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Close coverage of RICK with shares trading roughly in-line with our fair value estimate; we will look to re-recommend if/when valuation shifts or incremental steps toward strategic alternatives emerge

- For context, RICK has returned ~95.5% (compared with a ~1% increase in the S&P 500 and a ~2.75% rise in the Russell 2000) since our initial recommendation in June 2022.
- That said, with shares trading roughly in-line with our fair value estimate (see Exhibit #1 on page 2), we prefer to maintain a disciplined approach and close coverage/withdraw our recommendation, as of tomorrow’s close.
- To be clear, we are not making the case RICK is particularly overvalued; that said, we do think it is relevant to note that the company’s share repurchase activity markedly slowed during the latter half of 4Q F2022 as the stock price rose materially and the implied free cash flow yield correspondingly compressed (to below 10%).
- To that end, we will continue to monitor shares for an opportunity to re-recommend the shares if valuation shifts (i.e., the FCF yield exceeds the company’s 10% buyback threshold) or if incremental steps toward potential strategic alternatives (i.e., a separation of the Nightclub and Bombshells segments) materialize.
- Our fair value estimate of ~\$93.50 per share reflects a blended multiple of ~9.0x F2024E EV/EBITDA of ~\$110.5 million, and accounting for ~\$118 million of projected net debt (see Exhibit #1 on page 2).

UPDATE

RCI Hospitality Holdings, Inc.
NASDAQ: RICK

Publication Date:
December 29, 2022

Price: \$94.45/share

Market capitalization: ~\$875M

Nightclubs: \$105/share

Bombshells: \$26/share

Corporate, Other & Net Debt:
(\$37/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, 8/10/2022, and 12/15/2022 for more info.)

NOTE: This publication could be considered as advocating for corporate restructurings. Authors select companies for this report based on the potential for a future value-unlocking transaction. In many cases, these companies have or could come under activist investor pressure, media scrutiny, or general market speculation that a spin-off or asset sale is possible.



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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 & Other</u>	<u>Enterprise Value</u>	<u>Net Debt</u>	<u>Market Cap</u>
F2023E Revenue	\$230.5	\$63.9				
Revenue growth est.	12.8%	18.8%				
F2024E Revenue	\$260.0	\$75.9				
EBITDA margin	<u>44.8%</u>	<u>25.6%</u>				
F2024E EBITDA	\$116.5	\$19.4	(\$25.5)		(\$118.1)	
Applied multiple	8.5x	12.5x	9.1x		1.0x	
Enterprise value	\$990.4	\$242.8	(\$231.6)	\$1,001.6	(\$118.1)	\$883.4
Diluted shares	<u>9.5</u>	<u>9.5</u>	<u>9.5</u>		<u>9.5</u>	<u>9.5</u>
Per share basis	\$104.81	\$25.69	(\$24.51)		(\$12.50)	\$93.49
Bull	\$129.47	\$29.80	(\$27.21)		(\$12.50)	\$119.56
Base	\$104.81	\$25.69	(\$24.51)		(\$12.50)	\$93.49
Bear	\$80.15	\$21.58	(\$21.81)		(\$12.50)	\$67.42

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