



RCI HOSPITALITY HOLDINGS INC

The Innovator in Bar-Restaurant-Entertainment Themed Hospitality

NASDAQ: RICK
3Q18 Conference Call
August 9, 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, impairment of assets, 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, impairment of assets, 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 three and nine months ended June 30, 2018 and 2017, 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, impairment of assets, 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 June 30, 2018 and our August 9, 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

Headlines

- 3Q18: Another quarter of strong core results
- Active negotiations with club owners in multiple markets
- Recently opened Bombshells Pearland continuing to do well
- 4 new Bombshells in development on schedule

GAAP Results (vs. year ago period)

- 3Q18 Total Revenues: Record \$42.6M – up 14%
- 3Q18 EPS: \$0.55 – up 38%
- Includes ~\$0.5M pre-tax legal settlement

Core Results (vs. year ago period)

- 3Q18 Non-GAAP EPS: \$0.58 – up 24%
- 3Q18 Free Cash Flow (FCF): \$7.7M – up 17%

FY18 Outlook

- Favorable trends continuing
- Expect to exceed FCF \$23M target

Strong Core 3Q18 Results

(\$ in millions)	3Q18	3Q17	Δ	Comment
<i>Revenue by Segment</i>				%
Nightclubs	\$35.3	\$32.6	8.2	<ul style="list-style-type: none"> Clubs & Restaurants: 12% increase from new units, 5% from SSS Clubs & Restaurants: Service, beverage, food revenues all up
Bombshells	7.1	4.6	54.4	
Other	0.3	0.2	7.4	
Total	\$42.6	\$37.4	13.9%	
<i>GAAP Operating Income</i>				\$
Nightclubs	\$12.6	\$10.6	\$2.0	<ul style="list-style-type: none"> Clubs & Restaurants: Improved portfolio & operating leverage Clubs: Included \$474K in legal settlement
Bombshells	1.4	0.7	0.7	
Other	(0.3)	(0.1)	(0.2)	
Corporate	(4.2)	(3.3)	(0.9)	
Total	\$9.5	\$7.9	\$1.6	
<i>Non-GAAP Operating Income*</i>				\$ <i>Margin 3Q18 vs. 3Q17</i>
Nightclubs	\$13.0	\$11.5	\$1.5	<ul style="list-style-type: none"> Nightclubs: 36.8% vs. 35.3% of segment revenue Bombshells: 19.5% vs. 15.0% of segment revenue
Bombshells	1.4	0.7	0.7	
Other	(0.3)	(0.1)	(0.1)	
Corporate	(4.1)	(3.2)	(0.9)	
Total	\$10.0	\$8.8	\$1.2	• Income up 13.0% on margin of 23.4% vs. 23.6% of total revenue

3Q18 Performance Drivers

General

- Improved portfolio of nightclubs and restaurants
- Increased operating leverage with higher revenues
- Increased customer counts in nightclubs and restaurants
- Strong marketing around pro basketball playoffs and start of pro baseball

Nightclubs

- Good economy, including revitalization of Texas oil patch

Bombshells

- Interest in Houston Rockets and Houston Astros games
- Updated menu featuring new items

Corporate

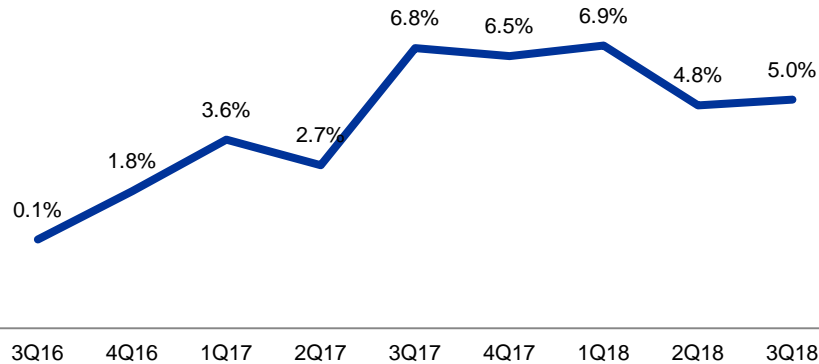
- Expenses increased as anticipated to develop controls and automated reports for new financial IT system

Also

- Reduced cost of occupancy as % of revenues
- Reduced tax rate

Sales & Margin Trends

Same-Store Sales YoY Change



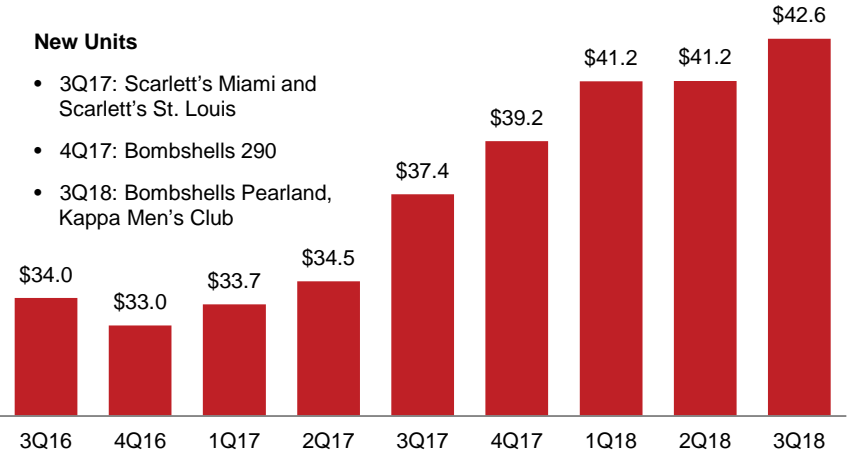
Highlights

- Same-store sales up 9 quarters in a row
- 3Q18 record total quarterly revenues

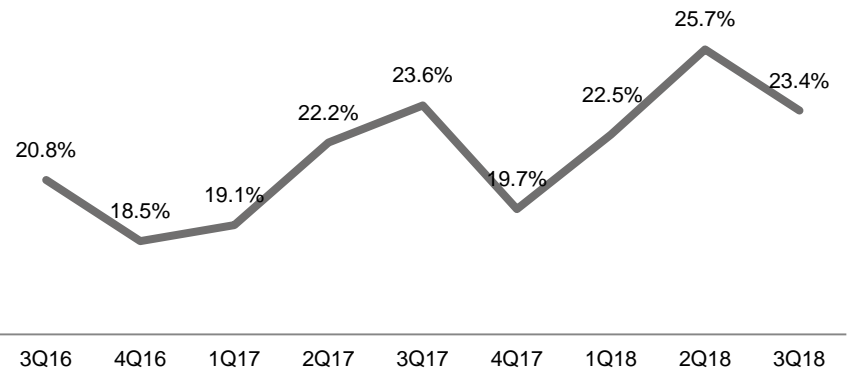
Total Revenues

New Units

- 3Q17: Scarlett's Miami and Scarlett's St. Louis
- 4Q17: Bombshells 290
- 3Q18: Bombshells Pearland, Kappa Men's Club



Non-GAAP Operating Margin* As % of Total Revenues



Cash Generation

Adjusted EBITDA*

- 3Q18 up 13.6% YoY to \$11.9M
- 9M18 up 27.8% YoY to \$35.4M

Cash

- \$13.2M at 6/30/18
- Up 5.4% from 3/31/18
- Up 32.7% from 9/30/17

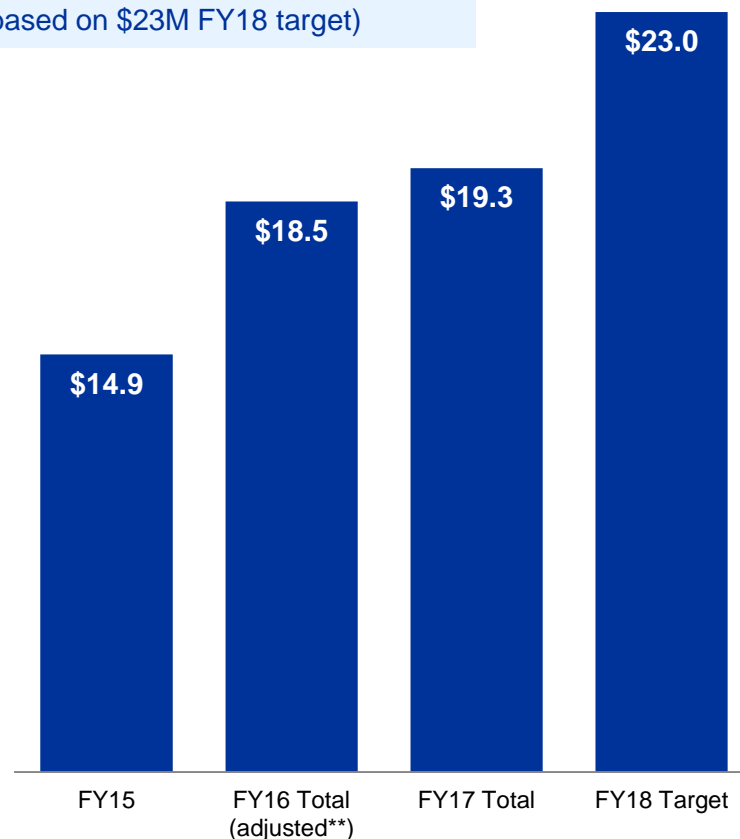
Free Cash Flow*

- 9M18 up 23.9% YoY to \$20.6M
- Expect to exceed \$23.0M FY18 target

Free Cash Flow (\$ in millions)

RCI began focusing on FCF in FY16

15.6% FCF CAGR FY15-18
(based on \$23M FY18 target)

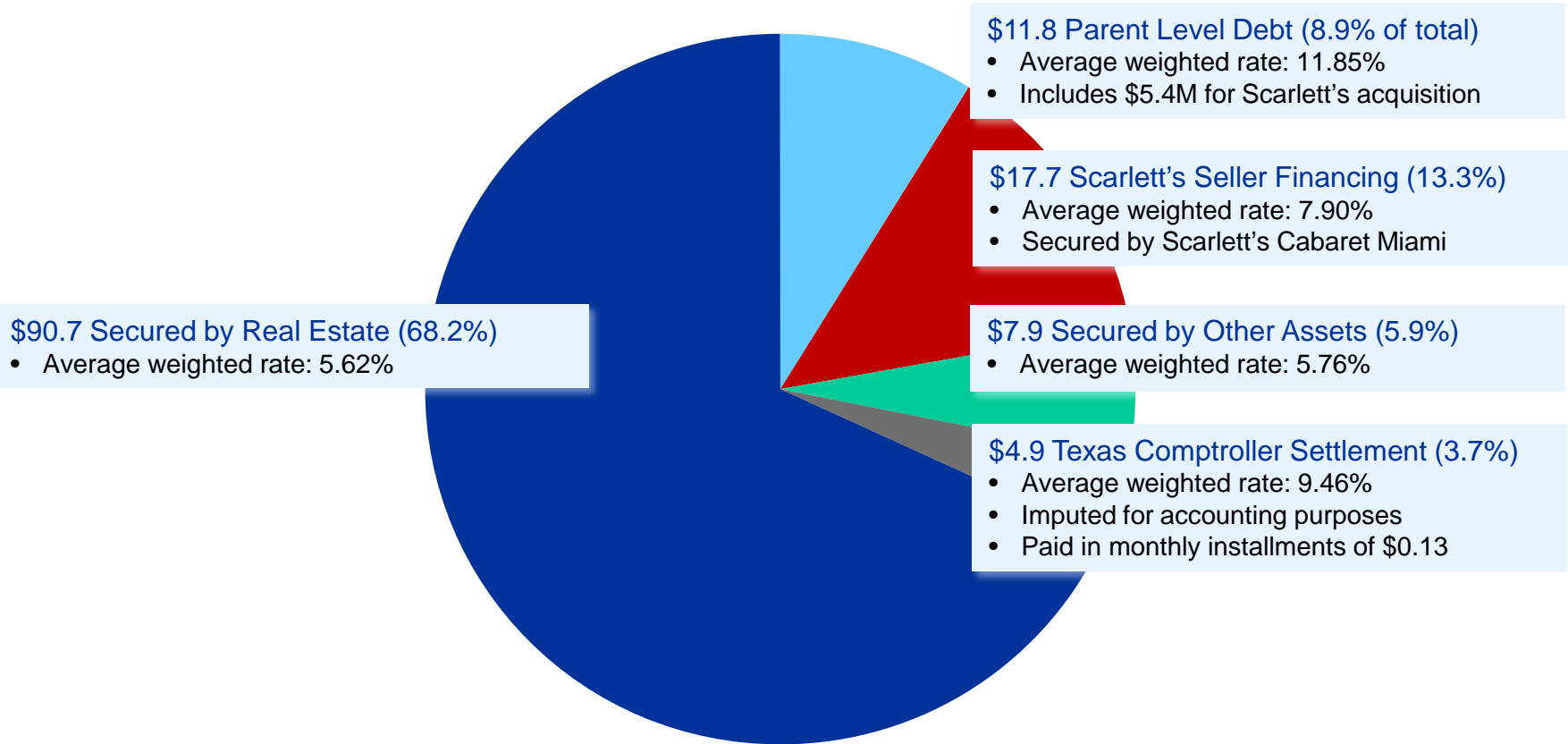


* For GAAP reconciliation, see the company's 3Q18 Earnings News Release, dated 8/9/18

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

Long-Term Debt *(as of 6/30/18, \$ in millions)*

Total of \$133.0*
Average Weighted Interest Rate: 6.71%



3Q18 Debt Manageability Update

Maturities

- Most debt is real estate amortizing until ballooned
- \$3.0M in Scarlett's seller-financing non-reality balloon extended one year to FY19
- \$4.0M Bombshells 249 realty balloon due FY20 (to be converted to construction loan in 4Q18)

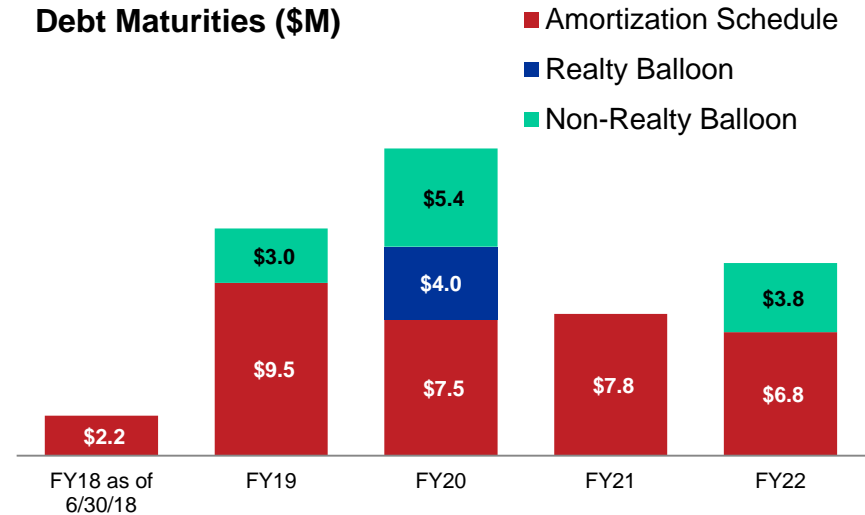
Occupancy Costs

- One of our single largest expenses: Interest (ex-refinancing-related costs) and rent as % of revenue
- Declining trend even with acquisition of more clubs and underlying club and Bombshells real estate with debt

Debt / EBITDA

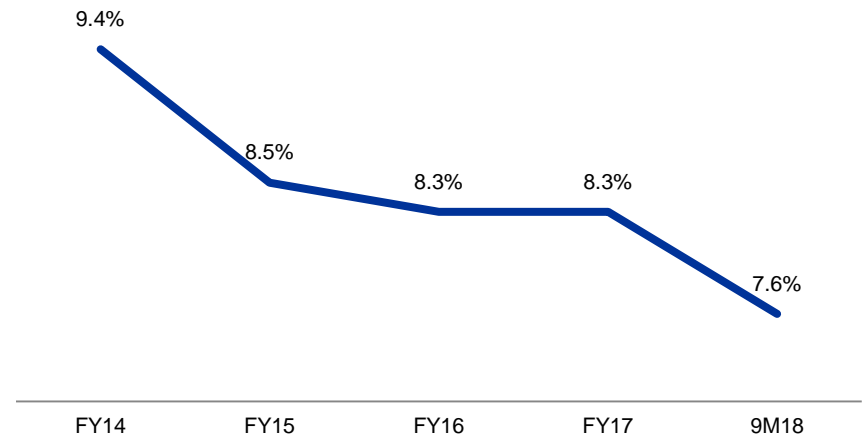
- We like to stay below 3x
- Total Debt / TTM Adjusted EBITDA = 2.95x

Debt Maturities (\$M)



Occupancy Costs

As % of Total Revenues



Bombshells Expansion Update



Location	Status	Target Opening
Interstate 10 (East Houston)	Under construction	September 2018
US 59 (Southwest Houston)	Under construction	December 2018
US 249 (Tomball, just north of Houston)	Construction to start next week	March 2019
Katy (fast-growing West Houston suburb)	Site under contract and awaiting building permits approval	June 2019

- The four new units to be based on Highway 290 prototype
- +\$4.5M average unit annual run rate with ~20% segment operating margin (based on 3Q18 results)
- 10 Bombshells by end of FY19 – 8 in the Houston area and 1 each in Dallas and Austin
- Next target markets: San Antonio and Miami
- Bombshells named to *Restaurant Business* magazine's "The Future 50" 2018 list of fastest-growing concepts

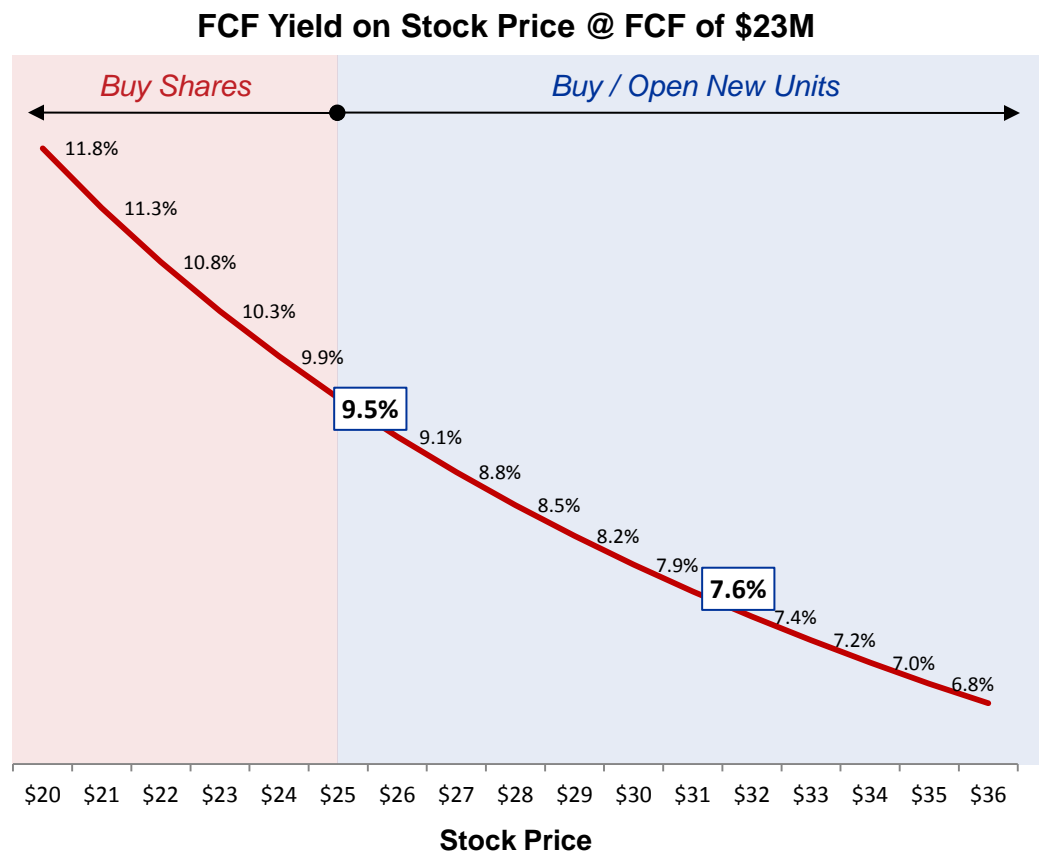
Capital Allocation Strategy

Highlights

- Key Metric: Free cash flow (FCF) after-tax yield relative to our market cap
 - 7.6% with FCF of \$23M and shares @ \$32
- Buy/open new units if:
 - We can achieve target cash on cash return of at least 25-33% or
 - There is a strategic rationale
- Buy back shares if FCF yield
 - Nearing double-digit range
 - Exceeds yield of accelerated payment of our highest interest debt (that yield currently 9.24%)

Current Status

- ~\$25 share is the break point
 - Buy/open new units above that price
 - Buy back shares below that price



Financial Goals (3-5 Years)

Objective

- FCF: Grow +50% to +\$30M from \$19.3M in FY17

S T R A T E G I E S

1. Clubs

- Acquire more great clubs in the right markets

2. Bombshells

- Expand number of company-owned units 3 per year

3. Capital Allocation

- Build capital if we can't find right acquisitions or Bombshells locations – or buy back stock



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Calendar

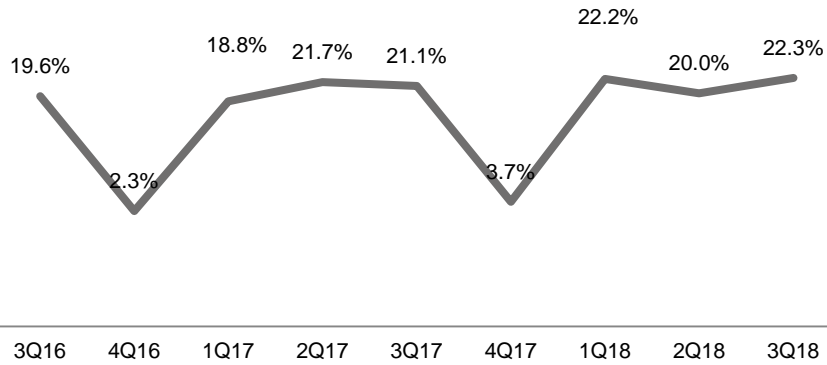
Date	Event	<i>Subject to change</i>
August 2018	20 th Anniversary of acquisition of Taurus Entertainment Companies, Inc.	
August 19-22, 2018	Annual Gentlemen's Club Expo 2018 in Las Vegas	
August 29, 2018	Annual Meeting at Corporate Headquarters in Houston	
October 9, 2018	4Q18 Club & Restaurant Sales	
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) Opens 	<ul style="list-style-type: none"> Bombshells 6 (Pearland) Kappa Men's Club
Partial Quarter New Unit Benefit			<ul style="list-style-type: none"> Kappa Men's Club 	<ul style="list-style-type: none"> Bombshells 7 (I 10) opens toward end of quarter
Events	<ul style="list-style-type: none"> Houston Astros win World Series 	<ul style="list-style-type: none"> Minneapolis hosts Pro Football Championship NYC and Charlotte host college basketball tournaments Houston Rockets in Playoffs 		
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 	<ul style="list-style-type: none"> Bombshells 5 (290) opens Hurricane Harvey hits Houston and Hurricane Irma hits Florida

GAAP Operating Margin

GAAP Operating Margin
As % of Total Revenues



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