RCI HOSPITALITY HOLDINGS INC

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

NASDAQ: RICK
LD Micro Presentation
June 8, 2021
www.rcihospitality.com

Forward-Looking Statements

This document 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”).

Risks and uncertainties that could cause the company’s actual results to differ materially from those indicated in this document, include, but 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) the impact of the COVID-19 pandemic, and (vii) numerous other factors such as laws governing the operation of adult entertainment businesses, competition and dependence on key personnel.

For more detailed discussion of such factors and certain risks and uncertainties, see RCI’s annual report on Form 10-K for the year ended September 30, 2020 as well as its other filings with the U.S. Securities and Exchange Commission. The company has no obligation to update or revise the forward-looking statements to reflect the occurrence of future events or circumstances.

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) gains or losses on sale of businesses and assets, (c) gains or losses on insurance, (d) impairment of assets, 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) gains or losses on sale of businesses and assets, (c) gains or losses on insurance, (d) unrealized gains or losses on equity securities, (e) impairment of assets, (f) settlement of lawsuits, (g) gain on debt extinguishment, 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 24.2% and 7.6% effective tax rate of the pre-tax non-GAAP income before taxes for the six months ended March 31, 2021 and 2020, 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 and amortization, (b) income tax expense (benefit), (c) net interest expense, (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) impairment of assets, (h) settlement of lawsuits, and (i) gain on debt extinguishment. 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.

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 – Many of the industry's best in top US markets
- Major brands: Rick's, Tootsie's, Scarlett's, XTC, Jaguars, Club Onyx
- % of annual revenues: 82% in FY19, 67% in FY20, 68% in 6M21

Bombshells Restaurants

- Fast-growing, sports bar restaurant chain in Texas
- 10 locations (8 open at the end of FY19), 11th unit coming
- % of annual revenues: 17% in FY19, 33% in FY20, 32% in 6M21

Entertainment Drives Sales

- Clubs: Beautiful female entertainers attract customers
- Bombshells: New generation sports bar and restaurant

Exchange: Symbol	Market Cap (6/2/21)	Shares (6/2/21)	Insider Ownership (6/2/21)[1]
Nasdaq: RICK	+$700M	8.99M	8.07%

1) Bloomberg
2) For GAAP reconciliation, see page 13

Period	Revenues	Non-GAAP EPS[2]	Free Cash Flow[2]	Total Cash Dividends
FY19	$181M	$2.44	$33.3M	$0.13
FY20	$132M	$0.51	$13.5M	$0.14
6M21	$82M	$1.15	$14.7M	$0.08

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Great Business

Strong Cash Generation

- High gross profit margin (86.2% in FY19, 85.3% in FY20, 84.2% in 6M21)
- Fast inventory turnover
- Low maintenance capex ($3.9M in FY19, $2.2M in FY20, $2.6 in 6M21)

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: Does Better in “Class A” Spaces

- High traffic areas where other casual dining brands are located

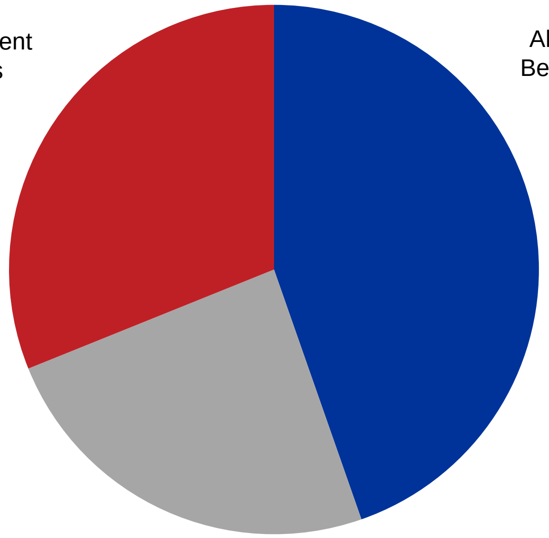
Own Most of Our Real Estate

- Most of our businesses not beholden to landlords

Access to Bank Financing

- Growth funded through debt, most of which is real estate
- Refinancing expected to increase FCF

Total Revenues (FY20)



Period	Alcoholic Beverages	Entertainment Services	Food, Merchandise & Other
FY19	41%	38%	21%
FY20	45%	31%	24%
6M21	46%	26%	28%

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Capital Allocation Strategy*

- Repurchase shares when FCF yield is more than 10%

Buy Back Shares

M&A

Buy More of the Right Nightclubs

- Buy good, solid, cash flowing clubs at 3-5x adjusted EBITDA
- Use seller-financing
- Buy the real estate for market value
- Structure deals to generate annual cash on cash return of at least 25-33%

Drive Value with 10-15% Compound Annual FCF/Share Growth

Organic

Judiciously Expand Bombshells

- Structure investments in new units to generate annual cash on cash return of at least 25-33%
- Develop critical mass and market awareness to sell franchises

* We may deviate from this strategy if other strategic rationale warrants

Major Transformation

Pre-2016
Focused on growing top line, not FCF

Defined & Adopted Capital Allocation Strategy

Invested in the Right People, Systems & Processes

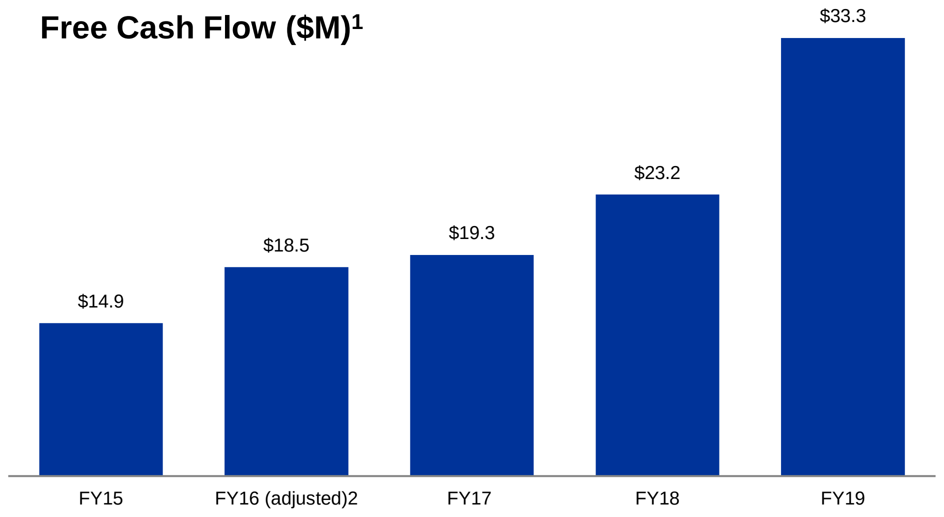
Disposed of Under-Performing Locations

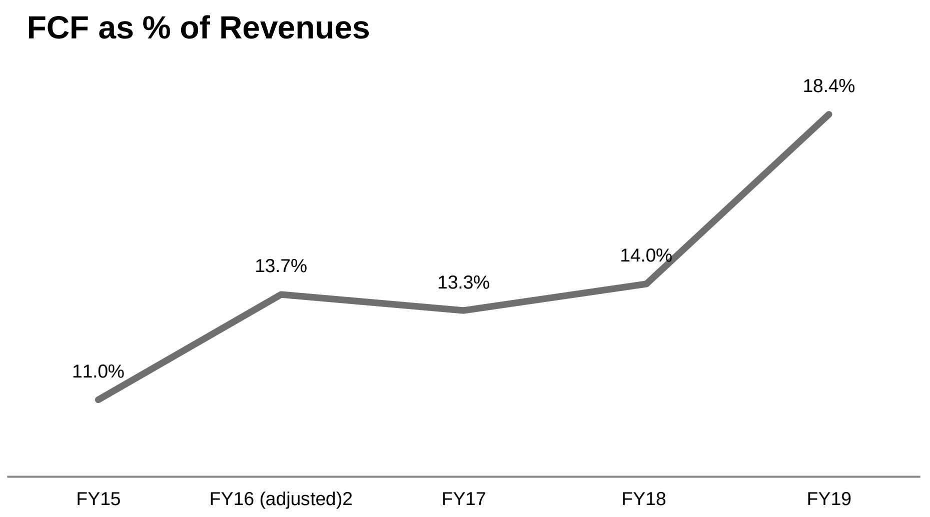
Changed Approach to Club Purchases & New Bombshells

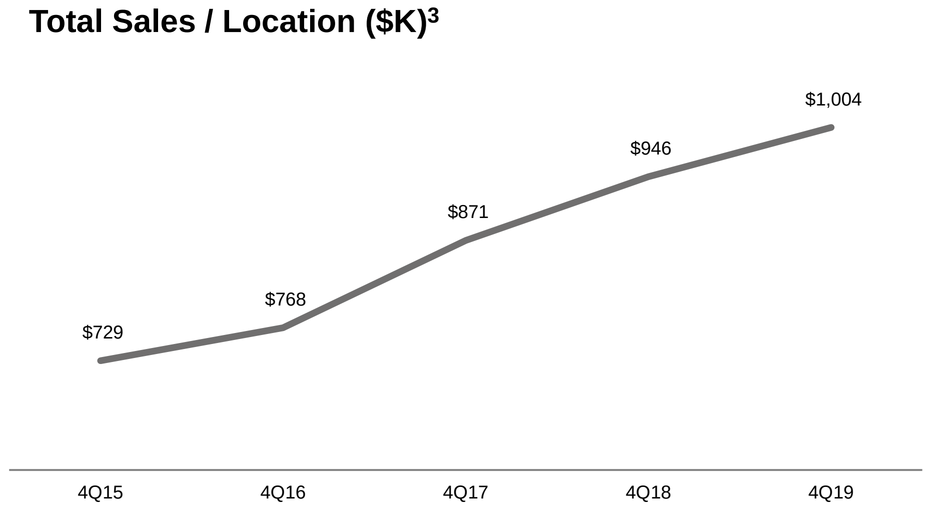
Eliminated Equity Financing & Used Debt Instead

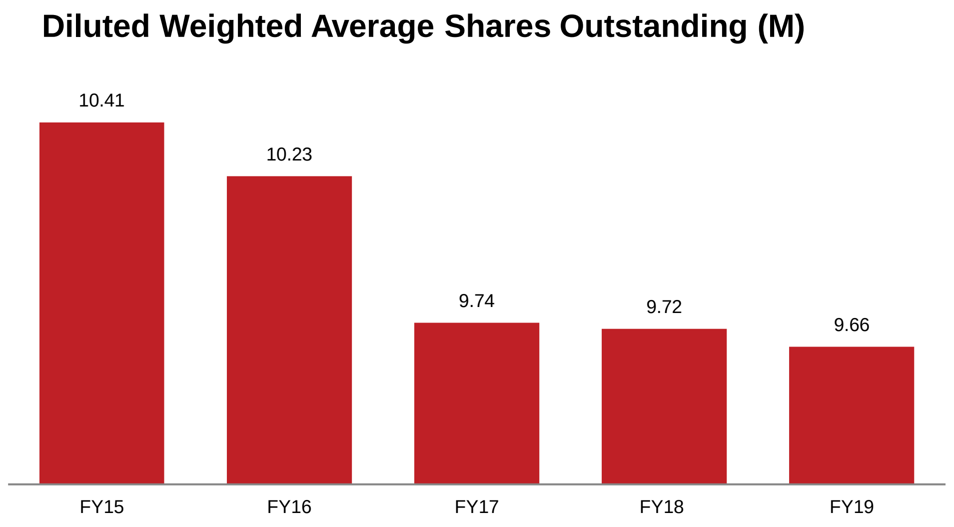
Today
Cash Flow Growth Machine

Strong Track Record FY15-19 (Pre-Pandemic)









1) For GAAP reconciliation, see page 13
2) FY16 FCF of $18.5M reflects FCF of $20.5M less $2.0M in tax credits
3) Based on unit count at quarter end

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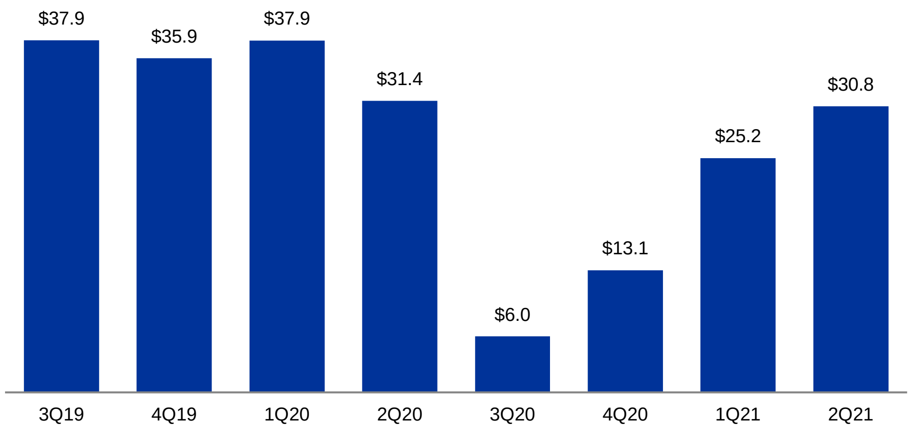
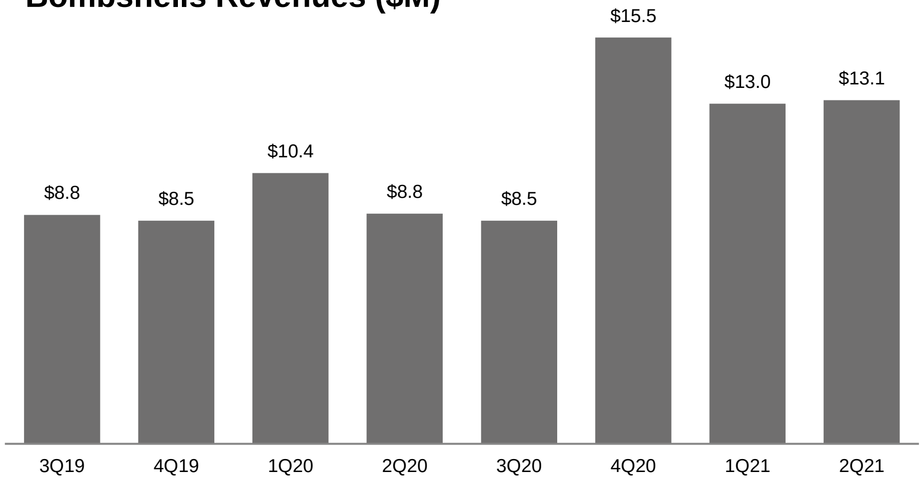
Progress Through COVID-19

Nightclubs Revenues ($M)



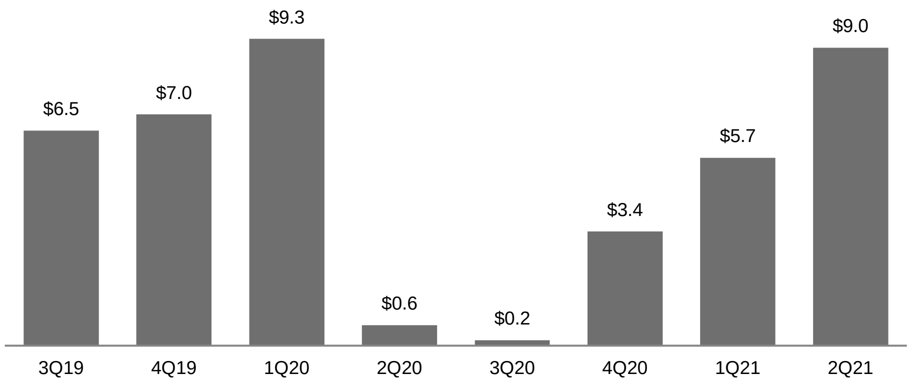
Bombshells Revenues ($M)



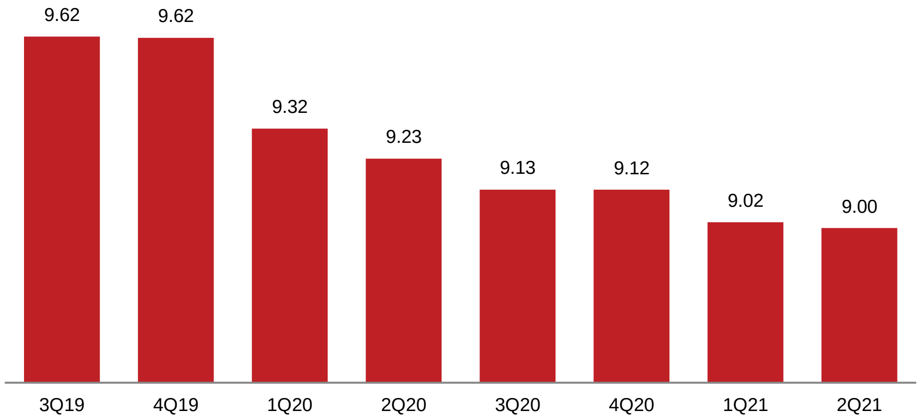
3Q21 Sales Update

- **April:** Club and restaurant sales only slightly below March
- **May:** Set record for highest monthly club and restaurant sales in company history – exceeding March
- **June:** Good start

Free Cash Flow ($M)



Diluted Weighted Average Shares Outstanding (M)



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Bombshells: Why It's Working

More Upscale Than Traditional Sports Bars

- Better quality food, service and experience
- Appeals to men, women, families, friends, singles, couples, millennials
- 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, late night
- Large amount of high margin appetizer sales
- Potential: 80-100 locations (owned and franchised)

New Locations

- Plan to open 10 "company-owned" units over next 33 months
- Acquired one location (Dallas) and doing due diligence on more in Texas, South Florida and Arizona
- Signed our first franchisee for 3 locations in and around San Antonio
- Doing due diligence on other potential franchisees

Nightclubs: Significant Acquisition Opportunities

Market

- 2,200 clubs / ~500 meet our acquisition criteria
- We are one of the largest, but our market share is < 2%
- Long-term owners interested in selling
- We are the acquirer of choice as the only public company in the space with access to bank financing

Financial Dynamics

- Buy earnings accretive clubs at 3-5x adjusted EBITDA
- Purchase related real estate at market value
- Strong record paying off seller financing from acquisition cash flow

Our Top Club Brands

Rick's Cabaret	Elegant clubs with restaurants
Scarlett's	High-end, high-energy party club
Tootsie's Cabaret	Nation's mega club with 74,000 square feet
Club Onyx	High-end clubs for African-American professionals
Jaguars Club	Lively BYOB clubs for blue collar patrons and the college crowd
XTC Cabaret	Lively BYOB clubs for blue collar patrons and the college crowd

Key Takeaways

Overview

- Capital allocation / FCF strategy proven effective
- Positive net cash from operating activities and FCF during COVID
- Refinancing of real estate debt expected to increase FCF

Bombshells

- Concept proven to work even through COVID
- Plans to double number of owned locations (from 10 to 20) by end of 2023
- First franchise agreement for 3 locations – talking to other potential franchisees

Nightclubs

- Current club portfolio doing well
- As of June 1, all curfews ended, but some clubs still have occupancy restrictions
- Industry believes COVID has motivated more owners to sell

Macro

- Increased employment benefiting our customer base
- Post COVID “Roaring 20s” anticipated burst of consumer spending
- 100% tax write off on entertainment expenses for two years

Please email questions to gary.fishman@anreder.com

*Non-GAAP Reconciliations**

Reconciliation of GAAP diluted earnings (loss) per share to non-GAAP diluted earnings per share	6M21	FY20	FY19
Diluted shares (in 000s)	9,010	9,199	9,657
GAAP diluted earnings (loss) per share	$ 1.75	$ (0.66)	$ 2.10
Amortization of intangibles	0.02	0.07	0.06
Settlement of lawsuits	0.02	0.02	0.02
Impairment of assets	0.16	1.15	0.63
Loss (gain) on sale of businesses and assets	0.01	(0.07)	(0.30)
Gain on debt extinguishment	(0.59)	0.01	0.06
Unrealized loss on equity securities	0.01	0.05	(0.08)
Gain on insurance	(0.02)	0.14	-
Net income tax effect	(0.19)	(0.18)	(0.06)
Non-GAAP diluted earnings per share	$ 1.15	$ 0.51	$ 2.44

Reconciliation of net cash provided by operating activities to free cash flow ($K)	6M21	FY20	FY19	FY18	FY17	FY16	FY15
Net cash provided by operating activities	$ 17,246	$ 15,632	$ 37,174	$ 25,769	$ 21,094	$ 23,031	$ 16,364
Less: Maintenance capital expenditures	2,591	2,151	3,858	2,527	1,813	2,518	1,475
Free cash flow	$ 14,655	$ 13,481	$ 33,316	$ 23,242	$ 19,281	$ 20,513	$ 14,889

* All non-GAAP reconciliations as reported in previously filed 10-Ks and our most recent 10-Q

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