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RCI Hospitality Holdings, Inc. (RICK) Q1 2025 Earnings Call Transcript

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RCI Hospitality Holdings, Inc. (NASDAQ:[RICK](#)) Q1 2025 Earnings Conference Call February 10, 2025 4:30 PM ET

Company Participants

Mark Moran - Equity Animal

Eric Langan - President & CEO

Bradley Chhay - CFO

Conference Call Participants

Scott Buck - H.C. Wainwright

Mark Moran

Greetings, and welcome to RCI Hospitality Holdings First Quarter 2025 Earnings Call. You can find the company's presentation on RCI's website. Go to the Investor Relations section, and all the links will be at the top of the page.

Please turn with me to Slide 2 of our presentation. I'm Mark Moran, CEO of Equity Animal; I'll be the host of our call today. I'm coming to you from Denver, Colorado. Eric Langan, President and CEO of RCI Hospitality; and CFO, Bradley Chhay are in Houston.

Please turn with me to Slide 3. RCI is making this call exclusively on X Spaces. [Operator Instructions] 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 with me 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.

Please turn with me to Slide 5. I also direct you to the explanation of RICKS' non-GAAP financial measures.

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

Eric Langan

Thanks, Mark. If everyone will please turn to Slide 6. Thank you for joining us today. Let me run through some key takeaways. All comparisons are year-over-year unless otherwise noted. In our Nightclub segment, we generated increase in total sales and same-store sales. While GAAP and non-GAAP operating profits were approximately level with the year ago quarter.

In our Bombshells segment, total sales declined as expected with the sale closure of underperforming locations, but GAAP and non-GAAP operating profit and margins both improved. On a consolidated basis, net cash provided by operating activities and free cash flow nearly matched year ago levels, and we continue to make notable progress with our back to the basics five year capital allocation plan.

During the first quarter, we sold or closed four underperforming locations in the Bombshells segment for a total of five since September of 2024. We also repurchased 66,000 shares for \$3.2 million and as of 12/31, we had 8,989,000 (ph) shares of common stock outstanding. In January, we acquired the Flight Club, a premier gentleman's club in the Detroit market. Purchase price was \$8 million for the club and \$3 million for the real estate. We estimate the club to generate about \$2 million in annually adjusted EBITDA.

We also opened the Bombshells in Denver and as part of the effort to improve Bombshells, we have changed leadership and Rafael Pedraza is now promoted to our Director of Operations from Assistant Director of Operations.

Now here's Bradley to review our performance in more details.

Bradley Chhay

Thank you, Eric. Please turn to Slide 7. All comparisons are year-over-year unless otherwise noted. Fourth quarter sales totaled \$71.5 million, that largely reflects the sale and closure of the non-performing locations in the Bombshells segment, partially offset by the increased sales in the Nightclub segment. Other gains totaled \$2.2 million.

Net income attributed to RCIHH common shareholders was \$9.0 million. EPS was \$1.01 GAAP and \$0.80 non-GAAP. Net cash provided by operating activities was \$13.3 million, free cash flow was \$12.1... [Technical Difficulty]

Eric Langan

Bradley, we lost you there after the \$12.1 million, I think.

Bradley Chhay

Sorry. And adjusted EBITDA was \$15.7 million. Let me read that line over, sorry for the cut-off. Net cash provided by operating activities was \$13.3 million. Free cash flow was \$12.1 million and adjusted EBITDA was \$15.7 million.

Please turn to Slide 8. Nightclubs revenues increased \$0.7 million or 1.1%. The key factors driving the first quarter revenues included a 3.7% increase in same-store sales and the addition of three new or reformatted clubs. This was partially offset by the absence of Baby Dolls Fort Worth. Food, merchandise and others increased 8.6%, alcoholic beverages 3% while service declined 3.7%.

Other net gains totaled \$0.8 million versus virtually nil from a year ago quarter. The first quarter 2025 amount included a \$1 million in additional cash proceeds from Baby Dolls Fort Worth insurance. Operating income was \$20.9 million compared to \$20.4 million. Margin was 33.8% of revenues versus 33.4%. Non-GAAP operating income was \$20.6 million compared to \$21 million, and non-GAAP margin was 33.4% of segment revenues versus 34.3%.

Please turn to Slide 9. Bombshells revenues declined \$3.1 million or 24.7% due to the selling closure of five underperforming locations and a 7.5% decline in same-store sales. This was partially offset by a full quarter of the Stafford, Texas location, which opened in mid-November 2023. Other net gains totaled \$1.3 million virtually -- versus virtually nil from a year ago quarter.

The first quarter 2025 amount reflected a gain for the Bombshells that was sold. Operating income increased \$1.9 million with a margin of 20.6% of segment revenues versus 0.7%. Non-GAAP operating income increased \$0.5 million with a margin of 6.7% of segment revenues versus 1.2%. During the first quarter, there were no weather reclosures for Nightclubs and Bombshells. To-date, however, in the second quarter, we've had 14 days for Nightclubs and seven days for Bombshells.

Please turn to Slide 10. Corporate expenses increased \$1.7 million on a GAAP and non-GAAP basis. This was due to the establishment of insurance reserve.

Please turn to Slide 11. We have some slides upcoming that discuss the free cash flow and adjusted EBITDA, which are non-GAAP. In advance of that, we wanted to present the closest GAAP equivalents on this slide, which are operating income, net cash provided by operations, and net income.

Please turn to Slide 12. We ended the first quarter with cash and cash equivalents of \$34.7 million. During the quarter, we used \$3.2 million to buy back shares. As a percentage of revenues, free cash flow was 17% and adjusted EBITDA was 22%. Free cash flow was slightly lower than a year ago quarter because maintenance CapEx was almost 30% higher.

Please turn to Slide 13. The debt at December 31 declined \$2.7 million from September 30, reflecting scheduled paydowns. The weighted average interest rate was 6.65% compared to 6.61% in a year ago quarter. Total occupancy costs were 8% versus 8.2% a year ago. Debt to trailing 12 month adjusted EBITDA was 3.32 times compared to 3.28 times in the preceding quarter. This metric will decline as sales growth from locations that have come online more recently and from those anticipated to open. Debt maturities also continue to remain reasonable and manageable.

Now here's Eric.

Eric Langan

Thank you, Bradley, and please turn to Slide 14. For those of you new to the company, let me review our capital allocation strategy. Under our plan, we will allocate 40% to club acquisitions. We will allocate 60% to share buybacks, dividends and debt repayment. The goal is to grow free cash flow per share by 10% to 15% on an average annual basis.

If you please turn to Slide 15. Operationally, this means focusing on our core Nightclub business. Currently, we are evaluating every club in our portfolio. The goal is to increase same-store sales on a regular basis. Our Nightclubs plan also involves acquisitions. Our goal is to acquire an average of \$6 million of adjusted EBITDA a year, focusing on the best clubs, buying base hits with occasional home runs.

Our target metrics remain the same 3 times to 5 times adjusted EBITDA for the club business and fair market for the real estate, targeting 100% cash-on-cash returns in three to five years. Purchases would be made with cash on hand, bank financing and seller notes.

For Bombshells, our plan calls for improving the performance of existing locations. Our near-term target is 15% operating margins and return to same-store sales growth. Our plan also calls for finishing two other locations currently in development in Lubbock and Rowlett, Texas. For the final part of our plan, we anticipate continuing to implement a program for regular buybacks. We also anticipate small dividend increases annually.

Altogether, we expect to generate more than \$250 million in free cash over the next five years and buy back a significant amount of stock. And given where our share prices are -- given where our shares are trading, and our view of what the business can do, we believe this is a great use of our capital.

Our fiscal '29 targets are calling for hitting \$400 million in revenues, \$75 million in free cash flow and reducing share count to 7.5 million shares. This would result in a doubling of free cash flow from fiscal '24 to approximately \$10 a share in '29.

Please turn to Slide 16. With Bombshells Denver now open, we have six remaining developments. Chicas Locas, El Paso is finished and reopening as planned from March 1. The interior construction at Bombshells Lubbock is underway, and we are targeting a mid-March opening.

Completing final finish asset Rick's Cabaret, Central City and we are targeting an April opening. Framing and stucco are underway at Bombshells' Rowlett, and we are targeting a May open. I would like to note that both Lubbock and Rowlett construction are being financed through bank loans.

We are still awaiting construction permits for Baby Dolls Fort Worth West, and we are awaiting engineering view of our plans for their original Baby Dolls to be rebuilt. Thanks to our -- at this point, I'd like to thank all of our loyal and dedicated teams for all their hard work and effort and for all our shareholders who believe and make our success profitable -- possible, here is Mark.

Question-and-Answer Session

A - Mark Moran

Thank you very much, Eric and Bradley. [Operator Instructions]. To start things off, we'd like to take questions from Rick's analyst, Scott Buck of H.C. Wainwright. And then some of our larger shareholders. Scott, please take it away.

Scott Buck

Hey. Good afternoon, guys. Thanks for taking my questions. Bradley, I want to ask about the \$1.7 million to establish the self-insurance reserve, that is non-cash or is that a cash expense? And should we think of that as one-time in nature?

Eric Langan

Yeah, I can answer that Scott. It is a one-time. I think it's a one-time, it was kind of a catch-up deal since we decided to self-insure starting in October due to the outrageous cost of insurance and until we get our captive set up or in the process of setting that up. So once the captive set up, we will see how that all plays out. But right now, we have to follow the GAAP rules on accounting for this insurance potential liability. Of course, it's just going to non-cash flow goes into a reserve account and the balance just sits there. And then, if we get claims or have to pay defense cost, they will be for this time period, it will come out of those reserves.

Scott Buck

Okay. And you guys did not add that back into your adjusted EBITDA number, right? So I think that adjusted EBITDA is a little north of \$17 million?

Eric Langan

Yes, we did not add that back in. The rules don't allow for that.

Scott Buck

Okay. No, I appreciate that. And Eric, the club you acquired in Detroit, can you tell whether or not there's any opportunity there to maybe improve the EBITDA margins there? I know you said \$2 million this year, but I'm curious if that could move a little higher over time?

Eric Langan

I mean, it could -- it's too early to tell. I mean we've only had it for a few weeks. I don't know if you're familiar with the Detroit weather and how it's been for the last few weeks. But we've got Old Man Winter has given us a very, very cold welcoming into Detroit with extremely cold temperatures and lots of snow. So it's just -- it's really hard to tell. But yeah, I mean, we believe that we will definitely, build to do much better as we get rolling in that market and get out of this unseasonably cold weather.

Scott Buck

Great. I appreciate that. And then, on the Bombshells that closed, are there any residual cash outlays that you guys are responsible for on those -- was it five locations that you shut down?

Eric Langan

Not at this point. We do have a landlord that's suing us, but we believe that our defenses will be fine there. The parent company did not guarantee the lease in any form or fashion and they're trying to tie the parent company in, but we don't believe that's going to be feasible for them to do on their Texas law -- contract law.

Also, I want to make sure you understand that the \$1.7 million insurance reserve [Technical Difficulty] is the access insurance that we put on corporate. We provided to the corporate -- the actual number for reserve is \$4.1 million, and it was basically divided by segment based on previous year's insurance and a prorated share of the access. The \$1.7 is basically what we call a makeup, it's kind of a makeup deal for how they do these actuarial tables, it's in same math. I mean I've studied and I kind of get it, but it's extremely complicated. I call it trigonometry.

I mean it was pretty insane as we were trying to go through all this and figure out do it because we've never -- we've never guessed our insurance costs in the past. We've always had it, but this is kind of a guess of a -- in a worst case scenario, what would our maximum liability for the quarter be? Is how we had to kind of look at this. And we had to take all these historic deals and take best quarters and worst quarters over a five year period, combine it all in together and really, like I said, it became very complicated, but this is what the people that do these actuarials came up with and so that's how we looked at.

Scott Buck

I appreciate the clarification there. And then last one for me. If you could just kind of speak broadly to the operating environment, especially, on the club side, what you're seeing and what is kind of in-store here for the first part of 2025?

Eric Langan

Sure. If you look at the December quarter, we saw our two largest contributors were actually down a little. And a lot of our midsize clubs were up. So I think we'll -- I don't understand that other than that we've really gotten very good at going from quantity or quality of customer to quantity of customers who are putting -- trying to really push more people through the door.

Some of our VIP spend is back, but obviously sales service revenues declined 3.7% on year-over-year. So it's not where we'd like it, but we were able to make some cost or some pricing changes and make up some of that in fluid merchandise and other revenue sources by increasing that to 8.6% and raising overall club -- Nightclub revenues 3.7%.

So I'm very confident that we have the pricing power that we need if we do need to increase prices to keep our margins in line and keep our same-store sales growth that's close to 3% as possible, which is our goal as part of our five year plan over the next five years, keep that same-store sales growth steady at 3% as we can, as well as increasing with new acquisitions and this monitoring and controlling costs.

If you look right now, we have about somewhere between \$23 million and \$28 million in non-income producing assets that we're going to start trying to lease or sale or somehow make those assets produce income for us or give us our cash back so that we can take it and put in other places. So that's going to be a big component of I think the next nine months, 12 months, trying to get those properties faced as well.

I think we're in early -- if you go back and look when we originally adopted the capital (ph) allocation strategy in 2015, I think we're in early 2017 where we've divested some properties. We have a couple of clubs that we are looking to already sell as part of that \$23 million to \$28 million in assets as long -- as well as other -- just plain raw properties that we bought in the past. So we'll keep pushing on that, working on that, and that will play into our factors of getting to our growth rates as we get into 2026.

Scott Buck

Great. I appreciate the time guys. Thank you very much.

Eric Langan

Yeah. Thank you.

Mark Moran

Thanks so much for the questions, Scott. Next up, we have Orchid (ph) Wealth. Please take it away.

Unidentified Participant

Hey, guys. I see that we have 56 clubs right now. Does Detroit make it 57?

Eric Langan

I believe so, but I don't know if we're counting, I'll pass it on to 56 or not.

Unidentified Participant

Okay. And then...

Eric Langan

So we might have 50 -- it might be 58. We'll now pass opens on March 1. I get a better understanding of that. The problem you got somebody close, I can't keep trying them. So I actually have to go to the accounting. Obviously, I'll be exactly how many clubs are open and made money to start generated revenue this quarter. So I think those are revenue generating.

Unidentified Participant

Okay. And then with El Paso reopening, what are you thinking about like sales from these locations? You've got seven clubs -- four clubs and three Bombshells that are going to come online, non-including Detroit, what are you thinking that, that total sales would be once all of those are incorporated on to the existing number?

Eric Langan

I don't know. We've reformatted El Paso. I know the old El Paso club used to generate about \$600,000 EBITDA. I'm hoping with the new format and upgrades in the liquor that we can actually generate more income than that, but I just don't know at this point. We don't have the liquor license there yet, do we? No El Paso doesn't have liquor yet. I'm sorry, that's [indiscernible]. So we don't have liquor yet, but we're trying to get the liquor license there. So probably very similar numbers to what we're doing before around \$600,000 EBITDA of El Paso.

Unidentified Participant

Obviously, we don't know anything about Central City because that's brand new. But...

Eric Langan

Yeah, that will be brand new. But I mean, I think -- I'm hoping it's \$1 million to \$2 million EBITDA a year out there. I think that will be deal, we will -- there's a lot of moving factors in that when let's get it open and then whether we open all, whether we open the whole club, whether we open four days a week or seven days a week. There's a lot of factors going to move that one at this point until summer. I have a really good idea on the August call, where that location.

Unidentified Participant

And then the Baby Doll Fort Worth?

Eric Langan

We're shooting for October 1 to try to get our -- around the 1st of October to complete that construction and get open on the west side. And then we're shooting for January on the location where we had the fire at. But both of those are up in the air still because we're still implementing. So I know once we get the permits, we can build them in about six months, but we've got to get the permits in place and get everything rolling on both of those.

Unidentified Participant

Just then just to go back because obviously, the rebuild because of the fire, how much was that contributing before the fire, because obviously, if you get it back online.

Eric Langan

We had about \$4 million in revenues and margins were -- it's probably about \$1.5 million would be my guess, about 35% margins on \$4 million to that location. Now the good news is we didn't lose all of that because a lot of that customer base went to the club that we own across the street. We have kind of reformatted the club across the street. So we've been able to recoup. I haven't looked, but I'm going to guess we recouped about 40% of that. So we really only lost about \$1 million, not \$1.5 million, so a third of it we recoup, so we're probably up about \$0.5 million at the other locations, we probably lost about \$1 million location.

The big hit for us, of course, was the late night change in Dallas that made us reform at XTC Cabaret, that's been the biggest hit. If you look at -- if you look at all the numbers, if we still have XTC, we will in way, way better condition than we are right now, our shape right now, as far as EBITDA, free cash flow, everything would be up probably between \$2 million, \$2.5 million on EBITDA and \$1 million plus on free cash flow.

Unidentified Participant

So the way it's looking right now is we've got about 60 locations right now. And with all said and done a year from now, we're looking at another 70 -- another -- trying to say how many more -- we have seven more, so 67 clubs?

Eric Langan

Six more.

Unidentified Participant

Six more?

Eric Langan

Yeah, Denver plus six. Denver is open now. So Denver was not open in this quarter, but it is open, it opened in January. So we'll be open in this quarter.

Unidentified Participant

On any buys or things you're still working on? Obviously, we [Multiple Speakers].

Eric Langan

We have clubs out there that we're looking at lots of opportunities. You'll see that we actually adjusted the capital allocation strategy from a 50-50 with debt-debt and acquisitions on one side and stock buybacks and dividends on the other, we move the debt to the stock buyback and dividend side and raise that to 60%, which basically works out about \$13 million and stock buyback \$2.5 million and dividends \$15.5 million or \$14.8 million in debt reduction or debt payoff and leaving us close to \$25 million in cash -- on the other side of that -- I'm sorry, \$20 million in cash on the other side of that equation to go to the cash portion of acquisitions.

Unidentified Participant

Okay. But I'm assuming if some comes along this better so make an exception?

Eric Langan

I mean, we'll always follow a strategic rationale should want to rise. But for the next five years, our plan will be -- in any strategic rationale that I think we do as far as I can see in the foreseeable future will relate directly to allocation of the capital -- for the capital allocation strategy in other words we would change percentages here, we buy less stock because we have better acquisition or the stock price gets really, really cheap and we do best acquisition cash and much more stock buyback.

I think those are the -- I think those are the only two real first that we're going to be juggling any kind of money around it. I don't have any intentions of building anything new at this point, I'm not even looking. People call me all the time like, no, we're not building anything. Would you be interested on this? Is it open? Is it raking money? No? Okay. No, I would probably not be interested.

I just don't think we're going to take any -- we are very risk off until all of this construction is done, all of our stuff is open and we really tightened our capital strategy to the max, all of our expenses, all of our non-income producing assets need to be -- basically get all the ducks in a row before we go out and say, okay, maybe we'll -- maybe we can risk building a club over here or buying this club and re-concepting it or something if we think we have a really good concept that can go into a license that's not producing.

But until this time, I don't think we -- for at least the next nine months -- the rest of this fiscal year '25, I think we stick correctly with the plan. We have enough on our plate, we don't need to add anything else. What we need to do now is just button up all the hatches and make everything perfect.

Unidentified Participant

And then, on the last point the idea being is over the course of the year, you got \$23 million to \$28 million worth of non-performing assets that you'll be repositioning that could be used for any of these other items we discussed.

Eric Langan

Absolutely. I was just going to -- I mean, obviously, it will become capital and go into our cash, and then we'll allocate it accordingly.

Unidentified Participant

All right. Thanks, guys.

Mark Moran

Fantastic. Thank you so much for that. Next up, we have D&D Realty. Please take it away.

Unidentified Participant

Hi. Thank you for having me on and taking my question. So you just mentioned that you're looking at selling some clubs. How many of those clubs -- I guess I have two questions. One is, how many clubs are you currently looking to divest? And then the second question is, you guys have, I guess, now 88 properties that you own. What is your feeling, have you done an analysis on how much your real estate is actually worth? I know your property and equipment, you carried at about \$280 million. But what do you think the fair market value is for all real estate? Thanks.

Eric Langan

I think you're incurring property and equipment in the \$280 million.

Unidentified Participant

Yeah. But, I'm just wondering what...

Eric Langan

So there's a lot of that is equipment and not necessarily real estate. I think our real estate -- I just don't know really. I mean, praises values have been all over the place. We haven't really had appraisals. I think the last appraisal that we got were in 2021 on a few projects that we put into the new refi. The original refi was done in '17, I think. So we haven't done any -- we haven't done any new appraisal on those properties. If I had to guess, real estate is probably in the \$250 million to \$280 million range just real estate without all the equipment and everything else. But it's just hard to tell because I just haven't laid it all out.

Unidentified Participant

And then how many -- sorry, and then how many clubs are you looking at [indiscernible] also?

Eric Langan

Just it's -- there are two clubs that are both in the same area. So it's just a market we want to get out of and we've got with a broker who's got -- who sells adult clubs who's meeting with people and are keeping it pretty on the down low as far as they're for sale. So it's kind of only -- we're not going to publicly advertise all these clubs or for sale. We will sell them through a broker who has a lot of contacts with people already in the adult entertainment business who are looking at those two locations with us right now.

Unidentified Participant

Thanks.

Mark Moran

Fantastic. Thank you for that question. On behalf of Eric, Bradley and the company as well as our subsidiaries, thank you, and good night. Please visit one of our clubs or restaurants to celebrate Valentine's Day, Saint Patrick's Day or to just want to you have fun and have a great time. Take care and have a good one.

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