

Transcript of
RCI Hospitality Holdings, Inc.¹
Q1 2024 Earnings Call
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Participants

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

Analysts

Anthony Lebiedzinski - Sidoti & Company
Scott Buck - H.C. Wainwright
Robert McGuire - Granite Research
Jason Scheurer – Orchard Wealth Management
Evan Tindell - Bireme Capital LLC
Adam Wyden - ADW Capital

Presentation

Mark Moran - CEO, Equity Animal

Greetings and welcome to RCI Hospitality Holdings First Quarter 2024 Earnings Conference Call. You can find the company's presentation on the RCI website. Go to the Investor Relations section and you'll find all the necessary links at the top of the page.

Please turn with me to Slide 2 of our presentation. I'm Mark Moran, CEO of Equity Animal. I'll be the host of our call today. I'm coming to you from New York. Eric Langan, President and CEO of RCI Hospitality and CFO Bradley Chhay are in Houston.

Please turn with me to Slide 3. If you aren't already doing so, it is easy to participate in the call on X Spaces. Login to X, formerly known as Twitter. Go to @RicksCEO and select a space titled \$RICK, RCI Hospitality Holdings, Inc. 1Q24 earnings call.

To ask a question, you will need to join the X Space with a mobile device. To listen-only, you can join the X Space on a personal computer. RCI is also making this call available for listen-only through traditional landline and webcast. At this time, all participants are in a listen-only mode. A question-and-answer session will follow. This conference call is being recorded.

Please turn with me to Slide 4. I want to remind everyone of our Safe Harbor statement. You may hear or see forward-looking statements that involve risks and uncertainties. Actual results may differ materially from those currently anticipated. We disclaim any obligation to update information disclosed in this call as a result of developments that occur afterwards.

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

Please turn with me to Slide 5. I also direct you to the explanation of RICK's non-GAAP financial measures. Now, I am pleased to introduce Eric Langan, President and CEO of RCI Hospitality. Eric, take it away.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Thank you, Mark. And thanks everyone for joining us today.

If you'll please turn to Slide 6, our first quarter revenues were in line with what most people were expecting. They totaled \$73.9 million, up 5.6% compared to last year. This was primarily due to club acquisitions, which more than offset a consolidated same-store sales decline of 9.8%.

The fundamental Nightclub business remains solid. We believe Nightclubs same-store sales reflect the macroeconomic uncertainty everybody is talking about. Margins were lower than what we had been expecting, mainly on the Bombshells side of the business. Bradley will go into that in more detail later.

EPS was \$0.77 per share with non-GAAP at \$0.87. Net cash from operating activities and free cash flow held up very well. They declined only 8% and 3%, respectively.

Please turn to Slide 7 for other key takeaways. We are pleased to report that during the quarter, and after the quarter, we continue to make progress toward our key initiatives. We have a solid plan to lower costs, increase revenue and return our margins to their target goals.

The newest development is an agreement to re-launch AdmireMe with a strategic partner already in the online and mobile adult entertainment business. During the first quarter, we also continued to buy back shares, and we remain confident we have access to sufficient cash resources to implement our plans.

Please turn to Slide 8 to review Nightclub development plans. We continue to add value to our Baby Dolls-Chicas Locas acquisition. Sales in the first quarter were up 10% from the fourth quarter and have improved every quarter since we've owned them. In addition, our margin improvement program resulted in 130 basis point improvement on a sequential quarter basis and 260 basis point improvement versus the acquisition's performance in fiscal '23.

Looking at new clubs, the replacement location in Lubbock, Texas is nearing completion. Due to the success of the Baby Dolls brand, we are converting the Abilene location to that format, which is awaiting installation of its audio and video systems and furniture delivery. The planned Baby Dolls in West Fort Worth is simply awaiting the building permit to begin construction.

The Chicas Locas brand has also been successful for us. As a result, we have decided to remodel and convert a BYOB location in Harlingen, Texas into a Chicas Locas, and we are currently awaiting the issuance of the liquor license.

Regarding acquisitions, we are evaluating a sizable number of targets. The hardest part we face is coming up with fair value because owners want to be rewarded for post-COVID highs during 2021 and 2022, and we typically buy on a two-year historical performance.

Please turn to Slide 9. We continue to be excited about our Central City, Colorado casinos, Rick's Cabaret Steakhouse & Casino and our Bombshells Sports Casino. In the few weeks since Christmas and New Year's, there have been no new developments with our gaming license.

Meanwhile, interior construction on the Rick's casino has been progressing on schedule, and we anticipate completion in June of 2024. We will then await issuance of our gaming license so that we can install, test and configure the devices and systems in order to open the casino. For the Bombshells casino, we are waiting for building permit.

We continue to anticipate both casinos to open in fiscal 2024, and they will represent a significant free cash flow opportunity. In Colorado's most recent fiscal year, Central City slots averaged \$131 adjusted gross proceeds per day, and nearby Black Hawk does \$307, mainly because they run 24/7 as we planned to do.

Please turn to Slide 10. AdmireMe is a service we've been developing to help club entertainers monetize their content and develop stronger relationships with our customers. Based on the agreement that we've just recently signed, we will retain 75% ownership, our new partner will own 25%, and the service will be re-launched later in the June quarter under a new name. This partner has an existing internet platform with domestic and international traffic, safety controls, credit card processing – all necessary technology we need at a far less cost than if we did it alone.

This includes highly valued live video streaming. The result is that overnight, we obtained access to a strong technology infrastructure with significant distribution and proven revenue collection and disbursement capabilities. This will provide club entertainers with even greater potential to make money, and RCI will become the largest publicly traded entity owning a worldwide interactive social media adult platform with streaming video, both live and pre-recorded.

Our vision is to create a digital expansion of our physical brands, connecting tens of thousands of contractors and workers on the front lines, the entertainers and waitresses and the customers who come through our door so they can continue to interact or receive content. We want it to be an easy and seamless way for entertainers and waitresses to monetize their relationships 24 hours a day, 7 days a week, 365 days a year. You walk into the club, the entertainers are on the platform promoting themselves, getting customers to sign up and subscribe to them, and then come back and visit them in the club.

Please turn to Slide 11 to review our Bombshells development program. Our newest location, Stafford, a suburb of Houston, opened in mid-November. Construction is continuing in our Rowlett location, which we plan to open in late June or July of this year. Our Lubbock location construction is well underway, and we plan to open that in the fourth quarter of '24 as well. We are getting ready to begin the remodeling of the downtown Denver location as soon as we receive our building permits. Since it's the simple remodeling and existing restaurant location, it should be a quick turnaround to get this site open.

As for future developments, we have decided to list our Aurora, Colorado site for sale or lease and to put our second Austin location on hold. Both moves are intended to help us better focus on other opportunities. The Huntsville franchisee is still awaiting his building permits.

The bigger issue is Bombshells performance. After we've seen the results from the quarter, we have made major structural management changes to the Bombshells team and we're also considering any and all options to improve performance. That potentially includes seeking an operational partner or selling the business.

Now here's Bradley to go into more details on our results.

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

Thanks, Eric, Please turn to Slide 12 to review our Nightclubs segment. Fourth quarter revenues increased \$4.7 million year-over-year. This was primarily due to an \$8.9 million increase from acquisitions and a \$4 million decline in same-store sales. By revenue type, alcoholic beverages increased 18.7%; food, 14.1%; and other by 8.2%. Service declined 1.6%. The differing growth rates reflected higher alcohol and food in the sales mix from the newly acquired Heartbreakers, Baby Dolls and Chicas Locas clubs. GAAP operating income was \$20.4 million or 33.4% of revenues. Non-GAAP operating income was \$21 million or 34.3% of revenues. Margins were affected by different sales mix from the newly acquired clubs, lower service revenues and wage inflation.

Please turn to Slide 13 to review our Bombshells segment. Fourth quarter revenues declined \$700,000 year-over-year. This primarily reflected a \$2.7 million decline in same-store sales and a \$2.1 million increase from the newly acquired and new locations. The acquired locations are Bombshells San Antonio and Cherry Creek Food Hall with its Bombshells kitchen. The new location is Bombshells Stafford, which opened in mid-November. GAAP operating income was a profit of \$86,000 or 0.7% of revenues and non-GAAP was a profit of \$149,000 or 1.2%.

Please turn to Slide 14. The combined operating loss from our other and corporate segments was \$400,000 less than that of last year. On a non-GAAP basis, they were about \$100,000 less. I also wanted to note that the effective tax rate for the year was 19.9% compared to 22.8%. The rate is affected by state taxes, permanent differences, tax credits, including the FICA tip credit.

Please turn to Slide 15. We have a couple of slides coming up that will discuss free cash flow and adjusted EBITDA which are non-GAAP. In advance of that, we wanted to present you with the closest GAAP equivalents on the slide, which are operating and net income.

Now please turn to Slide 16 to look at some of our other key metrics. We ended the quarter with cash and cash equivalents of \$21.2 million. During the first quarter we used \$2.1 million to buy back shares. First quarter free cash flow was \$12.7 million or 17% of revenues. Adjusted EBITDA was \$17.5 million or 24% of revenues. Our more recent free cash flow and adjusted EBITDA conversion rates reflect the lower percentage of service revenues in our Nightclubs business.

Please turn to Slide 17 to review our debt metrics. Debt as of December 31st declined \$5.8 million from September 30th due to scheduled pay downs. The weighted average interest rate was 6.61%

in line with what we have been paying. Total occupancy cost was at 8.2% and inched up a little bit on a sequential quarter basis, but we are still in our comfort range of 6% to 9%.

At 2.9 times, debt to trailing 12-month adjusted EBITDA also inched up just a little bit, but continues to be in a comfort zone of less than 3. Please note that both occupancy costs and debt to adjusted EBITDA reflect the fact that we are developing a number of projects. As they open and we begin generating revenues and EBITDA, occupancy costs and debt to adjusted EBITDA should decline. Debt maturities have continued to remain reasonable and manageable. We're also in the process of completing a \$20 million cash out bank loan using \$30 million of our unencumbered real estate.

Please turn to Slide 18 for our debt pie chart. We continue to pay down all our slices of our debt. The percentage share of our different pieces of debt remained largely the same as the fourth quarter.

Now, let me turn the presentation back to Eric.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Thanks, Bradley. Please turn to Slide 19. Before we go into Q&A, for our new investors, I want you to know that everything we do is centered on our capital allocation strategy. We employ three different approaches, subject to whether there is a compelling rationale to do otherwise: mergers and acquisitions, organic growth, and buying back shares when the yield on our free cash flow per share is more than 10%. All this is being done with the ultimate goal of driving shareholder value, by increasing free cash flow per share by at least 10% to 15% on a compound annual basis. To see more about this strategy, please visit our new website at www.rcihh.com.

Please turn to Slide 20. By sticking to our capital allocation strategies at the end of fiscal 2015, we have generated compound annual growth rates of 10.2% for revenues, 12.1% for adjusted EBITDA, and 17.2% for free cash flow. We also reduced our fully diluted share count, including shares used for acquisitions.

But nothing goes up in a straight line. The key point is, we have the plans, tools, resources and expertise to get the job done. We'll make more acquisitions. While taking a little longer to get projects up and running, the drag will be behind us, the doors will open and our numbers will improve. We will get our free cash flow and adjusted EBITDA margins back to the 20% and 30% range as we have in the past.

Unfortunately, in the current environment, it has taken us a little longer to open new locations. But we have dealt with economic downturns before. I know that these numbers are a little disappointing to some, and they are disappointing to us. But I ask you to have faith in our team's ability as I do, that we will reach our future targets. Thank you to our loyal and dedicated team members for all their hard work and effort and all of our shareholders who believe and make our success possible.

Now here's Mark.

Mark Moran - CEO, Equity Animal

Thank you very much, Eric and Bradley. If you'd like to ask a question, please raise your hand in the X Space. When you finish, please mute your microphone to eliminate any background noise. We only have a limited number of speaker spaces. So after you ask your question, we may ask you to move to the back of the audience to free up space.

To start things off, we'd like to take questions from RICK's analysts, and some of its larger shareholders before moving into general Q&A. First up, we have Anthony of Sidoti & Company. Anthony, please take it away.

Q: I do want to get into a little bit more about the same-store sales numbers as far as traffic versus average ticket that you've seen. And also in your January sales release, Eric, I think the quote was saying that hopefully, we've seen the worst of the same-store sales declines, given the uncertain macro conditions. So just wondering if you think that's still true. And I have a couple of other questions as well.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Same-store sales declined obviously. Not much has changed from the last call. We got December numbers. December was decent. January was starting off okay. Then we had the weather issues for a couple of the middle weeks, but finished very strongly. The first week of February has been a good week for us overall. I don't have breakdowns on same-store sales for January, February, because it's just too early for me to have all those numbers yet. Hopefully, we'll get an idea of those soon.

I think the worst of it is behind us. Bombshells is still an issue. We've had to make some cost changes there and some structural changes in management, and how we're operating those locations. Hopefully, we'll start seeing those results as we move into March Madness. We're doing a big push for March Madness. Some other changes we started today with our launch of Lingerie Thursdays.

We're going to do a few more things. We'll take the Bombshells concept and make it a little more risqué. I think the team started to focusing on restaurant operations too much, and we've got to get back to our basics, which is keeping our alcohol sales at the 60% range of sales. Those have declined a little bit, and I want to get that back to normal and making the place fun again, especially in the evening hours. That's what we're focused on right now.

Q: Got you, okay. I know you recently hired a new Assistant Director of Operations for Bombshells. What has he done so far? And what are your plans? Can you share any specifics as to what you're doing as far as to get that segment in better shape?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

We've done some cost cutting at the management level, taking our regional managers, and put them back in individual stores. Having some of those folks in the individual stores allowed us to get rid of some underperforming general managers, and not replace other managers that have naturally left through attrition by moving people around.

Then the new guy has been in training in Houston. He's now in Dallas. He'll be working at the Dallas and the Arlington locations to get those locations, which are our biggest decliners, back in shape. Just making sure people are promoting, and really focusing on customer service, and making the place fun again to hang out in.

I think I said earlier that they had been focused on restaurant operations more than what I would consider the alcohol sales operations. I think that's the key. We've made some major changes in music formats, DJs. As we went and visited stores and sent our secret shoppers in, we found things that we weren't happy with on some of the direction that the current management team had taken.

Then also by moving these regionals into direct stores, you will have a lot more accountability as we move into the March, April, May months, and we'll see significant changes or will continue to make changes to management there as well.

Q: Got you, okay. And then switching gears that you talked about the AdmireMe re-launch with a new strategic partner. How should we think about this as far as from a financial perspective, as far as what this could mean to you guys? If you could add any additional color, that'd be great.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

For the new site, our new partner already has the software up and running. We're going to white label that software. We're waiting for the skins to be done right now, which hopefully will be done sometime in April. We'll begin early testing and full launch in this next quarter.

It lowers our costs tremendously because we were spending about \$40,000 a month on programmers trying to get AdmireMe up and running. It'll cut about a half million dollars a year from our expenses, which is a part of our overall plan to cut over \$2 million a quarter in expenses from our budget right now.

We'll continue to move forward launching this new site with video streaming, which we didn't have in AdmireMe and weren't going to have on AdmireMe for some time. Who knows at what cost to get to that? I think it just moves the software light years ahead. The concept is still the same to get all of our entertainers, wait staff and employees that are interested in creating content, to create content and have a means to do so.

Q: All right. Well, thank you very much. I'll pass it on to others. And best of luck.

Mark Moran - CEO, Equity Animal

Fantastic. Thank you so much. And next up, we'll bring Scott Buck of H.C. Wainwright. Scott, take it away.

Q: Hey, good afternoon, guys. Thanks for taking my questions. Eric, I'm curious on the licensing. I know you don't have an update for us. But I'm curious at what point do you start to get a little nervous in your ability to get the properties opened by year end fiscal '24?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

We need to be on the agenda for approval by May. If we're not on by May, it'll be very difficult. It's going to take somewhere between three and four months, so somewhere between 90 and 120 days to do all the install, testing, and get all the certifications we need from gaming to get the final go live approval. If we want to open in September, we need to have that approval for the license itself no later than the end of May.

We have quarterly updates with them. The next update is in about a week from now. Once we have that update, hopefully we'll have better information on where they're at in the process. As far as me getting worried, I don't really worry unless all the other licenses start getting initiated to other operators that have applied. I think there's six licenses applied for in Central City right now. If all those were to start getting approved and ours was not getting on the agenda, I would be concerned. As of right now, there's no concern. I think it's just a normal flow of operations and the way the Colorado Department of Gaming does their investigations.

Q: What's the remaining capex on those two properties to get them open?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Really depends on how we do certain things. So far, we're about \$2.5 million in. I believe on my last update that I've gotten, we just signed about a \$3 million contract for all of construction on the Rick's which includes some pretty major changes to the overall deal.

The HVAC systems are in Denver right now. They will be installed soon as weather permits and they can get all their ducks in a row. We're replacing the roof at the same time they put in the unit so they're going to pull the existing units off the roof. We're going to put all the new curbs and stuff in for the roofing. They'll set the units and then they'll reroof the building. So that'll be considerable. It should be done, I would think, no later than the end of March at this time. So in six or seven more weeks, we'll have new heat and AC in that building and everything up and running. We think final construction other than the actual gaming machines should be completed sometime in June.

Q: So on Bombshells in the strategic review, you talk about a potential sale or exploration. Have you guys hired some outside help to speed that process along? Or at this point, are you still looking at opportunities internally to do something?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

We are working with an outside group right now as well as a few things on our own. When we say we're exploring everything, I mean we're looking everywhere. We're talking with lots of people. We haven't gone as far as listing them for sale at this point. Right now, we are really hoping we can find either the right partner like we did with AdmireMe or making the changes we've done internally and seeing if that is going to make a difference in a quick enough time period for my liking.

Q: That's helpful, Eric, and then just last thing quickly, what's the timing look like on the cash out loan? And are you in conversations with folks already about potential acquisitions?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

We are pushing the loan because have been in talks with several outside operators and would need significant cash down payments. We're going to try to get that cash sitting on our books. We've been working on this for about five weeks. We had to get appraisals and environmental studies on a couple of the properties because they weren't current. That's all updated and we should be going to loan committee in the next week or so. Our hope is to close sometime the last week of February, first week of March. Hopefully, we can stay on that timeline as long as nothing comes up or nothing comes out of committee that was missed in the vetting process of the bank.

Q: Great. That's helpful. I appreciate the time guys. Thank you very much.

Mark Moran - CEO, Equity Animal

Thanks so much, Scott. Next we have Rob McGuire of Granite Research. Rob, take it away.

Q: Great. Thank you for taking my call. Can you discuss the new director of casino operations? Can you elaborate a little on his background, some of the bigger areas where he is helping you out?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

He has been in the Central City area since the 1990s. Ran casinos in Black Hawk, ran casinos in Central City, both for the past 20 some years. He's very knowledgeable. He's very well known by the Department of Gaming as well as many of the other operators, employees and whatnot in that Central City-Black Hawk area.

Q: Can you give us an idea of what the budget will look like to complete the casinos? I believe you mentioned that earlier, but it was – you broke up.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

The budget for casinos is probably overall about \$20 million for both properties, including the real estate purchases. We spent about \$2.5 million on the deal. The real estate purchases are about another \$8 million. So we've got about \$10 million more to spend.

But it all depends on how we're going to do the machines. If we pay all cash for the machines, that would be a very significant amount of money. But it looks like there are some terms we can get that are 12 months, same as cash. We don't have to start making payments until after the machines are installed with some operators. We can also do revenue share. That will also create some cash outlay savings for us. We'll still have to pay, but we'd have time to do that.

Q: Great. Thanks, Eric. And then lastly, with regards to the macroeconomic uncertainty that you've been discussing, can you just confirm if it's still blue collar? How are your white collar customers holding up? And then, in general, what do you think we have to see to move beyond this area or time period of macroeconomic uncertainty?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

We have to get rid of the uncertainty in the marketplace. It's funny because you read stuff in the media and you hear how great things are in jobs and this and that. But when you go out on Main Street, and you start talking with people, they're uncertain. Even the people that are doing very

well in their jobs right now are uncertain. Is my job going to be here three months from now? Am I still going to be doing as well? What are interest rates going to be?

We're seeing that in the customer. We're seeing the customer trade down, which is typically recessionary behavior. We're definitely seeing the customer trade down, we're seeing the customer maybe not come as often. Our Mondays and Wednesdays are becoming slower, and you're going to start seeing us do some what I call recessionary discounting on other days, which is like dynamic pricing, only we do it on certain days rather than all the time.

We're going to see that happen. As we're moving forward, we've already got a lot of these things into place right now. Until that customer's confidence is back, I think we're going to have to figure out ways to bring that customer in and get that customer to continue to spend money.

Mark Moran - CEO, Equity Animal

Thanks so much, Rob. We appreciate the question. Next up, we're going to have Jason of Orchard Wealth and I'd like to encourage everyone who has a question to raise their hand and we'll bring you up to the speaker spot. Orchard Wealth, take it away.

Q: Hey, guys, let's go into the AdmireMe 2.0 that you guys are going to be doing. How long have you been dealing or engaging with this partner that you're bringing on?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

We started talking with them at Expo in Vegas in August. We've developed the relationship. We had to get comfortable with each other. We've laid out the foundation of expectations from both sides. We probably signed the agreement about three weeks ago, I believe.

They've been working on some skinning ideas and what it's going to look like, what the site's going to look like. They have registered and purchased the domains. We have those all ready to go for the new launch. They're very excited. So we're shooting for some testing, making sure that everything flows properly with the design, so you don't click on a link on our site and end up seeing content or something from their previous website. It's just going through making sure everything is working properly.

Then we'll be ready to launch. We'll start to add a couple of specific clubs, putting on entertainers from those clubs first, getting everything rolling, and then do a full companywide launch hopefully by May or June.

Q: And then how long is this partner been in the business of doing this in terms of they're going to handle the credit card processing or all that aspect of the business? You're supplying the performers or the entertainers?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Kind of. It'll still be through our company, so it will be our processors, but we're going to be working with different banks than we've worked with AdmireMe, who they have a much longer and stronger relationships with, as well as other vendors.

They've been in the business since early since the early 2000s. It's funny because we started talking about different people throughout the industry from back when Rick's had a dancer dorm back in '99, early 2000s. We all knew the same people and it was funny that we were both in the business at the same time back then and didn't really meet up back then.

I'm very optimistic and excited to see where the concept will go when it has the right software. I think we have the right idea. We just didn't have the right medium to put the entertainers and the customer base together. With their software, we're going to be able to do that and with full video streaming. That seems to be the big thing these days. So very excited about when that's going to go.

Q: And how many entertainers do you think you're going to be able to at least offer this as an option by being an independent contractor within the firm?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

In 2023, we had over 25,000 contracted entertainers nationwide. If we can get 5% of them, that'd be 1,250. If we can get 10%, we'd have 2,500 and so on. That doesn't count waitresses or any other front house staff, whether there's some bartenders or door girls that might be interested in being on this site. Then, of course, other clubs and outside people as well. I think it'll grow relatively quickly.

We were doing pretty decent and growing it when we were pushing it, the few times we tried to push AdmireMe. But as soon as we start putting any people on the site, we'd run into bugs and problems that we'd have to stop and hold back and then try to fix the software. The beauty of their software is it's up and running and is already ready to handle hundreds and hundreds of people at a time. So, that's going to be a big plus for us.

Q: Are any other clubs in the marketplace doing something like this? Or are you guys going to be at the forefront of this? Where other clubs that are maybe competitors or not competitors in other markets would want to join on board and this becomes like, this is the entertainers, OnlyFans, one-stop shop, because it seems like a lot of this stuff is really about just being first to market?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

With us trying to do it before, I know how much it costs, and I don't know of any other operators that are trying right now. I haven't heard anything. When they start looking at what it costs to try to get there, it's going to be too much. I don't think they'll do it. At the rate we were going it was going to cost another \$3 million trying to get this thing working. Here, we've got a partner who's got everything. We can give up 25% of the deal and be light years ahead of where we're at.

It is about being first to the market. I didn't want someone else to go in and start trying to wrap these up. I know there's some other sites out there that have tried to tap the entertainer market, but I don't think they have the direct contact with the people, the entertainers like we do. Some of our competitors, we will be able to offer them incentives for them to put their entertainers on our site, and they'll earn residual income as well through a referral program.

The new operator and the new software are going to be incredible. All we have to do is get our entertainers on there. We get them to show up and they provide everything else.

Q: And then just one last question. I know OnlyFans typically does an 80:20 revenue share with 80% to the entertainers and 20% to the OnlyFans platform. Is yours going to be similar to that?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

It's exactly the same as you've seen from AdmireMe. We have it set up the same way. We may end up using part of our 20% as referral fees for a time period, and we may also bring some big influencers over from other sites that are also in entertainment, whether in our clubs or other clubs, and we may offer them a little more of the percentage. We may make little less than 20% in the beginning, but at some point, those promotions will end. It'll just be marketing dollars and then we'll revert to the standard.

Q: Well, fantastic. I think this venture obviously has been something I've been hoping for years. So, good luck with that and look forward to the next call.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

Thank you.

Mark Moran - CEO, Equity Animal

Thank you so much for the questions. Next up, we will have Evan Tindell of Bireme Capital. Evan, please take it away.

Q: Obviously, you guys have talked about the macro environment at the clubs, and it makes me think that you guys are of the opinion that the results at other clubs are similarly negative in terms of same-store sales. So, I was just wondering if poor results at other clubs are increasing the inbound offers you guys have in terms of acquisitions or might make the multiples that you guys can pay a little lower given the recent performance?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

I've talked with several other club operators. In fact, I'm going to be this weekend with a club operator that between him and some of his partners own about 65 clubs around the country. They're all very similar in declines. A lot of their declines are even higher than ours.

I'm hearing from some people as much as 20%-30% at certain locations in declines from their highs. That's definitely going to be an issue. As far as more offers, we are talking with several acquisition targets. The biggest problem we have is everybody wants to sell based on their 2023 numbers. Don't we all?

The reality of it is there was a lot of free cash out there, and there was a lot of pent-up demand that doesn't exist today with higher interest rates, more economic uncertainty. I can't be buying at a 5 times multiple of 2022 when we're in 2024, and I know those numbers aren't repeatable.

Q: Okay, thanks. And then one more question about some of the warnings in the 10-Qs and 10-Ks over the years about internal controls. I know there's one warning about goodwill impairments,

and there was one about user access to the IT systems. I was just wondering if you could address some of those concerns or maybe help explain what those are about for people that don't know or that might be reading the financials for the first time.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

If you notice, they continuously change. Our auditors are continually trying to find some new material weakness every single year. When they're found, whether by us, whether by our internal third-party independent auditors or by auditors themselves, we immediately make changes and adjust and correct them.

The problem is, in order to get a clean bill of health, it has to be fixed for the entire year. Even if it was one day that something was off, you get a material weakness. We have to deal with that. All we can do is keep pushing and keep working and keep fixing things. I will say that none of the weaknesses they've ever found have ever caused restatement of financials. They never found any fraud or anything like that. It's the old saying, it's what if? What if? What if?

I always like to use the example of, if you have a bank vault in your home, and you have a security system in your home, and you have all these things to stop somebody from being able to steal a necklace out of your home, and they come up with a way to break into your house, circumvent all of your stuff, even though the necklace was never stolen, they turn and say, well, that's a material weakness. Now you've got to fix this new what if.

Those are things we face. As a growing company in the beginning, it was all software. We put an ERP system in. We corrected the majority of those what ifs with our other stuff. At the end of the day, you have to have somebody in IT that's responsible for monitoring the system, keeping the system up and alive, running the backups, and that's a very high-paid employee who has to have that access, just like the company has to have a CEO that has the ability to make certain decisions.

Basically, what they said with our IT stuff, was one guy had the power to change and do things, and where was the check system on him? I think we've resolved all of that now through notifications to certain people if things are changed and whatnot, but you don't know what you don't know until they come in and say, oh, this could happen or this could happen, even though it's never happened.

Obviously, once it happens, we've always been able to fix and adjust the system, but we can't think of every little detail and every little thing constantly that could happen or has never happened or hasn't even happened to somebody else. So those are things we deal with and we just keep working on that.

Q: Okay, thanks guys.

Mark Moran - CEO, Equity Animal

Fantastic. Thank you so much, Evan. Next up, we have Adam Wyden of ADW Capital.

Q: It was encouraging that you wrote in the press release that you thought you've seen the bottom in the same-store sales and consistent with other people's commentary in live entertainment, Dave

and Buster's, BOWL, all this stuff. It seems like you are doing more promoting. But people are still willing to spend, maybe spend differently, but people are still willing to spend. So, that's good. This is your seasonally, this quarter anyways, about 20% of EBITDA, at least historically. So, it gives you a nice baseline of where you are.

But a couple of procedural questions. You mentioned \$2 million of cost annualized per quarter. That's roughly \$8 million of EBITDA. Is that in Bombshells, Nightclubs, corporate? Can you talk a little bit about where you think that cost is going to come from?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

We're doing the COVID sweep, as I call it. When we got closed down for COVID, we had to sit down and go through every single possible expense and what we could waive, what we could get rid of, how we could make changes, where we could make cuts, what non-income producing properties or non-income producing assets we needed to get rid of.

We're going to sit down. We've been doing it, but we're going to continue. We have 70 or some operating subsidiaries so there's a lot of subsidiaries still to go through. But we've been working on this since we internally had results from the past quarter. It's going to be a lot of places. A part of it was with AdmireMe, making the major change, with AdmireMe bringing on a partner there is going to be a significant cost reduction for us going forward. We're looking at all SG&A expenses. We're looking club by club, whether it's employees, whether it's security, every little cost and figuring out where we can make the cuts just like we had to do back in 2020 when COVID hit.

Q: You guys did an excellent job cutting costs during COVID. You guys have shown that you guys can make margin with lower revenues. Another \$8 million to \$10 million of cost, if you can do it, would be well-welcomed from a cash flow perspective as it relates to being able to allocate capital to share repurchase or more clubs.

Secondly, you expect to get the casinos open, but you talked a lot about non-income-producing properties. You've got, I don't know, three or so clubs, I can't keep it all straight, that are being remodeled, being reopened. You're not waiting on same-store sales to come back. Do you mind trying to enumerate what you think that is in revenue and potential EBITDA contribution?

I'm just trying to give people an understanding if the company does nothing from here, same-store sales don't improve, you get the \$8 plus million of EBITDA from cost, and you get another X million dollars of revenue in EBITDA from the clubs reopening and that gives you a baseline assuming things don't get worse, which you don't think they are. What's not in the numbers today?

You can take the \$18 million, multiply it by 5, gets you to \$90 million. If it's 20%, and then you add the \$8 million of cost reduction plus club gives you a sense of what normalized EBITDA is ex- the casinos. You understand where I'm going?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

I got you. So, only one is actually a remodel. That's Abilene. We closed that down and remodeled because we were going to get liquor license. Then we couldn't get the late hours, and so we went

back to the BYOB for a very short period of time. Once we did that, the city worked with us up there to get us the late hours. Now we're going to be able to sell alcoholic beverages till 2 am. We have Baby Dolls doing so well so we rebranded it to Baby Dolls. It will open hopefully in March. The Lubbock club is near completion and should open in March as well.

We should get six months of both of those locations. Both have gone from BYOB clubs to alcohol sales clubs. I'm guessing should be somewhere around \$60,000-\$80,000 a week sales clubs. Somewhere between \$3 million and \$4 million annualized revenue. Then use a 40% margin rate or 35% margin rate where we're at here. I think both clubs will be able to have VIP areas, so we should have plenty of service revenue at both those locations.

The third location will probably not open until the first quarter of 2025. It won't really contribute in 2024, but it is a very large location. It's a location we bought in Fort Worth, Texas. We bought the property and we're going to revamp and reopen a club there. We're building a second floor. We're doing a lot of construction, about a \$3 million rebuild of the building.

Part of the building will still be there, but we're tearing down a big portion of the building, tearing off the roof and going up. All new parking. It'll be a much bigger deal, but also it'll contribute in a much larger ratio in that location. That location is probably around \$140,000-\$180,000 a week location when it reopens, so somewhere between \$7 million-\$9 million. I think the margins will be at that larger location much closer to our 40% typical margins for a club of that size. Maybe even higher.

Q: Humor me for a minute. Say you do \$7 million for the two little clubs and \$8 million for the big club, maybe even more, that's like \$15 million at a 35%-40% margin. That's another \$6 million of EBITDA. And then, add another \$8 million for cost reductions. That's like \$14 million. You're not going to get it this year, but I'm just saying, on a normalized basis. If I take your \$17.5 million, \$18 million, and I multiply it by 5, I'm getting to a number that looks like, around \$105 million without the casinos, without M&A, and without improving Bombshells, just to give people a baseline, assuming you do nothing on a capital allocation perspective. I'm saying do nothing on an operating basis, i.e., the same-store sales don't improve, and all you do is your COVID sweep, get your clubs open, then you are looking at something like \$105 million of EBITDA, not including casinos, not including M&A. Are you following my math?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

I think we do have to have same-store sales bottoming and return back to that 3%-5% growth in order to deal. We're going to have to fix Bombshells, get Bombshells back to where their margins are headed in the right directions, not 1%, but back to their 15%-18%, 22% margins, where they need to be at. Then, I think, your \$100 and some million is probably a very good number.

Right now, if you figure, we are probably \$80 million without anything new opening. You open up these two new stores, provided that this was our worst quarter, it's definitely doable, but there are some things that have to happen and some things that have to go right.

I think we're returning to 2017-2019 type seasonality in the business, which means March should be a huge turnaround month. March Madness should be really big for us this year. We should start

seeing the typical spring fever that we see in March. We do have five weekends in March this year. So, while January may seem a little weaker, we had five weekends in January last year, and we had some pretty tough weather this year in January, where we had it in February, I think, the previous year. We'll have to see how that weighs out as we get to the end of February. I'm very optimistic this quarter will be much better than the last quarter.

Q: What I was trying to do is try to bridge for the audience that this quarter you're seasonally weakest. So, if you were to say, hey, it's 20% of EBITDA, and by the way these are all the things we are doing today, whether you get a full credit for them, for the full year, I know you would like to think about things in years, but a lot of people in the audience like to think about things on a normalized basis, run rate basis, when you think about \$8 million of annualized cost, and then you think about having those clubs open, what does the business look like, normalized exiting the year type thing. That's all I'm saying. I think that everybody understands you'll not even have the big club open till the end of the quarter, end of the year. All things being equal, if you get the cost cuts, and the same-store sales do bottom, and you get these clubs open, what does the business look like? You can get the casinos open too, and then that's not in the numbers, either.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

The clubs have been very strong. We've had a couple of quarters where your same-store sales have declined a little bit. But the big part of our same-store sales decline has been Bombshells. Even though it's a smaller part of sales, those are significant when you start looking at 15%-20% same-store sales declines. That has to stop. We have made some major changes. I think we've definitely bottomed at Bombshells. I had a big meeting with people today. I said, it's hard to fall when you're lying down. So, take chances, take risk, let's make the changes.

We've started the Lingerie Thursdays. We've got some other promotions that we're getting ready to kick off on Mondays, Tuesdays and Wednesdays. The clubs are getting ready to do some big promotions for Tuesday and Wednesday nights, which have gotten weaker at the clubs for us, to really build those numbers up like we did back in 2009-2010 era. We're going to be beginning some of that stuff for Tuesdays and Wednesdays here in the next two weeks. Hopefully, that will bring our Tuesday and Wednesday numbers back up.

Can we do \$100 million in 2025 of EBITDA? I don't see why not. Everything is lined up. Nothing's really changed. This quarter was a little off. All the projects that we have that are coming online are a drain on EBITDA and a drain on costs right now, as they open in March, as they open in June, July, and start contributing, it's a double bang for the buck. Instead of costing us money, now they're all going to be generating money. We not only get on a run rate basis, not only the new income and the new revenue, but we also lose the drag that they'd been causing.

Q: Right. You also don't have the casinos in this number either. If you have the casinos open at 2025, we should probably do well in excess of \$100 million. Those are potentially 40%-50% margin businesses. So, if you have both of those open, that's going to be a significant contributor as well.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

I remain optimistic, I think, if we can get those casinos open by September, provided gaming issues our licenses. You're at the will of the state. Until the state issues our licenses, there's not a whole lot we can do. We will have the Rick's casino ready to go in June. I think that the construction will probably be completed provided the building permits come in in the next few weeks, like we think.

For the Bombshells casino, we're very close, going back and forth with the city's third-party company that does all the plan reviews. We're very close on that as well. I think we will get that, hopefully, and that casino should be built and ready to go maybe in June, but probably closer to August.

If we can get the licenses issued in the next three months, we'll be good to go. I just don't know where they're at because they just don't tell you anything. They tell you if they need something and they tell you when they're going to come visit you and those types of things. But they really don't give you any real feedback on where they're at in the process or when they think the process will be completed.

Q: You talked about senior management changes at Bombshells. Has senior leadership, the head of Bombshells, are they still there? On the nightclubs side, you have a unique management program in that the nightclubs are managed by RCI Management company and they've been with you for a long time. Many of the managers participate in the tip pool. It's more of an entrepreneurial culture. Have you considered bringing in someone from like a Twin Peaks or an Ojos Locos or another business and perhaps structuring a program where someone who knows what good looks like has a revenue share, a profit share thing so they go up and down with the business? It seems like it's worked really well on the nightclubs side, the entrepreneurial culture and the way you manage those. Have you thought about doing something similar on Bombshells, where you get an Ed or get someone that has real financial interest in the success of the business, and bringing someone over from a business that has executed?

I don't think it's that hard. If you look at some of the other businesses on the restaurant side, they've seen some weakness, but they're still holding margin, which means it's great opportunity. Unlike on the nightclubs side, where your peers are down 30%, you're eons beyond them. It feels like your peers aren't that down on the restaurant side. It feels like there's opportunity with the proper management. Have you sorted through that and is there anything you can discuss on that front? That might make it easier to sell it, or maybe you decide you don't want to sell it if you get someone that really can do a 20% margin day in, day out.

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

We are currently testing all of our options and working through the process. We started the process in December. We made a few changes. We were not happy with those changes at the end of that quarter. We have made additional changes. When the results came in January, as we started seeing the Bombshells results, we started making more changes. We were affected in Texas by weather, freeze days, and then two weeks of rain and flooding.

Are the changes we made in early January working or not? We will know that over the next couple of weeks as we go through Super Bowl Sunday. I will tell you that Ed is helping out with Bombshells right now. I am involved in monitoring stores, dailies, hourlies, sales, and making

phone calls and visiting sites and doing the things that we need to do to make sure the changes that we have made are working and that we're seeing immediate results.

I think that part of the problem was the current management team that we had in place in October through December just did not understand the sense of urgency. I think they have definitely got the sense of urgency at this time, and they understand that this is not we're going to wait till March to see results or we're going to wait till May to get results. No, we are going to see results this week and see results next week, and we're going to see the results the week after that, and if the results aren't going in the direction that we want, we are going to make more changes until we get the formula correct.

I think the concept is a great concept. The food is great. I think we've lacked in a couple of places. We've lacked in customer service, and I think the focus of the current team has been strictly on the restaurant and not on the bar sales. Of course, the bar sales are the highest profit margins. That really showed in this last quarter, where I think the eye was taken off the ball on a few things. We've asked and told them to make certain changes to the music formats, to the DJs. Some of those changes were not made that we asked for. Those are now being monitored on a daily basis.

I'd say the easiest way is I'm not being nice about it anymore. There is no time. Sense of urgency is today, not tomorrow, not next week, but today. If they can't get the sense of urgency figured out relatively quickly, like today, then tomorrow I will be making additional changes until I get the formula right.

I've done this many times. That's how I got my start in this business, buying clubs that needed to be turned around or businesses that needed to be turned around, and going in and fixing them and putting the right people in place. That's exactly what I'm doing with Bombshells now.

Mark Moran - CEO, Equity Animal

Fantastic. Thank you so much for the questions, Adam. We are going to call up one last question. Please take it away.

Q: Thanks for having me on, Eric, Mark, Bradley. I'm a big time supporter, long-time fan of Rick's and RCI. I have a question for you, Eric. In two years, what does that ideal quarter look like for you?

Eric Langan - President and CEO, RCI Hospitality Holdings, Inc.

In the next two years I want to continue to grow our free cash flow at a 10%-15% rate. I want to see the casinos open. Within the next two years, I'd like to see us take another major acquisition of 10, 15, 20 clubs in a single stroke, so that we are buying out another major player in the industry, like we did with the Birch Management acquisition, like we did with the acquisition of VCGH. Of course, we did our first large one in 2012 when we bought out the Jaguars chain.

I'd like to see us take down another major chain in the next two years. We'll have results of operations from the casinos, so we'll know if we can take the entertainment/casino model to other markets, whether that's Iowa, Indiana, Mississippi, other small states, what I call regional casino

states, and maybe even small regional casinos outside of Las Vegas in the state of Nevada, but not in Vegas itself.

Then I'd like to see whether the Bombshells chain is going to be able to grow into a great, large franchisable chain or whether we're going to look at having private equity take that out from us and take our efforts and energies and put them someplace else. That's where I see us in two years.

Q: Yeah. Thank you. I really love that.

Mark Moran - CEO, Equity Animal

Fantastic. Thank you so much for that question. And thank you, Eric and Bradley. On behalf of Eric, Bradley, the company and our subsidiaries, thank you and good night. As always, please visit one of our clubs or restaurants and have a great evening.