RCI HOSPITALITY HOLDINGS INC

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

NASDAQ: RICK | 4Q22 Conference Call | December 14, 2022 | www.rcihospitality.com | @RCIHHinc

Today's Speakers

Eric Langan
President & CEO
RCI Hospitality Holdings, Inc.
@RicksCEO

Bradley Chhay
Chief Financial Officer
RCI Hospitality Holdings, Inc.
@BradleyChhay

Mark Moran
CEO
Equity Animal
@itsmarkmoran

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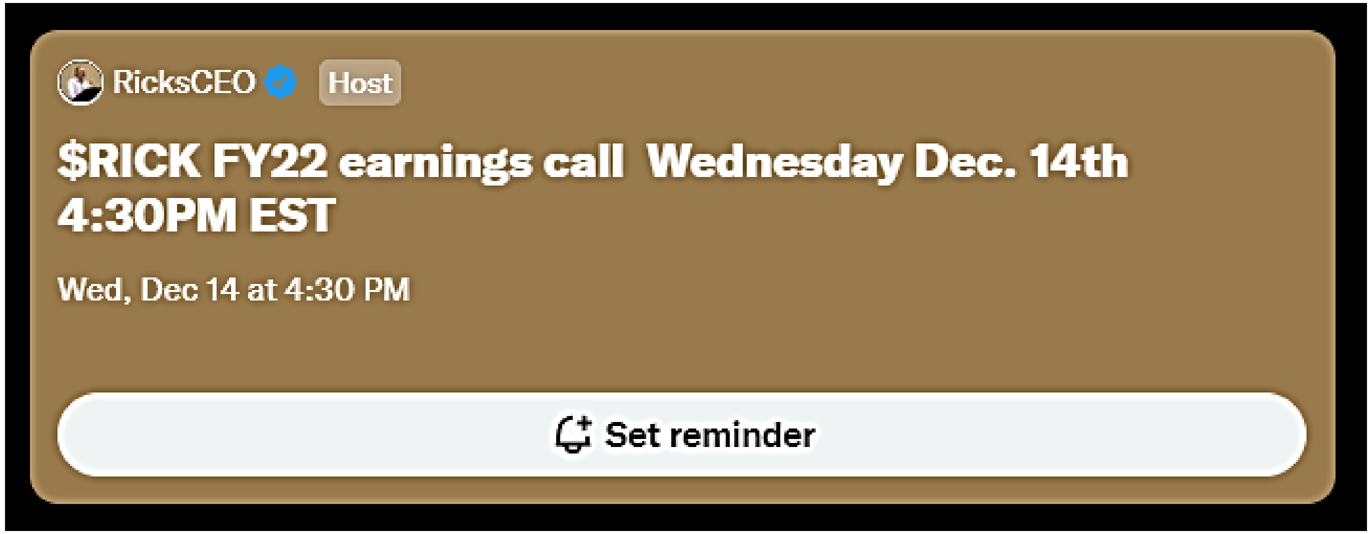

- **To ask a question during Q&A:** You will need to join the Space with a mobile phone
- **To listen only:** You can join the Space with a personal computer
- **Note:** You can also use traditional phone and webcast for **listen only** access – see our earnings news release for details

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 entertainment or restaurant 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 or restaurant 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, 2022, 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.

The novel coronavirus (COVID-19) pandemic has disrupted and may continue to disrupt our business, which has and could continue to materially affect our operations, financial condition, and results of operations for an extended period of time.

As used herein, the “Company,” “we,” “our,” and similar terms include RCI Hospitality Holdings, Inc. (RCIHH) and its subsidiaries, unless the context indicates otherwise.

Trademarks

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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) impairment of assets, (c) gains or losses on sale of businesses and assets, (d) gains or losses on insurance, (e) settlement of lawsuits, (f) costs and charges related to debt refinancing, and (g) stock-based compensation. 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) impairment of assets, (c) gains or losses on sale of businesses and assets, (d) gains or losses on insurance, (e) unrealized loss on equity securities, (f) settlement of lawsuits, (g) gain on debt extinguishment, (h) costs and charges related to debt refinancing, (i) stock-based compensation, (j) the income tax effect of the above-described adjustments, and (k) change in deferred tax asset valuation allowance. Included in the income tax effect of the above adjustments is the net effect of the non-GAAP provision for income taxes, calculated at 22.8%, 13.5%, and 26.0% effective tax rate of the pre-tax non-GAAP income before taxes for the 2022, 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) impairment of assets, (h) settlement of lawsuits, (i) gain on debt extinguishment, and (j) stock-based compensation. 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 the unleveraged performance return on our investments. Adjusted EBITDA multiple is also used as a 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 FY22 10-K and our December 14, 2022 earnings news release and financial tables contain additional details and reconciliation of non-GAAP financial measures for the quarter and year ended September 30, 2022, and are posted on our website at www.rcihospitality.com and filed with the US Securities and Exchange Commission.

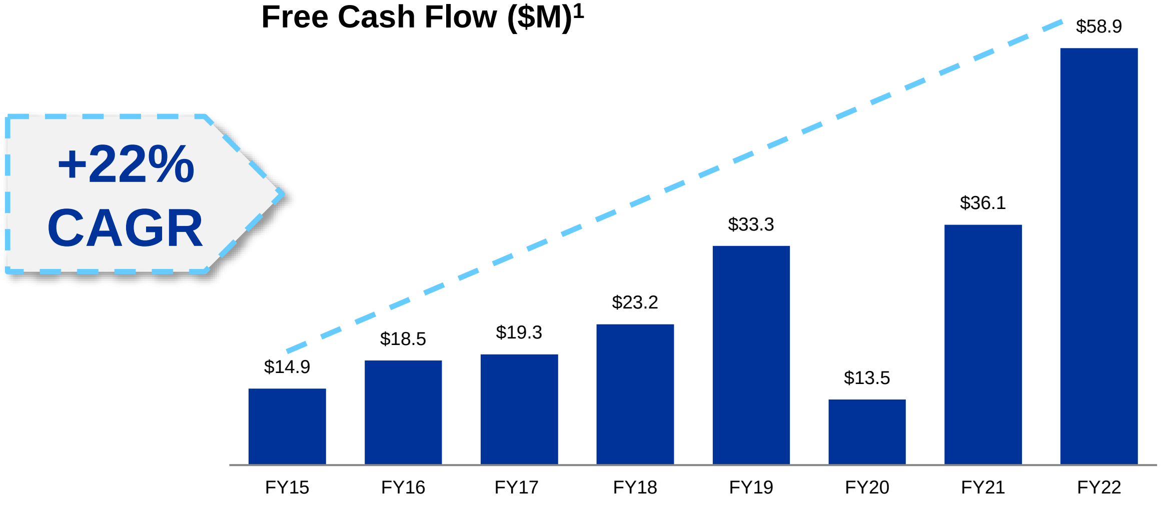
Today's News[1]

4Q22 Highlights	• Total Revenues: $71.4M +29.9% • EPS: $1.15 +342.3% / Non-GAAP EPS[2]: $1.45 -8.2% • Net Cash from Operating Activities: $17.8M +81.7% • Free Cash Flow[2]: $14.5M +71.6% • Net Income[3]: $10.6M +361.4% • Adjusted EBITDA[2]: $24.2M +37.8%
FY22 Highlights	• Total Revenues: $267.6M +37.1% • EPS: $4.91 +45.7% / Non-GAAP EPS[2]: $5.38 +31.9% • Net Cash from Operating Activities: $64.5M +53.6% • Free Cash Flow[2]: $58.9M +63.3% • Net Income[3]: $46.0M +51.8% • Adjusted EBITDA[2]: $86.7M +44.0%
FY23 Growth Initiatives	• Nightclubs: Benefit from FY22's acquisitions/openings, the Heartbreakers acquisition, and the pending Baby Dolls and Chicas Locas acquisitions, while we develop Rick's Cabaret Steakhouse & Casino • Bombshells: Develop new company-owned and franchised locations to open starting FY24

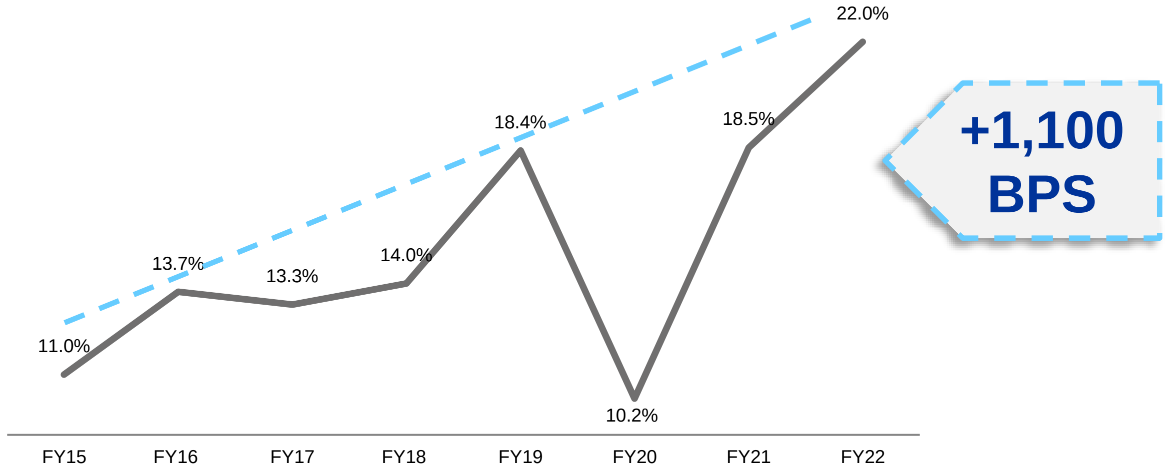
1) Comparisons are to year-ago periods unless indicated otherwise
2) See slide 5, "Non-GAAP Financial Measures"
3) Net Income Attributable to RCIHH Common Stockholders

Impressive Track Record *Since Implementing Capital Allocation Strategy End of FY15*

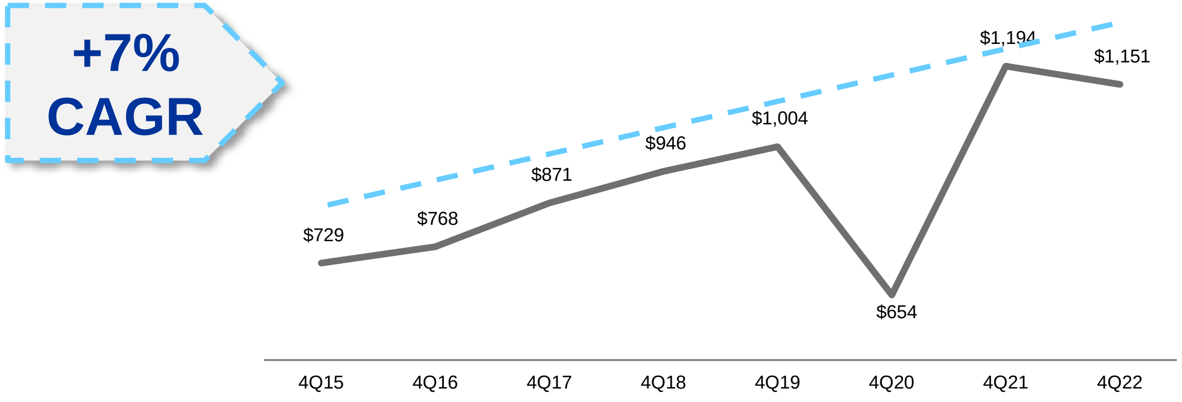
Free Cash Flow ($M)[1]



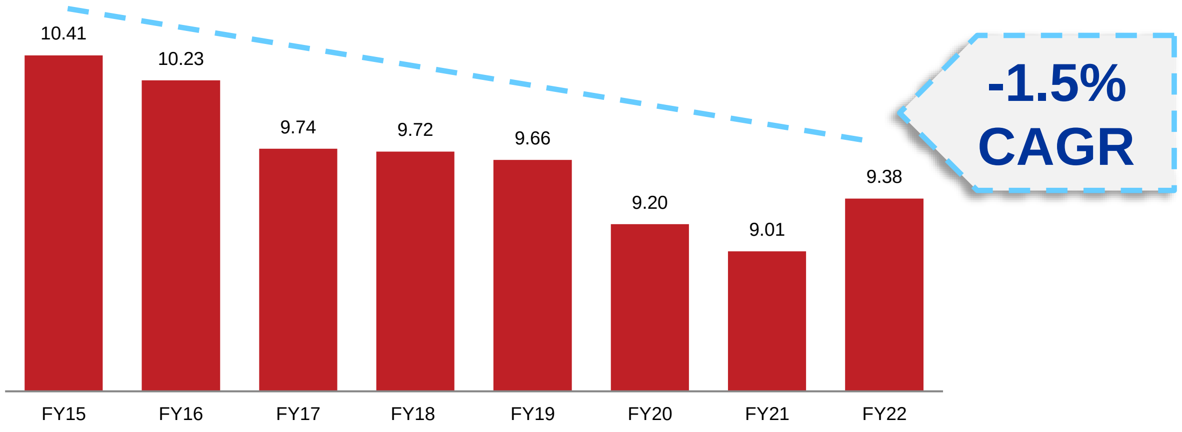
FCF as % of Revenues[1]



4Q Sales / Location ($K)[2]



Diluted Weighted Average Shares Outstanding (M)



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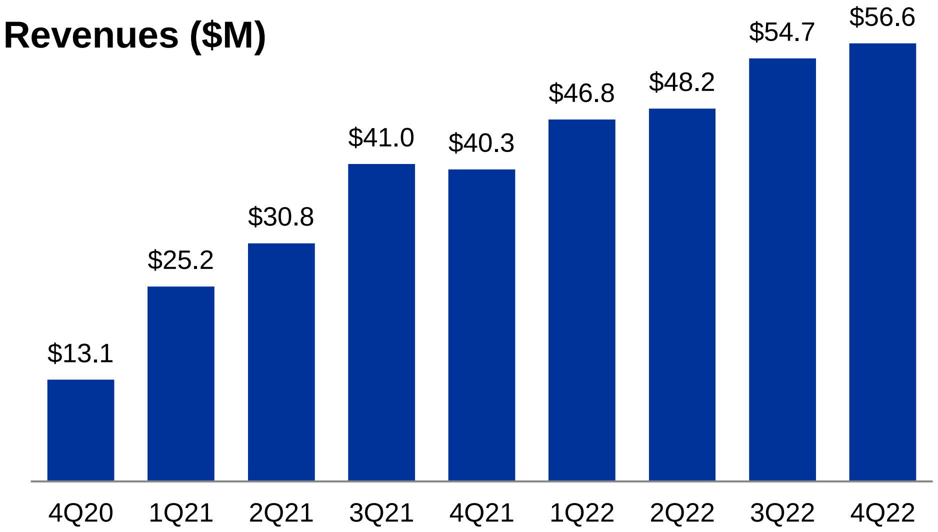
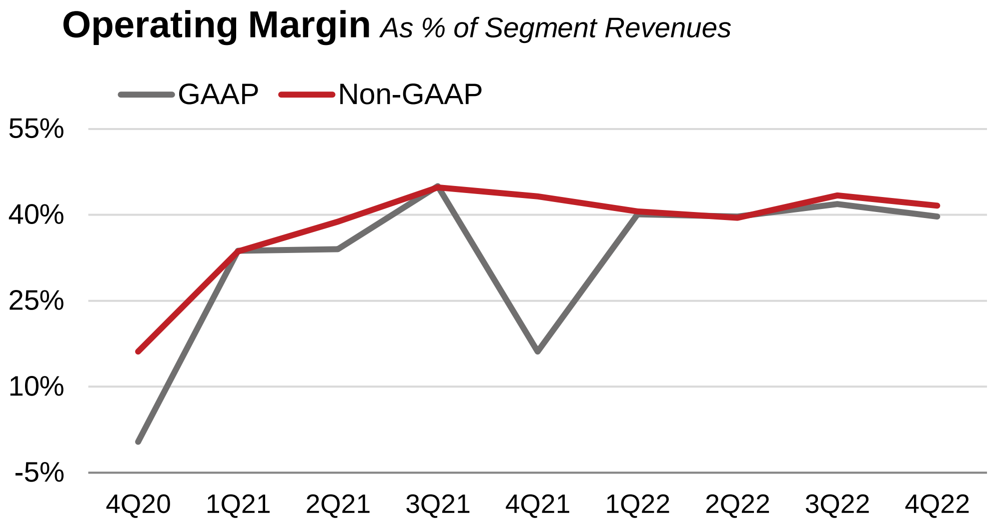
1) FY16 FCF of $18.5M reflects FCF of $20.5M less $2.0M in tax credits
2) Based on unit count at quarter-end

Nightclubs Segment

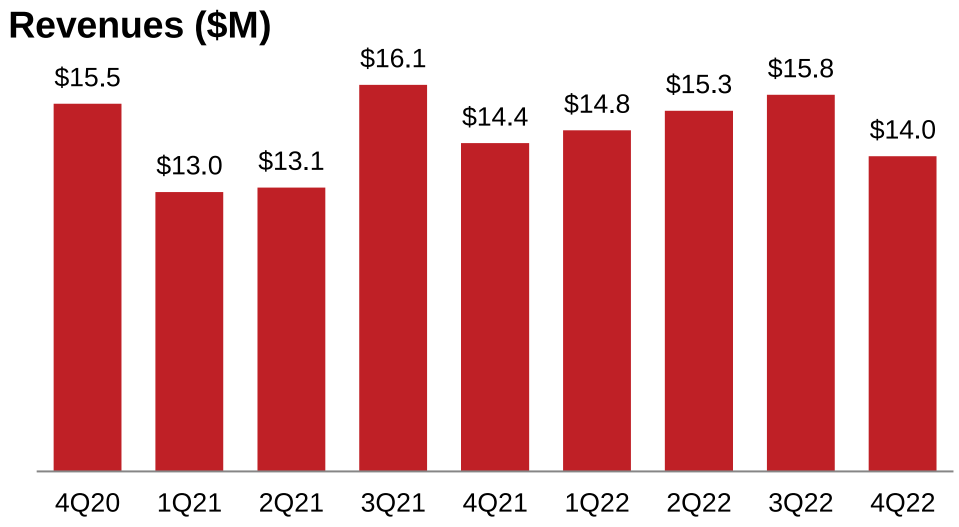


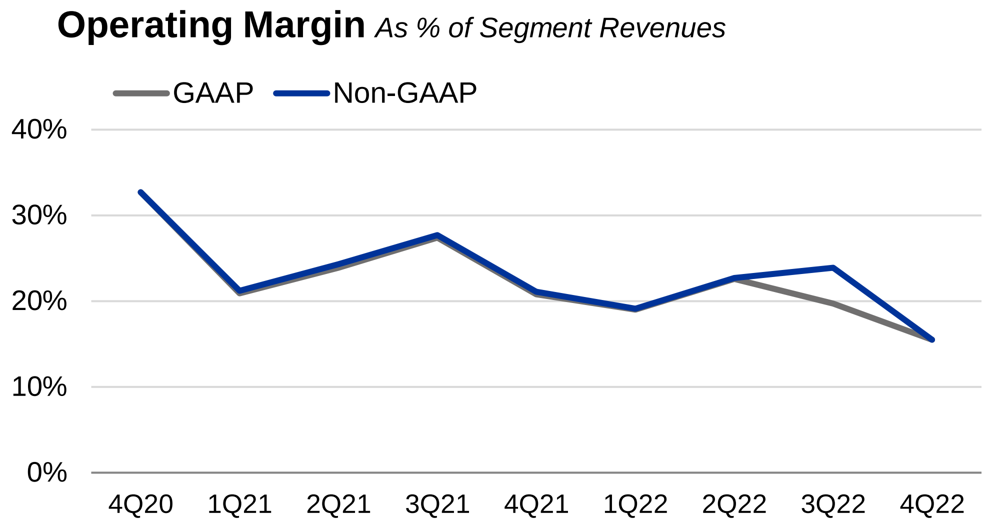


- 4Q22 Results
  - Revenues: $56.6M
  - Second sequential quarter not affected by COVID
  - Operating Margin: 39.7% (41.6% non-GAAP)
  - Operating Income: $22.5M ($23.6M non-GAAP)
- 4Q22 vs. 4Q21
  - FY22 acquisitions (15 clubs) contributed $14.9M sales
  - Same Store Sales: +3.2%
  - High margin service revenues +53.6%

Period	Location Status
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 (12 acquired mid-quarter and 2 temporarily closed)
2Q22	48 open (1 temporarily closed)
3Q22	48 open (2 temporarily closed, Playmates added in May)
4Q22	51 open (1 temporarily closed, Odessa & Cheetah added in July)

Bombshells Segment





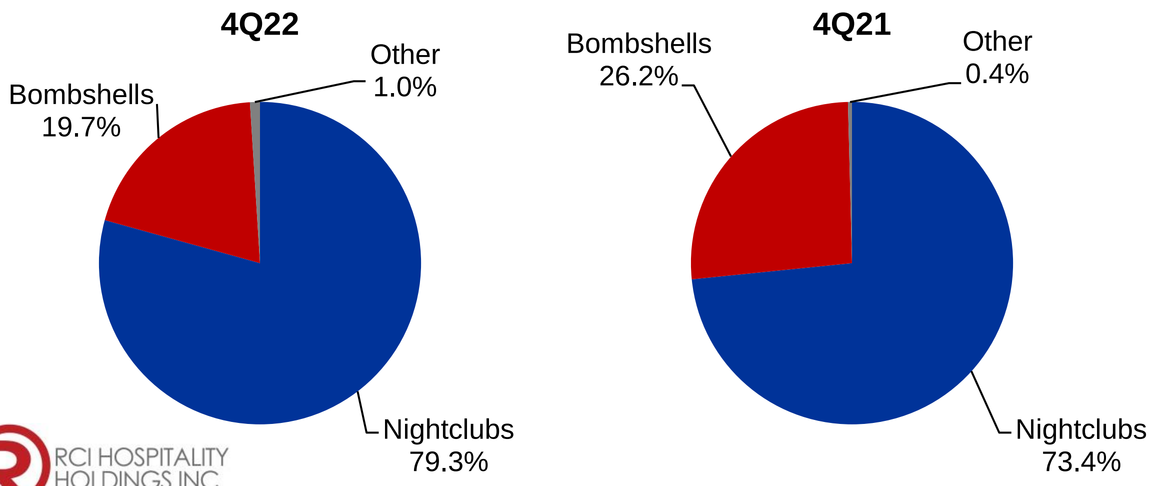
- 4Q22 Results
  - Revenues: $14.0M
  - Operating Margin:15.5% (~18% ex-San Antonio start up expenses)
  - Operating Income: $2.2M
- 4Q22 vs. 4Q21
  - Sales improved sequentially through 4Q22 (up 7.4% YoY in Sept)
  - Same Store Sales: -13.3%
  - Arlington, TX (company-owned) added $1.4M sales
  - San Antonio (franchise-owned) added +$100K royalties and $300K in start-up expenses

Period	Location Status
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
2Q22	All 11 stores open (except for a few frozen days in February)
3Q22	All 11 stores open (San Antonio franchise opened late June)
4Q22	All 11 stores open and 1 franchisee open

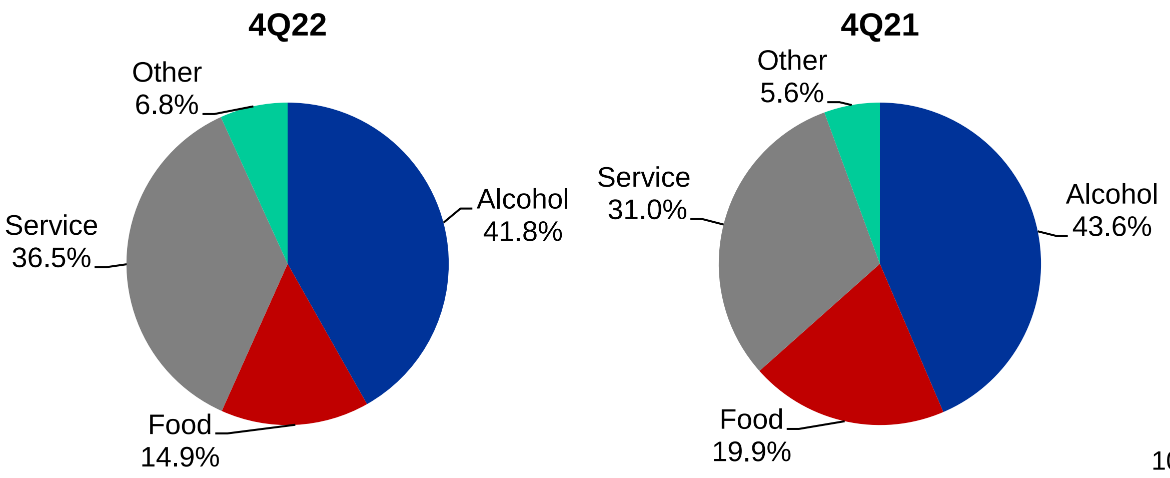
Analysis of Consolidated Statement of Operations

Line Item	4Q22 vs. 4Q21 (% of sales)	4Q22 Comment
Cost of Goods	12.9% vs. 14.9%	• Increase in sales mix of higher-margin service revenues (36.5% vs. 31.0%)
Salaries & Wages	25.3% vs. 25.6%	
SG&A	31.3% vs. 27.6%	• Included expenses related to newly acquired and reopened locations and $2.4M non-cash stock-based compensation for previously announced $100/PS options granted to a limited number of top executives and management team members. • Excluding stock-based compensation, SG&A would have been approximately 28%
Depreciation & Amortization	6.7% vs. 3.7%	• Non-cash amortization of intangible assets on newly acquired leased locations
Other charges (gains), net	(1.2%) vs. 21.7%	• Nightclubs segment included $1.7M gain on sale of business and assets vs. $11.9M impairment in 4Q21
Operating Margin	25.2% vs. 6.6%	• Non-GAAP: 30.0% vs. 28.4%
Interest Expense	4.8% vs. 5.3%	• Higher sales and lower weighted average interest rate, partially offset by higher debt from club and Bombshells site acquisitions

Sales Mix By Segment

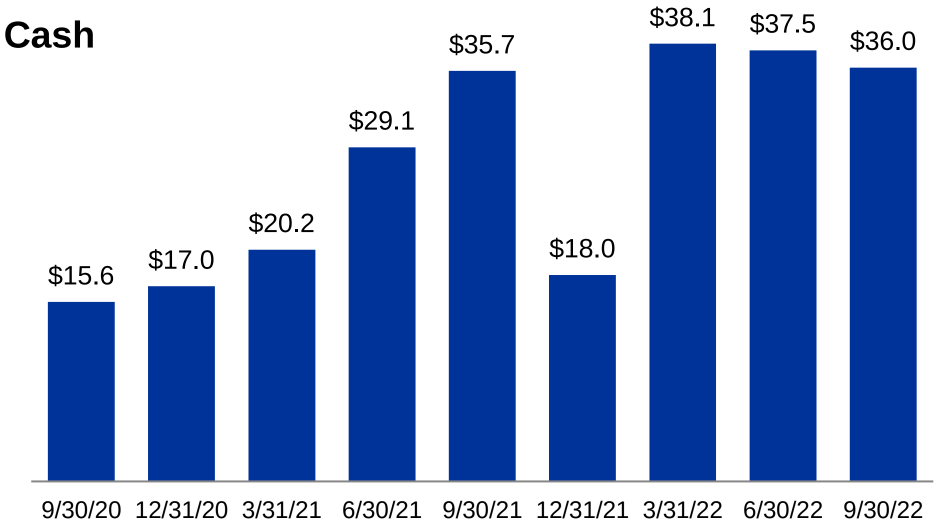


Sales Mix By Revenue Type

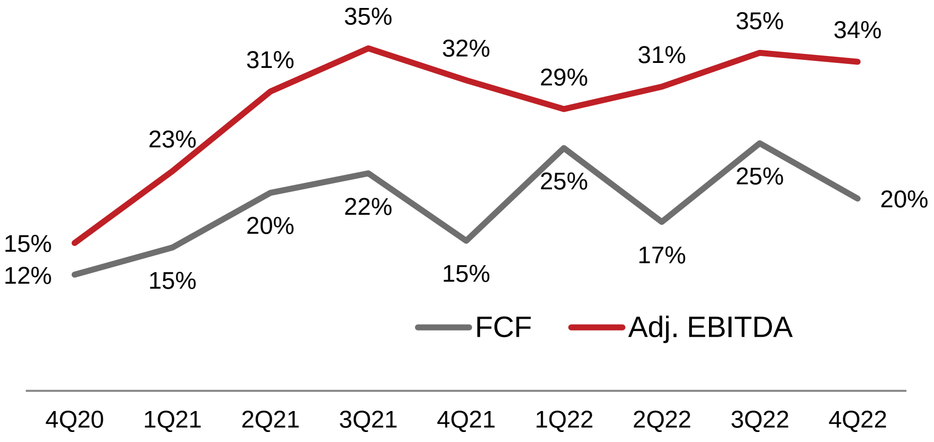


Cash, FCF & Adjusted EBITDA ($M)

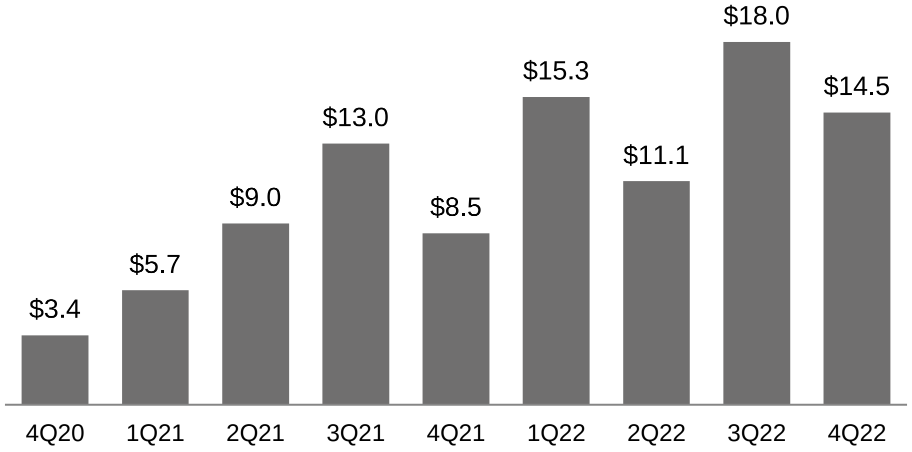
Cash



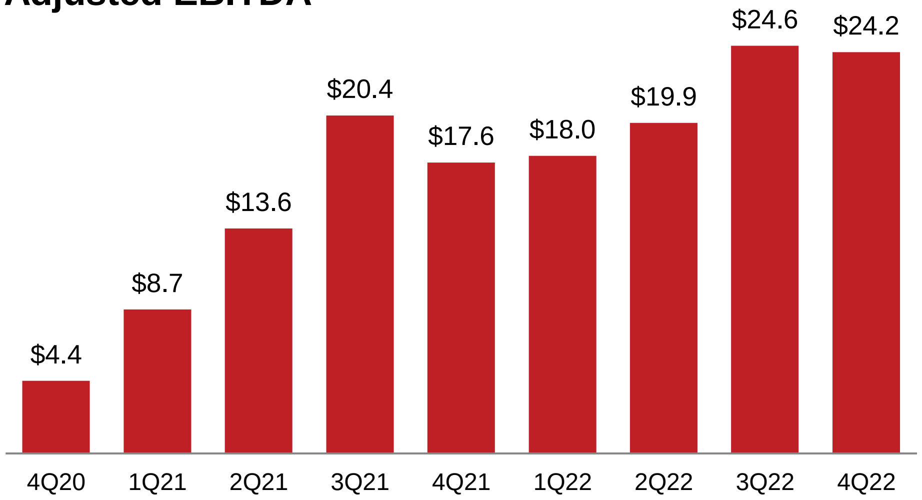
As % of Total Revenues*



Free Cash Flow*



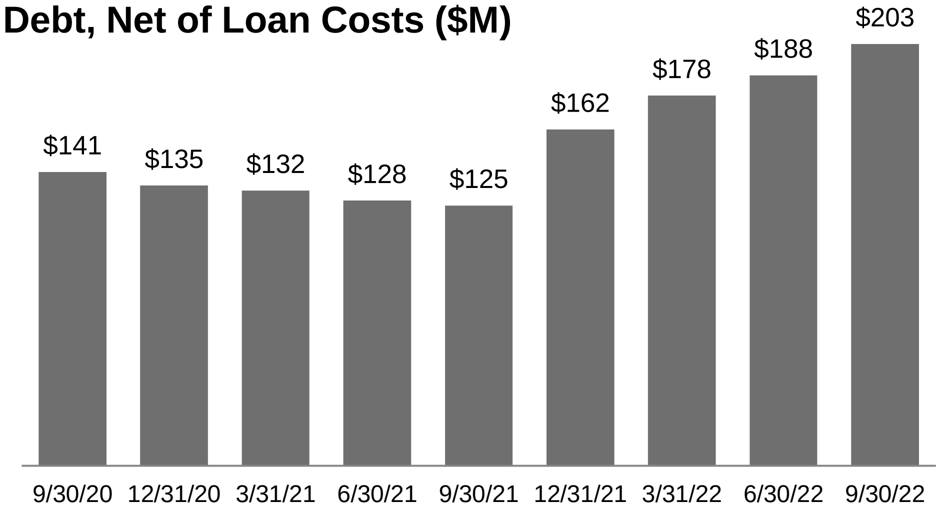
Adjusted EBITDA



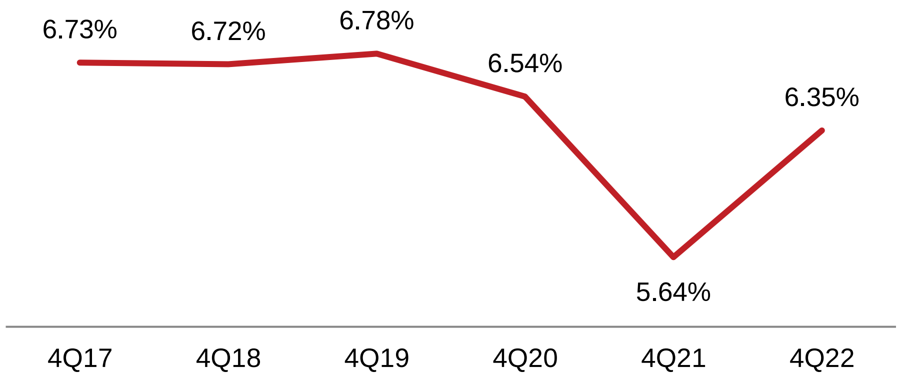
* 3Q22 FCF includes receipt of $2.2M previously discussed tax refund

Debt & Related Metrics

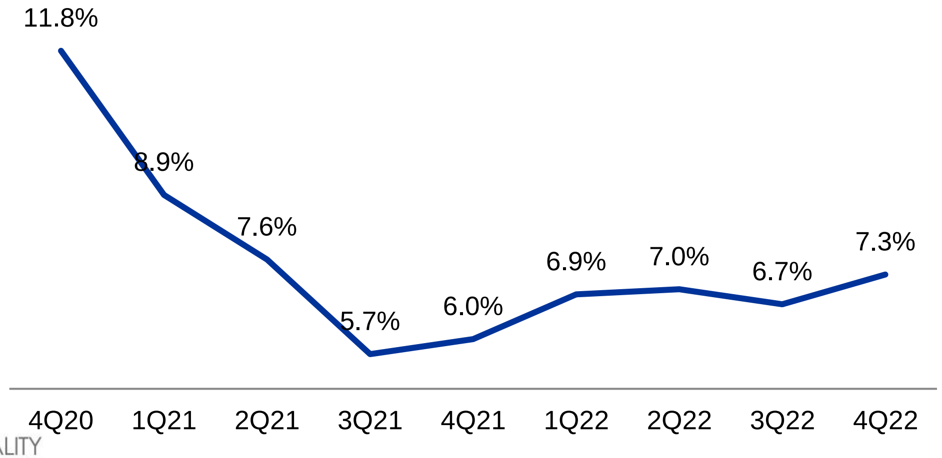
Debt, Net of Loan Costs ($M)



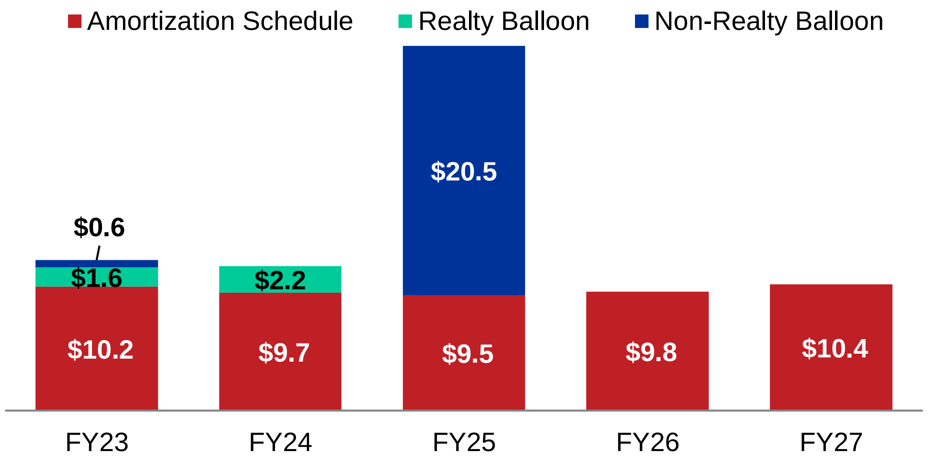
Weighted Average Interest Rate on Debt



Total Occupancy Costs *As % of Total Revenues*



Debt Maturities as of 9/30/22 ($M)



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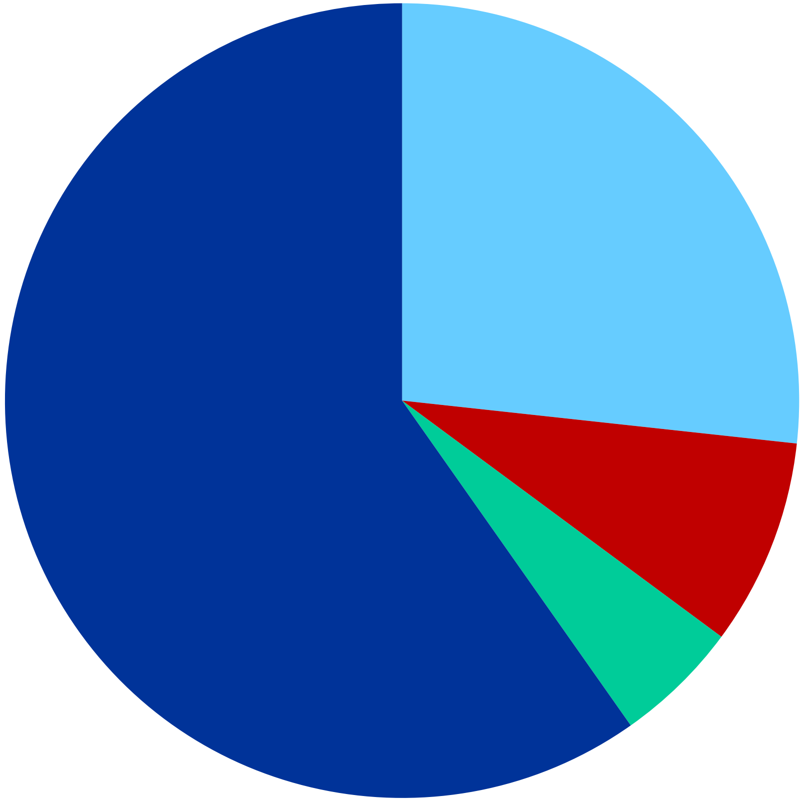
Debt Analysis *(as of 9/30/22, $ in millions)*

Total of $205.8[1]
Weighted Average Interest Rate (WAIR): 6.35%



$123.0 Secured by Real Estate (59.8% of total)
- 5.25% WAIR[2]

$55.0 Seller Financing (26.7% of total)
- Secured by the respective clubs and real estate to which it applies
- 11 Clubs: $19.1 @ 6.0% WAIR
- Scarlett's: $13.4 @ 8.0% WAIR
- Mansion: $0.9 @ 4.00% WAIR
- Playmates: $10.9 @ 10.0% WAIR
- Cheetah: $9.9 @ 6.0% WAIR
- PT's Odessa: $0.8 @ 6.0% WAIR

$17.3 Unsecured Debt (8.4% of total)
- 11.75% WAIR

$10.5 Secured by Other Assets (5.1% of total)
- 5.58% WAIR

[1]Long-Term Debt Net of Loan Costs: $202.5
- Up $77.3 from 9/30/21
- Up $14.5 from 6/30/22

Operating Lease Total Liabilities: $38.8
- Adoption of ASC 842, Leases, starting FY20

1) See box titled "Long-Term Debt Net of Loan Costs" on this page

Capital Allocation Strategy*

- Repurchase shares when FCF yield is more than 10%

Buy Back Shares

FY22
- $15.1M cash deployed
- 268,185 shares repurchased
- $56.29 average price/share

M&A

Buy More of the Right Nightclubs

FY22
- $141.8M capital deployed ($45.8M cash, $66.0M debt, $30.0M equity)
- 15 clubs acquired in new/existing markets

- 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%

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

Organic

Methodically Expand Bombshells

FY22
- $10.0M capital deployed ($3.6M cash, $6.4M debt)
- 1 new location open
- 5 new locations acquired
- 1st franchise opened
- 2nd franchisee signed

- 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%

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

Baby Dolls and Chicas Locas

5 Club Acquisition	• Signed definitive acquisition agreements • 2 Baby Dolls and 3 Chicas Locas adult nightclubs and real estate • Well-established, well-run, classic Texas gentlemen's clubs • Located in Dallas-Fort Worth and Houston • Expect January 2023 close
$66.5M Total Price	• $25.0M in cash • $25.5M in 10-year, 7% seller financing • 200,000 restricted shares of common stock valued at $80/PS
The EBITDA Contribution	• 5 locations, 1 location being remodeled, plan to expand 2 others • $11M estimated EBITDA in year one • $14-16M estimated EBITDA annually when remodel and expansions are complete

Rick's Cabaret Steakhouse & Casino

The Acquisition

- 4-story, 30,000 sq-ft building in historic Central City, CO
- Paid $2.4M cash for property

The Central City Market[1]

- 1 of 3 Colorado cities with legalized gambling
- $1B wagered on slots
- Generated +$80M in adjusted gross proceeds

The Plan

- Club with a casino component
- Entertainment, fine dining, casino/sports betting
- Gaming license application for 175 slots and 7 tables

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1) Source: Colorado Department of Gaming, TTM ended June 2022

Other Club Acquisitions & Openings

1Q22	2Q22	3Q22	4Q22	1Q23	2Q23	3Q23	4Q23
Oct-Dec 21	Jan-Mar 22	Apr-Jun 22	Jul-Sep 22	Oct-Dec 22	Jan-Mar 23	Apr-Jun 23	Jul-Sep 23

Heartbreakers – Acquired Oct 22

Scarlett's Cabaret San Antonio – Opened Sep 22

PT's Showclub Odessa – Opened Aug 22

Cheetah Club Miami – Acquired Jul 22

Playmates Club Miami – Acquired May 22

Rick's Steakhouse & Lounge Miami – Opened May 22

Scarlett's Cabaret Louisiana – Opened Mar 22

Mansion – Acquired Nov 21

11 Lowrie Clubs – Acquired Oct 21

- **Reformatted San Antonio club to reopen 12/28/2022**
- **Continue to look at other, possible acquisitions**

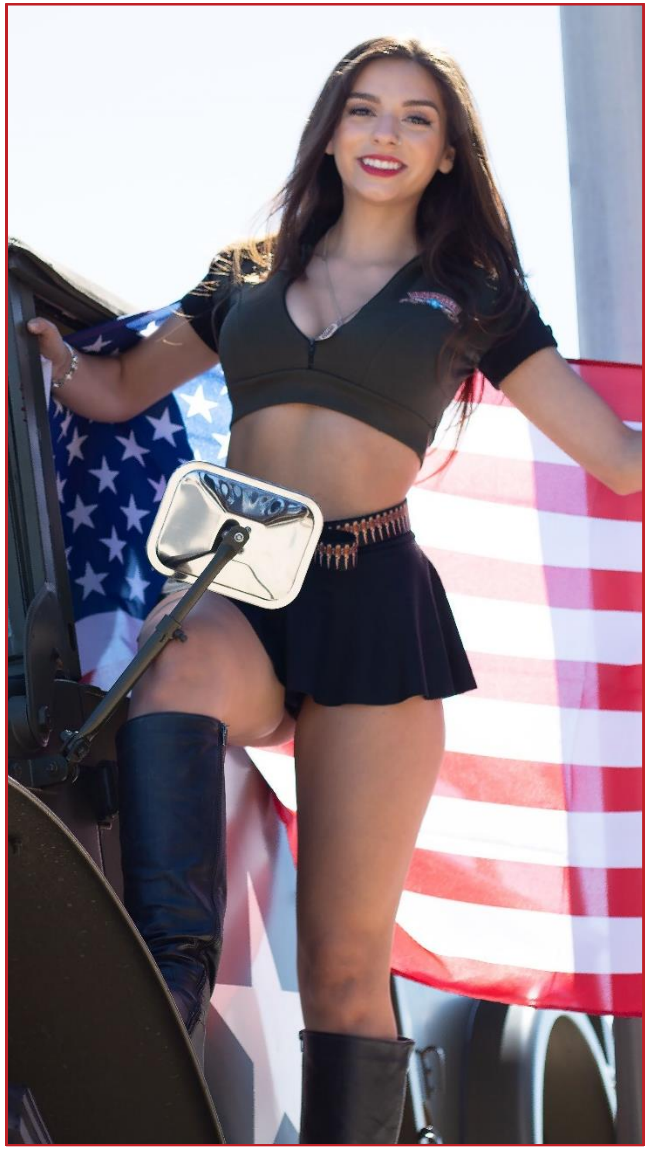
Bombshells Development

Company Owned

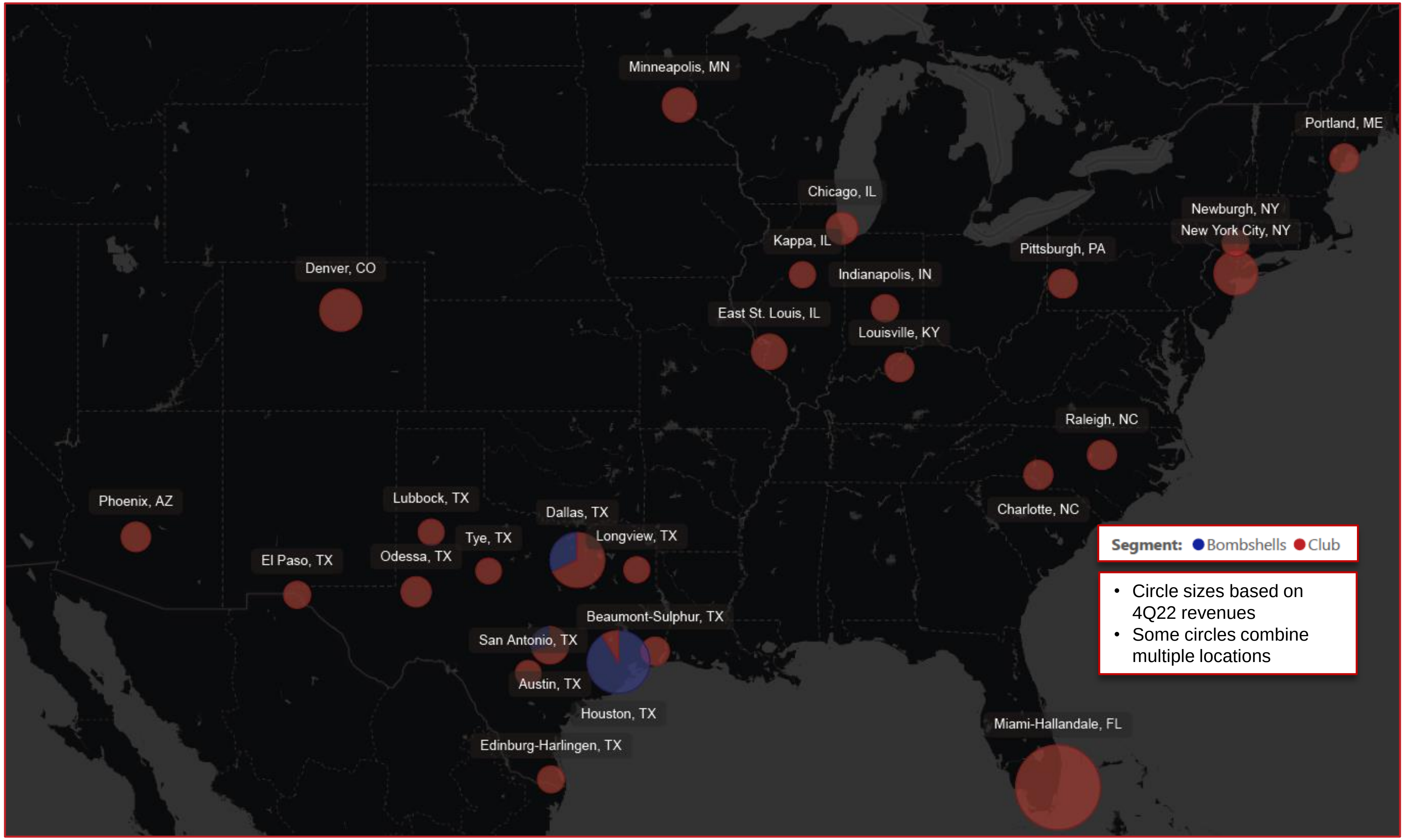
Number	Location	Status (as of 12/14/22)	Target Opening
12	Stafford (9th Houston area location)	Construction started	FY24
13	Rowlett (3rd Dallas area location)	Building permit applied for	FY24
14	Austin, TX (2nd location in market)	Building permit applied for	FY24
15	Lubbock, TX	Demo permit applied for Architect working on plans	FY24
16	Aurora, CO (1st Denver area location)	Pre-planning meeting in January	FY24
Other Potential New Locations	Targeting Dallas, Denver, Florida, Arizona	Targeting 3 more locations in greater Denver area	

Franchisee Owned

Number	Location	Status (as of 12/14/22)	Target Opening
2	Huntsville	Building plans applied for	FY24
Other Potential Franchises			



Geographic Focus



- Circle sizes based on 4Q22 revenues
- Some circles combine multiple locations

RCI HOSPITALITY HOLDINGS INC

Contact Information

Corporate Office
10737 Cutten Road
Houston, TX 77066
Phone: (281) 397-6730

Investor Relations
Gary Fishman
Steven Anreder
Phone: (212) 532-3232

IR Website
www.rcihospitality.com
Nasdaq: RICK