



Dear Partners & Friends,

For the fourth quarter 2024, Ace River Capital Partners, L.P. (the “Fund”) returned +8.79%. Over the same period, the S&P 500 (SPX) and Russel 2000 (RTY) Indexes returned +7% and -2%, respectively. With full year for the fund -14.53% vs 20% for S&P 500 and 11.5% for Russel 2000.

### **Strategy**

My goal is to maintain a concentrated portfolio of small and micro-cap companies with unique advantages and growth potential within their respective industries. The aim is to hold them for the long term. I will be focused on companies that have tangible assets with a preference for unique real estate such as special purpose licensed locations (RICK), waterfront property and marinas (HZO), equity participation interest in mineral deposits and mining operations (VOXR). This strategy will usually avoid companies that are involved in software, finance or insurance. Finding such companies requires significant time and effort. Due to the scarcity of suitable opportunities, constraints on time and resources, and opportunity costs, I will take substantial positions in the companies that meet my criteria and pass my risk/reward assessment. I do not subscribe to wide diversification and only research and follow a limited number of companies deeply. I will not spend much time on a company if I am unwilling to take a substantial position and have the conviction to add to that position on weakness. This approach requires a lot of research and patience. There will be long periods of inactivity with few trades, and I will rarely hold more than 5 companies at a time. This strategy accepts short-term volatility in pursuit of higher, long-term, tax-efficient compounding returns.

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### **Top Position**

The fund’s top position is RCI Hospitality (RICK). RICK is the only publicly traded owner of adult nightclubs in the US. Currently they own 57 clubs across 13 states and an additional 14 sports-bar restaurants with the “Bombshells” concept. With few municipalities issuing new adult entertainment licenses these businesses function as local monopolies with excellent unit economics. There are roughly 2200 clubs across the country and RICK estimates that 500 of which would meet their criteria for acquisition. These clubs have limited potential buyers with RICK establishing themselves as the buyer of choice for any club owners looking to sell. This provides a long runway for growth.

RCI Hospitality recently announced a successful Beta rollout of Onlyfans like site “Favoritely.com” (formally named AdmireMe). This site enables entertainers to directly message their fans, sell them photos and videos, and unique to this platform – arrange to meet them in the safety of licensed clubs.

“The mobile friendly site is free to sign-up. Users have to be at least 18 years old. They can then follow and subscribe to as many entertainers as they like. Entertainers charge what they want. Monthly subscriptions are currently running about \$4-5. All major credit cards are accepted.

The platform is also free to all professional entertainers in the adult club industry. Entertainers keep 80% of their sales and receive bonuses for signing up new entertainers.

The site is a joint venture with an existing adult entertainment internet technology company.”

*-1/16/25 Company press release.*

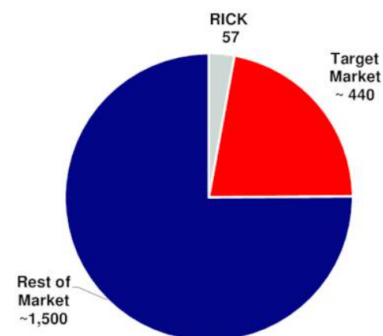
The Favoritely.com asset may prove to be extremely profitable if the company can attract enough users and entertainers for it to be an actual competitor to Onlyfans. I believe this asset has the potential to grow bigger than the existing company if managed effectively. There is also the possibility that the company valuation changes if this tech asset becomes a bigger portion of the market cap in the future. This could lead to multiple expansion in the years ahead.

The core nightclub business has returned to positive same store sales growth in the recent two quarters. The company is sitting on over \$30MM in cash and is in talks to make multiple acquisitions. With the post pandemic inflated numbers behind us, I am confident club owners’ expectations for sale prices will better reflect the prices RCI Hospitality will be willing to pay. The company estimates that there are 440 more investible clubs across the country.

## Nightclub Acquisition Track Record

- \$267M of acquisitions (clubs and their related real estate) since FY16
- Track record of:
  - Staying disciplined on price
  - Improving operations and financial performance consistent with our goals
  - Deploying larger amounts of capital as we’ve grown
- More runway for club acquisitions
- Can’t predict the size/timing of deals, but we believe our goal of \$6M/yr of acquired EBITDA is achievable on a 5-year average basis

Est. Number of Licensed Adult Nightclubs in US



The back-to-basics management plan to focus on club acquisitions and share buybacks is aligned with my long-term thesis so this holding will remain the largest of the fund.

## FY25-29 Plan Detail

<b>Nightclubs</b>	<ul style="list-style-type: none"> <li>• Core business with 35%+ margins, high barriers to entry, steady and significant cash flow</li> <li>• Targeting low-single-digit SSS growth, consistent with historic levels</li> <li>• Evaluating every location in our portfolio and will rebrand, reformat or divest underperforming locations</li> </ul>
<b>Bombshells</b>	<ul style="list-style-type: none"> <li>• Finish three units currently under development</li> <li>• Targeting 15% EBIT margins and a return to SSS growth</li> </ul>
<b>Club Acquisitions</b>	<ul style="list-style-type: none"> <li>• Targeting \$6M of acquired EBITDA/yr – focusing on the best clubs, base hits with occasional home runs</li> <li>• Target valuation – 3-5x EBITDA for the club and fair market value for the real estate</li> <li>• Typical financing – 25% cash on hand, 75% bank financing and seller notes</li> <li>• Target 100% cash on cash return in 3-5 years</li> </ul>
<b>Buybacks &amp; Dividends</b>	<ul style="list-style-type: none"> <li>• We plan to buy back a significant amount of stock, if the price is right</li> <li>• Regular buybacks, with the ability to flex up when the stock is cheap</li> <li>• Planning small dividend increases annually</li> </ul>



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-Slide from earnings call presentation 12/16/24

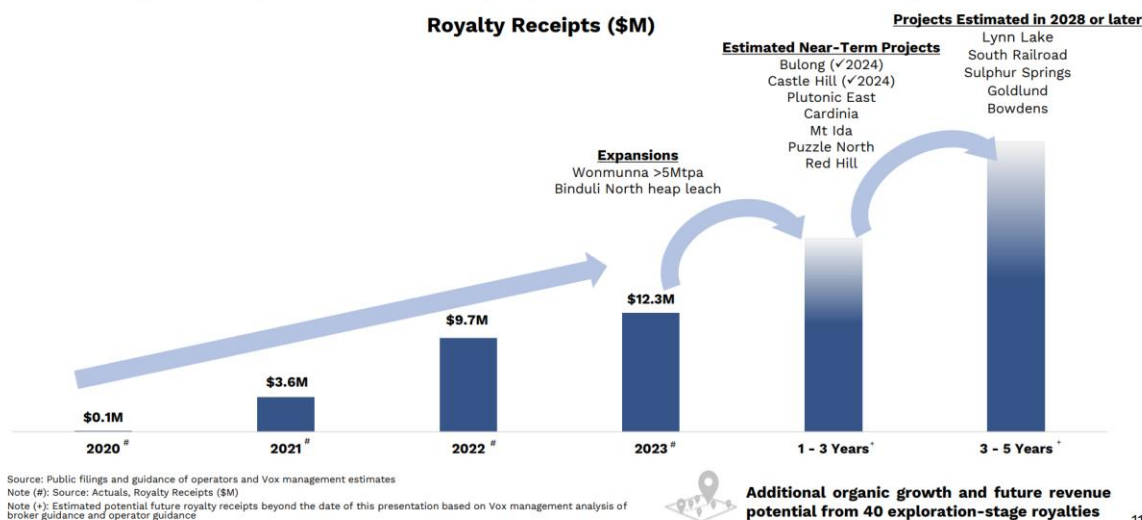
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## Position Updates

Vox Royalty (VOXR) has increased cashflow 55% year over year for Q3 and 82% for the first three fiscal quarters ending September 2024 vs the same period in 2023. The company has recently received the first revenues from its Castle Hill and Bulong gold royalties and expects the Otto Bore royalty to begin in Q1 2025. Estimates for these three royalties alone should be between \$3-4 million per year adding 30% to the current \$12 million of revenues. The company still has another 10 royalties expected to begin production by 2028.

## Organic Revenue Growth

Revenue growth expectations driven by expansions and new mines coming online



Marine Max (HZO) has been pushed by an activist investor to review the possibility of breaking up parts of the company. I believe marinas to be the most interesting part of the business and would be less interested in the retail business if the assets were broken up into multiple companies. My capital will follow the real estate.

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Fund Positions - In Order of Portfolio Weight

RICK, VOXR, HZO, DSHK

Thank you for reading. Please reach out for any reason.

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