

Transcript of
RCI Hospitality Holdings, Inc.¹
4Q22 & FY22 Earnings Call
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Participants

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

Analysts

Scott Buck - HC Wainwright
Lynne Collier - Water Tower Research
Anthony Lebieczinski - Sidoti & Company, LLC
Rob McGuire - Granite Research
Adam Wyden - ADW Capital Management LLC

Presentation

Operator

Greetings, and welcome to RCI Hospitality Holdings' Fourth Quarter and Fiscal 2022 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. Additionally, it will be available in the tweet that will be pinned to the top of this space.

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 with Eric Langan, President and CEO of RCI Hospitality, as well as Bradley Chhay, CFO of the company.

Please turn with me to Slide 3. If you aren't doing so already, it's easy to participate in the call on Twitter Spaces. On Twitter, go to @RicksCEO handle and select the space titled \$RICK FY22 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. At this time, all participants are in a listen-only mode. A Q&A session will follow. This conference is being recorded.

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

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

Now, please turn with me to Slide 5. I direct you to the explanation of non-GAAP measurements that we use. I'd also like to invite everyone listening in the Tri-State Greater New York City area to join Eric, Bradley and me tonight at 7 o'clock to meet management at Rick's Cabaret New York, one of RCI's top revenue generating clubs. Rick's is located at 50 West 33rd Street between Fifth Ave. and Broadway, a little in from Herald Square. If you haven't RSVPed ask for Eric, me or Bullish Intern at the door.

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

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

Thank you, Mark. Thanks for joining us today.

Please turn to Page 6 for today's news. We had a great fiscal 2022 and look forward to a strong fiscal 2023. A big thanks goes out to our team members for making this possible. We couldn't have done it without you. Year-over-year for the fourth quarter and fiscal 2022, our key metrics continued to increase on a double-digit percentage basis. This resulted in strong growth of free cash flow and adjusted EBITDA. This is helping drive future growth. We are a much larger company now, so we have been working on a much larger agenda of growth initiatives.

In fiscal 2023, our nightclub business should see the full year benefit of the 15 clubs acquired and the two reopenings from fiscal 2022, the addition of this year's Heartbreakers acquisition, the pending acquisition of the Baby Dolls and Chicas Locas chains, and other possible acquisitions under consideration. We'll also be developing our exciting new Rick's Cabaret Steakhouse & Casino in Colorado. As for Bombshells, we have six company-owned or franchise locations in development. These should start coming online over the course of fiscal 2024.

I'll be back to tell you more and answer questions later. For now, here's Bradley to review the financials.

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

Thanks, Eric, and good afternoon everybody.

There are a lot of numbers on this slide. I'm going to focus on a few big ones. Total revenues were \$71.4 million for the quarter, up 29.9%. For the year, revenues were \$267.6 million, up 37.1%. Free cash flow was \$14.5 million for the quarter, up 71.6%. For the year, free cash flow was \$58.9 million, up 63.3%. Adjusted EBITDA was \$24.2 million for the quarter, up 37.8%. For the year, it was \$86.7 million, up 44%.

Non-GAAP EPS for the quarter was \$1.45. That's down 8.2% year-over-year primarily due to the fact that our effective tax rate was 23.4% this year versus 11.7% last year, and also because we had 2.8% more weighted average shares outstanding due to the Lowrie acquisition. For the year, non-GAAP EPS was \$5.38, up nearly 32%.

Please turn to Page 7. With our fiscal 2022 performance, we continued our strong track record since implementing our capital allocation strategy to the benefit of our long-term shareholders. We thank you again. We initiated the strategy at the end of fiscal 2015. Free cash flow has grown at a CAGR rate of 22%, while we reduced weighted average shares outstanding 1.5% on a compound annual basis. Our free cash flow conversion rate increased from 11% to 22% of revenues since 2015. We also survived our toughest challenge yet—COVID—in fiscal years 2020 and 2021.

Please turn to Page 8 to review our fourth quarter in more detail. The Nightclub segment had another excellent quarter. Revenues totaled \$56.6 million. This was our second sequential quarter not affected by COVID. Operating margin was 39.7%, 41.6% non-GAAP. Operating income was \$22.5 million GAAP and \$23.6 million non-GAAP. Our new acquisitions added \$14.9 million in sales. Same-store sales were up, reflecting strong growth in New York, Illinois and Florida. High margin service revenues increased 53.6%.

Please turn to Page 9. The Bombshells segment also held its own during the fourth quarter. Revenues totaled \$14 million. Operating margin was 15.5%. Operating income was \$2.2 million. Same-store sales were down for the quarter, but total sales improved sequentially through the period and were up 7.4% year-over-year in September. Bombshells Arlington, which opened in December of 2021, added \$1.4 million in sales. The San Antonio franchise added more than \$100,000 in royalties since its opening in June 27. It also incurred \$300,000 in start-up expenses as part of our franchising agreement. Now, excluding those expenses, operating margin would have been about 18%, which is in line with our target range, and operating profit would have been about \$2.5 million.

Please turn to Page 10 to review our consolidated statement of operations. All comps are as a percentage of revenues and compared to a year ago fourth quarter, unless otherwise noted. Cost of goods sold declined to 12.9%. This reflected the increased mix of higher margin service revenues of 36.5%.

Our salaries and wages were approximately level at 25.3%. SG&A was 31.3%. This reflected newly acquired and reopened locations and around \$2.4 million of non-cash, stock-based compensation. This relates to previously announced \$100 per share options granted to a limited number of top executives and management team members. Excluding stock-based compensation, SG&A would have been approximately 28%, about the same as a year ago quarter.

Depreciation and amortization were 6.7%, reflecting non-cash amortization of intangible assets on newly acquired lease locations. Other charges reflected \$1.7 million gain on the sale of businesses and assets in the Nightclub segment compared to \$11.9 million impairment in the segment last year.

Operating margin was 25.2%, 30% non-GAAP. Interest expense was 4.8% versus 5.3%. This was a function of higher sales in the fourth quarter partially offset by higher debt from club and Bombshells site acquisitions over the course of the fiscal year.

Please turn to Page 11. We ended the year with cash and cash equivalents of \$36 million, a little higher than a year ago. Free cash flow was 20% of revenues for the fourth quarter and 22% of

revenues for the year. Adjusted EBITDA was 34% of revenues for the quarter and 32% for the year. Both of these metrics exceed our target performance of 20% of revenues for free cash flow and 30% for adjusted EBITDA.

Please turn to Page 12 to review our debt and related metrics. Net of loan costs debt was approximately \$202.5 million at year end. That's an increase of \$14.5 million from June 30. The increase primarily reflected seller financing used in the July 2022 Cheetah's acquisition. Our weighted average interest rate for the fourth quarter was 6.35%. This compares to 5.64% a year ago and 6.73% five years ago.

Our amortization continues in the \$9 million to \$10 million annual range, which is very manageable with our cash flow. To pay off our balloons, our periodic refinancing enables us to convert higher rate seller financing and other unsecured financing and to lower rate commercial real estate bank debt. We continue to have multiple unencumbered properties in our portfolio that we can borrow against, if need be.

And occupancy costs were 7.3% of revenues. This continued to be well within our 6% to 9% range we've averaged when sales weren't dramatically affected by COVID.

Please turn to Page 13 to look at our September 30th debt pie chart. Our debt now consists of 59.8% secured by real estate, 26.7% secured by seller finance debt secured by the respective clubs and/or real estate to which it applies to, 5.1% of our debt is secured by other assets, and 8.4% is unsecured debt.

Please turn to Page 14. We continue to talk to new investors, so I'd like to take time 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.

One is M&A, specifically buying the right clubs in the right market. We like to buy solid cash flowing nightclubs at 3 to 5 times adjusted EBITDA, use seller financing, and acquire the real estate at market value. In fiscal year 2022, we deployed \$141.8 million in capital to acquire 15 clubs in new and existing markets.

Another strategy is growing organically, specifically expanding Bombshells to develop critical mass, market awareness and sell franchises. In fiscal 2022, we deployed \$10 million in capital to open up our 11th location and buy property at five more locations. We also signed a second franchisee.

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

The third action is buying back shares when the yield on our free cash flow per share is more than 10%. In fiscal year 2022, we deployed \$50.1 million in cash to buy back 268,185 shares.

Now, let me turn the call over back to Eric to review our growth plan.

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

Thank you, Bradley. Please turn to page 15. Yesterday, we announced the signing of definitive agreements to acquire two Baby Dolls and three Chicas Locas adult nightclubs and their real estate in the Dallas-Fort Worth and Houston markets. Closing is expected in January. This will be our second largest acquisition after the 11 clubs we bought in October 2021. The price was \$66.5 million consisting of \$25 million in cash, \$25.5 million in 10-year, 7% seller financing, and 200,000 restricted shares of common stock priced upon closing at \$80 per share.

We expect to generate \$11 million of EBITDA in the first year. Four locations are open with the 5th being remodeled, and RCI anticipates expanding operations of two of the locations. Once the remodeling expenses are complete EBITDA is expected to grow to \$14 million to \$16 million annually.

This is a group of well-established, well-run classic Texas gentlemen's clubs that are proven cash generators. We look forward to bringing them in as part of our portfolio and welcoming their management teams to the RCI family. They are some of the best in the industry and will enable us to continue to grow at an increased rate in 2023 and beyond.

Please turn to page 16. During fiscal 2023, we'll be working on the Rick's Cabaret Steakhouse & Casino. This is a great opportunity in a great market. We bought a four-story, 30,000 square foot building in downtown Central City for \$2.4 million in available cash. Central City is one of the only three Colorado towns with legalized gambling. Last year \$1 billion was wagered in slot machines in Central City, generating more than \$80 million in adjusted gross proceeds. We see this Rick's as a club with a casino component. Our plan is to feature classics Rick's Cabaret entertainment, fine dining, as well as casino and sports betting. We've applied for a license to operate 175 slot machines and seven tables. We already have approved gaming licenses for machines and clubs in Illinois and Louisiana.

Please turn to 17. Fiscal 2023 will also benefit from the 15 club acquisitions and three clubs and club-related restaurant openings we made last year and the first quarter acquisition of Heartbreakers. We are also reformatting a club in San Antonio that should be opening December 28th, and we are continuing to look at other potential acquisitions.

Please turn to 18 to review our new Bombshells locations. We received the building permit for our Stafford location and construction has started. Stafford is in the Greater Houston market. We own land for three other locations in Texas: Rowlett, Lubbock, and Austin. We're in the process of getting building permits and expect to start construction soon.

Bombshells is also coming to Colorado. We have purchased land in Aurora, Colorado, which is in the greater Denver market. We will begin the permitting process in January. We are also targeting three more locations in Denver after the first of the year. We want to continue to expand the brand in that market. Nearly a quarter of Denver's population are millennials, making it one of the best

cities for this demographic in the country. And it's also become another tech hub with a new nickname of "Silicon Mountain."

We expect our franchise in Huntsville, Alabama to receive their building permits very soon. All these locations will be ready to open starting 9 to 12 months from now.

Please turn to Slide 19. In the fourth quarter of 2022, our regional revenue breakdown was Texas 38%, including Bombshells; Florida 25%; New York 8%; and Illinois and Colorado each at 7%; with the other eight states combined for 14%. This demonstrates our geographic diversification, our exposure to growth states like Texas, Florida and Colorado; and how we develop business clusters in key areas. For example, with our five clubs in Denver, our Bombshells Aurora, and our Rick's Cabaret Steakhouse & Casino in Central City, the greater Denver area will become a major and new cluster for the company.

Thanks. And now here's Mark.

Mark Moran - Chief Executive Officer, Equity Animal.

Thank you very much, Eric and Bradley. I'd like to take a moment to encourage everyone to retweet this space before we get into our most anticipated section, the Q&A.

To start things off, we'd like to take questions from RICK's analysts, and then some of our largest shareholders, and hopefully all questions from everybody in the audience.

We have Scott from HC Wainwright, Lynne from Water Tower Research, Rob of Granite Research, and Anthony of Sidoti. First off, let's bring Scott up to the mic.

Q: Hi, good afternoon, guys. Thank you for taking my questions. Eric, first, can you remind us where your comfort level is around leverage. I'm trying to judge what the capacity is for additional transactions in calendar 2023 beyond yesterday's announcement?

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

Typically, 3 times EBITDA is my conform zone. Some analysis shows that because so much of our real estate is owned, we could actually push closer to 4 times. I've historically kept us around 3. I think the highest we've ever been is about 3.14 times EBITDA. Right now, I would guess, in the 2 to 2.25 range. We should be in pretty good shape at this point.

Q: Great. That's helpful. And then what's the timeline on Rick's Steakhouse & Casino opening and what the scope of renovation required there? And then the timeline on regulatory approval?

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

The total investment will include probably around \$1.5 million to \$2 million worth of remodeling and updating like security systems, stuff like that. About \$5 million for the actual slot machines. We'll probably own the majority of our machines instead of doing profit sharing or leases, as well

as the table games. Then maybe another \$1 million or so. About \$10 million total overall investment is what I think we will be at.

The licensing process in Colorado can take between 9 and 18 months typically. Right now, we believe they're running about 12 months. We're hoping to be open by this time next year. We'll start doing some of that build out and remodeling after the background check. Those are supposed to take about 90 days. We turned our license in on November 28. I'm guessing with holidays, we may lose a week or two. Hopefully, sometime in April, especially if the weather starts warming back up out there, because it gets very cold in the mountain area out there at about 8,900 feet of altitude.

Most of our construction and setup, I think, will start in the April, May, June quarter, and then hopefully, finish everything out, get it all preset up by the end of September, once we can get a temporary license to buy the games, put it in, set everything up, get the inspections done. And then all we wait for is the final license to be approved to flip on the switch and be open.

Mark Moran - Chief Executive Officer, Equity Animal.

Fantastic. Next up, we're going to be bringing up the star of the 2022 Gentlemen Club Owners Expo, Rob McGuire of Granite Research. Rob, you're up.

Q: Thank you, Mark. Eric, can you look at Central City in terms of – do have goals in terms of revenue and EBITDA? How long that might take to ramp from day one after you open the facility?

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

I think it's going to be more like a typical Bombshells type opening where we do very, very well on the first three to six months, and then we'll settle into a little groove, settle down a little bit, as we're not the new kid on the block anymore. Then we'll re-ramp back up.

To give you an idea, the average slot machine in Central City is doing approximately \$150 in revenue. They have 1,700 machines that took in a little over \$1 billion. If you take that and say we're 10% of that, I think we could come up with \$100 million—10% of \$1 billion will be about \$100 million in total wagers. You take 8% of that, which is about \$8 million in slot revenue. Add in the table game revenue and then, of course, the nightclub and bar and the steakhouse. I think we could start out somewhere in the range of \$10 million to \$14 million in revenue to start. Hopefully, the margins are typically 30% to 40%.

The reality is if we can do some of what the casinos in Black Hawk—which is the town right next door, they're really connected, and one is like the old downtown, one's like the new area—some of the casinos over there reporting as high as \$400 per machine daily in wagers. I figure somewhere in between this. So, we can do anywhere from \$12 million to \$14 million to maybe as high as \$35 million to \$45 million in total revenue.

We'll just have to get in there and see how it goes. See if we can keep the people in there during the late hours. Right now, there's almost no entertainment in that market. So, we're going to be

like some of the first entertainment in that market, which I think is going to be a fantastic advantage for us.

We've got a great location. Right as you come up the Casino Parkway, you're coming down the hill, you're looking right at our building. It's just an unbelievable location. We just won't know until we get in there and get going. Very little risk with a total investment of about \$10 million. If we only do \$10 million and we do 30% margin, we're still looking at \$3 million in EBITDA a year, which puts us well within our hurdle range. It could really exceed all of our expectations as well.

Q: Thank you. I've got one more question, and then I'll circle back into the queue with more. But what do you think the extent of entertainment will be in Central City?

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

The adult entertainment license has not passed by City Council yet. We did get it through the planning commission, or the zoning commission. It was approved through them on a 4-1 vote. It has not gone through City Council. So I don't know if we'll have topless entertainment there or not. But if not, we'll do more like Circa in Las Vegas where the entertainers will dance in bikinis or latex wear, stuff like that. The main thing, I think, is just having entertainment, period, in a city that has almost no entertainment.

It's hard to find a place to eat after 11 o'clock at night out there. On the weekends, maybe you can keep some of the snack bars open till 1 o'clock. The weekends, Thursday, Friday, Saturday, Sunday, are very, very busy out there. Sunday, Monday, Tuesday are much slower in that market. You can get hotel rooms very, very cheap during the week. They get very expensive on the weekends. So I think it will be a more weekend driven business, especially in the beginning, but I think over time, as we become known, we'll get more business.

We'll also cater to the other casino employees. When they get off work, they have to wait for buses to get home. So maybe we get them to come over a little while and hang out and eat and drink in our place. We're going to stay open late, probably 24 hours a day with everything. So that's our current plan.

Mark Moran - Chief Executive Officer, Equity Animal.

Thanks so much, Rob. And before I bring up Anthony of Sidoti & Co, I'd like to encourage Lynne of Water Tower research to accept the request to come up as a speaker to be able to ask any questions that you may have. Next up, Anthony, please take it away.

Q: Yes, good afternoon and thank you for taking the questions. Eric, I would love to get your take as to what you're seeing thus far in this current quarter, given that you're only a couple of weeks away from closing the first quarter. Can you just give us an update as to what you're seeing in terms of traffic or same-store sales both for the clubs and Bombshells?

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

It's definitely a tough market right now. What we're seeing is a small drop off of what I would call the blue collar customer, our lower margin customers. But most of that is being made up by our high margin customers and VIP spend at this time. The numbers have been fairly steady as far as revenue-wise with the previous quarters. I was hoping we get an increase. We've got a lot of Christmas parties that happen between now and the 24th or 23rd, really. We'll see how those Christmas parties go, how much business they bring in, and what that looks like. But so far, I think we're going to be pretty close revenue-wise with analysts' expectations. And I think that because of the higher end spend, hopefully our margins will stay steady as well.

Q: And then in terms of Bombshells operating margins, even excluding some of those non-recurring items, they were in the mid-teens, I would say. I think in the past, we've talked about the operating margins for Bombshells, you wanted them to be in the 20% range. So how should we think about segment profitability going forward for Bombshells?

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

I've always said 18% to 22% was our target. That's what they'll come in as they mature. We'll be in that 18% to 22%. We're on the bottom in it. The fourth quarter is always our weakest quarter if you look historically. We'll see how they look in this October, November, December quarter. We have been talking, or working on some changes, doing some more drink specials, some higher margin appetizer specials where we can discount stuff without hitting the margins or profitability as much. We're starting to do some of that in some of our blue collar clubs around the country as well, where we're going to start driving more traffic.

The one thing about Bombshells, we really don't spend any money on marketing. It's social media marketing, stuff like that. So we are looking at some possible marketing partnerships and some other things with Bombshells that would help drive traffic as well. We're going into a little bit of a different economy than we've had in the past. We're going to have to be creative and do the things we do. But, I think, that even the worst case, we're going to stay in this 18% to 22% range. It's nice when we have some big months and big events that that drive that up into the 20%, 24%, 25%, 26% range. But I do think overall that the average is going to be in the 18% to 22% range.

Q: All right. That's very helpful color. Here's my last question before I jump back in the queue. So you will be spending certainly money on Central City and some other initiatives. Can you give us a sense as to how much you're looking to spend for CapEx, and if you have maintenance CapEx number for fiscal 2023 that would be very helpful.

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

I don't really have a CapEx number. I know that we want to invest \$200 million a year for the next three years. So our goal will be to try to get close to that \$200 million. Last year, I think it was \$141.8 million that we got invested. Maintenance capex is around \$6 million a year. I don't think that's going to change a whole lot for this year over last year. Should be the same.

Q: Got it. Thanks and best of luck.

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

All right. Thank you.

Mark Moran - Chief Executive Officer, Equity Animal.

Thanks so much for the question. Next up, we are going to bring in Lynne from Water Tower Research. Lynne, please take it away.

Q: Thank you. I just have a question about casino opportunities in Colorado. Are there any additional opportunities?

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

There's other stuff we've looked at. We're not a casino company, so we'd have to have some type of entertainment restaurant type component that would be the driving force for the business. The gaming would be just something to create extra revenue off of. We would want to have a standalone business that has gaming added to it versus a straight out casino.

We're definitely looking at other things out there. What people don't realize, I think, in Colorado, is they used to have \$5 limits. Those limits were removed in September of 2021. Because of COVID, I think that some casino operators have been behind the ball on that. I know Tilman Fertitta of Golden Nugget recently bought a casino in Cripple Creek, which is one of the other three towns out there that has some great opportunities, for about \$43 million.

There're several other applications, mainly for smaller casinos in Central City, that are being applied for. So I think it's coming. I think we got lucky and got ahead of the curve with the changes and just happened to be out there because of the acquisition we did of the five clubs in Denver. It really gave us the opportunity to get out there early and get ahead of things.

We're looking at other opportunities out there to bring more entertainment to that market and hopefully make Central City the entertainment capital along with gaming and then let the main gaming casinos, where the big boys are in Black Hawk. Let them bring the people out and then we'll entertain them and send them back to Black Hawk. That's the thought process right now.

Q: That sounds great. I have a question about Bombshells in Colorado. Will you have to change the prototype to have less patio? Are there any adjustments to be made for Bombshells when you go into a colder weather market?

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

Absolutely. We'll still have the patio. But it will be more covered. Right now we only cover about 60%. We'll cover 100% of the patio. And we'll put in glass folding walls. I don't know if you've seen some of the big stadiums like in Minnesota, where they have the walls, and you have a 40-foot wall that folds up into about a 2.5 foot column. We'll be using that type of design of glass work and it raises the cost about \$300,000, but still well within the ROI that we need to build the location.

Q: Can you talk about the demographic draw the two new nightclubs that you just bought—Baby Dolls and Chicas Locas?

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

Chicas Locas is very Hispanic based. “Crazy girls” is the translation. Those three clubs are in really nice markets for that. Baby Dolls is very traditional. It’s hard to explain without actually seeing it. If anything it would be a middle class gentlemen’s club. Very Texas based, so there’s country music. There’s a lot of more classical rock—80s, 90s, early 2000s music played there. The Baby Dolls in Dallas is a very large building with super high ceilings, and just a great fun atmosphere. That’s the easiest way to explain it.

Q: Thank you, Eric. I think I’m good. Thank you.

Mark Moran – Chief Executive Officer, Equity Animal.

Fantastic. Thank you so much, Lynne. And Eric, as you were saying, I’m a big fan of Baby Dolls, so I’m very happy to see that acquisition. Now, I want to take a moment to do two things. First off, I would like to encourage everyone to retweet this space for us to be able to get as many people here as possible. And to follow the example of 90s Random Consultant, who had a nice retweet of this space recently.

I would now like to open the floor to everyone who would like to ask a question, and we would encourage you to do so by raising your hand so that we can be made aware, and we’ll bring you up. First off, we’re going to bring the largest shareholder of RCI, Adam Wyden from ADW Capital. Adam, take it away.

Q: Wow, it’s been a harrowing three years. I remember in March of 2020 driving by Tootsie’s, and seeing the lines out the door and my bonehead analyst telling me that the company was going to go bankrupt, and I should sell the stock. Well, I’m happy he doesn’t work with me anymore, and I’m still a shareholder. It’s been an amazing run. And you guys have continued to sort of raise the bar. I thought Lowrie was special. And now you’ve got Baby Dolls, and you did Cheetah and Playmates.

Anyone who knows me knows that I’m also trying to raise the bar. So, I point the question back. You had this saga with Lowrie, you wanted the business long time ago, he took it private, you got that, you integrated Lowrie, now it’s making money. Now, you got this other guy. What’s the next thing? I know you got the casino, but are there groups that are doing \$30, \$40, \$50 million of EBITDA?

We know about Harry Mohny with very, very big business. You obviously have invested so much time and energy to build this platform and get this scale. Now you’re getting affirmation by the marketplace. The sellers are taking paper. You’ve now got this cash flow to make down payments on businesses. You used to save three years and ham and egg all this unsecured money, and now with \$120 million of EBITDA, and \$9, \$10, whatever a share in free cash flow, you can fund the

cash component of these M&A's from internally generated free cash flow. Where are we in terms of getting to that next level of club group size and building that corporation?

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

There are tons of acquisitions out there. We're talking with lots of owners. Some are small. Some are large. It's really about the seller being ready to sell. I've been doing this for a long time. I meet with a lot of owners. Some say they want to sell, but after meeting with him for a while, I can tell that they're just not ready to let go. Some of these guys have been running these clubs for 30 years. It's their baby. It's difficult for them to make that final decision to go ahead and sell. But they're coming around. It's more convincing that you're joining the RCI family versus selling your club and retiring, though some of them are.

They're concerned with the people that have worked with them and been with them for 20 or 30 years. They want to make sure they have opportunities. I think it's convincing as they see the deal we do with Lowrie, and now this new deal, and some of the other deals that we've done in the past, where they see the employees and the staff have done very well with RCI and moved up in our ranks and become better for themselves and better for those people, the opportunities are there for them. I think that's starting to have some effect. It definitely did in the Baby Dolls deal. I know, they're very worried about their management team, because they have a great management team there.

We want to bring that management team in. We want that management team to stay with us, because we need those types of people to continue to grow, especially as we've accelerated our growth rate. Typically our goal is 10% to 15%. But we're actually pushing to grow it 30%-plus for at least a three-year period. And then we'll revamp and see where we're at. I think 2023's growth is pretty much in the bag. We've been working very hard on 2024 with new stuff with the new Bombshells and the new Rick's Cabaret Steakhouse & Casino.

But we're also still lining up acquisitions. We're talking with operators of all sizes from \$1 million EBITDA deals to \$30 million EBITDA deals. There's a lot of guys in between. A lot of smaller \$3-\$5-\$6-\$8-\$10-\$12 million guys that are out there. So we're trying to reach out to some of them. Some of them reaching out to us. We'll find the right deals as we need them and continue to grow.

Q: On our model, absent any incremental M&A from here, you guys will be compounding cash earnings per share at about 40%. I don't know very many companies that are trading over a 10% free cash flow yield growing 40%. So, it brings me to my next question, which is, I know you're not buying back stock, because the returns are very good. I don't think people really understand how good they are. Buying this business at 4 times EBITDA is incredible, and the way you finance it. But we've done some of our back of the envelope math on the casino. Based on participation rates and size, you're talking about roughly \$10 million of investment. There're online concessions in some states. If you think about a casino, you don't just have slot machines, you have table games, you have liquor. Our back of the envelope math is that this thing could be as much as \$20 million, \$30 million in EBITDA, and probably on the low end, probably high-single-digits. Can you sharpen your pencil a little bit on it? I know you're new to the casino industry. So you don't want to create high expectations for folks. But the returns if you guys have some success here, can

be really, really meaningful. Can you give people a little bit more color around what the casino could look like, and the range of outcomes? Can you give us a little bit more color on this casino?

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

As I was telling Scott, the range is \$10 million to \$14 million in revenue up to as much as \$40 million in revenue. It really depends on what our average slot play is, that's going to really adjust the most—

Q: That's just gaming. That's not liquor on the other side. That's just the gaming and liquor, right?

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

That's just the slot element. The rest of it's just impossible for me to see at this time. The reality is for the club side, the liquor will be cheaper, because there's gaming. We're not going to give away free liquor, but we will have discounted liquor so that the liquor prices will be cheaper than a typical club would be. We're trying to not only entice you to come in and see the girls but come in and gamble as well. There'll be components that we've got to feel out and learn and figure out. But we'll be spending some time on that. We're bringing in some casino experts. We've got a great firm that we're in negotiations with to consult with us on not only the casino setup, but all of our system setups. The beauty is, it's not a new industry. There are plenty of experts and plenty of people out there that know how to do it very, very well.

We'll put together a team that will do it well, do it our way, and complement our business model. There's a lot of excitement around it right now with what we have planned out there. I think there's other opportunities at some point out there as well. I don't know where that's going to go. It's a small investment for us. \$10 million not a huge investment anymore. And the reward well outweighs the potential risks.

I've always said acquisitions are difficult because we can't time them. We're always looking for opportunities to expand and grow in areas where we can time the closing. So if we can't get an acquisition done, we want to know we can open this business and therefore keep our growth consistent and never let our growth dip below our 10% to 15% planned rates. And then if we are successful and we can land acquisitions like Baby Dolls, like Lowrie's acquisition, now we can see 40% growth, we can see 30% growth, or maybe even higher depending on size and frequency of the acquisitions, combined with the openings.

I'm very excited about 2024. We have our growth built in with six new Bombshells and the Steakhouse casino. Our growth is built in. Any acquisition we do is really going to boost growth in 2024. In 2023, we've got some great growth factors. The 15 locations that we bought, especially the 11 that we bought from Lowrie, have just come out of COVID openings. Some of them didn't even open until September of 2021. They weren't even open less than two months when we bought them. We had a huge step up in revenues, and we're seeing that. In the first five months, we had a very difficult time, because you had the job market, you had COVID still hitting and bothering different markets. It was very difficult for those first five or six months, but we actually picked up

in March. Then we had an unbelievable month with Lowrie's clubs in May. We've got some pretty easy comps on those clubs as they move into same store sales in January, February, March.

I think we're going to see really nice year-over-year growth with those 15 locations as well as the new acquisition coming in. Our 2023 growth is there. Our 2024 growth should be off the charts, depending on how acquisitions go in 2024. By the end of 2023, we'll be focusing on 2025 growth. I think we have three years here of really solid growth.

We can take on another \$100 million plus of debt. We've got about \$5 million in debt that's going to be probably paid off in the next quarter. We've got some raw land assets that we're selling, and an airplane that we'll be selling in the next quarter. That will get rid of some debt. Our debt levels, we'll drop about \$5 million not counting the normal amortization. So our debt is still very manageable.

Even if we're only at \$100 million in run rate EBITDA right now, we're at \$200 million in debt. That's only 2x EBITDA debt ratio. We've got at least another \$100 million in debt we can take on. We're generating well over \$1 million a week in cash flow right now. We take that and put that back to work. Any equity component of these big acquisitions just gives us even more buying power for these deals.

I don't think I would do another deal at \$80. With all the new EBITDA coming online, I think the stock is going to be worth more than that, so we probably wouldn't use it in an immediate another deal at that price. But maybe the next deal is at \$90, maybe the next at \$100, \$110, \$120. That's up to the market to price that in for us. If we get to the multiples we need, and we can buy the deals at the right price, we could use an equity component as well. But if we have to use debt and cash, I just showed you there's plenty of runway, at least for the next year to two years to use this debt and cash that we're generating to make plenty of acquisitions with.

Q: Part of what attracted us to this investment early on is that you were spending a lot of time getting the SEC reporting right, and getting the IT, Bradley, and the infrastructure. Most of the public company costs in IT stuff is behind you. Your legacy free cash flow growth rate of 10% to 15% was really also concurrent with the fact that you were also boosting your corporate G&A function, IT, and this and that. For all intents and purposes, for the same amount of revenue, you're going to have really high disproportionate margin growth, because you're not adding those incremental costs to the same degree.

Part of the increase in free cash flow this year and last year is that you were adding revenue without the concurrent corporate non-revenue generating G&A. We're super excited about it. The casino to us is very interesting only because it provides another avenue for you to monetize your brand. You had Scarlett's in Florida. You're able to bring Scarlett's to Colorado. And, to the extent that you can monetize Rick's as a casino and continue to monetize your brand at high returns on invested capital that's super interesting.

Mark Moran - Chief Executive Officer, Equity Animal.

Thanks so much for that, Adam. And next, we're going to bring up Hammer Cap to ask a question. Hammer Cap, please take it away.

Q: I noticed from some searching on Twitter, that there's some dancers saying that they noticed that the recession is here from the sharp reduction in customer spend they're seeing in the clubs that they work at. Obviously, it's very anecdotal. It's only based on a few examples, but I did find a few people saying that. Maybe these people were girls working in clubs in locations that you would avoid as part of your screening process. But could you speak a little bit to what extent that matches with anything you're seeing at any of your locations, and if there are any patterns, and how your behavior might change if that became gradually more pronounced, how it would influence your decisions on capital allocation? I have one follow-up if you have time, but I'm also happy to pass on.

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

Some of the blue collar clubs have had some minor issues, but it's very sporadic. It's two weeks here, then we have two good weeks. Then we have an off week, and then two good weeks. Our VIP clubs, our higher-end clubs, have been doing very, very well. New York, Chicago, Tootsie's in Miami, their sales are still growing. I can see what the credit card spend is on the money that goes to entertainers. And then we compared that to the prior three months, and we're seeing increases. I feel for the girls that are out there that are struggling here and there.

I would say, maybe you need to try some other clubs. I don't know the region you're in. Certain regions are definitely being affected differently than other regions. I think a lot of them are in California. Talking to some girls that come from Las Vegas, and come from California to some of our clubs, they have complained a little bit that the customer spend in those markets isn't what it used to be. It makes sense that Vegas on the weekends, especially, is very California driven. Maybe there's some issues in those markets from what I'm hearing.

In our markets I'm seeing some slowdown in spend at blue collar clubs, and customer spend at the higher end clubs is up, and that's basically what I've seen so far. You had another question?

Q: My other question is around some of your new projects. I gather you have in an NFT project and another project called AdmireMe, which I believe is trying to create a full circle between being able to interact with some of the entertainers, both in real life and through social media. Do you think that either of those projects could introduce elements of risk that could damage a reputation? For example, in the case of the NFT thing, if there was some hack or security problem, and in the case of AdmireMe, it occurred to me that it could potentially threaten an entertainer's safety, if it was making them more easily contactable by customers.

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

It's not any more risk than any other business or any other deal out there. Other than telling what club they work at, the entertainers' information is still private. They're not getting private information. As far as the hacking, we have that risk on credit cards. We have that risk on employee data. You carry insurance for it. You follow the guidelines. You do everything you can do to keep the information safe. I don't think there's any other risks on those products than any other product

that we have. There's not a lot of money invested in either of those projects. We did have some issues with the Ukraine war, with our programmers being based in Ukraine.

We switched to a different group and hopefully we'll get the final bugs and everything worked out. The site is functioning. You can actually use the site. It's not to the point where we're ready to market, to push, and to spend the marketing dollars we're going to need to spend. We need to get it working to exactly what we want with page layouts and features that we want to add. But to answer your question, I don't think there's any liability that there isn't any place else.

Q: Thanks. That's really helpful. Sorry to ask two negative questions, but it's interesting to focus on some of the things that could be risk factors. Generally, congratulations on all your achievements. It seems to be going great. I wish you the best of luck.

Mark Moran - Chief Executive Officer, Equity Animal.

Thanks so much, Hammer Cap. We appreciate the questions. I want to give a special shout out to Dr. Pareek Patel, who is in the audience. We have no idea what that doctor is in, but we love it. I'd like to encourage everyone to retweet this space. And additionally, I wanted to mention one thing for Dr. Pareek Patel. We're going to be sending you a custom \$RICK hoodie that was designed by Bradley Chhay, who took a few years of graphic design lessons. We're going to be giving some of these limited edition items out at the reception tonight as well. Next up, we have Johnny Chen. Johnny, take it away.

Q: Congrats, awesome quarter again. I'm going to ask a couple of questions about the big deal, Baby Dolls and Chicas Locas. I know you have one location currently being remodeled, I believe. And then you've gotten two expansion plans. Can you give me an idea just very roughly how many square feet are you looking to add? What CapEx budget?

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

The club is actually open. It's being remodeled. It just isn't really contributing to EBITDA at this time. But the remodel is done. They're going to reopen in a full capacity. They're open at a very limited capacity at the moment. They'll open full capacity probably after closing. So there'll be very little CapEx or no CapEx on that location.

The two expansions actually had the extra space open at one of the clubs pre-COVID, and did not reopen the extra space post-COVID, because it needs to be remodeled. They did a partial club remodel, but not the entire building. We're going to finish that remodel. Then the other club has some empty warehouse space that we would expand and do a new concept. So we'd have two concepts in the same building. That space would be the more expensive.

I think total CapEx expenditure to do all this is probably between \$2 million and \$3 million max. Not a lot. I think that between the two, we would add probably \$4 million in EBITDA.

You get the club that's limited capacity open. Get it back up to a run rate of about \$2 million. Add that to the \$11 million, and you're at \$13 million. I'd say \$4 million, maybe it's \$3 million. I think, \$14 million to \$16 million is pretty easy to do. I think we can do all of it within the first 12 months

of operations. The remodel on the one existing club is probably a 90-day to 120-day remodel. The actual build out is 9 months to 12 months. Hope that answers your question.

Q: I can see why you didn't go into depth on it. Those are very small items compared to the acquisition. The \$66.5 million. Is that including land or is that exclusive of the lands? Should I think of land as a separate deal?

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

No. That includes everything. That's the land, the clubs, the ATM. The ATM is in a separate company, and it's all the intellectual property.

Mark Moran - Chief Executive Officer, Equity Animal.

Fantastic. Thanks so much for that question. And in the same vein of real estate, we're going to bring up Jussi Askola next. Jussi writes the number one REIT newsletter on Seeking Alpha with 56,000 followers. We encourage you to check out his profile, and he's got some great threads on RICK. So Jussi, take it away.

Q: Congrats on the great quarter. Johnny asked a question that I had in mind. Eric, you've previously talked about this \$65 figure as the threshold for your buybacks, but your cash flow has grown quite considerably since then. Have you thought of updating it?

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

We haven't because right now we have such great opportunities buying and building things well above the 10% free cash flow yield. It is something we're going to have to look at, probably after the 15th of January. Let's get this acquisition closed. Get a feel for where we're at. Let's see if this recession is going to get any deeper. Or if we're just in a slowdown. I'm not really seeing a recession. I'm seeing a certain economic demographic affected by high gas prices and food inflation and maybe people getting a little less frivolous with their cash or their disposable income.

So they're tightening a little bit. Maybe we're getting a little less club visit or a little less spend at the blue collar level. I don't know what it is yet. Maybe by February, March, things go back to normal, or maybe they get worse. We just don't know with that demographic and the current economy and situation. The Fed raised 0.5 today, which was expected. They believe the economy has slowed down a little bit. Hopefully, inflation peaked, and we'll see the inflation numbers come back down a little bit.

We can get back to a more normalized economy where we don't have free money, but it doesn't get so expensive that people can't do anything either. That remains to be seen. But like I said, it's not affecting our high end customer at all at this point. So we just have to watch. We'll make some shifts and maybe discounts. Give those people a reason to come back in and make it a little less expensive for them to visit, but keep our revenues and margins in line at the same time. That's the plan.

Q: Got it. Thank you. On the club acquisition front, would you say that all this uncertainty, the talks of a recession, the high inflation, the rising interest rates, could it be that this is one of the driving forces why you have so many club acquisition opportunities right now? Do you think that it's pushing a lot of the owners to try to sell right now before perhaps we go into a recession and their clubs suffer some declining growth from that?

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

I'm sure, it is. That's what I would do if I was them, and I was in that situation. Their risk is higher when you have small operations versus a large company like ours, and the geographic diversity that we have. We're moving these things to about 4 times multiple. We're giving ourselves a 20% cushion anyway. It's working out well for us.

As we continue to push through this and figure these things out, at the end it doesn't really matter, because we're a long-term company. In the next three years, we're going to have tremendous growth, and then as the economic cycle turns, we'll just reap those rewards even better in the future. We're doing this with taking as minimal risk as we can. We've gotten very good at acquisitions through seller financing, through using cash, and now equity in these last two deals, which, I think, has been fantastic for the company, and it'll be great for our ROI.

Q: Sounds good. That's all I had. Thank you very much.

Mark Moran - Chief Executive Officer, Equity Animal.

Fantastic. Thank you so much, Jussi. And as we head into our 69th minute of this call, I'm going to bring up Hunter SBX Thompson of BTT Long-Short Capital Advisors. Hunter, please take it away.

Q: Thanks, Mark. Congrats on the quarter. Love to hear that you're not seeing much regarding a recession, and really appreciate specific call outs within your customer demographics. That said I'm wondering if we can hear any more color around your view on the strength of the consumer? Do you see any qualitative shifts and spending habits in your clubs? And then just a quick follow up on that, regarding linearity in the quarter. Do you see this trend degrading through 4Q? Thanks.

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

What we are seeing right now is a little bit of slowdown, and it's inconsistent. It's not a consistent slowdown. One week, we'll be off a little bit, 10%, and the next week, we'll be up 4%. It's a mixed bag of nuts right now. In high end customer base, we're not seeing much slowdown at all, if any. People still partying. Certain demographic groups are not changing their habits at all. Others have changed a little bit.

With our geographic diversity, it's a non-issue for us. What I think is most important, is not the year-over-year numbers, because there was so much free money last year. There were so many factors that affected things last year. I'm more of a sequential guy. What are we doing on a weekly basis sequentially from the last six months, the last 26 weeks. Are numbers declining on a sequential basis? And we're not seeing that.

We're seeing it in certain markets for a while, and maybe then it changes. But we're adjusting. Our teams are adjusting. If we see the numbers slipping, we step up marketing, we step up social media presences. We do the things we need to do to bring the business into our businesses. That's why, when the guy earlier saying certain entertainers are saying they're not making as much money, I'm aware of those things. I'm watching those things closely, to see if they will affect us. But I think right now, we continue to figure out how to better our share of the market if we are seeing any decline. What was your second question?

Q: I was just asking about linearity in the quarter. Did you see things degrading through 4Q?

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

I don't. In fact, December is actually increasing over November right now. I expect the big parties that we have, really starting yesterday and through the 23rd, and there's a lot of Christmas shoppers that go out, shop for a little while, and then come by the club for a few drinks. I think we're seeing a lot of that. We'll see how that goes over the next eight days, nine days. Hopefully, we'll have a really big week this next week. This week has been great. I think the only day this week that's been off so far was Saturday, and it was off very minutely. We are up so much on Friday that for the week we're not even going to notice it.

Q: I appreciate for taking the question. That's it for me. Thanks.

Mark Moran - Chief Executive Officer, Equity Animal.

Thanks so much Hunter. We appreciate the questions. Next up, we're going to bring Orchard Wealth, The Deep Value Provocateur. You're up.

Q: Hey, guys. There're about 2,200 clubs, 500 of which you guys think are candidates that you would be looking at. Can you ever see yourself actually opening a new club from the ground up or that's just pretty much the world or the universe that you live in?

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

There are areas we might be able to do that. It's not really our forte right now. Our forte is buying existing cash flow, making that cash flow stronger through our unit economics, through our best practices, through our national buying power, and that model works very, very well for us right now.

We do have the Bombshells for ground-up builds. I'm not saying we wouldn't, but it's not something that we're definitely looking at. We are doing a ground-up build in Lubbock, Texas, where our property was taken by the state of Texas to expand the highways, and we bought five acres close to our old club. We're building the ground-up building there, but I don't really consider that new. We were able to do a licensing deal and move the license because of the eminent domain. It gave us some opportunity to do things that we normally probably couldn't do.

But as far as ground up builds, it's just not something I'm really into on the club side at this time. But like I say, I'm a never say never guy. We'll see what it develops over time. If somebody was to present us with a great location that we thought was very economically viable, and the risk was minimal to us, I think we might take that chance. But it doesn't really fit our business model at the current time to build new clubs.

Q: Okay. So, I'm assuming at this point, your buyback price is going to be \$80, because that's what you did in the current deal and anything below that would make the overall rate of return cheaper. I'm looking forward to your update come February. The other thing is, what do you think is your new cash comfort level given the increased cash that you guys are going to be bringing in?

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

We've been keeping our cash under \$40 million. We've been trying to put it to work where we get closer to \$40 million. I think we peaked at \$42 million or \$44 million, and we bought a couple of properties. On the minimum side, we probably want between \$15 million and \$20 million. Obviously, we're going to put \$25 million out on this deal. I think we're around \$40 million.

We've got some other stuff we're looking at right now. We've got some capital expenditure. But we're taking in a little over \$1 million a week. It builds really fast. We used to have a line of credit, a \$5 million line of credit. We may try to bring that \$5 million line of credit back after the first of the year with this \$25 million going out so we don't have to borrow any money to do the deal.

We're trying to do all seller finance debt. No unsecured high interest debt. Staying away from the 12% money we've had to borrow in the past. Even though it's not so bad with the bank rates at 8%, 12% money doesn't look so bad today, but still it's expensive money. Not really expensive for us because our returns are 33% or so, 25% on a worst case. We're still making double the money on the spread.

From a market standpoint, we're trying to keep our debt manageable and keep our interest rates as low as possible. Once we pay off that 12% debt, our weighted average will probably be back under 6%. We're not in a hurry to pay it back, but we could.

Q: Can you give me an idea of this five club deal that you just did, how long ago did the process really seriously begin?

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

Typically, six months is what it's taken on these things. But from the time we start talking to the time we work these out amongst the principles and then get the lawyers involved, then permitting. Right now, we're at the permitting process. It's about 30 days. We signed the deal on the 12th. Thirty days from there would put us somewhere around January 12-16th, something like that. That's probably the most likely closing dates at this point if permitting happens on time.

Q: The seller was saying look sometime around May or June, hey, I'd like to sell my club, let's make this happen.

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

It really varies. If you look at the VCG deal, for example, we tried to buy them in 2010, we tried to buy them in 2015, and then finally got the deal done. The third times the charm. From the time he called to the time we got seriously done was less than 90 days. And then the rest was 11 states, lots of licensing.

If you've got a willing seller, we can do a deal. For example, the Heartbreakers transaction. The entire thing was less than 45 days. From the time we first met to the time we owned the club was probably 45 days. It just really varies—the complexity of the deal, the dollar amounts, those types of things.

Q: Even if you have some slowdown at all in same-store sales, it doesn't mean anything because you guys just keep buying and adding new clubs that would completely offset anything, any recession that happens. And at the same time, you guys are able to just buy clubs cheaper.

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

I look at the downside risk. If you buy my stock today, what's your downside risk? That's always been my thought process. I am an investor in other companies and other stocks. And my thesis is always, what's my downside risk? And if my downside risk outweighs my upside risk then I'm not interested. But you have very limited downside risk with RCI right now. You got us buying back stock if the stock hits certain levels. Even if we have a 10% turndown in same-store sales, which should be very high for us, especially at the club level, the EBITDA drop would not be much more than that.

We find ways to control costs, which we did during COVID. We know how to keep our costs in line, keep our margins up. We would do all those things, but we're going to grow right through it. We're going to still grow faster. So, the odds of us earning less free cash flow six months from now than we did a year ago in that same period is pretty slim.

Q: You're in the advanced part of the S curve right now with the growth. Thanks again guys.

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

Yeah. Thank you.

Mark Moran - Chief Executive Officer, Equity Animal.

Fantastic. Thanks for the question. Next up, we're going to bring Cladisson. Cladisson, you're up.

Q: Thanks, Mark. Eric and team, congrats on the great quarter and also the recent club acquisitions. I have a question going back to the Lowrie's acquisitions. It's been maybe about a year, a little over a year since that deal closed. Obviously, it takes some time to get the management teams integrated and just training for the rest of the staff there. You guys see room for more efficiencies in the Lowrie's clubs or revenue growth there or how are the Lowrie's clubs operating today?

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

November was the first month that we had a full month of operations previous year and this year. We're going into our 14th month of operations in December. The worst location year-over-year was about a 2.89% increase. And the best location, there were two locations that were over 60% year-over-year growth with the Lowrie clubs. I think the rest were all in the 20s to mid-20s. So very good growth year-over-year.

I think we're continuing to see certain of those clubs still growing as we move forward. We'll get some nice growth out of that. You'll see that the \$88 million price seemed at the top end of our scale when we made the acquisitions. As we see the EBITDA from those clubs this year, I think you're going to see it's more right in line with our 4, 4.5 times, including real estate, that we normally come in on these deals. It's going to be a very nice acquisition for us over the long haul.

Q: I love how you buy things at 5 times and get the efficiencies in the business, then they'll be 4 times. So, that's great. Thanks for the color on Lowrie's. And then just one more question, on the Central City opportunity. Do you guys see that as a space you guys can expand into? I know mainly capital allocations on buybacks, buying of clubs, and the Bombshells organic growth. But is that something you guys think you'd have an appetite if the results are good?

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

If the results are good, absolutely. I've said this for several years now, I'm not in the strip club business. I'm not in the real estate business. I'm not in the restaurant business. I'm in the free cash flow business—if I can create free cash flow or buy free cash flow in that market, and it's within our wheelhouse of operations. Slot machines are pretty easy to operate. You plug them in. They work. If they break, you call somebody. They fix them. Then you plug them back in again. It seems pretty simple.

The trick is getting people in there to play them. One thing we're very good at is through our entertainment, our marketing, and our clubs, we're very good at getting large amounts of people into our buildings. It's very similar to Bombshells, where the waitresses are part of the entertainment of the business. Then you have good food and drinks and good music and DJs, and we create a fun atmosphere where people want to come and hang out and drink and eat and have a good time.

I think the casino business, the way we're going to do it, is very similar in that regard. We're going to take our entertainment factor, and we're just adding another component to it. I think we'll do very well. Then I think we'll definitely look to expand that if we find success. There's, what, 38 states with some form of gaming now? There are small states with small casinos all over the place that we can go in and transform. If there's a big market where everybody is doing exactly the same thing, and we can come in and do something just a little bit different than everybody else, and do very well with it. We definitely would look at that on a go-forward basis, provided we can be successful in Central City.

Q: That's great. It sounds like a great opportunity. I know some people at first were a little critical of you guys trying to get in an area that you don't have experience in yet, but I love it. Like your free cash flow business quote. Maybe we need to get that quote on a hoodie for next time. When you guys grand open in Central City, I'll come on see you. Congrats again on the results and thanks for a chance to ask question.

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

Sounds great. Thank you.

Mark Moran - Chief Executive Officer, Equity Animal.

We'll make sure to bring a sweatshirt for you when we see you then. Now, before we bring up our next two and final question askers, I want to shout out VC's Congratulating Themselves, who is out in the audience. I think someone needs to make a Deep Value Investors Congratulating Themselves account for those invested in RICK. And speaking of investors in RICK, let's bring up Adam Wyden for a follow-up question.

Q: I was texting with somebody while the call was going on, and they said, RICK is really interesting. Eric is such a talented capital allocator. He's really been at it a long time. It trades at a good yield. But he's in his early 50s. It's taken him 20 years to get from \$1 million of EBITDA to \$100 million or \$120 million or whatever the number is. In my head, I had you at like \$60 million pre-COVID. So over 3 years, you doubled the annualized earnings power from \$60 million to \$120 million.

I think it would be helpful for investors as it relates to establishing what your cost of capital is because you said, what should we trade at? The more you grow, the higher the multiple the company trades at based on the expectation of growth and what you plan on doing. Maybe it would just be helpful for you to explain to people that your minimum is 10% to 15%, but maybe talk about the scope and the quantum of what you're building here. The next 10 years, does that look like \$120 million to \$1 billion? Does that look like \$120 million to \$600 million? How big are you trying to make this thing? I have a front row seat to it, but it might be helpful for all the other investors to understand what you're going for here, that the next 20 years is really backlogged for the next, call it, 5 to 10 years.

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

When you talk about the first 20 years, I had no experience. I was a strip club operator, literally running the clubs. I was bartending. I was the security. I was the front doorperson. I was the valet driver sometimes. We had to evolve into a public company. I went public in 1997. I didn't like it. I merged with RICK in 1998, thinking I could go back to running clubs. I moved to Minnesota, went back into the club for three months, turned that club from a \$70,000 a month loss to a \$40,000 gain in the first 30 days I was there. When I left, we were making about \$60,000 a month after three months of me being there. Everything was great.

The founder of RICK had gone on vacation to France. He comes back. My team took over the Houston clubs. His original team went down to New Orleans. They turned around a New Orleans

club. Did a great job there. Houston was making money. So, when he left, we had seven clubs that were net losing about \$15,000 a month. When he came back, we had clubs that were making over \$300,000 a month.

His first thing when he comes to the club is the door girl tries to charge him cover charge. He says, no I am the owner. She says, we're a public company, everybody is an owner. It's still going to cost you \$15 to get in the door. And he says, no, I'm really the owner, I'm Robert. She goes, okay, hold on let me call somebody. He calls the manager up. Manager says, how can I help you? And he says, well, I'm Robert. I'm the owner. He says, okay. Let me call Eric. That was a little bit of an ego bruise so he decides to fire me. That didn't work out for him because, while he was gone, we had bought a bunch of stock in the company. The stock went from \$5 to 30 cents and so we ended up buying him out and taking over a public company.

Now here I was back to running a public company in 1999. We had no capital. Banks wouldn't loan us money. Banks wouldn't even talk to us. We could barely get checking accounts at banks. We got through all that process. We grew the Nasdaq company. We kept growing. Years later in 2015, we did our capital allocation strategy. In 2017, we got our first big bank loan, a \$90 million real estate consolidation loan, which really solidified financing for us.

Now we've got capital. We couldn't use our stock for any deals. There's no way we're paying 20% capital like we were doing in 2008 using equity when the cap rate on our existing cash flow was 20%. We built to where we are today, and you say what can we do? Look what we've done since 2017 when we got bank financing.

Now, the market is rewarding us. The market has given us a multiple on our stock that we can turn around and buy cheaper in the private market, bring it into the public company, and get that arbitrage. We're able to buy great quality assets, great quality clubs, licenses and properties that we couldn't have even thought about buying before. The more the stock has moved up, the more of those opportunities are coming up on line for us. If you look at the acquisitions we're making in Dallas, you can go to the Texas Alcoholic Beverage Commission and see that Baby Dolls is the number one adult club in the state of Texas and has been since I was 18 years old—

Q: Sorry to interrupt you. I think Mark's getting tired. I think you guys need to get to Rick's to do your meet and greet. What I'm getting at here is, it took you 20 years to get from \$1 million to \$100 million. Some of it was capital allocation, some of it was operational. But given the machine that you and Bradley, Dean, Ed, Josh, and all these guys, now you've got a machine, and you're feeding the machine. I'm really hungry. I've lost 50 pounds. I'm really hungry. I know you're hungry too because you spent 20 years building the machine. How much food can we put in the machine over the next five to seven years? How much bigger can we make this machine now, like order of magnitude?

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

I don't know what the total size is. My goal is world domination. Isn't that everybody's goal in business? What we've done is we've gone from a linear growth, and we're entering our exponential growth stage because of our capital allocation strategy. If you look over the last five years, it's

been on steady growth, but you're starting to see that curve, curve up, up, up. It's because we're able to make these big acquisitions. We couldn't even dream of doing an \$88 million acquisition in 2016-2017. But last year, we did an \$88 million acquisition. We're doing a \$66.5 million acquisition.

At the same time we're doing those acquisitions, we bought six pieces of property to build Bombshells on. We bought a piece of property to build a Steakhouse and Casino in. We're looking at multiple other locations. We did a \$9 million acquisition with a \$5 million down payment. The \$5 million payment was generated in 45 days. In other words, by the time we closed the acquisition, 45 days later, we actually had more cash on our balance sheet than when we started 45 days earlier after we spent the \$5 million. That's the kind of power that we have today that we just didn't have in the past, and we're putting that to use.

The beauty is we have the formula, and we have the knowledge of our capital allocation strategy, to do the fifth grade math, to make sure we make the right deals. How fast can we grow? As fast as we can find the deals, close the deals, and manage them. Money and capital used to be our weakest link. Now our strongest part of our company is probably still our weakest link because you still have to manage these things as you buy them and those take time. We've got to put in systems and do those things.

But we're getting really good at it. We've gotten to be really fast. We've got a lot of guys that have now been involved in acquisitions and takeovers versus when it started out with me and Ed and a couple of other guys. Now we buy a club, and we can send a regional manager. Ed and I don't even have to go to the club. We have a regional manager who knows how to put the POS system in. We've got to get our security system. This is how we're going to operate it. This is the way the bar needs to be set up. This is the way these things have to go.

We're getting much faster at it, Adam, for sure. I think we can see that exponential growth over the next three years. I told you a year ago that I wanted to put \$600 million to work over the next three years, and we're well into that process. Maybe it took us 14 months to put the first \$200 million to work, but hopefully we put the next \$200 million to work in the next 12 months, and see how that goes, keep the growth going.

Q: There are a lot of companies that I'm sure people on this conference call have followed, whether it's Watsco, PoolCorp, or many, many great companies that have offered a very simple capital allocation strategy, M&A, and organic growth in simple and mundane companies. So, if you can join that group, you'll be in high esteem and high company. Thank you again.

Mark Moran - Chief Executive Officer, Equity Animal.

Thank you so much, Adam, for that phenomenal question. Adam's hungry. He's down 50 pounds. He's looking great, and we're all ready to eat. Eric, Bradley, Ed, Dean, Josh, David, and the rest of the phenomenal RICK's team are leading the charge to world domination. And speaking of world domination, it starts tonight.

For those of you 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 Avenue and Broadway, a little in from Herald Square. If you haven't RSVP-ed, ask for Eric Langan or me at the door. I will be busy using my own capital allocation strategy after 9 PM.

On behalf of Eric, Bradley, and the company as well as our subsidiaries, thank you and good night. As always, please visit one of our clubs or Bombshells restaurants to have fun.