

Transcript of
RCI Hospitality Holdings, Inc.
Third Quarter 2020 Earnings Call
August 10, 2020

Participants

Gary Fishman - Investor Relations
Eric Langan - President and Chief Executive Officer
Bradley Chhay - Controller

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Douglas Weiss - DSW Investment, LLC
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Presentation

Operator

Greetings and welcome to RCI Hospitality Holdings Conference Call and Webcast. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. As a reminder, this conference is being recorded. It is now my pleasure to introduce your host, Gary Fishman, who handles Investor Relations for RCI.

Gary Fishman - Investor Relations

Thank you, Rob. Please everybody accept our apologies for the delay. We obviously use a third-party vendor to set up the call, and we will do our best to prevent this from ever happening again. Thank you.

For those of you listening to this call on the phone, you can find our presentation on the RCI website. Click Company and Investor Information just under the RCI logo. That will take you to the Company and Investor info page, scroll down a little bit and you will find all the necessary links for this call.

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

Now, please turn to Slide 3. I also direct you to the explanation of non-GAAP measurements that we use. Now I'm pleased to introduce Eric Langan, President and CEO of RCI Hospitality. Eric?

Eric Langan - President and Chief Executive Officer

Thank you for joining us today. I'm here with our CFO, Phil Marshall; and our Controller, Bradley Chhay. I hope that everybody and their loved ones have been able to get through this pandemic so far and that you are following all the safety recommendations.

After the market closed today, we reported our third-quarter results for the period ended June 30. Total revenues were just under \$15 million. Keep in mind, all of our locations remained closed in April and the beginning of May and a limited number were able to stay open during the balance of the quarter.

We had a net loss of \$5.5 million or \$0.60 per share. Looking at operating cash flow, we were slightly positive. We ended the third quarter 2020 with almost \$15 million in cash and \$5.5 million in accounts receivable, including a large income tax receivable.

Operationally, Bombshells was the star. The segment generated record revenue in May and June and quarterly operating margins that exceeded our original targets for all 10 locations.

Nightclubs that were open performed well considering the environment. Most of our nightclubs had to operate as restaurants with entertainment, requiring all guests who enter to eat food in order to be able to partake in drinking or entertainment.

To give you an update on how well we're doing in the fourth quarter, we generated \$7.6 million of revenue in July. We have 31 locations open today. Our subsidiaries have been able to bring back about half of their team-members after the extensive furloughs in March.

After more than 5 months, we have become more confident in how to manage our business and finances through the pandemic. We have been agile, innovative and acted quickly. We believe we have made the company more resilient.

Though cash flows are not as we anticipated at the start of the fiscal year, the near-term outlook for our business remains strong. We expect to generate adequate cash flow from operations over the next 12 months.

Please turn to Slide 5. It's important to understand the progress we have made over the course of the quarter. We have become very adept at opening locations, closing them if necessary due to changes in state and local government regulations, and then reopening them if we can, while keeping costs as low as possible.

While the number of open locations fluctuated over the course of the quarter, monthly sales went from virtually nothing in April to \$5.7 million in May to \$8.9 million in June. We have achieved this performance while following all mandatory health and safety regulations including masks, social distancing, occupancy and hourly restrictions. And we have developed effective ways to serve our guests and our market, our business in this new environment.

As a result, we've had no problems attracting customers. Lines are common to get into our locations. We are experiencing a steadier flow of business during operating hours compared to before the pandemic. A couple of our clubs actually posted year-over-year sales increases during the months they were open. After the slower July 4th weekend, these trends have generally continued into the fourth quarter.

Please turn to Slide 6. The Bombshells team has done a terrific job under extraordinary circumstances. Based on our performance, starting in May we've been operating in an annual revenue run rate of \$40 million to \$50 million. That is in line with our goal we set out earlier this year for having all 10 locations open.

I am particularly pleased to point out that our operating margin hit 22.3%. This exceeds our 18% to 22% target range. I'd also like to note this achievement was reached while incurring fixed costs for locations closed in April and early May.

Please turn to Slide 7. During the quarter, we were able to work on some of our longer-term strategies. I'm talking about selling excess land at our owned Bombshells sites, and using the proceeds to pay down debt and increase the potential return on capital invested. We completed this during the quarter for Bombshells I-10. We sold off the second of two available parcels for about \$1.5 million. This is after selling the first parcel for close to \$1 million. As a result, we reduced our bank debt on I-10 nearly half and our total investment by more than a third.

Please turn to Slide 8. I would like to go over a few remaining items in our statement of operations.

Cost of Goods as a percentage of sales were higher, due to a greater proportion of food. Salaries, wages and SG&A dropped about 50%. This reflected cost cutting partially offset by a month of no sales and added costs to protect customers and staff from COVID at our subsidiaries and offices. Other charges reflected \$1 million of additional non-cash COVID-related impairment. This indicates we got most of it right in the second quarter. It was partially offset by a gain on the sale of the Bombshells I-10 parcel.

Bombshells had nearly \$2 million in segment operating profit. Nightclubs had a \$3 million segment operating loss with about two-thirds of that non-cash. Interest expense was lower due to debt pay-downs prior and during the quarter. There was a tax benefit versus expense last year. The weighted average number of common shares outstanding declined 5%, due to repurchases in the third quarter.

Please turn to Slide 9. As you can imagine, we're very focused on cash generation and use. As I mentioned, we ended the quarter with \$14.8 million of cash. Excluding the SBA loan, long-term debt declined to \$137 million. That's the lowest it has been for some time. Current liabilities at \$33 million are in line with past performance.

Please turn to Page 10 for our debt pie chart. The key point that I'd like to communicate is that 85% of our debt is secured by assets such as real estate, three of our clubs, and equipment. Looking at the unsecured portion, 4% of the total debt is the SBA loan. This has the potential to be completely or partially forgiven, and 2% is the Texas Comptroller's Settlement. So less than 10% is unsecured in the traditional sense.

Please turn to Page 11. As we reported during the first half of the fiscal year, we moved or have converted about \$11 million in near-term, non-realty balloons to out years or to amortizing loans to give us more flexibility. We have continued this strategy in the third quarter. We deferred approximately \$2 million in bank debt servicing. In July, we deferred the payment of \$2.1 million in debt due in the fourth quarter. For additional flexibility under the Bombshells' build strategy, we have one more parcel under contract for sale and four parcels listed to be sold.

Turning to Page 12, here's our capital allocation strategy slide. Most of this is how we looked at the world pre-COVID. We put this in here to show you that using excess cash to buy back shares is still part of our core strategy. We are currently looking to grow cash on hand to more

than \$15 million. Then we'll be able to pick up with our capital allocation strategy as we've been doing for the past five years. This will continue to be our way of allocating all excess capital for the foreseeable future.

When more locations are about to open, such as our larger South Florida or New York City clubs, we believe our cost structure and marketing should generate greater free cash flow even with potential COVID restrictions.

Turning to Slide 13, to recap, we believe we have made the company and its operating subsidiaries more resilient over the last 5 months. Acting quickly and with agility, we have significantly reduced our cost structure and cash burn. We have retained key personnel and rehired many furloughed team members.

We have also gained a lot of confidence and become a lot more comfortable managing our business in the age of COVID. We have learned how to safely open, close and reopen businesses. We have developed effective ways to serve guests and market our business in a COVID-safe manner.

We have achieved important sales and margin milestones with Bombshells. Open clubs also did well given all the challenges, and we are continuing to pursue long-term strategies. In the final analysis, we ended the third quarter of 2020 with a small but positive operating cash flow and ample staying power.

In closing, we would like to give a special thanks to all our team members. I know I called out Bombshells earlier, but our Nightclub teams have done a terrific job also. Everyone's effort, hard work, long hours and dedication has been unbelievable. You are RCI's greatest assets.

Operator, let's open the call to questions.

Question-and-Answer Session

Operator

Thank you. At this time, we'll be conducting a question-and-answer session. [Operator Instructions] One moment please, while we poll for questions.

Our first question comes from Greg Pandy with Sidoti. Please proceed with your question.

Q: I know Bombshells, you've been learning as the process goes along. Can you kind of give us any insight onto why you think the margins were even above your expectations, maybe some initiatives that you had put in place in the past are paying off a little bit more or just a little bit of color on that?

Eric Langan - President and Chief Executive Officer

We always said, once we opened all the locations, and we didn't have all the pre-opening costs, that our margins were going to be much better. We never separated out pre-opening costs of the Bombshells segment, because it was a small segment of the overall company. So that's a part of it.

The other thing that we're seeing is, with so many other locations closed, we're getting the business. We used to have peak times and peak hours and pretty much we've got a nice flow

all day long now and still have our peak times. So, we're seeing more customers and they're staying longer.

Bombshells was the meet-and-greet place. So, you come in, in the evening, and you have your food and your appetizer and a couple drinks, and then you go someplace else to finish your night and drink. Well, since the someplace else isn't open anymore, we're seeing those people stay at Bombshells and spend even more money and Bombshells is actually becoming even more popular because of it.

Q: Right, that's helpful. And then, just one more – I think in the past, you guys mentioned sort of difference in behaviors of the under 40 and over 40 crowd. Any changes going on, on that?

Eric Langan - President and Chief Executive Officer

I think with masks people are feeling safe to come out again. When everyone is wearing masks, we're seeing a much broader customer base, especially at the clubs. The clubs are doing much better with an older clientele than they were pre-everyone wearing masks. The mask mandate, especially in Texas, has been a big help for us. Of course, that's where the majority of our businesses are open now, in the state of Texas. We have Texas, Illinois and Minnesota right now are basically the only places we're operating.

Q: Okay, great. That's helpful. I'd give some other people another chance. Congratulations on the quarter. Thanks.

Eric Langan - President and Chief Executive Officer

All right, thanks.

Operator

Our next question is from the Vadim Perelman, a private investor, please proceed with your question.

Q: Hey, guys. Great job managing through this very difficult period. I want to go back in time. So, when I think about your, so 2015/2016 time period, which is when I think you instituted and started to implement your capital allocation policy and got aggressive in your share buybacks. The company was very different.

You were doing something like \$127 million sales. EBITDA was \$34 million. You're earning about a \$1 a share and Bombshells was amazing. I think it made like \$1.5 million. Today, it's a very different and much better business, although we have this temporary disruption.

So, obviously, \$200 million plus post-COVID in sales and free cash flow earnings power of probably \$4 to \$5. So, given that setup and given where the stock trades like a 30%, maybe even higher free cash flow yield, is there anything you can do to take advantage of it, while those are the facts on the ground, well, when the market doesn't give you the credit for what's obviously been a very resilient and very healthy business?

Eric Langan - President and Chief Executive Officer

Like I said, I think we get Florida and New York open. That's going to drastically change. Or if we just get some of the other cities that were open – Charlotte and Phoenix – and some of our other cities – Pittsburgh and Chicago. We get those locations open, and that will change our cash flow.

Basically, I think our run rate right now is probably cash flow neutral at about \$1.8 million or so per week. So \$90 million to \$100 million is kind of cash flow neutral. As we get to the \$2 million plus range per week, we start having positive cash flow, and we'll start increasing our cash on hand.

Once we can grow our cash on hand to \$15 million plus, we're going to be back to having excess capital and will be applying it to our capital allocation strategy. If our stock is trading at these prices, that's where we will be putting it. If the stock recovers here and people start to understand that our businesses aren't going anywhere. When we open, we are immediately starting to see our customers come back.

We're seeing new customers come in. We're starting to – now that I think that – depending on what goes on with the unemployment situation – I think we're going to see more new hires, as we continue to grow and expand at our existing locations.

It's really going to depend on who survives. I think this is definitely a survival story right now for a lot of these smaller operators out there. We've also seen a lot of restaurant closings and they're not going to reopen.

If we can be in a position to take advantage of that, maybe find properties we can lease and retrofit cheaply, because they're already full-service restaurants, we can expand Bombshells that way. We can also look at acquisitions of clubs that are coming online right now.

In October, we're going out to the Gentlemen's Club Owners EXPO. I've got meetings set up with a lot of club-owners to talk about the future of the industry, their future in the industry, and basically how they can monetize their assets if they decide they don't want to be in the industry anymore.

Q: So, along those lines...

Eric Langan - President and Chief Executive Officer

So, I think we're going to see a lot of opportunities.

Q: That's super helpful and agreed on all fronts. Along those lines, quick follow-up, how do you think about the hurdle rate for making investments like what you just mentioned, either buying distressed clubs or buying clubs cheaply or investing in growth; in Bombshells, retrofit or new build? How do you think about that versus the opportunity cost of deploying capital through the stock at a return that you know exactly what it is?

Eric Langan - President and Chief Executive Officer

We want at least two times. I think, depending on high risk, I'd want three times cash on cash. So, it really is going to depend on – that's why the franchise model for Bombshells is so appealing to us.

Right now, we are talking with some different groups about franchising in different areas around the country. I think as the numbers are coming out, people are going to get more excited about the Bombshells opportunities. We've had, I guess, just people that have been into Bombshells in the last couple months here in Houston, from out of town or from wherever. They called up and said, "Hey, I want to see about opening one of these in my city".

And so, we are getting those calls now. I think, like I said, as the numbers become more public, we're going to continue to get more calls in that regard. So that will help with us. But I think we need a 2 to 3 times hurdle rate. We've always said 2 times. If it's – depending on the risk.

I'm going to assess the risk, risk reinvestment on our own stock at those higher returns that we're getting right now. If we use the \$30 million run rate, which I think is probably low now, if everything was open, based on what I'm seeing out there and based on some of the restaurants. But chains and stuff that aren't going to reopen, there's a less competitive market in the overall entertainment market, right?

Fans can't go to basketball games and football games and baseball games right now, so all that disposable income that was being spent on those types of entertainment is not being spent on those types of entertainment. So, we're seeing those people who would go down to the Astros game, come to Bombshells and watch the Astros game a lot more.

I think we're going to see more of those people visiting the clubs and hanging out at the clubs to maybe pick up the game and hang out and get some food and drink and hang out with the girls at the clubs as well. That's kind of what we're seeing right now. If that continues as we move forward, for however long there's less competition, there's no concerts, there's no – it's just amazing that all the entertainment choices that used to be out there that aren't out there right now.

I think that's going to have a very positive effect on the company as we move forward and get open.

Q: Thanks a lot and hats off to the team for doing a great job navigating this. Thanks a lot.

Eric Langan - President and Chief Executive Officer

Thank you.

Operator

Our next question comes from Douglas Weiss with DSW Investments. Please proceed with your question. Thanks.

Q: Thanks. Can you talk a little bit about, I think as – as I think you – as was expected, the service revenues are pretty low right now. Could you just talk about kind of what has to happen before those revenues start to come back?

Eric Langan - President and Chief Executive Officer

We have to get more locations open. That's just the reality of it. A lot of the clubs were not really charging a cover charge. We're making you buy food instead. So, our food revenues are going to be up, but our cover charges are going to be down. So, our food revenues will be up, but service revenues will be down a little bit.

It's just a different model right now in this COVID environment. I'm not really concerned about as much where the revenues are hitting us, as far as the category, service, food, liquor, whatever. I'm really concerned that we just have the revenues.

Right now, we'll probably have to iron the rest of it out as we move forward. And we've got to get our big locations open. We've got to get open in New York. We've got to get open in Florida, Chicago, Pittsburgh, Arizona. Those are locations that are really affecting our service revenue right now.

Q: Okay. And then on – are you seeing any impact on a sort of day-to-day or week-to-week basis from COVID news, because, I mean, obviously, Houston, I guess, would be the main market? Are you – is it...

Eric Langan - President and Chief Executive Officer

The fear is rampant. Yeah, it does, like the first two weeks of July, were very trying. You got to remember, at one point in June we had 40 locations open. A week later, we had 29. I think we got down to a low of 23 or 24 locations.

And then, as of today, we have 31 locations open. So, yes, we are seeing it. In fact, we've voluntarily closed a few locations. If we have an employee that reported a positive test, we closed the location for 3 to 5 days. Get all of our employees tested. We are paying for rapid testing, so that's some of our cost increase as we pay for rapid testing, so we can have instant test results for our employees.

If no other employees test positive, once we're comfortable that we have enough negative tested employees to reopen, we'll get the location reopened. So, we've come and gone with those types of things. But, basically, we've been very quick to react anytime we've had incidences in our actual businesses.

I think in the last 5 weeks, we're down to zero instances in our establishment. I think the masks on both sides have really helped. I do believe the one-sided masks were an issue and only our employees were wearing masks from day one. But we were not requiring it of all of our customers. Now that all of our locations require it of our customers, I think we've kind of put a quash on having any real issues at our locations now.

So really, it's about the fear, right? If they create a big fear factor, media creates a big fear, then people start to stay home a little bit more. I'm seeing them on about a 2-week cycle, news cycle, right? It's like a news cycle, the new cycle hits, business slows down a little bit. News cycle gets old, people come back.

And that's really what we've experienced through June. The first week of August has been one of the biggest weeks we've had, other than the third week of June when we had 40 locations open. So I'm very optimistic going forward right now, provided that people follow the safety recommendations, wear their masks and stay away from large groups where people aren't wearing masks and aren't following social distancing and that we can keep the new cases at a low and get everything back open.

Q: Right. Okay, one last question. What do you see happening with your competitors, as far as other clubs? Are they kind of hanging in there? Or other clubs trying to – some of your competitors not going to make it on the club side?

Eric Langan - President and Chief Executive Officer

I think we're seeing a little bit of both. I think you're seeing some guys that are out there working hard hustling, trying to get open. I think you got guys in certain states where nothing

is open, or they can't get open. That are very – they're struggling. And I think some will make it and some won't.

We're watching for that. We're going to look for opportunities that we think play right into our long-term strategy and go from there. I think October will be a real telltale sign for us as we go out to the convention and we see who's there. And we hear what they're saying.

I talk to a lot of guys around the country pretty regularly. Like I said, some are doing very well, some are not. A multi-club operator that I know very well that only has five locations of his 19 locations open. And he's struggling to make ends meet, but so far, he's making it. And I think that's in any business, not just our business.

I think you're seeing it in the restaurants. I think you're seeing it in the gyms. I think you're seeing it in the hair and nail businesses. We're seeing a lot of companies that were on the border that are just going to give up. I hope that most people can survive this, but we're going to be ready to do what's best for our shareholders and our company as opportunities present themselves to us.

Q: Okay. All right, thanks.

Eric Langan - President and Chief Executive Officer

Yeah.

Operator

Our next question comes from Steven Martin with Slater. Please proceed with your question.

Q: Yeah, I know it was impossible to calculate comps for the quarter. But when you look at it on a weekly basis or a monthly basis, for the units that have stayed open consistently, how would you characterize your comps?

Eric Langan - President and Chief Executive Officer

I would say most of Bombshells are up 30% to 40% year-over-year. I can give you a particular club in Houston is up about 100% year-over-year. It's amazing. Some of the clubs are down 20%, 30%, but they haven't been consistently open. That's the real – the real trouble is we – very few locations have been consistently open. They've been open for 3 weeks, closed for 2 weeks, back open again, and we've had to consistently reinvent ourselves.

We opened as clubs. Oh, nope, you can't be a club. Okay, we closed back down. We study our licenses. We said, oh, wait, we have restaurant permits. Well, why don't we open as a restaurant that has entertainment, and we start serving food. We make every customer buy food in order to be in the building. You can't stand at the bars. We become COVID compliant, so to speak, with the new regulations.

That's really what we've done. I think that we've done a great job of getting 31 locations open. We've looked at the rules and said okay, how can we follow these rules? And can we follow these rules and be open and still make money? Or at least make enough money to pay our employees and keep people working?

We really in the beginning started out just trying to get people working again. We had 2,100 people that we laid off plus about 4,000 entertainers that contract with the company. Some got

unemployment, some didn't get unemployment. It was a mess. So we try to do our best to get people back to work first. Then as we got people back to work, we said, okay, now how do we make money because we're in the business to make money. So how can we do both? And those were our two marching orders: get people back to work and figure out how to make money with what we have.

I think, as the quarter shows, we did a very successful job of that. If we can continue this through this quarter, this is going to be a profitable quarter for us. I think as we move into October, November, December, hopefully, we're open across the country, and we're back to our normal deal typically when we have a downfall. We have two off quarters and then we get back to normal.

I'm hoping that's kind of what we see with this. We have our off quarter, and then, maybe next quarter is off just a little bit and then hopefully by that first quarter of 2021, October, November, December, because we're on a that fiscal year, we can get back to a more normalized run rate.

Q: So, focusing on Bombshells for a second, you said \$40 million to \$50 million run rate with comps at Bombshells up as much as you said, shouldn't that be the upper end of that range?

Eric Langan - President and Chief Executive Officer

Yeah, I think right now, we're probably closer to \$55 million to \$60 million, if we can duplicate the last two months for a 12-month period. We included April in the run rate because April was closed, so it had zero revenues. I think we're going to get a really good idea of what Bombshells can do if we can keep all the locations open for this 13-week period. That's really what we're trying to work for. We do have one location that's currently closed. We have some litigation going on with the State of Texas on that location. They're saying we are bar, that we can't operate as a restaurant. I think we have a hearing date coming up in about 8 or 10 days. So hopefully, we can be successful at that hearing and get that location back open here shortly. And then we'll have all 10 locations open. So right now, we're operating on 9 of the Bombshells' locations.

Q: All right. And with respect, I know you had put out that you want a court ruling on the Texas Patron Tax, where does that stand and what are the ramifications going forward?

Eric Langan - President and Chief Executive Officer

Right now that case is on appeal. The court, of course, with COVID, is extending a million months for everyone to answer. So that case is going to be on appeal for quite some time. We're in the process right now. We were not paying those fees, maybe because we just didn't have the money.

And we didn't want to give up the money. We have not paid several of our taxes. We're in the process right now. And negotiating the settlement for the two quarters that we didn't pay. We'll probably pay that tax on a go forward basis until such time as the appeals court moves forward. Originally, the plan was to not pay it, because we thought we'd have an answer with the appeals court before collections would start. Because of COVID, that just didn't happen. The courts are not moving in a normal timely manner. So, we had to rethink our strategy there.

So, we're going to be paying that tax on a go forward basis, until the time the appeals court rules and then we'll obviously try to get our money back or pay under protest. So, we have a right to 100% refund if we're successful in the appeals court.

Q: And what are the – what are your estimated rent – what’s the estimated amount you are going to pay on an annual basis that you may not have to pay in the future?

Eric Langan - President and Chief Executive Officer

Pre-COVID, it was about \$2.6 million to \$3 million annually. But with COVID, it’s been totally inconsistent, right. I mean, clubs are open, they’re closed. They’re open, they’re closed. So, I can’t tell you. I think this quarter Patron Tax of \$180,000 or something wasn’t much.

Bradley Chhay - Controller

Yeah. The two quarters are about \$670,000, I think.

Eric Langan - President and Chief Executive Officer

We’re open almost the first quarter. So probably \$400,000 something in the first quarter, and \$180,000 something in the second quarter.

Q: All right. Thanks a lot.

Eric Langan - President and Chief Executive Officer

Yeah. Thank you.

Operator

Our next question comes from Adam Wyden with ADW Capital. Please proceed with your question.

Q: Hi, Eric. Terrific quarter. And look, this is not surprising you’ve invested 20 plus years in your life to create a flexible platform to basically survive any environment, including a global pandemic. So, you should give yourself and your team a pat on the back in terms of the operating results, and it looks like it’s up and away from here. And look, we’re very happy to have been able to acquire almost 10% of the company in this downturn. And we look forward to what’s to come, we think that there’s a many multiples of our money here and many years of compounding ahead.

But a couple of housekeeping issues here. So just building on what Steve said, you had this one Bombshells close, your confidence 30% to 40%. We’re reading articles that their lives are out the door with 50% occupancy. So when I parsed the numbers you did about a 22% operating margin with 9 clubs – sorry, with 9 Bombshells open at the end with the entire month of April – with the entire month of April being closed and then some often arms with opening and closing and kind of whack-a-mole.

Now as it looks in Texas with the numbers are way down, it looks like you’ll get the 10th Bombshells open. When I kind of run the math, it kind of feels like with all 10 bombshells open, you guys are running maybe \$60 million of revenue or more. But more importantly, the operating margins are looking closer to like, 30% not 20% now, who knows whether we can sustain 30%. But I think it’s fair to assume we could probably sustain 25%, given kind of what we’re seeing in the market for other types of sports bar concepts. I mean, you’ve got an asset in there, that’s doing \$15 million to \$18 million of EBIT.

And, I kind of look at this a bit – a little bit like Forrest Gump. I don’t know if you ever seen that movie, where Forrest takes the boat out, and he can’t catch any shrimp and then all the

boats are crashed into the docks, he comes in with Lieutenant Dan and he catches all the shrimp and goes and puts it into a food company. I mean, you got 35% of table service restaurants and small restaurants closing, you've got the only game in town, lots of other things are closed. I mean, it's entirely conceivable that you could have a \$20 million EBIT asset out of Bombshells. I mean – and then, if you think about more capital and people to buy these things, I mean, that could easily be worth \$200 or \$400 million, depending on how you think about multiples. I mean, it's pretty incredible that the stock is trading here. You've got the highest short interest in the company's history. You have no corporate level debt, none of the assets are cross collateralized. I mean, what do you think is going on? I mean, it's like borderline insane, the short interest and the market valuation relative to just the sole value in Bombshells.

Eric Langan - President and Chief Executive Officer

Adam, I think that we've always been misunderstood as a company. People just do not understand our business. They say, oh, you're in the strip club business, we understand the strip club business. But what they don't understand is, we're in the real estate business. We're in the restaurant business. A lot of businesses comprise that adult entertainment business. Our real estate equity has been a huge resource for us since 2017. Now prior to 2017, we couldn't tap that, but now we're able to. We're setting up our next refi. We're going to take all of our bank financed properties and even some of our newer Bombshells properties, as we sold off those additional properties, and roll it into another refinance, put it on a new 20-year loan, and save us another \$1.4 million a year in cash.

Q: Let me ask you a separate question. I mean, just looking at Bombshells, right, if you guys can do a 25% margin, 20 – well, you're really probably doing close to 30% on \$60 million. That's before you open up any more locations, and that's before you consider franchising. So, you've got this mismatch between the value of the company, right. You've got tons of value of equity in the real estate.

You've got strip clubs, which are arguably worth a lot, right? I mean, look at Tootsie's, man. You opened it up. I'm here in Florida now with my wife and son. I mean, there was a line around the block with – people used to go to Tootsie's at 9:00 PM and they were standing in line at 11:00 AM.

I mean, these short sellers on Twitter saying, they had this boogeyman short thesis, there was this kid who worked in Chevron and he was buying put-option contracts and saying, "Oh my god, no one's ever going to go back to a strip club". I mean, that's worst manure, right? The minute you open Tootsie's, there was a line around the block, right?

So, like, it's ridiculous to say that these strip clubs don't have any value. I mean, shoot, Tootsie's used to be like a Costco or something. I mean, that thing is probably worth \$30 million, \$40 million, \$50 million, just as real estate. You're not getting any value for it.

And so my question to you is, if I told you that you could sell a small stake in Bombshells to [a work] [ph] and to a franchise partner and, say, "Shoot, we're going value this at \$200 million, \$300 million, whatever it is. And we're going to sell you 10%, 20%", that can give you a ton of cash to go and buy back a ton of shares in the strip club. Not only that, you can probably gain a strategic partner to help you roll out Bombshells. I mean, think about it.

Hooters, there's 420 Hooters in the United States right now, right? How many military bases, do you think there are in the United States? I mean, we could have a Bombshells on every

military base, right? And why not get a strategic or financial partner to take Bombshells nationwide, while monetizing and allowing you to repurchase shares in the holding company?

I mean, there's so much operating flexibility that you have, right, yet you have these knuckleheads on Twitter saying no one's ever going to come back. I mean, people are coming back. I mean, it's just a question of getting open. I mean, how do you think about doing some strategic with Bombshells?

Eric Langan - President and Chief Executive Officer

We are always open to all options on Bombshells. When we started it, we were hoping to expand the multiple of the whole company. And like you said, I think we've created something. The Bombshells concept alone is probably worth more than the market cap of the entire company today. We said at some point, if we cannot recognize that value, that we would find another way to monetize the value of Bombshells. I don't know if that's right now, but we're always open, we're going to listen. If somebody had a proposal, we would sit down and look at it. We're not looking to sell it cheap, and we're not looking to give it away, because it's the golden goose right now.

I think we're going to sign up franchisees soon. We've been in negotiations in the past with smaller guys, but now we're talking to what I think are what I call real operators, restaurant operators, restaurant franchisees that not only have the capital, but have the knowledge. In the past, we've got guys with capital, but didn't have the knowledge. We've got guys with the knowledge, but didn't have the capital. And I think for the first time, we're actually talking to people with the capital and the knowledge. We'd like to take a partner to help us franchise who has done it before. Of course, we'd love to sit down and talk with somebody who can present us with a plan that's win-win for everyone.

But at the same time, if not, we're going to figure it on our own like we always do. It may take us a little bit longer. So if we can speed the process, we're interested in that. There's actually value for our shareholders and for the company if we can speed the process up a little bit with the right partners.

Q: So, let me ask you something. Why – so like just looking at Bombshells – looking at Hooters, right. Is there any reason why we can't have 300, 400 Bombshells? I'm not saying you're going to go and build them yourself. But I'm saying intuitively, you got 10 of them running at like 30% margins, right? Maybe Twin Peaks goes out of business. Maybe Hooters goes out of business. The concepts are kind of crap. Your food is good. You've got the right concepts. I mean, what – everything, every number looks better, right? So...

Eric Langan - President and Chief Executive Officer

I think people have got to realize that Bombshells is not a Hooters or Twin Peaks. We are cross generational, cross gender. Everyone comes here. People bring their kids here. We are a family friendly restaurant. Yeah, we have some girls, but our girls don't flaunt their stuff all day long. We might get a little risqué after 10 PM at night, but we're not quite so risqué during the daytime, other than during themed weeks. We do have theme weeks in the summer where we get a little more risqué and competitive. But our Twin Peaks and Hooters type customers are only 20% or 30% of our business. The rest of our business is a completely different customer base.

Q: So, if you're just in a vacuum, assuming you have the right strategic operating partner, and the right balance sheet you to execute against it. Is there any reason in your mind why this couldn't be 300 units? I mean, is there any...

Eric Langan - President and Chief Executive Officer

I think 300 was our initial target. We could do 300 Bombshells units in the U.S. without much overlap.

Q: And you're doing that, right. I mean, at this point, you've got proof-of-concept, I mean, you can partner with a private equity firm or someone who's got insane ability, and you just can – you can just monetize the IP and the concepts that you built. It's absolutely incredible. The fact this thing trades, where it trades, I mean, it's almost criminal. I mean, I always kind of say to myself, like, why wouldn't you sell in 10% or 20% stake in Bombshells and buy back half the company. I mean, why do you have these knuckleheads on Twitter shorting these things? You got kids buying put options and tweeting, I mean, it's disrespectful. I mean, you've invested in 25 years you're like building this thing. And the value of your real estate equity is worth more than the entire market cap is insane.

Eric Langan - President and Chief Executive Officer

I don't know if the real estate equity is that hot, but it's pretty close. It's just what happens, I guess, with this COVID thing, and people just misjudged what our business model would be like after the fact. I think, hopefully, they're going to start realizing that as our business model is still solid, that people are going to come back to the clubs. They may be wearing a mask. But as long as your eyes work, I think you're still in pretty good shape coming to a strip club.

Q: Let me ask you something. So, you've seen Texas cases go down. You've seen Arizona go to 0 effectively, right, with this two-sided mask marketplace. You get the two-sided mask going, you're good. No one's getting COVID with the two-sided mask, right. And you've got market for indoor dining has been open and people weren't mask. It's working. I mean, De Blasio was not going to be able to keep New York closed forever. I mean, you open up New York, there's \$10 million EBITDA right there. You open up Florida, there's close to almost \$20 million of EBITDA. I mean, these are red states where they're low unemployment, while certainly Texas and Florida, but we've shown that we've been able to contain it. I mean, even Florida is sloping down. I mean, it's – I mean, you don't think. I mean, you think that this is a 2020 event.

I mean, just working forward, like assume you get everything open by the end of 2020, right. I mean, which I think is a reasonable expectation. But yet...

Eric Langan - President and Chief Executive Officer

We're hoping by September 30th. That's kind of been the internal goal. Get everything open by October 1.

Q: Elon Musk said that he thinks there's going to be 0 cases by April 2021. If I just run the math and Steve's running, let's say sales are \$60 million, \$65 million in 2021. Bombshells' assuming no new and you're back at 200, right. You were doing 200 at the end of the first quarter. You get the incremental growth in Bombshells. I mean, I don't think we're looking at \$60 million EBITDA business. We're looking at something closer to \$80 million, right. And a free cash flow was \$40 million on \$60 million. We're looking at a business that could have \$55 million to \$60 million – probably close to \$60 million of free cash and \$80 million on EBITDA.

I mean, those could be the numbers with everything open in 2021. I mean, it's everything would have to be...

Eric Langan - President and Chief Executive Officer

Everything has to be an absolutely perfect world for that, and we know there is no such thing as a perfect world. But I think, somewhere in between where original projections were and what you're talking is probably reality where we should end up at, in my opinion. Look, one thing's for sure, we're doing better at the locations that are open pre-COVID and we can keep that type of momentum going forward. Everything is going to grow. Because, as we all know, and we've seen in the past, when we do these big events, we do really high quarter sales, our margins drastically increase, because the fixed costs are already all paid. So, every time we do those dollars at \$0.60, \$0.70 from every one of those dollars rolls all the way down to the bottom. That's why those extra dollars are so important. That's why we focus on each location maximizing the revenue each month, because that incremental revenue at the end of the month, that gets us over our average is very, very profitable revenue for us.

Q: Right. I mean, that's the math, right? I mean, just think about it like this. If you think about it, right? If 35% of the table serve – of the 35% of the table service restaurants are closing, right? And that manifests itself in a 10% comp, just in the nightclubs right. If you have \$40 million of Bombshells, that's pre-COVID and 160 of sales in the nightclubs. And let's say, you're going to 10% stake comp over 2 years. So, you're 35% of the whole year, call it, for your competition closes, you have a 10% stake comp, right.

On the same store basis, you're talking about, call it at least, \$16 million in sales and like, as you said, because of the nightclub margins, because you own the real estate and the variable margin, you're talking about, like, 80%, 90% floaters, because it's all liquor. It's all liquor and admittance. I mean, the other thing that I was so impressed with all this, is that when I call the clubs, people would tell all well, when you should charge a \$20 cover, and now we're charging \$50 to \$100, or making a bottle service, I mean, what business allows you to charge \$100 night – to take the cover charge from \$20 to \$100 or make the mandate, you can't get in on 25% occupancy, unless you pay \$2,000 bottle service. I mean, it's incredible, that top dollar of incremental comp, I mean, it all flows to the bottom line. I mean, it's the difference between this thing being a \$16 million EBITDA or \$100 million EBITDA, it's incredible.

Eric Langan - President and Chief Executive Officer

It's been definitely a way for us to control the number of people, but we still have lines, and you don't have to spend that kind of money. It's just if you don't want to wait in line, you have to spend that kind of money. And there's people that will spend that kind of money not to wait in line. And that has been a big part of the success of the open locations on the club side, for sure. But with Bombshells, we haven't done any price increases or anything in Bombshells. We're just busy all day long.

Q: Yeah, I mean, look, it's really incredible. I'm kind of stunned that people put RCI in the same bucket as Dave & Buster's or a cruise ship. I mean, this whole Boogeyman thesis of like, oh, first of all, I thought your customer, your customer isn't kids and it's not senior citizens on Royal Caribbean either. Royal Caribbean is a walking petri dish. Airplane – airlines are burning cash every single day. I mean, look, if I want to go into one of these things, I'm wearing a mask, everyone's wearing a mask, people are up there, there's good social distance. I mean, look, there's no difference between this in a restaurant. And the fact that they're copying you to these restaurants that have onerous operating leases, and you own all your real estate and

you've got this variable model. It's just, it's insane. I mean, I don't get it. I don't think there's a single restaurant or tourism company that that generates a positive operating cash flow in the quarter.

No, you guys are doing a tremendous job. And I look forward to stay and stand on a couple of conference calls and seeing this thing at 50, 60, 100 bucks. I mean, it's just insane that we're down here. But that's the opportunity the market creates. So, congratulations again on a great job and I look forward to the ride. All right, I got 9.99% of this thing. So, everybody needs to know. I'm there with you.

Eric Langan - President and Chief Executive Officer

I appreciate it. Thank you, Adam.

Q: You're welcome.

Operator

[Operator Instructions] Our next question is from Max Ellis, a private investor. Please proceed with your question.

Q: Hey, Eric, congrats on the great quarter. If you had asked me two years ago or if you told me two years ago, that one day Bombshells would save the nightclub segment, I would have called you crazy. But you told you really...

Eric Langan - President and Chief Executive Officer

Lots of people did, don't worry. I always believed in the concept. I wanted to prove it out to everybody, which is why we said look we're going to build these 6 locations. We bought those 6 locations over an 18-month period. There was a lot of costs involved that really hurt the margins. And I understand from the outside it looked kind of crazy. But inside, our team really believed in that concept. And look, even we're amazed at the numbers that we're able to do with those locations right now. The lines we have sometimes at 5 o'clock in the afternoon, 5:30 in the afternoon, the lines start. It's pretty amazing. I went to eat there the other day, and they only have the two sections open. I said I'll just go sit in the back up there. They're like, okay, go ahead, we're getting ready to open that section anyway. I went up there, sat down and before I got my food, there was no seating left in that section. Where did these people come from? So, it is remarkable, how well the Bombshells are doing.

When you get that busy that quick, we're having growing pains again. Some of our guys were laughing like, man, I thought we had all this down, but we never envisioned this many people this fast, every day, all day long. So that team has been really putting in a lot of hours and we really appreciate all the efforts they've done. They definitely bailed us out in this quarter.

Q: Yeah. Absolutely. A big round of applause as a shareholder, I'm very happy. My biggest concern during this COVID pandemic is liquidity. And I think everybody knows the story of the 6-foot tall man who drowned in a river that was on average only 5-feet deep, which is it doesn't matter how criminally underpriced the stock is right now, if you can't, if you get called out by any of your debt holders, it doesn't matter if in 5 years, it's worth \$50 or \$100, it matters can you maintain the liquidity to see through...

Eric Langan - President and Chief Executive Officer

Sure. We had deferments for 3 months. For April, May and until June. Our first payments

became due at the end of June. So we started paying our payments on June 30. It was the first time we started making bank note payments again. We paid our June 30 payments. We paid all of our July payments. We're paying all of our payments through August 15, our next last payment now. Our next payment will come due after that on August 30. We have asked for the deferments from the bank, but have not received deferment letters at this point.

But we are working on the deferments starting for the end of August due August 30, September, October, and the next payment will come due November 30 with the bank. We are working on that which would free up between \$1.8 million and \$2.4 million depending on whether one bank or both banks give us the deferments. And so, we'll see how that progresses over the next few weeks. But even if they don't, I think we'll manage to make the payments. Our cash can get really tight depending on what locations are open or closed and different periods of time throughout the quarter. But we've paid all of our payments. I think what's really important for people to understand is we have paid all of our payments that have been required to be paid.

We paid our vendors. We're current with our vendors. We're current with our attorneys again. We finally caught up with all through June 30. So, we're backed within, 30- to 60-day float with our legal teams. Basically, everything's back to normal if there is a normal these days. But as far as our bill payments are, we're all back to normal. And so, I don't see any real issues and we haven't missed a payment yet. So before we'd have to worry about any type of liens or foreclosures or issues like that, we'd have to be late on a payment for a while first, right? I mean, we don't even have late notices at this point. So, we're in good shape there.

We have plenty of cash. We have a big income tax refund coming back to us that will probably hit either late this quarter or sometime in the December quarter. We should get that money back from the IRS from our 2019 tax returns, that we finally got filed.

And, I guess, I think, overall, right now, we're in a good position. For the first week of August, we did around just over \$2 million in sales, which I think puts us at cash flow positive for the first week of August. I think July pretty much we were a little cash flow negative, but it wasn't a significant amount with the \$7.6 million in sales in July.

So, we're just going to move forward, get through September. And I think, like I said, hopefully, by October school starts back up, everything starts going, hopefully we get more locations around the country open and we'll be good to go.

Q: Yeah, absolutely. I think [indiscernible] and I did not mean to imply that things are running tight. I think we all agree that.

Eric Langan - President and Chief Executive Officer

No, no, I appreciate the question, because I really wanted to make sure that everyone out there understands. We're in a really good spot right now. We're very confident in our ability and where we're at right now.

Q: Yeah. And actually, to that point, have you looked into the Main Street loan program at all to potentially refi out some existing debt with even cheaper debt under the priority facility?

Eric Langan - President and Chief Executive Officer

We've looked at some of the stuff, but a lot of it is very restricted for public companies and it's just not our cup of tea.

The PPP worked out for us for the Bombshells and our shared-services company and, of course, the one nightclub that we own. We did not take any PPP money on any of our adult entertainment clubs at all, just because we didn't want the controversy of it. And we got what we needed to be where we are today. We were able to keep a lot of our employees paid. And with the PPP money, as you can see from the Bombshells results, it's paid huge dividends for us.

Q: Oh, yeah, absolutely. Well, that's it on the questions I have. I just want to say congrats on the great quarter for me. I think it's a great quarter. It really is a testament. So, keep up the good work look forward to continue to follow the progress and really happy for you and the shareholders. Thank you.

Eric Langan - President and Chief Executive Officer

All right, thanks so much.

Operator

Our next question is from Adam Wyden with ADW Capital. Please proceed with your question.

Q: Hey, yeah, this is a follow-up. Look, I just wanted to point out and I think you're building on the other guy's question, but, I mean, look, your business model is incredibly unique in that you don't have a revolver. You don't have any liens against your business. I mean, you can basically decide whether you want to pay people or not like the debt that you have that isn't mortgage debt, it's seller note finance. And all of your lenders are saying, "Shoot, pay me whenever you want".

It's they don't want to take real estate back. They don't want to take adult nightclubs back. I mean, you don't have to pay people if you don't want to have to pay them. I mean, the reality is, is that you can in theory take your cost to zero. So, like the fact that people are even asking about liquidity is borderline laughable, right?

You have tons of cash. You have real estate that you can sell. That's not like – Bombshells' real estate that from the parcels you can sell around. You could sell a stake in Bombshells. I mean, people – I mean, you've got – you're like Uncle Sam, I mean, you're floating in cash right now. I mean, you're fine...

Eric Langan - President and Chief Executive Officer

We have many, many options. Yes, we have many, many options available.

Q: The bigger question is, what lever are you going to pull to take the cash away from it and put it up at the rear end of the short sellers? I mean, come on. I mean, you can sell a stake in Bombshells, a tiny stake in Bombshells for \$20 million, \$30 million bucks and you can – I mean, you could squeeze these guys like it's going out of style.

I mean, it's – the question should be – in my mind the question should be – it's like these guys on Twitter, they don't understand your business. They're like, "Oh, you're not going to make it. You're burning tens of millions of dollars of cash a day. This isn't American Airlines". There's no capital intensity. You own the real estate.

You can shut the thing down and take cost to zero. I mean, the better question is, where are you going to find the cash so you can kill these guys. I mean, it's borderline laughable that the guy right before us was saying that you didn't have liquidity. It's a freaking joke. It's a joke.

Eric Langan - President and Chief Executive Officer

I don't think that's what he was saying. He was just asking, like you said, that's the concern out there. And like I said earlier, when I was talking to you and this other one that I think they just don't understand the overall company. It's more complicated than a typical restaurant company who leases all their property and doesn't own their real estate.

You're right. Because of how we've done things and how conservative we've been through all these years, and the focus on owning all of our real estate so that our rent goes down every month, as I like to say, as we pay off the principal, and then we're able to go borrow money against it again. And that's one of the things we're looking at right now, in this refinance, how much cash can we pull out, because as we move forward, if the stock stays in these ranges and stays below our capital allocation target price, we will be back in the markets buying back stock. And that's what we're working for every day.

Q: Well, I think, look, front and center, I think Bombshells is the golden goose. And I think there are ways to monetize it and extract – I mean, look, there are plenty of companies. When you look at GM, I mean, GM sold a stake in Cruise for a huge number. Now, they're talking about maybe spinning off or selling their autonomous-driving division.

I mean, look, the reality is Bombshells is your brainchild. And you took a lot of heat for a lot of years. So, I'm not asking you to sell it on the cheap. I'm saying look, you're in this weird kind of predicament, where you got a bunch of knuckleheads shorting your stock, because they can't do algebra or accounting, don't understand what you own. And the only way they figure out what you own is when you show him – when you give it to them when the sun doesn't shine.

And the reality is that you've got a lot of levers that you can pull, whether it's subsidiary finance at Bombshells, partnering with a JV, maybe doing a master franchise deal, and you give the franchise rights and you start selling franchise licenses. I mean, why couldn't someone buy the master franchise rights from you? And you just collect royalties and they give you a royalty and they give you \$20 million, \$30 million, \$40 million up front.

I mean, you can skin this cat 67 different ways from Sunday. The reality is, is that you've built it. You got the business. It's an incredible business. No one understands it. And now, we need to just start counting our money, because you've got the cards. I mean, the fact that the guy asked the questions right before us told me these still don't get it. Well, that's fine. You and I can count our money. I'm not worried about it...

Eric Langan - President and Chief Executive Officer

They're going to figure it out.

Q: They're going to figure it out.

Eric Langan - President and Chief Executive Officer

We're going to show them.

Q: We're going to show them. All right, sounds good.

Eric Langan - President and Chief Executive Officer

Right, all right. Appreciate it. Thanks, Adam.

Operator

There are no further questions. At this time, I'd like to turn the call back over to Gary Fishman for closing comments.

Gary Fishman - Investor Relations

Thank you, everybody. Thank you, Eric, and thank you everybody for joining us. Again, we'd like to apologize for the delay that people had in signing on earlier on the call. It will not happen again. On behalf of Eric, the company and our subsidiaries, thank you and good night. Stay safe. Stay healthy. And as always, please visit one of our clubs or restaurants. Thank you.

Operator

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