Transcript of
RCI Hospitality Holdings, Inc.
4Q24 Earnings Call
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Participants

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.
Bradley Chhay - Chief Financial Officer, RCI Hospitality Holdings, Inc.
Mark Moran - CEO, Equity Animal

Mark Moran - CEO, Equity Animal

Greetings and welcome to RCI Hospitality Holdings Fourth Quarter 2024 Earnings Conference Call. You can find the company's presentation on RCI's website. Go to the Investor Relations section. All the links are at the top of the page.

Please turn with me to Slide 2 of our presentation. I'm Mark Moran, CEO of Equity Animal. I'll be the host of our call today. I'm coming to you from New York City. Eric Langan, President and CEO of RCI Hospitality, and CFO Bradley Chhay are in Houston today.

Please turn with me to Slide 3. RCI is making this call exclusively on X Spaces. At this time, all participants are in a listen-only mode. A question-and-answer session will follow, and this conference is being recorded.

Please turn with me to Slide 4. I want to remind everybody of our Safe Harbor statement. You may hear or see forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those currently anticipated. We disclaim any obligation to update information disclosed in this call as a result of developments that may occur afterwards.

Please turn with me to Slide 5. I also direct you to the explanation of RICK's non-GAAP financial measures.

Now, I'm pleased to introduce Eric Langan, President and CEO of RCI Hospitality. Eric, take it away.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Thank you, Mark, and thanks for joining us today, everyone. Let me run through some key takeaways. All comparisons are year-over-year unless otherwise noted.

Please turn to Slide 6. Fourth quarter Nightclub same-store sales increased for the second quarter in a row. This was the first time since the first half of fiscal 2023. Total company

[1] This is a clean verbatim transcription that has been edited to increase readability.

sales declined due to a hurricane and a fire, resulting in lower EPS. However, non-GAAP EPS, net cash provided by operating activities, and free cash flow all increased. We ended fiscal year '24 with 8.955 million shares outstanding, a reduction of 4.7% year-over-year.

Turning to capital allocation, we have officially launched our Back to Basics five-year plan. We have already made considerable progress in implementing this plan. That includes continuing to buy back more shares in the current first quarter of 2025.

We also divested four underperforming Bombshells locations, closed the Denver food hall, reduced Bombshells-related debt, and discontinued franchising.

Please turn to Slide 7. RCI has grown significantly since we initiated our capital allocation strategy at the end of fiscal year 2015. Revenue has more than doubled from $135 million to $296 million, a CAGR of 9%. More importantly, free cash flow has more than tripled from $15 million to $48 million, a CAGR of 14%, while our share count fell by 13%. We are proud of this achievement. Thanks to all of our employees, entertainers, and partners who have made this possible. Looking ahead, we plan to build on this progress through our Back to Basics strategy.

Please turn to Slide 8. Operationally, this means focusing on our core nightclub businesses and making new acquisitions. For Bombshells, this means improving the performance of existing locations and finishing the last three units under construction.

Looking at capital allocation, we expect to generate more than $250 million of free cash flow over the next five years. Under our plan, we will allocate 50% of that to club acquisitions, which includes the repayment of debt, since most of our debt is acquisition-related, and we will allocate 50% to share buybacks and dividends.

Our fiscal 2029 targets call for hitting $400 million in revenue, $75 million in free cash flow, and reducing our share count to 7.5 million or less. This would result in a doubling of free cash flow per share from where it is today.

Please turn to Slide 9 for more details. Nightclubs are our core business. For anyone new to RCI on this call, we love this business because it generates an estimated 35% plus in operating margins. There are high barriers to entry, and clubs produce steady and significant cash flow. Currently, we are evaluating every club in our portfolio, and we will rebrand, reformat, or divest underperforming locations. As for Bombshells, our target for the segment is 15% operating margins with a return to same-store sales growth.

Regarding club acquisitions, our goal is to acquire $6 million of adjusted EBITDA a year, focusing on the best clubs, buying base hits and maybe an occasional home run. Our target metrics remain the same: 3x to 5x adjusted EBITDA for the club business and fair market value for the real estate. We will continue to finance our deals with a combination of cash on hand, bank financing, and seller notes. We will also consider using stock if and when our valuation improves. We will continue to target 100% cash on cash returns within a three to five-year period.

For the final part of our plan, as opposed to periodically buying shares, we anticipate implementing a program of regular buybacks, then flexing up the buyback if the stock is particularly cheap. We expect to buy a significant amount of stock if the price is right. Given where our stock is trading, and our view of what the business can do over time, we believe this is a great use of capital. We are also planning small dividend increases annually.

Please turn to Slide 10. Based on our track record, we believe our five-year plan is very achievable. Since fiscal 2016, we have completed $267 million of club and related real estate acquisitions. We have stayed disciplined on price. We have improved operations and financial performance consistent with our goals, and we have been able to deploy larger amounts of capital as we've grown.

We think there is a lot more runway for club acquisitions as illustrated in the pie chart. Although we can't predict the size or timing, we think our goal of acquiring $6 million of EBITDA per year is very achievable on a five-year average basis.

Please turn to Slide 11. Here you can see that the anticipated growth rates of some of our key financial targets are somewhat conservative based on past performance. We also do not anticipate increasing leverage to achieve our goals.

Please turn to Slide 12. We have already made considerable progress on our plan. In our Nightclub business, we have generated two quarters of positive same-store sales growth. We are working on three potential acquisitions.

In our Bombshells business, as I mentioned earlier, we have divested underperforming units. We closed the Denver food hall in early December and are marketing that real estate for sale. We also discontinued franchising.

In addition, during the fourth quarter, we increased our share buyback program. We increased our cash dividend by 16.7%, and we are continuing to reduce our share count.

Please turn to Slide 13 for a final look at our updated capital allocation strategy. This is the path we will take to grow the company to $400 million of revenue, $75 million of free cash flow, and continue to reduce our share count.

Now, I'd like to turn the presentation over to Bradley to review performance for the fourth quarter.

Bradley Chhay - Chief Financial Officer, RCI Hospitality Holdings, Inc.

Thank you, Eric. Please turn to Slide 15. All comparisons are year-over-year unless otherwise noted.

Fourth quarter sales declined $2 million. This was largely due to hurricane-related closures and the sale of Bombshells San Antonio in early September. Net income attributable to RCIHH common shareholders declined a similar amount with EPS at $0.03.

Looking at some of our other key metrics, non-GAAP EPS increased by $1.63, net cash provided from operating activities increased $3.5 million, and free cash flow increased $2 million, while adjusted EBITDA declined $2.3 million.

Please turn to Slide 16. Nightclub revenues declined $307,000. This primarily reflected 2.2% same-store sales growth, 10 closure days at Houston area clubs due to Hurricane Beryl in July, and some other changes that we're going through to improve our club lineup.

Alcoholic beverage sales increased 0.3%. Food, merchandise, and other increased 0.9%, and service declined 1.7%. The differing growth rates primarily reflected higher alcohol and food, and lower service revenues in the sales mix.

Impairment and other charges were lower by $2 million. As a result, operating income was $1 million higher, while non-GAAP was $1.1 million lower.

Please turn to Slide 17. Bombshells' revenues declined $1.643 million. This primarily reflected a 16.2% same-store sales decline, which was negatively affected by 26 closure days at Houston area locations due to Hurricane Beryl in July.

Impairment and other charges were $3 million higher. This primarily reflected impairments, partially offset by a gain from reducing San Antonio-related debt. As a result, there was an operating loss of $2.5 million compared to an income of $1.2 million. On a non-GAAP basis, however, operating income was $701,000 compared to $1.4 million.

The Bombshells impairments included locations that were divested and the Denver food hall, even though these events occurred in the first quarter of 2025. These divestitures and closings are anticipated to improve the segment's performance. Collectively, these five locations accounted for $14.6 million in sales in fiscal 2024. Excluding $10.3 million in impairment and $2.9 million in gain on sale, they lost a collective $1.1 million.

Please turn to Slide 18. Corporate expenses increased modestly by $284,000 and a little less on a non-GAAP basis.

Please turn to Slide 19. We have a couple of slides coming up that will discuss free cash flow and adjusted EBITDA, which are non-GAAP. In advance of that, we wanted to present the closest GAAP equivalents on this slide, which are operating income, net cash provided by operations, and net income.

Please turn to Slide 20. We ended the fourth quarter with cash and cash equivalents of $32.4 million. During the quarter, we used $7.8 million to buy back shares. As a percentage of revenues, free cash flow was 18%, and adjusted EBITDA was 24%.

Please turn to Slide 21. Debt at September 30 declined $7.2 million from June 30. This reflected eliminations of Bombshells San Antonio debt, early pay down of $1.5 million of the Playmate note, and other scheduled amortized paydowns.

The weighted average interest rate was 6.67%, only 3 basis points higher than a year ago. Total occupancy costs at 8% declined from 8.1% year-over-year.

Debt to trailing 12-month adjusted EBITDA was 3.28x, similar to the third quarter. This should decline in fiscal year 2025 as sales grow from locations that have come online more recently and from those anticipated to open it throughout the year.

Debt maturities continue to remain reasonable and manageable.

Now here's Eric.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Thank you, Bradley. Please turn to Slide 22. We have seven remaining developments.

Bombshells Denver is awaiting final inspections. We are targeting a late January opening in time for the professional football championship.

Chicas Locas El Paso is finished, and reopening is planned for March 1.

We are waiting for a new electrical plan sign-off at the Rick's Cabaret in Central City. Then we have about six more weeks of construction. We are targeting an April opening to avoid risk of bad weather.

Interior construction at Bombshells Lubbock is well underway, and we are targeting an April opening.

The framing and stucco work is underway at Bombshells Rowlett, and we are targeting a May opening there.

I'd like to note that both Lubbock and Rowlett construction are being financed through current bank construction loans rather than through free cash flow.

We are still awaiting construction permits for the Baby Dolls West Fort Worth, and we are awaiting an engineering review of our plans for Baby Dolls Fort Worth to rebuild our club that burnt down.

I'd like to say thank you to all of our loyal and dedicated teams for all their hard work and effort and to all of our shareholders who believe and make our success possible. Now, let’s turn to Mark to open the call for questions.

Mark Moran - CEO, Equity Animal

Thank you very much, Eric. We have D&D Realty. Please take it away.

Q – @D_Drealty

You have about six to seven properties that are currently under construction or in development. After you work through that pipeline, how do you think about development or opening new clubs organically versus purchasing them non-organically? Thanks.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

I do not want to build anything else for a long time. We're going to get these open because this was our way of growth outside of acquisition. I think we're going to focus our growth strictly on acquisition and try not to build anything else anytime soon. I definitely don't see us building anything else in '25. If we start to look for stuff in '25, we probably won't build anything in '26. It'll be a few years before we decide to build anything else, I believe. We're going to strictly look at acquisitions for growth from this point on.

Mark Moran - CEO, Equity Animal

Thank you very much, D&D Realty. Next up, we have Antonio. Please take it away.

Q - @AJohnsonShow

My question is with all the challenges that you've overcome through 2024 being an interesting year and coming out on top, what's got you excited about the future of the business model with the brand-new five-year plan?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

I think that just getting back to our basic core business, being focused on the clubs again, digging through financials, looking at some of the performances of some of our operations, trying to figure out should we rebrand, should we eliminate some of the locations. Going through real estate offerings and saying what's the real estate worth as another use, and are we generating enough cash flow out of that unit to justify continuing to operate it as a club, or should we sell the real estate, take the money, and do something else with it?

That was a big part of our 2017 plan as we got into the capital allocation strategy originally, and it's just nice getting back to visiting those thoughts again, seeing where we've come and looking at how much our real estate value has actually increased. It's kind of crazy looking at where we bought properties 15 years ago, and we've used them in loans back in '21, but here we are even a mere four years later and seeing the value increase a lot due to inflation, a lot just due to some of our high freeway Class A locations that some of our properties are on.

Q - @AJohnsonShow

All right. And one last question. I know that some of your locations are taking Bitcoin, maybe with Bitcoin hitting $106,000 a day. How is that looking? Is that an interesting perspective of the business model, because you've been taking it for a while now?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

I'll have to actually go and look at the mining in New York clubs and see how much is processing. I don't actually see the Bitcoin because we convert to U.S. dollars at point of transaction. I have to go look at a special program to see how much we're taking in

Bitcoin. I will do that and let everyone know. I'll see what I can find out and post on Twitter how that's going for us. I know that Bitcoin has been very integral, especially in Miami. I think we've started in New York and Chicago as well. So, I suspect that at these high prices, we're probably getting more of it.

Q – @AJohnsonShow

Thank you.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Thanks. And if anyone's not following Antonio, he's got a great show on stock investing. You might want to throw him a follow and see his show on Monday.

Mark Moran - CEO, Equity Animal

Jacob, please take it away.

Q – @JacobStjernberg

Could you give some more color on the M&A environment? Are things heating up, like geographically, where are the interesting objects? And I remember from a couple of quarters ago that you mentioned that you had put out some LOIs, but no deals have yet occurred. So just kind of wondering what happened there.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

We have three that we're working on right now. They're all in different various phases of licensing approvals. So if we get those licensing approvals, then we'll get those deals closed and announced. We're also talking with other operators out there right now.

Our core focus for growth from this point forward is strictly going to be acquisitions. We'll be kicking a lot more tires and looking a lot harder at deals, but we will stay within our parameters, and not stretch to get deals done.

I assume that as we move forward, we will continue to start seeing some acquisitions. We have been looking for the larger ones over the past few years, the $88 million acquisition in '21 and the $66.5 million acquisition in '23. So now we're starting to look at some much smaller acquisitions in size. A lot of acquisitions that we're looking at right now are probably between $5 million and $15 million purchase price.

So, they will be a little bit smaller, but we hope to do enough accumulation to hit our target goal of $6 million EBITDA per year added. We hope to do our 20% increase and grow our same-store sales a couple of points a year and achieve our goal of $400 million revenue and $75 million free cash flow by 2029. We will be monitoring that closely each year.

Q – @JacobStjernberg

Those clubs that you're currently evaluating, are they in the same areas that you're currently operating?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Some are in different areas. Some are in the same states. Obviously, the same states make it easier for us. We're licensed in those states. Everything's a little bit quicker in those states. We are looking at a couple of new states, which is probably the reason it's taking a little more time on a couple of the ones we're working on right now. Hopefully, we'll get through those hurdles relatively quickly after the first of the year and get a deal closed.

Mark Moran - CEO, Equity Animal

Thank you very much for that question. We have DJ HLS. Please take it away with your question.

Q – @DJHLS1

Jan Lessnar, shareholder from Germany. Many of your locations are in regions where hurricanes regularly hit your operations. Isn't there any insurance which compensates you for those locations hit by a hurricane or fire?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

If there's a large enough destruction and we're closed for a long enough period of time, yes. I believe we'd have a claim in on Beryl for a few of the locations. We also have deductibles that we have to reach first. Most of that's being done with the accountants and the insurance adjusters now. There may be some payout at some point from that hurricane or there may not. I just don't have enough information on it. Other than the business loss days, there wasn't a lot of damage to our properties other than we just didn't have electricity, so we couldn't open. And we do carry insurance on our properties in all those markets.

Mark Moran - CEO, Equity Animal

Scott Buck of H.C. Wainwright has messaged me his questions. The first one is, Eric, under the Back to Basics plan, would the company consider increasing the dividend?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

The dividend is not really a tax-efficient use of capital. However, I do like the dividend and many of our shareholders do like getting the dividends, especially if a lot of them are just starting to do the DRIP programs with them, to buy the stock when they get their dividends.

We will continue to slowly and gradually raise that on an annual basis so that we continue to have dividend growth and continue to pay our dividend. I think we're nine years of constant dividend payments and constant dividend growth on an annualized basis. I see us continuing that at least for the next five years, along with the majority of our capital return being done through buyback.

Mark Moran - CEO, Equity Animal

Scott has an additional question which is, what was the purchased real estate value of the closed Bombshells and Denver food hall for him to understand potential sale values?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

About $5.2 million for the Denver food hall. All of the Bombshells that we divested were leased locations, and most on their third rent increases, which is why we decided it wasn't economically viable to continue to try to operate those. As Bradley pointed out for fiscal '24 those units lost $1.1 million combined.

So, we just decided to move forward, get rid of those locations, and focus on the core locations that we own the property. We have one location left where we own the property on that numbers are increasing because we closed a unit that was close to it. So, we are seeing a little bit of increase on that, and if that unit starts meeting the margin requirements that we're going to set on it then we'll keep it open, and if it does not, then we may divest that unit at some point and sell that property off as well.

That was part of an 11.5 acre development. We actually don't have any money in it because we've sold all the additional real estate around it other than the 2.3 acres our property is sitting on for way more money than we paid to buy the land and build the building that we built there. We are already plus on that property. We'll just have to see if we can get that turned around or not. Probably in the next three to six months we'll decide on that as well.

Mark Moran - CEO, Equity Animal

We have a question submitted to me from one of our larger shareholders. He is asking about the impairments and what those specifically are? If you could speak to that.

Bradley Chhay - Chief Financial Officer, RCI Hospitality Holdings, Inc.

The impairments are basically accelerated write-offs of various sets of assets, either intangible assets such as the SOB license, goodwill, or FF&E. They stem from doing an analysis of the future discounted cash flows against the book value of the assets. So, in this current quarter, we had $12.5 million, and for the fiscal year, we had $38.5 million.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

From my understanding, too, a lot of this is because of interest rates increasing and the discounted free cash flow rates are increasing, thus driving down the value of that free cash flow and resulting in these impairments. So, they're all non-cash. The reality of it is they don't really affect the operations at all or the free cash flow at all.

Mark Moran - CEO, Equity Animal

Fantastic, guys. Very much appreciate that. Camel Way, please take it away.

Q – @thecamelway

Any plans of opening restaurants in Yuma County and Yuma, Arizona? There's a lot of traffic. It's a $3.5 billion agriculture industry and there's a lot of traffic going on. There's a lot of activity going on. Any plans of expanding beyond Phoenix? Thank you.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

We'll buy existing nightclub operations if we can find them in any market right now in the US. But as far as opening any new restaurants, no. We have no desire at this point other than the three that we are already well into construction. I don't have any plans of building additional restaurants at this time.

Mark Moran - CEO, Equity Animal

Thanks so much, Eric. Adam Wyden, please take it away.

Q – @Adam_Wyden

Have you talked about the non-income producing real estate that you're planning on selling, what you think the value is in terms of cash on the balance sheet, and how much the EBITDA is being dragged down from the property taxes and the operating expenses?

Did you go into that at all? And the assets you're planning on selling and monetizing, the framework for how much of it's value that's not on the balance sheet, and how much EBITDA you could save by monetizing those pieces of real estate?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Top of my head, now that we've put the food hall in Denver up for sale, we have the 19 acres in Pearland plus the additional build site next to the Bombshells in Pearland; we have one of the Central City casino properties that we've been meeting with some people to try to sell -- probably in the neighborhood of $20 million to $25 million in value.

We've bought most of that real estate at very good prices, so we don't have anywhere near that in it. But as far as carrying costs, I don't know off the top of my head, but it's in the hundreds of thousands of dollars, property taxes, insurance, and whatnot. We are actively pursuing moving a considerable amount of that real estate in 2025.

Q – @Adam_Wyden

Got it. Did you talk about where you expect Bombshells' margins to get in 2025, now that you've closed down the three bad ones and you're opening up the good ones? Have your expectations around margin generation for Bombshells changed in 2025 and beyond? I know you're not building anymore, but do you have a sense of where you think Bombshells margins are going to settle out now that you've gotten rid of the three bad ones and got the three new ones open?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Yes. Without the new ones actually open and seeing their progress, I don't have an exact number. But we are targeting 15% on the Bombshells margins, and if we can't get there, we will start looking at what else we can do with those units. But the real core right now is returning to same-store sales growth. I think we're going to be very close in this quarter, if not positive in the December quarter, at least down single digits, not this -15%, -16% we've been doing.

We've made some changes at units. We've also eliminated the stores that were the biggest drags because of high rents, and really focused on what we need to do in those locations that we have left. Strengthened our management teams. We're able to build our teams up at stores with some good managers. We're able to sort through all those management teams, build strong teams out of the people that we kept as we closed units.

I'm optimistic. We're definitely moving in the right direction, but the space is a difficult right now. If you read the papers, the news, there're new restaurants going bankrupt every single day. Everybody's complaining about sales and margins out there, except for a few that are just very, very strong. Hopefully, we can find that magic formula that we had for about the first 10 years we operated these things and get it back. We're very focused on our late night. We're very focused on making it fun, making it a party again, and increasing our alcohol sales as a percentage of total sales at each location as well.

I think we're well on our way and over the next six months we'll get a very good idea if what we've done is working well for us or not. But 15% targets are what we're shooting for right now.

Q – @Adam_Wyden

Looking at the deck that you put together, which is pretty straightforward. You have 40% buybacks, 50% acquisitions, dividends less than 10%. So, that's pretty straightforward.

The comps have been lumpy. There have been periods of time when they're high, periods of time when they're low. You seem to be rebounding pretty nicely on the strip clubs. Bombshells is going to be smaller. It used to be 14 locations. You closed three. Then, you got the Grange that gets you down to 10. You got the three new ones.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

And we sold San Antonio as well.

Q – @Adam_Wyden

I know. But it was 14 with the Grange, and then you went down to 10, and then you got the three new ones opening. So, you'll be back to 13, but the composition will be different.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

13 or 12. I'm not sure. I think it's 12, Adam.

Q – @Adam_Wyden

At that point, as a percentage of sales, Bombshells is still not going to be a huge percentage of the business. And with the nightclub comping positively, and as you do more M&A, nightclubs will be a larger percentage of the business.

Do you think you can get back to doing 3% to 5% comps in the business? You're there now, and I can back into it. You're there on nightclubs. Bombshells is going to be flat, hopefully, or close to it this year. You'll have the new ones open. Hopefully, those can comp a few percent. If the taxes on tips and what Trump is doing for small, medium-sized business, maybe we get a resurgence.

As you said, there are a lot of restaurants that are suffering. Maybe you get a resurgence there. We get a little bit of a lift at Bombshells just from the macro. Do you think it's unrealistic to think you can get on a total company basis back to 3% to 5% comps for the long term? Is that impossible?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

It's not impossible. I'm shooting for a minimum 2% overall growth rate right now over our five-year plan. I would like to see it much higher, and I think if the economy does well, we will do well as well. I just think there's a lot of work on the government side. Depending on where the government spending cuts are, if they're US-based, it's going to affect things in the US a little more drastically. If they're more foreign-based and they spend more money in the US, then of course we would see the opposite here, I think.

I think we're just going to have to wait and see how that plays out. I'm playing with the cards I'm dealt right now and dealing with those cards, staying focused on a much more short-term window, watching our trends, and adjusting very rapidly if we need to adjust, whether it's pricing, whether it's labor, whether it's security costs. Really very focused on our core business and the Bombshells margins and watching those things.

Like I said, we've been going through financials every month, very hard, and finding places to make cuts or to make improvements. There are some places we've found where maybe we were leaving some money on the table, and we've been able to make some adjustments there and increase revenues in those markets.

If you look at everything right now with my 2017 eyes, everything's on the chopping block, and we lay it all out and say, okay, what's the best use of capital, how much capital have we tied up in this asset, what's the asset ROI, return on equity, and can we sell that asset and get a higher return on equity by putting the money someplace else or not? We've got about four clubs that we're looking very hard at, maybe a fifth one, and one Bombshells.

We've got five or four, five, maybe six locations. We've made some adjustments, made some changes, and we'll see how those go over the next three to six months. You may see us list those properties for sale, or you may see us surprisingly sell those locations as we're talking with other private buyers right now. They're very small locations for us.

That's another thing that I'm very focused on. Is it worth our time, effort, and energy to put our machine behind a club that's generating $1 million in sales and making $300,000? Is that still the best use of our resources from our people side of the business? Is our return high enough, or could we make more money if we put those resources into a larger location? There's a lot of things that we're talking about on a weekly basis.

Q – @Adam_Wyden

Did you talk about the capex and how you've been spending a lot on capex for the Bombshells and the casinos and the renovations. You would expect in 2025, your maintenance capex to go back to your normal level, right? You are close to it.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Yes. We hit about $7.5 million or $7.8 million last year. We did the roof of Tootsie's, which was a considerable expense, and we did multiple entirely new AC packages plus four remodels. Maintenance capex was a lot higher last year. I think we're forecast at $6 million for 2025. I think we'll come in pretty close to there, maybe even a little under.

Q – @Adam_Wyden

Right. And if most of the money has been spent on Bombshells, just backing into it, the only deviation from $6 million of maintenance capital would probably be M&A, right? If I think about capex, right?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Yes, that's total capex, not maintenance capex.

Q – @Adam_Wyden

That's what I'm saying. I'm saying if you look at the last few years, bought the casino real estate, you did this, you did that, you built Bombshells. If most of the money has been spent on the Bombshells already, at least from what I can tell, Denver is already done, so that's going to be open. Rowlett has mostly been spent. Lubbock. Do you have a lot more capital going out the door for the Bombshells or no? They've probably mostly been spent, no?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Denver's done. We're getting final inspections. I believe we had inspections all this week. We have two more inspections on Thursday. Then I believe the final is scheduled for Friday of this week. Then we have the liquor inspection the following week, hopefully, and that store will be done.

There's not much more money to spend other than startup costs, right? We always have start-ups, but the startup costs will be offset by immediate sales in January as we open. Most of the startup costs will start January 6. With any luck, we'll be able to open that store somewhere around the 21 or 22 of January. So, most of those costs will be offset in that quarter, which will be the second quarter of fiscal '25

The construction for the other two locations is all bank financed now. There's no actual cash from the company going out on those locations.

Q – @Adam_Wyden

Right. But my point is that this will be a pretty big step down for capex. You're going to have cash flow next year. I don't know if you talked about M&A, but if no M&A shows up, you're going to have a lot of cash to buy back stock at these levels. You bought back in '24, but you also had to do the projects. If you have $25 million real estate going out the door and the capex going down, you are going to have a pretty big war chest to buy back stock if there's no M&A, right? If the stock stays here, you're going to be pretty active on the buyback, I would think. No?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

We're active every single day. We don't have a set cap at the moment that we're going to stop buying back stock. We did get a considerable amount of extra cash. We paid off about $2 million worth of additional debt, including a big portion of some 12% debt that we had.

We have been working on not only buying back our stock on a very regular basis, but also bringing down our debt. I want to get our debt to EBITDA under 3x. That's always been our target as a high. We know we can go to 4x without stretching too far because most of its real estate related, but we like to keep our total debt load on a 3x basis.

Q – @Adam_Wyden

Well, you're under 3x on next year.

<u>Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.</u>

Yes, I think so, too. But we look at trailing, which was 3.28x at the end of September 30. So, we are definitely working on that.

Q – @Adam_Wyden

I don't have the September balance sheet in front of me, but as of June, you had $244 million debt, not including leases and $34 million in cash.

<u>Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.</u>

$238 million. We paid back $7.2 million debt in the quarter.

Q – @Adam_Wyden

How much cash, you have like $35 million?

<u>Bradley Chhay - Chief Financial Officer, RCI Hospitality Holdings, Inc.</u>

$32 million and change at the end of the quarter, but yes, we're probably pretty close to $35 million right now.

Q – @Adam_Wyden

So, you got $206 million, right? If I'm doing my math, if you have all these assets coming online, the Bloomberg consensus estimate for EBITDA is $83 million, but I suspect you're going to do a lot more than that. But even just on the consensus number, if I were to take $206 million divided by your $238 million less $32 million is $206 million. So, if I were to take $206 million divided by $83 million, this is the Bloomberg number, that's 2.5x 2025.

I think that if you get these other assets up and running, and you're doing some of the things you're doing in terms of cost cuts, and again, if you can comp positively on the nightclubs, if you do a 4%, 5% comp on nightclubs on $250 million in sales, that's almost all EBITDA, right? It's not unrealistic to think that you could be $100 million of EBITDA next year. It's not impossible.

In that scenario, you'd be 2x. But even if you just did the $83 million that the consensus number is, you'd be at 2.5x. It's hard for me to look at the debt in the context of you having $25 million or $30 million of real estate. You've got these non-income producing assets. I think it's unfair to look at your leverage because if you sell real estate, then that's not making any EBITDA, your leverage is going down. If you're not selling the real estate, you would assume that the EBITDA is going to go up.

It's all sort of dynamic, right? You've got real estate for the casino in Central City. Let's say that makes $3 million of EBITDA. You've got all the debt on the balance sheet from the casino, but none of the EBITDA, right?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

All the construction's very near completion. So, yes, most of the carrying costs for all of these locations that are getting ready to open, I'd say the majority -- I have to go look at what's left to draw on the bank loans -- but there might be $3 million left on the bank loans for the two Bombshells to draw out. So, that goes up a little bit more.

But yes, all the real estate's already owned, all the property taxes are being paid annually. The insurance, all those types of things. All that revenue is going to help, and all the EBITDA that drops in is definitely going to help drop that from 3.28x to below 3x. So, yes, I'm not concerned with the debt. That's not what I'm trying to say. What I'm saying is, I still like to be within our norms because if a major acquisition comes up and I want to push it higher, I want to have that room to do so.

If I'm already at a high, then I'm going to have to go, okay, maybe we can't make this acquisition because I don't want to push us to very close to 4x. But if I go to 3.2x, 3.3x, 3.5x, because I'm making a major acquisition, as we did in March of '23, I'm not really concerned.

Mark Moran - CEO, Equity Animal

Fantastic. Thanks so much, Eric. And thank you for the questions, Adam. Next question comes from another one of our larger shareholders who's asking for an update on Favoritely, Eric.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

It's launched. You can go on the site. It's favoritely.com. We are adding entertainers. We're still in beta. I believe the last time I talked to everybody about 10 days ago we had five clubs that were now being represented on the site with entertainers and other staff members. I'm hoping we continue to see that increase as we add additional locations, and we get ready to do a full out launch of the site.

Mark Moran - CEO, Equity Animal

Wonderful. Last question that I have is from another shareholder who submitted this. Can you give any color on the current business trends that you're seeing?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

November was fantastic. We had five weekends. Every weekend was strong. It was strong around the holidays, which was surprising. We had two big fights with the Tyson-Jake Paul fight on Friday, and then the big UFC fight on Saturday. That was a great, great weekend, that third weekend of November.

December started off a little slow, with December 1st being a Sunday. However, the first weekend was very strong. We did decent through the second week, with this past weekend just a little bit off. Not much. A few percentage points from the number I'm looking for. But as trends have been up through October, November, December, I think we're seeing some pretty decent sales.

Hopefully, that will continue, and we'll get through the end of December. The last two weeks of January are a weak phase for us, and then we go into February-March. March Madness is usually the big kick-off. Hopefully, we have a really big March Madness, and of course we'll have five weekends with five Saturdays and five Sundays in March again. That will be interesting as we continue to move forward.

Mark Moran - CEO, Equity Animal

Fantastic. Thank you so much for that, Eric. We appreciate everyone joining this call. On behalf of Eric, Bradley, the company, and our subsidiaries, thank you and have a good night. Please visit one of our clubs or restaurants to celebrate Christmas, Hanukkah, Kwanzaa, the New Year's, or just to have fun. Take care and have a great time.