Transcript of
RCI Hospitality Holdings, Inc.
4Q21 & FY21 Earnings Call and Webcast
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Participants

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Adam Wyden - ADW Capital
Joshua Zoepfel - Noble Capital Markets
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Presentation

Operator

Greetings and welcome to The RCI Hospitality Holdings Conference Call and Webcast. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator Instructions].

As a reminder, this conference is being recorded. It is now my pleasure to introduce Gary Fishman, who handles Investor Relations for RCI.

Gary Fishman - Investor Relations, RCI Hospitality Holdings, Inc.

Thank you, John. For those of you listening on the phone, you can find our presentation on the RCI website. Click Company and Investor Information under the RCI logo. That will take you to the Company and Investor Information page. Scroll down and you will find all the necessary links.

Please turn to Page 2 of our presentation. I want to remind everybody of our Safe Harbor Statement. It is posted at the beginning of our conference call presentation. It reminds you that you may hear or receive Forward-Looking Statements that involve risks and uncertainties. Actual results may differ materially from those currently anticipated. And we disclaim any obligation to update information disclosed in this call as a result of developments that occur afterwards.

Please turn to Page 3. I also direct you to the explanation of non-GAAP measurements that we use.

I'd like to invite everyone listening in the New York City area to join us tonight at 6 o'clock to meet management at Rick's Cabaret New York, Manhattan's number one gentleman's club. You can also tour its sister club Hoops Cabaret and Sports Bar next door. It is located at 50 West 33rd Street between 5th Avenue and Broadway around the corner from the Empire State Building. If you have not RSVP'd, ask for Eric Langan or me at the door.

Now I am pleased to introduce Eric Langan, President and CEO of RCI Hospitality. Eric?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

Thanks, Gary. Thanks for joining us today. I'm here with our CFO, Bradley Chhay.

After the market closed, we reported our fourth quarter and year-end numbers. We had another strong performance with record fourth quarter revenues, fiscal year revenues, and cash generation. As always, we thank our loyal customers, dedicated team members, and steadfast investors for their support.

We are continuing to work on all aspects of executing our growth plan for fiscal 2022. At the end of the quarter, we closed on our $99 million bank real estate refinancing at better rates and terms. In October and November, we closed on our big acquisition of 11 clubs in six states and The Mansion in Newburgh, New York. Last week, we opened our 11th Bombshells in Arlington, Texas in the Dallas market, and our first franchise is close to opening its first location in San Antonio.

Bradley and I will talk more about our growth plans later. Now, here's Bradley to review the financials.

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

Thanks, Eric, and good afternoon to all those who are listening.

During the fourth quarter, we reported total revenues of $54.9 million. That is up 91% from a year-ago quarter, but also up 22% from the pre-pandemic fourth quarter in fiscal 2019. GAAP EPS was $0.26, and non-GAAP EPS was $1.58. GAAP EPS was impacted by a non-cash impairment charge of $11.9 million. Most clubs rebounded significantly through the year on a favorable trajectory. However, the full-year contribution from the clubs in certain locations, which had more stringent COVID-19 restrictions, did not recover as fast as previously projected. Net cash from operating activities was $9.8 million and free cash flow was $8.5 million for the fourth quarter. Net income was $2.3 million and adjusted EBITDA was $17.6 million.

For the full-year fiscal 2021, we reported total revenues of $195.3 million. That is up 48% from a year-ago, but also up 8% from fiscal 2019. GAAP EPS was $3.37 and non-GAAP EPS was $4.08. GAAP EPS was impacted by a non-cash impairment charge of $13.6 million for the full-year. Net cash from operating activities was $42 million and free cash flow was $36.1 million. We ended the year with $35.7 million in cash and cash equivalents.

If you turn to Page 5, Nightclubs segment revenues, operating margin and income from operations for the fourth quarter were all up significantly year-over-year. As a result, revenue rose to $40.3 million, which is great for our seasonally slower fourth quarter. GAAP operating margin was 16.1%, and non-GAAP operating margin was a whopping 43.2%. GAAP income from operations increased to $6.5 million and non-GAAP was $17.4 million.

Our Florida clubs did particularly well and our high margin service revenues mainly from our Northern state clubs grew sequentially year-over-year. Looking at results compared to the pre COVID fourth quarter of 2019, revenues were up 12%. Income from operations increased 4% on a GAAP basis and 58% on a non-GAAP basis, which excludes impairments.

If you please turn to Page 6, Bombshells had a great quarter with revenues of $14.4 million, GAAP operating margin of 20.8%, and income from operations of $3 million. Revenues were below the third quarter and unusually strong year-ago fourth quarter. But they were 11% ahead of the first and second quarters of fiscal 2021 and 68% higher on 25% more units compared to pre-COVID fourth quarter of 2019.

Operating margin was lower sequentially. There was less in the way of operating leverage. During the fourth quarter, we experienced and were heavily impacted by food and labor inflation costs. We also had pre-opening expenses related to Bombshells in Arlington, which opened earlier this month.

Please turn to Page 7. Still, fiscal 2021 was a record year for Bombshells. I like to spend a moment reviewing our progress. Over the last five years, we've grown from five to 10 locations. We've seen a 200% increase in revenues, and an increase of seven percentage points in GAAP operating margin. Our fiscal '21 average unit volume compares very nicely to some of the biggest and best brands in the business.

We believe there are several factors that are driving this success. Number one, our Bombshells team, led by restaurant pro David Simmons. Number two, we believe that Bombshells is a great concept and we've done a really fine job at refining it. And lastly, our site selection has resulted in better locations and higher average sales per location.

Please turn to Page 8 to review our fourth quarter consolidated statement of operations. Sales were higher, expenses were lower. There's a CFO analysis right there. Improvement in the margins of cost of goods sold, salaries and wages and SG&A were all attributable to higher nightclub revenues during the quarter. In part, that's due to high margin service revenues, growing from 23% of the total in the year-ago quarter to 31% this year. Certain costs overall in general, such as insurance and legal, were significantly lower. As a result, GAAP operating margin was 6.6%. And non-GAAP operating margin was 28.4%. Our interest expense has also declined as a percentage of revenue. I'll talk about more of this later when I get to the debt analysis slide.

If you'll please turn to Page 9, as I also mentioned earlier, we ended the quarter with $35.7 million of cash on hand, while our total debt fell $2.4 million, to a two-year low of $125.2 million. The debt decline reflected scheduled pay downs and a $1.2 million pay down related to a sold property.

Free cash flow was $8.5 million for the quarter and a record $36.1 million for the year. As you know, we pay a lot of bills in the fourth quarter. This affects our net cash from operating activities and our free cash flow for the period. While many of our locations bounced back over the course of fiscal 2021, they were not open to their full capacity as they are now. Adjusted EBITDA for the quarter was $17.6 million and $60.2 million for the year.

Back to the debt. The next three slides show our debt as a result of the September refinance, and then the new debt that we took on related to our October and November acquisitions. Let's start with our 9/30/21 debt pie chart on Page 10. Real estate debt increased $18.6 million from June 30 to $102.3 million September 30. Then using the cash that we pulled out from our real estate, we paid down $7 million in higher rate seller financing, and $12.4 million in higher rate interest unsecured debt.

Please turn to Page 11 to review the 9/30 debt manageability. Our occupancy costs continue to trend in the right direction and are well below our target range of 8% to 12%. As a percentage of revenue, they were 6% in the fourth quarter compared to 11.68% in the year ago quarter, and 7.6% in the fourth quarter of 2019. This was primarily due to higher sales in the current quarter, and the decline in interest expense.

We continue to reduce our weighted average interest rate. Over the last five years, it has come down from 7.23% in the fourth quarter of fiscal 2016 to 5.64% in the fourth quarter of the fiscal year. Our 9/30 weighted average interest rate was 104 basis points lower than the 6/30 primarily due to refinancing and paying down the higher rate interest debt.

As we've discussed, our periodic refinancings, like the one we just did in September, enable us to convert higher rate seller financing and other unsecured financing used in club acquisitions into lower rate commercial real estate bank debt. Our periodic refinancings also enable us to smooth out our debt maturity schedule. In this case, the September refi enabled us to eliminate $4 million in balloon payments due in fiscal year 2022. The refi also enabled us to reduce principal amortization by more than $2 million annually.

Please turn to Page 12 to look at our 11/30 debt pie chart. Going into October and November, we were able to take on $39.2 million of new debt. This was in the form of seller financing, and unsecured debt that was used to make our recent acquisition of our clubs and real estate. I'd also like to note on this slide that we have reached the end of our SBA loan through forgiveness and have a small amount of repayment left. We're also nearing the end of the Texas Comptroller Settlement.

Now let me turn the call back over to Eric. And thank you.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

Thanks, Bradley. If you'll turn to Slide 13, we've continued to talk with new investors, so I'd like to review our capital allocation strategy. Our goal is to drive shareholder value by increasing free cash flow per share 10% to 15% on a compound annual basis. Our strategy is similar to those outlined in the book The Outsiders by William Thorndyke. He studied companies that focused on generating cash per share and allocating that cash effectively to generate more cash.

We have been applying these strategies since fiscal 2016 with three different actions, subject, of course, to whether there's other strategic rationale to do otherwise. One is mergers and acquisitions, specifically buying the right clubs in the right markets. We like to buy good, solid cash flowing clubs at 3x to 5x adjusted EBITDA, use some seller-financing, and acquire the real estate at market value. Another strategy is using cash to grow organically, specifically expanding Bombshells to develop critical mass, market awareness, and sell franchises. Our goal in both M&A and organic growth is to generate annual cash on cash returns of at least 25% to 33%. The third action is buying back shares when the yield on our free cash flow per share is more than 10%.

Currently, we believe the yield is within our buy range. However, we are seeing some great opportunities to expand Bombshells as well as additional club purchases, with opportunities to earn cash on cash returns of 25% to 50%. We have been letting our cash build. Once cash gets to a point beyond where we feel we can deploy quickly at these great returns, our plan is to use excess cash to buy stock in the open market, if the stock price continues to stay in the current range of $60 to $65 per share. And we would be more aggressive, the better the yield becomes under $60 per share.

Please turn to Page 14. Here's an update on our current growth initiatives. We have a lot going on. We are making important progress with the 11 clubs that we acquired in October. This is a COVID rebuilding effort similar to what we did with our own clubs in fiscal '20 and in the first half of fiscal '21. The new clubs are back up to about 80% of their pre-COVID run rate. We are continuing to staff them with the right people. As this happens, we expect to make continued progress over the next few quarters.

Our other acquisition, The Mansion, is doing well. And our new Bombshells in Arlington is off to a terrific start with record single week sales for a Bombshells. Our first franchise location in San Antonio should open in the March quarter, which is our second fiscal quarter. Also, during that quarter, we expect to reopen our remodeled club in Louisiana and the club we are reformatting and rebranding in San Antonio. We are in the process of obtaining our credit card processor for AdmireMe.com. The site is also scheduled for beta testing in the second quarter.

We have two excess properties under contract for sale. And as we announced last week, we are under contract for purchasing land for two new Bombshells in Dallas. This would give us four locations in that market. We are also under contract for purchasing land in Stafford, Texas, which would give us nine Bombshells in the Houston market. As always, we continue to talk to owners about acquiring their clubs, and we continue to look for new Bombshells locations and franchisees.

Sales for our first quarter are doing well. With our acquisitions, we should have another great quarter. As always, a big thanks goes out to our teams—Nightclubs, Bombshells and corporate—for all your hard work and dedication. Thank you all and Merry Christmas.

With that. Let's open the lines for questions, operator.

Operator

Thank you. Ladies and gentlemen, the floor is open for questions. [Operator Instructions]. And the first question is coming from Anthony Lebiedzinski from Sidoti & Company. Your line is live.

Q: Yes, good afternoon. And thank you for taking the questions, certainly terrific quarter, and the terrific year as well. just looking at the segment margins, obviously very strong performance for both the quarter and the year. As we think about the rise in food costs and labor costs, how should we think about segment operating margins going forward?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

I think we've been able to pass most of those costs on. Obviously, if the costs continue to rise, and we're unable to pass those on, those margins could get squeezed a little bit. We had some considerable pre-opening costs obviously for the Bombshells as we will again this quarter. But the Arlington store will also have about just under four weeks of revenue as well. That'll help offset some of that. And so, I think the Bombshells margins will probably stay within our range of 18% to 22%, which is in our target. As far as the Nightclubs go, for the quarter, I think we'll continue to see increases in our service revenues in our Northern markets as people come back out. We'll have to see obviously how this new variant affects that, if it does or not. The new mask mandates in New York could become a factor as well. We're going to be watching that. They just started Monday. There's no real, no way, to judge anything at this point on that. But other than that, everything else, I think we're very strong in our other markets. And I think that the club margins will hold or expand from where they're currently at.

Q: Got it. Okay. Yes, thanks for that. And then, as far as just a follow-up on that, as far as the pre-opening costs, do you have those numbers, what that was for the quarter and what should we expect for the first fiscal quarter for pre-opening?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

No, we don't really have it broken down, because, basically, we train at our existing locations. What I can tell you is, our labor costs are up in the quarter, but a lot of that labor cost is training, it's not necessarily cost inflation. Some of it is cost inflation, but the cost inflation, like I said, we've been able to pass most of that on in pricing increases.

I'm not too worried about margins being hit by that at this point. And you'll see with some of our existing stores, I think their margins will return to more normal labor margins, as we move forward, as all the employees are now employed in the new store in Arlington. All the training we've been doing for the last six months, it's been basically spread around different stores and that cost will go away.

Q: Understood, and then you mentioned that the Q1 to date, the trends are pretty good. Is that just mostly traffic driven? Are you seeing also increases in average tickets as well?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

We're seeing higher VIP spend. I think we'll continue to see the service revenues as a percentage continue to grow a little bit. But right now, we're just very solid. But what I don't really have is we have 12 new locations. And I don't really have the full breakdown on those locations at this time. I've been watching the numbers on a much more macro level. But as we get to the end of this quarter and in the next Q, we'll have a better idea of more of the micro on those locations.

But those locations are, like I said, it's more of a COVID rebuild set right now. Some of the locations just barely opened in October to be fully open. They've all had restricted hours. The previous owners didn't necessarily open for all their normal business hours. They had limited hours. We're in the process of basically expanding those business hours, getting everything back open full time, staffing the locations better. I think we'll be back to 100% of the 2019 run rate probably by March, in a worst case scenario, May. Then we'll start seeing what kind of growth we can get out of those locations.

Q: Got it, okay. Well, thank you. And best of luck going forward.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

All right, thank you.

Operator

Okay, the next question is coming from Adam Wyden from ADW Capital. Your line is live.

Q: Eric, can you hear me all right?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

Yes.

Q: Perfect, I just wanted to do a little bridging math. Anthony, I think alluded to this. But the fourth fiscal quarter is a seasonally slower quarter. And it was burdened by, it was burdened by some pre-opening costs and whatnot. But, if I just take that quarter, and I annualize it, I get to about $70 million of EBITDA perhaps the run rate is maybe 75 or 80, when adjusted for seasonality, when I add Lowrie, which was doing 14 or 15, kind of before you got them up and running, I'm seeing a business that's doing nearly 100 of EBITDA net kind of before the new Bombshells locations. Look, I don't want to sound like a broken record, although I often do with a market cap of $564 million, and maybe it's a little bit more with another $564 million and $100 million of EBITDA, you're trading cheaper than pretty much any restaurant or hospitality company out in the marketplace.

What are you guys doing to kind of narrow the gap on the cost of capital, in terms of getting the market to see the value. Maybe buying back shares at these prices makes more sense than M&A. Obviously, at three times EBITDA maybe not, but at five and a half times, whatever you want to call it, that's a pretty, pretty high bar.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

Yes, I agree. That's why I said, I think we're well within our buying range right now. We're looking at all the opportunities we have. But you asked one of the things we're doing. We are going to the Noble conference in April, we're doing IRC in January, and we're doing the Sidoti Conference also in January. I'm looking at another possible conference, maybe in March. We're going to get out. We're going to keep telling the story. But the main thing we're going to do is continue to focus on building the free cash flow, getting that $100 million in EBITDA, and then growing from there.

I believe that we're a little off that run rate right now. But I think that, like I said, between March and May, that's going to be our go forward run rate with the Lowrie clubs coming on, getting up to speed and starting to see the effects of what we do, when we take over these locations and grow them typically 15% to 20%. I think we'll see that growth come into play.

The new Bombshells in Arlington had a record week. It's a fantastic location. We're working on the Rowlett property. We had a development meeting this afternoon before this call. It looks like everything's going good to hopefully close on that property at the end of January, early February. We'll be getting that one started. We've got all the stuff in on the Grapevine location. It's about a 42 day deal. I think it started, the 42 days started December 6, for that process. Hopefully that process is going well. We'll get started on construction on that one shortly thereafter. We're in the early stages of the new location in Houston as well. I've also got multiple other properties that we've got LOIs out, and we're negotiating on right now, to continue to build the Bombshells. I want to get the eight locations that we've discussed in the past and get those eight locations under contract and get them all under construction, get them going.

We're meeting with a couple of other franchisees, and we're talking with a couple that we've been talking with and moving those forward down the line a little bit. And of course, our current franchisee is very excited to be hopefully opening in January, early February, as well. They're trying to be open before Superbowl. I think that's achievable for them. They originally wanted to be open in December, but we've kind of told them, look, we watch these things. We built them a million times. We figured they'd take to about mid-January and it looks like where they're headed right now. So that they get it up done by then, they should be able to open by February, which will give us our first franchisee. I think once that franchisee starts putting their results out, I think people are going to see the value of franchising Bombshells and we're going to end up with even more franchisees.

Q: The franchise economics on Bombshells are great, obviously, royalty revenue is 100% return on invested capital. But, if you look at thinking one of your decks before you were showing the cash on cash returns on Bombshells, on a levered basis, they're like 50% or 60%. So, it's kind of insane that that we're still trading at five and a half times EBITDA, when you got this segment with those return profile and then you've got Chipotle and all these things trading at 40 times EBITDA, Wingstop at 100 times EBITDA. Granted, Wingstop is a franchise, but Chipotle is all company owned with leases right and you've got an own real estate base with arguably better cash on cash return.

So, look obviously, you guys reported a great quarter and look, it's with pre-COVID, you were doing 50 EBITDA or whatever it was. Now you're exiting '21 with a double. It's super impressive. Look, I think any initiatives and efforts you can put on expanding your audience base and trying to get the appropriate cost of capital, I think will be beneficial, because obviously the company is executing, and we're not getting -- we're not getting, I guess the appreciation in the public markets. It's almost there.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

I think we'll get there. We got to keep putting the information out there. The market is overall a little weaker right now. I think people were a little afraid of this new variant at first. But I think that fear is kind of gone by as people are not really getting that sick from it, it seems from the reports that that I'm reading, and it hasn't slowed down business at all. We've had a great, great week last week. I think as we continue this week, it's going to be a great week for us as well. We run our weeks from the first to the seventh, eighth through the 14th and 15th through the 21st. So, I think that as we see these weeks coming in through December, we're having a very strong December, it is going to lead us to a very strong quarter. And going into January, February, March, I think it just keeps getting better. That's what we've been seeing. I think we will continue to see them.

Q: Okay, and maybe $100 million of EBITDA is getting a little bit light.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

That's what I'm working for, make you be under me for a change.

Q: Oh, my goodness, wouldn't that be nice. All right, guys. I have to jump off for Zoom, but keep up the good work. Thank you.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

All right, have a good one.

Operator

Okay, the next question is coming from Joe Gomes from Noble Capital Markets. Your line is live.

Q: Hi guys, this is Joshua Zoepfel filling in for Joe Gomes. My first question is just based on the acquisition pipeline you guys are going on. I know you guys just finalized the eleven clubs. But just how is it looking, and I noticed that just like four new exposure markets you guys are doing with is it kind of like a trend you're seeing, so the new strategy for those acquisitions?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

I think we've gotten more aggressive. In the past, we were paying three times or less for most of our acquisitions. The current acquisition that we just did was a five times EBITDA acquisition, for some great locations. Like you said, four new markets, and we dominate in those markets with those locations. Basically, some of them, they're the only locations in those markets. We're very excited about that.

It's woken up some other owners that have some quality clubs that said, “I didn't know you’d pay me five times. I thought you're only paying three.” I said, “We'll look at your stuff.” There’re certain clubs that in certain markets where I'm going to pay three to four times and then there's some super markets that I would pay a higher multiple and for certain clubs. So, I'm getting calls from some of those owners now. We're starting to discuss where they fit in that three to five times ratio and see if we can make them happy and get a deal done. There's a lot of clubs right now where people are considering just because of simply the large amount of cash that we have. If you look back to 2019, coming up with $8 million or $10 million cash was a lot of cash down payment for us. On this deal, we put up $36 million in cash down. We're able to do much larger deals, and bigger cash, which is actually more attractive to these owners obviously, than being paid back slowly over time. But I am talking to a few that are looking for 20 year annuities. “Look, I need the cash every month. I'm 68 years old, but I'll probably live another 20 years, and I just want you to pay me a payment every month for the next 20 years. I want guaranteed money.” We've got some deals like that, where we're talking to some owners right now. There's a lot of exciting stuff out there, of course.

Q: Yes, thank you for the color on that. I just kind of wanted to switch over to the Bombshells portion. I wanted to see how the franchising was going. I know you alluded to Arizona was a state you’re looking at outside of Texas. Is there like maybe possibility of other states that you’re looking at?

Eric Langan – Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

For Arizona, we’re looking at the Phoenix market for our company-owned stores. For franchising, we’ve got about three other states that we’re talking with groups right now. With one, we thought we’re going to get it done, and then they ended up having a problem with the department of transportation getting a curb cut into the property. And without the curb cut, there wasn't enough land there to make it work. They would have lost about 45 parking spots, which makes the site not usable. They're now looking for another spot. Hopefully, they'll find one soon, and we can get them going.

Like I said, our current franchisees are just talking about their second location already. They're excited to get open and then get started on their second location. And then we've got several others that we're kind of vetting right now and talking with and discussing the markets that they're interested in. The company is obviously always still looking in Florida. We'd love to be in the Miami area. But I think we're now open to looking. We're going to look in Jacksonville. We're going to look in Orlando a little bit. And then maybe even on the West Coast of Florida from say Tampa down to Naples, looking in those areas as well for possible expansion of company owned stores.

Q: Great, thank you for that. And then one more question, if I may. I saw that in one of the slides that your Florida clubs are doing particularly well. Is there like any kind of reason for that, like increased traffic, just better cost initiatives going into those?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

I think all of our New York customers moved to Florida. I just think the growth, especially in the Miami Fort Lauderdale area alone, is phenomenal. The State of Florida has been very business friendly. I think that's helped with the recovery in that market tremendously. I'm not big on politics, but I do believe that it's definitely helping the clubs down there. Tootsie’s is doing record numbers, week after week after week after week. That's a site that was already doing $26 million, which was our best year ever. This last year, we did almost $33 million. Our current run rate is probably $36 million plus at that location. You're talking about a 50% increase post-COVID at Tootsie’s. Scarlett's is up 40%. As I always like to say, the numbers don't lie. The math is there. The numbers are great. As our northern clubs are coming online, now we're starting to see an even bigger influx. I think we're going to see, as the new acquisitions, as we get past our COVID restraints—I kind of call them restraints, where we have these restraints put on us. When you first take off the restraints, you haven't used your muscle in a while sort of over the weekend. Now we're building up. We're going to the gym every day, and we're building up and—Those locations, I believe, will be very, very strong as we move into March, and definitely through May.

Q: Great. Yes, thank you for the color on that. That'd be all for me. But congrats on the quarter and the year. Thank you. Looking forward to more.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

We are too.

Operator

Okay. The next question is coming from Jason Scheurer from Orchard Wealth. Your line is live.

Q: Hey guys.

<u>Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.</u>

Hi, Jason.

Q: Congratulations. The fourth quarter was excellent, considering it was your slowest. Made some of your other quarters looked pitiful. It's unbelievable how much business you guys are doing. Question for you about sales from the new locations. What do you think they're going to add in sales to the [income statement], let's say for the next 12 months?

<u>Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.</u>

If you'd asked me three months ago, I thought we'd already be on a run rate of about $40 million in revenues and $14 million in EBITDA. But we're about 80% of that or about $32 million on a revenue run rate. But that's only based—we only had them for, what, nine weeks now, eight weeks now. It's still a little early to tell. It's hard because we're just not getting open the hours. But we're in markets where in some of the market, the employment stuff has been very difficult. We're having to bring people in, move people in, hire new people, and train new people. That's taken a little bit longer than it would if they'd already been out for the full hours and had full staffing. That's why it's adding about three months to it.

I do believe that, like I said, we'll be on about 15% to 20% growth trajectory going into March or April over 2019. They were doing $40 million in 2019. At 15%, we'd be at $46 million. At 20%, we'll be at $48 million. I'm going to guess, by the end of March, we're on a go-forward rate of about $46-$48 million in revenue. I would say at least 60% of that extra $8 million, so an extra $4.5 million goes to the bottom-line. We go from $14 million to $18 million, maybe round down a little bit, to $14 million to $17 million, so were on a run rate of $48 million and $17 million EBITDA by the end of March. That's what I'm projecting it right now. I don't see any issue with that. We've gotten stronger. I've been talking with management. A couple of the clubs have turned the corner. They're running at close to 100% of their '19 or 100% when they got the full hours open again. They were closed certain days. They were closed certain hours. We're just now ramping up to get those days reopened, to get those hours re-staffed and reopened. So, it will take a little bit of time, day-by-day.

Q: Earlier you said your Bombshells operating margins were 18% to 22% were the range you're looking at. What do you see your range for operating margins for the clubs?

<u>Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.</u>

Basically, it's been between 40% and 55%. It really just depends on sporting events. They affect us a lot. Certain locations affect us a lot. It depends on what sporting events are in those towns, what the local teams do. If you take New York, I think, if the Knicks were contenders and going to the NBA finals, I think our New York club's revenue during that two month period toward the finals and in the playoffs would probably run 25% higher than normal. Just because the Garden is right here beside us, and it would be the big executives going to the games. They're not giving out the tickets in the mail room. It just depends on who goes to the games, who comes to games. If the Rangers got on a real hot streak, all of a sudden, we're full of hockey customers after every game. It just varies from market-to-market, time-to-time. If all of our markets hit it at one time, that's a big difference. It's hard to judge with everything. But I think 40% on the low side, 50%-55% on the high side.

Q: Okay. And then the question I have is with the OnlyFans rollout that you guys are going to be doing. Is this going to be something that like, every one of the dancers is going to be encouraged to do this. You're going to give them like a free site or something along those lines. What's the plan with that?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

We're definitely going to be encouraging and promoting in our clubs, to help them promote their business at our clubs, and bring customers into the clubs to see them. And then of course, communicate and build their online business with their customers. I think it'd be very popular with our business clubs, the business travelers that come to our clubs. I think it'd be very popular because typically guys are coming to town on business. They come several times a year and the girl can create their relationship. Each time he comes to the town, he'll come to the club and visit as well. And when he's not coming into town, he can stay in touch online and build what I call the fantasy relationship, right.

Q: Yes, sure. We'll get -- I'm just -- I'm very happy with the numbers. Unusual for your slow quarter. I was expecting lower numbers, but you guys exceeded those numbers. Congratulations.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

Yes, we were, it was, we were like, is this real? Is this real? Sometimes ask ourselves. We understand.

Q: Yes. Awesome. Thanks again, guys.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

Thank you.

Operator

[Operator Instructions]. The next question is coming from Andrew Hollingworth from Holland Advisors. Your line is live.

Q: Hi, thanks very much. I'm just making sure you can hear me because I'm calling from the U.K.

<u>Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.</u>

Yes, I can hear you.

Q: Right. Thanks for taking the question. Again, like it what helps you the fantastic reporting period. And just a couple questions for me. I was going to ask you about the segmental margin. [Technical Difficulty] always done that. And just to be clear on that, it's obviously, what I was going to ask is really the structural lift we've seen in margin. How much of that is coming from sort of revenue in terms of the good trading you're getting and how much of that is coming from the structural change that you've done in terms of the cost base over the last two year period? But you sort of answered that in the sense that what you're telling is that the current level of run rate of the margin of the clubs you think is the sort of low end of the range. I'm just making sure that the 40 to 55, you just talked about is comparable to basically Slide 5. That's the first question.

<u>Eric Langan – Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.</u>

Yes, I think some of the margin comes from—we've upgraded our accounting systems. Over the last five years, we've streamlined stuff. Then with COVID, we made huge—we went from tons of revenue to zero in basically one day or about three days. So, we made some pretty big cuts in what I call the fat in the company. As you grow over 20, 30 years, you have some fat. We started cutting a lot of that fat in 2016 when we adopted the capital allocation strategy. We thought we'd gotten rid of a lot by '18 and as we moved into '18 and '19. But put your revenue at zero, you realize you still got some fat in there.

I think we were able to cut, cut some more of that. And we've been very conscious about not adding it back, keeping our costs tight, keeping our controls tight, just running a tight ship, and staying very focused on the margins. But our VIP spend is not that high right now in certain markets. But we are seeing it come up. As big customers come back, then the margins could be—I'd say 40 to 55%, that's a huge margin difference. But it all depends on that VIP spend, that big VIP spend comes back in full force. That's where we'll be.

Q: I can just to say in previous and present time, you talked about sort of six to eight quarters of having sort of good trading and then things slow down for a while in terms of that margin range, if you had a wonderful period of trading six to eight quarters. Then it's the high end of that range and sort of a slower period. You think now a slower period is probably it's probably 40 not saying this quarter or next quarter or years from now that's what you're telling us is that the bottom end of the range could be 40 [indiscernible] so the bottom of the range used to be obviously much lower than that?

<u>Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.</u>

Yes, I still think that we've gotten rid of—when you look back long-term especially go back 2016, we had a lot of what I call anchors. Those were legacy clubs that we'd owned for years and years or property that we owned that we carried, that we had carrying costs on it. And, we had clubs that weren't really making any money. But we were so concerned with top-line revenue, that we didn't worry, we didn't pay as much attention to return on investment as we started doing in 2016.

We eliminated those clubs in '16, '17. And so that's why you saw those lower margins when times were low and when we went to a 40% margin, we had a 6% drag from the clubs that were losing money, so the margin dropped 34%. Well, that 6% drag is gone, and it's not coming back. If we have locations that are underperforming now, we will sell those locations, we will move those locations, do what we have to do, and then reallocate that capital into a much higher margin location, or asset.

Q: Okay, that's really good. That's really helpful. Can I just ask one more? I think in terms of the presentations, you've given on past calls, and obviously, with a bit of help from Adam, as well, the outlook for the business is obviously impressive and appealing. And it's really well laid out in terms of your capital allocation. I congratulate you for that, I'm a shareholder of the business and the funds that I run and the only question that really comes to mind to me when I look at this company, is what goes wrong? And so I just, would love to hear you just talk about that a little bit, and particularly and what's happened in the sort of Visa, MasterCard situation in the last six months or so, and the world sort of likes some businesses and doesn't like others, and you have a Facebook situation where the government seems to be against it, and companies, just talk to us about if society or politicians, what can you do to appease that?

<u>Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.</u>

The beauty of it is the government changes every four, every two, four or six years, right. That's a constant moving target. There's not really much we can do except for maneuver through it. And then we use the courts for when we can't. We tie it up until we get another administration that will deal with us, or new city council that will deal with us, and we try to work it out. Then we have these settlements and move forward. A lot of the litigation is pretty settled. I think there's a few cities and towns here and there that don't understand that there are protections. They still try to squeeze us every now and then, and we have to go to battle with them, like we had to do in San Antonio.

But we've come to a nice compromise in San Antonio. We're going to get the stores, going to be reopened soon. We passed the inspections today, the inspections earlier this morning. They passed the inspections. That's moving forward. And so, it's just, I call it, it's white noise, right? It's always white noise. There's always some white noise out there. We always have some legal going on here, some battle going on there. You have to deal with slip and fall. It's like Walmart. At some point, you just get so big, you have a legal department. And that's where we've gotten to. Every now and then we lose one, and most the times we win because, if we're wrong, we try to do what's right, and we've made some legal settlement payments, you've seen the payments, we disclose them.

And so sometimes we make some payments. And a lot of times we win, of course. You don't hear about times we win because we're not going to go out and put that on our 10-Qs and 10-Ks and brag about winning. Just not our way. But we fight the battles that we have to fight and we pick our battles where we think we can win. If we can get out cheaper, we try to get out but we don't throw our money away on frivolous lawsuits. We will spend money on our attorneys rather than pay for frivolous lawsuits so our legal stays a little higher. We have great insurance. We have a great reputation with our insurance company right now. We hope to continue that relationship and keep that going and keep our costs in line for insurance.

And that's really the only, I think the only real negatives out there, the occasional deals. Now, obviously, you had the downturn in 2008, 2009. We survived that. We survived the pandemic, survived being closed down. I think we've as a company proven throughout the years that they keep throwing, they throw something at us every now and then, and we figure our way through it and come back even stronger each time. If there's something they're going to throw, hopefully we'll continue that trend.

Q: I suppose all I'm really trying to do is sort of, I think if you're half as successful as you look like you're going to be in terms of rolling up the industry and AdmireMe and all the rest of it, you're going to become a much bigger company hopefully, and you'll slightly there to be shift up.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

When you figure the growth, it's going to grow pretty quick, right, because we've gotten to that critical mass. That's what we needed to do.

Q: My question is just more a question of, what happened to Visa and MasterCard, more about lawsuits. It was just about somebody made a stink. And then ultimately, they were forced to react. And I'm just sort of trying to put myself in a position of here's the common is a business more sort of a more of a public perception, and therefore, is there issues about workers' rights, or I just want to know, how you think about that as an organization in terms of what could go wrong with it?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

Yes, obviously, we care about our reputation, and we work through it. You can't keep all the people happy all the time. We've learned that. I think as we expand more, especially in the Bombshells and more mainstream—strip clubs just aren't popular to really pick on anymore. There's very few of them. It's not like in the 1980s and 90s, when clubs had—there were 300 clubs in the City of Dallas or Fort Worth and they were all biker bars, and they were all low end. These are multimillion dollar businesses nowadays. A lot of the smaller clubs have disappeared from the marketplace. You have a resurgence in certain markets, with what I call, rogue operators, where they're operating without SOBs, they are operating as bikini bars, and kind of skirting the rules. That may last for a little while, but they don't tend to do things the right way.

Either the tax people get them or somebody. Eventually, they go away, and then we continue to do our thing. The key, I think, is just being a good neighbor, and just operating the best we can do, and try to avoid, we try to avoid negative headlines. Obviously, it's impossible for any business to avoid all negative headlines. There're always haters out there. But we do our best to do the best we can and present our side of how we do things and why we do things. And I think as long as we continue to do that, we'll continue to be successful.

Q: I appreciate the way you like question. I appreciate your answer. Thank you for taking the time here.

Operator

[Operator Instructions] The next question is coming from Cray Smith, Private Investor. Your line is live.

Q: Hi, so I have got one question on the $11.9 impairment. Was that in any particular market area, or what's triggered that now with COVID-19, sort of 18 months on?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

I'll give you the quick and easy. It's multiple markets. It's mainly some of our college towns, where the colleges haven't really opened back up fully in Texas. And, of course, our Northern clubs, New York, and some other markets, that just got opened so late in the year, that when you do the impairment on a 12 month basis, you just can't meet the numbers. And there's no COVID exception in GAAP. We argued—and if you see we have the material weaknesses—because management used basically a non-COVID period. We took out a COVID period of about six months or nine months out of our growth projections and said these months don't count because this was COVID rebuild. This is where we're really at, what we're really doing, and of course, the auditors came in and said, "No, under GAAP, you have to do it this way." It's very cut and dry. There's no COVID exception. We said, "Okay, no problem." And we redid it and included the COVID numbers. And when you do that, we ended up with some impairments in some of these markets. We believe long-term we'll recover in every one of those markets. But like I said, there's just no COVID exception for GAAP. We follow the rules.

Q: Okay, so do you see sort of part of that maybe reversing in the future, if demand at that point?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

You can't reverse it. Once you write it off, it's gone. You get no write up in value. If we did, Tootsie's would be worth, Tootsie's would be up $50 million right now probably based on the numbers they're doing. But yes, you don't ever get it back. It's just a write off in book value. We don't really use book value as a gauge of what our company's worth anyway. We use our free cash flow, our cash generation, EBITDA numbers, and our non-GAAP numbers, to kind of value the company and see where we're going, how much cash we can generate on a go forward basis. The book value is not overly important to us.

Q: One of the questions, not related to this but so on your new debt financing, is that a fixed rate loan or is that floating?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

It's fixed rate for five years, with one adjustment at the end of five years, with a floor. I can't remember whether there was a ceiling in it or not. But basically, it's a one-time adjustment, which carries for another five years, and then becomes ballooned at the end of 10 years, but it's on a 20 year amortization.

Q: Okay, so if tomorrow rates increase, that's not really impacting you guys?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

It won't impact us for five years. Then it could have a small impact in five years from now.

Operator

Okay, the next question is coming from Jason Scheurer from Orchard Wealth. Your line is live.

Q: Hey, sorry guys. I just want to get a little more clarification on stock buybacks. I'm under the impression again because you gave as part of the deal a half million shares at $60 a share. Anything under $60, you guys are going to be crazy buying back because that's just like printing money, right?

Eric Langan – Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

That’s the way we look at it. I think we’re much more aggressive. I think we would—right now we’ve got a lot of stuff on our plate. I’m trying to see what I’m getting through the holidays, letting the cash build up. We made a huge acquisition. We put out $36 million in cash, but we did borrow some of that. I’m guessing we’re $24 million or so cash on hand right now today. I don’t know how we’ll finish the end of the quarter.

We are working on a debt financing for all the real estate in the new acquisition plus the Arlington location, and a couple other pieces of property that we own free and clear that weren’t in the first loan. There’s a small package being put together on that to give us some more cash. If we get that closed by the end of the quarter, we could end the quarter at $45 million or so.

I think we’re growing free cash after debt service and whatnot probably at $750,000 to $800,000 plus a week right now. Maybe even $1 million a week. We’ve just been going through this cycle and getting our 10-K done, getting everything done, getting this acquisition done. I’ve got a lot of homework so to speak. As we get to the end of this quarter and move into January and February, after the first of the year I'll be doing a lot of homework, trying to get a really good feel for our run rate on free cash flow.

We've just been—we know it's good, and we've been really busy. We haven't really nailed it all down, but I think, I'm hoping that we can maybe put our old chart back in. I’ll have a much better understanding by the February, probably the May quarter. Then we’ll actually get that chart back in and kind of show you, “Look, this is our run rate. This is our free cash flow. This is what we’ll buy.” I think, go back to some of our old slideshow from pre-COVID where we basically tell you exactly when we're going to be buying stock and exactly what prices, and I want to get that back out there.

I like that. It's just really hard to do because it's just been so crazy, right? I don't know if a city is going to close me down or at midnight, next week, or if they're going to do it. I think in our south markets we’re very, very well off. And I think even in the north, I don't think anybody's going to deal with closedowns. I don't think the voting public is going to allow it. There was a big—in Minnesota, with the beef on police and the restrictions on everything—there was a huge—like four city council members got voted out of office this last election.

And so, I think there's a big turn, like, “We want our business open. We want our—we want to be able to go out. We want to go eat, we want to go, we don't want to sit at home anymore.” I think that's weighing positive in our favor. Like I said, I think by the May quarter, or at the end of March, we'll be able to have a much better idea of where we're at, and hopefully get that back out in the May slides, hopefully.

Q: Well, you also have the good numbers coming from the 11 clubs being—

<u>Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.</u>

Because they're so new. that's the other problem. Like I said, we've got eight or nine weeks right now. And we're seeing growth trajectories in them, but they're still not, we're not back to 2019 at all the clubs yet, but I think we will be soon. As we get to that, then the trick is figuring out the growth.

Q: Right.

<u>Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.</u>

But I’ll have a better idea, solidly where we're at. And that's where I really want to know, where are we at today. I could snapshot that and say this is where we're at, based on seasonality based on this, this is what our projections are. Then once we can get back to that free cash flow projection, then we can use that projection to say this is when we're going to buy stock. That's super easy to calculate the yield based on the stock price.

Q: Yes, just anything around $60 is a complete steal any way.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

Yes, I think buying it. And we're definitely buying it, if it's under $60, we'd be buying. It's getting close. We'll see what happens tomorrow.

Q: All right, thanks again.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

Yes. Thank you.

Q: Bye.

Operator

[Operator Instructions]. Okay, we have a question coming from Michael Chiaradio. He's an Individual Investor. Your line is live Michael.

Q: Hello, everyone. Thank you for taking the last minute question here. I just had a question about the dividend. I remember you had mentioned on a call a few quarters back you are at least maybe considering raising it slightly or something to that effect. I just wanted to see if there was any guidance you could provide on that. Because I do love a good—I love cash being distributed. To me, I guess you could say, but by the same token, you guys are able to deploy cash and invest that into businesses with great economic characteristics and things that I couldn't buy myself in the stock market. I don't have one view or another as far as having not thinking about it. Yes, go ahead.

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

I don't see we'll see a big increase. We talk about it at board meetings. This would be the year, probably. I have to look at the quarters when we would be due to raise to continue our annual growth rate. We've got to—basically, when you want to come up on those dividend screens, you have to have a growth rate of X. We'll be reviewing that. It's on the agenda for before the March dividends are paid to review that, to make sure that that we're keeping our growth trajectory.

But I can see us—I think right now we're at $0.16 a year. I guess I could see us going to $0.18 a year, possibly paying two quarters of a nickel and two quarters of $0.04. Or I can see, if maybe, depending on how things are, going to $0.20 and just paying a nickel a quarter, something like that. It's actually the worst tax efficiency use of our capital that we have. It doesn't really go with our capital allocation strategy.

But like you said, it gives a lot of investors a warm, fuzzy feeling, and it also puts us on a lot more screens and allows a broader group of investors to buy and hold longer. I personally like that aspect of the dividend. And of course, being a very large shareholder, I don't mind those quarterly checks, either.

Q: Question on the follow-up on that. Thank you. Does the acquisition pipeline matter? Is that a factor? How much of a factor? Is it or is it not really entering into your thought process on that at all?

Eric Langan - Chairman of the Board, Director, Chief Executive Officer & President, RCI Hospitality Holdings, Inc.

On the dividends? If we raise it $0.04, you're talking $400,000 a year, not even $400,000 a year. We generated $36 million in cash. $400,000, it doesn't even dent it. What we have in growth, and what we know we're setting up, has really no effect on the thought process at all. Our dividend yield is not even half a percent. It's so low, that it's really a very, very small portion of our cash.

And like I said, it's about the feel good, right. You got cash coming in every quarter, and those kinds of things. And, like I said, it lets a certain shareholder base increase and feel good about owning the stock. Those are things we weigh when we discuss it at board meetings. Those will continue to weigh on it. And like I said, it's continuing the growth factor. I think it's important that we keep that on a growth trajectory, that we keep coming up in all the searches when people do stock screenings. I think that's important.

Q: Thank you.

Operator

Okay, I'd now like to turn the floor back to Gary Fishman for closing remarks.

Gary Fishman - Investor Relations, RCI Hospitality Holdings, Inc.

Thank you, John. And thank you, Eric, and Bradley. Just to reiterate what Eric had mentioned, we've been invited to a number of investment conferences the first half of calendar 2022. We'll be at the ICR Conference in Orlando, January 10th to the 12th. We'll be participating in the Sidoti virtual small cap conference, January 19th and 20th. And we'll be at the Noble Capital Markets small cap conference in Hollywood, Florida, April 19th through the 21st. On behalf of Eric, Bradley, the company, and our subsidiaries, thank you and good night. Stay safe, stay healthy and as always please visit one of our clubs or restaurants. Thank you.

Operator

Thank you, ladies and gentlemen. This does conclude today's conference call. You may disconnect your phone lines at this time and have a wonderful day. Thank you for your participation.