# RCI HOSPITALITY HOLDINGS INC

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

**NASDAQ: RICK**
**3Q21 Conference Call**
**August 5, 2021**
**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 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, 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.

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. (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) impairment of assets, 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) gains or losses on sale of businesses and assets, (c) gains or losses on insurance, (d) unrealized gains or losses on equity securities, (e) impairment of assets, (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 24.3% and 26.9% effective tax rate of the pre-tax non-GAAP income before taxes for the nine months ended June 30, 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, 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 August 5, 2021 news release and financial tables contain additional details and reconciliation of non-GAAP financial measures for the quarter ended June 30, 2021 and are posted on our website at www.rcihospitality.com. Our 3Q21 10-Q contains additional details and reconciliation of non-GAAP financial measures for the quarter ended June 30, 2021 and is similarly posted on our website.

# Today's News

| | |
|---|---|
| **3Q21 Highlights** | • Outstanding performance<br>• Record revenues of \$57.9M<br>• Record net cash from operating activities of \$15.0M, Record free cash flow of \$13.0M<br>• Consolidated operating margin of 32.0%<br>• Net income of \$12.3M, Adjusted EBITDA of \$20.4M<br>• EPS of \$1.37 vs. (\$0.60) in 3Q20, Record Non-GAAP EPS of \$1.36<br>• \$29.1M cash at quarter end |
| **4Q21 Update** | • 36 of 38 clubs open<br>• All 10 Bombshells open<br>• Announced agreement to acquire 11 clubs in 6 states |
| **Growth Initiatives** | • Closing and integrating the big club acquisition<br>• Talking to other club owners<br>• Finding new Bombshells locations and franchisees |

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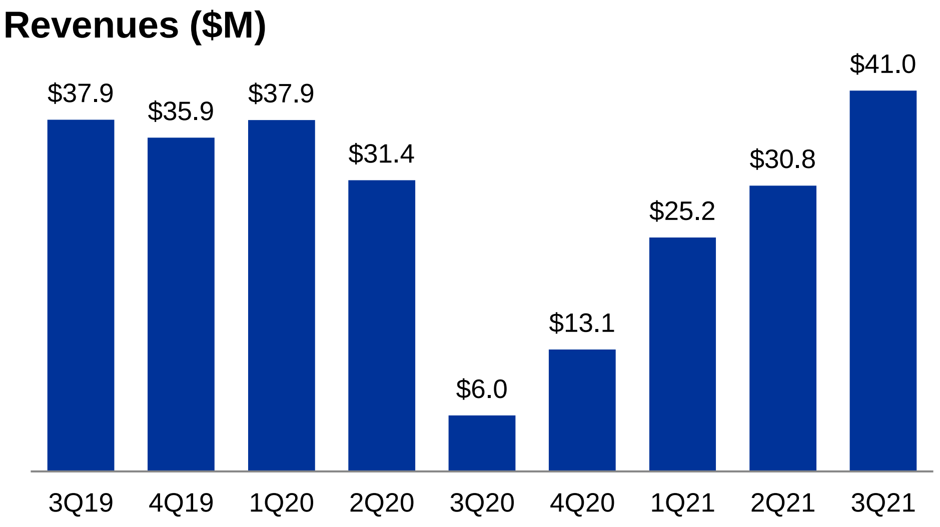
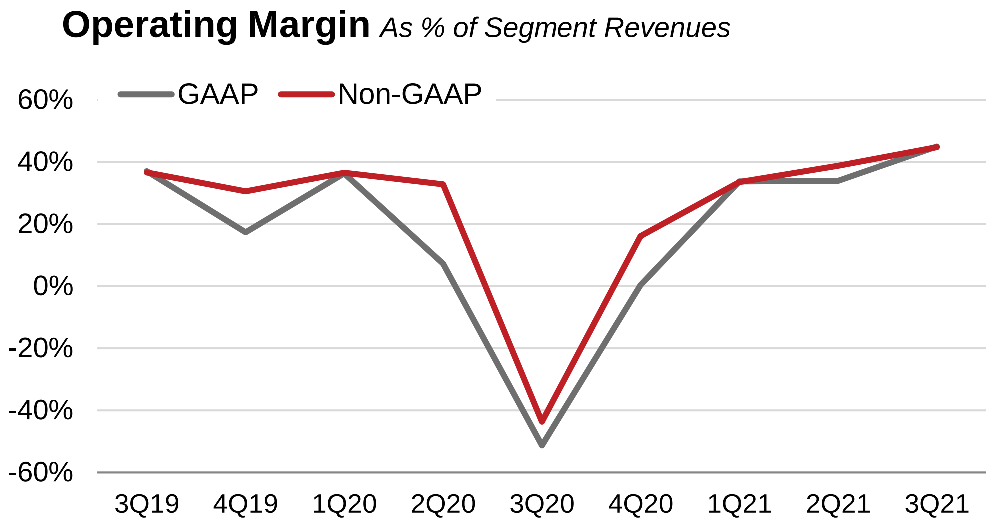
# Nightclubs Segment




- 3Q21: Revenues of $41.0M, operating margin of 44.7%, and operating income of $18.4M
- 3Q21 vs. 2Q21: Revenues +33.3%, operating margin +10.7% points, and operating income +75.3%
- Continued rebound (3Q21 vs. 2Q21)
  - More locations open on more consistent basis
  - End of restrictive curfews/occupancy limits on northern clubs
  - 46.5% increase in high margin service revenues
  - Ongoing return of our loyal customer base
  - General consumer confidence

| Period | Location Status |
|---|---|
| **3Q19** | 38 clubs open (St. Louis closed May 2019 for remodeling) |
| **4Q19** | 37 clubs open (Studio 80 Webster closed July 2019) |
| **1Q20** | 38 clubs open (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 |
| **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, 36 open by quarter end |

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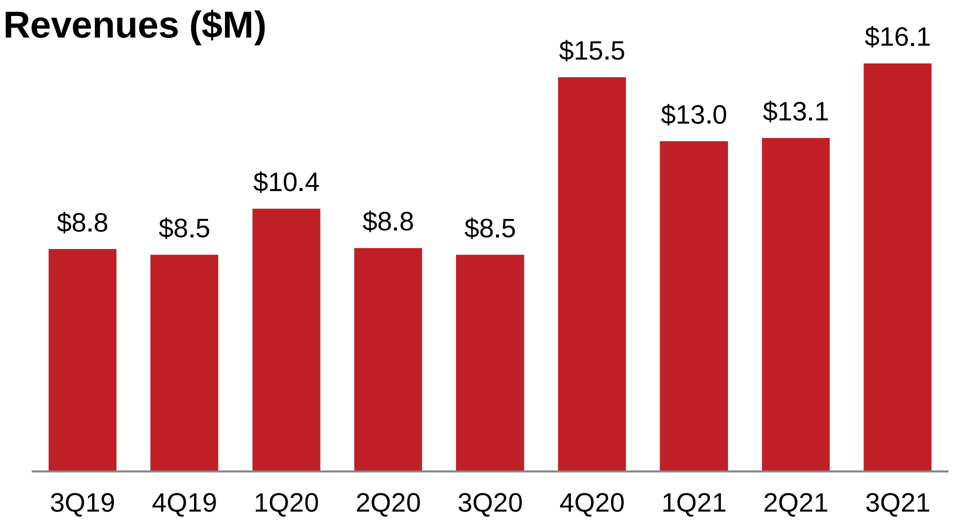
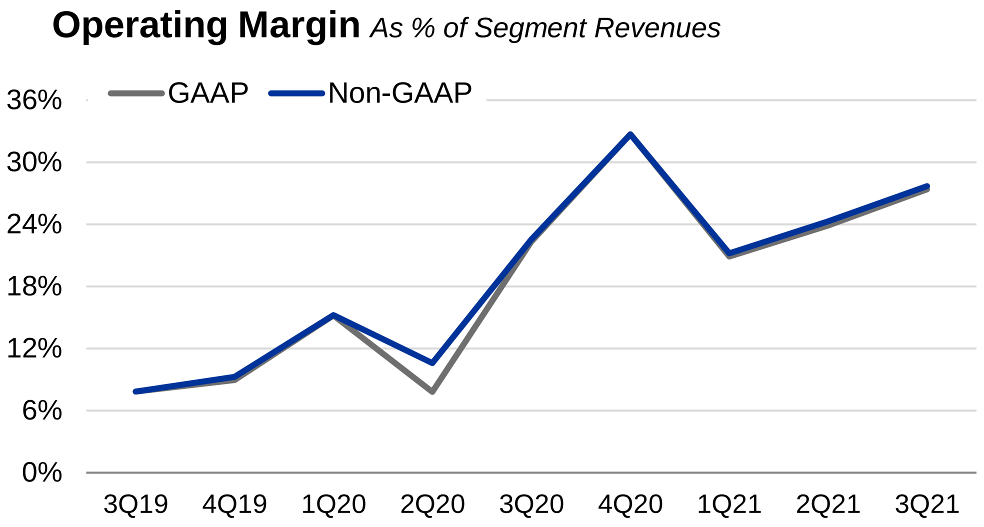
# Bombshells Segment



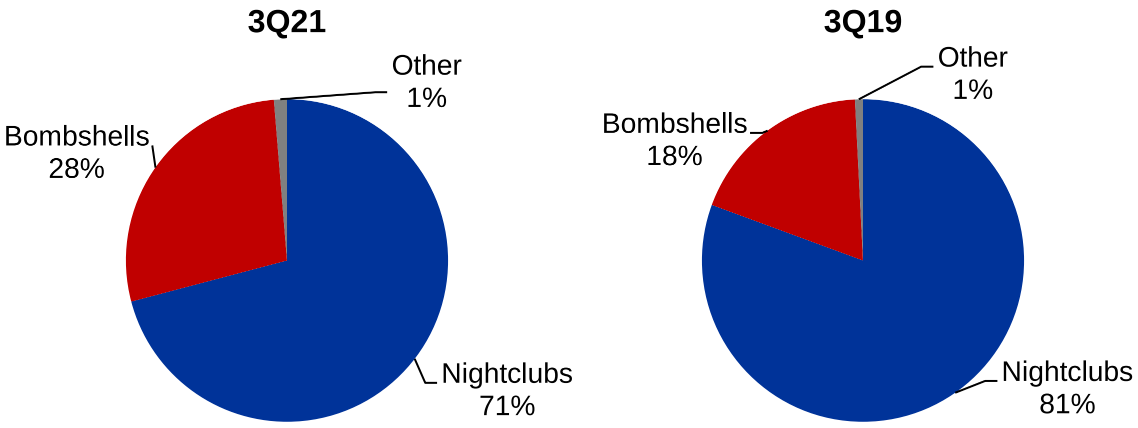

- 3Q21: Revenues of $16.1M, operating margin of 27.4%, and operating income of $4.4M
- 3Q21 vs. 2Q21: Revenues +22.4%, operating margin +3.5% points, and operating income +40.2%
- Strong performance (3Q21 vs. 2Q21)
  - Greater brand recognition
  - More sporting events that attracted guests
  - Overall consumer confidence

| Period | Location Status |
|---|---|
| **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 |
| **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 |

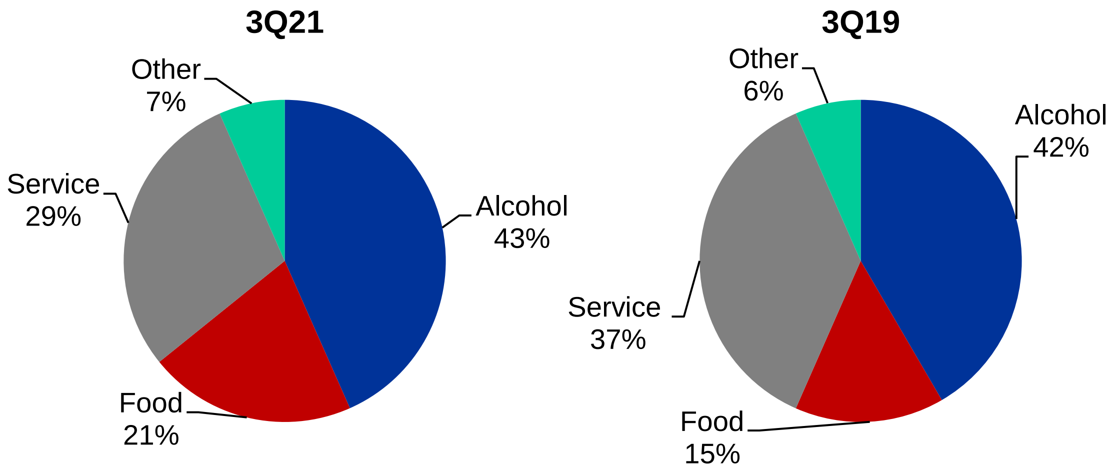
# *Analysis of Consolidated Statement of Operations*

| Sales Mix by Segment | 3Q21 vs. 3Q19 (% of sales) | Analysis |
|---|---|---|
| **Cost of Goods** | 15.3% vs. 14.2% | Primarily reflects change in sales mix of service (29% vs. 37% of total sales) and of Bombshells (28% vs. 18% of total sales) |
| **Salaries & Wages** | 24.0% vs. 28.0% | Primarily reflects higher sales and reduced accounting and legal expenses |
| **SG&A** | 25.4% vs. 31.7% | |
| **Depreciation & Amortization** | 3.6% vs. 5.2% | |
| **Income from Operations** | 32.0% vs. 21.2% | |
| **Interest Expense** | 3.9% vs. 5.4% | Primarily reflects higher sales and lower interest expense due to paydowns |
| **Tax Expense** | 6.9% vs. 3.8% | Primarily reflects similar ETR on 118% higher income before taxes |

## Sales Mix By Segment




## Sales Mix By Revenue Type



# *Record Setting Performance*

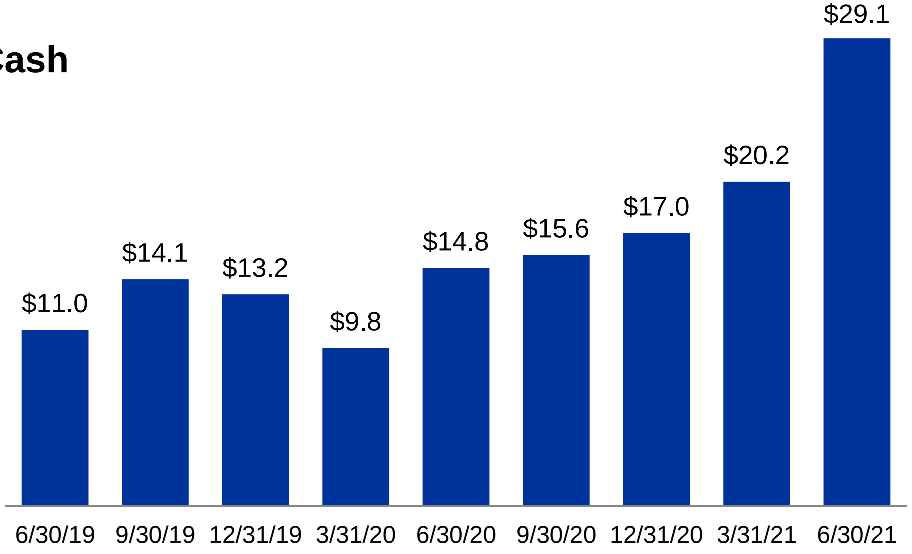
**In 3Q21 Achieved Record Levels in 8 of 13 Key Indicators**

| ($ in millions, except EPS) | Total | Record All-Time High | |
|---|---|---|---|
| | 3Q21 | Period | Amount |
| **Revenue** | | | |
| Consolidated | **$57.9** | **3Q21** | **$57.9** |
| Nightclubs | **$41.0** | **3Q21** | **$41.0** |
| Bombshells | **$16.1** | **3Q21** | **$16.1** |
| **Income (loss) from Operations** | | | |
| Consolidated | **$18.5** | **3Q21** | **$18.5** |
| Nightclubs | **$18.4** | **3Q21** | **$18.4** |
| Bombshells | $4.4 | 4Q20 | $5.1 |
| **Operating Margin** | | | |
| Consolidated | 32.0% | 3Q15 | 42.3% |
| Nightclubs | 44.7% | 3Q15 | 57.4% |
| Bombshells | 27.4% | 4Q20 | 33.1% |
| **Other Key Indicators** | | | |
| GAAP EPS | $1.37 | 1Q18 | $1.47* |
| Non-GAAP EPS | **$1.36** | **3Q21** | **$1.36** |
| Net Cash Provided by Operating Activities | **$15.0** | **3Q21** | **$15.0** |
| Free Cash Flow | **$13.0** | **3Q21** | **$13.0** |

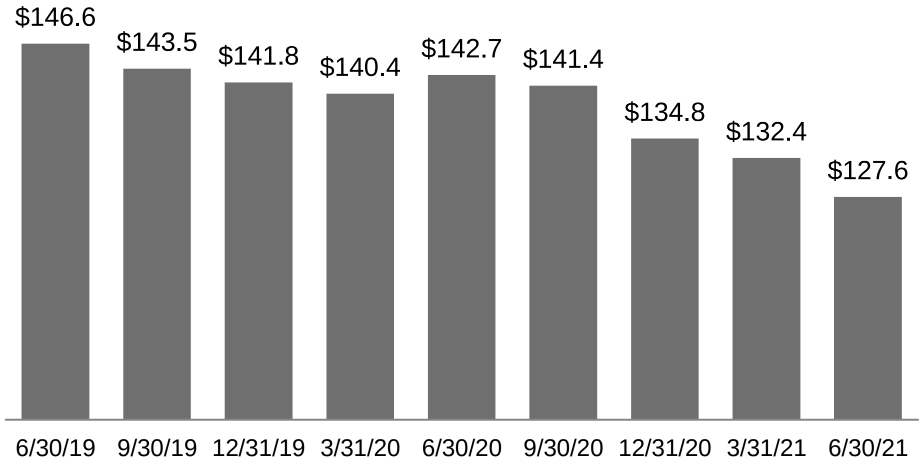
* Includes $9.7M non-cash tax benefit due to change in tax rate

# Cash, FCF & Balance Sheet Trends ($M)

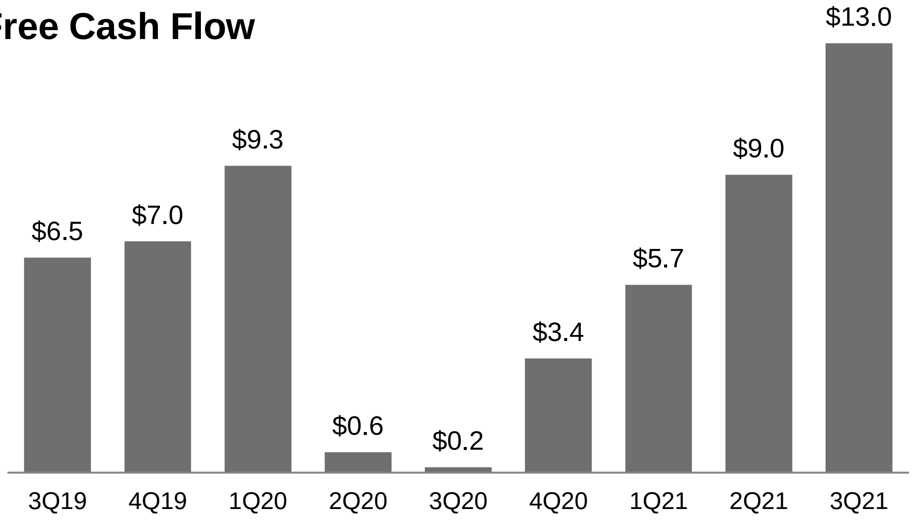
## Cash



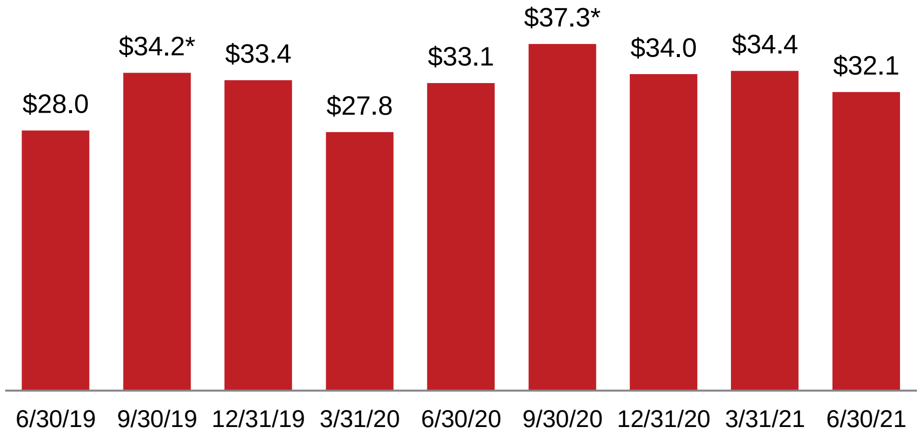

## Debt




## Free Cash Flow




## Current Liabilities




* ~$4.0M increase reflects annual renewal of insurance

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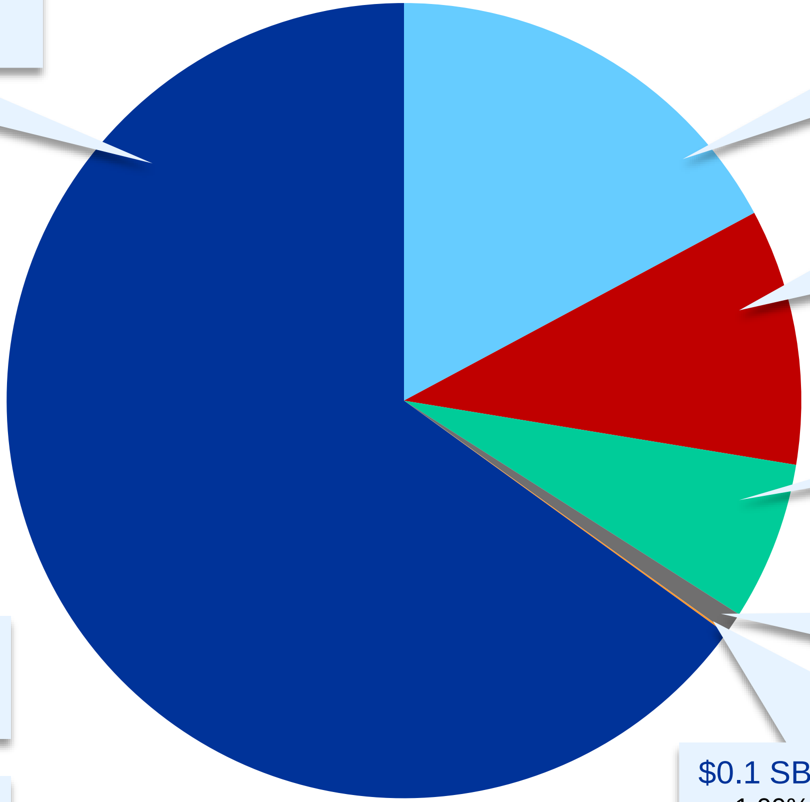
# Debt *(as of 6/30/21, $ in millions)*

**Total of $128.7***
**Weighted Average Interest Rate (WAIR): 6.68%**



$83.7 Secured by Real Estate (65.1%)
- 5.73% WAIR

$22.1 Seller Financing (17.2% of total)
- Secured by the respective clubs
- Scarlett's: $14.8 @ 7.39% WAIR
- VIP's & Blush: $7.3 @ 7.62% WAIR

$13.4 Unsecured Debt (10.3%)
- 11.51% WAIR
- Includes $2.1 for Scarlett's and $2.0 for VIP's & Blush acquisitions

$8.3 Secured by Other Assets (6.4%)
- 5.87% WAIR

$1.1 Texas Comptroller Settlement (0.9%)
- 9.58% WAIR
- Imputed for accounting purposes
- Paid in monthly installments of $116K
- Secured by business and assets of related clubs

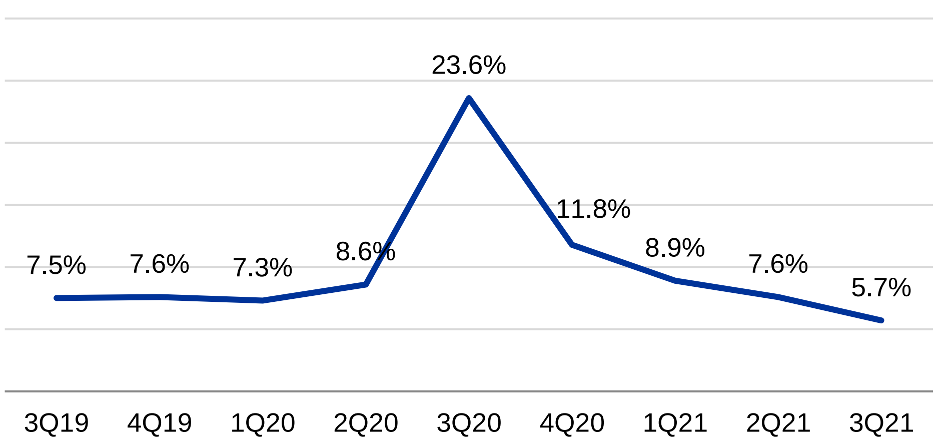
$0.1 SBA (0.1%)
- 1.00% WAIR
- Potential for full or partial forgiveness
- No adult nightclub and other non-core business subsidiaries received funding
- Unsecured

*Long-Term Debt Net of Loan Costs: $127.6
- Down $13.8 from 9/30/20
- Down $4.8 from 3/31/21

Operating Lease Total Liabilities: $26.1
- Adoption of ASC 842, Leases, starting FY20

# Debt Manageability

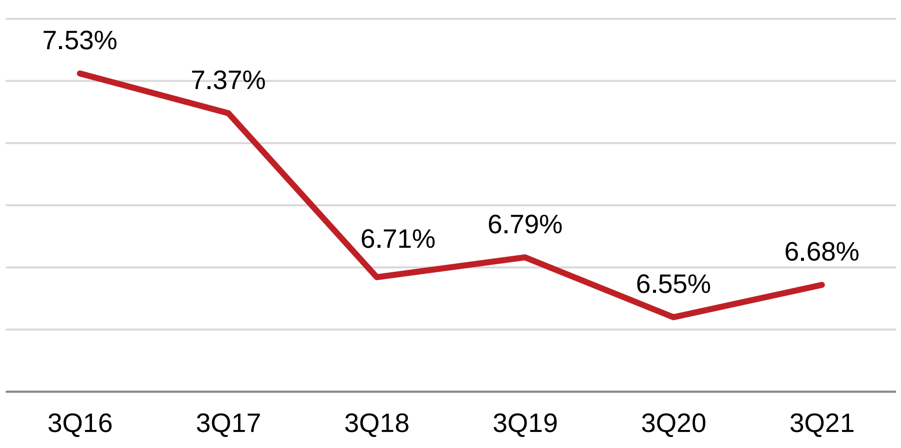
### Total Occupancy Costs *As % of Total Revenues*



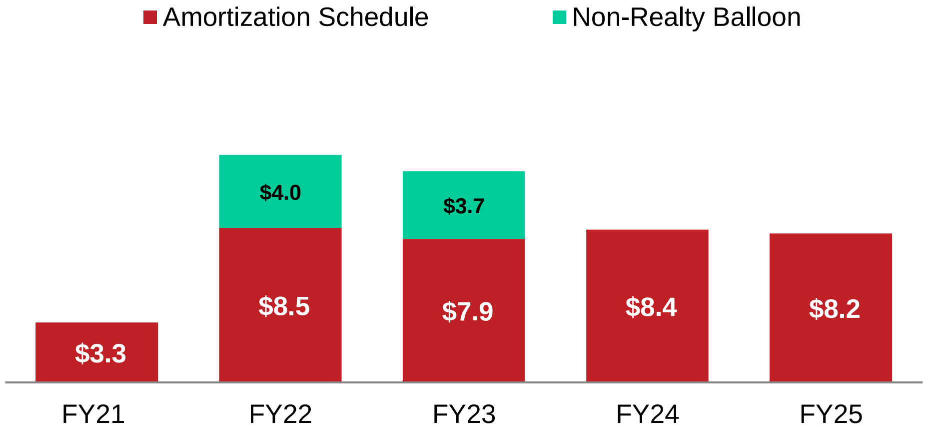

### Comments

- Occupancy costs trending in the right direction
- Continue to work with our bank to refinance higher interest rate debt, eliminate upcoming balloon payments, and increase length of amortization

### Weighted Average Interest Rate on Debt




### Debt Maturities as of 6/30/21 ($M)

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# *Capital Allocation Strategy**

**Buy Back Shares**

- Repurchase shares when FCF yield is more than 10%

**M&A**

**Buy More of the Right Nightclubs**

- 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%

**Organic**

**Judiciously Expand Bombshells**

- 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%

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

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

# *Acquisition of 11 Clubs in 6 States*

## The Clubs

- Well-established, proven cash generators
- All fully open
- Total $40M* in revenue and $14M* in adjusted EBITDA (2019)

## Consideration

- $57M for the clubs
- $13M for their intellectual property
- $18M for 6 real estate properties

## Great Locations

- Denver: Major position with 5 clubs
- St. Louis: We go from 1 to 3 clubs
- 4 new markets: Indianapolis, Louisville, Raleigh, and Portland, ME

## Payment

- $30M in $60/share restricted stock
- $26M in cash
- $21.2M in 6% seller financing
- $10.8M in 5.25% real estate commercial bank loan

## Key Items

- Club Valuation: 5x adjusted EBITDA* (2019)
- Accretive Year 1
- Multiple closing dates anticipated

## Integration

- Our seasoned management team to integrate the clubs utilizing our subsidiaries' time-tested, industry best practices

DIAMOND CABARET

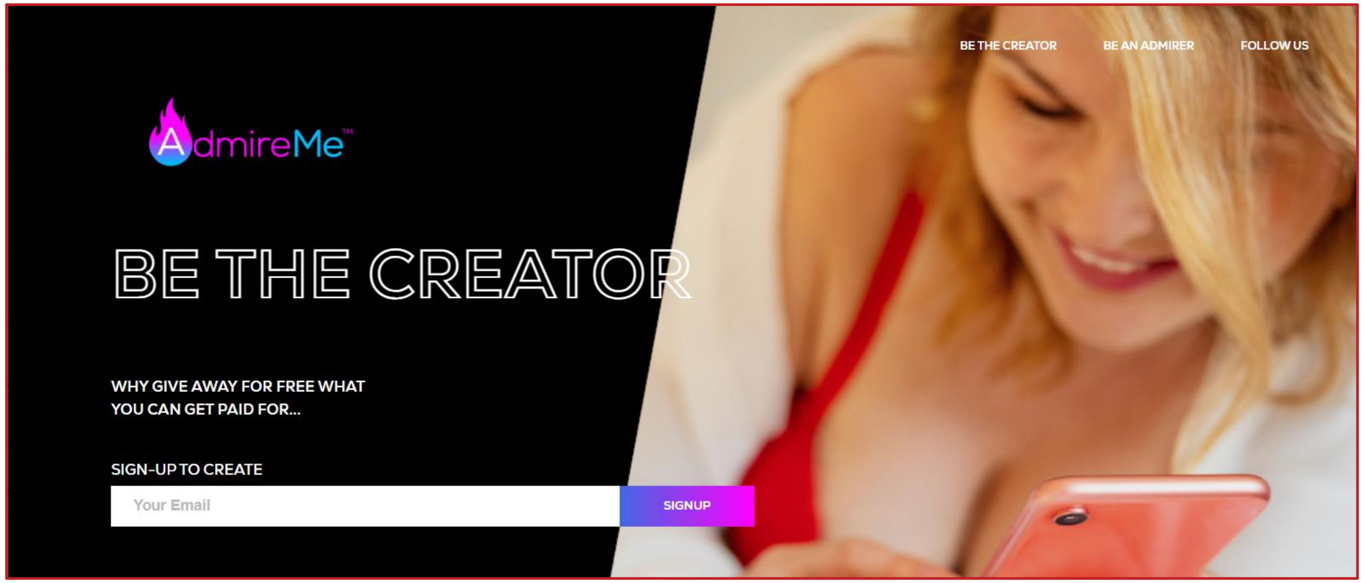
PT's SHOWCLUB

MILE HIGH MEN'S CLUB

* Unaudited

# Other Developments

- AdmireMe
  - Social media platform
  - Enables “creators” to post content and receive payment from their "admirers"
  - Comparable to OnlyFans
  - Looking at FY 2022 launch
- Properties for Sale/Future Development
  - Three properties under contract for sale in DFW and Austin area
  - Total sales price: Approximately $7 million
  - Working on additional real estate land/property developments




*Stock photo posed by model*

[www.admireme.com](http://www.admireme.com)

# *Growth Initiatives*

- Refinancing Real Estate Debt
  - Goal is to pay off high interest debt and increase length of amortization
- Bombshells – “The Next 10”
  - Arlington, TX under construction
  - Due diligence on other locations
- Bombshells – Franchising
  - San Antonio, TX under construction
  - Due diligence on other potential franchisees
- Nightclub Acquisitions
  - Continuing to negotiate with other sellers

# Appendix

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# Record Setting Performance

## In 3Q21 Achieved Record Levels in 8 of 13 Key Indicators

| ($ in millions, except EPS) | Total | | 3Q21 vs. 3Q19 Change | | Total | 3Q21 vs. 3Q20 Change | | Record All-Time High | |
|---|---|---|---|---|---|---|---|---|---|
| | 3Q21 | 3Q19 | $ | % | 3Q20 | $ | % | Period | Amount |
| **Revenue** | | | | | | | | | |
| Consolidated | **$57.9** | $47.0 | $10.8 | 23.0% | $14.7 | $43.1 | 293.0% | **3Q21** | **$57.9** |
| Nightclubs | **$41.0** | $37.9 | $3.1 | 8.3% | $6.0 | $35.0 | 582.4% | **3Q21** | **$41.0** |
| Bombshells | **$16.1** | $8.8 | $7.3 | 83.6% | $8.5 | $7.5 | 88.5% | **3Q21** | **$16.1** |
| **Income (loss) from Operations** | | | | | | | | | |
| Consolidated | **$18.5** | $10.0 | $8.5 | 85.6% | $(4.7) | $23.2 | -497.4% | **3Q21** | **$18.5** |
| Nightclubs | **$18.4** | $14.0 | $4.3 | 30.8% | $(3.0) | $21.4 | -704.0% | **3Q21** | **$18.4** |
| Bombshells | $4.4 | $0.7 | $3.7 | 542.0% | $1.9 | $2.6 | 138.1% | 4Q20 | $5.1 |
| **Operating Margin** | | | | | | | | | |
| Consolidated | 32.0% | 21.2% | | 1078 bps | -31.6% | | 6362 bps | 3Q15 | 42.3% |
| Nightclubs | 44.7% | 37.0% | | 768 bps | -50.5% | | 9525 bps | 3Q15 | 57.4% |
| Bombshells | 27.4% | 7.8% | | 1956 bps | 21.7% | | 571 bps | 4Q20 | 33.1% |
| **Units at Period End** | | | | | | | | | |
| Nightclubs | 36 | 38 | (2) | -5.3% | 29 | 7 | 24.1% | | |
| Bombshells | 10 | 8 | 2 | 25.0% | 10 | -- | 0.0% | | |
| **GAAP EPS** | $1.37 | $0.59 | $0.78 | 132.2% | $(0.60) | $1.97 | 328.3% | 1Q18 | $1.47* |
| **Non-GAAP EPS** | **$1.36** | $0.59 | $0.77 | 130.5% | $(0.74) | $2.10 | 283.8% | **3Q21** | **$1.36** |
| **Net Cash Provided by Operating Activities** | **$15.0** | $7.4 | $7.5 | 101.1% | $0.2 | $14.8 | 8918.7% | **3Q21** | **$15.0** |
| **Free Cash Flow** | **$13.0** | $6.5 | $6.5 | 99.7% | $0.2 | $12.8 | 7703.6% | **3Q21** | **$13.0** |

* Includes $9.7M non-cash tax benefit due to change in tax rate

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