



RCI HOSPITALITY HOLDINGS INC

The Innovator in Bar-Restaurant-Entertainment Themed Hospitality

NASDAQ: RICK
10-Q Filing & 1Q18 Conference Call
March 7, 2018
www.rcihospitality.com

Forward-Looking Statements

Certain statements contained in this presentation regarding RCI Hospitality future operating results or performance or business plans or prospects and any other statements not constituting historical fact are "forward-looking statements" subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. Where applicable, words such as "anticipate," "approximate," "believe," "estimated," "expect," "goal," "intent," "outlook," "planned," "potential," "will," "would," and similar expressions, as they relate to the company or its management, have been used to identify such forward-looking statements.

All forward-looking statements reflect only current beliefs and assumptions with respect to future business plans, prospects, decisions and results, and are based on information currently available to the company.

Accordingly, the statements are subject to significant risks, uncertainties and contingencies, which could cause the company's actual operating results, performance or business plans or prospects to differ materially from those expressed in, or implied by, these statements.

Such risks, uncertainties and contingencies include, but are not limited to, risks and uncertainties associated with our future operational and financial results, operating and managing adult businesses, competitive factors, conditions relevant to real estate transactions, cybersecurity, the timing of the openings of other clubs, the availability of acceptable financing to fund corporate expansion efforts, our dependence on key personnel, the ability to manage operations and the future operational strength of management, and the laws governing the operation of adult entertainment businesses.

Additional factors that could cause the company's results to differ materially from those described in the forward-looking statements are described in forms filed with the SEC from time to time and available at www.rcihospitality.com or on the SEC's internet website at www.sec.gov.

Unless required by law, RCI Hospitality does not undertake any obligation to update publicly any forward-looking statements, whether as a result of new information, future events, or 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 items that management believes are not representative of the ongoing business operations of the Company, but are included in 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 exclude from non-GAAP operating income and non-GAAP operating margin amortization of intangibles, gains or losses on sale of assets, gain on insurance, and 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 exclude from non-GAAP net income and non-GAAP net income per diluted share amortization of intangibles, costs and charges related to debt refinancing, income tax expense (benefit), gains or losses on sale of assets, gain on insurance, and settlement of lawsuits, and include the non-GAAP provision for current and deferred income taxes, calculated at 26.5% and 33% effective tax rate of the pre-tax non-GAAP income before taxes for the quarter ended December 31, 2017 and 2016, respectively, because we believe that excluding and including such items help management and investors better understand our operating activities.

Adjusted EBITDA. We exclude from adjusted EBITDA depreciation expense, amortization of intangibles, income tax expense (benefit), net interest expense, gains or losses on sale of assets, gain on insurance, and settlement of lawsuits because we believe that adjusting for such items helps management and investors better understand 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 Form 10-Q for the quarter ended December 31, 2017 and our March 7, 2018 news release contain additional details relative to the non-GAAP financial measures and are posted on our website at www.rcihospitality.com.

Today's News

Filing Status Update

- Filed 10-Q for quarter ended December 31, 2017
- Now current with our SEC filings

GAAP Results

- 1Q18 EPS: \$1.47 per share
- Includes \$9.7M non-cash tax benefit, \$827K interest costs re new bank loan

Strong Core Results*

- 1Q18 Non-GAAP EPS: \$0.53 vs. \$0.31 in 1Q17
- 1Q18 FCF: \$7.5M vs. \$5.1M in 1Q17

Continued Positive Outlook

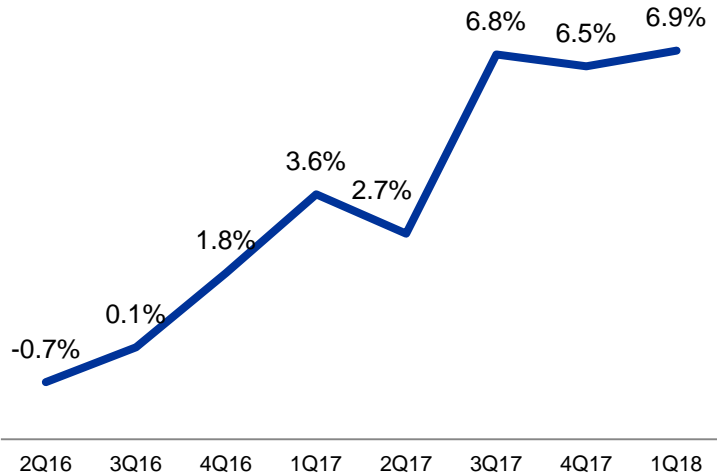
- Favorable revenue trends continuing in FY18
- FY18 FCF on track for \$23M target

Strong Core 1Q18 Results

(\$ in millions)	1Q18	1Q17	Δ	Comment
<u>Revenue by Segment</u>			%	<u>Nightclubs & Bombshells Growth Factors</u>
Nightclubs	\$35.2	\$29.3	20.3	• 16% increase from new units and 6.9% from same-store sales
Bombshells	5.8	4.3	35.7	• Strong marketing around TV sports (Astros in World Series)
Other	0.2	0.2	2.5	• Higher margin service, beverage and food revenues all up
Total	\$41.2	\$33.7	22.1%	
<u>GAAP Operating Income</u>			\$	<u>Growth Factors</u>
Nightclubs	\$13.4	\$9.2	\$4.2	• Clubs & Restaurants: Increased operating leverage
Bombshells	0.9	0.6	0.3	• Clubs & Restaurants: Improved portfolio
Other	(0.1)	(0.3)	0.2	• Other: Reduced costs
Corporate	(5.0)	(3.2)	(1.8)	• Corporate: Includes ~\$500K in added costs related to new financial system and year-end audit
Total	\$9.1	\$6.3	\$2.8	
<u>Non-GAAP Operating Income*</u>			\$	<u>Margin 1Q18 vs. 1Q17</u>
Nightclubs	\$13.4	\$9.3	\$4.1	• Nightclubs: 38.0% vs. 31.7% of segment revenue
Bombshells	0.9	0.6	0.3	• Bombshells: 15.3% vs. 14.9% of segment revenue
Other	(0.1)	(0.3)	0.2	• Other: -82.5% vs. -210.5% of segment revenue
Corporate	(4.9)	(3.1)	(1.7)	• Corporate: -11.8% vs. -9.3% of total revenue
Total	\$9.3	\$6.4	\$2.8	Income up 44.0% with margin of 22.5% vs. 19.1% of total revenue

Sales Trends *(year over year)*

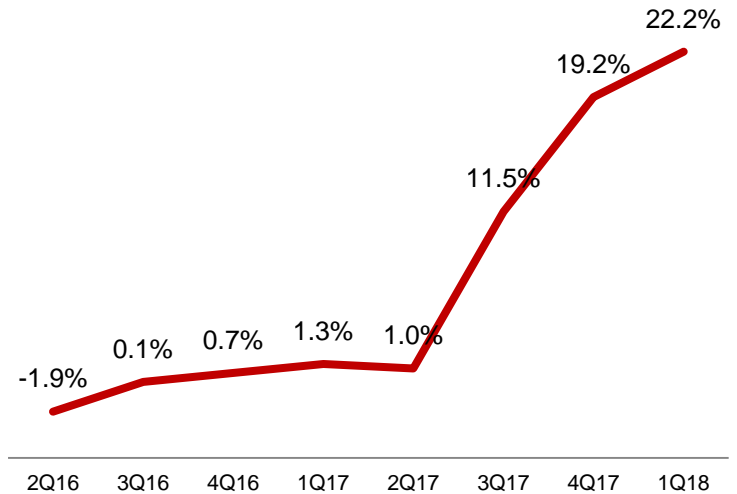
Same-Store Sales



Highlights

- Same-store sales up 7 quarters in a row
- Longest streak since 3Q11-1Q13

Total Revenues: Nightclubs & Bombshells Segments



Highlights

- 3Q17 acquisitions of Scarlett's Miami and St. Louis club (renamed Scarlett's)
- 4Q17 opening of Bombshells 290

Cash Generation

Adjusted EBITDA*

- 1Q18 up 38.6% YoY to \$11.1M
- Highest quarterly level in the last two years

Cash

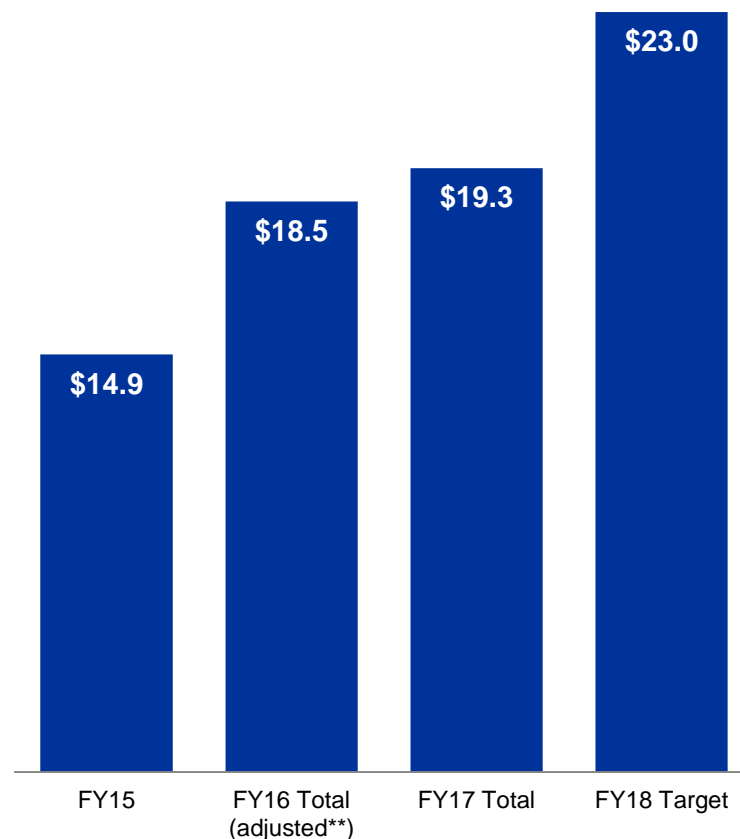
- \$12.0M at 12/31/17
- Up 20.5% from three months earlier

Free Cash Flow*

- 1Q18 up 47.0% YoY to \$7.5M
- FY18 FCF on track for \$23M target

Free Cash Flow (\$ in millions)

RCI began focusing on FCF in FY16
15.6% FCF CAGR anticipated FY15-18

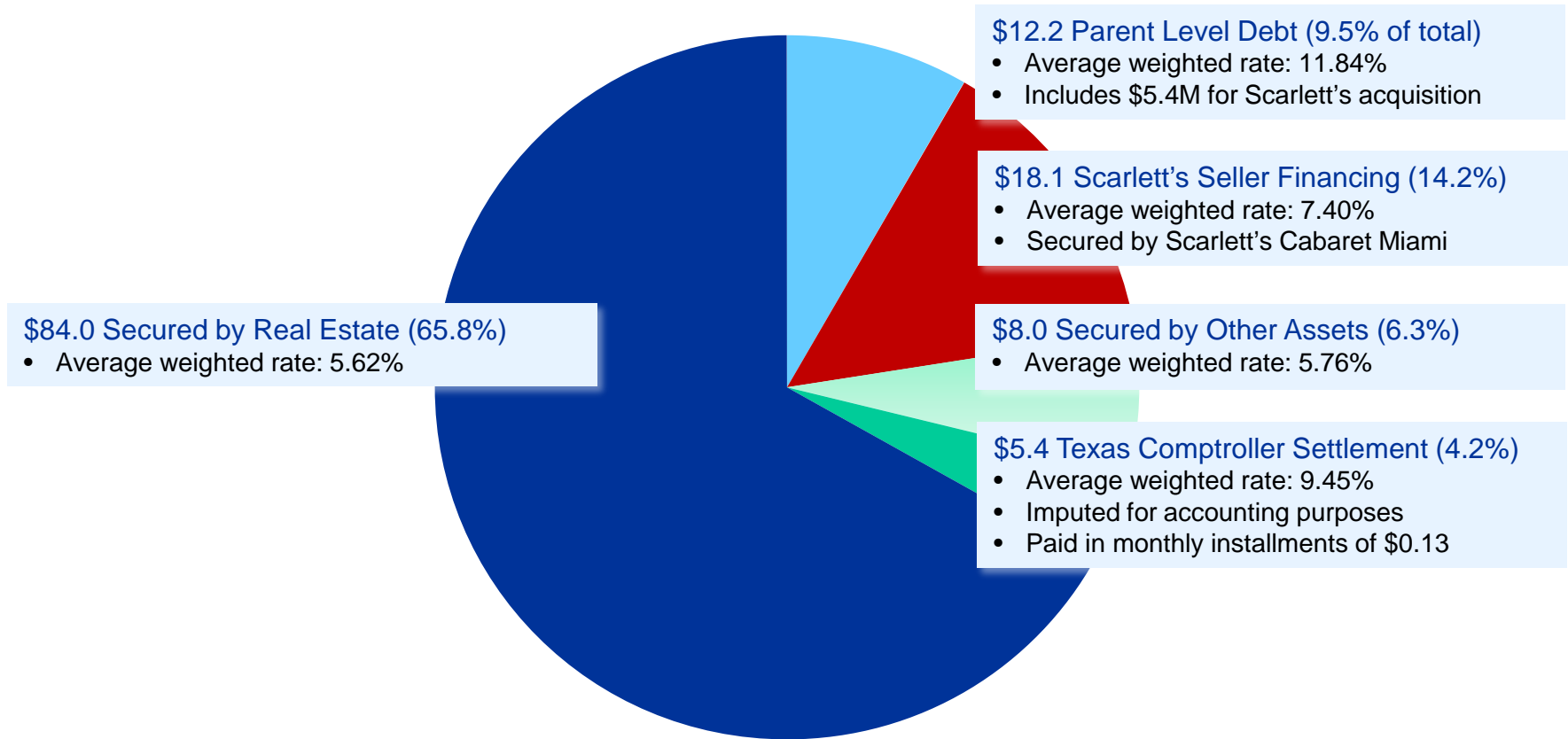


* For GAAP reconciliation, see the company's 1Q18 Earnings News Release, dated 3/7/18

** \$18.5M for FY16 in the chart reflects FCF of \$20.5M less \$2.0M in tax credits.

Long-Term Debt *(as of 12/31/17, \$ in millions)*

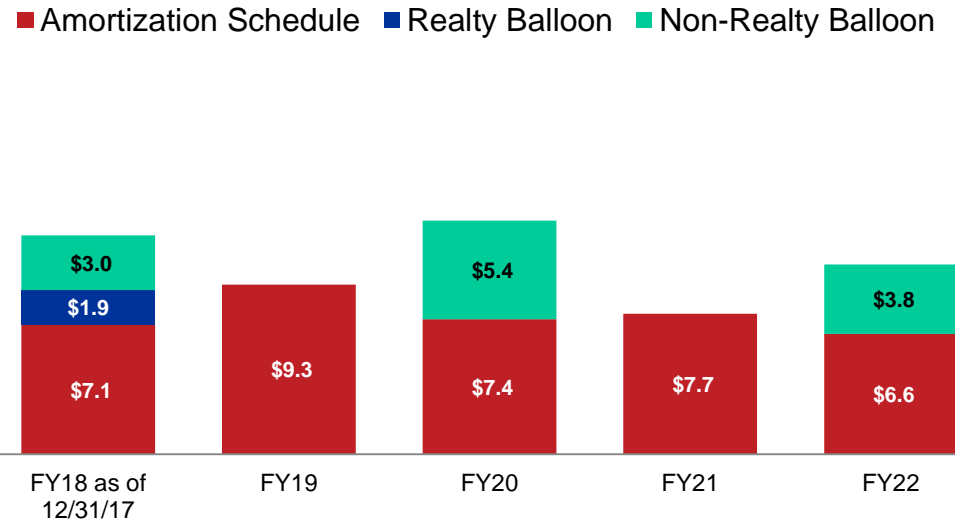
Total of \$127.7*
Average Weighted Interest Rate: 6.73%



Debt Manageability *(\$ in millions)*

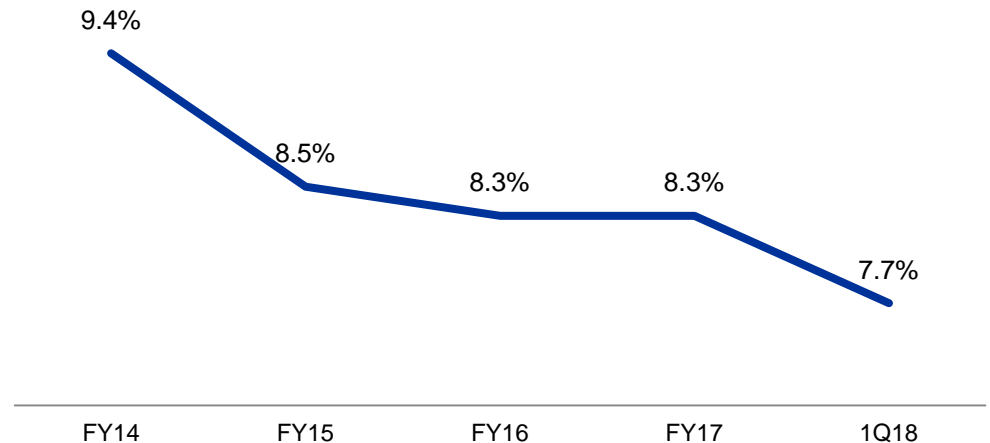
Debt Maturities

- Most debt is real estate that amortizes until ballooned
- FY18 \$1.9M realty balloon refinanced in February into construction loan for Bombshells 7
- Non-realty balloons of \$3.0M in FY18 and \$5.4M in FY20 Scarlett's Miami related (\$3.0M due in May)
- No major realty or non-realty balloons over the next five years



Occupancy Costs

- One of our single largest expenses
- Interest expense (ex-refinancing-related costs) and rent expense
- Steady decline as % of revenue even though we have acquired more clubs and underlying real estate with debt



Capital Allocation Strategy

1. Buy/open new units or expand existing ones only if:

- We can achieve target cash on cash return of at least 25-33% or
- There is a strategic rationale

2. Take action if units not performing in line with strategy

- Free up capital for better use

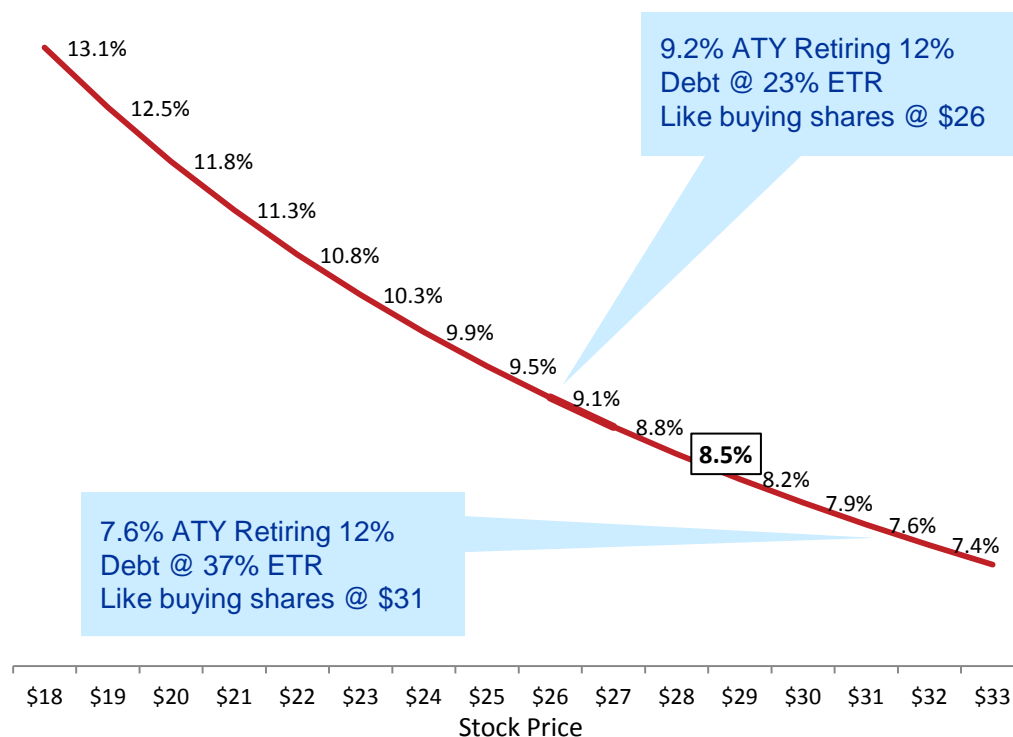
3. Use FCF to buy back shares if yield enters double-digits

- ~8.5% after tax yield (ATY) with shares in \$28 range

4. Pay off most expensive debt at accelerated rate only if:

- Makes sense on tax adjusted basis, or
- There is a strategic rationale
- Lower effective tax rate (ETR) significantly increases ATY from paying off 12% debt

FCF Yield on Stock Price @ FCF of \$23M



FY18 Update

2Q18

- January: Good sales even with tough weather in some markets
- February: Good pro football championship in multiple markets
- March: Major college basketball events in NYC and Charlotte (4 clubs)

Bombshells Restaurants

- 3 new units in development to total 8 units in Texas (6 in Greater Houston)
- Pearland (Houston suburb) unit awaiting gas hook-up (parking lot finished)
- I-10 planned for 4Q18, Southwest Freeway for 1Q19 (both Houston)

Operating Expenses

- Expect to begin normalizing by 3Q18 or 4Q18
- Need to reduce insurance increases (1Q18 up 34% YoY)
- Need to be aware of area salary and wage pressures around the country

New Tax Legislation

- 1Q18: Non-cash gain of \$9.7M (excluding that, 25.4% ETR)
- FY18: ETR of 26.5% expected, including state and local taxes
- FY18: Expected to enhance free cash flow

Our 3-5 Year Goals

Free Cash Flow

- Average 10-15% annual FCF per share growth
- Grow FCF to more than \$30M

Gentlemen's Clubs

- Acquire more great clubs in the right markets

Bombshells Restaurants

- Expand company-owned units 3 per year

Patience & Focus

- Let capital build if we can't find right acquisitions or Bombshells locations
- Focused, analytical and careful in everything we do for shareholders



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Calendar

Date	Event	<i>Subject to change</i>
March 2018	5 th Anniversary of Bombshells Restaurant & Bar chain	
March 29, 2018	Sidoti & Company Investor Conference in New York City	
April 10, 2018	2Q18 Club & Restaurant Sales	
May 10, 2018	2Q18 & 6M18 Financial Results	
June 4-6, 2018	LD Micro Investor Conference in Los Angeles (possible)	
June 6, 2018	35 th Anniversary of the Opening of the first Rick's Cabaret	
July 10, 2018	3Q18 Club & Restaurant Sales	
August 9, 2018	3Q18 & 9M18 Financial Results	
August 2018	20 th Anniversary of acquisition of Taurus Entertainment Companies, Inc.	
August 19-22, 2018	Annual Gentlemen's Club Expo 2018 in Las Vegas	
September 2018	Annual Meeting at Corporate Headquarters in Houston	
October 9, 2018	4Q17 Club & Restaurant Sales	
December 3-5, 2018	LD Micro Investor Conference in Los Angeles	
December 13, 2018	4Q18 & FY18 Financial Results	

FY18 Roll Out

	1Q18 (12/31/17)	2Q18 (3/31/18)	3Q18 (6/30/18)	4Q18 (9/30/18)
Full Quarter New Unit Benefit	<ul style="list-style-type: none"> Scarlett's Miami Scarlett's St. Louis Bombshells 5 (290) 	<ul style="list-style-type: none"> Scarlett's Miami Scarlett's St. Louis Bombshells 5 (290) 	<ul style="list-style-type: none"> Bombshells 5 (290) Bombshells 6 (Pearland) 	<ul style="list-style-type: none"> Bombshells 6 (Pearland)
Partial Quarter New Unit Benefit		<ul style="list-style-type: none"> Bombshells 6 (Pearland) opens toward end of quarter 		<ul style="list-style-type: none"> Bombshells 7 (I 10) opens toward end of quarter
Events	<ul style="list-style-type: none"> Houston wins World Series 	<ul style="list-style-type: none"> Minneapolis hosts Pro Football Championship NYC and Charlotte host college basketball tournaments 		
Year Ago Events	<ul style="list-style-type: none"> Vikings return to downtown Minneapolis in new stadium 	<ul style="list-style-type: none"> Houston hosts Pro Football Championship (primarily benefitted one club) 	<ul style="list-style-type: none"> Acquisition of Scarlett's Miami and Scarlett's St. Louis predecessor Hurricane Harvey hits Houston and Hurricane Irma hits Florida 	<ul style="list-style-type: none"> Bombshells 5 (290) opens

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