



*The Innovator in Bar-Restaurant-Entertainment Themed Hospitality*

NASDAQ: RICK

2Q17 Conference Call Presentation

May 9, 2017

[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.

# Non-GAAP Financial Measures

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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, excluding (or including) items that management believes are not representative of the ongoing business operations of the Company, but are included (or excluded) 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, gains or losses on sale of assets, stock-based compensation, gain on patron tax settlement, and settlement of lawsuits and other one-time 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 Diluted Share.* We exclude from non-GAAP net income and non-GAAP net income per diluted share amortization of intangibles, income tax expense, gains or losses on sale of assets, stock-based compensation, gain on patron tax settlement, and settlement of lawsuits and other one-time costs, and include the non-GAAP provision for current and deferred income taxes, calculated as the tax effect at 33% and 35% year-to-date effective tax rate of the pre-tax non-GAAP income before taxes for the three and six months ended March 31, 2017 and 2016, respectively, because we believe that excluding and including such items help management and investors better understand our operating activities.
- *Adjusted EBITDA.* We exclude from adjusted EBITDA depreciation expense, amortization of intangibles, income tax expense, interest expense, interest income, gains or losses on sale of assets, gain on patron tax settlement, and settlement of lawsuits and other one-time costs 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. 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-Q for the quarter ended March 31, 2017 and our May 9, 2017 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).

# 2Q17 Highlights

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*Comparisons to year ago periods unless otherwise noted*

## EPS

- GAAP: \$0.39 vs. \$0.54 – 2Q16 included \$1.75 million in tax credits
- Non-GAAP\*: \$0.41 vs. \$0.39 – Up 5.1%
- Basic and diluted share counts down 2.9% and 4.8%, respectively

## Free Cash Flow\*

- 6M17: \$10.0M vs. \$10.3M – 6M16 benefited from tax credits
- On track with initial \$18M FY17 target

## Revenues

- Same store sales up 2.7%
- High margin service revenues up 7.3%
- Total up 0.4%, reflecting disposition of underperformers in 4Q16

## Acquisitions (subsequent to 2Q17)

- Scarlett's Cabaret Miami – announced this morning
- Hollywood Showclub and other St. Louis assets – announced April 26th
- Cash and seller financed deals – no equity component

# Disciplined Capital Allocation Strategy

## 1. Buy / open new units or expand existing ones only if:

- We can achieve target cash on cash return of 25-33% or more
  - Target intended to provide superior risk adjusted return vs. buying our own assets in the market
- There is a strategic rationale

## 2. Use FCF to buy back shares

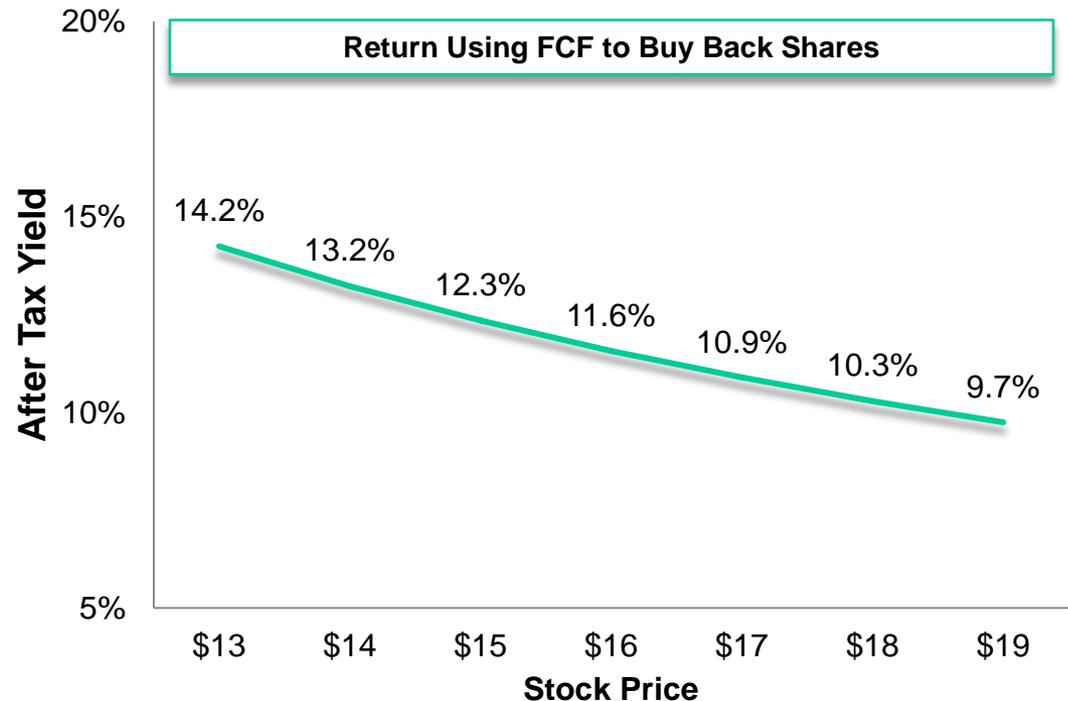
- After tax yield of 10.9% with shares in \$17 range

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

- Free up capital for buying back shares or more profitable investments

## 4. Pay off most expensive debt (12%) at accelerated rate only if:

- It makes sense on a tax adjusted basis or there is a strategic rationale



### Notes

- Based on annual FCF of \$18M
- Based on FD shares outstanding of 9.719M at 3/31/17

# Scarlett's Cabaret Miami Acquisition



## Strategic Value

- One of the best gentlemen's clubs in the country
- Complementary to Tootsie's Cabaret Miami
- Expands our position in South Florida

## Terms

- \$25.952M purchase price
  - Immediate \$5.4M payment
  - \$5M in six months
  - \$15.552M 12-year amortizing 8.00% seller note
  - For tax purposes, the parties have elected to treat the transaction as an asset purchase, which would enable RCI to lower future tax costs and enhance cash flow

## Financial Value (estimated)

- TTM performance
  - \$13M revenues
  - \$6M adjusted EBITDA
  - Anticipate cash on cash return in line with capital allocation strategy

# Acquisition of St. Louis Assets

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## Strategic Value

- Unique opportunity
- Low cost entry into another top 20 market
- Provides foothold in the Midwest

## Terms

- \$1.0M for assets of Hollywood Showclub
- \$3.2M for:
  - Hollywood Showclub building and land
  - Adjacent land for opening another club
  - Nearby building and land which we may either lease or enter into a joint venture with a third party club operator

## Financial Value (estimated)

- Small acquisition
- Based on financing the real estate, expect cash on cash in line with capital allocation strategy

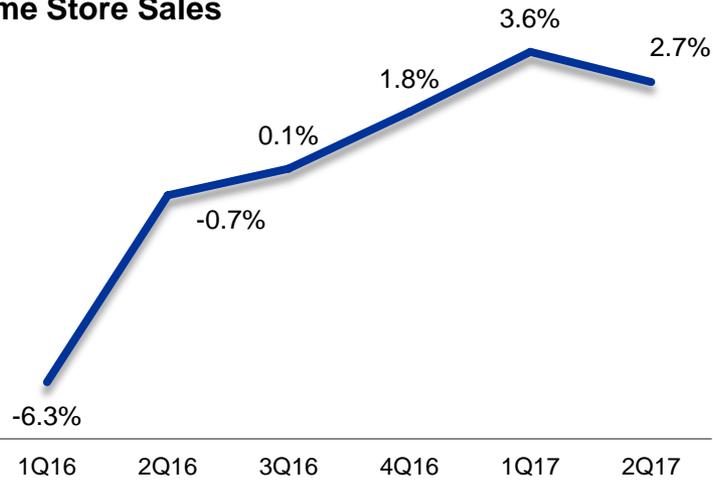
# Five New Units

Unit	Type	Highlights	Timing*
<b>Studio 80</b> Webster (Houston)	Dance club <i>(uses existing lease)</i>	<ul style="list-style-type: none"> <li>Capitalizes on 80's music revival</li> <li>First unit in Fort Worth doing well</li> </ul>	<ul style="list-style-type: none"> <li>Open</li> </ul>
<b>Foxy's Cabaret</b> Dallas	BYOB late night gentlemen's club <i>(uses existing location)</i>	<ul style="list-style-type: none"> <li>Largest BYOB club in Texas</li> <li>Targeting upscale demographic</li> <li>First unit in Austin doing well</li> </ul>	<ul style="list-style-type: none"> <li>Open</li> </ul>
<b>Bombshells</b> Route 290 Houston	Sports bar/restaurant <i>(uses assets from closed location)</i>	<ul style="list-style-type: none"> <li>Demographics similar to top Houston unit</li> </ul>	<ul style="list-style-type: none"> <li>Opens May 2017</li> </ul>
<b>Bombshells</b> Pearland (Houston)	Sports bar/restaurant	<ul style="list-style-type: none"> <li>All but \$1 million financed by banks</li> </ul>	<ul style="list-style-type: none"> <li>Opens August 2017</li> </ul>
<b>Bombshells</b> I-10 Houston	Sports bar/restaurant	<ul style="list-style-type: none"> <li>All but \$1 million financed by banks</li> </ul>	<ul style="list-style-type: none"> <li>Opens January 2018</li> </ul>

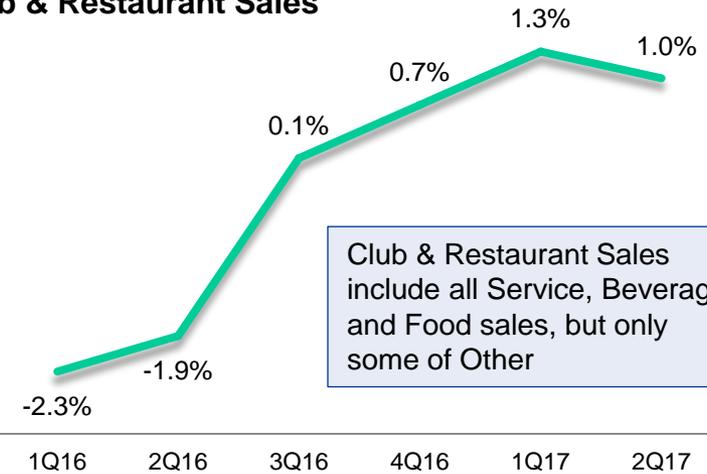


# Continued Sales Growth (year over year)

## Same Store Sales



## Club & Restaurant Sales

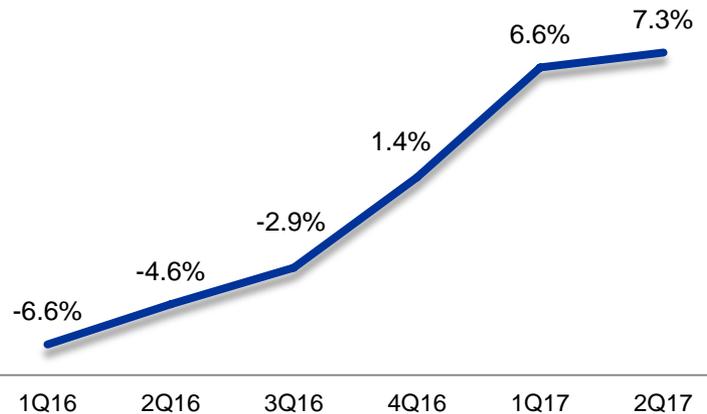


Club & Restaurant Sales include all Service, Beverage and Food sales, but only some of Other

## 2Q17 Highlights

- +2.7% in same-store sales
- +1.5% from new units
- -3.7% from 4Q16 disposition of under-performing units and business
- Continued rebound of higher margin service revenues

## Service Revenues

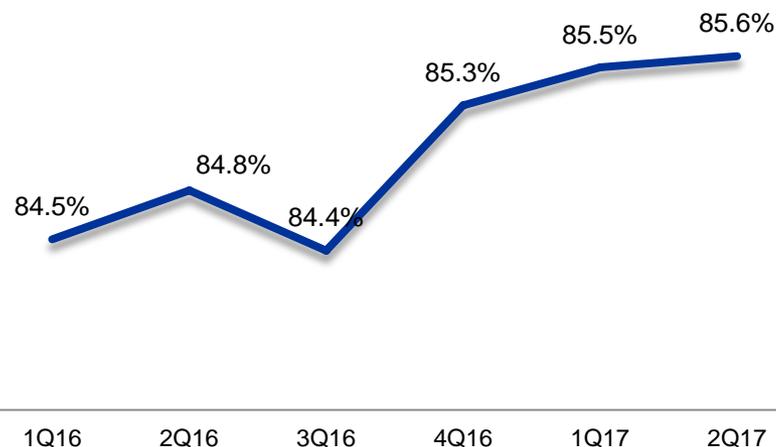


# Margin Analysis (year over year)

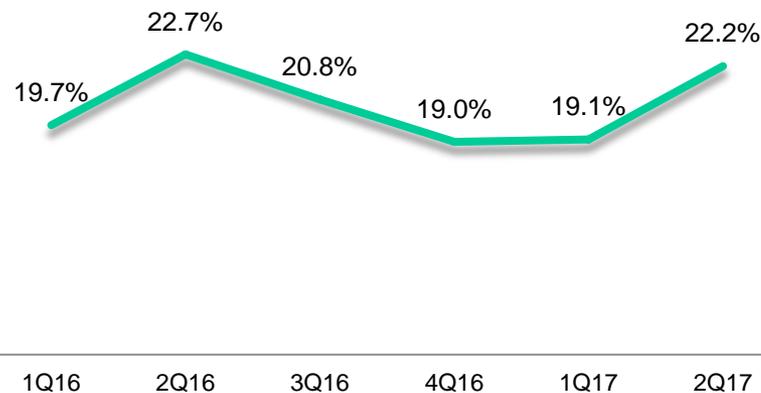
## 2Q17 Highlights

- Non-GAAP operating margin level
- Gross profit margin higher with rebound in service revenues
- Improved segment performance
- Lower depreciation and amortization
- Increased corporate expenses in preparation for new clubs and Bombshells
  - Added managers
  - Recruited staff
  - Initiated training

## Gross Profit Margin



## Non-GAAP Operating Margin\*



\* For GAAP reconciliation, see the company's 2Q17 news release dated May 9, 2017 and the company's 4Q16 conference call presentation dated December 13, 2016 on the company's website at [www.rcihospitality.com](http://www.rcihospitality.com)

# Nightclubs Segment

(\$ in millions)	2Q17	2Q16	Change
Revenues	\$30.0	\$29.3	+2.1%
Units	37	38	-2.6%
Non-GAAP Operating Income*	\$10.5	\$9.7	+8.1%
Non-GAAP Operating Margin*	35.2%	33.2%	+200bps

## Highlights

- Same store sales up 2.7%
- VIP spend has returned
- Strong performances from:
  - Our three units in Minneapolis even after the professional football season ended
  - Club Onyx Houston with the Super Bowl being played in that city
  - At premier clubs Tootsie's Cabaret Miami and Vivid Cabaret New York

# Bombshells Segment

(\$ in millions)	2Q17	2Q16	Change
Revenues	\$4.4	\$4.6	-5.5%
Units	4	5	-20%
Non-GAAP Operating Income*	\$0.821	\$0.758	8.3%
Non-GAAP Operating Margin*	18.8%	16.4%	240bps

## Highlights

- Company owned units
  - Same store sales up 3.2%
  - Revenues down slightly, but margin up strongly with Webster closing in 4Q16
  - Three new Houston units in various stages of development
- Excellent reception at 2017 Multi-Unit Franchising Conference in Las Vegas
  - Operators from around the country liked our theme, design and economics
  - Operators liked the all-American, welcoming, female friendly approach
  - Developed strong, qualified leads

# Adjusted EBITDA, Free Cash Flow & Cash

## Adjusted EBITDA\*

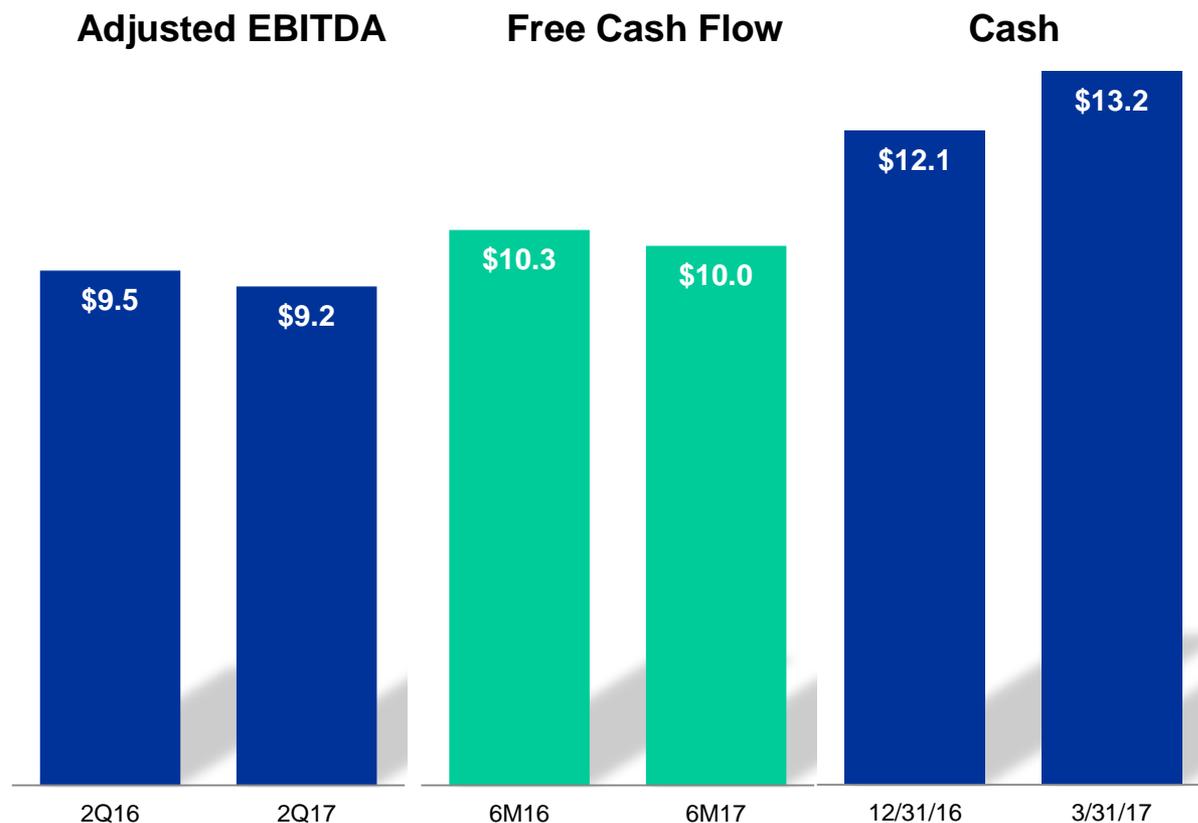
- Off slightly due to expenses

## Free Cash Flow\*

- Up ex-2Q16 tax credit

## Cash

- Up 9.4% from 12/31/16
- Reflects strong results after large, routine 2Q17 tax payments
- January sale of non-income producing property



# Buybacks & Elimination of Dilutive Securities

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
4Q16	140,086	\$10.92	1.5
1Q17	89,685	\$12.28	1.1
<b>Total</b>	<b>836,766</b>	<b>\$10.05</b>	<b>\$8.4</b>

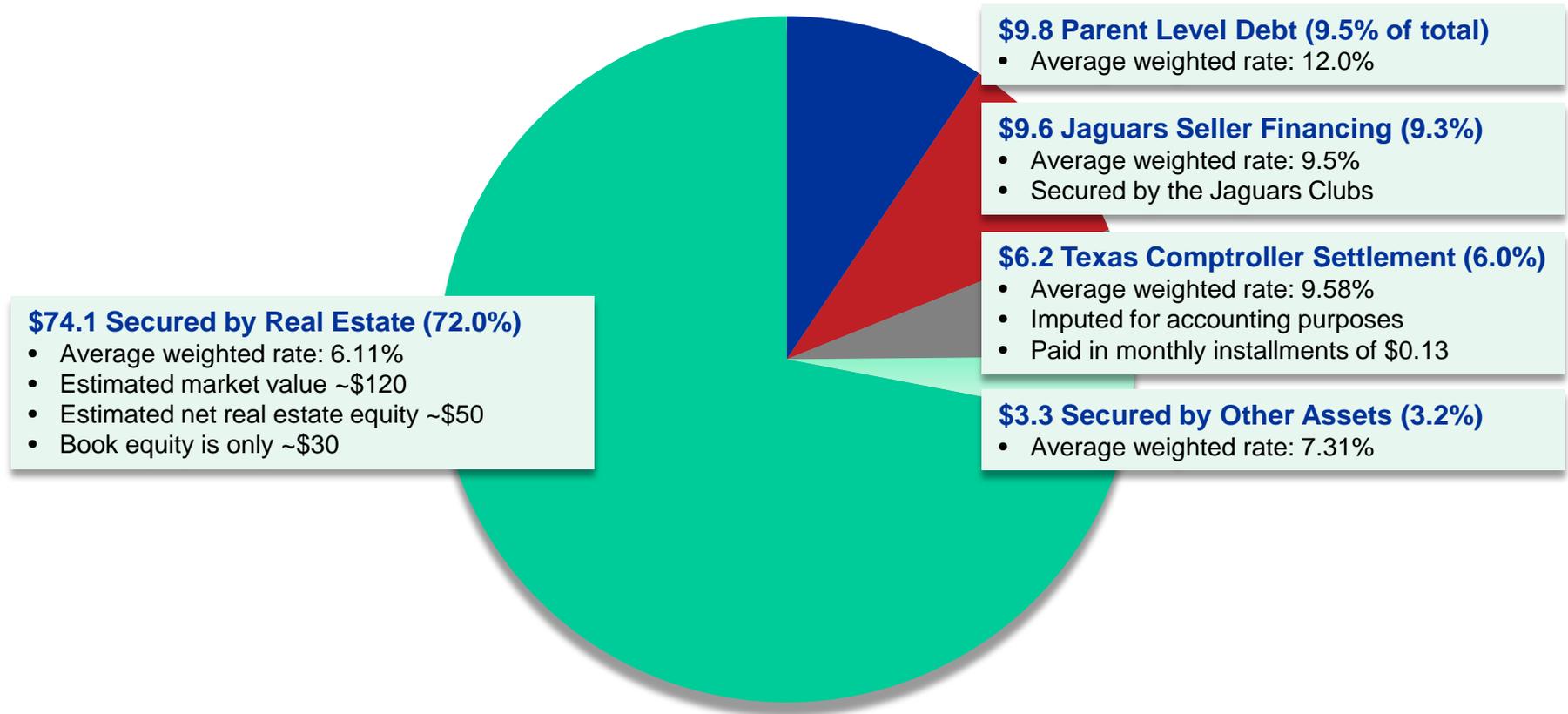


## Highlights

- FY16-1Q17: Largest buyback in RCI's history
- FY16-1Q17: Paid off \$2.8M convertible debt, eliminating 230,000 possible new shares
- 2Q17: Paid down last of convertible debt (\$400K seller-financed note), leaving no dilutive securities in current capital structure

# Long-Term Debt (\$ in millions, as of 3/31/17)

**Total of \$103.0\***  
**Average Weighted Rate: 7.23%**



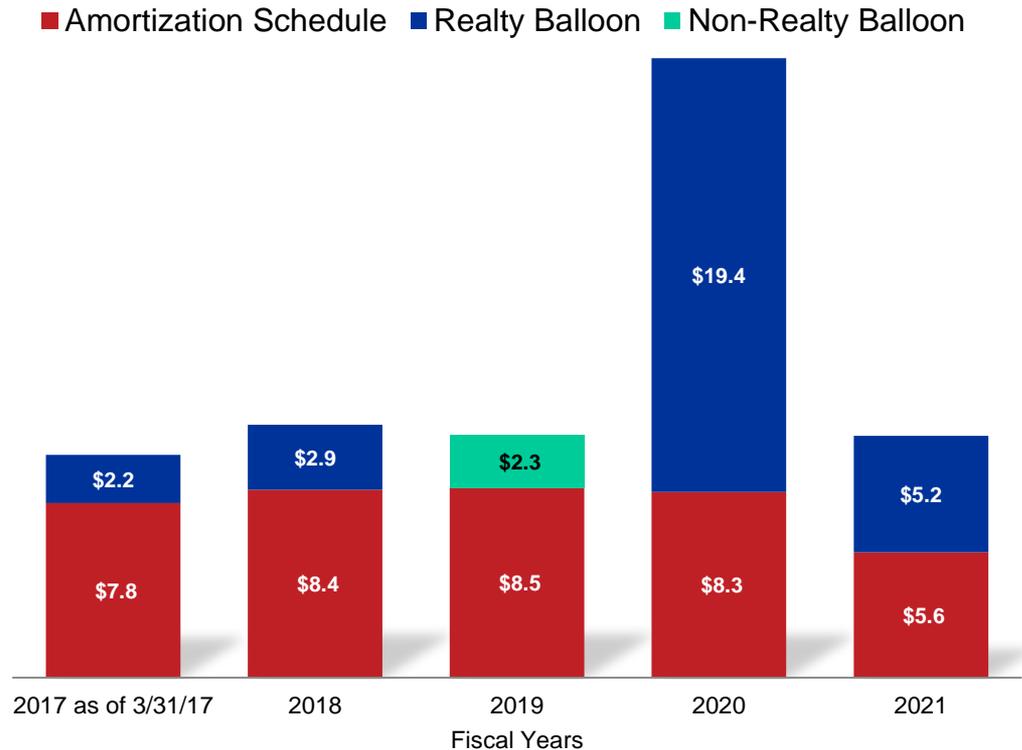
# Debt Maturities (\$ in millions)

## Overview

- Most debt is 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
- All debt is amortizing

## 2Q17

- Paid \$400K remaining convertible debt
- Proceeds from sale of non-income producing property used in part to pay off \$1.5M 11% balloon note



# Strong Second Half FY17 Outlook Continues

## Metrics

- Revenue, margin and EPS growth
- FCF initial target of \$18M\*
- Continue to apply our capital allocation strategy

## Factors

- Two new clubs
- Two new Bombshells
- Potential Bombshells franchise sales

## Acquisition Impact

- We will update investors on 3Q17 call

## Other

- Sale of other non-income producing properties
- All seven pieces are estimated to approximate \$10M in total proceeds



Entrance to Rick's Cabaret New York in Midtown Manhattan

# Calendar

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*Subject to possible change*

<b>Date</b>	<b>Event</b>
July 11, 2017	3Q17 Club & Restaurant Sales
August 9, 2017	3Q17 & 9M17 Financial Results
August 27-30, 2017	25 <sup>th</sup> Annual Gentlemen's Club Expo in Las Vegas
October 10, 2017	4Q17 Club & Restaurant Sales
December 5-7, 2017	LD Micro Investor Conference in Los Angeles
December 14, 2017	4Q17 & FY17 Financial Results

# Contact Information

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