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Best Ideas Conference

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1 Main Capital

- 1 Main Capital is a long-biased investment partnership, founded in 2018 by Yaron Naymark
- Concentrated investments primarily in high quality, attractively valued, growing businesses
- Prior to founding 1 Main Capital, Yaron accumulated over a decade of investing experience at multi-billion-dollar value-oriented public and private equity firms
- Yaron has the substantial majority of his net worth invested in the fund
- Differentiation:
 - Obsession – turning over as many rocks as possible to find the best opportunities available
 - Diligence – thorough research, leading to high conviction, which allows for concentration in best ideas
 - Temperament – ability to ignore the crowd, and remain calm, focused and levelheaded when new facts arise
 - Confidence – understanding the 2-3 most important knowable variables that will determine an investment's success or failure
 - Flexibility – willing to change mind quickly and learn from past mistakes
 - Long-term orientation – in a market dominated by short-term incentives
 - Experience – several decades of studying businesses, investors and markets, in a world where history rhymes
 - Risk management – capital preservation always takes priority over returns
 - Single manager – no diffusion of information or responsibility, best ideas become the largest positions and losers are cut rather than defended

What makes a good investment?

- Multiple expansion (investor psychology) is tough to predict and rely on
- The two obvious ways to predictably / reliably get paid in equity investing:
 - i. high dividend yield where the distribution is long-term sustainable
 - ii. attractive long-term earnings per share (EPS) or free cash flow per share (FCFPS) growth
- Today, I will focus on a company that has a very attractive long-term EPS / FCFPS growth profile
- When buying a company with an attractive EPS / FCFPS growth profile at an attractive multiple, my base case is that the investment will compound at the rate of EPS / FCFPS
- However, the market may and should eventually better-appreciate this growth profile and re-rate the multiple to a higher level
- I believe a higher multiple is warranted for this company

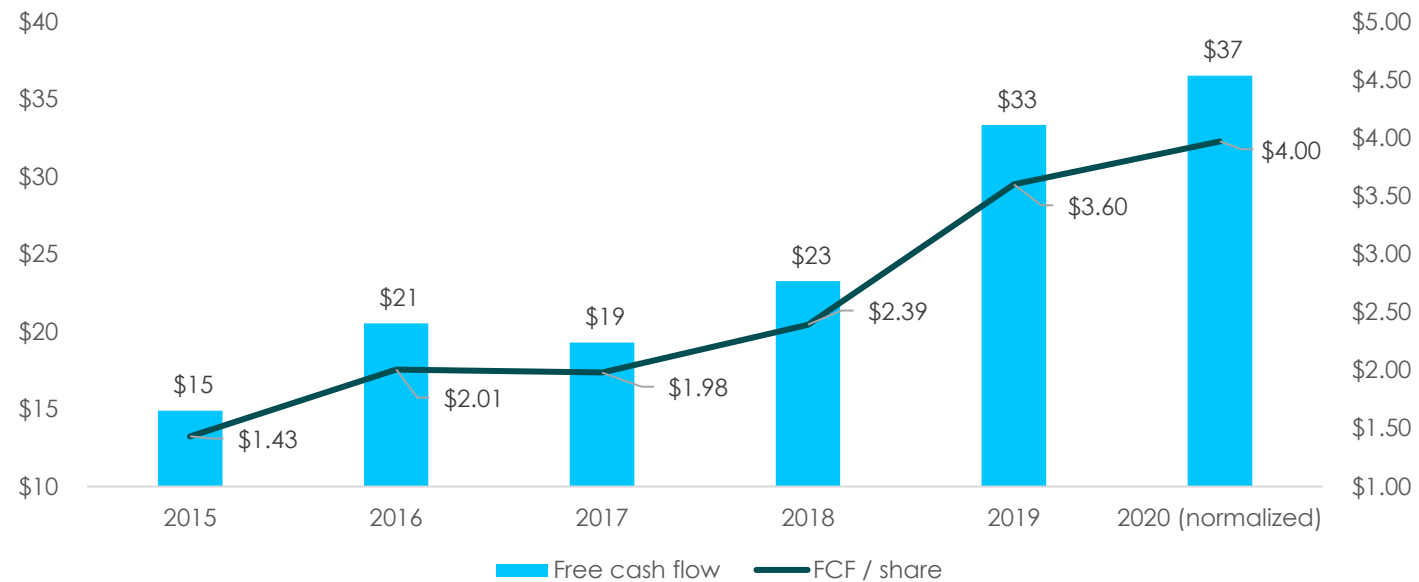
Case in point

- Top 10 performing US / Canada stocks over the last 5 years, >\$100m mkt cap, profitable

Company	5 Yr EPS CAGR	5 YR TSR CAGR
XPEL INC	74%	122%
AURA MINERALS	23%	97%
NVIDIA CORP	37%	75%
SANGOMA TECH COR	49%	68%
SILVERCORP METAL	55%	67%
PAYCOM SOFTWARE	46%	66%
CASELLA WASTE	39%	61%
VICOR CORP	17%	59%
MESABI TRUST	16%	58%
VEEVA SYSTEMS-A	54%	57%

Today's pitch - a cash compounding machine

- The business I am pitching today generates substantial and growing amounts of free cash flow
- At current prices, the stock is selling for ~9x maintenance FCF
- The company has compounded its FCFPS at a 23% CAGR since 2015
- I believe the company will compound its FCFPS at a >25% CAGR over the long term



Note: Free cash flow is defined as cash flow from operations less maintenance capex. \$ in millions.
2020 normalized based on company materials that state "Pre-COVID-19, we believe we were on a \$35-\$38M FCF annualized run rate based on all subsidiary locations open"

Introduction to RCI Hospitality

- RCI Hospitality (NASDAQ: RICK) is a well-run, small cap company with two businesses units:
 - Nightclubs – over three dozen of the top gentlemen's clubs in the country (~\$160m normalized revs)
 - Bombshells – a 10-location military themed sports bar & restaurant concept (~\$55m normalized revs)
- It has a lot of the characteristics I look for when evaluating potential investments:
 - Low entry valuation – ~9x maintenance FCF
 - Well capitalized with large portfolio of owned real estate
 - Strong management team
 - High insider ownership – 8%
 - Ability to reinvest cash flow at attractive rates
 - Largely protected from new competition; while its operating licenses are grandfathered into place, new ones are rarely granted

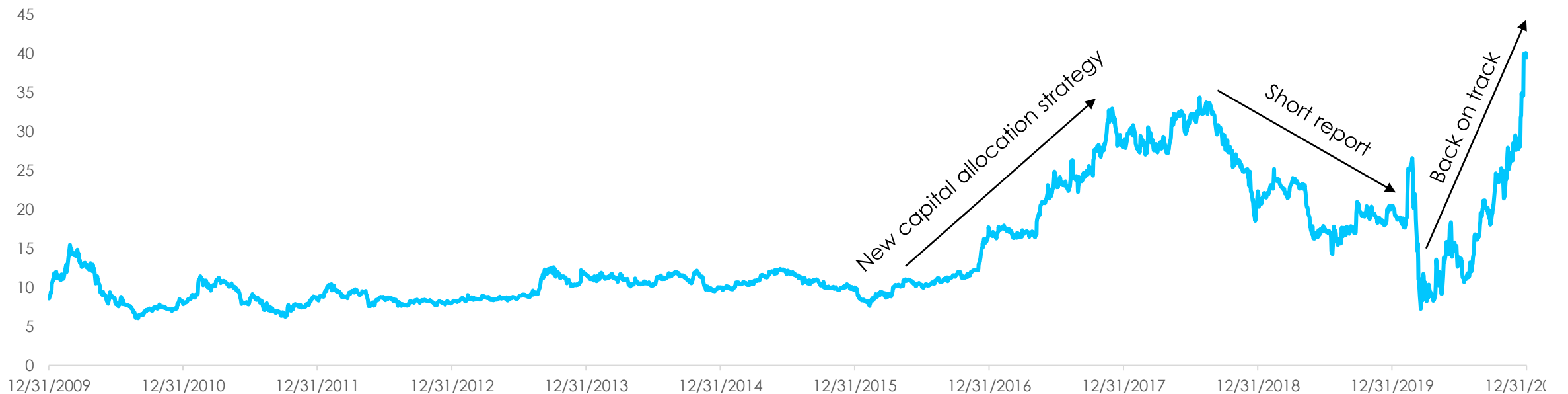
Note: 1 Main Capital is long RICK. All information provided herein is for informational purposes only and should not be construed as investment advice. All readers should do their own research and come to their own conclusions before investing. An investment carries risk of permanent loss, may not be suitable to your specific investment situation and our views are subject to change without notice.

Journey from a good business to a good stock

- In 2015, RICK's management team began executing on a new capital allocation strategy
- Since then, the company has started comparing the after-tax return on each investment it makes to the yield it would earn by repurchasing its own shares
 - From 2010, to 2015, the company's share count grew from 9.7 million to 10.4 million
 - Since 2015, the company's share count has declined from 10.4 million to 9.0 million
- After articulating and implementing the new strategy, RICK's stock increased >3x from \$10 per share to over \$30 per share from 2015 to 2018
- In mid-2018, the company's stock declined significantly due to uncertainty and negative press associated with an attack by an anonymous short seller
 - The allegations made by the short seller were thoroughly investigated by the SEC and by an international law firm hired by the company's board
 - By September 2020, both the SEC and internal reviews concluded their investigations; the company admitted failure to disclose less than \$1m of exec perquisites in total between 2014-19, which were fully expensed in the company's financials
 - I believe the company is better off for having gone through this difficult period since it has likely resulted in the implementation of better internal controls and more oversight by the board

A wild journey indeed

- After articulating and implementing its new capital allocation strategy, RICK's stock increased >3x from \$10 per share to over \$30 per share between 2015 and 2018
- The company's CEO sold no stock during this period of rapid appreciation
- Following the resolution of the issues arising from the anonymous short report, the company showed its resiliency during the COVID crisis by generating positive FCF while operating at significantly reduced occupancy
- RICK recently signed its first Bombshells franchisee, which may meaningfully accelerate the concept's growth



Ability to reinvest FCF at high returns - clubs

- RICK acquires nightclubs for 3-4x EBITDA and, in most cases, acquires underlying real estate with the club for fair market value
- Management seeks to acquire clubs in protected markets with strong underlying economies (i.e. cities with growing population and positive employment trends)
 - With ~500 clubs that meet the company's acquisition criteria, there is a significant runway for acquisitions
 - Very limited competition for M&A, and RICK is the buyer of choice
- Since 2017, RICK has deployed >\$50 million into nightclub M&A at an average multiple of <5x EBITDA inclusive of real estate
 - The company tends to buy the real estate underlying most of its clubs and currently owns 31 of 38 club locations (>80%)
- Due to its significant real estate holdings, RICK can run safely the business with 3x+ of leverage

Return profile of acquired clubs	
EBITDA	\$ 3.0
Illustrative purchase multiple	5.0x
Purchase price	\$ 15.0
Debt	(7.5)
Equity	\$ 7.5
EBITDA	\$ 3.0
Interest exp	(0.6)
EBT	\$ 2.4
Pre-tax return	33%
Taxes	(0.5)
NOPAT	\$ 2.0
Levered ROE	26%

Ability to reinvest FCF at high returns - Bombshells

- RICK builds new Bombshells locations with a total investment of approximately \$5-6 million per location; the equity portion of this investment ranges from \$2.6 million to \$2.8 million per unit
- A typical unit generates >\$5 million of revenue, with newer units performing above those levels
 - Due to its high beverage mix (60%), the concept generates attractive margins (~27.5% EBITDAR) and quick paybacks (<3 years)
- Management believes that the concept can support 80-100 locations, and has recently signed its first franchise agreement with a Houston-based franchisee who has agreed to open 3 locations over 5 years

Returns profile of new Bomshells units	
Capital investment	\$ 5.50
Debt / lease	(2.80)
Equity	\$ 2.70
Est revenue per location	\$ 5.25
Est EBITDAR margin	27.5%
Est EBITDAR	\$ 1.44
Rent / interest exp	(0.17)
EBT	\$ 1.28
Pre-tax return	47%
Taxes	(0.26)
NOPAT	\$ 1.02
Levered ROE	38%

Bombshells – some napkin math

- Management believes that the Bombshells concept can support 80-100 locations vs 10 currently
- Owned:
 - Growing to 80-100 owned units would require ~\$200 million of equity funding
 - RICK can likely internally fund such an amount over a 5-year period
 - If built, these units would likely contribute an additional ~\$75-100 million to the company's annual FCF, or \$8-10 per share
 - At 15x FCF, these units would be worth an incremental \$125+ per RICK share
- Franchised:
 - It is unclear how many of the 80-100 target units will eventually be franchised
 - However, a 3-unit agreement was signed just a few weeks ago, with more likely on the way
 - At a 5% assumed royalty rate, each franchised unit should contribute >\$250k of annual pre-tax FCF with no capital investment, as well as >\$1 million of additional debt capacity that can be used to buy back shares or acquire more clubs
 - At a 2% assumed marketing fee, each franchised location should contribute >\$100k annually to the company's advertising budget, which will also benefit the corporate owned stores

Model and assumptions

- Excludes upside from franchised units which would increase i) FCF, and ii) borrowing capacity for buybacks + growth
- 15x target FCF multiple is likely too low; as the company successfully delivers against its strategy the multiple should grow
- A higher multiple will allow the company to further accelerate its club acquisitions by using its stock to buy larger clubs

(\$ in millions)	2018	2019	2020	2021	2022	2023	2024	Comments / assumptions
Clubs	54.5	59.7	29.3	62.5				
Bombshells	4.9	3.7	11.3	12.5				
Other	(15.0)	(17.2)	(18.2)	(20.0)				
EBITDA	44.4	46.2	22.4	55.0	66.6	82.8	106.3	Existing units grow 2% YoY. ~35% pre-tax return on avg annual growth spend.
<i>YoY Growth</i>		4.2%	-51.7%	146.0%	21.1%	24.3%	28.4%	
Maintenance capex	(2.5)	(3.9)	(2.2)	(5.0)	(6.1)	(7.5)	(9.7)	Maintenance capex grows with EBITDA.
Cash interest	(9.2)	(9.6)	(9.3)	(9.3)	(9.7)	(11.5)	(14.1)	High rate debt refinanced mid-year 2021 @150bps interest expense savings.
Cash taxes	(3.7)	(2.9)	(0.8)	(5.0)	(7.5)	(12.5)	(15.0)	Tax rate steps up from current levels over time.
Working capital / other	(5.8)	3.4	3.3	-	-	-	-	
FCF	23.2	33.3	13.5	37.2	43.5	51.5	67.8	
Growth spend				(25.0)	(35.0)	(50.0)	(75.0)	Growth spend, including Clubs and Bombshells, ramps up as FCF grows.
Buybacks				(25.0)	(30.0)	(35.0)	(40.0)	Co directs excess cash to buybacks at much lower assumed returns than growth spend.
Dec / (inc) in net debt				(12.8)	(21.5)	(33.5)	(47.2)	
Net debt (year end)	122.9	129.4	125.8	138.6	160.1	193.5	240.7	
<i>leverage ratio</i>	2.8	2.8	5.6	2.5	2.4	2.3	2.3	
Shares	9.71	9.3	9.0	8.5	8.1	7.7	7.4	Buybacks @ 15x avg annual FCF reduces share count.
FCF / share	\$ 2.39	\$ 3.60	\$ 1.50	\$ 4.36	\$ 5.37	\$ 6.67	\$ 9.18	
<i>YoY Growth</i>		50.3%	-58.4%	191.4%	23.0%	24.3%	37.7%	
Assumed FCF multiple				15.0x	15.0x	15.0x	15.0x	
Value per share			\$ 39.44	\$ 65.47	\$ 80.52	\$ 100.06	\$ 137.73	
Multiple of invested capital				1.8x	2.2x	2.7x	3.7x	
IRR				77.0%	47.5%	39.3%	38.9%	

Risks

- Tough comps for existing Bombshells units; underperformance at newly built Bombshells units
- General pullback in consumer confidence / spending
- See 10-K “Risk Factors” section for other risks and uncertainties

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