



RCI HOSPITALITY HOLDINGS INC

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

NASDAQ: RICK
3Q20 Conference Call
August 10, 2020
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”).

This document may contain forward-looking statements that involve a number of risks and uncertainties that could cause the company’s actual results to differ materially from those indicated in this press release, including, 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) our ability to maintain compliance with the filing requirements of the SEC and the Nasdaq Stock Market, (vii) the impact and uncertainty of the coronavirus pandemic, and (viii) 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, 2019 and its latest Form 10-Q 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.

As of the release of this report, we do not know the extent and duration of the impact of Covid-19 on our businesses due to the uncertainty about the spread of the virus. Lower sales, as caused by social distancing guidelines, could lead to adverse financial results. However, we will continually monitor and evaluate the situation and will determine any further measures to be instituted, including refinancing several of our debt obligations.

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) gains or losses on sale of businesses and assets, (c) gains or losses on insurance, (d) settlement of lawsuits, and (e) impairment of assets. 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) settlement of lawsuits, (f) impairment of assets, and (g) 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 26.9% and 22.8% effective tax rate of the pre-tax non-GAAP income before taxes for the nine months ended June 30, 2020 and 2019, 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) settlement of lawsuits, and (h) impairment of assets. 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 August 10, 2020 news release and financial tables and 3Q20 10-Q contain additional details and reconciliation of non-GAAP financial measures for the quarter ended June 30, 2020 and are posted on our website at www.rcihospitality.com.

Today's News

3Q20 Financial Highlights

- Total revenues of \$14.7M
- Net loss of \$5.5M or \$0.60 per share
- Positive operating cash flow: Net cash from operating activities and FCF of \$166K
- Cash at June 30, 2020 of \$14.8M plus AR of \$5.5M

Operating Subsidiaries

- Bombshells: Record two-month revenues May-June and quarterly margin that exceeded our target
- Nightclubs: Open locations performed well in 3Q20 considering the operating environment
- July revenues totaled \$7.6M
- 31 locations operating as of today
- Half our team members working after extensive furloughs in March

Outlook

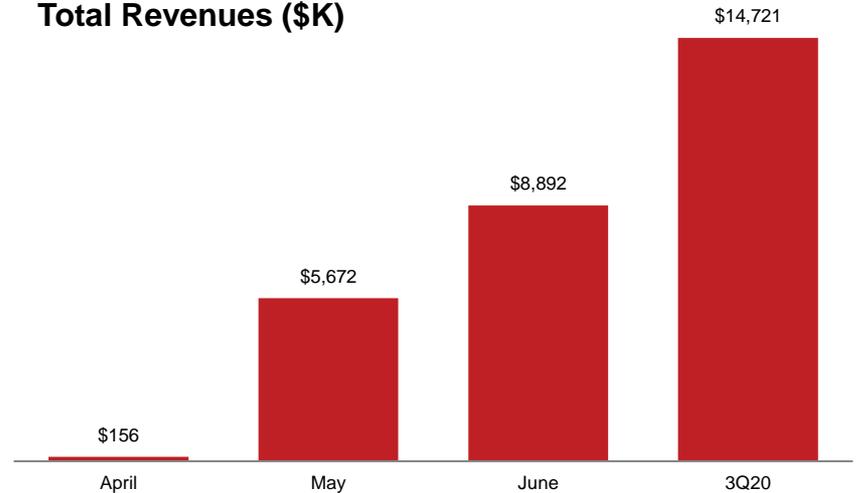
- More confident managing how the pandemic affects our businesses
- Being agile, innovative and acting quickly, we believe we have made RCI more resilient
- While our cash flows are not as anticipated at the start of FY20, the near-term outlook for our business remains strong
- We expect to generate adequate cash flow from operations for the next 12 months

3Q20 Monthly Sales Trends

Open Locations

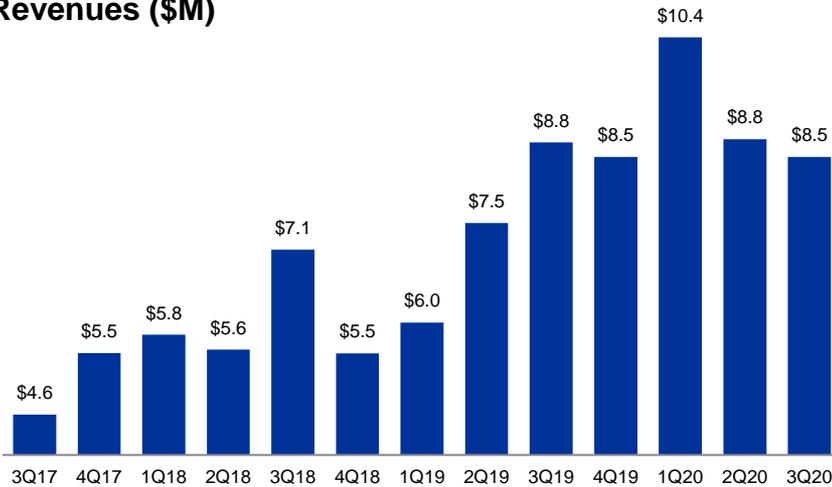
- Number varied over the course of each month
- Learned how to safely open, close, and reopen locations while keeping costs low
- Follow all mandatory health safety regulations (mask, social distancing, occupancy, hours)
- Close temporarily for sanitizing
- Developed effective ways to serve guests and market our businesses in this new environment
- Attracting customers – lines to get in are common
- Steadier flow of business during operating hours vs. before the pandemic

Total Revenues (\$K)

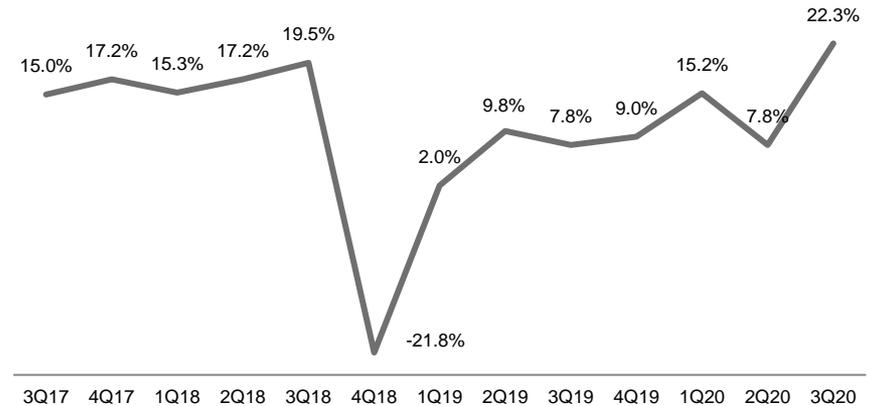


Bombshells Segment

Revenues (\$M)



Operating Margin
As % of Total Revenues



- 10th unit – US 59 in SW Houston – opened for business January 30
- All units closed mid-March in 2Q20 and April in 3Q20 and reopened by May 15
- May & June: Record sales months
- May-July sales indicate \$40M-\$50M annualized run rate – in line with our FY20 target for all 10 locations
- 3Q20 operating margin of 22.3% (included April fixed costs without the benefit of sales) – exceeded our FY20 target of 18-21% for all 10 locations
- Both new and older units performing well

Bombshells Build Strategy

Strategy

- Buy excess land around new Bombshells sites
- Provide basic infrastructure
- Sell at higher price to reduce debt
- Increase potential return on capital invested
- Attract businesses to “feed” customers to Bombshells
- Did this for Bombshells in Pearland, I-10, 249 (Tomball), Katy and 59

Bombshells I-10 Results

- Sold Parcel #1 3Q19 for hotel for a gain of \$331K
- Sold Parcel #2 in 3Q20 for car wash business for a gain of \$583K
- Reduced bank debt by 48% and total cost by 36%

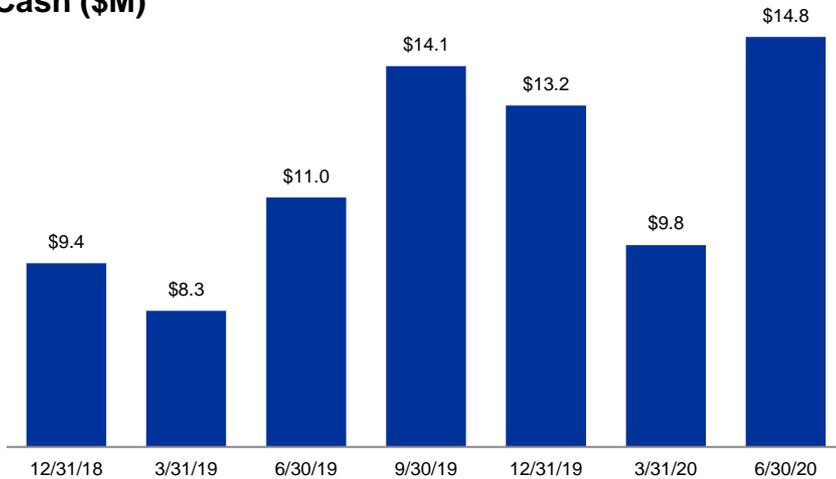
Bombshells I-10 Houston (\$K)	Cash	Bank Debt
Land Acquisition & Construction	\$1,593	\$4,962
Less: Proceeds from sale of Parcel #1	\$0	\$942
Less: Proceeds form sale of Parcel #2	\$0	\$1,447
Net Investment	\$1,593	\$2,572

Analysis of 3Q20 Statement of Operations

Item	Comment (Comps are YoY)	Explanation
Cost of goods	16.2% of revenues vs. 14.2%	<ul style="list-style-type: none"> Higher proportion of food sales
Salaries and SGA	Declined 48.9%	<ul style="list-style-type: none"> Cost-cutting and fewer locations open, partially offset by one month of no open locations and Covid-19 safety costs
Other charges (gains), net	\$424K vs. (\$172K)	<ul style="list-style-type: none"> 3Q20 reflected \$1.0M in Covid-19 impairment and \$608K real estate sales gains
Bombshells Segment	\$1.9M operating profit	<ul style="list-style-type: none"> Higher level of sales and more consistent occupancy while operating in line with indoor restrictions
Nightclubs Segment	\$3.1M operating loss	<ul style="list-style-type: none"> Included \$1.5M depreciation and \$363K of the net charges (both non-cash)
Interest Expense	3.3% lower	<ul style="list-style-type: none"> Debt paydowns prior to and during 3Q20
Income tax (benefit) expense	(\$1.4M) vs. \$1.8M	<ul style="list-style-type: none"> FY20 ETR revised to 26.9%
Weighted average number of common shares outstanding	Declined 5.1%	<ul style="list-style-type: none"> Repurchases of shares prior to 3Q20

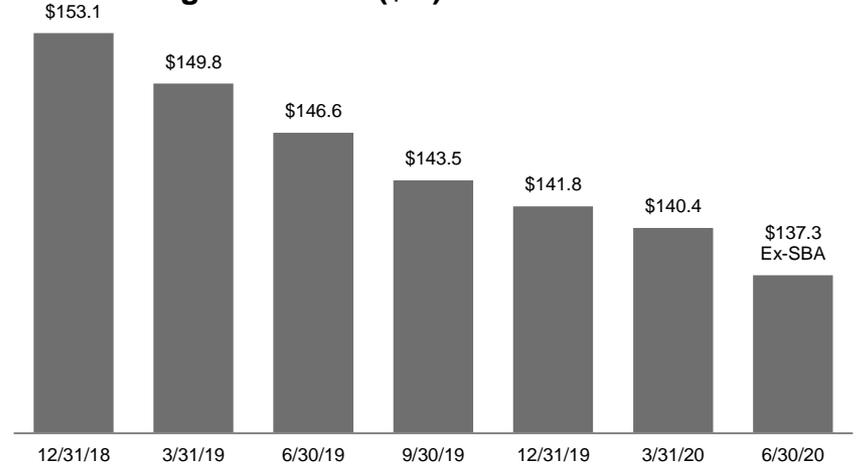
Balance Sheet Trends

Cash (\$M)



- Focused on cash generation and use
- 6/30/20 long-term debt \$137.3M ex-SBA loan
- 6/30/20 current liabilities in line with trends

Total Long-Term Debt (\$M)

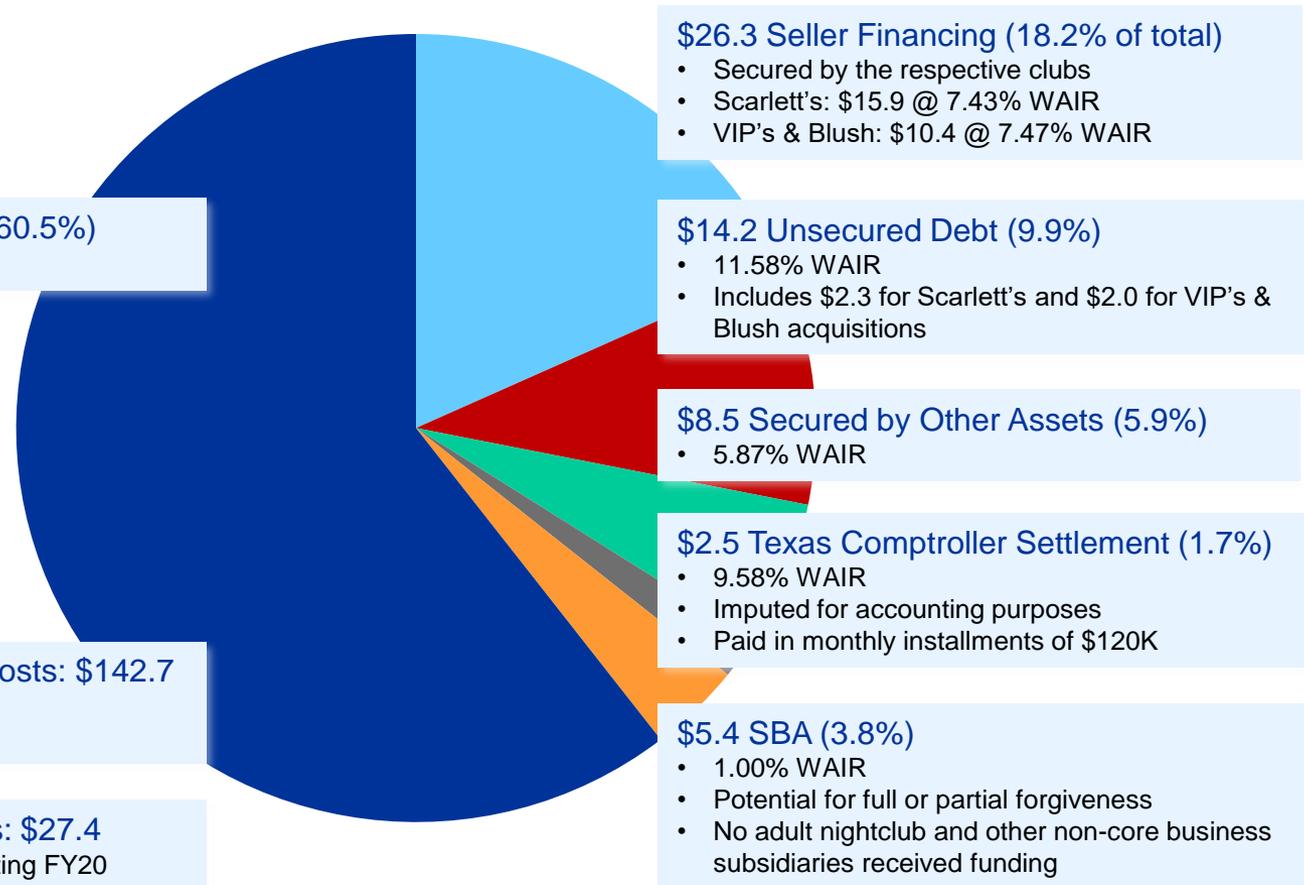


Current Liabilities (\$M)



Long-Term Debt *(as of 6/30/20, \$ in millions)*

Total of \$144.0*
Weighted Average Interest Rate (WAIR): 6.55%



\$87.1 Secured by Real Estate (60.5%)
 • 5.78% WAIR

\$26.3 Seller Financing (18.2% of total)
 • Secured by the respective clubs
 • Scarlett's: \$15.9 @ 7.43% WAIR
 • VIP's & Blush: \$10.4 @ 7.47% WAIR

\$14.2 Unsecured Debt (9.9%)
 • 11.58% WAIR
 • Includes \$2.3 for Scarlett's and \$2.0 for VIP's & Blush acquisitions

\$8.5 Secured by Other Assets (5.9%)
 • 5.87% WAIR

\$2.5 Texas Comptroller Settlement (1.7%)
 • 9.58% WAIR
 • Imputed for accounting purposes
 • Paid in monthly installments of \$120K

\$5.4 SBA (3.8%)
 • 1.00% WAIR
 • Potential for full or partial forgiveness
 • No adult nightclub and other non-core business subsidiaries received funding

***Long-Term Debt Net of Loan Costs: \$142.7**
 • Down \$1.0 from 9/30/19
 • Down \$2.6 from 6/30/19

Operating Lease Total Liabilities: \$27.4
 • Adoption of ASC 842, Leases, starting FY20

Debt Manageability

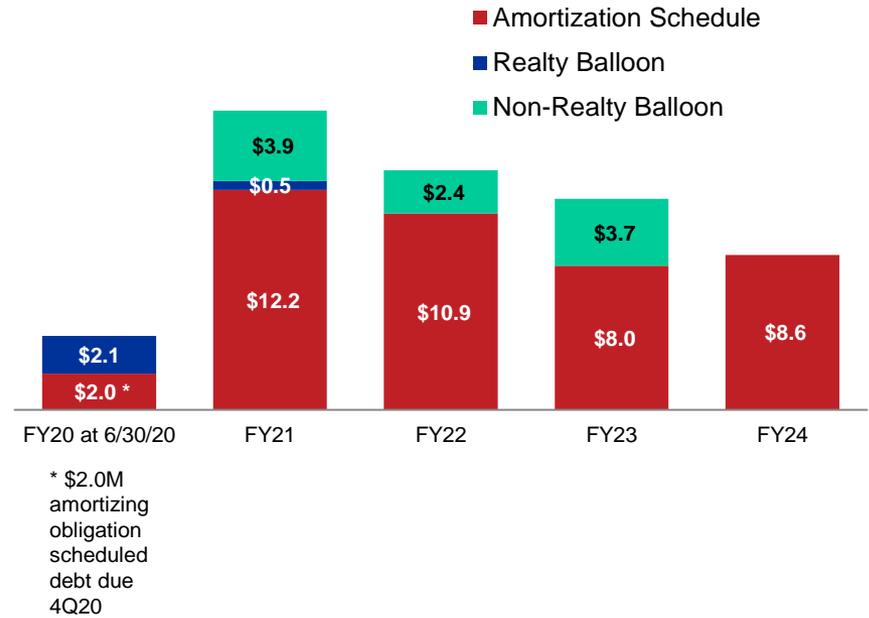
FY20 Actions

- 1H20
 - \$10.8M of near-term non-realty balloons changed to out years to reduce near-term cash needs
- 3Q20
 - \$2.0M in bank debt service deferred
 - \$5.4M SBA loan
- 4Q20
 - \$2.1M realty balloon deferred to FY21

Excess Real Estate

- Under the Bombshells Build Strategy we have one parcel under contract to sell and 4 parcels listed to be sold

Debt Maturities as of 6/30/20 (\$M)



Capital Allocation Strategy

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 or exceeds yield of accelerated payment on our highest interest debt

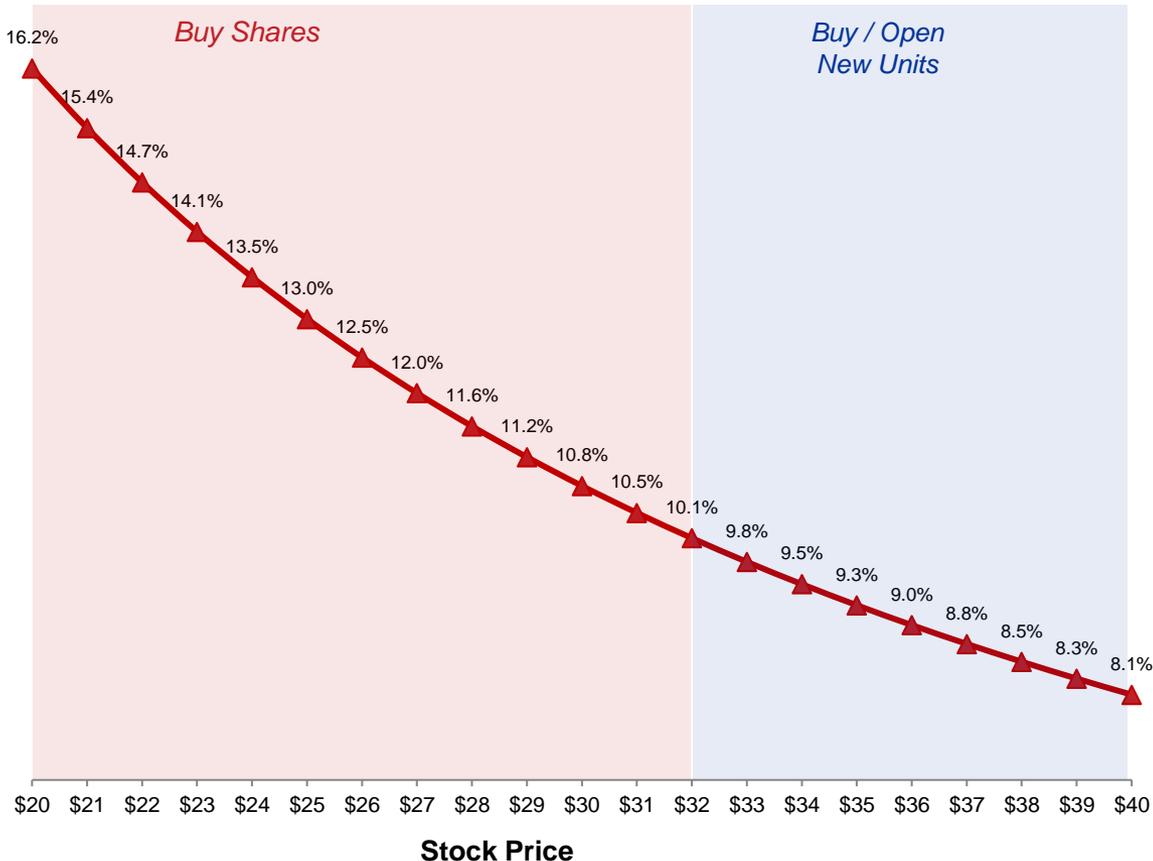
Pre-Covid Status

- FY20 current run rate was \$30M (\$34M in net cash from operating activities less \$4M maintenance capex)
- \$32 share was the point between buying/opening units and buying shares

Current Status

- When more locations open, such as our big Florida and NYC units, we believe our new cost structure and marketing should generate a noticeable increase in FCF even with Covid-related restrictions

FCF Yield on Stock Price @ Pre-Covid FY20 \$30M Current Run Rate



Conclusion

Core Business Resilient

- Acted quickly and with agility to significantly reduce our cost structure and cash burn
- Operating subsidiaries retained key personnel and rehired many furloughed team members

Gaining Confidence in Age of Covid

- Learned how to safely open, close, and reopen locations
- Developed effective ways to serve guests and market our businesses in Covid-safe manner
- Bombshells sales run rate in line with FY20 target, 3Q20 operating margin exceeded target
- Continuing to pursue our long-term strategies

Outlook

- Ended 3Q20 with small but positive operating cash flow
- Expect to generate adequate cash flows from operations for the next 12 months

Special thanks to all our team members

- Our people have been unbelievable

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