



2015 – 20<sup>th</sup> Anniversary of RCI's IPO

*Two decades of innovation in the adult club segment of the hospitality industry*

**NASDAQ: RICK**

**2Q15 Earnings Call**

**May 11, 2015**

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

# Forward Looking Statements

Certain statements contained in this presentation regarding RCI Hospitality future operating results or performance or business plans or prospects and any other statements not constituting historical fact are "forward-looking statements" subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Where possible, the words "believe," "expect," "anticipate," "intent," "would," "will," "planned," "estimated," "potential," "goal," "outlook," and similar expressions, as they relate to the company or its management have been used to identify such forward-looking statements.

All forward-looking statements reflect only current beliefs and assumptions with respect to future business plans, prospects, decisions and results, and are based on information currently available to the company.

Accordingly, the statements are subject to significant risks, uncertainties and contingencies, which could cause the company's actual operating results, performance or business plans or prospects to differ materially from those expressed in, or implied by, these statements.

Such risks, uncertainties and contingencies include, but are not limited to, risks and uncertainties associated with (i) operating and managing an adult business, (ii) the business climates in cities where the company operates, (iii) the success or lack thereof in launching and building the company's businesses, (iv) the operational and financial results of the company's adult nightclubs, (v) conditions relevant to real estate transactions, (vi) the loss of key personnel, (vii) laws governing the operation of adult entertainment businesses, and (viii) the inability to open and operate our restaurants at a profit.

Additional factors that could cause the company's results to differ materially from those described in the forward-looking statements are described in forms filed with the SEC from time to time and available at [www.rcihospitality.com](http://www.rcihospitality.com) or on the SEC's internet website at [www.sec.gov](http://www.sec.gov).

Unless required by law, RCI Hospitality does not undertake any obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or otherwise.

# Explanation of Non-GAAP Terms

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 some recurring charges that are included in 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 exclude from non-GAAP operating income and non-GAAP operating margin amortization of intangibles, patron taxes, pre-opening costs, gains and losses from asset sales, stock-based compensation charges, litigation and other one-time legal settlements, gain on contractual debt reduction and acquisition costs. 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 Basic Share and per Diluted Share.** We exclude from non-GAAP net income and non-GAAP net income per diluted share and per basic share amortization of intangibles, patron taxes, pre-opening costs, income tax expense, impairment charges, gains and losses from asset sales, stock-based compensation, litigation and other one-time legal settlements, gain on contractual debt reduction and acquisition costs, and include the Non-GAAP provision for income taxes, calculated as the tax-effect at 35% effective tax rate of the pre-tax non-GAAP income before taxes less stock-based compensation, because we believe that excluding such measures helps management and investors better understand our operating activities.

**Adjusted EBITDA.** We exclude from earnings before interest, taxes, depreciation and amortization (EBITDA) depreciation expense, amortization of intangibles, income tax, interest expense, interest income, gains and losses from asset sales, acquisition costs, litigation and other one-time legal settlements, gain on contractual debt reduction and impairment charges because we believe that adjusting for such items helps management and investors better understand 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. Also, we exclude interest cost in our calculation of Adjusted EBITDA. 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.

Our Form 10-Q for the fiscal second quarter ended March 31, 2015 and our May 11, 2015 news release contain additional details relative to the non-GAAP financial measures and are posted on our website at [www.rcihospitality.com](http://www.rcihospitality.com).

## 2Q15 Overview (vs. 2Q14)

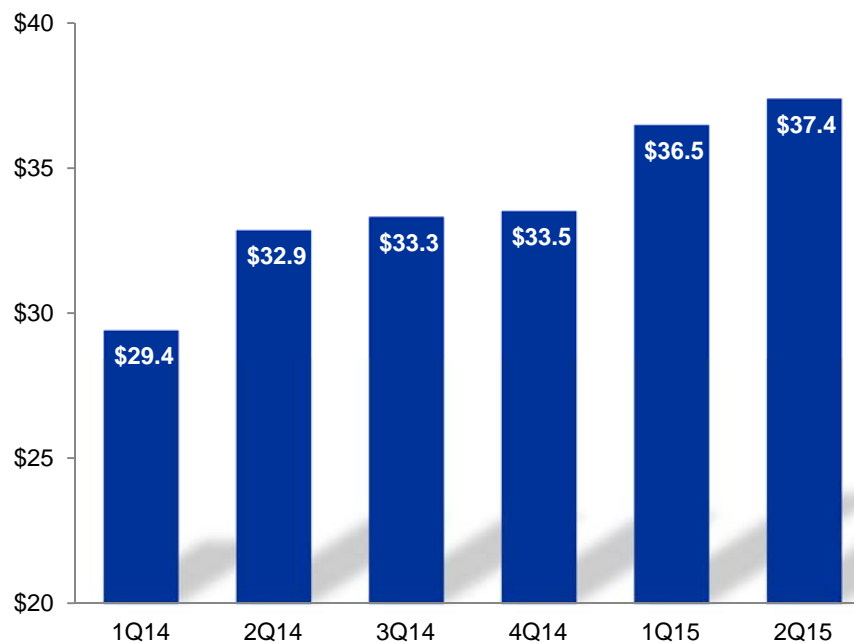
- Record total revenues of \$37.4 million – up 13.8%
- GAAP EPS of (\$0.28) – includes NY FLSA legal settlement accrual
- Non-GAAP EPS of \$0.50 – up 11.1%
- Improved core operating margins in both Nightclubs and Bombshells segments
- Record Adjusted EBITDA of \$10.2 million – up 10.8%
- Robust distribution moving forward
- Bought back shares worth \$1.9 million in the open market in first half of FY15

## On Track for a Strong FY15

| \$ in millions except per share | 6M15   | 6M14   | \$ Change | % Change |
|---------------------------------|--------|--------|-----------|----------|
| <b>Total Revenues</b>           | \$73.9 | \$62.3 | \$11.6    | 18.6%    |
| <b>Non-GAAP EPS</b>             | \$0.96 | \$0.78 | \$0.18    | 23.1%    |
| <b>Adjusted EBITDA</b>          | \$20.2 | \$16.4 | \$3.8     | 22.7%    |

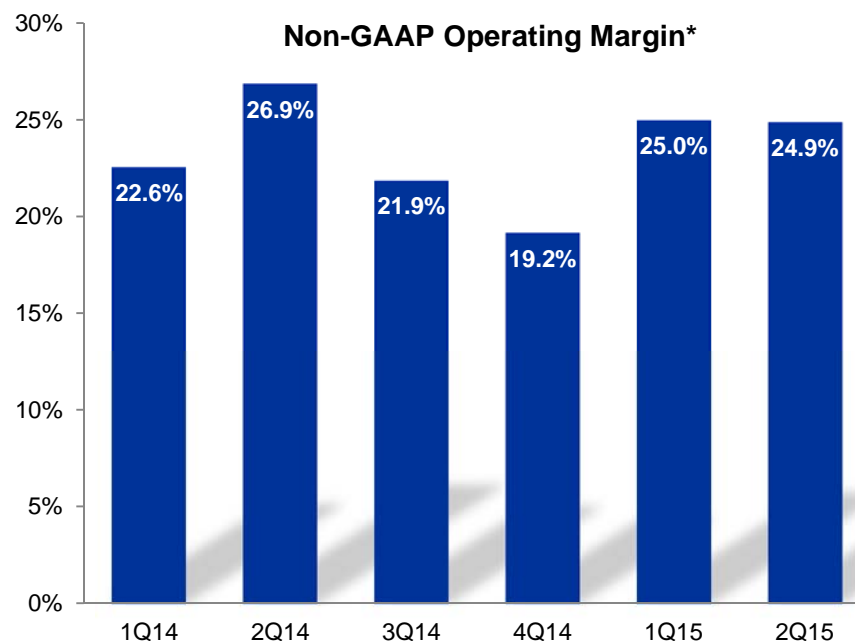
## Record Revenues (\$ in millions)

- Up 13.8% vs. 2Q14
  - ✓ Heavier traffic
  - ✓ More units: 45 vs. 43
- \$4.4 from new clubs and restaurants
  - ✓ Full quarter of Rick's Odessa, close to full quarter of Down in Texas Saloon in Austin
  - ✓ Full quarter of Bombshells in Austin, Spring and Houston vs. Dallas and Webster in 2Q14
- Same Store Sales up 2.1%
  - ✓ Growth held back by bad weather in DFW and tough comps when the Big Game benefitted our NYC clubs in 2Q14



# Maintaining Margins

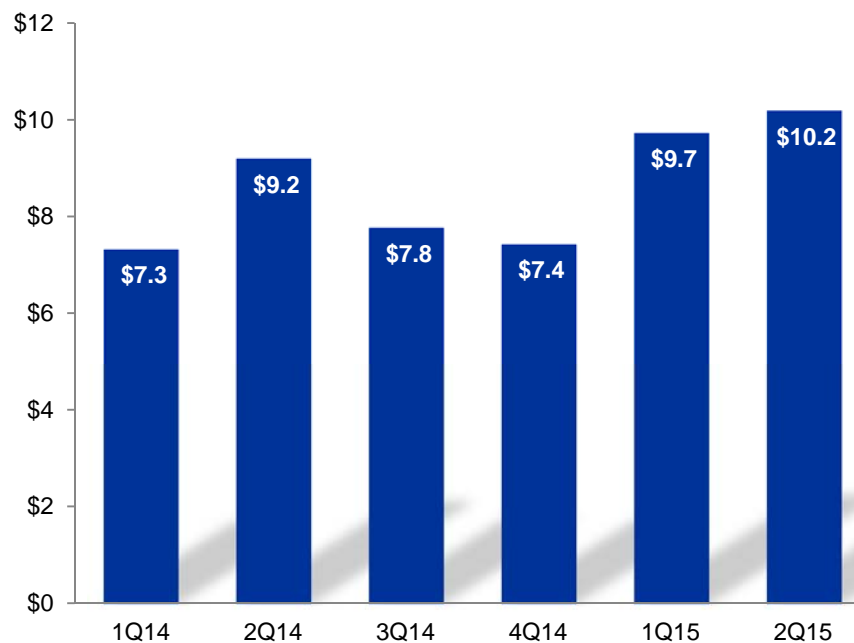
- Expanded profitability of Nightclubs
  - ✓ Higher revenues
  - ✓ Elimination of under-performing units
- Growing performance of Bombshells
  - ✓ Higher revenues
  - ✓ While expanding, margin still lower than Nightclubs
- Additional Detail (% of revenues, 2Q15 vs. 2Q14)
  - ✓ CoGs (14.4% vs. 12.3%) due to more restaurant food sales
  - ✓ Insurance (2.1% vs. 3.0%) due to new contract
  - ✓ Rent+Interest (8.0% vs. 9.4%) due to 4Q14 reduction of debt and other factors
  - ✓ Legal (2.9% vs. 1.3%) due to NY FLSA settlement
  - ✓ Accrual of \$10.3 million (\$0.65 per share net of tax) best estimate at this time of total cost of NY FLSA settlement



\*GAAP Operating Margin  
1Q14: 19.1%  
2Q14: 22.7%  
3Q14: 8.7%  
4Q14: 8.7%  
1Q15: 16.8%  
2Q15: (7.0%)

## Record Adjusted EBITDA\* (\$ in millions)

- Up 10.8% vs. 2Q14
- Reflects RCI's cash generating power



\*GAAP Net Income (\$ in millions)

1Q14: \$2.404

2Q14: \$3.722

3Q14: \$2.195

4Q14: \$4.423

1Q15: \$3.360

2Q15: (\$2.841)




## Solid Balance Sheet (\$ in millions)

|   | 3/31/15 | 12/31/14 | Change |
|---|---------|----------|--------|
| <b>Assets</b>                               | \$260.5 | \$250.2  | 4.1%   |
| <b>Long-Term Debt</b>                       | \$71.5  | \$69.8   | 2.4%   |
| <b>Total Permanent Stockholders' Equity</b> | \$120.8 | \$124.3  | (2.8%) |

- Assets and long-term debt primarily reflect acquisition of Down in Texas Saloon
- Change in equity primarily reflects NY FLSA accrual partially offset by core profits
- Note: RCI has recently obtained new financing and re-financings via commercial bank loans and seller notes at rates of 5-6%, significantly lower than previously

# New Locations

| Count | 2Q14  | 3Q14 | 4Q14 | 1Q15 | 2Q15 | 3Q15 | FY15                         |
|-------|---|------|------|------|------|------|------------------------------|
| 10    |  |      |      |      |      |      | Bombshells-Willowbrook       |
| 9     |   |      |      |      |      |      | The Seville Club-Minneapolis |
| 8     |   |      |      |      |      |      | Down in Texas Saloon-Austin  |
| 7     |   |      |      |      |      |      | Bombshells-south Houston     |
| 6     |   |      |      |      |      |      | Union Square-Fort Worth      |
| 5     |   |      |      |      |      |      | Rick's-Odessa                |
| 4     |   |      |      |      |      |      | Bombshells-Spring            |
| 3     |   |      |      |      |      |      | Bombshells-Austin            |
| 2     |   |      |      |      |      |      | Vivid-NYC                    |
| 1     |   |      |      |      |      |      | Bombshells-Webster           |

# Nightclubs Segment

| \$ in millions                                       | 2Q15   | 2Q14   | Change   |
|--|--------|--------|----------|
| Revenues   | \$31.9 | \$31.2 | 2.4%     |
| Units  | 40     | 41     | (2.4%)   |
| Operating Income                                     | \$0.1  | \$9.6  | (98.9%)  |
| Adjusted Operating Income (excludes NY FLSA accrual) | \$10.4 | \$9.6  | 8.0%     |
| Adjusted Operating Margin                            | 32.6%  | 30.9%  | +170 bps |

## Recent Acquisition

- The Seville Club (Minneapolis) in May
  - ✓ Popular gentlemen's club with elegant atmosphere
  - ✓ Near existing Rick's Cabaret and Downtown Cabaret
  - ✓ \$8.5 million for the club business and real estate



# Bombshells Restaurant & Bar Segment

| \$ in millions   | 2Q15    | 2Q14      | Change    |
|------------------|---------|-----------|-----------|
| Revenues         | \$4.8   | \$1.4     | 3.4x      |
| Units            | 5       | 2         | 2.5x      |
| Operating Income | \$0.571 | (\$0.012) | +\$0.583  |
| Operating Margin | 11.9%   | (0.9%)    | +1270 bps |

## Highlights

- Military themed, fast casual, restaurant/bar
- Performance continues to improve
- Operating margin expected to grow as revenues continue to build and training costs subside
- No. 6 (Willowbrook, N. Houston) to open in FY15
- Exploring franchising

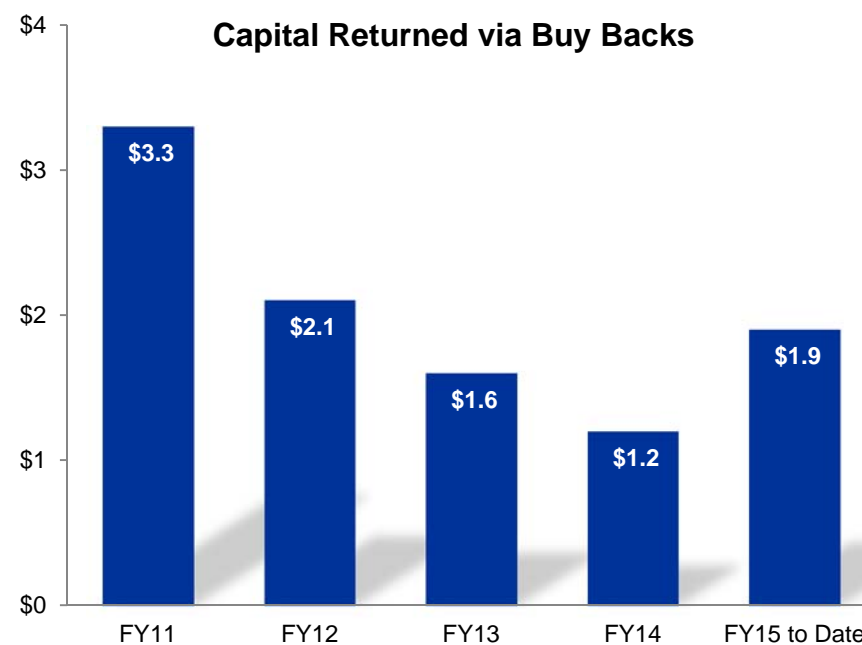
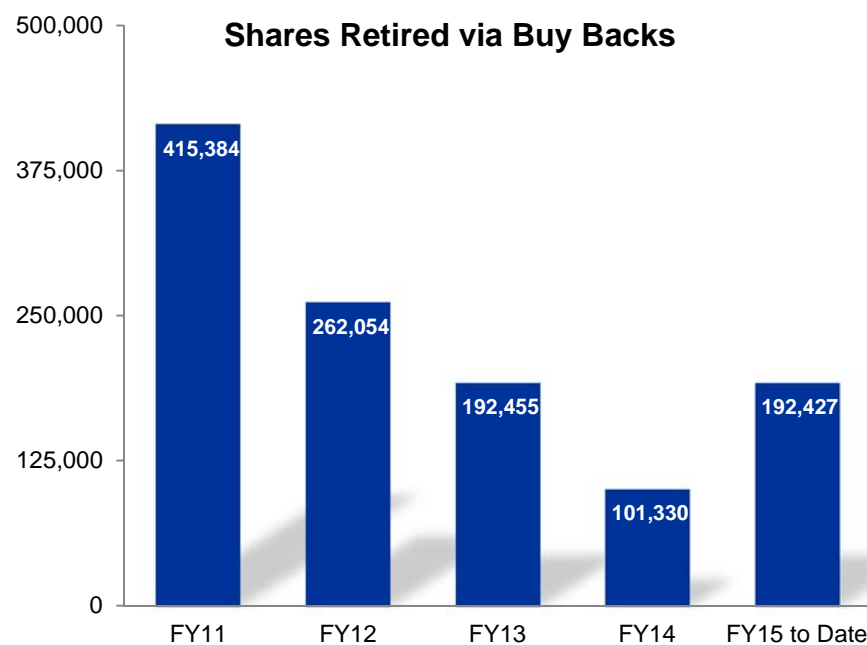


## Robust Progress

- Launched distribution program in Florida in April with Southern Wine & Spirits
- Negotiating manufacturing agreement to significantly lower cost versus importing from the UK
- Launching 4<sup>th</sup> flavor – pineapple – mixer asked for by our on premises bar customers
- Exclusive agreement with Legends at Toyota Stadium (home of FC Dallas) to serve Robust



## Undervaluation Spurs Buy Backs (\$ in millions)



- Current dollar rate exceeds FY11 on annualized basis
- \$7.0 million of remaining Board authorization
- At this point, our own assets represent a highly attractive acquisition
- Stock currently has 13% free cash flow (FCF) yield (\$15 million FCF divided by market cap)

## FY15 Outlook

- 2Q15 was record revenue quarter
- 3Q15 should show YoY improvement (sales announcement schedule for July 9<sup>th</sup>)
- Showed Mayweather-Pacquiao 'Fight of the Century' PPV at about half our units
- Continued favorable outlook for FY15 due to improved portfolio of nightclubs and Bombshells
- Expect good growth in revenues, profit and cash generation
- Rick's Cabaret New York 10<sup>th</sup> Anniversary in October



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## Due Diligence Ball

### Please Join Us

- Rick's Cabaret New York  
50 W 33rd St  
New York, NY 10001  
Between 5th and Broadway
- 6:00 pm-8:00 pm
- "Behind the Scenes" tour

### For more information

- Email: [gary.fishman@anreder.com](mailto:gary.fishman@anreder.com)





## Contact Information

### Corporate Office

10959 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)  
NasdaqGM: RICK

