Transcript of
RCI Hospitality Holdings, Inc.[1]
Q2 2022 Conference Call
May 9, 2022

Participants

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Eric Langan - President and Chief Executive Officer
Bradley Chhay - CFO

Analysts

Joe Gomes - Noble Capital Markets
Anthony Lebiedzinski - Sidoti & Co
Adam Wyden - ADW Capital

Presentation

Mark Moran - Head, Business Development and Operations, Litquidity
Good afternoon, ladies and gentlemen. Greetings and welcome to RCI Hospitality Holdings' Second Quarter Earnings Call, the first ever earnings call by a publicly-traded company hosted on the Twitter Spaces platform. You can find today's presentation pinned to the top of this Space page. Now please turn with me to slide number 2 of our presentation.

I'm Mark Moran, Head of Business Development and Operations, of the Litquidity Wall Street Communications and Media Firm. I'll be the host of our call today. I'm here with Eric Langan, President and CEO of RCI Hospitality, and Bradley Chhay, CFO of the company.

Now, please turn to Slide 3. If you aren't doing so already, it's easy to participate on this Twitter Space. On Twitter, search @RicksCEO and click the Space titled "$RICK RCI Hospitality Holdings Inc. 2Q22 Earnings Call." We want to remind you that if you'd like to ask a question through Twitter Spaces, you'll need to be joining with a mobile device. In addition, to Twitter Spaces, RCI is making this call available through landline and webcasting.

At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. With this being the first ever earnings call on Spaces, we're going to be doing this a bit differently. For our Q&A portion, we'll start off with equity research analysts and selected shareholders, then move into a fire-side chat format for all to have the opportunity to participate. Be sure to re-share this and engage.

Now please turn with me to Page 4. I want to remind everybody of our Safe Harbor statement. It is posted at the beginning of this presentation. And it reminds you that you may hear or see forward-looking statements that involve risks and uncertainties. Actual results may differ

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

materially from those currently anticipated. And we disclaim any obligation to update information disclosed in this call as a result of developments that occur after the call.

Now, please turn with me to Slide 5. I also direct to you an explanation of non-GAAP measurements that we use. As a reminder, this conference is being recorded. I'd also like to invite everyone listening in the South Florida area to join Eric and me tonight at 8 o'clock to meet management at Tootsie's Cabaret in Miami, one of the top adult clubs in the country and RCI's top revenue-generating club. Tootsie's is located at 150 Northwest 183rd Street. If you haven't RSVP-ed, just ask for Eric or me at the door.

Now, it's my pleasure and my privilege to introduce Eric Langan, President and CEO of RCI Hospitality.

Eric Langan - President and Chief Executive Officer
Thank you, Mark. And thanks for joining us today, everyone.

We had an outstanding quarter across the board. Nearly all of our key metrics were up double-digits year-over-year for the second quarter and the first half. Nightclubs and Bombshells continued to perform well. That includes our 12 recent club acquisitions and our new company-owned Bombshells in Arlington, Texas. High margin service revenues continued to rebound, especially in our New York market and favorable trends are continuing. Total revenues in April exceeded March.

We're also executing well on our growth plan. In nightclubs, we made one acquisition, and we have a second under contract. For Bombshells, we acquired real estate for another company-owned location, and we have two other locations under contract. Our first franchisee is very close to opening their first location in San Antonio, and we've announced the second franchisee with plans to open their first location in Huntsville, Alabama. And our efforts to harness new technologies to drive club traffic are all moving ahead as planned. We have also continued to take advantage of market conditions to buy back shares.

Now here's Bradley to review the financials for the quarter.

Bradley Chhay - CFO
Thanks, Eric. And good afternoon to all those listening. All of our comparisons in this call will be to the year ago second quarter, unless otherwise noted.

The second quarter marked the second anniversary since COVID hit in March of 2020. With that in mind, I'm pleased to report we generated record revenues of $63.7 million, up 44.6% year-over-year. Omicron affected the first six weeks of the quarter. We estimate it reduced revenue by close to $2 million. Since then, sales have been strong and even growing stronger.

Nonetheless, EPS increased 69.1%, to $1.15. Non-GAAP EPS was $1.19, up 58%. Net cash from operating activities was $11.6 million, an increase of 5.7%. Free cash flow totaled $11.1 million, which was up 23.3%. Net income attributable to RCI Hospitality Holdings was $11 million, up 79.8%. And lastly, adjusted EBITDA totaled $19.9 million, which is up 46.8%.

Please turn to Page 7. Second quarter Nightclubs' segment revenues, operating margin and income from operations were all up significantly from a year ago quarter once again. Revenues totaled $48.2 million and grew 56.5% year-over-year. Operating margin was 39.7%, up from 34% last year. Non-GAAP operating margin was 39.5%, up from 38.8% last year. Segment operating profits totaled $19.1 million. That's an 82.7% increase year-over-year. Non-GAAP segment operating profit was $90 million for a 58.9% increase year-over-year.

Revenues grew $17.4 million year-over-year attributed to some factors. Newly acquired clubs accounted for about 50% of that. Clubs that were opened and enabled to qualify for same-store sales accounted for 20% of that. And 8 northern clubs not including any of recent acquisitions accounted for about 30% of that. These clubs, which do substantial VIP business, were not included in the same-store sales as they were not open enough in the year ago quarter. Segment operating margin also benefited from high margin service revenues, which were up 87.8% year-over-year.

We look forward to continued progress with our acquisitions and our Northern clubs as they continue to rebuild their businesses. We also look forward to continued, strong performance from our other clubs.

Now, please turn to Page 8. Bombshells also had a good second quarter. Revenues totaled $50.3 million. That's up 60.7% year-over-year. Operating margin was 22.6% compared to 23.9%. Revenues grew $2.2 million year-over-year. 85% of that came from Bombshells Arlington, which opened in early December. Another 14% came from an increase in same-store sales. Our operating margin came in at 22.6% and significantly improved from 19% in the first quarter.

Now if you recall, our first quarter operating margin was affected by two months of pre-opening costs without sales for our newest location, Bombshells Arlington. As a result, segment operating profit was $3.5 million in the second quarter. That represents an increase of 10.4% year-over-year and 23.8% from the preceding quarter.

Overall, we believe that we're doing a great job at managing the impact of food inflation. We look forward to continued progress in this segment as well.

Please turn to Page 9 to review our second quarter consolidated statement of operations. Cost of goods sold as a percentage of revenue improved to 13.8% as compared to 15.4% a year ago. This is the best performance since fourth quarter of 2019. Margin improvement primarily reflected the increase in the sales mix of higher margin service revenues within the Nightclubs segment. Service revenues represented 33.8% of sales in the second quarter, compared to 26.1% in the year ago quarter. Small price increases in the Nightclubs and Bombshells segments also contributed to a strong margin performance.

Salaries and wages and SG&A were approximately level from a year ago quarter as a percentage of revenue. Salaries and wages reflected the addition of new employees at acquired units along with new mandates, which increased the minimum wage as of January 1st in some of our states in which we operate. SG&A reflected increased variable expenses related to those increased sales. As sales at acquired units continue to grow, related salary and SG&A costs should decline as a percentage of our revenue.

Consolidated operating margin was 26.8% of revenues compared to 22.3%. Non-GAAP operating margin was 26.9% compared to 25.9%. Interest expense declined as a percentage of revenues, although the dollar amount was slightly higher. This reflects higher sales and lower weighted average interest rate, partially offset by higher debt related to financing club acquisitions in the first quarter and real estate in the second quarter.

Now, please turn to Page 10. Cash and cash equivalents were a record $38.1 million on March 31st. I already went over our numbers for free cash flow and adjusted EBITDA for the quarter. So I'd like to take this time to actually focus on the six month trend.

Free cash flow for the first half of the year was $26.3 million, which was up 79.8% year-over-year. As a percentage of revenue, free cash flow for the first half was 21% in line with our expectations. Maintenance CapEx was a little low in the second quarter, but should return to a more normalized number for the rest of the year. In total, we expect it to be about $6 million for the year. Adjusted EBITDA was $37.9 million, which was up 17.2% year-over-year. As a percentage of revenues, it was 30.2%, also in line with our expectation.

Please turn to Page 11 to review our debt and debt manageability. Debt, net of loan costs was $178.1 million at March 31st. That's an increase of $60.2 million from December 31st. This increase primarily reflected the January 2022 real estate loan.

We continued to reduce our weighted average interest rate. Our second quarter rate was 6.14%. That compares favorably to 6.66% a year ago and 7.23% five years ago. Our periodic refinancings enable us to convert higher rate seller financing and other unsecured financing used in club acquisitions into lower rate commercial real estate bank debt. We currently have multiple unencumbered properties in our portfolio. We can borrow against them, should we need additional capital.

Our refinancings enable us to smooth out debt maturity schedules. Currently our amortization is in the about $7 million to $8 million range a year for the next five years, which is very manageable with our cash flows. Occupancy costs were 7% of revenues. This is well within our 6% to 9% range we've averaged when sales weren't dramatically impacted by COVID.

Now please turn to Page 12 to look at our March 31st debt pie chart. Our debt primarily consists of 66.5% of debt secured by real estate. 19.3% of debt is seller financing. This is secured by a respective clubs to which it applies. 4.4% of debt is secured by other assets. Unsecured debt consists of less than 10% of our total debt. As we mentioned on our last call, we have reached the end of our Texas Comptroller Settlement which is great news. This has been costing us about $1.3 million a year in cash flow.

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

Eric Langan - President and Chief Executive Officer
All right. Thank you, Bradley. Please turn to Page 13 of the presentation.

We're continually talking to new investors and have several on this Twitter Spaces. So I'd like to go over 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 William Thorndike. He studied companies that focused on generating cash flow 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 is strategic rationale to be 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 3 times to 5 times adjusted EBITDA. We use the combination of cash and 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 of our stock, when the yield on free cash flow per share is more than 10%. For fiscal 2022, as of last Friday, we bought back 83,343 shares for a total of $5.3 million, or an average price of $62.37.

Please turn to Page 14 for a review of our growth initiatives.

In our Nightclubs segment, we are making good progress with the clubs we acquired in the first quarter. At the end of March, we reopened our rebranded club in Louisiana as a Scarlett's Cabaret. In May, we opened Rick's Steakhouse & Lounge in the same building as Scarlett's in Miami. We expect to open another reformatted club this quarter in San Antonio. And in May, we acquired a club in South Florida. We have a club in Fort Worth under contract, and we're in active discussions with the number of other club owners. These acquisitions are part of our efforts to add $20 million of adjusted EBITDA in fiscal 2023.

In our Bombshells segment, our new Arlington store is doing very well. During the second quarter, we acquired the property in Stafford, Texas, a suburb of Houston, for our 12th location, and we're under contract to purchase two more locations, one in Rowlett, a suburb of Dallas, and one in Lubbock, Texas. We continue to look for more locations in Dallas, Austin, Florida and Arizona. Our first franchisee expects to open its first location soon in San Antonio. The agreement with our second franchisee calls for three locations over five years in Alabama, the first to be in Huntsville. And we are in serious talks with three potential franchise groups.

Regarding capital management, as we previously reported, we acquired the Scarlett's property for $7 million in cash at the end of the first quarter. Our $18.7 million bank loan in January provided us with more resources to implement our capital allocation strategy, and we sold an excess parcel of real estate for $2.1 million in the second quarter. We have two more pieces of real estate currently under contract for sale for a total of more than $7.7 million, and these transactions are expected to close by the end of the fiscal year.

Please turn to Page 15. I'd like to take another minute to review how we are harnessing new technology to drive club traffic and, in particular, attract the next generation of customers.

In early March, we began rolling out Bitcoin as a method of payment at our clubs. Starting right here in Miami at our flagship Tootsie's and Scarlett's clubs. Acceptance has been really good particularly in light of all the crypto-related investment conferences taking place in Miami. Our new Rick's Steakhouse & Lounge in Miami also is accepting Bitcoin.

In April, we announced a Guest Benefits NFT Program called Tip-N-Strip. We expect it to go on sale sometime later this quarter. This will be the ultimate party pass with an annual party at Tootsie's, access to other private parties, VIP experiences, and a wide range of other benefits. The reaction has been particularly good, and we expect to mint it by the end of June.

AdmireMe, our new social media platform, is now in full beta testing with a soft launch planned for later this quarter. Similar to OnlyFans, it enables entertainers at our clubs to post-content and receive payment from their admirers so they can build an internet business as well as their club business.

That ends the formal presentation. A big thanks to all of our teams – Nightclubs, Bombshells and our corporate staffs – for all your hard work and dedication. And with that, Mark let's open the line for questions.

Mark Moran - Head, Business Development and Operations, Litquidity
Thank you, Eric and Bradley. The floor is now going to be open for questions. [Operator Instructions] We will now take our first question from the audience. We're going to have Joe Gomes of Noble Capital Markets.

Joe Gomes – Noble Capital Markets - @joegome71357538
Q: Perfect. This Twitter stuff is actually working. Fantastic. Great quarter, thanks for taking the question. The first one I wanted to jump in with is, you mentioned the club acquisitions, one in South Florida, one in Fort Worth under contract. Can you provide any details about them? The cost or the multiples that you're paying? What do you expect them to add to the top line? You had that goal of adding $20 million EBITDA. How far along they get you to that goal? That's my first ones, then I got a couple of follow-ups.

Eric Langan - President and Chief Executive Officer
With the South Florida acquisition, we filed the 8-K on Friday. You see it's a $16 million acquisition. It includes the real estate. We estimate it will add about $3 million in EBITDA. The price is about $13 million so just over 4 times EBITDA plus the real estate, which is $3 million.

As far as the Fort Worth location, this is a location that the owner had passed away. The club is closed at this time, and his family has the property and licenses available for sale. We're purchasing them for the value of the real estate, and we'll build the club out. We'll probably do a full remodel of the location. We also are talking with several other operators around the country right now to line up additional acquisitions, including one of significant size, probably around $8 million in EBITDA on a multi-club acquisition. We're waiting for financials, reviewing financials, other due diligence as well. I expect that by definitely through fiscal ‘23 we’ll be able to add the $20 million without too much problem at all. I’ll take the next question.

Joe Gomes – Noble Capital Markets - @joegome71357538
Q: On the events side, one of the big events for this year was the F1 Race that was yesterday in Miami. Eric, give us a little impression of how that went for the clubs, Scarlett’s and Tootsie’s in that area, how the F1 race helped them?

Eric Langan - President and Chief Executive Officer
To give you an idea, Tootsie’s did its first $1 million week without a Super Bowl in town which is fantastic for us. Overall company sales exceeded $6 million for the first time last week. So we did very well. We also had the Kentucky Derby in Louisville which is great for the Louisville location. And just overall a lot of our locations are performing at super high levels right now.

Joe Gomes – Noble Capital Markets - @joegome71357538
Q: Great. If I could just sneak in one more here. Just wanted to talk a little bit about the NFTs. Would the mining of those generate a new source of high margin revenue for RICK and do you think that NFT program will help generate more revenue for the clubs on an ongoing basis?

Eric Langan - President and Chief Executive Officer
The NFT itself is not about raising a bunch of money or creating a big revenue stream. It’s about creating a community of end users for our products and creating a benefits program for those users, including an annual party. I think over the long run, it will increase revenues at the clubs by creating, like I said, a loyalty following of those users. But I don’t think the NFT itself is really made to be a revenue generator.

Joe Gomes – Noble Capital Markets - @joegome71357538
Q: Great, Eric. Thanks for taking the questions. I’ll jump back in queue.

Mark Moran - Head, Business Development and Operations, Litquidity
Thanks for the question, Joe. One thing I will add is, speaking of the utility of Tip-N-Strip, you can go to Eric’s profile to see a video of his birthday a few weeks ago. Now, for our next question we’re going to be going to Anthony of Sidoti & Co. Anthony you’re up.

Anthony Lebiedzinski – Sidoti & Co. - @AnthonyLebiedz3
Q: Congrats on the quarter. Can you talk a little bit about the momentum that you’re seeing? April, you said was better than March. Can you just talk about what’s driving that momentum? Give us a little bit more details about that?

Eric Langan - President and Chief Executive Officer
I think our teams are operating on all eight cylinders. We’re having an exciting time. The clubs are very, very fun. I think we’re spending more and more time and energy on social media, bringing in lots of new guests, as well as our VIP spend is coming back in the north, as you saw from the increase in as a percentage of total revenues from our service revenues, moving back up to 30-some percent of revenues. Hopefully, we’ll see that heading closer to 40%, where we traditionally used to be, especially as Minnesota comes online. We have a major convention, the

19th to the 22nd of May, in Minneapolis. It will be one of the first major conventions in the new US Bank Stadium, for VeeCon, for NFT collectors. I think that's going to be great for business. Two of our clubs are right on the path to the stadium. Our team will be up there also promoting our NFT and bringing guests in from that conference into the clubs. So they can kind of see firsthand some of the utility benefits of owning our NFT. But I think that will help sales and hopefully bring the Minneapolis market back. It came back pretty strong in April, but it's still lagging other markets at this time. I'm hoping that this convention will be the turnaround point for that. Like I said, it's just been strong across the board.

The only thing I noticed in this last week is a couple of our smaller, blue collar-college town clubs had a little bit of minor weakness, but that's very typical for the first week of the month. So I'm not worried about it. I'll be watching that over the next few weeks to figure out if we have to go into any type of discounting or if we have to really start pushing for more quantity of customers through the door than quality of customers. That's kind of the things we do if we start see any type of downturn or a recession coming in. I see no signs at all of any type of recession at this point. Every week we just keep getting stronger.

Anthony Lebiedzinski – Sidoti & Co. - @AnthonyLebiedz3
Q: Got you, okay. Thanks for that. Hypothetically speaking, if there was a recession, do you think this will enable you to buy more clubs at better prices?

Eric Langan - President and Chief Executive Officer
Certainly when things turn down, certain guys don't catch it soon enough, don't make the change fast enough. In the past we made some pretty good acquisitions in down markets. We've definitely taken advantage of that. I think the fear of a downturn has got a lot of people – I had like 11 calls last week from different brokers and club owners and stuff. I think that there is some fear out there for sure that's starting especially with the market downturn and whatnot.

So, we're getting the calls. We're going to be looking at everything. We're going to find what we believe are the absolute best acquisitions for us and put our capital to use. As you see, we ended the quarter with about $38 million. I think prior to last week at the end of April, we were in about the $43 million range. We spent $5 million down payment on the Miami acquisition last week. I suspect by Tuesday night, tomorrow's cash count will be closer to $40 million in cash again.

So we're generating tremendous amount of cash every week right now. We're putting only about $500,000 a week into our stock buyback right now. I want to hold about $40 million cash on hand as we do these acquisitions. If we start getting significantly over or the stock gets significantly cheaper, where the yield's much higher, we may change that philosophy, but that's kind of the philosophy right now if the stock holds under $65.

Anthony Lebiedzinski – Sidoti & Co. - @AnthonyLebiedz3
Q: Got you, okay. And then just to follow-up about the Miami club acquisition. When you look at the valuation, did you look at pre-COVID 2019 revenue and adjusted EBITDA or '21 results? Just wanted to get a better understanding as to how you came up with the valuation for that Miami club.

Eric Langan - President and Chief Executive Officer
What we're using right now is 2019 full year and trailing 12 months. So we're looking at those two versus -- normally we'd look at like 2021, but '20 isn't really viable. So what we decided is trailing 12 months plus 2019 is kind of our gauge, and we're kind of seeing what the difference is, whether way up, way down and coming up where we think is a fair market valuation based on that. That's why this one worked out to about 4, I guess 4.1, 4.2 times EBITDA.

Anthony Lebiedzinski – Sidoti & Co. - @AnthonyLebiedz3
Q: Terrific, okay. The last question from me, can you just give us some sense as to what you've seen thus far from the beta launch of AdmireMe?

Eric Langan - President and Chief Executive Officer
Bugs, obviously. The biggest problem we had is our developers were from Ukraine. Of course, with the Ukrainian war, that set us back considerably. We're still working with a few of those developers who have gotten out of Ukraine. Some are still in Ukraine. We also set of a backup team in Brazil who's helping program some of the newest items. But we worked through those. We recently put a performance enhancement that they just went live with, which has drastically increased the speed of loading pictures and changing pages, so I'm very happy with that.

We're starting to add a few more girls and get more content. We're starting to get more guys on the site as well who are buying tokens and trying to spend money on the girls. Right now is that delicate balance between chicken and egg. We need enough customers keep the girls happy. We need enough girls keep customers happy, and just trying to keep a nice balance between the two, while we're in this beta mode. Then hopefully we'll be able to full out launch and really push the site through the clubs themselves and through the entertainers at the clubs through their social media and their influence as well. I think we're probably another 60 days before we really start to really hard push on that, right towards the end of this quarter.

Anthony Lebiedzinski – Sidoti & Co. - @AnthonyLebiedz3
Q: Got it, okay. Thank you and best of luck.

Mark Moran - Head, Business Development and Operations, Litquidity
Wonderful, Joe and Anthony. Thank you for that. Now, we're going to move on to our next individual who normally needs no introduction, but for this call since some of you may not know who Adam Wyden is, he is the 9.999% shareholder of RCI. Adam, we're going to add you up. Let's take it away.

Adam Wyden – ADW Capital - @Adam_Wyden
Q: Sorry, I would be with you guys celebrating at Tootsie, but as you and Eric know I got COVID, so I'm quarantining over here. But I don't think I'm actually a 9.99% shareholder anymore. I think the 84,000 share buyback put us over 10% so I suspect my CFO will have to amend our filing. But I just want to go over a couple of housekeeping things. Eric has been talking about Omicron affecting January and February and March. I think you commented that March was a record month and April was even better than that. Given the operating leverage in the business, and Eric commenting that he thought that by May or June or July he'd get a $100 million EBITDA run rate, maybe Bradley could step in here and comment if we are able to

sustain the March revenue productivity what that would imply for run rate EBITDA as a starting point?

Bradley Chhay - CFO
Theoretically speaking, if we're looking at $24 million in March and then April beat that, if we had a $75 million quarter in revenue and everybody knows what I just said on the call, which was, our adjusted EBITDA to revenue ratio is about 30%, and you take that margin and multiply times four, you can almost get there theoretically. But I don't want to make any full commitment given the macroeconomics of the environment. But what we've seen in our industry is that it is not recession proof, but definitely recession resistant.

Adam Wyden – ADW Capital - @Adam_Wyden
Q: That's helpful as a starting point. It might be helpful to talk about your mix. When you back into Bombshells at 30% margins including the real estate, and you look at what your gentlemen's clubs are doing, each incremental dollar -- if a well-run Nightclub like Tootsie's or Scarlett's does a 50% or 60% operating margin including real estate. If you drive a 10% comp in Tootsie's or in Scarlett's because you raised prices on booze and you own your own real estate, it is theoretically possible for margins to keep going up. That's the idea, right? As you drop that service margin in New York, as you drive incremental sales at Tootsie's and Scarlett's -- less so on Bombshells because your food costs are higher -- but on the gentlemen's clubs alcohol is 90%, your cover charges for people are a 100% margin, the fees for the girls to dance are a 100% margin. On the Nightclub side, many of your revenue drivers are 100% margin. In theory, the incremental margins on the Nightclub side could be very, very high.

Bradley Chhay - CFO
Yeah. You're kind of hitting it on the head right there. When I look at 2017, 2018, 2019, just looking at the Nightclub segment in particular, I'm seeing the service revenues used to be in the high 30s, sometimes hitting 40% of our sales mix. But when you look at the first and second quarters of this year, it's in the low 30s. Then I go look at the northern states, like Minneapolis, New York, I see that there's still definitely run rate in the high service margin revenue business. If we got that back to the pre-COVID levels, yeah. All that service revenue margin, which includes cover charges, room rentals, and dance dollars, all would drop to the bottom line.

Adam Wyden – ADW Capital - @Adam_Wyden
Q: Right. Working backwards for a minute, clearly margins aren't going lower on higher sales. If you back into it, March implies a $100 million EBITDA run rate. That doesn't include the new club that you bought in Florida or anything else. Is it fair to assume that we're kind of on path, assuming we complete our $20 million EBITDA M&A, that we could exit the calendar or fiscal year at $120 million of EBITDA?

Bradley Chhay - CFO
It's hard for me to say, Adam. I can't use two months as a trend. I can just say the favorable trends are continuing, which means April is doing better than March. What I've seen in May, with the Kentucky Derby and Formula 1, we're on that path. But there's also seasonality as I mentioned earlier. Macroeconomics, recessions, and stuff like that, discretionary spending. I'd

like to be able to predict it through Q3 and Q4, but we'd have to wait till we see what the summer brings.

Eric Langan - President and Chief Executive Officer
Adam, I'll answer your question, the easy one. If we were to do a quarter of Marchs, if we had three Marchs in the same quarter, our margin would increase to about 35% and our EBITDA would increase to about $25.1 million. So, if we have Marchs in a row that's what we would be setting.

Adam Wyden – ADW Capital - @Adam_Wyden
Q: And April was better than March. So right now we got two in a row. We just need a couple more.

Eric Langan - President and Chief Executive Officer
That was why I said all long, once we get through May and June, we will have a very, very good idea of exactly what our run rate is, the first time it is not affected by COVID.

Adam Wyden – ADW Capital - @Adam_Wyden
Q: Let me ask you something else. A lot of guys on Twitter are talking that this is a super pro-cyclical business. As a stock analyst and historian, I go back and look at what Ricks looked like in '08, and it looks very different now than it was then. You had Vegas that you bought and Vegas got hit in '08. Then you had a lot of New York and the great financial crisis and the Wall Street guys weren't going. You didn't have as much in Florida or Texas. Now, when you look at the business, and on some level, you can look to COVID and say, look at how Bombshells did during COVID, look at how the Nightclubs did during COVID. Can you speak a little bit about your confidence in the economic – or maybe the countercyclical -- or perhaps resistant elements of this business that give you confidence that even if we go into a consumer-led recession that you guys are going to do pretty well?

Eric Langan - President and Chief Executive Officer
It looks like if there is any kind of recession coming, we're lagging it. We're not seeing any slowdown. Like I said, we've seen increases month after month, week after week. We've been very, very excited about the way it's looking. May doesn't seem to be any different right now. Like I said, we got the big convention. We got some great conventions coming up in June as we move into early summer. I don't see anything negatively affecting us at this point.

I don't think one or two points in the mortgage rate is changing anybody's decisions right now. I think the demand is too high, and I think the reality is a lot of this inflation is supply side driven and as soon as the supply comes in, the prices will come back down some, especially with oil, cars, furniture, some of the big ticket items. I think that once supply is available – eventually it's got to come off the boats; it can't sit on the ports forever – we'll see some of that. Like I said, I don't really see it affecting the majority of our customer base right now.

In fact, I don't really see it affecting any of our customers other than, like I said, the blue-collar clubs have seemed to go back to a normal trend where they do very, very well week three of the month and then week four of the month and then week one they slow down a little bit. Week two, it comes back, week three, week four, they're big again. That is very, very typical of that customer base. That's nothing out of the ordinary.

What was out of the ordinary was we weren't seeing any slowdown. Every single week, the first week or the third week of the month, those clubs were still doing fantastic. So we've seen a little bit of trend to normal on those clubs, but not any type of downward trend, just a trend back to normal. As far as the high end clubs, we're just seeing continuous growth and continuous spend at the high end clubs.

Adam Wyden – ADW Capital - @Adam_Wyden
Q: All right. This is the last question for me and then I'm going to get out and maybe I'll come back later. For those of you who have been following this company for many years, this has been a labor of love for you, Eric. You sold your baseball card collection. You've blended in a few clubs into Rick's from Robert Watters, the previous thing, and then you merged that with Rick's. This has been a labor of love.

You've gone from $1 million of EBITDA to $100 million. You wanted to buy Lowrie many years ago. He took it private. You got him. You just bought the business that's pro forma $20 million of EBITDA. If I go back when I first looked at RCI Hospitality, I don't even think you were doing $20 million of EBITDA. But now you're doing single transactions that are larger than your entire business was eight years ago.

You've been at it a long time. You've gotten no love from anyone. Your cost of capital is probably one of the lowest it's been since you've been public. Maybe it might be helpful to talk about what Lowrie symbolizes in terms of the scope of the transactions. Jerry's doing Bombshells. He owns a bunch of clubs. Are there people coming to you and saying, hey, Eric, I see what you're building. I want to own stock in it. I want to be part of this business going from $100 to $500 million of EBITDA. You've invested 20 years of your life to go from $1 million to $100 million. I would think that over the next five years you'd want to go from $100 million to $500 million. I want to know what the sentiment is, the momentum, the energy. Are people coming to you and saying, I finally want to jump on this train?

Eric Langan - President and Chief Executive Officer
I don't think everybody's ready to just jump on yet, especially with the market is weak as it is right now. But we're definitely getting attention. We're talking with guys that we haven't talked to. We're getting lots of phone calls right now. What would you pay for my clubs? What are my clubs worth? I want to sell or I want to get out or I'm ready to be done with this.

We're talking with these guys. We'll continue to roll it up. Whether it's 500, I don't know. If I get a double every five years, I'm happy. But if we can get five times, if we get some more big transactions like Lowrie, yeah, of course, it would grow exponentially for sure as those type of transactions present themselves. The hardest part of the roll up story is finding people to sell to you. That's why we created the Bombshells concept, to steady out the growth.

I do believe that we're in a phase right now that we've never seen before. We have the lowest debt to EBITDA ratios that we've had in a long, long time. Our average interest rates are like

6.18%. I couldn't even borrow money at 6% five years ago. Everybody said interest rates are so low. Why do you pay so much? I said that's what people will loan us money at. We borrow the money as cheap as we possibly can.

But at the same time, we don't want super cheap money that ties our hands and doesn't let us run and grow our business. We do want to have the freedom to make decisions and to move quickly when the right acquisitions come along without having to have 15 other people who aren't in the business tell us how to run our business. That's why we've done some of our unsecured debt the way we've done it in the past. We pay a little more interest sometimes but we get freedom and that freedom is well worth the 1% or 2% of interest.

Adam Wyden – ADW Capital - @Adam_Wyden
Q: If you just take your M&A schedule that you presented at Noble, the $20 million in calendar '22 and we're halfway through the year now, so $20 million in '22, $24 in '23 and $28, if I just add up those numbers, you're increasing your EBITDA from a $100 million base by 75% over the next three years, not including Bombshells.

Eric Langan - President and Chief Executive Officer
You move me forward here. It's actually 23, 24, 25.

Adam Wyden – ADW Capital - @Adam_Wyden
Q: You're fiscal years. I'm doing calendar years.

Eric Langan - President and Chief Executive Officer
Got you, got you, okay.

Adam Wyden – ADW Capital - @Adam_Wyden
Q: You're fiscal year, I do calendar year. So, I'm giving you an extra quarter to do it. But I'm just saying, if you're just to do it, and say okay, I'm at $100 million right now, just based on your acquisition schedule, you're going to be double in two and a half years, not including Bombshells.

I think it can be done. I think Lowrie, to me, is the watershed moment. You never really had the cash or the stock to put it all together, and you got it done. We'd all like to see the stock higher because it's going to make the deals cheaper. But I think this is kind of what I've been waiting for, getting these $20 million deals and getting an $8 million deal. At $200 million of EBITDA, they're going to be able to ignore us less than $100 million, and at $400 million, they'll ignore us even less. So thank you again and sorry I'm not with you guys at Tootsie's.

Eric Langan - President and Chief Executive Officer
That's right. Hope you get better, buddy. Take care.

Mark Moran - Head, Business Development and Operations, Litquidity
Wonderful. Thanks so much, Adam. Definitely just feel free to raise your hand as you have the question in the future and we'll remove you as a speaker. Now, part of the uniqueness of this is we're going to start to embrace the FinTwit community. People are looking. You can see we

have Parik Patel here, WOLF Financial, Stock Market News, John W. Rich, among many others, including Litquidity. And so we're going to start off with WOLF, who is very, very appropriately raising their hand. So WOLF, kick it off. And then we're just going to kind of keep rolling with people as we embrace this fire-side chat format.

WOLF - @WOLF_Financial

Q: Perfect. Appreciate that introduction there, Mark. Yeah, great to be on here. Excited to be a part of making history with the RICK team here. I've got two questions. The first one is regarding forward-looking guidance. We've seen this dash companies over the last couple of months as they come out and have beat on top and bottom line, but unfortunately can't give the targets that the consumer wants, that Wall Street wants ultimately. Because they're lowering guidance and other things like that, we are ultimately seeing huge fall offs in these stock prices. I'm curious, going into this next quarter or year-over-year, whatever it is that you're projecting here, are there a few specific key items that are being factored in. I know that moving out of the COVID area is one of them. The new acquisitions is another. Perhaps the Tip-N-Strip and the app you are doing on that end. What is that formula where you were analyzing future looking projections in an effort to make sure that you want them to obviously be solid and show continued growth, but not the overzealous and suffer the stock reduction or stock price reduction that a lot of these companies are seeing now?

Eric Langan - President and Chief Executive Officer

If you look back, we have stayed away from any type of predictions. I've said for over 9 months now that didn't feel that until I have full quarters without COVID -- and we got hit by COVID in January. We had six weeks from the end of December, all four weeks of January and almost the first week of February, where at some place or another around the country we were affected by COVID. It hit each location for about two weeks and it affected between 40% and 50% of the staff. I don't know how much of the customer base. Because if the staff's affected, the customer base is affected. That was kind of the premise. I think we would have beat all of the numbers that the analysts had out for us if we had that $2 million of revenue. That's what I thought we lost, about $2 million of revenues. On a go-forward basis, everybody says you're going to do this, you're going to do $25 million. I don't know. For sure, I can tell you what the run rates are for March, because we know that now. And we can take March and say, okay, if we did that three times what we would be doing. We would be at $25 million in EBITDA. The reality is we stick to cash flow. Free cash flow is to me the only thing that matters. The other numbers are gauges. They're nice, but at the end of the day, I can only spend the free cash. So we stick hard to free cash flow. Our goal is 10% to 15% growth. I've said with the acquisitions, that we're going to definitely exceed the 10% to 15% growth rate. If you take $33 million that we did last year and you added 20%, you'd add $6.6 million, and you'd be at $39.9 million. We're at $26-and-change already for the first six months of this year so we're definitely going to blast through our typical 10% to 15% growth rate for this fiscal year.

We did have COVID issues and stuff from last year that affected the free cash flow. But I still think if you calculated the COVID affect from last year and get the free cash flow and you take the free cash flow you're still going to be well over 20-plus percent free cash flow per share growth for this year even though we issued another 500,000 shares. We've already bought back 16% of those shares at an average price of $62 and 30 some cents which if you'd take that, and figure it out – I look at it this way, the stock was a $30 million loan that pays no interest. The interest is whatever we buy that stock back for over $60. So far, we bought back 16% of that stock at an average annualized interest rate of about 1%.

I get excited about the stock buyback. I don't get carried away and get crazy. I want to use the cash for acquisitions. The deals we can find are way better than 10-13% free cash flow yield that we have on our stock right now, depending on where you're at in the range of free cash flow per share for the year. If I can get 25% to 33% -- some of the deals we're doing are 50%, 70% cash on and cash returns right now -- it gets very difficult to just use all of our cash to buy back stock when these other deals are out there right now. I'm sorry, what was your second question? I know you asked something else.

WOLF - @WOLF_Financial
Q: The second question is more around the marketing schematics. We're seeing you take to a new format here with Twitter Spaces where it something that we do pretty regularly all day, every day and we love the style. We find so many companies are now interested in utilizing this for market product, for building brand recognition. Recently we saw the RCI account get verified. I know that you've been active on social media. I've also seen that Tootsie's account had a strategy there.

How much does social media fit into your marketing strategy for the clubs here and utilizing this really rare content then, a company, which this genre of companies has typically not been great with their social media presence and utilizing it to drive customers to it. I'm just wondering if there's any more plans that you have for continuing to innovate with social media?

Eric Langan - President and Chief Executive Officer
Absolutely. We've used Facebook quite a bit. We've used Instagram. We've used TikTok. Twitter's very new for the corporate side. The clubs have used it a little bit, but I think they've really focused more on TikTok and Instagram to drive traffic.

But the definition of insanity is doing the same thing over and over again and expecting different results. We've done several in-person and Zoom conference calls or investor meetings this year. Conferences with Noble here in Miami recently, LD Micro out in LA. We've done the Sidoti online conferences. I find that every time we do those were reaching about 30 to 50 potential investors. With the presentation section, we usually videotape it and it gets replayed, we get a few hundred people that watch that as well. I started doing Twitter Spaces and I've been in your space a couple of times, and I noticed they get 800 people, they get 1,400 people. How do they get so many people? We spend all this money to do these big conferences and we reach 30 to 50, maybe 150 potential investors. That's what really got me excited about Twitter.

Then, when I met with Mark, he started talking about Litquidity, what they could do, and we would do a Twitter Spaces. I said, let's do it. Let's move our call to Twitter Spaces. Let's let everyone that wants to listen, listen. Everyone who wants to ask questions, ask questions. If the call goes all night, Tootsie's is open till 6 AM. I'd like to get out on the floor at some point tonight, but if we have to be here, we'll be here. I want to make sure that we're able to speak with the shareholders, speak with potential shareholders, and get people interested in our company. That's really what this is about. Getting our story out there, letting our story travel with the retweets. Everybody here retweet this room right now would be great. Let's let everybody know we're in here, we're in the Q&A session, and maybe people will have more questions. To me that's what this space is all about.

The nice thing is it's building the clubs, too. I did a birthday party with the NFT deal. That video has been going around pretty wild out on the internet right now with Twitter and a few other places. I think they put it on Instagram and some other social media. Social media is amazing. It's very low cost and it's super effective and it's immediately effective. I posted that I was going to be at the Denver Club and people immediately said I'm in Denver, I'll come by and see you tonight. Those are the kind of things that I think is just fantastic as far as immediate reach and being able to embrace shareholders in a way that's never happened before, at least not that I'm aware of.

WOLF - @WOLF_Financial
Q: Awesome. Appreciate that.

Mark Moran - Head, Business Development and Operations, Litquidity
Wonderful. Thanks, WOLF. Appreciate that. I'm getting a lot of participation in my DMs from the community, from FinTwit, people like Snowman LLC, Garland, BTT Long Short Capital Advisors. So we appreciate that. Want to encourage everyone to raise their hand if you have a question. We're next going to go to Stock Market News. You're up.

Stock Market News - @StockMKTNewz
Q: Awesome. Appreciate you having me. Super, fantastic quarter. First of all, I'd like to always add this thing on the Spaces. Huge shout out to the RCI account, Rick's CEO posting a lot of great content and Mark Moran also hosting the Spaces.

I want to dig in. You guys mentioned a little bit at the start about franchisees. You were launching your first one and you're kind of in the works on your second one. I wanted to hear a little bit more about that side of the business. Is that something that's more of a one-off, two-off thing? Or is that an exciting area for you guys to look forward?

Eric Langan - President and Chief Executive Officer
I'm very excited about it. First of all, royalty revenue gets a higher premium, higher multiple. Second, it's very little investment on our side, almost no investment. The franchisee pays our fees. We use those fees to get them open, get their people trained, get them done. They pay for the majority of the training. We've got a little travel expenses. At a 5-5.5% gross royalty -- I figure that the average franchisee will do about $5 million in sales, which will create after costs for us, I think about $250,000 in revenue. There's no cost against that, other than taxes, so it'll go right to the bottom line.

With our typical stores, we're investing up to $6 million. We can do some remodels in the places where we do leases, but we prefer to own our property. I think owning the property is a lot less risk for us because of the way we are able to leverage the cash on cash returns with bank financing at 4% and 5% that we've been doing so far. But the franchisees' model to me is fantastic. It gets us to markets that we're not even looking at right now. It gets us there much quicker. It's going to grow the brand much faster, which will help increase brand recognition.

We have a national advertising program at 1.9% of gross. Right now, we're going to return that to the franchisees to spend in their local markets. We want everybody to spend in local markets. But eventually, we'll run that into a national field campaign. We'll be able to do national ads and really help build the brand even stronger. So I'm very excited about the franchise model.

We're talking with three other potential franchisees right now. I think we've got two approved that we're working on site selection, and we're in the process of vetting the third. The way the franchising works, you can't sign a contract with the franchisee until they have a specific location. The contract has to be tied to that specific location. So that's kind of that part of the time process. We want to get some feasibility done, due diligence on the property, make sure that they meet all the zoning requirements and the licensing requirements to build a Bombshells there. Those are kind of the steps we have to go through.

We're going to open 6 company stores every year. That's my plan right now. I'd love to get to a point we're opening up an additional six franchisees a year, so we're opening 12 stores a year, 6 and 6, and then we'll grow from there. We'll see as we bring on more franchisees, set up a separate team. Maybe we get to a point where at some point, we're opening 24 stores a year, and they could be 12 and 12 or maybe we're doing 8 and we're opening 16 franchisees. It's just really going to depend on how it goes and grows over the next few years, but we're going to be prepared for it however that turns out.

Stock Market News - @StockMKTNewz
Q: Awesome, thank you. I appreciate you answering the question.

Mark Moran - Head, Business Development and Operations, Litquidity
Awesome. Thank you so much. Who do we have with the next question? Please raise your hand. Gurgavin, you're up.

Gurgavin - @gurgavin
Q: Congrats on the good quarter. Took a stake in the company last week and already the top one of your shareholders. My question is about Bombshells. So due to the nature of your business, Bombshells gets a way low multiple than it should. In the future, do you have any plans to grow it and spin it off or sell it out to someone else for a higher multiple than your entire business?

Eric Langan - President and Chief Executive Officer
We've been offered by a group to roll into a spac about 8 months ago at about 14 times multiple. We looked at that and said, okay, so you we were doing $20 million, you're going to give us $280 million value for this. But we're going to grow this over the next three years to over $50 million, which would be $700 million. So where else can we earn $420 million in the next three years, almost guaranteed in value. We've decided that we would keep Bombshells in-house right now in the parent company.

One of the things we could do as we reach $50 million in EBITDA for Bombshells, we could spin it off into a separate public company. We can go back and look at private equity groups again. In the next three years, we may see multiple expansion in RCI, which if we do, maybe we just keep it in RCI. We don't rule out anything.

I think people get confused on what business we're in. I say this a lot. We're not in the real estate business. We're not in the restaurant business. We're not even in the strip club business. We're in the free cash flow business. At the end of the day, all those are tools that we use to generate that free cash flow. We're going to continue to use our capital allocation strategy to create the most value we can, and we're going to monopolize on that value as opportunities present themselves.

We love the Bombshells concept. We love what it's doing for the company. We love the attention it gets. I think we've gotten some multiple expansion because of Bombshells on the strip club revenues. It's kind of working how we want it. The market is kind of weak right now, so it's hard to tell. But in the early part of this year, the stock went up to $95 or $94. I thought we were on our way to getting that multiple and holding it. Then we saw some weakness. The stock kind of sold off a bit.

But I think we're going to get the realization, especially now that with Twitter Spaces, opening ourselves up to more and more investors, getting the story out there, and using social media to tell that story. I'm hoping we're going to continue to see multiple expansion for the company. The reality is, we're going to do whatever is best for our shareholders and creating value for our shareholders over the long-term.

Gurgavin - @gurgavin
Q: I have one more question. This is about AdmireMe. If I'm not wrong, I think you mentioned collaborating with the clubs and using those same people that work there to put them on the platform. Could you talk about that a bit?

Eric Langan - President and Chief Executive Officer
If you go on the platform now, you'll see there are several entertainers, not only from our clubs, but from our partner. Our partner has about 30 clubs around the country. He owns 15% of the site. We own 65% of the site. You'll see some girls on there. Those are our beta test girls. We're starting to add a few more here and there as time goes on. Eventually, we've got a few influencers in mind that work in the industry or work in some of our clubs that will be added to the site. They typically are on OnlyFans or similar sites right now. We're going to try to move them and their customer bases over to AdmireMe.

I'm very excited about the long-term prospects of it. It is taking a little longer than originally anticipated because of the Ukrainian war. That's the only way the Ukrainian war has really affected our company. That's because our programmers were based there. But I think we're getting there, and I think that we'll continue to push forward on that.

Mark Moran - Head, Business Development and Operations, Litquidity
Fantastic. Now for our next question, we do have a special guest here Suzanna, who wrote a phenomenal article in Forbes earlier today. I wanted to reach out to you to see if you wanted to ask any questions. So, I invite you to speak. You don't have to, but just wanted to throw that out there. If not, no worries. Next, let's bring up Stamford Sam. That's Stamford_Sam, which now will be recorded on this transcript when people read in the future. Let's have you up next. You with us, Stamford_Sam?

Samford Sam - @Samford_Sam
Q: I've done some reading of the past few Ks, past few Qs. I see some chatter here about this material weakness that I believe originated in 2020. It was discussed in the K that there would be provisions put in place. They use the wording, saying something along the lines of, I'm paraphrasing here, that we believe this will get resolved sometime soon. I see that it's popped up in your most recent Q. Could you possibly give us some additional color on what that revolves around and how the process is on correcting that issue?

Bradley Chhay - CFO
Are you talking about the tax provision material weakness?

Samford Sam - @Samford_Sam
Q: Yes.

Bradley Chhay - CFO
It started off in 2020. We took a stance and our auditors took a stance on it. At that time, Congress and the IRS couldn't agree on whether the PPP should be deemed as a discrete item or a non-discrete item, whether it should be accounted as a forgiveness item or not. That being said, it was just a material weakness on difference of opinion.

Then, as you fast-forward it, we had another material weakness because we have to make an adjustment to our tax provision entry. All of these are just non-cash estimates that come up as accrual entries. We have installed more of a review process. We have hired more CPAs, and we're going to be doing a lot more reviews with a fine tooth comb.

Samford Sam - @Samford_Sam
Q: Okay, sure. Was the switch of auditors in regard to this, or is that completely independent?

Bradley Chhay - CFO
No, completely independent.

Samford Sam - @Samford_Sam
Q: Okay, cool. Thank you.

Mark Moran - Head, Business Development and Operations, Litquidity
Amazing, amazing. Next, we have Adam coming back in from ADW Capital.

Adam Wyden – ADW Capital - @Adam_Wyden

Q: I've just been looking at some of the stuff on Twitter. I think a lot of the diehard value investors are like, let the stock trade at some crazy low level, and you can buy it all back. That's all good in theory. But, I think, it might be important to explain to folks that part of the Outsiders is, yes, being able to buy back stock when it's cheap, but also being able to create a multiple arbitrage.

What we saw with Lowrie is that. You were able to do a transaction, I think with the choice of 500,000 shares at $60 for $30 million. You would not have been able to execute on that transaction if the stock did not trade at a multiple higher than what you're acquiring. As I recall, you paid $88 million or whatever the number was with some earnouts some debt. The idea was you buy it and pro forma be $20 million of EBITDA.

I think it might be important to clarify the fact that part of the strategy and part of becoming a corporation and getting from $100 to $200 to $400 [million EBITDA] without [audio cut out] being able to have that capital available to you. Obviously, in the absence of having your cost of capital, you're going to grow accordingly, you'll buy back stock if it gets cheap, and you'll do things intelligently.

But your goal is to get cost of capital that's different than what you're acquiring. At the end of the day, if you're trading at 5 times EBITDA and a business that you're buying is a fraction. Like you buy one business with $16 million in sales and $3 million of EBITDA. Why should one club in one geography be worth less on a multiple basis than 50 clubs and a restaurant business?

I think it's important to clarify, will you commit to not selling the stock? I think a lot of people think that this is some sort of promotion thing. I think this is an effort to educate the market about where these assets can trade so you guys can execute on your strategy. I think it would be helpful for you and Bradley to speak on that.

Eric Langan - President and Chief Executive Officer

Definitely. We don't sell stock cheap. We used the $60 value. I think that when we priced at $60, the stock was in the mid-$50s. We said, look we're going to get a bump from this deal. We got a little bit of upside on it. I thought we wouldn't issue the stock any cheaper than that. We finally cut the deal on it. The stock ran to the $90s at one point. I thought we were on our way to a fair valuation that would give us the opportunity to maybe pick up that arbitrage between the multiple our stock trades at and the multiple that we're able to purchase assets at.

We don't want to issue cheap stock, but we do want to issue stock that is the cheapest form of capital we can use. That's really what this is about. It's not about me being able to sell stock or the company being able to sell stock. It's about creating a fair value for our current assets that we can leverage those current assets into buying other assets at a much lower valuation and picking up that arbitrage between the two.

I've been in this business for many, many years. I've been with RICK since 1999. I haven't sold shares. There's been many times when the stock was—in 2008, at one point, our market capitalization was higher than Playboy. Everybody was saying, well, you should sell some stock, you should sell some stock, and I said, I'm a long-term player. I don't need the money. I need to create more wealth. I'm trying to create more wealth for myself, more wealth for our shareholders, more wealth for our employees who are shareholders, and that's really what this is about.

I think that our company is very misunderstood in certain Wall Street circles. I'm trying to circumvent those circles by going directly to the individual investors and saying, hey, look at our company, take a look at our financials, take a look at our cash flow, and what do you think is a fair value for our stock. Create a fair value, create the arbitrage, and then we'll take that capital and use it to expand our company even higher or even faster and create more and more free cash flow per share.

It's not about just free cash flow. It's on a per share basis. We want to make sure that everything we do is creating more and more value for our shareholders, especially since I'm one of the largest shareholders. That's where the focus is at.

Mark Moran - Head, Business Development and Operations, Litquidity
Fantastic. And Adam, added you back as a speaker, if you have any follow-up on that. But if not, then Jack Raines, can you please step up to the plate and request to be a speaker for this?

Jack Raines - @Jack_Raines
Q: Eric, thank you and Bradley and the whole team for coming out and doing this. It's been really cool hearing you guys speaking on Twitter Spaces. I had one question about revenue. For revenue that comes from ATM withdrawal and transaction fees within the clubs, is that revenue realized by you guys or by the ATM companies? And by accepting crypto, will that affect how much revenue do you get from those ATM transactions?

Bradley Chhay - CFO
It's recorded in the segment that is doing that. For example, we have ATMs in Bombshells, and we have ATMs in the Nightclubs. We get a commission for all of the ATM transactions processed through the machines. They're in our facility, we own most of our own ATMs, and we're getting a commission cut from the processor. Is that what you're asking?

Jack Raines - @Jack_Raines
Q: Yeah, I was. I've been driving during the call, so I wasn't able to look at the presentation, but I appreciate it.

Eric Langan - President and Chief Executive Officer
To answer your question on the Bitcoin, I think people misunderstand. We accept Bitcoin as a form of payment. That doesn't mean that we take the Bitcoin. It's just like Visa, Mastercard, American Express. We get paid in US dollars. When we accept Bitcoin, the processor buys the Bitcoin from us at the exact time of the transaction. The Bitcoin never actually is in our possession. The transaction is processed. The Bitcoin is collected from the processor. The processor pays us in US dollars for the Bitcoin at the time of transaction. It allows us to accept Bitcoin as a form of payment, but not actually have any of the exposure to the market conditions of Bitcoin or any other. Hopefully, at some point, we'll be able to accept other cryptocurrency as

forms of payment. We'll do it the same way. It'll all be through the processor. They'll be the ones that are taking the market risk. Not the company.

Jack Raines - @Jack_Raines
Q: Got it. Thanks. One follow-up question on the ATMs. How much revenue did you guys realize from those ATM fees last year or last quarter?

Bradley Chhay - CFO
This most recent quarter, about $1.5 million in the Nightclubs segment. Bombshells is significantly less. It's probably somewhere in the double-digit thousands. I don't know the number off the top of my head. But I know in the Nightclubs, I saw that number just today. It's about $1.5 million per quarter.

Jack Raines - @Jack_Raines
Q: Thank you.

Mark Moran - Head, Business Development and Operations, Litquidity
Thanks, Jack. Now, for our next question, I'm going to call up Tiger Grand Capital. That is going to be the handle GrandcubT with a picture of a Tiger. Let's give you the room to ask some questions. Here we go.

Tiger Grandcub Capital - @GrandcubT
Hello, Mr. Langan, and thank you for taking my question. My question is, why does Adam Wyden [redacted]

Mark Moran - Head, Business Development and Operations, Litquidity
I knew that was going to happen. That is going to be an interesting one for the transcript. For our next question, can we have someone raise their hand, and we'll call you up. We're going to have Bullish Studio. Next, Bullish, you're good to go.

Bullish Studio - @BullishStudio
Q: Eric, thank you very much for this very insightful call. Can you give us a sense for how big the gentlemen's strip club market is in the US? How big you guys are a player in that category? And how much of the category you guys are aspiring to take over or acquire or partner with in some way?

Eric Langan - President and Chief Executive Officer
We look at 2,200 clubs in the US. If you look for it, there's a prediction that it's anywhere from $2 billion to $8 billion industry. I'm unsure. There's so many private, and it's still mom-and-pop, it's really hard to tell what the total dollar amount value is of the industry. We own right now 50 clubs. There's about 500 that we've targeted as potential acquisition targets. It leaves us with 450 pretty active clubs that we would like to purchase.

We could purchase 9 clubs for every 1 we own. There's plenty of room for growth right now. I don't think we have to have any stress having too much of the market share for the roll-up strategy for at least another 5 to 10 years. I think there will be plenty of clubs to buy over the next 5 to 10 years. At that point, we might have to really consider what else we're going to do. But right now, I think, we've got plenty of opportunity out there available to us.

Bullish Studio - @BullishStudio
Q: Is that growing at the top line? Or are you seeing more clubs open up now than in the past? Or is it relatively flat?

Eric Langan - President and Chief Executive Officer
It stays pretty flat because of the licensing. It's very difficult to get new clubs and new licenses. You do see some here and there. Then you see a few clubs close here and there. I think overall it's remained pretty flat over the last few years. That's what we love about it. It's a big moat. It's the moat that's most exciting about our industry. We buy these cash flow machines, and they just sit there and operate and operate and operate.

There's not a lot of competition that's going to come into the market and make any major change to the cash flow. There're more people, especially in Florida and Texas right now, so many more people moving to Florida and Texas. I think that's why we're seeing very nice increases in revenue in our key clubs in those markets. There're so many more people in those markets. There's more demand and less supply which is always good for business.

We're going to continue to buy clubs throughout the country. We're looking in our existing markets. If we have a competitor that we can buy out, we always like to pick them up first and gain more market share in the existing market. We're also looking at new markets as we did with the Lowrie transaction. We picked up Denver. We bought 2 of the clubs in St. Louis that we didn't own or control. And we got several other markets in that transaction. Raleigh, North Carolina; Louisville, Kentucky; Portland, Maine. The only club in Portland, Maine. So those are kind of things we really like to do. Pick up locations with limited competition.

Mark Moran - Head, Business Development and Operations, Litquidity
Fantastic. Thank you very much, Bullish. Now, for our next question we're going to go to Ryan James Invest. Ryan James Invest, you're up.

Ryan James - @ryanjamesinvest
Q: What are your innovation targets for this fiscal quarter and fiscal year 2022?

Eric Langan - President and Chief Executive Officer
I'm confused by what you mean by innovation targets. Our new projects are obviously our NFT Project, creating a loyalty program, reaching to the Web 3 space. What that involves is we're trying to reach that 25 to 40-year old crowd and introduce them to our products, our services, our clubs, in ways that they understand, in ways they communicate.

I think the biggest problem with a lot of companies right now, especially as your company matures and you get older and your industry matures, is you rely on doing the same things you've always done, and that doesn't work. You have to innovate and adapt to the changing wishes of your clientele and the communication vehicles that your clientele uses, your potential clientele uses.

And that’s what Twitter has been about, what Instagram, TikTok. All those types of things is reaching this younger crowd. The NFT space, Web 3 space is about that. The AdmireMe space is a Web 2 space, but I think it’s a way to take Web 2 customers and draw them into our brick-and-mortar business. If that’s what you mean. I’m not sure that answers your question.

Mark Moran - Head, Business Development and Operations, Litquidity
It’s that idea of you’re taking the Web 3.0 stuff, bringing people to Web 2.0, and then pushing them into brick-and-mortar is kind of my view of it. For the next person, we’re going to have Zippy Capital. So Zippy, let’s get you up here and hopefully you’re not a troll.

Zippy - @zippy_capital
Q: Eric and Bradley, thanks for doing this. Really appreciate it. I pitched the stock to investors. A common pushback I get is that folks don’t want to invest in the adult entertainment industry. It feels dirty to them, I guess. Could you talk about how a RICK run club is better than your average mom-and-pop gentleman’s club? What kind of standard operating procedures do you have in place that are different than the rest of the industry? My view on this is that a club run by you guys is actually better for society and safer for the girls and customers. You have high levels of standards and procedures that the other clubs may not have. I would love to get your take on this thing.

Eric Langan - President and Chief Executive Officer
I don’t know what markets you’re in, but go to some of our clubs. You can talk to the entertainers, you can talk to our wait staff, you can talk to our bartenders, our management teams. Our staff stays with us for long periods of time. We have managers who started out as entertainers, worked up the ladder. We have people who worked in our clubs and moved into our corporate staff, went to college, went to school. One of our top controllers, who worked in the cage at one of the clubs for many years, then moved into our corporate office, went and got her CPA. We helped pay for her way to college, and she’s fantastic.

I think people misunderstand our industry. They think that our industry is all about the exploitation of women. I think you could talk to a lot of the women in the industry, and they’ll say the same thing: It’s about empowering them. When you have no money, you have no power, period. They’re in maybe bad relationships or they just broke up. They may have a young child. They have no way of how they’re going to pay for themselves. They say, I got to move back with my parents. They’re going to take control of my life again.

We give them independence, financial independence. Financial independence is how you create other independence in your life. They’re able to get their own apartment. They’re able to get their own cars. They’re able to pay their own way and not have to rely on somebody else or the conditions somebody else puts on any kind of help that they give them. I think that’s the biggest misconception of our industry.

You can Google Walmart and see there’s drugs in Walmart. There are drugs in lots of places. We have zero tolerance policies here. If we catch people selling drugs on our premises or having drugs on our premises, we have them arrested. I was recently involved in a deal with a District

Attorney. They were like, you had 14 drug arrests. I said, yeah, and if you look, 14 times we made the phone call. We called you and told you come get these drug dealers off our property. We're not going to put them back on the street. They'll just sell their drugs to somebody else. We want them off the street. We want them out of our businesses.

Those are the kind of things, I think, that over long periods of time, that's the differences we make. We have best practices. We try to do the best we can do. I'm not saying we're perfect, because we're not. There are mistakes we've made in the past. We try to learn from them and grow. But we're constantly updating our policies, updating our procedures, and trying to create best practices at all times, whether it's from an accounting standpoint or an operational standpoint. Hope that answers your question.

Zippy - @zippy_capital
Q: Thanks, Eric. We appreciate it. I don't think your company is really going to be an ESG kind of a stock, but I think your answer helps some folks that are wrestling with some of the ethical or moral questions. So, thank you.

Mark Moran - Head, Business Development and Operations, Litquidity
Fantastic. All right, for our next participant, we're going to pull up Josh Kaplan, who is jkvalueinvestor. Josh, with 2 followers, let's go.

Josh Kaplan - @jkvalueinvestor
Q: Thanks for doing this. I'm a new investor and really excited about the direction of the company. Eric, as you touched on, obviously the point of this Twitter Space is to get the individual investors excited. One of the things for me that was a little disconcerting is such low trading volume. One small thing that came to mind. Is there any way, without crossing boundaries, to get club goers potentially interested in becoming investors in some sort of loyalty program or something like that?

Eric Langan - President and Chief Executive Officer
We're doing an NFT, which will be our benefits program. But we also had a program back in the early 90's called "Own a Piece of the Action." We advertised that we are a NASDAQ-traded company in all the clubs. We've been talking recently about bringing that promotion back as well and putting that back out into the clubs since so many individual investors are also customers and guests of our locations. That's one of the things we do.

And remind all of our employees. I think the majority of our employees know that we're a publicly-traded company. We push that pretty heavily, especially at management meetings and staff meetings, and whatnot. But certainly, it can't hurt to bring back that part of the outreach as well to the retail investor. I think that's what we have to do.

We've done the same things over and over again on the institutional side of things. We keep getting the same valuations and the same cycles and trends over and over again. We get up to a fair value, then come back down, and then we're buying back our stock. I think we want to reach a much broader audience. I think we want to reach an audience that has a long time frame to give us that 3 to 5 years that we need to really grow this company the way we want to grow it over the next 3 to 5 years.

Josh Kaplan - @jkvalueinvestor
Q: Do you see any sort of risk that you'd be taking on as far as accepting crypto as payment?

Eric Langan - President and Chief Executive Officer
Like I said earlier, we accept it as payment just like we accept Visa and Mastercard. The beauty of crypto is there's no chargebacks. Second, we don't have any market risk on the crypto. We never actually possess or own the crypto. The crypto is just a form of payment. We immediately sell the crypto at the point of transaction for US dollars at the then price of the crypto at the time we accept it. So, we're paid exactly in US dollars what that transaction would be worth if they paid with Visa, Mastercard or cash. It makes no difference to us.

Josh Kaplan - @jkvalueinvestor
Q: Perfect. Thank you very much.

Mark Moran - Head, Business Development and Operations, Litquidity
Great. Thanks so much, Josh. So, Bullish Studio, you're up again with another question.

Bullish Studio - @BullishStudio
Q: I wanted to ask a follow-up question about chargebacks. How bad of a problem is credit card chargebacks for the business? People calling up the next day and being like it wasn't me that signed the bill. Is that a material threat to the business? How do you guys approach that?

Eric Langan - President and Chief Executive Officer
Actually, it's very small now with new EMV chip reader cards. Before the chip reader cards, as they were in the transition, it was becoming pretty bad. I think we got up to about a quarter of a million dollars in chargebacks in a year. Now, I don't even know if we're in five figures. It's very, very small now.

The nice thing is on large transactions, we have some unbelievable protocols, very similar to casinos, including fingerprints. All high transactions are signed under a camera. The transaction is recorded by video. It's eliminated the majority of those. There's been time in the past, different cycles of credit cards, where there's been issues. But today, it's not really an issue at all. But zero is a whole lot better than even $1 as far as I'm concerned. That's why I like crypto.

Mark Moran - Head, Business Development and Operations, Litquidity
Great. Thanks so much. Next, we have JP who is connecting and the handle is freeshkreli6 as in Martin Shkreli. JP, please go at it.

JP - @freeshkreli6
Q: Thanks for taking my question. As Adam said, Eric, you've taken this company from $1 million EBITDA to now $100 million. You've been through the ups and downs. Does this create some kind of key man risk? Is there someone else within the company that could step in tomorrow and fulfill your responsibilities? Thank you.

Eric Langan - President and Chief Executive Officer

There're many people in our company. We have 2,900 employees now. Our corporate staff in our corporate office is over 60-some people. We have an Executive Vice President, who's been with me since 1992. Our Director of Operations has been with us since 2003. His Vice President has been with us for only a few years, maybe 10 years or 8 years now, but he's been in the industry for a long, long time.

I always say, I work myself out of a job. I used to do everything. We have a whole legal department—I used to be the legal department. I have a CFO and a full accounting staff—I used to be the CFO with one secretary back in the early days when we were doing $5-6 million in revenue. My goal every day is to work myself out of a job, create people that can do everything that I do. And while there's no one person, there's enough people combined. I'm not one person. Everybody thinks I'm the one person that does everything, but I'm the face. But the reality of it is, there's many, many people behind me.

As I say in every call, I want to thank all the staff, I want to thank all of the different people. The restaurant division is completely separate from the club division. There's a whole other group of people on that side. I'm not worried at all if something was to happen to me. You got to remember, probably 90-95% of my wealth is in the stock of this company. I have 6 children. I have to make sure that they're very well taken care of if anything did happen to me. I trust the staff. I haven't done anything to sell stock, leverage stock, devest myself from this company in any form at this point. I don't see myself doing that in the near future. Now, obviously, if we have an AMC run, that might be a different story. But I think as long as we're staying in fair valuations, I'm here for the long haul.

Is there a risk? I guess there's always some risk. Anytime a key man at a company goes away, you have a little bit of risk. But with Ed Anakar, as Director of Operations, and Travis Reese onboard, I'm not worried about it at all. And Bradley's here now. Bradley has been with us for going on, I think, 8 years now or 6 years. My son has now been working in our corporate office for some time. He thinks like me a lot. He's still young, but he's come a long way. I think the team would figure it out very quickly. So, I'm not overly worried about that. Everything I do somebody else has been involved many, many times in the process, at every process, whether it's legal process, whether it's acquisition process, accounting, reviewing financials. There's just a full team behind us now. We're a very large company behind the scenes versus the public side of the company.

Mark Moran - Head, Business Development and Operations, Litquidity

Fantastic. And now for our next participant, we're going to have Dimes Square Holdings LP, rvc330 is the handle. You're up.

Dimes Square Holdings LP - @rvc330

Q: Thanks for having me, Mark. Big fan. My question is, if you are trying to appeal to retail investors and was not like AMC and other companies are, why would you not want to hold on to the Bitcoin that customers are paying for stuff? If you're doing the whole crypto thing, why not do that?

Eric Langan - President and Chief Executive Officer
I can answer that in three letters. SEC. Right now the SEC has a very strict deal. It's not very clear. The guidance on it is not very good. At this point, we feel that the least amount of crypto that we have, the better off we will be in that regard. Give them the time to catch up. We need the laws and all the regulations and all the accounting guidance to catch up with the technology. That's the biggest reason. It's not really the fear of the market. We could play the market and would play the market like we've done in the past with other things, real estate investments, other investments we've made in the past. It's really not worth the outside risk of the SEC at this point for our company.

Dimes Square Holdings LP - @rvc330
Q: Cool. Thank you.

Mark Moran - Head, Business Development and Operations, Litquidity
Great. Thanks very much, Dimes Square. I'm going to bring up Quantitative Tightening with the handle WagieCagie. So Quantitative Tightening, please step up, and then ValueHunter, we will call on you afterwards.

Quantitative Tightening - @WagieCagie
Q: Real quick within your clubs, have you ever considered digital art, QR codes, OnlyFans, stuff like that?

Eric Langan - President and Chief Executive Officer
We use QR codes for many things, especially our menus. Even our bottle service menus at our clubs are now all QR codes. We love the QR codes. As far as digital art, we have plenty of things that we broadcast across our TVs. Most of it's marketing in all of our locations. We're doing our NFT. That's going to be our first real stab at digital art.

The real appeal for me was to create utility for the NFT. But in keeping with the nature of NFT and its communities, it's all about the artists. The artists really started the NFT demand. The corporate world, I think, is going to move into Web 3. But I think we have to recognize that the artists created this Web 3 and created the trading of NFT. So we hired some artists. We're bringing artists in and really trying to have a unique art part of our project, as well. It kind of all just plays together.

Quantitative Tightening - @WagieCagie
Q: Yeah, I like it. Thanks for answering my question. Furthermore, I've seen performers and people of that nature actually using their streams and taking payments with NFTs and such. Didn't know if that could be put physically into clubs. But that's all I got. Thank you.

Mark Moran - Head, Business Development and Operations, Litquidity
Thanks so much. I'm adding Bullish back into this.

Bullish Studio - @BullishStudio

Q: Great. So in New York, there's a lot of conversations about cannabis coming towards the end of the year, early next. In New York, there's going to be a consumption license opportunity. You guys have a liquor license so going to be some challenges there. Is cannabis something that is exciting to you? Either that or with sports betting becoming legalized? Is that another opportunity with either of those two categories as they grow and become more legalized and how does the industry shakeout?

Eric Langan - President and Chief Executive Officer

I think we have a club in Colorado that has an on-premises cannabis consumption permit in Denver, Colorado that we purchased with the last acquisition. Until federal law legalizes cannabis everywhere, I don't see the company looking or doing anything in that part. But as far as sports betting, if that becomes legal, yes, we would move into sports betting very rapidly, especially with our Bombshells sports bars.

We could have kiosk sports betting in those locations with a revenue share with a major casino operator. We would jump on that very quickly. We're definitely not against the gaming. We have gaming at our club in Louisiana with video poker machines. We're in the process of adding machines that were approved. We're waiting for the license to actually be issued for our gaming at five of our locations in the State of Illinois. So, we should start seeing more gaming revenue at some of our locations as time progresses.

Mark Moran - Head, Business Development and Operations, Litquidity

Thanks for the question, Bullish. Next, we have Incoming IB Analyst, WhatsEBITDA as the handle appears.

Incoming IB Analyst - @WhatsEBITDA

Q: Yeah. Great quarter, guys. And again, Eric, thank you for being so proactive within the community. I really appreciate it. As a younger guy experienced in these type of clubs, I wonder if the team has looked into acquiring talent through venues like Twitch and YouTube? I'm not sure if you've heard the names of up in comers like Adin Ross and iShowSpeed, but any detail on that to kind of get the best talent through the door?

Eric Langan - President and Chief Executive Officer

We use features at some of our major clubs. Most of them have very large followings. They travel around the country and build up their presence. We have looked at some influencers. We've been talking about that. I think that's one of the things the big annual party with the NFTs will be about. I think we will be reaching out to influencers and trying to get some of the bigger names and some of the celebrities at the party for our users.

It's going to be a lot of fun. I've been talking with a couple of our big DJs. They're all very excited about the potential of featured entertainers, potential porn stars, potential influencers that could be the possible host or co-host of the actual party and as far as putting on the entertainment for the party as well, including some music groups and some other stuff are very excited about being part of our parties.

It's going to be interesting. We're kind of stepping in with our toes right now. I'm not good at putting my toes into the pool. I like to jump right into the deep end. So, we're going to go all out with it pretty quickly. We've got to get this launch done here. The artwork's in the process of being done. We're promoting the NFT now. We'll see how the mint goes at the end of June. We're going to be at VCON. We're going to be at NFT.NYC. I think we might be adding in a convention in Austin, Texas, first week of June for the team to go out and promote there as well.

Incoming IB Analyst - @WhatsEBITDA
Q: Wow, that's crazy. Thanks for the response. One more question. We've seen BNPL really take off. For me personally, I'm not getting that investment banking money now, but in a few months, I will. Is there any way we could integrate or is the team looking to integrate BNPL into any of your services? Like, could I get advanced installments? Like what's the deal with that?

Mark Moran - Head, Business Development and Operations, Litquidity
No one knows what the BNPL is, so we're just going to move on past here. But your first question was great, and it's been a pleasure to watch your maturity grow on the timeline. So, thank you so much for joining us. Next, we're going to have Brendan Blakeman.

Brendan Blakeman - @BrendanBlakeman
Q: Very thankful for being able to talk to you guys. I guess my only question, being a Canadian investor here and not being able to experience any of these clubs, is there any plans and not just within kind of the next 12 months there, but forward-looking to expand internationally and more specifically into Canada, where the laws for clubs may be closer in line with those of [the US]? Thank you.

Eric Langan - President and Chief Executive Officer
We've looked at clubs in Vancouver in the past, a couple of clubs in Toronto. We're definitely not adverse to moving into the Canadian market. There are some decent clubs there. Definitely interesting. Obviously, a little different than US operations, but nothing that we can't figure out. It's just really going to depend on the availability of clubs to purchase.

Brendan Blakeman - @BrendanBlakeman
Q: Awesome, thank you. And great quarter.

Mark Moran - Head, Business Development and Operations, Litquidity
Fantastic. Thanks a lot. Now we're going to try bringing up ValueHunter7. We are almost approaching on 2 hours, which is fantastic. So, ValueHunter you're connected.

ValueHunter - @ValueHunter7
Q: Thank you very much, guys. My question is regarding the partnership that you guys have on the AdmireMe platform with this other operator, the one you said had 30 clubs. Has there ever been a conversation about potentially acquiring that partner? And if not, any reason why we can't go for even bigger acquisitions?

Eric Langan - President and Chief Executive Officer
A lot of his clubs are in smaller markets and not really our cup of tea. However, we have been talking with him about certain markets. He's not ready to sell yet. He's still relatively young, in his 50s. But it is something that I think at some point in the future, we will be sitting down, have a serious talks about it, as we continue to move forward, and he warms up to the idea and understands the multiple that we can pay is higher than he's going to get any place else. Everybody has times in this industry where you love the industry, and everybody has times where you hate the industry. We just got to be patient and wait for these guys to go, I don't want to be here anymore. Then we will pick them up.

ValueHunter - @ValueHunter7
Q: I have a second question very quickly. Which markets that you're not present in you would be interested in? You don't need to be specific about the city but maybe the state. That would be interesting to know. Thank you.

Eric Langan - President and Chief Executive Officer
We love the East Coast much more than the West Coast. We've stayed out of California. We'd love some additional expansion in Arizona, Colorado, Texas, of course, where we're already at. But anywhere in the Midwest. We bought 5 clubs in Illinois. We just got a recent club in Indiana and Kentucky. Those markets would be good if we can find locations. Wisconsin, Michigan, Minneapolis, or Minnesota. We're always looking in those markets as well. But really anywhere. We like stuff that's close or in our current markets. It's obviously easy to manage. We already have regional management teams set up. We don't like anything too far away. But as we did with Denver, if we buy enough clubs in a market, it's fantastic for us. Then we can set up a regional manager for that area and then expand outside of that area into the smaller markets that surround that area. So we're looking at some stuff in Colorado right now. We'd like to expand our presence in that state. And like I said, in Phoenix. We have a single club in Phoenix, but with the club in Colorado now, we've got a bigger base in that area. So, we're able to really look around more in those markets.

ValueHunter - @ValueHunter7
Q: Thank you very much and continue the great work.

Mark Moran - Head, Business Development and Operations, Litquidity
Thank you so much, ValueHunter. Now with our next question, we're going to have Sinstockpapi.

Sinstockpapi - @sinstockpapi
Q: My only question is how do you think about the cyclicality of this business as we enter a downturn? Is the gentleman's club industry as cyclical as other hospitality and leisure businesses? My follow-up to that would be how many of the marginal dollars that are spent at these clubs are coming out of these bubble categories like crypto or NFTs? Thank you.

Eric Langan - President and Chief Executive Officer
I think the NFT and crypto market is kind of in a bear market, bigger than the regular market, so I don't know that the money is coming from there. But when everybody keeps saying slowdown,

slowdown. I can tell you that right now, we have seen no slowdown anywhere at this point. I'm not saying, we won't. But, if you look at April numbers, every category was up. So, it doesn't matter if it's retail. It doesn't matter if it was cars. Every category was up. I think people are trying to predict a recession and in fact, trying to cause the recession by predicting a recession.

We're going to be ready. We're watching our numbers. The beauty of our new ERP system is we get data in real time. We report our clubs. We follow our trends. If we see something trending down, we will immediately switch to what I call our recessionary mode. Instead of shooting for high quality of customer, we start shooting for higher quantities of customers. We'll take our slower nights. We'll do more specials. Maybe we do bottle service to fill VIP rooms if the VIP rooms aren't full. But like, the other night I had a customer come over and complain to me. We were setting up Booth 1, which is right in front of the VIP room, and said, man, they're telling me 45 minutes to get a VIP room tonight. I'm like, yeah, we're a little bit busy tonight. So when every single VIP room is full, we don't have to worry about that right now.

But like I said, if we start seeing those rooms not filling up, we can always discount. There's a lot of things that we can do that keeps our numbers running. Our margins might slip a little bit, but we'll keep our revenues high, keep our people working, and keep our people making money. Typically, it's about a six-month cycle for us. If you look in the past, you can look back in the 90s, you can look at 2009 and 2010, you'll see that we have like two quarters where revenues stayed pretty strong, but earnings declined for about two quarters, and then boom, bounced back up. So I don't worry too much about it.

The difference now versus back then is we didn't have the technology that we have today to see those trends early enough. Back then, you had to have it happen at, we had 30 clubs. We didn't notice till it was hitting about 20 of them. Now we can do each club individually. We see in real-time, trends over a 4-6 week period of each individual location. We can say, Why is this location down? What percentage is it down? Okay. Is it management? What's causing it? We can evaluate and then immediately respond so that we're turning those trends around on an individual club basis within weeks of any type of downturn and getting them back on course. Whether it's through discounting, whether it's through changing management, or whatever outside sources are causing the issue at that club, we're adjusting to it. So it's much quicker.

Sinstockpapi - @sinstockpapi
Q: Got you. Thank you so much.

Mark Moran - Head, Business Development and Operations, Litquidity
Great, thanks for the question. Now for our next question, we're going to bring Pixie up, and I think this is going to be an interesting one, because I'm reading your bio, and it says from stripper poll to podcaster. So I believe it's our first female speaker and question asker and given that Twitter bio, let's have you up and feel free to unmute whenever you want and ask a question.

Pixie - @NextOnStageOne
Q: Thank you for reading my Twitter bio. I am a retired adult entertainer from Denver, Colorado. So I am familiar with the brand of La Boheme, of PTs Gold, and a lot of those things.

So, it has always been a brand standard. I did work at a couple of different clubs. I am a preferred of smaller clubs.

As you guys are ramping out and buying other clubs in different locations, how are you going to mark up the revenue, the excitement for new dancers to come in and understand possibly the market that you've already built, say, in Denver, in a different location? Are you reaching out to past entertainers maybe? I only just jumped into the room because of a friend. But I want to know more about the 1:1 ratio with the adult entertainers that you're bringing on to the company, in these new districts, in these new states? Thank you.

Eric Langan - President and Chief Executive Officer
We use social media. Obviously, our brand is very well known around the country. Our company is very well known as we're very big in the industry. As we make announcements that we bought clubs, some of our girls that already work for us will be like, oh, I used to live in Denver. I want to go back. Or my parents live in Denver, I'm going to move back there now that you guys have a club there. So that helps.

Like I said, social media has been fantastic for us. We're hoping for AdmireMe. We also use a third-party app called Pole Position. Our clubs are all listed on Pole Position. They do a lot of marketing for new entertainers. They have some classes, schools on pole dancing, advice columns, tax columns, and stuff that they offer to new entertainers and help with the industry.

Any entertainer that's using that app can also find our clubs on that app. We're very excited about that for future entertainer growth. But luckily, we've been very fortunate. Our brand has a very good reputation and a lot of girls find us. We don't have to really go out too much and seek new entertainers. They tend to come straight to our clubs.

Pixie - @NextOnStageOne
Q: Thank you for your answer.

Eric Langan - President and Chief Executive Officer
Yeah, thank you. I'm glad you got on the call. Thank you.

Mark Moran - Head, Business Development and Operations, Litquidity
Thanks for that question, Pixie. We appreciate it. Now for our next question we're going to have Andy P coming up with the handle AndyPariPassu.

Andy P - @AndyPariPassu
Q: Phenomenal. Thanks so much for doing this and thanks for bringing me up here. Thinking about your balance sheet, seeing about $17 million of cash and about $200 million of debt. How do you foresee the debt payoff? Is this a heavy debt load because you guys own some of the real estate that you operate out of? And do you own some real estate? Or is this long leases? Because if you do, then the debt is understandable and you can unlock value.

Eric Langan - President and Chief Executive Officer
In our current Q we filed today, we have $38 million plus in cash. We have about $180 million of debt. The majority of our debt is real estate backed debt. It is all long-term loans, 20-year amortizations, about 5-5.5% interest rates on that. Most of those loans were done in the last year. We still have at least 4 years plus on those two major loans, real estate loans. We probably own 85-plus percent of our real estate around the country right now. Hope that helps you a little bit. Our real estate costs us about, the equity side is about $7 million a year in debt reduction that we pay right now on those loans.

Andy P - @AndyPariPassu
Q: That's fantastic. Do you know if there are air rights in some of the properties that you own? I know that you obviously can't place a strip club near a school. You got to be in one of those zoning areas where there's air rights or you could potentially build industrial. I know industrial has heavy demand. Can unlock value there by selling off some real estate.

Eric Langan - President and Chief Executive Officer
A lot of our real estate is freeway-based real estate. We do have a few pieces here and there with air rights. Some of the air rights we have sold to local developers in the area for very large sums of money, which we are happy to do, and making our property best use for adult entertainment. Right now, I think the majority of our clubs are their best use is adult entertainment.

If at any time in the future that changes and developing that into some other type of real estate use would exceed the free cash flow that we generate from the clubs or give us a large amount of cash that we could then allocate for our capital allocation strategy to higher returns, we would explore and look at that.

We get offers a lot on a lot of our real estate. We have some very good pieces of real estate especially like Tootsie's here in Miami, that's right in the heart here of 441, 95, the Florida, Turnpike. Amazon has been trying to buy this property for some time. AutoZone, wanted to put a distribution center here.

This was the old BJ's Wholesale Southeast Distribution Center. There's 385,000 square feet under roof here, of which the club uses about 47,000 square footprint, with two stories, which we have with the new build, I think we're over a little over 78,000 square feet. We have 83,000 square feet of indoor parking and the other 200,000 plus square feet is retail or warehouse space that's leased to a third-party.

Even when they offer us $3-4 million over an appraised value, they can't replace the $25 million that Tootsie's is going to make this year. I keep telling them add another zero and we can talk, and that tends to make them go away on this property. But we have lots of properties like that where there's a lot of other uses. Our real estate value is solid should we need it for financing.

Andy P - @AndyPariPassu
Q: Thank you. Fantastic color. What would say the average LTV is on some of the real estate, 50%?

Eric Langan - President and Chief Executive Officer
No. Our bank loans were recent. We do about 65% LTV. I think on one we did 72.3% LTV on a short period, but we paid additional principal for the first year to knock that back down to 65%. I'd say right now, the loans are fairly new. But I think we've got really bad appraisals on some of our stuff. We did the appraisals during the COVID shutdown. Some of our appraisals came back very bad. I'd say we're probably between 50-60% LTV if we were to do new appraisals today with everything with the economy fully back open.

Then, of course, with the real estate inflation going on, we could get some higher appraisals. But we probably won't look to refinance those loans for at least 3-4 years till we build up enough equity to make it worthwhile. Then it just depends on if we have an acquisition that we need to pull capital out for potentially. Then we'll refinance our real estate and pull out our equity to buy more real estate, more and more EBITDA.

Andy P - @AndyPariPassu
Q: All right. That's awesome. Thank you so much.

Mark Moran – Head, Business Development and Operations, Litquidity
Wonderful. Thanks, so much for the question, Andy. In one of the group chats I'm in right now, my DMs Spooky John is saying it's seriously impressive how well this guy knows the numbers of this business. I'm sitting next to Eric, who I'm looking at just drawing aimlessly on a piece of paper with nothing else in front of him. So, it is very impressive.

I think this phone call has been very unique, very insightful into this company, and one that we're very fortunate for everyone who joined us, who took the time to do this. I think one interesting data point for this is previously for RCI, their highest attended call on the traditional method was around 178 people. So with this, at one point, I think we were hitting 600. So it's a very different method, very enjoyable to be dealing with everyone and something that was truly unique.

So, thank you, Eric and Bradley and everyone else who asked the question. For those of you who joined us late, you can meet management tonight at Tootsie's Cabaret in Miami, one of the top adult clubs in the country and RCI's top revenue-generating club. Tootsie's is located at 150 Northwest 183rd Street. And if you haven't RSVP-ed, ask for Eric or me at the door. This is the Tootsie's that is mentioned in the Drake song at "getting shoulder rubs," and now that's in the transcript of this. So thank you, everyone. On behalf of Eric, Bradley, the company and all our subsidiaries, thank you and have a good night. Stay safe, stay healthy, and as always, please visit one of our clubs or restaurants.