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Aug. 11, 2025 9:04 PM ET | **RCI Hospitality Holdings, Inc. (RICK) Stock** | RICK

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RCI Hospitality Holdings, Inc. (NASDAQ:[RICK](#)) Q3 2025 Earnings Conference Call
August 11, 2025 4:30 PM ET

Company Participants

Bradley Lim Chhay - Chief Financial Officer
Eric Scott Langan - Chairman, CEO & President

Conference Call Participants

Adam David Wyden - ADW Capital Management LLC
Mark Moran - Unidentified Company

Mark Moran

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

Please turn with me to Slide 2 of our presentation. I'm Mark Moran of Equity Animal, and I'll be the host of our call today. I'm coming to you from Washington, D.C. 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] 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 may occur afterwards.

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

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

Eric Scott Langan

Thank you, Mark. Please turn to Slide 6. Thanks for joining us today. Let me run through some key takeaways. All comparisons are year-over-year unless otherwise noted. Nightclub revenues were nearly level despite economic uncertainty related to tariffs and the tax bill, which affected our customer base. Bombshells revenue reflected the previously announced sale and divestiture of 5 underperformers, but both revenues and margin increased sequentially from the second quarter. Consolidated profitability benefited from the absence of impairment charges partially offset by other factors.

We continue to make solid progress on our back to the basics capital allocation plan. We acquired 2 upscale night clubs, Platinum West in South Carolina and Platinum Plus in Allentown, Pennsylvania. Price multiples were in line with our capital allocation strategy. We opened Rick's Cabaret Steakhouse -- I'm sorry, Rick's Cabaret and Steakhouse in Central City, Colorado. We also purchased more than 75,000 shares of common stock for \$3 million and ended the quarter with approximately 8.76 million shares outstanding. Subsequent to the quarter, we opened a Bombshells location in Lubbock, Texas, which has been doing very well right out of the gate.

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

Bradley Lim Chhay

Thank you, Eric. Turning to Slide 7. I'll start with a review of our third quarter results. All comparisons are year-over-year for our quarter -- for the quarter, unless otherwise noted. Total revenues were \$71.1 million compared to \$76.2 million, a difference of \$5 million. This primarily reflected the sale and divestiture of underperforming Bombshells locations late in fiscal '24 and early fiscal '25.

Impairments and other charges were \$2.3 million compared to \$18.3 million, a difference of approximately \$60 million. Net income attributable to RCIHH common shareholders was \$4.1 million compared to the loss of \$5.2 million, a difference of \$9.3 million, and GAAP EPS was \$0.46 per share compared to a loss of \$0.56 per share.

Net cash provided by operating activities was \$13.8 million compared to \$15.8 million, a difference of \$2 million, and free cash flow was about level at \$13.3 million compared to \$13.8 million. Adjusted EBITDA was \$15.3 million compared to \$20.1 million, and non-GAAP EPS was \$0.77 compared to \$1.35. Most of the year-over-year difference in non-GAAP EPS was due to slightly lower margins in Nightclubs, lower margins in Bombshells, higher noncash expenses related to our self-insurance program with higher taxes.

Now moving on to Slide 8. I will now cover our third quarter results by segment, beginning with Nightclubs. Revenues totaled \$62.3 million, down less than 1% year-over-year. Key factors included a 3.7% decline in same-store sales and the absence of Baby Dolls Fort Worth due to a fire. This was mostly offset by \$2.6 million from newly acquired or rebranded nightclubs. By revenue type, food,

merchandise and other increased 5.1%, service increased 0.3% and alcoholic beverages declined 3.9%. Other net charges totaled \$2.3 million compared to \$7.7 million. In the third quarter of fiscal year '25, this included a mostly noncash lawsuit settlement partially offset by a gain on insurance. In the year ago quarter, this primarily included impairments. There were none in this quarter.

Operating income was \$17.8 million compared to \$13.6 million with the margin at 28.5% of revenues versus 21.7%. Results reflected the decline in other net charges and same-store sales, acquisitions not yet fully optimized and the Central City preopening costs. Non-GAAP operating income, which excludes other net charges, was \$20.7 million compared to \$21.9 million with the margin at 33.2% of segment revenues versus 34.9%. I'd like to point out that while GAAP and non-GAAP operating margin were down year-over-year, they have increased 2 quarters in a row sequentially.

Turning to Slide 9. Here are the results of the Bombshells segment. Revenues totaled \$8.6 million, a difference of \$4.5 million. The key factors here included the sale and divestiture of 5 underperforming locations in the fourth quarter of '24 and the first quarter of '25, which impacted revenues by \$3.8 million and a 13.5% decline in same-store sales. This was partially offset by 2 new locations not in same-store sales.

Other net charges were minimal in the third quarter of '25 versus \$10.3 million in impairments last year. There was an operating income of \$87,000 compared to a loss of \$8.9 million with the margin at 1% of segment revenues versus a negative 68%. Results primarily reflected the decline in impairments, sales from open locations and Lubbock's preopening costs. Now on a non-GAAP basis, which excludes impairments, there was an operating income of \$100,000 compared to \$1.4 million profit with the margin at 1.2% of segment revenues versus 10.8%.

Moving to Slide 10. You will see a summary of our corporate expenses. GAAP expenses totaled \$8.7 million, an increase of \$1.5 million. Non-GAAP was \$8.3 million, an increase of \$1.9 million. As we've explained on previous calls, starting this year, corporate expenses are being affected by an estimated noncash self-insurance actuarial reserve for the quarter. That's why expenses were higher year-over-year in the first quarter, lower in the second and higher in the third.

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

So please turn to Slide 12. We ended the third quarter with cash and cash equivalents of \$29.3 million. During the quarter, we used \$5.25 million as part of our 2 Platinum acquisitions and \$3 million to buy back shares. While they were down year-over-year, I'd like to note that both free cash flow and adjusted EBITDA increased sequentially. As a percentage of revenues, free cash flow margin increased from 11% in the second quarter to 19% in the third and back to where we were 2 years ago in the third quarter of '23, while adjusted EBITDA remained approximately level at 22% for each of the first 3 quarters this fiscal year.

Please turn to Slide 13. Debt at June 30 declined slightly \$201,000 from March 31 quarter. This reflects the scheduled paydowns, new acquisition-related debt and construction financing for Bombshells Rowlett and Bombshells Lubbock. We continue to control the rate paid on our debt with an average weighted interest rate of 6.68% compared to 6.74% in the year ago quarter.

Total occupancy cost was 7.9% of revenues, level with last year, and debt to trailing 12-month adjusted EBITDA was 3.82x compared to 3.56x in the preceding quarter. While debt stayed approximately level because of the recent acquisitions and adjusted EBITDA increased sequentially, adjusted EBITDA for the trailing 12 months declined. As new locations generate revenue and EBITDA, occupancy costs and debt metrics should improve. Debt maturities continue to remain reasonable and manageable.

Now here's Eric.

Eric Scott Langan

Thank you, Bradley. Please turn to Slide 14 to review our capital allocation strategy. Our plan calls for allocating 40% of free cash to club acquisitions and 60% to share buybacks, debt reduction and dividends in order to grow free cash flow per share annually at a 10% to 15% rate.

Please turn to Slide 15. Operationally, we are focused on our core nightclub business, reviewing every club to increase same-store sales on a regular basis, and we will rebrand, reformat or divest underperformers. Our nightclub plan also involves acquisition. Our goal is to acquire an average of about \$6 million of adjusted EBITDA per year focusing on the best clubs, buying base hits with an occasional home run. Our target matrix remain the same: 3 to 5x adjusted EBITDA for the club and fair market value for the real

estate, targeting 100% cash-on-cash returns in 3 to 5 years. Purchases will be made with cash on hand, bank financing or seller notes. We would also consider using stock when our valuation improves.

For Bombshells, we are working to improve performance at existing locations, targeting 15% operating margins and return to same- store sales growth. We also plan to complete the one remaining location currently under development. The final part of our plan is to regularly buy back our stock, flexing up if we consider the price to be particularly undervalued. We also anticipate modest annual dividend increases.

Over the 5 years, we aim to generate more than \$250 million in free cash flow and repurchase a significant amount of shares. By fiscal '29, our targets are \$400 million in revenue, \$75 million in free cash flow and 7.5 million shares outstanding. The end result would be doubling our free cash flow per share to approximately \$10 per share compared to what we did in fiscal '24.

Please turn to Slide 16. To give you an idea of the progress we've made on the share buyback, 10 years ago, we had about 10.3 million shares outstanding. As of last Friday, we have about 8.7 million, which represents a reduction of 15.5%.

Turning to Slide 17. We have only 3 remaining projects. We are targeting Bombshells Rowlett for opening late this summer, early fall. We are also still awaiting construction permits for Baby Dolls West Fort Worth, and we are awaiting engineering view and zoning plans for the Baby Dolls Fort Worth that burned down last year. I would 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. Now here's Mark to open up the question-and-answer section.

Question-and-Answer Session

Mark Moran

Thank you very much, Eric and Bradley. [Operator Instructions] First off, we have Orchard Wealth.

Unidentified Analyst

Can you hear me?

Mark Moran

Yes, we can hear you.

Unidentified Analyst

I just got a question. How much in real estate do you guys have that you think you could be selling off that's nonperforming or just holding in general?

Eric Scott Langan

As we've said in the previous calls, about \$28 million is our estimated value of it. We have some contracts on a couple of pieces. We're in negotiation on a couple more. So I think -- as I've said by the end of this year, I think we'll start -- which will actually be fiscal -- first quarter fiscal '26, I think we'll start seeing some of those closings happen, and I think we'll see more offers if the Fed cuts rates or if the economy picks back up again for commercial real estate.

Unidentified Analyst

And if you were to liquidate all, let's say, \$28 million, how much of that would have to go to just pay back debt? And what do you think you guys would be left over with?

Eric Scott Langan

I'm not sure. The main piece is a piece that we bought for about \$2.150 million in cash and then recharged zoning on it. It's worth somewhere between \$8 million and \$14 million, and we don't really owe anything on it. So that would be a big chunk of cash. The rest of it would be about less than 60% would go to debt as all of our original loans were 60% or 65% of loan to value. And those were based on appraisals from a few years back. So I would say somewhere around 40% to 45% would go to cash and the rest would go to service debt, other than a few pieces that are worth considerably more than what we paid for them. And that probably would be the opposite, 60% to 65% would go to cash and 30% to 35% to debt.

Unidentified Analyst

Okay. And then the thing about the insurance, you guys are now not buying insurance. You're self-insuring. How much should we basically be modeling that you guys are going to be setting aside for this particular self-insurance going forward?

Eric Scott Langan

There's no way for us to really know that number at this point. I can tell you year-to-date, we're at \$9.4 million. It's based on actuarials, and it's based on when we settle claims from the past, when new claims are made. So it's a constantly changing number for us. So at this point, we can't really say what they're going to reserve. And then to me, the real key is when will those reserves come back to us if they're not used because we have to wait through certain statute of limitations and certain other things. So this reserve number could become a very large number over time.

We're in the process of initiating a captive that we would have set prices. We know exactly what we'd be paying for the insurance. And I'm hopeful we can get that operational soon. So then we'll be able to answer those questions because we'll have a policy through a captive that we'll own, but at least we'll know what the fees are on an annual basis.

Unidentified Analyst

Is this one of these things that like it's got a lot of start-up costs in the beginning and then you kind of taper down and then reach a run rate for every quarter?

Eric Scott Langan

Well, we thought that because we had [4.1] in one quarter, then the next quarter was [1.4], but then we just had [3.9] in this last quarter. We cannot figure out the math of it. The problem is the math is ever changing based on claims, based on loss runs with our other insurance companies because they have to take those claims and put them out. And since we're not using insurance companies anymore, they're all setting -- they may change -- we may get a claim and they may put some high reserve on it, which that reserve then affects our reserves going forward. Until that case is actually settled and we know exactly what we pay on it, then they'll revamp in the next quarter, we might not pay anything, right? I mean it's -- I guess that it's -- it's a lot of math, and it's all guesswork. So...

Mark Moran

Next, we have D&D Realty.

Unidentified Analyst

I really want to commend you guys on your pace of acquisitions. I think that, that's a really -- a nice tailwind for the company. And you guys are sticking to plan. So I think that's great. My question -- I kind of -- I have 2, one pertaining to the acquisitions, which is when you guys go out and bid on these assets, who are you competing with? Are there other groups out there that are bidding against you? Are you bidding against yourself? Are you the only real exit capital that exists for a lot of people? I'm just kind of curious around that dynamic.

And then my second question pertains to -- I think in a prior call, you mentioned a potential tailwind from some of the tax policy that would get -- that has now since gotten reworked under the Trump administration. I'm just curious, is -- are you -- early days obviously. Are you seeing an uptick in activity potentially due to that? Or is -- do you still feel that the economy and kind of some of your service charge, which you called out last quarter, is still muted?

Eric Scott Langan

Well, from the acquisition side, I mean, there are lots of competitors for acquisitions in that their own management team -- you've got LBOs, you've got other operators that would like to expand in local markets that they're operating in. I do think we're the acquirer of choice. They know we have cash. They know we can come up with large sums of cash. We've done it multiple times through the last 2 decades. They know if they want to carry paper and create an annuity for themselves or for their family or for their trusts, we have an unbelievable track record and unmatched track record from other operators on making all of our payments on time, even through COVID. So I think those things weigh in.

We don't really bid against anybody or against ourselves. We kind of have a set formula. We ask for their numbers. What we do is we evaluate what we believe is the longevity of that cash flow, whether it's licensing restrictions in the area, how easy competition can open up, whether the license has court protections or grandfathered in. And then we use a 3 to 5x multiple based on what we believe the protection of that license is. And that's how we've always done it. And that's, I think, how we'll continue to do it. It can slow the process sometimes, but it also saves us from making big mistakes. And I think right now, especially in this environment, the most important thing we can do is not make mistakes.

And then your second part, the tax bump. I mean I think that the tax bill just passed. I think companies are starting to realize they've got, I guess, what -- we're in August now. So you got 5 months left. You want to make a major purchase and get it closed by December 31, you better get on it. So I think those transactions are -- I think companies are starting to look at that. I think you're going to start seeing some capital improvements done at some major companies. I know we've been hearing all these manufacturers that -- saying \$600 billion here and \$1 trillion there and \$500 billion here and new plants and whatnot. I don't know if those will all hit this year. They did make the tax cuts permanent, so it's not like they have to rush out and do it by December 31, unless they owe taxes for this year.

But I do believe that as -- we are going to see some of that. Look, our clubs do very well when there's new money or money is really moving. The pace of money has slowed down considerably, right? There are record numbers in money market accounts, a lot of people sitting on the sidelines. Only the top stocks in these indexes are really performing well. So I think there's, like I said, a lot of money sitting on the sidelines. As that new money starts moving into things as we move forward, I think that will be a considerable bonus for our company.

As far as -- liquor sales were down 3.9%, but our service revenues were actually up just a little bit over last year. So I would say service revenues are coming back a little bit. We'll see what happens as we move through these next 2 quarters. Hopefully, we'll continue to see the service revenues increase. They are our highest margin revenues for sure.

Mark Moran

Next up, we have Adam Wyden. [Operator Instructions]

Adam David Wyden

This is for Bradley. So on the insurance reserves, you guys have \$9 million year-to-date, and I guess you'll have some on the fourth quarter. But you're not paying for insurance anymore. So the question I have is, at some point, I know it's going to normalize. I mean can you sort of quantify how -- I mean, because it's obviously noncash. You're taking this charge, but the cash is sitting in your -- on your balance sheet. It's in treasuries or somewhere. I don't know if it's -- but like how should we think about sort of the total sort of weight on EBITDA this year relative to what you would expect it to be going forward? I mean is there any way we can try and do that?

I mean I think the goal in this was to save money. So -- and at least from when I read the filings, it looks like you're -- it's costing you money year-over-year. So I'm just trying to understand, at some point, you build enough reserve that eventually you don't have to reserve anymore in some capacity or the reserves go down. I mean how should we be thinking about that?

Bradley Lim Chhay

From a net income standpoint and an adjusted EBITDA standpoint, these charges are very real from a GAAP basis and non-GAAP basis. So technically, yes, it's hurting EPS. It looks like a negative charge. But we don't get to add it back because it's normal and reoccurring. Now you're saying it cost us money. It doesn't really cost us money because it's not impacting free cash flow. So those are the clarifying points I wanted to make.

As far as the run rate, like Eric once mentioned, I hate to just lean back on this, we just don't know. It's -- every quarter, we have an actuarial expert, and they go and they look at all our claims, all our losses, any new claims, any closed claims and they do what's called a true-up or true-down. So on a normalized run rate, call it, somewhere between \$10 million to \$12 million based upon this year's year-to-date actuarial estimates, and that's all there is. As far as the actual captive insurance program, once that's live and operational, we would be paying ourselves somewhere between like \$400,000 to \$500,000 a month for the premiums.

Adam David Wyden

Okay. But I think -- I mean, again, I'm just going back in time, and then I got another question. My understanding was that you guys have never really paid out more than a few million dollars in any given year for settlement. So the idea was you were paying like \$10 million or \$12 million in insurance, but the actual settlements on average never really were more than \$3 million. So I guess the question I have is you're basically reserving as if it's \$12 million, but that -- I mean, you've never paid out \$12 million in a year. So like this can't like sort of continue, right? I mean that's just sort of like, right, real logically. You never paid out \$12 million in losses in a year, right, ever?

Bradley Lim Chhay

Correct. Well, there are some years like the New York one that was about a decade ago that -- yes, some settlements are large, a lot bigger.

Eric Scott Langan

That wasn't insured.

Bradley Lim Chhay

Okay. That wasn't insured.

Adam David Wyden

Yes. So that's sort of my question. I mean if we're run rating \$12 million of insurance reserves, that would imply that we would pay \$12 million in lawsuits a year. So I just -- because again, the EBITDA number -- the free cash flow looks great, right, obviously, in light of what's going on, but the EBITDA number doesn't make a whole lot of sense. So that's why I'm just trying to reconcile those 2. Because if I sort of just think about it, like you guys don't want to pay insurance anymore. You are run rating \$12 million of reserves. You're not paying it out in cash, obviously, because we can see it in the free cash flow. So it's sort of like presumably at some point after you build a big enough buffer, right, with these charges, at some point, you would expect them to go down, right, I mean, like realistically.

Eric Scott Langan

I hope so, Adam. To be honest, I just don't have enough data on it. We really thought our captive would be active before we ever went into any type of self-insurance mode that we're at today. It just took the state a long time to get it done, and now we're really working on our policy. The more we study it, the more we learn about it. We just want to make sure we do it right the first time because we don't want to set up a captive that then goes bankrupt.

So we believe we have the formulas down. We're working on them. But when it comes to these actuarials, these are -- this is a completely different math. It's a GAAP principle that has to be followed to do these actuarials and do these accruals. And I mean you've heard me say it before, I don't think it's rooted in any type of reality of what is. It's always what ifs. And all of your GAAP stuff when you're accruing stuff and doing these things must take into account the absolute worst-case scenarios, not best-case scenarios. So what you want to look at is best-case scenarios and what they have to look at is worst-case scenarios.

If you look at average for the last 15 years of actuarials where we have what we've actually paid out versus what we paid in premiums, we would have come out way ahead if we had self-insured all of those years. In fact, I think there's only 1 year where we wouldn't have. And that's because we allowed someone to sell us way too much insurance and then we couldn't settle any cases because everybody would rather try their luck in court and go after the big lottery ticket versus settling the case for a reasonable amount. And so that particular year, we had some high stuff, but that was many years ago. Of recent years, it's been much more realistic.

And then the problem was when we got our insurance quote this year or for this year, they wanted -- between the fees and everything, we would have paid almost \$9 million for \$10 million worth of insurance. And to me, that just did not make any economic sense whatsoever. When we could not do that, we could do this captive referral system where we put the money in. Part of the actuarial system is you don't get any return on what you put in the reserves, right? So it's just basically held in reserves and is not growing, whereas you -- when you have a captive or an insurance company, they take the premiums and invest those premiums, which then help offset the cost and expenses. And so the actuarial is very, very different in a self-insurance versus a captive.

So hopefully, we'll have this captive set up soon. I would like to see it set up by October 1, if at all possible. I think we're definitely working towards that date. Whether we'll be successful or not, I don't know. But I think by calendar year-end, we should be able to have everything in place for it. And then we'll have the actual insurance costs because we'll be paying insurance costs, not accruing an actuarial. The insurance company will accrue actuarials, but they'll do that based on their premiums and whatnot, not -- and their claims, not past ones.

Adam David Wyden

Right. So yes, I get it. So the idea is like long story short, like when you guys get the captive set up, the noncash charge to EBITDA will be a lot less because you're going to -- you basically -- they're -- it's a separate insurance company that you're going to pay premiums to that you control. And so all of this \$12 million a year stuff is probably going to go away. Because if you look at -- on Slide 12, you look at the free cash flow, it's basically flat year-on-year. And most of the quarters, it's more or less been flat. So EBITDA in this case, the way you reported it is sort of not a great reflection of financial performance because you're not actually paying out the money, if that makes any sense.

Eric Scott Langan

Makes a lot of sense for fiscal 2025.

Adam David Wyden

Yes. So it's -- I mean all I'm trying to say is next year, when you get the captive set up, you should get a reversal on reported EBITDA because you're not going to be taking these types of insurance reserve charges realistically.

Eric Scott Langan

There are a few things we can possibly do when that time comes. And that is we can leave this 2025 as a self-insured year, and then they'll run actuarials every quarter going forward. If there's x reserves, they would be put back in. If more reserves are needed, we'd have to expense more. The other thing we could possibly do is buy an insurance policy once we would know all the claims. There's a 2-year statute of limitations, I think, but we could figure out what the claims are. A lot of insurance companies do this where they will then -- what's called selling the book.

So we would take all the potential liability and sell that book for a set dollar amount where basically, we would pay a company x amount of dollars and then they would take all the liability on a go-forward basis for those deals. And what they do is they hope to settle those cases for less than reserves. And if the reserve -- if we can sell -- let's say we've got \$12 million in reserves, but we can sell the book for \$8.5 million, then maybe we sell that book for \$8.5 million and we get the other \$3.5 million as an income back in on our books.

So there's lots of things as we move through the future of this and figure out this insurance math, let's call it, in a much better format. And of course, our actuarials, I mean, as we get the actuals, we'll be able to -- actual costs, we'll be able to have a much better idea as well. So -- and we may have no claims, right? I mean we just -- right now, you don't know. Typically, a claim in an insurance year usually takes anywhere from 18 to 24 months to be made. And since we've only been doing this for 9 months, it's all guesswork. This is literally 100% guesswork, everyone's part.

Adam David Wyden

Two other questions. These should be easier. One is on the start-up cost, Bradley, you guys talked about Rowlett or is it Lubbock, Central City and some other stuff. I mean, obviously, that's not being added back. But I mean what do you think the burden on EBITDA is in terms of start-ups and other stuff that you would expect to sort of go down? I mean I think we covered the insurance thing pretty closely. But on sort of the start-up costs, like what do you think -- or preopening costs, what do you think that sort of cost you in the quarter?

Eric Scott Langan

It's typically a couple of hundred thousand dollars per unit, Adam. And it's just we have to put people up. We have to train. We start -- we send people out 2 to 3 weeks ahead of time. They start training. They hire staff. So we've got hotel rooms, you've got training costs. You've got the hourly wages with no revenue coming in yet, things like that.

Adam David Wyden

So like \$0.5 million of EBITDA in the quarter, basically. Is that fair?

Eric Scott Langan

\$400,000 to \$500,000 is what I'd guess, yes.

Adam David Wyden

Okay. So we got the insurance, we got the start-up costs. And then on the real estate, you talked about in the past potentially selling Bombshells. I mean I think you got rid of all the lease locations because you didn't control the real estate. You now have, I guess, 10 locations. I guess that includes -- does that include the Grange? Or does that not include the Grange?

Eric Scott Langan

That does not include the Grange. The Grange is gone. We actually have 11 locations open with Lubbock as of July. Now it didn't open in this last quarter. That's after the June quarter ended of it opened. So for this quarter that we're in right now, fourth quarter of 2025, we'll have 11 Bombshells locations open.

Adam David Wyden

Not including Rowlett.

Eric Scott Langan

Not including Rowlett because Rowlett's not open yet. Now if Rowlett opens before September 30, then that will change, but I don't suspect that Rowlett will make September 30 based on some of the construction reports I got yesterday. So I think it's going to be a little bit longer.

Adam David Wyden

So I guess the question is now you've sort of got it cleaned up, you got rid of all the lease locations. You've got a lot of big expanding restaurant chains, Texas Roadhouse and a bunch of groups that are looking for locations. I mean I think one of the biggest issues as you've encountered is basically building a restaurant is taking a very, very long time. And you've got basically 12 locations that have more or less been open for not that long. I mean the oldest ones I think you closed. So I guess my question to you is like, given where your stock is and given how valuable, I don't know, \$65 million, \$75 million of real estate is in terms of getting capital, I mean, how do you think about sort of going all in on the stock and nightclubs given that there's -- the restaurant real estate is still trading at a relatively low cap rate and you have -- you sort of have control of the whole -- all the locations now?

Eric Scott Langan

I mean, look, we've been talking with different groups for the past year or so, more groups in recent last month or 2. We're getting more calls. So I'm guessing that restaurant, especially prime A restaurant space, which is what most of our Bombshells locations are, are being sought after because we are getting lots of calls. Of course, you got every leaseback group in the world trying to call us, which we're not interested in doing sale leasebacks. We are interested if we were to -- if we were to sell the real estate, you'd have to buy the operating businesses as well. But we would put together a package of the operating businesses and the real estate for the right price. We're just not looking to sell at the bottom of the range. We would want a fair price for our shareholders. And if somebody comes and makes us that offer, then we'll consider it.

Adam David Wyden

Yes. I mean, look, obviously, given where your stock is and given the fact that -- I suspect the nightclubs stuff is going to ramp up because you did some deals this year and you didn't do any in '23 or '24. I suspect there's probably more nightclubs to buy. But I sort of do the math and I say, I don't know, what is it, \$100,000 of net income or non-GAAP income. And I don't know what that works out in terms of EBITDA. But let's say for a minute that EBITDA at Bombshells is, I don't know, \$1 million. I don't know what the D&A is now, but let's just call it \$1 million, and let's say you get a little bit of EBITDA from Lubbock and a little bit of EBITDA from Rowlett. I mean, even best case, it's \$4 million, \$5 million. I mean, if you could sell the real estate for \$65 million, \$70 million, \$75 million, I mean, it would go a long way in terms of buying nightclubs and buying stock. And I just...

Eric Scott Langan

I mean right now, I will tell you my number has been about \$85 million. Would I take \$75 million? I don't know, no one's offered it to me yet. If someone comes in with an \$85 million offer, it's something we definitely have to put the pencils to and see if we make it work. I can tell you that at \$65 million, I wouldn't be interested. I think the real estate alone will appraise somewhere around \$65 million to \$67 million. Our current debt load on that real estate is about \$35 million. Our current book value is around \$45 million. So if somebody comes in at \$85 million, I don't think there's much to think about. That would be about a \$40 million over book. I think we would probably jump on that pretty quickly.

At \$75 million, we're going to sit down and put the pencils to it, see if it makes sense, see what our stock price is. I mean if I could buy 1 million shares of stock back in exchange for the Bombshells segment, that's -- what does that -- 8.7 divided by -- 1 million divided by 8.7 is, 1 million divided 8.7 , about 12% , yes, almost 12% of the company. Yes, I think I'd have to think real hard about that. So I think those are things we just -- like I said, we have to put the pencils to and see if we can make it work.

Adam David Wyden

So the \$67 million includes Rowlett and Lubbock, even though they haven't -- have those been reappraised at market yet or not? Or does that include...

Eric Scott Langan

Those are both at cost. Both of those -- it's about \$65 million. That's why I said it's between \$65 million and \$67 million. I think both those appraise for about \$1 million more than cost. They typically do.

Adam David Wyden

Got it. And so at that point, you'll sort of see how much EBITDA those things are doing. And if someone -- because basically those will be making money and the other ones -- do you think that the other locations will start making more money? I mean do you think that your...

Eric Scott Langan

We have 3 locations that are pretty solid right now. Lubbock is doing fantastic. Lubbock is averaging between \$190,000 and \$200,000 a week right now. If that continues for the 12 weeks that will be open, you're talking 12 times -- I would say 12 times [180] even, [1.2] plus 80 times 12, [9.6], a little over [indiscernible]. They do \$2 million, at that point, they're probably running 20-plus percent margins. I mean that store alone can make \$400,000, \$500,000 in a quarter. So let's see how we do. Like I said, we're talking with groups. We're talking with a private equity group. We're talking with a restaurant operator. We're talking with a few just -- I don't know what they want to do with their real estate, the real estate guys that we've been talking with.

And we'll see what comes of it. But I'll make it perfectly clear on the call so maybe I won't get as many calls over the next week, we are not interested in sale leasebacks. So we know we could do that at any time we want it. We could pull probably \$30 million in equity out of the Bombshells real estate at any time that we did a sale leaseback. But it's just not something we're really interested in doing. We'd rather just hold onto the assets until we can sell everything as a whole. We believe that it makes the -- by owning the real estate, it makes the operations much easier to sell to someone who wants to turn it around and grow the concept because what they'll do is they'll come in, they'll buy it from us. They'll turn around, do the sale leaseback to pull their cash back in and expand the concept is what we're told by brokers that we've been talking to. So...

Adam David Wyden

Well, they'll do that after they fix it. But the reality is, is they own it, they control it, they fix it, then they do it.

Eric Scott Langan

They can do anything they want once they write me the check, I don't care.

Adam David Wyden

And about -- and what about the club -- the backlog for M&A for clubs? I mean are you seeing that backlog increase? I mean are you -- I mean, I know you've done a little bit this year. You did whatever, Detroit and that -- whatever those ones, but you're only...

Eric Scott Langan

We bought 3 locations so far. I mean we're looking -- we're actually looking to sell a couple of our clubs. So we've got a few clubs that we're negotiating with some local operators that are very interested in a couple of our underperforming locations, which we were talking about rebranding. And we're thinking maybe instead of rebranding, we'll just sell those locations off, put some more cash on the balance sheet, take that and buy other clubs someplace else in markets that are more competitive and more profitable for us and definitely easier to operate for us.

Most of the clubs we're talking was only picked up in acquisitions where they were not the core acquisition we were trying to buy, but they were just a club that was part of the deal. And thinking that -- our thinking on that is that it stretches our regional management to have to travel all those extra miles and for small amounts of income. Why are we holding a club that's 600 miles from any one of our other clubs that generates us \$200,000 a year in income? Let's go convert that into \$1 million, \$1.5 million in cash and take that \$1.5 million in cash and maybe buy back stock or go invest it in a market that's easier for us to operate, that doesn't stretch our regional management teams.

So those are things we're looking at. Those are things we've been working on. As you'll see -- I mean, if you go back and look at 2016 when we first started the capital allocation strategy, we were up a little bit. If you look at '24 when we started the capital allocation, we're up a little bit. And then in '17, we -- our revenues actually declined because we sold off and got rid of underperformers. I think you're seeing that same thing happen right now. It's just in a condensed year. We're much better at it than we were in 2016 because we've done it before.

So we didn't wait a full year or 1.5 years to start divesting assets. We started doing that within 9 months of adopting a new capital allocation strategy as we closed the Bombshells immediately that we're underperforming that we leased. And now we're doing the same thing with a few of the clubs that we're looking at right now and then, of course, trying to buy more clubs that make economic sense for us.

So EXPO is in, what, 14 days, 2 weeks from now. We'll be out in Vegas with lots and lots of club owners. And I'm very optimistic to have some good meetings set up to talk with a few people. I've got a couple of brokers, club brokers that want to sit down with me and go over some inventory that's supposedly not public information right now, which I find hard to believe it's not my public information, but I understand that there's -- there are deals that sometimes brokers bring to us. So we'll definitely sit down and talk to them. We have been looking at lots of locations around the country right now and trying to find the ones that make the most sense for us to make our next investment in.

Mark Moran

On behalf of Eric, Bradley and the company and our subsidiaries, thank you, and good night. Please visit one of our clubs or restaurants to have a great time.

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