RCI Hospitality Holdings, Inc. (RICK) Q1 2026 Earnings Call Transcript

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RCI Hospitality Holdings, Inc. (RICK) Q1 2026 Earnings Call May 7, 2026 4:30 PM EDT

Company Participants

Bradley Chhay
Travis Reese - Interim President, CEO, Secretary & Chairman
Albert Molina - Interim Chief Financial Officer

Conference Call Participants

Jason Scheurer
Jose Carlos
Maxwell Ellis

Presentation

Bradley Chhay

Greetings, and welcome to RCI Hospitality Holdings First Quarter Conference Call. My name is Bradley Chhay. You can find the company's presentation on RCI's website. Go to the Investor Relations section. All the links are on the top of the page.

Please turn to Slide 2 of our presentation. Our speakers today are Travis Reese, Interim President and CEO; and Albert Molina, Interim CFO.

Please turn to Slide 3. RCI is making this call exclusively on X Spaces. [Operator Instructions] This conference is being recorded.

Now please turn to Page 4. I want to remind everyone 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 to Page 5. I also direct you to the explanation of RICK's non-GAAP financial measures. Now I'm pleased to introduce Travis Reese, Interim President and CEO.

Travis Reese
Interim President, CEO, Secretary & Chairman

Thanks, Brad, and thanks, everyone, for joining us. Please turn to Slide 6. I'm pleased to report we filed our 10-Q today and announced our results for the first quarter ended December 31. All comparisons are year-over-year unless otherwise noted.

Nightclubs revenues were stable. Contributions from newer venues offset the same-store performance and the closure of underperforming locations. Of note, higher-margin club service revenues increased 6.7% year-over-year. This was despite consumer uncertainty as a result of the U.S. government shutdown in October and November. Similarly, newer Bombshells offset most of the segment same-store sales decline, with most of the delta in total sales due to the year ago divestiture or closure of 5 underperforming locations. The decline in net income primarily reflects pretax operating and nonoperating items, most of which were noncash. We had $10.1 million in net charges in the first quarter and $3.2 million in net gains a year ago.

We also continue to move ahead with our Back to Basics 5-year Capital Allocation Plan. We've made some initial progress improving Nightclub sales and margins, and our concept to revitalize the Bombshells in Houston is working well. Year-to-date, we bought back more than 1 million shares.

Now here's Albert to review our performance in more detail.

Albert Molina
Interim Chief Financial Officer

Thank you, Travis. Turning to Slide 7. I'll start with a review of our consolidated results. All comparisons are year-over-year for the quarter, unless otherwise noted.

Total revenues were $70.8 million compared to $71.5 million. The difference of $0.7 million primarily reflected 5 fewer Bombshells-related locations, partially offset by new Nightclub locations. Pretax income decreased by $14 million. Most of that can be attributed to impairments amounting to $1.2 million this quarter versus none last year, combined gain on sale of businesses and assets and gain on insurance last year amounting to $2.4 million. The first quarter also included a nonoperating charge of $9.9 million compared to a nonoperating gain of $1 million last year.

GAAP loss per share was $0.57 compared to earnings of $1.01. Non-GAAP, it was a profit of $0.74 per share compared to $0.8. Net cash provided by operating activities was $7.8 million compared to $13.3 million. This was largely due to the actual payment of bills from calendar year-end such as legal fees, increased fees related to delayed filings and insurance costs. As a result, free cash flow was $6.7 million compared to $12.1 million. Adjusted EBITDA was level at $15.7 million.

Moving to Slide 8. I will now cover our results by segment, beginning with Nightclub. All comparisons are again year-over-year for the quarter, unless otherwise noted. Revenues totaled $62.3 million, up $0.6 million. This reflected $4.9 million of 5 newly acquired and reopened clubs, $56.9 million from 52 same-store clubs and contributions from two small Texas clubs closed during the quarter.

By revenue side, service increased by 6.7%, food and merchandise increased by 1.8% and LBW declined by 4.6%. I'd like to point out that some clubs stood out such as Baby Dolls Abilene, PT Showclub Indianapolis, Rick's Cabaret in Minneapolis, Hoops Sports Bar and Cabaret in New York City and Jaguars Club in Phoenix.

Other net charges totaled $181,000 compared to gains of $822,000. Operating income was $18.7 million compared to $20.9 million Margin was 30% of segment revenues versus 33.8%. Non-GAAP operating income, which excludes other net charges and gains, was $19.5 million compared to $20.6 million, margin was 31.3% of segment revenue versus 33.4%.

On Slide 9 are the results for Bombshells segment. Revenues totaled $8.4 million, a decrease of $1.2 million. This reflected $1.8 million from 2 newly opened locations, $6.6 million from 9 same-store locations and the absence of $1.2 million in the year-ago quarter from underperforming locations that were divested or closed. There were no meaningful net charges in the first quarter compared to the year ago quarter, which included gains of $1.3 million. There was an operating loss of $139,000 versus income of $1.9 million. On a non-GAAP basis, which excludes impairment and gains, there was an operating loss of $110,000 versus income of $616,000.

Moving to Slide 10, you will see a summary of our Corporate expenses. Expenses totaled $7.4 million compared to $8.8 million or 10.4% of total revenues compared to 12.3%. Most of the year-over-year change reflected lower insurance costs, partially offset by higher accounting and professional fees in the current year due to the delayed filing of our annual report and year-end audit. Non-GAAP expenses totaled $7 million compared to $8.4 million or 9.9% of total revenues compared to 11.8%.

Please turn to Slide 11. We have slides coming up to discuss free cash flow and adjusted EBITDA, which are non-GAAP. In advance of that, we want to present the closest GAAP equivalent, which are operating income, net cash provided by operations and net income.

Slide 12, please. We ended the quarter with cash and cash equivalents of $28.6 million, down $5.1 million from September 30. During the quarter, we used $9.8 million to buy back shares. Free cash flow was $6.7 million or 9% of revenues. Adjusted EBITDA was $15.7 million and returned to 22% of revenues from the 10% level of Q4 of 2025 when we had the $9 million legal accrual.

Turn to Slide 13. Debt increased $20.6 million from September 30, primarily reflecting $22 million in seller financing from the ADW transaction, partially offset by debt paydown. As a result, the weighted average interest rate was 7.16% compared to 6.65% in the year-ago quarter, and total occupancy cost was 8.5% of revenues compared to 8%. Debt to trailing 12-month adjusted EBITDA was 4.86, reflecting the ADW debt combined with the fourth quarter legal accrual. If we take out the fourth quarter legal accrual, debt to EBITDA is 4.16x. Debt maturities continue to remain reasonable and manageable, particularly with our plans to sell non-income-producing properties.

Now back to Travis.

Travis Reese

Interim President, CEO, Secretary & Chairman

Thanks, Albert. Please turn to Slides 14 and 15 to review our capital allocation strategy and 5-year plan. Our plan remains the same. We allocate approximately 40% of free cash flow to club acquisitions and 60% to debt reduction and dividends. Our goal is to grow free cash flow per share by 10% to 15% annually.

Operationally, we're focusing on our core Nightclub business. We review every club regularly to increase same-store sales. Underperformers will be rebranded, reformatted or divested. We're currently generating about 70% of our income from 20% of our clubs. So there's significant opportunity to optimize our portfolio. Divesting underperformers will help us increase margins, and we can use sale proceeds to repurchase stock, acquire higher-quality locations or reduce debt. Our goal is to add an average of about $6 million of adjusted EBITDA each year through acquisitions. We want to target strong clubs with an occasional strong group of clubs.

Acquisition target metrics remain 3 to 5x adjusted EBITDA for clubs, fair market value for real estate and 100% cash-on-cash return in 3 to 5 years. Purchases may use bank financing, cash or seller notes. We may also use stock when our valuation improves. For Bombshells, we aim to improve existing locations, target 15% operating margins and return to same-store sales growth. We plan to finish the one location still under development. We'd like to sell the chain as a whole, but the market is it right at the moment.

Finally, we'll continue buying back stock, flexing up when prices look undervalued and increasing dividends modestly. Over the 5 years, we plan to generate more than $250 million of free cash flow and repurchase a significant quantity of shares. By fiscal '29 year-end, our targets are $400 million in revenue, $75 million in free cash flow and 7.5 million shares outstanding. This would double free cash flow per share to about $10 versus fiscal '24.

Please turn to Slide 16 for an update on our progress. We've made some initial progress improving Nightclubs and sales margins. Total sales picked up from 1Q '26 to 2Q '26 with sequential improvement in same-store sales. We're also working to optimize newly acquired and opened locations in order to expand margins. As we discussed on our last call, we've gone back to Bombshells roots at a test location, focusing on being a great sports bar with great food. The goal is to drive higher-margin alcohol sales.

First successful implementation was at Bombshells 59 in Houston. Sales increased 3.6% in the second quarter, making it the best-performing same-store location. We've begun rolling out the concept to other locations. As Albert mentioned, First quarter free cash flow was negatively impacted by paying off year-end legal fees, increased fees related to delayed filings and insurance costs. To help improve cash flow, we're working to drive down SG&A expenses.

Regarding share buybacks, since we began our 5-year plan in the first quarter of 2025, we've reduced shares outstanding by 14.6%. Earlier this month, we increased the amount available under the repurchase program by $20 million. As we discussed last month, we're also in the process of marketing $31.7 million in small clubs and real estate, which have associated debt of about $16.2 million collectively. Converting this to cash and reducing debt will significantly improve our capitalization.

I'd like to thank all of our loyal and dedicated team members for all their hard work and efforts and all of our shareholders who believe and make our success possible.

And back to Bradley.

Question-and-Answer Session

Bradley Chhay

Thank you, Travis and Albert. Eric Langan, RCI's Founder and Head of Mergers and Acquisitions will also be available for the Q&A. [Operator Instructions]Please understand we cannot discuss the legal situation in New York other than to reiterate that the company's statement is that at RCI, the individuals involved and the 3 clubs have pled not guilty all the charges and are taking all necessary actions to defend against themselves.

I'm going to bring up Orchard Wealth.

Jason Scheurer

This is Jason. I just got a couple of quick questions. First one being, with the current expenses behind you, do you think there's any more legal expenses that are going to come up that you haven't set money aside for?

Albert Molina
Interim Chief Financial Officer

I mean, obviously, we never know because it's a fluid situation. But I think we've definitely set aside plenty of money for the next 12 months for sure. The money we set aside was actually over the estimate of what this case would cost from our attorneys when we began. It's going to be a little strange because if you look at this time, our EBITDA was hit by all of these reserves. And as we move forward, we're going to be paying -- with no cash going out. Now we're going to be paying cash out, but our EBITDA should increase. So it's going to be a little strange try to figure out how everything is going.

So I've kind of gone back to just kind of watching our cash, how much cash we have and what are we doing with it. If you look at -- this is actually an old quarter, right? This has ended through December 31. So we ended September quarter with $33.6 million in cash, I believe. We ended this quarter at $28.7 million. We paid $9 million to ADW between the $8 million down payment and $1 million. We bought $1.8 million worth of stock, I believe. We also paid down our line of credit. We paid a massive amount of our AP, as you'll see the reduction of AP and legal, and we're still sitting at that $28 million.

So the cash generation is fantastic from the club side and the Bombshells are actually starting to come back now. I'm hoping that we get this March 31 quarter out as quickly as possible as well. So we'll be back to current. And everyone will have a really good idea of how things are looking for us currently.

Jason Scheurer

Given the unencumbered real estate that you guys are going to be selling off, do you have any estimation that if you sold the entire bulk of it off after paying all the debt and the obligations to ADL, how much you would be left within cash that you could use for buybacks?

Albert Molina
Interim Chief Financial Officer

Well, if you figure we're asking $31 million and say we get a 10% discount, which puts us at about $28 million, take 5% of that, about what's that? $700,000 to pay the fees? No, that's not right. I'm sorry. $1.4 million. So we lose another $1 million or so in fees. They pay off the $16 million in debt. You're left with about $10 million or $11 million. ADW -- we pay 50% of that ADW to get rid of that 12% debt. So we'd be like between $5 million and $5.5 million, maybe $6 million in cash left over. We sold everything.

But what we really do is we eliminate a massive amount of carrying costs in $16 million of interest expense annually, property taxes, utilities, maintenance on these properties, things like that. So that's where the real benefit comes in the long term is to eliminate these properties that aren't producing income for us and bring that capital back in and redeploy that capital by drastically lowering our debt, right? Because the $16 million would go down, the $5 million to ADW. You'd eliminate $21 million worth of debt plus on this transaction.

Jason Scheurer

So you'd be getting a multiplier effect that just every time you pay down $1, you're getting much more than just paying down the amount.

Albert Molina
Interim Chief Financial Officer

Yes, exactly. Because you get rid of the debt and you get rid of the carrying costs for the non-income property, property taxes, insurance, those types of things.

Jason Scheurer

Okay. And then one quick question, this is -- before I go. The accountants made you write down this difference between the agreed to price with ADM (sic) [ADW]. And you had to take a hit on that. But had the stock gone up, you couldn't have claimed that as earnings, right? So it only went one way. You could hit you for $9 million, but if they had gone to $50 a share by the time you closed, you couldn't claim it as a gain. Is that right?

Albert Molina
Interim Chief Financial Officer

Correct. Welcome to GAAP accounting. I mean this is just a GAAP -- it's a GAAP rule. And obviously, the same thing happened to us during COVID, right? Some of the states like New York didn't let us open right away. So we had 12 months where we were massively reduced hours of operation, which reduced our EBITDA, which when they plug into their formula for impairments caused us to impair RICK New York by $8-point-some-odd million or something. We wrote that down to like I think we wrote it down like $6.9 million. RICK's New York made more money than that last year, right?

So this GAAP accounting is -- you guys have heard me call voodoo accounting many times. But we follow the rules, we do what we're supposed to do, and that's how they wanted to book. We booked it that way. We'll just move on. It's noncash. We don't focus on noncash expenses too much. There's no sense in -- we just follow the rules, look it, ride it, move on. We own a lot of our real estate, and we're generating cash, and that's what's important to us in buying back our stock.

Jason Scheurer

Okay. And then one other thing. Since this is filed, you're all caught up with NASDAQ and stuff like that. But the question is, do you think it's going to be much longer before you get the next quarter filed also?

Albert Molina
Interim Chief Financial Officer

I hope not. We are -- we will be current. We will more than likely file the 12b-25 for an extension on March 11, to give us 5 more days, I think it gives us to the 16 or something like that...

Jason Scheurer

May 11.

Albert Molina
Interim Chief Financial Officer

Yes, May 11 to the -- so we get to the 16. So that will make us current until the 16, and then if we can get filed by the 16, great. If we can't, then we will be late again, but at least all the time are started over and we'll be -- and it's a Q. So it will be pretty quick.

Bradley Chhay

Thank you. I'm going to bring up Jose Carlos.

Jose Carlos

Could you hear me, guys?

Albert Molina
Interim Chief Financial Officer

Yes, we can hear you.

Jose Carlos

Just two quick questions. In the last conference call, you said that especially among young people, they are pretty much giving up on alcohol or you have to reduce and you have to create new mocktails and create lower alcohol cocktails. I'm wondering if this is something that you see both in Bombshells and clubs. And what -- how is it -- just to get an idea, how does it affect the margin?

Albert Molina

Interim Chief Financial Officer

I mean I think it's helping revenues in both places. There's still -- the mocktails, of course, are considered a non-alcoholic beverage, so it will go into the non-alcoholic beverage categories. But all of your other stuff will go into alcohol sales exactly the same. So what we hope to do is see a little bit of reduced cost. A lot of those have fruiter drinks or they're canned drinks, which may actually increase our cost a little bit. So -- but I think overall, it will all work out.

And while there's definitely a segment of the population that is cutting back or reducing their alcohol intakes, there's still a very large portion of the population that is out having fun drinking and parting like we always have. So we will continue to monitor it. We'll continue to do what we need to do to stay in front of any changes as best we can and continue to generate cash. But at the end of the day, we'll look at the cash flow and see how that goes. And that's how we'll decide if we're doing things right or not, right?

Bradley Chhay

[Operator Instructions] I'm going to bring up Maxwell next.

Maxwell Ellis

A lot of my questions have already been asked, but I do want to say good to see you guys making progress on same-store sales across both Nightclubs and Bombshells. And the one question I do have is any commentary you can provide on the Seville in Minneapolis?

Albert Molina

Interim Chief Financial Officer

The tenant quit paying rent and as we're in the process of evicting the tenant and hopefully, we'll get a new tenant at some point in the future.

Bradley Chhay

I'm going to make another request for any other questions. If not, I'll close it out in about 10 seconds.

On that note, on behalf of Travis, Albert and Eric, the company and our subsidiaries, thank you, and have a good night. Please visit one of our clubs or sports bars, and have a great time.

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