RCI HOSPITALITY HOLDINGS INC

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

RCI HOSPITALITY HOLDINGS INC.
25 YEARS
Nasdaq
1995-2020

NASDAQ: RICK
1Q22 Conference Call
February 9, 2022
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 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, 2021, 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 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.

As used herein, the “Company,” “we,” “our,” and similar terms include RCI Hospitality Holdings, Inc. (RCIHH) 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 22.3% and 19.1% effective tax rate of the pre-tax non-GAAP income before taxes for the three months ended December 31, 2021 and 2020, 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.

Our 1Q22 10-Q and our February 9, 2022 earnings news release and financial tables contain additional details and reconciliation of non-GAAP financial measures for the quarter ended December 31, 2021, and are posted on our website at www.rcihospitality.com and filed with the US Securities and Exchange Commission.

Today's News[1]

1Q22: Another Strong Quarter

Financial Highlights

- Total Revenues: $61.8M vs. $38.4M
- EPS: $1.12 vs. $1.07
- Non-GAAP EPS[2]: $1.10 vs. $0.39
- Net Cash from Operating Activities: $16.3M vs. $6.3M
- Free Cash Flow[2]: $15.3M vs. $5.7M
- Net Income: $10.6M vs. $9.6M
- Adjusted EBITDA[2]: $18.0M vs. $8.7M

Operational Highlights

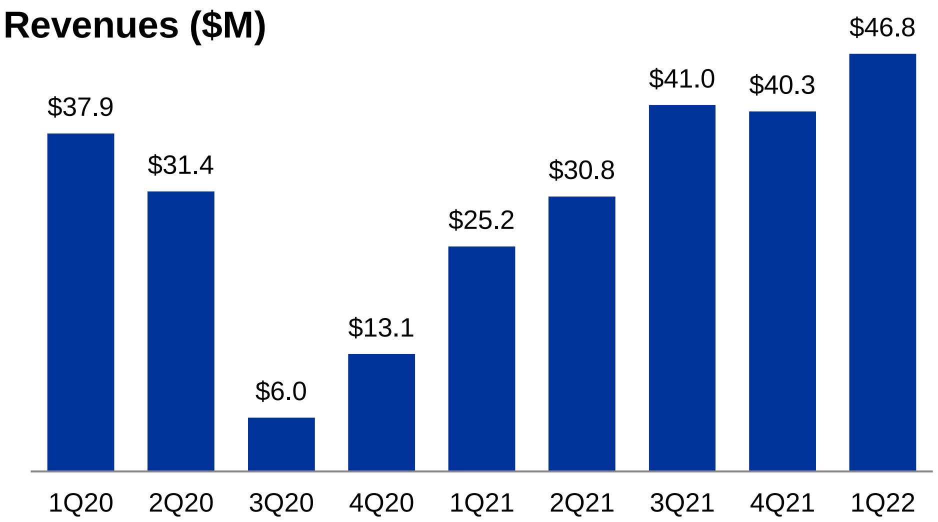
- Nightclubs and Bombshells continued to perform well
- High margin Nightclubs service revenues more than 2x year-ago-quarter
- 12 acquired clubs and new Bombshells Arlington contributed to segment results for part of 1Q22
- Little noticeable impact from Omicron until December

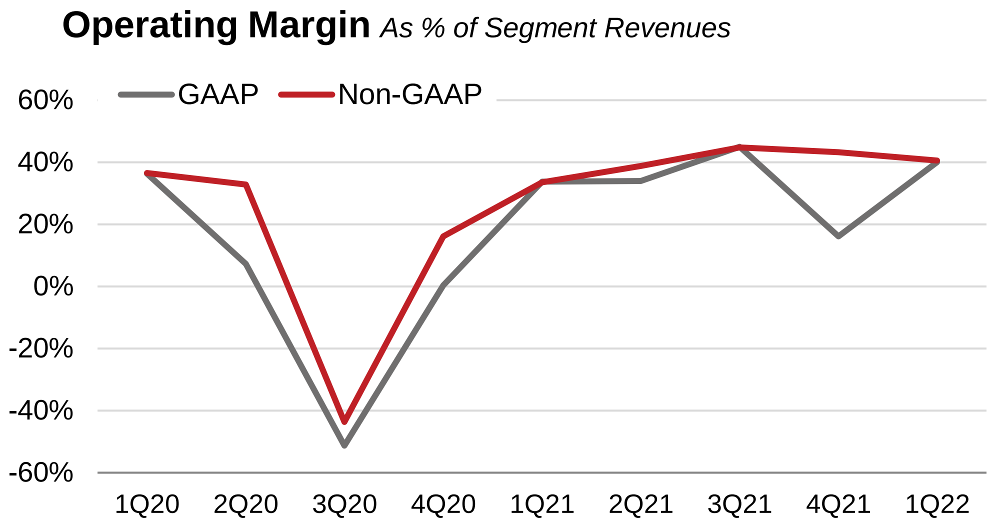
FY22 Growth Initiatives

- Bombshells: San Antonio (franchisee-owned)
- Bombshells: Under contract on two new company locations, looking for more
- Bombshells: Continuing to talk to potential franchisees
- Nightclubs: Continuing to talk to other owners about possible acquisitions
- AdmireMe: Soft launch 2Q22-early 3Q22

1) Comparisons are 1Q22 vs. 1Q21 unless indicated otherwise
2) See slide 3, "Non-GAAP Financial Measures"

Nightclubs Segment





- 1Q22
  - Revenues of $46.8M
  - Operating margin of 40.1% (40.6% non-GAAP)
  - Income from operations of $18.7M ($19.0M non-GAAP)
  - High margin service revenues up 107% YoY
- Analysis
  - Same store sales up 31% compared to 1Q21 and up 8% compared to 1Q20
  - Acquisition of 12 clubs contributed 29% of YoY increase in revenues and 17% of YoY increase in operating income
  - Making steady progress restoring acquired clubs to pre-COVID revenue and EBITDA run rates

Period	Location Status
1Q20	38 clubs open (St. Louis reopened December 2019)
2Q20	All 38 clubs closed mid-March
3Q20	Reopenings started May 2020, 29 open at quarter end
4Q20	16 open through most of 4Q20, 34 open by quarter end
1Q21	24 open through most of 1Q21, 26 open by quarter end
2Q21	29 open through most of 2Q21, 37 open by quarter end
3Q21	36 open throughout 3Q21 (2 temporarily closed)
4Q21	36 open throughout 4Q21 (2 temporarily closed)
1Q22	47 open including 12 acquired Oct-Nov 2021 (2 temporarily closed)

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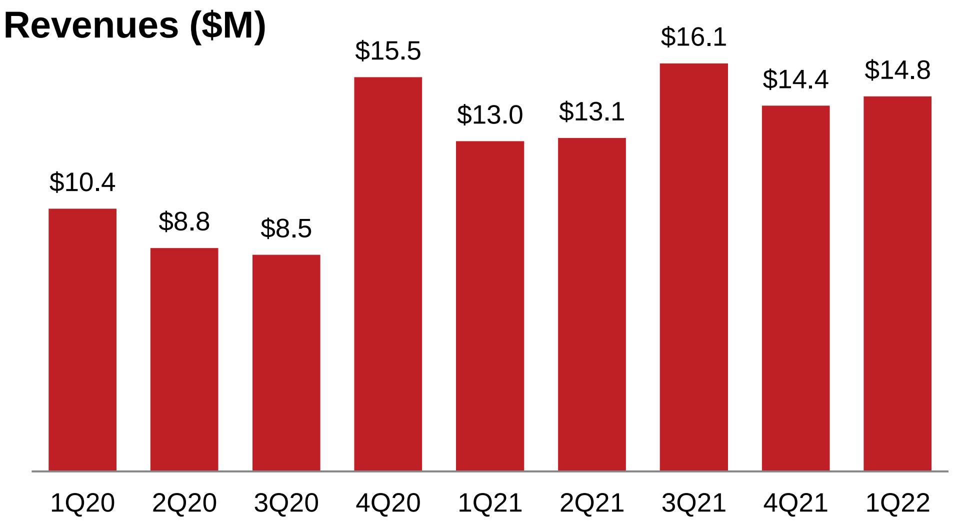
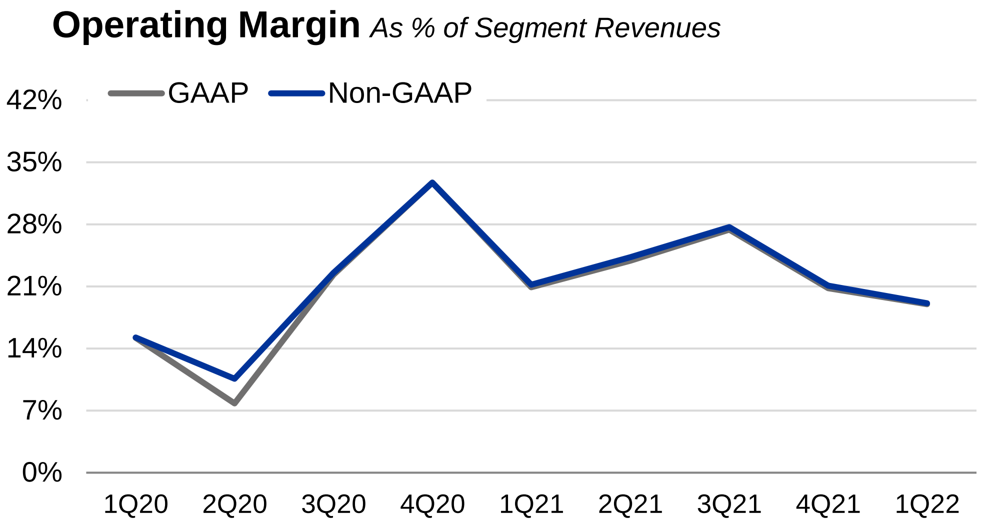
Bombshells Segment





- 1Q22
  - Revenues of $14.8M
  - Operating margin of 19.0%
  - GAAP income from operations of $2.8M
- Analysis
  - Same store sales up 8% compared to 1Q21 and up 21% compared to 1Q20
  - Bombshells Arlington contributed 45% of YoY revenue increase
  - Bombshells Arlington record first month for new location
  - Operating margin impacted by more than two months of Arlington pre-opening costs

Period	Location Status
1Q20	9th store opened October 2019
2Q20	10th store opened January 2020, all 10 closed mid-March
3Q20	Reopenings started May 2020, all 10 open by quarter end
4Q20	Austin & Fuqua closed part of 4Q20, all 10 open by quarter end
1Q21	All 10 stores open (50% to 75% capacity mid-October)
2Q21	All 10 stores open (75% to 100% capacity mid-March)
3Q21	All 10 stores open at 100% capacity throughout 3Q21
4Q21	All 10 stores open
1Q22	11th store opened December 2021

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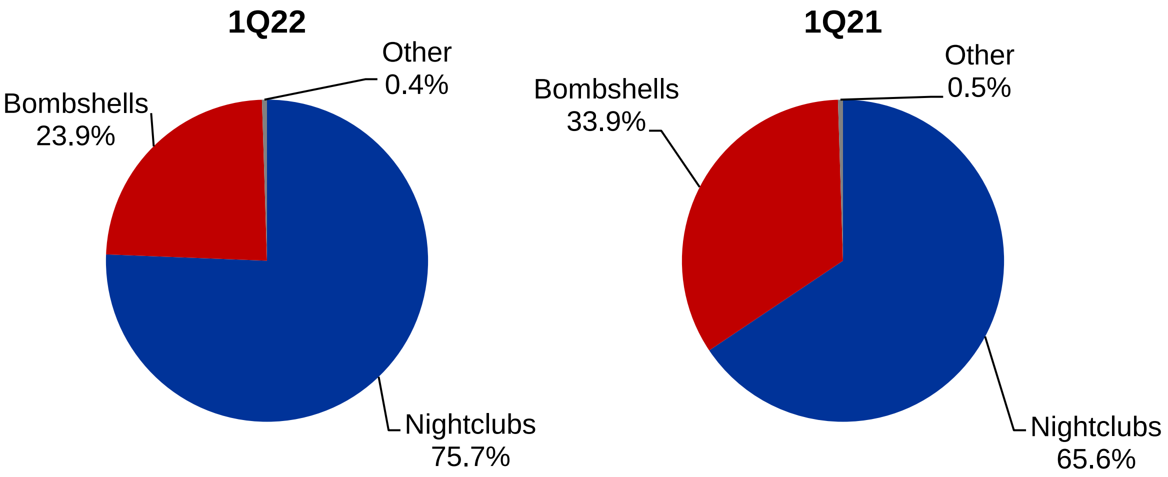
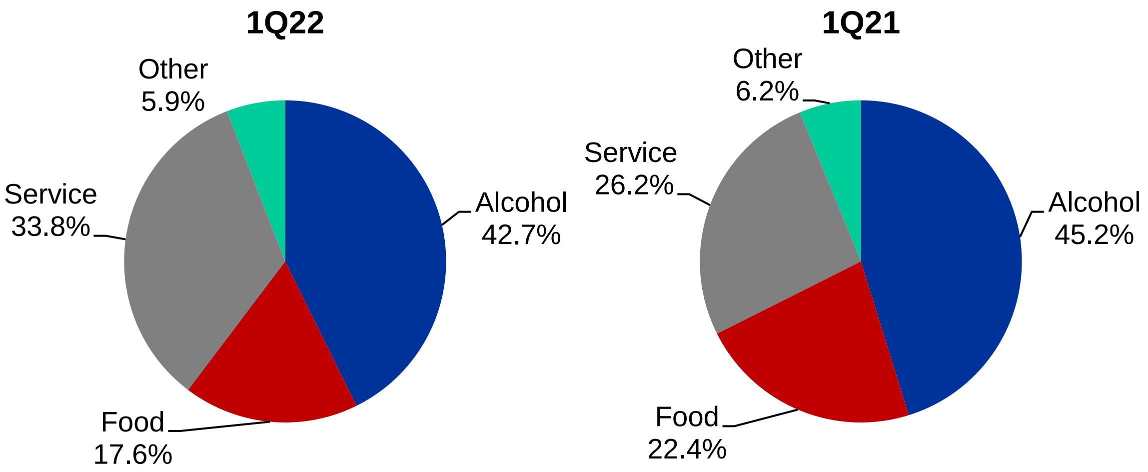
Analysis of Consolidated Statement of Operations

Line Item	1Q22 vs. 1Q21 (% of sales)	1Q22 Comment
Cost of Goods	14.4% vs. 16.2%	Reflects higher Nightclubs sales and margins
Salaries & Wages	26.7% vs. 29.9%	
SG&A	29.9% vs. 31.6%	
Operating Margin	25.7% vs. 17.1%	Non-GAAP: 25.6% vs. 17.2%
Interest Expense	4.2% vs. 6.3%	Reflects combination of higher sales, lower weighted average interest rate, and higher debt
Non-Operating Gains, Net	0.1% vs. 12.8%	1Q21 reflected $4.9M of debt forgiveness

Sales Mix By Segment

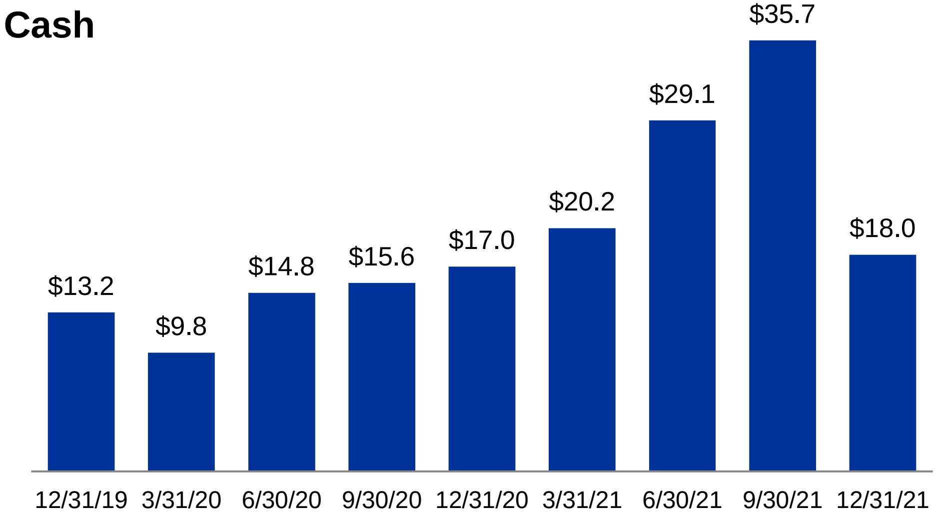


Sales Mix By Revenue Type

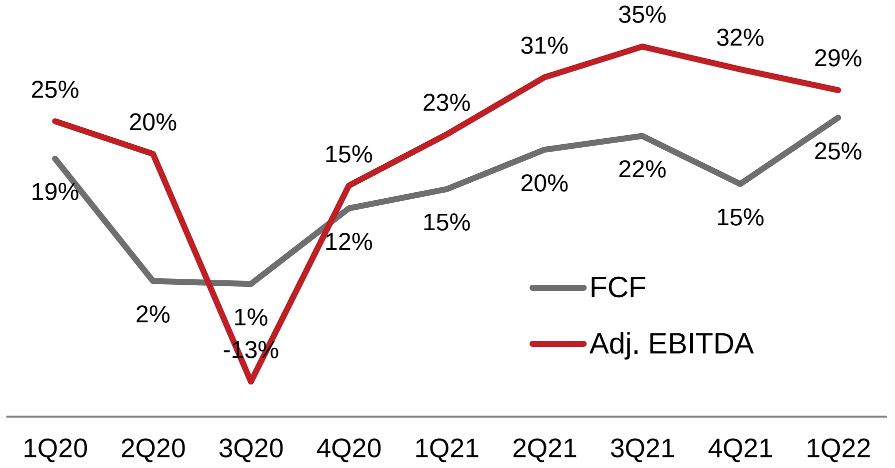


Cash, FCF & Adjusted EBITDA ($M)

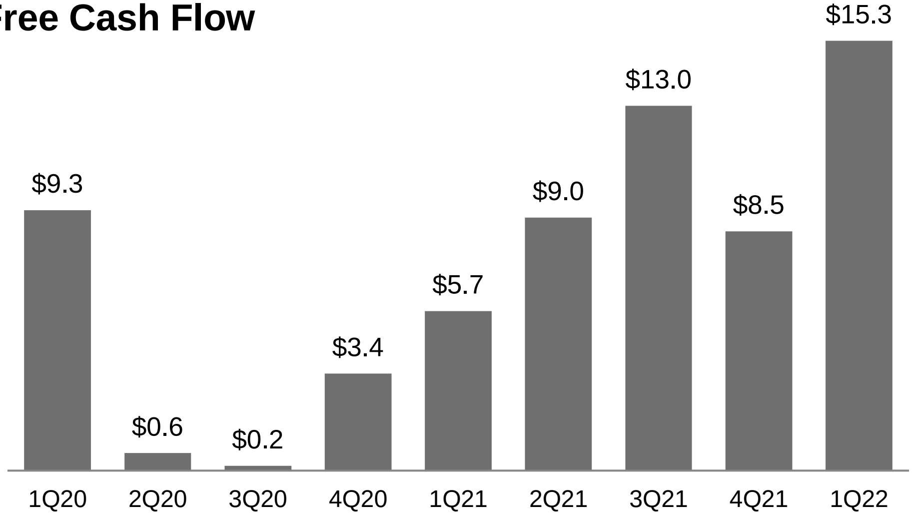
Cash



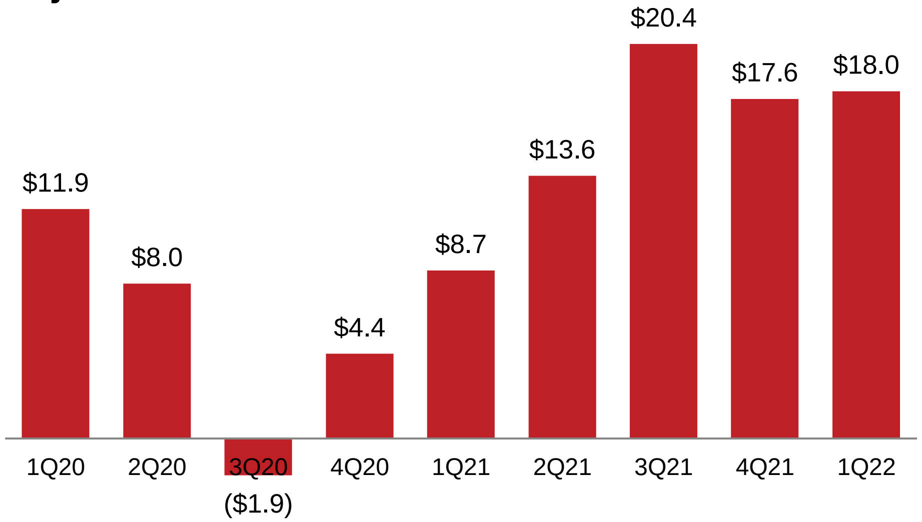
As % of Total Revenues



Free Cash Flow



Adjusted EBITDA



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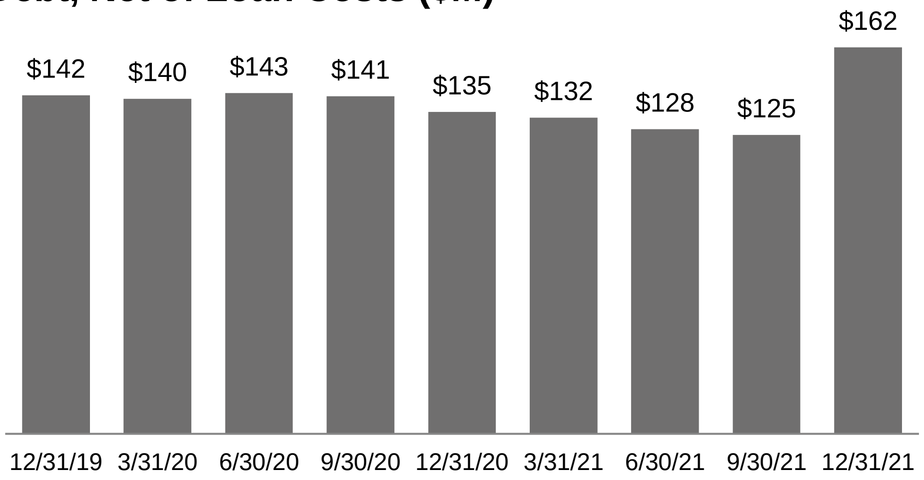
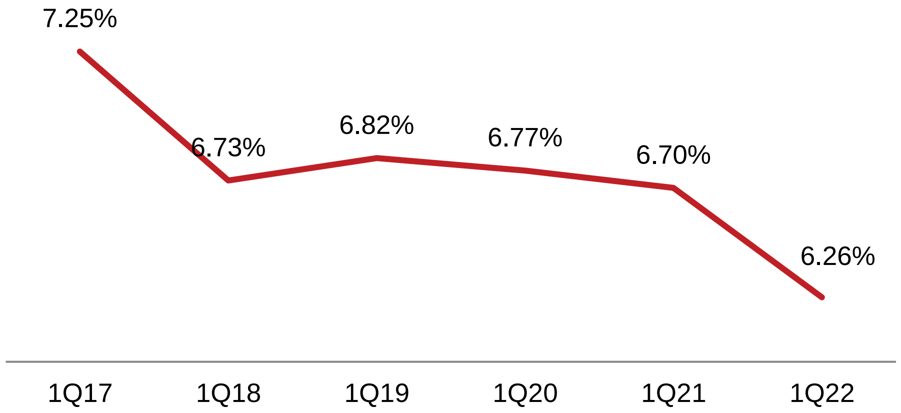
Debt & Related Metrics

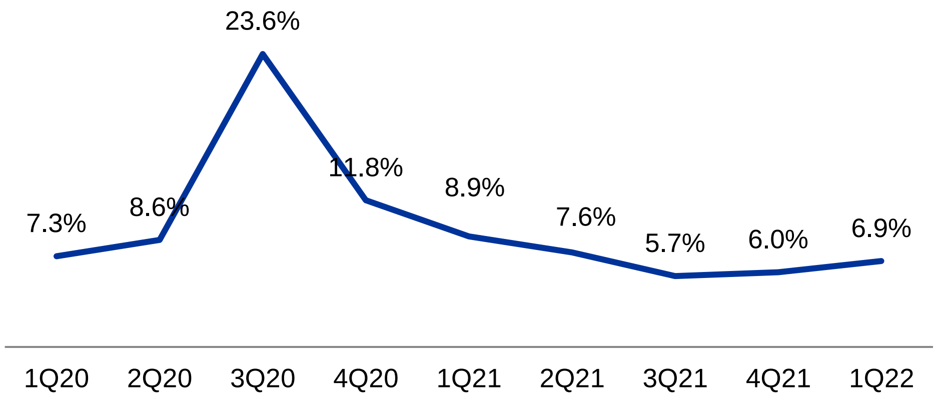
Debt, Net of Loan Costs ($M)



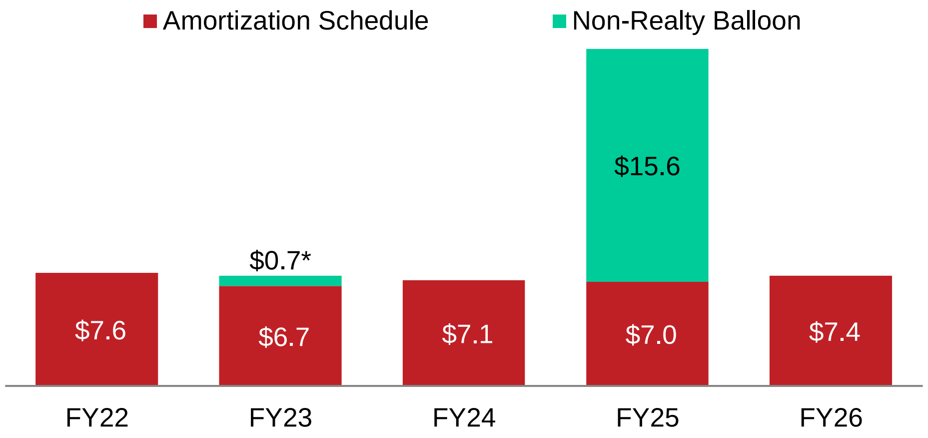
Weighted Average Interest Rate on Debt



Total Occupancy Costs *As % of Total Revenues*



Debt Maturities as of 12/31/21 ($M)



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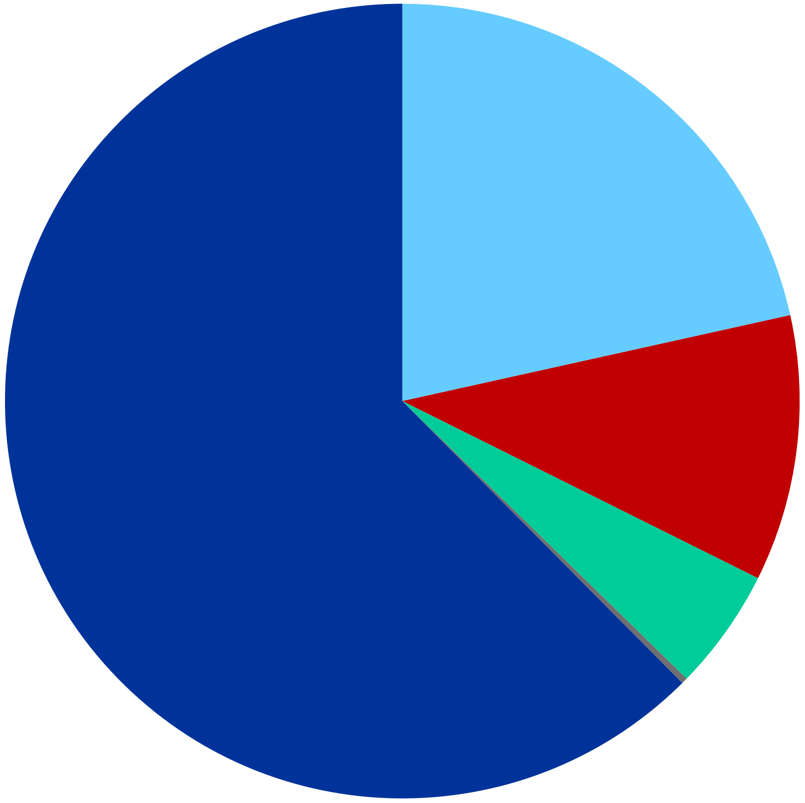
Debt Analysis *(as of 12/31/21, $ in millions)*

Total of $163.5*
Weighted Average Interest Rate (WAIR): 6.26%



$102.1 Secured by Real Estate (62.5% of total)
- 5.25% WAIR

$35.2 Seller Financing (21.6% of total)
- Secured by the respective clubs
- 11 Clubs: $19.9 @ 5.96% WAIR
- Scarlett's: $14.3 @ 7.4% WAIR
- Mansion: $1.0 @ 4.00% WAIR

$17.7 Unsecured Debt (10.8% of total)
- 11.72% WAIR

$8.1 Secured by Other Assets (4.9% of total)
- 5.87% WAIR

$0.4 Texas Comptroller Settlement (0.2% of total)
- 9.58% WAIR (imputed for accounting purposes)
- Paid in monthly installments of $91K
- Secured by business and assets of related clubs

*Long-Term Debt Net of Loan Costs: $161.8
- Up $36.6 from 9/30/21
- Up $27.0 from 12/31/20

Operating Lease Total Liabilities: $37.4
- Adoption of ASC 842, Leases, starting FY20

Capital Allocation Strategy*

Buy Back Shares

- Repurchase shares when FCF yield is more than 10%

M&A

Buy More of the Right Nightclubs

- Buy good, solid, cash flowing clubs at 3-5x adjusted EBITDA
- Use seller-financing
- Buy the real estate for market value
- Structure deals to generate annual cash on cash return of at least 25-33%

Organic

Methodically Expand Bombshells

- Develop critical mass, market awareness, and sell franchises
- Structure investments in new units to generate annual cash on cash return of at least 25-33%

Drive Value with 10-15% Compound Annual FCF/Share Growth

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* We may deviate from this strategy if other strategic rationale warrants

Growth Initiatives & Updates

Nightclubs

Acquisition of 12 Clubs Oct-Nov 2021

Rebuilt & Rebranded Sulfur, LA Club

Remodeled & Rebranded San Antonio, TX Club

AdmireMe (mobile friendly website)

More Acquisitions (Targeting addition of $20M Adjusted EBITDA in FY23)

Bombshells

Bombshells Arlington, TX (2nd Dallas area location)

Bombshells Sapphire Bay in Rowlett, TX (NE Dallas suburb)

Bombshells Stafford, TX (South Houston suburb)

More Locations (Targeting Dallas, Austin, Florida (North, South, West), Phoenix

Bombshells San Antonio, TX (1st franchise location)

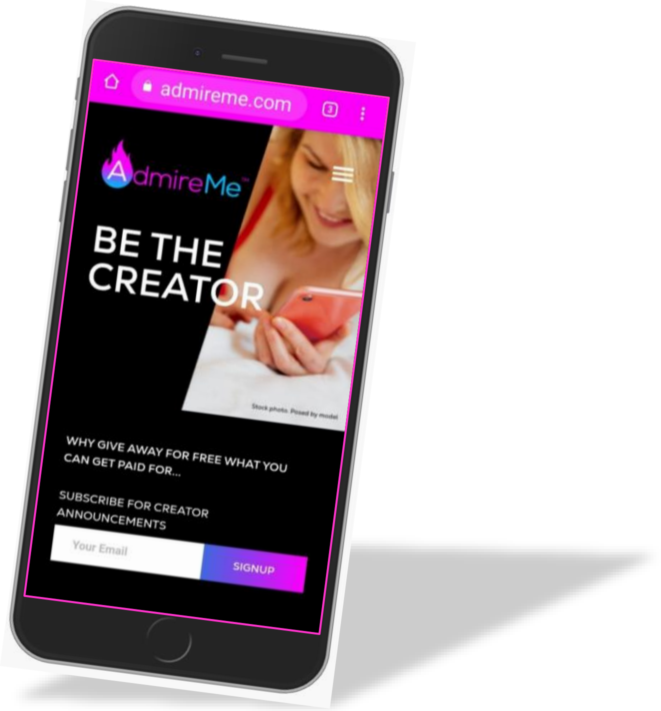
More Franchisees

Capital

$7M Acquisition of Scarlett's Cabaret Miami Property

$18.7M Bank Real Estate Loan

Two Properties Under Contract for Sale



Q&A

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