

RCI Hospitality Holdings, Inc.

RICK: NASDAQ

Analyst: Matthew Schilling

Sector: Consumer Disc.

BUY

Price Target: \$11.25

Key Statistics as of 11/19/2015

Market Price:	\$9.66
Industry:	Leisure/Restaurants
Market Cap:	\$99.3M
52-Week Range:	\$9.13-\$12.50
Beta:	0.69

Thesis Points:

- Positive Macroeconomic Outlook
- New Franchising Program to Continue Increasing Revenue
- An Industry Leader of a Fragmented Industry

Company Description:

Founded in 1983, the Rick's Cabaret brand pioneered the creation of elegant gentlemen's clubs. Their subsidiaries own and operate over forty establishments under multiple brands throughout the nation. The major subsidiary brand names consist of **Rick's Cabaret**: Elegant clubs with restaurants, **Vivid Cabaret**: High-end, high-energy club for young professionals, **Tootsie's Cabaret**: Nation's mega club with 74 thousand square feet, **Club Onyx**: High-end clubs for African-American professionals, **Jaguars Club**: Lively clubs for energy workers, primarily in Texas, **XTC Cabaret**: Casual BYOB clubs for younger blue collar patrons, primarily in Texas and **Bombshells**: Military themed, casual bar/restaurant for young professionals.

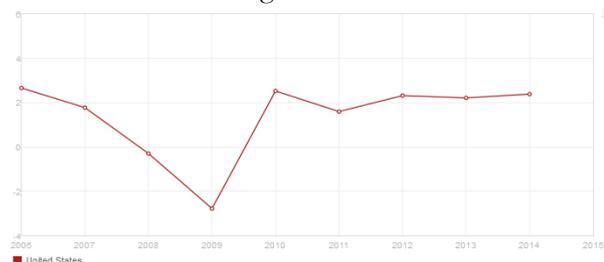


Thesis

RCI Hospitality Holdings, Inc. has an ideal macroeconomic storm brewing that will create a tailwind for their new franchising program. The combination of GDP growth, income growth, housing market health and decreases in unemployment creates a consumer confidence in spending money on leisurely goods. That newfound confidence will continue to drive restaurant sales and encourage franchisees to take on a new brand such as Bombshells (their new franchise program brand). Mix the revenue growth from the program and revenue through acquisitions with industry leading margins and value is created.

Macroeconomic Industry Overview

Since 2009, the United States has recovered greatly from economic recession from 2007 to 2009. The real growth rate in GDP has consistently stayed around 2% since 2009 and indications point to that number continuing to hover around the 2% growth rate.



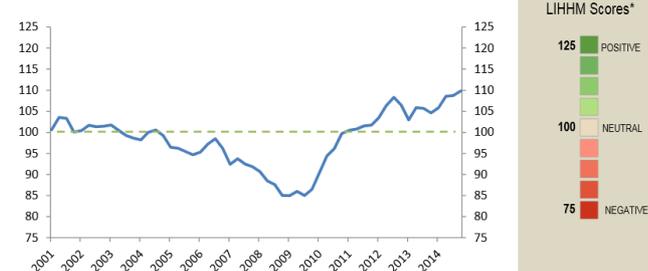
(GDP Growth % From 2006-2014)

GDP growth trickles down and indicates positive growth in several markets, including the housing market, increases in disposable income and decreases in unemployment rates. Such macroeconomic factors influence consumer spending habits and in the case of RCI Hospitality Holdings, Inc. it is a positive influence.

Housing Market

The Leading Index of Healthy Housing Markets (LIHHM) claims the market to be the healthiest it has been since 2001. This index was created by Nationwide and mixes data with market conditions to comprise a value for the health of the market. In addition the LIHHM indicates stability within the market claiming that none of the 40 largest metropolitan statistical areas, or MSAs, are vulnerable to a housing downturn and just two MSAs are ranked negatively.

National LIHHM



Furthermore, the LIHHM forecasts a slight increase in the markets' score, creating greater confidence in a person's view of their current financial position. Such confidence will lead a consumer to feel comfortable in spending their disposable income on more leisurely items.

Disposable Income

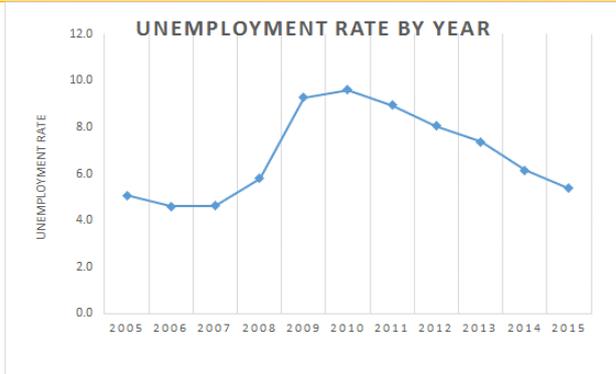
As the GDP continues to grow, disposable income and household income increases.



The graph above shows the growth in average real disposable income between 2008 and 2015. Real disposable income has increased by approximately \$1,000 since 2013 and will continue to increase into 2016. Such increases allow consumers to spend more money on leisurely items such as food, drinks and entertainment, all of which RCI Hospitality Holdings provides to consumers.

Unemployment Rates

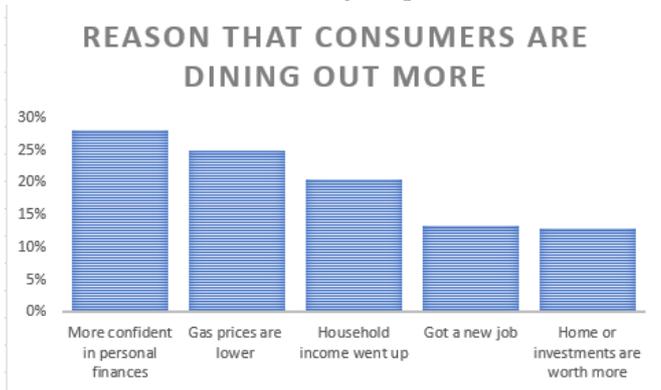
The next macroeconomic factor is the unemployment rate within the United States. In 2009, the tail end of the recession, unemployment more than doubled from where it was in 2007 (4.6% to 9.3%). Since 2009, the rate has gradually decreased, reaching the current September rate of 5.1%.



The increase in employment directly related to GDP growth and the healthiness of many key markets. The increase is another factor that gives the macroeconomic outlook a more positive spending environment.

Effect on Industry

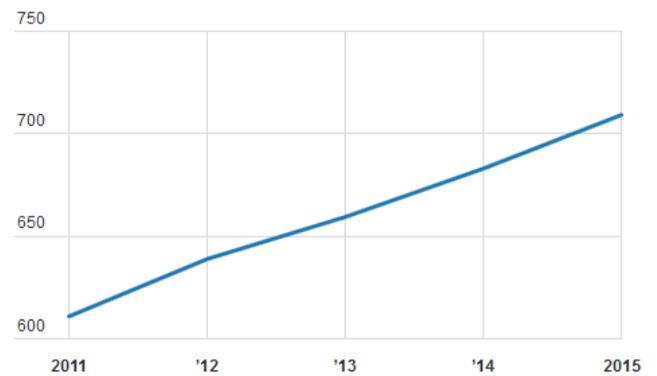
Due to the increasingly positive macroeconomic outlook, consumers are willing to spend more.



According to an online poll taken by a Chicago based news station, the top five reasons that people are dining out more are due to macroeconomic factors. Of the five factors, number one is people are more comfortable with their personal finances, a factor that the current macro outlook supports. Number three is that incomes are increasing, which has also been demonstrated in the current macro forecast. Lastly, consumers have more confidence in their real estate investments, which is also demonstrating signs of staying healthy. All of these factors are leading to sales growth within the restaurant industry.

Restaurant industry sales

Numbers in billions current U.S. dollar



This growth crucial to the revenue growth of RCI Hospitality Holdings as they seek to push their restaurant and bar franchise, Bombshells.

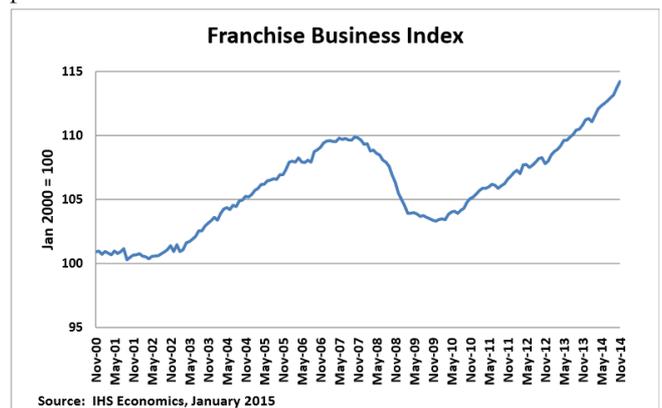
Revenue Growth through New Franchise

On October 6, 2015 they announced the launch of a nationwide franchising program for its Bombshells Restaurant and Bar. The bar is the first military-themed franchise in the sports/casual dining segment. Its closest resemblance is to that of hooters and strays from the more adult theme that the rest of its club ownings go for. The franchise's estimated initial investment is between \$1.75 and \$3.0 million and RCI Hospitality Holdings will claim a royalty of 5.5% of gross sales. The first Bombshell restaurant opened in Dallas and shortly

\$ in millions	3Q15	3Q14
Revenues	\$4.8	\$1.6
Units	5	2
Operating Income	\$0.369	(\$0.170)
Operating Margin	7.7%	(10.7%)

after, due to its great success, four more were opened.

Both the margins and sales of Bombshells increased year over year making it an attractive investments for possible franchisees.



As the macroeconomic outlook gains steam the amount

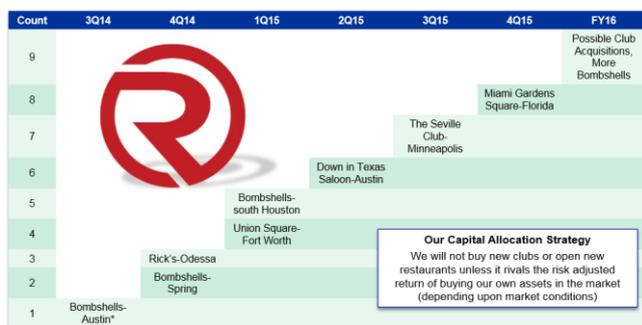
of franchisees increases, creating the perfect storm. Another positive from this franchise program that it allows the company to tap different geographic areas that they could not before. Gentlemen’s clubs have very select demographics, this restaurant and bar has a more family setting allowing it to tap more suburban areas. RCI Hospitality Holdings has a huge economic tailwind that will increase revenues as the Bombshell brand gains popularity.

I am recommending a buy on RCI Hospitality Holding Inc. The company has a favorable economic tailwind that will ignite the growth in franchise agreements of bombshells. That growth will lead to revenue growth for RCI and due to their margins, it will create value for the company.

Industry Leader within Fragmented Industry

RCI Hospitality Holdings currently owns 12 subsidiary brands, some of which are just a single club or a brand name of multiple establishments. Never-the-less RCI is growing its scale of operation through acquisitions of several clubs. The Industry itself is comprised of many single establishment brand as only 5% of sales is made up of the 50 largest companies. In having multiple establishments, RCI can establish favorable deals with suppliers by buying items like alcohol in bulk. Such advantages can be seen when comparing their margins to the industry as they are significantly higher. These margins are also not true margins as they show the effects of a settled lawsuit that the company is paying off.

New Locations / Acquisitions



As the company continues acquiring clubs, bars and other entertainment establishments they will be able to grow their top line revenue. Add that growth with the income from their franchise deal and the better margins than the industry and that is a recipe for value creation. Not only is RCI leader in terms of margins they also have top reviews on their establishments such as Tootsie’s their Miami gentlemen’s club. The club was named “Overall Gentlemen’s Club of the Year” at the 23rd annual Gentlemen’s Club EXPO in New Orleans.

Conclusion

