

Transcript of
RCI Hospitality Holdings, Inc.¹
1Q23 Earnings Conference Call
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Participants

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Lynne Collier - Water Tower Research
Rob McGuire - Granite Research
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Jason Scheurer - Orchard Wealth

Presentation

Mark Moran - Chief Executive Officer, Equity Animal

We just hit 100 people so we are going to go ahead and kick this off. Greetings and welcome to RCI Hospitality Holdings' First Quarter Fiscal 2023 Earnings Call. You can find RCI's presentation on the company's website. Click "Company and Investor Information" under the RCI logo. That will take you to the "Company and Investor Information" page. Scroll down and you'll find all of the necessary links.

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 here in New York City with Eric Langan, President and CEO of RCI Hospitality, and Bradley Chhay, CFO, who is in Houston, home of one of my favorite clubs, Club Onyx, managed by Josh Brooks.

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 RCI Hospitality Holdings, Inc. 1Q23 Earnings Call. To ask a question you will need to join the Twitter space with a mobile device. To listen-only you can join the Twitter space on a personal computer. RCI is also making this call available for listen-only through a traditional landline and webcasting. With Twitter having glitches today, in the event of a crash, we'll restart the space, and if that fails, move to the dial in. A question and answer session will follow, and this conference is being recorded.

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

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.

Please turn with me to slide 5. I also direct you to the explanation of RICK's non-GAAP measurements. I'd like to encourage everyone to re-tweet and share this space. Finally, I'd like to invite everyone listening in the New York City area to join me and Eric tonight at seven o'clock to meet management at Rick's Cabaret in New York, one of RCI's top revenue generating clubs. Rick's is located at 50 West 33rd Street between Fifth Avenue and Broadway, a little in from Herald Square. If you haven't RSVP'd, ask for Eric or me at the door where I will be deploying my own capital allocation strategy after 9 pm.

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

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

Thank you, Mark. Thanks everyone for joining us today.

Total revenue came in generally as expected with the nightclubs segment having another great performance. This offset difficult Bombshells comparisons. GAAP EPS, net cash from operating activities, non GAAP EPS, and free cash flow were affected by repairs and maintenance CapEx that occurred in the first quarter. GAAP EPS also included \$0.16 in non-cash, intangible amortization and stock-based compensation compared to a year ago quarter. Nonetheless, adjusted EBITDA was up 13.9% year-over-year, and we ended the quarter with \$34.1 million in cash. That was after making a number of club and restaurant and real estate acquisitions.

Probably the most important thing that happened in the quarter is that we got off to a terrific start with our big three year growth initiative. The goal is to continue our mission of growing free cash flow and EBITDA up off a higher revenue base. We now have numerous acquisitions and projects in development; highlights include our pending acquisition of a group of five Baby Dolls and Chicas Locas clubs in Texas, and Rick's Cabaret Steakhouse & Casino in Central City, Colorado. In addition, we have an even stronger lineup of new Bombshells locations in three states -- Alabama, Colorado and Texas.

I'll be back to tell you more and answer questions. Now here's Bradley to review financials.

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

Thanks, Eric, and good afternoon, everybody.

Looking at some of the major numbers for the quarter: Total revenues were \$70 million, up of 13.2%. GAAP EPS was \$1.11, off less than 1%. Non GAAP EPS was \$1.19, up 8.2%. Net cash from operating activities was \$14.9 million. That's off 8.4% from last year, mainly because we

paid down more liabilities on our books in the first quarter compared to a year ago. Free cash flow was \$13 million. That's off 14.6% because of the change in net cash from operating activities, and about \$1 million more maintenance CapEx that fell in the first quarter. Adjusted EBITDA was \$20.5 million, up 13.9%, and weighted average shares outstanding declined 1.9% year-over-year, due to repurchases over the last year.

Please turn to page seven to review the nightclub segment. Revenues totaled \$56.3 million, up 20.4%. GAAP and non-GAAP operating margin was 40.4%. That reflected increased operating leverage from higher sales and in particular, higher margin service revenues, which increased 23.4%. This was partially offset by increased amortization of club licenses at leased locations. As a result, operating income increased 21.4%.

Fiscal year 2022 and first quarter acquisitions added \$15.3 million in sales. Same store sales were up 1.2%. This reflected strong contribution and growth from our white collar clubs, mainly New York, Illinois and Florida, partially offset by some softness in our blue collar clubs. In the second quarter, the 11 clubs we acquired in October 2021 will fall into same-store sales. Based on current trends, this should result in growth in same-store sales.

Please turn to page eight to review the Bombshells segment. Revenues totaled \$13.4 million compared to \$14.8 million last year. Operating margin was 13.8%, primarily reflecting reduced operating leverage. Operating income was \$1.8 million. Bombshells Arlington, which opened in December 2021, added \$1.3 million in sales. Same store sales were down compared to last year when the chain was experiencing a very favorable local economic environment and a combination of government stimulus, people returning to work, and little competition. However, compared to the pre-COVID first quarter of fiscal '20, our December quarter same store sales were up 3.6%.

Please turn to page nine to review our consolidated statement of operations. All comps are as a percentage of revenue and compared to a year ago quarter unless otherwise noted. Cost of goods sold continued at 12.9%. This reflected the increased higher margin service revenues in the sales mix. Salaries and wages were approximately level at 26.7%. SG&A was 32.5%. This reflected \$900,000 of non-cash stock-based compensation and \$400,000 of repairs. If we exclude these two items, SG&A would have been 29.5% compared to a year ago quarter, which was 29.9%. Expenses associated with these newly acquired and reopened locations will subside as a percentage of revenues as their sales build. The non-cash stock-based compensation is an ongoing item. While we have repair expenses every quarter, they're not typically as large as they were in this quarter.

Depreciation and amortization were 4.7%. This reflected an increase in depreciable assets from newly acquired and constructed units. It also included increased non-cash amortization of licenses from the clubs at leased locations. Operating margin was 24.2% and 25.6% non GAAP, the same as last year. Interest expense was 5.3% versus 4.2%. This reflected higher debt from our club and Bombshell site acquisitions over the course of the year.

Now please turn to page 10. We ended the quarter with cash and cash equivalents of \$34.1 million. Free cash flow was 19% of revenues and adjusted EBITDA was 29%. That's a little below our targets of 20% and 30%, respectively.

Please turn to page 11 to review our debt metrics. Net of loan costs, debt was \$211.2 million at December 31. That's an increase of \$8.7 million from September 30th. This increase primarily reflected financing used in the acquisition of the Heartbreakers deal in Dickinson, Texas, the Denver food hall, and land in Lubbock, Texas for a Bombshells location. Our weighted average interest rate continued at 6.35%. This compares to 6.26% a year ago and 6.73% five years ago. Our amortization continues to be within the \$9-\$10 million annual range, which is very manageable with our cash flow.

Now, please turn to page 12 to review some of our other debt related metrics. The ratio of debt-to-adjusted EBITDA was 2.4 as of December 31, well below our max comfort level of around 3. Occupancy costs were 7.8% of revenues. This continued to be well within the 6-9% range we've averaged when sales weren't dramatically affected by COVID.

Please turn to page 13 to look at our December 31 debt pie chart. Our debt now consists of 61.9% secured by real estate; 25.2% secured by seller finance debt secured by respective clubs and/or the real estate to which it applies; 4.9% of the debt is secured by other assets; and 8% is unsecured debt.

Please turn to page 14. We continue to talk to new investors, so I'd like to take a moment 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. We have been applying these strategies since fiscal 2016 with three different actions subject to whether there's strategic rationale to do otherwise.

The first one is M&A, specifically buying the right clubs in the right markets. We like to buy solid cash flowing clubs at three to five times adjusted EBITDA, and we'll use seller financing, and acquire real estate at market value. Another strategy is growing organically, specifically expanding Bombshells to develop critical mass, market awareness, and sell franchises. Our goal in both M&A and organic growth is to generate annual cash on cash returns of at least 25% to 33%. The third action is buying back shares when the yield on free cash flow per share is more than 10%.

Now let me turn the call over back to Eric to review our big three-year growth initiative.

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

Thank you, Bradley. Please turn to slide 15. We currently have acquisitions and projects and developments involving nine clubs. In October, we acquired Heartbreakers in the Galveston area. At the end of January, we reopened the day shift. We plan to finish the club's remodel in February, and that should help increase its contribution going forward.

In late December, we reopened and reformatted a location in San Antonio as a Jaguars Club. The first quarter provided little contribution, but we expect it will be a bigger contributor going forward. In mid-December, we announced definitive agreements to acquire a group of five Baby Dolls and Chicas Locas clubs in Texas. We are awaiting transfer of liquor licenses. The club should contribute \$11 million in EBITDA in year one, and once we complete our expansion plans, they should contribute \$14 million to \$16 million in EBITDA.

In December, we announced acquiring club assets in Fort Worth to create another PT's Show Club. The remodeling is underway and the reopening should occur in the second half of fiscal '23. Last year, we had to close our Jaguars Club in Lubbock, Texas, because of an eminent domain issue. We acquired another location with the money the state paid us. It is currently under construction and opening is expected in the second half of fiscal 2023. Fiscal '23 will also benefit from a full year of the 15 club acquisitions and three clubs and club-related restaurant openings we made last year.

I'd like to highlight the value we added in our big October 2021 acquisition of 11 clubs. Based on our management and optimization, we increased adjusted EBITDA of 24%. That means we paid four times for the operating assets compared to our original estimate of five times their pre-COVID adjusted EBITDA.

Please turn to slide 16. We have nine locations in the process of acquisition or development. In late December, we acquired the Denver area food hall. We are currently remodeling and installing the Bombshells kitchen. That is expected to be completed by the end of February with an increased contribution in March.

Earlier this week, we bought out our San Antonio franchisee for \$1.2 million cash and \$2 million in debt. This is one of the best performing Bombshells. Construction is continuing at our Stafford location in the greater Houston area. Building permits have been approved for our Rowlett location in the Greater Dallas market. We are currently reviewing construction bids. In Lubbock, we are awaiting a building permit for our location. Our second location in Austin, Texas is now pending site review. We have an LOI for a location in Downtown Denver with an existing building that will work very well for Bombshells, and we estimate it will take about \$1 million or less in work to get it open. Our Huntsville, Alabama franchisee is awaiting his building permits and annexation of his land into the city of Huntsville. Regarding our other Denver location in Aurora, our plans are in process with the city.

Now turn to slide 17. In December, we announced acquiring a 30,000 square foot building in downtown Central City for only \$2.4 million for our Rick's Cabaret Steakhouse & Casino. We have applied for our master casino license and are moving full steam ahead on this.

Turning to slide 18. This slide compiles all of our capital allocation to date for this fiscal year, including some shares we repurchased in the first quarter and the major acquisition we have pending. Altogether, we are looking at allocating about \$93.2 million so far this fiscal year, and I estimate approximately \$20 million in additional capital expenditures will be used to build the improvements for these properties and the properties still in development from last year. As I've said, our goal is to allocate about \$200 million on average per year over the next three years.

Please turn to slide 19 for an update on our geographic focus. In the first quarter of 2023, our regional revenue breakdown was: Texas 38%, including Bombshells; Florida, 25%; New York, 9%, a little higher than fourth quarter of fiscal '22; Illinois and Colorado, each at 7%; and the other eight states combined for 14% of revenue. This demonstrates our geographic diversity; our

exposure to growth states like Texas, Florida, and Colorado; and how we develop business clusters in key areas.

I want to say thank you to all of our loyal and dedicated teams for all their hard work and effort. We can't do it without you. Now here's Mark.

Mark Moran - Chief Executive Officer, Equity Animal

Thank you very much, Eric and Bradley. I want to encourage everyone to retweet and share this space. And I'd like to give a special shout out to Cynthia Daniels. I was very much enjoying your profile while Eric was speaking. If you would like to ask a question, please raise your hand in the Twitter space. When you're done asking your question, please mute your microphone to eliminate any background noise. We have a limited number of speaker spaces. After 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 analysts and then some of its largest shareholders. Our five analysts are Scott Buck of HC Wainwright, Anthony of Sidoti, Lynne Collier of Water Tower Research, Rob McGuire of Granite Research, and Joe Gomes of Noble Capital Markets. First up, we have Scott Buck. Scott, take it away.

Q: Hi, guys. Thank you for taking my questions. First to Eric, could you talk a little bit about the trends you're seeing in the clubs in January and this first part of February? Are you still seeing some of the soft pockets in the blue collar clubs, or has that kind of worked itself out?

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

I still think there's a little weakness. I was going over everything, looking at a four month trending deal, with October, November, December, January. January total sales were a little over November and December's total revenues, so I think that's a promising deal. Typically when we see these slowdowns, they affect us for about six months. I think the slowdown started in November based on what I'm seeing. I'm hoping that it'll be a little shorter than that. March, I think, is going to be the big turnaround for us. Of course, we have the Super Bowl this week, so this week will be abnormally affected by a one-time event for this weekend, especially out in the Phoenix market. With two great teams, the Eagles and Kansas City, in the Super Bowl, I think that's going to help a lot with viewership. It's going to help the Bombshells in Texas as well, I think.

Q: Great. That's helpful. And my second question, Bradley, should we think about these higher than anticipated repair and maintenance costs as a pull forward from future quarters or is this in addition to?

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

No, last year was the same thing. We had \$4.5 million in maintenance CapEx. Last year, we had that and this year we had \$6 million as our target, so \$1.5 per quarter is what our maintenance CapEx should be. That's an impact on free cash flow. However, what we're talking about is repairs

and maintenance costs. Those repairs were done as part of the winter storm and some plumbing. We don't anticipate higher than expected repairs and maintenance expense going forward.

Q: Great, appreciate. Appreciate the additional color. Thank you.

Mark Moran - Chief Executive Officer, Equity Animal

Thank you very much, Scott. Next up, we're going to have Anthony. Anthony, take it away.

Q: Good afternoon, and thank you for taking the questions. So, as far as Bombshells, the operating margins there were lower than what we had projected. Can you just talk about what happened there and then how we should think about segment margins there going forward?

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

I think we got a little surprised at some of the weakness in late November and December. The margins, I think, will return to a more normal mean of 18% to 22%, as we move forward. The Houston market was extremely weak. The Houston Texans did not contribute anything at all this year, which hurts us a little bit in that marketplace.

Overall, I think that Bombshells has gone through a little bit of some growing pains. In previous years, we've had less competition in the marketplace, because so many places were closed. We were some of the only places open after COVID. We were first open after COVID, and there were a lot of vacant buildings. I think over the last year, and especially in the Houston and Dallas market, those vacant buildings have been reopened and new businesses, new restaurants have moved in and come into the marketplace. They're going through their honeymoon periods because they're new and everybody rushes to the new place for a while. But I think over the next few months, we're going to start seeing some of that return back to normal where the customers float around a little more than they were, as those places are no longer in their honeymoon periods.

I'd also like to remind everybody that same-store sales were still up 3.6% from our pre-COVID 2019 number. Overall Bombshells is still on course. We do have some costs. The Grange Food Hall is in the Bombshell segment because it's a restaurant, so we put them in the restaurant segment. There were some costs there in the last 10 days of December that didn't really contribute revenue. At Grange we're doing the remodel. The new TVs are in, the games are in, the actual Bombshells kitchen construction starts next Tuesday, should be finished by Friday or Saturday, and we hope to have that open by the first of March. So we'll have a lot more contribution from the Grange in this quarter, as well as for March, and then of course going forward.

On February 1, we took over operations from our San Antonio franchisee as they lost their operating partner, and the investment partners decided they wanted to sell the location. Rather than trying to go through the whole franchising process and finding somebody, we discussed with them selling us the location. We financed that location with \$1.2 million cash down and a \$2 million five year seller note. That's a very manageable note for us with that location averaging sales of about \$120,000 a week. That's about a \$6 million a year unit. I don't think we could have even built the unit for that cost. It's an upgrade for us. It's sad that we lost a franchisee. We're really

hopeful on the franchisee model at some point in the future. Maybe Huntsville will be the guy who's successful, but at the same time we picked up a fantastic location for ourselves.

Q: Okay, that's good to hear. And given the choppiness in traffic in both the blue collar locations and Bombshells, are you guys rethinking your promotional strategy to do more specials as far as for food or drinks or how are you thinking about that?

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

Absolutely. We switched modes in early December. We didn't want to get too crazy about it in December, because we did have a lot of pre-planned Christmas parties. Pre-Christmas was pretty decent, then it slowed down. The week between Christmas and New Year's was a little off. But then New Year's weekend was fantastic for us. It's been a little strange adjusting to it. I call this a psychological recession in that there's plenty of jobs. People can make money very easily right now. It's just psychological. Everybody keeps saying, "Oh, things are going to get bad," and people are seeing prices a little higher, so there's still a little sticker shock on certain items and certain prices out there.

I think that by March it's funneling out. We've adjusted our plans. January was better than December and November in total revenues. February is a short month. We only have 28 days, so we don't get those extra three days. We'll see how February comes in, but I think on a per week basis, or you do an average daily sales, I think February is going to be up from January, and I expect March will put us back on the path. We'll have to see how it runs through the summer.

Q: Got it. Thank you very much and best of luck.

Mark Moran - Chief Executive Officer, Equity Animal

Thank you very much, Anthony. Next up, we are going to have Lynne Collier of Water Tower Research.

Q: Thank you very much. Eric, I wanted to ask you, do you have any other color that you can provide on the casino, in terms of the progress you're making?

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

Yes and no. We're in some negotiations right now with a national partner. That's not quite done yet but we're working on that process. Hopefully, by the next week, we'll get some color on that, which I think will be exciting for us. Overall, we've done our 3d scans. We're starting all of our layouts. We'll be up there Monday after the Super Bowl with some of our operational team. We're going to actually do floor layouts and flow patterns for the location to get to the architect. I suspect and hope that we'll have the roofing and HVAC systems, repairs, and replacements started in April, and hopefully completed by the end of April.

My personal goal is to have the casino turnkey ready to open by November 1. A lot of that will depend on whether we can get our preliminary approval by June 1, which we should be able to do

because that's about six months, and typically it only takes three or four, so we may have it much sooner. We've been in licensing going on for about two and a half months. Hopefully, based on what we hear from other operators in the Colorado market is that between four and six months, you typically will get your preliminary approval so you can start your casino setup. If everything goes right, we'll be turnkey ready by November 1.

As for our total costs on that, we're buying most of our machines. We're not going to do a lot of leases or what they call "participation machines." It should come in just under \$10 million between the remodel, the machines, the table games, the security systems, and that kind of stuff, including the land and building costs of \$2.4 million. I figure we're going to spend about another \$6.5 million on build out and gaming devices, and leave us about \$1 million bank for startup.

Q: That sounds great. Thank you so much. I just have another question. In Dallas, the weather's been pretty unfavorable. I know we're only a few days into February. But can you comment at all on how the weather has impacted the last couple of weeks or so?

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

We had 10 locations that were closed for two days. Six of those locations were closed for a third day. We also had a tornado that hit our Bombshells Fuqua location in South Houston. It was closed for a couple of days while we got some of the repairs done and there was no electricity in that part of town, near Deer Park, Texas. You've seen it on the news. That's where the tornado actually hit. We just got the tail of it, or the beginning of it, I'm not sure which. But it was a pretty bad tornado. It actually ripped the metal top off of our garbage dumpster, and it blew out the fence on those roof AC units. The HVAC system was damaged, so we had to get that repaired. We have insurance so we'll worry about the insurance part of it later. Right now we're just getting everything fixed. That store was closed for about two days. There was some minor stuff but most of that was two days in January and then February 1, or it might have been all three days at the end of January. So our January numbers, which I said were better than November and December, were affected by those 10 stores closings as well. I think we would have been a little better off if we got in those three days from those 10 stores.

Q: That's great color. Thank you so much. I just have one final question and that's about Bombshells in Colorado. How many units or restaurants do you anticipate being able to build in the Denver area over the next couple of years?

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

We have about six site locations or area locations that we're looking into. Right now we have the one in Aurora. We have a Downtown Denver location very close to the convention center that I think will be just an unbelievable location. I won't call it a turnkey location, but it's pretty close. Everything we're going to do is cosmetic. The previous operator left everything in the building. All the kitchen equipment is there. It was a large operation, great location. We're in negotiation to get that under contract and close.

I think that if we can get this done in the next week, that we can actually have that location open in time for the football season, when the Denver Broncos have their first home game. That's going to be our goal. That one can be open very quickly and very inexpensively. Total cost of probably less than \$1 million dollars on the build out. We're buying the property, so we'll have bank financing on the purchase. It'll be super-fast cash on cash return as well for us. I'm excited about that location.

Q: That's great. Thanks so much. I think I'm good for now. Congratulations on another great quarter and thanks again for taking my question.

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

Thank you, Lynne. Appreciate it.

Mark Moran – Chief Executive Officer, Equity Animal

Thank you so much, Lynne. And Eric, I just wanted to give you a second to clarify something because I believe that you might have said the San Antonio Bombshells franchise was acquired for \$12 million versus the \$1.2 million.

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

Well, \$1.2 million in cash and a \$2 million note is what I thought I said, so, if I misspoke that I'm sorry. The total purchase price was \$3.2 million, which like I said, is less than we could probably build that location for, and it's \$1.2 million in cash and \$2 million on a five year promissory note.

Mark Moran – Chief Executive Officer, Equity Animal

Phenomenal. Thank you so much, Eric. And then thank you again, Lynne. Next up, we have Rob McGuire of Granite Research in the pole position. Rob, take it away.

Q: Nice quarter, guys. Can you give us an update on when Baby Dolls could close and anything unusual going on with those alcohol licenses or any color around that?

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

I really thought we'd close by February 1. That was my plan. We were prepared and ready to close by February 1. We have a line of credit set up through our bank ready to draw down on as soon as we need it to close the transaction. What's going on right now is they had a couple of outstanding issues. The Texas Alcoholic Beverage Commission has put an administrative hold on the transfers, so they can't turn their licenses in so ours can be issued. And ours aren't ready yet due to a couple of other issues with the cities, but all of our stuff is in processing with the Texas Alcoholic Beverage Commission. We're, as they say, waiting on the government.

I know the attorneys are working. We'll probably will have more color based on our discussions by February 20. I would love to see it close by March 1, but it could be March 15, it could be

March 31. But I do think we will get it closed in this quarter. That's seven weeks. Surely they can resolve issues, even dealing with state agencies. The problem is we have a sense of urgency, but they just don't have a sense of urgency. They want to get through the process at their speed and their time, and we'll just be sitting here waiting to go. But everything on our end is ready to go. We're ready to close the transaction. We have the money in the bank, a line of credit set up, and we're good to go. Our teams are ready. We've already pre-ordered all the POS equipment so we'll have the POS equipment in immediately. Everything on our side is a go. We're just waiting for those final approvals.

It could be March 1, could be March 15, it could be March 31. They gave me a couple of deadlines on the typical time it takes to do these things. I think one was April 20 something and I remember seeing like a March 13th date or something. Sometime in that plan we'll get it done. As soon as the licenses are approved, we'll probably try to close the next day or the day after.

Q: Thank you and then just turning to Denver. You're looking at six potential Bombshell area locations. You've got two under your belt. You've been able to acquire that land for less than what we've seen in Texas. Do you expect that trend to continue with the other four locations, if you expand or continue to expand there?

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

I think so. We looked at some properties that are more expensive than Texas in that market. But there's still a lot of vacant restaurant space out there. Unlike Texas, which opened pretty, pretty quickly, they were closed for a much prolonged period of time. A lot of what I would call better operators still lost their locations out there. There's still a lot of land, I think, tied up in courts and leases and issues. We're sorting through all that, trying to find the right locations. Obviously, I have seven on my plate right now, so I'm not in a hurry. We are lined up for 2024. I think one of the problems that people don't realize for '23 is we have to grow through acquisitions in this year because we weren't lining up these things in '20 and '21, like we normally would have because of COVID.

Bombshells has taken a pause here, but now that we're coming back online, and not having new growth dulls the excitement for the brand a little bit as well, so that could have some effect on us as we move forward. I think as we get to the end of this year, and we start opening up new locations again, and we energize our management teams with upward mobility, I think we're going to see some great things out of the Bombshells brand again. Provided we don't have another kind of COVID shutdown or anything like that ever again, I think that brand will do very, very well over the next three years as part of our plan to get us that 30 plus units and get us to \$50 million plus EBITDA out of our restaurant division. I don't think we'll have any problem getting there.

Q: I appreciate that. Staying in Denver, but shifting to the nightclubs, you talked about substantial improvement in operations from the 11 nightclub acquisition you made, but can you talk about potential for La Boheme to continue to improve here and just give us the backdrop on that?

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

The plan is to convert that location into Rick's Cabaret Denver. I know the La Boheme name has been there for a long time, but with the convention business there and the people that travel from out of the country, Chicago, New York, Miami, other major markets, where RCI operates, we think that the Rick's brand will do very, very well there. We've been waiting for approvals, for permits and the outside remodel and sign permits, which are all starting to come in and we hopefully will have that location converted by April.

Q: That's it for me. Thank you so much and congratulations on the quarter.

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

Yep, thank you, Rob.

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

I had just one clarifying point. The Bombshell San Antonio franchisee location, I know Eric said \$1.2 million down, \$2 million note, five year amortization, but two year balloon, 7%. Just wanted to put that all out there. Thanks.

Mark Moran – Chief Executive Officer, Equity Animal

Thanks so much, Bradley. And good thing, you are not referring to the spy balloon that was recently hovering over. Rob, thank you so much for the questions. And I want to encourage everyone to also check out Rob's recent video on "Misconceptions of the Adult Entertainment Industry." Now before we move to our open Q&A session, I'd like to encourage people to raise their hand to be called up to be able to ask questions. We're going to bring in Joe Gomes as our final equity research analyst up to ask questions. Joe, take it away.

Q: Thanks and congrats on the quarter. Just wanted to go back to Bombshells for a second, I know we're kind of beating the dead horse here. But maybe Eric can give us a little more color and detail as to how the San Antonio operator left, so to speak. And even though Bombshells is performing better than pre-COVID, it has been somewhat negative on the same-store sales base here, I don't know the last four quarters or so. How is that impacting your efforts to attract additional franchisees?

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

Right now with the current economy, no, we're not getting a lot of franchise calls because it's a \$6 million plus investment. I call it a psychological recession where nothing's really changed for people other than maybe gas and food prices up especially for your top 50%, but your bottom 20% is probably getting very squeezed by those things. But there's plenty of jobs even with the tech layoffs. If you read the reports, most people are laid off in tech and back to work within one week. Unemployment claims didn't go up. When was the last time hundreds of thousands of people were laid off in a recession, and unemployment claims went down. So there's plenty of jobs. And so when I say psychological, I mean, people are expecting things to get worse and so therefore they're

changing habits. And those changing of habits are what we have to adjust our business model to. I think we're doing a fantastic job of that.

As far as beating the Bombshells horse, we knew we were going against very hard comps. We knew that as all these new restaurants and all these spaces were being leased and we saw the construction going up that we were going to be affected for a period of time at those locations. We're adjusting our model. We're doing the things we need to do to get Bombshells back to their 18% to 22% margins. I think it's just going to take time. We have to work through it. Back in 2008-2009, when we saw our earnings drop to \$0.08 per share from the \$0.20s. That was the first time we ever experienced anything like that. We had to adjust our models, it took us a little longer.

I think this time we've adjusted our models very quickly. Instead of globally, because of the information systems Bradley's put in place for us, we're able to do this on a regional and club by club basis. That's why we know that the recession is here. Slowdown, recession, or whatever this period we're in, the consumer is trying to decide where they want to spend their money as freely as they have in the past or save some in case it slows down. It has got to the point where it's affected certain clubs and not other clubs. Instead of switching the model at all of our clubs across the country, like we did in 2008-2009, we're able to target specific locations and make those adjustments.

You'll see the clubs that are still positive are still comping positive. Bombshells is a little different market. It's not as geographically diversified as the clubs are. It's all Texas based, mainly Houston. The majority of our locations are in Houston, Texas. We're affected by sports because we're a sports bar. So when the Texans are winning three games in a year, and one of them shouldn't have been won, because they lost a first-round draft choice, those are the kind of things that affected the Bombshells market a little bit.

As we move into March, we're going to have March Madness. The Final Four is in Houston, Texas this year at NRG Stadium. That's going to be a huge event for us, on the 1st of April. So I think going forward, we're looking at easier comps because now we're comping against a period where we had a bunch of new locations for other businesses opening and honeymooning, going against very strong comps. I would just like to remind everybody that in the Bombshells segment, while our margins are a little off right now, we're making some adjustments to get those back in line.

Our overall revenues are still up 3.6% on a same-store sales basis from 2019 pre-COVID. Overall, the brand is still as solid today as it was in 2019. Maybe not as strong as it is when you're the only one selling liquor in town, but still very strong overall. We've just got to get some of the costs in line. It's very difficult. Your beef prices change daily, your chicken prices change daily, your labor costs have had a creep. That is loosening. I think chicken has come way down in cost, but it may go back up with all these egg shortages. They can end up having chicken shortages at some point. We've got to watch those things. We've got to adjust to them and keep our prices in line and keep things working in the right direction.

Q: Thanks, Eric. One more from me here. You didn't say anything at all today about AdmireMe. I was just wondering, maybe give us an update on where that program stands today. Thanks.

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

As of January 1, we have replaced our developers. It was a very tough decision. Our developer was a Ukraine-based company. Ukraine is in a war, as everyone knows. We tried to stick with that group, and they've just been unable to perform and meet the standards and the timelines that we wanted. The new company came in on January 1. They took about six weeks to learn all the code, get the code together. They're now making a lot of bug fixes. They're getting the bug fixes fixed so everything works correctly again. I would suspect that in about three months' time, they will get us a viable product. That's our hope.

I think the problem was all the bugs and things that just weren't working properly. We were paying them to fix something and while they fixed that, they'd break something else, because they weren't a coherent team. The new group we have is a very coherent team. They're working very well together. We've seen some major improvements in the site as far as the things that didn't work are all fixed. I suspect in about three more months, maybe next quarterly call, we'll have some much better news on that front. That's a problem with technology. But at least we're not billions of dollars in like Meta. We're keeping our cost relatively inexpensive, relatively low number for the company on that transaction.

Q: Great. Thanks for the insight Eric. Congrats again on the quarter.

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

Thank you.

Mark Moran - Chief Executive Officer, Equity Animal

Thank you so much for the questions, Joe. We actually just got interrupted by a few individuals who walked into the office. We have Tyler Morin and Dave Portnoy of Barstool Sports. Thanks for coming guys. Tyler, do you -- you look like you got a question, do you want to ask anything?

Q: Yeah, I do. Congratulations on the quarter, Eric. Great quarter, I want to talk a little bit about what you guys are doing out in Colorado. It seems like you're spending quite a bit to get into the gaming space. I just want to know a little bit more about that about what the expansion plans are there.

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

Thanks for the question. The main thing we're doing out there right now is creating an entertainment zone. I know Barstool Sports and Penn Gaming have the Ameristar out there, great property, one of my favorites, but there's no entertainment. There're no nightclubs, there's no fun places, I would say, other than casinos. You want to gamble, if you want to hit the tables, you want to hit the spot, that's great out there. If you want to go the outdoors, it's great.

When we first started looking up there, I almost passed, because I've known about Colorado casinos since the 1990s, and thought, this is nothing new. Why would I go to this market and try

to do something that nobody has been able to work for 30 years? So I started studying it, and I said, wait a minute. They had \$5 bets. Then they had \$100 bets. Now there's no limit. In the trailing 12 months through June 30, 2022, \$9 billion went into slot machines in the Black Hawk-Central City area. The average keep was 8%. It's huge. The amount of money was huge. And so we said, okay, how are we going to differentiate ourselves? I don't want to do the same thing, and so we said let's build a club. Let's build a Rick's Cabaret up here, and let us have nightlife entertainment. Let's turn the music up, and let's draw the 30-year-olds up here, because right now they rarely come up here.

I talked to all the people in our clubs, especially all the entertainers, the waitstaff or bartenders, in Denver. All this age group that's the 20 to 35-year-old crowd. I said, "Hey, you all want to go to Central City, you all want to go to Black Hawk, with me tonight?" They asked, "Why?" They said, "There's no reason to go because there's nothing to do."

What we want to do is take Main Street in Central City, and say, let's do some music festivals, let's do street festivals. They already have some, but what if we do all this stuff, and in the meantime, if we can control the nightlife – it's a residential area, all the stuff closes down at 11:00 PM – we call everybody into the buildings, we build a couple of nightclubs, and turn the music up, and I think we can do some unbelievable business up there.

Mark Moran - Chief Executive Officer, Equity Animal

Phenomenal. Thank you so much for that question. Now, next up let's bring Adam Wyden. Adam? And Adam before you go ahead, I'd just like to encourage everyone to raise their hands if you have a question, so we can bring you up as a speaker.

Q: This presentation had a lot of good disclosure that you didn't have in the past, so I just want to go through some logistical questions and then talk bigger picture. On slide 15, you have a whole thing about club acquisition and development and on slide 16 Bombshells acquisition and development. As you know, in the restaurant and club business, when you're doing a lot of remodels and maintenance CapEx and repair and maintenance, a lot of the clubs that you had to shut down, clubs that you had to reformat, the Grange, you're running a lot of stuff through the P&L that is going to be a cost center that will be a profit center as you roll in 2023. Then on top of that, you have all the legal and transaction work associated with Baby Dolls and whatever you're doing on the casino front. Can you try and give us a sense of how much preopening or growth CapEx or onetime stuff that will be reversed in the coming periods? We have our arms around \$2-\$3 million EBITDA. Is that a good place to start, not in terms of non-recurring inflation hit, but more one-time cost investment that will manifest itself in revenue in future periods.

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

Other than the San Antonio franchisee location, every one of these properties involve real estate that we now own. We purchased that real estate ahead of time. So there's carrying costs. Like you said there's legal costs, survey costs, those types of things. Those are not capitalized. Those are expensed for the most part. So yes, there's cost. You also have interest carrying expense. These

things are carrying interest. It's not a lot of expense. But when you look at this many properties, it starts to add up, and it becomes a larger number.

What you're going to see as we move into the fourth quarter of 2023, the early units of Heartbreakers, Jaguars, San Antonio, the acquisition -- I certainly hope they we close by March 31. I will be all over the lawyers if we're not done with this by then. They should be able to get this work done. Our side is done. We're just waiting on the State of Texas and the seller to work out a couple of issues they have with each other.

The Jaguars Club in Lubbock, which is under construction, and the PT Showclub, all those are taking cash out right now. But that's going to reverse as soon as those locations open and it's a double edged sword. Let's say we are spending \$0.5 million or \$1 million a year, and now all of sudden you got units to start making between \$0.5 million and \$2 million each unit here. All of the sudden you're going to see those big swings. If you're losing \$0.5 million you make a \$1 million or \$1.5 million swing in the EBITDA, we are going to see those things come to fruition.

I think in March you're going to see a couple of the locations really pick up. The Denver food hall definitely will have an unbelievable March. Heartbreakers is set up with the grand opening at the end of February to lead us into March as well with the new day shift open and the construction. The VIP room construction upstairs is about 85% complete. I know they were doing sound and lights last week when I was down there. That site should be done pretty quickly.

I was just at the Denver food hall on Monday. All the new TVs are in. We have a 220-inch screen up. A bunch of 90-inch televisions are all around the place. It looks unbelievable compared to what it was before. Everyone there is very excited. Business is up. I think January this year over January last year sales were up about 42%, but that's still not where it needs to be yet, and it's because we lost the largest sales. Over 30% of their sales were the single booth that moved out, where Bombshells is moving into. When that location reopens in March, that's going to be big for that. You have a lot of income coming in.

Stafford location right now is targeted for 2024. They're a little ahead on construction. Hopefully, we get that one a little early, which will be nice for a change since Bombshells construction usually runs a month or two over. I'll be excited if they get done early.

We're very close on Rowlett. We finally worked everything out with the developer. Our bids were extremely high, because they had us doing a bunch of work that the city made us put on the plans and so everybody thought we had to build roads, but that's the developer's part. We finally got that worked out. That construction should start soon.

The club in Lubbock construction has started. The club in Fort Worth construction has started. We're awaiting permits. Lubbock is probably a few months from starting construction and Huntsville is only a few months from starting construction. There's going to be a lot that's going out. But the main thing is, we've spent the money on all these things. We paid the architects. We paid for the building permits. A lot of this is in our cost. That will get much better as we move forward.

Q: Okay. Perfect. I got two more and then I've got kind of a more qualitative one. On slide 18 you added this fiscal year 2023 capital allocation of \$93 million and that includes Baby Dolls and buybacks and Heartbreakers and this and that. I know you're going to put more money in the casino but you committed to doing \$200 million a year. Now if you invest another \$20 million on top of what you've already invested so far, do you still think you can fill out that \$90 million? That could be a few Cheetahs or another big Baby Dolls or Lowrie. Do you still think that you can get another large size acquisition, at least announced this year or even closed, another big deal or another couple of medium deals to get you to \$200 million?

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

Or several smaller units could still happen. We put the \$90 million and the \$20 million, and that gets you about \$110 million. So about \$90 million more we want to get invested this year. We're talking with several operators. Last year we closed the Cheetah Club in May. We closed another club in August with Playmates. We've got plenty of time. We're literally four months and nine days into the year. Barely over a-third of the year is over and we lined up \$110 million investment so far. To think that we can't line up another \$90 million in the next eight months, I could take a long vacation and miss, but I don't plan on doing that.

Q: Eric, this is helpful. I'm going to have to turn my question out of order, but I was talking about it with someone that works internally at the firm and isn't an analyst, isn't a stock person, which is sometimes it's helpful having non-stock people. They said in the old days, you got all these guys that are getting older, and they weren't earning any money in the bank, and they just went through a global pandemic. Now you're giving them 6% seller finance, and there's actually a cost to their capital, which is sort of the point that we're making. You saw this in the '80s. You see this in the periods when interest rates go up. Smaller guys get squeezed out. There's a cost to their money, and you've seen consolidation.

Do you think the higher interest rates and just going through COVID could actually bring some of these guys to say, look, I don't want to go through another downturn. Eric is going to give me money from my club. He's going to pay me cash, stock, 6%, 7% on a mortgage. Don't you think that this environment where capital has a cost might actually bring some older guys in saying, look, I'm going to use this as an opportunity to sell, because interest rates could go back down in theory. Do you think that this environment lends itself to consolidation and people coming to you to say, I'm finally ready to sell?

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

I think we've been getting those calls. COVID got some pretty major players interested in selling, as you know from the Denver acquisition, which has been fantastic for us. I think there's still room. We're still going to have growth. Trailing 12 months, 24% increase over their 2019 numbers. In the trailing 12 months, from today, I think that number is going to be even better. As we move forward, I certainly think there's plenty of opportunity out there for us. I am being a little pickier, because I've got so much on our plate right now, and that's one of the things I wanted to lay out in this slide. It is just how much we've actually been working because you guys don't see this until I announce it and we open. When I buy a \$1 million piece of land or maybe \$0.5 million piece of

land, it's not material. I don't put out press releases over these small things, but we have a lot on our plate right now.

We're ready for more of the right kind of deals. I've been talking with a couple of owners, and they want 4 times or 4.5 times, and I'm like, well, you've got a 3 times unit, I'm sorry. I can't pay you 4.5 times for a 3 times unit. If you want to give me some better terms, you want to carry more paper, good, but if you want 65% cash down, that raises my cost, and I'm going to pay you less. One way or the other, it balances out.

If you want to take the finance portion of what I'm willing to pay for your free cash flow and carry the paper, sure I'll be happy to give you that. You carry more paper, I'll give you another point of interest, but you don't take any of my cash from me. If I go in there and generate the income from their particular location to pay for it, then yes, I'm willing to give them a little better multiple. But when they increase my risk factor, and it's not a major market or I'm not extremely comfortable with the market, I'm going to pay less for it.

We've targeted guys who said, "I don't want to sell my club to anybody else." I said "What you're really saying is, nobody else wants to buy your club for this price and I can't buy it for that price, either. This is the price I will pay. Call me when you're ready." And I guarantee you, one day we'll get that call.

It's not that we're paying the top price, because people offer them more money. What we are paying with is reputation. We've never missed a payment. In 30 years, we made every payment to a seller we've ever promised to make. We made every payment through COVID to 90% of our seller finance notes and the only ones we didn't pay were because they said, hey, don't pay me. I know you guys are suffering right now, don't pay me. You guys have been good to me, take three months of payments and just affirm. We'll work it out later. We were able to do those types of things. That's why we are the preferred buyer because they know they're going to get paid.

People offer them more money but they want less cash down. They offer them higher interest rates but they're never going to get their money. Plus they also know that when we take over their club, we're not going to run their club into the ground. We're going to remodel. We're going to build. If they ever did get it back from us, it would be in better shape than it was the day they gave it to us.

Whereas, if they sell to somebody else who's carrying so much paper, they may be struggling. They may not only not make the payment, but they're going to run their clubs into the ground as well. That's what we're using as our past reputation and how we do business. They can call any owner if there's some out there listening looking to sell their club. You can call anybody we bought clubs from. No one that I know of will say a bad thing or has ever said a bad thing about us on how we do business, on how we treat you, and how we work with you through anything that comes up.

Q: The other thing that we've gotten in our research is there's one large strategic who is not really active in consolidation anymore, Déjà Vu, Harry, and so there really isn't anyone who has the balance sheet to facilitate transactions like Baby Dolls or VCG or what have you. You're really the only guy out there that can do it, that has the ability to close and get property level mortgages and

fund the cash down payment. I don't think a lot of people have \$30 million of cash or \$25 million in cash to buy a \$10-\$15 million EBITDA asset. So I worry less about competing for the asset and more about sellers wanting to sell to you and having a cost of their capital. But, yeah, look I think we've still got a long way to go on the M&A.

Then the other part is back to the casino. I think you've been a little bit cagey about this. True to Adam Wyden form, we've done our own diligence. I know a guy that operates slot machines down here, operates racinos, and I do the math on 30,000 square feet and the number of slots and I can back into it. If you guys are going to spend \$10 million and most of that is slot and gaming you're not participating. I don't know what you're doing with your online gaming and your sports betting, but I suspect that's part of the equation as well.

There are scenarios where a 30,000 square foot casino could generate tens of millions of EBITDA. I know it's early in the evolution, but I think it would be helpful. I'm annoyed that we spoke this much about Bombshells. Baby Dolls is double the EBITDA Bombshells is doing. One freaking transaction is \$15 million of EBIT pro forma versus \$8 million of EBIT out of Bombshells. The fact that we spent the first hour on the call is just absolutely abhorrent. But separately I look at a lot of guys like, wow, he's doing this casino, it's out of his bailiwick, and we don't think about it all. We've seen the renderings, and we say look this is like the old western cabaret burlesque casino. I think it's just so on brand. But I think even more importantly I think it's important for you to come out there. And I know it's early, you are an entrepreneur and so am I, but I think when you're making an investment in a casino for \$10 million of cash and again in the grand scheme of your market cap and your balance of \$35 million cash, it could go to zero.

When we do the math we've seen the range of outcomes of low end of the range you're making like \$10 million of EBITDA, high end of the range you could be making as much as \$25 million or \$30 million. I think it's super important that you and the investor community understand that you're in the no-brainer business. When you buy strip clubs with real estate at four times EBITDA that's a no-brainer. You're getting into this because (a) it is a strip club itself, a strip club steakhouse casino, and (b) the returns are so good you can't not do it. I just wanted to sort of lay that out and give you an opportunity to respond.

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

I don't invest my money unless I think I can get a minimum of 25% to 33% return on an average risk investment. I would consider this a high-risk investment. I'm going into a new market. I'm building something from scratch. If I didn't think that I could get the returns in the 50% to 100% range, I wouldn't even be looking at this.

Our preliminary numbers are very similar to the model you laid out. I don't know what I don't know. I know how many people are out there. I know there's 5,000-plus hotel rooms. I know, on the weekends, those rooms run out for \$300 a night. I know that, based on my observations, 60% plus of the people out there are men, mostly 30-55 years of age, in Black Hawk. In Central City, it's a much older crowd, but I'm going to draw those younger guys to Central City. Everybody says Central City and Blackhawk, but it's really one area. It could be one town, it's so close together. If they didn't put a sign up you wouldn't know you were leaving one town and entering the other.

You would think you're in the downtown district, which is the old town, and you drive out in the new part of town is basically how I see it when I'm out there. I don't think the road is 1.5 miles long that connects the old town to the new town. It's a very, very short, very close knit little area there. People that work in Blackhawk live in Central City, people that live in Blackhawk may work in Central City. It's really just one area out there of Blackhawk Central City, and the difference I think is, the betting laws changed in September of 2021.

One of the things people say is, "You know, Colorado has had casinos for 30 years. You're not going to go out there and make any big changes. How are you going to do anything different than all these other operators?" The difference is that the rules changed, and people have been slow to realize these rule changes.

I've been going to council meetings in Central City since July, and I think we've got a very progressive mayor and very progressive city council that's becoming more business friendly. I think in the past they've had a much more protectionist City Council that was more concerned with keeping Central City the way it is, even to the detriment of economic growth. And I think that there's a balance. I think this new City Council and the Mayor have a great plan for balance, to bring new business in, and at the same time preserve what Central City is.

It's a great town. I posted some videos on my Twitter. You can go to the Central City's website and look at the videos of the town. It's a great old town. It's got the oldest opera in the country, been there since the 1800s. It's an amazing little area, but one of the things is there's just no nightlife and no entertainment. We're going to be the only thing to do after 11 o'clock at night, and I'm very excited about it.

You've run casino numbers. If I put 300 people in the building every day, 500 to 700 or 1,000 people on the weekend, you know what the numbers are going to be.

Q: I don't know what you're doing as it relates to your online gaming or sports betting, but I suspect if you're working with a national partner, you're getting a deal that's sort of minimum guarantee in some capacity. If you're getting a minimum guarantee on your sports betting or online gambling, I suspect that that in some ways is probably covering a lot of your upfront investment altogether. So, again, I don't know the exact numbers, but I suspect that between your online gaming and sports betting, if you're working with a national partner, you'll have some sort of minimum guarantee and that will cover some part of your investment, hopefully all of it.

I look back and say to myself, I don't know why we spent two hours talking about Bombshells when this casino nightclub, strip club thing could be 25%, 30% of EBITDA, it could be doing four times the amount of EBIT that all of Bombshells is doing. Not to mention, Baby Dolls alone at maturity is \$15 million of EBITDA. That one acquisition is double the amount of Bombshells. I obviously hope that Bombshells margins go up, but I think the major takeaway for us in all of this is that if you do the casino and it does well, it's triple the amount of EBIT as Bombshells. If you do one more Baby Dolls, it's double the amount of EBIT as Bombshells, yet somehow the entire sell-side analyst community spent the first hour talking about Bombshells. It's exciting, this casino, and we'd love to see more Baby Dolls, and that's it for me. Thank you.

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

Thanks Adam. Appreciate it.

Mark Moran - Chief Executive Officer, Equity Animal

Thank you so much for that question, Adam. Phenomenal. Actually more than one question, plural. Next, we're going to bring up StockMKTNewz Evan. Evan, please the floor is yours.

Q: Fantastic quarter. I'm also a really big fan of the @RicksCEO account, the person hosting the space. First of all everyone down below make sure you're following the account, and that's where I want to dig into my question. We're doing this on Twitter Spaces. You're very active on social media. I would love to hear a little bit more about how your use of social media has helped the company, helped the stock, anything in general. But really how have you seen your use of social media, Twitter Spaces kind of helping Rick's?

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

It's been amazing. We've been able to communicate directly with not only end users of our product, investors in our company, potential investors, critics. To me, it's so engaging. I just love the immediate feedback. I can post something. I can ask questions. I can do hypotheticals. I can just be goofy if I want to. It's just a great tool, I would say, with Twitter.

What has Twitter done for our shareholder base? We started out -- I have to go back and pull the exact numbers, but it's between 6,000-7,000 shareholders on our owners list. I think now we're getting close to 9,000. I'll get the new list on the 15th of February. We'll see if that trend has continued. I saw institutional ownership dropped from 54% to 42%, and yet our stock was hitting all-time highs. This had never happened before.

When you lose your institutional ownership, your stock crashes. But that didn't happen with RCI. The only thing we changed was we went on Twitter. We hired Equity Animal to get our story out to the people directly, and that's what's changed. I can't be more excited about how it's going.

I throw impromptu parties at the clubs, and it's money because 20-30 people show up sometimes, sometimes four people show up, sometimes one guy shows up. Me and that guy get to sit down and have a drink together, and I get to hear one-on-one. "Why did you come here, what do you like about us versus other clubs you've been to?" I get direct feedback, and to me that's incredible.

I follow people. I don't care if your account has a small number of followers or a large amount of followers. You tell me you're a shareholder and you engage with me, I'm going to follow you, so you can direct message me. I get a lot of direct messages. We can talk. It's direct feedback. You can't get that any place else.

Mark Moran - Chief Executive Officer, Equity Animal

Thanks so much for that question Evan. Eric, we appreciate the kind words. Hot Girl Capital, we're going to get to you next. Great profile picture by the way. But first, let's bring up Orchard Wealth, you're up. The floor is yours.

Q: Hey, guys. Great quarter. I was just going to second Adam's comments. Obviously, with the vast majority of the money constantly coming from the strip clubs, adult clubs, a lot of Bombshells talk and focus, I feel like whoever is listening and wants to focus in on that does not understand the entire story. I'm completely behind this idea about this casino expansion, and like anything else, I have faith in what you're doing, Eric. I really don't have anything to add other than just to congratulate you. I'm happy that you're moving into the space. And from the looks of things and the way you've done things in the past, you have my confidence with my shares. So I'm going to just leave it at that. Thanks.

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

Thank you. I really appreciate that. It means a lot. That is why I'm on Twitter. It's why it's been so important. It's why I spend so much time. I know I've been in Colorado for three days, I don't think I've made two posts in three days. I was looking at my engagement, I'm way down. But we've been out there, we've had non-stop meetings. To give credit to our Executive Vice President, Travis Reese. He is engaged in this casino in every aspect of creating this new concept.

One of the things he's good at, he helped at Bombshells and help create that concept and really got it started before we brought a restaurant expert in who fixed the concept, turned it into what it is today, and Travis has been great at that. I don't think in the last three years we've spent as much time together on a day-to-day basis as we have in the last six months. So it's nice to be able to spend time with him again. But his engagement in this deal in Colorado has been fantastic. So, I want to throw that out there and say thanks to Travis for that, too.

Mark Moran - Chief Executive Officer, Equity Animal

Fantastic. Thank you so much for the question. Now in that same vein, Eric, I'm going to ask you a question that was submitted to me anonymously. This individual was curious about the plans of the brewery. Is it similar to Robust in terms of vision? Robust, for those who don't know, is the energy drink. Let's answer that one first, and then we'll move onto the second question.

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

The brewery is nothing like Robust. Robust is a generic product that has a flavor profile very similar to the leading brand, which Mark is drinking right now. That's a no-no in RCI world. No, just joking. It saved us about \$20 a case off of the major brand product. We were using about 25,000 cases a year at the time. It's much higher than that today because we've grown so much. It was more of a cost saving deal.

We just bought the product at first, but then they were trying to expand the brand, so we bought into it. Probably wouldn't do it under our capital allocation strategy today. The numbers wouldn't make sense, and we probably wouldn't have moved in that direction. But we did, and then we

ended up loaning them money that they couldn't pay back. We ended up basically buying them out and taking over the brand. Since then we've done very well with it.

We've expanded some of our distributors. But the main thing is it supplies our own clubs. We're working with others to say, you're paying all this money you could be saving, especially big operators in this energy drink market that buy thousands of cases. They could save so much money with this product.

From a chemical standpoint, it's one molecule different. When it's mixed with any type of alcohol you can't really tell the taste. I call it the Pepsi and Coke challenge. If you remember the old days of the Pepsi and Coke challenge, it is exactly the same thing. I can pour in two different glasses. You can drink them. Tell me which one is which. It is very difficult to do. Hardcore drinkers can tell the difference, but casual drinkers, especially if you put vodka in it, you can't tell the difference.

The brewery is a one-off thing where we were buying this building. It was a great property. We we're going to close it down, turn it into a Bombshells, and as we did more site inspection, we started looking at how it operated, and it was making money. We asked for the financials, and we said, well, we can cut this, we can change that and we can make this thing. This could actually have better margins than a Bombshells because we get all the alcohol. But we don't have to have the food, we don't have to have the labor cost, because all that is rented out.

We get paid for the space, and they provide all the food product, which is our lowest margin at Bombshells, but we get all of the alcohol, we get all of the sports stuff, and we can make our own beer, which costs us even less. Instead of paying \$120 a keg, we can get kegs for \$30 making them ourselves, and that's how we got started.

It's evolving. It remains to be seen. We may develop this into a concept that we may decide to build more of if the returns are right. It's early, and it's a good way for us to get a Bombshells into the Denver market right away, so we can start training staff. We'll have our cooks ready. We'll do all our training at the food hall when we get ready to open up the Bombshells we're building out there.

Mark Moran - Chief Executive Officer, Equity Animal

Fantastic, phenomenal answer. As a very hard consumer of energy drinks, I cannot tell the difference. Next up we have Hot Girl Capital, and I would just take a moment to encourage everyone to raise your hand if you have a question, because we're starting to get towards the end of our Q&A segment. Hot Girl Capital, take it away.

Q: Thanks, Mark, and congrats on a great quarter. I'm super curious if you guys are going to do any celebrity or brand collaborations?

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

We're talking about that with the casino right now. With AdmireMe, once we get a viable product we will definitely be doing some stuff with influencers in that regard, for sure. Mark and I have

been brainstorming a few ideas around our new merchandise store that we're getting ready to launch. There's definitely going to be opportunities for that.

I'm still relatively a baby on Twitter. My one-year anniversary was the other day, and I said, well, that was just the day I signed up, that wasn't my real one year anniversary. And Mark said, why don't you try doing this? Then of course they wrote me a little thread and got me some stuff going, and the more I started this. I think May is probably really my first one year anniversary. They keep telling me 10,000 is the magic number, I got to get there. You have to get 10,000 followers. Hopefully by May, we will be there. I think definitely by November, when we open the casino up, we'll get there.

Definitely looking at some different ideas with influencers and doing some collabs on certain things to bring people, not only into our clubs or restaurants but also into the casinos, as we move forward.

Mark Moran - Chief Executive Officer, Equity Animal

Fantastic. Great question and great answer, Eric. Now I'm going to ask the last question of today. Eric, the last earnings call ended with you talking about your vision for empire building, and I wanted to ask what your update is on that and what the vision is now moving forward?

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

I think we laid that out pretty well on slides 15 and 16 on what we've been doing and how we're doing it. We have to continue to do what we do. Use fifth grade math to make sure that as we make these investments that we have an expected cash on cash return. I know the construction stuff. I'll be honest, I hate construction. I'd rather go out and buy nightclub after nightclub after nightclub. Unfortunately, it's not that easy.

Someone says to me, "You should have a whole stream of clubs lined up." I said, well, we do, but you don't have sellers. They start making comparisons to Carnation and Waste Management and AutoZone and all these roll-ups. I have 500 targets, and I already own 50 of them, so there's about 450 targets. You're talking about acquisitions where they had 45,000 targets.

It's easy to line up two or three acquisitions a month or a quarter when you have 45,000 targets. When you have 450 targets and of those 450 targets, there are multiple multi-club operators, so you're really talking about less than 100 individuals that I have to do deals with. It does take a considerable amount of time, and you've got to have people that are ready to sell.

I know a lot of these guys are older, and they are thinking about it. We started paying four times to five times multiples instead of just three. We were stuck at just three for a while. Certain locations are probably worth more, and then we started getting better acquisitions. I think we're going to continue to see that. It just takes time. We're going to buy a few every year. Some will be single clubs some multi-clubs.

I'm very confident in our three-year plan here to really roll this up to the next level and grow from \$100 million in EBITDA to \$250 million in EBITDA. \$600 million at four times would be \$150 million additional EBITDA. If somebody said that's shooting for the moon, okay, I'm shooting for the moon, and I only get into the stratosphere, and I only get to \$175 million or \$200 million, that's still significant over a three-year period, exceeding our 10% to 15% growth target. As long as I can do that, I'm going to be very excited, very happy and hopefully our shareholders will be.

I'll say it again, I say it every call, I say it on Twitter all the time. We're not for everyone, we're not looking for momentum investors, we're not looking for guys that care what we do next quarter or the quarter after. We're looking for long-term guys, who are going to be with us for three years, and let us execute our plan and let's all get wealthy together.

Mark Moran - Chief Executive Officer, Equity Animal

Amazing. And with that, let's all get wealthy together. Thank you, Eric and Bradley. For those who joined us late, you can meet management tonight at 7 o'clock at Rick's Cabaret, New York, one of RCI's top revenue-generating clubs. Rick's is located at 50 West 33rd Street, between Fifth Ave and Broadway, a little in from Herald Square. If you have RSVP'd, ask for Eric Langan or me at the door. After 9 PM, however, I will be busy implementing my own capital allocation strategy.

On behalf of Eric, Bradley, the company, our subsidiaries, and my favorite Tootsie's dancer, Fierce Aphrodite 7 on Instagram, thank you and good night. As always, please visit one of our clubs or restaurants and have fun.