RCI HOSPITALITY HOLDINGS INC

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

NASDAQ: RICK, 3Q22 Conference Call, August 9, 2022, www.rcihospitality.com

Today's Speakers

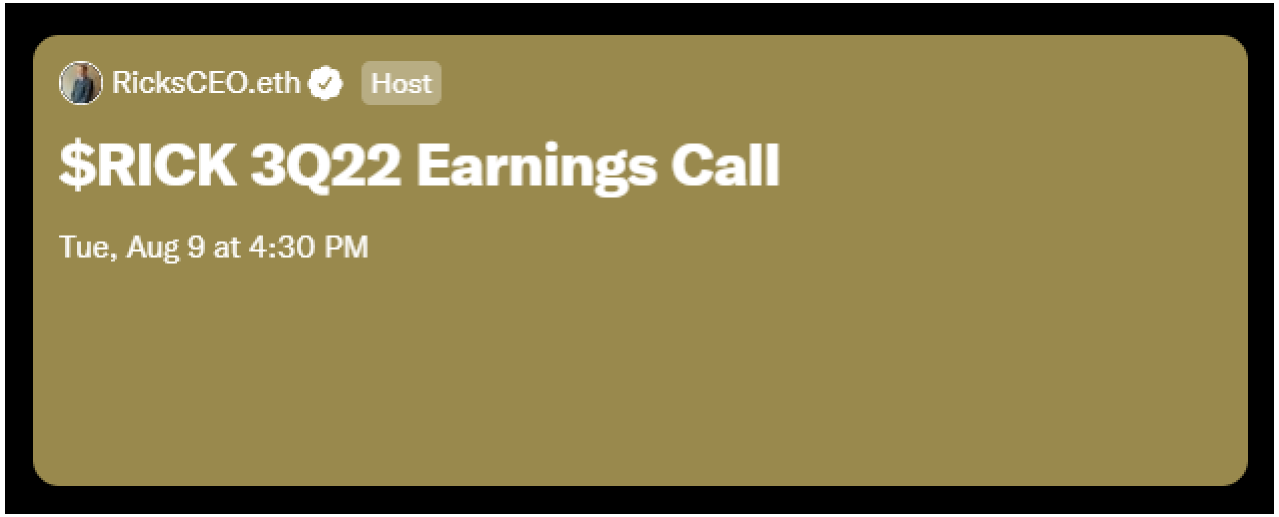
Mark Moran
CEO
Equity Animal
@itsmarkmoran

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

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

Twitter Spaces Instructions

- Go to @RicksCEO on Twitter: **https://twitter.com/RicksCEO**
- Select this Twitter Space: **https://twitter.com/i/spaces/1PlJQabdPNqJE**



- To ask a question during the Q&A, you will need to join the Space with a mobile phone
- If you want to listen only, you can join the Space with a personal computer
- The call is also available through traditional phone and webcast – 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 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, (d) settlement of lawsuits, and (e) impairment of assets. 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 gains or losses on equity securities, (f) settlement of lawsuits, (g) gain on debt extinguishment, and (h) 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 21.6% and 24.3% effective tax rate of the pre-tax non-GAAP income before taxes for the nine months ended June 30, 2022 and 2021, 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, and (i) 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 3Q22 10-Q and our August 9, 2022 earnings news release and financial tables contain additional details and reconciliation of non-GAAP financial measures for the quarter ended June 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]

3Q22 Financial Highlights

- **Total Revenues:** $70.7M +22.2%
- **EPS:** $1.48 +8.0% / **Non-GAAP EPS[2]:** $1.60 +18.0%
- **Net Cash from Operating Activities:** $18.9M +26.2%
- **Free Cash Flow[2]:** $18.0M +39.1%
- **Net Income[3]:** $13.9M +13.0%
- **Adjusted EBITDA[2]:** $24.6M +20.6%

3Q22 Operational Highlights

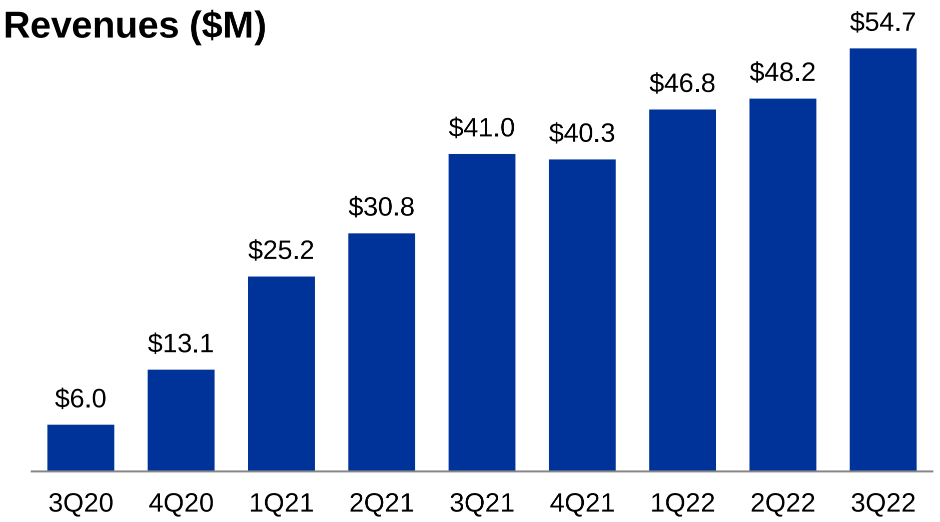
- First period since 1Q20 that results were not affected by COVID
- Nightclubs and Bombshells performed well (including 13 acquired clubs and Bombshells Arlington)
- High-margin service revenues +50.7% (36.0% of total revenues vs. 29.2%)
- Net cash from operating activities and FCF further enhanced by receipt of previously discussed $2.2M tax refund

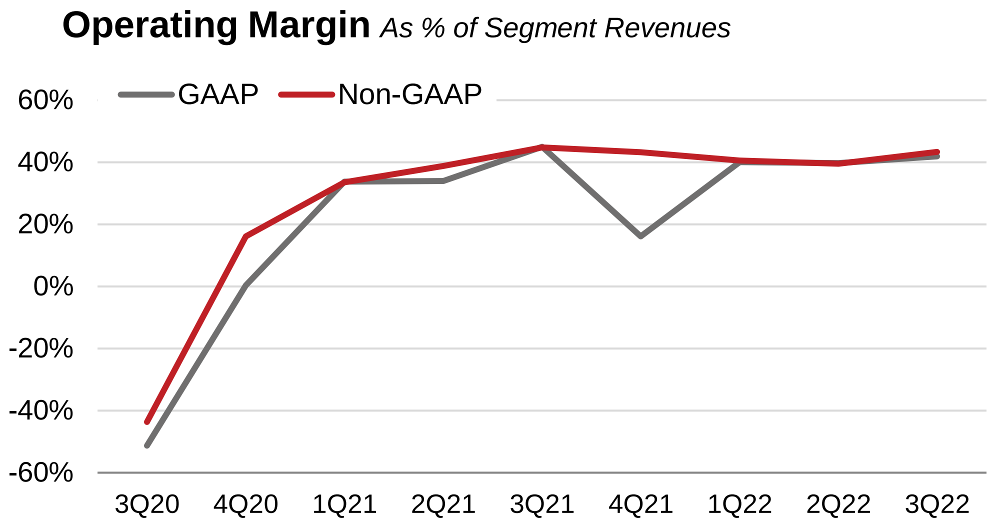
Growth Initiatives

- Nightclubs: Acquired Playmates (May), Odessa (July) and Cheetah (July)
- Bombshells: Acquired real estate in Rowlett, TX (May) for 13th company-owned location
- Bombshells: First franchisee opened in San Antonio (June)
- Tip-N-Strip and AdmireMe.com moving ahead

1) Comparisons are 3Q22 vs. 3Q21 unless indicated otherwise
2) See slide 5, "Non-GAAP Financial Measures"
3) Net Income Attributable to RCIHH Common Stockholders

Nightclubs Segment

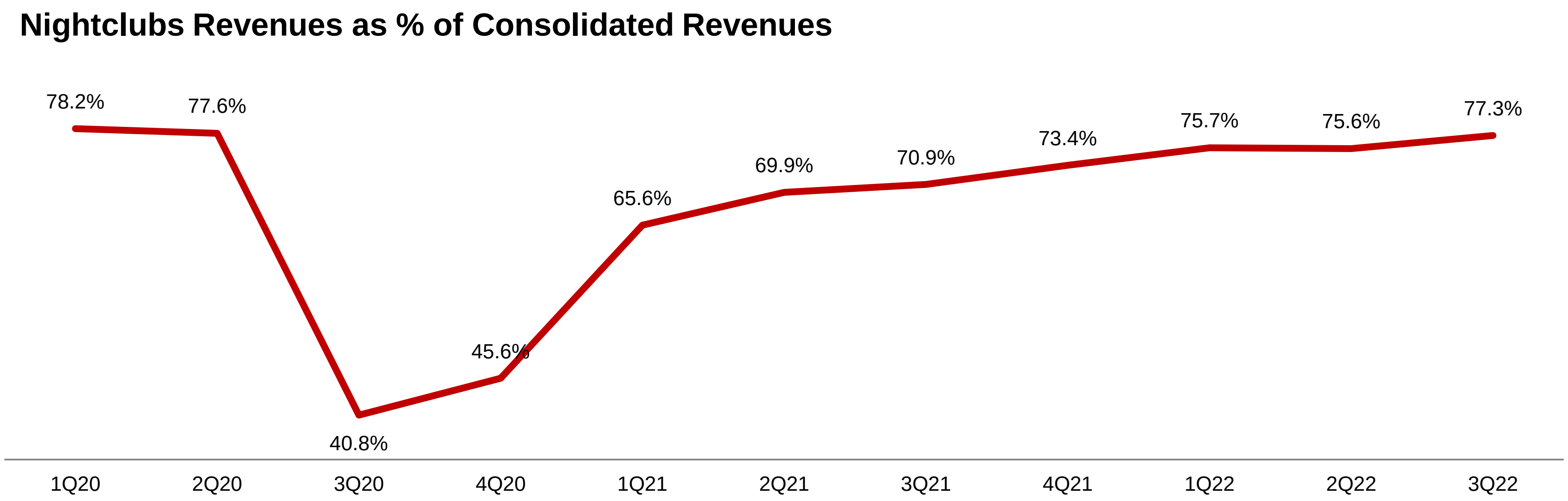


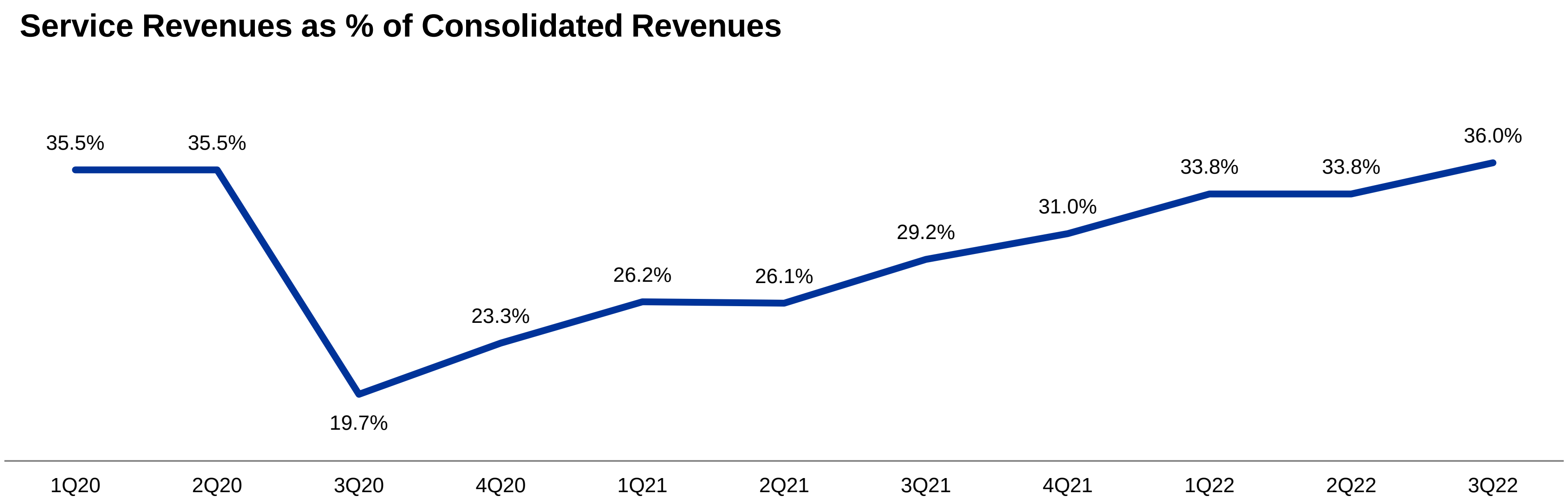


- 3Q22 Analysis
  - Acquisitions contributed $11.8M
  - High-margin service revenues up 50.8% YoY
- YoY: 3Q22 vs. 3Q21
  - Revenues: +33.3%
  - Operating margin: 41.1% vs. 44.7% (42.7% vs. 44.5% non-GAAP)
  - Operating income: $22.5M vs. $18.4M ($23.3M vs. $18.3M non-GAAP)
- Sequential: 3Q22 vs. 2Q22
  - Revenues +13.5%, non-GAAP operating margin +321 bps, non-GAAP operating income +22.7%

Period	Location Status
3Q20	Covid 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 (12 acquired mid-quarter and 2 temporarily closed)
2Q22	48 open (1 temporarily closed)
3Q22	48 open (2 temporarily closed, Playmates added in May)

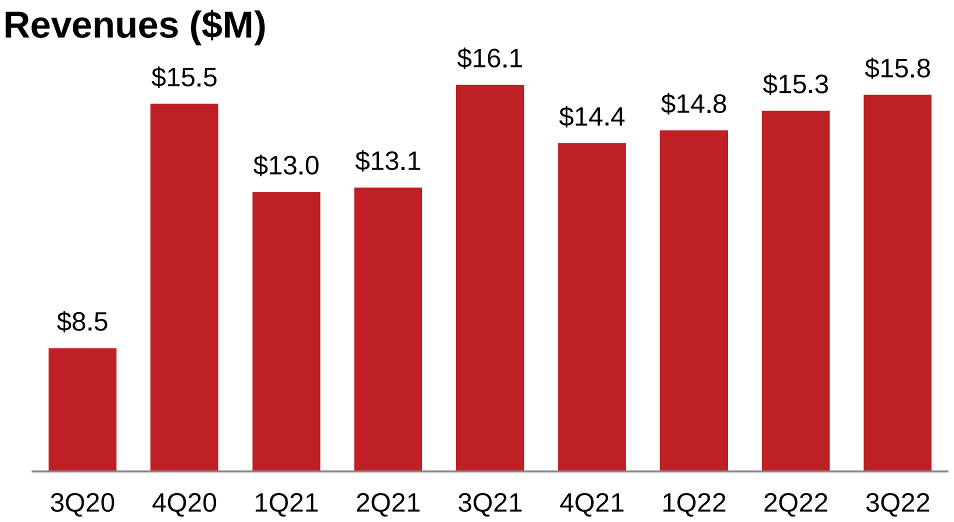
Nightclubs & Service Revenue Trends

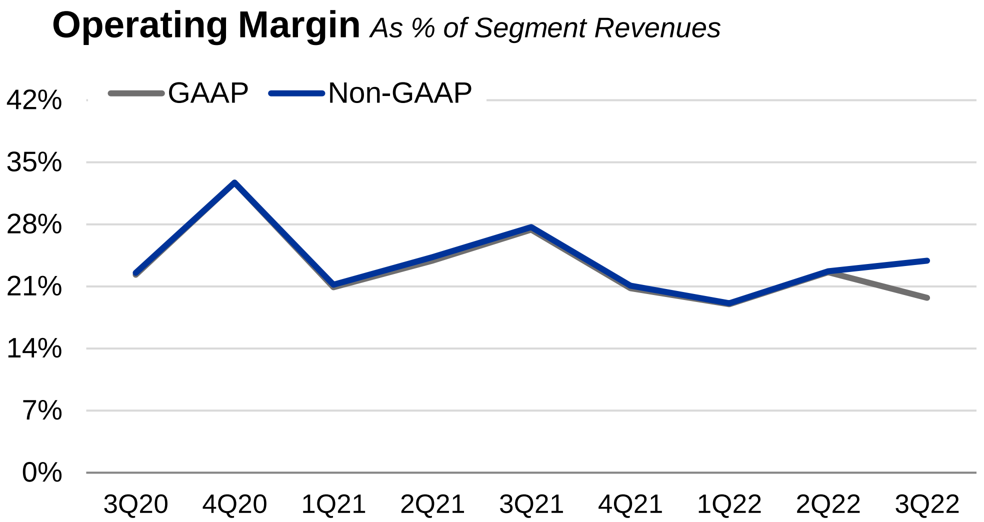




RCI HOSPITALITY HOLDINGS INC

Bombshells Segment





- 3Q22 Analysis
  - Tough YoY comps due to unusually strong 3Q21, when Bombshells was one of few bar and restaurant chains open in TX
  - Otherwise, Bombshells experienced typical seasonal trends
- YoY: 3Q22 vs. 3Q21
  - Revenues: -1.8%
  - Operating margin: 19.4% vs. 27.4% (23.6% vs. 27.5% non-GAAP)
  - Operating income: $3.1M vs. $4.4M ($3.7M vs. $4.4M non-GAAP)
- Sequential: 3Q22 vs. 2Q22
  - Revenues +3.0%, non-GAAP operating margin +94 bps, non-GAAP operating income +7.2%

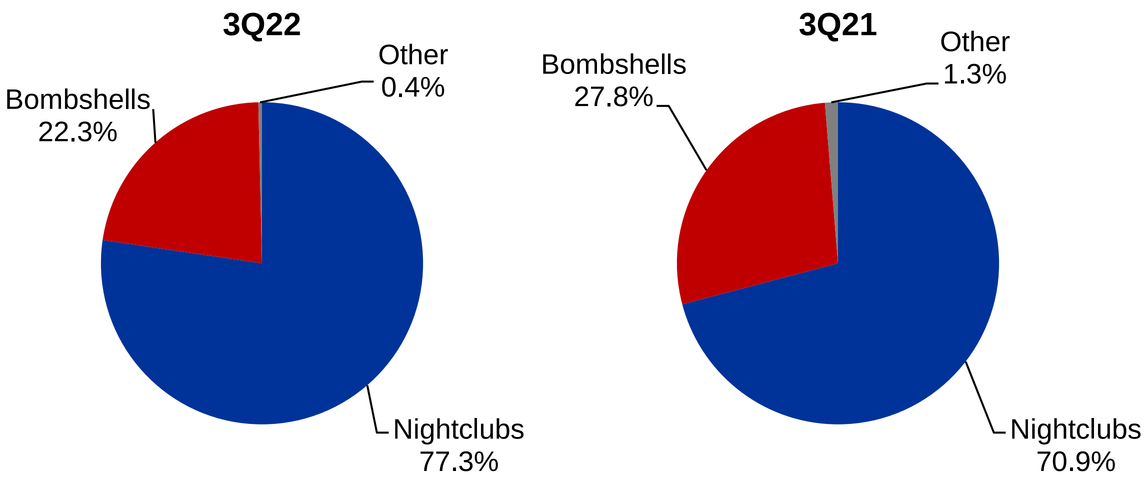
Period	Location Status
3Q20	Reopenings started May 2020, all 10 open by quarter end
4Q20	Austin & Fuqua closed part of 4Q20, all 10 open by quarter end
1Q21	All 10 stores open (50% to 75% capacity mid-October)
2Q21	All 10 stores open (75% to 100% capacity mid-March)
3Q21	All 10 stores open at 100% capacity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

RCI HOSPITALITY HOLDINGS INC

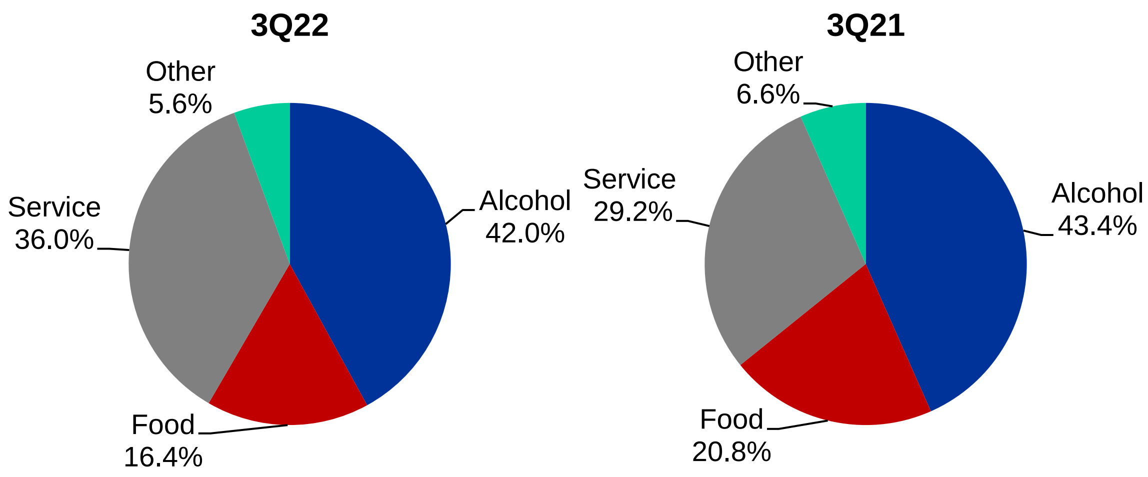
Analysis of Consolidated Statement of Operations

Line Item	3Q22 vs. 3Q21 (% of sales)	3Q22 Comment
Cost of Goods	13.0% vs. 15.3%	Increase in sales mix of higher-margin service revenues
Salaries & Wages	24.6% vs. 24.0%	Additional staff from acquired clubs and increased minimum wage in some states
SG&A	27.7% vs. 25.4%	Increased expenses related to new and acquired locations
Other charges (gains), net	2.1% vs. (0.2%)	Impairments (3 locations)
Operating Margin	29.0% vs. 32.0%	31.2% vs. 31.8% non-GAAP
Interest Expense	4.3% vs. 3.9%	New acquisition related debt, partially offset by higher sales and lower weighted average interest rate

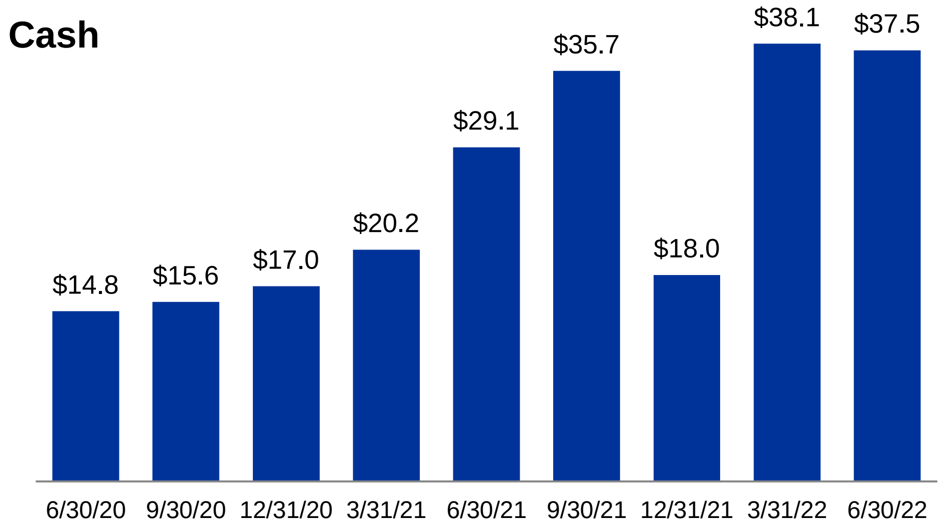
Sales Mix By Segment

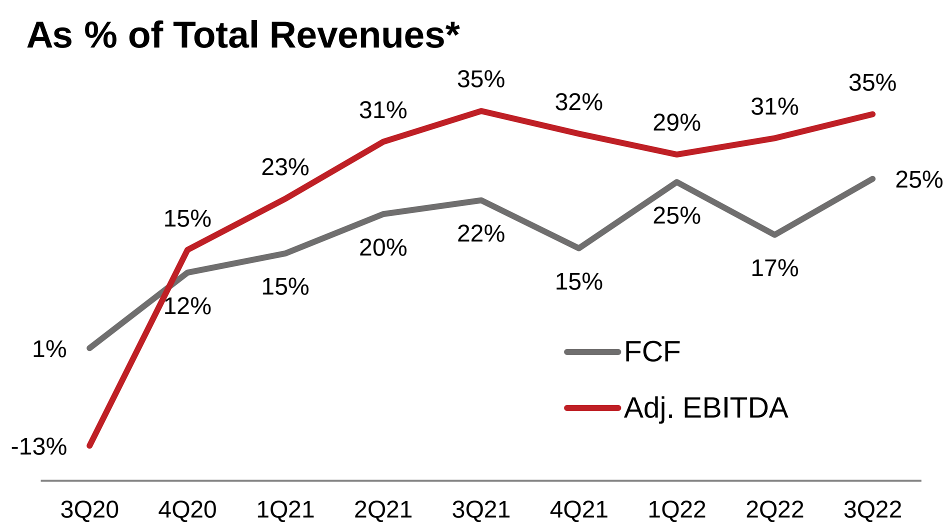


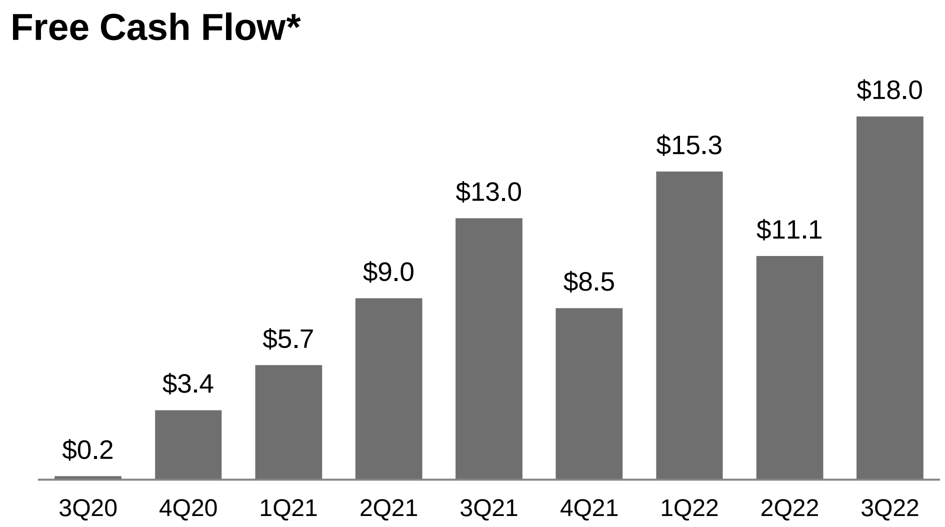
Sales Mix By Revenue Type

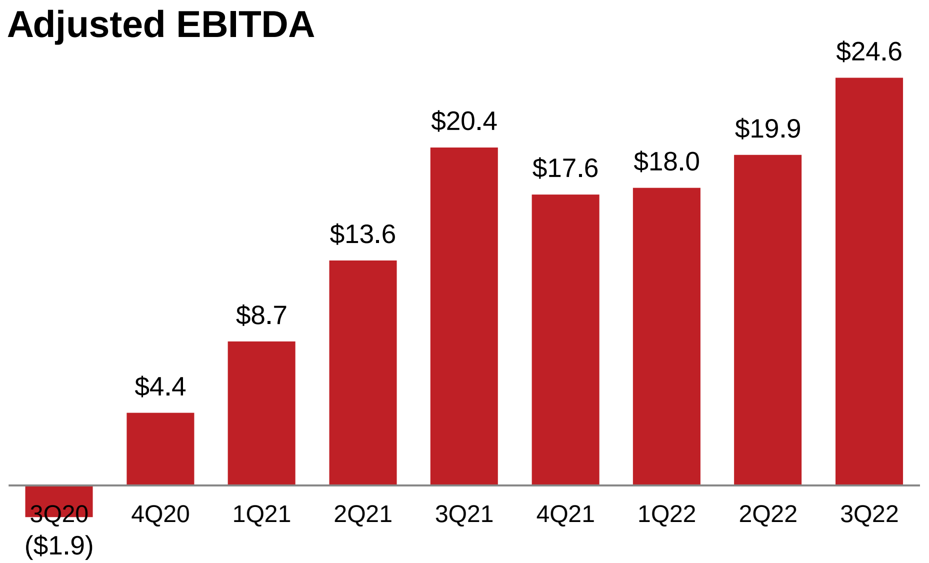


Cash, FCF & Adjusted EBITDA ($M)







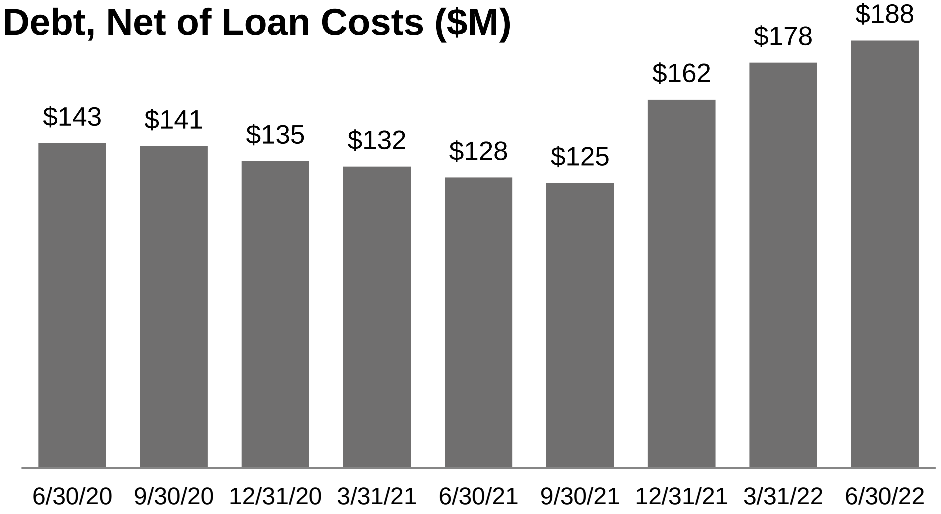


RCI HOSPITALITY HOLDINGS INC

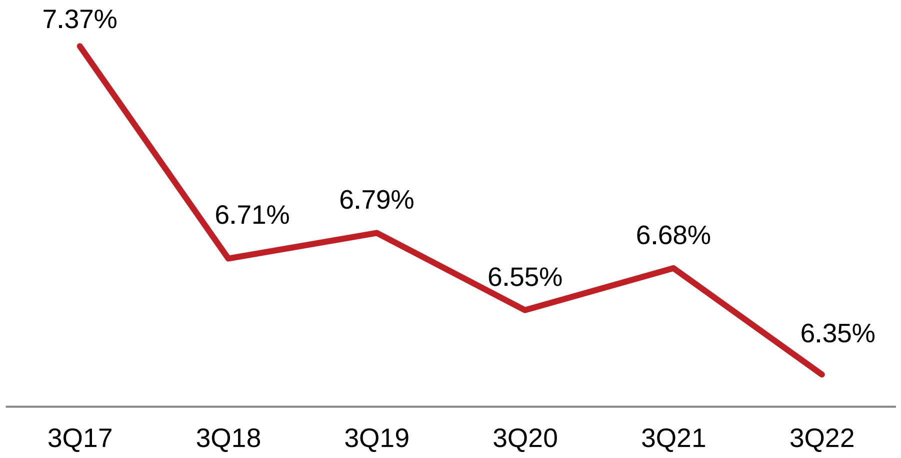
* 3Q22 FCF includes receipt of $2.2M previously discussed tax refund

Debt & Related Metrics

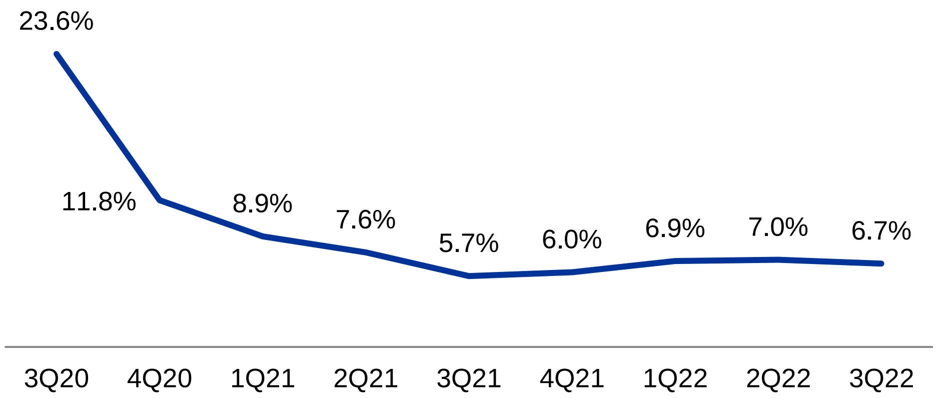
Debt, Net of Loan Costs ($M)



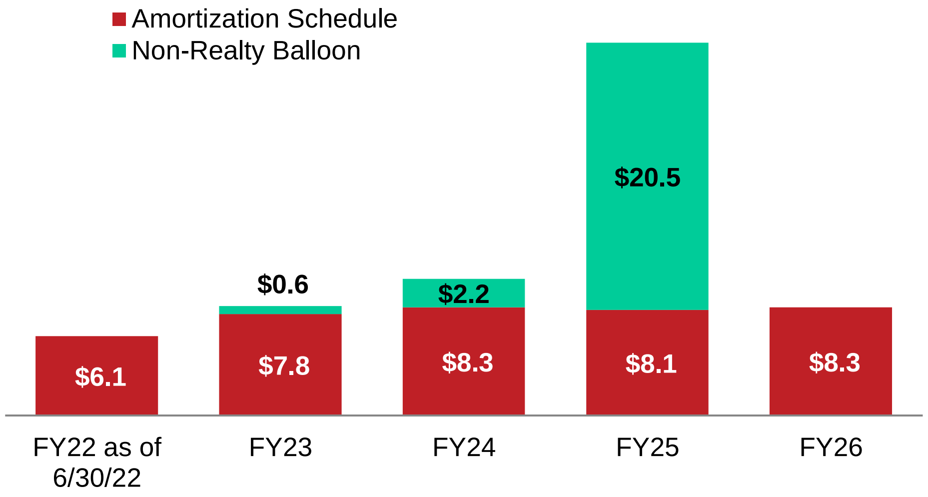
Weighted Average Interest Rate on Debt



Total Occupancy Costs *As % of Total Revenues*



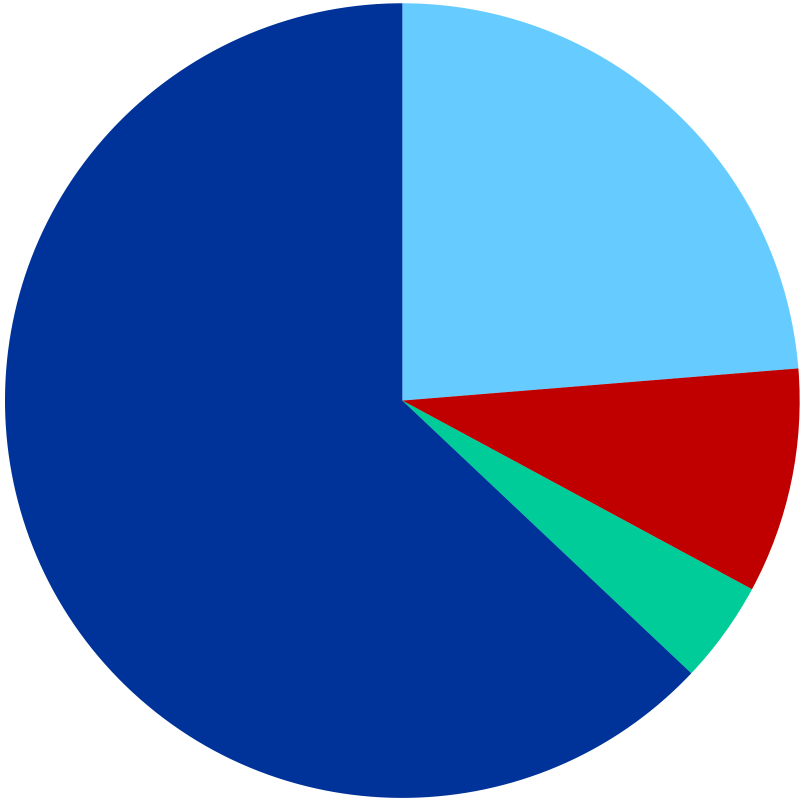
Debt Maturities as of 6/30/22 ($M)



RCI HOSPITALITY HOLDINGS INC

Debt Analysis *(as of 6/30/22, $ in millions)*

Total of $189.8[1]
Weighted Average Interest Rate (WAIR): 6.35%



$119.5 Secured by Real Estate (63.0% of total)
- 5.22% WAIR[2]

$45.0 Seller Financing (23.7% of total)
- Secured by the respective clubs
- 11 Clubs: $19.4 @ 6.0% WAIR
- Scarlett's: $13.7 @ 7.34% WAIR
- Mansion: $0.9 @ 4.00% WAIR
- Playmates: $11.0 @ 10.0% WAIR

$17.4 Unsecured Debt (9.2% of total)
- 11.74% WAIR

$7.9 Secured by Other Assets (4.1% of total)
- 5.86% WAIR

[1]Long-Term Debt Net of Loan Costs: $188.0
- Up $62.8 from 9/30/21
- Up $9.9 from 3/31/22

Operating Lease Total Liabilities: $39.4
- Adoption of ASC 842, Leases, starting FY20

RCI HOSPITALITY HOLDINGS INC

1) See box titled "Long-Term Debt Net of Loan Costs" on this page
2) There was a typo on this datapoint in the 2Q22 presentation. It should have been 5.23%.

Capital Allocation Strategy[1]

- Repurchase shares when FCF yield is more than 10%

Buy Back Shares

FY22 as of 8/5/22:
- $14.3M cash deployed
- 255,962 shares repurchased
- $55.91 average price/share

M&A

Buy More of the Right Nightclubs

FY22 to Date:
- $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 to Date:
- $6.8M capital deployed ($2.0M cash, $4.8M debt)
- 1 new location open
- 2 new locations bought (3rd under contract)
- 1st franchise opened
- 2nd one 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%

RCI HOSPITALITY HOLDINGS INC

1) We may deviate from this strategy if other strategic rationale warrants

Growth & Capital Initiatives

Nightclubs

12 Club Acquisitions
Purchased Oct-Nov 2021

Scarlett's Cabaret Louisiana
Rebuilt/rebranded club opened March 2022

Rick's Steakhouse & Lounge Miami
Opened May 2022

Playmates Club (Coral Gables, FL)
Acquired May 2022

Odessa, TX Club
Acquired July 2022
To reopen as PT's Showclub August 18, 2022

Cheetah Club (Hallandale Beach, FL)
Acquired July 2022

San Antonio, TX Reformatted Club
Expected to open August 18, 2022

Fort Worth, TX Club Acquisition
Under contract to purchase

More Acquisitions
Target: Addition of $20M Adjusted EBITDA in FY23

Bombshells

Bombshells Arlington (11th location)
Opened late 1Q22

Bombshells Stafford (12th)
Acquired property 2Q22

Bombshells Rowlett (13th)
Acquired property 3Q22

Bombshells Lubbock (14th)
Under contract to purchase

More Company-Owned Locations
Targeting Dallas, Austin, Florida, Arizona

1st Bombshells Franchisee
Opened in San Antonio June 2022

2nd Bombshells Franchisee
First location will be Huntsville, Alabama

More Franchisees
In talks with 3 groups

Capital

$7M Acquisition of Scarlett's Miami Property
1Q22

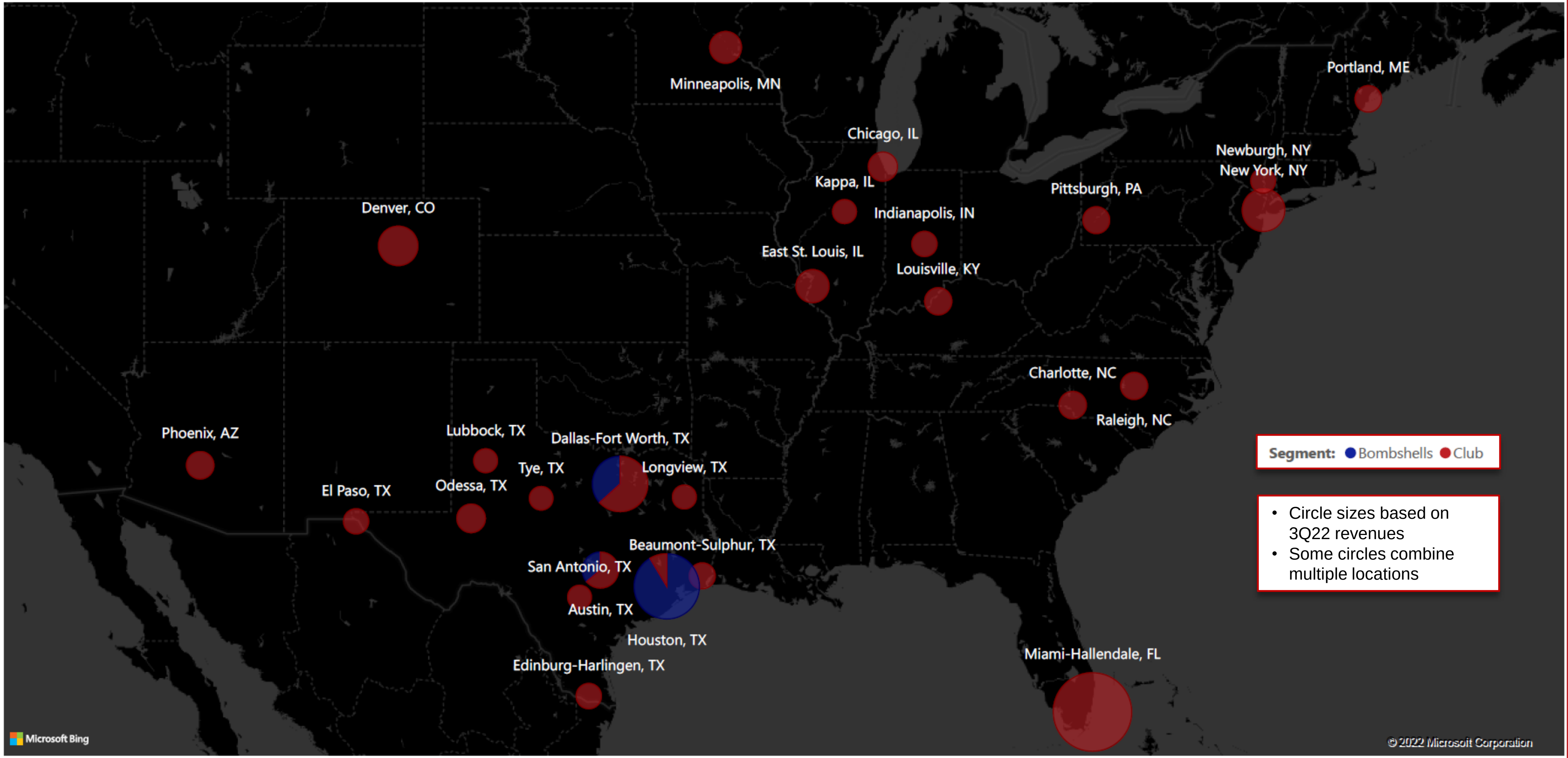
$18.7M Bank Real Estate Loan
2Q22

$2.1M Sale of Excess Parcel
2Q22

$6.0M Sale of Excess Parcel
4Q22; approximately $3.5M in net cash proceeds

2 Parcels Under Contract
Expect approximately $3.5M proceeds

Club & Bombshells Geographic Focus



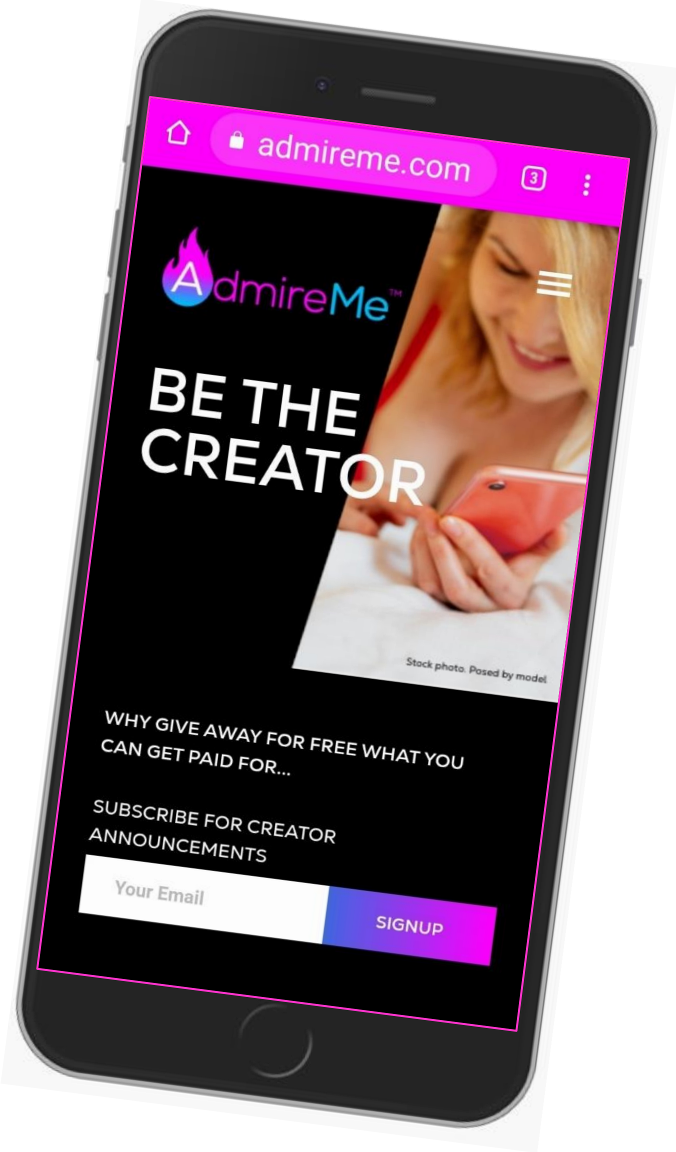
- Circle sizes based on 3Q22 revenues
- Some circles combine multiple locations

RCI HOSPITALITY HOLDINGS INC

New Technology to Drive Club Traffic

- **Bitcoin Acceptance at Selected Locations**
- **Tip-N-Strip NFT Guest Benefits Program**
- **AdmireMe.com Mobile Friendly Website**

www.tip-n-strip.io



www.admireme.com

RCI HOSPITALITY HOLDINGS INC

Q&A


2022
The Gentlemen's Club
expo
ph
Planet Hollywood
Resort & Casino
August 14-17
EXCITING NEW LOCATION!

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