



RCI HOSPITALITY HOLDINGS INC

The Innovator in Bar-Restaurant-Entertainment Themed Hospitality

NASDAQ: RICK
10K Filing & 4Q17 Conference Call
February 14, 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 (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 exclude from non-GAAP operating income and non-GAAP operating margin amortization of intangibles, gain on settlement of patron tax case, gains or losses on sale of assets, impairment of assets, stock-based compensation, 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, gain on settlement of patron tax case, income tax expense, impairment charges, gain on acquisition of controlling interest in subsidiary, gains or losses on sale of assets, stock-based compensation, and settlement of lawsuits, and include the non-GAAP provision for current and deferred income taxes, calculated as the tax effect at 37%, 35% and 35% in 2017, 2016 and 2015, respectively, effective tax rate of the pre-tax non-GAAP income before taxes, 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, impairment of assets, income taxes, interest expense, interest income, gains or losses on sale of assets, settlement of lawsuits, gain on settlement of patron tax case, and gain on acquisition of controlling interest in subsidiary because 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 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-K for the year September 30, 2017 and our February 14, 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

Filing Status Update

- Filed FY17 10K, working on 1Q18 10Q
- Audit took longer than anticipated, getting back on schedule

Solid Financial Infrastructure

- Thorough review from new auditor
- New financial system working well

GAAP Results

- 4Q17 EPS: Loss of \$0.23
- \$6.2M pre-tax non-cash impairments, \$1.3M in non-cash higher taxes

Strong Core Results*

- 4Q17 EPS: \$0.36 Non-GAAP
- FY17 FCF: \$19.3M vs. \$18.0M initial target – 7% improvement

Great Outlook

- Favorable revenue trends continuing YTD FY18
- FY18 FCF: Raising target 9.5% to \$23M

Strong Core 4Q17 Results

(\$ in millions)	4Q17	4Q16		Comment
<u>Revenues by Segment</u>			<u>% Δ</u>	<u>Nightclubs & Bombshells Growth Factors</u>
Nightclubs	\$32.9	\$27.7	18.8%	• Same-store sales up 6.5%, acquisitions, new Bombshells
Bombshells	5.5	4.7	18.6	• Strong marketing related to televised sporting events
Other	0.8	0.7	15.5	• Higher margin service, beverage and food revenues all up
Total Revenues	\$39.2	\$33.0	18.7%	
<u>GAAP Operating Income</u>			<u>\$ Δ</u>	<u>Difference between GAAP and Non-GAAP Operating Income:</u>
Nightclubs	\$4.9	\$5.4	\$(0.5)	• 4Q17: \$6.2M in impairments
Bombshells	1.0	(1.0)	2.0	• 4Q16: \$5.2M in impairments, lawsuit settlement, loss on asset sale
Other	0.2	(0.5)	0.7	
Corporate	(4.5)	(3.1)	(1.4)	
GAAP Operating Income	\$1.4	\$0.8	\$0.7	As % of Revenues: 3.7% vs. 2.3%
<u>Non-GAAP Operating Income*</u>			<u>\$ Δ</u>	<u>As % of Revenues</u>
Nightclubs	\$9.9	\$8.2	\$1.8	• Nightclubs: 30.2% vs. 29.6%
Bombshells	0.9	0.4	0.6	• Bombshells: 16.8% vs. 8.0%
Other	0.2	(1.1)	1.2	• Other: 21.3% vs. -153.5%
Corporate	(3.3)	(1.3)	(1.9)	• Corporate: -8.5% vs. -4.1%
Non-GAAP Operating Income	\$7.7	\$6.1	\$1.6	As % of Revenues: 19.7% vs. 18.5%

Items Impacting GAAP Results

4Q17 Impairments

- \$6.2M in year end, non-cash impairments
 - \$3M for two clubs in East and West Texas
 - \$1M for Fort Worth club
 - \$1M for remaining Robust investment
 - Balance spread among 3 properties (one non-income producing)

4Q17 Taxes

- 4Q17: \$1.1M tax expense on pre-tax loss; FY17 ETR of 43.4%
 - 4Q17 included \$1.3M additional non-cash taxes for higher FY17 rate
- 4Q16: \$1.3M tax benefit on pre-tax profit; FY16 ETR of 18.5%
 - FY16 taxes included \$2.0M in credits

Resolution of Tax & Depreciation Issues

- Review of non-cash deferred tax allocations single most time consuming item
- Net result of tax and depreciation issues:
 - FY16 net income increased \$129,000
 - FY15 net income reduced \$98,000
 - Corresponding income statements and balance sheets adjustments

FY18 Off to Good Start

1Q18

- Club and restaurant sales up 22%, with SSS up 7% YoY
- Nightclubs sales up 20%, with SSS up 7% YoY
- Bombshells sales up 36%, with SSS up 6% YoY

2Q18

- Positive trends continuing
- January: Good sales even with tough weather in some markets
- February: Good pro football championship in multiple markets

Bombshells

- 3 new units in development to total 8 units in Texas (6 in Greater Houston)
- Pearland (Houston suburb) unit awaiting gas hook-up and paving
- I-10 planned for 4Q18, Southwest Freeway for 1Q19 (both Houston)

New Tax Legislation

- 1Q18: Non-cash gain of \$10M
- Starting 2Q18: Expect ETR of 23%
- FY18: Expected to enhance free cash flow

New Bank Loan

Terms

- \$81.2M, 5.75% fixed rate (subject to one adjustment in five years), 10-year real estate consolidation loan with a 20-year amortization schedule with Centennial Bank of Arkansas

Benefits

- Simplifies debt structure, locks in attractive rate, pays off \$10M higher rate non-real estate debt, eliminates multiple balloons over the next four years

Stabilizes Debt Servicing Costs

- \$9.84 million in each of the first two years (initially 75% LTV)
- \$6.84 in each of the next eight years (by month 24 65% LTV)

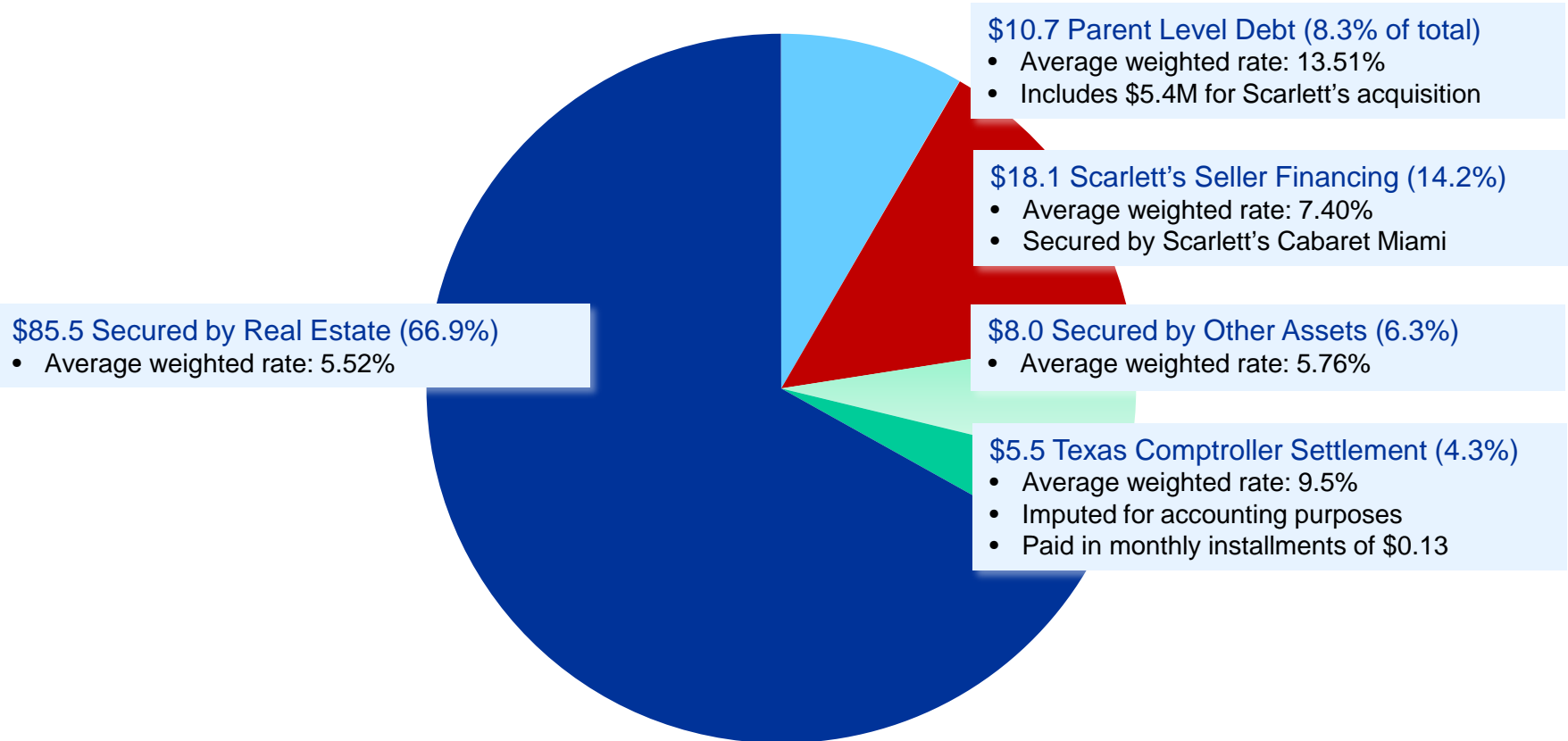
Continue to Acquire Clubs

- No restrictions on using debt to acquire clubs that are accretive

Long-Term Debt (\$ in millions)

Estimates to show impact of new bank loan as of 12/31/17

Total of \$127.8*
Average Weighted Rate: 6.73%



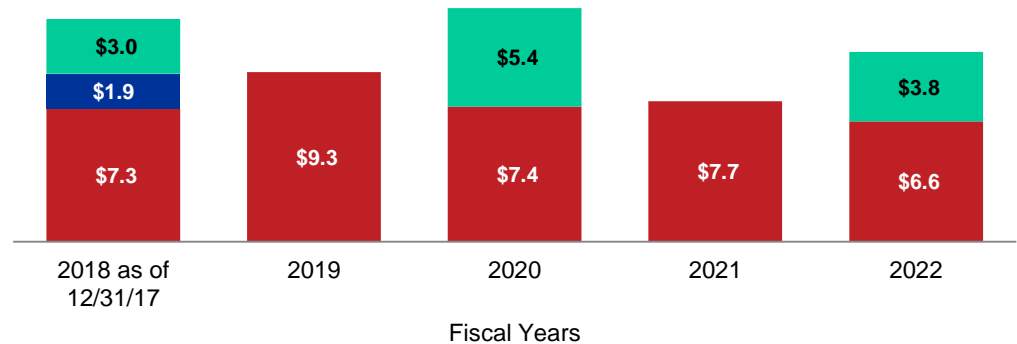
Debt Maturities (\$ in millions)

Estimates to show impact of new bank loan as of 12/31/17

■ Amortization Schedule ■ Realty Balloon ■ Non-Realty Balloon

Overview

- Most debt is real estate that amortizes until ballooned
- Amortizations to be paid out of cash flow
- No major realty or non-realty balloons over the next five years
- FY18 \$1.9M realty balloon refinances into construction loan for Bombshells 7 (I 10)



Cash Generation

Adjusted EBITDA*

- 4Q17 up 17.2% to \$9.6M
- FY17 up 8.2% to record \$37.3M

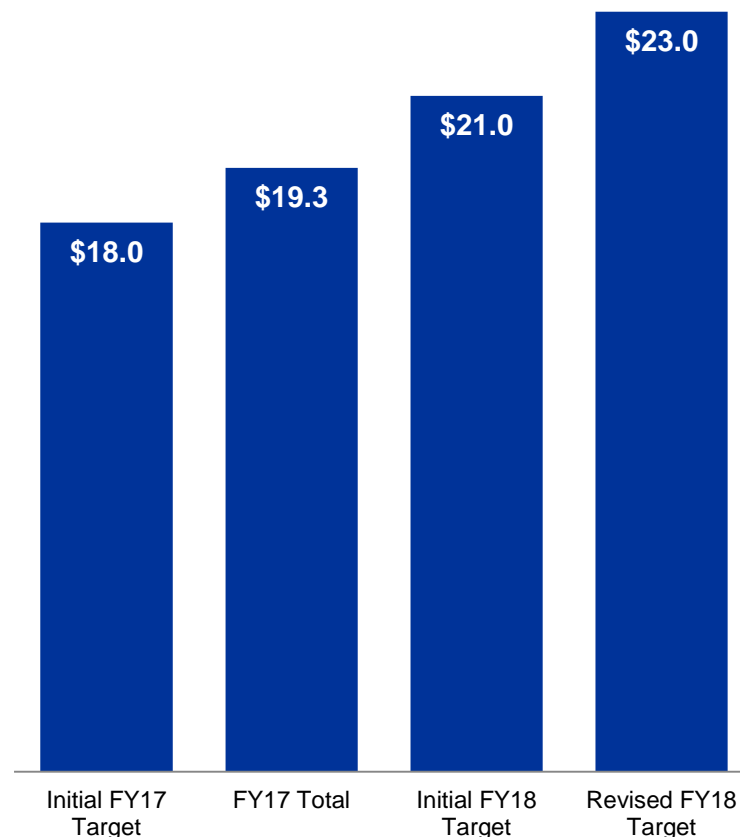
Cash

- \$9.9M at 9/30/17
- \$10.8M at 6/30/17
- Primarily reflects higher pre-paid expenses

Free Cash Flow*

- FY17's \$19.3M up 7% vs. \$18M initial target
- FY18's revised \$23M target reflects 19% growth

Free Cash Flow (\$ in millions)



Capital Allocation Strategy

1. Buy/open new units or expand existing ones only if:

- We can achieve target cash on cash return of 25-33% or more, or
- There is a strategic rationale

2. Take action if units not performing in line with strategy

- Free up capital for better use

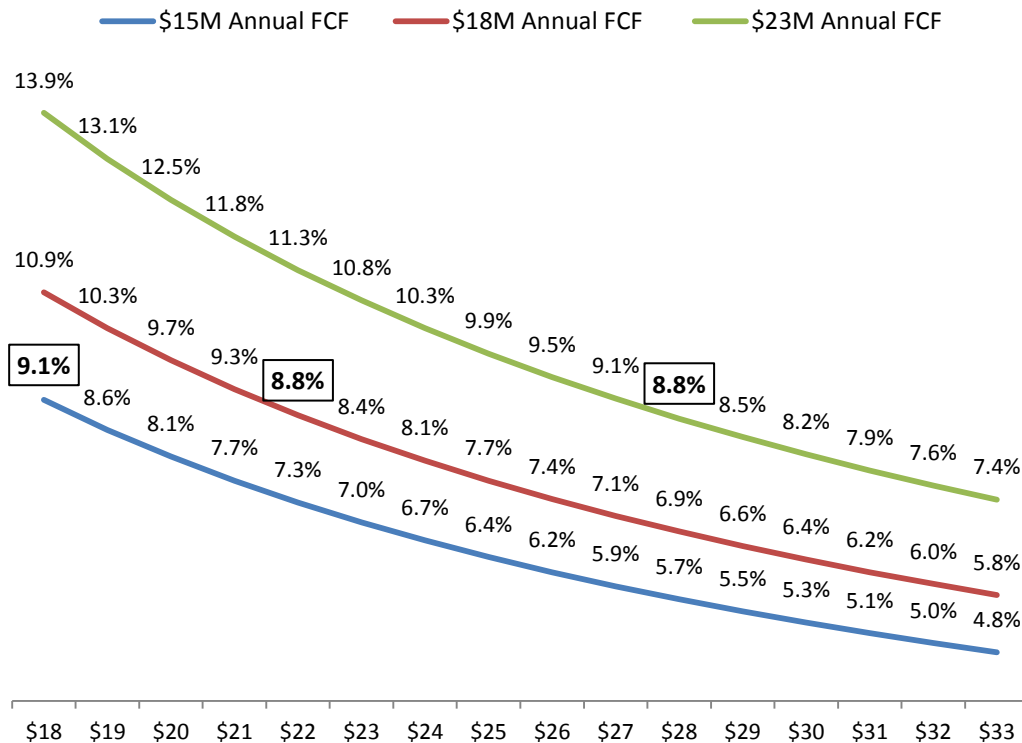
3. Use FCF to buy back shares if yield enters double-digits

- ~8.5% after tax yield with shares in \$28 range

4. Pay off most expensive debt (12%) at accelerated rate only if:

- Makes sense on tax adjusted basis, or
- There is a strategic rationale

FCF Yield on Stock Price



Based on FD shares outstanding of 9.7M at 9/30/17

Our 3-5 Year Goals

Free Cash Flow

- Average 10-15% annual FCF per share growth
- Grow FCF to more than \$30M

Gentlemen's Clubs

- Acquire more great clubs in the right markets

Bombshells Restaurants

- Expand company-owned units 3 per year

Patience & Focus

- Let capital build if we can't find right acquisitions or Bombshells locations
- Focused, analytical and careful in everything we do for shareholders



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Calendar

Date	Event	<i>Subject to change</i>
March 2018	5 th Anniversary of Bombshells Restaurant & Bar chain	
March 29, 2018	Sidoti & Company Investor Conference in New York City	
April 10, 2018	2Q18 Club & Restaurant Sales	
May 10, 2018	2Q18 & 6M18 Financial Results	
June 4-6, 2018	LD Micro Investor Conference in Los Angeles (possible)	
June 6, 2018	35 th Anniversary of the Opening of the first Rick's Cabaret	
July 10, 2018	3Q18 Club & Restaurant Sales	
August 9, 2018	3Q18 & 9M18 Financial Results	
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	
September 2018	Annual Meeting at Corporate Headquarters in Houston	
October 9, 2018	4Q17 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) 	<ul style="list-style-type: none"> Bombshells 6 (Pearland)
Partial Quarter New Unit Benefit		<ul style="list-style-type: none"> Bombshells 6 (Pearland) opens 		<ul style="list-style-type: none"> Bombshells 7 (I 10) opens
Events	<ul style="list-style-type: none"> Houston wins World Series 	<ul style="list-style-type: none"> Minneapolis hosts Pro Football Championship 		
Year Ago	<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

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