

Transcript of
RCI Hospitality Holdings, Inc.¹
RCI Hospitality Holdings, Inc. 4Q23 & FY23 Earnings Call and Webcast
December 14, 2023

Participants

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

Analysts

Scott Buck - HC Wainwright
Anthony Lebedzinski - Sidoti & Company
Rob McGuire - Granite Research
Adam Wyden - ADW Capital Management
Jason Scheurer - Orchard Wealth Management

Presentation

Mark Moran - Chief Executive Officer, Equity Animal

Greetings and welcome to RCI Hospitality Holdings Fourth Quarter and Year-End Fiscal 2023 Earnings Call. You can find the company's presentation on RCI's website. Click Company and Investor Information under the RCI logo. That will take you to the Company and Investor info page, scroll down and you'll find all the necessary links.

Please turn to Slide 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 with Eric Langan, President and CEO of RCI Hospitality. CFO Bradley Chhay is coming to us from Houston.

Please turn to Slide 3. If you aren't doing so already, it is easy to participate in the call on Twitter Spaces. Go to @RicksCEO and select a space titled \$RICK RCI Hospitality Holdings Inc. 4Q '23 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 traditional landline and webcast. At this time, all participants are in a listen-only mode. A question-and-answer session will follow. This conference call is being recorded.

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

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

Please turn to Slide 5. I also direct you to the explanation of Rick's non-GAAP financial measures. Finally, I'd like to invite everyone listening in the New York City area to join Eric and me tonight at 7 o'clock to meet management at Rick's Cabaret, New York, one of RCI's top revenue generating clubs. Rick's is located at 50 West 33rd Street between 5th Avenue and Broadway, a little in from Herald Square. If you haven't RSVP'd ask for us at the door.

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

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

Thank you for joining us today. Please turn to Slide 6. I think our fourth quarter results are generally in line with what everyone was expecting. We generated revenue of \$75.3 million, 5.4% higher than the year-ago quarter, mainly because of acquisitions. This increase more than offset the decline in same-store sales of 10.5%. However, margins were negatively impacted as a percentage of sales. Because of the same-store sales decline, results were also affected by higher non-cash impairments. As a result, we earned \$0.23 per share. But on a non-GAAP basis, we were solidly profitable, earning \$1.11 per share.

We are operating in a unique and complex macroeconomic environment. In addition, last year's second half saw the highest operating leverage we've had in the past five years. Fiscal '22 free cash flow also benefited from a \$2.2 million tax refund in the third quarter.

I'm proud of the efforts of our talented and dedicated teams as well as the strength and resiliency of our business model. In fiscal 2023, our performance in same-store sales was up 9% compared to pre-COVID fiscal 2019, with Nightclubs up 8.3% and Bombshells up 12.6%. We also saw the second highest levels of free cash flow and adjusted EBITDA in the company's history, eclipsed only by the unique dynamics of fiscal 2022.

Please turn to Slide 7. We are pleased to report that during and subsequent to the quarter, we have made significant progress towards our key growth initiatives. These should begin to produce results in this fiscal year and next. We also implemented some changes to improve operations. Our capital allocation strategy continued to provide strong long-term results. Since its adoption beginning year-end fiscal 2015, free cash flow has increased on a compound annual basis of 17.2%. Subsequent to the fourth quarter, we continued to buy back more shares. We believe we have significant cash resources available to implement our strategies and plans.

Please turn to Slide 8. I'd like to take a moment to go into more detail on the progress of our three major growth initiatives. First, we continue to be excited about our two Central City, Colorado casinos: Rick's Cabaret Steakhouse & Casino and our Bombshells Sports Casino.

We are awaiting the conclusion of the state's gaming licensing process. At the very beginning of this effort, we estimated it would take 12 to 18 months, based on past Colorado history. We are still in line with that timetable. All indications are that the process is proceeding. No other applicant has received the gaming license ahead of us. We are also awaiting liquor licenses for both of the casinos and a building permit for the Bombshells casino. We have begun to form our organization. We have retained a Director of Casino Operations. He has deep and long-term experience in the

Colorado market. During the first quarter, we received a building permit for our Rick's Cabaret Steakhouse & Casino. Interior demolition has been completed and construction has begun.

Based on all this, we continue to anticipate opening both casinos in fiscal 2024. Using simple math, we believe this represents a significant free cash flow opportunity. Our plan is for a total of 400 slot machines and nine to 12 table games, as well as sports betting. Looking at the slots, they have been averaging \$133 adjusted gross proceeds per day in Central City and \$307 per day in nearby Black Hawk. Black Hawk is higher mainly because they run on a 24/7 basis, which we plan to do also. We have assembled additional properties on Main Street for further casino development as well.

Please turn to Slide 9. The Baby Dolls-Chicas Locas acquisition continues to perform well. Sales have improved every quarter since the March acquisition. We finished remodeling the 5th location in June, which is contributing to that growth. Labor and direct operating expenses as a percentage of revenue have come down. We are analyzing more ways to improve those margins. We are planning to open three more clubs in fiscal '24. Two use existing club assets that we own. They will both be branded Baby Dolls, helping us turn that into a major Texas chain. The third is the replacement club that we told you about in Lubbock, Texas. Construction is underway.

As we previously reported, we named Dean Reardon and Shaun Kevlin as Director and Assistant Director of Nightclub Operations for RCI Management Services. This should enable Ed Anakar, President and Director of RCI Management Services, to focus more time on acquisitions and development of new clubs. We are moving full steam ahead with regard to acquisitions, but we will not overpay for the sake of buying more clubs. We continue to be actively engaged in ongoing discussions with numerous club owners.

2023 was a very challenging year for us. But I've talked to many smaller operators, and they didn't have the reserves that we've had. They've had additional slowdowns compared to what we are experiencing. I'm expecting that many acquisitions over the next 12 to 18 months are going to come to us on very favorable terms. I'm very excited about that.

Please turn to Slide 10 to review our Bombshells development program. In September, we announced a major expansion of the food offerings at our food hall in Greenwood Village, a suburb of Denver, to add to our existing successful Bombshells kitchen there. Later, we relaunched that location as Cherry Creek Food Hall. In November, we opened the first Bombshells post-COVID. This is located in Stafford, Texas, a suburb of Houston. It is off to a great start. Regarding other new Bombshells, construction is continuing on the Rowlett and Lubbock locations and remodeling should begin soon for our Downtown Denver site. All three are expected to open in fiscal '24.

In other developments, we hired a new Assistant Director of Operations with more than 20 years of multi-unit restaurant experience. I'm currently exploring with private equity groups partial sales of the concept, partnerships or mergers, basically, all strategic opportunities out there that we can use to maximize the value of this asset and accelerate our growth. I think that the concept, to be highly successful, we need to get into that 80 to 100 units that we believe we can do. I'd like to see us do that with capital outside of the company's capital. I think we just have too many acquisition

opportunities coming up and the expansion of the casinos. I'd like to keep our capital more focused on those operations rather than expanding Bombshells.

Please turn to Slide 11. Acting upon our confidence in our capital allocation strategy, our strong free cash flow profile, and our valuation, we continued to take advantage of our low stock price in the first quarter of fiscal '24 to buy back more shares. As of December 8th, we had repurchased 37,954 common shares, for approximately \$2.1 million, or an average price of about \$54.59 per share in Q1 '24. We currently have \$14.6 million in remaining stock purchase authorization. And while we continue to prioritize high cash on cash returns and developing our new casinos, clubs, and restaurants, we also continue to opportunistically and aggressively buy back shares when they trade materially below our view of fair value.

Now here's Bradley to detail more of our results. I'll be happy to take Q&A at the end of this session.

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

Thanks, Eric. Please turn to Slide 12 to review our Nightclubs segment. Fourth quarter revenues increased \$4.3 million year-over-year. This was primarily due to \$9.2 million from new acquisitions, more than offsetting the \$5.1 million in same-store sales decline. By revenue type, alcoholic beverages increased 17.2%; food, 15.9%; and other, 8.1%. Service revenue declined 2%. The different growth rates reflected higher alcohol and food in the sales mix from the newly acquired Heartbreakers, Baby Dolls, and Chicas-Locas clubs this year. They also reflect the lower same-store sales and the summer slump in service revenues. Service revenue was 42% of Nightclubs sales this quarter versus 46% a year ago. If the sales mix had been the same, we would have \$2.4 million more in service revenue, most of which would have benefited free cash flow.

Post acquisition of Heartbreakers, Baby Dolls, and Chicas-Locas, our quarterly sales have shown a steady improvement, coinciding with a notable decrease in labor costs and a corresponding decline in direct operating expenses as a percentage of revenue.

Fourth quarter results included \$8.4 million more in items typically excluded from non-GAAP calculations, mainly non-cash impairments. As a result, GAAP operating income was \$12.1 million or 19.8% of revenues, but non-GAAP operating income and margin was significantly higher, at \$21.6 million and 35.4% of revenues. Even with the macroeconomic challenges we've been facing, our strategies have enabled Nightclub non-GAAP operating income to remain at the \$22 million to \$24 million range per quarter since the second quarter of '22.

Please turn to Slide 13 to review our Bombshells segment. Fourth quarter revenues declined \$452,000. Lower same-store sales were partially offset by the \$1.6 million in newly acquired locations, namely Bombshells San Antonio and the renamed Cherry Creek Food Hall with its Bombshells kitchen. GAAP operating income was a profit of \$1.2 million or 8.2% of revenues and non-GAAP was a profit of \$1.4 million or 10.4%.

Please turn to Slide 14. In our other segment, revenues were approximately level at \$727,000. Operating income was a loss of \$793,000 compared to a year ago profit of \$216,000. This delta

was largely a result of a \$908,000 increase in items typically excluded from non-GAAP calculations, again, mainly impairments.

Corporate expenses were \$6.8 million, nearly level with last year. On a non-GAAP basis, they were \$1.7 million higher. This reflected about \$500,000 more in salaries and wages in the fiscal '23 fourth quarter and the benefit of a \$1 million legal insurance payment in the year-ago fourth quarter.

I also want to note our effective tax rate for the year was 19% compared to 23.4%. The fiscal '23 effective tax rate reflected higher federal tax credits that more than offset the higher portion of income subject to state income taxes.

Please turn to Slide 15. Here you can see three big spikes in the operating margin we had in the third quarter of fiscal '21 and the third and fourth quarters of fiscal '22 as we came out of the COVID era.

Please turn to Slide 16. We have a couple of slides coming up that will discuss free cash flow and adjusted EBITDA, which are non-GAAP. In advance of that, we wanted to present you with the closest GAAP equivalents on this slide, which are operating and net income.

Please turn to Slide 17 to look at some of our other key metrics. We ended the year with cash and cash equivalents of \$21 million. During the fourth quarter, we used \$2.1 million to buy back shares. We also ended the year with \$9.8 million in accounts receivable. This increased 16% from a year ago quarter because September 30 fell on a Saturday. This resulted in our carrying credit cards in our accounts receivable from Thursday to Saturday at the end of the quarter.

Fourth quarter free cash flow was \$11.1 million or 15% of revenues. Adjusted EBITDA was \$20.2 million or 27% of revenues. Our more recent free cash flow and adjusted EBITDA conversion rates reflect a lower percentage of service revenues.

Please turn to Slide 18 to review our debt metrics. Debt at September 30 declined \$4 million from June 30, due to scheduled paydowns. Weighted average interest rate was 6.64% in line with what we have been paying. Total occupancy costs inched up a little bit on a sequential quarter basis at 8.1% of revenues, but still in our comfort range of 6% to 9%. The increase since the third quarter of fiscal '22 primarily relates to new club acquisition debt. Debt to the trailing 12-months adjusted EBITDA stayed relatively flat at 2.8x September 30 versus June 30. This metric continues to be in line and our comfort level of less than 3x.

We adjusted our September 30, debt maturity table to reflect the previously announced October modification of our debt, the 12% unsecured debt, to be specific. As you can see, our maturities continue to remain reasonable and manageable.

In addition to our cash position and our October rescheduling of our 12% unsecured debt, we have an estimated \$30 million of unencumbered real estate that we believe we can leverage if we like.

Please turn to Slide 19 for our debt pie chart. Our debt composition is similar to the third quarter. So let me turn the presentation over back to Eric.

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

Thanks, Bradley. Please turn to Slide 20. Everything we do is centered around our capital allocation strategy. We employ three different approaches subject to whether there's compelling rationale to do otherwise: mergers and acquisitions; organic growth; and buying back shares when the yield on free cash flow per share is more than 10%. All of this is done with the ultimate goal of driving shareholder value by increasing free cash flow per share at least 10% to 15% on a compounded annual basis.

Please turn to Slide 21. We have stuck to our capital allocation strategy since the end of fiscal 2015. It has worked very well. We have generated compound annual growth rates of 10.2% for total revenues, 12.1% for adjusted EBITDA and 17.2% for free cash flow. At the same time, we have reduced our fully diluted share count by 1.3% on a compounded annual basis, and that includes shares used for acquisitions. I'd also like to mention we ended fiscal '23 with more than \$200 million in retained earnings for the first time.

The first Rick's Cabaret opened 40 years ago. I believe we will be here for the next 40 years. The future is bright for RCI. There continues to be a very strong demand for what we do. We believe the actions we are taking are setting us up for many years of financial success to come. Every piece of the puzzle has its place. We just need to stick to our plan. I'd like to give special thanks to our loyal and dedicated teams for all their hard work and effort and all the shareholders who believe and make our success possible. We can't do this without you.

Now here's Mark.

Mark Moran - Chief Executive Officer, Equity Animal

Thank you, Eric and Bradley. We'd like to take questions from Rick's analysts and then some of its larger shareholders. Our three analysts are Scott Buck of H.C. Wainwright, Anthony of Sidoti, and Rob of Granite Research. Scott, you're up first.

Q: Yes, good afternoon, guys. Thanks for taking my questions. Eric, could you give us a little bit more color on what kind of traffic and spending trends you're seeing in the clubs today? Curious if some of those softer trends in the fourth quarter have kind of dragged here into the first quarter.

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

We've seen some of the drag, especially in the blue collar still into this first quarter. The comps are becoming easier, not perfect for us yet, but easier. It's tough to say. I'm a trend finder, that's what I do. I look at numbers, I see the trends. I watch the financials. It's the craziest thing I've ever seen. I've called this a psychological recession. We all know that means people are a little crazy about spending.

I think the consumer, especially in the last 60 to 90 days is loosening up a little bit, but there is cautious spending. People are unsure. We're seeing a lot of tech layoffs now. I think that with some of the higher-end spend, they are still spending, but they're a little more cautious. They want to guarantee that they're getting a good time for it. Our top clubs are doing better in markets where we're #2 or #3 in the market or where we own all the clubs.

The #1 clubs are doing very, very well, but the other clubs are still off a little bit. I think that's kind of indicative of that. But as far as trends are concerned, I don't see trends. I think the longest trend up or down I've seen in the last seven months is about a three-week trend and then it's crazy again for a few weeks. And then we may trend for two weeks up, two weeks down, a week up, week down. It's really unusual compared to what I've seen in the past.

However, overall we're seeing enough strength that I'm very optimistic going forward. I think the low sales weeks are past us and holiday parties seem to be picking up a little bit this week. Seeing some good numbers this week. I was in Miami, Friday, Saturday, and Sunday. We got stuck down there. Because of the storm, we couldn't get into New York on Sunday. The clubs were incredible, especially Tootsie's in Miami was packed. We were sitting up by the VIP booth area to the rooms in the back. There was a line all night long Friday and Saturday night.

That was very promising. Tootsie's is having a really big week this week. Of course, we have the home game with the Miami national football team Monday night, which was good for business. Football is really picking up for us right now. Basketball is starting to heat up a little bit. Very excited about how we're going forward. With everything we have on our plate with casinos, the three new clubs, the three new Bombshells, I think '24 is going to be a fantastic year for us even if things stay a little sluggish.

Q: Great. I appreciate that color. I'm curious about Bombshells. How far along are you with some of these strategic conversations? Can you give us any kind of a sense of timing on when something could potentially be announced?

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

No, to be honest. We're talking with several people right now. We floated it out there about 60 days ago to a couple of groups. We've got some requests for data that we're putting together with different groups for different ideas, whether it's a strategic partnership, whether it's a partial buy that would give us capital to do the expansions with, or a straight out sale of the assets.

We're exploring all of those things. We're going to weigh it all out and see what we think fits best for our long-term goals for RCI. As far as timing, we have been working on requests. I would say that probably in January, we'll start getting that data put together and out to some of the groups that we're talking with. I'm sure after this, we're going to have more groups that talk to us and we're going to have more ideas and more opportunities to explore. We're just going to find what we believe is the best for the company to use those assets to build additional cash flow for the company.

At the same time we can grow the concept without using too much of our own capital. Like I said, I think that the acquisition side of the business is starting to heat up a little bit. There are some opportunities with the groups we're talking with right now. I really think we want to keep our cash to finish building these casinos out and make these acquisitions.

Q: Great. I appreciate that. One last one for me. I'm curious, how should we think about OpEx for next year, as you start to layer in some of those new revenues from some of these growth initiatives? Do you have significant spend you need to add or should we really start to see some significant operating leverage in the business? I'm talking about adding back office heads, support heads, that thing.

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

I don't think we're going to add much of anything. Our payroll was kind of flat. We had some additional payroll, but mainly that was from the acquisition. As far as adding additional staffing in the office, I don't see a lot of expense growth in that part of the business. I think the overall growth will be much faster than the growth in that department.

Q: Super. Appreciate the added color. Thank you for the time.

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

Thanks.

Mark Moran - Chief Executive Officer, Equity Animal

Thank you very much for your questions, Scott. Next up we have Anthony of Sidoti.

Q: Yes, good afternoon and thank you for taking questions. First, a follow-up on the previous question in regard to the weakness in the blue collar clubs. This is not the first time that we've heard this. Eric, you had mentioned this probably about a year ago. So curious, is it the same group of blue collar clubs that you're seeing weakness as you saw previously? What percentage of your clubs would you consider blue collar?

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

With 70 locations, I'd have to actually look through it. I'd call it the pickup truck crowd, the working crowd. I think gas prices are coming down for them, but those are still expensive. Energy is still expensive. They're dealing with some of those things still as far as their costs. I think there's just a little uncertainty here and there in the marketplace right now that's causing some hesitation of spend. But as I see Bombshells and we watch the overall sales for the company increasing a little bit from November to December and so forth, and even in some of the other quarters from September to October, I'm very optimistic that we've seen the bottom of it. I don't think there will ever be 2022-loose with their money again. But I think we're going to see a little bit of an increase. I think we'll go back to our standard 3% to 5% growth rates for existing clubs over the long period

and definitely normalizing labor and overtime costs. So we're going to be able to bring some of our costs hopefully more in line and get our margins back to where they need to be.

Q: Understood. Okay. Are you seeing any notable geographic differences in your same-store sales for both the quarter that you just reported and the current quarter? Anything to call out or is it consistent across the board?

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

It's inconsistent everywhere is the real problem. One month New York runs huge numbers and the next month they're off a bit. Miami has been pretty consistent. We're down in the Miami market, with four clubs there. But if you look at what we did in that market, the previous year in 2022, was numbers we couldn't even dream of. Take Tootsie's, for example, at \$39-plus-million for the year.

In 2019, I think we did \$26 million and change. Even if we dropped down to \$33 million, we're still up a considerable amount from 2019, but not doing those numbers from 2022. But I'll tell you, this week is an incredible week at Tootsie's. Crypto is up. Bitcoin is killing it. We actually processed, I think, \$170,000 in Bitcoin in two days, on a Wednesday and Thursday, which really boosted the numbers for this week. We're getting other requests on whether we're taking Bitcoin in New York, which we're working on doing, and probably in Chicago. If Bitcoin stays as strong as it is, I think that's going to be a nice little boost for us.

I'm optimistic that this summer is going to be much better for us than this past one. I think everybody went on vacation in June last year, especially Europe, Caribbean, South America, Mexico. Everyone was out of the country. Our VIP spend suffered from that. I think this year people are going to spread their vacations out over the entire summer. Not everybody is going to go the first couple of weeks of June and stay gone for three or four weeks. I talked to a lot of people. They've come back and they're like, "Oh, it's horrible." They complained about the expenses, the crowdedness, the lines when they wanted to go see the exhibits or museums or tourist spots, price gouging, because there were just so many people there.

I think this summer is going to be a much more realistic and normal summer. I think we're returning back to that 2019 pre-COVID stuff. If '21 and '22 was like the rush of it and the party of it, '23 has been the hangover. And now the hangover is ending, and I think people are going to return to more normalized behavior going forward. At least I'm certainly hoping that's the case. I think it's starting in this quarter, and I expect that to continue through the next seven, eight months. Then we'll have an idea of a trend. It's just very hard for trends right now. It just has not been consistent. We'll have a few really big weeks, really off weeks, mediocre weeks. There's just no real consistency to it in the last seven months. Kind of like a hangover, right?

Q: Right.

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

I get up and get sick right now or am I going to go out and party again tonight? I think that's what we're seeing.

Q: Got it. Okay. You also talked about implementing changes to improve operations. Can you give us some examples as to what you've done so far and what more should you expect going forward?

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

Sure. We promoted Dean Reardon and Shaun Kevlin; opened up Ed's time a little bit more; put in a little more oversight management through our regional management system, bringing up some up-and-coming guys. With Bombshells, we hired an Assistant Director of Operations with 20-plus years of multi-restaurant experience.

We're starting to see some of those results in certain markets, I'm noticing. I'm very optimistic that they're going to find the secret sauce again as things normalize. We've made some management changes. I think during the exuberance of '21 and '22, some of our staff members got used to making easy money and not having to work as hard. Now that we're having to really step the game up, some of them have gotten lazy. I think we've had to make some changes there, wake some people up.

It's kind of like the remote worker who has to go back to the office. Our guys have been in the office every day. The restaurant, the club is their office, but they've had it pretty easy. There were lines, people spending lots of money. Now we've got to return back to basics, get back to customer service, shaking hands and touching tables. That's the name of our game. There's a reason we're called RCI Hospitality Holdings. We are a hospitality company. A lot of our team is getting that. It's really stepping up. There's some great, great, people in our company. I think we've had to rebuild that bottom 10%. They say 80% of your problems are from 10% of your people. We're fixing those and correcting that. I think you're going to see that in our numbers and our culture and our ability to continue to attract top talent as we move forward through the next seven, eight months.

Q: Got you. I think you also mentioned that labor costs have come down as well.

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

It's getting easier, yes. Kitchen staff is getting easier. Overtime is down. That's another problem. We were working some of our best people the hardest. They've had to fill in for people. Their work-life balance got a little out of whack. We've got to get that back synced up. Get everything on a more normalized playing field. The party is over, the hangover is over, and now we're just normalizing and getting back to our standard growth cycle and getting back to the basics of our business.

Q: Okay. As things kind of normalize, do you think you can get back to the historical type of operating margins? Maybe not the peak levels that you had like last year, but do you think that as things kind of normalize, you can get back to that high 20% s?

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

I think we can definitely get into the 20%'s on free cash flow conversion. I think our EBITDA will be closer to 30%. We may be a point or two low for a little bit. But, yes, I definitely think that we will get back to that more normalized 20% free cash flow, 30% adjusted EBITDA margins. That's definitely the plan.

Q: Got it. Okay. Well, it sounds like a good plan. Thank you very much. Best of luck and happy holidays to all.

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

Yes. Thank you.

Mark Moran - Chief Executive Officer, Equity Animal

Thank you very much, Anthony. Next up we have Rob McGuire of Granite Research. Rob, the floor is yours.

Q: Thank you for taking my questions today. Starting with the Nightclubs, can you elaborate on the Baby Dolls locations? You talked about two new locations already using the assets you own. Are these the club expansions? And can you give us more color?

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

We now have worked with the City of Tye, near Abilene, Texas to get our liquor license approved up there. We're going to be converting the old Jaguars into a Baby Dolls. And then, of course, the original Baby Dolls West has been in our plan. We've got the building permits working right now. That's the property that we purchased off of Mark IV in Northwest Fort Worth. So that one has been on the plate for a while. And of course the Lubbock location, where we lost our club to the Texas Department of Transportation to expand a freeway there. We bought five acres to build a location in another spot. That location is getting pretty close to being completed. I think we're waiting for the well permit and a couple of other things to put the well water in. We'll get that location opened here in 2024. Those are the three clubs that we've been working on.

Q: I appreciate that, Eric. Do you have plans to expand two of the Chicas Locas locations? Is that still in effect or is that a 2024 thing?

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

It could possibly be 2024. I said we promoted some people to kind of free up more time for Ed, so he could focus on these things a little bit more. We've got the three projects going. We're not sure in the Dallas market right now what we are going to do with the extra property there at Chicas.

In Houston, originally, we were talking about maybe doing a second type location there, but I think now we're actually talking about whether or not we're going to expand the existing club. It's just doing so well. I was there Wednesday night. It was incredible -- probably about 120 entertainers

there on a Wednesday night. The VIP room is a little small there, so we're talking about expanding that VIP room or building a whole new VIP room and expanding the existing VIP room into more club space. We're in discussions there.

I know when Ed has some free time after the first of the year, we're going to get together and visit that site and hopefully make some decisions on exactly what we need to do there. There's also talk that it's going so well. Do we really want to mess with it? What do we want to do there? I think we'll figure that out shortly in the next probably 30, 45 days. Maybe by the February call, we'll have a better idea of what we're going to do with those properties.

Q: Thank you. Shifting to Central City, theoretically, if you were to get a license tomorrow, how long would it take you to ramp and staff those facilities to a point where you could open?

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

Six weeks. It's not just the staff. We also have to do testing. Everything has to be signed off. Once you get your license and you put in all your machines, everything gets done and everything has to be tested. It's a pretty in-depth process, but it takes approximately 6 weeks. It's what we're told. Our guy that we've hired as our Director of Casino Operations and Casino Management is definitely very experienced in that. He has opened up several in the Colorado market. So he's very familiar with it. He knows exactly what we need to do. We have our full plan, standard procedure and operating procedure stuff, all put together, and we'll be ready to go. However, if we got the license today, we still would probably not be open until April, because the construction will take at least until the end of March or early April.

Q: Okay. Got it. Regarding your third property in Central City, I realize you've got a lot on your plate with the two casinos. Have you applied for a license for that third property? Or can you kind of give us a timeline on that one?

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

We have applied for the gaming license to have as a licensed casino. We have purchased additional property that's continuous with that property. I think we now have, I don't know the exact square footage off the top of my head, somewhere between 30,000 and 40,000 square feet depending on where we put the holes in the walls to connect the buildings.

It's actually become a very large property. There are existing tenants there right now. We're going to keep those tenants in place, keep those storefronts open so that Main Street continues to stay busy. We're going to get the existing casinos open first and then decide what we want to do with that property. Those are the last vacant spaces on Main Street. That allows us to control that entire corridor there between our other two casinos and anyone else coming in and competing.

We know all of our existing competition that we could possibly have. We would be able to control it if we go in with a third-party and let somebody else build a casino there. We would remain the landlord, and we could put some clauses in the lease that would protect our existing operations.

Q: That's interesting. My last question with regards to Central City, are there other operators? Are there other plans by third parties to develop their own casinos or increase foot traffic to Central City?

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

We certainly hope so. There are three properties you could build mega-casinos on or resort-type casinos, as we call it, with hotels. 400, 600 room hotels; 1,200, 1,800 parking spots in their garages; anywhere from 60,000 square foot to 100,000 square foot casino space, which we would definitely welcome because it would bring a lot of new traffic to Central City. I know there's several casino operators and developers that have been looking at those sites. I'm certainly hopeful that at some point, those properties will be sold. We'll get some of those properties built as I think it will be fantastic for that area.

I think right now, the Black Hawk Central City area is 13th in gaming in the country. I would love to see that area move up into the top 10. I think those types of casinos will bring it to that point. Denver is the number one feeder market to Las Vegas. There's a lot of people that fly into Denver and then fly to Las Vegas. If we could just get them to stay in Denver and drive the 45 minutes up and make it a mountain vacation. In the summer, they can go white water rafting, fishing, and hiking, and in the winter, go skiing. There're six major ski resorts within an hour and 10 minutes, five of them are within one hour. I think it's a fantastic opportunity for future development and for us with the main presence on Main Street there.

Q: Thank you so much.

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

Thank you, Rob.

Mark Moran - Chief Executive Officer, Equity Animal

Thank you very much, Rob. First up, we have Adam Wyden of ADW Capital.

Q: So just going back on your hangover analogy and margins. Generally speaking, after a crazy night out, you're spending all this money and then you got to figure out what you're doing and you're on your hangover. For me, I like coconut water. But if you think about that as an analogy, labor is super tight, and a lot of overtime. Now inflation is coming down, labor is weaker. Can you talk through some of the initiatives you're doing to tighten up margins? When comps are down, you expect them to come up modestly over time. But there's some belt-tightening and recalibration. Can you talk about that and talk about margin, because at least the way we think about it, Bombshells has been the source of revenue decline, but it's the lower margin product. And now you've got more nightclubs and the casinos coming online. I would think that, if your casinos do what you think you're going to do, margins should actually increase over time relative to the average. I'm just trying to think about how you're thinking about rationalization of costs and margin trajectory in the context of adding high margin casino revenue, fixing what you've already had. I would think that we would have seen the low point in the margin and then perhaps even see

margins go back higher than historical average just based on the aggregate mix. Can you talk a little bit about that? And I have a second question.

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

Obviously, the margin is going to depend on what changes with future acquisitions and when as we open up these concepts. When I refer to margins returning back to 20%, I think we're 15% free cash flow margin for this quarter. I think for the year, we were at 18%. Not horrible and a single quarter isn't a barometer for the 12-month period because of seasonality. I'm hoping 2024 is the last year that we have the strange seasonality. I'm hoping that, like I said, I think by the June quarter, we should return to a much more normalized seasonality of mix.

But we've got to figure out the rest of this month here, get this quarter out, talk to you in February. We will be partially through the second quarter, so we'll have a pretty good idea of how January and February are going. I suspect that January and February are going to be pretty decent based on what I'm seeing right now, what I'm hearing out there talking with the customers and guests.

I've been on a 13-day run now from Houston to Colorado, to Miami, now in New York. I've spent a lot of time in the clubs. I spent a lot of time talking to our teams. I spent a lot of time talking to guests. I spent a lot of time talking with entertainers. The consensus is that we've seen the worst of it. Customers seem to be getting more optimistic. Our staff is definitely more optimistic about what they're seeing right now versus what they were seeing in the late part of the summer. That's very promising.

We've made some changes of personnel. We've made changes in certain things. We've raised some prices here and there. We've adjusted some things. We've changed our specials. Our specials are starting to become more of a day of the week type deal, which is typical of what we see and have to do in a recession to keep our Mondays and Wednesdays solid. Those things are happening right now. I think we'll just keep pushing through and do what we do.

Depending on the mix of what we buy in the future, yes, we could change our projection on what we think the margins would be, whether it's going to be 18%, 20%, 22% or higher.

Q: Right. And also this year, I don't know if you mentioned this on the call, but my sense is, this was a big year, you acquired a lot of land. When you use your cash to plant seeds, you can't use that cash to deleverage, or buyback or what have you. So it sounds like you're carrying probably more debt or at least this year, you've carried more debt than you would otherwise carry, because you bought all this land you're developing. You've got both from an OpEx and at least from a leverage perspective, higher OpEx and higher interest expense running through the P&L without that corresponding revenue. As you add that revenue on from an income perspective, I would think that your free cash flow margin would go up, right, because both on an OpEx and interest expense line, you're basically carrying non-income producing assets without the corresponding revenue or EBITDA or whatever. I would think that would also help your free cash flow relative to '24 relative to '23. Bombshells Stafford, for example, that just opened, right? But you've been carrying it. There's been OpEx against that, right? And that's a Bombshells that could do \$8 million, \$9 million, \$10 million, at least for the first year. There's been money against that that wasn't income

producing. So that you have this income versus expense mismatch. That should be reversing in '24, right?

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

I can give a quick example for you. I would estimate 2023 that those carrying costs are somewhere between \$4 million and \$6 million. In 2024 hopefully, as we open things up, we can cut that down to less than half of that and add additional revenue. That's why I said I'm pretty comfortable overall saying we're getting those margins back to that 18%, that is very similar to 2023, maybe back to 20% in '24. It depends on when we open.

The biggest problem with the casinos is we just don't know when we're going to open. We could open in April, we could open June, we could open in September. We just don't have any way to judge when the State of Colorado is processing the applications. They haven't issued a license in three years. So surely, they want to get those licenses issued, I would think.

Q: If you have locations open in April, both the Bombshells sports bar. Can you open them up as restaurant liquor venues while you're waiting for the casino and basically get those things going? I don't know how the strip club license has worked. But if, for whatever reason, it was taking longer, you have the buildings built, you can use them as entertainment venues ahead of the casino? Or is that even a possibility to just open them in April and then wait until the gaming stuff? Or is that not -- that wouldn't be like the appropriate thing?

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

I would guess I'd wait until June to do that. April, May, we'll make those decisions like open to operate without gaming or not. I guess that will just depend on what kind of feedback we're getting from gaming, whether we're on the gaming agenda, whether our licenses are approved. But yes, at some point, I'm going to open up and start generating revenue and stop the bleed. At some point, it becomes senseless to just sit there with the built-out property with our liquor licenses in place with all of our other operations ready to go and just wait for the gaming, especially because I think the club side of it will do very, very well in that market. So that's definitely an option for us.

It's just too early to gauge if that's going to make sense or not. But definitely want to get something going in the summer. It's very difficult if we open after the season ends, the prime season ends, when we get into the skiing season with the winter and the unpredictable weather and the roads and drive through the mountains in the wintertime. It's harder to get people to move up there in the winter. I would definitely rather open in the summer. So that's something we'll take into place. Probably by the May call, we'll have something most definite in that regard to answer that question.

Q: But the construction should be done God willing through April. So like there is a shot that if the gaming commission moves quickly that you could have these things open by April or May, right? Your construction is moving, right? That part you can control.

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

I think April-May is optimistic. I think June-July is more realistic. I think August-September is probably being pessimistic. I do think we could open in 2024. We applied for the first license November of 2022. It's going on about 13 months right now. When you get to May, you're talking 18 months. I would hope that we have a definite idea of where we are and when we're going to get those licenses approved by May at the latest.

Q: Right. And the city is behind you because they've got revenue bonds and all the rest. They want you there. They want the money. So it's not like anyone is working against you, that everybody is on board.

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

If there is anybody working against us, we don't know who they are. We haven't heard anything like that. It's been very positive. I go to every city council meeting. I've missed three. Travis hasn't missed any. Travis was the only one in the room the other day at the end of the year when I was giving the speech. He was the only one in the room other than, I think, the City Clerk, who had perfect attendance for the year. We've had somebody at every meeting. We are there. We're very active in that town. We're making other investments in that town. I made some personal investments in that town. My son has moved up there. He's made some investments in that town.

We're very committed to Central City and the success of not just our venues, but the city itself. And yes, the city needs the tax revenue. The meetings are online. You can watch. The last meeting was a budget meeting. You can see the city's budget is about negative \$850,000 for 2024. Us getting open early is going to be very, very important to the city as well as the three other casinos that have applied for licenses in that city. We need the Department of Gaming and State of Colorado to process these licenses, get these licenses issued, and get Central City up and operating so that 60% of the store fronts aren't vacant.

Q: Good. Last question. I was going back and looking at my notes at Noble last summer. I think it was July '22. You talked about your RCI capital allocation plan for the next three years. The joke is man plans, God laughs. Obviously, we have not allocated \$200 million this year. And the goal, I think, was to allocate \$200 million a year and add \$30 million of EBITDA, \$30 million, \$35 million, \$40 million over three years. I guess the question is, your competitors are wounded. There's the three, I guess is the 2Ds or the 3Ds -- death, divorce, and I forget what the other one is. Owners of small businesses have to sell regardless of what's going on. It's been 12 months since you announced an acquisition. Can you talk about how that M&A pipeline looks and how you can get back to a normal cadence of even about \$30 million of EBITDA, \$20 million a year because we haven't really added any in a year.

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

We added in March, to be fair. We closed a major acquisition, a \$66.5 million acquisition in March. We always say when we close a big one, we're going to wait six months before we do anything else. We've only been back on the market looking for about 60 days. We had a long list of people that had called us. We're calling those people back. Some people have an unrealistic valuation in their head right now. They think they're going to sell to us at 5x 2022 numbers when we all know

that 2022 was an incredible year. We bought the Birch clubs at about 4.2x to 4.3x their numbers. We've increased those numbers. It's going to be coming in at around 4x for us.

We're looking at 4x right now. If you want to come in, you want to look at your 2022 numbers, we'll look at it, but we're going to pay you about 4x. The reality of it is no matter how good we are, there's going to be about a 20% decline from those numbers. That's what we're seeing overall. I've talked to operators who are down 35% to 40% in certain markets. We're talking to them and they're like, "Well, I want 5x." I said I'll pay 5x your current numbers.

"Well, I want 5x on my '22 numbers." I said, well, that's not going to happen. You're down 35% right now. How am I supposed to buy based on those numbers? If I can get you down to '20 numbers, I'll pay you 4x if you want to do that, or I'll pay you 5x current. That's kind of where we're at right now. We're getting some positive feedback right now with a couple of different opportunities that we're looking at.

Obviously, Christmas is coming up, so I wouldn't expect anything in the next few weeks, but I wouldn't be surprised if we have some stuff announced in the next couple of months. I think once it starts, it's going to be pretty consistent. Once the next guy sells to us, we've reestablished the purchase multiple. Then, I think, other guys are just going to fall in line, and we're going to end up with a few more locations.

We're looking at several things right now and what we're going to pick. I can close acquisitions all day long if I want to overpay for them. But I don't want to overpay. It's not in the best interest of the company. The fifth grade math has to work. It's the capital allocation strategy. When we do the math, if it doesn't work, then we don't move forward, we just wait.

Unfortunately, sometimes, that means we wait a little longer than we'd like to. But at the end of the day, I don't know where they're going to sell to if they don't sell to us. If that changes, then we may have to get more aggressive or if the market changes, we get more aggressive.

Q: Can we double click on that last statement that you had there? You have all these unrealistic sellers, right? But if you think about it, and we've talked about this, but I think it's important for other people to hear this, which is that like you own a building, right, or you own a building, you have a strip club, and it does \$10 million in sales, and I don't know, \$4 million of EBITDA or something like that. Let's say you can pass through a rent of \$600,000 or something and you can even sell it at a 6 cap or something. That building could be sold for \$10 million, but then you lose the cash flow of the strip club, right? The idea is you can sell your building for \$10 million, but that's the equivalent of 2.5x EBITDA for the strip club, right? You can sell your strip club for 2.5x since that's what the building is worth. I don't really know what the alternative is, right? Because you're the only person that's willing to, A, buy the real estate and also operate the club. So when I think about the options for a seller, yes, you can try and sell it to your manager, but as your manager, you need to take the seller finance from the manager. Is he going to go and be able to raise the equity, like who's buying strip clubs at \$5 million or \$6 million? Look, interest rates are coming down, but there's still something, right? It's like I don't really see a scenario where someone else is buying a strip club for \$5 million or \$6 million and paying and like, hey, here's the strip

club. I'm going to pay you \$25 million, 5x EBITDA, right? That's \$15 million more than you would if you were just selling the real estate.

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

That's why we keep running the deal. That's why we're buying these clubs. We're picking up some incredible real estate in the transactions. Future development of that real estate has value. We just got appraisals. We're in the process right now of putting together a cash out loan. We want to see how much cash we can get. We had all the properties that we purchased that we paid cash for. We're getting them all appraised right now. We figure we can pull \$20-plus million in cash out since we're looking at some pretty serious acquisitions. We want to have everything ready to go in early January, so we can make moves fast. Like the Playmates property. I think we paid \$4 million for it. The appraisal just came back at \$7 million and change. We paid \$7 million for the Scarlett's building. It just came back at \$7.8 million.

We're waiting for the casino deals to come in. All the appraisals so far that we've gotten in are much higher than what we paid for the properties as we bought those properties in '20 and '21 and even in early '22. I'm very optimistic that we need a \$41.8 million total appraised value to pull the cash we want to pull out and move the New York property out of an existing loan and pull it back in because its appraisal was so bad in 2020 when we had COVID. It's about a \$15 million to \$18 million property and the appraisal came back at \$6.9 million, I think. We were only able to pull \$5 million cash out of the building. When the new appraisal comes in, we're going to be able to pull about \$11 million out of it. We'll take up an extra \$6 million by refinancing that New York property and pulling it into the new loan. We're weighing all these things right now. We'll have options available to us.

Everything is about options for us right now. There's so much out there. We're sorting through it. We're going to look at different things and find the right price, the right pieces. Like I said, it's a puzzle. All we have to do is keep doing what we're doing, keep on our capital allocation strategy, put our capital to work, get the cash-on-cash returns, and continue to wash, rinse, repeat. It's actually really simple.

I've listened to shareholders and I'm hearing, "You guys need to do more club acquisitions and build less Bombshells." I said, okay. But I believe in the Bombshells concept, and I don't want to give it away, and I won't give it away just to get rid of it. But I will explore strategic opportunities to grow it at a much faster pace than we as ourselves can grow it. I've been talking with some pretty smart people out there. The beauty of the restaurant business is there are some really smart people out there in that space. They understand. We've talked to them about the value. They've looked through our margins, what we've done, how we've done it, and we're getting some pretty positive feedback on it.

I really think that we're going to figure it out. It may take six months, it may take three, I don't know, but we're going to figure out how to accelerate the growth of Bombshells with capital from other people. Sure, we'll have to share a part of it, but we will reap a big part of it for our shareholders and very little risk to ourselves. That's like infinite cash-on-cash returns if it's other people's cash and we're making money off of it.

I know you think I don't listen sometimes, Adam, but I do listen. It just takes me time to digest. It takes me time to figure out what the best method to do these things are. But we're getting there. I'm always learning, and I'm always listening. So there you go.

Mark Moran - Chief Executive Officer, Equity Animal

Fantastic. Thank you so much for your questions, Adam. I'd like to encourage anyone with questions in the audience to please raise your hand and we'll bring you to the front. Next up, we have Jason Scheurer of Orchard Wealth.

Q: How much more money you think it will take to get Colorado up and going?

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

Once again it depends on when we open.

Q: Yes. But just what are you saying to yourself right now? I got this much in. How much more do I need?

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

I think between now and April, we're going to put another \$6 million or so in, could be \$8 million, depending on what we do on machines and a few other things. All in all, we're going to spend probably \$14 million. I think about \$20 million, \$22 million, I think, is our budget, but that's including buying all the machines. Because of our new manager or ops guy that we brought in, he's got some great relationships with some of these vendors and companies. We're starting to get some pretty good deals for maybe 12 months, same as cash. We only had to pay monthly for 12 months after, and it doesn't start until we open the casino. The machines will already be making money for us, but we have to start paying for them.

We've got some pretty neat terms and deals that we didn't have available to us before we hired him. They don't trust new operators as much. These casino companies are much stronger about it. But they do know him. He's a very good operator in that market. He's very well known in that market. So we're getting some nice offers from some of these companies and I'm very optimistic. To answer your question, \$6 million to \$8 million between now and April-May, is my guess.

Q: Okay. Then just to clarify, when you get your license, it applies to all three properties. You don't have to resubmit for each one?

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

We've already submitted for all three. All three licenses have the same operators, have the same company, all the capital is coming from the same source. I believe that if they approve one, they approve all three, but I'm not the Colorado Department of Gaming, so I can't be 100% sure of that.

That is my understanding that once we're approved, there may be some formalities. The license will be approved, but the actual, let's call it the "go live." is individual.

Each casino has to do all their setup, all their testing, all their operating procedures, they have to walk through and do all the inspections. You have to pass all that, then you get to go live. Those will all be independent for sure. But I think the actual approval for the three to actually start those processes should be all at the same time if I'm understanding it correctly.

Q: Okay. Then when you get your license, you already have people that are looking for the online partnership agreements that you were talking about?

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

We do. We have been talking with different groups. Everything is going to be contingent on the license being issued. We have to have a license issued. Then they have to do their application, which takes another 30 days for that so.

Q: Okay. But it's not like they get their application, it's going to be another six months.

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

It should not be. But it's up to the Department of Gaming, it's not up to me.

Q: Right. Okay. The gaming people haven't come back to you and wanted anything else. They've completed all their interviews and stuff, and you haven't heard anything from them, right? So it's just sitting on a desk somewhere.

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

They have come back with us multiple times. We've given them multiple data dumps, which is good. That means we know the process is moving forward. From what I understand, early January starts what they call on-site inspections. They will be going and visiting some of our current locations. We have no clue which ones. We have no clue when they'll go, but we believe that will start in early January. I know what the budget is. I know it's money they have to spend because we had to provide it.

Q: Got it. You pay them to investigate you?

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

Yes. And they can ask for additional funds, which I do expect them to do. But there's limits on that. I don't know what the whole rules are. I have to go back and look at them. But I think that once they do the site inspections, I think it will be relatively quick. Before they get to that point, I think everything else in the investigation is done. Unless they find something, they want to look into while doing the site inspections, I don't suspect that there'll be any other real issues.

Q: Okay. Then my last question for now is just when you do an online partnership, do these guys give you cash upfront, or some stuff based on the agreement of revenue share? How does that typically work?

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

Both. They give us cash up front. They give us guaranteed minimums and they give us a percentage. And if the guaranteed minimum is more than the percentage, then we take the guaranteed minimum and if the percentage is more, we're going to take the percentage.

Q: So in a weird way, whoever you pair with for these places could theoretically almost pay for the entire investment over a 10-year period from the revenue share?

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

Typically, yes.

Q: Okay. So for all intents and purposes, this is just like the question is how quickly you're going to get your money back. You're going to get it back in 10 years with an online partner or from the revenue from the machines and everything else?

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

Could be, yes. That's independent of how much cash we actually use, too, and how much we're able to pull out. Once the casino is open and operating, we can then borrow against it. There's a lot of lenders out there that loan to casino companies. Unlike strip clubs, you can borrow against the actual business model and the business cash flow. And you can borrow against the machines. It's totally different.

Q: Everybody wants to give you money when you're in the casino business.

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

They don't do all the big buildings because everybody is winning.

Q: Yes, all right. Good. Thanks guys.

Mark Moran - Chief Executive Officer, Equity Animal

Thank you so much to Eric and Bradley as well as everyone who asked a question this afternoon. For those who joined late, you can meet me as well as 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 Harold Square. If you haven't RSVP'd ask for Eric or me at the door. On behalf of Eric, Bradley, the company, and our subsidiaries, thank you, and have a good night. As always, please visit one of our clubs or restaurants and have a phenomenal time.