



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**

**1Q15 Earnings Call**

**February 9, 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 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, patron taxes, pre-opening costs, gains and losses from asset sales, stock-based compensation charges, litigation and other one-time legal settlements, gain on contractual debt reduction 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.

**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, patron taxes, 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.

**Adjusted EBITDA.** We exclude from earnings before interest, taxes, depreciation and amortization (EBITDA) depreciation expense, amortization of intangibles, income tax, interest expense, interest income, gains and losses from asset sales, acquisition costs, litigation and other one-time legal settlements, 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-Q for the fiscal first quarter ended December 31, 2014 and our press release dated February 9, 2015 contain additional details relative to the non-GAAP financial measures and are posted on our website at [www.rcihospitality.com](http://www.rcihospitality.com).

# Strong Start to FY15

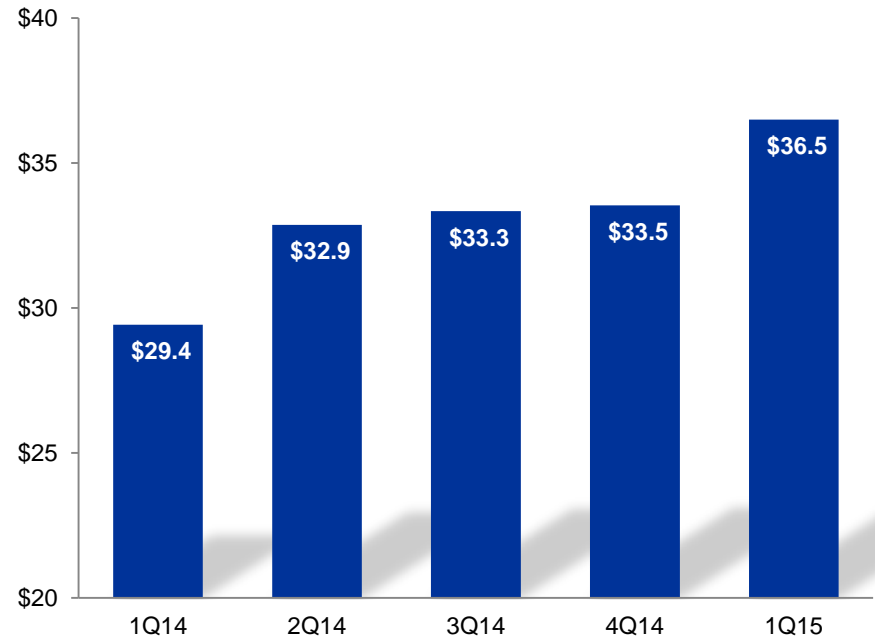
\$ in millions except per share	1Q15	1Q14	\$ Change	% Change
<b>Total Revenues</b>	\$36.5	\$29.4	\$7.1	24.0%
<b>GAAP Operating Margin</b>	16.8%	19.1%		-225 bps
<b>GAAP EPS</b>	\$0.32	\$0.25	\$0.07	28.0%
<b>Non-GAAP Operating Margin</b>	25.0%	22.6%		+240 bps
<b>Non-GAAP EPS</b>	\$0.47	\$0.31	\$0.16	51.6%
<b>Adjusted EBITDA</b>	\$9.7	\$7.3	\$2.4	32.7%

- Solid revenue growth
- Even better earnings growth
- GAAP EPS included asset impairment charge related to an underperforming club, partially offset by gain
- Improved core operating margins in nightclub and Bombshells segments
- Sharp increase in Adjusted EBITDA
- Repurchased 109,616 shares in the open market

# Record Revenues (\$ in millions)

## Highlights (1Q15 vs. 1Q14)

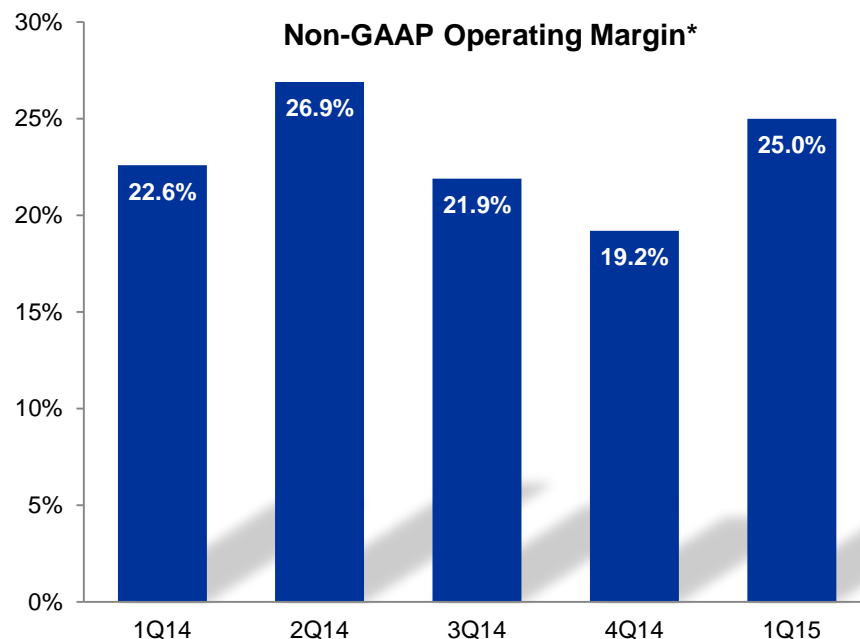
- Up 24.0%
- Heavier traffic
- More units: 44 vs. 40
- 9 generated more than \$1 million
- \$6 million from new clubs and restaurants
- Full quarter of Vivid NYC and Rick's Odessa
- New Bombshells in Austin, Webster, Spring and Houston vs. only Dallas in 1Q14
- SSS sales up 4.1%



# Expanded Margin (\$ in millions)

## Highlights (1Q15 vs. 1Q14)

- Up 240 bps
- Expanded profitability of adult clubs
  - ✓ Higher revenues
  - ✓ Elimination of 3 under-performing units
- Growing performance of Bombshells
- Changes of note
  - ✓ CoGs increased (14.0% vs. 12.7% of revenues) due to more restaurant food sales
  - ✓ Decline in insurance (2.2% vs. 2.7%) due to new contract
  - ✓ Rent+Interest declined (7.5% vs. 11.0%) due to 4Q14 reduction of debt and other factors
- Items
  - ✓ \$1.4 million non-cash impairment charge related to Temptations Cabaret (Lubbock, TX)
  - ✓ Non-cash gain of \$0.6 million related to Robust investment (not in operations)



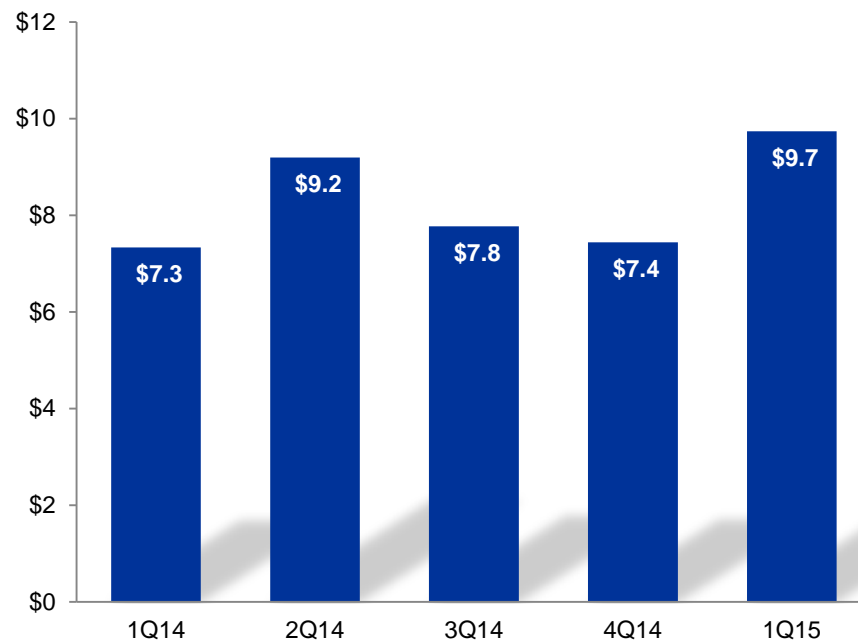
\*GAAP Operating Margin

1Q14: 19.1%  
 2Q14: 22.7%  
 3Q14: 8.7%  
 4Q14: 8.7%  
 1Q15: 16.8%

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

## Highlights (1Q15 vs. 1Q14)

- Up 32.7%
- Reflects RCI's cash generating power



\*GAAP Net Income (\$ in millions)

1Q14: \$2.404

2Q14: \$3.722

3Q14: \$2.195

4Q14: \$4.423

1Q15: \$3.360


# Solid Balance Sheet (\$ in millions)

	12/31/14	9/30/14	Change
<b>Assets</b>	\$250.2	\$239.1	4.6%
<b>Long-Term Debt</b>	\$69.8	\$70.4	-0.8%
<b>Total Permanent Stockholders' Equity</b>	\$124.3	\$113.3	9.7%

- Tootsie's related notes (14% rate, our most expensive) will be paid off March 1<sup>st</sup>
- Refinanced \$2 million real estate debt through new bank debt at 5.25%—interest expense savings
- Borrowed \$2 million for short-term cash needs



# New Locations

Count	1Q14	2Q14	3Q14	4Q14	1Q15	2Q15	FY15
10							Bombshells-Willowbrook
9							Down in Texas Saloon-Austin
8							Bombshells-south Houston
7							Union Square-Fort Worth
6							Rick's-Odessa
5							Bombshells-Spring
4							Bombshells-Austin
3							Vivid-NYC
2							Bombshells-Webster
1							Black Orchid-Dallas

# Nightclub Segment

\$ in millions	1Q15	1Q14	Change
Revenues	\$31.1	\$28.4	9.6%
Units	39	39	--
Operating Income	\$6.4	\$5.9	8.1%
Adjusted Operating Income (excludes impairment charge)	\$7.8	\$5.9	30.9%
Adjusted Operating Margin	25.1%	21.0%	+410 bps

## Acquisition Update

- Down in Texas Saloon (Austin, TX) in January
  - ✓ Country-themed gentlemen's club
  - ✓ Near existing Rick's Cabaret Austin and Bombshells
  - ✓ \$6.8 million for the club business and real estate



# Bombshells Restaurant & Bar Segment

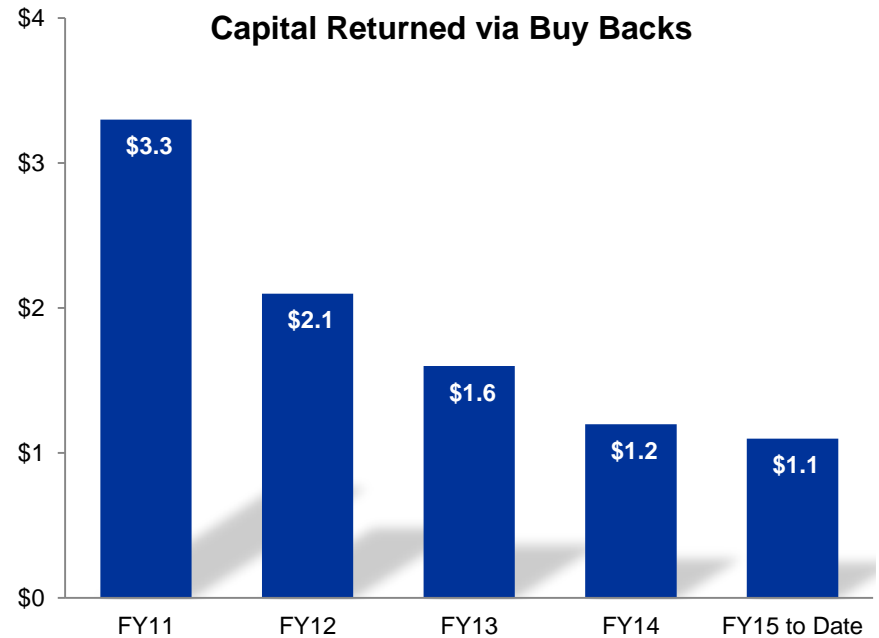
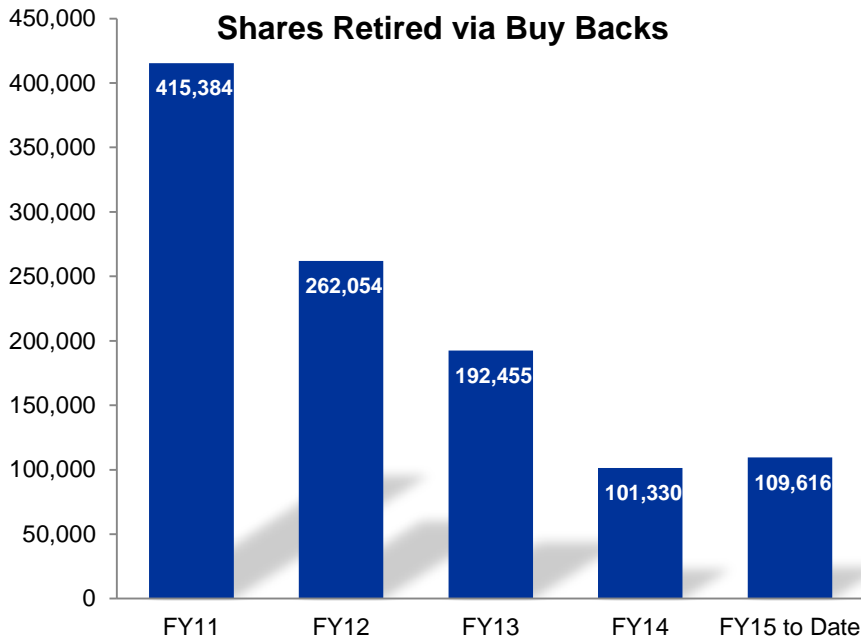
\$ in millions	1Q15	1Q14	Change
Revenues	\$4.9	\$0.7	~7x
Units	5	1	5x
Operating Income	\$0.425	(\$0.139)	+\$0.564
Operating Margin	8.7%	(19.7%)	+2840 bps

## Highlights

- Military themed, fast casual, restaurant/bar
- Performance continues to improve
- Operating margin expected to grow as revenues continue to build and training costs subside
- No. 6 (Willowbrook, N. Houston) to open later in FY15
- Exploring franchising



# Undervaluation Spurs Buy Backs (\$ in millions)



- 4Q14 & 1Q15 bought back more than 100,000 shares/quarter for more than \$1 million/quarter
- Current rate exceeds FY11 on annualized basis
- \$7.8 million of remaining Board authorization
- At this point, our own assets represent a highly attractive acquisition

# FY15 Outlook

- 1Q15 was record revenue quarter
- 2Q15 should show further gains
- Continued favorable outlook for FY15 due to improved portfolio of clubs and Bombshells
- Expect good growth in revenues, profit and cash generation
- Strong line-up of major sporting events in locations where we have clubs and restaurants
- Vivid Cabaret New York 1<sup>st</sup> Anniversary this week
- Rick's Cabaret New York 10<sup>th</sup> Anniversary in October



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# Due Diligence Ball

## Please Join Us

- Rick's Cabaret New York  
50 W 33rd St  
New York, NY 10001  
Between 5th and Broadway
- 6:00 pm-8:00 pm
- "Behind the Scenes" tour

## For more information

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