



Dear investors,

For the first quarter 2025, Ace River Capital Partners, L.P. (the “Fund”) returned -14.37%. Over the same period, the S&P 500 (SPX) and Russel 2000 (RTY) Indexes returned -4.3% and -9.5%, respectively.

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

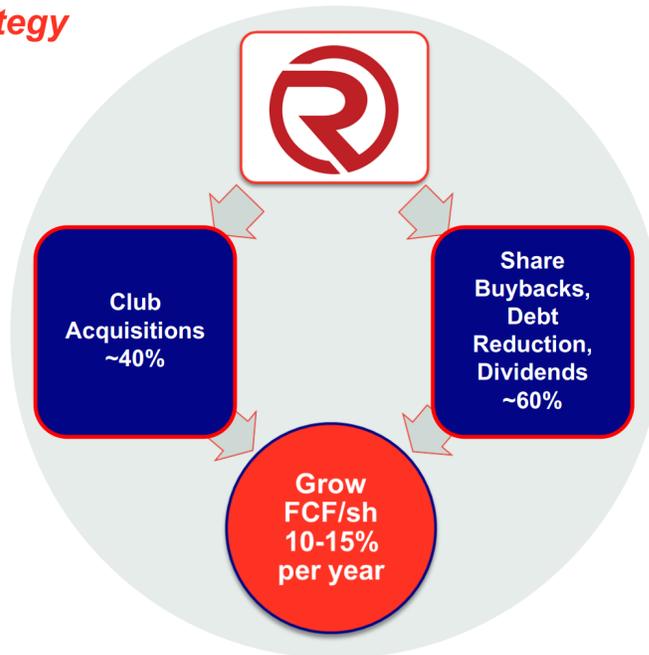
The fund’s top position is RCI Hospitality (RICK). RICK is the only publicly traded owner of adult nightclubs in the US. Currently they own 57 clubs across 13 states and an additional 14 sports-bar restaurants with the “Bombshells” concept. With few municipalities issuing new adult entertainment licenses 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.

The company announced the acquisition of Platinum West Gentlemen’s Club in West Columbia, South Carolina on 4/8/25. The purchase price totaled \$8.0 million with \$5.5 million cash and \$2.5 million seller financing at 7%. This is the second club addition of the year and fits all the standard criteria of the “Back to Basics’ Capital Allocation Plan” the company has committed to. The company plans to utilize 40% of free cash flow to grow with club acquisitions and the remaining funds will go towards share buybacks, debt reduction, or dividends.

Capital Allocation Strategy

Notes

- Targeted % annual use of FCF FY25-29
- Strategy excludes completion of club and restaurant projects already in development
- We may deviate from this strategy if other strategic rationale warrants



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Deducting the price of the real estate and then dividing the purchase price by 5 we can get a baseline for the additional revenue per acquisition. Based on the target acquisition price of 3-5x EBITDA we can expect this acquisition to add \$1.25MM/year EBITDA. (\$8MM - \$1.75MM for real estate = \$6.25MM/5 max EBITDA multiple = \$1.25MM EBITDA expected.) This \$1.25MM would be if they paid the full 5x multiple and also if they are unable to find cost savings and other added efficiencies after taking over operations. I would guess the actual number will be closer to \$2MM or \$.22/share with the current 9MM shares outstanding. Using the stock's five-year average EV/EBITDA multiple of 13.74 we get a rough value of \$3.02/share for this acquisition. With 500 more like it out there and limited potential buyers, the company stock price can compound for a long time with this roll-up strategy. I expect they will have more opportunities at attractive prices during a recession.

The company has repurchased over 400,000 shares in 2024 alone at the average price per share of \$46.55. Given the current price of \$39.98 we can expect management to be more aggressive, resulting in better value for shareholders in the future.

RICK also announced the success of beta testing for their OnlyFans type social media site Favoritely.com. The site was beta tested in a small number of clubs and will now be added to 15 more clubs with positive metrics on page views, subscriptions, creator accounts and customer spending. RCI has a unique offering with Favoritely.com where the site / club relationship can act as a flywheel with the site bringing in more performers and customers to the clubs and the clubs bringing more customers to the site.

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The traction of the social media site and the potential upside has a large value to investors that is not reflected in the stock price at this time in my opinion. RICK will continue to be the funds top position.

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Position Updates

Vox Royalty (VOXR) stands to benefit from the run up in gold price. The economic uncertainty brought on by the US tariffs and resulting trade battles has contributed to a large increase in the price of gold, up just under 40% on the year. With gold and silver dominating the producing assets for Vox, this position has served as a hedge against the market. It has performed well during the recent decline. It will continue to be in the top one or two positions for the fund.



Marine Max (HZO) reported a strong quarter and made substantial share repurchases recently, \$12.4MM in Q2 alone. With the cyclical nature of this business, I will consider adding to this position during the trough/recession phase of the business cycle it looks like we are approaching. I expect this position not to produce much until we get to the expansion phase of the cycle.

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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