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
1Q21 Conference Call
February 9, 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 document 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.

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, and (d) 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) settlement of lawsuits, (f) gain on debt extinguishment, and (g) 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 19.1% and 21.8% effective tax rate of the pre-tax non-GAAP income before taxes for the three months ended December 31, 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) settlement of lawsuits, and (h) 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 February 9, 2021 news release and financial tables contain additional details and reconciliation of non-GAAP financial measures for the quarter ended December 31, 2020 and are posted on our website at www.rcihospitality.com. Our 1Q21 10-Q contains additional details and reconciliation of non-GAAP financial measures for the quarter ended December 31, 2020 and is similarly posted on our website.

Today's News

1Q21 Highlights

- Best performance since the pandemic began
- Total revenues of $38.4M, up 33% from 4Q20
- GAAP EPS of $1.07 and non-GAAP EPS of $0.39
- Weighted average shares outstanding declined 3.3% year-over-year
- $17.0M cash at December 31, 2020
- Net cash from operating activities of $6.3M and free cash flow of $5.7M

2Q21 Update

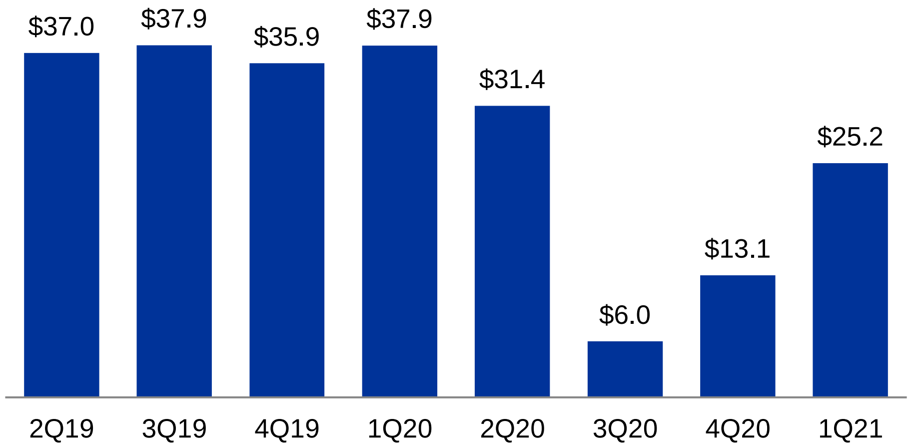
- As of today, 31 clubs and all 10 Bombshells open
- Actively pursuing new club acquisitions
- Acquired new Bombshells site in the Dallas area
- Collaborating with initial Bombshells franchisee on their first location in San Antonio
- Actively working on real estate debt refinancing at more favorable terms

Outlook

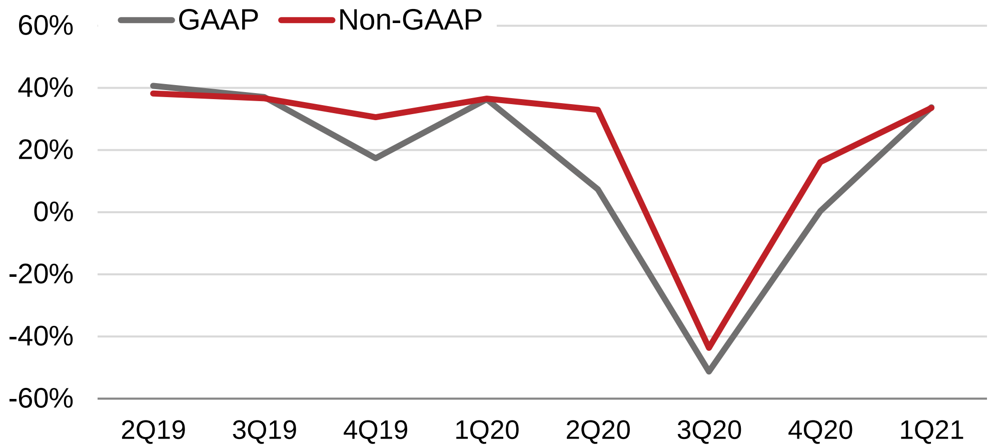
- Continued positive outlook as vaccinations make consumers more comfortable going out

Nightclubs Segment

Revenues ($M)



Operating Margin *As % of Total Revenues*

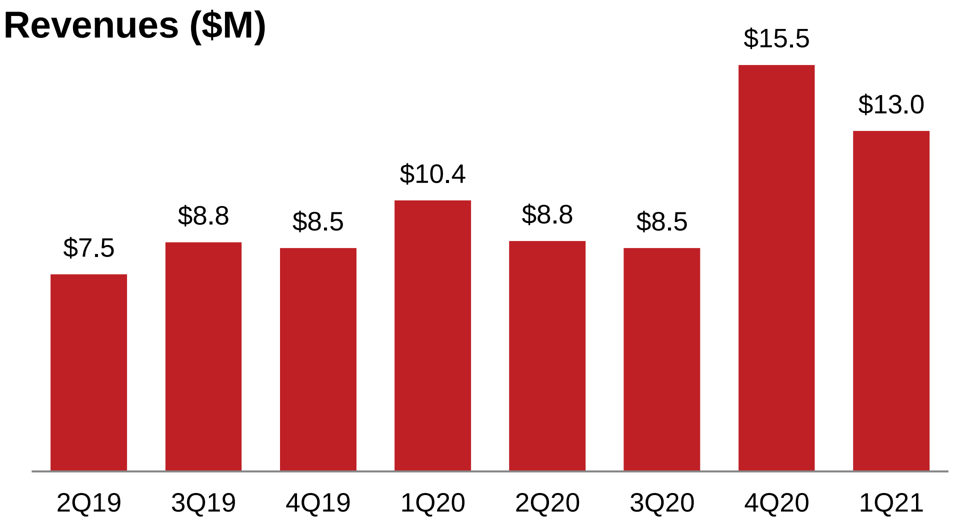


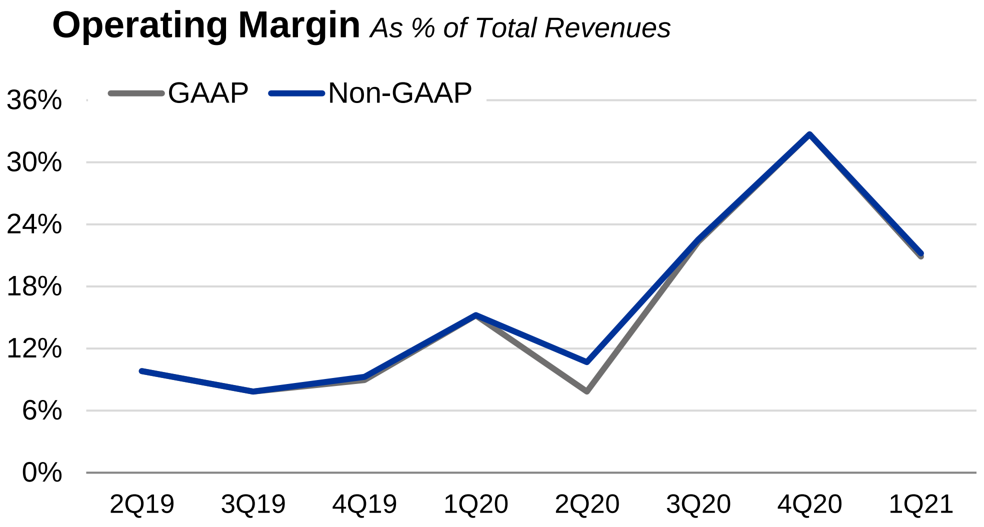
1Q21 vs. 4Q20

- Continued rebound – more locations open on more consistent basis
- Revenues of $25.2M, up 92%
- SSS: -6.4% YoY
- Operating margin of 33.7% vs. 0.9% (33.6% vs. 14.8% non-GAAP)
- Operating income of $8.5M vs. $0.1M ($8.5M vs. $2.1M non-GAAP)

Period	Location Status
2Q19	All 39 clubs open
3Q19	St. Louis temporarily closed May 2019 for remodeling
4Q19	Studio 80 Webster closed July 2019
1Q20	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

Bombshells Segment





1Q21 vs. 1Q20

- Continued strong performance – without the benefit of 4Q20's better sports line up and warmer weather
- Revenues of $13.0M, up 26%
- SSS: +12%
- Meal delivery service added $380K in revenues
- 20.9% operating margin, up 570 bps
- Operating profit of $2.7M, up 73%

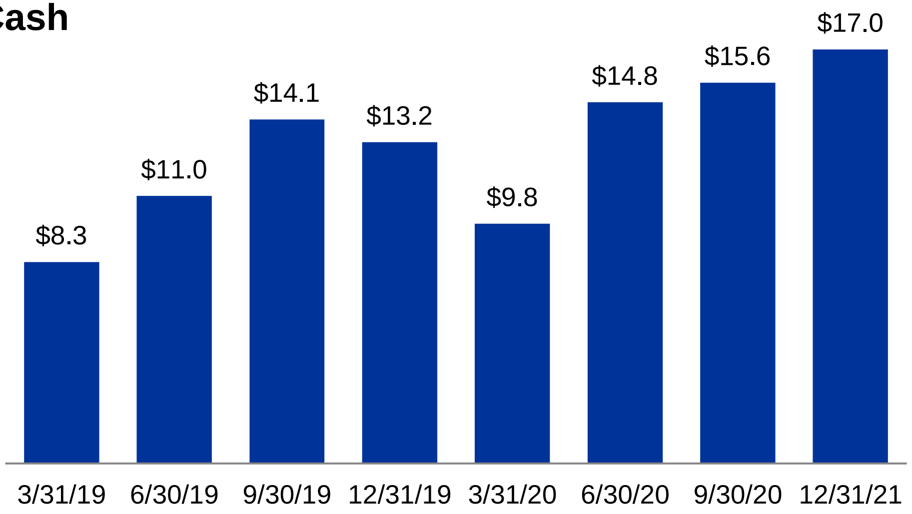
Period	Location Status
2Q19	8th store opened March 2019
3Q19	8 stores
4Q19	8 stores
1Q20	9th store opened October 2019
2Q20	10th store opened January 2020, all 10 closed mid-March
3Q20	Reopenings started May 2020, all 10 open by quarter end
4Q20	Austin & Fuqua closed part of 4Q20, all 10 open by quarter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

Analysis of 1Q21 Statement of Operations

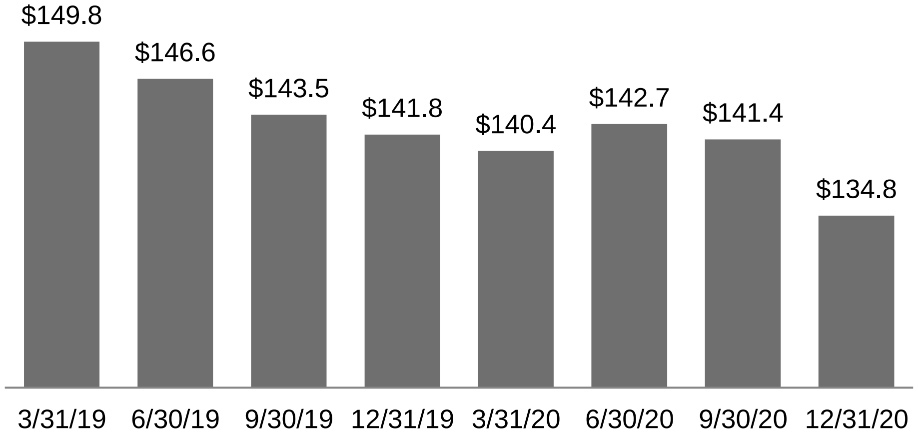
Item	Comment (Comps are YoY)	Explanation
Cost of Goods Sold	16.2% of revenues vs. 14.0%	• Higher food and lower service revenues in sales mix
Salaries and Wages	29.9% of revenues vs. 27.3%	• Impact of fixed salaries compared to lower revenues
SG&A	31.6% of revenues vs. 34.2%	• Cost-savings initiatives and lower variable expenses, partially offset by fixed costs
Depreciation & Amortization	5.3% of revenues vs. 4.6%	• Fixed costs on lower revenues
Interest Expense	2.1% lower	• Debt paydowns prior to and during 1Q21
Non-operating gains (losses), net	$4.9M vs. ($72K)	• 1Q21 gain on debt extinguishment
Tax Expense (Benefit)	($384K) vs. $1.6M	• 1Q21 partial reversal of 4Q20’s deferred tax asset valuation allowance and the impact of loan forgiveness

Cash, FCF & Balance Sheet Trends ($M)

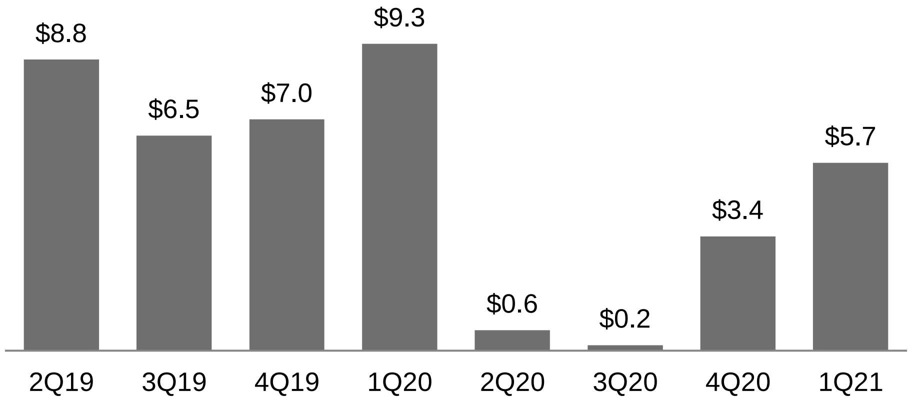
Cash



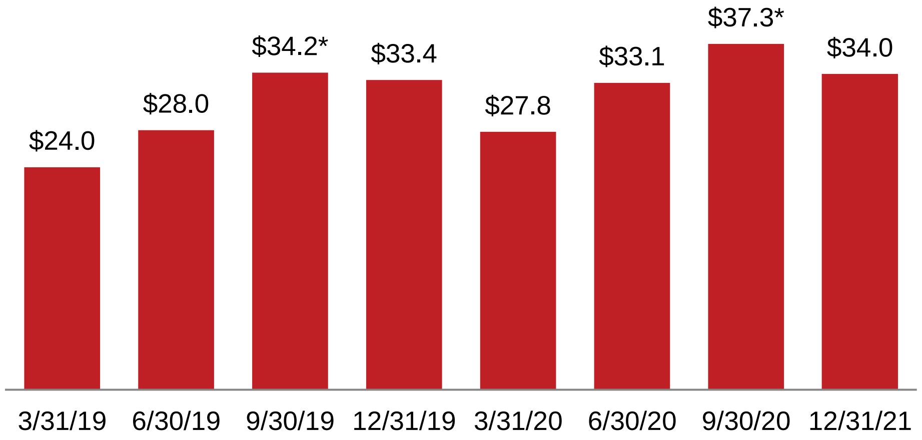
Debt



Free Cash Flow



Current Liabilities



* ~$4.0M increase reflects annual renewal of insurance

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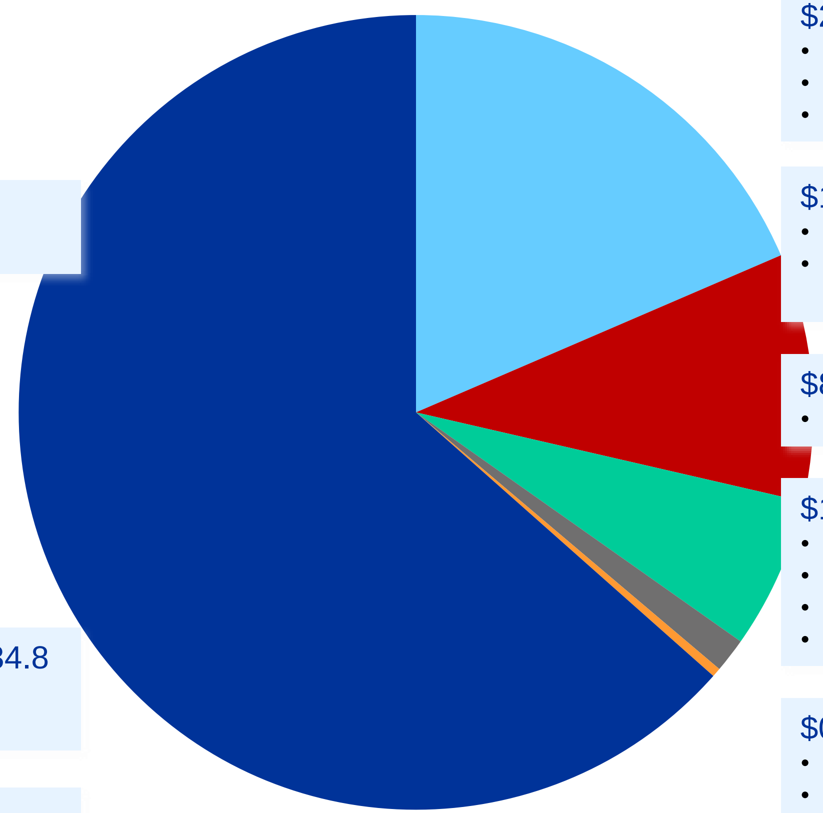
Debt *(as of 12/31/20, $ in millions)*

Total of $136.0*
Weighted Average Interest Rate (WAIR): 6.70%



$86.3 Secured by Real Estate (63.4%)
- 5.77% WAIR

$25.2 Seller Financing (18.5% of total)
- Secured by the respective clubs
- Scarlett's: $15.4 @ 7.41% WAIR
- VIP's & Blush: $9.8 @ 7.48% WAIR

$13.7 Unsecured Debt (10.1%)
- 11.59% WAIR
- Includes $2.1 for Scarlett's and $2.0 for VIP's & Blush acquisitions

$8.4 Secured by Other Assets (6.2%)
- 5.87% WAIR

$1.9 Texas Comptroller Settlement (1.4%)
- 9.58% WAIR
- Imputed for accounting purposes
- Paid in monthly installments of $120K
- Secured by business and assets of related clubs

$0.5 SBA (0.4%)
- 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: $134.8
- Down $6.6 from 9/30/20
- Down $7.0 from 12/31/19

Operating Lease Total Liabilities: $26.7
- Adoption of ASC 842, Leases, starting FY20

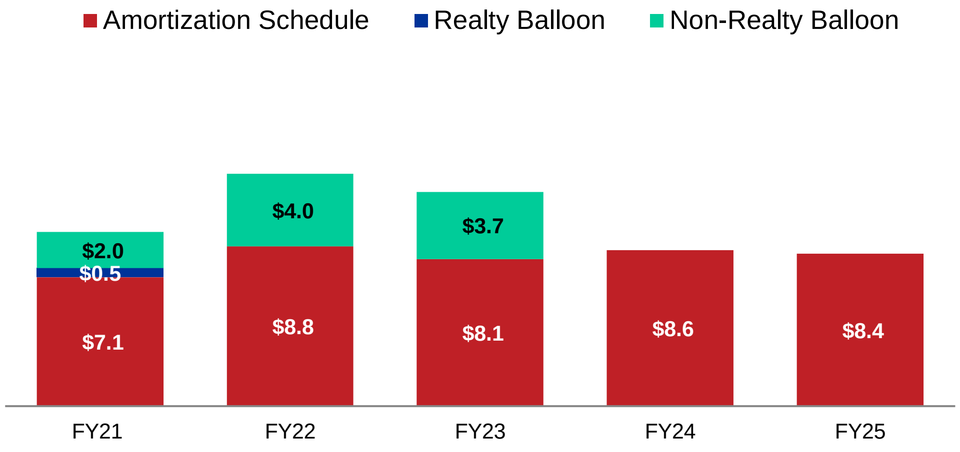
Debt Manageability

Quarter	Actions
1Q21	• $1.7M of the $1.9M non-realty balloon deferred to FY22 and $0.02M paid down • $4.9M of $5.4M in SBA loans forgiven along with $29K interest
2Q21	• $378K SBA loan forgiven along with $2.7K interest • $2.17M in real estate bank debt

Bank Debt Refinancing

- In discussions to lower rate, increase term, and convert some higher-interest, unsecured debt into real estate debt

Debt Maturities as of 12/31/20 ($M)



Bombshells Expansion

Bombshells "The Next 10"

- COVID-19 creates unique and compelling opportunity to access prime locations not previously available and/or buy/lease at significantly lower prices
- Open 10 new units over the next 36 months if we find the right locations and structure the development of each in line with capital allocation strategy
- Target markets: Dallas-Fort Worth, Miami-Fort Lauderdale, and Houston (all locations leverage existing management)

Status

- Acquired excellent site in Dallas area for $2.9M ($726K cash and $2.175M in bank debt at 3.99%, 5-years fixed, with 20-year amortization)
- Conducting due diligence on three sites (one in Texas, two in South Florida)
- More details to come

Bombshells: "The Franchise"

- Closely collaborating with initial franchisee on their first of three locations in San Antonio
- Talking to potential franchisees

*Capital Allocation Strategy**

Buy Back Shares

- Repurchase shares when FCF yield is more than 10%...
- …But during the pandemic, acquire shares using the same formula, but only if cash exceeds $16M

M&A

Buy More of the Right Nightclubs

- Buy good, solid, cash flowing clubs at 3-4x 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

- Structure investments in new units to generate annual cash on cash return of at least 25-33%
- Develop critical mass and market awareness to sell franchises

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

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

FY21 Accomplishments to Date

- Business is recovering
  - Continued sequential rebound in Nightclubs
  - Continued strong YoY performance in Bombshells
  - Solid cash position
  - More clubs being allowed to reopen
- Executing on our Capital Allocation Strategy
  - Pursue club acquisitions
  - Develop Bombshells “The Next 10” company owned locations
  - Develop Bombshells “The Franchise”
- We have the best teams in the industry

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