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Transcript of RCI Hospitality Holdings
9M19 Earnings Call and Webcast
September 24, 2019

Participants
Gary Fishman – Investor Relations
Eric Langan – President and Chief Executive Officer

Analysts
Frank Camma – Sidoti & Company
Marco Rodriguez – Stonegate Capital
Jason Scheurer – Orchard Wealth & Legacy Management
Richard Keim – Kensington Management
Peter Rodai – Private investor
Maxwell Ellis – Private investor

Presentation

Operator
Greetings, and welcome to the RCI Hospitality Holdings conference call and webcast. At this time, all participants are in a listen-only mode. A question and answer session will follow the formal presentation. [Operator instructions]. As a reminder, this call is being recorded. It's now my pleasure to introduce Mr. Gary Fishman, who handles Investor Relations for RCI. Please go ahead, sir.

Gary Fishman – Investor Relations
Thanks, Tom. For those of you listening to this call on the phone, you can find our presentation on the RCI website. Click "Company and Investor Information" just under the RCI logo. That'll take you to the "Company Investor Info" page. Scroll down a little, and you'll find all the necessary links for this call.

Please turn to slide 2. I want to remind everybody of our Safe Harbor Statement. It's posted at the beginning of our conference call presentation. It reminds you that you may hear or see forward-looking statements that involve a number of risks and uncertainties. I urge you to read it. Actual results may differ materially from those currently anticipated. We disclaim any obligation to update information disclosed in this call as a result of developments that occur afterwards. Please turn to slide 3.

I also direct you to the explanation of non-GAAP measurements that are used and are included in our presentation and news release. Please turn to slide 4. Here are comparable GAAP versions of four charts and tables that we will be using in today's presentation.

Finally, RCI will be at the Sidoti & Company Fall Investor Conference in New York City tomorrow. Registration is free for professional investors. We encourage you to attend our presentation or sign up for a one-on-one. All investors can also meet management tomorrow night at Rick's Cabaret New York from 6:00 p.m. to 8:00 p.m. at 50 West 33rd Street between Fifth and Broadway.

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

<u>Eric Langan – President and Chief Executive Officer</u>
Thank you. Thank you for joining us today. This is our first conference call since February, and we have a lot to cover.

Please turn to slide 5 to review today's news. We filed our second and third quarter 10-Qs. There were no changes to any of the preliminary income and cash flow statements we published in July and August. Approximately $1.1 million of notes receivable on the preliminary balance sheets were moved to current assets, increasing total current assets and reducing long term notes receivable by corresponding amounts. All other balance sheet items remain the same.

Looking at the fourth quarter, sales trends for the first two months look good. Night club business continues to be strong. The Bombshell same-store sales rebound has continued for three months in a row. New clubs and restaurants are doing very well. We are currently marketing properties with asking prices totaling approximately $14 million, most them non-income-producing. About $6 million of it is under contract or letter of intent.

Looking at free cash flow and dividends, as of the first nine months of fiscal '19 we hit our full-year target of $26 million of free cash flow, and in August increased our cash dividend per share 8.3% on an annualized basis.

Please turn to slide 6. The internal review has been completed. We are now in the process of implementing the recommendation to enhance corporate governance. To date, we have named two independent members to the Board of Directors and Audit Committee. Elaine Martin founded two successful companies in Houston. She is our first female director. And, Allan Priaulx is a Communications Executive and Former Publisher of *American Banker*. We welcome them both. With regard to the SEC matter, the company has and is continuing to cooperate throughout the process. Shortly after we announced the departure of BDO in July, we engaged Friedman as our independent auditing firm. We have filed our second and third quarter Qs, and now Friedman will move on to working on our fiscal 2019 10-K.

Please turn to slide 7. Rather than going through separate slides for the second and third quarters, we thought it would be easier to just review the nine months. Night club revenues were up more than 6% due to our early fiscal 2019 and late fiscal 2018 club acquisitions as well as some modest same-store sales growth. Bombshells' revenue grew more than 20% as new locations more than made up for the same-store sales declines at a few of our older units. While small, other segment revenues were up 50% with the revitalization of our Robust energy drink business, now that we are in control.

GAAP operating income increased more than 20%, or $5.4 million. Most of that was the result of a net reduction of $5 million and other charges that reflected a combination of gains on the sale of assets, lower impairments, and lower costs related to settling lawsuits. On a non-GAAP basis, operating income increased more than 2%, or $638,000. Higher revenues and margins from our improved portfolio of nightclubs more than offset lower contribution from Bombshells and higher corporate auditing and related legal costs associated with the internal review.

Please turn to slide 8 to review the sale/lease of non-income-producing assets to date this fiscal year. There are two key points I'd like to make. In total, we have proved the value of our assets. We've generated close to $7 million in proceeds for a more than a 30% gain and paid down close to $4 million in related debt. In particular, our strategy of buying and developing excess land around our new Bombshells locations is paying off. To date, we have sold two such properties at gains, enabling us to significantly reduce debt used to acquire the land and develop new restaurants.

Please turn to slide 9 to review our consolidated revenues and margin trends. Quarterly revenues have continued to set new records. Night club operating margin has been expanding, more than offsetting what we believe is a temporary decline in Bombshells same-store sales and pre-opening costs. We did not, however, achieve the increase in operating leverage we had hoped for in fiscal ’18 and ’19. That was primarily due to higher auditing costs and costs related to the internal review. Going forward, we should start to change.

Looking at the fourth quarter revenues through August, night club total revenues are up 6% with a small improvement in same-store sales. Bombshells total revenues are up more than 50% with same-store sales up about 20%. We believe Bombshells margin should expand in fiscal ’20 with all the new units open and a continued rebound in same-store sales. In additional, fiscal ’20 corporate overhead as a percentage of revenues should start to decline in the second half, especially with no extraordinary auditing fees and a reduction in legal fees related to the internal review.

Please turn to slide 10. Profit growth at night clubs is being driven by higher revenue per location and higher overall margins. This is a direct result of our capital allocation strategy. Over the last few years, we have been more aggressive in replacing poor-performing clubs with premier acquisitions. At the same time, we have focused on generating continuous improvements at the clubs we retrained.

Going forward, our acquisition focus will be on larger cash-flowing clubs in major metropolitan areas. This is based on our recent success we’ve had in Chicago, Pittsburgh, St. Louis, and South Florida. This is not to say we’re ruling out smaller club acquisitions if they fit our expertise and capital allocation strategy, but bigger clubs are the direction we’d like to go.

Regarding last week’s flooding in the Houston area, a small club in Beaumont was closed for a night, and a small property we leased out had some damage. Meanwhile, renovations are in full swing at our St. Louis area club where we had a small fire in May. We anticipate a grand reopening for Halloween. All are covered under our insurance.

Please turn to slide 11. The turnaround of Bombshells is beginning to take shape. The four new Houston locations are doing well. The final two should be open soon. June’s same-store sales rebound has continued through July and August. Altogether, we anticipate that the ten locations should generate $40 million to $50 million in total revenue in fiscal ’20. At the same time, operating margins should begin to recover with the same-store-sales growth and minimal pre-opening costs. None of our Houston area Bombshells were affected by last week’s flooding. They were some of the few restaurants in Houston that remained open on the night of the rain.

Please turn to slide 12. Cash generation has continued to do well. As of June 30th, we had $11 million in cash on the balance sheet. For the first nine months of fiscal ’19, adjusted EBITDA increased 3.4%, and as a percentage of revenues expanded 130 basis points.

Free cash flow increased 28%, and the free cash flow conversion rate expanded 300 basis points to 19.4% of total revenue. While we haven’t bought a lot of shares this year, weighted average shares outstanding are down 7% as of the nine months of fiscal ’19 compared to the end of fiscal ’15 before we began the implementation of our capital allocation strategy, enhancing our growth of free cash flow per share.

Please turn to slide 13. Long-term debt has continued to decline as we paid down loans through planned amortizations and asset sales partially offset by construction draws to complete the new Bombshells locations. As of June 30th long-term debt fell $3.2 million from March 31st, which was down $3.3 million from December 31st.

Please turn to slide 14. Debt continues to be very manageable. In April, we paid off the $5 million Centennial installment loan used to help finance the real estate portion of the Chicago and Pittsburgh acquisitions. As of

September, we have paid $82 million Centennial real estate loans down to 65% LTV. As a consequence, amortization on this loan going forward falls $3 million annually. Combined with $8 million less in amortization on Centennial loans in fiscal '20, this gives us a lot of financial flexibility. Our ratio of long-term debt is trailing 12 months. Adjusted EBITDA improved in the third quarter. This is a function of lower debt and higher adjusted EBITDA. We like to see the ratio below 3 [times]. It fell to 3.22 [times] from 3.31 [times] in the second quarter, and from 3.38 [times] in the first quarter.

Occupancy costs as a percentage of total revenues also fell. This was a function of higher revenues, with 7.5% in the third quarter, the lowest level to date this year. This should continue to fall as we open the next few Bombshells locations and continue to pay down our debt. We are happy with any number under 9%.

Please turn to slide 15 for our capital allocation strategy. Our strategy remains the same. We've adjusted our graph on this slide to take into account the slightly lower share count due to the share buybacks. The general parameter is that $27 continues to be the break point for buying shares at our current free cash flow run rate. We plan to update our free cash flow run rate when we announce fourth quarter results.

Please turn to slide 16. We wanted to show you [the] noticeably improved results we have achieved since we implemented the capital allocation strategy in fiscal 2016. As you can see, in almost every category we have improved. In particular, operating margin has improved more than 50%. ROE is up close to 80%, and ROA more than 90%, while leverage, calculated as assets to equity, has remained about the same.

Please turn to 17. To conclude, our financial goals continue to be the same. Our overall objective is to grow free cash flow at an average of 10% to 15% annually on a per-share basis. One strategy for doing this is simply using excess capital to buy back shares. A second is to continue to buy back more great clubs in the right markets. On average, we have made more than one acquisition per year. Third, as we mentioned, Bombshells is opening its two remaining units under construction. When we have all ten open, we plan to review our progress to ensure we are maximizing our cash on cash returns.

We also will continue to focus on improving same-store sales. To that end, we are pleased to see the progress we have made the last three months.

Thanks to all of our investors for supporting us and our people for doing a great job. It is truly appreciated. Operator, let's start the Q&A. I can talk about all aspects of the business, but I'd appreciate if you would understand that I am limited in what I can say when it comes to any legal matters.

Operator
Thank you, sir. The floor is now open for your questions. [Operator instructions]. Please hold while we poll for your questions.

We'll take our first question from Frank Camma, with Sidoti

Q: Obviously, a lot of information here, so I'll just try to pick a couple. This is more of a big-picture question. I don't think it's really legal; more just a question about the new auditors. Obviously, not an audit, but they did review the Qs, and I had a couple of minutes to go through both. I didn't see anything shocking there, or nothing that stood out when I looked at the black lines as they're making changes. You mentioned the one balance sheet change. Was there any other observations that they have so far called out about processes that you might need to change to satisfy them as accountants?

Eric Langan – President and Chief Executive Officer
No. They've had some questions, of course. They're trying to learn the company. It was a process and I think the K will continue to be a process as we move through the K. The only changes were those notes that were short-term notes that we put in a longer-term. That was a BDO hangover from BDO when it was classified one way, and they were classifying a different day, so yes, from a long-term note to a short-term note because they become—anything that comes due in the next 12 months should be considered short-term.

Q: Right. Sure. Okay, I guess one of the things that stuck out to me was the size of the opportunity of how many more properties you could sell here. Obviously, you're talking about existing clubs that are underperforming from your standard. I know you probably have to keep some of this confidential because you're just under letter of intent, but can you talk about it?

Eric Langan – President and Chief Executive Officer
No, I'd be happy. It's actually two lease properties. We don't operate clubs in those properties. Two lease properties and the rest is raw land that is associated with the Bombshells, where we purchased six acres and developed our two acre site. We're selling off the additional four acres in two acre tracts, or acre and a half tracts, depending on how we decide to break down those properties.

Q: Oh, and that adds up to the $14 million?

Eric Langan – President and Chief Executive Officer
Yes, in asking price. Now, that's not what we paid for those properties, but we did the development, we changed the lien on some of them, we put in utilities, we put in sewer, and some other minor improvements. Yes, that's the total approximate asking price.

Q: Okay, that's fair enough. Okay, that was my next question, is, so you're going to have a book gain theoretically, if you get near your asking price, it sounds like.

Eric Langan – President and Chief Executive Officer
I believe that's every property that we are currently trying to sell or lease on these properties, would all be book of profit. I don't think we have a single one of them that we would book a loss on.

Q: Yes, it wouldn't be an operating gain.

Eric Langan – President and Chief Executive Officer
Even below 10% or 15% below our asking price, we'll still book profits on it.

Q: Okay. Okay, great. Then, let's say theoretically, you take the proceeds and you clearly, I think, if I'm doing my numbers right would then be maybe at or below three times as EBITDA improves. Would you then be in a position to have more capability to do acquisitions? Would that maybe free up your appetite to do so?

Eric Langan – President and Chief Executive Officer
I think we have the appetite now. EBITDA is only one gauge that we use. The real gauge we use is the 7.5% cost of occupancy. Based on that, if you go to a 9% cost of occupancy that would be about 1.5% increase, which would give us about $200 million in revenue—which we're getting pretty close to. It would give us about $3 million of additional interest expense we could afford. If you look at that on a 6% interest rate if we could get bank financing or certain owner financing for that, that would put us in the range of $50 million in additional debt we could carry. We're at a perfect position even now to do that.

While we like and we look at the three times, I think with our current, because so much of our debt is real estate-related, I think we could actually look at closer to four times as an acceptable limit. Obviously, that would be pushing it, so we don't want to get too close to that. That's the ability I think we have at this point. Keep in mind when we do that we're going to add additional EBITDA, which is going to expand it down—bring that expansion down a little bit as well. I think we're in a pretty good position right now, anywhere in the $30 million to $40 million range, we're probably very comfortable. We're still actively looking at acquisitions right now. We haven't stopped looking at acquisitions at all.

Q: Okay. My last question is just because I thought that turnaround that you mentioned in Bombshells was pretty sharp here, just looking at the last two months that you state in the press release, the earlier press release, so 20% same-store. Is it—remind me; that's on the stores that we open more than 18 months, right? Roughly, I don't now have the spreadsheet in front of me, but that would be the bulk of the stores that are now open, right?

Eric Langan – President and Chief Executive Officer
It's all but three, so it's five of the locations.

Q: Oh, five? Okay. So it's five of the eight.

Eric Langan – President and Chief Executive Officer
Yes. Two are brand-new, opened them last year. Pearland was opened in April. It will go into same-store sales in November.

Q: Okay. Great. Thanks, guys.

Eric Langan – President and Chief Executive Officer
Yes.

Operator
We'll take our next question from Marco Rodriguez, with Stonegate Capital.

Q: I wanted to follow up on one of the questions on the acquisition, specifically on the night club side. I believe in your prepared remarks you indicated a bit of a shift in the strategy from the focus away from, I guess, the smaller club to much larger clubs. Can you talk about a little bit more about that as far as what drove that change, and then also if maybe you can give us a sense as far as how many larger clubs as far as the pool of availability, if you will, or targets in comparison to the whole industry itself, where you have obviously a lot more smaller clubs included in that.

Eric Langan – President and Chief Executive Officer
I've always said if we just owned the top 50 clubs we'd be a billion dollar company and we wouldn't have to be so concerned with all the smaller clubs. Basically, we're looking for clubs that are probably in the $80,000 to $120,000 a week range. Now, that's our target right now, where we used to target $30,000 to $50,000 a week locations. I'm not saying we won't look at the $30,000 to $50,000 a week locations; we're still looking. It's just our preferred acquisition is going to be a much larger club, a Chicago, a Scarlett's in Miami, the Pittsburgh-type locations. Those locations, we're going to be spending most of our time looking at, and those are the deals we want to do. Something in a purchase price of $10 million to $15 million.

Q: Got you. Will the financing strategy change in terms of those acquisitions for the larger night clubs?

Eric Langan – President and Chief Executive Officer
I don't think so. I think we're going to use bank financing. Hopefully, we'll use cheaper money. The bank gave us a $5 million loan at 7%. It was a much shorter term, which is fine. We can work through that with the free cash flow we have right now, it's not an issue. I like 7% money better than 12% money, so we're going to be using that. We're going to be using real estate financing. We'll finance the real estate through the banks as much as possible, and of course, a certain portion will remain owner-financing just because we have to have some kind of offset against unknown liabilities, or we want a much cheaper price. If we're not going to have that safety net, we want to pay below 3 times instead of 3 times, 3.4 times, 3.6 times we've been on a couple of these last deals.

Q: Okay. Shifting here to Bombshells. The 20% same-store sales that you're talking about here for July and August, I'm assuming that's a year-over-year measurement?

Eric Langan – President and Chief Executive Officer
Yes. That's year-over-year.

Q: Got you. Then, can you talk a little about what was implemented over the last three, six months, let's just say, that drove those sales a bit higher? It's about a 30%-plus delta versus where the same-store sales were for Q2 and Q3.

Eric Langan – President and Chief Executive Officer
Yes. We're pushing new menus, which helped. We raised some of our food costs. We're recouping some of our food costs now from some food price increases. We're stacked with management because we've had new management in the locations. We're opening new stores coming up, so we've had a little extra management in some of those clubs, so our costs are a little bit higher, as you've seen from our margin shrinkage. As we open these new stores and move these new teams into their stores from their training stores, that's going to help lower the cost, but I think we'll retain the atmosphere and the mood that we've set in these locations now. Some of it is new promotions and stuff that we're doing as far as entertainment goes; some new DJs, some new exciting stuff, contests, beach weeks that we've done. Stuff like that just to bring in customers.

Q: Got it. Obviously, the month of September is not quite done yet here, but just give us a sense as far as are you still seeing that same-store momentum through the first few weeks? Are you maybe pulling back a little bit? Any comment on that?

Eric Langan – President and Chief Executive Officer
Yes, we're still over double-digits in same-store sales growth through the first 21 days.

Q: Got you. Okay, and then just on the expense side and the assets that you have for sale, primarily the Bombshells just excess land, if you will. Are the gains that you are booking on those sales, is that positively impacting the operating margin for Bombshells?

Eric Langan – President and Chief Executive Officer
No. It's not part of Bombshells. It's part of our RCI Holdings. All of RCI Holdings property, all the properties are mixed in with night clubs because that's the majority of that. The Bombshells properties are a very small percentage of that income and revenue.

Q: All those gains that you book, will they be below the operating line or above the operating line?

Eric Langan – President and Chief Executive Officer
[They will be] in gains and losses.

Q: Got you. Last question just on the expense side, I believe you said you prepared remarks that you expect legal fees to drop just given the fact that you've stopped with the internal audit and internal investigation that you had. Just trying to get a sense here, if I'm not mistaken—I didn't have a chance to look through all of your Qs you just released here—but I did notice that the SEC inquiry went to a formal inquiry, I guess. I'm just trying to get a sense as far as your ideas as far as any dropping expenses, just given that new information.

Eric Langan – President and Chief Executive Officer
The internal review was a little more expensive for us obviously, because it was all paid for by us. We have insurance that's going to cover some of the costs of the SEC stuff, so that will save us some expense there.

Q: Got you. Okay. Great. Thanks so much. Appreciate it.

Eric Langan – President and Chief Executive Officer
You bet.

Operator
[Operator instructions]. We'll go next to Jason Scheurer, with Orchard Wealth.

Q: A quick question for you. Obviously, I would think between the timeframe that this whole investigation thing and all the accusations came out, you guys probably put the damper on buying back shares. The question is, now that you've reported everything, do you feel like right now you can again begin an aggressive purchase repackage given the $27 target that you were talking about for return on capital?

Eric Langan – President and Chief Executive Officer
We can purchase stock any time we do not have material inside information. With these disclosures, I believe we have disclosed everything that we possibly know that the market wouldn't have known. I believe that we're free to buy stock on a go-forward basis until such time as the company, for some reason, gains some type of material inside information again.

Q: Are you guys capped at a certain dollar amount, like average daily volume, or something that you can take down each day?

Eric Langan – President and Chief Executive Officer
Yes. We buy—well unless it's a block trade, block trades are exempt—but yes, we do buy within the safe harbor provision of the SEC for all of our stock buybacks, which is 25% of the average daily volume for the last 30 days.

Q: Okay. Then, the other question I have for you; obviously, you have all these Bombshells opening up now. Do you feel like you have enough operating units right now, that now, suddenly it becomes much more of a franchise opportunity that people could look back with your operating history, or do you feel you need to open up more in order to get third parties to want to become involved and open up their own in Cleveland, or something, for example?

Eric Langan – President and Chief Executive Officer
Yes, we've been talking with some third parties. Obviously, we're fully licensed in all 50 states to sell franchises still. I believe that the ten stores are going to make a change and I think the next six months are going to tell the real tale. As we go through October—we opened up six locations in the last 18 months, basically. Well, actually, I guess almost two years now, if you count the 290 location, but five locations in the last 18 months. Starting in April of '18 when we opened the Pearland store, we've opened now I-10, 249, and then we'll have Katy and the 59 location open. Those five stores will all be open in an 18 month type period.

There were a lot of expenses in there. Now, we didn't separate out any pre-opening costs, right? They're all just baked into the numbers because they were such a small segment that we just really didn't—and, we've had a lot of other things on our plate—we just really didn't sit down and track and calculate all that to report it. I think the first time we're going to see no pre-opening costs or very minor pre-opening costs is the October through December quarter, and then the January through March quarter will have no pre-opening costs in it because we're not in the process of opening any other units at this time.

We're going to get a nice view over the next six months of what these units are going to look like; what the segment itself is going to look like with no extraordinary cost involved. We had a bunch of legal costs back in the summer of last year, and then with the District Attorney's office claims that we beat in court and settled with them, got those taken care of and gone. Now, we've recouped from that. We have these new opening costs. All that's going to be out of the numbers on a go-forward basis, and we're going to get to see really what these stores look like. I think we're going to see $11 million to $12 million a quarter in revenues, and I think we're going to see our 15% to 18% margins again.

Q: Okay. Then, just circling back to that quote that you made, if you owned the top 50 clubs you'd be doing $1 billion in sales.

Eric Langan – President and Chief Executive Officer
No, it'd be a billion dollar company, not $1 billion in sales.

Q: Billion dollar company. Okay. Right, so help me out here. How many clubs are in the United States?

Eric Langan – President and Chief Executive Officer
About 2,200 is the current estimate. About 500, about 25%, is what we'd like to own.

Q: Got it. Okay. Alright, good. Then, do you know much sales those 2,200 clubs do approximately in annual revenue?

Eric Langan – President and Chief Executive Officer
There are all kinds of estimates. They're all over the place, from $1 billion to $8 billion or something like that.

Q: Okay, alright. Everybody keeps their secrets. Alright, good stuff. Thanks, guys, I appreciate it.

Eric Langan – President and Chief Executive Officer
You bet.

Operator
We'll take our next question from Richard Keim, with Kensington Management.

Q: Thank you, but my questions have been answered.

Eric Langan – President and Chief Executive Officer
Okay. Thanks, Dick.

Operator
[Operator instructions]. We'll take our next question from Peter Rodai, a private investor. Peter, your line is open.

Q: Can you hear me?

Eric Langan – President and Chief Executive Officer
Yes. Now, we can.

Q: Okay, thanks. A couple of my questions have already been answered. I did have one, though. I think it was slide 7; there was mention of a revitalization of that drink company, Robust, I think it was? Could you—I could have been mistaken; I thought you guys had abandoned that at some point just because it wasn't turning out the way you had hoped. I was just wondering if you could talk a little bit about that.

Eric Langan – President and Chief Executive Officer
Yes. We bought our partner out, and we took control of operations. We were not an operating partner, we were a minority shareholder in the deal but we were a huge consumer of the product through our clubs. It saves us a ton of money a year. We ended up buying that partner out and taking 100% control of Robust, and since then have added distributors, and we're continuing to grow it to third parties outside of just our use. That's where that's coming from.

Q: Got it. Do you feel like there's still a pretty decent opportunity there?

Eric Langan – President and Chief Executive Officer
Oh, yes. We're continuously growing. We're starting to pick up more distributors; as we add distributors and add customer base. The retention is super high because the product sells well. It mixes well with vodkas and other mixed drinks. It has a flavor profile that's similar to the brand leader. It's kind of a generic version at a much cheaper price, and once clubs switch to it, they tend to stick with it, as we have for many years, now.

Operator
[Operator instructions]. Are there any final questions? This is the last chance for questions today.

We'll take a question from Maxwell Ellis, private investor.

Q: Most of my questions have been answered, but I was wondering, you touched on this a little bit earlier, run rate operating income margins on Bombshells. You said that 15% to 18% margin run rate; is that where you're thinking '20 will end up, or because a couple of them are still new and coming online, will we not really see that run rate margin until 2021?

Eric Langan – President and Chief Executive Officer
It's really hard to say. I just look at the historicals. If you look at the chart on page 4 that we put out, you can see in fourth quarter of '16 we're about 8%, then we jumped up to 14.9% if you look through that time period. That was a time period where we weren't doing a lot of expansion, so I think it seems to be the target. Our target is between 15% and 20%. It looks like we're rolling there between 14.9% and 19.5%, so I think if we stay 15% to 18%, I'll be happy with that.

Q: Yes, I'd be happy with that, too. Fingers crossed. Then, a final question from me, I know you said your target free cash flow yield on the stock buyback is 9.7, I think you said. I'm just wondering how that compares to—and I know you said EBITDA is not the way to view it—but how you view that versus free cash flow that you might get from an acquisition of a new night club. I know there are risks involved with a new night club acquisition onboarding synergies, but what's the safe buying your own stock, your own company versus I'm actually buying this separate club owned by somebody else, and yes, it's riskier because I don't know it as well, but I'm really getting an extra return for the risk.

Eric Langan – President and Chief Executive Officer
Yes. The 9-point-something that you're talking about is the yield on paying down our 12% debt. We actually target double-digits, so we want 10% plus. Right now, based on $26 million, that's about a $27 share price based on current stock outstanding. We're probably buyers up to around $27 a share.

That doesn't keep us out of the market for clubs. The last couple of clubs we've done have been 100% financed. So, 100% financing, we may do that. We may use some of our cash to buy those clubs, but at the current rate I think our yield is about 17% on buying back our stock at $17 a share, so we're going to be looking very heavily at buying back our stock at this point versus acquisitions.

If we do a risk factor acquisition, we typically like to have a 25% to 33% cash-on-cash return. If we're going to put $1 million of our money back outside of the debt financing, we want to get that $1 million back in about a three to four year period max. That's what we target.

Really, we've been targeting higher, pushing for a three year return of our cash, is really what we've been looking at lately. If we're going to put cash out, we want it back within three years. Like the Scarlett's transaction, we really didn't put any cash out at all. It's been a great acquisition for us in that we're generating all of this cash out of the location and paying off interest and the investors with the cash we're generating, and keeping the remaining cash.

Q: Yes, absolutely. Well, that's it for me. I really appreciate the time. Thank you.

Eric Langan – President and Chief Executive Officer
Thank you.

Operator
Ladies and gentlemen are there any final questions at this time? This is the last chance for questions.

Mr. Fishman, there appear to be no further questions at this time. I'd like to turn the call back over to you for any closing remarks.

Gary Fishman – Investor Relations
Thank you, Eric, thank you, Tom. We've included a few supplemental slides in our appendix. For those who joined us late, RCI will be at the Sidoti & Company Fall Investor Conference in New York City tomorrow. Registration is free for professional investors. You don't have to be a customer of Sidoti. All investors can also meet management tomorrow night at Rick's Cabaret New York from 6:00 p.m. to 8:00p.m., 50 West 33rd Street between Fifth and Broadway. If you haven't RSVP'd, ask for me at the door.

On behalf of Eric, the company, and our subsidiaries, thank you, and goodnight. As always, please visit one of our clubs or restaurants. Thank you.