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**RICK tops consensus in 4Q F2022; expects growth in F2023 even if a recession ensues, in part due to recent acquisitions, including yesterday's purchase of 5 clubs in TX for ~4.5x EBITDA; increase fair value to \$93.50 per share**

- Last night, after the market close, RICK reported 4Q F2022 consolidated sales up ~30% to \$71.4 million (versus consensus of \$69.9 million) with adjusted EBITDA up ~38% to \$24.2 million (compared with consensus of \$22.4 million). Adj. EPS were \$1.45 (versus consensus of \$1.35 and \$1.58 in the prior year) while free cash flow (FCF) rose ~72% \$14.5 million.
- For the full-year F2022, RICK posted 37% consolidated top-line growth to \$267.6 million with 32%, 44% and 63% growth in adj. EPS, adj. EBITDA and FCF, respectively, to \$5.38, \$86.7 million and ~\$59 million (or ~\$6.25 per share). The company ended F2022 with net debt of \$166.5 million and a leverage ratio of 1.9x (in-line with 3Q F2022 but modestly higher than the 1.5x at the end of F2021). For context, in F2022 RICK deployed ~\$142 million in capital to acquire 15 nightclubs, ~\$10 million to open a new restaurant and acquire real estate for 5 additional locations, and ~\$5 million toward the repurchase of ~268,000 shares.
- The company does not provide explicit financial guidance but anecdotally indicated, on last night's conference call, that while it has seen some variability in spending at its "blue collar clubs" in recent weeks its "VIP" clubs (i.e., Miami, NYC, Chicago) continue to see month over month increases. To that end, the company expects that while same store sales at some clubs may fall ~10% in the event of a recession, overall consolidated sales would likely continue to grow, in part due to its recent acquisitions (and its geographic/customer diversity). Specifically, for 1Q F2023, management indicated sales are likely to be "pretty close" to analyst expectations, which, per Bloomberg, currently stand at \$69.6 million (implying a roughly flat sequential comparison but a ~12.5% year over year increase). Additionally, the company indicated that it is still generating at least \$1 million a week in free cash flow. Looking into F2024, management commented that "growth could be off the charts".
- On the acquisition front, yesterday, RICK announced the purchase of 5 Baby Dolls (a "middle class" club with a "fun atmosphere") and Chicas Locas (an "Hispanic-based" club) locations, in the Dallas-Fort Worth and Houston markets, for \$66.5 million, consisting of \$25 million in cash, \$25.5 million of 10-year 7% seller financing and 200,000 of restricted shares (at \$80 per share). The company expects the transaction, which brings its club count to 58 (versus 37 at the end of F2021), is expected to close in January 2023 and initially contribute \$11 million of adjusted EBITDA until one club reopens after a full remodel (and another two locations are expanded), at which time the acquired clubs are

**UPDATE**

**RCI Hospitality Holdings, Inc.  
NASDAQ: RICK**

Publication Date:  
December 13, 2022

Price: \$87.14/share

Market capitalization: ~\$805M

Nightclubs: \$103.50/share

Bombshells: \$29/share

Corporate, Other & Net Debt:  
(\$39/share)

**SOTP: \$93.50/share \***

\*SOTP may not add due to rounding

*(See the report dated 6/30/2022 and updates from 7/12/2022, 7/22/2022, and 8/10/2022 for more info.)*

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expected to generate \$14-\$16 million of annual adjusted EBITDA (implying a 6.0x initial purchase multiple and a less than 4.5x actual multiple, at the midpoint). Notably, the company also recently purchased a building in downtown Central City, CO, in which it plans to open a steakhouse & casino (that should begin operating by the end of F2023 and is contemplated to initially add \$10-\$14 million of sales at 30%-40% margins albeit with the potential to grow to \$35-\$45 million of sales over time).

- Our fair value estimate has been increased to ~\$93.50 per share, reflecting an unchanged blended multiple of ~9.0x F2024E EV/EBITDA of ~\$111 million (previously \$89.5), and accounting for ~\$128 million of projected net debt (see Exhibit #1).

### Exhibit #1 RCI Hospitality: Sum-of-the-Parts Fair Value Estimate

(\$ in millions, except per share figures)

	<u>Nightclubs</u>	<u>Bombshells</u>	<u>Corporate &amp; Other</u>	<u>Enterprise Value</u>	<u>Net Debt</u>	<u>Market Cap</u>
<b>F2023E Revenue</b>	<b>\$230.5</b>	<b>\$72.3</b>	-	-	-	-
Revenue growth est.	12.8%	18.8%				
<b>F2024E Revenue</b>	<b>\$260.0</b>	<b>\$85.9</b>				
EBITDA margin	<u>44.2%</u>	<u>25.6%</u>	-	-	-	-
<b>F2024E EBITDA</b>	<b>\$115.0</b>	<b>\$22.0</b>	<b>(\$26.3)</b>		<b>(\$128.1)</b>	
Applied multiple	<u>8.5x</u>	<u>12.5x</u>	<u>9.1x</u>		<b>1.0x</b>	
<b>Enterprise value</b>	<b>\$977.2</b>	<b>\$274.4</b>	<b>(\$240.4)</b>	<b>\$1,011.2</b>	<b>(\$128.1)</b>	<b>\$883.1</b>
Diluted shares	<u>9.5</u>	<u>9.5</u>	<u>9.5</u>		<u>9.5</u>	<u>9.5</u>
<b>Per share basis</b>	<b>\$103.41</b>	<b>\$29.04</b>	<b>(\$25.44)</b>		<b>(\$13.55)</b>	<b>\$93.45</b>
Bull	\$127.74	\$33.69	(\$28.22)		(\$13.55)	\$119.65
Base	\$103.41	\$29.04	(\$25.44)		(\$13.55)	\$93.45
Bear	\$79.08	\$24.39	(\$22.66)		(\$13.55)	\$67.26

Source: Company reports, Bloomberg, and Institutional Research Group estimates.