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Transcript of
RCI Hospitality Holdings, Inc.
First Quarter 2019 Sales Call and Webcast
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Participants

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Eric Langan – President and CEO

Analysts

Frank Camma – Sidoti & Company
Marco Rodriguez – Stonegate Capital Markets
Darren McCammon – Cash Flow Kingdom
Richard Aulicino – Dawson James

Presentation

Operator
Greetings, and welcome to RCI Hospitality Holdings' Fiscal 2019 First Quarter Sales Call and Webcast. At this time, all participants are in a listen-only mode. A question-and-answer session will follow the formal presentation. [Operator instructions]. As a reminder, this conference is being recorded.

It is now my pleasure to introduce Gary Fishman, who handles Investor Relations for RCI. Please go ahead.

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

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

Finally, I'd like to invite everyone in the New York City area to join us tonight at 6:00 to meet management at Rick's Cabaret, New York, Manhattan's number one gentlemen's club. You can also tour its sister club, Hoops Cabaret and Sports Bar, next door. Rick's is located at 50 W. 33rd Street between Fifth Avenue and Broadway, around the corner from the Empire State Building. If you haven't RSVP'd, ask for me at the door.

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

Eric Langan – President and CEO
Thanks, Gary. Thank you for joining us today. If you'll please turn to slide 3. As I mentioned on our last call, I wanted to use the occasion of our first quarter sales report to hold a follow up call so investors that couldn't make

the fourth quarter call on such short notice could fully participate in this one. I also wanted to hold a Meet Management at Rick's Cabaret New York. A number of new investors have asked to meet with me and tour the club.

Now let's turn to today's news. This morning we announced total club and restaurant sales for the first quarter ended December 31 of $43.4 million. That's up 6.5% year-over-year. It was also a record quarter and the 11th quarter in a row of same-store sales growth.

Fiscal 2019 is off to a good start. Nightclubs experienced solid same-store sales in what is seasonally our strongest quarter. Bombshells same-store sales, while still down from a year ago, improved on a sequential quarterly basis, and all new club acquisitions and restaurants performed well.

We continue to be on track for our Fiscal 2019 target for free cash flow of $26 million. I'd also like to note last week we announced our Board of Directors increased our stock buyback authorization by $10 million. That gave us a total authorization of $12.7 million as of January 3. Based on our market cap and as of yesterday, $12.7 million represents more than 6% of the company that we could buy back with this authorization.

Please turn to slide 4. The data on this slide does not include non-core operations that are included in the Nightclubs segment when we report complete first quarter results.

Same-store sales totaled $35.3 million, up 4.3%, or $1.5 million. This reflected effective marketing, management, and appeal combined with a good economy. The same-store sales trend was fairly consistent throughout the quarter.

While we are always pleased to see that, we are particularly pleased with our three Minneapolis clubs that demonstrated nice year-over-year same- store sales growth. They were up against tough comps from the first quarter of Fiscal 2018 when the Vikings returned to their new stadium in downtown Minneapolis. While we won't have the pro championship football game in Minneapolis as we did in the second quarter last year, we will have the NCAA Men's Basketball Final Four there in the fiscal third quarter.

New store sales added $1.9 million in the quarter. By order of magnitude, this came from eight weeks of the Blush Gentlemen's Club and Sports Bar acquisition in Pittsburgh; eight weeks from the VIP Gentlemen's Club acquisition in Chicago; and a full quarter of Kappa Men's Club in Central Illinois, which we acquired in May of 2018. All three of these acquisitions are performing well, and in particular, Pittsburgh and Chicago, which will be rebranded Rick's Cabaret this month.

Summing up, total Nightclub sales were $37.4 million, an increase of 7% compared to the year ago quarter.

Please turn to slide 5. Bombshells' same-store sales totaled $4.6 million, which was down $1.2 million. This reflected in part tough year-over-year comps due to extra business generated in October of 2017, when the Houston Astros won their way through the playoffs and the World Series.

While we're always disappointed when same-store sales are down, the important thing is that Bombshells is moving in the right direction. The year-over-year decline in same-store sales for the quarter improved from the preceding quarter, with December achieving the best performance in the last six months. There was a big sequential improvement with Bombshells Fuqua and an improvement with Bombshells 290, both in Houston.

New store sales added $1.4 million. By order of magnitude, this reflected a full quarter of Bombshells in Pearland and 12 days of Bombshells on I-10. Both are performing very well. While it is still early with I-10, Pearland since its opening has been running at a rate comfortably in excess of $4 million a year.

To sum up, total Bombshells sales were $6 million, an increase of 3.2% compared to last year.

I'm looking forward to continued Bombshells same-store sales improvement. We had both the Texans and the Cowboys in the playoffs last Saturday. The Cowboys won, so they'll have another game this weekend, and then we're looking forward to the pro championship football game. All that will definitely help Bombshells.

March Madness, plus the warmer weather, should help our patio business. Our Bombshells team is also developing promotional activities that will help us pick up in the spring. The Highway 290 construction that affects our Bombshells there should be finished.

We continue to be on schedule with the three Bombshells in construction, and they will open over the course of the next six months or so. That will give us more exposure in the market. As the year goes on, I think we are going to see Bombshells right back where we want them.

Please turn to slides 6 and 7. These are our capital allocation strategy and our financial goals slides. There's nothing new from the December 31 slides.

As I said on our last call, with the stock yielding a free cash flow run rate of 13% or more, we are more focused on using available cash to buy back shares versus acquiring clubs or developing new restaurants, unless of course there's a compelling rationale to do otherwise. Having said that, this is a unique time in the gentlemen's club industry, so we will still keep an eye open for the right acquisitions when and where appropriate and assuming they meet our corporate objectives.

We will complete the three Bombshells in development, giving us a total of 10 locations. Then we will spend time to assess where we are. We want to ensure we are performing in line with our expectations. We then want to look at the market and the growth trends and we want to gauge the return on our strategy of owning and developing the real estate ourselves.

We anticipate the last two non-income producing former club properties should be leased, sold or under contract in this quarter. We also have two parcels of excess Bombshells land under contract that we sold, and expect them to close this quarter. As for our stock price, while we are not happy with the decline, we believe the price will reward long-term holders as we buy shares when it's yielding over 10% and expand when it's not in line with our capital allocation strategy.

Thanks to all of our investors for supporting us, and our staff and management for doing a great job. It's truly appreciated. Operator, let's start the Q&A.

Operator
Thank you. At this time we will be conducting a question and answer session. [Operator instructions]. One moment please while we pull for questions. Our first question comes from the line of Frank Camma with Sidoti. Please proceed with your question.

Q: Good afternoon, guys. How are you doing?

Eric Langan – President and CEO
Good. How are you, Frank?

Q: Good. You know, obviously always surprised at the ongoing strength at the Nightclub same-stores given that you're comping against like a 7% last year, and you explained some of that. But in a regular economy, let's say in a regular decent economy, not great, not bad, what do you think the clubs should do on a same-store basis?

Eric Langan – President and CEO
I think we'll stay in the 2% to 3% range. I'd like to see a minimum of 2% to 3% growth. I think that we're seeing the growth for such a long period. It's been 11 quarters. That's a long time for same-store sales. If you look at history, we have never done that. But if you also look, what we started about 11 quarters ago was our capital allocation strategy.

What we have done is we have closed under-performing locations. We have closed the locations that were costing us money. But what we gained from those closures is a massive amount of management's time. Management's time and efforts were being spent on properties that weren't making us money. Now that management time is being spent on our top locations, [we're] seeing solid growth and solid figures.

When we look back at how we did things in the past without this capital allocation strategy, you're starting to see the real benefits of the strategy is not only from the improved capital allocation, but also across management's time and their efforts. When they increase a club that's already very profitable, a lot more of those [top] line dollars are making it to the bottom line. If we can continue this – I don't know for how long, I hope so forever – but I think at some point we're going to get that law of diminishing returns. But so far we're 11 quarters.

Q: Nothing lasts forever, right?

Eric Langan – President and CEO
Right.

Q: No, I got it. So turning to the restaurants real quick, do you see the same trends? I know it's a little harder because you only have one in each market, but do you see the same same-store trends in Dallas and Austin?

Eric Langan – President and CEO
We don't normally. Austin's doing much better now. We have made some management changes there. They're starting to do a little better there. In hindsight, that was the third location we ever built. We probably would have built it about two exits south of where it's at, but it's doing okay. It's making money. I'd like to see it making more, and we're starting to. We're starting to get some nice improvements there with some management changes, some style changes to some of the entertainment stuff we're doing.

Dallas had a huge run for several years. They're a little off this year, but I don't think the Dallas market and the Houston market have a lot of effect on each other. A lot of our clubs are down in the Dallas market too because the convention business was down so much. Hopefully we're going to start seeing the convention business come back. They say it's going to. Our sports teams up there haven't been performing fantastically, but now the Cowboys are doing better. Hopefully the Mavericks and the Stars will start picking up for us, which all helps our business.

Q: Okay. My last question is just, and maybe you said this and I might have missed it, what do you think the secret of success of the Pearland location is, given the amount that—when you look at it the amount of revenue that does on average compared to the average of the other locations? I mean, it's pretty materially different.

Eric Langan – President and CEO
Yes, sure. Even Pearland's been down a little bit, but from what it was doing of course it's not in same-store sales yet, so we won't see until the year-over-year. We go through those honeymoon periods and then a little

decline and then we start to build back up. I think we're back in the build back up stage of that location now. It's just a great location. There is some freeway construction going on in front of it, but it hasn't affected access or flow at this point. As long as it doesn't cause any problems with that, we'll be fine.

We got to get additional parking there. That's another thing I think that's hurting us a little bit there. When you're brand new everybody didn't mind fighting for parking and having to park on the street and having to walk and whatnot. We have had this parking lot going for a while, but the rain's been making it very difficult to get the forms in so we can pour the concrete, but it should be soon. Once that parking is done, I think we're going to see Bombshells Pearland pick up even more sales. So I think it's just the location.

I think you're going to see the same thing at I-10. We have learned, and we started out with the first five locations and we did lease locations. When we started buying our locations, we wanted to cherry pick. We knew exactly what demographics we wanted. We knew exactly what kind of traffic flow patterns we wanted. We want on/off exit ramps for the freeways, great visibility. So we went and found properties and bought dirt to build exactly what we wanted, and I think we're going to see that in the numbers of these five stores that we're building right now. It's going to be a little different than our leased locations.

Q: Okay, great. That's helpful. Thanks.

Eric Langan – President and CEO
Thanks.

Operator
Our next question comes from the line of Marco Rodriguez with Stonegate Capital Markets.

Q: Hi. Good afternoon, Eric. Thanks for taking my questions.

Eric Langan – President and CEO
Thank you.

Q: I was wondering if we could dive in a little bit more on Bombshells. I kind of want to get a little bit better of an understanding in terms of locations of your facilities and exit ramps off of a highway. Obviously last quarter you guys called out the one large club that I guess was being negatively impacted by the closing of a freeway. I guess I want to understand, the people that come to the Bombshells, are they more of, well, there's a restaurant, let's go over there and eat, or are they people that kind of frequent the place? I'm just trying to understand why they wouldn't just go to the next exit and turn around.

Eric Langan – President and CEO
I think it's a little bit of both, and it wasn't just one exit. They closed the freeway. You have to understand Houston traffic. First of all, when they closed 290, the wait can be an hour to move a mile. It's horrible. They closed not just our exit. They closed our street at one point for a whole weekend. Our employees had to park at a Home Depot and walk about a quarter of a mile to get back to our location, and so did any customers that wanted to come. It's a massive undertaking when they build these highways in Houston.

I don't think there's going to be too much [further] effect from highways. 290 is about completed. They're far enough down now that when they do close it, it doesn't affect any of the southbound traffic that comes to our restaurant. It only affects northbound traffic. That's helped somewhat. They are far enough down the freeway now.

I think that all in all, by the spring everything's going to be done with that highway. Pearland, we're off of a feeder road. They're not really doing anything with the feeder road. They're only working on the actual 288 and the actual toll road. And they're making it better because they have already widened it and made it so traffic flows. Even though they're doing construction, the traffic flows better than it did before they started construction, so that's helped. So I don't see any problems there.

All the other freeways are very established freeways where we're located -- on highway US 59 near Bellaire, the Katy Freeway near Frye Road, all very established freeway systems, and 249.

Q: Okay. Got you. So what other impact did you see then in the December quarter that caused same-store sales to decline in the 20% range?

Eric Langan – President and CEO
We lost between 10 and 11 baseball games. We're kind of arguing with ourselves to figure out. One might have been in September. So it might have been one in September and 10 in October. Every Astros home game was about $50,000 to $70,000 in increased sales for us. If you take that $500,000 to $700,000 and take it off the $1.2 million same-store sales decline. That means we had somewhere between $500,000 and $700,000 same-store sales decline, which was much, much better than the previous quarter. We can't control the sporting events and stuff like that. Those are bonuses for us when they work in our favor. It's obviously very early. It's only the 10th of January, but I'm hoping to keep same-store sales declines in this quarter in Bombshells in single-digits. And then hopefully going forward we're back to positive and we have recaptured it.

Q: Got you. And you mentioned that you were putting forth some promotional activity to kind of spur growth at Bombshells into the spring. Can you talk a little bit about those activities, what you have planned?

Eric Langan – President and CEO
Well I don't want to give my competitors too much advantage, but a lot of it has to do with patios. We do a big contest on Wednesdays. We're getting some third parties involved to have some pretty big prizes. We call it Big Balls. It's like giant beer pong that they play out in the parking lot. We fence it off so they can drink out there while you're playing stuff. We have some big prizes that we're working for those events. Some other type of contest type stuff for the late night from the 10:00 to 2:00 business, where we're affected, especially at Fuqua and 290, the late night, with the freeways closed there. They're closed on Friday and Saturday, which is our big night. We have lost that 25-year-old to 35-year-old crowd that comes there to have a few drinks before they go out for the night. We want to do some things to draw them back in there. What happens is they come there and then they start having such a good time that they end up not leaving, and that's when we have our big nights. So we're working on things to bring that crowd back into both our Fuqua location and our 290 location as well as taking those ideas and going ahead and trying to increase business at the other existing locations.

Q: Understood. And then in terms of your commentary on taking a pause this fiscal year on Bombshells activity, you have put in the additional four stores that you had forecast before. Is it fair for me to assume then that the expansion potential to Miami and San Antonio is maybe pushed another two years out after fiscal '19?

Eric Langan – President and CEO
I don't know if it is two years, but I would say that we should open I think a store in February, a store in May, and a store in June. That's kind of the plan right now. I don't think we'll open anything else in calendar '19, but that doesn't mean we won't look towards the end of calendar '19. We have a guy that's doing these last two Bombshells, the 249 location and Katy Freeway. He's on about a 4.5 month schedule to build these things. If he can keep up with this and open on time these two locations, then we will be at a 4.5 month build and about a 3 month setup time, so we can open in 7.5 months from start to finish. If we can get on that type of time schedule,

we're very happy that all these stores open by June, by October, we're very happy, we start looking, that means we could open a store in April/May of 2020, though we're not in a hurry.

It's going to depend on our capital allocation strategy. If our stock price is $20 a share, I'm not going to be looking to do anything but buying back my stock. I get guaranteed return risk-free. Why take the risk? If the stock's performing and we don't have the opportunity to reinvest our capital in our own assets, then the next step after that we're going to look for nightclub acquisitions.

The nightclub acquisitions have been very hot. We have had some great locations we recently picked up. We're looking at several more great locations right now. I'll be more inclined to do those nightclub acquisitions before I would even think about a Bombshells. I'd say in the best case of all worlds, we couldn't find a club acquisition, we had tons of cash, stock price went back up, and then we'd start maybe looking at Bombshells. You might see something in April/May of '20. Otherwise, yes, you're probably right. You probably won't see anything until probably the end of '20.

Q: Got you. And then kind of just seguing here into the nightclubs, you mentioned that this is kind of a unique time for nightclubs and vis-à-vis your capital allocation strategy should probably see you aggressively buying your stock, but it kind of sounds like maybe there's some very unique or very fruitful potential acquisitions on the landscape. Can you talk a little bit about what's kind of driving this unique position right now in the nightclub industry?

Eric Langan – President and CEO
I think just timing. I think a lot of these guys are older and the fact that we have proven ourselves. We have proven the model. We have bought owners out, paid them enough money down, we have paid our payments for a long enough period of time that they all talk good about us, they say these guys always make their payments, they do what they say they're going to do. It's creating a comfort level in some of these older sellers to trust us to take their 25%, 50% down payment, let us pay them the rest over a 5-year/12-year payout like we do. I think the timing's right. We hit that tipping point.

Q: Got you. Thanks a lot, Eric. I appreciate your time.

Eric Langan – President and CEO
Thank you.

Operator
Our next question comes from the line of Darren McCammon with Cash Flow Kingdom.

Q: Hi, guys. Thanks for doing this extra call.

Eric Langan – President and CEO
Hi, Darren. No problem. I felt a lot of people, with one day's notice on New Year's Eve, it didn't seem fair. That's all. I wanted to make sure everybody had a fair chance to have time to look at the K as well and see what was going on.

Q: Yes. I think that was a good idea. I don't know if you guys can answer this. I'm going to focus a bit on the buybacks. Since you have exited blackout, have you been able to do any buybacks?

Eric Langan – President and CEO
I'm going to be honest, I'm not going to telegraph my buyback plans because I don't want everybody—I'm not trying to run the stock price up. I'm trying to buy back as much stock as I can like any other investor. I will say

we're following our capital allocation strategy to the T. We're using excess capital, doing the things we say we're going to do with it, and you'll see those results in February. When we release the K we'll announce our stock buybacks through that date, like we have in the past. That's about as far as I can go with that today.

Q: Okay. Fair enough. Can you tell me—attacking this from a different point of view—what kind of cash flow you either have now or maybe you had at the end of the year? I mean, sorry, what kind of cash flow on hand you had?

Eric Langan – President and CEO
I don't know the exact numbers yet. We're still closing out the quarter. I'll probably get those when I get home tomorrow, and I'll be able to start looking through stuff. We're in a decent position. We're not struggling for cash. We do have a very large cash payment coming up of about $1.8 million for property taxes by the end of this month. We have our normal sales tax and quarterly patron tax cash going out. So there's going to be some considerable cash going out in January, like every January, but I don't think we're stretched at this point. We still have a little bit of available cash left over.

As we move into February, March, and April, every month we're going to end up with more and more cash available. Of course by April we pay off that $5 million bank line that we're paying $200,000 a week on. That will free up lots of additional cash come April. If the stock's still in these markets you'll see us be a little more aggressive.

I haven't been extremely aggressive when I'm doing buybacks. I wasn't in '16. I wasn't in '17. We buy a little bit at a time. We buy it for a few days. We may skip a few days. Our goal is not to run the stock price up. Our goal is to get the maximum value for our shareholders, and that's how we look at our stock buybacks.

Q: Okay. Well that's a good setting for the long run. Also, this real estate you're talking about selling. Is there four different pieces of real estate that are up for sale? What's the listing price in total roughly for those four?

Eric Langan – President and CEO
There are eight Bombshells sites, pad sites, not properties. There are three different sites that have up to eight pad sites available that we're selling off. To give you two examples, we have sold the property at I-10 under contract. We're waiting for the electrical easements to be approved. Once those are done, that property will sell. We paid $8.71 a foot for that property. It's under contract right now at $15.71.

The second property we paid $10.50 a foot. We bought 11.5 acres. It will have about four different pad sites that we're selling plus our pad site on the property all around two acres plus pad sites. The site we have under contract right now we have under contract at $1.4 million for a 1.59 acre site which is about—the idea was $21 a foot, but I think it comes out to about $20.85 or something like that, whatever they finally negotiated. We started out dollars per foot and then we went to even dollar amounts. We were at $1.5 million and they were at $1.3 million, and so we just took $1.4 million and called it a day.

Q: Okay. So is that 1.4, is there some debt that needs to paid off in conjunction with that?

Eric Langan – President and CEO
Yes, about $1 million of that $1.4 million will go to the bank. We'll get a little bit of cash on that one. The other property, which is a total price of $1,050,000, will all go straight to the bank. We'll pay 100% of the bank loan off on that one. Now we have about $4 million under contract to sell and about $8 million to $9 million in total value from the remaining pieces based on what we're selling the current pieces for.

Q: Okay. It sounds like they're all being sold at a profit.

Eric Langan – President and CEO
Oh yes. That's why you buy the big pad sites. That's what all developers do. They go in and buy a big pad site and then they sell it off in smaller pad sites because the people pay more money per square foot when they only have to buy what they need to build on.

Q: And when does that profit get recognized? Is it at close?

Eric Langan – President and CEO
Yes, from what I understand. These two will be the first two we have sold. I have talked with the accountants and from what I understand we'll use our cost per square foot based on the total property and then our profit mark will be based on just the property sold.

Q: Okay. You had a Texas club that was closed for the hurricane and is now reopening. Do you know what the revenue was or is expected to be?

Eric Langan – President and CEO
It's a very small club. It does about $60,000 to $80,000 a month. It's one of our smallest clubs that we own. It's a BYOB club, to kind of let you know. I'd have to go look at it, but it makes $150,000/$200,000 a year maybe.

Q: Okay. And then also on the Bombshells segment, could you tell me what your gross margins and your operating margins were for the quarter?

Eric Langan – President and CEO
For which quarter? I can't talk about operating margins for the December quarter. That won't come out until February.

Q: No, the September quarter. I'm having trouble finding it.

Eric Langan – President and CEO
In the K?

Q: Yes, yes.

Eric Langan – President and CEO
It's in the segment information. It was considerably down, 4.3%. I think it was 4.3% in that quarter. But keep in mind one of the things in that quarter was there were about $300,000 in legal bills from the Fuqua.

Gary Fishman – Investor Relations
If you look at our fourth quarter news release, there's a chart in the last page that gives you the non-GAAP segment information.

Q: Okay. Does that give me gross margin also?

Gary Fishman – Investor Relations
No, it's just the operating margin for the segment, for the quarter and the year.

Q: Okay. I guess what I'm getting at is, I think your gross margin for Bombshells runs around 75%, if I remember correctly. I'm trying to get an idea if it's about the same for Q3, or sorry, the September quarter.

Eric Langan – President and CEO
I don't know off the top of my head. I'm sorry, Darren. I'd have to go back and dig through it.

Q: That's okay.

Eric Langan – President and CEO
I know our food runs about 30%, 34%. Liquor's about 14%. It depends on the mix of each location. You can combine them altogether. I'd literally have to pull it all up and put it all together to give you the total gross margins for Bombshells.

Q: That's alright. Maybe we can do it later offline.

Eric Langan – President and CEO
Yes. Yes, for sure.

Q: That's it for the questions. Thanks, guys.

Eric Langan – President and CEO
Alright. Thanks, Darren.

Operator
Our next question comes from the line of Richard Aulicino with Dawson James.

Q: Hi, Eric. I was wondering are you planning on opening new Bombshells outside of Texas?

Eric Langan – President and CEO
At some point, yes. We said we were going to look in Miami and San Antonio next, but this was when the stock was in the $30 range. Now the stock's come down, we're more focused, as our capital allocation requires, on our stock buybacks, so we're kind of putting the Miami deal on hold. But yes, I think our next expansion more than likely when we start back up will be in Miami. We could always sell a franchise between now and then, and then who knows where they'll be. We have talked to some people. If all of a sudden franchising heats up for us, it could be anywhere.

Q: Okay, great. Fair enough. Thank you very much.

Eric Langan – President and CEO
Thank you.

Operator
Our next question is a follow up from Darren McCammon with Cash Flow Kingdom.

Q: Hi. Thanks for taking me again. I just thought of something. So originally when we talked on New Year's Eve, you talked about pausing with Bombshells, and it sounded like to do some analysis and optimizing and things. But in answer to a previous question, it really sounds like redirecting the cash flow towards buybacks that might have otherwise gone to Bombshells is just as significant a factor. Am I correct in—?

Eric Langan – President and CEO
I think it's a little bit of both. Obviously we're going to follow our capital allocation strategy and we're going to do what it says to do. It's worked very well for us since we started it. The reality of it becomes we have to get such high returns. We want to analyze the returns to verify that the investments we're making in Bombshells are

getting us the cash on cash returns that are required by the capital allocation strategy. So we have the old concept. We know when we leased the building and we did whatever, we have made money on those. However, the downside risk if something goes wrong was extremely high and there were 100% cash requirements. We have switched the model at Pearland in April of '18. We bought the property. We're building the buildings. We're using bank financing, so less of our cash is going in there. But we really need to analyze and say, "Okay, this is how much cash it costs us because we had to buy this property, we had to build this building, this is our cash outlays, so what is our cash return?" Until we have more data from those stores, it's kind of hard to go, "Are we meeting all the requirements?" All of our models say we're going to in practice. So we know in practice it all works, but I want to make sure it works in reality especially when I have the opportunity for risk [free] reinvestment of buying back the stock at such high yields.

Q: Okay. That helps. Thanks. That makes a lot of sense.

Eric Langan – President and CEO
Okay. Thanks, Darren.

Operator
This will be the last chance for any final questions. Ladies and gentlemen, we have reached the end of the question and answer session, and I would like to turn the call back to Gary Fishman for closing remarks.

Gary Fishman – Investor Relations
Thank you, and thank you, Eric. As usual, we have included a few supplemental slides in our appendix. For those of you who joined late, you can meet management tonight at Rick's Cabaret New York from 6:00 to 8:00. That's at 50 W. 33rd Street between Fifth and Broadway. If you haven't RSVP'd, ask for me at the door. The next event on our calendar is the 5th anniversary of Vivid Cabaret New York at the end of the month and the first quarter financial results, which will be out the second week of February. On behalf of Eric, the company and our subsidiaries, thank you and good night. And as always, please visit one of our clubs or restaurants. Thank you.