



2015 – 20<sup>th</sup> Anniversary of RCI's IPO

*Two decades of innovation in the adult club segment of the hospitality industry*



NASDAQ: RICK

4Q15 & FY15 Earnings Conference Call

December 14, 2015

[www.rcihospitality.com](http://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 possible, the words "believe," "expect," "anticipate," "intent," "would," "will," "planned," "estimated," "potential," "goal," "outlook," 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 (i) operating and managing an adult business, (ii) the business climates in cities where the company operates, (iii) the success or lack thereof in launching and building the company's businesses, (iv) the operational and financial results of the company's adult nightclubs, (v) conditions relevant to real estate transactions, (vi) the loss of key personnel, (vii) laws governing the operation of adult entertainment businesses, and (viii) the inability to open and operate our restaurants at a profit.

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](http://www.rcihospitality.com) or on the SEC's internet website at [www.sec.gov](http://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.

## Explanation of Non-GAAP Terms

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 some non-recurring charges that 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, gain on settlement of patron tax case, pre-opening costs, gains and losses from asset sales, gain on settlement of patron tax issue, impairment of assets, pre-opening costs, stock-based compensation charges, litigation and other one-time legal settlements and acquisition costs. 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. While we were in litigation in the patron tax case, we also included patron taxes as an exclusion, but after settlement of the case, we no longer exclude patron taxes from operating income.
- *Non-GAAP Net Income and Non-GAAP Net Income per Basic Share and per Diluted Share.* We exclude from non-GAAP net income and non-GAAP net income per diluted share and per basic share amortization of intangibles, gain on settlement of patron tax case, pre-opening costs, income tax expense, impairment charges, gains and losses from asset sales, stock-based compensation, litigation and other one-time legal settlements, gain on contractual debt reduction and acquisition costs, and include the Non-GAAP provision for income taxes, calculated as the tax-effect at 35% effective tax rate of the pre-tax non-GAAP income before taxes less stock-based compensation, because we believe that excluding such measures helps management and investors better understand our operating activities. While we were in litigation in the patron tax case, we also included patron taxes as an exclusion, but after settlement of the case, we no longer exclude patron taxes from net income.
- *Adjusted EBITDA.* We exclude from Adjusted EBITDA depreciation expense, amortization of intangibles, income tax, interest expense, interest income, gains and losses from asset sales, pre-opening costs, acquisition costs, litigation and other one-time legal settlements, gain on settlement of patron tax case, gain on contractual debt reduction and impairment charges 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. Also, we exclude interest cost in our calculation of Adjusted EBITDA. 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.

Our Form 10-K for the fiscal year ended September 30, 2015 and our December 14, 2015 news release contain additional details relative to the non-GAAP financial measures and are posted on our website at [www.rcihospitality.com](http://www.rcihospitality.com).

## Overview

- Ended FY15 in great shape – record non-GAAP EPS of \$1.39
- Finalized settlements of our two major legal issues and others
- Implemented measures to expand margins, EPS and cash flow in FY16 and beyond without relying on top line growth
- Expect flattish revenues in FY16 with no major acquisitions or restaurant openings on the immediate horizon
- Aggressively executing disciplined capital allocation strategy
- After stock buyback pause in 4Q15, we are using new cash to significantly increase share repurchases



# Results Summary

| \$ in millions (except per share) | 4Q15   | 4Q14   | FY15    | FY14    |
|-----------------------------------|--------|--------|---------|---------|
| <b>Total Revenues</b>             | \$35.0 | \$33.5 | \$144.7 | \$129.2 |
| <b>GAAP Operating Income</b>      | \$3.2  | \$2.9  | \$20.9  | \$18.9  |
| <b>GAAP Operating Margin</b>      | 9.1%   | 8.7%   | 14.4%   | 14.6%   |
| <b>GAAP EPS</b>                   | \$0.05 | \$0.42 | \$0.90  | \$1.13  |
| <b>Non-GAAP Operating Income</b>  | \$5.3  | \$5.8  | \$28.4  | \$26.7  |
| <b>Non-GAAP Operating Margin</b>  | 15.2%  | 17.3%  | 19.6%   | 20.7%   |
| <b>Non-GAAP EPS</b>               | \$0.17 | \$0.23 | \$1.39  | \$1.26  |

- 4Q15 revenues up 4.4%, FY15 revenues up 12.0%
- 4Q15 included \$2.9 million in non-recurring items:
  - ✓ Final \$0.8 million payment related to NY FLSA legal settlement
  - ✓ \$0.3 million in other legal settlements to remove ongoing overhang from these issues
  - ✓ \$1.0 million in final legal and professional costs related to resolving these issues and others
  - ✓ \$0.8 million in leasehold improvements for a prospective Bombshells space now in legal dispute
- 4Q14 & FY14 GAAP EPS benefitted from \$5.6 million gain from debt reduction (not in operating income)

## Major Legal Issues Behind Us

| Item                    | Resolution (\$ in millions)   |
|-------------------------|---|
| <b>NYS FLSA Lawsuit</b> | <ul style="list-style-type: none"><li>• Total cost finalized at \$11.1M in FY15 vs. negotiated \$15M maximum</li><li>• All contracts since 2011 contain no class action participation/arbitration clauses</li></ul> |
| <b>Texas Patron Tax</b> | <ul style="list-style-type: none"><li>• Settled for \$10M in FY15 to be paid over 84 months</li><li>• Resulted in \$8.2M FY15 pre-tax gain</li><li>• No additional tax increase</li></ul>                           |

## Disciplined Capital Allocation Strategy

- Higher after tax yield buying back stock vs. paying down debt until stock price is higher
- Buying back stock and paying down debt are risk free returns vs. risk adjusted return of acquiring a club/opening a restaurant
- We do not plan to buy a club / open a restaurant unless the risk adjusted return rivals buying our own assets in the market or there is a compelling strategic rationale
- At this point, our own assets represent a highly attractive acquisition via stock purchases

| After Tax Free Cash Flow Yield of Buying Back Shares*   |         |         |         |         |         |
|---|---------|---------|---------|---------|---------|
| Annual Free Cash Flow (mm)  | \$15.0  | \$15.0  | \$15.0  | \$15.0  | \$15.0  |
| Stock Price   | \$10.00 | \$11.00 | \$12.00 | \$13.00 | \$14.00 |
| FD Shares at 9/30/15 with expected dilution from convertible securities as stock price rises (mm)** | 10.320  | 10.513  | 10.513  | 10.767  | 10.767  |
| Market Capitalization (mm)  | \$103.2 | \$115.6 | \$126.2 | \$140.0 | \$150.7 |
| After Tax Yield (FCF/Market Cap)  | 14.5%   | 13.0%   | 11.9%   | 10.7%   | 10.0%   |

| After Tax Free Cash Flow Yield of Paying Down Debt |       |       |       |       |      |
|--|-------|-------|-------|-------|------|
| Interest Rate on Debt (interest is tax deductible) | 13.0% | 12.0% | 11.0% | 10.0% | 9.0% |
| After Tax Yield (assuming 35% tax rate)            | 8.5%  | 7.8%  | 7.2%  | 6.5%  | 5.9% |

### Summary

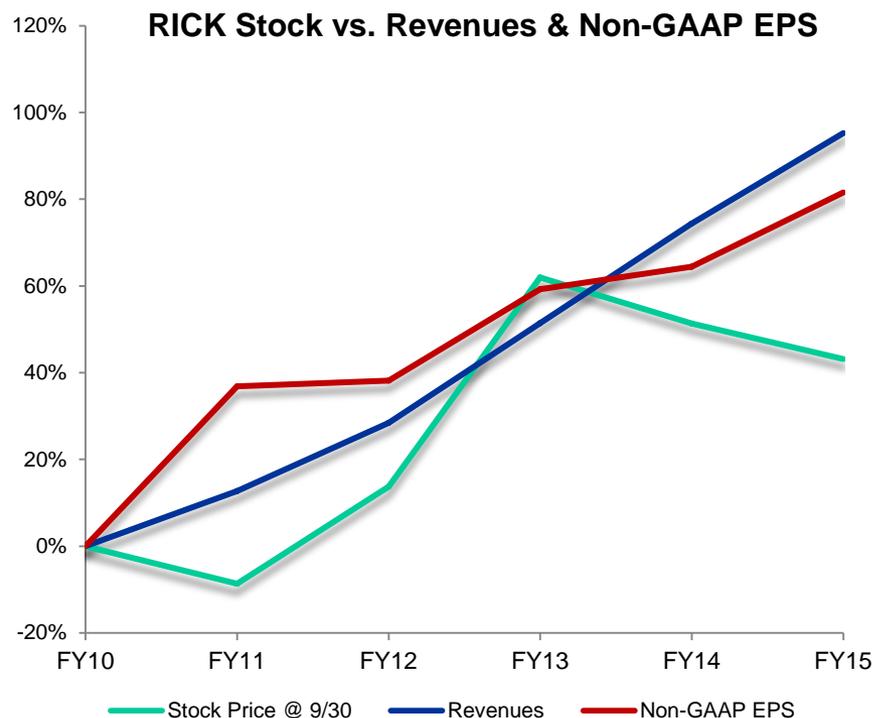
- 10.0%-14.5% after tax yield on FCF buying back shares in \$10-\$14 range
- Only at ~\$17 does it make sense to start paying down 13% debt at an accelerated rate (assuming no pre-payment penalty)

\* For purposes of this model, free cash flow is defined as free cash flow less debt payments

\*\* Conversion of these securities would result in \$4.6M reduction of debt

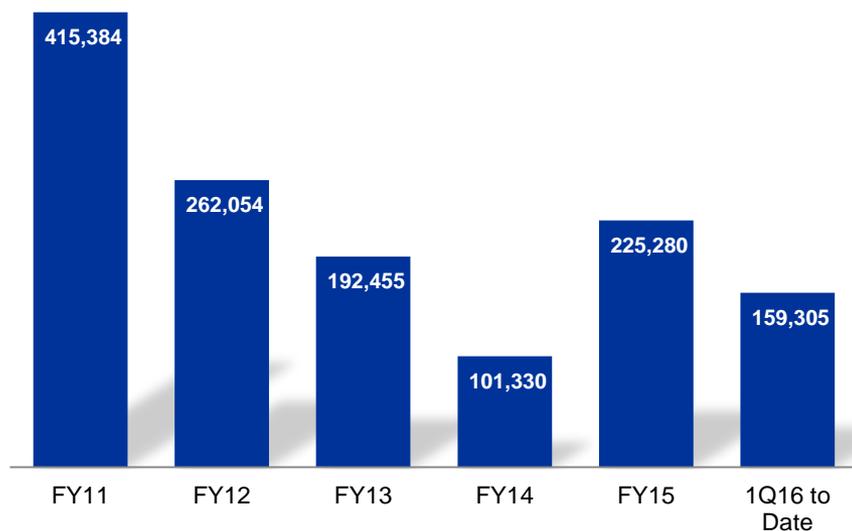
## Goal: Close the Gap Between Stock & RCI's Performance

- Since end of FY10, RICK stock has increased 43% vs. 95% for revenues and 82% for non-GAAP EPS
- With margin expansion and stock buybacks, our goal is to close the gap and rise above it



## Undervaluation Spurs Share Buybacks (\$ in millions)

Shares Retired via Buybacks



Capital Returned via Buybacks



- Significantly increased buybacks in 1Q16 to date
- FY16's buyback spend will likely exceed FY11's

## Margins & Cash Flow Expected to Grow in FY16 & Beyond

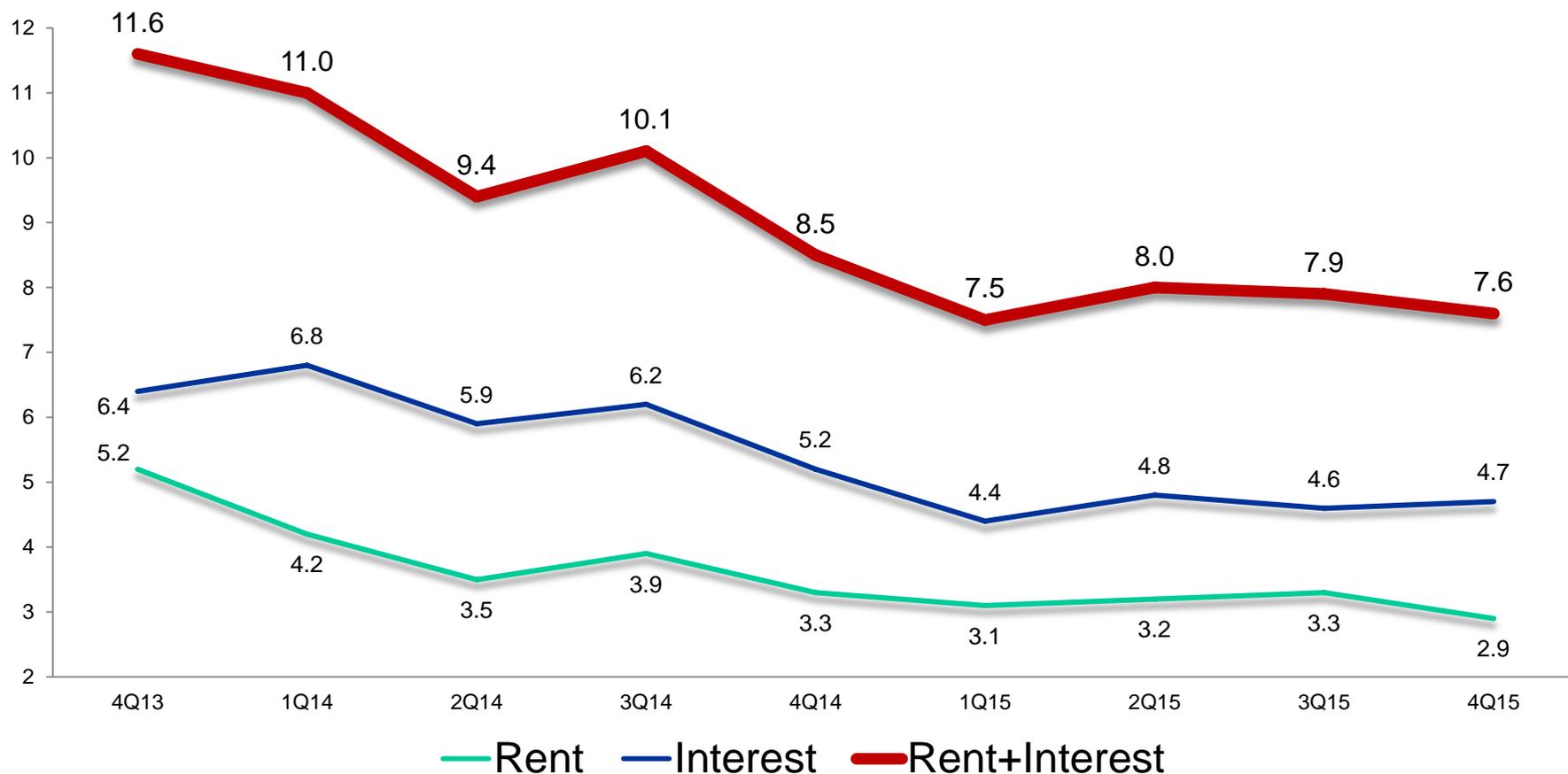
| Item                        | Details (\$ in millions, % of revenues)  |
|-----------------------------|--|
| <b>Legal Costs</b>          | <ul style="list-style-type: none"> <li>• Grown steadily from 2.3% in FY13 to 3.2% in FY15</li> <li>• Settlements plus new insurance reduces need for outside counsel</li> <li>• Cost expected to decline starting in FY16</li> </ul>   |
| <b>Insurance Costs</b>      | <ul style="list-style-type: none"> <li>• Beginning to decline with new carriers</li> <li>• Fell to 2.3% in FY15 from 3.1% in FY14</li> </ul>   |
| <b>Cost of Debt</b>         | <ul style="list-style-type: none"> <li>• Growing cash flow has enabled us to pay down high cost debt</li> <li>• New access to bank financing reducing costs, extending amortizations</li> <li>• Reversed upward trend in occupancy cost (rent+interest)</li> <li>• Fell to 7.9% in FY15 from 9.7% in FY14</li> <li>• Expect further decline in FY16</li> <li>• New amortization schedules will expand free cash flow by ~\$2.3M in FY16</li> </ul> |
| <b>Non-Performing Clubs</b> | <ul style="list-style-type: none"> <li>• Eliminated 6 clubs over the last 24 months that were not meeting expectations</li> <li>• Cost a total of \$2.2M in operating profit the last year each were in operation</li> </ul>   |
| <b>Restaurants</b>          | <ul style="list-style-type: none"> <li>• Initial five Bombshells off to a great start and profitable</li> <li>• Concept has created excitement, balanced out revenues, improved RCI's image</li> <li>• Late FY15 initiated franchising program, which should expand margins in FY17</li> </ul>   |

If costs reduced by an amount equal to 1% of revenues, that equals \$0.09 per share after tax profit at 9/30/15 share count

## Recent & Pending Bank Financings (\$ in millions)

| Item   | Details   |
|--|---|
| <b>Miami Gardens Square Mall Acquisition</b>     | <ul style="list-style-type: none"> <li>• Tootsie's Cabaret is the largest tenant</li> <li>• Paid \$15.3M (\$4.0M cash, \$11.3M bank loan at 5.45%)</li> <li>• 100% occupied, income producing, good management, 2nd largest tenant re-upped</li> <li>• Expect annual \$0.6M pre-tax profit for 15% cash on cash return</li> </ul> |
| <b>Re-Financed Select DFW Properties</b>         | <ul style="list-style-type: none"> <li>• Had \$2.5M balance at 8%</li> <li>• Refinanced with \$4.5M at 5%</li> <li>• Pulled \$2M in equity out of these properties</li> </ul>   |
| <b>Rick's Cabaret NY Real Estate Acquisition</b> | <ul style="list-style-type: none"> <li>• Paying \$1.2M in rent</li> <li>• Expect to finance RE acquisition with \$10M bank loan at 5%</li> <li>• Reduces effective rate paid from 13.15%</li> <li>• Reduces expenses by more than \$0.7M annually over term of the loan</li> <li>• Closing scheduled in January</li> </ul>        |
| <b>The Future</b>                                | <ul style="list-style-type: none"> <li>• Continuing to look for other opportunities to refinance higher priced debt</li> <li>• Expect to finance future acquisitions with cash and debt</li> </ul>  |

# Occupancy Costs Falling (as % of total revenues)

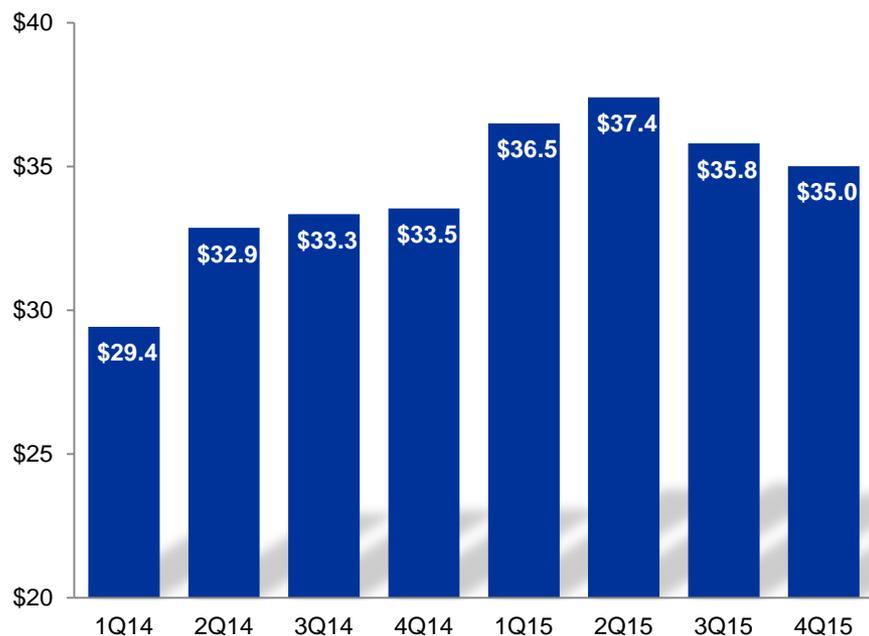


RCI views Rent+Interest as our cost of occupancy

## Improved Balance Sheet (\$ in millions)

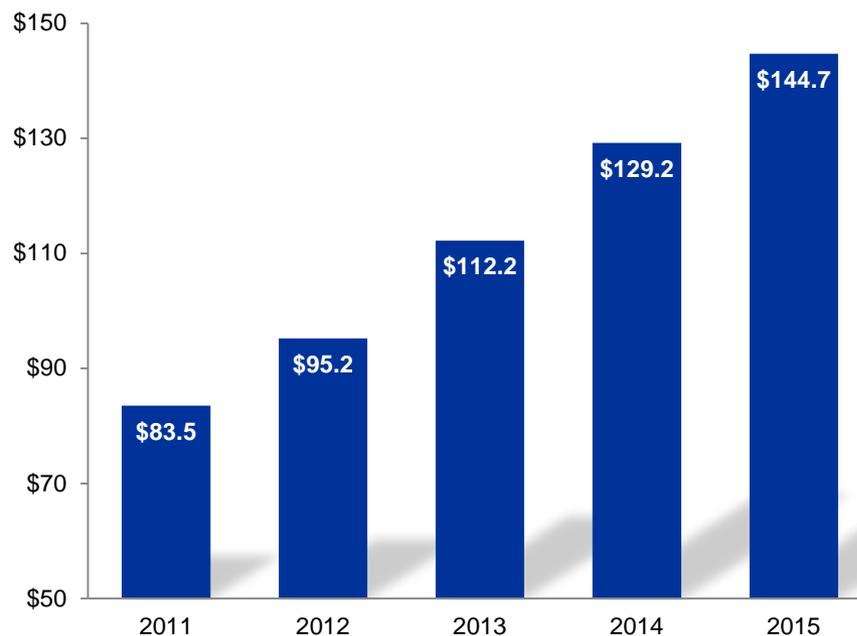
|   | 9/30/15 | 9/30/14 | \$ Change | Comment  |
|---|---------|---------|-----------|--|
| <b>ASSETS</b>                               |         |         |           |  |
| <b>Current Assets</b>                       | \$20.6  | \$23.4  | (\$2.7)   | <ul style="list-style-type: none"> <li>DTA reduction due to decrease in Patron Tax accrual</li> </ul>                              |
| <b>PP&amp;E</b>                             | 134.2   | 114.0   | 20.2      | <ul style="list-style-type: none"> <li>Acquisition of Down in Texas Saloon, Seville Club, and Miami Gardens real estate</li> </ul> |
| <b>Other Assets</b>                         | 116.1   | 101.8   | 14.2      | <ul style="list-style-type: none"> <li>Acquisition of Down in Texas Saloon and Seville Club licenses, and Robust</li> </ul>        |
| <b>LIABILITIES AND STOCKHOLDERS' EQUITY</b> |         |         |           |  |
| <b>Current Liabilities</b>                  | 22.9    | 39.2    | (16.3)    | <ul style="list-style-type: none"> <li>Patron Tax Settlement</li> <li>Also down from 6/30/15 due to NY FLSA payment</li> </ul>     |
| <b>Long-Term Debt</b>                       | 94.9    | 70.4    | 24.6      | <ul style="list-style-type: none"> <li>Acquisitions and long-term portion of Patron Tax Settlement</li> </ul>                      |
| <b>Total Stockholders' Equity</b>           | 128.5   | 113.3   | 15.2      | <ul style="list-style-type: none"> <li>Core earnings</li> <li>Patron Tax Settlement</li> </ul>                                     |

## Revenues (\$ in millions)



### 4Q15 Highlights (vs. 4Q14)

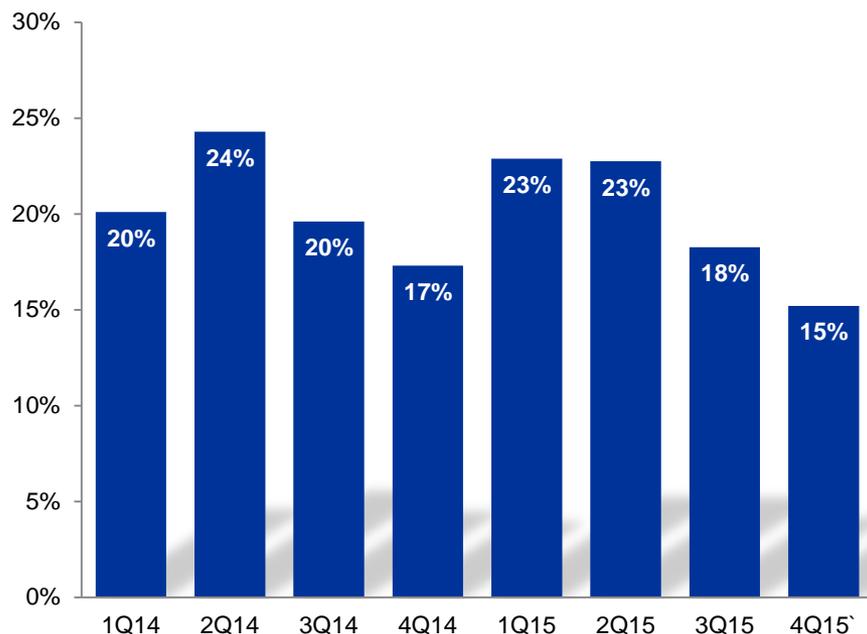
- Up 4.4%
- 43 units vs. 44, down 2.3%
- SSS down 5.6%
- New units added \$4.1M



### FY15 Highlights (vs. FY14)

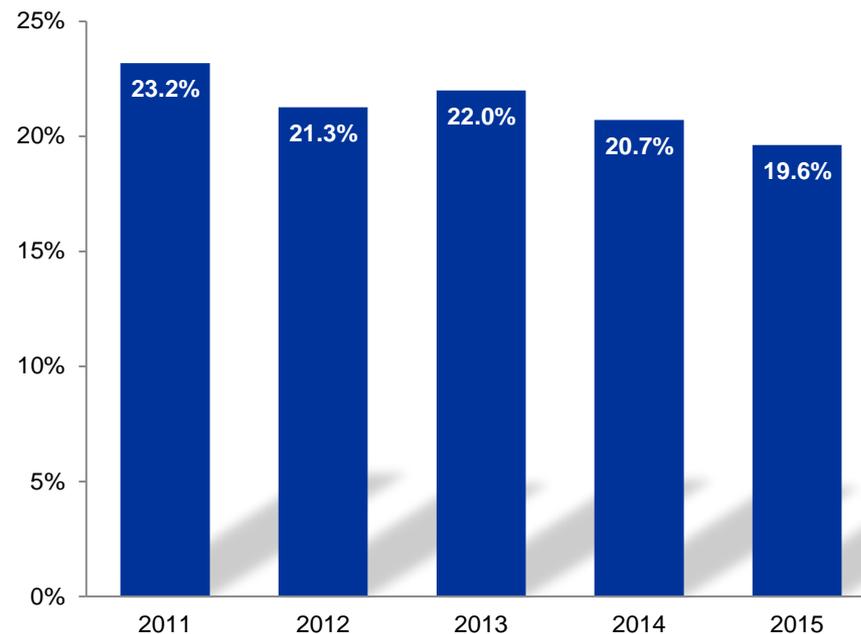
- Up 12.0%
- SSS down 0.6%
- Certain units performed particularly well: Temptations Beaumont, Onyx Houston, Bombshells Dallas

## Margin Analysis\* (Non-GAAP, as % of revenues)



### 4Q15 Highlights (vs. 4Q14)

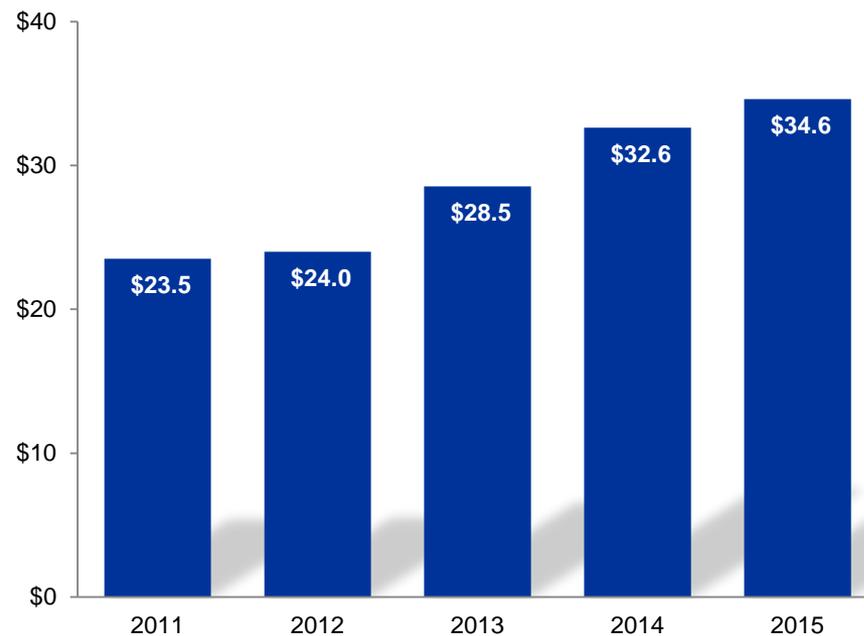
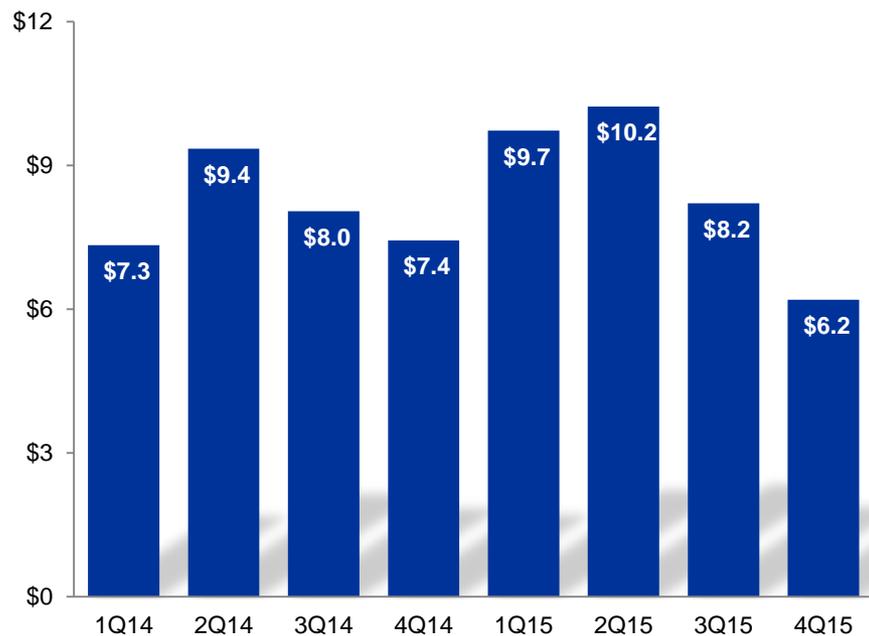
- Reflects one-time legal and professional costs not excluded in our non-GAAP calculations



### FY15 Highlights (vs. FY14)

- Close to previous year's
- In addition to 4Q15 factors, reflects:
  - ✓ Greater proportion of Bombshells segment revenue in the sales mix
  - ✓ Improved profitability of Nightclubs segment

## Adjusted EBITDA\* Growth (\$ in millions)



- Reflects RCI's cash generating power to buy back stock and finance growth
- FY15: Up 6.1% YoY

## Nightclubs Segment Results

| \$ in millions except units    | 4Q15   | 4Q14   | Change  | FY15    | FY14    | Change  |
|--------------------------------|--------|--------|---------|---------|---------|---------|
| Revenues                       | \$29.7 | \$30.4 | (\$0.7) | \$123.3 | \$121.5 | \$1.8   |
| Units (at 9/30/15 and 9/30/14) | 38     | 40     | (5.0%)  |         |         |         |
| Adjusted Operating Income*     | \$6.9  | \$7.0  | (\$0.1) | \$35.7  | \$32.0  | \$3.7   |
| Adjusted Operating Margin*     | 23.2%  | 23.1%  | 10 bps  | 28.9%   | 26.3%   | 260 bps |

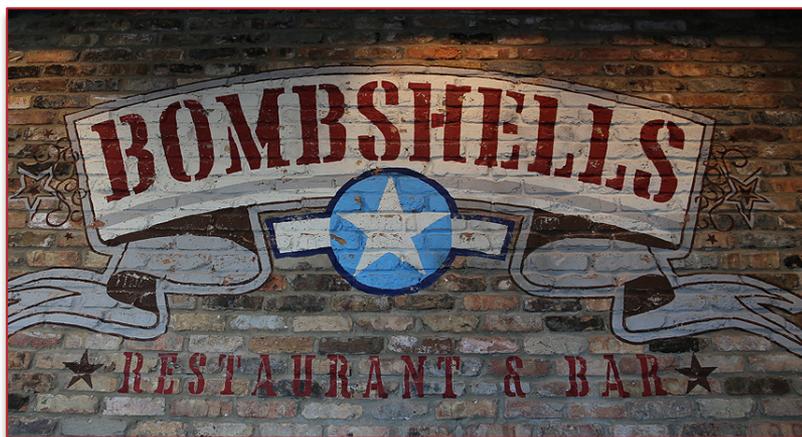
- In the process of implementing new advertising and marketing programs to improve same store sales
- Expect to see results sometime in the second half of FY16



## Bombshells Segment Results

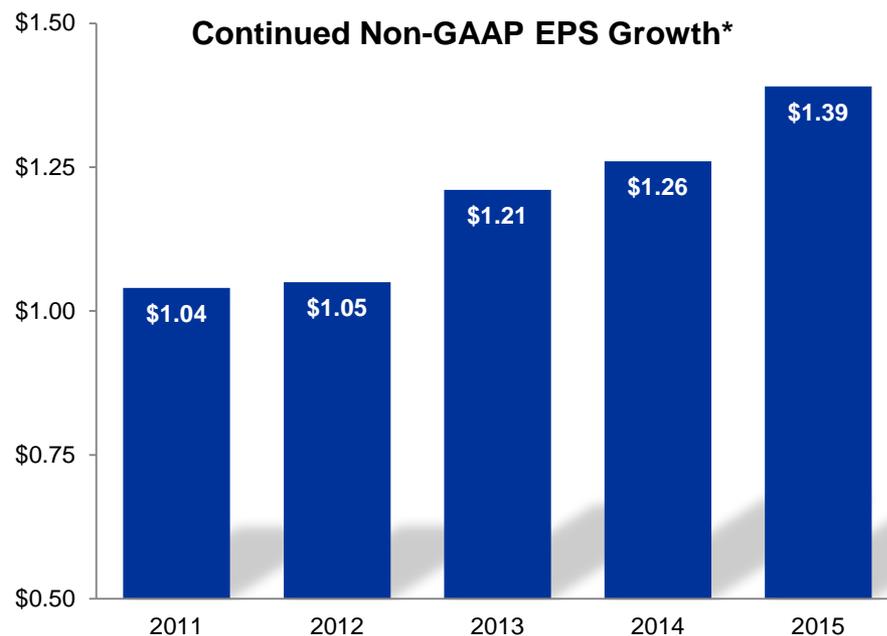
| \$ in millions except units    | 4Q15    | 4Q14      | Change   | FY15   | FY14      | Change   |
|--------------------------------|---------|-----------|----------|--------|-----------|----------|
| Revenues                       | \$4.6   | \$2.5     | 80.0%    | \$19.1 | \$6.2     | 207.3%   |
| Units (at 9/30/15 and 9/30/14) | 5       | 4         | 25.0%    |        |           |          |
| Adjusted Operating Income*     | \$0.417 | (\$0.047) | \$0.464  | \$2.5  | (\$0.315) | \$2.1    |
| Adjusted Operating Margin*     | 9.1%    | (1.8%)    | 1095 bps | 13.3%  | (5.1%)    | 1840 bps |

- Some units will have difficult comps in FY16 against large initial sales when they opened in FY15
- FY16 will roll out national franchise marketing program, looking for first high-margin franchise revenues in FY17



## Outlook

- Ended FY15 in great shape – record non-GAAP EPS of \$1.39
- Finalized settlements of our two major legal issues and others
- Implemented measures to expand margins, EPS and cash flow in FY16 and beyond without relying on top line growth
- Expect flattish revenues in FY16 with no major acquisitions or restaurant openings on the immediate horizon
- Aggressively implementing disciplined capital allocation strategy
- After stock buyback pause in 4Q15, we are using new cash to significantly increase share repurchases



# Calendar

| Date / Time                        | Event  |
|------------------------------------|--|
| <b>Tonight, 6:00 PM-8:00 PM ET</b> | Due Diligence Ball<br>Rick's Cabaret New York<br>50 W. 33rd Street<br>Between Fifth and Broadway |
| <b>January 12, 2016</b>            | 1Q16 Club & Restaurant Sales   |
| <b>February 9, 2016</b>            | 1Q16 Financial Results   |
| <b>April 12, 2016</b>              | 2Q16 Club & Restaurant Sales   |
| <b>May 10, 2016</b>                | 2Q16 & 6M16 Financial Results  |
| <b>July 12, 2016</b>               | 3Q16 Club & Restaurant Sales   |
| <b>August 9, 2016</b>              | 3Q16 & 9M16 Financial Results  |
| <b>October 11, 2016</b>            | 4Q16 Club & Restaurant Sales   |
| <b>December 14, 2016</b>           | 4Q16 & FY16 Financial Results  |

## Contact Information

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NasdaqGM: RICK



# Appendix

## GAAP Performance (\$ in millions except per share)

### Fiscal Year Ends September 30th

|                             | 2011   | 2012   | 2013   | 2014   | 2015   | 1Q14   | 2Q14   | 3Q14   | 4Q14   | 1Q15   | 2Q15     | 3Q15   | 4Q15   |
|-----------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|----------|--------|--------|
| Operating Margin (Slide 15) | 22.5%  | 17.3%  | 19.5%  | 14.6%  | 14.4%  | 19.1%  | 22.7%  | 8.7%   | 8.7%   | 16.8%  | -7.0%    | 39.6%  | 9.1%   |
| Net Income (Slide 16)       | \$7.8  | \$7.6  | \$9.2  | \$11.2 | \$9.3  | \$2.4  | \$3.7  | \$0.7  | \$4.4  | \$3.4  | (\$2.8)  | \$8.3  | \$0.5  |
| EPS Diluted (Slide 19)      | \$0.79 | \$0.78 | \$0.96 | \$1.13 | \$0.90 | \$0.24 | \$0.37 | \$0.07 | \$0.42 | \$0.32 | (\$0.28) | \$0.78 | \$0.05 |

|                               | 4Q15  | 4Q14  | 2015   | 2014   |
|-------------------------------|-------|-------|--------|--------|
| Nightclubs Segment (Slide 17) |       |       |        |        |
| Operating Income              | \$5.4 | \$4.6 | \$30.4 | \$26.0 |
| Operating Margin              | 18.3% | 15.0% | 24.7%  | 21.4%  |

|                               |         |         |       |         |
|-------------------------------|---------|---------|-------|---------|
| Bombshells Segment (Slide 18) |         |         |       |         |
| Operating Income              | (\$0.4) | (\$0.0) | \$1.8 | (\$0.3) |
| Operating Margin              | -7.7%   | -1.8%   | 9.3%  | -5.1%   |