RCI HOSPITALITY HOLDINGS INC

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

NASDAQ: RICK | 1Q23 Conference Call | February 9, 2023 | www.rcihospitality.com | @RCIHHinc

Today's Speakers

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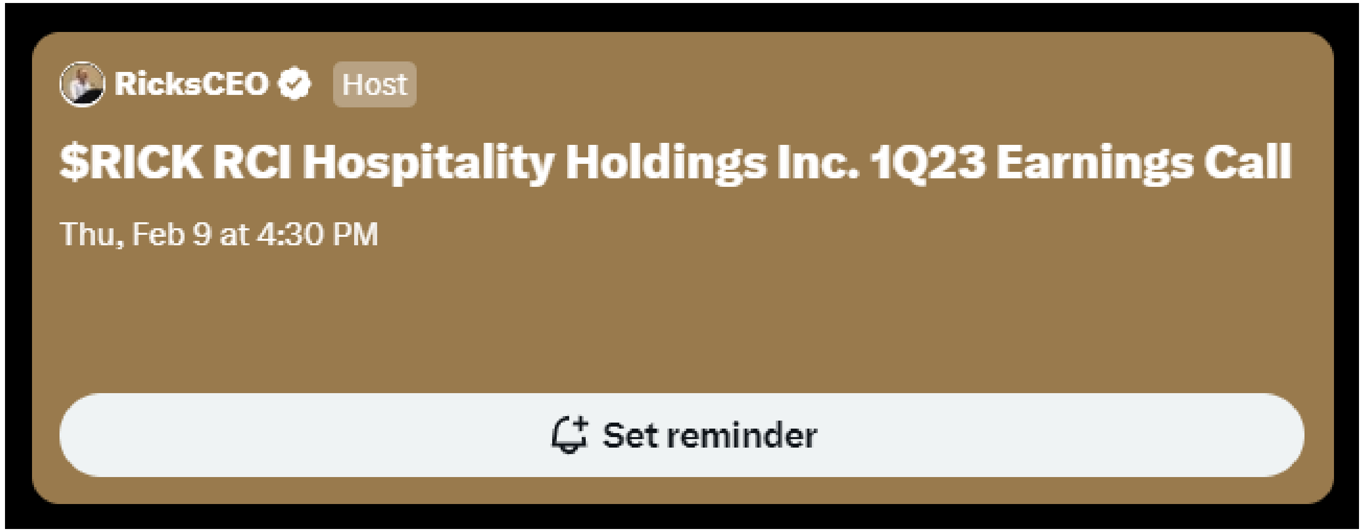

- **To ask a question during Q&A:** You will need to join the Space with a mobile phone
- **To listen only:** You can join the Space with a personal computer
- **Note:** You can also use traditional phone and webcast for **listen only** access – see our earnings news release for details

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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 entertainment or restaurant 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 or restaurant 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, 2022, 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.

The novel coronavirus (COVID-19) pandemic has disrupted and may continue to disrupt our business, which has and could continue to materially affect our operations, financial condition, and results of operations for an extended period of time.

As used herein, the “Company,” “we,” “our,” and similar terms include RCI Hospitality Holdings, Inc. (RCIHH) and its subsidiaries, unless the context indicates otherwise.

Trademarks

Except as otherwise indicated, all trademarks, service marks, logos, and trade names in this presentation are property of RCI Hospitality Holdings, Inc., its subsidiaries or affiliates.

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) stock-based compensation. 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) settlement of lawsuits, (f) gain on debt extinguishment, (g) stock-based compensation, 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 22.7% and 22.3% effective tax rate of the pre-tax non-GAAP income before taxes for the three months ended December 31, 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) settlement of lawsuits, (h) gain on debt extinguishment, and (i) stock-based compensation. 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 1Q23 10-Q and our February 9, 2023 earnings news release and financial tables contain additional details and reconciliation of non-GAAP financial measures for the quarter ended December 31, 2022, and are posted on our website at www.rcihospitality.com and filed with the US Securities and Exchange Commission.

Today's News[1]

1Q23 Highlights

- Total Revenues: $70.0M +13.2%
- EPS: $1.11 -0.9% / Non-GAAP EPS[2]: $1.19 +8.2%
- Net Cash from Operating Activities: $14.9M -8.4%
- Free Cash Flow[2]: $13.0M -14.6%
- Net Income[3]: $10.2M -3.2%
- Adjusted EBITDA[2]: $20.5M +13.9%
- Shares: 9.2M -1.9%

1Q23 Analysis

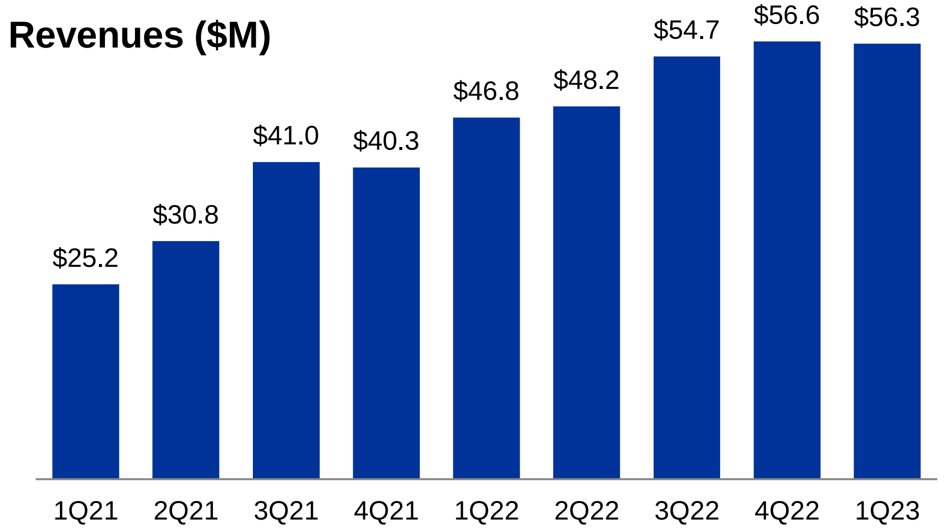
- Nightclubs 21.4% increase in operating income more than offset challenging Bombshells comparisons
- GAAP EPS and net cash from operating activities, and Non-GAAP EPS and FCF, affected by higher than anticipated repairs and maintenance capex that happened to occur in 1Q23
- Adjusted EBITDA up, cash of $34.1M at 12/31/22

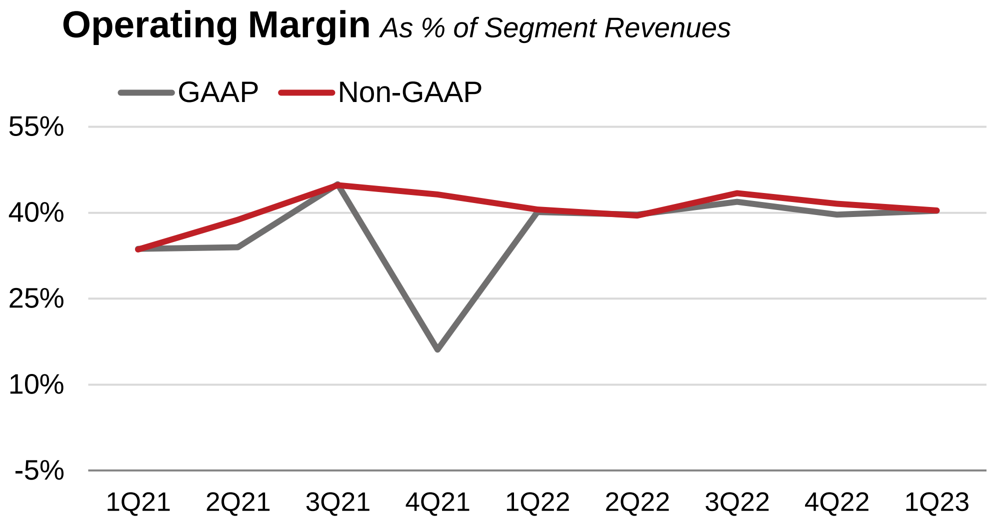
FY23-25 Big Growth Initiative

- Launched big 3-year growth plan to continue increasing FCF and adjusted EBITDA in the years ahead
- Numerous acquisitions and projects in development include:
  - Pending acquisition of 5 Baby Dolls and Chicas Locas clubs in Texas
  - Rick's Cabaret Steakhouse & Casino in Central City, CO
  - New Bombshells locations in Alabama, Colorado and Texas

1) Comparisons are to year-ago periods unless indicated otherwise
2) See slide 5, "Non-GAAP Financial Measures"
3) Net Income Attributable to RCIHH Common Stockholders

Nightclubs Segment

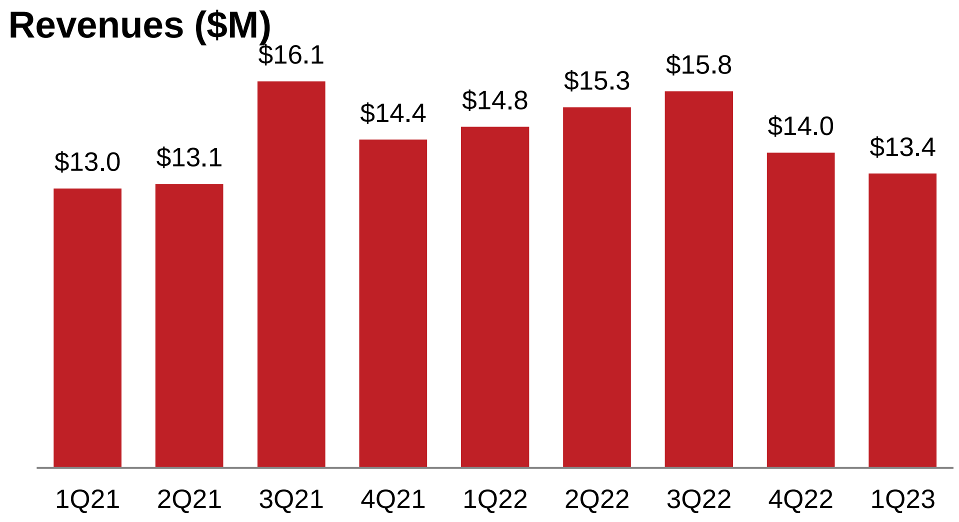


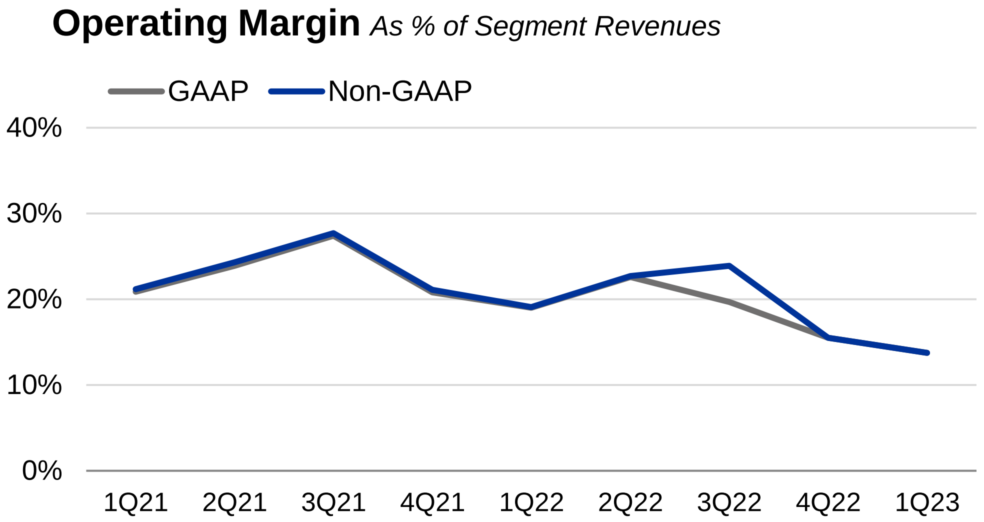


- 1Q23 Results
  - Revenues: $56.3M
  - Operating Margin: 40.4% (40.4% non-GAAP)
  - Increased operating leverage, partially offset by increased non-cash amortization of club licenses
  - Operating Income: $22.7M ($22.7M non-GAAP)
- 1Q23 vs.1Q22
  - FY22 and 1Q23 acquisitions (16 clubs) contributed $15.3M sales
  - Same Store Sales: +1.2% (+10.0% vs. pre-Covid 1Q20)
  - High-margin service revenues +23.4%

Period	Location Status
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)
4Q22	51 open (1 temporarily closed, Odessa & Cheetah added in July)
1Q23	52 open (Heartbreakers added & Jaguars Odessa temporarily closed in October, Jaguars San Antonio reopened in December)

Bombshells Segment





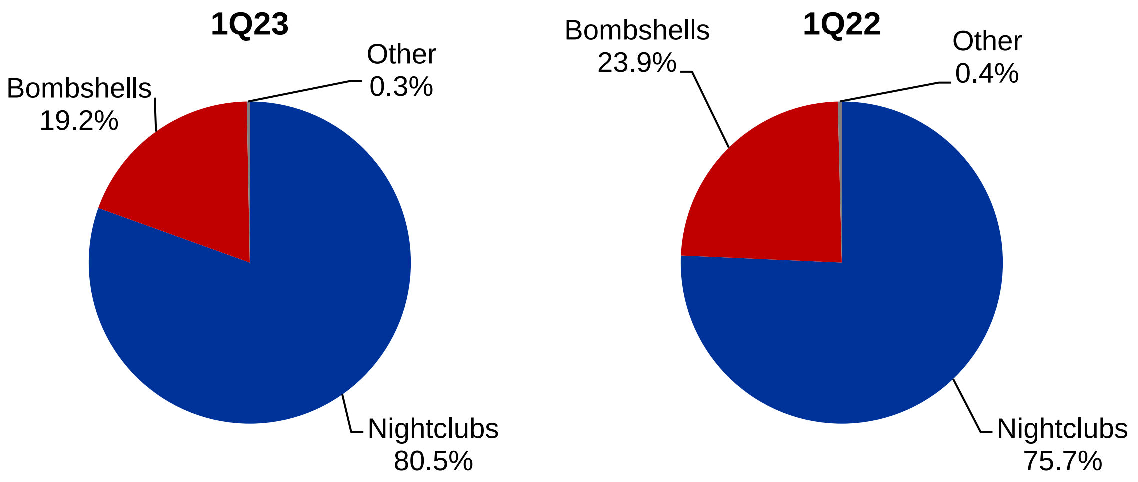
- 1Q23 Results
  - Revenues: $13.4M
  - Operating Margin:13.8%
  - Reduced operating leverage (making adjustments in response)
  - Operating Income: $1.8M
- 1Q23 vs. 1Q22
  - Arlington, TX (company-owned) added $1.3M sales
  - Same Store Sales: -13.9% (+3.6% vs. pre-Covid 1Q20)

Period	Location Status
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 (San Antonio franchise opened late June)
4Q22	All 11 stores open and 1 franchisee open
1Q23	All 11 stores open, 1 franchisee open, Denver food hall acquired late December

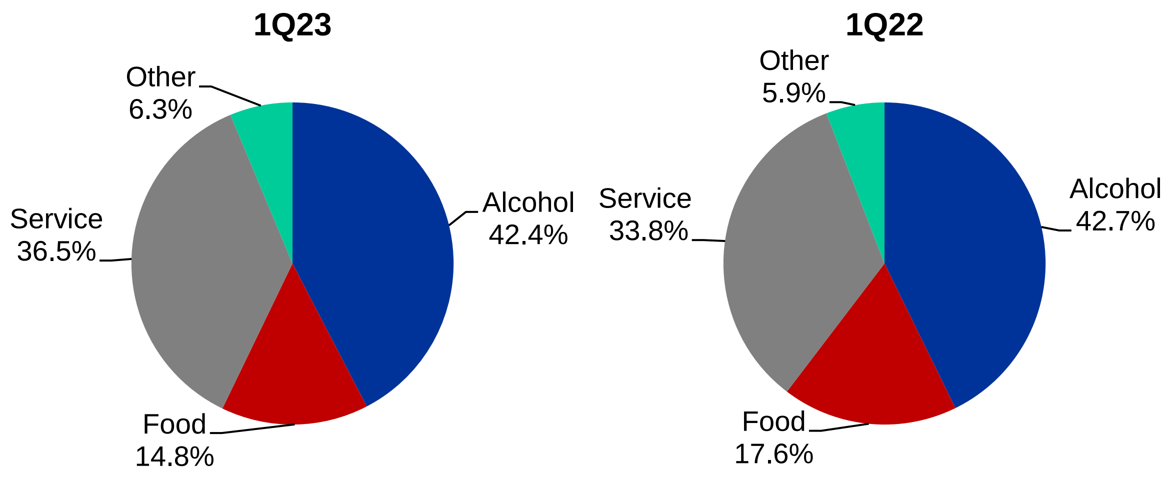
Analysis of Consolidated Statement of Operations

Line Item	1Q23 vs. 1Q22 (% of sales)	1Q22 Comment
Cost of Goods	12.9% vs. 14.4%	• Increased high-margin service revenues in the sales mix (36.5% vs. 33.8%)
Salaries & Wages	26.7% vs. 26.7%	
SG&A	32.5% vs. 29.9%	• Added expenses from newly acquired and reopened locations • $0.9M non-cash stock-based compensation & $0.4M of repairs • Excluding the above two items, SG&A would have been 29.5%
Depreciation & Amortization	4.7% vs. 3.5%	• Increased depreciable assets from newly acquired and constructed units • Non-cash amortization of licenses from clubs at leased locations
Operating Margin	24.2% vs. 25.7%	• Non-GAAP: 25.6% vs. 25.6%
Interest Expense	5.3% vs. 4.2%	• Higher debt from club and Bombshells site acquisitions over the last 12 months

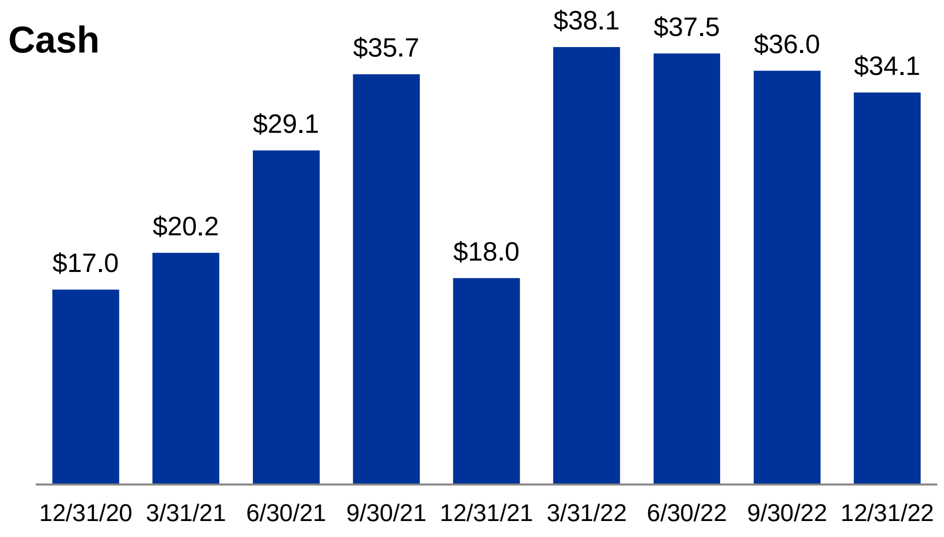
Sales Mix By Segment

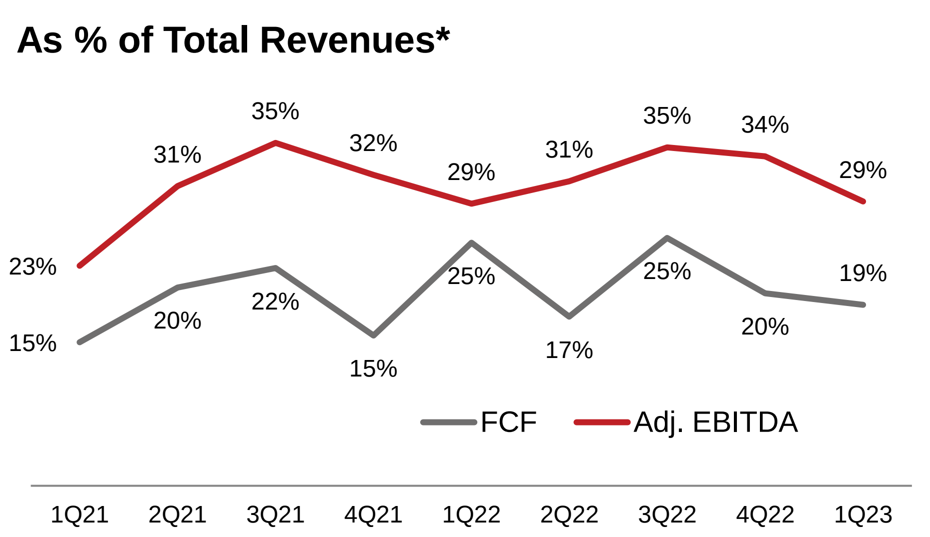


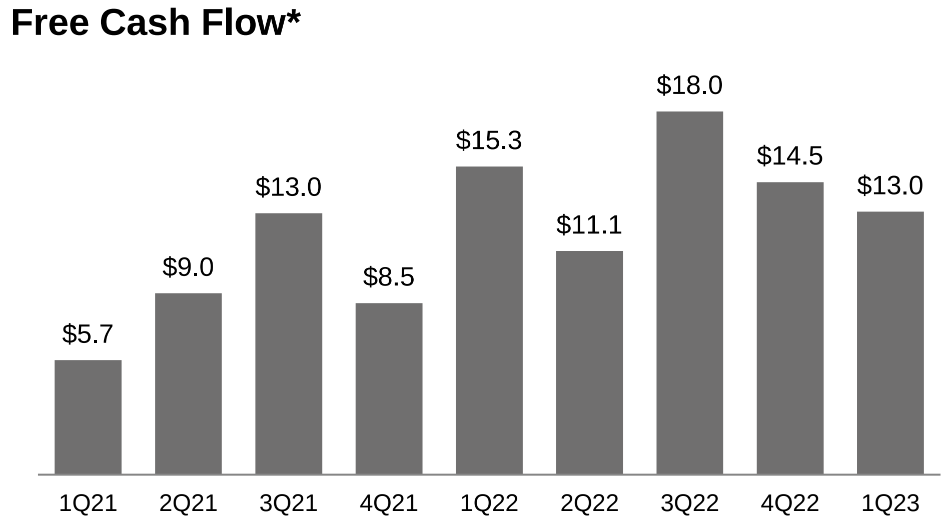
Sales Mix By Revenue Type

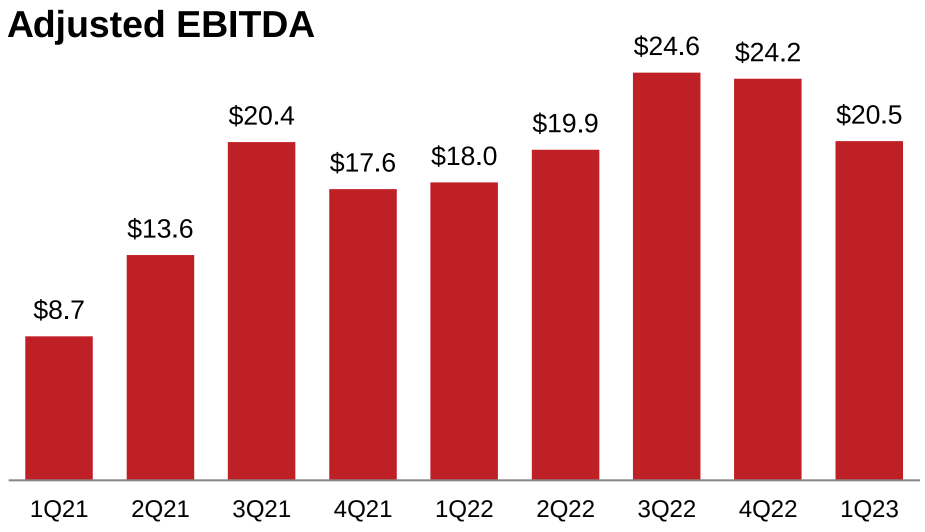


Cash, FCF & Adjusted EBITDA ($M)









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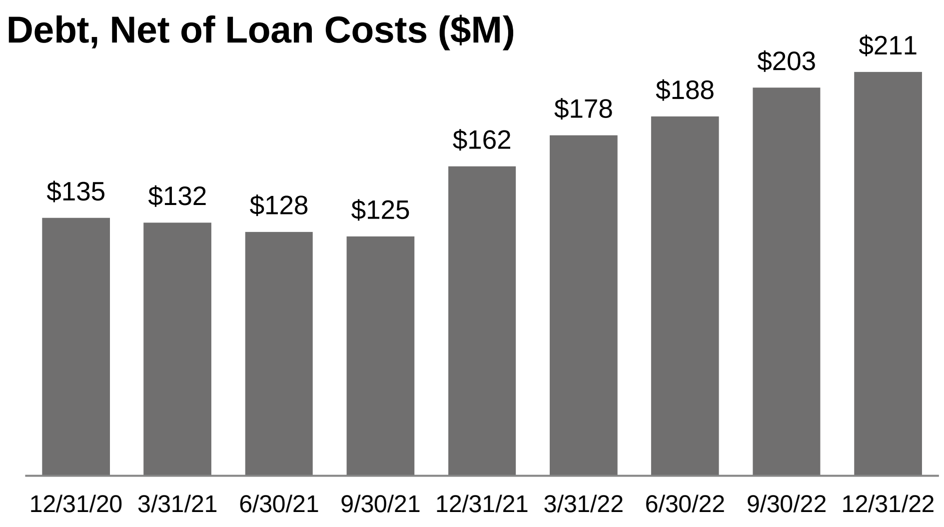
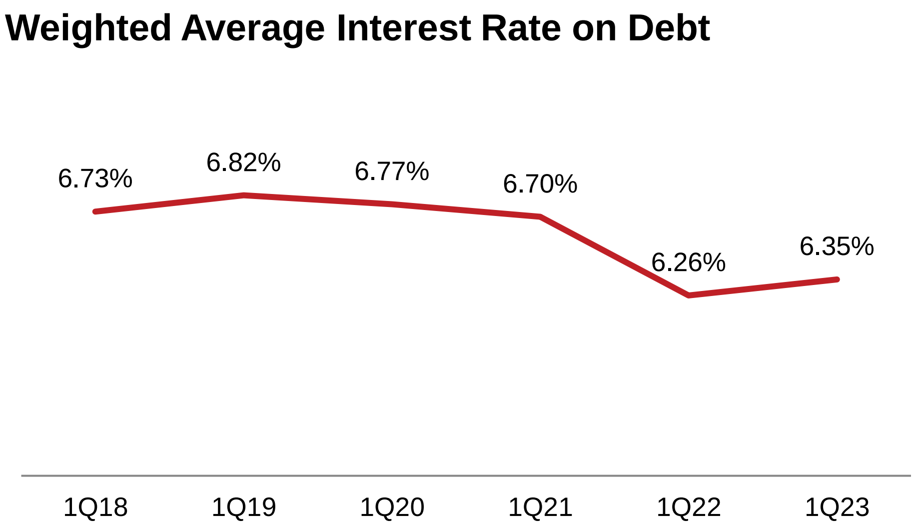
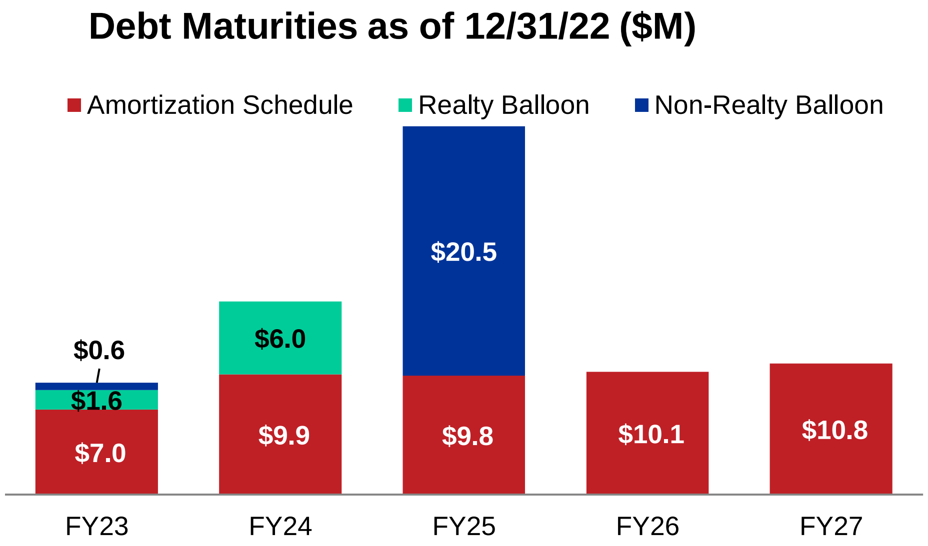
* 3Q22 FCF includes receipt of $2.2M previously discussed tax refund

Debt Metrics







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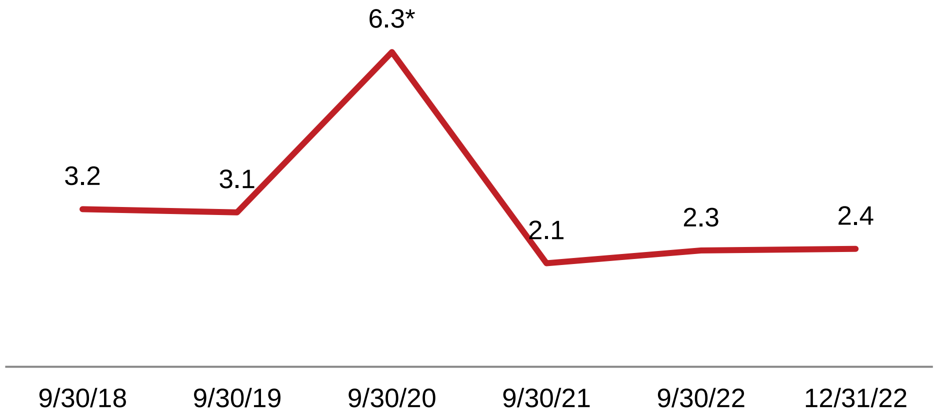
Other Debt Related Metrics

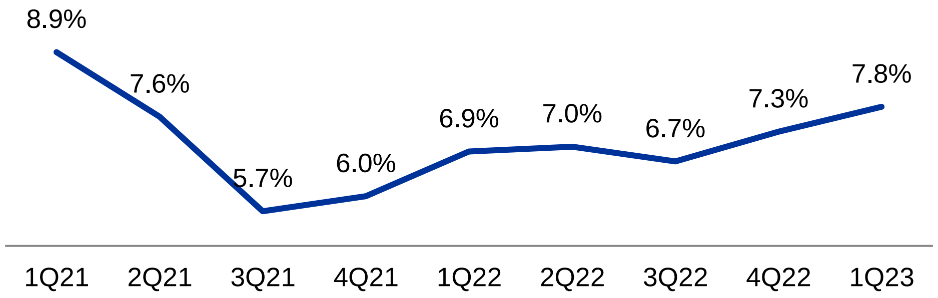
Debt / Adjusted EBITDA (TTM)



* Reflects Covid related club closures in FY20

Total Occupancy Costs

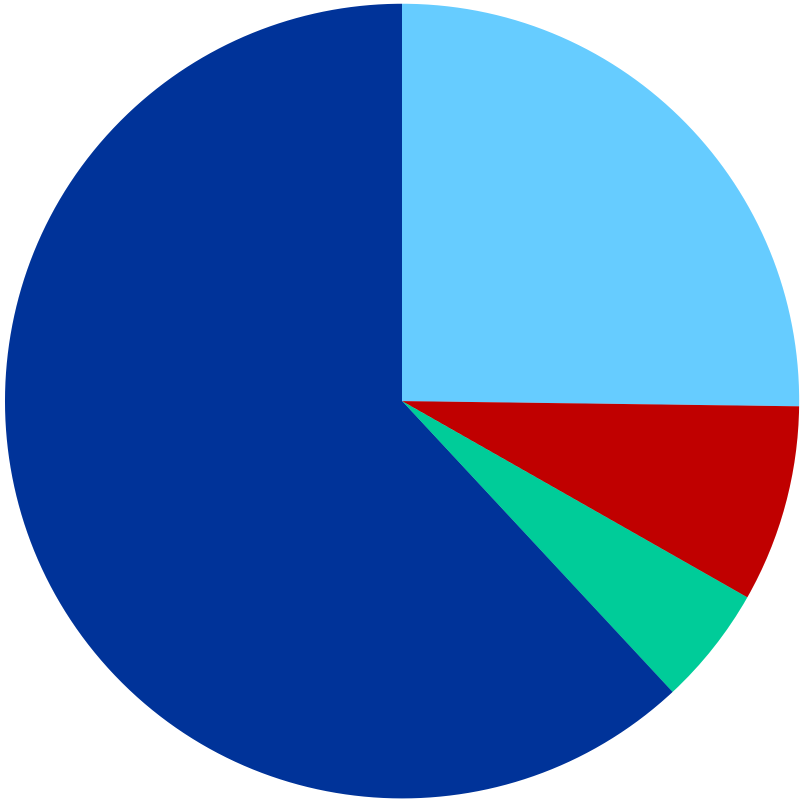
Lease & Interest Expense as % of Total Revenues



Debt Analysis *(as of 12/31/22, $M)*

Total of $214.6[1]
Weighted Average Interest Rate (WAIR): 6.35%

$132.9 Secured by Real Estate (61.9% of total)
- 5.35% WAIR



$54.1 Seller Financing (25.2% of total)
- Secured by the respective clubs and real estate to which it applies
- 11 Clubs: $18.8 @ 6.0% WAIR
- Scarlett's: $13.1 @ 8.0% WAIR
- Mansion: $0.9 @ 4.00% WAIR
- Playmates: $10.8 @ 10.0% WAIR
- Cheetah: $9.7 @ 6.0% WAIR
- PT's Odessa: $0.8 @ 6.0% WAIR

$17.2 Unsecured Debt (8.0% of total)
- 11.75% WAIR

$10.4 Secured by Other Assets (4.9% of total)
- 5.57% WAIR

[1]Long-Term Debt Net of Loan Costs: $211.2
- Up $8.7 from 9/30/22
- Up $49.4 from 12/31/21

Operating Lease Total Liabilities: $38.1
- Adoption of ASC 842, Leases, starting FY20

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1) See box titled "Long-Term Debt Net of Loan Costs" on this page

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%

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

Organic

Methodically 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%

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

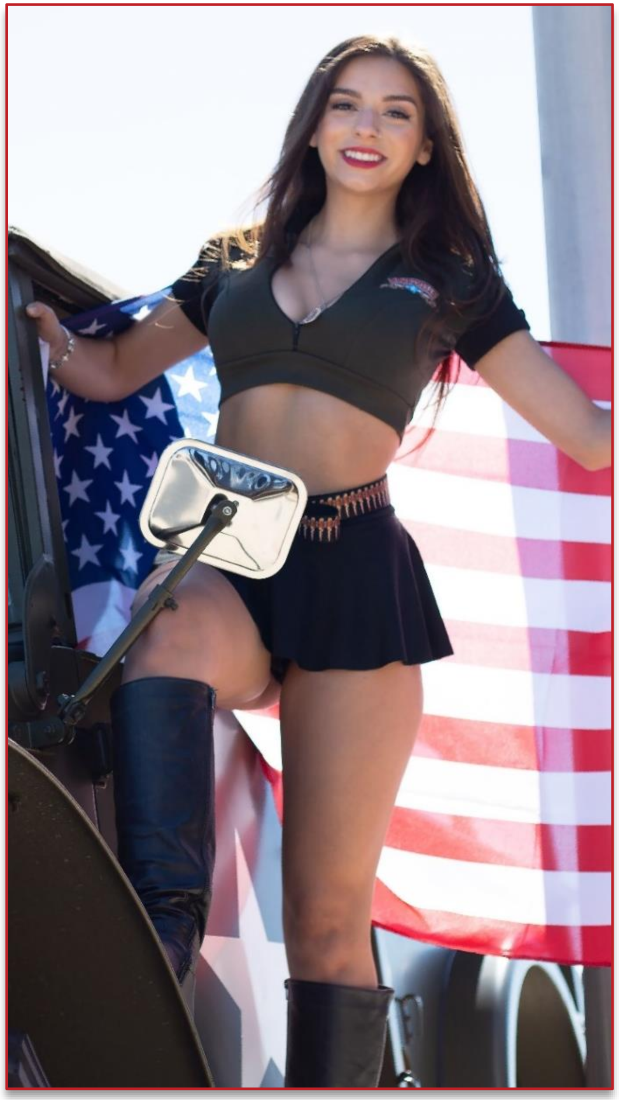
Club Acquisition & Development

Acquisition / Development	Location	Status (as of 2/9/23)
Heartbreakers	Galveston, TX	• Reopened day shift 1/30/23 • Plan to finish remodel in February
Jaguars Club	San Antonio	• Renamed and reformatted club reopened late December • Business doing well
Baby Dolls & Chicas Locas Acquisition (5 clubs)	Dallas, Fort Worth and Houston, TX	• Awaiting transfer of liquor licenses, then closing transaction • $11M estimated EBITDA in year one • $14-16M estimated EBITDA annually with remodel and expansions
PT's Showclub	Fort Worth, TX	• Acquired former club assets • Remodeling underway • Opening expected second half FY23
Jaguars Club	Lubbock, TX	• Under construction • Opening expected second half FY23

Acquisition Optimization
- Increased adjusted EBITDA +24% for large October '21 11 club acquisition
- As a result, paid 4x vs. original estimate of 5x (ex-real estate)
- Based on performance for TTM 12/31/22 vs.12/31/19

Bombshells Acquisition & Development

Location	Acquisition / Development Status (as of 2/9/23)	Opening Status
Denver Food Hall	• Remodeling and installing "Bombshells Kitchen" • Expected to be completed in February	Acquired 12/20/22 Open
San Antonio	• Purchased franchise	Acquired 2/7/23 Open
Stafford (9th Houston area location)	• Construction continuing	FY24 Target
Rowlett (3rd Dallas area location)	• Building permit approved • Reviewing construction bids	FY24 Target
Lubbock, TX	• Awaiting building permit	FY24 Target
Austin, TX (2nd area location)	• Pending site review	FY24 Target
Downtown Denver, CO	• Pending LOI on "second gen" remodel	FY24 Target
Huntsville, AL (franchisee)	• Awaiting building permits • Awaiting annexation from city	FY25 Target
Aurora, CO (2nd Denver area location)	• In process with the city	FY25 Target



Casino Acquisition & Development

Location	Status (as of 2/923)	Target Opening
Rick's Cabaret Steakhouse & Casino	• Acquired Central City, CO real estate • $2.4M • 30,000 square feet • Applied for gaming license	FY25

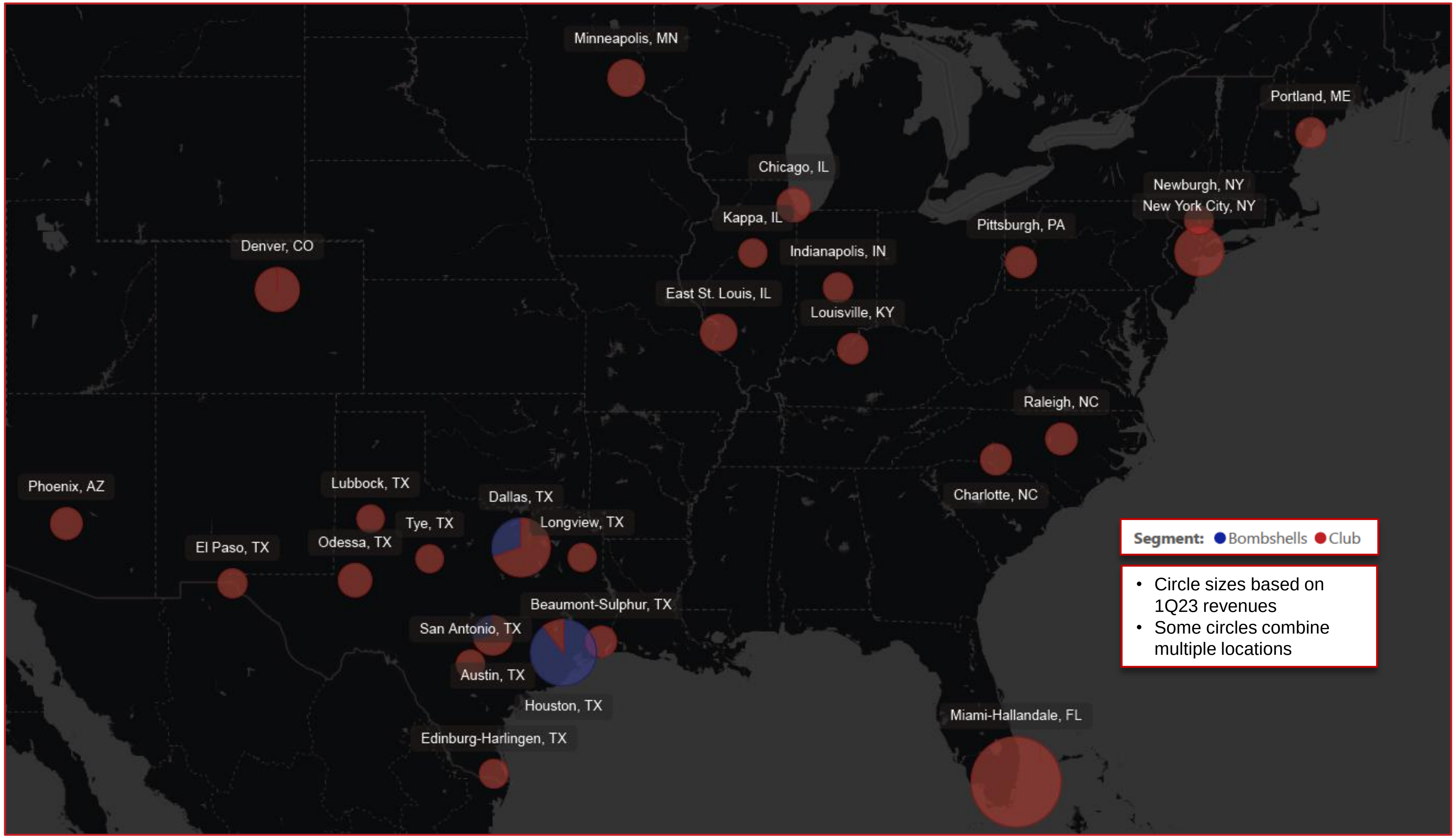
Watch our "walk-through" video:
https://twitter.com/i/status/1621534951660294145

FY23 Capital Allocation (Completed & Pending) $M

Quarter	Acquisition	Category	Status	Cash	Debt	Equity	Total
1Q23	1,500 common shares ($65.02/PS)	Share Repurchases	Completed	$0.1			$0.1
1Q23	Heartbreakers (Galveston area, TX)	Nightclubs	Completed	$4.0	$5.0		$9.0
1Q23	Land (Lubbock, TX)	Bombshells	Completed	$1.2	$2.3		$3.5
1Q23	Land (Aurora, CO)	Bombshells	Completed	$0.8			$0.8
1Q23	Building & Land (Central City, CO)	Rick’s Cabaret Steakhouse & Casino	Completed	$2.5			$2.5
1Q23	Club Assets (Fort Worth, TX)	Nightclubs (PT’s Showcase)	Completed	$2.4			$2.4
1Q23	Food Hall (Greenwood Village, CO)	Bombshells	Completed	$1.9	$3.3		$5.2
2Q23	Bombshells Franchise (San Antonio, TX)	Bombshells	Completed	$1.2	$2.0		$3.2
2Q23	*5 Baby Dolls and Chicas Locas (DFW & Houston, TX)*	*Nightclubs*	*Pending*	*$25.0*	*$25.5*	*$16.0**	*$66.5*
Total				**$39.1**	**$38.1**	**$16.0**	**$93.2**

* Valued at $80 per share

Geographic Focus



- Circle sizes based on 1Q23 revenues
- Some circles combine multiple locations

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