Plan in the first quarter of 2021 resulting in limited comparability of the two quarters
- Company-owned CPP revenues increased to $2.3 million from $2.1 million in the same period in 2021
- Company franchising revenue was nearly level at $1.03 million compared to $1.05 million in the same period in 2021
- Labor shortages, supply chain disruptions, high inflationary pressures and the emergence of the Omicron variant had a significantly negative impact on both the CPP and franchising venues during January and February of 2022, though the influence of these factors has since dissipated significantly

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44 During the first quarter of 2021 the company received a Payroll
45 Protection Plan ("PPP") loan of $941,000 which was used to reduce
46 certain qualified expenses during that quarter which materially affects the
47 comparison of the first quarters in 2021 and 2022.

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49 The revenue from the Craft Pizza & Pub venue was $2.3 million
50 compared to $2.1 million for the corresponding period in 2021. Revenue
51 was increased by the opening of two additional Craft Pizza & Pub
52 restaurants but that increase was partially offset by the impact of the
53 Omicron variant of COVID-19 in January and February 2022.

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55 Salaries and wages without the effect of the PPP loan in 2021 increased
56 from 28.4% to 31.7% which was a result of the labor shortage and
57 overall inflation which have driven up competitive prices for labor. The
58 staffing shortage was dealt with through aggressive recruiting efforts at
59 the time, and the current labor market in the company's trade area is less
60 tight than earlier in the year. Additionally, the company's most recent
61 menu price increase is further reducing the negative impact. For
62 example, salaries and wages for the month of March 2022 ran 29.0%.

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Gross margin contribution decreased to 9.9% from 41.7% for the quarter compared to the comparable period last year. The reduction in certain qualified expenses due to the ccompany's PPP loan in the first quarter of 2021 materially affects the comparison with the prior quarter. In addition, the spread of the Omicron variant in January and February of 2021 had a significant negative impact which has now significantly dissipated.

Revenue from franchising almost caught up with the prior year as it was $1.03 million compared to $1.05 million. The slight decrease was the result of the closure of several non-traditional locations because COVID-19 and magnified by the rapid spread of the Omicron variant during January and February of this year. Fortunately the effects from that have now significantly dissipated.

Salaries/wages, trade show expense, insurance and other operating costs remained approximately the same during this quarter in 2022 compared to 2021 after you remove the effects of the reduction of certain qualifying expenses by the PPP loan in 2021. The only significant change in those expenses was a reduction of trade show expense and an increase in insurance cost.

Gross margin contribution from this venue declined to 55.7% from 67.8% in the three-month period ended March 31, 2022 compared to the corresponding period in 2021. The reduction in certain qualified expenses due to the company's PPP loan in the first quarter of 2021 materially affects the comparison with the prior quarter. In addition, the emergence of the Omicron variant in January and February of 2021 had a significant negative impact which has now significantly dissipated.

General and administrative expenses increased to $540,530 from $299,000 for the three-month period ended March 31, 2022 compared to the corresponding period in 2021. The reduction in certain qualified expenses due to the company's PPP loan in the first quarter of 2021 materially affects the comparison with the prior quarter. The actual increase, unaffected by the reduction of qualified expenses due to the PPP loan last year, remained approximately the same except for growth in group insurance cost.

Interest expense remained almost constant except for interest on the PIK notes which have been adding to the principal balance of the loan outstanding.

Despite the negative impact of the rapid spread of the Omicron variant during January and February of this quarter, the net loss of $137,000 remained approximately the same as the first quarter of 2021 after the effects of the PPP loan last year.

The company's current ratio was 2.5-to-1 as of March 31, 2022 compared to 2.3-to-1 as of December 31, 2021.

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

Scott Mobley:

Thanks Paul.

During our last call in March, I covered a great deal of the challenges the company faced in January and February, so I will not repeat that coverage again today. If you did not catch that discussion, you can do so from the year-end press release and from the transcript of the last call which is available on N-R-O-M dot INFO.

126 To get more current, beginning in the very end of February, and
127 especially in March and April, we started to see a fairly rapid retreat of
128 COVID's direct impact on our operations, at least from a quarantine and
129 isolation standpoint that had been such a big problem in January and
130 February. There has been an uptick in cases here in Indiana recently,
131 and we have seen that in our office as well as our restaurants with
132 increased sick leave, but it seems to be receding once again.
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134 We still had a steady stream of supply chain issues with which to
135 contend, and still do, but they are fewer and often more predictable and
136 require less emergency management time. Many of these supply chain
137 issues are residual effects of the pandemic as well as a product of the
138 current issues with the virus in China. Equipment, parts, raw materials,
139 packaging, paper goods and other items remain in tight supply with
140 disruptions in availability.
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142 Inflation is obviously another ongoing issue. You saw the CPI and PPI
143 numbers yesterday and today. Part of the issue is certainly tied to the
144 supply chain problems, but part is also a predictable product of
145 inflationary monetary and fiscal policy.
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147 But without question, the inflationary pressures are further increased as
148 a result of the supply chain issues coming out of COVID as well as
149 certain other current events such as the Ukraine situation.
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151 There are other examples, such as the shortage of tomatoes from 2021
152 and the anticipated production shortfall in 2022 due to water shortages in
153 the California growing area. This has caused contract pricing for the
154 2022-2023 tomato packing to jump about 20%. Another example is the
155 Avian Flu, which started in 2021 in the wild bird population – with Indiana
156 probably ground zero for that. It has now spread to commercial turkey
157 and chicken farms, with millions of birds having to be destroyed. This
158 has caused dramatic increases in chicken and egg pricing as well as
159 product supply interruptions that we have had to work around, especially
160 for our non-traditional venue where we have a full breakfast menu option
161 as well as several chicken products.
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163 Labor is another source of inflationary pressure. As we discussed
164 before, we were extremely aggressive in our employee recruiting efforts
165 back in the first part of the year, so we are much better staffed now than
166 many and we have no severe staffing deficits in any company-operated
167 units.

But like everyone else, we are having to pay up for that labor. However, the good news is that our hourly labor productivity has increased more dramatically than the wage increase, and that current level of productivity is a direct result of having been aggressive at recruiting hourly employees earlier in the year. They have had time to train and gain valuable experience, rebuilding the task proficiency that was better enjoyed prior to COVID.

If you look at our average wage just after the start of the pandemic and compare it to now, our average wage for hourly employees increased by approximately 5% in round numbers. That's a pretty substantial increase. However if you take sales per non-management labor hour, or SPNMLH, as it is often referred to, that number over the same period has increased by approximately 35%. Sales per non-management labor hour measures the amount of sales generated per hour of labor spent and is a proxy measure for hourly labor productivity. So the average wage increased about 5% but labor productivity is now running up about 35%. This and the menu price increase translate into lower wage expense as a percentage of sales – a trend that began showing itself in March and has continued through April and now into May.

However, there has also been a shortage of, and subsequent salary pressure for, the salaried management pool that run the restaurants. Salaries increased for general managers but even more so for assistant managers, who were bigger participants in the labor market exodus during the peak COVID period creating a very tight and competitive market for this position. Taking the same pre- and post-COVID comparison as we did for hourly wages, our average salaries have risen about 7.5%. The good news though is that through aggressive recruiting, company-owned Craft Pizza & Pub restaurants all have a full compliment of management staff at this time, along with a couple of bench staff gaining experience for upcoming new units.

Since we are talking about metrics for Craft Pizza & Pub, I will share some interesting data on the consumer side concerning how orders are coming to us. This data is all for the most recent 6 weeks this year compared to the same 6 weeks last year:

- Inside Dining was 49 percent last year and 52 percent this year
- Carryout was 34 percent last year and 33 percent this year
- 3rd Party Delivery was 17 percent last year and 15 percent this year

These breakdowns, as you can see, have remained fairly sticky and unchanged except at the margin, at least when measured over several weeks as these numbers do. Given the receding number of COVID cases, we would have anticipated a greater change, though inside dining is slowly inching back up, and there is actually a much greater variation on a day-to-day basis right now, that is just getting washed out of the data when viewed over that 6-week span.

Keep in mind from our last call that we did complete a renegotiation of rates with all of our 3rd Party Delivery vendors. In addition, we were able to move our 3rd Party Menu pricing to in-store pricing plus a premium that covers a substantial portion of the reduced fees, making these sales much more profitable and desirable than before.

On the units that have been open well over a year or more, organic sales, which I define as total sales less catering and special events, which can distort the comparison, are up approximately 11% over the same 6-week period last year. Our average check is up approximately 5% on that same 6-week comparison period from last year to this year, so a significant portion of that sales increase is by way of additional guests. The average check, however, has edged slightly lower in the

last few weeks. Whether this is a blip in the data or a result of consumers pulling back slightly in light of overall inflation, or whether the newer guests are spending less than more established – or some mix of all – we cannot say with certainty, but it would seem logical that the overall economic environment is having an effect on consumer spending habits at this time.

In the non-traditional venue, as stated in the release, we have recently been able to redeploy staff time back to more concentrated selling and operational support versus the first two months of the first quarter when we were dealing with so many emergency staffing and supply chain issues. Due to continued labor shortages and economic pressures across the country, there is still reluctance with many non-traditional owners to add Noble Roman's into their business, but there are indications this resistance is lessening and we are making great progress on that front with a solid pipeline of leads.

So far this year through next week we have sold 14 new franchises and opened 15 locations. This week, for example, we are completing openings in Fayette, Ohio and Frankfort, Indiana. Next week we have

Huber Heights, Ohio on the schedule as well as Plymouth, Indiana, with several more in the pipeline after that.

I do not have anything new yet to add to the discussion from last time concerning finalization of new sites for Craft Pizza & Pub – we continue to work options. As Paul said on the last call, there are many sub-par retail vacancies as a result of COVID, but the types of locations we want to secure are in short supply and require time and patience in negotiation.

I will, however, announce today that we are looking at a smaller, easier to operate prototype for Craft Pizza & Pub. This has been in development for a couple of months now. The square footage would be somewhere between 1800 square feet on the low end and 2400 square feet on the upper end. Not only would this version be suitable for smaller markets adjacent to the greater Indianapolis market, but it may also open up additional franchising options and faster growth due to its easier operations, more limited menu and smaller investment. We have work to do yet on fleshing out the final format and operating components, but we are including this in our current location search for a company-operated unit.

OK, so that wraps 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 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 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!

The statements contained above, and the verbal discussion pertaining thereto, 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 effects of the COVID-19 pandemic, the availability of hourly and management labor to adequately staff company-operated and franchise operations, competitive factors and pricing pressures, accelerating inflation and the cost of labor, food items and supplies, non-renewal of franchise agreements, shifts in market demand, the success of new 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, the company's ability to service its loans, the impact of franchise regulation, the success or failure of individual franchisees and changes in prices or supplies of food ingredients and labor as well as the factors discussed under "Risk Factors" contained in the company's annual report on Form 10-K. 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.

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