



*The innovator in bar-restaurant-entertainment hospitality*



NASDAQ: RICK  
3Q16 Conference Call Presentation  
August 4, 2016  
[www.rcihospitality.com](http://www.rcihospitality.com)

# Forward Looking Statements

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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 applicable, words such as "anticipate," "approximate," "believe," "estimated," "expect," "goal," "intent," "outlook," "planned," "potential," "will," "would," 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 our future operational and financial results, operating and managing adult businesses, competitive factors, conditions relevant to real estate transactions, cybersecurity, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, our dependence on key personnel, the ability to manage operations and the future operational strength of management, and the laws governing the operation of adult entertainment businesses.

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

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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, including adjustments that enhance comparability, 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, gain on settlement of patron tax case, gains and losses from asset sales, gain on settlement of patron tax issue, impairment of assets, stock-based compensation charges, litigation and other one-time legal settlements. 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. While we were in litigation in the patron tax case, we also included patron taxes as an exclusion, but after settlement of the case, we no longer exclude patron taxes from operating income.

*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, gain on settlement of patron tax case, 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 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. While we were in litigation in the patron tax case, we also included patron taxes as an exclusion, but after settlement of the case, we no longer exclude patron taxes from net income.

*Adjusted EBITDA.* We exclude from Adjusted EBITDA depreciation expense, amortization of intangibles, income tax, interest expense, interest income, gains and losses from asset sales, litigation and other one-time legal settlements, gain on settlement of patron tax case, 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.

*Free Cash Flow.* We define Free Cash Flow as cash flows from operating activities less maintenance capex. Free Cash Flow provides a core operational performance measurement of the cash the company generates after expenses required to maintain its asset base. It also enables the company to calculate the Free Cash Flow return related to its market capitalization. Free Cash Flow allows the company to pursue opportunities to enhance shareholder value. This could include, but is not limited to, buying back shares, paying dividends, making acquisitions, opening new units, or reducing debt.

Our Form 10-Q for the fiscal quarter ended June 30, 2016 and our August 4, 2016 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).

# 3Q16: Results Continue to Improve

Comparisons to 3Q15 unless otherwise noted

## Revenues

- Increased 1.5% to \$34.0 million
- First year over year quarterly increase in FY16

## EPS

- 3Q16: \$0.27 (includes \$1.0 million additional tax reserve)
- 3Q15: \$0.78 (includes \$8.2 million Patron Tax gain)
- 3Q16 non-GAAP\* increased 9.7% to \$0.34

## Free Cash Flow

- Increased 47.9% to \$6.4 million; totaled \$16.7 million in 9M16
- FY16 target revised upward to \$19-21 million\*\*

## Share Buybacks

- 3Q16: 106,093 shares for \$1.1 million
- 9M16: 606,995 shares for \$5.8 million

## Dividend

- BOD declared 4Q16 cash dividend of \$0.03 per common share
- Payable September 26, 2016 to shareholders of record September 9, 2016

# Disciplined Capital Allocation Strategy

## 1. Use FCF to buy back shares

- Compelling after tax yield of 16-18% with shares in \$10-11 range

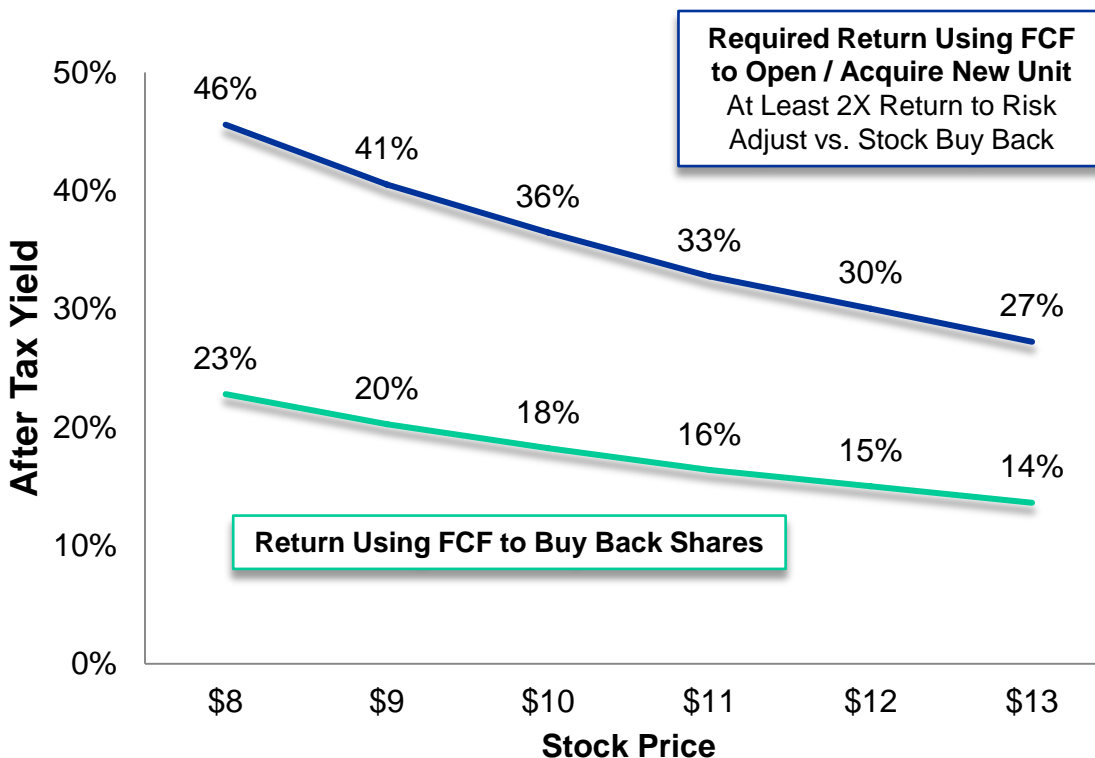
## 2. Buy / open new units only if:

- Risk adjusted return rivals buying our assets in the market
- There is a significant strategic rationale

## 3. Take action if units not performing in line with strategy

## 4. Higher after tax yield buying back stock vs. paying off debt

- Only in the \$22 range does it make sense on a tax adjusted basis to pay down our most expensive (currently 13%) debt at an accelerated rate (assuming no pre-payment penalty)

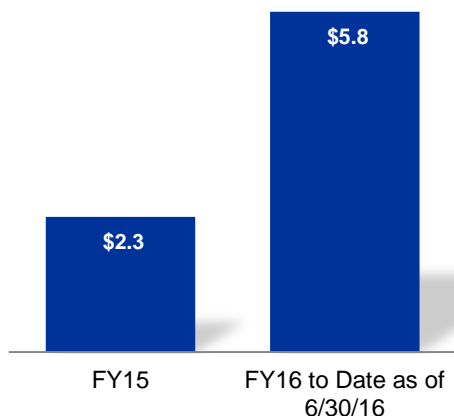


### Updates

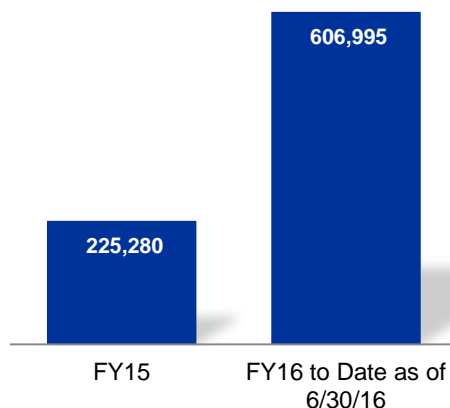
- Based on annual FCF of \$18M, up from \$15M
- Based on fully diluted share count of 9.875M at 6/30/16
- Incorporates expected dilution from convertible securities as stock price rises
- Conversion of these securities would reduce debt by \$1.6M

# Share Buy Backs

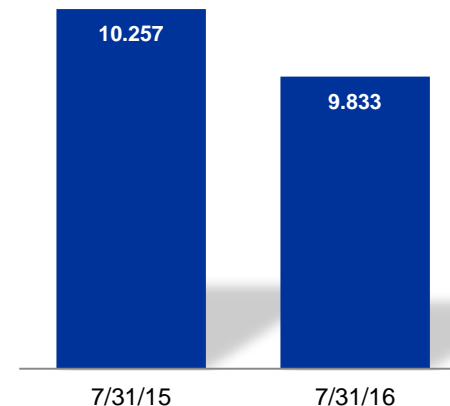
Capital Returned via Buybacks (\$M)



Shares Retired via Buybacks



Shares Outstanding (M)



## Our Policy

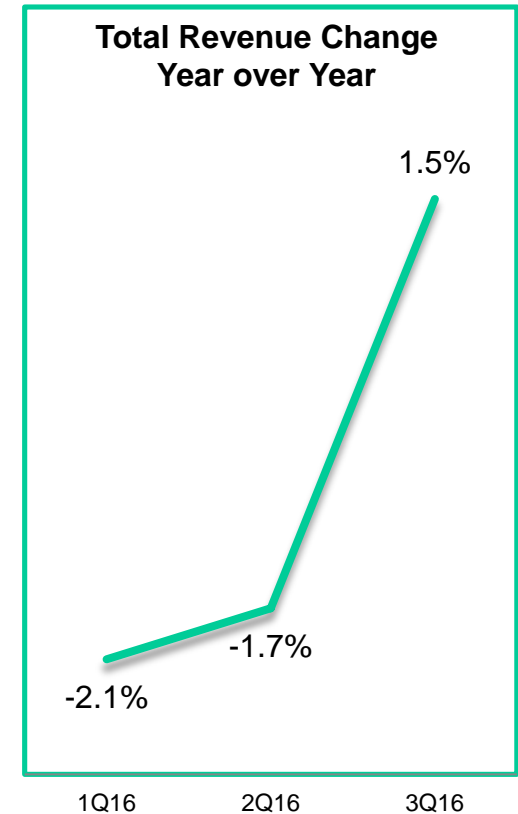
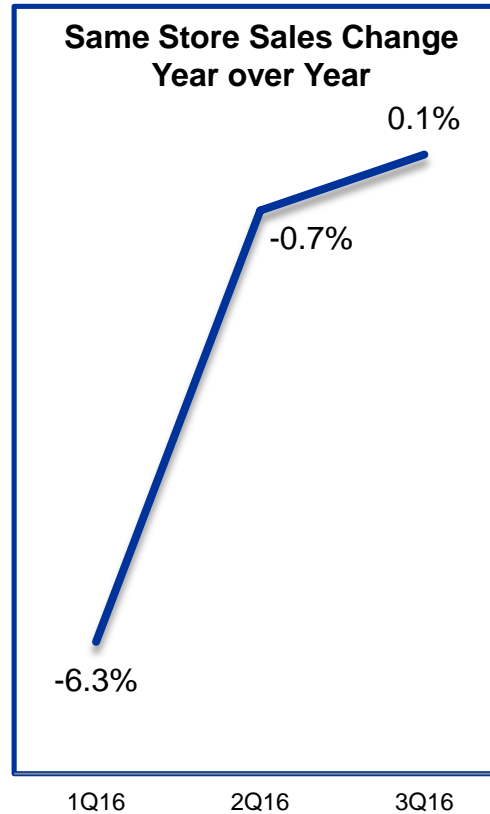
- Buying back shares is a long-term strategy & commitment
- We will use cash to maximize share repurchases; not chase the price of the stock
- As a result, we may buy more in some quarters than others
- Quarterly repurchase announcements to be made with earnings

Quarter	Shares Bought	Average Price	Total (\$M)
1Q16	282,762	\$9.88	\$2.8
2Q16	218,140	\$8.76	1.9
3Q16	106,093	\$10.14	1.1
<b>Total</b>	<b>606,995</b>	<b>\$9.52</b>	<b>\$5.8</b>

# Revenues Growing (\$ in millions)

## 3Q16 vs. 3Q15

- Total revenues increased 1.5%
- Up year over year in April, down in May due to weather, rebounded in June
- Two fewer units vs. year ago
- Two clubs reopened mid-3Q16
- Although small, same store sales increase represents improving trend



## Revenue Line Improvements (\$ in 000s)

Results	1Q16	2Q16	3Q16	9M16
Alcohol	\$14,597	\$ 14,581	\$ 14,333	\$ 43,511
Service	12,641	13,205	12,780	38,626
Food	4,334	4,609	4,614	13,557
Other	1,903	2,001	2,225	6,129
<b>Total</b>	<b>\$33,475</b>	<b>\$34,396</b>	<b>\$33,952</b>	<b>\$101,823</b>

YoY Change	1Q16	2Q16	3Q16	9M16
Alcohol	\$593	\$270	\$424	\$1,287
Service	(887)	(642)	(383)	(1,912)
Food	(500)	(228)	(57)	(785)
Other	65	7	502	574
<b>Total</b>	<b>(\$729)</b>	<b>(\$593)</b>	<b>\$486</b>	<b>(\$836)</b>

- **Alcohol:** Maintained quarterly increase through sales at both clubs and restaurants
- **Service:** Significantly narrowed quarterly decline in these high margin revenues
- **Food:** Nearly eliminated quarterly decline as restaurants rebounded after “post-honeymoon” period



# Margins Expanding

## FY16 Non-GAAP\* Operating Margin Reflects

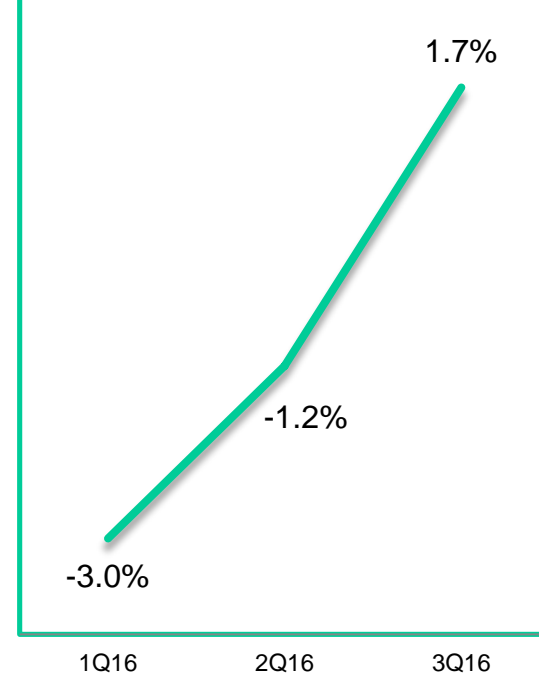
- Increased sales, in particular, service revenues
- Reduced costs as a % of revenues

Non-GAAP Operating Margin*	1Q	2Q	3Q	9M
Fiscal 2016	19.7%	23.1%	20.9%	21.2%
Fiscal 2015	22.7%	24.3%	19.2%	21.5%
<b>Change</b>	<b>(3.0%)</b>	<b>(1.2%)</b>	<b>1.7%</b>	<b>(0.3%)</b>

## Tax Detail

- \$1.0 million reserve added to income tax expense for amounts owed NYS & NYC
- \$250K benefit of FICA credits not previously claimed

YoY Percentage Point Change  
Non-GAAP Operating Margin



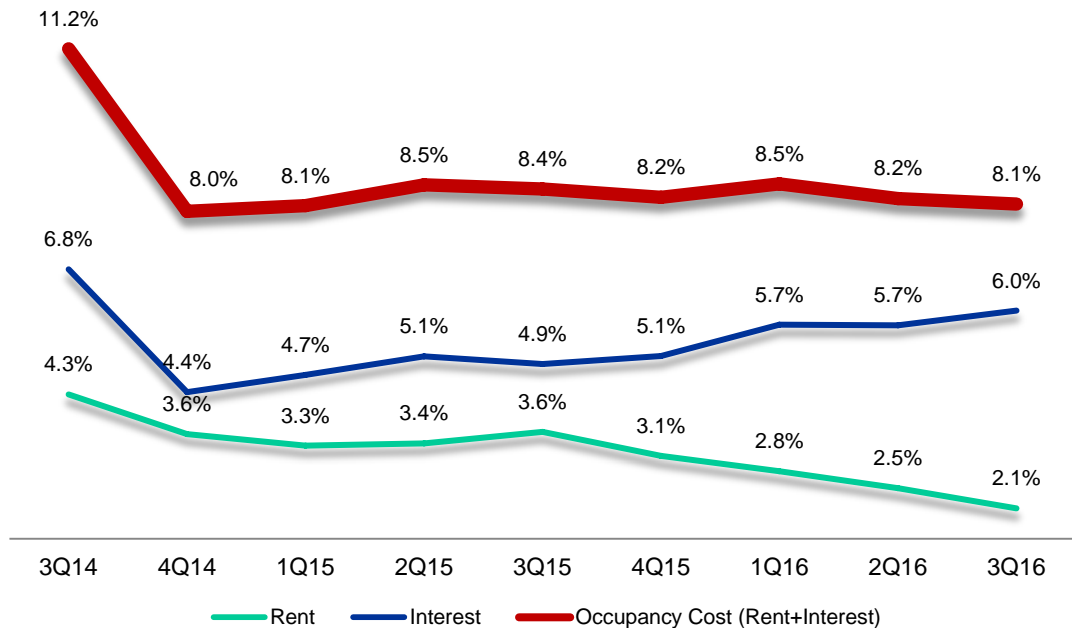
# Occupancy Costs Declining (as % of revenues)

## 3Q16

- Full benefit from Rick's Cabaret New York real estate acquisition

## Looking Ahead

- Occupancy costs as % of revenues should decline moving forward due to:
  - Revenue growth
  - Anticipated refinancings
  - Payment of loan principals



# Adjusted EBITDA, Free Cash Flow & Cash

## Adjusted EBITDA\*

- Increased 6.6% year over year

## Free Cash Flow\*\*

- Increased 47.9% year over year
- 43% increase in net cash provided by operating activities
- Partially offset by increase in maintenance capex (\$952K vs. \$812K)
- FY16 target revised upward to \$19-21M

## Cash

- \$10.5M at 6/30/16 vs. \$9.1M at 3/31/16
- Practice is to have \$6-10M on the BS at the end of every quarter

## Adjusted EBITDA (\$M)



## Free Cash Flow (\$M)



# Nightclubs Segment

\$ in millions except units	3Q16	3Q15	Change
Revenues	\$28.3	\$28.7	(\$0.351)
Units (at period end)	38	40	-2
Adjusted Operating Income*	\$9.3	\$9.1	\$0.197
Adjusted Operating Margin*	32.9%	31.8%	+109 bps

- Two clubs that had been remodeled and reformatted reopened mid-3Q16
- New advertising and marketing programs beginning to improve sales
- Improved model beginning to expand margins



# Bombshells Segment

\$ in millions except units	3Q16	3Q15	Change
Revenues	\$5.0	\$4.4	\$0.580
Units (at period end)	5	5	--
Operating Income	\$0.905	\$0.369	\$0.536
Operating Margin	18.1%	8.3%	+974 bps

- Sales and margin growing as anticipated
- Redesigned menu and new menu items among contributing factors
- Beginning to build franchise marketing sales team



# 3Q16 Financial Management

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## **Convertible Debt (average weighted rate 8.3%)**

- \$1.6 million balance at 6/30/16
- \$450K paid down in cash in July, leaving current balance of \$1.15 million
- Paying off this debt will eliminate most of the share overhang

## **New Bank Debt**

- Drew down \$1.6 million, for total of \$2.6 million, on \$4.7 million construction loan for new corporate HQ
- Building should be completed in 1Q17

## **Anticipated Bank Refinancing**

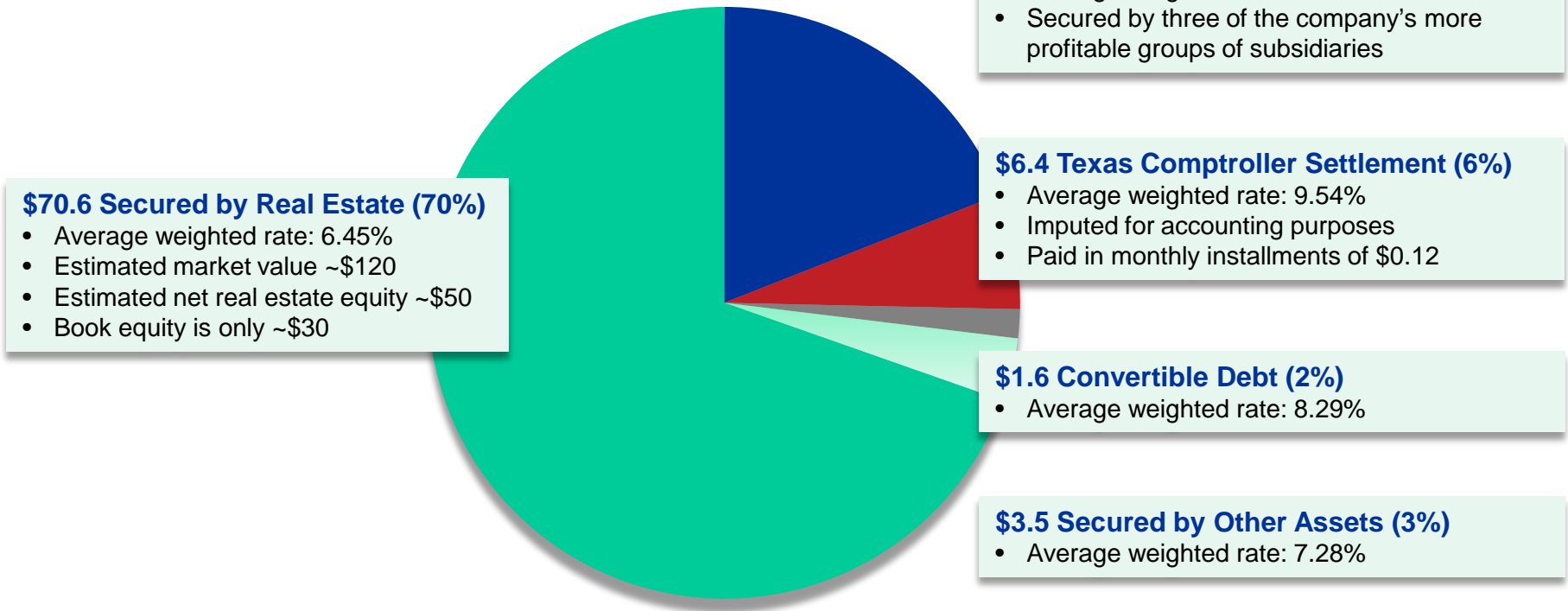
- Refinance commercial mortgages on four properties
- Rollover mortgages (\$6.2 million @ 7.2%)
- Pay off unsecured loan (\$2.5 million @ 13.0%)
- Reduce combined interest costs

## **Property for Sale**

- Expect to complete sales in FY17 of real estate no longer needed
- Proceeds would be used to buy back stock, finance growth

# Long-Term Debt (\$ in millions, as of 6/30/16)

Total of \$101.4\*  
Average Weighted Rate: 7.53%



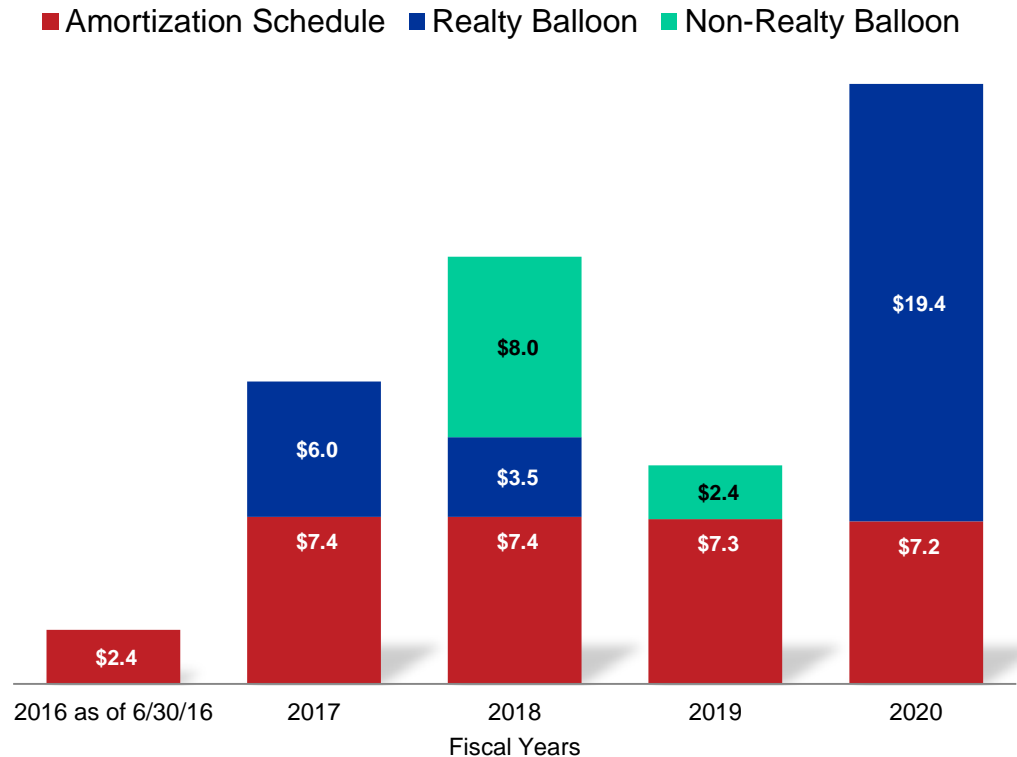
# Debt Maturities (\$ in millions)

## Overview

- Most debt maturing are real estate amortizations or real estate balloons
- Amortizations to be paid out of cash flow
- Realty and non-realty balloons to be paid off out of cash flow or refinanced

## Update

- We are working on refi/rolling over high interest debt
- See slide 14 for anticipated bank refinancing
  - Will eliminate all balloons in 2017
  - Will eliminate \$2.5M of 2018 non-realty balloon
  - We anticipate refinancing remaining 2018 balloon in 2017





# Outlook

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## FY16 – On Track

- Revenues: YoY increase in 4Q16
- Margins: Improvement vs. FY15 for increase in GAAP EPS
- FCF: Revised upward

## FY17 – New Units in Line with Capital Allocation Policy

- 1Q17: Anticipate opening first sports-themed club in NYC
- 2Q17: 6<sup>th</sup> Bombshells scheduled to open

## FY17—Strong Sports Lineup

- NFL: Vikings return to downtown Minneapolis (3 clubs)
- NFL: “Big Game” in Houston (7 restaurants and clubs)
- MMA: Comes to Madison Square Garden (3 clubs)

Free Cash Flow  
Target (\$M)



# Calendar

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Date	Event
<b>August 7-10, 2016</b>	23rd Annual Gentlemen's Club EXPO in New Orleans
<b>August 9, 2016</b>	Annual Meeting in New Orleans
<b>October 11, 2016</b>	4Q16 Club & Restaurant Sales
<b>Week of October 17, 2016</b>	Institutional meetings in Florida
<b>October 20, 2016</b>	Dawson James 2 <sup>nd</sup> Annual Small Cap Growth Stock Conference, Jupiter, FL
<b>December 6-8, 2016</b>	LD Micro Investor Conference in Los Angeles
<b>December 14, 2016</b>	4Q16 & FY16 Financial Results

# Contact Information

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