



*The Innovator in Bar-Restaurant-Entertainment Themed Hospitality*

**NASDAQ: RICK**

**1Q17 Conference Call Presentation**

**February 9, 2017**

**[www.rcihospitality.com](http://www.rcihospitality.com)**

# Forward-Looking Statements

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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](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.

# Non-GAAP Financial Measures

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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 items that management believes are not representative of the ongoing business operations of the Company, but 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, gains or losses on sale of assets, stock-based compensation, and settlement of lawsuits and other one-time 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.
- *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, income tax expense, gains or losses on sale of assets, stock-based compensation, and settlement of lawsuits and other one-time costs, and include the non-GAAP provision for current and deferred income taxes, calculated as the tax effect at 33% and 35% effective tax rate of the pre-tax non-GAAP income before taxes for the quarter ended December 31, 2016 and 2015, respectively, 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, income tax expense, interest expense, interest income, gains or losses on sale of assets, and settlement of lawsuits and other one-time costs 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. 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.
- *Non-GAAP Cash Flow Measure.* We believe our ability to generate cash from operating activities is one of our fundamental financial strengths. As a consequence, management also uses certain non-GAAP cash flow measures such as free cash flows. Free cash flows is derived from net cash provided by operating activities less maintenance capital expenditures.

Our Form 10-Q for the quarter ended December 31, 2016 and our February 9, 2017 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).

# 1Q17 Highlights

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*Comparisons to year ago periods unless otherwise noted*

## EPS

- GAAP: \$0.30 vs. \$0.25 – Up 20%
- Non-GAAP\*: \$0.31 vs. \$0.30 – Up 3.3%

## Free Cash Flow\*

- \$5.1M vs. \$3.9M – up 33.1%
- On track with initial \$18M FY17 target

## Revenues

- Total up 0.8%, reflecting disposition of underperformers in 4Q16
- Same store sales up 3.6%
- High margin service revenues up 6.6%

## Share Repurchases

- Bought back ~90K more shares for \$1.1M
- Basic and diluted share counts down 5.1% and 7.7%, respectively

# Disciplined Capital Allocation Strategy

## 1. Use FCF to buy back shares

- After tax yield of 11-11.6% with shares in \$16-17 range

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

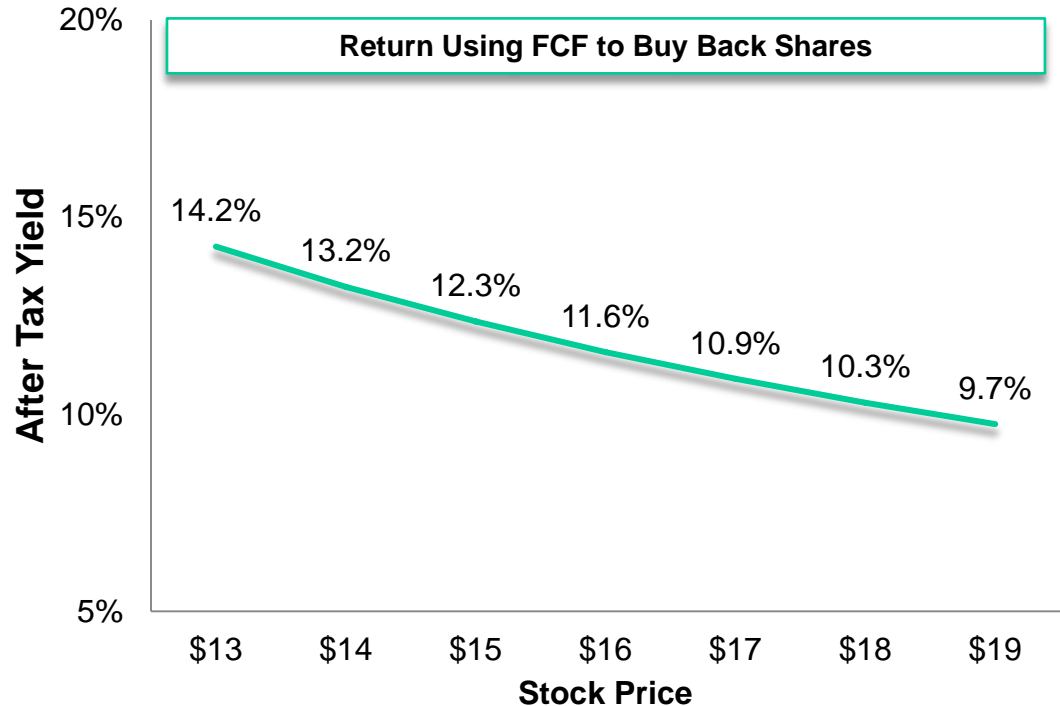
- We can achieve target cash on cash return of 25-33% or more
  - Target intended to provide superior risk adjusted return vs. buying our own assets in the market
- There is a strategic rationale

## 3. Take action if units not performing in line with strategy

- Free up capital for buying back shares or more profitable investments

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

- It make sense on a tax adjusted basis or there is a strategic rationale

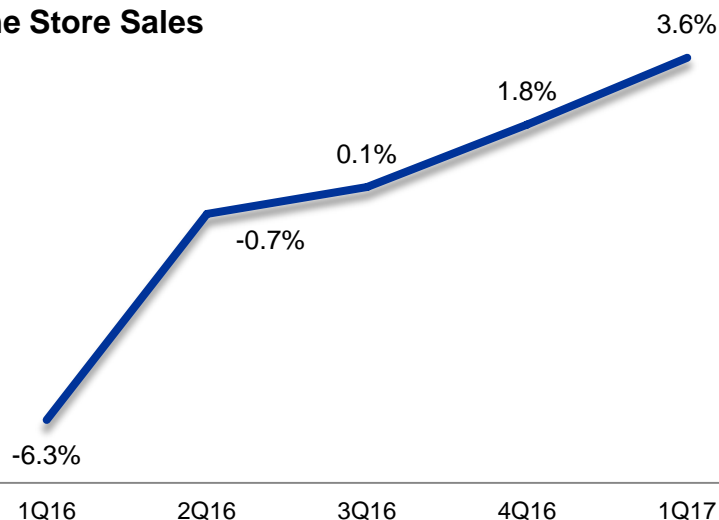


### Notes

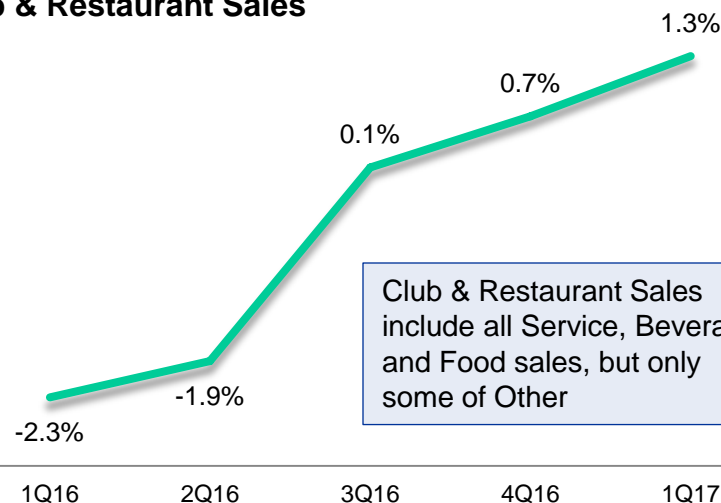
- Based on annual FCF of \$18M
- Based on FD shares outstanding of 9.719M at 12/31/16

# Continued Sales Growth (year over year)

## Same Store Sales



## Club & Restaurant Sales



Club & Restaurant Sales include all Service, Beverage and Food sales, but only some of Other

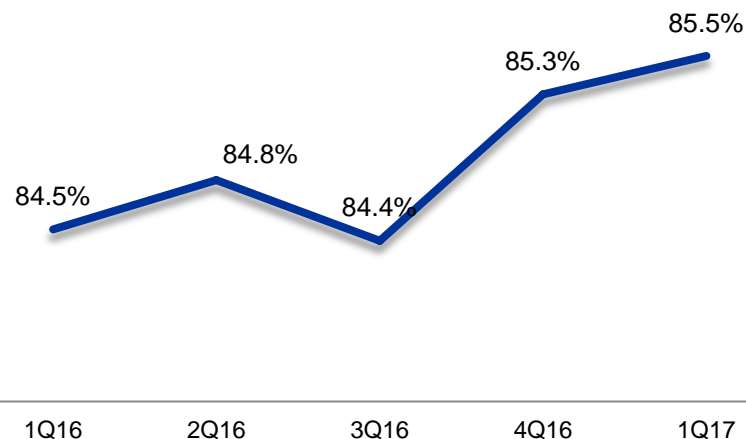
Total Corporate Revenues	1Q17 Comment	1Q16	2Q16	3Q16	4Q16	1Q17
Service	4 <sup>th</sup> quarter in a row of improvement	-6.6%	-4.6%	-2.9%	1.4%	6.6%
Beverage	Disposition of underperforming units in 4Q16	4.2%	1.9%	3.0%	0.7%	-1.5%
Food	Disposition of underperforming restaurant in 4Q16	-10.3%	-4.7%	-1.2%	-0.7%	-2.9%
Other	Sale of energy drink interest in 4Q16	3.5%	0.4%	29.1%	0.1%	-11.6%
<b>Total</b>		<b>-2.1%</b>	<b>-1.7%</b>	<b>1.5%</b>	<b>0.8%</b>	<b>0.8%</b>

# Margin Analysis

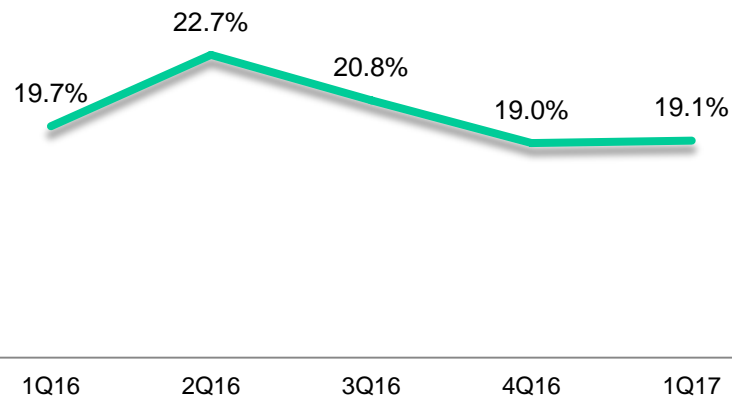
## Highlights

- Gross profit margin expanding with rebound in service revenues
- 1Q17 non-GAAP operating margin reflects
  - Improved performance
  - Offset by expensed investments to build a stronger foundation for future growth
    - Transition to new ERP system
    - Marketing to support a new club and Bombshells franchising program
    - Accounting / tax experts to advise in tax planning strategies to minimize our tax liabilities

## Gross Profit Margin



## Non-GAAP Operating Margin\*



\* For GAAP reconciliation, see the company's 1Q17 news release dated February 9, 2017 and the company's 4Q16 conference call presentation dated December 13, 2016 on the company's website at [www.rcihospitality.com](http://www.rcihospitality.com)

# Nightclubs Segment

(\$ in millions)	1Q17	1Q16	Change
Revenues	\$29.3	\$28.2	3.9%
Units	37	38	-2.6%
Non-GAAP Operating Income*	\$9.3	\$9.0	2.5%
Non-GAAP Operating Margin*	31.7%	32.1%	-43bps

## Highlights

- Same store sales up 2.8%
- VIP spend has returned
- Strong results from units in Minneapolis with the return of the Vikings downtown to their new stadium, and from clubs in New York City and parts of Texas
- New and reformatted units off to a good start
- Margin should expand as we go through the year
- Using small amounts of capital to expand certain clubs



# Bombshells Segment

(\$ in millions)	1Q17	1Q16	Change
Revenues	\$4.3	\$4.4	-1.9%
Units	4	5	-20%
Operating Income	\$0.638	\$0.487	31.0%
Operating Margin	14.9%	11.1%	373bps

## Highlights

- Same store sales up 9.6%
- Average annual unit revenues of \$4.4M (TTM as of 1Q17 for the 4 continuing units)
- Revenues down slightly, but margin up strongly with Webster closing in 4Q16
- Starting to meet with multi-unit franchise operators
- Three new Houston units moving ahead

# Free Cash Flow, Adjusted EBITDA & Cash

## Free Cash Flow\*

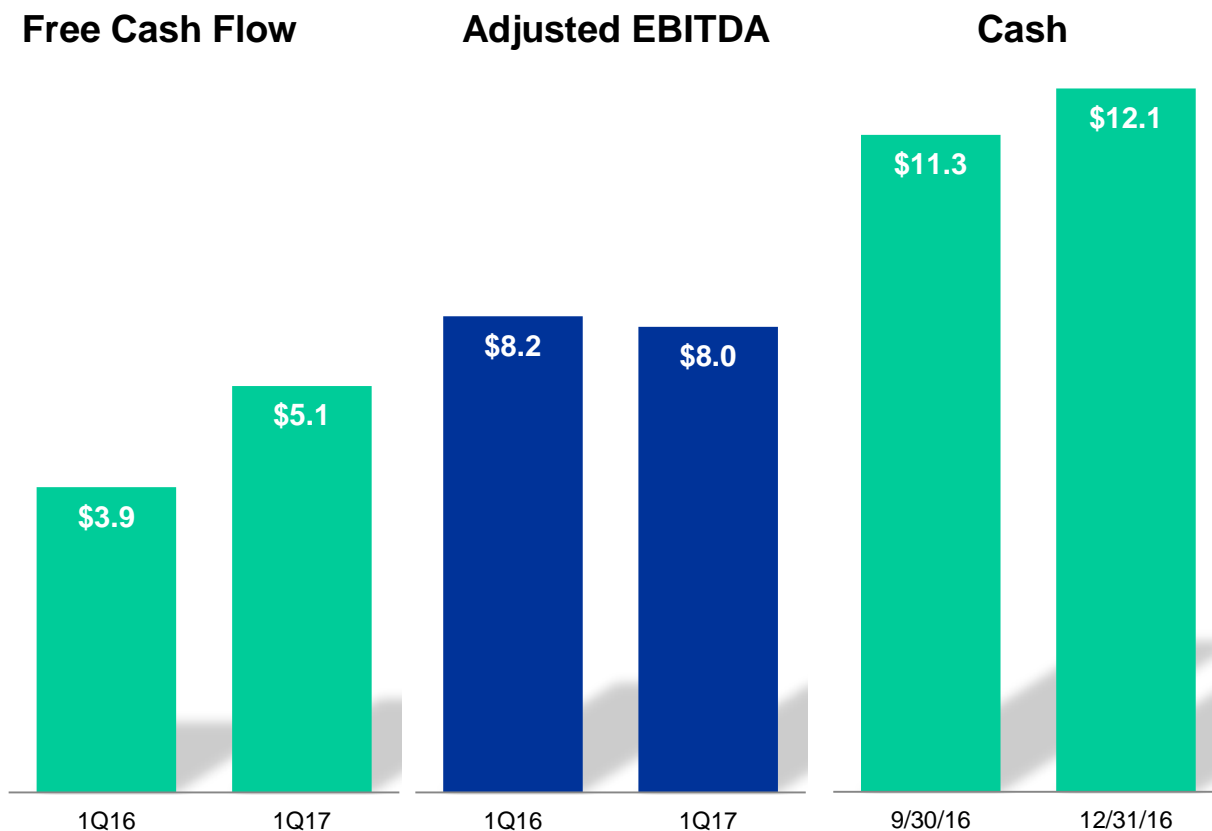
- Up 33.1% YoY
- Reflects increased net income and focus on generating cash

## Adjusted EBITDA\*

- Down 2.2% YoY
- Off slightly due to expensed investments for the future

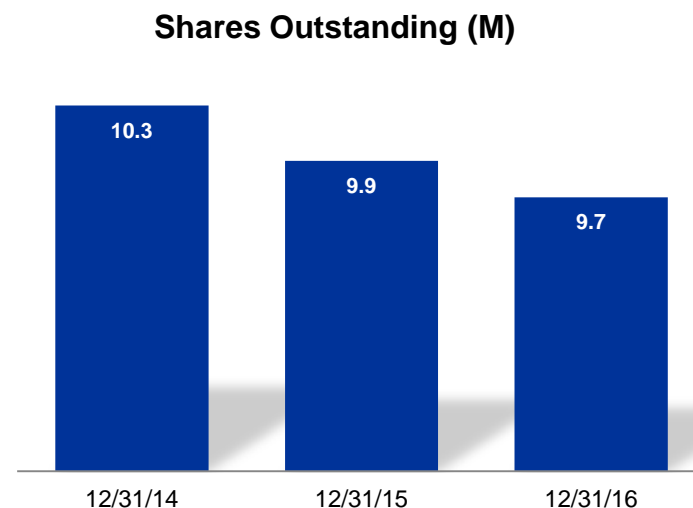
## Cash

- Up 6.5% from 9/30/16
- Reflects strong sales/operations
- Large, but routine tax payments in 2Q17



# Buybacks, Dividend, Eliminated All Dilutive Securities

Quarter	Shares Bought	Average Price	Total (\$M)
1Q16	282,762	\$9.88	\$2.8
2Q16	218,140	\$8.76	1.9
3Q16	106,093	\$10.14	1.1
4Q16	140,086	\$10.92	1.5
1Q17	89,685	\$12.28	1.1
<b>Total</b>	<b>836,766</b>	<b>\$10.05</b>	<b>\$8.4</b>

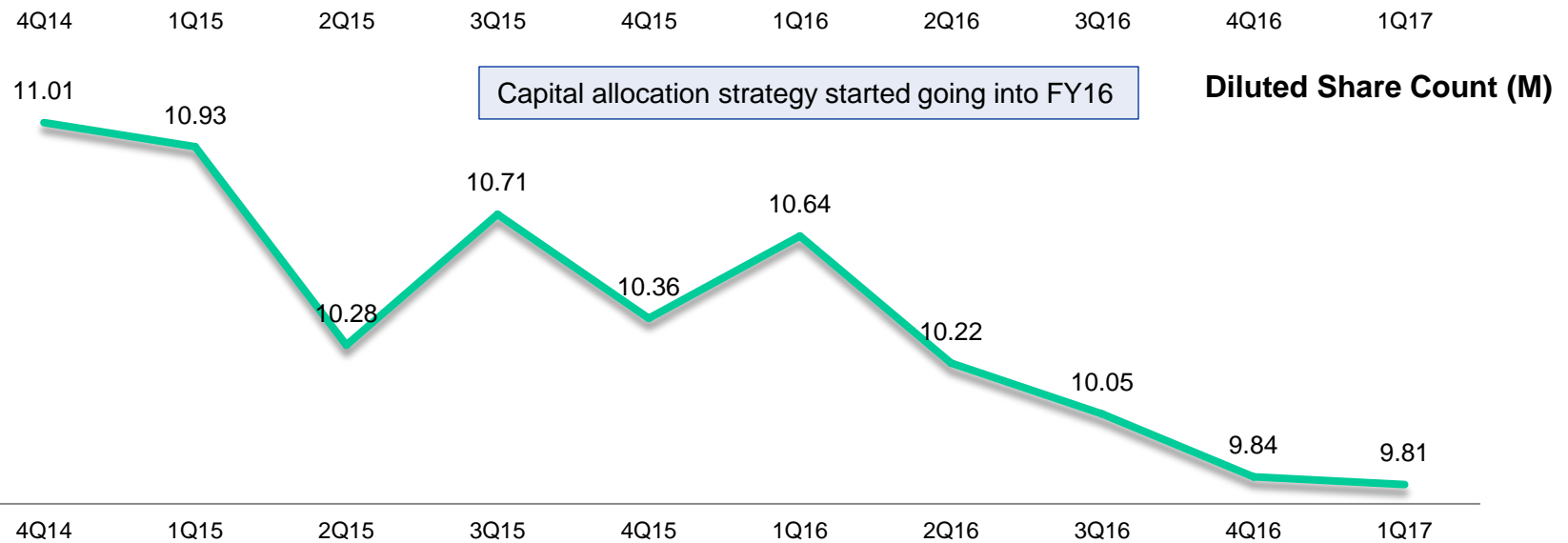
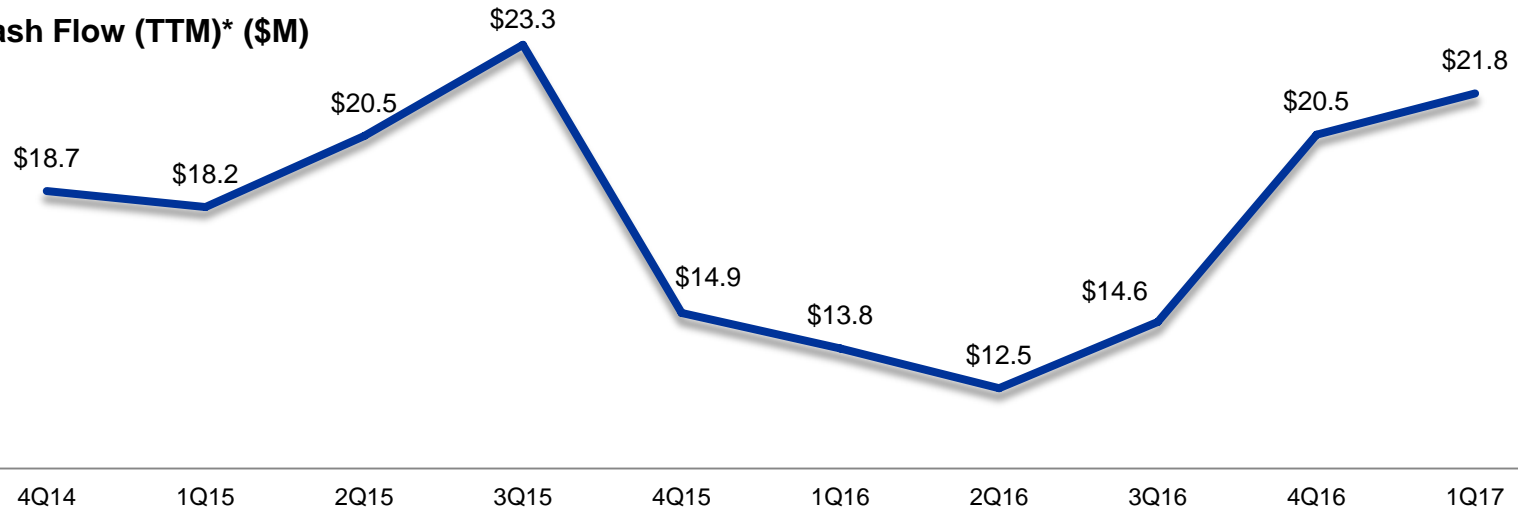


## Highlights

- 1Q17: Maintained largest continual buyback in RCI's history
- 1Q17: \$0.03 quarterly cash dividend paid December 27, 2016
- 12/31/16: \$3.1M remaining buyback authorization
- FY16-1Q17: Paid off \$2.8M convertible debt, eliminating 230,000 possible new shares
- 1Q17: 49,000 related warrants expired
- 2Q17: Paid down last of convertible debt (\$400K seller-financed note), leaving no dilutive securities in current capital structure

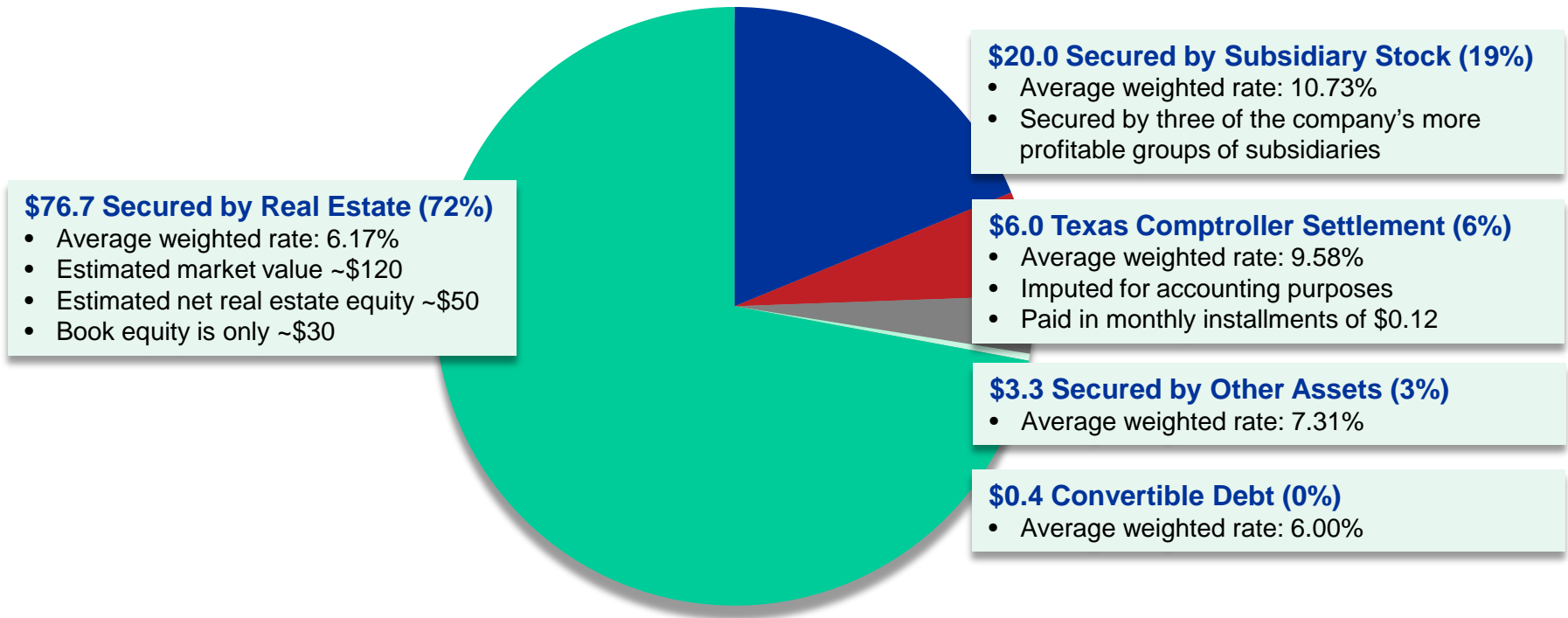
# Rising FCF and Declining Share Count

Free Cash Flow (TTM)\* (\$M)



# Long-Term Debt (\$ in millions, as of 12/31/16)

Total of \$106.4\*  
Average Weighted Rate: 7.25%



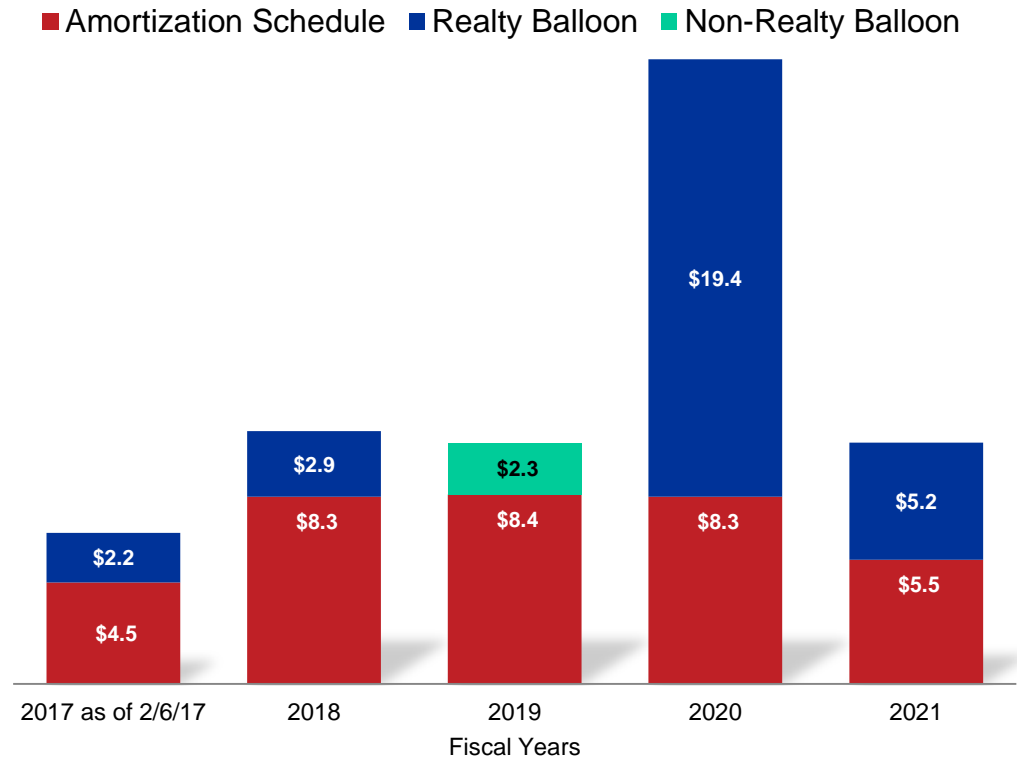
# Debt Maturities (\$ in millions)

## Overview

- Most debt is real estate amortizations or real estate balloons
- Amortizations to be paid out of cash flow
- Realty and non-realty balloons to be paid off out of cash flow or refinanced
- All debt is now amortizing

## Update from Last Conference Call

- Paid off \$400K remaining convertible debt
- Proceeds from sale of first of several non-income producing properties used in part to pay off \$1.5M 11% balloon note



# Strong FY17 Outlook Continues

## Metrics

- Revenue, margin and EPS growth
- FCF initial target of \$18M\*
- Continue to apply our capital allocation strategy

## Factors

- New and Reformatted Units
- Strong Sports Line Up
  - 1Q17: Vikings return to downtown Minneapolis
  - 1Q17: First MMA bout in NYC
  - 2Q17: Big Game in Houston
- Potential franchise sales

## Other

- Planned sale of seven other non-income producing properties estimated to approximate \$10M in total proceeds



Entrance to Rick's Cabaret New York in Midtown Manhattan

# Calendar

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*Subject to possible change*

<b>Date</b>	<b>Event</b>
March 29, 2017	Sidoti & Company “Spring 2017 Convention” in New York City
April 11, 2017	2Q17 Club & Restaurant Sales
May 9, 2017	2Q17 & 6M17 Financial Results
July 11, 2017	3Q17 Club & Restaurant Sales
August 9, 2017	3Q17 & 9M17 Financial Results
August 27-30, 2017	25 <sup>th</sup> Annual Gentlemen’s Club Expo in Las Vegas
October 10, 2017	4Q17 Club & Restaurant Sales
December 5-7, 2017	LD Micro Investor Conference in Los Angeles
December 14, 2017	4Q17 & FY17 Financial Results



# GAAP Reconciliation for Slide 12

## Reconciliation of GAAP net cash provided by operating activities to non-GAAP free cash flow (\$ in 000s)

Quarter	Net cash provided by operating activities	Less: Maintenance capital expenditures	Quarterly Free Cash Flow	TTM Free Cash Flow
1Q14	\$5,830	\$359	\$5,471	
2Q14	5,767	327	5,440	
3Q14	2,201	724	1,477	
4Q14	6,637	291	6,346	\$18,734
1Q15	5,092	128	4,964	18,227
2Q15	8,027	351	7,676	20,463
3Q15	5,161	812	4,349	23,335
4Q15	(1,916)	184	(2,100)	14,889
1Q16	4,202	351	3,851	13,776
2Q16	6,910	485	6,425	12,525
3Q16	7,386	952	6,434	14,610
4Q16	4,533	730	3,803	20,513
1Q17	5,521	394	5,127	21,789

# Contact Information

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## IR Website

[www.rcihospitality.com](http://www.rcihospitality.com)  
Nasdaq: RICK

