Transcript of
RCI Hospitality Holdings, Inc.[1]
Q3 2022 Earnings Conference Call
August 9, 2022

Participants

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Presentation

Mark Moran - CEO, Equity Animal
We've just surpassed 100 listeners, so we're going to go ahead and kick this off. Greetings and welcome to RCI Hospitality Holdings' Third Quarter Earnings Call. You can find RCI's presentation on the company website. Click Company & Investor Information under the RCI logo. That will take you to the Company & Investor Info page. Scroll down and you'll find all the necessary links.

Please turn with me to Slide 2 of our presentation. I'm Mark Moran, CEO of Equity Animal, and I'll be the host of our call today. I'm here with Eric Langan, President and CEO of RCI Hospitality, and Bradley Chhay, CFO of the company.

Please turn with me to Slide 3. If you aren't doing so already, it's easy to participate in the call on Twitter Spaces. On Twitter, go to @RicksCEO and select the Space titled $RICK 3Q22 Earnings Call. As a reminder, if you want to ask a question, you'll be needing to join Twitter Spaces on a mobile device. If you just want to listen, you can join the Twitter Space on a personal computer. RCI is also making this call available to listeners through a traditional landline and webcasting. At this time, all participants are in a listen-only mode. A Q&A session will follow. This conference is being recorded.

Now turn with me to Slide 4. I want to remind everybody of our Safe Harbor statement. It reminds you that 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.

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

Now, please turn with me to Slide 5. I direct you to the explanation of non-GAAP measurements that we use. I'd also like to invite everyone listening in the New York City area to join Eric, Bradley, and myself tonight at 7 o'clock to meet management at Rick's Cabaret, 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 Eric or me at the door.

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

Eric Langan – President and Chief Executive Officer

Thank you, Mark. Thanks for joining us today. The third quarter benefited from higher sales, continued rebound in Nightclubs service revenues, and sequential improvements in Bombshells. Year-over-year, nearly all our key metrics continued to increase on a double-digit basis for both the third quarter and the first nine months. This resulted in particularly strong free cash flow and adjusted EBITDA in the third quarter.

Net cash from operating activities and free cash flow were further enhanced by receipt of a tax refund I've mentioned on previous calls. We continue to execute on our growth plan and capital allocation strategies. During the third quarter, we continued to buy back shares. We acquired the Playmates Club in South Florida. We also purchased property for the 13th company-owned Bombshells.

To-date in the fourth quarter of 2022, we bought a club in Odessa, Texas that we have rebranded and plan to reopen on August 18th, as well as opening the rebranded Scarlett's Cabaret in San Antonio, Texas, that will also open August 18th. We also bought the well-known Cheetah's Club in South Florida, and we continue to take advantage of market conditions to buy back shares.

Now, here's Bradley for a review of our financials.

Bradley Chhay - CFO

Thanks Eric, and good afternoon to all those listening. All of our comparisons in this call will be to a year ago third quarter, unless otherwise noted. It is important to note, that this was the first period since the first quarter of fiscal 2020 that was not affected by COVID restrictions.

Looking at the numbers, we generated a record total revenues of $70.7 million, up 22.2%. EPS increased 8% to $1.48. Non-GAAP EPS increased 18% to $1.60. Net cash from operating activities was $18.9 million, an increase of 26.2%. Free cash flow totaled $18 million, which is up 39.1%. Net income attributed to RCI common stockholders was $13.9 million, up 13%. And adjusted EBITDA totaled $24.6 million, which is up 20.6%.

Please turn to Page 7. Our Nightclubs segment had an excellent third quarter. Revenues totaled $54.7 million, an increase of 33.3%. Operating margin was 41.1% and 42.7% non-GAAP. Operating income was $22.5 million and $23.3 million non-GAAP. Highlights included $11.8 million in sales from fiscal 2022 acquisitions and 50.8% increase in our higher margin service revenues. On a sequential quarter basis, revenues increased 13.5%, non-GAAP operating margin expanded 321 basis points, and non-GAAP operating margin increased 22.7%.

Please turn to Page 8. We created this slide to show the strong progress we've made in the Nightclubs segment since the pre-COVID first quarter of 2020. At 77.3%, Nightclub revenues as a percentage of consolidated revenues have returned to just under where they were. At 36%, service revenues as a percentage of consolidated revenues have now slightly exceeded the pre-COVID level. As you can see, Nightclub revenues are closely linked to service revenues. Both of these trends reflect the combination of the rebound and growth of existing clubs and the addition of club acquisitions against the growth of Bombshells revenue.

Please turn to Page 9. Bombshells also had a great third quarter. As we mentioned on our third quarter sales call, revenues declined 1.8%. That was due to a tough year-over-year comparison against an unusually strong third quarter and fiscal 2021, which by the way, was our record highest revenue quarter for Bombshells ever. That's when Bombshells' sales and margins experienced a huge benefit from being one of the few bars and restaurants open in Texas due to the state of COVID at that time.

Otherwise, Bombshells experienced typical seasonal trends in the third quarter of this year, and results were in line with expectations. I'd like to point out that operating margin came in at 19.4% GAAP and 23.6% non-GAAP. On a sequential quarter basis, revenue increased 3%, non-GAAP operating margin expanded 94 basis points and non-GAAP operating income increased 7.2%. Overall, we think that we're doing a great job of managing food and labor inflation.

Please turn to Page 10 to review our consolidated statement of operations. All comparisons on this slide will be a percentage of revenue and compared to a year ago third quarter, unless otherwise noted. Cost of goods sold improved to 13% as compared to 15.3%. This improvement reflects the increase in sales mix of high-margin service revenues in the Nightclubs segment. Salaries and wages were slightly higher at 24.6%. This reflected the addition of employees at acquired units along with new mandates which increased minimum wage in some of the states in which we operate.

SG&A was 27.7% versus 25.4%. This reflected increased expenses related to new and acquired locations. Other charges totaled 2.1% as compared to a small gain. This year's third quarter reflected impairments on three locations. Operating margin was 29% versus 32% with non-GAAP operating margin nearly even at 31.2% compared to 31.8%. Interest expense was 4.3% versus 3.9%. This reflected higher debt for club and real estate acquisitions this year, partially offset by higher sales and lower weighted average interest rates.

Please turn to Page 11. Cash and cash equivalents were $37.5 million on June 30th. I'd like to point out that this was after utilizing more than $12 million for share buybacks during the nine months, the cash portion of the Playmates acquisition, and the down payment for our Bombshells location in Rowlett, Texas. Free cash flow for the third quarter totaled $18 million or 25.5% of consolidated revenues. This included a $2.2 million tax refund Eric mentioned. However, excluding that, free cash flow was 22.4% of consolidated revenues.

Free cash flow for the nine months was 22.6% of consolidated revenues. Excluding the tax refund, it was 21.5%, which is above our recent general target of 20%. Adjusted EBITDA for the third quarter was $24.6 million, which was up 20.6% year over year. As a percentage of revenue, it was 34.8%. For the nine months, adjusted EBITDA was $62.5 million, which was up 46.5% of revenues. As a percentage of consolidated revenues, it was 31.9%, above our general target of 30%.

Please turn to Page 12 to review our debt and related metrics. Debt, net of loan costs, was $188 million as of June 30th, an increase of $9.9 million from March 31st. The increase primarily reflected the acquisition of Playmates in May. We continue to reduce our weighted average interest rate. Our third quarter rate was 6.35% that compares favorably to the 6.68% a year ago and 7.37% five years ago.

Our refinancings enable us to smooth out our debt maturity schedule. Our amortization continues in the $7 million to $8 million annual range for the next four years, which is very manageable with our cash flow. And to pay off our balloons, periodic refinancing enables us to convert higher rates, seller financing, and other unsecured financing into lower rate commercial real estate bank debt. We currently have multiple unencumbered properties in our portfolio. Should we need additional capital, we can borrow against them.

Our occupancy costs were 6.7% of revenues. This continued to be well within the 6% to 9% range that we've averaged, when sales weren't dramatically impacted by COVID.

Please turn to Page 13 to look at our June 30th debt pie chart. Our debt now consists of 63% secured by real estate; 23.7% of seller financing debt – this is secured by the respective clubs to which it applies; 4.1% of debt secured by other assets; and 9.2% of unsecured debt.

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

Eric Langan - President and Chief Executive Officer
Thank you, Bradley. We continue to talk to new investors. So I'd like to review our capital allocation strategy.

Our goal is to drive shareholder value by increasing free cash flow per share 10% to 15% on a compound annual basis. Our strategy is similar to those outlined in the book, The Outsiders, by William Thorndike. He studied companies that focus on generating cash per share and allocating that cash effectively to generate more cash. We have been applying these strategies since fiscal 2016 with three different actions, subject of course, to whether there is strategic rationale to do otherwise.

One is mergers and acquisitions, specifically buying the right clubs in the right markets. We like to buy solid cash flowing clubs at 3-5x adjusted EBITDA, using seller financing, and acquire real estate at market value. So far this fiscal year, we have deployed $141.8 million in capital: $45.8 million, which was cash; $66 million, which was debt; and $30 million, which was equity; to acquire 15 clubs in new and existing markets.

Another strategy is growing organically, specifically expanding Bombshells to develop critical mass, market awareness, and sell franchises. To-date, this fiscal year, we deployed $6.8 million in capital, $2 million in cash, $4.8 million in new debt, to open our 11th location and buy property for two more locations. The third is under contract. In addition, our first franchisee opened in San Antonio, and we signed our second one for the State of Alabama.

Our goal in both M&A and organic growth is to generate annual cash on cash returns of at least 25% to 33%.

The third action is buying back shares when the yield on free cash flow per share is more than 10%. As of last Friday, we deployed $14.3 million in cash to buy back 255,962 shares this fiscal year at an average of $55.91.

Please turn to Page 15 to review our growth initiatives. We've accomplished so much already. So I'm going to focus on only the new developments since our second quarter call.

In our Nightclubs segment, we acquired a club and its assets in Odessa, Texas in July. We plan to reformat it into PT's Showclub and open it on August 18th. We think PT's will fit well with our other two clubs in that part of Texas. We also plan to reopen a reformatted club in San Antonio on August 18th.

Also in July, we acquired the Cheetah Club in Hallandale Beach in South Florida. Cheetah is well-known with a very strong following. We believe it fits well with our three other clubs in the North Miami Dade-South Broward County area, which includes Tootsie's Cabaret. These acquisitions are all part of our effort to add $20 million of adjusted EBITDA in fiscal 2023. We have a number of meetings lined up with club owners to talk about acquisitions at our Exotic Dancer Expo Conference next week in Las Vegas.

In our Bombshells segment, during the third quarter, we acquired property in Rowlett, Texas for our 13th location. We continue to look for more locations in Dallas, Austin, Florida, and Phoenix. Our first franchisee opened in San Antonio and is continuing to do very well. The second franchisee is close to finalizing its first site in Huntsville, Alabama, and we continue to be in serious talks with other potential franchise groups.

Regarding capital management, in the fourth quarter, we sold an excess parcel in Philadelphia for $6 million in cash. After paying down related debt and expenses, we received approximately $3.5 million in net proceeds. We still have two more pieces of real estate under contract for a combined sales price of approximately $3.5 million.

Turning to Page 16, with our new acquisitions, we wanted to give you a better picture of our geographic focus. In third quarter 2022, our regional revenue breakdown was: Texas 41%, including Bombshells; Florida 22.7%; New York 8.6%; Illinois 6.8%; Colorado 6.6%; and the other 8 states combined for 14.2%.

Turning to Page 17, I'd like to update you on how we are harnessing new technology to drive club traffic and, in particular, attract the next generation of customers. Our Guest Benefits NFT Program is in presale mode, payable with a credit card online now. We currently plan to mint at the end of the month. This will be the Ultimate Party Pass with an annual event at Tootsie's, access to other private parties, VIP experiences, and a wide range of other benefits. Response has been very good.

As for AdmireMe, our new social media platform, we currently plan to fully launch sometime at the end of August or beginning of September. Similar to OnlyFans, AdmireMe enables entertainers to post content and receive payment from admirers. This will enable entertainers to build an internet business as well as their club business with us.

This ends the formal presentation. A big thanks to all of our teams, Nightclubs, Bombshells, and especially, our corporate team, for all their hard work and dedication.

And with that, Mark, let's start taking questions.

Mark Moran - CEO, Equity Animal
Thank you very much, Eric and Bradley. I'd like to take a moment to encourage everyone to retweet this Space so we can get the party going with this Q&A session. If you'd like to ask a question, please raise your hand in the Twitter Space. When you're done asking your question, please unmute your microphone to eliminate any background noise or we will do it for you. We have a limited number of speaker spaces.

So after you ask your question, we may move you back to the audience to free up space. To start things off, we'd like to take questions from RICK's equity research analysts and then some of its largest shareholders. Our three analysts that are on the call are: Rob of Granite Research; Anthony of Sidoti; and then, Josh, who works for Joe Gomes of Noble. Let's start off with Rob of Granite Research.

Q: Congratulations about the quarter.

Eric Langan - President and Chief Executive Officer
Thank you.

Q: Can you discuss the plan for Fort Worth? When do you think that might be closed and then estimates for opening and then rebranding the facility?

Eric Langan - President and Chief Executive Officer
We're definitely going to be remodeling and rebranding the facility. We're waiting on the plat. It's at the county level. Unfortunately, there's not much we can do to speed the process up. However, we have talked with the owners. They've given us keys. We have the architects, and we're starting to drop remodel plans and get that ready. I suspect we'll probably open within three months of closing on the property. I believe the liquor license is in place. The adult entertainment licenses are already in place. It's just a matter of remodeling, rebranding, and, of course, getting this plat done so that we can get a title to come in from the title policy.

Q: Thank you. And then just shifting gears. Can you talk about real estate pricing in this environment? Has it backed off at all? Is it helping you in terms of Bombshells locations?

Eric Langan - President and Chief Executive Officer
I don't know if it's backed off a lot. We did recently make an offer on a property in Austin, Texas for Bombshells that was accepted yesterday. We had been looking at it for some time, but the price was just crazy. They finally came down to the price that we had offered and contacted us. So we're going to do that. We may end up with a partner or franchisee at that particular location. I'm not sure how that's going to go just yet. It's very early. We got it under contract yesterday. We are also looking at multiple other sites at this time.

Q: Great. And then I'll ask one last question and I'll circle back into queue. Can you discuss the general contractor pricing trends you're seeing? Has it had any impact in terms of building out Bombshell locations? Or just in general what you're seeing in there?

Eric Langan - President and Chief Executive Officer
It's definitely slowed down. We had the original bids that came in on the Stafford location. We have done the demo there. We have started no construction. I am making two different GCs rebid it right now. Steel prices have come down. Lumber prices have come down. But the biggest problem that we're having are the subs have had so much work and so much demand that they're demanding crazy prices.

And I've said, "Look we'll sit. We'll wait. We're not going to overspend to build if the ROI is not there. We'll take our time. We'll build slowly. We'll wait until certain things [happen]." Maybe the [cost of] roofing will come down, and we'll find the right roof, and we'll build that at a price that we are happy with.

And we'll throw the roof on like we did with the tear out. We ended up with a company that came in well under the other bids, because they had an open space and wanted to work. So we'll wait till they want the work and then build it. We'll piecemeal it together […] are very minor on these properties and not over sometime in mid-September or early October on that location.

At the Lubbock location, we have the final zoning hearings, the first 15 days of September. We have worked forward on the plans. So we should be able to apply for building permits as soon as the zoning issues are all resolved. Hopefully, we'll get that one started under construction sometime in December or early January. That's the current plan.

Mark Moran - CEO, Equity Animal
Thanks so much, Rob for the question. Next, we'll move to Anthony of Sidoti & Co. Anthony, you're up.

Q: Thank you for the opportunity to ask questions. Certainly, impressive quarter. Sticking to the cost side of the business, your salaries and wages were higher as a percentage of revenue. With that being said, do you think the worst is perhaps behind you in terms of the inflationary pressures that are out there?

<u>Eric Langan - President and Chief Executive Officer</u>
It appears to be. I'll give you one of those examples that I've posted on Twitter in the past. Chicken wings. Last year, they were running $190 a case. They're down to $89 a case now. So we're saving considerably on chicken wings. We've been able to put the prices back down to a more normalized level as well. So hopefully it will help in that we've eaten the minimum wage increases this year. I think we're past most of those. We won't face any of those until early next year, and we'll deal with those then.

But we did have acquisition costs in here in this quarter that affect and probably raised the overall G&A a little bit. We may or may not see more of that, because we closed on a couple more acquisitions in this quarter. We'll have to see how that goes as we progress through time.

Q: In terms of the acquisitions, since you closed the quarter, you announced the Cheetah Gentlemen's Club, as well as the Odessa club. Can you help us to think about those as to how we should think about the revenue and EBITDA run rates or contributions from those?

<u>Eric Langan - President and Chief Executive Officer</u>
Cheetah's revenues are about $10 million. We expected EBITDA around $4 million. We could see some slight improvements on that. We're going to have to, like always, get a few quarters and figure out where we're at. The Odessa club. I'm going to guess if it's similar to the Rick's location, probably $1.8 million in revenue, which would put us probably at around $600,000 a year in EBITDA on that one.

Q: You mentioned that you think that the worst of the cost pressures is over. Now that's behind you. So as far as your operating margins going forward, would it be reasonable to assume sequential improvement in your segment operating margins? I know the business is seasonal, but if you could speak to that, that'd be great.

<u>Eric Langan - President and Chief Executive Officer</u>
I would say not in the next quarter, for sure. Our goal is 30% EBITDA and 20% free cash flow on revenues. That's our targets. I think we can do a little better sometimes. We may do a little under sometimes. But overall, over a one-year period, we're going to be very close to those numbers.

This quarter, July, August, September, is always our seasonally slower quarter. We're turning more to normality. That's what I'm seeing now that all the COVID restrictions are gone. People are traveling for holidays. So we're seeing our typical summer slowdown versus our prime season, October to May, which to me is very exciting. That tells me if people are going back to a more normal lifestyle, we're going to see nice jumps come October, November, December, and running through May.

I think this year, our first quarter of fiscal '23 is going to be a record quarter for us. As New York City goes from 45% office occupancy to 85% in October, November, I believe the trends I've been reading about and hearing that are expected. That will help our service revenues in New York City even more. I think we're going to see that in other markets as well, as people return to normal life and normal patterns again. So I'm very, very excited about how that's going to play out for us during our prime season of fiscal 2023.

Q: That's great to hear. Thank you and best of luck.

Eric Langan - President and Chief Executive Officer
Thank you.

Mark Moran - CEO, Equity Animal
Thanks so much for the questions, Anthony. Next up, we have Josh of Noble Capital Markets. Josh, take it away.

Q: Good afternoon, everybody. Thanks for taking my questions. I want to start off with Bombshells. I know that you're talking to a few franchising groups. Can you talk about how the talks are progressing? Is one group further along than others?

Eric Langan - President and Chief Executive Officer
Definitely all in different stages. The farthest along group has three sites picked out for us. On the way back from Vegas, I'm going to stop in with David Simmons. We're going to fly back from Vegas together and stop in. We're going to look at those locations and give them approvals or declines on our opinions on those three locations.

If we approve a location, we'll probably get the franchisee contract done. All franchise contracts have to be tied to a specific location on the first one, before we can create the franchise agreement. So, hopefully we find one of their three locations we'll be able to approve and get them signed up, which would give us our third franchise at this time.

I know that the San Antonio group is looking for their second location right now as well. Hopefully, we'll have some more information as we progress through the quarter on franchisees for Bombshells. We have a few others we're talking to. Some are in the vetting process. Some are trying to figure out where they want to locate and get us locations for approval. So we'll have to see how that plays out over the next couple of months.

I know that recessionary fears have some people spooked a little bit. I know that interest rate increases are going to be a common concern if interest rates continue to climb. So we'll have to take it day-by-day and keep working every day towards our goal.

Q: Perfect. You led me to my next question. Obviously, recessionary fears are out there amongst some people. Are you seeing a drop in visits to your clubs due to this economic environment we're in?

Eric Langan - President and Chief Executive Officer
We're in our typical summer slowdown. I wouldn't call it drops in visits. I don't think the customer spend has changed hugely at this point. As you can see from the last quarter through June 30th, at least, our VIP spend has been fantastic. I've talked to different club managers and our upper management guys, and they say the VIP spend is still fairly strong.

The biggest thing we're hearing is that people are on vacation. That's interfering with their normal slow schedules to the clubs and whatnot, but not in a huge way. And I don't think we're going to know if the recession is going to cause any problems till October, November, December. I think any recession hit will be offset or more than offset by people's returning to work and the office. So we'll pick up in our happy hours or pick up our daytime, lunchtime business.

I think as people return to the office, business travel will increase again. We have certain locations that will benefit from that. I think overall we'll be in great shape, and the rest we'll make up with acquisitions. So, I don't think we'll see much slippage at all. If we do I'm watching Mondays and Wednesdays like I say, watching them very closely. I see a weak Monday one week and then a strong the next. Or I see a very strong Wednesday, but then it's weak the next, and vice versa on the Monday. The weekends have been strong.

So right now, I don't have an answer as to what we're going to see or if we're going to see or when we're going to see a recessionary effect. But as of right now – I've been on Twitter a lot and I have seen some entertainers complaining about customer spend. We're not seeing that in our dance dollar sales at our clubs. However, I don't know about the overall spend on dancers if it's paid in cash. Maybe some of their cash customers have slowed down a little bit, and we don't know about it. But the girls that I talked to have been very happy. They're making money, and we're printing money as you can see from our financials.

Q: That's fantastic. I have one last one before I go back in the queue. I want to get an update on AdmireMe. Obviously, you guys were having talks of a soft launch last quarter, and that's why I want to hear if there's anything related to the traffic on it, if that's been going as you guys expected, or it's been surpassing your guys' expectations. Thank you.

<u>Eric Langan - President and Chief Executive Officer</u>
We're trying to get it working correctly. We've got a couple of bug fixes that are going out right now in the next update. We're finally getting the referral program put together. We thought we could do without a referral program, but we've now realized – the more we do, the more we learn. The beta was good because it helped us get the operational bugs worked out.

But as we talked to influencers and as we talk to some of the larger people on OnlyFans or entertainers and workers on OnlyFans, we realized some of the things we must have and how we have to set certain things up. Those are almost all programmed in and should be completed by the end of August, and then we'll start our launch. We'll have all the tools in place to do it right.

It's like a nightclub on the internet. It's a chicken and egg. I can't get the girls if I don't have the guys. I can't get the guys if I don't have the girls. So as it is in the nightclub business, we'll have to get everyone there at the same time. The site is up and operating, but there's been no marketing, no push, because a soft launch in that space, like a nightclub, will not create the traffic we need on either side -- for the entertainers, the content providers, or the admirers, to make it work. That's what we're going to do. A much harder push sometime probably the first couple of weeks of September.

Mark Moran - CEO, Equity Animal
Josh, thanks so much for the questions. I know we're all looking forward to seeing the launch of AdmireMe go from soft to hard very soon. Next up, we have Adam Wyden of ADW Capital. Adam, let's go.

Q: Hey, Mark. How are you? I've been saying for a while $25 million of EBITDA, $20 million of cash flow, and here it is. Doesn't have a full quarter of Playmates. Doesn't have Cheetah in there. So you can assume that we're confidently over a $100 million, and everyone is yawning, everyone is ESG this. I think in the past, Eric, you never really had the balance sheet to support $15-$20 million EBITDA transactions. I think a combination of Bombshells, Lowrie, you taking the time and building this free cash flow machine, we've got now the better part a year of free cash.

If you wanted to, you could buy a few Lowries a year. You're obviously slowing down Bombshells' growth because the ROIs are not there. I don't like that. I love that. It's so perfect. It shows the flexibility of mind. The reality is materials costs are up, inflation is up, labor is up. Why not be a buyer of these clubs at lower multiples? You own the real estate. In fact, these are the best inflation adjusted assets, and you're the only owners of them.

I think it's amazing that you've transitioned to focusing on clubs again. It shows a flexible mind. Do you think that we can take this from a hundred to a couple of hundred over the next couple of years? Because the math I'm doing is, you guys can support about $50 million of EBITDA acquisitions through cash flow and balance sheet until you really start hitting walls. Obviously with the stock, you can do more, but what's stopping you from ramping things up right now? I'm not talking about $20 million a year. I'm talking about $50 million a year.

Eric Langan - President and Chief Executive Officer
Nothing's stopping us other than we have to find the acquisitions, do the deals, do the legal work, the due diligence. I'm talking with lots of owners. We're going to Expo this year. We're going to put it out there everywhere. I think we can add about $200 million in purchases a year right now for the next three years straight using about 65% of our free cash flow and still keeping our debt to EBITDA ratio under 3x. I'm very excited about that. If the right deal comes along and we can step it up a little bit and push a little faster, we're going to continue to do that.

You are absolutely right in that our focus is about 95% on clubs and about 5% on Bombshells right now. Because I do think in the next three months that there's going to be some great opportunities for us on the club side based on some of my conversations with guys right now. We paid 3x forever or less for a long time, many years. We're starting to pay 4-5x right now for the big guys, for the limited clubs, for the right licenses, in the right markets, and buying that market share up. It has got a lot of guys talking to us right now.

I think we'll bring some of those guys on to our side of the equation soon, rolling up additional dollar amounts of EBITDA. I know we've been saying $20 million increase for 2023. If the talks go well and everything goes well by the end of the quarter by December, when we do the K, we may have a much higher and larger target based on deals in the pipeline. And I'll let everyone know at that time where I think we're going to be at and how 2023 is going to go.

I'd tell you, I push my personal goal. I know we're 10% to 15%, we've been doing about 20%, I think 2022 will end it over 30% free cash flow growth. I think that right now 2023 is headed to be another 30% plus year as well. It's very exciting right now.

Q: It should be higher than that, right? If you just do the math, right? Right now you're run rating about $100 million. I don't know the exact math, but you'll probably clear $85 million of EBITDA for the full year. I don't know what the free cash flow will be. But if you exit the year at $105 million, and if you buy 30%, you're at $135 million.

You're going to be compounding EBITDA obviously at a much higher rate than 30% in 2023 and presumably free cash flow faster because of how it's financed and all the rest and leveraging what you've got. Again, leveraging corporate overhead and what have you. Again, 30% free cash flow growth would imply a much slower EBITDA growth.

I feel like we have the same conversation every conference call. You put up these great numbers, you destroy margins, you generate cash, and we trade at the same multiple. How do you guys think about getting the multiple to a point where you can grow more? You made a comment like well, $200 million a year, but why not $500 million? The only thing is the equity, right? So how do you think about getting to a point where you can get this thing properly valued?

Eric Langan - President and Chief Executive Officer

I think I can take advantage of the tools the market gives me. It's up to you guys on this call to decide if it's worth giving us those tools and paying the price for the stock, for the current cash flow, and the future generation of cash flow.

I think one of the biggest problems with Rick's, especially through COVID is, nobody wants to value us on a go-forward basis. Everybody wants to value us on a past-run basis and give us no value for the growth. As you always say, they give us no value for the real estate or very little value for the real estate, when that's a huge advantage for us.

If you look at typical restaurant stocks, they're paying 8%-14% occupancy costs. In other words, the cost of the use of their real estate to generate their cash flow, they're paying 8%-14%. We are now at 6.7%, one of our all-time lows. Those are the things that our capital allocation strategy has done for us. We are so focused on our cash-on-cash returns, on creating the value for our shareholders, and keeping all of our costs in line. COVID taught us so much. The systems that Bradley put in place at corporate office for our accounting systems give us information and tools in seconds instead of hours or days.

So we're able to monitor these things, watch these things, and continuously work to increase that. I do believe that the market at some point is going to pay a premium for that future growth instead of just the past growth. If not, then we'll just continue. The beauty is, we can do this either way.

One way, we're going to do it a lot quicker. And one way it's going to take longer. I guess it's just we're all here for the ride. Right now, I think we're driving a Toyota Camry, and I'd love to be in a Ferrari or Lambo and drive this thing at a much faster pace. Or as I know your favorite cars are Porsches, we'll even take a Porsche.

Q: It's sort of unfathomable when you think about the Spaces we did with Edwin and we go back and look. With the exception of 2007 and '08 where the stock went up ahead of Vegas and you guys used the equity intelligently, but then went and bought back stock, except for a few select moments in time, the stock has effectively traded 5 or 6 times EBITDA for the whole time the company's been public.

Maybe you can comment a little bit about Lowrie. But you've been able to buy businesses at 5-6x and drive it down to 4x. In the absence of a currency, you've been able to use the cash on the balance sheet and your operating abilities to make deals work. But it's just incredible where you would be if, hey, the stock was trading at 10 times where you bought a business with some percentage of stock and you bought it at 5 and took it to 3, this business would be $500 million of EBITDA in a heartbeat.

Obviously in the absence of multiple expansion, you can look at the returns and you can say, okay I'm buying this thing with $105 million EBITDA. Maybe that's $9 a share of free cash flow, whatever it is, you're buying this thing at nearly a 20% or whatever, $60, I guess it'll be a 15-16% free cash flow yield. And if you can grow 30% of free cash flow, you're still getting a 45% total return without multiple expansion. But if you can get multiple expansion, the whole machine like you said, it's a Porsche. This isn't even a Toyota Camry. It's a Pinto.

Eric Langan - President and Chief Executive Officer

Adam, let me be honest. We didn't deserve it before 2016. We were young. I was learning. I had never run a public company. I was an operator of adult nightclubs. A damn good one, I think. But as we moved, as we grew into 2016, things changed for us. We figured out our capital allocation strategy. We figured out the compounding. We figured out the ROI. We figured out cash-on-cash returns. We became a financial machine that wasn't in the strip club business anymore. We were in the free cash flow business. I'm going to say that a lot.

Now, what I would say to the market is, if you want to keep punishing us for pre-2016, then you have that right. But I would ask you to forgive our past sins and look at 2016 on. We can't control what COVID did. It slowed us down a little bit. But if you look '16, '17, '18, '19, go from 2016 forward, and start valuing us and compare us to other companies with that type of growth period from 2016 on, and say, are we being fairly valued compared to those companies, and I think you'll find we're not being fairly valued as you continuously tell everybody.

But, like I said, we have to get everybody to understand that there was a transformation of this company after 2016 or starting in 2016. I've been in some debates on Twitter with various people and tried to explain that when you look at a 30-year run or 20-year run, I am not the guy I was in 2012, 2013, 1999 when I took over the company. We have grown. We have learned. I think we have executed to a T or even better than we said we would execute from 2016 on. I would just ask the market to take a look at that and value the company based on those things, and imagine, if you can, where we're going to take this company over the next three years, the next five years, the next 10 years, and be a part of it.

We're looking for long-term shareholders. We're looking for guys that want to partner with us over the next decade and make lots of money and create lots of wealth. Our interests are aligned with shareholders. The majority of my wealth is in my RICK stock. It took me a long time to learn that the investment bankers that were leading me in my younger days were taking advantage of us. They were having us use our equity at a super high cost of capital, with the premise that a lot of companies use, "Well, at least we don't have to pay that back. It's not debt." Well, guess what? You're always paying it back, because you're paying it back with a reduction in free cash flow and you're diluting your existing shareholder base. Going forward, I think we're ready to go.

Q: Your comment around 2016 is a good one. I don't have my numbers in front of me. But as I recall, the business was probably on the measure of 12 or 13 of EBITDA. And I think we're certainly in excess of 100 now, and if you think about that talking about 17, 18, 19, 20, 21, 22. In six years you've more than 8x the business on an EBITDA basis, and more importantly, as you said on a free cash flow per share basis, it's meaningfully, meaningfully more.

I don't think that those types of companies trade at 5 or 6 times free cash flow. 15% yield growing 30, doesn't deserve a thing. To be perfectly honest a business growing free cash flow 30% a year should trade at 30 times free cash flow, not at 6 times free cash flow.

I would encourage you to continue to find creative ways as you have done in the past, whether it's deals like Lowrie, where you buy them at 5 or 6, and you find creative ways to get them down to 3. But you've definitely been guilty until proven innocent. I personally know a lot about that. You got to keep punching them in the face and eventually they're going to bleed, right?

Eric Langan - President and Chief Executive Officer
We're going to keep doing what we do.

Q: Keep punching them in the face, eventually they're going to get a bloody nose. That's what I would say.

Mark Moran - CEO, Equity Animal
Exactly. Thank you so much, Adam, for the question. Next, we're going to have Tara, but I wanted to throw this out there for anyone in the New York City area to stop by and meet management at Rick's after, and I want to extend a special invitation to Tara. Tara, take it away.

Q: Hey, guys. I hope I don't get disconnected, my phone is dying rapidly. But I wanted to say, thank you, number one, for doing this on Twitter Spaces as your platform for your earnings. I think that is a good marketing decision. As we can interact with you, Eric, the CEO of Rick's, which I think is a really good marketing strategy. I'm long on RICK, and I'm excited for the future of the company and the things that you guys have touched on here. I was wondering if you could elaborate a little bit on your future endeavors as far as competing with OnlyFans.

Eric Langan - President and Chief Executive Officer

The original idea was never to compete with OnlyFans. It was more to create a web-based business for our entertainers. So that they could draw customers into our brick-and-mortar, which would let the customers meet new girls, which hopefully they would follow on AdmireMe, which would bring them into our brick-and-mortar business. So we get a circular feed there of business.

However, I've had a lot of I would call influencers at OnlyFans. I don't know what the word is for that. I call them whales in the casino business. So like the whales of OnlyFans. We've had a lot of them say, "Hey, look, we would like to be on a site. We would like to talk to you about having Meet and Greets for our followers at some of your clubs, and do those types of things, where we'd have a safe environment, where we'd have security, and we'd be protected, if we wanted to do those types of things."

And so we're talking with some of those ladies or women. They are all over 18. We're very interested and very curious as to, can we create this? Can we make this work? Especially in markets like New York, Miami, Denver, Chicago, where a lot of these big influencers seem to live and have reached out to us from. We've got to get the site up and running. I think we're weeks away from doing that. And once we do that, I think we're going to do some very creative stuff as we move forward […] porn stars in the industry, with some combination of brick-and-mortar performances at some of our Nightclubs around the country as well as through AdmireMe and different social media deals as well.

It's going to be a lot of fun, I think. I'm very excited about it. It was a letdown when the Ukrainian war broke out. That put us months behind on this. I thought we'd have this thing going at a much better pace right now. But all of our programmers were in Ukraine. And they finally got situated in places where they could get back to work from and get this project done.

We're very happy for them in that regard. They're safe, and we're ready to build this thing. It's got to be right. One of the biggest things that we were having issues with was the private sale through the private messaging. That is all fixed and up and operating now, which we were told is a very huge part of their revenue is selling private videos and private photos and those types of things through DMs. So we're happy to get all that done.

Q: That is perfect. Thank you so much, Eric, for answering so clear and concisely. And yeah like I said, I think doing what you guys are doing, Mark and yourself, and coming to Twitter, where you can interact with shareholders and have this open dialogue in regard to the future of the company, is not only very transparent, but also I think it's extremely bullish, because you're opening yourself up to that many more potential investors. So, again, I appreciate it. I appreciate your time and letting me up to ask a question.

Eric Langan - President and Chief Executive Officer

You're welcome. And thanks. I love it, because it puts me in a position where I feel like I'm operating the nightclubs again. One of the things I loved about the nightclub business was I threw the party every day. I was talking to people every single day, and as I moved into corporate world, I lost that.

And so, Twitter for me, especially in the last three or four months and recently, it's gotten so fun. It's so exciting. I get to interact with end-users. I get to interact with investors as you've seen on some of my Twitter feeds. I'll spontaneously go, "I'm going to the club tonight. Come see me." And it's great because 7, 10, 15 people show up. We have some drinks. We'll talk, and I get direct feedback of exactly where we're at, what we're doing right, what we're doing wrong.

I get to get the ideas. I think one of the things that made our company so great is that we were able to talk. Upper management is involved in the club operation, they still are. I guess at my level, it's been harder, and Twitter's given that back to me. So, I'm very excited about that.

Mark Moran - CEO, Equity Animal
Thank you so much for the question, Tara. We appreciate it. Next up, we're going to bring Eric Rodawig. Speak Eric, take it away.

Q: Thanks, Mark, and thanks, Eric, for taking my questions today. I wanted to get some clarity on the Cheetah acquisition so we can understand exactly how these acquisitions are valued. I know in the press release that you said that you expected $4 million of adjusted EBITDA for the club with $25 million of total purchase price for both the club and the real estates. So that's a bit over a 6x multiple.

I don't know if the club is being valued at 3-5 and there's some rent paid to the building or there's something else going on there or maybe it's $4 million now, but you expect a higher run rate. But helping understand the underwriting of that acquisition will be really helpful.

Eric Langan - President and Chief Executive Officer
Sure, so let me give you the basics. What I looked at is, we have a 10-year, 6% promissory note at $15 million. If you take that and divide it out, you get the payments. Our cash on cash return is going to be about 33%. Maybe it's a little more, maybe it's a little less, depending on how much savings we get. I know we're going to save on their insurance. Their insurance costs were much higher than ours.

We looked at a couple other things. We think we can shave a few points off of cost of goods and this and that. Hopefully, overall, maybe that $4 million becomes $5 million, $4.8 million, something like that. You pay up to something. We need to make a little over $3.3 million a year to get that 33% return. I think we'll do that, and the rest is just the rent.

I always call it manage to own. We're going to take owner financing. We're going to pay the owner 60% of his free cash flow or 40% of his free cash flow. And then we're going to take the rest, give him cash for it, and then earn that cash back in less than three years. So that we come up with 33%. And in a worst case scenario, it takes us four years, and it's a 25% return. I'll do deals like that all day long.

The real estate was a very big portion of this. I don't know if you're familiar with the property. It's 2.2 acres on Hallandale Beach Boulevard, right off of 95. Unbelievable access, both to the beach and the freeway. You can't beat it. To give you an idea, we bought the Scarlett's property across the street. I think Scarlett's was only 1.9 acres, and we paid $7 million for that property.

We didn't value these things separate. We did it as a global package because the financing that the owner offered was so great for us that we weren't overly concerned with getting to a multiple, but more of a cash on cash return. So that's how this particular one was valued. It's rare. A lot of the owners don't want to carry that much paper or whatnot. But Joe was fantastic and agreeing. He's 82 or 83 years, I can't remember how old Joe is, he's in his 80s.

But for him, he's got a big monthly payment coming every single month guaranteed for the next 10 years. He knows our reputation. He trusts our management team. He knows Ed Anakar very, very well. Ed and he have talked many times over the last five years and had a good personal relationship. And we're able to harness that trust and what we've done in the industry and use that to get a great deal for us and a great deal for Joe. So, I think it was a win-win transaction all the way around.

Q: Okay, thanks. Appreciate that. That's very helpful. One more question following-up on Adam's comments. Maybe five years ago on these earnings calls you would talk about how RICK wasn't at the point where banks would finance it, and the cost of capital was so much higher. You said the cost of occupancy is as low as it's ever been. RCI eventually got to the point where banks would finance it, lowering that cost of capital and making everything that much better. Over the next five years as you're trying to get a larger shareholder base, are there any other tangible benefits like that you see as the company continues to grow and mature?

<u>Eric Langan - President and Chief Executive Officer</u>
I think the next is our equity. If our equity becomes our cheapest cost of capital, then we're able to grow at a much higher rate. We keep these top ROIs that we're doing at 25% to 30% cash on cash. The difference is, they'll go up even higher because we won't be having those huge interest expense payments if we're able to use the equity.

Obviously, we're going to be very cautious. We don't want to go out and dilute our shareholders anytime. We're not going to take undue risk because our capital is cheaper. We're going to treat it just like cash. We're going to treat it just like the bank. It's just going to be, we would use equity, because that's the cheapest cost of capital to the company.

If you look, we use debt more than cash, because debt typically has been very cheap for us on a relative basis after taxes. And so we just use the equation. It's all fifth grade simple math in my book. Adam has pushed me hard on if you had equity, how much faster could you grow? And we've started doing things. If our cost of capital right now, which is between 6%-12%, dropped to 4% or 5%, and we traded at 20 or 25 multiple, how great would that look? And how would the ROI on that become over time, especially as you compound year-after-year with that type of capital cost.

Q: Okay, thanks. Appreciate the answers.

<u>Eric Langan - President and Chief Executive Officer</u>
Okay, thanks.

Adam Wyden – ADW Capital

Eric, can I clarify one thing. You said 6%-12% equity cost of capital. But if your shares are at $60 and you're doing $9 per share of free cash flow, then your equity cost of capital would be more like 16%. Now, I agree with you. In general, if you think about how Warren Buffett values securities, right? He values securities as what is the in place free cash flow yield and what is the organic earnings growth, right?

In this specific case, you have a 16% free cash flow yield. Your earnings growth is probably for now at least 15%. You're going to grow volumes, you're going to grow price, maybe build some Bombshells. In that specific thing, at the very least, you should be trading at a 16 multiple or 15 multiple of what your in place free cash flow is. Your multiple is equal to your organic free cash flow growth and giving yourself zero credit for M&A or capital allocation.

If you look at See's Candies, for example, Warren Buffett bought it. He said, okay, this is in place free cash flow, what's it going to grow organically, what's going to be my return. Even in a world where you had zero M&A or zero thoughtful capital allocation, at the very least, you should approximate what your organic cash flow growth is, and we know that you can grow 30 to 40 with M&A.

I agree with you. A 4% free cash flow yield would be a 25x multiple of free cash flow. That would be a substantial spread to what you're buying, right? If you're buying assets at 5x EBITDA, call it after you get tax advantages, maybe it's a 16% or 17% free cash flow yield when you factor in the depreciation, and what have you. I'm curious, how you're getting the 6-12%? Or is my analysis making sense.

Eric Langan - President and Chief Executive Officer

You're always like 15 steps ahead of me. I have to sit down and write it down, do the math, get back to you. As we were talking the other day, I told you that all my stuff is napkin math. Yeah, it makes sense. And yes, I understand that. I agree with you that I think we're trading much lower [than we should], but I think the market is going to have to set I call it the reward system, right, the market rewards us for performance.

I don't know what the market wants, what reward, and what multiple basis. Everybody says sin discount, and the reality is, we should get a sin bonus. Our businesses are moated. Our cash flow is solid year-after-year-after year. It's like, we own the only bubblegum machine in town that you can get a ball of bubble gum from. We want to charge a quarter, we charge a quarter. We want to charge $0.35, we charge $0.35. We can't charge so much that nobody wants to have bubblegum.

I think at some point, the market's going to realize that. As we've talked in the past I said we can be 50 clubs, we can be 100 clubs, we can have 200 clubs. At some point, like Waste Management, like other roll up stories, we're going to get a premium. I don't know when that'll be. I hope sooner rather than later. As I've said, it makes everything faster. It seems to me like the market and the industry is ready to be rolled up more now after COVID than ever before in history of doing this.

I've been rolling these things up since '99. And I think that the market is more ready than it's ever been, the industry's more ready than it's ever been, and we just need the tools. And that's what we're asking for. That's why we switched to Twitter Spaces. We've asked the institutional investors. Everybody talks about ESG. I don't need institutional investors, I need a 1-2 million of retail investors to go buy 10 shares of stock, go buy 20 shares of stock, 50 shares of stock. Help us create the momentum we need. Give us the tools, and we'll build this thing, and we'll grow with it, and you can become part of our community. You can buy our NFT, you can come into our clubs, and come into Discord. Management's made themselves accessible. I've made myself accessible. You're never going to guess, you're always going to know exactly where we're at, what we're doing.

As I say many times, what you see is what you get and when things are bad I'll tell you things are bad. Like I've said, this quarter has been a little slower, it's summertime, but that's a return to normal. And I think that's how we're going to continue to do things forever. I think at some point we'll reach the right people. We're not for everyone. Not everybody should own our stock. But hopefully we can find the right people that can and will, and we'll create those long-term holders that will build this into a corporation and real company as you always preach.

Mark Moran - CEO, Equity Animal
Thanks so much for the question, Adam. Next up, we're going to be bringing The Blonde Broker to the stage. Erin, take it away.

Q: Hi, guys. I had a quick question. I noticed you mentioned you all were going to a convention next week. I wanted to ask what the investors might expect once you all return from the convention? Are we going to see some good content coming from Equity Animal and RICK and will you all have more Twitter Spaces?

Eric Langan - President and Chief Executive Officer
I think that Mark will do what Mark always does and capture the essence of Expo. One of the things we're going to work on out there is, we're going to have about 300 plus RCI employees out there. And so we're going to be doing some interviews. So as we move forward, you're going to see Equity Animal put some of those interviews on Spaces and let you get to know some of our top executives around the country. I think one of the things that's missed in the RCI story is that everybody thinks it's a one man show or it's a couple of guys that own this. We're a company with 3,000 plus employees. We have 20,000 plus independent contractors. We're actually a very large company and growing at a very rapid rate.

And I want to get that message out there. I want more people behind the scenes exposed to the marketplace, so that people realize how big, how important, and how dedicated our employees are. The number of employees that we have that have been with this company for 20 years, 15 years, 10 years. It's an amazing number of people.

I told Mark I want him to ask, "How many more years you think you're going to be with this company? What plans do you have to leave here? Or what other things do you want to do?" And I think everybody's going to be surprised at how much people love the company they work for.

"RCI Strong" is real. It's ingrained in all of us. You're going to get to see part of that. And I think that's some of the stuff that's missing.

I think that the empowerment of women that our industry gives. We're going to highlight several of our key female employees around the country from hosts to club management, to corporate office staff. We're going to get their stories out there and let you hear it from their own words, without any guidance. You know Mark. It's all raw with Mark. He's going to go in and he's going to ask you crazy stuff. He's going to get you talking. And it's going to be a lot of fun and a lot of jokes in it, but at the same time, you're going to get serious information on the company. That's what I hope to get at Expo this year.

Q: Awesome. I'm excited.

Eric Langan - President and Chief Executive Officer
You got to get out there. You got to come visit with us.

Mark Moran - CEO, Equity Animal
Definitely, please come to Vegas with us. We're looking forward to it. Now, next question is going to be coming from Howard W. Penney. Howard of Hedgeye, take it away.

Q: Hey, thanks very much. First time I've listened to your call. Thank you for doing it. How big is the opportunity for you? Meaning how many clubs are out there that you could roll up over time?

Eric Langan - President and Chief Executive Officer
There're about 2,200 clubs in the US, based on past magazine articles and Barron's and Fortune and whatnot. I think 500 are key clubs for us. Right now we have about 50. So we're about 10%. I'd like to get us to 200 clubs or about a 40% market share of the clubs, what I call premier clubs, the ones we're very interested in.

At that point, we'd be four times the size we are today. Based on our current market cap, we'd have a market cap somewhere between $2-$3 billion and a free cash flow range of $400 million to [$600] million if our free cash flow margins stayed at 20%. That would be very exciting for us.

Q: How many clubs do you look at? Like is it 20 to get one or is it 10 to get one?

Eric Langan - President and Chief Executive Officer
I'm trying to think, we've had so many calls lately. I've got clubs I haven't been able to look at yet. But we're looking at numbers, we're pulling numbers. We try to get financials first. We look at financials before we even look at properties. If the financials aren't there for us, I'm not looking for clubs that I have to go upgrade and fix. I want to buy cash flow. I'm in the free cash flow business. I want a track record of 5-10 years plus. I want to see solid cash flow for the trailing two years.

I want to acquire it, bring it in, and put it under the umbrella. Put our synergies in with cost controls and POS and security – the things we do. Brand it or keep the brand depending on how good their current brand is. And then move on to the next one. I would say, we probably look at 3 or 4 a week at this point right now in various ways. We do pass on a lot of the smaller ones. We pass on clubs that we aren't confident in the market or the competitive level of certain markets.

But overall we're pushing very hard. I call it we're building our downline up. So we have several lined up over the next period of years. We're going to be meeting with owners in Vegas. Some guys aren't ready to get out yet. But they talk about, "Well, probably in a year or two. I'm 67, by the time I'm 70, I don't want to do this or I'm 63, I don't want to do this after 65." Stuff like that.

We're talking with those. We've got some offers out there right now that haven't been accepted yet, but the guys are looking. I'm sure they're shopping and trying to find other buyers that'll pay them more or not. But eventually they're going to come back to realize that a buyer that'll pay them more is going to give them a whole lot less cash down. They're going to want more financing, their risk is going to be higher. They may get more pain. They may [agreed to] get more money, but they never collect the money.

With us, they are guaranteed to get their money. We've been doing this for a long time. We've got an unbelievable track record. Our track record is filed with the Securities and Exchange Commission since 1995. So you can see our track record and what we've done as far as making all our bank payments. We've never defaulted on loans. We've paid everybody. So, I think that gives us a lot of credibility. Guys get there, and it takes time. Plus it's like letting go of your baby.

A lot of these guys have been doing this for 30 years. They've been that same club. They've got employees that they care about. They're like their family. They don't want to sell to somebody who is going to come in and fire all their employees. So it takes time for them to get comfortable that we're not going to come in and fire everybody. In fact, we're buying your cash flow. We want the same people to operate it. They're the ones that have built that cash flow business.

It takes time to get to that point. But I can tell I think it's accelerated. We're getting more calls than ever. The pipeline is great right now. I'll know even more after I get back from Vegas and the weeks following Vegas. As we plant the seeds of, "Hey, this is what we could do." Or "This is something we're paying a higher multiple now." Guys start doing their math. They start coming back with numbers. They start realizing, "Well, gee, I can live in Florida." Or "I can retire to the islands." Or "I can go to a ranch in Montana." Those types of things. I think that's what really gets the train rolling with certain owners.

Q: Appreciate your time. Thank you.

Eric Langan - President and Chief Executive Officer
Thank you.

Mark Moran - CEO, Equity Animal
Thanks so much for the question, Howard. And just noting, Eric doing all this without M&A bankers, because no one knows the business better than this management team. Next up, we are going to have an international caller, Matthias from Germany. Please take it away.

Q: Thanks very much. I might have to apologize for my silly questions, because it's the first call of you I'm hearing. But maybe I may ask first. I don't understand what's the difference between a Nightclub and a Bombshells. Is it simply a brand for a special type of Nightclub or is it only a restaurant and bar? I couldn't understand that. The second question is, you mentioned that you are able to buy new clubs at 3-5x EBITDA. Why is someone selling at that low price? Doesn't really make sense in my eyes. So what's the main reason for sellers to sell? Why do they especially sell to you and not make an auction if someone pays more on this? And as you also mentioned, you're buying a lot of new clubs. What about management resources? Is there a natural limit of clubs that you're able to manage. Let's say 500-1,000 or something like that. Is there a limit that you think would not be clever to go over to still keep the margins?

Eric Langan - President and Chief Executive Officer
Let's start at the top. What's the difference between Bombshells and Nightclubs? Bombshells are a typical restaurant sports bar. There's no lap dancing. There's no real fraternizing with independent contractors. It's more of a typical waitress, more like a Hooters or Twin Peaks, more like a Yard House. There's a traditional lunch crowd in the daytime and traditional dinner crowd in the evening time. Guys hang out the bar, watch TV, flirt with the girls in the afternoons.

Then late night, we bring in live DJs. We can crank up the music. It gets loud, and we become more of a meet-and-greet place for 20-35 year-olds to come on their way out to the Nightclubs to have a little cheaper drink, maybe grab some food, get into the vibe, get into the mood. The nice thing is, a group of girls come, a group of guys come. All of a sudden, they're flirting with each other and talking to each other. The next thing, they never made it to the nightclub. They spend all night drinking and partying at Bombshells, which gives us great margins.

Now the Nightclub business is your typical strip club, gentlemen's club – I don't know what the term is in Germany – but we have nudity, topless dancing or whole nude dancing, lap dancing, VIP rooms, champagne rooms, that type of stuff.

Why do the guys sell for 3-5x EBITDA? Because private equity and banks do not lend money for the acquisition of adult-related businesses, or very few in the United States. Other operators do not have access to capital and the capital structure that RCI has. Because of our large real estate holdings, we're able to borrow money from banks against our real estate, pull out equity, and use that equity to buy and pay cash down in large sums, anywhere from $10 million in this last transaction. We've paid out $5 million of transactions, up to $30-some million in in the Lowrie transaction, and we're able to use $30 million of equity in that transaction as well.

And you say, why us? That's the same answer. We have the ability, we have the capital, we have the track record.

What's our limit of managing clubs? Right now, our internal goal is I want to get to 200 clubs. I'd like to do it in three years. If it takes five, it takes five. If it takes a little longer, it takes a little longer. Our systems are in place. We're completely scalable.

As for the amount of management talent, we bring a lot of our talent up from our existing operations. A lot of times we buy the talent. When we buy the club, it's already well managed, it already has great cash flows. Why are we going to change anything? We're going to leave that current management in place. When we bought Scarlett's, the same general manager had been there for 15 years. He's been there since, I think, 2017 for us. He has no desire to retire. He's doing a great job, prints out cash. So a lot of times we make hardly any management changes, and we grow our team that way. We grow it organically or through bringing people up in our clubs or we do it through acquisitions, where we not only get the club and the land, the property, but we get great employees that have worked in that location for years and years.

I don't know that there's a limit at this point. I'm sure at some point we might reach that limit. But I think I know operators of Burger Kings that own 1,100 of them. If you put the formulas and you put the systems in place, there is no limit.

Q: Thank you. Are there other companies similar to RICK. For example, non-listed companies, which are maybe much bigger?

Eric Langan - President and Chief Executive Officer

It's hard to tell with the private companies. There're two major private companies I would say in the US. There are lots of mid-sized. The revenue size of RICK's? I don't know Deja Vu's numbers but Deja Vu is a very large chain, and Spearmint Rhino was another fairly large chain, but they're more West Coast and international than in the markets that we operate in at this time. But I don't know their capital structures. I don't know their access to capital.

But I can tell you that both of those companies when I started in 1999 were much, much larger than us, and if we haven't passed them, we have definitely closed in. Probably Deja Vu has the most locations. If there's one that's revenue-wise as large as us that would be them. I don't think Spearmint Rhino is anywhere near our revenue size.

Q: Okay. What about the moat of the single restaurant or single nightclub? Isn't it quite easy to get a new competitor down the road? How stable is the restaurant or nightclub business on the long-term concerning a single restaurant or single nightclub? I have an impression in Germany, restaurants come and go, and also clubs come and go. Often maybe if you are told the general manager is going to another club, the business sometimes collapses. Is that a real risk concerning the single club or don't you see that?

Eric Langan - President and Chief Executive Officer

On our Nightclubs side, we're adult nightclubs. So we have nudity, which requires special licenses, adult entertainment licenses, sex-related business licenses, whatever the local government has put in place or states have put in place. Those licenses are mainly grandfathered. There have been many court cases throughout the last 25 years. The existing locations are the only locations that can operate now in those markets.

If anybody else tries to open, they're not allowed in what I call economically viable locations or they have operating restrictions that are much, much different. They can't operate at the same level or same manner that we do. That gives us a huge moat in the nightclub business. That's why we own our property. The licenses are tied to specific property, address, or zoning. That's why we buy our property in the Nightclubs.

As far as the Bombshells, sure, other people can open [a] Bombshells [type restaurant-bar]. There's been a lot of other types of sports bars, restaurants, nightclubs that do similar things to Bombshells. But with Bombshells, we buy our property, for the most part in super high traffic, high flow areas. The population growth in our areas is all strong where we're at right now. It's very expensive to build a Bombshells. It's not a typical small hole in the wall place that is easy to open and compete at the same level.

I think that we have certain operational advantages with our history of being in the business for so many years. We've been fortunate and very strong. All of our locations are profitable. They all continue to be profitable. And we haven't had any real competition that comes in and affects our revenues. Our oldest locations have been there for over 10 years. Most of our locations are going on 4-7 years old right now. We're starting to expand over the next three years, hopefully another 18 locations.

If you ask me the biggest risk, Bombshells would probably be what I consider higher risk than the Nightclubs, but I still think it's relatively pretty low. Anybody can go knock off Chili's or Olive Garden, Texas Roadhouse, Ruth's Chris Steak House. Yet they all seem to have their brand, their branding, their concept, and they have their followers that like that brand, are patrons of that brand, and support that brand. I think Bombshells has done and created the same type of atmosphere, and we've proven the concept works for over 10 years now.

Q: Thanks and wish you luck in the next quarter. We will be happy to follow the earning calls. Thank you.

Mark Moran - CEO, Equity Animal
Thanks so much. We appreciate it. Now, Eric, one question that was submitted to me by Hot Girl Capital is, do you plan to open a Nashville location, maybe a naughty honkytonk in the future?

Eric Langan - President and Chief Executive Officer
Nashville is a very tough market. We were working on a partnership club up there. We've stayed out of that market. The liquor laws combined with the adult entertainment laws are very different in Nashville. They want to be the bachelorette capital of the world. I don't think they really want all the guys there. But I don't know. It seems like they're not very favorable to our industry in that market. But I'm a "never say never" guy. We're always looking. We're always trying and hopefully someday we find something that makes sense.

Mark Moran - CEO, Equity Animal

Fantastic. Now, we just hit 90 minutes. So we would love to encourage everyone to retweet and share this to get some more people in here. For our next question, we're going to be going to Caesar.

Q: Thank you, Mark. I have a question, Eric. You're telling us that you think that the expansion will be 3-5 years, but that's US based. When will be the time that management thinks that you can go with Rick's Hospitality abroad? I'm talking Europe, Amsterdam, Paris, Milano, Mexico, and Latin American countries, Los Cabos, Cancun, Monterrey, Mexico City. When will be the time for Rick's Hospitality to go abroad to expand?

Eric Langan - President and Chief Executive Officer

Yeah, sure that's easy. When we run out of opportunity in the US. One of the biggest things is, we have to learn those markets. We have to learn the legalities, the laws. We have to find legal counsel. There's a lot of homework and a lot of legwork to expanding internationally. We've done some of that legwork in Canada. We've done some of that legwork in Mexico in the past. And of course, Argentina. It's been a while. Since then, we've decided to stay focused in the US. Like I said, until when we run out of growth here and run out of expansion plans here. I'm not against international travel and international markets. I think it would be great to create a conglomerate of that size, a branding that would exceed continents. It's just going to take time.

Right now I think we've got enough. Like I said, the next 3-5 years, I think we're pretty wrapped up here in the US. As we continue to roll up this industry and compete here, then we'll have to look at other markets. Now, Bombshells may expand in some of those markets through franchising much faster. It's just early in the stage of Bombshells, but we'll see as our expansion grows through franchises.

Q: Thank you for your answer.

Mark Moran - CEO, Equity Animal

Great, thank you so much for the question. Just want to take a moment to encourage everyone to follow Eric, Equity Animal, and most importantly, Bradley on Twitter. We want to get his follower count into the four digits or else he's not going to be allowed home once he returns to Houston. Next up, let's bring Eyes to the Floor. Eyes, you're up.

Q: Thank you for having me. My question is about Bombshells. You've been pretty methodical about growing Bombshells. You've had like 11 locations over the last 10 years. But right now, you seem to want to be ramping that up with both having franchisees and company-owned locations.

I know you have to slow down now due to inflation concerns. What is it about the concept now makes you really positive about Bombshells? Is it the size of the location? The patio spacing? Your newer locations seem to be performing a lot stronger than your older locations. If you could touch on that, that'd be great. Thank you.

Eric Langan - President and Chief Executive Officer

It took us time to learn. Our first few years were massive learning experiences for us. We didn't understand the demographics of our customer base. We didn't understand a lot of things. Restaurant was new to us. We knew the nightclub business. We know the liquor business very, very well. But the lunch crowd, the dinner crowd, the different day parts of the business. We brought in an expert. The big thing is just growing the team and the support staff. We've grown that so much now.

We opened six locations in 18 months in the past from 4 to 10 locations. The growth was very rapid. We stretched management very thin. We realized we needed to take some time and build up. Right as we were getting to the end of that, COVID hit. We're right ready to go. "All right, let's go do six more locations." Then COVID hit, so we had to take a break from that.

We are working on six locations. We have two bought, two under contract. We ended another contract yesterday, it's still very early on that, there's a lot of due diligence to do. We have time on that one to figure out in case something doesn't work. The architects and engineers are working full time to get that location up.

We're not too far off in Stafford. The demo is all done. We're going to start putting the restaurant back together, start doing some of the work. But we're waiting for certain things like concrete costs. Steel has come down. So we're probably getting the steel order here very soon. The roofing costs are coming down. We found a roofer who's looking for some work. The biggest part is, like I said, the subs have so much work that it's like, "Oh yeah I'll do it for you. But the $100,000 job is going to be $180,000."

When you have 20 contractors or subs telling you it's $80,000 more, you'll spend another $1.6 million to build that location. I'm not prepared to do that. So we'll wait. We'll take our time. We'll wait till the subs need the work. We'll negotiate down, and we'll build them at the cost they're supposed to cost. Maybe we'll pay a little bit more here and there, but not to the tune of an additional 70% of cost of what we paid to build the Arlington store. Those costs are coming down. We're getting more in line. I wouldn't say we're GCing, but we're doing some of the subs search ourselves.

The same thing for Rowlett, Texas. We're waiting for building permits there. We'll get those bids out. It's a new construction project. Typically a new construction project will have an easier job for the GC. You'll go with a group that will do 90% of the build out of the building, land, concrete, and all that stuff. If they're going to bid it, they're going to tend to give us a fairly market rate bid versus, "Oh I'll do this job if I get paid a lot of money." I think we're on the course for that. We'll see as the next few months go by. I think September, October, November, we're going to watch inflation and watch commodity costs, and we'll have to see where it goes.

If at some point it doesn't look like that, like I said, we're sitting on the land. We've got the land financed. Most of it is 4.99%, 5.25%, 5.4%. Stuff like that. So we can sit on it and wait, and pay a little interest. It's a lot cheaper to pay a little more interest cost than an extra $1.6 million per build. That's where we're at.

Q: All right, perfect. Thank you so much.

Eric Langan - President and Chief Executive Officer
Yeah, thank you.

Mark Moran - CEO, Equity Animal
Thanks for the question, Eyes. Next up, let's bring Johnny Shen to the floor. Johnny, you're up.

Q: Thanks for taking it. Good job on the quarter on all that. I wanted to go back to the Cheetah's deal, because it's new, it's interesting, it's a decent size. You didn't quite say this, Eric, but it sounds like you're saying this was a unique deal. Would it be inappropriate to model future M&A too closely off this deal? Is that a fair interpretation?

Eric Langan - President and Chief Executive Officer
Very fair. It's definitely a very unique situation. I'm not saying we won't get more unique situations. But the VCG deal or Lowrie deal as most people call it, for the Denver clubs, 11 club acquisition; if you look at the Playmates acquisition in May; if you go back a few years and look at the Scarlett's acquisition; those are more typical acquisitions for us. About 4x EBITDA for the business plus the real estate, which typically will make the deal at an overall 5x deal.

Then we typically will go in and improve everything by about 20% which turns around and makes it a 3x for the club. So we end up taking it from a 5x EBITDA deal down to a 4x. You'll see us put about anywhere from 30% to 40% cash down and finance the rest. Or maybe some of them are all cash deals, but we use a third-party financing group.

So we give 30-40% in our company cash. And then we finance or even on Scarlett's, for example, we borrowed 100% of the money. The whole entire down payment was borrowed from a third-party or a group of people for a third-party. It's almost infinite cash on cash returns. Anything we made over the interest expense on that transaction was all additional free cash flow for our shareholders.

It depends on our leverage at the time. I'm comfortable to 3x leverage. The highest leverage ratio I think we've ever been at was 3.14x trailing 12-month EBITDA to debt ratio. Currently, we have $188 million in debt. We're probably at most 2x, probably under 2x, debt to EBITDA ratios right now. So we've got a lot of room to grow through debt. We've got $37.5 million in cash. We're generating $1 million plus a week in cash, I think right now.

We've got plenty of capital available, and it looks like plenty of runway out there with the acquisitions that we're working on. Obviously, the more cash we have to put down, the better and bigger the deals we can do. If you're making $14 million in cash, and I offer you a $20 million down payment, you can wait 16 months, and you make the same $20 million. You've really got to want to be a seller. But when I can walk in and offer you $40 million cash down, now you've got almost three years cash in advance. Then you're getting big monthly payments every month. The guys are more inclined to do the larger deals and sell me $14 million plus in EBITDA at a single time. Those are the things we're running up against.

On the Cheetah's deal, the other thing is our current bank. After all the interest rate raises, it's quoting us 6.39% on a five-year interest rate adjustment. We locked in 10 years at 6% for the entire length of the note on Cheetah's. Like I said, it was a very favorable financing deal for us, and an overall great deal for us, as you'll see on the cash and cash return as those numbers come in over the next three years.

Q: Yeah, that definitely seems likely. On that note, when we look at seller notes, I'm guessing the company doesn't tend to prepay these. Is prepayment usually something that's completely off limits based on the structure of the notes? For example, when you have retirement seller notes, if you have an estate situation? What's the model framework?

Eric Langan - President and Chief Executive Officer
No. There're no prepayment penalties. There's no acceleration in any of our seller notes. Have we paid them off? Yeah, we had 9% notes back in the day. We got bank financing at 5.25%. So of course, we borrowed the money, paid off the 9% notes, and took the real estate, and put it with the bank, instead of the seller.

It all depends on what the sellers' motivations are and then what our cost of capital is. Obviously, if I can save 4%, sure, I'm going to go to the bank, borrow the money, and save 4% of interest on a $15 million note. Sellers are realizing that and we're seeing – as you're seeing in our deal, 6% notes, 7% notes because they don't want those notes paid off.

These sellers want to create an annuity for their family. They're older. They want that monthly cash flow so that they know that they're going to be taken care of, their family is going to be taken care of, as that money comes in every single month over the period of the note.

Q: Okay, that's cool. That makes sense. Now, you mentioned having a couple of offers out and obviously, it's reasonable to expect they're being shopped around. Do you tend to get a good amount of visibility or intel on when deals don't happen? Obviously, when deals don't happen, you end up finding out no matter what, usually, who the buyer is. This doesn't feel like you're mostly dealing any situations with one-offs or do you see the same names pop up?

Eric Langan - President and Chief Executive Officer
Typically, if we don't buy it, it doesn't sell. That's what we find. It's like, "Oh, I need more money than that. And you're not going to pay me more money, and no one else is going to pay me more money."

If you listen to other industry buyers out on the Street, you'll hear them complain, "RCI pays too much." No, RCI makes fair and good deals. In the past, especially in our industry, it's all been about only buying when people are in forms of desperation. And so you've seen super low prices, and that's what guys are used to.

But when you have a retiring seller who understands the value of his business, you have to give them a fair price or why would they sell? As the caller said earlier, why would somebody sell at 3-5x EBITDA? Well, there's multiple reasons. Typically 5x is a very high offer in our industry right now. I think it's a very fair offer due to the risk and uncertainties of our industry, the state of our entry, and the fact that there's no one else that at this point can deliver.

Everyone says, "People buy restaurants all the time, they buy nightclubs all the time, why don't they buy?" Adult entertainment is a very specific and unique management capability that you have to have. There're regulations that people aren't used to. There're all types of situations that you have to deal with or be aware of or block. You have cash handling. There's a lot of complexity to the overall industry. And we have the issues ourselves, where people won't do business with us. They won't lease to us or they don't want to sell property to us, because we're in the adult entertainment business.

You've got to be willing to deal with those things as well. To come up with the money and do the deals that we're doing, you're talking about fairly wealthy people. Maybe they're big in their community, they're big in their church, they're big in their country clubs, and they don't want that stigma of adult entertainment. Whereas RCI, we embrace it and move forward, and we are what we are, and we know we are, but we're trying to change the perception of what the industry is as a whole.

The biggest problem with our industry is, as I've learned through most 25-35 year-olds as we moved into Twitter, as we moved into the NFT space, their concept of an adult nightclub is Ozark. I don't know if you've watched the Ozark series [on Netflix], but they see the dingy strip club. People are all thugs or a gang leader or drug dealers. Rick's is the exact polar opposite of that. It's very Corporate America, very structured, very rule oriented. Our cash handling systems are comparable or equal to casinos.

And that's just a different business model. That age group that hasn't been to the club, hasn't seen firsthand our industry, doesn't know any better. And so that's why we embrace Twitter and that's why our NFT project is about building the future and building that 20-35 year-old customer base and bringing them into our businesses and giving that life experience of the fun and excitement of our industry.

Q: Great. And then sorry, just one more and it is back to Cheetah's. It popped into my head when I heard you talking about it earlier. I remember the press release saying $4 million of expected EBITDA. And then it sounded like when you were freewheeling, you were starting to use some like synergy add-ons. So is that $4 million EBITDA figure in the press release, is that a sort of pre-synergy, pre-operational improvement number? Where is that coming from?

<u>Eric Langan - President and Chief Executive Officer</u>
Yes. That's based on the existing business as it is at the time we purchased it.

Q: Okay. So since it's Florida, are you just looking at it like last year? Are you still doing like a pre-COVID interpolation there?

Eric Langan - President and Chief Executive Officer
We do a current year, past year, and 2019, still right now. We want to see where they were in 2019 versus where they are in the last few years.

Q: Because for Florida, it could be that this is a banner year for them, right?

Eric Langan - President and Chief Executive Officer
Yes. Which is why they made more money in 2021 than they're going to make in 2022. You've got to remember the last big stimulus checks went out in March of '21. And they rocked through September right, six months, the last six months everything was blown up.

So that's why I'm really excited. Everyone says your comps are getting harder. Yeah, the comps are probably harder for July, August, September this year because nobody traveled last year. They had this stimulus money. Not a lot of it was left, but some of it was left, but nobody traveled. Nobody went to Europe. Nobody went to Mexico. This year, Europe's complaining, everybody's complaining, all the airlines are complaining about all the people flying. You go to Florida, look at the tourist market in Florida right now. It's insane.

Like I said, last year I went to Gulf Shores, Alabama, because it was the only thing open. You couldn't even rent a VRBO last year in Florida. So we ended up in Gulf Shores, Alabama, which was very nice, great white sand beaches, I highly recommend it, especially for a family type vacation. You can't beat that lower cost, and it's really nice, and it's in the middle of Florida and Texas.

Q: Yeah, thanks. I'll tell my wife that I was on Rick's call to figure out where to take her and the kids for vacation. I want to say, not for nothing, but you mentioned that how much stimulus would have been left. I think people are undercounting stimulus, because there's a lot of things that weren't officially stimulus, that are, like the student loan repayment, which, for a lot of high earners, like if you're a doctor with student loans, it's not materially different from getting a check for $1,000 a month from the Feds right now, however long that goes. But thank you so much for the answers. Helps to firm up our thinking about it.

Eric Langan - President and Chief Executive Officer
Thank you.

Mark Moran - CEO, Equity Animal
Thanks so much, Johnny. We're going to take questions from two more individuals, but just happy to know I'm taking my ex-wife to Gulf Shores, Alabama for our next vacation. Next up, we are going to have Hot Girl Capital of BTG Long Short Equity Partners. Hot Girl, you're up.

Q: Hey, thank you so much. The Space has been great. I was curious if RCI Hospitality or any of the specific clubs have merchandise for sale?

Eric Langan - President and Chief Executive Officer
Yes, we do. Especially Tootsie's. It's different from market to market. But Tootsie's is probably our biggest marketing club. I think Diamond Denver has some stuff, but we have stuff everywhere.

What we probably need is a strong online presence is something we've never developed. We've always been small, but that's one of the things we should probably look into as we move forward, especially for the Bombshells brand. Bombshells has tons of merchandise. Every store has a big merchandise display case in the front. There are some things you can buy online right now, like Rick's hats and different products through some of our websites.

I always joke we need to be like Hard Rock Cafe and Planet Hollywood and have a lot of cool little neat things that people could collect and go to all the different clubs and try to collect all the different shot glasses or keychains and stuff like that. So thanks for bringing that up. It's something I'm going to put on the Vice President's calendar to start putting together and see what it looks like.

Q: Great. Thank you so much.

Mark Moran - CEO, Equity Animal
It looks like we'll be adding that to ZeroTangoTango's to-do list. Hot Girl Capital, it's those hard hitting questions that we really appreciate over here, so thank you for that. Last but certainly not least, we have Dimes Square Holdings. Dimes Square, you're up.

Q: Thanks, Mark and thanks everyone else for hosting this earnings call. Congrats on the quarter and all that. I was talking to my friend @SoullessAnalyst, and we're wondering why or why not it would be a good idea for you guys to do sale leasebacks when you're doing acquisitions?

Eric Langan - President and Chief Executive Officer
We've looked at sale leasebacks, but the reality is we'd pay higher interest rates. Why lose all the amortization and depreciation just to report higher EPS, but have lower free cash flow per share? We're not worried about EPS. We're worried about free cash flow per share and our overall free cash flow.

We also looked at a REIT in the past, a Real Estate Investment Trust. The problem is our licenses are tied to the real estate, and if at any point we lose control of the real estate, we have an uninvited partner. Because every time a lease runs out, the rents go up, and they go up more and more based on how much money we make. The better we do our job, the more they try to take from us.

We learned that after many, many years in this industry. In fact, we just passed on a nice acquisition I would love to have because the owner won't sell us the property. He said, "No, I want to keep the property." We told him to do 1031 tax free exchange. We told him everything. But the reality is, he wants to be our landlord so that 10 years from now his family can raise the rent on us again, and 10 years after that, he'll raise it again. It's not what we do. We own our real estate for the control of the licensing.

Q: All right, great. Thanks.

Mark Moran - CEO, Equity Animal

Fantastic question, Dimes Square Holdings, to finish this off. I want to thank everyone for tuning in and encourage everyone to follow Eric, Bradley, ZeroTangoTango, and Equity Animal on this. For those who joined us late, I want to say that you can meet up with management and myself tonight at 7 o'clock at Rick's Cabaret, 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, ask for Eric Langan or me at the door. On behalf of Eric, Bradley, who will be offering free complimentary fireball shots, the company and our subsidiaries, thank you and good night. As always, please visit one of our clubs or restaurants.

Just wanted to thank everyone, again. Encourage everyone to come out to Rick's 50 West 33rd Street tonight. We'll be there. We're heading there right now, and thank you for the opportunity to listen to this. Have a good one everyone.