

Transcript of  
RCI Hospitality Holdings, Inc.<sup>1</sup>  
Third Quarter 2023 Earnings Conference Call  
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**Participants**

Mark Moran - Chief Executive Officer, Equity Animal  
Eric Langan - President & Chief Executive Officer, RCI Hospitality Holdings, Inc.  
Bradley Chhay - Chief Financial Officer, RCI Hospitality Holdings, Inc.

**Analysts**

Scott Buck - HC Wainwright  
Anthony Lebedzinski - Sidoti & Company  
Lynne Collier - Water Tower Research  
Rob McGuire - Granite Research  
Joshua Zoepfel - Noble Capital Markets  
Jason Scheurer - Orchard Wealth Management

**Presentation**

**Mark Moran - Chief Executive Officer, Equity Animal**

Greetings and welcome to RCI Hospitality Holdings' Third Quarter Fiscal 2023 Earnings Call. You can find the company's presentation on RCI's website. Click "Company and Investor Information" under the RCI logo. That will take you to the "Company and Investor Info" page. Scroll down and you'll find all the necessary links.

Please turn to slide two of our presentation. I'm Mark Moran, CEO of Equity Animal. I will be the host of our call today. I'm here in New York with Eric Langan, President and CEO of RCI Hospitality. CFO Bradley Chhay is participating from Houston.

Please turn with me to slide three. If you aren't doing so already, it's easy to participate in the call on X, formerly known as Twitter, Spaces. Go to @RicksCEO and select the space titled RICK RCI Hospitality Holdings, Inc. 3Q23 Earnings Call. To ask a question, you'll need to join the X Space with a mobile device. To listen-only, you can join the X Space on a personal computer. RCI is also making this call available for listen-only through traditional landline and webcast. At this time, all participants are in listen-only mode. A question-and-answer session will follow. This conference call is being recorded.

Please turn with me to slide four. I want to remind everyone of our safe harbor statement. You may hear or see forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those currently anticipated. We disclaim any obligation to update information disclosed in this call as a result of developments that occur afterwards.

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<sup>1</sup> This is a clean verbatim transcription that has been edited to increase readability.

Now please turn with me to slide five. I also direct you to the explanation of RICK's non-GAAP financial measurements. Finally, I'd like to invite everyone listening in the New York City area to join Eric and me tonight at 7 o'clock to meet management at Rick's Cabaret New York, one of RCI's top revenue-generating clubs. Rick's is located at 50 West 33rd Street between Fifth Avenue and Broadway, a little in from Herald Square. If you haven't RSVP'd, ask for us at the door.

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

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

Thank you for joining us today. Please turn to page six.

We thought we'd begin by summarizing our third quarter and nine month results in one place. It should be noted the year ago quarter, aided by the end of COVID restrictions, had one of the highest levels of operating leverage that have been experienced in the last five years. This affects direct comparisons to the third quarter of this year. Comparisons are also affected by the fact that the year ago free cash flow included the benefit of \$2.2 million from a tax refund.

Otherwise, the third quarter was similar to the second quarter with non-GAAP earnings per share of \$1.30, which was approximately 9% better than first quarter's non-GAAP EPS of \$1.19.

Now, let's turn to slide seven for our key takeaways.

We achieved record revenues of \$77.1 million in the third quarter, up 9% year-over-year.

We generated \$1.30 earnings per share non-GAAP.

Year-to-date free cash flow and adjusted EBITDA margins are in line with our targets of 20% and 30%, respectively.

The nightclub business continued to be solid. After nine quarters of same-store sales growth, we view the third quarter decline as a bump in the road that we experience from time to time.

Bombshells continues to be profitable. We view the decline in sales we've been seeing as a return to the pre-COVID run rates of \$5 million AUVs.

No doubt, same-stores sales for both clubs and Bombshells were held back in the third quarter by the uncertain economy, the huge amount of vacation travel, and the extreme heat in Texas.

To date in fourth quarter 2023, we purchased 10,440 common shares at an average \$69.48 each. We still have \$18 million remaining in our stock repurchase authorization.

We've got a strong lineup of new clubs, Bombshells, and casinos getting ready for the fourth quarter and fiscal 2024.

Now here's Bradley to go over more financial details of our results.

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

Thanks, Eric. Please turn to page eight to review the performance of the nightclub segment.

Revenues increased 14.2% year-over-year, primarily reflecting an increase in newly acquired and remodeled clubs, partially offset by same-store sales decline. By type of revenue, service increased 4.8%, while alcoholic beverages were up 24.1% and food at a 17.7% increase. The year-over-year changes reflected in part a lower proportion of service revenues from the newly acquired Baby Dolls and Chicas Locas sales mix, as compared to the nightclub averages. GAAP results also included \$2.6 million in non-cash impairment related to two clubs. Operating income was \$20.4 million versus \$22.5 million. On a non-GAAP basis, it was relatively flat at \$23.6 million versus \$23.3 million. I'll talk more about the margins in a couple of slides.

Please turn to page nine to review the performance of our Bombshells segment.

Revenues declined 8.8% year-over-year, primarily reflecting a decline in same-store sales, partially offset by an increase in newly acquired and opened units. Operating income was \$1.7 million versus \$3.1 million. On a sequential quarter basis, however, revenues have now increased three quarters in a row. We still have more work to do on the margins.

Now please turn to slide 10 to review our consolidated operating margin.

As Eric noted, the year ago quarter had one of the highest levels of operating leverage that we've experienced in the last five years. We believe that this was due to the benefit that the end of COVID restrictions had on sales. As a result, non-GAAP operating margin was 25.3% compared to 31.16% a year ago. However, looking at our performance this year, the third quarter was generally in line with non-GAAP operating margin of 25.6% in the first quarter and 26.6% in the second quarter.

Please turn to slide 11 to look at some of the other key metrics.

We ended the quarter with cash and cash equivalents of \$23.6 million, up from \$22.8 million at March 31. Free cash flow was \$14.3 million. This was in line with the level that we have been generating for the last three quarters. Again, as Eric mentioned, year ago free cash flow included \$2.2 million from a previously disclosed tax refund. Adjusted EBITDA was \$22.7 million. This was the highest quarterly amount to date this fiscal year. Free cash flow margin was 18.5% and 29.4% for adjusted EBITDA. Year-to-date, it was 19.2% and 29.7% respectively.

Please turn to page 12 to review some of our debt metrics.

Debt at June 30th declined \$2 million from March 31st. Weighted average interest rate on our debt was 6.52%, in line with what we've been paying. Total occupancy costs increased to 8%. This increase relates to new debt that we've used to buy properties that we haven't opened or fully

optimized yet, but 8% is well within our range of 6% to 9%. For similar reasons, debt to trailing 12-month adjusted EBITDA stayed relatively flat at 2.7, June 30th versus March 31st.

Debt maturities and our debt pie charts are similar to the second quarter.

Now in the interest of time, let me skip slide 13 and turn the presentation back to Eric.

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

Thanks, Bradley. Please turn to slide 14.

Everything we do is centered around our capital allocation strategy, which is similar to those outlined in the book *The Outsiders* by William Thorndike. First and foremost, our goal is to drive shareholder value by increasing free cash flow per share at a 10% to 15% compound annual basis. We've stuck to this strategy since its implementation at the end of fiscal 2015 with three different actions subject to whether there is strategic rationale to do otherwise.

One, mergers and acquisitions, specifically buy the right clubs in the right markets. We like to buy solid cash flowing clubs at three to five times adjusted EBITDA using seller financing and acquire the real estate at market value. Second is growing organically, specifically expanding Bombshells to develop critical mass and market awareness. Our goal in both M&A and organic growth is to generate annual cash on cash returns of at least 25% to 33%. And three is buying back our shares when our free cash flow yield on a per share basis is more than 10%.

Turning to slide 15, in line with our capital allocation strategy, here's an update on the new projects we have in the works for the fourth quarter and fiscal 2024.

Fourth quarter nightclub sales should benefit from late June completion of the newly remodeled and expanded Baby Dolls Fort Worth. We're also looking at adjusting some nightclub personnel, developing new drink promotions, party packages, and changing keyword searches in our social media marketing.

In fiscal 2024, a new club and a reformatted club should open in Fort Worth and Tye, Texas. Both are currently being remodeled. We also anticipate opening a replacement club in Lubbock, Texas.

Fourth quarter Bombshells sales should benefit from the opening of a new location in the Houston suburb of Stafford. Construction has started on our Rowlett and Lubbock locations, both in Texas. Remodeling should begin soon for our Downtown Denver site. All three of these new locations are expected to open in fiscal 2024.

Looking at our Central City, Colorado casino projects, the liquor license process has begun and gaming licenses are continuing through the review process for Rick's Cabaret Steakhouse & Casino and the Bombshells Sports Casino. Both are planned to open in fiscal 2024. Building permits have been submitted to the city for the Rick's location and remodeling is expected to begin soon.

Please turn to page 16.

Before we go into Q&A, I want to remind everyone we'll be holding our 30th Anniversary Gentlemen's Club EXPO Convention August 20th to 23rd at the Paris Hotel in Las Vegas. Judging by our hotel block, attendance looks great. Our room block is 100% full, so numbers are fantastic.

Recently I talked to Ed Anakar, president of our management company. He told me that his team has completed the integration of the Baby Dolls and Chicas Locas acquisition and is ready for more. I'm looking forward to Expo and meeting with owners who hopefully will be ready to sell.

Thanks to all of our local and dedicated teams for all their hard work and effort. We couldn't do it without them.

Now here is Mark.

**Mark Moran - Chief Executive Officer, Equity Animal**

Thank you very much Eric and Bradley. Before we get into the Q&A segment, I'd like to encourage everyone to check out the recently launched Rick's store at shop.ricks.com. Now for the Q&A. First off, we have Scott Buck of HC Wainwright. Scott, please take it away.

**Q:** Hi, good afternoon, guys. Thanks for taking my questions. Eric, first, I'm curious whether it's the two new clubs or the re-launched Baby Dolls clubs, typically what's the ramp up period for those to start to see similar revenue profiles as the existing clubs?

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

Baby Dolls has taken off pretty quickly and is doing very well, but typically a new club will take about six months to ramp up to where we'd like it and then it'll continue to grow for up to about 18 months, when it will level off and enter into a steady flow.

**Q:** Great. That's helpful. I'm curious, could you remind us when the year-over-year comps get a little easier on the Bombshells side? Is it going up for the fourth quarter?

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

This quarter I expect it to be about the same as we've experienced over the last three quarters. It's still 100 plus degrees in Texas. It makes the patios impossible to use. You can hardly walk to your car let alone sit outside for 25, 30 minutes to eat. Our interiors are doing well but we really need our patios back. I suspect that that'll happen hopefully mid-September. The weather will break. It could break a little earlier. It's Texas. Who knows?

The comps get easier if you go back to first quarter 2023. You'll see about mid-October we started seeing a little bit of slippage that ran into pretty strong slippage in November and continued in December. That's the nice thing as we've got a lot of exciting things coming up. The Baby Dolls and Chicas Locas acquisition will be about six months old right at the end of March. If you look

back historically, when we take over an acquisition, especially a multi-club acquisition, it takes us about three to six months to get everything flowing properly. That third quarter that we own it, you start seeing a lot of that new revenue increase and flow through to the bottom line to EBITDA. I'm very excited about how the first quarter of 2024 looks. Easier comps and a lot of exciting stuff that's kind of going to all peak at the same time and should put us into a really nice growth and run rate for 2024.

**Q:** That's great. And then last one for me. You guys did buy back a little bit of stock. Are we kind of sitting at that threshold level here at about \$70 where that looks attractive from a capital allocation standpoint?

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

I think so. The stock went below \$70. We said, well, I guess we should be buying. We started buying about \$100,000 a day. Then the stock went up back above \$70 for a few days and it's back below \$70. We wanted to get the earnings out. We haven't bought anything this week, but probably would look at as early as Friday, depending on what the stock price does over the next couple of days and probably be back out there next week, when we give the market time to take all the new information in before we are back in the market.

**Q:** Great, that's helpful. I appreciate the time, guys. Thank you.

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

Thank you.

**Mark Moran - Chief Executive Officer, Equity Animal**

Thanks so much, Scott. Next up, we have Anthony Lebiezinski of Sidoti & Company. Anthony, take it away.

**Q:** Good afternoon, and thank you for taking the questions. So looking at your service revenue, it did lag the growth of alcohol and food sales. I know you said something about Baby Dolls, but I just wanted to get a little bit more insight into that as to whether you are seeing less traffic with the service component of your business or is it just a lower average ticket? I just wanted to get a little bit more insight into that high margin category for you.

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

That's a two part answer. Dallas doesn't allow VIP rooms and so therefore, we lose a lot of that private room revenue in the Dallas market. So that will affect the service revenues as a percentage of total sales in those markets with the Baby Dolls Chicas Locas acquisition. But the reality is also, especially June, we saw lower service revenue and same-store sales of about \$2 million. We believe that the biggest portion of that is because our high end customers, the guys that come in to New York and Miami, are on European vacations or in the Caribbean or wherever they are. They're with their families, they're vacationing, and they're just not out spending big tickets in the clubs. I

think as school starts back up in Texas and Florida in mid-August to the end of August, we'll start seeing those customers returning. Also we'll have a pretty good idea of that when we announce the July, August, September numbers in early October. We'll have a pretty good feel for where that is headed and give us a really good idea of how we can project the first quarter 2024.

**Q:** Got it. Okay, so as far as the rest of your business, can you give us maybe just an update as to what you're seeing in the first few weeks so far in the fourth quarter?

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

We're seeing more of what we've experienced in April, May and June. That's why I said I expect this quarter to be pretty flat with how we've done these first three quarters. Maybe a little bit better. It really depends on how quickly that VIP spend comes back. It kind of tapered in May, went down in June, kind of holding steady. We had a couple of decent VIPs this weekend, which was actually a really good weekend, especially with the fight. So that helped.

But we need those VIPs back home and back in the clubs. The problem we have is we can put guys that spend \$100 in the clubs, but it takes a lot of them to make up for a guy that drops \$40K or \$50K. That's the process we're going through right now. We are seeing strong customer counts. We're happy with the customer counts. We just want to see that VIP spend come back up in the next three to six weeks.

**Q:** Understood. Okay and then just another quick question. As for Bombshells, you're looking to expand that. Admittedly, you guys have struggled in that segment, and certainly a lower portion of your overall cash flow. So just how should we think about that as far as your willingness to continue to invest in that segment, given the recent performance?

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

We're working on the top line numbers. We're seeing those numbers start to grow a little bit quarter-over-quarter. We've just had to get to the point where now we're focusing on that bottom line, getting our margins back to that 18% to 22% rate that we're shooting for. I think we'll be there pretty quickly and hopefully in the next few quarters. We just reviewed everything, did some more minor pricing increases to get certain items in line with costs. We have a couple of points of labor cost creep. Our food costs are now back to pre-COVID levels where we'd like them to be. So we've just got a couple of other little items we need to adjust there. Then, of course, adjust the marketing and a few other items that are helping bring people in and get those costs back to a more normalized level, so we can bring the margins up to that 18% to 22%.

**Q:** Okay, well, sounds good. Yeah, if you could get those margins back to that 18% to 20% in the next couple of quarters that'd be wonderful. So all right, well, thank you very much, and best of luck going forward.

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

Yep. Thank you so much.



**Mark Moran - Chief Executive Officer, Equity Animal**

Thank you very much, Anthony. Next up, we're going to have Lynne Collier of Water Tower Research. Lynn, the floor is yours.

**Q:** Thank you so much. Congratulations on a great quarter. Just have a couple of questions that are somewhat general and then one specific. First of all, I want to ask you about any trends that you're seeing geographically. I know Texas is slower and it has weather issues, but what are you seeing across the country. Any sort of trends geographically that you're seeing?

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

Overall, we're not. We have a few locations that are still up pretty strongly in 2023. I think that you see Chicago, you see Denver, what I call the late bloomers, the cities that kept everybody locked down a little longer. We're still seeing a nice boost in those markets. But generally across the country in the other markets, we're seeing slight declines in same-store sales. But like I said, the biggest part of that is the VIP revenue. When we're going to throw VIP parties, our hosts will call VIPs and they're like, "Oh, I'm out of the country. I can't make it. Thanks for the invite." Stuff like that. "I'll see you when I get back."

We know that a lot of our big spenders are on vacations. It's not just articles in *The Wall Street Journal* that tell us that. It's from actually talking to our guests. We're postponing VIP parties. We will try to pick a lot of those up in that October, November, December quarter as we welcome everyone back. I think we'll see a nice boost from that. Like I said, we will have easier comps that we're going against. If you look historically, whenever we see a downturn in our same-store sales, it typically lasts two quarters and then it starts to run back up for us on the nightclub side.

Bombshells has been a little different for us and a little tougher on comps. Of course, 100 degree heat is not helping that at all, so hopefully that will end soon. But I just looked at my 10 day forecast for Dallas and it's like 107 every day, and Houston is about 102 every day. So for the next 10 days at least, we know we're going to have some pretty tough weather in those markets. So we'll ride it out, we'll keep pushing indoor stuff.

We're starting to do some different social media marketing, bringing some new faces into the Bombshells. I know I'm dying to go sit back outside and eat. I spent a lot of time in Colorado where almost 50% of my meals are outdoors because it is 70 degrees up there and beautiful. So we'd love to see that back in Texas. I think our consumers will be right back on our patios once the weather permits.

**Q:** Thank you. I just have one more question regarding Texas, which you've spoken a lot about and it's obviously very hot here being in Dallas, I know for sure. But are you seeing any trade down in terms of tickets in Texas or is it just it's so hot no one can go outside? Are you observing anything else in Texas other than weather?

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



Not really. We're missing big ticket spenders. That's what we're missing. I think I predicted it would happen last year, that the wealthy would run out of the United States and run to Europe and run to the Caribbean and go on all these fancy vacations. The reality of it is I was off by a year. It actually took another year before everybody went out of town. If you look up European hotels and European flights, it's crazy. If you can even find anything available, it's extremely expensive. I think people just didn't go last year, and so they all started booking this year and everybody ran.

If you look last year, we got the benefit of no one left the country but they all ran to Miami. They all ran to the south. Every tourist place in the United States was overbooked last year. All the VRBOs started filling up. This year you're hearing about the VRBOs being down, a lot of them being empty, especially in tourist areas. I think that's affecting our sales in certain markets that were really, really good last year. And those were big ticket spenders. In the smaller markets, those are \$1,500 to \$5,000 guys. In our bigger markets, they're \$10,000, \$20,000, \$30,000, \$50,000 guys. So with those guys out of town, it doesn't take a lot of them for \$2 million in revenue.

**Q:** Thank you. I just have one quick follow up on Bombshells. Your comment about pricing. Do you know approximately how much menu pricing you're carrying this year versus last year, just a ballpark figure?

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

We tried to price with inflation, but we've also made some adjustments based on food costs coming down. So some items we maybe held steady because the food cost actually came down, so we'd already marked it up for the food cost, so we took the adjustment on that side. We moved on the other side where the food costs are up and we had to raise prices. But I'd say, overall, we're trying to run about a 6% to 8% increase across the board as best we can.

**Q:** That's great. Thanks again and congratulations again.

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

Thank you.

**Mark Moran - Chief Executive Officer, Equity Animal**

Thanks so much, Lynne. Next up, we will have Rob McGuire of Granite Research. Rob, please take it away.

**Q:** Good afternoon. Eric, you've laid out your vision for 2024. Are you looking at anything new in 2025 at this point?

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

I'm really not at this point. We have enough things. I think we have about 12 projects that are running right now. If we get two casinos open, the three Bombshells, and the three clubs, that'd be

eight of them. So we're talking about six items on the burner that we can shoot for 2024 or 2025, and of course acquisitions.

The focus as we open these new things, we will only need to find one or two more new locations for Bombshells since the rest are already set and those will be towards the end of 2025, which is close to 14 to 16 months where we really have to worry about that. I'm hoping that the casinos will be ready for late April or May openings, depending on licensing, of course. That's the big unknown.

But we have to get the HVAC systems. There're very long lead times on those right now, which puts us at the end of January, early February, before we get those units in. I just don't want to spend any real money without the heat in there and have the pipes freeze or not have fire protection on because we decided to do some work but we turn the water off. I don't want to do any of the expensive stuff until we have the heat and air conditioning systems in the buildings.

One of the buildings will have all their units put in hopefully by the end of September. We will begin the remodel on that but it's a lower cost remodel on a smaller casino, so it will take less expense and be quicker.

**Q:** Thank you for that. We've been in a somewhat inflationary environment. But when I look back at the pre-COVID nightclub comps, they've been somewhat flattish in 2019 to the present. I was wondering if he could give us a feel for that.

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

If you look at the first two quarters, it was the blue collar. The blue collar has kind of stabilized now. We're doing the right discounting, the right marketing to that customer. Their spend has kind of leveled and we're pretty solid there. If you look at the sales breakdown, you'll see the service revenue declined. We had the biggest drop this quarter. It was pretty strong in April. It started dropping in mid-May and June was pretty bad. July was a little better than June but not a lot. I suspect over the next two weeks to start seeing that spend come back.

We saw a little bit of it this weekend, so we may just see it on the weekends for right now, but we'll just have to keep watching it. I just don't know when it's going to come back. When school starts back up, and everybody gets back from their vacations and starts settling back in and going back to work, we'll see that spend come back.

**Q:** When we emerge from an environment like COVID, do you find that RCI tends to be the price leader, raising prices, coming out of it into a stronger economy? Or do you tend to be a lagger?

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

Actually, we lag is what I would say. We're making plenty of money and we're doing very well with our customer counts and we see our competitors raising prices. We will hold off and take some of that, especially on the lower end, the blue collar. We were able to do that very well. As you've seen, we've steadied up our revenue quickly. It tends to be about a six month trend for us.

We are now this quarter into it. We saw a little bit of a weakening with the blue collar earlier on and now we're seeing that level off and actually seeing a little building in some markets. We're just going to have to watch the white collar spend there, the high-end spend. That's the key to success, I believe, on the nightclub side.

On Bombshells, we need to get the patios open. We did raise prices, but it was towards the end of June, when we made a lot of those changes and adjustments. We got enough data from April and May to figure out where we're headed and what we needed to do. So you're not seeing any of those results in this quarter, which is why the margins were between 12% and 13%.

For Bombshells, this quarter, I do suspect and I'm very hopeful that as we get through July, August, September that we're going to be closer to the 18% to 22%, if we're not in the 18% to 22% range. I definitely think in the first quarter of 2024, we will bring those margins back. The new store will be open. There're other stores that are in construction and moving along, starting to energize the team. They're getting excited about the growth again. COVID stopped all growth at Bombshells. Without growth of restaurant chains, it's hard to keep some of your top people because other chains can try to steal them away and promise them new positions. So we want to make sure we can keep and attract the management team that we need to keep Bombshells going. The growth is part of that process.

**Q:** Okay, thank you. And last question. The company's laid out a lot of cash for a number of projects at this point. At what point would you see bank financing or obtain bank financing for those projects?

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

When I need it. I can go get money from the bank anytime. We're still sitting on \$25 million in cash. I don't see a reason to not just keep using our cash. We're trying to cash up. The only thing we have to do is buy back stock. The stock is not in such a huge discount rate that I think, "Oh, let's borrow money to buy back stock." We'll just use normal cash flow, buy our \$100,000 a day in stock, like we've always done. We're not trying to affect the stock price. We're trying to get the best price for the stock we can get for our long-term shareholders.

We put out about \$29 million to \$30 million, I think, in the last nine months in cash. We're not building up on the on the balance sheet, but it's been invested and it's going to give us fantastic returns. When you think about how we've typically grown in the past, we've added \$20 million, \$30 million in debt. We've had those debt carrying costs and so when the new stuff opens, you're still carrying that interest expense. We're going to have very little interest expense with these new operations as they open, which is going to increase the flow through to the bottom line, stop the carrying cost drag. What little there is from utilities and property taxes and those things will all be paid out of operating revenue. I think 2024 is going to be a great year for us.

We had that momentum rolling as we ran into 2019 right before COVID hit us. We were just hitting our stride. We really had taken off in that January, March quarter. Even though we we're closed for 15 days, we still beat the previous year, without having 15 days if you look at 2019 over

2018. I think you're going to see in 2024 we're going to have another one of those types of jumps and that's all with no acquisitions. I do believe the team is ready.

I will start with Ed. Ed is in New York with me. He'll be at the meet and greet tonight. His team is ready. They've got the Baby Dolls acquisition all up and running. They've got great management teams in place now. Our systems are in place. We're starting to see the revenue growth that we would expect to see as we enter that three to six month period. We're working early to get that flow to the bottom line, so making some pretty decent adjustments to lower some of the costs that we picked up with the acquisition. I think everything comes to a great meeting point starting the first quarter of 2024. So I'm very excited for 2024. I think that's going to be our best year ever.

**Mark Moran - Chief Executive Officer, Equity Animal**

Thanks so much for the questions, Rob. Next up, we will have Josh Zoepfel of Noble. Josh, please take it away.

**Q:** Hey, good afternoon, guys. Thanks for taking my questions.

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

Thanks, Josh.

**Q:** So you guys answered most of mine, but I just kind of want to see how the overall environment is just looking like for any new potential club acquisitions? How are owners being obviously in this kind of cautionary environment?

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

We haven't pursued, so I don't really know. I've told almost everyone that has called me in the last two months that we've got to get this other acquisition under our belt. We're working on it. Then let's talk at Expo. Seeing the hotel room count full already means there's going to be lots of people there. I've got some meetings set up and some people that we're going to make sure we talk to while we're out there, and people that want to talk to us while we're out there.

I think we'll get a list put together and we'll talk multiples and locations, trying to figure out what's the quickest and easiest for us in timing and what the best deal is, and cherry pick the best clubs like we've been doing for the last 10, 15 years. But every year at Expo, we always meet someone and we always start the process. So the reality is just how quickly we can do it. We're ready now so we could close something pretty quickly.

I think we have, if I am correct, approximately \$45 million or \$46 million worth of unencumbered real estate or under encumbered real estate that we could roll into a loan. At a 70% loan to value that will pull about \$28 million. With the unencumbered parts, probably \$4 million or \$5 million we'd have to pay off, so we could easily pull a \$20 million down-payment out from our bank right now if we need it. I am not counting our line of credit, so we can hit it and pay down our line of

credit a little bit. We could probably hit that line of credit again if we needed to. So we're in good shape and we still have \$25 million cash on the books. We're in great shape to make an acquisition.

Obviously, we're not using equity at these prices. It would be a debt and cash acquisition right now unless the stock runs back up over \$80 over the next few weeks. With the market where it's at and the uncertainty, I think that's probably unlikely, though I would love it if it did, because it would give us even more ammunition as we go to Expo in a few weeks. But if it stays under, then we'll just continue to buy back a little bit every week with some of our cash and keep on our capital allocation strategy. We've proven from 2015 on it works and there's no flaw in it so far at this point, so we will just keep doing what we do.

**Q:** Yep, perfect. I know you guys talked about the \$200 million investment goal in the last couple of quarters. I just kind of want to see the status of that right now. Do you think the company can achieve the goal this year?

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

It's going to be very difficult by September 30 to put \$200 million in the first year. The goal is to average \$200 million per year. So we may not hit it each year. However, I think we can get pretty damn close to it over a three year period of buying the amount of EBITDA we want. We've got \$66.5 million in acquisitions. We are at between \$29 million, \$30 million for a total of \$96 million, \$97 million. We will probably put another \$5 million out in July that I know of. So we're \$100 plus million right now and there's only a couple months left. So probably not going to hit \$200 million.

But we could find an acquisition in August. We probably wouldn't close it, but at least we have that money lined up. With everything going we probably have about another \$40 million to \$50 million that we know we're going to invest over these 12 projects that we have out there, maybe a little bit more than that, so it is lined up. We are probably getting close to allocating \$150 million of the \$200 million. We go find another \$50 million acquisition and we'd have at least allocated the \$200 million for this year. I know it may not all get put out until the following year. Sometime probably between November and April would be my guess.

**Q:** Okay, perfect. And then I guess the last one for me is, are there any updates on AdmireMe? I know you guys mentioned the first quarter of the new team, how they're working on bug fixes.

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

Yep, it is up and running. You can actually go on the site now. There are some new entertainers and feature stars on there. We're actually doing a live hard launch at Expo, so we have a bunch of feature entertainers that are going to be going on the site that week, coming to the site that week, start pushing some traffic. We're going to start flowing some traffic to it, and see what happens. We'll get out there and do some digital marketing once we get the entertainers on the site and have them posting and using the site regular, then we'll start to directing more traffic to the site, which should have an interesting next three months with AdmireMe. We'll see how that goes. I'm optimistic finally.

I've been pretty pessimistic and I won't lie, it's very difficult, but I'm not a programmer. We had a team that worked on it for a year. The Ukrainian war destroyed the team and the model there and we finally had to make a switch to get it done. Now our new programmers have to learn everything and go back through and they re-coded some things. Because we had lost programmers throughout that year, one programmer would be working on something, then another programmer would take over, so there were some coding issues that had to be fixed.

I believe all that is done. We're actually adding new features almost on a weekly or bi-weekly basis right now whenever they upload from the program environment to the active environment and it's actually starting to come along pretty good. I talked to a couple of entertainers that post on there fairly regularly and they're really starting to like how the features are. We brought in a group of feature entertainers that are on other platforms that are going to come to our platform as well. They've given us a lot of feedback and what we need to do and how we need to do it. They've been in the practice environment, not the programming environment, not the live environment. They were able to beta test and make sure they're working properly and that environment seems to be going very well. We're starting to see changes in the live environment on a weekly to bi-weekly basis, so I am very excited about it. We'll see how it goes over the next three months.

**Q:** Thank you guys.

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

Thank you.

**Mark Moran - Chief Executive Officer, Equity Animal**

Thank you so much, Josh, and to all of our research analysts. We're now going to open up the Q&A to the broader audience and we'd like to encourage everyone who has a question to please raise your hand and we'll put you in the queue. I'd also like to encourage everyone to re-tweet and share this space. First up, we're going to have Jason Scheurer of Orchard Wealth. The floor is yours.

**Q:** I think the main focus here should just be really talking about the casino plans for next year, because the cash flow looks a lot bigger than what I originally thought it would be. You've got two locations now for different casinos in the market. How many total slot machines do you guys think you might be coming to market with?

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

The current estimate is about 500 gaming devices. This includes table games and slots, but less than 20 of those will be tables, so, mainly, it's going to be slots. If you look at the average take in Central City right now, the keep is about \$139 a day. If you look at Black Hawk, it is about \$330 something a day. I hope to be somewhere in the middle. So each machine somewhere in the \$180 to \$220 range per day, 365 days a year. You lose maybe 19 days a year because of weather up there. You can do the math and use a 340 day year instead of a 365 day year, you're going to get a



pretty nice deal there, and then that's your gross revenue. Typically, after all your casino costs and everything, you're running about 40% margins on that.

So if we can keep that, that's how our budgets are being built, that's how everything is being set up with our player rewards, all those types of things, all in that budget. It should be pretty interesting, and then you have the table games and the nightclub revenue, the alcohol and food sale revenues. We can do a little bit more money than we originally anticipated but we're getting a lot more machines and space in there than we originally anticipated as well, and that does include the sports book. We're going to have a sports book as well.

**Q:** As soon as you receive approval from the gaming license people, is that then -- I'm assuming you're already talking with people about the sports book?

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

Oh, yes, absolutely. We've been talking with lots of people about the sports book. We'll have our skin deal done prior to our license being issued, but it won't be effective until a license is issued. Originally, we anticipated getting a preliminary approval sometime between the end of August and the end of September. However, talking with the Colorado Department of Gaming, they are running behind. They have been short staffed. They are working on staffing issues and hiring right now and hoping to speed the process up, from what we understand. But it could be maybe as late as November or December before we get our preliminary.

Once we have our preliminary, it will take us about 90 days to get everything, maybe 120. I'm predicting now April to May openings at the earliest. That also has to do with how quickly we can get the HVAC and the construction done. It's longer than I wanted, but it's all coming together at the same time, so it's actually working out beneficial for us.

**Q:** Okay. The town next to you guys, Black Hawk, they do \$330 on their slot machines.

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

I believe that's correct. I don't know how old that data is. I haven't run it recently, but you can just go to the Colorado Department of Gaming's website. All of it is public information, by city. It won't tell you by casino, but it'll give you every slot machine that's in Central City, all of their coins in, and their keep. All those numbers are all available, same with Black Hawk, same with Cripple Creek. So you can actually look at Cripple Creek down and south of Colorado Springs as well. You get all three cities and you can see how many machines there are and what their average keep is and do your math. They did a billion dollars coin in, they kept this amount of money and on a per machine basis, this is what it was, and then divide it by 365 and you're going to get the gist of how we do the math.

**Q:** Well, the numbers you're talking about are between \$7 million and \$10 million but just to work backwards though. When you do a slot machine in Colorado, you've got to pay 20% of the hair cut off the top and then from that number you're left with about 40% after you pay all your bills.

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

Yeah, pretty much.

**Q:** Okay, so you're looking at something in the neighborhood of about \$65 per machine per day. In the town that you guys are in, are the casinos open 24/7?

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

No.

**Q:** They're not?

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

No. That's why I think we will run higher. Some close at midnight, some close by 2 AM, and it's different than Black Hawk. Most everything in Black Hawk is open 24 hours a day. These are the casino operators that have been there for years and years. They've owned their properties. Now one casino, if you look up Century Casinos, they're publicly traded as well, they are open 24 hours. So they're the only casino that is open 24 hours a day in Central City. I think the Z Casino might be as well. Less than half the machines are open and are on 24 hours a day. I always forget about the Z Casino because it's down the hill. It's not on Main Street there.

**Q:** Okay. So in that number, if I go look it up, I've got to assume you guys are going to be open 24/7, so to speak and half the people in the town when they come up with that \$139 per slot machine, I got to do some sort of a factor, okay.

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

Yeah, exactly.

**Q:** I just want to understand why you're saying you think you could do about \$180 to \$200 revenue push.

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

Part of this is going to be the fact that we're open 24 hours and we're going to have entertainment and food that the other casinos don't have. We're going to have a lot younger employees as we draw from our base of waitresses, bartenders and entertainers in Denver, Colorado. They're 45 minutes away, where we can have a split shift type deal, where they work two days and end up in the mountains and then work three days back home. So we'll have an interesting draw on the quality of customer service that we're going to be able to offer at our casinos versus Black Hawk casinos.

If you look up the numbers, Black Hawk's running about 140% of their pre-COVID revenue with 65% of their employed staff that they had in 2019. So there's definitely a shortage of employees

out there. So if you can get the employees, which we believe we can get, and we've been talking with our staffing and talking with our people, they're very excited in the Denver market. We'll get the new Bombshells open prior to these casinos opening, so we'll have another 200-300 employees with that Bombshells to draw from as well. We're very excited about the potential to draw the younger people up there that the other casinos have not been able to do.

**Q:** Okay. Alright, so we're going to go from 13 Bombshells to 17 in the next year, give or take. You're going to go from 57 clubs with the reopening and so forth. You're going to be at 60 not counting any acquisitions that you make, and you're going to have two new casinos, right?

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

Correct. Yes, if we make no acquisitions.

**Q:** Right. All right. Perfect. Sounds great to me.

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

Yeah, thank you.

**Q:** Thanks.

**Mark Moran - Chief Executive Officer, Equity Animal**

Thanks so much for the question. Next up, we're going to have Adi Sidapara. Please take it away.

**Q:** Hey, Eric. Hey, Bradley. Congrats on the great quarter. I really have two questions. The first one is around, you mentioned *The Outsiders* and one of the most accretive assets you can have is your IP, your brand. I'm wondering is there something on your roadmap where you kind of stop investing in your own organic IP or on Bombshells, building that brand up, and think about leveraging and buying something bigger, might have more of a national presence?

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

It would depend on the multiple we could buy it at versus the multiple we trade at. If we looked at other restaurant chains right now, they would have to be willing to merge with us at a multiple rating similar to ours, and then ride the multiple expansion up with us. If someone was willing to do that, we'd definitely look at an acquisition of that type, especially if we could bring a strong management team and a growth management team. It would have to have the right concept. It would have to have the right numbers to make sense to me.

The most important to me is that we're bringing the team on that's going to take and run a true restaurant division and not only build the brand that we're buying, but help us with our brand and expand and build our brand as well. If that's successful, we get that right team, we put that together, then we can wash, rinse and repeat. We've been doing it with strip clubs for 30 years. Acquisitions are acquisitions. It's just math. Anybody can do the math and the rest is the right people. So far,

I've been pretty good at putting the right people together in these situations, to build the clubs, build out our teams, and now we just have to do the same for the restaurants. We are in the process of doing it for the restaurants. We don't have to buy anybody to pick up a team. We're building our team. Just the building process is always slower than the acquisition process.

**Q:** Yeah. No, that makes sense. I'm glad you brought up people because that's kind of my second question. It's 2023, the era of ChatGPT and AI. I know you guys are pretty decentralized, but how do you guys think about automating even basic workflows, or even team members have their own productivity changes.

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

Bradley has been doing a great job of keeping our corporate office costs down using technology. To keep costs lower, we've been picking up and earning more of these FICA tip credits and all these other earning credits, tax credits you can get for different employment of people, hiring in different markets, different areas, enterprise zones, all these things. We're actually working on one of the casinos. It's at a historic building, in a historic zone, so we're going to get historic tax credits for all the improvement that we're making. The building hasn't been used in 15 years. We're going to make it usable, so we're going to get tax credits on that, we believe. So basically, the federal government can help us build half of one of our casinos, I think, is what it works out to be. Bradley can probably explain it better than me at this point, but that's where we're at.

**Q:** Awesome, awesome. Well, fellas, congrats on the quarter once again, a lot to celebrate. Probably see you guys tonight at 33rd, try to meet in person.

**Mark Moran - Chief Executive Officer, Equity Animal**

Fantastic. Thank you so much for that question. Eric, we have a question that was submitted from the audience: "The capital allocation structure has proven its performance since 2015. With increased risk of higher and longer interest rates by the Fed in addition to other macro-factors, does that change your calculus? Are you comfortable with current debt levels?"

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

I'm comfortable with our current debt levels at the moment. We want to stay under three times. We're at 2.7 times, but I think that number will drop down as our VIP spend comes back October, November, December. As new stuff opens in 2024, you're going to see a bunch of new revenue and new EBITDA come in and drop that back down probably in the 2.2 range. So that gives us plenty of room to take on additional debt.

If we buy anything, we pick up the EBITDA from any acquisition as well. That helps keep that debt level in check. I bought my first house in 1993 and my interest rate was 7 and 5/8. So 7.625% is not horrendous. I think rates are still below that. We're still not at the 1993 level for when I bought my first house, so I'm not too worried about it right now. Our weighted average interest rate is 6.52%. If we're to readjust right now and refinance 100% of all our debt into one thing, I would probably get around a 7.5%. I think we just closed a loan at 7.12%. So if we get a 7.5%

loan, that wouldn't be the end of the world. It would raise our interest a point on \$240 million in debt, which is a considerable amount of money, but nothing that's going to stop our growth or stop us from continuing to take on debt.

**Mark Moran - Chief Executive Officer, Equity Animal**

Fantastic. Thank you so much, Eric and Bradley, and to all who asked questions. With that, we will be concluding the Q&A segment of this earnings call. I'd like to encourage everyone to check out the Rick's store at [shop.ricks.com](http://shop.ricks.com) and to follow Eric @RicksCEO.

For Eric's 10,000th follower on X, we're going to be doing a little giveaway with merchandise from the store as well tonight. For those of you who joined us late, you'll be able to meet management tonight at 7 o'clock at Rick's Cabaret, New York, one of RCI's top revenue-generating clubs. Rick's is located at 50 West 33rd Street between Fifth Avenue and Broadway, a little in from Herald Square. If you haven't RSVP'd yet, please ask for Eric Langan or me at the door. On behalf of Eric, Bradley and the company as well as our subsidiaries, thank you and have a good night. As always, please visit one of our clubs or restaurants and have a phenomenal time. Thank you all.