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
4Q20 & FY20 Conference Call
December 15, 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) 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.

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. 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) impairment of assets, (c) gains or losses on sale of businesses and assets, (d) gains or losses on insurance, and (e) 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) impairment of assets, (c) costs and charges related to debt refinancing, (d) gains or losses on sale of businesses and assets, (e) gains or losses on insurance, (f) unrealized loss on equity securities, (g) settlement of lawsuits, (h) the income tax effect of the above-described adjustments, and (i) 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 26.0%, 15.5%, and 24.5% effective tax rate of the pre-tax non-GAAP income before taxes for the 2020, 2019, and 2018, 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. The calculated amount for adjustment (h) above in fiscal 2018 was significantly affected by the change in the statutory federal corporate tax rate caused by the Tax Act.

- *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, and (h) settlement of lawsuits. 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 December 14, 2020 news release and financial tables contain additional details and reconciliation of non-GAAP financial measures for the quarter and year ended September 30, 2020 and are posted on our website at www.rcihospitality.com. Our FY20 10-K contains additional details and reconciliation of non-GAAP financial measures for the year ended September 30, 2020 and is similarly posted on our website.

Today's News

4Q20 Highlights

- Continued progress dealing with the effects of COVID-19
- Total revenues of $28.8M, up 96% from 3Q20
- Both Bombshells and Nightclubs segments exceeded our expectations
- Net cash from operating activities of $3.5M, free cash flow of $3.4M
- GAAP EPS (loss) of ($0.31), Non-GAAP EPS of $0.15

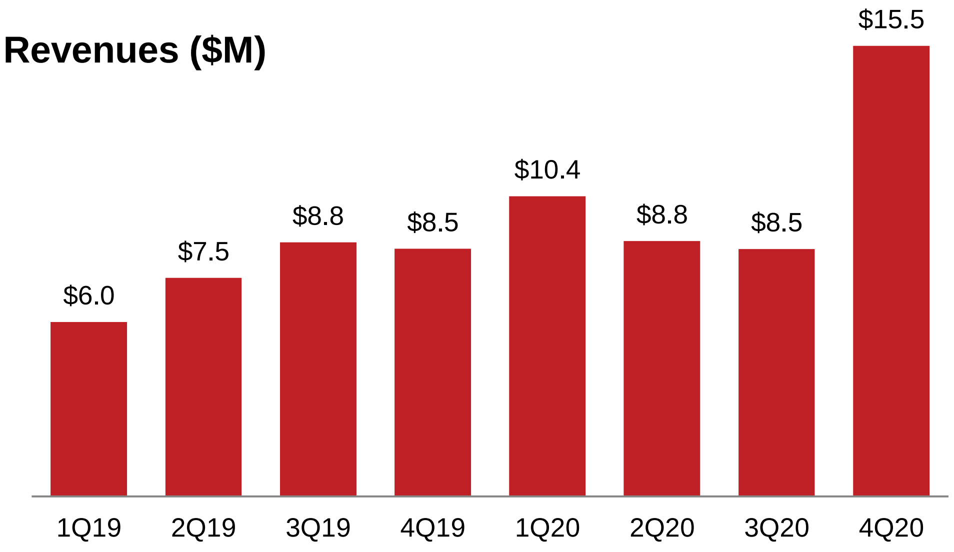
1Q21 Update

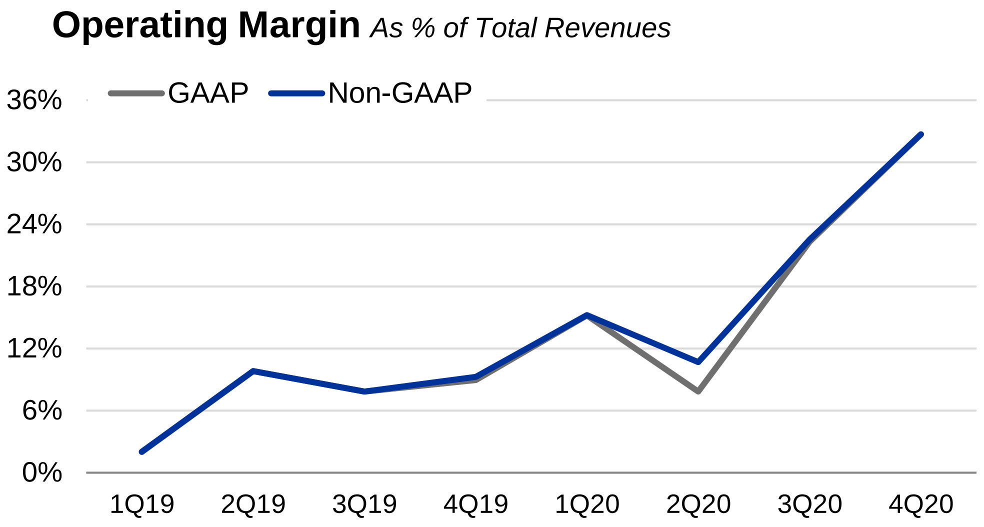
- Club & restaurant sales expected to total $35M to $37M assuming no additional closings/restrictions
- Currently, 36 locations open (26 clubs and all 10 Bombshells)
- ~$18M cash on hand as of today

Outlook

- Implementing plan to develop the "Next 10" company-owned Bombshells
- Actively pursuing new club acquisitions
- Believe we are well-positioned to benefit from positive impact of COVID-19 vaccines

Bombshells Segment





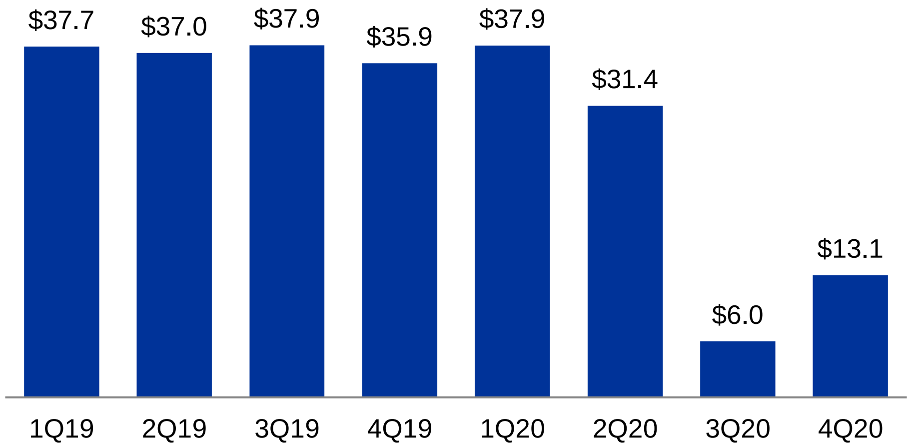
4Q20

- Record quarterly revenues of $15.5M, up 82% from 3Q20
- Sales reflect more locations open on a more consistent basis throughout 4Q20 compared to 3Q20
- New meal delivery service added $365K revenues
- Record operating margin of 32.7% due to higher level of sales and more consistent occupancy while operating in line with indoor restrictions

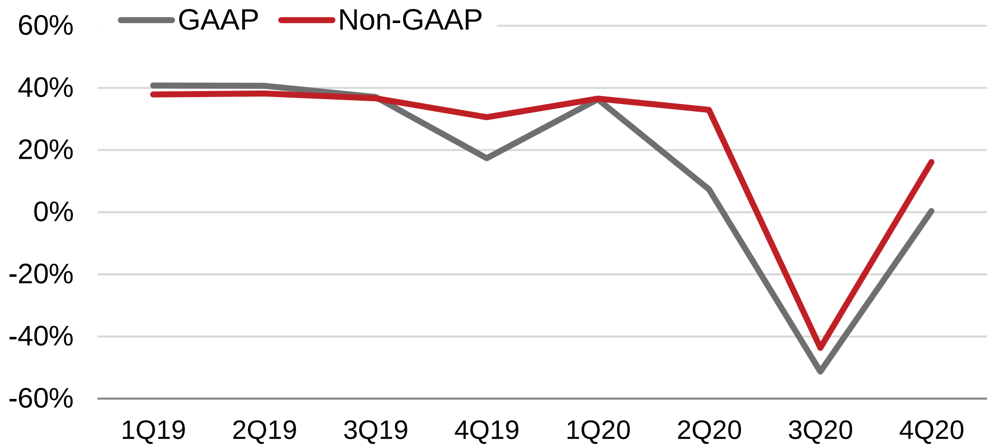
Period	Location Status
1Q19	7th store opened December 2018
2Q19	8th store opened March 2019
3Q19	8 stores
4Q19	8 stores
1Q20	9th store opened October 2019
2Q20	10th store opened January 2020, all 10 closed mid-March
3Q20	Reopenings started May 2020, all 10 open by quarter end
4Q20	Austin & Fuqua closed part of 4Q20, all 10 open by quarter end

Nightclubs Segment

Revenues ($M)



Operating Margin *As % of Total Revenues*



4Q20

- Revenues of $13.1M, up 118% from 3Q20
- Breakeven segment performance primarily due to $1.9 million in net other charges (impairment and insurance loss)
- On a non-GAAP basis, $2.1M operating income at a 16.1% margin

Period	Location Status
1Q19	Chicago & Pittsburgh acquired November 2018
2Q19	All 39 clubs open
3Q19	St. Louis temporarily closed May 2019 for remodeling
4Q19	Studio 80 Webster closed July 2019
1Q20	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

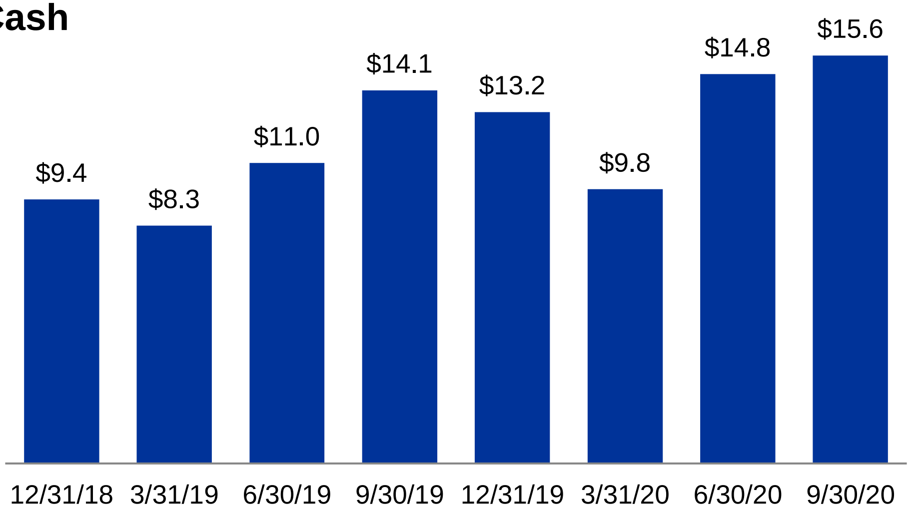
RCI HOSPITALITY HOLDINGS INC

Analysis of 4Q20 Statement of Operations

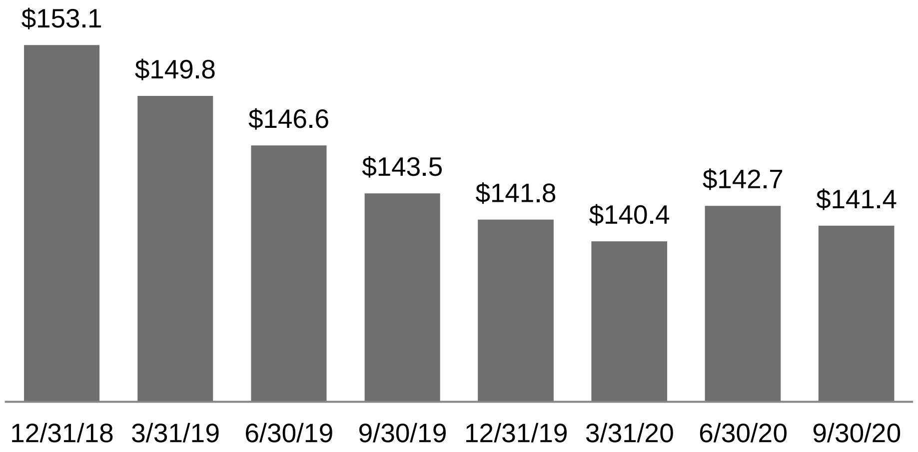
Item	Comment (Comps are YoY)	Explanation
Cost of Goods Sold	15.6% of revenues vs. 13.8%	• Higher food and lower service revenues in sales mix
Salaries and Wages	28.5% of revenues vs. 28.0%	• Effective labor cost management in the face of the changing COVID-19 environment
SG&A	41.0% of revenues vs. 36.8%	• Fixed costs on lower revenue base partially offset by cost-cutting
Depreciation & Amortization	7.4% of revenues vs. 5.2%	• Fixed costs on lower revenue base
Other Charges, Net	$2.0M vs. $4.8M	• 4Q20 included $1.4M in additional COVID-19 non-cash impairment and $453K non-cash loss primarily related to hurricane damage at a small club expected to be recovered via insurance
Interest Expense	3.7% lower	• Debt paydowns prior to and during 4Q20
Tax Expense (Benefit)	$769K vs. ($684K)	• 4Q20 included $1.3M non-cash expense recognizing a deferred tax asset valuation allowance

Cash, FCF & Balance Sheet Trends ($M)

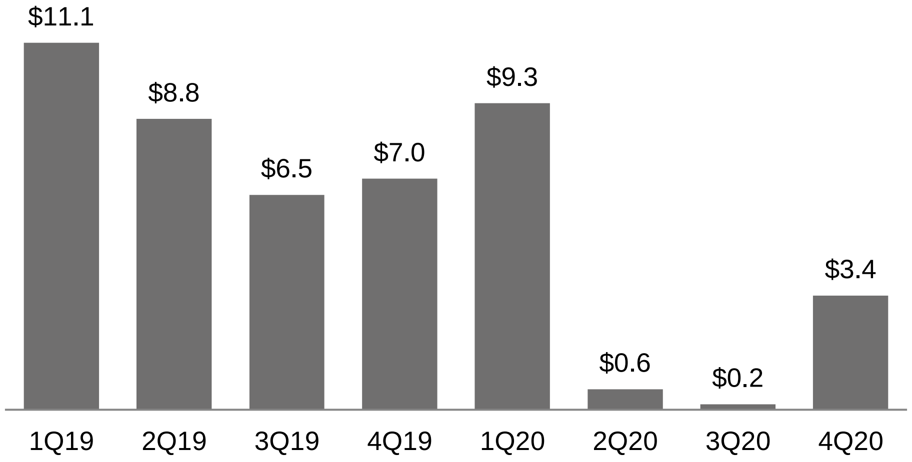
Cash



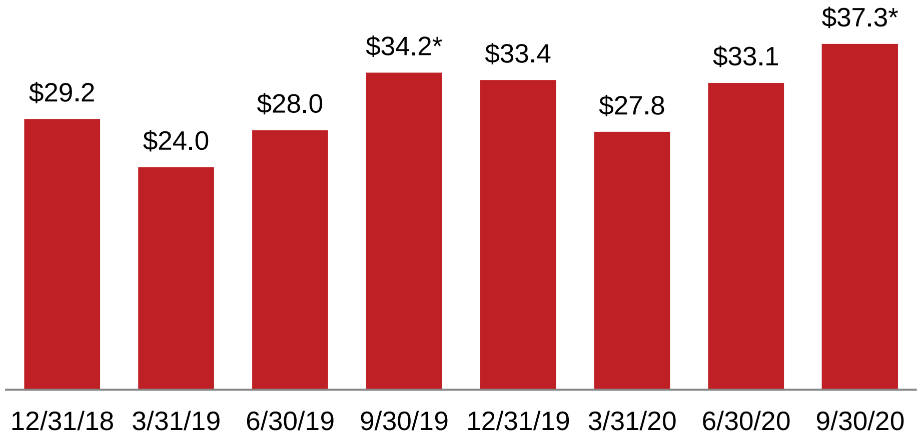
Debt



Free Cash Flow



Current Liabilities

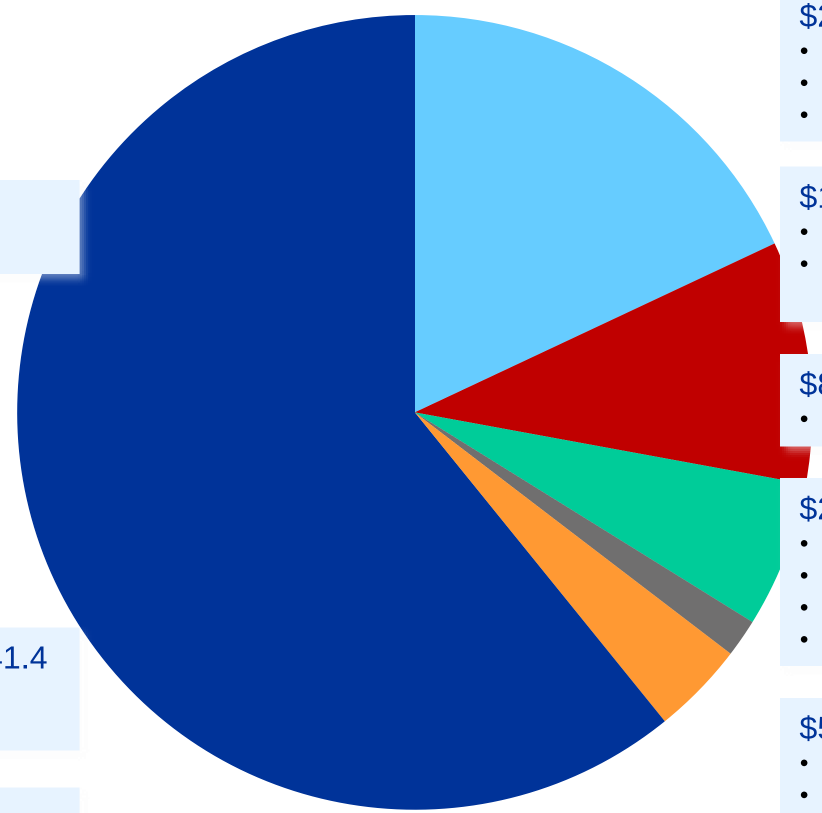


* ~$4.0M increase reflects annual renewal of insurance

RCI HOSPITALITY HOLDINGS INC

Debt *(as of 9/30/20, $ in millions)*

Total of $142.7*
Weighted Average Interest Rate (WAIR): 6.54%



$86.8 Secured by Real Estate (60.8%)
- 5.79% WAIR

$25.7 Seller Financing (18.0% of total)
- Secured by the respective clubs
- Scarlett's: $15.6 @ 7.42% WAIR
- VIP's & Blush: $10.1 @ 7.47% WAIR

$14.1 Unsecured Debt (9.9%)
- 11.59% WAIR
- Includes $2.3 for Scarlett's and $2.0 for VIP's & Blush acquisitions

$8.5 Secured by Other Assets (6.0%)
- 5.87% WAIR

$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
- Unsecured

$2.2 Texas Comptroller Settlement (1.5%)
- 9.58% WAIR
- Imputed for accounting purposes
- Paid in monthly installments of $120K
- Secured by business and assets of related clubs

*Long-Term Debt Net of Loan Costs: $141.4
- Down $2.4 from 9/30/19
- Down $1.3 from 6/30/20

Operating Lease Total Liabilities: $27.1
- Adoption of ASC 842, Leases, starting FY20

Debt Manageability

Period	FY20 Actions
1Q20	$3.0M non-realty balloon deferred to FY23
2Q20	$9.2M non-realty balloon converted to 10-year note
3Q20	$1.9M non-reality balloon deferred to FY21*
3Q20	$5.4M SBA loan
4Q20	$2.1M realty balloon converted to 15-year note

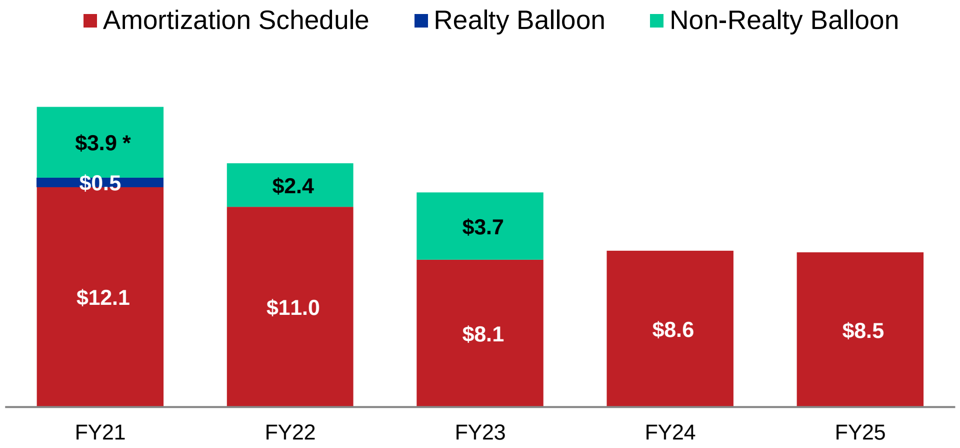
Bank Debt Refinancing

- In discussions to lower rate and increase term

Excess Real Estate

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

Debt Maturities as of 9/30/20 ($M)



* In 1Q21, $1.7M of the $1.9M non-realty balloon was deferred to FY22 and $0.2M was paid down

Bombshells: "The Next 10"

The Opportunity

- COVID-19 creates unique and compelling opportunity
- "The First 10" proven to do well, particularly through COVID-19
- Can now access prime locations not previously available and/or buy/lease at significantly lower prices

The Plan

- Open 10 new units over the next 36 months if we find the right locations and structure the development of each in line with capital allocation strategy
- Target markets: Dallas-Fort Worth, Miami-Fort Lauderdale, and Houston (all locations leverage existing management)

Status

- Currently negotiating for leases or real estate purchases and bank financing for four locations
- More details to come

*Capital Allocation Strategy**

Buy Back Shares

- Repurchase shares when FCF yield is more than 10%...
- …But during the pandemic, acquire shares using the same formula, but only if cash exceeds $18M

M&A

Buy More of the Right Nightclubs

- Buy good, solid, cash flowing clubs at 3-4x 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

Judiciously Expand Bombshells

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

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

* Details subject to whether there is a strategic rationale to do otherwise

FY20 Accomplishments

- Demonstrated strength, resiliency, agility, and unity through adversity
- Our people, processes, and systems passed with flying colors
- Remained cash flow positive through COVID-19
- Proved the value of our Bombshells investment
- Resolved the SEC situation
- New Chief Financial Officer
- We have the best teams in the industry

Thank You and Happy Holidays!

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