

Transcript of  
RCI Hospitality Holdings, Inc.<sup>1</sup>  
Q2 2024 Sales Call  
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## **Participants**

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

## **Analysts**

Scott Buck - H.C. Wainwright & Co., LLC  
Anthony Lebiezinski - Sidoti & Company, LLC  
Robert McGuire - Granite Research  
Jason Scheurer - Orchard Wealth Management  
Adam Wyden - ADW Capital Management

## **Presentation**

### **Mark Moran - Equity Animal**

Greetings and welcome to RCI Hospitality Holdings' Second Quarter FY24 Sales Call. You can find the company's presentation on RCI's website. Go to the Investor Relations section. All of the links are at the top part of that page.

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

Please turn with me to Slide 3. At this time, all participants are in a listen-only mode. A question-and-answer session will follow. This conference is being recorded.

Please turn with me to Slide 4. 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.

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

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

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<sup>1</sup> This is a clean verbatim transcription that has been edited to increase readability.

Thank you for joining us today. Please turn to Slide 5. There's a lot going on in the company right now. We wanted to give you a broad-brush update for items that we can talk about now rather than wait until May when we report financial results.

First, total sales for nightclubs and Bombshells were \$71.7 million for the second quarter, an increase of 1.3% or \$0.9 million year-over-year. Increases in sales from prior year's acquisitions and new locations more than offset declines in same-store sales and clubs in transition.

Nightclub sales totaled \$59 million, an increase of 4.2% or \$2.4 million year-over-year. This reflected an increase of \$7.4 million from acquisitions that are not in same-store sales. This was partially offset by declines of 5.7% or \$2.9 million in same-store sales and of \$2.1 million from clubs that reopened or reformatted or closed during or prior to the second quarter.

Bombshells sales totaled \$12.8 million, a decline of 10.4% or \$1.5 million year-over-year. This reflected an increase of \$1.2 million from three locations not in same-store sales: the Cherry Creek Food Hall in Colorado with its Bombshells Kitchen; Bombshells San Antonio, which we acquired last year; and Bombshell Stafford, which opened in November. The second quarter also reflected declines of 20.5% or \$2.7 million in same-store sales. I'd like to note that Bombshells did not start making any of the previously announced management and marketing changes, along with our cost-cutting, until around mid-February of 2024. We should see better results in the next quarter.

Please turn to Slide 6. Please note that the highest month to date for both clubs and Bombshells were in March. We continue to push forward and use our discounting, marketing, and other tools to hopefully see these numbers increase as we continue to move forward.

Please turn to Slide 7. During and subsequent to the second quarter, we had a number of positive developments in our Nightclub business. Two of our clubs recently opened: a PT's Centerfold Gentlemen's Club in Lubbock, Texas, a new BYOB, opened in the third week of March. Baby Dolls Abilene, a reformatted liquor club, opened in the first week of April.

Two of our other BYOB locations, one in El Paso and one in Harlingen, are being converted into Chicas Locas, and they will both open when their liquor licenses are issued. Baby Dolls West Fort Worth should have its construction permits very soon. We're in final stages there.

Scarlett's Cabaret Denver in Glendale, Colorado, received its liquor license to sell and serve alcohol till 4:00 a.m., while most other Denver area locations have to close at 2:00 a.m.

We are working on bringing Scarlett's hybrid nightclub, adult entertainment concept to Dallas. We'll have more on that in May. And we've recently signed a letter of intent to purchase one more new club.

Please turn to Slide 8. We had an important development in our plan to create two casinos in Central City, Colorado. Our Rick's Cabaret Steakhouse & Casino and Bombshells Sports Casino, both received their 24-hour liquor licenses from the city. We're thinking of possibly opening the Cabaret's steakhouse once construction is complete in late summer 2024, while we await approval of gaming instead of waiting for the gaming license.

Please turn to Slide 9. The big update regarding Bombshells is that our next three locations -- Sapphire Bay in Rowlett, Lubbock and Denver -- are all at a stage in their development where they are expected to open by late summer, Rowlett being our flagship location in Sapphire Bay in Texas. You can go to the website and see that development. I think that's going to be a very big location for us.

Please turn to Slide 10. We anticipate the closing in April of a \$20 million bank loan. This is expected to be secured by nine real estate properties appraised at \$31.6 million. The loan would provide us with additional funds for working capital at favorable bank rates and terms.

I'm also pleased to report that during the second quarter we repurchased 27,265 common shares for an investment of \$1.53 million at an average of \$56.12 per share. Year-to-date, RCI has purchased 65,219 shares for \$3.6 million at an average of \$55.23 per share. We currently have \$13 million remaining in our repurchase authorization.

This concludes formal remarks. I want to thank our loyal and dedicated teams for their hard work and effort and all of our shareholders who believe and make this success possible. Now here's Mark.

**Mark Moran - CEO, Equity Animal**

Thank you very much, Eric. First off, we'll have Scott Buck of H.C. Wainwright. Scott, take it away.

**Q:** Hi, guys. Thanks for taking my questions. First one is on Bombshells. Eric, I know the optics are tough looking at same-store sales down 20% year-over-year. Regarding the changes that you made in February, when should management and investors start to see some of that recognized in the results and be able to determine whether or not these were successful or not?

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

I think you'll see a little bit in March. As you see our high months this fiscal year were October and December at \$4.4 million in revenues. Then January and February were down at \$4.1 million and \$3.9 million. Then March at \$4.7 million. I'm hoping this quarter we'll continue to see improvement in that number. My personal goal right now is to get us back to \$15 million per quarter or \$60 million annually without the three new stores. I'd like to do that prior to those new stores opening so that Bombshells is operating in a much healthier place for us.

**Q:** I appreciate that. That's helpful. Then on the Central City properties, it sounds like construction is going on the schedule that you anticipated, but you're still waiting on the casino license or gaming license. Any update that you can provide us on what to expect there in terms of timing?

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

No earthly idea at all. All we're being told at this point is that the process is continuing. I've seen the shortest about 15 months. We're past that now. There's a couple of licenses out there that have been applied for between two and three years. I don't know what's going on in Colorado gaming right now, but definitely not as quick as we would like.

**Q:** But nobody has leapfrogged you, right, in terms of putting in an application after you in getting a license before you?

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

Not that I know of at this time, no. They've only issued one license. It was actually a mini casino at 74 machines or less.

**Q:** Okay. Perfect. That's helpful. Then last question for me, just on the \$20 million that you're freeing up from the real estate. On the acquisition front, do you have deals that you are actively negotiating? Or is this just dry powder if the right opportunity comes along?

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

We have an LOI right now that we're working on putting into definitive documents. Hopefully before May 9 we'll have more information on that for you, maybe even an anticipated closing date on that transaction by then. We are talking with other operators right now. We just haven't come to terms that are agreeable for both parties at this time. So we continue to look. Having the extra cash there is good for stock buybacks as well as new acquisitions should they come up. To build the club in Fort Worth, Texas, that will be about a \$3 million or so outlay for the club in Fort Worth that we hope to open sometime in October or November, depending on building permits, of course.

**Q:** Great. That's it for me. Appreciate all the transparency, guys. Thank you.

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

Yes. No problem.

**Mark Moran - CEO, Equity Animal**

Thanks a lot, Scott. Next up, we'll have Anthony Lebedzinski of Sidoti. Anthony, please take it away.

**Q:** Thanks for taking the question. First, in terms of the improvements that you have made with the marketing changes and the cost cutting that you've done at Bombshells, can you give us maybe a sense as to like the monthly progression of the same-store sales? Have you seen notable improvements since you've done that? How should we think about that?

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

We put that on Slide 6 for you. You can see both how the clubs and Bombshells did over the last six months of this quarter in revenue. I think that April will probably be a little less than March or around March if we can be successful at continuing the increase in business. Then May should be very strong for us, and we'll see how June goes.

June last year is when comps disintegrated. If you'll remember, European vacations were hot. I had predicted it would happen the year before, and I was a year off. I didn't think it was really going to happen this past year in '23, but it did actually happen in '23. We're going to get some much easier comps come June.

Keep in mind that the major acquisition of the Burch clubs—the Baby Dolls and the Chicas Locas brands—will go into same-store sales as well, and they're a huge part of our increase right now of total revenues. That will also help Nightclubs same-store sales. I think we're going to be in pretty good shape as far as same-store sales on a go-forward basis, definitely by June. Hopefully, we can do well in April and May and get things back and try to close this new acquisition as quickly as possible and maybe even pick up some additional ones.

**Q:** Got it. In the past few calls, you guys have talked about seeing weakness in some of the blue collar locations. Is that still the case? Are you still seeing that divergence between the white collar clubs versus the blue collar locations?

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

I think we are seeing—we've mistaken some of it for blue collar—the middle class being squeezed the most. As I've been watching spend, we're seeing that the high-end is getting more reserved. I think people start to feel like they're showing off again similar to 2009 before everybody started cutting back. I think we're seeing some of that right now. But I think that middle class customer is very, very squeezed.

An example of that is everybody is making minimum wage, so your very low-end blue-collar workers, your \$7-\$10 an hour employees that were hitting our blue color clubs once or twice a week, their pay has doubled, right? They've gone to \$15-\$20 an hour now. Of course, some of their costs have increased as well, but they're not as hurt as that middle class guy who was already making \$20-\$25 an hour. Instead of getting bumped up to \$40-\$50 an hour, he's been bumped to \$27-\$29 and so on, but as they move up, their percentage increase becomes less. But their food costs have increased. Their energy costs have increased and, of course, their interest costs have increased. I think we're dealing with some of that right now as well.

Overall, I think we just have to continue to push specials on slower days. I've said in calls a while back that we would see good weekends and slow Mondays and Wednesdays. We have come upon that. Our Mondays and Wednesdays are being affected. We're now discounting on those days. You can see some of the Bombshells specials if you're on X.

I tend to post them out quite a bit—Monday Madness, our Thursday Lingerie Nights, the specials we put in place there. We're starting to see traffic count increase from those specials. Overall, it's just a matter of time until things stabilize as we push through our specials. We're seeing a lot of

restaurants closing in Texas. Especially right now, in the Houston and Dallas areas. As that happens, I think the spread of the customer base will be in less stores, which should help our stores, as well.

**Q:** Got you. Okay. So in terms of the specials that are driving the traffic, are you actually seeing increases in traffic on a year-over-year basis as a result of that? Or is it just you're seeing less of a decline?

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

I think we're seeing less of a decline. I don't think we're seeing an increase yet. I don't think that happens until June. June was when customer accounts really fell off due to summer vacations that year. I don't believe everybody is going to Europe this year. Based on personal friends and acquaintances that I talk to on a regular basis, I think 70% went to Europe or Caribbean, South America last year. I think this year it's less than 15% of people I talk to saying they are going anywhere. "We're staying home this summer" is what I'm hearing from a lot of them.

**Q:** Understood. Okay. Well, thanks and best of luck.

**Mark Moran - CEO, Equity Animal**

Rob McGuire of Granite Research, you're up. Take it away.

**Q:** Thanks, Mark. Eric, you're talking more about a cost reduction program. You discussed a little on the last call as well. Can you give us some additional color on that initiatives?

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

I can tell you on the Bombshells side, we've gone from having two sheriff deputies on slower nights to either one or gone to private security at a much reduced rate. Nights, we had four managers. We're cutting back down to three managers. We're running leaner as well as trying to eliminate any unnecessary marketing or unnecessary expenses. We'll see some in March, I think. Obviously, we had seven weeks before we really started making a lot of those changes, and then it took us time to implement those changes and get them all in place. I think the real cost cutting will be seen in April to June quarter. But we'll see a little bit of it in the second quarter as well.

**Q:** Thank you for that. Then with regards to other club owners realizing that they're not really able to sell at peak 2022 EBITDA, can you expand on what that environment is today? Clearly, you made some progress with that LOI for acquiring the one club.

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

We've been talking with this group off and on for about three years. We've said, "Look, this is what we're paying now." I don't think anybody else out there is paying more or less. There's probably some paying the same. I think we have the better track record, especially with some of the owner financed parts of our transactions.

I think that at some point, we're going to see people quit holding out for those high numbers and thinking they're going to sell based on their 2022 numbers. That's been the real problem. Everybody thought, "Well, I did so well in '22. '23 is just an off year, and it's going to come back." I think people are realizing that it's not coming back as easy as they thought it would. It might come back, but it's not going to come back as quickly in this current interest rate environment. And of course, there's no free government money like there was in '21, '22.

**Q:** Sure. Then shifting gears to AdmireMe, can you discuss your progress with your new partner and what we might see next?

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

We're not spending any money on it at this point. The new partner is going to launch the new site, we hope in the June quarter. We are in the process of setting up the banking relationships for that website right now. There is some basic stuff now that we've been able to beta test ourselves internally.

I'm hoping, as soon as the banking is up, we'll start opening up some public beta testing as well as putting a few of the entertainers on the site. I can tell you that from what I've done with the site and looked at the site so far, the new site is already better than our existing site. It was definitely a good choice to cut that off, trying to create the wheel, and go with a company that's got a similar product out there right now that they're reskinning and putting together.

We'll own 75% of it at this point. We may bring in another couple of club operators and give them a percentage of ownership as well just to grow the site because the bigger the site is and the more creators we can put on to the site, the more marketing we can do for the site. I'd rather have a small piece of a bigger pie than have a whole pie that's too small. So that's where we're at right now. Hopefully, May 9, I'll have some more information for you. Hopefully, we can get the banking set up in the next 30 days, and then maybe we can set up some beta testing.

**Q:** Terrific. Then just last question. Can you talk to us about the Scarlett's hybrid night club model, how that differs from your other clubs, and just in general?

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

Scarlett's caters to typically a younger customer. It's a later hours club. We operate later hours than normal. I'd say the average age is probably closer to 27 to 30 versus our typical gentlemen's club where the average age is probably closer to 40. It's a dance club. There's sound and lighting, video, audio equipment. It's hugely upgraded compared to a typical strip club. There're places to stand. A lot of people want to stand or dance around more than sitting in a chair for a couple of hours like a typical gentleman's club.

I think it's just a younger crowd, more of a party atmosphere. We're doing very well with it. The Denver location, where we just got the 4:00 a.m. liquor out there, which is going to make a huge difference in that market. Guys my age, I don't stay out until four o'clock in the morning very often,

whereas my son might stay out until three, four, five o'clock in the morning three nights a week. A different party vibe than our typical club would be.

**Q:** That's it for me. Thank you so much.

**Mark Moran - CEO, Equity Animal**

Thanks very much, Rob. Next up, we have Jason Scheurer of Orchard Wealth. Please take it away.

**Q:** How many clubs did you guys have opened for the past quarter? How many will come on in the next three months? And then how many in the three months after that? What's the number looking like?

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

I think we have about 59 locations open right now. The only location that is not opened right now other than the new Fort Worth club, which has not even started construction, is the El Paso club. We're waiting on the liquor license on that. It will reopen.

Lubbock and Abilene both reopened in this quarter. And the Central City location, if we decide to open that as just a club and steakhouse for right now while we await gaming. There's three more locations that could open and then one location that will be converted from a BYOB club in Harlingen, Texas, into a Chicas Locas location. That's what's coming right now. And of course, the new acquisition. If that closes, that will be added as well.

**Q:** Great. With any of the new acquisitions that are out there, the point is these people are finally realizing that they can't ask for their 5x earnings or whatever the number was from these inflated numbers from a year or so ago?

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

We have to either use an average or a run rate. It's been a little more difficult because nobody knew what the run rate was going to be. Now that '23 is over, we have a '22 and '23 comparison. We're three months into calendar '24. I think people are starting to get more realistic. We've looked at about five locations in the last 5-6 weeks. We have a couple of other ones we've considered LOIs on, but can't get that final, just can't get everything to work properly for us, whether it's interest rates or the final purchase price, the value for the real estate. There're different things in each one. But I don't think that anybody else is buying any of these clubs right now either.

So we're just in a holding pattern with what we'll pay. This is what it's worth to us. If it's worth more than that to somebody else, then by all means sell to them. If you think it's worth more to you than what we can pay, then hold on to it. That's our outlook on it. We're not in a hurry. We're patient investors. We'll patiently take the acquisition as it comes.

**Q:** All right. Great. Thanks.

**Mark Moran - CEO, Equity Animal**

I'm going to bring up Adam Wyden of ADW Capital Management. Adam, please take it away.

**Q:** So a couple of questions here. I know that you consummated the acquisition of the Burch clubs towards the end of March last year. Eric mentioned that Burch is comping really well. Obviously, you've got some of those Burch clubs getting renovated and coming back online. Is it fair to assume that in the quarter ended in June, you're going to have what you would call the Burch clubs that are comping positively enter into the comp base that would help your strip club comp numbers in the following quarter. Is that a fair assumption? Am I getting the timing right there?

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

I believe that's the case. I know the big effect will be in June. We're only 7-8 days into April so it's very difficult to really say.

**Q:** But Burch wasn't in the same-store sales for the quarter ended March 31, and those clubs are doing well, correct?

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

They're doing very well. One example: We were doing about \$275 thousand a week. We're doing close to \$350 thousand a week at that location now. A couple of other locations are up anywhere from \$20,000-\$40,000 a week as well. They're going to be very good for us as far as comps go.

I think that we're getting to the bottom in Miami, I hope. Most of our decline is very regional right now. We have two clubs in New York, which I consider our younger clubs, where the 25 to 35 year olds go, which is that big middle class that I was talking about getting squeezed the most. Those two clubs are affected, but Rick's location is doing very well in New York.

Of course, Minnesota is a huge decline, even down from 2019 due to COVID and the George Floyd thing. Crime has just gotten out of control in Minneapolis at the moment in the downtown area. People in the suburbs are scared to come downtown, which is hurting our business. I think the convention schedule has been lacking as well because of that. That's part of the decline.

Miami and Florida—where in 2022, Tootsie's did almost \$40 million of revenue versus the highest year ever in '19 was like \$26.8 million—we did \$33 million, almost \$34 million, in '23, I think. We're declining a little bit off that. I think that's going to steady out at about 10% down at around \$30 million a year run rate. It could be a little higher. If crypto stays hot, that can bring some of that back.

I think we're going to be in that range, that \$30-\$33 million range in Miami now. It's going to be, I think, a real run rate for Tootsie's. The other clubs are off about the same amount. Scarlett's maybe not so much. Cheetah's, which is an upper blue collar / lower white collar type location, is being affected.

Overall, I think this should be the bottom, I think, by June. If we are worse this June than last June, then we're going to have to really make some fundamental changes, not just price cutting or raising and cost cutting. But I don't see that happening at all. I don't think everybody is going on European vacations this year. I don't think that the bottom is going to fall out in June. I think it's just going to be a return to norm for a typical summer for us. I'm excited about getting to that point.

**Q:** On the Nightclubs, it sounds like, if you go back and you look, we've had this conversation, I think, off-line, but I think what you would say is that, look, if you look at how the business performed in '08, '09, the clubs, I think peak to trough were down somewhere between 3% and 5%. And your argument is that, well, you were comping off of a higher base. I guess, what you would say is if you basically had really big numbers in '22, '23, you were down off of that high base, but I think is it sort of fair to assume that this isn't a business that should see additional comp declines.

If anything, I think you would say that like you're putting Burch into the comp base in June, which should be positive and some of the renovations and remodels and some of the stuff that you've done with these clubs, part of your construction phase. Then I think that those would enter into the comp base and sort of reinvigorate it. If anything, you would think that there's probably tailwinds from comp perspective with Burch coming in and the new clubs that are being renovated effectively coming into the comp base. Is that a fair assumption?

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

I think April is going to be our toughest comp, May gets a little easier, and June becomes extremely easy. That's what I think. The next three weeks of April will tell us a lot. Baseball started back up. The Rangers are doing great, which is helping our Arlington club and Fort Worth area clubs as well as the Bombshells in Arlington. There's lots of positive things going on. The Mavericks are going to make the playoffs. That will definitely help the two clubs and the Bombshells in the Dallas market. We've got sports helping us in New York with the Knicks doing well this year. I think we've got a lot of right things going for us, and we just have to adjust to the new environment.

**Q:** For simplicity standpoint, can you try and summarize what you would classify as the inorganic opportunity going forward? You've got this M&A, and it would be nice to talk about that. But we've talked a lot about going through the rebuilding or construction phase. Can you talk a little bit about timing?

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

I want to be done with that construction phase by November. Going into 2025, I don't want to build anything if I can keep from it. I don't even want to remodel anything.

**Q:** So basically you have your capital plans through November and then forward-looking cash is going to M&A and buyback. But can you help enumerate for folks like how much revenue? People can have their own speculation around what margins are and whatnot. But give people a sense of the quantum of revenue that will come from assets that are not online right now. Give people a quantum of sort of how much revenue is sort of in the ground, but not sort of turned on yet?

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

It's hard to say with the three Bombshells we have. If we just do an average opening, they'll add \$18 million in 2025, I think, for the three new stores at \$6 million a unit. I really think that the Rowlett unit could be a \$10 million-plus unit. I think \$6 million is low for Lubbock. I think \$6 million is going to be low for Downtown Denver. If you just use those numbers, it's \$18 million.

The Baby Dolls in Fort Worth should be somewhere between \$6-\$8 million a year, could be as high as \$10 million. It's a great location over there. We know what other businesses in that area have done in the past, and we had a business in that area in the past as well until the freeway construction forced us to sell it during 2017 when I was selling off any asset if I could get more money and get a higher return into our capital allocation strategy.

The new Chicas, our BYOB clubs, were doing about \$1 million a year in sales. As Chicas, they should do between \$3 million and \$4 million. Let's say they average \$3.5 million, \$7 million for the two new Chicas, \$18-\$25 million, you're up to \$30 million something. The Central City location, I have no real idea of what it's going to do.

I think, overall, you're probably looking at additional \$35-\$40 million in revenues added to our current run rate, which should be right around \$300 million.

**Q:** That doesn't include the casinos and it doesn't include this M&A target that you basically have under LOI plus any future, correct?

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

Correct. Somewhere around \$335 million run rate for 2025, all things staying equal. If we get any little bounce back in same-store sales, all of a sudden, we bounce same-store sales 4%. Four percent of \$300 million is another \$12 million we could pick up really easily. There is obviously a lot of potential out there right now. I'm just hoping, like I said, we found the bottom in this last quarter.

March came back pretty strong. I know there was an extra weekend in that month, some people will point out. But the extra weekend was Easter weekend, so it wasn't a full-fledged weekend. It was more like having an extra Tuesday, Wednesday, or Thursday in the month, or maybe Wednesday, Thursday, or Friday. But it was a strong month. Overall sales early in the month were decent and only increased once the NCAA basketball tournament started.

Then baseball kicked in. The end of the NBA regular season. Those last games became important, especially to several teams in our markets. We look forward to Denver and Dallas being in the playoffs. I don't know if the Knicks made the playoffs or not, I need to look. Any time a sports team is strong in one of our markets, it helps our sales.

**Q:** Got it. If construction is done by November, is it fair to assume that you would be active on the buyback and the M&A and all that stuff from there? Where you are right now based on all the stuff

that's coming online and a reasonable margin? Our sales numbers are a little bit higher than yours based on what's out of commission. But even if you were just to take the \$350 million in sales and take a reasonable margin—

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

'25 should be a much better year for us. We've got a lot of drag right now, too. We're carrying nine properties. We have ongoing construction on all but two of those properties right now. And two of those properties, construction is going to start in the next two weeks because I wanted to be done with construction. I don't know if anybody else out there is in the construction business right now, but it's never taken me seven months or eight months to get a remodeling permit.

I used to be able to get a remodeling permit in six weeks, not six months. It's very frustrating. I think it's part of the core problem with the economy that's going to be coming and why I'm a little concerned that small business operators, construction, housing starts, all this stuff is going to be very difficult if you can't get permits to do them. It's definitely slowing down our progress. Some of these locations were supposed to be opening. They're going to open in June, July and August. They were supposed to open in March, April and May. They've all been pushed three to four months. All of those pushes have been because we've been waiting on some form of government to approve us doing the work.

I made a joke the other day. I said I sure missed the '90s when you just built it, and they came in and said you weren't supposed to build this. You ask for forgiveness instead of permission. It was so much easier. In this day and age, you can't do that, especially a company our size. We're pushing through. We're getting our permissions. We have permissions on all but I think two locations now or maybe three.

I don't think the Bombshells Casino property's building permit is approved. We have three left that we need building permits on. Everything else is in various phases of that construction. We'll start seeing some of those completed starting in June, and we'll be open in June, July, August, September. I think, hopefully the Baby Dolls location can get open in October, November at the absolute latest.

Then we should be done with construction for at least a little while, six months for sure before I even start thinking about it. Then once you start thinking about it, it takes a year to start. So 18 months before we start really looking at building anything new again, I think.

**Q:** So a lot of cash for buyback and M&A?

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

That's the plan. M&A is what we're looking at. I think it's going to heat up. We're seeing a heat up right now. In the last six weeks, we probably looked at five or six different locations. Some were too small for us, a couple too pricey right now, but we've made offers. We're waiting for the owners to go out and shop our offer. The process is they call us first. We make an offer. They call

everybody else and say, “Hey, we want to sell for this amount,” which is usually more than our offer. They can't get any bites, and then they come back to us and negotiate a fair sale price.

I'm hopeful that at least two more of our offers will get some traction here between now and May. We've got 30 days until earnings come out. Hopefully, we'll have some better news or some more news at least by the 9th of May.

**Q:** Right. Well, you bought, I guess, between Lowrie, Cheetah, Playmates and Burch, you did a good amount of M&A and then it basically turned off for a year and a half. So it obviously goes and fits and starts. But after a fit, usually it gets a start.

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

We should be sitting on between \$22 million and \$25 million in cash after we close this loan. We wanted to close by Friday, we had two survey issues that had to be fixed with the title company. One of the two is fixed. We're waiting on the final on the other, and we're waiting for a zoning confirmation, and I believe final sign-off of all the documents by the bank itself. Then we'll get that closed pretty quick. We should definitely have that loan closed by May 9 unless something unforeseen pops up.

We'll have that cash sitting there. We should have definitive documents before the earnings call on this current LOI. Maybe we have another LOI or two by then as well. That's where the majority of my time is right now. I hired somebody full time to work on these building permits and to monitor all of the construction because I've just been fed up with it. I hired somebody who can do that for living. It was basically a full-time job for me, and I had to free up my time to get focused on stuff that was going to be more beneficial for the company, especially with taking on trying to fix Bombshells and possibly still bring in a partner or sell Bombshells as well.

That is not off the table. We are still talking with groups. We actually got a written offer that was ridiculous, and we said no to it. Usually the bottom feeders come in first. That's what we've seen. We've dealt with them and now we've got a couple of real buyers or possible partners in Bombshells for us going forward.

One would be an operating partner, which we'd be very happy to maybe do something with if we can agree on value. The problem with everything right now is agreeing on value. Nobody wants to sell at their lowest. Bombshells did the lowest numbers ever in 2023. We're not going to sell based on that low value. We'll go fix it first, let it get back to a normalized run rate, get at some of the expenses that we added in '21 and '22 when we were doing huge numbers, with security and management and some of the buildup that we did, and return ourselves back to a more normal operating deal. Maybe that number is \$8 million or \$9 million annualized instead of \$12- \$14 million, but it's definitely better than \$4 million or \$5 million. We've got to figure out what that number is, then we can value it properly and work with the group to monetize it for shareholders.

**Q:** Yes. The nice thing about having permits being hard and cost being up is it's harder for your competition to build more stuff. If you look at Rowlett and Denver, it's not easy for people to --

Denver, there's no other real estate, and it's might take two or three years for someone to build the Twin Peaks in Downtown Denver, build one in Rowlett.

So at least the locations that you have going up do not have any competition nearby. And given what the costs are for debt, for construction and permitting, at least the stuff that you have opening won't have competition for some period of time. So one of the benefits is that it's hard for competition to come in if they can't get the financing, and they can't get the land, and it's expensive to build it.

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

Yes, there are pluses or minuses to all of this. It's painful for a little while, and you get to reap the rewards from it, which I think we're very close to. The end of June is not too far away. Next 10-11 weeks, we start opening locations and pop these locations open one after another for about a five-month period and be ready to enjoy some time of operating normally.

Get back to what I love. I love operations. I love acquisitions. I've always hated construction, but it seemed to be one of those things where those are the best opportunities at the time we started doing these deals and interest rates were so cheap. Most of our interest rates are locked for a pretty fair amount of time. We've got plenty of time to figure it all out and move forward. Like I said, just keep doing what we do. Buy back stock, buy more clubs. Figure out what to do with Bombshells, and launch the new website. We've got plenty coming up in the next six months.

**Q:** That's it from me. Thank you.

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

Yes, thanks.

**Mark Moran - CEO, Equity Animal**

Fantastic. Thanks so much, Adam. We appreciate it. Next up, and for our last questionnaire, we'll have Value Hunter. Can you please come up?

**Q:** Yes, hi guys. Thank you so much for taking my questions. So just follow-up again on the buyback. Using the numbers that Adam was saying, so let's call it \$340-\$350 million in top line, which used to get us a \$60-\$75 million yearly free cash flow. I just think buybacks really haven't been that strong, given where the share price is. I understand all the costs related with construction and everything. But any way to think about either or anything that we could do to increase it? That's it. Thank you.

**Eric Langan – President and CEO, RCI Hospitality Holdings, Inc.**

When it comes to our own stock, we've been bottom feeders. I'll be honest about it. Yes, we probably buy higher than we've been buying. I think we had a high of \$57.25 as a buy price for our buyback. We bought slowly. The stock held up actually pretty well. I was trying to close this

loan earlier in case the stock dips below \$50. We'd like to buy the remaining shares to get us under 9 million shares outstanding again. If the stock dips that low, we'll be pretty heavy buyers, I think, if it goes under \$50 to buy back at least a couple of hundred thousand shares that we still need to buy.

I think once this loan closes, we're somewhere between \$42 million and \$45 million in cash. Lubbock is switching to a bank loan. Rowlett is already on the bank loan. We've got some money to put out in Denver and Central City. We don't really have the huge amounts of cash that were going out. I think we were going probably around \$2.5-\$3 million a month in cash going out for construction with everything we had going on.

Come June, it will definitely come down considerably because these Bombshells will hopefully all be operating. So that will make a big difference. The only thing we have left is the casino. The construction is supposed to be done on June 30 on the Rick's property in Central City. We've got that cash going out. We just had huge outlays for the air conditioning and other construction stuff out there, electricians, all that.

Most of those outlays are out. I think there's a couple of million out there, \$1 million in Denver Downtown, \$3 million on the other deal. So maybe another \$6 million or so. That's going to really free up our cash flow, whether we want to buy back stock or make acquisitions. We have plenty of cash on hand. We'll have all the money we need to do the acquisition that we've currently got planned and all the rest of the construction without touching any future cash flows.

We could pile all future cash flows in the stock buyback if that became necessary. That's really what I've been trying to line ourselves up with. I really appreciate our shareholders' patience with us on Bombshells. I know everybody is not extremely happy about the way it's gone. I'm not extremely happy with it myself, but we are making the changes. We are seeing the results of those changes. Hopefully the next quarter will tell a different tale than the last two have for us.

**Q:** Eric, just a quick follow up. Can you comment a little bit more on the changes? Like what are they? Like are you focusing more on liquor now versus food? Are you making it more of a rowdier place, timing or music, what is it?

**Eric Langan – President and CEO, RCI Hospitality Holdings, Inc.**

It's a little bit of everything. I think what really happened is the team we had there in February, they got complacent. It had been so easy for them for two years. I was busy with Colorado with the construction. Ed's been busy with the new acquisition and getting those clubs up and running, that we just left them on autopilot, and they weren't ready to be self-driving yet.

We've taken back control around mid-February. We made some pretty significant changes in the last two weeks of February. We've been watching those changes and pushing that through April. We're having another meeting next Thursday in Houston. Ed's coming to town. I'm going to be here. We're bringing in all of the regionals and GMs. We're going to have a "Come to Jesus" talk and probably make a few more changes from things that just aren't getting the way we want them

right now. We'll push through that and hopefully have a very good report for you on May 9 and definitely have the revenue numbers in early July.

That's the plan. We're going to stick with it. We're going to keep pushing. We've got to get this construction done. We've got to get these locations open and get back to acquisitions. We've been looking at a lot of acquisitions right now over the last six weeks. Hopefully, we'll see a few more.

**Mark Moran - CEO, Equity Animal**

Thank you so much, Value Hunter. I wanted to thank Eric, Bradley, everyone who came up and asked questions. On behalf of ourselves, 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 great time.