ISSUERDIRECT
Trading Under the Symbol: ISDR

Transcript of RCI Hospitality Holdings, Inc.
First Quarter 2017 Earnings Call and Webcast
February 9, 2017

Participants

Gary Fishman - IR
Eric Langan - President and CEO

Analysts

Frank Camma - Sidoti
Evan Tindell - Bireme Capital
Mike Colonnese – Sidoti
Peter Siris – Private Investor
Darren McCammon - Proactive Financial

Presentation

Operator
Greetings and welcome to the RCI Hospitality Holding's Fiscal 2017 First Quarter Conference Call and Webcast. At this time, all participants are in a listen-only-mode. A Question-and-answer session will follow the format 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, sir.

Gary Fishman - IR
Thank you. Please everybody turn to Slide 2. I wanted to remind everybody of our Safe Harbor statement posted at the beginning of our conference call presentation, reminding you that you may hear or see forward-looking statements that involve a number of risks and uncertainties and urge you to read it. Actual results may differ materially from those currently anticipated, and we disclaim any obligation to update information disclosed this call as a result of developments which occurs afterwards.

Please turn to Slide 3. I also direct you to the explanation of non-GAAP measurements that we use and that are included in our presentation and news release. Finally, I'd like to invite everyone in the New York City area to join us at Rick's Cabaret New York tonight at 6 PM to meet management at Rick's Cabaret, which is Manhattan's number one gentleman's club, and we'll also have another tour of the new sister club, Hoops Cabaret and Sports Bar next door. Rick's Cabaret New York is located at 50 West 33rd Street between 5th and Broadway, around the corner from the Empire State Building. If you haven't RSVP'd already, ask for me at the door. The little snow we had in New York is not going to stop us.

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

Eric Langan - President and CEO
Thank you, Gary. Good afternoon everyone. Please turn to Slide 4. After the market closed, we announced our first quarter results for fiscal '17. We had a good solid quarter. The GAAP EPS increased 20% to $0.30 per share, and non-GAAP EPS increased 3.3% to $0.31. Free cash flow did very well. It came in at $5.1 million, up 33% year-over-year, and that keeps us on track for our initial $18 million fiscal '17 target.

Although we have already partially reported revenues, the details tell an even better story. Total revenues were up less than 1% year-over-year, due to the disposition of the number of underperformers in the fourth quarter of 2016. However, as we indicated, same store sales were up 3.6%. But what's noteworthy is our high margin service revenues were up 6.6%.

We also continued our share buyback program. During the quarter, we repurchased about 90,000 shares in the open market for than $1 million at an average of $12.28 per share. As a result, the basic and diluted share counts are now down 5.1% and 7.7% respectively from the first quarter of 2016.

Please turn to Slide 5. Our focus at RCI continues to be growing free cash flow. Thus, our capital allocation strategy is critical. For those of you new to RCI, I'd like to take a minute to review the capital allocation strategy we put in place going into fiscal 2016. We have updated this slide for our lower share count due to buybacks and the pay-down of convertible debt.

We have two major uses for our free cash flow. One is buying back shares. At $16 to $17 where the stock has traded recently, buying back shares generate an after-tax yield on free cash flow of 11% to 11.6%. We consider this yield risk-free, since we are buying our own assets, which we know very well. Two is buying or opening new units. We target a hurdle rate of 25% to 33% cash-on-cash return to account for the risk of making new investments, absent an otherwise strategic rationale.

Conversely, if a unit is not performing in line with our strategy and efforts to improve it have not been successful, we will take action to free up as much capital as possible for more profitable use. With regard to paying down debt, only at a much higher stock price does it make sense on a tax adjusted basis to pay down our most expensive debt prior to maturity. Having said that, we are always looking for ways to refinance our high interest debt at better rates.

Thus, at the current stock price, we are more inclined to look at opportunities to increase free cash flow and buy back our shares. To be clear, this does not mean we would stop buying shares. We currently want to be prepared a step into the market aggressively should the price weaken.

Please turn to Slide 6. Total revenues, total club and restaurant sales and same-store sales continue to outperform year-ago levels. We expect this positive trend to continue over the balance of fiscal 2017. Let’s look at the table on the bottom half of this slide for revenue line analysis. Our higher margin service revenues, what we sometimes call our VIP spend, has now risen four quarters in a row versus year ago periods. Beverage, food and others were down in the first quarter, because of the sale of two nightclubs, the closing of a restaurant and the sale of most of our interest in our energy drink business in the fourth quarter.

Please turn to Slide 7. Here, you can see the effects of the change in the sales mix on our gross profit margin. With the increase in service revenues and the reduction in other revenues, gross profit margin is now the highest it's been in five quarters.

Now let’s look at our non-GAAP operating margin. It increased sequentially from the fourth quarter, but is down about 60 basis points year-over-year. We took the opportunity in the first quarter to make some investments as part of our plan to make the company more scalable for future growth. Some examples of this spending were some extra labor cost to facilitate the transition to our new ERP system, marketing to support a new club and the Bombshells franchise program, and accounting and tax experts to advise on tax planning strategies in order to minimize our tax liabilities. As we go through the year, we expect these expenses to shrink as a percentage of total revenues.

Please turn to Slide 8. Here are segment results for nightclubs. Sales were up 3.9% on one less club, while same-store sales increased 2.8%. As I mentioned, the VIP spend seems like it has returned. We saw strong results from units in Minneapolis with the Vikings returning to their new stadium downtown. Clubs in New York City and other parts of Texas also did very well. New and reformatted units are off to a good start.

Non-GAAP operating income was up 2.5%, but non-GAAP operating margin was off a little due to the factors I explained on the previous slide. We expect margins should show year-over-year improvement over the course of fiscal 2017.

To keep you posted, at certain clubs we have begun to make small capital investments in line with our capital allocation strategy. This is mainly to expand their ability to serve more customers. The goal is to enhance the opportunities to increase same-store sales.

Please turn to Slide 9. Here are our segment results for Bombshells. Revenues declined 1.9% on one less unit, while same store sales increased 9.6%. This is pretty impressive considering most chains in the industry did not have a great December quarter. That, combined with the closing of Webster's unit in the fourth quarter significantly expanded bottom line results as well. Operating income increased 31% and operating margin expanded 3.7 percentage points.

We are starting to meet with multi-franchise operators. They like the concept and our average annual sales per unit of more than $4 million. And again, to keep you posted, our three Bombshells in development in Houston are moving ahead according to plan. We anticipate these opening during the second half, but understand actual opening dates are often up to final inspection schedules.

Please turn to Slide 10. This slide reviews our cash generating ability. As I mentioned, free cash flow increased more than 33% year-over-year. That was a function of our 20% increase in net income and our corporate focus on generating cash. Adjusted EBITDA was down about $200,000 due to the investments I mentioned earlier. Cash at $12.1 million on 12/31 was up 6.5% from the September 30th quarter. That reflects our strong sales and operations, but keep in mind we have to pay large but routine tax bills in the second quarter.

Please turn to Slide 11. During the first quarter, we continued the largest share buyback in the company's history. Equally important, as I mentioned on the last call, we paid off the last of our $2.8 million in convertible debt issue, eliminating 230,000 possible new shares, and also 49,000 related warrants expired.

Subsequent to the first quarter, we paid off the last tranche of convertible debt that we had outstanding, a $400,000 seller finance note. This eliminated 40,000 potential shares, so there are no dilutive securities at all in our current capital structure.

Please turn to Slide 12. This is a new slide we put together to illustrate how we have been growing our free cash flow while we have been reducing our share count. Since we initiated our capital allocation strategy going into fiscal 2016, we are very pleased with the results. Our goal is to continue building on that success to date.

Please turn to Slide 13. Here is our long-term debt slide. Through the current mix of new properties and properties sold, the amount and percentage of our real estate debt declined slightly from the end of the fourth quarter.

Among our other debt segments, convertible is down to $400,000, but that will be completely gone when I show you this slide next quarter.

If you'll please turn to Slide 14. Here we have updated our debt maturity schedule. As you may recall, we financed a lot of debt and paid off some borrowings in the fourth and first quarters, and continue to pay off some bank debt and convertible debt in the first and second quarters.

Looking at our debt maturity schedule, as of February 6th, you can see how it has become very manageable from our point of view through 2021. Annual debt amortization is in the $5 million to $8 million range. We have a small $2.3 million non-realty balloon to take care of in 2019, and we have a large non-realty balloon in 2020, but based on the properties involved, we expect we'll be able to refinance them.

Please turn to Slide 15. Our fiscal 2017 plan remains the same. Following through with what we started in fiscal 2016, we will continue our approach to capital allocation, as evidenced by our ongoing share repurchases.

First half sales should continue to benefit from the positive trends developed in the second half of 2016. The second half of 2017 should grow from our planned opening of three new Bombshells units and the sale of our first franchises. Margins and free cash flow generation should benefit from a more profitable portfolio of clubs and restaurants, and reduced interest expense as a percent of revenues.

Other key factors will be our total focus and commitment on free cash flow generation and progress we are making with reformatted clubs and one new club. We've already seen the benefit of a strong sports line-up in the terms of the Vikings returning to downtown Minneapolis. The first MMA event in New York City also had a nice effect on our operations there. And in the second quarter, our Houston operations did well last week and through the weekend, leading up to an including the night of the Big Game.

In addition, we have already sold one non-income producing property at a price of line with our expectations. We anticipate the sale of seven other non-income producing properties we have on the block to approximate $10 million.

Speaking on behalf of RCI management and that of our subsidiaries, I would like to thank our loyal shareholders for their support. And with that, let's open the line for questions. Operator?

Operator
Thank you. At this time, we will conduct a question-and-answer session. [Operator instructions]. Our first question comes from Frank Camma with Sidoti. Please proceed with your question.

Q: Couple of questions here. So the proceeds on the sales, which are pretty significant, I'm just wondering, so you have $10 million more left on that. So what's the plan for that $10 million that's coming in the door? Because you mentioned, you're not likely to pay down debt at this level and stock has gotten up there. So what would be sort of—for that excess cash if you will that's coming in the door near-term?

Eric Langan - President and CEO
Sure. Well some of it will pay down debt. There are a couple of properties that have some small mortgages on them. So we'd probably just pay those off as part of the sale. But most of this property is owned free and clear, and that cash will just go into our banks and be applied based on our capital allocation strategy. Obviously, it'll depend on what our stock price is at the time and what other opportunities we have available to us out there.

Q: Okay. That's kind of fits into my second question, which is you mentioned maintenance capex is about $2.5 million. But how much capex will you need for the three facilities, the three Bombshells that are coming on later this year that you haven't spent already?

Eric Langan - President and CEO
Okay, that we haven't spent already, probably an additional $3 million to $3.5 million. We're about halfway through the spending on the 290 location right now. So we'll have about other $1.5 million there. Other two locations are bank financed locations where we're going to be getting construction loans to do the buildings. And so our out of pocket on both those locations will probably be closer to $1 million each.

Q: Okay. And going back to the clubs, obviously nice pickup on the VIP spend as you pointed out. I understand you've been making improvements to those clubs, but I was wondering if you could speak to sort of the macro environment. Do you perhaps see a trend there, just a general mood that might account for maybe a little pickup in the spending there, or do you think it's more what you've done to the properties?

Eric Langan - President and CEO
I think it's a little bit of both. With our Minnesota properties, obviously, the spend came back. A lot of it is attributable to the Vikings coming back. But we did do about $300,000 upgrade to one of the clubs there. We're in the process of getting bids and we have a whole third floor of the building that's not being used right now. We're going to move operations like the dressing room and other management office and stuff to that third floor, and build a whole other section of VIP rooms on that second floor. A lot of this investment in Minnesota is in preparation for the next Super Bowl. We'll make our money back in a couple days for all these investments in the clubs. And you can get long-term same store sales growth out of it as well. We're very excited about that in the Minnesota market. And we're looking at some of our other locations where we feel that we can make some small capital improvements and get higher same store sales returns.

Q: Okay. And I guess the last one from me is just can you talk a little bit more of the—I think you mentioned it, and I was writing it real quick, but that actual dollar investments that you made in some of these investments during the quarter, like the computer system etc.? Did you say $800,000 or was that—okay, I thought you said—

Eric Langan - President and CEO
—off the top of my head for those, because some of it, like the equipment was ordered in previous quarters. Now you're seeing expense. It's hitting expense lines to the tune of a few hundred thousand dollars. We had to bring in some consultants. We're redoing a lot of our tax work. We switched our taxing over to BDO, who's doing all our tax prep and tax work now. And so we're going through some processes with them and some reviews that are costing some money. On some of our assets, we're reformulating the depreciation schedules. We obviously learned about the FICA credits which were a big hit for us and save us a lot of money. There are a couple other tax credit programs that we're working on with them right now that we're going to start working as well, hopefully reduce some of our tax liability going forward.

Operator
Thank you. Our next question comes from Evan Tindell with Bireme Capital. Please proceed with your question.

Q: I just had a question on the capital expenditures. I thought that there was about $1 million that was corporate. What was that related to? And my second question is as far as the franchising of Bombshell, if you guys just looked at sort of the—looks like the maximum number of units that you guys are thinking you might be able to open in the next couple of years, if you just looked at like the people who are interested, and the capital that they have and how many they're talking about, maybe being interested in, that sort of thing.

Eric Langan - President and CEO
Sure. The corporate is really we built a new corporate headquarters. That was the final expense on that. And then part of that is part of the ERP system as well. So that's what that $1 million is. Most of it is obviously the final construction of our building as we moved into, in October. As far as the Bombshells franchising, our plan is to open three to four company stores a year for the next few years. I think what we'd like to see the first year in 2018, maybe open three franchise units, the following year maybe five to six franchising units, and then the following year six to nine franchising units as we bring people on. The way we do these units are multi-unit territories where they agree to build five locations over five years or three locations over three years, something like that. So we would get one open one year and then the next year, we'd sign up a new franchise, we'd open in a different area and then the second store would open in the previous area. So we get that much from the effect as we sign up more and more franchisees.

Q: Okay. Great. One more question. Does you guys' assumption for maintenance capex vary a lot between the strip clubs and Bombshells?

Eric Langan - President and CEO
It's all, from what I'm seeing, pretty much the same. When you do maintenance capex and you talk about it, you're talking about carpet, chairs, paint, air conditioning maintenance, stuff like that. Most of Bombshells are brand new, so their air conditioning is very, very low right now. We do see some outdoor furniture stuff. Even if I did full remodel, I go in and gut a club and redo it, the total cost is about $300,000 for the equipment and chairs, carpet, some light and sound equipment, stuff like that, maybe some lockers, and then painting and minor carpentry stuff. So it's not really expensive when you get an ongoing club, keeping it open and going. It's a pretty inexpensive to keep those going. We don't really have to spend a lot, new carpet every three to five years, new chairs every three to five years. We launched all these clubs at different times. So obviously it would be a lot more if we did all of them at one time, but you do a few one year, and a few the next year and so on.

Operator
We have a question coming from Mike Colonnese with Sidoti. Please proceed with your question.

Q: Great job on the same-store sales improvement this quarter, that's great to see. My question, part of it was answered there around the expectations for the Bombshells franchise unit. But more on the economic side, what are your expectations for what the economics will look like once you start signing these franchise sales in terms of franchising fees, initial cost, so on and so forth?

Eric Langan - President and CEO
The franchise fee will cover most of the company's initial cost, for us, to help them to set the location up. Obviously the franchising agreement, it gives them about two weeks of training, they pay for that training. So we'll put a team together, but we'll be reimbursed for the majority of those costs. And then of course on an ongoing basis, about 5.5% of their gross revenues with an average store at $4 million should mean each franchise store that opens up should start generating about $200,000 a year in annual income for us.

Operator
Our next question comes from Peter Siris, a private investor. Please proceed.

Q: I actually had a bunch of questions. First question is just on Bombshells. Because it's a new business, do you have a feeling as the units mature what kind of profitability you can see out of these things? I mean they look like even in the early stages they're making good money, but do you have any view as to sort of what the long-term unit-by-unit profitability would be?

Eric Langan - President and CEO
Sure. To give you an example, while the overall concept may seem new, the actual first store opened almost four years ago, actually, four years this April. And that location is now our most profitable location. So we're seeing as they're there longer, we're actually doing better and better business. As we're building up, people get used to coming to our place to watch the games, they get used to the afternoon happy hour. The changes in our menu last February made a big difference. We'll update our menu again here real soon, get rid of some items that aren't selling as much, and bring some new items in just to keep it fresh.

Why I'm so excited about it is that the units, they have a really big honeymoon period, and they shake off for about six to eight months, and then they start building back up, and then surpass even the numbers when we first opened. And so we're really excited about it. I think as we continue to move forward, I think we're going to get better and better numbers in the beginning and hold onto that. So hopefully we won't have less of a slowdown period from the honeymoon period as we're able to bring in better trained staff. As we have more and more stores, we've got rock stars in each location. We're going to move some of those rock stars into these new locations where before we were having a few trainers and then having a lot of brand new staff operating the unit, where now I think we'll be able to bring in more staff that's had longer time working. That's why we really focused on opening the Houston area, because we can bring the new wait staff in, train them in our existing stores so that really when the new store opens everyone there is already trained. They're not learning on the fly as in the beginning as we've opened these stores.

Q: So Eric, in the first unit, in that mature unit, what kind of four-wall profitability do you have?

Eric Langan - President and CEO
We don't normally discuss individual units. But that unit is generating about $1.5 million free cash flow a year right now.

Q: Okay great. The second question is actually a two-part question, which is you've gotten rid of a lot problem businesses. You've made your business easier. Theoretically that should free up trying to focus on making existing operations better, and maybe, I don't know, making more acquisitions. If we were to look at this, first I guess, how is your business better now from getting rid of the problems? And the second thing is if we were to look three years down the road, what are some of the things we might expect to see?

Eric Langan - President and CEO
I think we freed up some management time when we sold the Indy club. Of course, now our Minnesota manger is there. That's a market we're seeing 40%, 50% year-over-year growth. So we're very excited about that. We're also, like I said, we're going around and visiting our existing locations saying, "Gee, this club is doing great, but the VIP room is so small. What if we added another 800 square feet of VIP room spaces here? Could we generate more income?" And so we're starting to see those. So you're starting to see these little investments. The big thing with the Minnesota club is we added a huge VIP section. Then we redid the main floor entrance into the old VIP and made a much more visible bottle service area. And so we're seeing nice increases in revenues from that.

Plus, I think, the other thing is we get a location that's making us a lot of money and is going and going and going. Should we replace the chairs and carpet every now and then, but we don't do like a big refresh, and at some of those locations, we're reenergizing the employees. The employee morale is way up where we're going in, and it's a trivial cost. I mean we're spending $50,000 to $80,000 on a unit. And the nice thing is when you add that supplemental income, you add another 6% sales, 70%, 80% of that goes straight to the bottom line. And so we're seeing some nice increases that I think as we move forward we'll continue to see nice increases on a club level basis on those clubs from that spend, which gives us cash-on-cash return in the 100% range or more.

Q: And would you be expecting in the future to be making acquisitions of more clubs or is Bombshells, and generating free cash flow, and buying back stock or both?

Eric Langan - President and CEO
I think you're going to see both. We're actively looking at acquisitions again. With the stock in the range it's at, we weren't in the market in January. So we're letting our cash build up. As that cash builds up, we're going to start looking for places—it was really easy before. We just put it into our stock. But the key is we're not looking at top-line growth. We're looking at growth in free cash flow. We want to see our free cash flow grow at a 10% to 15% clip annually. And so we're being very picky on acquisitions. There's plenty of stuff out there I can run out and buy right now. But all that doesn't necessarily meet the standard I want of basically a three- to four-year cash-on-cash payback.

Q: So your goal in making acquisitions is if you can get to a three to four-year cash payback, you'll do it. If not, then you'll find others, buying back stock or other things. That would be your hurdle, right?

Eric Langan - President and CEO
Right. I'll just keep looking. I'm going to find, we've proven in the past, we're going to find those opportunities. So we'll just keep looking until we find those opportunities.

Q: And the final question is, I'm curious how Hoops doing and if it's been hurt by the fact that there is no professional basketball team in New York City?

Eric Langan - President and CEO
Well, the Knicks were winning last night. I didn't see the final score, but they were winning when I looked

Q: Eric, if they are in New York City, trust me, they did not win.

Eric Langan - President and CEO
Well, one can hope. We're doing pretty well at Hoops. We're starting to get really nice happy hour business built over there. It's following in the trends of Vivid where, we are hitting our expectations, and we expect it to continue to build.

Q: Great.

Eric Langan - President and CEO
Vivid just had one of the best quarters it's had since it opened. And so we're very excited that Hoops will follow, and will continue to follow in the order that Rick's did and Vivid has done now. I think this new club will do the same.

Q: Well, I just want to say as a long-term shareholder, it's great to see the level of consistency that you've been building. And when I'm about to say, I don't mean it in a funny way, but the management team of this company has improved dramatically over the years in the way that you operate the business. And you guys should be congratulated for that. So thank you.

Eric Langan - President and CEO
Thank you. I appreciate it.

Operator
Our next question comes from Darren McCammon with Proactive Financial. Please proceed with your question.

Q: Now that stock's gone up, is there any reason why you couldn't pay down the higher interest rate collateralized debt?

Eric Langan - President and CEO
There is no reason we can't, other than the return isn't that great. Sure it's 12% debt, but as a 35% taxpayer, it's still a better return on our cash flow to buy back our own stock, even at $18.

Q: I understand that. I just wanted to know if there was some sort of agreement with the people you're paying the debt off to, that they didn't want it back early for any reason.

Eric Langan - President and CEO
Only debt that we cannot pay off early without penalty is the Jaguar's debt, and it's a full penalty for the first five years, which I believe ends in August of this year, or maybe May this year. That's 9.5% debt. And then after that I believe it's a 5% penalty if we pay it off early. So at some point I guess we could—or maybe 10% penalty. We have to look and see. It's been almost five years since I really paid much attention to it. I know we couldn't pay it off, so haven't really revisited it much.

But we haven't said, "Hey, can we refinance this at 5% or 6% down the road, and will it make sense when this time comes up?" So it is on my calendar. Whenever it is, I have a calendar reminder the month before to talk some banks and do some math and see if that would make sense to refinance that debt. I think it's down to about $11 million. So it's not a huge amount, and it's being paid off pretty rapidly. I think we pay about $400,000 a month on that. And we also took the $9.9 million that was—the $8 million balloon, we borrowed a little bit more, lowered the interest rate down as part of condition to get them to take an amortizing note and give us—the deal, he made us take more money from him, because I guess he had cash sitting around he could place anywhere. But we were happy to take it and put that on amortizing note, so that that note is actually, we're saving interest on that every month too as we start paying off. So we actually are making about $8 million in principal payments a year right now on all of our debt. So we have no interest-only debt right now. All of our debt is amortizing now.

Q: Fantastic. Okay, good. Okay. So I have a little bit of an off-base question here. I also would like to congratulate you on your focus and management's focus on capital allocation and free cash flow. You've been doing a great job. I heard that the book *The Outsiders* had something to do with your, I don't know, change in views. Is that true?

Eric Langan - President and CEO
Certainly. I've read the book a couple of times. I even have it on audio, an audio book in my phone. I guess the big thing was—I'm from the strip club business. I'll be honest. I started out as a manager of strip clubs. We went public, and we built this company, and we've kind of grown and grown. And so we had financial advisors that were telling us you have to have the growth. You need to get the top line growing, keep this going. So we were focused on those things. I think we did well with what our focus was.

The difference is that book has really taught us that the top line is really not important. What's important is how much cash can we generate. And how are we reallocating that cash. How are we either returning to shareholders or creating more value for the shareholders with that cash. And what it really taught me, we were always told paper is cheap, that you can write stock checks all day long. Well, of course, the investment banks love that, because they're making fees. And we were learning. As I started looking at it, I was like, "Wait a minute, this is the most expensive money." *The Outsiders* book really taught me how expensive those stock checks were.

So now we use the formula, and it really turned every decision into simple math. We know what our return is buying our own assets. So why would we pay more? I looked at some of deal we've done. Some of them were great deals. In 2008, we were making some fantastic deals. And some of the deals in 2011 and 2012 weren't so great, because our stock was so low, but we had gotten caught up in that write those paper checks, write those paper checks, the market will catch up, the market will catch up. And that book really kind of brought the thinking around to figuring out, okay, this is why, that and another shareholder out of California who got involved in the company, that really helped us out a lot and got us to read the book. So it really helped. It's made a big difference in basically all of our decision making.

Q: Thanks for that color. That actually helped quite a bit from a long-term point of view.

Eric Langan - President and CEO
I mean, we've always been consistent with our philosophy. We just had to change the philosophy. That was the problem. We had the wrong philosophy I think there for a long time when we were just looking for that top-line growth. I mean, if you look, I laugh as I talk about it. I said this is the first year that we had top-line growth was negative $500,000, and our stock's performing better than it's ever performed. So it's like okay, hold on a second. Just goes to prove that focus on that cash and as they say, cash is king. I think it's going to open up a lot of opportunities for us. There are a lot of acquisitions out there that are available to us right now, and we're negotiating and slowly but surely, we're teaching owners that this is what the market's going to pay you. You can either keep operating your club, or you can sell to us.

Q: So am I right in your trailing free cash flow is $22 million. I think you had a slide that says that, $21.8 million?

Eric Langan - President and CEO
Yes. I believe so. Some of that was from the tax benefits from the FICA credit, offset by the New York state taxes a little bit. So I'm sticking right now with my $18 million. Let's see how this next quarter is. If this next quarter is extremely strong, we may have to adjust that. If there are some things that pop up in the next quarter on a cash flow basis, then we'll look at that as well. But I'm very confident that $18 million is our reachable number. We're going to do $18 million barring some unforeseen event.

I think that we're going to continue to base our capital allocation on $18 million free cash flow at this point. As things change and develop, as we open up the new Bombshells, if we make an acquisition and that cash flow starts to increase, we'll adjust the capital allocation model. And the beauty of it is it all boils down to simple math and if the stock, if the cash flow gets ahead of the stock price, then we'll be buying back the stock and vice versa. The stock price gets way ahead of the model, then maybe there's a point where we can use some paper and reduce some debt. Because the paper will be cheaper than the debt. But right now, I really like where we're at. Our debt is very manageable based on the cash flow we have. I mean, we could sit here and do nothing for the next five years and have more cash in the bank and our debt, could pay off all of our debt in full. So I think we have a lot of options, and like I said, it's all just simple math. I love it because it makes my job really easy. All I have to do is break out the calculator and say, "Okay, this deal makes sense. Or, this deal doesn't make sense."

Q: Okay, well, you read my mind on where I was going. So that was my last question.

Operator
There are no questions in queue. I would like to turn the call back over to management for closing comments.

Gary Fishman - IR
Thank you, operator, and thank you, Eric. If everybody could just turn to Slide 16, here is our reporting calendar for the balance of the year. For those of you who might have joined us late, you can meet management at Rick's Cabaret New York from 6 to 8 o'clock at 50 West 33rd Street between 5th and Broadway. If you haven't RSVP'd yet, ask for me at the door. We'll also be providing tours of our new sister club, Hoops Cabaret and Sports Bar next door.

Looking further ahead on the calendar, we'll be at the Sidoti Spring Investor Conference in New York City on March 29th. This is an open conference for 13F and non-13F investors. Please email me, and I'll arrange for you to attend and for a one-on-one meeting with Eric. And I guess you could visit some other companies if you wanted to at that time. We currently plan to announce second quarter club and restaurant sales on April 11th and second quarter results on May 9th. And on behalf of Eric, the company and our subsidiaries, thank you and good night. We'd also like to say a special thanks to our growing number of retail and institutional investors. And as always, please visit one of our clubs or restaurants. Thank you, everybody.

Operator
Thank you. This concludes today's teleconference. You may disconnect your lines at this time, and thank you for your participation.