

Transcript of
RCI Hospitality Holdings, Inc.
Second Quarter 2021 Earnings Call
May 10, 2021

Participants

Gary Fishman - Investor Relations
Eric Langan - President & Chief Executive Officer
Bradley Chhay - Chief Financial Officer

Analysts

Gregory Pedy - Sidoti & Company
Yaron Naymark - 1 Main Capital
Jonathan Abenaim - ADW Capital
Darren McCammon - Cash Flow Kingdom
Adam Wilk - Greystone Capital Management
Doug Weiss - DSW Investment
Adam Wyden - ADW Capital
Jason Scheurer – Orchard Wealth Management
Alex Hardman - Private Investor

Presentation

Operator

Greetings. Welcome to 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. For those of you listening on the phone, you can find our presentation on the RCI website. Click company and investor information just under the RCI logo. That will take you to the “Company and Investor Info” page. Scroll down a little and you will find all the necessary links.

Please turn to page two. 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 or see receive 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.

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

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

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Thank you, Gary. If you please turn to page four. Thank you for joining us today. I'm here with our CFO, Bradley Chhay. After the market closed, we reported our second quarter numbers. Results reflected a continued rebound in financial performance through the COVID pandemic. We posted strong increases in earnings per share and free cash flow.

Nightclubs had their best overall performance since the pandemic began, and Bombshells served up another strong quarter. This enabled us to keep our teams employed and generated higher levels of free cash flow and profitability. Once again, we thank our loyal customers, dedicated team members and steadfast investors. We hope these trends continue as the COVID-19 situation continues to improve. As of today, 36 clubs and 10 Bombshells are open. Nightclubs and Bombshells sales exceeded \$18 million in April.

Restrictive curfews, which have affected many of our northern clubs, are beginning to end. Minneapolis, where we have three clubs, lifted their 11 PM curfew on Friday. New York, where we have three clubs, plans to eliminate the midnight curfew starting May 31. And we hope the curfew in Chicago where we have one club will be lifted soon.

Looking forward, we are working on all fronts to grow free cash flow. I'll talk more about that when I return to the wrap up, then we'll have our question-and-answer session.

And now here's Bradley to review the financial data.

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

Thanks, Eric. And good afternoon to those who tuned into the call. We reported total revenues of \$44.1 million for the second quarter. That's up 9% year-over-year. This is our first year-over-year quarterly increase since the pandemic began in the year ago quarter. GAAP EPS was \$0.68 compared to a year ago loss of \$0.37. Non-GAAP EPS was \$0.75 compared to \$0.47 in the March 2020 quarter.

Looking at cash, we had \$20.2 million as of March 31. Second quarter net cash from operating activities was \$11 million and free cash flow was \$9 million. That's the third highest quarter in the company's history.

Please turn to page five. The Nightclubs segment continues to rebound. Revenues of \$30.8 million were up 22.2% from the December quarter and down only 1.8% from the year ago quarter. The sequential increase reflected more locations open on a more consistent basis and strong demand. Same-store sales increased 3.6% based on clubs that were open and qualified in the March 2021 quarter and the year ago quarter. During the March 2021 quarter, 29 of the 38 clubs were open the

Transcript Provided by



full period, 37 were opened by quarter end, 21 were closed for several days in mid-February due to the Texas freeze. This compares to the December 2020 quarter when 24 clubs were opened through most of the period and 26 were opened by the quarter end. As you may recall, after a strong performance in January and February last year, all 30 clubs closed in mid-March when local and state pandemic restrictions went into effect.

While March 2021 quarter sales were a little bit below a year ago, operating income and margins bounced back to pre-pandemic levels. Cost of goods sold was 12.3% of segment revenue compared to 11.3%, due to lower proportion of service revenues. Other expenses in aggregate also declined. As a result, profitability increased to \$10.5 million from \$2.3 million. GAAP operating margin expanded to 34% of segment revenues from 7.3%. There was an impairment of \$1.4 million when we moved one property to held for sale in this year's second quarter, while the year ago quarter included \$8 million worth of COVID-related impairments. Thus, on a non-GAAP basis, profitability increased by 16.1% to \$12 million from \$10.3 million. Non-GAAP operating margin expanded to 38.8% from 32.8%. This is the segment's best performance since the year ago quarter.

Please turn to page six. The Bombshells segment generated another quarter of strong performance due to the continued popularity of the concept. Revenues of \$13.1 million increased 49.2% year-over-year. Same-store sales rose 48.7%. During the second quarter, all 10 Bombshells were open, with the exception of several days, due to the Texas freeze. Capacity also increased from 75% to 100% in mid-March. This compares to the year-ago quarter when the nine existing Bombshells and a new location that opened in late January 2020 closed in mid-March.

Second quarter operating income and margin also performed well. Cost of goods sold was 22.8% of segment revenue compared to 24.7% due to higher revenue and lower costs of goods. Other expenses, in aggregate, as a percentage of revenue also declined. As a result, profitability was \$3.1 million, an increase of 356.7% year-over-year. GAAP operating margin expanded to 23.9% of segment revenues from 7.8%. On a non-GAAP basis, profitability increased by 240.7% to \$3.2 million from \$939,000, as non-GAAP operating margin expanded to 24.3% from 10.6%.

Please turn to page seven to review a few remaining items in our second quarter consolidated statement of operations. Salaries and wages improved to 25.4% of revenues compared to 30.2%. However, we believe our normal run rate is approximately 28%. SG&A, as a percentage of revenue, also improved to 28.6% compared to 35.7%. Both of these cost items reflect better Nightclubs and Bombshells segment margins, cost savings initiatives, and lower audit and legal fees as compared to a year ago quarter.

Depreciation and amortization fell to 4.8% from 5.6%. This reflected the fall in depreciation of certain real estate and software. Interest expenses were 3.9% lower year-over-year. This was due to debt paydowns prior to and during the second quarter. There was a non-operating gain of \$431,000 pre-tax. This was primarily due to extinguishment of one of our two remaining SBA loans. Income taxes were an expense of \$1.9 million, compared to a benefit of \$1.4 million.

Please turn to page eight. We ended the quarter with \$20.2 million of cash on hand, a two-year high. During the second quarter free cash flow continued to recover sequentially to \$9 million. We have continued to stay free cash flow positive since the pandemic began. As a percentage of

revenues, free cash flow also improved sequentially. It was 12% in the fourth quarter of 2020, 14.8% in the first quarter of this fiscal year and now it's 20.4% this quarter. We use free cash flow as a percentage of revenue to measure how well we're doing converting revenue dollars to cash. Debt declined \$2.4 million from December 30 and \$9 million from our year end as of September 30. This reflected debt extinguishment and scheduled pay downs. We are now at our lowest debt level in almost two years. We continue to be current on all of our debt. At \$34.4 million, current liabilities continue to be the in the general range for the last two years.

Please turn to page nine for our debt pie chart. We continue to see decreases in many of the categories since December 30. Secured debt now consists of 65.4% of debt secured by real estate; 16.9% listed as seller financing, this is secured by the respective club to which it applies; 6.3% secured by other assets; and 1.2%, represented by the Texas Comptroller Settlement, secured by business and assets of the clubs related to the settlement. Our unsecured debt consists of 10.1% that is listed as unsecured and 0.1% representing our one remaining SBA loan.

Please turn to page 10 to review our debt manageability. Occupancy costs returned to pre-COVID levels in the second quarter. As a percentage of revenue they were 7.6% compared to 8.6% in the year ago period. This was primarily due to higher sales and a reduction of actual costs to \$3.3 million from \$3.5 million. Occupancy costs as a percentage of revenue sprung up in 3Q20 due to COVID. We have continued to reduce our weighted average interest rate. Over the last five years, it has come down from 7.58% in the second quarter of fiscal 2016 to 6.66% in the second quarter of this fiscal year. As we've discussed, one of our strategic initiatives is refinancing our real estate debt. Our objectives include eliminating \$8.2 million of balloon debt, currently coming due over the next 2.5 years, and reducing interest expense by \$1.8 million annually.

Now, let me turn the call back over to Eric. Thank you.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Thanks, Bradley. Please turn to slide 11. We have continued to talk to a lot of new investors, so I would 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 compounded annual basis. Our strategy is similar to those outlined in the book *The Outsiders*, by author William Thorndike, who I spoke to recently, studied companies that focused on generating cash per share and allocating that cash to generate more cash. We have been applying these strategies since fiscal 2016 with three different actions, subject of course to whether there are strategic rationales to do or otherwise.

The first is mergers and acquisitions, specifically buying the right clubs in the right markets. We would like to buy good solid cash flowing clubs at 3 to 4 times adjusted EBITDA using seller financing and acquire the real estate at market value. Our goal is to generate annual cash on cash returns of at least 25% to 33%. Since we can't always buy the clubs we want, our second strategy is using cash to grow organically, specifically expanding Bombshells to develop critical mass and market awareness to sell franchises. Similar to acquiring clubs, we would like to see at least a 25% to 33% cash on cash return. The third is buying back shares when the yield on free cash flow per share is more than 10%. During the first quarter, ended in December, we purchased and retired approximately 75,000 common shares at a cost of approximately \$1.8 million.

Transcript Provided by



Please turn to slide 12. We continue to execute on our capital allocation strategy in order to grow free cash flow. We continue to make progress on our effort to refinance our real estate debt. Our goal is to lower our rate, increase our term, and convert some higher interest unsecured debt into real estate debt. Construction is underway at our first of the next ten Bombshells in Arlington, Texas and our franchisee's location in San Antonio. We are continuing to do due diligence on other potential company owned locations and franchisees. Our goal is to build ten new subsidiary-owned locations over the next 33 months and sign additional franchisees. We are also looking forward to meeting club owners interested in exploring opportunities at Expo, the industry convention, May 23 through May 26 in Miami.

With that, let's open the question-and-answer session. Operator?

Operator

[Operator Instructions] Our first question comes from Gregory Pendy with Sidoti. Please go ahead.

Q: Hey, thanks for taking my questions. My first question is, I just want to dig into the salaries and wages. I think you mentioned they came in obviously at 25.4%. Obviously, it's a big topic up, there might be difficulty finding people to come back to work. So can you explain why you did so well on that metric in this quarter? And what is the pathway, you said normalization expected to kind of get back to 28%, but can you kind of walk us through? Is that over the next couple of quarters is it going to creep back up to 28% or is that immediately and what is the environment right now on salaries and wages? Is that likely going to be a headwind going forward?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

I think it will be a little headwind going forward and there's a couple of reasons. First, let's start with your first question why we did so well this quarter. I think we did so well this quarter because we have very loyal employees. Our revenues increased very rapidly. And our employees worked through it. We have a lot of staff, we kind of froze wages when COVID hit. We're reviewing a lot of people, a lot of our employees right now, a lot of our management teams, corporate staff and whatnot. We're probably a little below market, so we're going to have to step that up. So I would say you're going to see it return -- increase a little bit – quarter-by-quarter for the next couple of quarters, maybe three, depends on how quickly we react and what we need to do.

We're also short a little bit of staff in some places right now, so we're trying to hire. It is a very difficult employment market right now. But I think that because of the loyalty of our current employees, and their willingness to put in the extra work and willing to do what needs to be done, to make sure the company is successful, that's helping. And as I said, they're out recruiting for us as well because they know we need staff. So, I don't see any long-term problems. I think it's a very short-term deal. But I think we definitely have to look at unlocking our salary cap or the lock that we've had, and we're going to have to look at being competitive in the marketplace, and taking care of the employees that have taken care of us for the last 18 months. So that is a process we're going to be going through this quarter, next quarter. And that's why, when we see this, I was speaking with Bradley, so I think we need to make sure people understand that 25.4% is not going

to be the new norm. Our typical average for the last five years was about 28%. I think we'll get back. I think we have to stay at that level in order to be competitive in the marketplace.

Q: Okay. That's helpful. And then just on New York lifting the caps and Minnesota, just trying to understand, I mean, is that going to be a big positive or are people kind of going to the clubs, are you kind of getting more business because people know about the midnight curfew? I mean, how should we be thinking about it, how much incremental business are these clubs going to drive?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

The curfews are killing us. To give you an idea, when the curfews were lifted in other states, we typically do 40% of our business in the last four hours of the night. So in New York, where we're open until 4 AM, you're talking about the full 40% is gone. In markets, where we're open or we're open till 2 AM, we're still getting a little bit of that business, but not the prime business. And the biggest problem we have is the main cities may be closed down, but they can just go someplace else. For example, in New York City, we close it at midnight, but if you go across the bridge, you can party till four o'clock in the morning.

So what happens is the customer that would normally go out at 11:30 at night, they just don't come to our place, they go someplace else. So I think it's going to be very big for us. To kind of put it in numbers, I think right now, Pittsburgh opened about a month ago to regular hours, their numbers are returning back to normal and actually increasing year-over-year. I think we're going to see that in New York at the end of May. Minneapolis started Friday night. We've already seen a huge increase, the best night we've had in ages, by just being open normal hours.

I think we are totaling between the Minneapolis, New York and Chicago clubs, somewhere between \$600,000 and \$800,000 a week in revenues. And if you take our \$18 million in April, it's about \$4.4 million per week in sales, you can kind of see where we're more than likely headed, as we roll through the end of May and into June, July, August, September. So I really think that, and even if, we haven't seen a slowdown, I call it consumer exuberance. We're seeing that right now. They're going to run out of gas at some point, but when who knows. So far, all we have seen is it continues to increase.

It's like going out and partying and having a good time and just getting out of the house and being around people is more addictive and more contagious than COVID was. People want to be out now, and they want to stay out and now spend the money to be out. Like I said, week after week, we're seeing it increase, not decrease right now. So, until that consumer exuberance caps out, I just don't really know.

Q: Okay. And then just one more, if you can just kind of just real quickly, just trying to understand the margins at Bombshells, any kind of just conceptual color on average check, is that something that just kind of ballooned? I'm just trying to get a better sense of the margins there and maybe what was driving that?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Transcript Provided by



I don't think the average checks really ballooned. I just think that pure number of people and the number of hours that we're busy have increased and I think that's a lot of what we're seeing.

Q: Okay. So you think it's traffic driven, than –

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

It's definitely traffic driven. I've been there a few times. There may be some big spenders as well. But Bombshells aren't like the clubs where we get a VIP customer who comes in and goes upstairs and spends \$5,000 on champagne. This is just a place you go when you hang out and you have a few drinks and if it's average ticket is up, it's up one drink or two drinks. So it's up \$6, \$8, \$10 a ticket or something. It might have something to do with it, but it's really just the number of tickets. It's the pure volume that's driving Bombshells right now.

Q: That's helpful. Thanks a lot.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

You bet.

Operator

Next question comes from Yaron Naymark with 1 Main Capital. Please go ahead.

Q: Hey, guys, awesome quarter. Just I wanted to follow up a little bit on the Bombshells commentary. I'm trying to internalize like how much of it you think is sustainable, all this recent strength? Like once all the local restaurants and bars and whatnot, reopen, which I think a lot of them have already been open in Texas, where do you think this eventually levels out? I know, it's a hard question but I don't know if you have a view on that.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

They are open in Texas. I think we peaked in the fourth quarter of last year and the last two quarters have been very consistent at \$13 million. I think that's where we're at. I've been talking with the management team, been looking at the numbers. Like I said, I've been eating at some of the Bombshells to see what's going on. I think this is where we're at now. I think this is the normal for that brand right now.

Will it slow down a little bit? I guess, if maybe people stop eating out as much or something, but right now, for the next, I think, 12, 18, 24 months, this is probably pretty much the range we're going to be at. I don't see any reason for it to slow down from here. I don't know that we'll do the big quarters that we did in that fourth quarter of last year, when we did \$15 million something; but I think \$13 million is pretty sustainable right now.

Q: Got it. So if you take the April number and you add the \$600,000 or so you were talking about for the restrictions listing in Minnesota, New York and Chicago, you're looking at a business that's probably run rating like \$250 million plus of revenue. I mean, if you just annualize it, I know there's some seasonality.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Well, I would say we could be close to \$5 million a week. There's some seasonality. I think \$220 million to \$230 million is very safe. I think \$240 million to \$250 million is possible. And if you said \$260 million, I wouldn't say it's out of the question on a forward run rate, once everything's open and running at what we're seeing right now today. You've got to remember, Minneapolis and New York are big VIP spend clubs. That's their service revenue. So all the service revenue you see missing right now, that's where it comes from.

So, as we see the service revenue spike up in New York and spike up in Minneapolis, and Chicago gets back open, that's when I think we'll see some of the margin expansion as well. We're seeing it in Florida. I was just looking at these numbers, it's crazy at \$879,000 last week, so it's big numbers. It's people are out, and they are spending money. I guess it slows down at some point but if everything is open and we're at \$5 million a week, and it slows down 20%, we're still at \$4 million a week, right? We're still doing some pretty heavy, heavy numbers at that point. And I just don't see it slowing down 20% anytime in the next 12 to 18 months. Maybe that's two years from now, but this next year is going to be a huge year for us, very confident.

Q: On that basis, I mean, you guys are doing some massive, massive free cash flow numbers. I mean, you could be doing \$50 million, \$60 million plus of free cash flow, maybe even more than that, if you hit the higher end of those revenue numbers. And if you're generating that much free cash flow, the club acquisitions you typically acquire using a decent amount of debt to acquire them, seller financing -- if you're generating \$50 million or \$60 million of free cash flow or even the pre-pandemic numbers, which were closer to \$40, but you could be deploying \$75 million, \$80 million, \$90 million, \$100 million potentially in growth capex assuming you're doing acquisitions and/or Bombshells. I mean, how are you going to deploy that much capital? I mean, so you're trading at a –

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Multi-club acquisition, that's how we're going to do it. We're going to buy one of the big boys or two of the big boys, who knows. We're at a point right now, where we may have to pay five times, right. I mean, instead of three to five, we go to five times. We go to a couple of big boys and say, we're going to give you five times right now, are you guys interested? We've never done that, so I can't say they're not interested, I think they're going to be interested. I think that number is going to be very difficult for someone to resist.

We're starting to talk to guys right now. We have some meetings set up at the end of this month at Expo, and a couple guys that can't come to Expo, I'm going to go meet in the second week of June. I've got a couple of meetings I'm working on right now. And I want to see about it. This may be the year that we start wrapping these things up. We've talked about it. We've pushed for

it. We've gotten really close a couple times. In 2008, we really got close there, when our stock, our stock took off, and we got that multiple, we could pay a little bit higher prices without affecting the model too much. I think that's probably what we're going to see as we move forward.

We're going to -- for the right acquisition only -- our typical acquisition is going to stay in that three, four times range. But for the right acquisition, I think we would be prepared to make five times offer, obviously, with some terms. But we're going to see that, you're going to see a much larger and it's going to be more cash. We're going to start using \$20 million, \$25 million, \$35 million cash down payments, because we're going to have the cash to do that.

Q: And how is the single club M&A pipeline looking? I mean, is Boston back on track? Are there any other big cities with single clubs that you are looking at?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Boston is off now again. It's on off, on off, it's a love hate relationship with the two partners up there, I think. I can't figure that out, truly, what their thinking is, at this point. There the club is still not even open. But there's several other single club stuff we're looking at. But my real focus right now, and probably through the next three months, is going to be a large acquisition. We've got to land a pretty large acquisition because like you said, that's what we need to make the needle move. We're generating a ton of cash.

We've got a ton of cash. I have no problem with it sitting on the books and just building up in the bank. It's not a problem for me, I can deal with that until I find the right acquisition at the right price. But at the same time, we've never had that cash before. I've talked to guys before in the past and they said oh, for me to even think about it, you'd have to have \$30 million cash down and we're just like, well, we're not going to do that deal. But now we have the cash, so we're going to go out and start looking -- start kicking tires and hopefully, maybe somebody is listening on this call, and I'll get a call tomorrow from one of the big guys that's interested. But we're definitely interested and definitely going to be very aggressive at finding the right large acquisition.

Q: Yep. And on the refi timing, I know it's a high priority for you guys. I mean, how long do you think these things typically take?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Well, once we can get to the terms on the commitment letter, we're two terms away, negotiating two different terms in the commitment letter, which hopefully, I think, they're going to committee on Wednesday, hopefully we'll get an agreement on these last two things that we need, which is freedom for large acquisitions without somebody overlooking our shoulder and the debt coverage ratios that allow us to pay dividends. Because we're a dividend company somewhat, we don't want our dividend to be at any risk at any time. So once those two items are fixed, I think we probably sign the commitment letter the day we get the terms that we can agree to, and I think we can close three weeks later. So if everything is agreed upon Wednesday, we probably close the first week of June will be my guess.

Q: Great. Okay, awesome. And then last one for me, on the Patron Tax in Texas, can you give us the latest on what's going on there? And I forgot are you paying that tax today so until its final solution is reached, or have you guys stopped paying it for now?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

We are paying under protest. We don't want to build up a big liability on the balance sheet again, like we did in the past, so we're paying under protest, which means we have the right to claim it back if the case is on -- right now the case is at the courts and waiting on a ruling. So we'll just have to sit and wait, basically.

Q: And how much is that per quarter per year again?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Oh gosh, I'd have to go back and look. It's fluctuated so much with COVID because things have been open and closed at times. I just don't know off the top of my head but if I had to guess it's maybe \$1.5 million, \$2 million a year. About \$300,000, \$400,000 a quarter right now is what Bradley says.

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

Yeah.

Q: All right. That's all for me. Great job, guys. Thank you. Keep it coming.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Thank you.

Operator

Next question comes from Jonathan Abenaim with ADW Capital. Please go ahead.

Q: Hi, Eric. Good job on the quarter. I mean, if I just annualize what you guys are doing in free cash flow, that's more than sell-side consensus in 2023. And obviously, doing \$60 of free cash would be no doubt what sell-side has looking at two years. And can you just help us think about sort of the M&A pipeline and I know you spoke about this with your own but are mom and pops coming to market now with cap gains law changing? And how are you thinking about this year in terms of M&A, you think this is going to be a blockbuster year?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

I think the next 12 months are going to be very big. I don't think they'll get a capital gains tax passed prior to the mid-term elections, so I think we have a little bit of time. But yes, guys are very interested in figuring out whether -- if you're planning on selling in the next three to five years,

you need to sell this year, so that you can lock your capital gains tax rate in now, at these lower rates, if they're going to be raised. I think there's pretty much a consensus on both parties that there will be raises in the capital gains tax over a certain dollar amount, maybe. But all the deals we're looking at, they're going to have more capital gains, whatever that dollar amount is going to be. We are getting interest, we are talking to people. And I think we'll have a big year this year with club acquisitions, for sure.

I'll know a lot more in the next three to four weeks as we -- like I said, we're putting it out there now. We're spreading it with the brokers. We're spraying with everybody that we're looking for a very multi-club acquisition. And \$40 million, \$30 million down-payment doesn't scare us, if you need a bunch of cash. We're building the cash or sitting on the cash or have access to the cash, so come talk to us. I have talked to a few and like I said, I think we'll get more calls over the next four weeks.

Q: Got it. And then just on M&A, have any of them expressed interest in joining the RCI family and taking stock in the company and then last one for me would be how franchise conversations with interested parties are going for Bombshells?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

We have two people that we're working with on Bombshells right now. I have talked to some club owners about equity, because now everybody wants stock. Nobody wants to when it's \$15, everybody wants it when it's \$70, which is fine by us because we wouldn't issue it at \$15 and I don't know that we'll issue it at \$70 or \$60 or whatever. We'd have to be very comfortable with the deal to use equity, because we still think the equity is cheap. We're going to kind of lay out as we move in through May and June.

I think we're going to get a much better idea with everything open so that by the July-September quarter, we will have a good idea of hopefully of at least a 12-month run rate. I'm getting more and more confident. I kind of thought Bombshells could slow down a little bit, and it did. After the big quarter, now it slowed down a little bit. But then we have two quarters in a row where we're sitting here at this \$13 million run rate. So I thought maybe Texas would slow down or Florida would slow down, they're not slowing down and they're just getting busier. And so I'm getting very confident on the numbers that they will continue to stay high for this 12-to-18-month period and maybe forever.

I just don't know -- it's hard to see past that point right now because it's so early. It's kind of early in this recovery, but we're also seeing inflation kick in. We're going to have some wage inflation, I think, where chicken has gone up tremendously. I think we're going to see -- you're seeing certain shortages, ketchup, mustard shortages. So when does all this kind of steady out, get back to a deal where we can project going forward and that's the hard part right now is projecting going forward.

In the meantime, we can safely say we've got \$52 million to \$54 million in revenue for April, May, June in the bag. If we have a huge June -- we open May 31, we have a huge June in New York, typically it is taking three weeks from the time when a curfew ends to build up the business. But New York gave us a 30-day window on when no curfew. Minneapolis was completely a

surprise. On Wednesday afternoon, they came out and said starting Friday, you can stay open. So that location will take a little bit of time to build up right because the employees didn't know ahead of time. So now we've got to make calls, we've got to get people in -- so those locations typically are taking three weeks to get back to what I call ahead of pre-'19 numbers. So within three weeks, we're out grossing what we were doing in 2019.

In New York, I think we can start out June 1 beating 2019 numbers because we have 30 days to advertise and market, to bring the girls back in, to let the customers know, hey, you can party all night again. And so I think the New York numbers will happen very quickly and maybe day one. So, like I said, we got a few things, we've got to kind of work through there. But if everything hits, right, it could be \$55 million, \$56 million. And if you look at the cash flow generation of 20.4% for this quarter, if it's a lot of VIP spend, it could be a little higher. Maybe the free cash flow generation percentage goes up a little bit, so we generate a little higher free cash flow. But we're definitely, at least short term, on free cash flow that we've never seen before. I think we will have record free cash flow this quarter, probably in the July through September quarter. And then we hit our prime season October to May. So it could be a very good year in the next 12 months, 18 months for sure.

Q: Very exciting. Thank you very much.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Thank you.

Operator

[Operator Instructions] Our next question comes from Darren McCammon with Cash Flow Kingdom. Please go ahead.

Q: Hi, guys, congrats on another strong quarter and really on excellent capital management and capital allocation for the last few years. You have done a great job here.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Well, we just keep following the program. That's the name of the game right now.

Q: Well, I mean, you've got it dialed and I think if you ever get a chance, thank the author of that book for me too.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

You got it.

Q: Okay. So we've talked about free cash flow a lot here. And we're hearing numbers thrown around by other analysts of \$60 million etc. Are you prepared at this point to give us some free cash flow guidance?

Transcript Provided by



Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Like I said, I can tell you what I think for April, May and June right now. I'm very confident in the next three months. I think it'll carry through July, August, September, and then we hit our prime season. So you see, the percentage this month went to 20.4%. If we continue to increase and a lot of that is service revenues, it's going to increase that 20.4% to a higher number. On top line revenues to \$52 million to \$54 million, if everything goes right, it could be a little bit higher. So, you can do the math. I don't really want to give the guidance, but I think those are kind of the ranges that we're looking at right now.

And if that carries into the next quarter, then our prime season, we have October through May as our prime season for us. And we continue to see increases, this consumer exuberance continues, I can't tell you how high we get, I just don't know. But we will peak at some point. Like I said, I think Bombshells peaked, the restaurants kind of peaked in, basically, the third calendar quarter, our fiscal fourth quarter of last year. But now, if this is the new average, we'll take it. You're talking about basically \$52 million a year, \$5.2 million per unit, on average, some of our top units are much higher. Some of the early units aren't doing the big numbers. As we open up the Arlington location, we're going to get another idea. The plan is to open up for the weekend of the first Dallas Cowboys home game in late August, early September.

And we're working on a couple of other locations, company owned locations as well. And we're out shopping real estate right now and trying to find the right locations. I'm not in a hurry. I think people say, oh, you need to hurry, you need to hurry. I'm not going to hurry. I'm sorry. If you want me to hurry, I apologize but I'm going to make the right calls. We want the right locations, the right investments because we can only spend the cash once, and we got to get a return on it. It can sit in the bank for a month or two, it's not going to kill the overall return for having little cash sit in the bank. We're generating cash at a very rapid rate right now. We ended the quarter with over \$20 million. I think at the end of April, we're close to \$24 million.

I think at this rate, we'll end the quarter at \$30 million in cash if we don't do anything at all with it. And if we find the right deals, we'll put it to work. I mean, I think we need to keep about \$15 million cash on hand, I don't think we need to keep \$18 million or \$19 million or \$20 million cash anymore. Business is solid enough right now that I'd be willing to invest that extra capital instead of having it sit, for the right deal. And that's just, we go from here, right. We just wait. Every day, we get up, we pound the pavement, and we try to find the right deals. And we'll start finding them and we'll start getting them announced and we'll see the cash continue to grow.

Q: Okay. Well, from my point of view, I mean, I guess I'm looking at a minimum of \$1 per share in cash flow going forward and seeing that as really the low end of things. Funny, it used to be the expectation, but now it's looking like the low end.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

You are talking about per quarter, correct?

Transcript Provided by



Q: Yeah, per quarter.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Yeah, okay. Yeah, I just want to make sure it's okay.

Q: \$36 million over a year, which pre-COVID used to be our forecast, and now it is looking at the low end.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

It is. I would definitely say that would be the low end after this quarter and the way things are running through early April. Because you remember, February was not a good month, January was okay, March was the first solid month, and then April, back right up to it, right back about 18 million. And now we're bringing New York back online, we are bringing Minneapolis back online, we're going to bring Chicago online at some point in this quarter, I believe. I don't think they can keep Chicago closed through June 30. I don't know how they keep it closed through May 31 but I'm not a politician, so I don't know what their thinking is up there.

But judging by the rest of the country, they're way behind the times. So it will be back open as well. And those are big revenue generating clubs and very profitable clubs, especially our New York clubs. So that will continue to add to the numbers. I don't see the current numbers slipping off for at least the next three to six months. So if \$4.4 million is the new normal range for the next three to six months for the existing stuff, we bring those other clubs online, I think they add \$600,000 to \$800,000, and maybe there's \$200,000 here or \$300,000 there or we're off by half a million bucks, we're still at \$4.5 million, \$4.6 million per week, and those are going to generate some pretty decent cash numbers.

Q: Okay. Just this is more comments than anything else, but Texas Roadhouse also just came off of one of its biggest quarters ever. So you're not the only guys that are selling a lot of restaurant food and stuff.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

We're actually looking at properties next to two different Texas Roadhouses right now for that exact reason. I've been following them very closely. We've got a friend who is very high up in Texas Roadhouse and they're doing very great location picks right now as well, building for their new stores. So I'm very excited to kind of -- for one of the locations that we're putting under contract, hopefully, I'm supposed to have it back by the end of the day today. I haven't checked my email because we've been busy working on the call but should have another property that's very close to them, right next door to one of their locations under contract, hopefully by the end of the day, so definitely working on it.

Q: Good. Glad to hear that. So, along those lines, nice problem to have to be floating in cash and I know you've talked a lot about what to do with it. But you and I both know, there's a very large potential purchase out there hanging where they use up all this cash, and more frankly. I guess any

progress or anything to say there? And would you consider using shares or selling shares to find a bigger cash chunk to them?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

If we need to and at the right price, yes. When we do any acquisition or anything we do, we're going to look for the cheapest possible cost of capital that we can find. Obviously, nothing's cheaper than the cash we already have on hand. We already have it, it doesn't cost us anything. When we put it to work, we get return. Debt would be next, and equity would be our last at this point. Now, depending on what the equity does, as the equity moves up in value and we calculate our cash flow multiple, we'll put that against debt and against the cost of debt and whatnot.

I'm not excited about issuing \$60 or \$70 equity but if this thing runs to some of the charts -- I've talked to different chart guys, and they say, oh, could go to \$90, if you go to \$130, what are you going to do then? Well, I'm going to do my calculations and if that's worth that, then yes, we might, we might heavily consider using equity at those points. But we're going to still be -- we're only going to issue what we have to issue. I don't think I'm going to run out and just sell a bunch of equity all of a sudden, because the stock price ran up. We're going to be very smart about how we do things, going forward, especially with our equity.

Q: Understandable. I just put one qualification on there for you from my point of view. You don't get to issue equity when you need it, you get to issue equity when you don't need it, right. Then market loves you when you issue equity, not when you're out there needing it.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

I understand. If they love us enough, we'll give them some. How's that?

Q: Okay. Okay, that's what I wanted to hear. So, but along those lines, if you have a very major purchase and -- we know who we're talking about, we're talking about [indiscernible].

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Equity and a leak up lockout agreement, we would consider. Yes, definitely. We have considered that.

Q: Okay. Are there any talks going on there or have there been?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

There are lots of talks right now. We're talking with a lot of people right now. There's a lot of solid groups out there. I want to get large groups. That's the thing. Right now, we're talking with some smaller operators. I really think now is the time with the tax laws changing, with equity where it is at, with the cash where it's at, and our ability if -- when the refinance is done, our ability to borrow additional funds without having to use additional cash -- monthly cash, we're going to save almost \$5 million a year with this new note in equity and interest costs. So we have that

money, so we can borrow against that, use that same \$5 million to have more money to buy more cash flow with, it's going to make a lot of sense to do a large acquisition, and we're working towards that, means, for sure.

Could we do something the next 30 days? It's possible. It could be the next 90 days. I think we'll definitely do something in the next six months before our -- I would say before our fiscal year end or definitely in the first quarter of next year, I think we'll have a very sizable acquisition locked in definitive agreements, by that point.

Q: Okay.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

That's my goal. Whether I can make it happen? I don't know but that is my goal for sure.

Q: Okay. So as far as other means of soaking up cash, I agree with you that that is the best choice. I would say that paying other than a token dividend increase makes no sense to me. Not what the other opportunities that you have. And although you should do a token because you just get you on the growing dividend list, but –

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

We just did one this year. We would -- the first time we need to look at a dividend increase, I think would be December or March. I think we were kind of reviewing that earlier. But we've got consecutive dividend growth going on five years now. So, yeah, another penny here, another penny there sounds irrelevant in the overall cash flow screen, but it keeps us on the screens, we understand the screening. So it's something we weren't -- we're not ruling it out, we're not looking to do it either, at this point as we've got six, seven months where we even need to think about it. We don't need a dividend increase until fiscal 2022. We've got the \$0.16 we did in '21 with the December raise. So we've got a year to think about that.

Q: Okay. And then on some of your debt, you've got seller financing. And I know you kind of made a deal there. And some of those guys don't want you to pay them off early. But are there any that might want you to or might welcome it.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

There's only one that we're not paying off early. When we consolidate this debt, everyone will be paid off except for one seller note, the note against other assets, the debt against other assets in the Texas comptroller. Everything else would be consolidated into a single loan at that point. It would be about \$105 million. It was a lot higher than that, but we've been paying it down because we've been working on it so long.

Q: So that's going to go through?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Transcript Provided by



Well, they're going to committee with our last two comments to the letter on Wednesday -- on this Wednesday. So if we can get agreement on the terms with the bank's board, I think we'll move very quickly; three weeks, four weeks from Wednesday. The appraisals are done, everything is done. All we're working on is final terms.

Q: Okay.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Now, basically, you just have to put it all together, if we can come to agreement on those final terms. We don't, then we're just going to wait. We've got the -- we can't do a loan that would tie our hands on a go-forward basis. It's just not something we're interested or willing to do. We're going to have similar terms to what we did on the '17 loans. If we can get that, which is what we're negotiating right now, then we will move forward very quickly.

Q: Okay. And then can you talk a little bit more about inflation, not just wage inflation, but also drinks and supplies? What kind of inflation are you looking at there?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

The beauty right now is we have no menus, everything is QR codes. So if our prices are raised, we can raise our menu prices in 15 minutes. But to give you an idea, chicken was \$65 for a 45 pound box of chicken wings, it is now \$148, and we're told is going to \$158 next week. So, those are the kinds of things you're seeing. We got word that ketchup was going to be out, so we ordered a ton of ketchup. So our ketchup inflation will be zero because we planned ahead of time. But we're told beef and seafood are getting ready to go up a little bit.

But overall, you can see, there's not really an effect because our cost of goods has stayed pretty steady, so we've been able to manage everything properly. It's just about knowing and reacting fast enough. We were getting ready to print menus, again, and go back to print menus. And after a meeting with staff, we just decided that we don't really need them, everybody has their phone with them and everybody's so used to just pulling the menu on their phones now that may actually be the new norm, we may never have menus again. It is just easier. And then they pull up the thing and you can advertise whatever specialty you want. It's a really interesting way of doing it. So we may stay with that. I'm not 100% sure yet, but that's made it very simple for us.

Q: Yeah, you could also do a chalkboard for those people that don't have phones or a video display on one of the TVs or something like that.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Yeah, that doesn't matter. We're good there, so.

Q: Okay. So what about alcohol inflation?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

I haven't really seen much of that. Alcohol is calm, hold steady right now. You can't get things like there's no Hennessy but other than that, it is not a big deal. But they'll get it -- they'll get there, they'll ramp back up. Everything will be back. I'm not worried about that. The beauty of demand is it creates supply.

Q: Okay. Thanks a lot. That's my last question.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

All right, thanks, Darren.

Operator

Next question comes from Adam Wilk with Greystone Capital Management. Please go ahead.

Q: Hey, guys, thanks for taking my questions. I guess the downside of going toward the end here is that most of my questions were already asked, which is great, a lot of really good discussion on the M&A environment and kind of what you guys are looking to do, which is really where the bulk of my questions were coming. But I guess I can ask, you mentioned something interesting a few minutes ago about putting down like or potentially putting down like a \$30 to \$40 million down-payment on a potential acquisition. Did I hear that correctly? And if so, I mean, are you talking about acquiring like a -- is this like a huge deal or huge deals you're looking at potentially? Is that something sort of in your pipeline?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

I think that would be -- typically put down 30% to 40%. So think of it in those types of terms. So I'm looking at -- I want to do an acquisition that has enough clubs, has enough EBITDA that we would be comfortable to pay in the \$80 million to \$120 million range because I think that's what we need. Number one, our systems we put in place, the IT system is ready for it, our staff is ready for it, can easily absorb an acquisition of that size somewhere between eight and 15 clubs in a single acquisition, it gives us a significant size of growth and it's going to put us in markets we're not in already and that's the real key, I think.

For the future, we need to -- we've got to expand our footprint and our pure size. It'll give us -- by doing something that large, it gives us economies of scale, we'll be able to tweak it, pick up another one or two, three points, four points, six points on the deal which will make it -- it may look like we paid X amount of dollars for it but then when we -- a year later, you'll go, oh, wow, look what they've done, look at the money they saved, look at the cost savings we put in with our national pricing with taking our staff and put it over more revenue and more locations, we'll get a much better return on it than originally it will look like at the beginning.

And that's what we've seen in Chicago, we reached the numbers on our last few locations, and Pittsburgh was the only location where after a full year of operations, we actually ran on an

Transcript Provided by



EBITDA multiple a little less than we had. So for example, we paid 3.45 times and we actually afterwards worked out to be only 2.79 times in Pittsburgh, I can't remember the exactly, but it was like a point two more, right. So Pittsburgh was the only one that wasn't in our favor. And we just had some issues up there in the first year. I think as we move forward, it will start looking better as well with the new market. When we get into a new market sometimes, we get a little learning curve with a single location that's why I want to go in and do these multi-club cases where you just buy a whole market. It's going to be much, much easier and more profitable for us.

Q: Right. Yeah, I understand. Thanks. So you mentioned like where the cost savings are coming from now, it is helpful or what potentially be coming from, so that was helpful. Thanks. And so like what when you're looking at different markets, is it just all over the country or you have clusters of places that you like to look because I can't -- aside from like multi-unit acquisitions, I can't imagine there's many single or even one or two clubs doing the numbers, you just said.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Yeah, these will be multi-club for sure. Or we could just go out and do 5 or 10 single club operators and put the same amount of money to work just \$3 million or \$4 million at a time, right. That's a lot of work. It's easier to buy one multi-operator than it's going to be to go out and try to buy 10 individual clubs, but we'll do it if we have to. We're looking at both ways. We were just out there. We're pounding pavement right now. That's what I call it. Knocking doors and pounding pavement, back in my old days when I was 13 years old going door to door sales.

Q: Right. Yeah. And I appreciate the way you're thinking about sort of spending the money to do these things. I don't know why -- I'm very confused why the previous person would ask about or talk about the need to raise equity there. There is absolutely no need unless, again, like you mentioned, it is the lowest cost of capital. That was kind of confusing to me, but I appreciate how you're thinking about that.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Yeah, no problem. I think everybody just wants more float, so they – they want more float so they can buy more stock, I guess, but without paying more for it, but that's not going to happen, not if we keep them. I learned all those days back when I made those mistakes in 2008, 2009 all the way into 2012 and it's like, you know what, I'm done with that. Our equity is gold. We have other ways to pay for things, we're going to pay for them. And that the equity will just stay valuable, right. I mean, that's way I look at it.

Q: Yeah. I love to hear it. Thanks. That's it for me. I appreciate it and great job. Thanks again.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Thank you.

Operator

Next question comes from Doug Weiss with DSW Investment. Please go ahead.

Q: Hey, thanks. I just wanted to ask about Bombshells a little bit more on specifically the expansion. And I wondered if I mean, obviously have a lot on your plate in terms of M&A on the club side, but I was curious if you sort of siloed things enough that the expansion of Bombshells can run independent of that. And if that's the case, I wondered if there was the possibility of accelerating that roll out, if things continue to go well?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

We're definitely trying to accelerate the Bombshells' expansion if we can find the right locations. We were trying to go into Miami very heavily. We have found that it is with all the New Yorkers that have moved to Florida that market is on fire right now. Something goes on the market. We start calling on it. They're getting 50 calls on vacant property down there right now. It's absolutely crazy. We had two locations, one got bought out from underneath of us by Chick-Fil-A. Another property condo developer is now looking at buying the entire retail center tearing it down and building a 38 story condominium project on it. So they want to only give us a three-year lease and so we're like, no, we can't do that.

So we are having difficulties getting to the Miami market. We do have one property that we're fairly certain that we're not going to have issues with, we're going to get that one done. We have come back to Texas because we know it, we love it. We've got the Arlington location going in. I am working on a location in a West Dallas suburb right now. I don't want to mention it yet because I don't have the signed contract in my email, but we're getting there. And we're looking at another Houston location right now as well. So we're looking at two franchisees out of -- outside of Texas that we're talking with as well.

Q: What's the thought as far as beginning to look at other markets? I think you've mentioned Las Vegas a couple years ago and –

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

For Bombshells?

Q: Yeah.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

We've considered the Phoenix market very heavily. That's probably one of the markets we will head to at some point in the future for company-owned stores if we don't end up with a franchisee there first. But that's Phoenix – in fact, we've been talking about going down there in the next few weeks and just kind of re-familiarizing ourselves and seeing what's available in that marketplace, if we don't get something solid in Miami on a couple of properties we're working on there right now.

Q: Okay. Just a couple bookkeeping questions. The land for sale, I think this was the first quarter that came up on the balance sheet. What would that relate to?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Yeah, those are signed contracts. So we don't move in into land assets held for sale because we'll lease it. The way the GAAP works, if you will lease a property, you can't put an asset held for sale, even though it's for sale or lease. So we have everything basically for sale or lease until the day is put under contract. We had three properties under contract, one closed Friday. Yeah, one closed Friday, so that leaves two. We have two properties left. One is \$3.25 million, we will sell or finance that property. We're taking a \$500,000 down-payment there. We're going to do about a \$2 million remodel on the property and construction project on the property. And they are getting a five-year balloon note for the \$2.75 million. Another property, we have under contract at \$2.15 million all cash. They have, I think, about 30 days left on feasibility and then they have 30 or 40 days to close the transaction to extend the feasibility if they put for fee, for a monthly fee.

Q: Okay. And then just to follow up on court case. If you were able to recover some of the -- retroactively some of your past payments, how many years back are you trying to claim?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

I have no earthly idea at this point. Right now, we just want to stop paying it going forward. That's really what we're pushing for. I'll let the lawyer -- the lawyers will work all the rest of that. Our big motivation is to stop paying it going forward.

Q: Got it. Okay. All right. Thanks. Talk to you soon.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Thank you. Yep.

Operator

Next question comes from Adam Wyden with ADW Capital. Please go ahead.

Q: Hey, Eric. Sorry, I'm a little late here, but I won't disappoint. So I mean, look, I'm just doing my -- the same back of the envelope math that everybody else is doing, or perhaps no one's doing. But like, I look at these numbers, and I say, okay, I can back into New York and these later curfews in Minnesota, and I keep coming back to that number, I keep throwing out there, which is \$100 million plus EBITDA. When I look at your refinance that's coming, I don't know, I was not in the early part of the call, if you guys are talking about it, but I know, it's coming. And I looked at the maintenance capital and I look at kind of the tax loss carry-forwards and some of this other stuff, and the depreciation, the real estate what -- I'm getting to free cash flow numbers that are effectively double kind of what our run rate is. I guess my question is there seems to be a very, very large dichotomy between the cash flow that multiple people are willing to ascribe to something like Bombshells versus the Nightclubs.

And I guess, I'm just trying to understand what are you guys doing in terms of getting the market to do with some of the parts in that evaluation or getting different sell-side coverage or raising money at the subsidiary level? Because look the performance is remarkable, but I mean we're not anywhere close to being able to use our equity in. I think part of the big reason why we invested in this company is because private equity can't actually buy these things. And so you've got this capital gains thing coming up and people don't necessarily want to pay 100% tax or maybe they want to pay a little bit of tax on part of their state.

But I mean, you are the acquirer of choice in the nightclub business, so, look, I guess I -- look everyone says all what's up so much, but I mean, look, I looked at it much longer and I look at where we were pre-'07 and all the rest. I mean, the total return hasn't been that great. And you're starting to get institutional sponsorship. I mean, how do you think about the next level in terms of research conference, institutional investors, cost of capital, so we can accelerate kind of the inorganic growth trajectory?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

I think the reality is, we have to do the first big acquisition that's going to get a lot more attention. We're going to continue to put out the cash flow numbers. I think this quarter is kind of a wake-up call, like, oh, hey, the cash flow is really coming back, \$9 million is a big number. But most of that money was made in March. And I think as we move forward, and you see April, May, June, we get that quarter out, we get this acquisitions, it's kind of rolling, we get some definitive documents, we kind of see the terms, we see how we're setting stuff up. I think that's when we're going to wake up some of these other banks. The problem with investment banking today is they need a deal in order to make it worth their time.

And since we're not really at a point where we're going to sell equity, but I think hopefully if there is some investment banker out there listening to this call, and they'll understand that we're relationship guys, and you need to build a relationship with us now so that when it's time for us to raise equity, we're interested in using your bank because the banks only want me when I don't need them or when I need them, I mean to raise money. And that's tough for us because I'm not going to spit out cheap equities. It's never going to happen. You asked why you invested with me because you told me back in the day and you're asking about the equity and I'm not issuing any equity, I'm not. I'm not interested in throwing out cheap equity and, yeah, people think, oh, it's at \$70, it's high. But, like you said, when you do the math, it's not.

So let's look at it, let's say that the margin increases from 20.4% this quarter to only 22% and we end up doing \$54 million, alright. So now we're \$11 million plus, almost \$12 million in free cash flow, between \$11 million and \$12 million free cash flow in the next quarter. And as we roll forward, we get New York opened fully, we get to that point where we're at \$60 million in a quarter, and New York and Chicago and Minnesota are our service revenues, which, as we all know, is much more profitable, and that margin moves up some more now, it may be your \$15 million plus in free cash flow a quarter. So, I am not selling my stock at \$70 when we've \$60 million of free cash flow. I just don't think that's –

Q: I think the numbers higher so.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

I know you do. I know you think the numbers are higher, and you've surprised me because you've been right more than I have lately. I just -- but I get it.

Q: I guess the question is like I feel like every business is at an inflection point, right. You've got a grow vehicle in Bombshells that people can accept; you've got a government that wants to take all your money, right; you have individuals that are sunsetting in great, they don't have necessarily children to run their businesses, right. And why not sell to you, participate in the upside? Because as far as I can tell, like I don't know, we've talked in the past about the [undiscernible] and the market position.

But like, I don't think it's unreasonable to think not putting the restaurants aside, but look you know how many strip clubs there are, nightclubs there are in the United States. If you're at \$100 million of EBITDA, is there anything stopping you from building a business in Nightclubs of \$500 million of EBITDA? I think it's very, very fragmented, there's –

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

There is definitely that much out there to buy, like I said, it's about convincing these sellers. And we've been paying –

Q: The bigger you get, the more likely they're going to sell to you, because that means that they're selling to somebody who, a, will be a good steward of their business; b, they can take equity and flexible capital solutions from you because you're safe, right. And so the bigger you get and more stable you become, the more likely they're going to sell, right. Not to mention that, like, what is the –

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

We're pitching this now to a couple different people. And I think like I said, in the next -- as I said or you missed on the call, but I think where probably it could be 30 days, it could be 90 days, but I think definitely within the next six months, we're going to land one, maybe more of these larger type of acquisitions and that's our goal. That's what we're pushing towards. And all the things that you've just mentioned are the reasons these guys are talking to us now and we were able to go talk about.

I couldn't go talk to a guy who needed \$30 million or \$40 million cash down a year ago, or two years ago, even three years ago, I couldn't talk to these guys. I could talk to them, but I wasn't realistic that I was going to go out and raise \$30 million or \$40 million. I couldn't afford the debt yet. I didn't have the bank financing in place for the existing real estate. We weren't going to issue equity. So we weren't in a position to come up with \$30 million or \$40 million in cash. Now, we could have \$30 million in cash on our own books by the end of June, at the rate we're going. So,

we just -- we're in a position now, this is the first time we've been in a position, now we're out to knock on the doors.

Q: Well, look, I didn't invest for this to be \$100 million EBITDA business. I invest with, with rockstar CEOs who want to build generational wealth companies. I firmly believe this can be a generational wealth creation opportunity for both yourself and myself. And so the sooner we can get our cost of capital online, and the sooner this story becomes pervasive in the marketplace, such that we can accelerate the inorganic opportunity, the sooner that becomes a reality for all of us. So, look these are great numbers, I hope that we place greater emphasis going forward both on the execution and on the ability -- the business that we're building, because I think you and I and everyone else on this call know what this could be. I think we need other people around the world to know what you're doing, so we can make that a viable thing.

So, congratulations on a great quarter. I think it's a testament to your operational excellence and execution. I'm obviously continuously frustrated at the markets need to discount what we're building but haters are going to hate all the way up and the sooner you can continue to execute on this stuff -- I mean look obviously we have the cost of capital combined clubs with real estate at three or four- or five-times EBITDA but the real one is buying businesses with 30 and 40 and 50 of EBITDA at 8 to 10 times. And so, in order to do that, you've got to have the capital but obviously we're going to keep punching and I look forward to the jabs but I -- as much as I love the jobs, I like haymakers. So I look forward to us getting to a point where we can start landing haymakers.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

I want to land one within the next six months. That's the goal. We're going to find a big one in the next six months. That's what we've got to get done.

Q: Well, we need haymakers for \$500 million of EBITDA and to land a haymaker, we need a real stock. So I'm not going anywhere, I'm your biggest shareholder. I'm always truly impressed that you're -- at your ability to execute and I look forward to trying to find some more people to kind of accelerate the market realization plan. But I'll leave you with that. And we'll talk more All right.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

All right, appreciate it. Thanks, Adam.

Operator

Next question comes from Jason Scheurer, Orchard Wealth. Please go ahead.

Q: Hi guys. I guess then clean up like everyone else says a lot of these questions are already answered. The only thing I really have is just pointing out the fact that like as we were going to have inflationary pressures, that's not even on up for discussion. The question being is, how much is this going to affect your business lines across the board, as it is versus the other industries that are out there, no different than the Texas Roadhouse that somebody had brought up in the past because you might be talking about a box of chicken but that's not really where the money is

coming from. Is it? I mean, what percentage are we really looking at in terms of like, how much is this really alcohol and how much of this really just service?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Yeah, but we do have food, we have to be concerned with those costs, because they creep up and all of a sudden, our margins shrink up to 1% to 3%. The point is, we look at all those things. And I think that's what people miss about our company, as they think, oh this is a strip club company, or this is that. And it's not, we are a cash flow company, and we watch and monitor anything and everything that we can, that affects our cash flow down to a box of chicken wings.

But the reality is, yes, as -- that's why I say I'm very excited that New York is coming back online, Minneapolis is back online. I can't wait for Chicago to be back online as well and everything up and running back how it was because you can see our service revenues are 20% or 30%, they used to be 40%, 45% of our revenue. And I'm excited for the days when that happens again because that's the margins.

When Adam was talking about the margins – you're going to do better margins, you can do better with that – that's because he's calculating this service revenue coming in, which has no cost of goods associated, whether we pay some sales tax on it and it's just, I always call it, the free money because VIP room cost me -- I can remodel the entire VIP room for \$15,000, \$20,000 with new furniture and some carpet. And I've got a brand new room that's going to sit there and generate me hundreds of dollars per hour in rentals.

Q: Well, that's great. Just I'll leave it at that. I mean, that's the main thing for me is just you guys had another great quarter. And it seems like if you can get this big club acquisition and the debt refinanced, we're on our way above \$100 a share. Thanks a lot for your time.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

All right, thank you.

Operator

Next question comes from Alex Hardman, Private Investor. Please go ahead.

Q: Hey, Eric. I just had a quick question on -- with states taking away occupancy restrictions and things like that and getting back up to 100%. And you know like, last quarter, you had mentioned something like Miami doing 70% on occupancy. I was just wondering are you seeing the 100% occupancy rates come back? Are you seeing the sales growth they had against 2019 with a lower occupancy rates maintaining itself or are you getting some diminishing return on that?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

I think in the south, we're at 100% occupancy. Texas is back to 100%. I think Florida is back to 100%. Yes, we're seeing big numbers, you see them. As you've seen in the last quarter, as we've

said, April over \$18 million in revenue in April. As the occupancies are going up, the numbers are going up. So I was thinking that maybe when the occupancies went up, the numbers would go down, but that has not happened at all.

I've been, in the last call, much more cautious, as far as about saying how we're going to do over the next three or four months. I'm not as cautious now. I'm very confident in the numbers over the next three to six months. And I really believe that we're talking 12 to 18 months. But I like to see trends, I like to see patterns and I can see a two-month trend, a three-month trend, it gives me -- it starts my thinking but when I get to a six-month trend, then that's when I start really gaining confidence and that the trend is real.

And that's why I think the Bombshells, we've now seen nine -- we have nine months of numbers. We had the big, big quarter and then we've seen two quarters here in a row now, which is six-month period of Bombshells in this nice, steady \$13 million revenue from the 10 stores. I think that's going to be something that we can do very consistently for the time being. Until something changes, I think we're going to be very consistent at Bombshells in that range.

I don't have a consistency on the Nightclubs range because I just don't have enough data. I'm very confident, like I said, over the next -- I know we're at through five or six weeks of this quarter, I see -- I think those numbers only go up from where we're at in April, as we open up more stuff in May and June, or extended hours I say and less curfews, higher occupancies. And I think it runs all the way through September with no problem.

Then we are in our prime season, I think the numbers could go even higher or maybe this consumer exuberance slows down a little bit and we start seeing a normalized -- okay, now we're going to normalize around here, the growth is going to stop, but we're going to level off and hold steady at X number per week. And we'll have that idea, like I said, as we go from quarter to quarter, and we get more data.

Q: Okay. Yeah, Bombshells, I mean, you said you're comfortable like the \$13 million figure but the way -- I mean, they just went from 75% to 100% in March, it seems like the growth you had in March probably covered your losses in February. I mean, would you be doing like at least a little bit more than \$13 million going forward there?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

We might. I know we did a record Saturday with the five, I got an email from our operations guys saying they didn't break the total sales number figure that they were shooting for, but they still beat -- they still have the record for a Saturday night, which was the Saturday before Mother's Day, which this weekend should have been a very off weekend for us. But the Canelo fight definitely made sure that didn't happen because it was a very big fight and very, very profitable for us around the country, at the locations where we showed the fight. So everything is going -- I get scared sometimes when everything goes too perfect but that's really where we're at right now. Everything is just flowing perfectly right now.

Q: Okay, I appreciate it. I guess there is a gain in New York and those laggard cities back up and running, and service revenues will follow. Sounds good.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Yeah, and we should continue to see the cash flow increase. So, we've got to stick with right now and push for.

Q: Okay. Appreciate it. Thank you.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Thank you.

Operator

[Operator Instructions] Next question comes from Gregory Pendy with Sidoti. Please go ahead.

Q: Hi, guys. Just one quick final one. Can you just give us a little bit of guidance on the capex? How to think about it? Just it got lean obviously, for obvious reasons, as you right sized on the downturn. Just is there any kind of pent up spend that will be coming?

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

It's not really the pent up spend, it's that we're going to be expanding in a couple of locations. I would say that, typically, I think we've been saying \$4 million to \$5 million. I would probably raise that a little bit in the next six months. So let's say we were going to say \$2 million to \$2.5 million, I'd probably say we're probably going to spend another or maybe another million dollars over the next six months. I know we're expanding Tootsies right now. We're going to add some square footage to the upstairs VIP room. We're going to convert some upstairs offices into more private VIP space there.

We're redoing a club in San Antonio and converting one of our BYOB clubs into a high-end liquor club in San Antonio, so there'll be some spend there. We had a lot of flood damage, I say flood damage, it's actually ice damage. The ice froze the pipes, the pipes broke, club's flooded, so you're going to see some expense there. Now some of that will be reimbursed through insurance but I think we do maintenance capex, and insurance comes in a separate line -- so you're going to have a gain on insurance that offset some of that capex, but whether we do it with our free cash flow, I don't know how that washes or not. That's a Bradley question but there will be some of that.

So that's going to add some expenses to maintenance capex as well. I think we had nine locations that were affected at the club side and two or three of the Bombshells that were affected. But I think the Bombshells were already fixed and probably expensed in this quarter, where the clubs are more insurance claims and will be -- there were larger damage -- some larger damage clubs that'll be affected.

Q: Okay. Helpful.

Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.

Yep.

Operator

Thank you. I would like to turn the floor over to Gary Fishman for closing remarks.

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

Thank you, Eric and Bradley. On behalf of Eric, Bradley, the company and all 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

This concludes today's teleconference. You may disconnect your lines at this time and thank you for your participation.

Transcript Provided by

