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
4Q21 & FY21 Conference Call
December 14, 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, 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) 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) gain on debt extinguishment, (i) the income tax effect of the above-described adjustments, and (j) change in 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 13.5%, 26.0%, and 15.5% effective tax rate of the pre-tax non-GAAP income before taxes for the 2021, 2020, and 2019, 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 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.

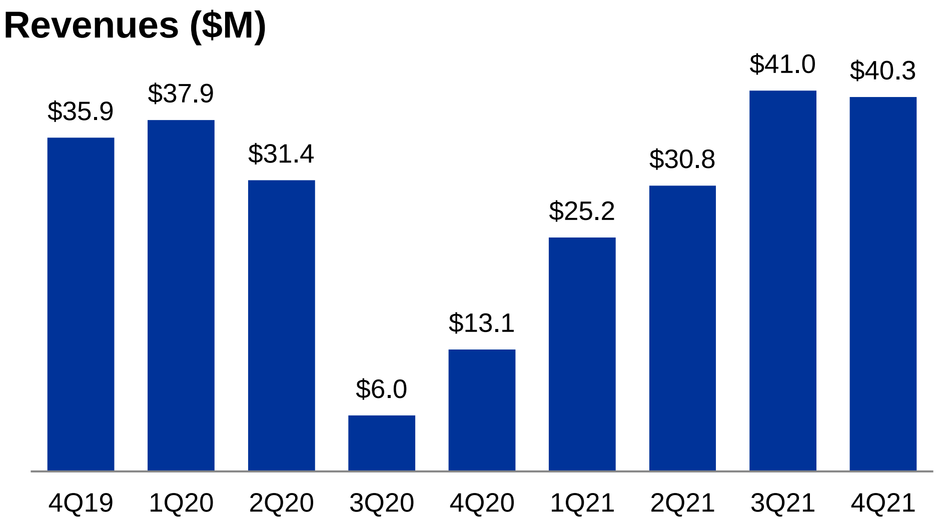
Our December 14, 2021, news release and financial tables contain additional details and reconciliation of non-GAAP financial measures for the quarter ended September 30, 2021, and are posted on our website at www.rcihospitality.com. Our FY 10-K contains additional details and reconciliation of non-GAAP financial measures for the year ended September 30, 2021, and is similarly posted on our website.

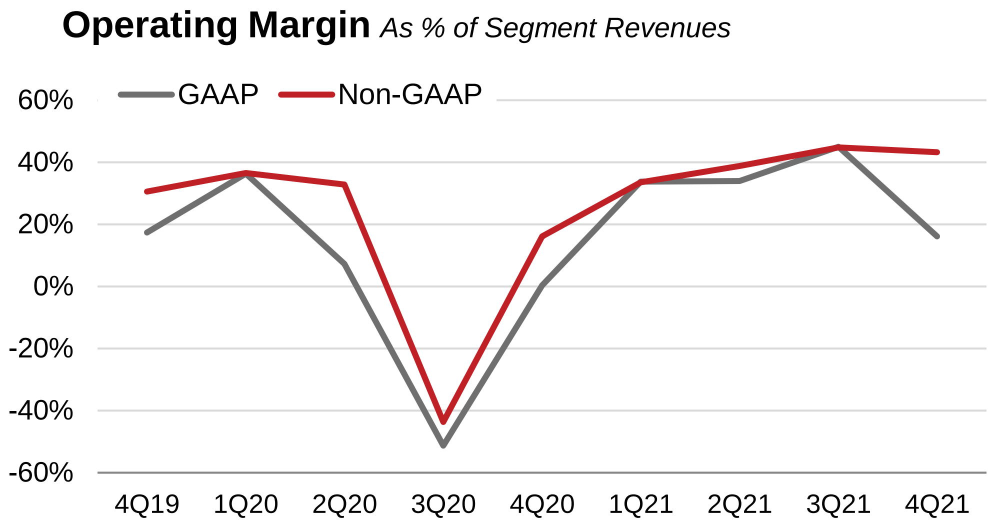
Today's News

Record 4Q and FY Revenues & Cash Generation

4Q21 Highlights	• Total revenues of $54.9M vs. $28.8M in 4Q20 • EPS of $0.26, Non-GAAP EPS of $1.58 • Results include $11.9M non-cash mostly COVID-19 club related impairment • Net cash from operating activities of $9.8M, free cash flow of $8.5M • Net income of $2.3M, adjusted EBITDA of $17.6M • $35.7M cash and equivalents at 9/30/21 • Closed on $99.1M consolidation and refinancing bank real estate loan
FY21 Highlights	• Total revenues of $195.3M vs. $132.3M in FY20 • EPS of $3.37, Non-GAAP EPS of $4.08 • Results include $13.6M non-cash mostly COVID-19 club related impairment • Net cash from operating activities of $42.0M, free cash flow of $36.1M
FY22 Growth Initiatives	• Nightclubs: Closed on acquisition of 12 locations in 7 states in October-November 2021 • Nightclubs: Continuing to talk to other owners about possible acquisitions • Bombshells: Opened Arlington (company-owned), San Antonio (franchisee-owned) to open soon • Bombshells: Under contract on three new company locations, talking to potential franchisees • AdmireMe: Launch mobile friendly website

Nightclubs Segment





- 4Q21
  - Revenues of $40.3M
  - Operating margin of 16.1% (43.2% non-GAAP)
  - Income from operations of $6.5M ($17.4M non-GAAP)
  - Florida clubs did particularly well
  - High margin service revenues continued to grow
- 4Q20 affected by fewer clubs open due to COVID restrictions
- 4Q21 vs. 4Q19
  - Revenues +12%
  - GAAP income from operations increased 4% (+58% non-GAAP)

Period	Location Status
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 (2 temporarily closed)
4Q21	36 open throughout 4Q21 (2 temporarily closed)

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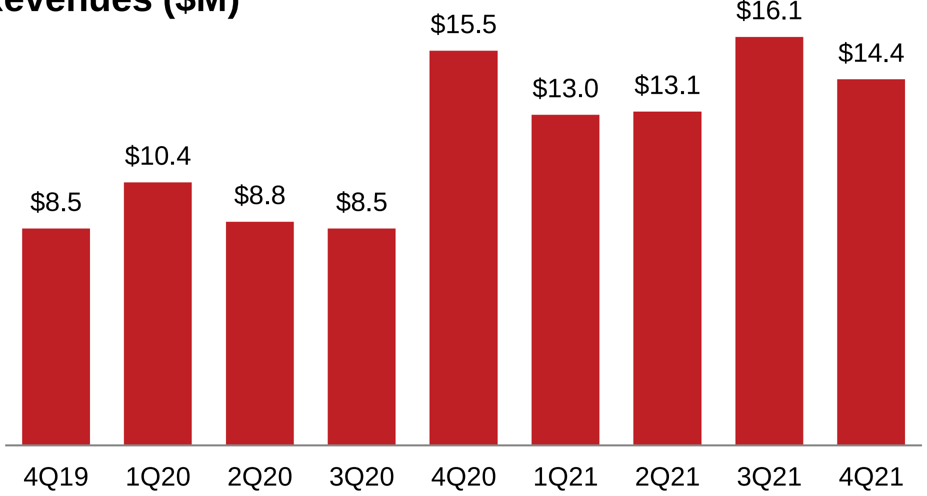
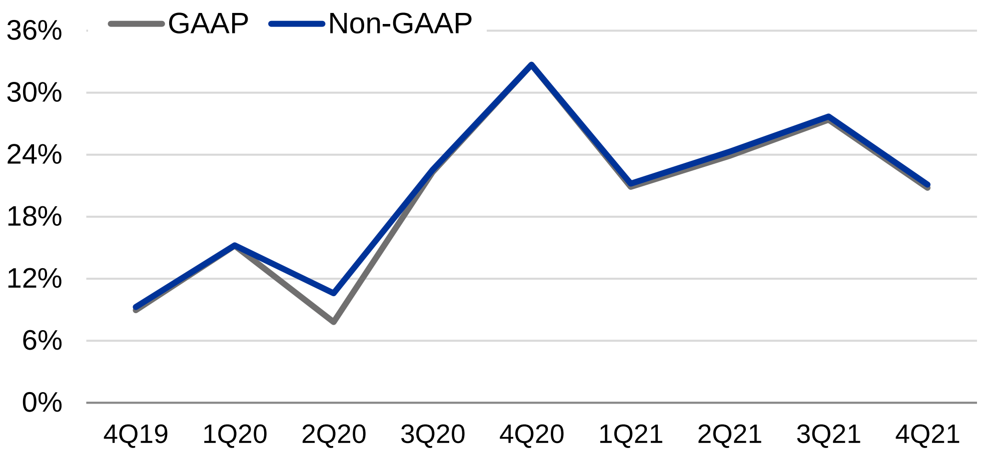
Bombshells Segment

Revenues ($M)



Operating Margin *As % of Segment Revenues*

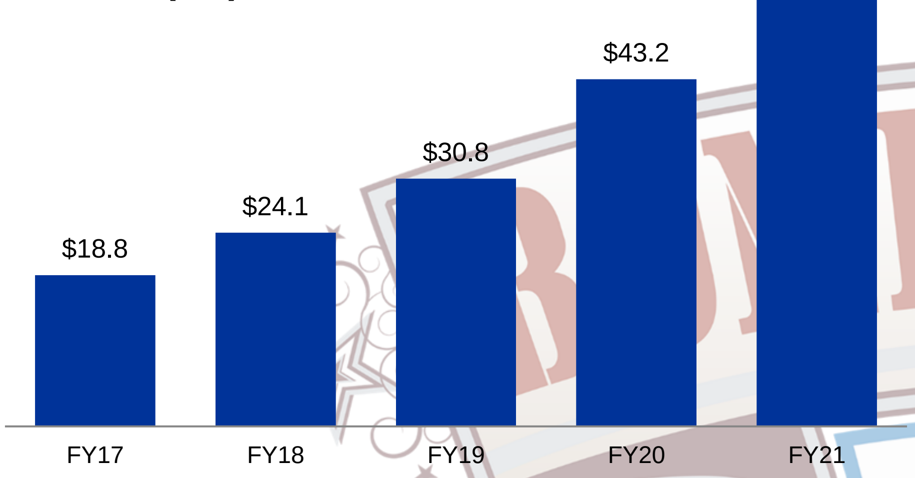


- 4Q21
  - Revenues of $14.4M
  - Operating margin of 20.8%
  - GAAP income from operations of $3.0M
- 4Q20 benefited from:
  - Unusually strong sports schedule
  - Fewer other venues open in Bombshells markets
- 4Q21 vs. 4Q19
  - Revenues +69% on +25% more units
  - GAAP operating margin +11.9 percentage points

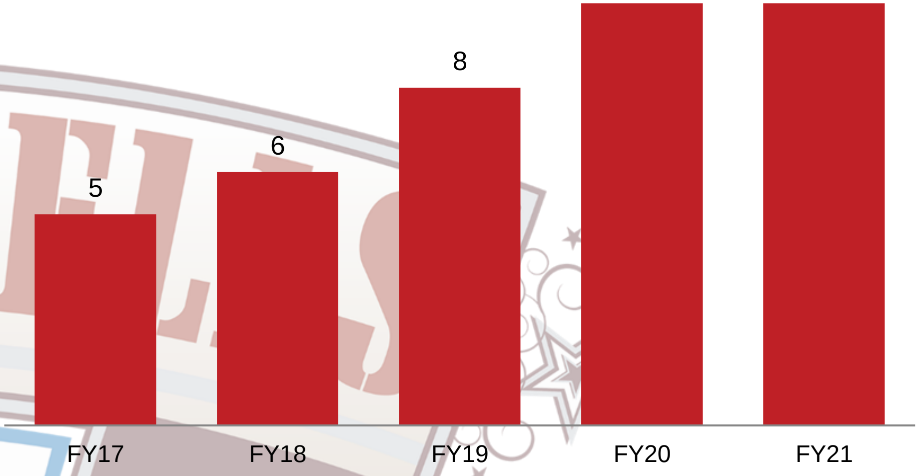
Period	Location Status
4Q19	8 stores
1Q20	9th store opened October 2019
2Q20	10th store opened January 2020, all 10 closed mid-March
3Q20	Reopenings started May 2020, all 10 open by quarter end
4Q20	Austin & Fuqua closed part of 4Q20, all 10 open by quarter end
1Q21	All 10 stores open (50% to 75% capacity mid-October)
2Q21	All 10 stores open (75% to 100% capacity mid-March)
3Q21	All 10 stores open at 100% capacity throughout 3Q21
4Q21	All 10 stores open

Bombshells: FY21 Record Year

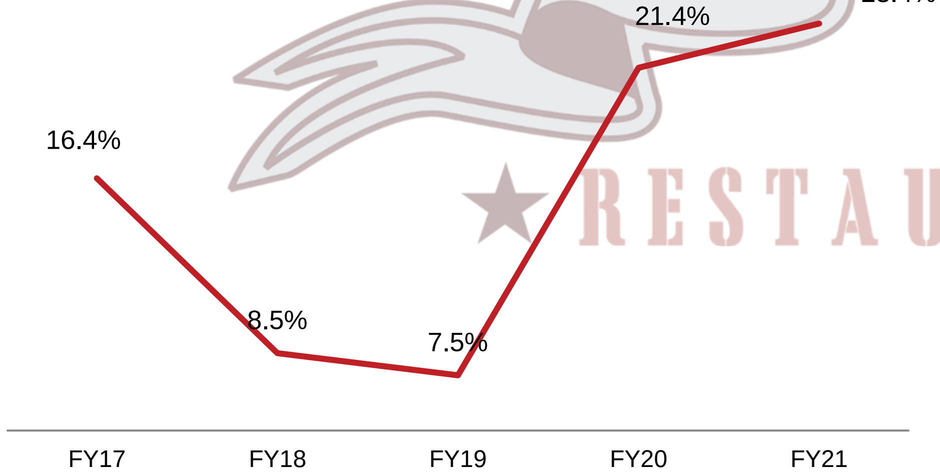
Revenues ($M)



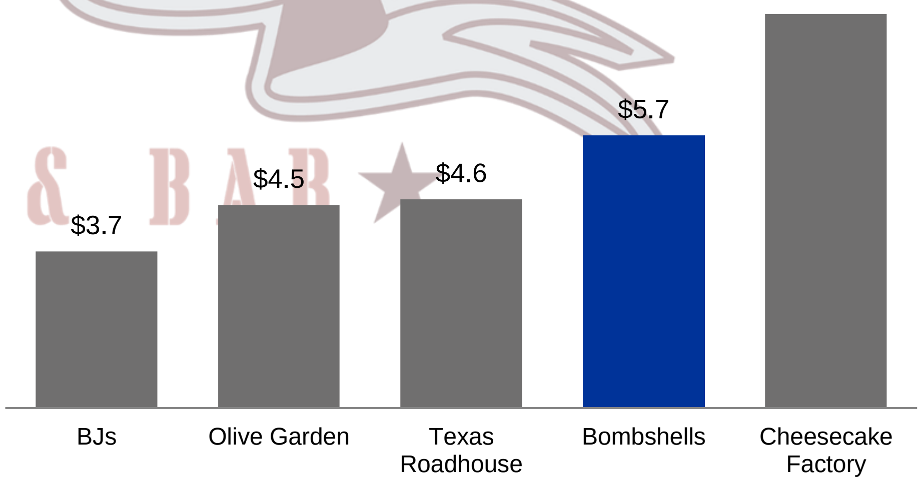
Units at Year End



Operating Margin



AUV vs. Other Casual Dining Concepts ($M)*



* Source: FSR Magazine Website, “These Publicly Traded Casual Restaurants Earn the Most Per Store,” October 2021, based on concepts with at least 200 U.S. units and calendar 2020 sales. Bombshells based on FY21 sales.

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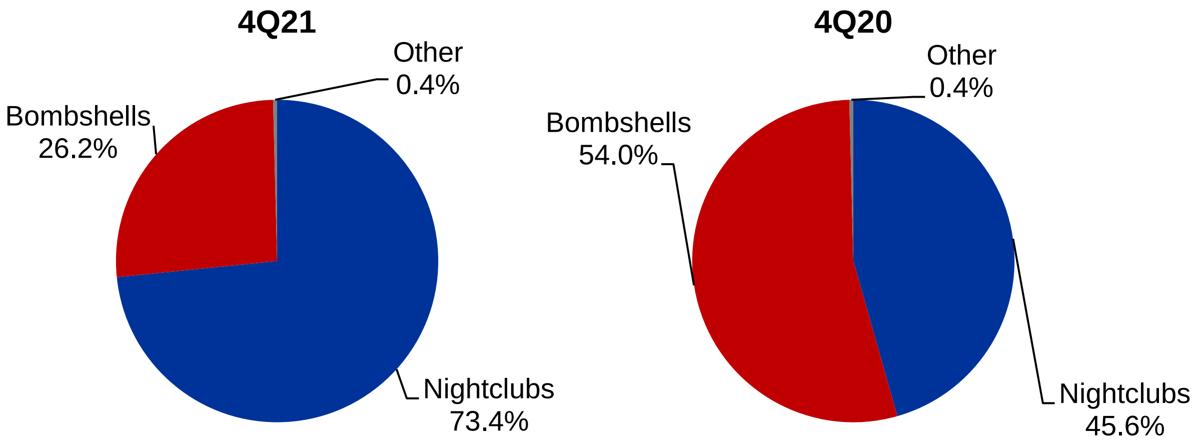
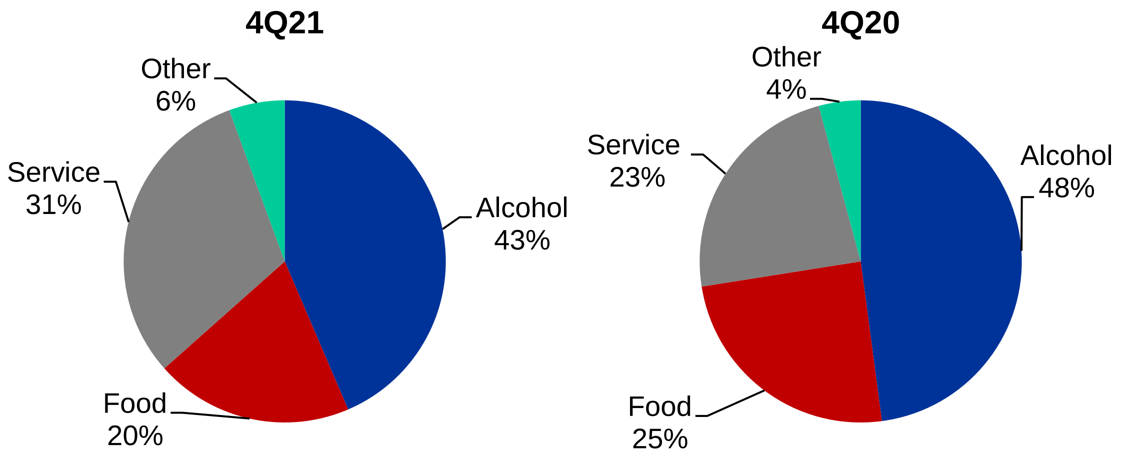
Analysis of Consolidated Statement of Operations

Line Item	4Q21 vs. 4Q20 (% of sales)	4Q21 Comment
Cost of Goods	14.9% vs. 15.6%	Reflects higher Nightclubs sales and margins and lower relative costs
Salaries & Wages	25.6% vs. 28.5%	
SG&A	27.6% vs. 41.0%	
Other Charges (Gains), Net	21.7% vs. 6.8%	Reflects $11.9M non-cash mostly COVID-19 club related impairment
Operating Margin	6.6% vs. 0.7%	Non-GAAP: 28.4% vs. 8.0%
Interest Expense	5.3% vs. 8.4%	Reflects higher sales and lower interest expense due to paydowns

Sales Mix By Segment

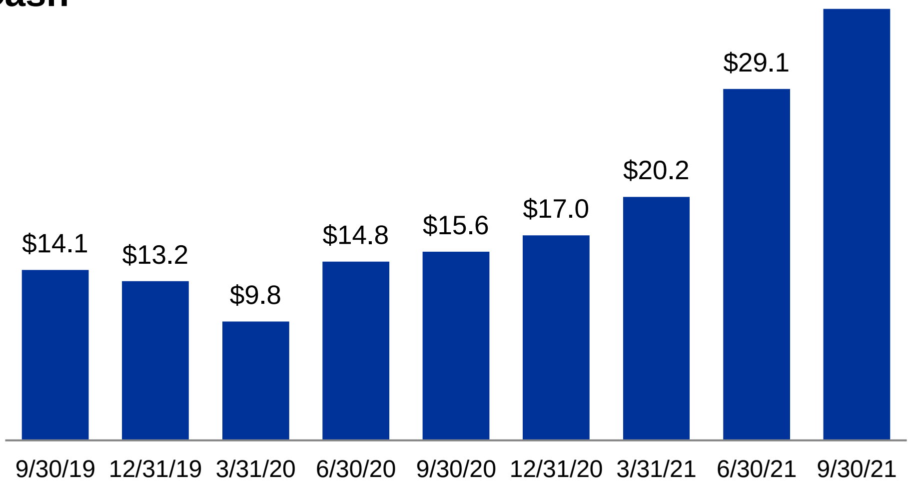


Sales Mix By Revenue Type

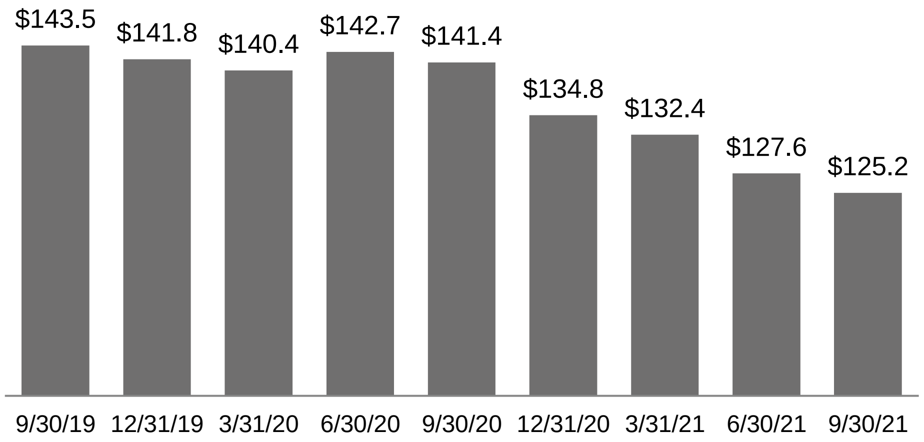


Cash, FCF, Adjusted EBITDA & Debt ($M)

Cash

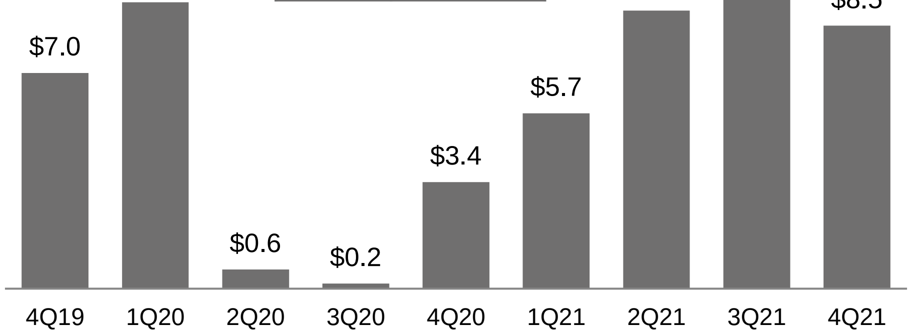


Debt



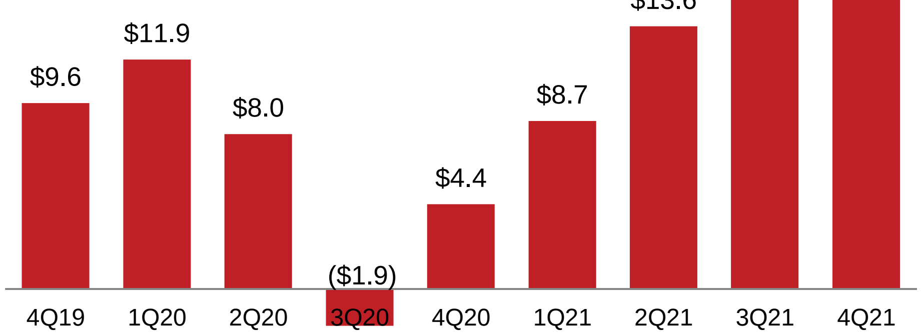
Free Cash Flow

Year	Total ($M)
FY 21	$36.1
FY 20	$13.5
FY 19	$33.3



Adjusted EBITDA

Year	Total ($M)
FY 21	$60.2
FY 20	$22.4
FY 19	$46.2



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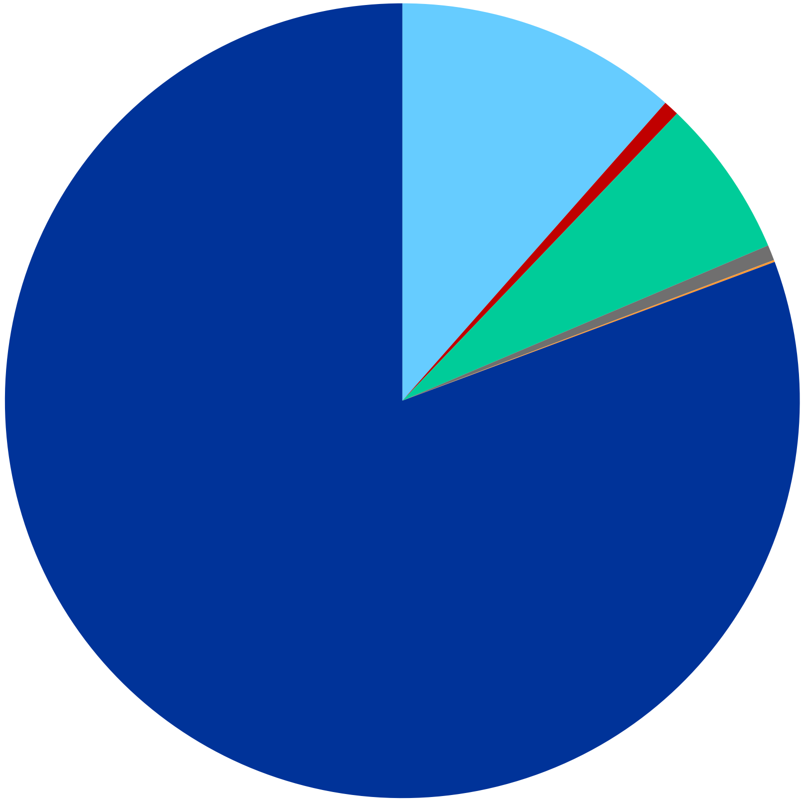
Debt *(as of 9/30/21, $ in millions)*

Reflects September 30, 2021 Bank Real Estate Refinancing

Total of $126.8*
Weighted Average Interest Rate (WAIR): 5.64%

$102.3 Secured by Real Estate (80.7% of total)
- 5.26% WAIR



$14.6 Seller Financing (11.5% of total)
- Secured by the respective clubs
- Scarlett's: $14.6 @ 8.0% WAIR

$0.8 Unsecured Debt (0.6% of total)
- 5.49% WAIR

$8.2 Secured by Other Assets (6.5% of total)
- 5.87% WAIR

$0.8 Texas Comptroller Settlement (0.6% of total)
- 9.58% WAIR
- Imputed for accounting purposes
- Paid in monthly installments of $116K
- Secured by business and assets of related clubs

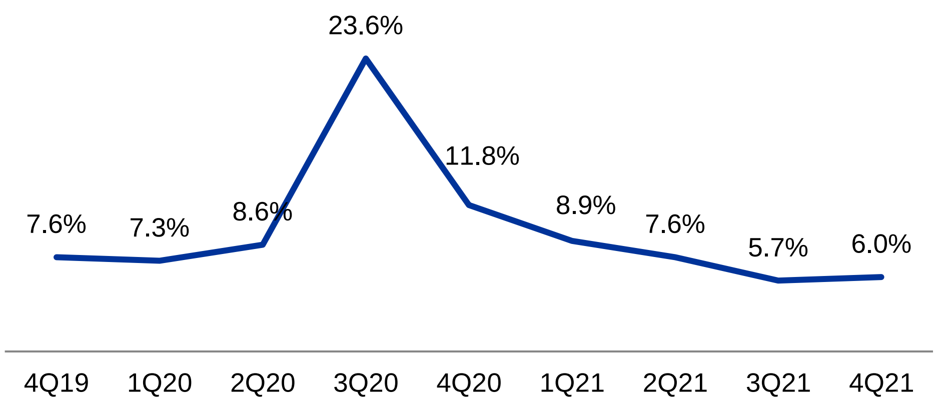
$0.1 SBA (0.1% of total)
- 1.00% WAIR
- Potential for full or partial forgiveness
- No adult nightclub and non-core subsidiaries received funding
- Unsecured

*Long-Term Debt Net of Loan Costs: $125.2
- Down $16.2 from 9/30/20
- Down $2.4 from 6/30/21

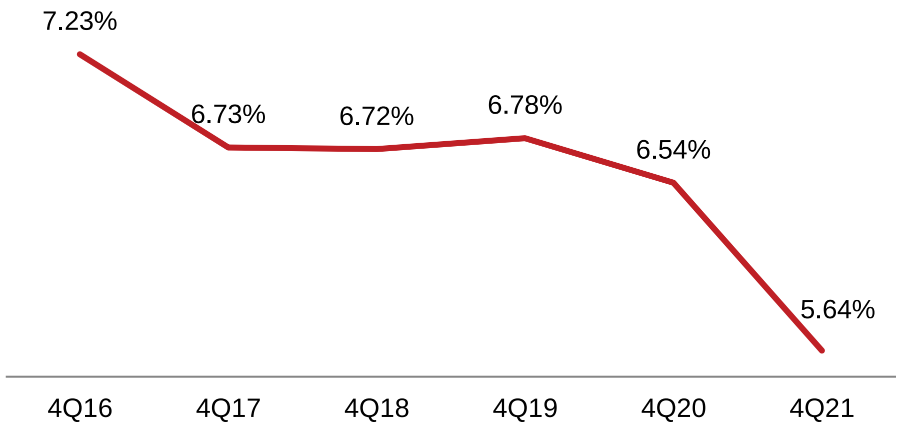
Operating Lease Total Liabilities: $25.9
- Adoption of ASC 842, Leases, starting FY20

Debt Manageability

Total Occupancy Costs *As % of Total Revenues*



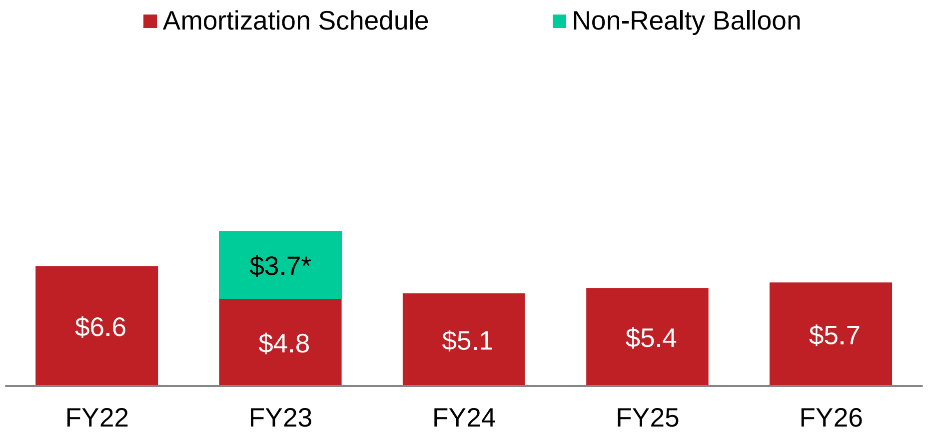
Weighted Average Interest Rate on Debt



Comments

- Occupancy costs trending below our range of 8-12%
- Refi eliminated $4M in balloon payments due in FY22
- Refi reduced principal amortization by more than $2M annually

Debt Maturities as of 9/30/21 ($M)



* In October 2021 $3.0M was extended to FY28

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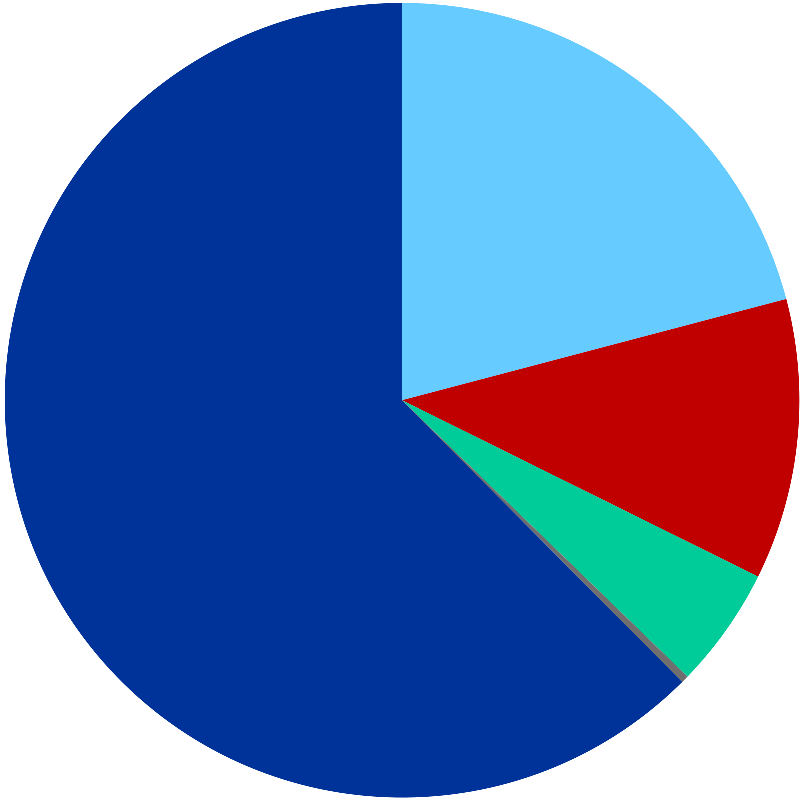
Debt *(as of 11/30/21, $ in millions)*

Reflects New Debt from October-November 2021 Acquisitions

Total of $164.6*
Weighted Average Interest Rate (WAIR): 6.24%



$102.8 Secured by Real Estate (62.5% of total)
- 5.25% WAIR

$34.4 Seller Financing (20.9% of total)
- Secured by the respective clubs
- 11 Clubs: $20.0 @ 6.0% WAIR
- Scarlett's: $14.4 @ 7.37% WAIR

$18.8 Unsecured Debt (11.4% of total)
- 11.08% WAIR
- 11 Clubs: $17.0
- The Mansion: $1.0

$8.1 Secured by Other Assets (4.9% of total)
- 5.87% WAIR

*Long-Term Debt Net of Loan Costs: $162.9
- Up $37.7 from 9/30/21

$0.5 Texas Comptroller Settlement (0.3% of total)
- 9.58% WAIR
- Imputed for accounting purposes
- Paid in monthly installments of $108K
- Secured by business and assets of related clubs

Operating Lease Total Liabilities: $25.6
- Adoption of ASC 842, Leases, starting FY20

*Capital Allocation Strategy**

- Repurchase shares when FCF yield is more than 10%

Buy Back Shares

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

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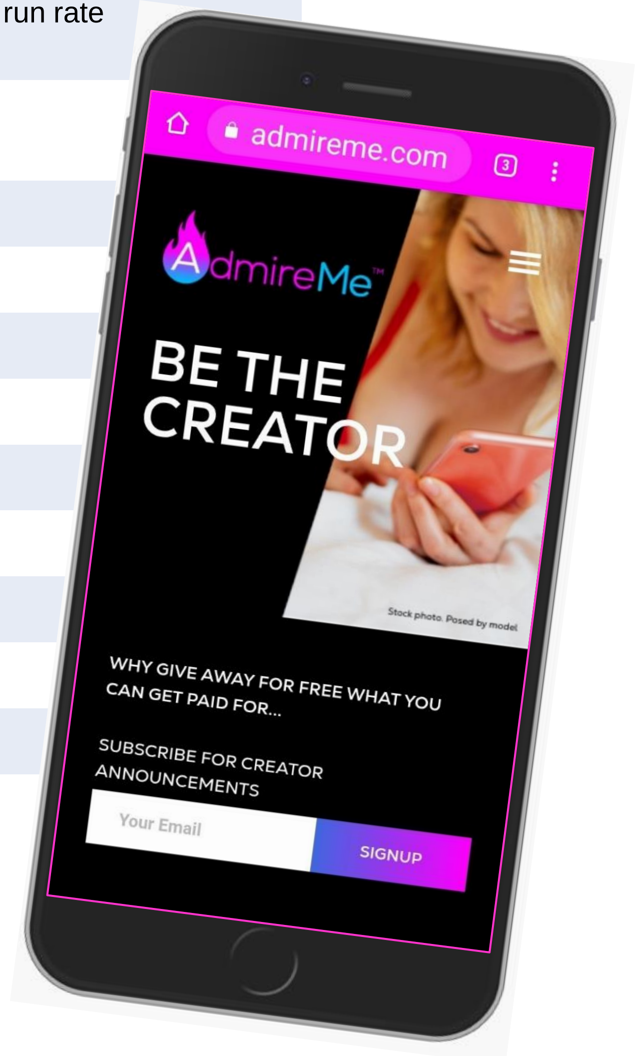
* We may deviate from this strategy if other strategic rationale warrants

Growth Initiatives

Initiative	Status
11 Clubs in 6 States	Closed on acquisition 10/18/21 Covid rebuilding effort (similar to what we did with our own clubs) Achieving more than 80% of pre-COVID sales run rate Expect continued progress as we staff up
The Mansion Gentlemen's Club & Steakhouse (Newburgh, NY)	Closed on acquisition 11/8/21 Good performance
Bombshells Arlington, TX (2nd Dallas area location)	Opened 12/6/21
Bombshells San Antonio, TX (1st franchise location)	Target opening 2Q22
Temptations Cabaret Sulfur, LA	Target reopening 2Q22
Rebranded San Antonio, TX Club	Target reopening 2Q22
AdmireMe (mobile friendly website)	Target beta launch in 2Q22
Two properties	Under contract for sale
Bombshells Grapevine, TX (NW Dallas suburb)	Under contract for land purchase
Bombshells Sapphire Bay in Rowlett, TX (NE Dallas suburb)	Under contract for land purchase
Bombshells Stafford, TX (South Houston suburb)	Under contract for land purchase



Q&A

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