



# RCI HOSPITALITY HOLDINGS INC

*Building a portfolio of well-managed, high cash-flowing  
nightclubs and restaurants*

**NASDAQ: RICK**  
**Investor Presentation**  
**September 2019**  
**[www.rcihospitality.com](http://www.rcihospitality.com)**

# Forward-Looking Statements

This presentation contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. These statements include, among other things, statements regarding plans, objectives, goals, strategies, future events or performance and underlying assumptions and other statements, which are other than statements of historical facts. Forward-looking statements generally can be identified by words such as “anticipates,” “believes,” “estimates,” “expects,” “intends,” “plans,” “predicts,” “projects,” “will be,” “will continue,” “will likely result,” and similar expressions.

These forward-looking statements are based on current expectations and assumptions that are subject to risks and uncertainties, which could cause our actual results to differ materially from those reflected in the forward-looking statements. Factors that could cause or contribute to such differences include, but are not limited to, those discussed in this presentation and those discussed in other documents we file with the Securities and Exchange Commission (“SEC”).

Important factors that in our view could cause material adverse effects on our financial condition and results of operations include, but are not limited to, the risks and uncertainties associated with (i) operating and managing an adult business, (ii) the business climates in cities where it operates, (iii) the success or lack thereof in launching and building the company’s businesses, (iv) cyber security, (v) conditions relevant to real estate transactions, (vi) our ability to regain and maintain compliance with the filing requirements of the SEC and the Nasdaq Stock Market, and (vii) numerous other factors such as laws governing the operation of adult entertainment businesses, competition and dependence on key personnel. We undertake no obligation to revise or publicly release the results of any revision to any forward-looking statements, except as required by law. Given these risks and uncertainties, readers are cautioned not to place undue reliance on such forward-looking statements.

As used herein, the “Company,” “we,” “our,” and similar terms include RCI Hospitality Holdings, Inc. and its subsidiaries, unless the context indicates otherwise.

# Non-GAAP Financial Measures

In addition to our financial information presented in accordance with GAAP, management uses certain non-GAAP financial measures, within the meaning of the SEC Regulation G, to clarify and enhance understanding of past performance and prospects for the future. Generally, a non-GAAP financial measure is a numerical measure of a company's operating performance, financial position or cash flows that excludes or includes amounts that are included in or excluded from the most directly comparable measure calculated and presented in accordance with GAAP. We monitor non-GAAP financial measures because it describes the operating performance of the Company and helps management and investors gauge our ability to generate cash flow, excluding (or including) some items that management believes are not representative of the ongoing business operations of the Company, but are included in (or excluded from) the most directly comparable measures calculated and presented in accordance with GAAP. Relative to each of the non-GAAP financial measures, we further set forth our rationale as follows:

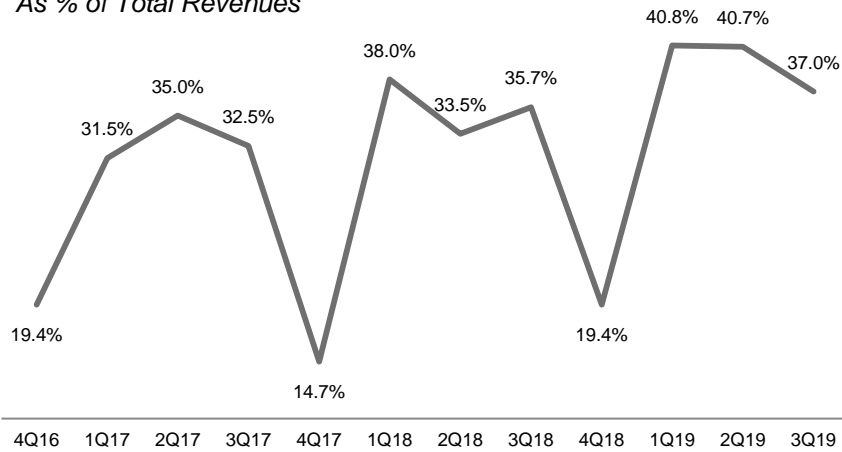
- *Non-GAAP Operating Income and Non-GAAP Operating Margin.* We calculate non-GAAP operating income and non-GAAP operating margin by excluding the following items from income from operations and operating margin: (a) amortization of intangibles, (b) impairment of assets, (c) gains or losses on sale of businesses and assets, (d) gains or losses on insurance, and (e) settlement of lawsuits. We believe that excluding these items assists investors in evaluating period-over-period changes in our operating income and operating margin without the impact of items that are not a result of our day-to-day business and operations.
- *Non-GAAP Net Income and Non-GAAP Net Income per Diluted Share.* We calculate non-GAAP net income and non-GAAP net income per diluted share by excluding or including certain items to net income attributable to RCIHH common stockholders and diluted earnings per share. Adjustment items are: (a) amortization of intangibles, (b) impairment of assets, (c) costs and charges related to debt refinancing, (d) gains or losses on sale of businesses and assets, (e) gains or losses on insurance, (f) unrealized gains or losses on equity securities, (g) settlement of lawsuits, and (h) the income tax effect of the above described adjustments. Included in the income tax effect of the above adjustments is the net effect of the non-GAAP provision for income taxes, calculated at 22.8% and 26.5% effective tax rate of the pre-tax non-GAAP income before taxes for the nine months ended June 30, 2019 and 2018, respectively, and the GAAP income tax expense (benefit). Included in the income tax effect of the above adjustments is the net effect of the non-GAAP provision for income taxes, calculated at 22.1% and 26.5% effective tax rate of the pre-tax non-GAAP income before taxes for the six months ended March 31, 2019 and 2018, respectively, and the GAAP income tax expense (benefit). We believe that excluding and including such items help management and investors better understand our operating activities.
- *Adjusted EBITDA.* We calculate adjusted EBITDA by excluding the following items from net income attributable to RCIHH common stockholders: (a) depreciation expense, (b) amortization of intangibles, (c) income tax expense (benefit), (d) net interest expense, (e) gains or losses on sale of businesses and assets, (f) gains or losses on insurance, (g) unrealized gains or losses on equity securities, and (h) settlement of lawsuits. We believe that adjusting for such items helps management and investors better understand our operating activities. Adjusted EBITDA provides a core operational performance measurement that compares results without the need to adjust for federal, state and local taxes which have considerable variation between domestic jurisdictions. The results are, therefore, without consideration of financing alternatives of capital employed. We use adjusted EBITDA as one guideline to assess our unleveraged performance return on our investments. Adjusted EBITDA is also the target benchmark for our acquisitions of nightclubs.
- *Management also uses non-GAAP cash flow measures such as free cash flow.* Free cash flow is derived from net cash provided by operating activities less maintenance capital expenditures. We use free cash flow as the baseline for the implementation of our capital allocation strategy.

Our Form 10-Qs for the quarters ended March 31, 2019 and June 30, 2019 contain additional details relative to the non-GAAP financial measures and are posted on our website at [www.rcihospitality.com](http://www.rcihospitality.com).

# GAAP Charts / Tables

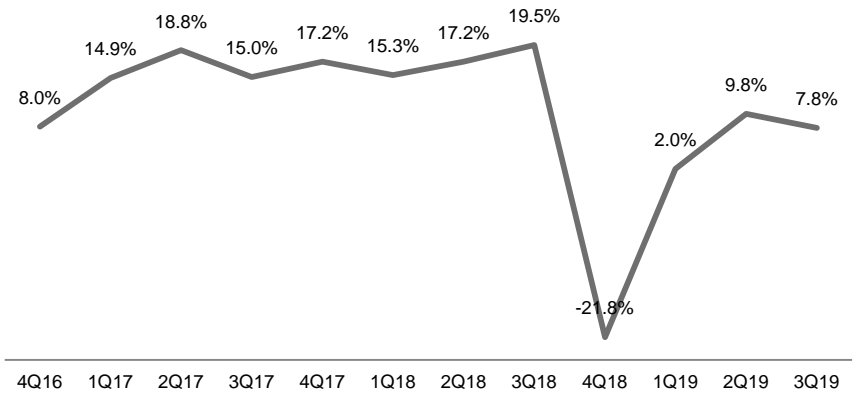
## Nightclubs GAAP Operating Margin

As % of Total Revenues



## Bombshells GAAP Operating Margin

As % of Total Revenues



# What We Do

## Overview

- Building a portfolio of well-managed, high cash-flowing nightclubs and restaurants
- Founded 1983, IPO and Nasdaq listing in 1995

## Nightclubs

- 38 clubs – some of the industry’s best – many in Top 20 US markets
- Major brands: Rick’s, Tootsie’s, Scarlett’s, XTC, Jaguars, Club Onyx

## Bombshells Restaurants

- Fast-growing, sports bar restaurant chain in Texas
- 9<sup>th</sup> and 10<sup>th</sup> locations to open early FY20 (begins October)

## Entertainment Drives Sales

- Clubs: Beautiful female entertainers attract customers
- Bombshells: New generation of sports bars / restaurants

Exchange: Symbol	Revenues (TTM)	Non-GAAP EPS (TTM)*	Free Cash Flow (TTM)*	Cash Dividend	Market Cap (9/18/19)	Shares (6/30/19)	Inside Owners (9/18/19)
Nasdaq: RICK	\$177M	\$2.24	\$29M	\$0.13/year	\$165M	9.6M	7.6%

# Great Business

## Strong Cash Generation (FY18)

- High gross profit margin (86%)
- Fast inventory turnover (33x)
- Low maintenance capex (\$2.5M)

## Clubs: Barriers to Entry

- Most municipal licenses tied to physical location
- Few municipalities issue new licenses
- We have acquired ~80% of clubs we own

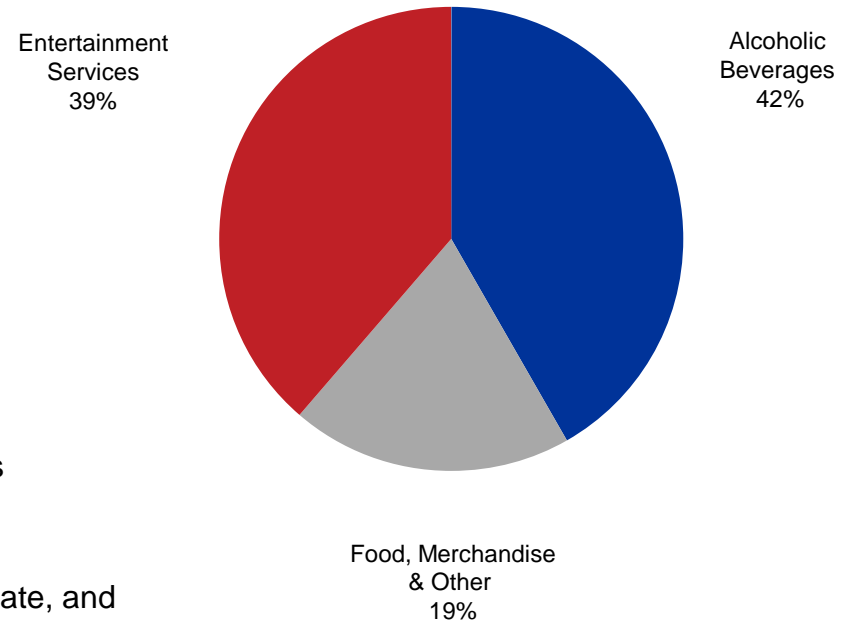
## Bombshells: Competition Helps

- Does well in high traffic areas with other casual dining brands

## Access to Bank Financing

- Growth can be funded through debt, most of which is real estate, and internal cash generation

Total Revenues (FY18)



# Financial Goals

## Objective

- FCF: Compounding annual growth of 10-15% per share

## STRATEGIES

### 1. Capital Allocation

- Use capital to buy back shares

### 2. Clubs

- Acquire more great clubs in the right markets

### 3. Bombshells

- Review progress after opening all new locations

# Capital Allocation Strategy (CAS)

## Key Metric

- After-tax yield on Free cash flow (FCF) relative to our market cap

## Buy/Open New Units If...

- We can achieve target cash on cash return of at least 25-33% or
- There is a strategic rationale

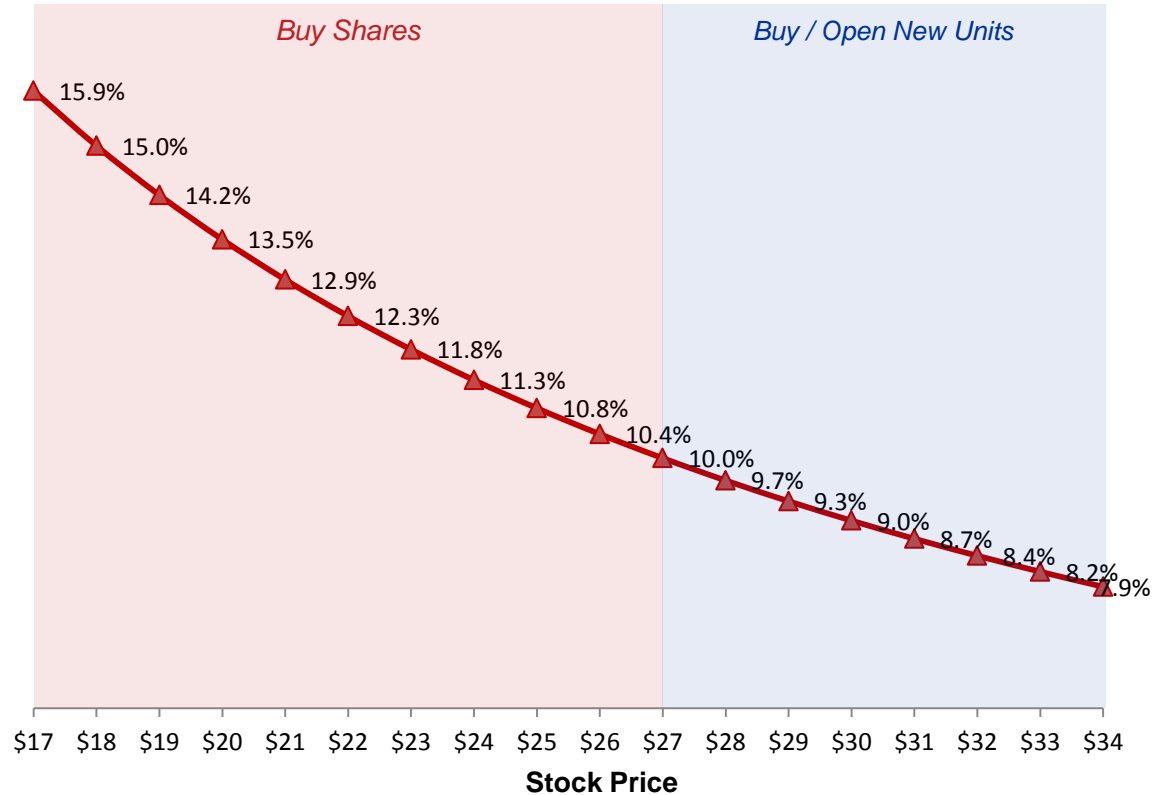
## Buy Back Shares If FCF Yield...

- Exceeds double-digit range
- Exceeds yield of accelerated payment on our highest interest debt (currently a 9.2% after tax yield)

## Current Status

- \$27 share is the point between buying/opening units and buying shares

## FCF Yield on Stock Price @ FCF of \$26M





# Nightclubs: Plenty of Room to Grow

## Market

- 2,200 clubs / ~500 meet our qualifications
- While we are one of the largest, market share is < 2%
- Long-term owners interested in selling
- Acquirer of choice: Only public company in the space plus access to bank financing

## Financial Dynamics

- Buy earnings accretive clubs at 3-4x adjusted EBITDA
- Purchase related real estate at market value
- Great track record paying off seller financing from acquisition cash flow

Nightclubs Segment (\$M)	FY18	FY17	Δ
Revenues	\$140.1	\$124.7	12.3%
Operating Income (Non-GAAP)*	\$49.1	\$41.2	19.1%
Operating Margin (Non-GAAP)*	35.1%	33.1%	+199 bps

FY18 reflects: 5.8% SSS growth, acquisitions, and disposition of under-performers

## Our Top Club Brands



Elegant clubs with restaurants



High-end, high-energy party club



Nation's mega club with 74,000 square feet



High-end clubs for African-American professionals



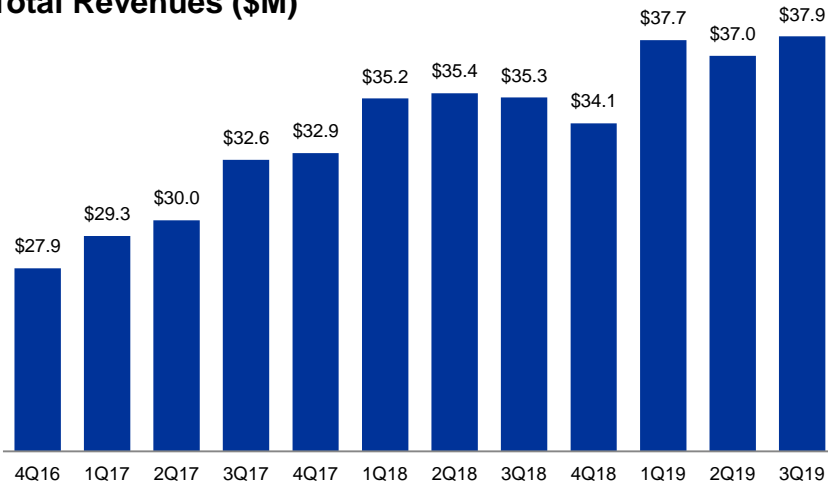
Lively BYOB clubs for blue collar patrons and the college crowd



Lively BYOB clubs for blue collar patrons and the college crowd

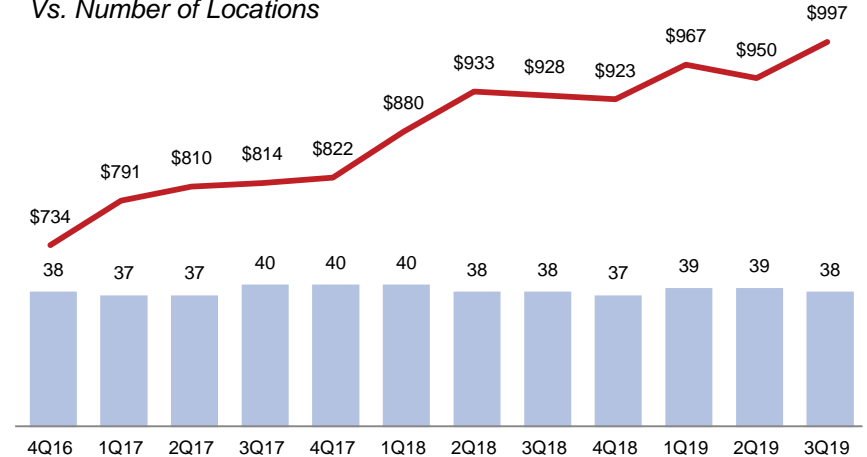
# Nightclubs: Improved Portfolio

**Total Revenues (\$M)**



**Average Revenue Per Location (\$K)**

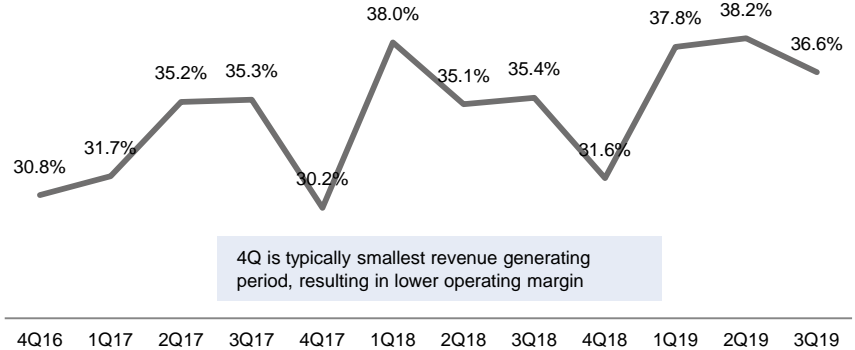
*Vs. Number of Locations*



- Profit growth driven by higher revenue per location and expanded operating margin
- Reflects implementation of capital allocation strategy
  - Replaced poor performers with premier acquisitions
  - Focus on continual improvement at “keeper” clubs
- Acquisition focus going forward on larger, FCF flowing clubs in major metro markets
  - Based on recent successes in Chicago, Pittsburgh, St. Louis, and South Florida
  - Not ruling out smaller acquisitions that fit our expertise and capital allocation strategy

**Non-GAAP Operating Margin\***

*As % of Total Revenues*



# Bombshells: New Generation Sports Bar

## More Upscale Than Traditional Sports Bars

- Better quality food, service and experience
- Wide appeal: men, women, families, friends, singles, couples
- Strong community involvement
- Large venues: 8K sq. ft. inside + 2K sq. ft. patio outside
- Big HDTVs, scratch kitchen, free Wi-Fi, USB charging stations, DJs

## Financial Dynamics

- Great margins and fast payback
- Long day: Lunch, happy hour, dinner and late night
- High beverage/food sales ratio: ~60% / 40%
- Focus on company-owned units to build critical mass
- Potential: 80-100 locations (20% owned, 80% franchised)

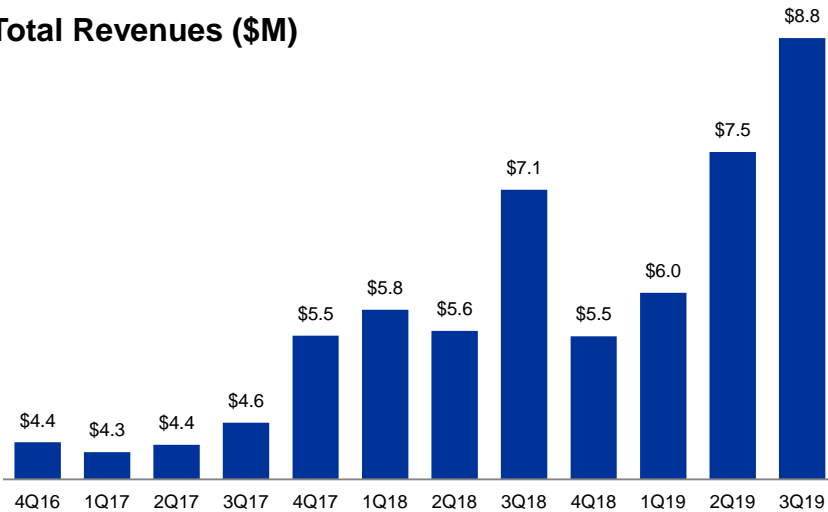


Bombshells Segment (\$M)	FY18	FY17	Δ
Revenues	\$24.1	\$18.8	28.0%
Operating Income (Non-GAAP)*	\$3.6	\$3.1	17.7%
Operating Margin (Non-GAAP)*	15.1%	16.4%	-131 bps

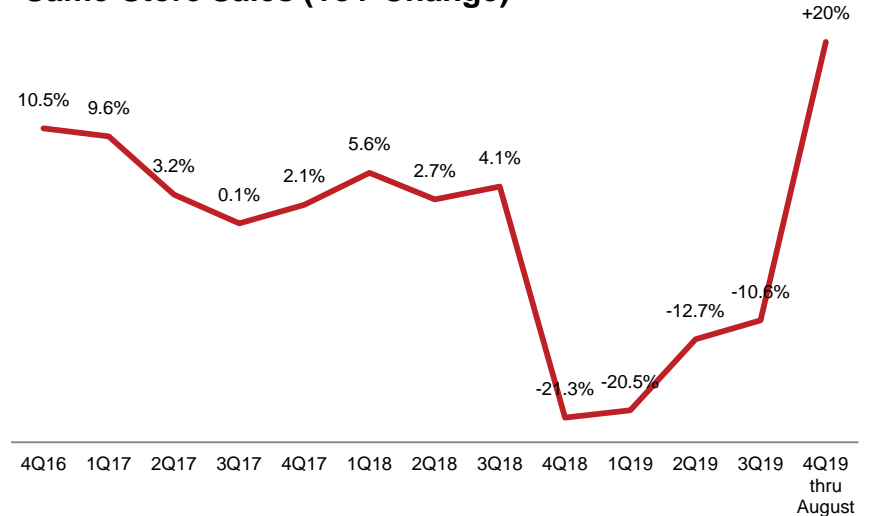
FY18 reflects -3.3% SSS growth and new unit opened 3Q18

# Bombshells: Turnaround Taking Shape

Total Revenues (\$M)



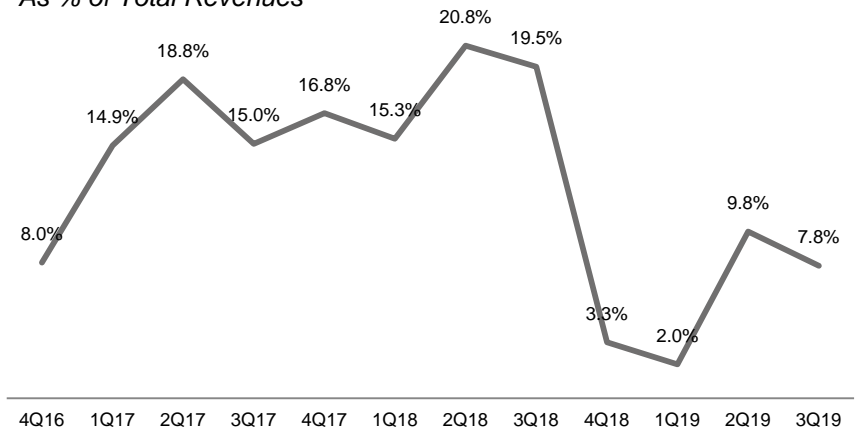
Same-Store Sales (YoY Change)\*



- Four new Houston locations doing well
- Final two (Katy & US 59) opening early FY20 for total of 10
- June SSS rebound continuing in 4Q19 through August
- The 10 units should generate \$40-\$50M annualized
- Operating margin should recover with SSS rebound and minor pre-opening costs
- Past and pending sale of excess parcels around new units should increase cash on cash return

Non-GAAP Operating Margin\*\*

As % of Total Revenues



\* Effective 3Q19, Bombshells same-store sales now include locations open at least 18 months versus 12 months so the calculation is not affected by the "honeymoon" period experienced in the first six months of a new unit when revenues are higher compared to more normalized subsequent rates.

\*\* For GAAP reconciliation, see prior period results news releases available on RCI's website. For comparable GAAP data, see "Bombshells GAAP Operating Margin" on 4.

# Strong Cash Generation

## Cash at 6/30/19

- \$11.0M

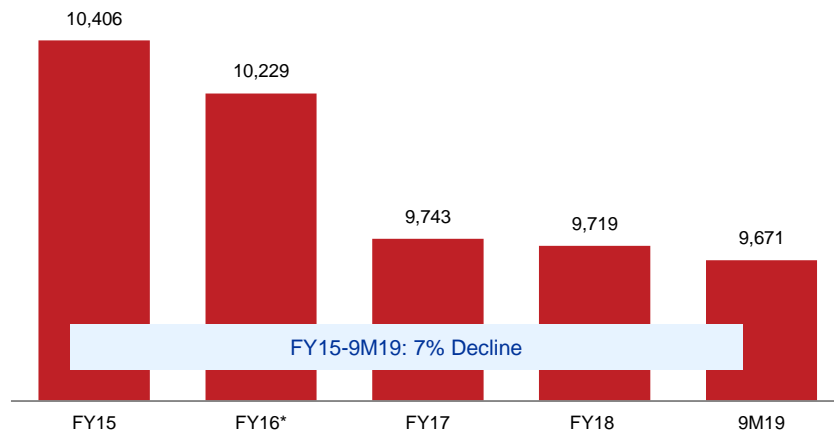
## Adjusted EBITDA\* 9M19 vs. 9M18

- \$36.6M vs. \$35.4M – up 3.4%
- 27.0% of revenues vs. 28.3%

## Free Cash Flow\* 9M19 vs. 9M18

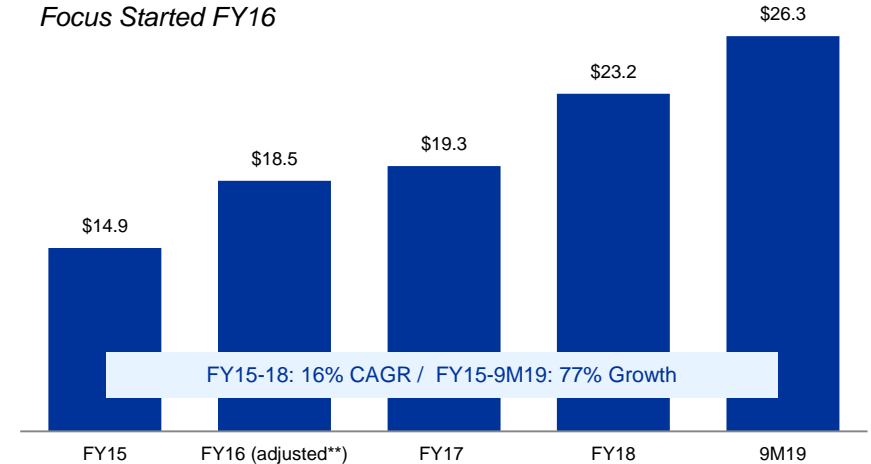
- \$26.3M vs. \$20.6M – up 28.1%
- 19.4% of revenues vs. 16.4%

## Diluted Weighted Average Shares Outstanding (in 000s)



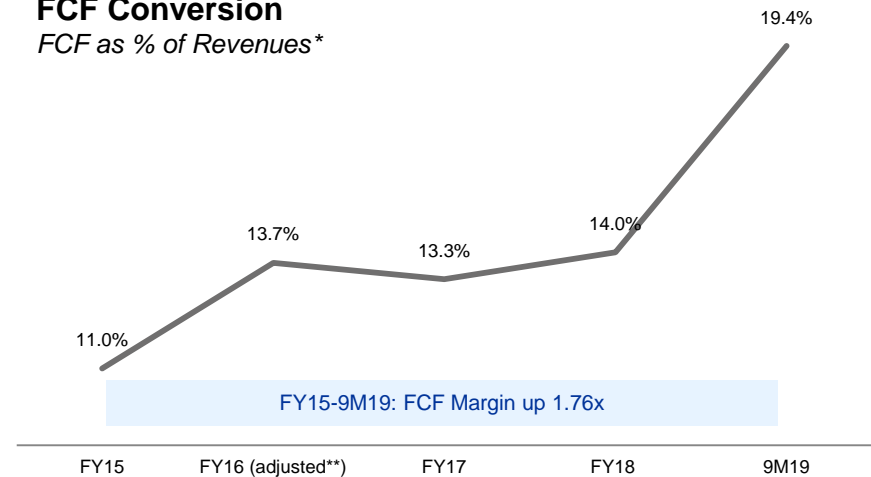
## Free Cash Flow (\$M)

Focus Started FY16



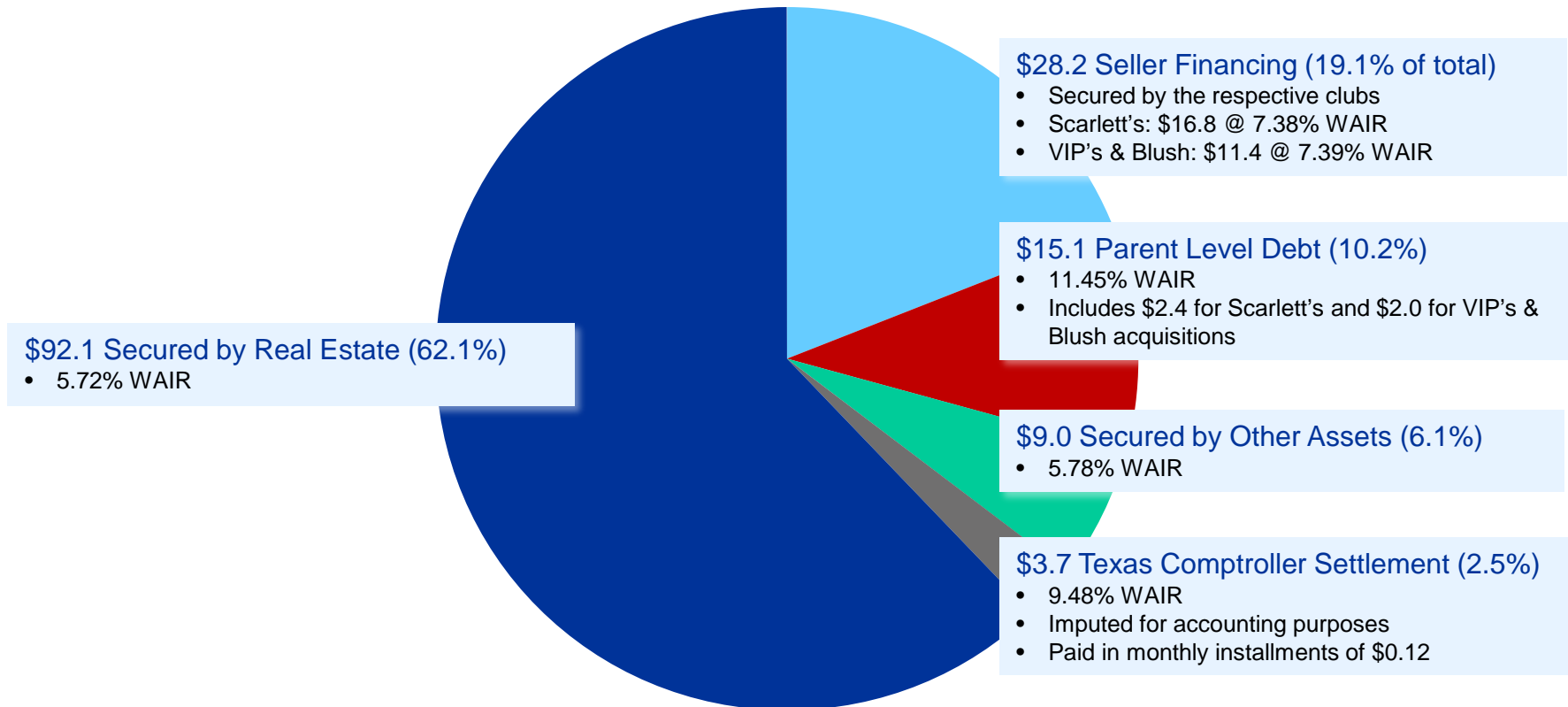
## FCF Conversion

FCF as % of Revenues\*



# Most Debt is Real Estate *(as of 6/30/19, \$ in millions)*

Total of \$148.1\*  
Weighted Average Interest Rate (WAIR): 6.79%



# CAS Has Noticeably Improved Returns

(\$ in 000s)	2016	2017	2018	9M19
<b>Clubs</b>				
# Locations	37	40	37	38
Revenue	\$ 113,941	\$ 124,687	\$ 140,060	\$ 112,664
Segment Operating Income	\$ 33,211	\$ 35,138	\$ 44,458	\$ 44,499
Assets	\$ 244,332	\$ 254,432	\$ 253,169	\$ 269,313
% margin	29.1%	28.2%	31.7%	39.5%
ROA (A/T Segment Operating Income)	8.7%	8.8%	13.2%	16.5%
Avg revenue per location (annualized)	\$ 3,079	\$ 3,117	\$ 3,785	\$ 3,953
Avg Segment Operating Income per location (annualized)	\$ 898	\$ 878	\$ 1,202	\$ 1,561
<b>Restaurants</b>				
# Locations	4	5	6	8
Revenue	\$ 18,690	\$ 18,830	\$ 24,094	\$ 22,295
Segment Operating Income	\$ 1,152	\$ 3,084	\$ 2,040	\$ 1,543
Assets	\$ 8,378	\$ 18,870	\$ 39,560	\$ 43,540
% margin	6.2%	16.4%	8.5%	6.9%
ROA (A/T Segment Operating Income)	8.8%	10.5%	3.9%	3.5%
Avg revenue per location (annualized)	\$ 4,673	\$ 3,766	\$ 4,016	\$ 3,716
Avg Segment Operating Income per location (annualized)	\$ 288	\$ 617	\$ 340	\$ 257
<b>Total Company</b>				
# Locations	41	45	43	46
Revenue	\$ 134,860	\$ 144,896	\$ 165,748	\$ 135,876
Operating Income	\$ 20,693	\$ 23,139	\$ 28,396	\$ 32,272
Assets	\$ 276,061	\$ 299,884	\$ 330,566	\$ 349,522
% margin	15.3%	16.0%	17.1%	23.8%
ROA (A/T Operating Income)	4.8%	4.9%	6.4%	9.2%
ROE (actual reported)	8.5%	6.1%	14.1%	15.2%
Leverage (assets/equity)	2.1x	2.2x	2.1x	2.1x
Leverage (debt/ LTM EBITDA)	3.1x	3.3x	3.2x	3.2x



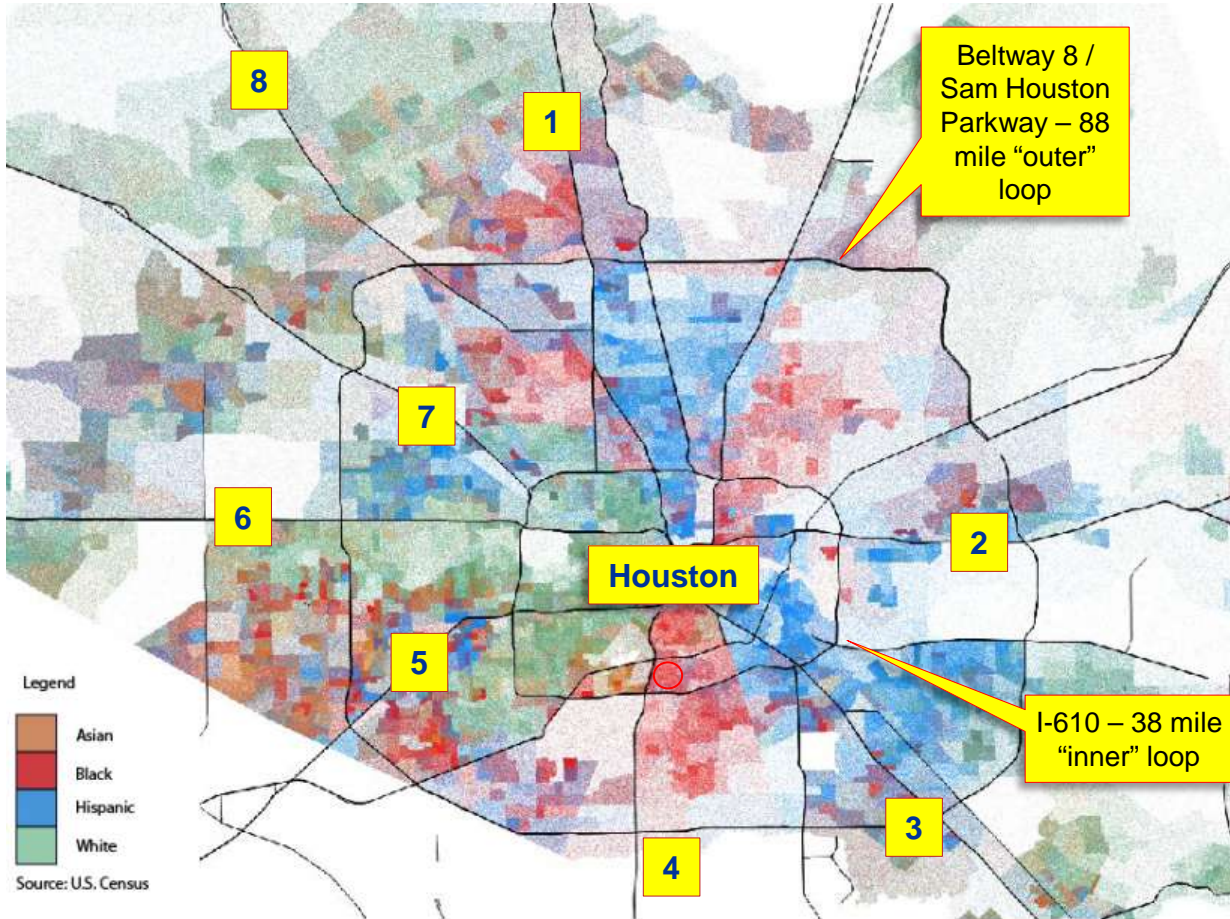
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Appendix  
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# Bombshells Houston Locations

## Locations in Completely Different Residential-Commercial Parts of the City



*X-way driving clockwise to next location*

Key	Location	Open	Miles	Mins
1	Spring	Sep-14	34	38
2	I-10 East	Dec-18	25	17
3	Fuqua	Nov-14	25	20
4	Pearland	Apr-18	23	18
5	US 59	Early FY20	15	10
6	Katy	Early FY20	10	10
7	US 290	Jun-17	28	22
8	US 249	March-19	23	18
<b>Total</b>			<b>183</b>	<b>153</b>
<b>Average</b>			<b>23</b>	<b>19</b>

### Houston: The Place to Be for Dining Out

- Since 2000, no US major metro region except Dallas-Fort Worth has created more jobs and attracted more people than Houston<sup>1</sup>
- With 2.3M residents, Houston is 4<sup>th</sup> most populous US city and largest in Texas and the South<sup>2</sup>
- Covering 627 square miles, Houston is larger than LA (502), NYC (302) and Chicago (234)<sup>3</sup>
- Houstonians dine out 7 times/week vs. 5.9 for US (Zagat 2018 Survey)<sup>4</sup>

### Bombshells outside of Houston

- Dallas, opened March 2013
- Austin, opened June 2014

1. <https://www.forbes.com/sites/joelkotkin/2017/02/03/all-houston-does-economically-is-win/#5522a9d63647>  
 2. <https://theculturetrip.com/north-america/usa/texas/articles/10-unique-facts-about-houston-you-didnt-know/>  
 3. Google  
 4. <https://www.houstonpublicmedia.org/articles/news/2018/01/09/260570/houston-leads-nation-in-dining-out/>

# Quarterly Roll

	1Q19 (12/31/18)	2Q19 (3/31/19)	3Q19 (6/30/19)	4Q19 (9/30/19)	1Q20 (12/31/19)
<b>Full Quarter New Unit Benefit</b>	<ul style="list-style-type: none"> <li>Bombshells 6 (Pearland)</li> <li>Club acquisition in Central Illinois</li> </ul>	<ul style="list-style-type: none"> <li>Club acquisitions in Chicago, Pittsburgh and Central Illinois</li> <li>Bombshells 6 (Pearland) and 7 (I-10)</li> </ul>	<ul style="list-style-type: none"> <li>Club acquisitions in Chicago and Pittsburgh</li> <li>Bombshells 7 (I-10) and Bombshells 8 (249)</li> </ul>	<ul style="list-style-type: none"> <li>Club acquisitions in Chicago and Pittsburgh</li> <li>Bombshells 7 (I-10) and Bombshells 8 (249)</li> </ul>	<ul style="list-style-type: none"> <li>Bombshells 7 (I-10) and Bombshells 8 (249)</li> </ul>
<b>Partial Quarter New Unit Benefit</b>	<ul style="list-style-type: none"> <li>Club acquisitions in Chicago and Pittsburgh</li> <li>Bombshells 7 (I-10)</li> </ul>	<ul style="list-style-type: none"> <li>Bombshells 8 (249)</li> </ul>			<ul style="list-style-type: none"> <li>Bombshells 9 (Katy) and Bombshells 10 (US 59)</li> </ul>
<b>Events</b>					<ul style="list-style-type: none"> <li>Hard Rock Hotel &amp; Casino Hollywood opens October 24 (near Tootsie's and Scarlett's)</li> </ul>
<b>Year Ago Events</b>	<ul style="list-style-type: none"> <li>Bombshells benefits from Houston Astros winning pro baseball championship</li> </ul>	<ul style="list-style-type: none"> <li>Minneapolis hosts pro football championship</li> <li>NYC and Charlotte host college basketball tournaments</li> </ul>	<ul style="list-style-type: none"> <li>Bombshells 6 (Pearland)</li> <li>Club acquisition in Central Illinois</li> </ul>		<ul style="list-style-type: none"> <li>Club acquisitions in Chicago and Pittsburgh (November 2018)</li> <li>Bombshells 6 (Pearland)</li> </ul>

**2Q20:** Pro football's "big game" scheduled for February 2, 2020 at Hard Rock Stadium near Tootsie's and Scarlett's

# Contact Information

## Corporate Office

10737 Cutten Road  
Houston, TX 77066  
Phone: (281) 397-6730

## Investor Relations

Gary Fishman  
Steven Anreder  
Phone: (212) 532-3232

## IR Website

[www.rcihospitality.com](http://www.rcihospitality.com)  
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