Transcript of
RCI Hospitality Holdings, Inc.
2Q24 Earnings Call
May 9, 2024[1]

Participants

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Mark Moran - CEO, Equity Animal

Analysts

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Robert McGuire – Granite Research
Steve Martin – Slater Capital Management
Jason Scheurer – Orchard Wealth Management

Presentation

Mark Moran - CEO, Equity Animal

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

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

Please turn to page 3. If you aren't already doing so, it is easy to participate in the call on X Spaces. Log in to X, go to @RicksCEO, and select the Space titled "RCI $RICK 2Q24 Earnings Report & Company Update." To ask a question, you will need to join the X Space with a mobile device. To listen only, you can join the space on a personal computer. RCI is also making this call available for listen-only through traditional landline and webcast. At this time, all participants are in a listen-only mode. A question-and-answer session will follow. This conference is being recorded.

Please turn to page 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 occur afterwards.

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

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

Finally, I'd like to invite everyone listening in the New York City area to join Eric and me tonight at 7 o'clock to meet management at Rick's Cabaret New York, one of RCI's top revenue generating clubs. Rick's is located at 50 West 33rd Street, between 5th Avenue and Broadway, a little in from Herald Square. If you haven't RSVP'd, ask for us at the door.

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 everyone for joining us today. Please turn to Slide 6. Despite the uncertain economy, the core strength of our business enabled us to generate $72.3 million in revenue in the second quarter compared to $71.5 million last year. While GAAP EPS of $0.08 primarily reflected non-cash impairment, non-GAAP EPS totaled $0.90, near the high end of analyst expectations. The Nightclubs segment generated $59.4 million in revenue in 2Q24 compared with $57 million last year. Separately, the effort begun in mid-February to improve the Bombshells segment resulted in steady sales and better margins on a sequential quarter basis.

Please turn to Slide 7. We also continued to make progress with our new project developments. These efforts are focused on developing new locations and upgrading existing ones to further grow the company. In doing this, we are committed to following our capital allocation strategy, concentrating on our core Nightclubs business, evaluating potential acquisitions and buying back stock. To that end, subsequent to the end of the quarter, we increased our cash position $20 million by closing on our planned bank loan.

Now here's Bradley to go into more details on our results.

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

Thanks, Eric. Please turn to Slide 8 to review our Nightclubs segment. Second quarter revenues increased $2.4 million year-over-year. This was primarily due to a $7.4 million increase from acquisitions, which partially offset declines of $2.9 million in same-store sales and $2.1 million from clubs in transition. By revenue type, alcoholic beverages increased 16.9%, food 10.8% and other by 4.3%. However, service declined 8.3%. The sales mix reflected higher alcohol and food sales from newly acquired clubs and the same-store sales decline due to lower service revenues.

As we mentioned in the second quarter sales call, PT's Centerfold in Lubbock, a new club, did not open till late in the quarter. Baby Dolls Abilene, a reformatted liquor club, didn't open until early April. A BYOB club in El Paso temporarily closed during the quarter to start reformatting into a Chicas Locas liquor club. Although we didn't talk about it on the sales call, severe cold and rainy weather in Texas did have an impact in January, as it had for other hospitality companies. We had to partially or fully close clubs and Bombshells for a number of days during that period.

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Impairment resulted in operating income of $11 million or 18.6% of revenues compared to $18 million or 31.6%. On a non-GAAP basis, operating income was $19.8 million or 33.4% of revenues compared to $22.4 million or 39.2%. The non-GAAP margin decline primarily reflected lower service revenues, higher insurance, an increase in the Texas patron tax, and wage inflation. One of the reasons why insurance is higher is because we received a refund in the year ago quarter.

Now please turn to Slide 9. The Duncan Burch acquisition has continued to perform well. We closed on the acquisition in mid-March in 2023 with four clubs open. We finished remodeling and opened the fifth club in mid-June 2023. As of the fiscal '24 second quarter, revenues have grown 23.7% from the year ago third quarter, which was the first full quarter post-acquisition, and operating margin has expanded 394 basis points. Locations have benefited from increased credit card transactions, reduced management costs and more effective RCI marketing, management, and purchasing methods, partially offset by the increase in the patron tax, which started in September of 2023.

Please turn to Slide 10 to review our Bombshells segment. Revenues declined $1.5 million year-over-year. This primarily reflected a $2.7 million decline in same-store sales and a $1.2 million increase from acquired or new locations. Operating income was $0.7 million or 5.5% of revenues compared to $1.8 million or 12.4%. On a non-GAAP basis, operating income was $0.8 million or 5.9% of revenues compared to $2.2 million or 15.4%. The year-over-year decline in profitability primarily reflected lower same-store sales.

On a sequential basis, however, revenues were approximately level and GAAP and operating margin expanded 480 basis points and 470 on a non-GAAP basis. As Eric mentioned earlier, this reflected the effort by upper management to return the brand to its core focus on being a sports bar. This began in mid-February to improve results. Some key changes included replacing management, cost cutting and going back to basics, touching tables, making sure waitstaff is attentive, among others.

Please turn to Slide 11. Corporate expenses totaled $6.8 million, an increase of $0.6 million on a GAAP basis. On a non-GAAP basis, expenses totaled $6.3 million, an increase of $0.8 million. Both GAAP and non-GAAP results primarily reflected more corporate level management from the Duncan Burch acquisition, casino preopening operations, and accounting and professional services due to the recently acquired clubs and new projects, along with the timing of billing. On a sequential quarter basis, expenses declined $0.3 million.

Please turn to Slide 12. This puts together consolidated operating income on a segment basis.

Please turn to Slide 13. We have a couple of slides coming up that discuss free cash flow and adjusted EBITDA, which are non-GAAP. In advance of that, we wanted to present the closest GAAP equivalent on this slide, which are operating and net income.

Please turn to Slide 14 to look at some of our other key metrics. We ended the quarter with cash and cash equivalents of $20 million. During the second quarter, we used $1.5 million to buy back shares. Second quarter free cash flow was $8.8 million or 12% of revenues. Adjusted EBITDA

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was $17.2 million or 24% of revenues. Recent free cash flow and adjusted EBITDA conversion rates reflect the combination of lower percentage of service revenue and higher costs.

Please turn to Slide 15 to review our debt metrics. Debt as of March 31st declined $2.2 million from December 31st due to scheduled pay downs. The weighted average interest rate remained at 6.61%. Total occupancy cost at 8% declined on a sequential quarter basis. At 2.99x, debt to trailing 12-months adjusted EBITDA inched up just a bit, but continued to be in our comfort level of less than 3x. Occupancy costs and debt to adjusted EBITDA reflect the fact that we were developing a number of projects. As they open and we begin generating revenue and EBITDA, both metrics should improve. Debt maturities continue to remain reasonable and manageable.

Please turn to Slide 16 for our debt pie chart. We continue to pay down all slices of our debt. The percentage shares of the different slices remained largely the same as the first quarter. As Eric mentioned, subsequent to the quarter, we completed our $20 million cash out bank loan.

Now let me turn the presentation back to Eric.

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

Thank you, Bradley. Please turn to Slide 17. I want to reiterate that everything we do is centered around our capital allocation strategy. We employ three different approaches subject to whether there is compelling rationale to do otherwise -- mainly mergers and acquisitions, organic growth, and buying back shares when the yield on free cash flow per share is more than 10%.

Since refocusing myself on Bombshells in mid-February, I'm starting to have our teams question everything, like we did in 2016. This has caused us to rebrand some club locations, and we are currently evaluating several of our non-income and underperforming assets. We are doing performance reviews throughout our operations to ensure we are getting ROI from our team members and making sure we are rewarding those members appropriately for great performance and fixing or removing others. We got a little complacent during post-COVID when times were easy, and I believe we must return our focus on the basics of our capital allocation strategy.

Please turn to Slide 18. We continued to make progress with new projects since our April 9th call. We received our liquor license for XTC Dallas, which is being renamed and repositioned as Dallas Showclub. We received our liquor license for the planned conversion of a BYOB club in Harlingen, Texas into a Chicas Locas liquor club, which should open this quarter. We also firmed up our plans to open Rick's Cabaret and Steakhouse in Central City without gaming in our fourth quarter.

Please turn to Slide 19. By sticking to our capital allocation since the end of fiscal 2015, we have generated compound annual growth rates of 10.2% for total revenues, 12.1% for adjusted EBITDA and 17.2% for free cash flow. We also reduced our fully diluted share count, even after shares issued for acquisitions. I'd like to say thanks to our loyal and dedicated teams for all their hard work and efforts and all our shareholders who believe in us and make our success possible.

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Now here's Mark to start the Q&A session.

Mark Moran - CEO, Equity Animal

Thank you, Eric and Bradley. If you would like to ask a question, please raise your hand in the X space. When you finish, please mute your microphone to eliminate any background noise. We have a limited number of speaker spaces, so after your question, we may move you to the back of the audience to free up space. To start things off, we'd like to take questions from RICK's analysts and then some of its larger shareholders. First up, we have Scott Buck of H. C. Wainwright. Scott, please take it away.

Q: Hi, good afternoon, guys. Thanks for taking my questions. Bradley, apologies if I missed it, but could you give a little color on what the increase in other charges was in the income statement this quarter?

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

You're talking about the impairment. We had $8 million worth of impairment charges.

Q: Appreciate that. And then I was hoping we could get a bit of an update on M&A. On the call a quarter ago, it sounded like you guys were close to announcing something. I don't remember seeing it. Kind of curious if there's a hold up or if the situation has changed there?

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

We had two LOIs. We pulled one, and the other one is in a negotiation lock at the moment, due to the potential of unknown liabilities and indemnification clauses that the company would require of the seller. I don't know if that's going to move forward or not at this time. I wouldn't say it's very promising. We are looking at several other acquisitions right now as well, though. I think eventually, these people will figure it out and come back to us, because no one's going to buy unknown liabilities from anyone. They're going to have to figure that out. Unfortunately, the way the licensing works in that particular market, their existing corporation has to be bought in order to keep the license valid. So we'll see if that one goes on.

I am looking at other locations around the country, and I figure at some point here, I'd say sellers are getting more reasonable now. We've got to get some of the terms worked out with cash and carry of notes and whatnot. We'll figure that out shortly.

Q: Great. That's helpful, Eric. And second, I was wondering, we're about halfway through the second calendar quarter. Curious if you could give us a little update on the trends you're seeing. I'm guessing it probably looks fairly similar to the first quarter or the first calendar quarter.

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

April beat January, which was very important to me. We now need May to beat March, and then our June numbers to beat February so that we can be up sequentially on the quarter. The first week of May went very well. We have four NHL teams and four NBA teams that are all in playoff modes right now. We've had some great games out there, getting a lot of traveling customers from our markets, to our markets. For example, in Colorado right now, we have the Dallas Stars playing the Avalanche. So, we're getting Colorado fans in Dallas and Dallas fans in Colorado, which is great for us. We have clubs in both markets, as well as the Denver Nuggets and the Timberwolves playing in Colorado and Minnesota.

Our Colorado locations are doing very well from both the NHL and the NBA and so is Dallas because you have the Mavericks in there as well. The Knicks and the Rangers are both in, so you get hockey and basketball in New York, which has been great for New York as well. Then we have the Panthers down in Florida. All in all, very solid sports lineup.

Last year, Mother's Day weekend was very weak, one of the weakest of the quarter. This year, I think we should have a much better Mother's Day weekend, because we have four games between hockey and basketball starting tonight all the way through Monday, I believe. Very excited about that.

Q: Great. That's helpful. And then last, if there's any update you can give us on timing in Central City, that'd be helpful.

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

Timing is unknown. We're going to do everything we can do to get the club and steakhouse open in this quarter. We've gotten some news from gaming where they've requested a very large amount of money to continue our investigation to a third-party and gave us a very long timeline from where we are today. I'm currently evaluating that timeline with our new refocus on capital allocation. I'm doing a lot of math right now and calculating whether we want to even continue to focus on that at all or take our money and energy and focus, instead of on casino operations, and get back to our core business. If so, we would probably divest a property or two of the properties. Obviously, we'll keep the Rick's location and the steakhouse up there, but we may end up withdrawing the gaming license at some point instead of paying all this money for the investigation and waiting the timeline they want. When I know, we'll get that information out once what decision has been made. There's a lot of new information that's come in the last week or so. We're evaluating all of that at this time, and we'll have a better understanding where we're going with that as we move forward.

Q: I appreciate the transparency there. Thanks again.

Mark Moran - CEO, Equity Animal

Thanks so much, Scott. Next up, we have Anthony Lebiedzinski of Sidoti. Anthony, please take it away.

Q: Good afternoon and thank you for taking the questions. As far as the quarter, your service revenues were down a little over 8%. Can you share more details in regard to this decline? And what is your strategy to improve services as a proportion of your revenue mix?

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

I can nail it right on the head for you. About $1.3 million was XTC in Dallas. Dallas passed a new city ordinance. It's in current litigation, forcing us to close the club at 2 AM. That was a major after hours club. Did most of its revenue between the hours of 2 AM and 5 AM. We have rebranded that to the Dallas Showclub now or in the process of. We've got our liquor license in. We have continued operations. I think we were closed one night as we converted from BYOB into liquor. The rest of the conversion will happen as we're open. That's a big part of it.

Then the rest is Miami's service revenues last year were much higher than they have been this year. That's the majority of it. There are little bits here and there. There are success stories in some markets like New York and Minnesota, and there are other clubs that are declining a little, but most of those offset. The major part of it was XTC Dallas and the Miami clubs.

Q: Thank you, Eric. And then, what were the main factors that drove the sequential margin gains at Bombshells? And do you think that's sustainable?

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

My goal with Bombshells is to return us to $60 million of revenue with 15% margins, which would put us about $9 million in operating income on an annualized basis. At this point, we will probably work very hard at strategic options with that asset, whether it's a partnership, selling the assets outright, selling part of the assets or bringing in partners to expand the process at that time once we prove we can return it to those numbers. I think that's a six month process from now. At least I hope so. I think the 15% margins are maybe doable earlier.

The revenues are a little more difficult. While part of it has been management issues, the other part of it is the economy and people not spending as much and not drinking as much. Yes, I believe that we will have that corrected. We've made some major changes. We've just lowered our costs. We've changed out a lot of the management teams in certain stores and certain markets. We've been doing some hiring. We still have about three spots that we need to find the right people for, but the people that we're bringing in are motivated and excited to be part of our team. I think that the concept is definitely heading in the right direction so far.

Q: You guys have quite a number of projects in the pipeline, but just wanted to focus more on the plans for the Central City location. So you are planning to open the Rick's Cabaret and Steakhouse in 4Q even if there is no gaming. So how should we think about the revenue contribution? If you do get gaming there, what could that contribute to revenue if you go ahead? I know there is uncertainty with that, but hypothetically speaking, how should we think about that?

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

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I have not thought about the gaming at all anymore. My focus is on the club itself. I think the club can open up in the $100,000 per week range, which is about $5 million annually. We run our 40% margins, we'll make about $2 million a year out of it. I'm only opening four days a week to start. As we build up our clientele base and our entertainer base in that market, and we open seven days a week, I think we can grow that to somewhere between $8 million and $10 million annually at 40% margins. That's my focus right now.

With the gaming, I'm weighing a lot of things right now to see what makes sense or doesn't make sense for us as a company. From what we're being told, we're 18 months to two years away at a minimum. There are two other licenses that have been applied for in Central City. They're now crossing the three year mark without denial or approval. We've got a lot of information that's come in the last week or so. We're going to weigh that out and probably within the next two, maybe three weeks, we will have a plan of action, and we will let everyone know what our plan is there.

To me, it's not relevant or material to earnings this year or next year if it's18 months to two years away. We're going to focus on what we do know. What we do know is we can open that club and the steakhouse. I think we'll do very well in that market with it, and we're going to continue to rebrand some of the BYOB locations as Chicas so that we don't face anything like we did in Dallas in the last six months. We're getting ahead of everything just in case the laws don't change. We think these underperforming assets, and some of the BYOBs, will do much better under the new branded concept. That's where our focus is.

One thing I'll say about being happy to focus on Bombshells for the last two and a half months is that it's really brought the team, especially upper management's focus, back to what are we really doing, what is our capital allocation, really putting a microscope to the existing assets, and that's why you've seen us change. We've had four clubs now that we're going to rebrand. I think that's going to be a big increase as we move forward to the end of this year. We've got the three Bombshells coming online by the end of this year as well, I believe. Sometime in the first quarter of fiscal '25, I think we can get the Baby Doll's West Fort Worth location open, and then we have no more drag.

We've had so much drag. We've got to get rid of this drag. We've got to get focused on much quicker ROI that we get from acquisitions versus trying to build these new locations. I think it was a great theory, and I think it was working, but the system is broken right now because governments take forever. Building permits take forever. Inspections take forever, and it's adding six months' time. When interest rates were 4% and 5%, that extra six months didn't cost us very much. Now the interest rates are 8.5%, 9.5%, for corporate money, the carrying costs become too much.

We have to reevaluate that. We have to go back and do all the fifth grade math over again, and that's what we're in the process of doing. You'll see us do that through the rest of this quarter. I plan to have everything lined up in the next six months, which gets us on track running into fiscal 2025.

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Q: Got it. Okay. And then so as you rebrand some of the clubs, what's your expectation as to the lift in sales that you will get after you do such a rebranding?

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

Some liquor clubs tend to run more sales than the BYOB clubs. I'm assuming if we can get those high enough that we'll also have better total margins. The margin rate may be about the same, but because the revenues are higher, the bottom line should be higher. We've run some models, but we've really only converted one club so far. And of course, the new club that opened in Lubbock. As we do El Paso and Harlingen, and the XTC Dallas that's now been converted as of last week, I'll probably be able to give you more color on that as we get into the next call.

Q: All right. Well, sounds good. Thank you, and best of luck.

Mark Moran - CEO, Equity Animal

Fantastic. Thank you so much. Next up, we're going to have Rob McGuire of Granite Research. Rob, take it away.

Q: Mark, thank you. Eric, you've discussed what's happening, avoiding what happened in Dallas again. But if you move from a BYOB to a liquor club, do you work with a different set of regulators?

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

The TABC [Texas Alcoholic Beverage Commission] becomes a new regulator for you, yes.

Q: In general, do you find that that creates an easier environment or did you? I'm wondering if you could elaborate a little further about this strategy helping you avoid what happened with XTC?

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

It's irrelevant. The city came in with time, place, manner and decided that all the clubs in Dallas needed to close at 2 o'clock in the morning if they have an adult entertainment license. I believe it's unconstitutional. If you close me, you need to close every business. So far, the judges agreed with us, then they disagreed with us, and now we're going back and forth. The litigation will take too long for us to sit there with that club not making any money, so we converted it.

Some of our BYOB clubs are still very successful, and we'll take the chance on those. In what I consider the underperforming markets, where we ran analysis, like Harlingen, El Paso, and Abilene, we believe that we will do much better. These clubs have been around since early 2000s, and some of the areas have changed. The market has changed, and the club has stayed the same. We've gone and said, "We believe these particular locations will do much better under this new concept that we acquired."

Before the Duncan Burch's acquisition, we didn't have this concept. Now that we have this concept, we're able to take it and run its numbers and its demographics against some of our BYOB clubs. Those three particular clubs, especially Harlingen and El Paso, and even the XTC in Dallas, I think we'll do very, very well with this new concept.

Q: Thank you. And then with regards to the economic uncertainty, you talked about in the last call how you're starting to discount on Monday and Wednesday nights. Are you seeing an uplift in terms of traffic on that? Or in general, could you just comment about what you're seeing that's working in the clubs as you adjust in this environment?

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

Running specials are helping for sure. Sports are helping tremendously right now. That's been a big plus for us this month and last month. We will see how that runs out through June depending on who makes the finals. Weekends, parties, VIP parties, getting our teams much more involved and much less complacent, I think is really helping.

If you're chugging along, you don't realize sometimes that you get complacent. We've hired some new managements in the clubs as well as Bombshells, and we're seeing results from that. It's a lot of getting everybody back on track, returning back to the basics, and that's what got me thinking.

As we returned to the basics in the restaurants, we returned to the basics in the clubs. I thought to myself, are we returning to the basics at a corporate level? What are the basics at the corporate level? Well, let's go back to 2015 and '16 when we adopted this capital allocation strategy and let's reevaluate our assets like it's 2015 again. It was highly successful for us. It worked very, very well.

While we've stayed true to the capital allocation strategy, I think we got a little complacent on existing assets, existing team members. It was easy. We were making lots of money in '21 and '22. '23 was a wakeup call for us. As we moved into the last quarter, especially with Bombshells, that became a wakeup call. Then we've seen some decline in same-store sales at the club level. I said, "We have to cut this off immediately at the club level. We can't let it go on as long as we did at Bombshells." So that's where we are today.

Q: That's all really helpful. Thank you. That's it for me, Mark.

Mark Moran - CEO, Equity Animal

Next up, we'll have Steve Martin of Slater Capital. Steve, please take it away.

Q: What are you seeing from the competition? And do you think you're outperforming the competition on the club side?

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

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On the club side, in most of our markets, where we're number one or number two, we are definitely outperforming our competition. We do have some lower brand clubs in certain markets that are probably similar to our competition. I talk to other club owners. Overall they're seeing 15% to 30% declines -- probably at an average of 20% declines from their peaks in '21, '22, and down in '23, and now they're down again in '24 so far.

It's a struggle for the mid-level consumer. The majority of clubs cater to that mid-level consumer. I think it's one of those things we're going to work through over the next few months. It reminds me in 2009 when everybody talked about us going out of business when we were still making $6 million. Well, we're still making $60 million, $50 million, right? It's not like we're not making a ton of money still. We're not going out of business. We're not making the same type of easy revenue and easy money that we made in '21 and '22 when there were tons of free money and then '21, we were some of the only clubs open or businesses open. In '22, there was so much free money left out there. Things tightened up. Interest rates went up. The consumer's being squeezed in multiple places with inflation. We're seeing wage inflation ourselves. It's changed, and we've had to adapt to that and change with it.

Q: Okay. And you've put in a lot of cost containment measures. How long do you think that's going to take for those to show through into the earnings?

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

I think you're seeing some of it right now, because our revenues were down, but our adjusted EBITDA wasn't down as much, I think, on a same-store sales basis. We made a decision about a week and a half ago as we got to the end of April and said, "We're cutting off all future project costs that are controllable costs." We can't get rid of carrying costs, but we're not going to hire any new employees. We're not going to continue management training or any kind of training for these new concepts until the day they're complete.

When we have a direct opening date, then we'll start, then we'll carry those costs. But we're not going to have any preopening costs that we carry. We think we're going to open in three months, but it takes nine. So we end up carrying those costs for nine months. We're just going to wait from now on. If it takes us an extra month or two to get open, it costs me very little to have a store set up ready to open and not open because they don't have the staff than it costs me to carry that staff for nine or 10 months.

We've cut all of that type of stuff. This is all going back to the capital allocation strategy where we're not making any investment till we know exactly what the ROI is on it.

Q: All right. Thank you.

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

Thanks, Steve.

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Mark Moran - CEO, Equity Animal

Thank you very much. Next up, we'll have Jason Scheurer of Orchard Wealth. Please take it away.

Q: Hey, guys. Obviously, the main thing that I'm focusing on right now is just with the environment that you're in, have you noticed any significant impact from people calling you, and are they still holding on to their prices or are these people open to negotiation?

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

We've been negotiating price pretty well. A lot of it right now has been terms and uncertainty. People have been trying to hold on to their '21, '22 deals, but now they've got through '23, we're into '24. I think people are starting to wake up to that '21 and '22 was kind of a fluke. There was, like I said, a lot of free money out there, and people were coming out of COVID and a lot of businesses closed. Things are normalizing. Who would think we'd be thinking normalization five years later, but that's really where we're at.

It was unprecedented to close so many businesses, close down the country at one time like that, and then for such a long period of time when it was supposed to be two weeks. I just think there's been a lot of adjustment going on. We're getting back to that normalization. I don't think it's just us. I think a lot of companies, a lot of people got complacent. I was talking with Mark today when I came to his office here in New York City. Last time we were here, there were 15 people in this office at most. Most times we come over here, there'll be eight or nine. I said, “You guys got 35, 45 people in here. What's going on?”

Everybody's back to work. We're seeing that in our numbers in New York City as well as at the clubs. I think it's going to return back to normal. I don't know what that means just yet, but I do know that we'll be staying on top of it and staying ahead of it, instead of playing catch up like we've done in 2023.

Q: My assumption is when I take out the numbers for all of the years previous years before the -- let's call it the COVID bump. I feel like you guys are still on trend line from what you were for the previous five years of what you had been doing. It was like you were having a heat wave. You sell a lot of ice cream, and then you get back to normal temperatures. You're going to sell a certain historical number of ice creams. I'm assuming things are along those lines or are you noticing anything different?

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

Yes. When we compare to '18 and '19, we're in pretty good shape. You have certain markets. Minnesota was dragging for a while. They not only had COVID, but you also had the George Floyd issue up there. You had major changes in that market that affected it for a while. But the Timberwolves are breathing life in the downtown again. I'm seeing numbers that we haven't seen in Rick’s Minneapolis in a long time. The Seville Club is doing much better. I'm optimistic that

that market is going to finally turn. New York is turning, as people return back to offices. I'm very optimistic there.

The biggest problem we have is Florida, which was just incredible. Tootsie's, whose highest year ever is $26.8 million or $26.6 million in '18 or '19. Then in 2022, they did $39.6 million gross. I think last year, $35 million and change or $34 million and change. That's a $5 million change, so Tootsie's is a big swing on a quarterly basis for same-store sales.

Q: When it comes to buybacks right now, you guys have your chart for when you should be aggressive or not. But with the influx of the cash that you're going to have on the balance sheet because it sounds like you're not in any negotiations or doing any big deals at least at the present moment. Are you prepared to be aggressive and get back those 130,000 shares that you put out at $80, close to two years ago?

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

I'm thinking a little more aggressive terms than that. I would like to get us back under 9 million shares total outstanding. I'd like to buy it back a little over 300,000 shares at some price here depending on what the market opportunity is for us. I don't know when. We just closed the loan in the last week.

I thought about getting pretty aggressive. I decided that, after talking with our attorneys, I should wait till after this call, make sure all the relevant data is out there. Now with the casinos kind of in limbo for at least the next two weeks, we'll probably stick to a more moderate buyback if we start buying back stock. We may not. I don't know. We may buy maximum under safe harbor. I can tell you we probably will never buy over a safe harbor amount in a single day. We will stick to the SEC safe harbor provision for our buybacks.

Q: And what's that number approximately?

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

25% of the average daily volume, over a 25 day period, something like that. 30 day period or something. I don't know.

Q: Looks like 8,000 to 10,000 shares is what you could take down.

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

I think it's a little higher than that, but I'd have to get that. I'd have to ask them. It goes up to 14,000 shares, I think, last time I looked.

Q: Great. But you have more than enough cash to take back 130,000 shares?

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

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We're sitting on $45 million in cash now that we closed the loan. I could use the whole $20 million to buy back stock. I could use $13 million of it. The board would have to approve for me to go over that amount. But yes, we could do that. We'll see what the stock does. When it's super cheap, I get very aggressive. You've seen that before.

At these prices, $100,000 a day or $200,000 a day, I don't consider that too aggressive. I consider that just a nice casual buyback. We’ll cost average in and out. We buy some stock at 48. We buy some stock at 56. It all works out in the wash for us. Over the long run, over a five year period, it won't matter what we bought it for today. It'll be a much higher price five years from now.

Q: Well, I mean, you got two deals. You got shares at 80 and you got shares at 60. So anything right now is that…

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

Those 300,000 shares under 60, we're benefiting, right? We bought real assets. We bought real estate, we bought cash flow. Both of those acquisitions are performing much better than they were based on the price that we bought them at. You see the Duncan Burch changes of 23% increased revenues, margins up to 32%. That's a big change from where we bought it at a year ago.

Q: Over the last number of years, you guys obviously have a huge amount of real estate in your portfolio right now. I'm assuming on a lot of these things when you did with the Bombshells, you had ancillary property. Do you still have parcels that you could sell off? What possibly could you sell off in terms of just land or places next to the clubs that doesn't do you any good that would be worth selling?

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

About $4 million on a cost basis. On a market basis, we have one property that we just turned down $9 million for.

Q: And what did you pay for that?

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

$2.15 million about four years ago, maybe. We've got three parcels of land left. The Aurora property that we recently bought for Bombshells that we're not going to develop as Bombshells is up for sale. I expect to have a contract on that, hopefully, in the next two weeks, according to the broker that I've put on that.

I turned down $9 million for a property in the Houston, Texas area. It's about 19 acres. I believe the property is worth about $30 a foot if we got prime price for it. In this market today, probably closer to $14 a foot, which would be around $12 million to $14 million. The price we got offered for it was closer to $10 a foot. If somebody came in at $12 a foot today, I'd probably just take it

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and walk. I talk to that broker pretty regularly. It's the largest contingent piece of land within about a five mile radius on an intersection of two major highways. There's a big Bass Pro Shops on the opposite corner. It's a prime piece of real estate today. It wasn't when we bought it because it was a special use zone. I petitioned the city about a year, a year and a half ago to rezone that property into C1 commercial, which is basically any viable commercial use. So that's where the value was created. When we changed the zoning that property became very valuable.

All the other large pieces around us got bought up because we originally had a plan to develop that property into a light industrial park. Then, of course, RCI really is not in the development business, so let's just sell this property. I started shopping it out there to sell it. We'll get it sold, I think at some point. I'd like to sell everything in the next four months now. I'd like to get everything lined up by October 1, 2024, for our fiscal 2025, and get everything back in line for our capital strategy like we did in 2016-17.

Q: Okay. I'm assuming anything that you're buying at these current levels is meeting your capital allocation strategy.

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

I think everything we bought period has met our capital allocation strategy. If we made any mistake it was estimation of time to open. Therefore, the carrying costs are increasing. I still think we'll be within our capital allocation strategy with additional carrying costs on everything except for maybe these casino properties because this timeline is getting crazy. We've got to weigh that math still.

But on everything else, the Bombshells properties, even if we open six months late, maybe the return on investment is 25% instead of 45%, but I still think the return on investment will be fine. Cash on cash wise, we'll still be well within the ranges of our capital allocation strategy.

Q: Well, if you can't buy clubs, buy stock. So all right. Thanks so much, guys.

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

Yes. Thank you.

Mark Moran - CEO, Equity Animal

Thank you very much, Eric and Bradley, as well as to all those who asked questions. For those who joined us late, you can meet management tonight at 7 o'clock at Rick's Cabaret New York, one of RCI's top revenue generating clubs. Rick's is at 50 West 33rd Street between 5th Ave. and Broadway, a little in from Herald Square. If you haven't RSVP'd, ask for Eric or me at the door.

On behalf of Eric, Bradley, the company, and our subsidiaries, thank you and have a good night. As always, please visit one of our clubs or restaurants and have a great time.

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