

RCI Reports Positive Operating Cash Flow and EPS for 1Q21

HOUSTON—February 9, 2021—RCI Hospitality Holdings, Inc. (Nasdaq: RICK) today reported results for the fiscal 2021 first quarter ended December 31, 2020 and filed its Form 10-Q. Results are not comparable to yearago periods due to the COVID-19 pandemic, which has caused state and local governments to restrict the opening, occupancy, and operating hours of locations in different ways, at different times.

1Q21 Highlights

- GAAP EPS of \$1.07 and non-GAAP EPS of \$0.39
- GAAP results included \$4.9 million pre-tax gain from debt extinguishment and a \$384,000 tax benefit
- Weighted average shares outstanding declined 3.3% year-over-year
- \$17.0 million cash and cash equivalents at December 31, 2020
- Net cash from operating activities of \$6.3 million and free cash flow* of \$5.7 million
- Total revenues of \$38.4 million, up 33% from 4Q20 and equal to 79% of 1Q20 revenues
- Nightclubs segment revenues of \$25.2 million with 33.7% operating margin
- Bombshells segment revenues of \$13.0 million with 20.9% operating margin

Eric Langan, President & CEO, said: "1Q21 saw the best overall company and Nightclubs performance since the pandemic began in our March 2020 quarter, as well as continued strong Bombshells results. This enabled us to keep our teams employed, generate free cash flow, build cash, and achieve operating and net profitability on a GAAP and non-GAAP basis. Once again, we thank our loyal customers, dedicated team members, and steadfast investors.

"Looking ahead, we're encouraged more clubs have been allowed to reopen and hope this trend continues as the COVID-19 vaccines are rolled out. As of today, 31 clubs and all 10 Bombshells are open. We're also evaluating potential club acquisitions. To expand Bombshells, we recently acquired a great site in the Dallas area and are conducting due diligence on three more. In addition, we are closely collaborating with our initial franchisee on their first location and continue to speak with potential new franchisees. As part of the effort to refinance our real estate debt at better terms, we are awaiting results of appraisals."

Conference Call Today at 4:30 PM ET

- Live Participant Phone Number: Toll Free 877-407-9210, International 201-689-8049
- Access the live webcast, slides or replay here: https://www.webcaster4.com/Webcast/Page/2209/39831
- Phone replay: Toll Free 877-481-4010, International 919-882-2331, Passcode: 39831

1Q21 Statement of Operations (All comparisons are to 1Q20)

- Consolidated revenues of \$38.4 million compared to \$48.4 million. By segment, Bombshells generated \$13.0 million compared to \$10.4 million, and Nightclubs generated \$25.2 million compared to \$37.9 million
- During 1Q21, 24 clubs were open the full quarter and 26 by period end, and all 10 Bombshells were open the full quarter. During 1Q20, 38 clubs were open, and the ninth Bombshells opened October 2019.

- Cost of goods sold was 16.2% vs. 14.0% of revenues due to the change in sales mix from a higher proportion of food and a lower proportion of service revenues.
- Salaries and wages were 29.9% vs. 27.3% of revenues, reflecting the impact of fixed salaries on lower sales.
- SG&A was 31.6% vs. 34.2% of revenues due to cost-savings initiatives and lower variable expenses due to lower sales, partially offset by fixed expenses.
- Income from operations was \$6.6 million (17.1% of revenues) vs. \$9.7 million (20.0% of revenues).
- Bombshells segment profitability increased 73% to \$2.7 million on a 26% increase in sales and a 570 basis point increase in margin to 20.9% of segment revenues. Results reflected higher sales, more consistent traffic while operating in line with indoor restrictions, and greater operating leverage.
- Nightclubs segment generated \$8.5 million in operating income with a 33.7% operating margin. This is the segment's best performance since the 2Q20 quarter, when the pandemic was declared March 13, 2020.
- Non-operating gains of \$4.9 million pre-tax from debt extinguishment of forgiven loans.
- Tax benefit of \$384,000 caused primarily by reversal of the tax valuation allowance and the impact of the loan forgiveness.

December 31, 2020 Balance Sheet (All comparisons are to September 30, 2020)

- Cash and cash equivalents of \$17.0 million compared to \$15.6 million.
- Debt of \$134.8 million compared to \$141.4 million, reflecting debt extinguishment and regular paydowns.

Note

- As of the release of this report, we do not know the future extent and duration of the COVID-19 pandemic
 on our businesses. Lower sales caused by social distancing guidelines could lead to adverse financial
 results. We are continually monitoring and evaluating the situation and will determine any further
 measures to be instituted, which could include refinancing several of our debt obligations.
- All references to 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, and (d) 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) settlement of lawsuits, (f) gain on debt extinguishment, 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 19.1% and 21.8% effective tax rate of the pre-tax non-GAAP income before taxes for the three months ended December 31, 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) 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.

About RCI Hospitality Holdings, Inc. (Nasdaq: RICK)

With more than 40 units, RCI Hospitality Holdings, Inc., through its subsidiaries, is the country's leading company in gentlemen's clubs and sports bars/restaurants. Clubs in New York City, Chicago, Dallas/Ft. Worth, Houston, Miami, Minneapolis, St. Louis, Charlotte, Pittsburgh, and other markets operate under brand names such as Rick's Cabaret, XTC, Club Onyx, Vivid Cabaret, Jaguars Club, Tootsie's Cabaret, and Scarlett's Cabaret. Sports bars/restaurants operate under the brand name Bombshells Restaurant & Bar. Please visit http://www.rcihospitality.com/

Forward-Looking Statements

This press release 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) 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.

Media & Investor Contacts

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RCI HOSPITALITY HOLDINGS, INC. CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share and percentage data)

		For th	e Three Months	Ended De	cember 31	ι,		
		2020)	2019				
			% of			% of		
		Amount	Revenue	Amo	unt	Revenue		
Revenues								
Sales of alcoholic beverages	\$	17,360	45.2%	•	0,743	42.9%		
Sales of food and merchandise		8,609	22.4%		7,447	15.4%		
Service revenues		10,060	26.2%		7,193	35.5%		
Other	,	2,369	6.2%		3,011	6.2%		
Total revenues		38,398	100.0%	4	8,394	100.0%		
Operating expenses								
Cost of goods sold								
Alcoholic beverages sold		3,262	18.8%		4,146	20.0%		
Food and merchandise sold		2,863	33.3%		2,553	34.3%		
Service and other		79	0.6%		77	0.4%		
Total cost of goods sold (exclusive of items shown below)		6,204	16.2%		6,776	14.0%		
Salaries and wages		11,486	29.9%	1	.3,223	27.3%		
Selling, general and administrative		12,152	31.6%	1	6,531	34.2%		
Depreciation and amortization		2,023	5.3%		2,204	4.6%		
Other gains, net		(50)	-0.1%		(26)	-0.1%		
Total operating expenses		31,815	82.9%	3	8,708	80.0%		
Income from operations		6,583	17.1%		9,686	20.0%		
Other income (expenses)								
Interest expense		(2,434)	-6.3%	((2,485)	-5.1%		
Interest income		60	0.2%		98	0.2%		
Non-operating gains (losses), net		4,916	12.8%		(72)	-0.1%		
Income before income taxes	' <u></u>	9,125	23.8%		7,227	14.9%		
Income tax expense (benefit)		(384)	-1.0%		1,593	3.3%		
Net income		9,509	24.8%		5,634	11.6%		
Net loss attributable to noncontrolling interests		134	0.3%		-	0.0%		
Net income attributable to RCIHH common shareholders	\$	9,643	25.1%	\$	5,634	11.6%		
Earnings per share								
Basic and diluted	\$	1.07		\$	0.60			
Weighted average shares outstanding								
Basic and diluted		9,019			9,322			
Dividends per share	\$	0.04		\$	0.03			

RCI HOSPITALITY HOLDINGS, INC. NON-GAAP FINANCIAL MEASURES

(in thousands, except per share and percentage data)

Reconciliation of GAAP net income to Adjusted EBITDA 2020 2019 Net income attributable to RCIHH common stockholders \$ 9,643 \$ 5,634 Income tax expense (benefit) (384) 1,533 Interest expense, net (2,34) 2,234 Settlement of lawsuits (15) 24 Gain on sale of businesses and assets (16) 3 Gain on nether stringuishment (197) (200 Unrealized loss on equity securities 33 7.2 Gain on insurance (197) (200 Depreciation and amortization \$ 8,690 13,894 Reconciliation of GAAP net income to non-GAAP net income \$ 9,643 \$ 5,634 Reconciliation of GAAP net income to sockholders \$ 9,643 \$ 5,634 Amortization of intangibles 79 155 24 Settlement of lawsuits 152 24 4 4 4 33 72 2 2 4 4 33 72 2 2 4 4 33 3 2 2 4 4		For the Three Months Ended December 31,						
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Income from operations \$ 6,583 \$ 9,686 Amortization of intangibles 79 156 Settlement of lawsuits 152 24 Gain on sale of businesses and assets (5) (30) Gain on insurance (197) (20) Non-GAAP operating income \$ 6,612 \$ 9,816 Reconciliation of GAAP operating margin to non-GAAP operating margin 17.1% 20.0% Amortization of intangibles 0.2% 0.3% Settlement of lawsuits 0.4% 0.0% Gain on sale of businesses and assets 0.0% -0.1% Gain on insurance -0.5% 0.0% Non-GAAP operating margin 17.2% 20.3% Reconciliation of net cash provided by operating activities to free cash flow Net cash provided by operating activities \$ 6,274 \$ 10,273 Less: Maintenance capital expenditures 605 1,021								
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Gain on sale of businesses and assets(5)(30)Gain on insurance(197)(20)Non-GAAP operating income\$ 6,612\$ 9,816Reconciliation of GAAP operating margin to non-GAAP operating margin17.1%20.0%GAAP operating margin17.1%20.0%Amortization of intangibles0.2%0.3%Settlement of lawsuits0.4%0.0%Gain on sale of businesses and assets0.0%-0.1%Gain on insurance-0.5%0.0%Non-GAAP operating margin17.2%20.3%Reconciliation of net cash provided by operating activities to free cash flowNet cash provided by operating activities\$ 6,274\$ 10,273Less: Maintenance capital expenditures6051,021	-		79		156			
Gain on insurance(197)(20)Non-GAAP operating income\$ 6,612\$ 9,816Reconciliation of GAAP operating margin to non-GAAP operating marginGAAP operating margin17.1%20.0%Amortization of intangibles0.2%0.3%Settlement of lawsuits0.4%0.0%Gain on sale of businesses and assets0.0%-0.1%Gain on insurance-0.5%0.0%Non-GAAP operating margin17.2%20.3%Reconciliation of net cash provided by operating activities to free cash flowNet cash provided by operating activities\$ 6,274\$ 10,273Less: Maintenance capital expenditures6051,021	Settlement of lawsuits		152		24			
Non-GAAP operating income\$ 6,612\$ 9,816Reconciliation of GAAP operating margin to non-GAAP operating margin17.1%20.0%GAAP operating margin17.1%20.0%Amortization of intangibles0.2%0.3%Settlement of lawsuits0.4%0.0%Gain on sale of businesses and assets0.0%-0.1%Gain on insurance-0.5%0.0%Non-GAAP operating margin17.2%20.3%Reconciliation of net cash provided by operating activities to free cash flowNet cash provided by operating activities\$ 6,274\$ 10,273Less: Maintenance capital expenditures6051,021	Gain on sale of businesses and assets		(5)		(30)			
Reconciliation of GAAP operating margin to non-GAAP operating margin GAAP operating margin Amortization of intangibles Settlement of lawsuits Gain on sale of businesses and assets Gain on insurance Non-GAAP operating margin Reconciliation of net cash provided by operating activities to free cash flow Net cash provided by operating activities \$ 6,274 \$ 10,273 Less: Maintenance capital expenditures	Gain on insurance		(197)		(20)			
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GAAP operating margin 17.1% 20.0% Amortization of intangibles 0.2% 0.3% Settlement of lawsuits 0.4% 0.0% Gain on sale of businesses and assets 0.0% -0.1% Gain on insurance -0.5% 0.0% Non-GAAP operating margin 17.2% 20.3% Reconciliation of net cash provided by operating activities to free cash flow Net cash provided by operating activities \$ 6,274 \$ 10,273 Less: Maintenance capital expenditures 605 1,021								
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Gain on sale of businesses and assets Gain on insurance Non-GAAP operating margin Reconciliation of net cash provided by operating activities to free cash flow Net cash provided by operating activities \$ 6,274 \$ 10,273 Less: Maintenance capital expenditures \$ 1,021	Amortization of intangibles		0.2%		0.3%			
Gain on insurance -0.5% 0.0% Non-GAAP operating margin 17.2% 20.3% Reconciliation of net cash provided by operating activities to free cash flow Net cash provided by operating activities \$ 6,274 \$ 10,273 Less: Maintenance capital expenditures 605 1,021	Settlement of lawsuits		0.4%		0.0%			
Non-GAAP operating margin 17.2% 20.3% Reconciliation of net cash provided by operating activities to free cash flow Net cash provided by operating activities \$ 6,274 \$ 10,273 Less: Maintenance capital expenditures 605 1,021	Gain on sale of businesses and assets		0.0%		-0.1%			
Non-GAAP operating margin 17.2% 20.3% Reconciliation of net cash provided by operating activities to free cash flow Net cash provided by operating activities \$ 6,274 \$ 10,273 Less: Maintenance capital expenditures 605 1,021	Gain on insurance		-0.5%		0.0%			
Reconciliation of net cash provided by operating activities to free cash flow Net cash provided by operating activities \$ 6,274 \$ 10,273 Less: Maintenance capital expenditures 605 1,021					20.3%			
Net cash provided by operating activities\$ 6,274\$ 10,273Less: Maintenance capital expenditures6051,021								
Net cash provided by operating activities\$ 6,274\$ 10,273Less: Maintenance capital expenditures6051,021	Reconciliation of net cash provided by operating activities to free cash flow							
Less: Maintenance capital expenditures 605 1,021		\$	6.274	\$	10.273			
		Y		Y				
	Free cash flow	\$	5,669	\$	9,252			

RCI HOSPITALITY HOLDINGS, INC. SEGMENT INFORMATION

(in thousands)

For the Three Months

	 Ended December 31,				
	 2020	2019			
Revenues					
Nightclubs	\$ 25,197	\$	37,859		
Bombshells	13,006		10,350		
Other	195		185		
	\$ 38,398	\$	48,394		
Income (loss) from operations					
Nightclubs	\$ 8,495	\$	13,776		
Bombshells	2,717		1,573		
Other	(75)		(207)		
General corporate	(4,554)		(5,456)		
	\$ 6,583	\$	9,686		

RCI HOSPITALITY HOLDINGS, INC. NON-GAAP SEGMENT INFORMATION

(\$ in thousands)

	 For the Three Months Ended December 31, 2020								For the Three Months Ended December 31, 2019										
	Nightclubs	Вс	mbshells		Other	C	Corporate		Total		Nightclubs	Во	mbshells		Other	С	orporate		Total
Income (loss) from operations	\$ 8,495	\$	2,717	\$	(75)	\$	(4,554)	\$	6,583		\$ 13,776	\$	1,573	\$	(207)	\$	(5,456)	\$	9,686
Amortization of intangibles	47		4		28		-		79		57		4		95		-		156
Settlement of lawsuits	118		34		-		-		152		24		-		-		-		24
Gain on sale of businesses and assets	-		-		-		(5)		(5)		3		-		-		(33)		(30)
Gain on insurance	(197)		-		-		-		(197)		(20)		-		-		-		(20)
Non-GAAP operating income (loss)	\$ 8,463	\$	2,755	\$	(47)	\$	(4,559)	\$	6,612		\$ 13,840	\$	1,577	\$	(112)	\$	(5,489)	\$	9,816
GAAP operating margin	33.7%		20.9%		-38.5%		-11.9%		17.1%		36.4%		15.2%		-111.9%		-11.3%		20.0%
Non-GAAP operating margin	33.6%		21.2%		-24.1%		-11.9%		17.2%		36.6%		15.2%		-60.5%		-11.3%		20.3%

RCI HOSPITALITY HOLDINGS, INC. CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

		For the Three	Months End	ded	
	Decem	ber 31, 2020	December 31, 2019		
CASH FLOWS FROM OPERATING ACTIVITIES					
Net income	\$	9,509	\$	5,634	
Adjustments to reconcile net income to net cash					
provided by operating activities:					
Depreciation and amortization		2,023		2,204	
Deferred income tax benefit		-		(150	
Gain on sale of businesses and assets		(5)		(30	
Gain on debt extinguishment		(4,920)			
Unrealized loss on equity securities		33		7:	
Amortization of debt discount and issuance costs		51		6:	
Doubtful accounts reversal on notes receivable		(93)			
Noncash lease expense		421		329	
Gain on insurance		(250)		(20	
Changes in operating assets and liabilities:					
Accounts receivable		1,433		2,34	
Inventories		(22)		(14:	
Prepaid expenses, other current assets and other assets		1,125		1,56	
Accounts payable, accrued and other liabilities		(3,031)		(1,59	
Net cash provided by operating activities		6,274		10,27	
CASH FLOWS FROM INVESTING ACTIVITIES					
Proceeds from sale of businesses and assets		-		5	
Proceeds from insurance		250		93	
Proceeds from notes receivable		26		35	
Payments for property and equipment and intangible assets		(1,289)		(4,05	
Net cash used in investing activities		(1,013)		(2,71	
CASH FLOWS FROM FINANCING ACTIVITIES					
Proceeds from debt obligations		-		318	
Payments on debt obligations		(1,745)		(2,08	
Purchase of treasury stock		(1,794)		(6,44	
Payment of dividends		(360)		(27	
Distribution to noncontrolling interests		-		(10	
Net cash used in financing activities		(3,899)		(8,493	
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		1,362		(93	
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		15,605		14,09	
CASH AND CASH EQUIVALENTS AT END OF PERIOD	\$	16,967	\$	13,15	

RCI HOSPITALITY HOLDINGS, INC. CONDENSED CONSOLIDATED BALANCE SHEETS

(in thousands)

	De	cember 31,	Sej	ptember 30,	De	ecember 31,		
		2020		2020		2019		
ASSETS								
Current assets	,	46.067	.	45.605	, .	42.450		
Cash and cash equivalents	\$	16,967	\$	15,605	\$	13,159		
Accounts receivable, net		5,334		6,767		4,250		
Current portion of notes receivable		211		201		659		
Inventories		2,394		2,372		2,739		
Prepaid expenses and other current assets		5,348		6,488		6,386		
Assets held for sale		-				4,825		
Total current assets		30,254		31,433		32,018		
Property and equipment, net		180,548		181,383		183,657		
Operating lease right-of-use assets		25,125		25,546		26,981		
Notes receivable, net of current portion		2,965		2,908		4,149		
Goodwill		45,686		45,686		53,630		
Intangibles, net		73,149		73,077		75,795		
Other assets		882		900		1,062		
Total assets	\$	358,609	\$	360,933	\$	377,292		
LIABILITIES AND EQUITY								
Current liabilities								
Accounts payable	\$	3,601	\$	4,799	\$	3,202		
Accrued liabilities		13,100		14,573		13,759		
Current portion of debt obligations, net		15,685		16,304		14,898		
Current portion of operating lease liabilities		1,658		1,628		1,521		
Total current liabilities		34,044	_	37,304		33,380		
Deferred tax liability, net		20,390		20,390		21,508		
Debt, net of current portion and debt discount and issuance costs		119,136		125,131		126,928		
Operating lease liabilities, net of current portion		25,017		25,439		26,745		
Other long-term liabilities		360		362		407		
Total liabilities		198,947		208,626		208,968		
Commitments and contingencies								
Equity								
Preferred stock		-		-		-		
Common stock		90		91		93		
Additional paid-in capital		50,040		51,833		54,874		
Retained earnings		110,080		100,797		113,523		
Total RCIHH stockholders' equity		160,210		152,721		168,490		
Noncontrolling interests		(548)		(414)		(166)		
Total equity		159,662		152,307		168,324		
Total liabilities and equity	\$	358,609	\$	360,933	\$	377,292		