

Soho House & Co Inc

Q4 Earnings Review: Miss and lower guidance, but core membership intact

Reiterate Rating: BUY | PO: 7.50 USD | Price: 4.97 USD

Q4 membership in-line but lower spending drives miss

Soho House & Co. (ticker: SHCO) reported Q4 revenues of \$291M, below our \$307M and the Street's \$304M. Soho House's costs were well-controlled, but EBITDA of \$36M was below our \$39M on lower revenues. Membership revenues of \$96M, were in-line, but in-house and other revenues missed by \$11M/\$5M, respectively. Soho House initiated 2024 financial guidance of \$1.20-1.25B in revenue, below our prior model of \$1.28B and EBITDA of \$155-165M vs. our prior model of \$166M. Given development challenges, Soho House now plans on opening 2-4 houses per year vs 5-7 prior. Despite fewer house openings, management reiterated their target of >210k members by YE24.

Key Takeaways: 1) Soho House members of 194K (+5% Q/Q and +20% Y/Y) and on track to reach >210k by year end 2024 (+9%), 2) waitlist now ~99k from ~98k in Q3, 3) Portland opened in Q1 and Sao Paulo opens soon, 4) lowered its house opening target. Despite the Q4 miss, we like the stickiness of Soho House's membership model and think their double-digit membership revenue growth is rare in consumer. We reiterate our Buy, but lower our PO to \$7.50 on ~12x (up from 10x), in line with peers, our new 2025E EBITDA.

2024 Guidance below street, but core membership intact

While Soho House's 2024 revenue guidance of \$1.23B at the midpoint is below our prior model of \$1.28B, membership guidance of \$405-415M, was slightly ahead of our prior model at midpoint. We think membership revenue growth of 12-15% in 2024 is encouraging given 1) lower house growth and caps on key location membership 2) the stickiness and predictability of these revenues (91% retention in Q4), and 3) ~70% membership revenue to EBITDA flow through driving strong EBITDA growth in 2024.

Several drivers to improve profitability in 2024 & beyond

Cost discipline was strong in 4Q, highlighted by 28% in-house contribution margins and in-house opex down more vs. our model than the \$11M revenue miss cited (remember, Soho loses money on F&B so a revenue miss here isn't all bad). Management thinks 20%+ long-term EBITDA margins are achievable, and reiterated its 15% medium term target. We think the business is self-funding in 2024 and beyond on a cash flow basis (pre-PIK) and Soho House has several natural drivers to improve profitability further including 1) fewer openings and maturation of house cohorts, 2) transitioning to a licensing model for Cowshed, 3) optimizing Soho Works, and 4) leverage on SG&A.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	(1.04)	(0.54)	(0.47)	(0.32)	(0.20)
GAAP EPS	(1.09)	(0.61)	(0.52)	(0.36)	(0.24)
EPS Change (YoY)	32.9%	48.1%	13.0%	31.9%	37.5%
Consensus EPS (Bloomberg)			(0.31)	(0.26)	(0.07)
DPS	0	0	0	0	0
Valuation (Dec)					
EV / EBITDA*	30.0x	14.0x	12.0x	9.9x	8.8x
Free Cash Flow Yield*	-6.0%	-1.8%	0.5%	2.6%	5.5%

* For full definitions of *IQmethod*SM measures, see page 4.

18 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	9.00	7.50
2024E Rev (m)	1,300.0	1,212.5
2025E Rev (m)	1,435.6	1,301.5
2026E Rev (m)	NA	1,381.4
2024E EPS	0	-0.47
2025E EPS	0.22	-0.32
2026E EPS	NA	-0.20

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Stock Data

Price	4.97 USD
Price Objective	7.50 USD
Date Established	18-Mar-2024
Investment Opinion	C-1-9
52-Week Range	4.35 USD - 8.48 USD
Mrkt Val (mn) / Shares Out (mn)	978 USD / 196.9
Free Float	63.2%
Average Daily Value (mn)	1.74 USD
BofA Ticker / Exchange	SHCO / NYS
Bloomberg / Reuters	SHCO US / SHCO.N
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA

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Timestamp: 18 March 2024 05:00AM EDT

iQprofileSM Soho House & Co Inc

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	-6.2%	-1.0%	-0.6%	0.6%	1.4%
Return on Equity	-249.9%	NM	NM	NM	NM
Operating Margin	-15.2%	-2.0%	-1.2%	1.1%	2.6%
Free Cash Flow	(59)	(18)	5	26	54

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	NM	NM	NM	NM	NM
Asset Replacement Ratio	0.7x	0.6x	0.7x	0.7x	0.7x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	-2.1x	-0.3x	-0.2x	0.2x	0.5x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	972	1,136	1,213	1,301	1,381
% Change	73.4%	16.8%	6.7%	7.3%	6.1%
Gross Profit	972	1,136	1,213	1,301	1,381
% Change	73.4%	16.8%	6.7%	7.3%	6.1%
EBITDA	61	131	153	185	209
% Change	NM	113.4%	17.2%	20.8%	12.8%
Net Interest & Other Income	(67)	(84)	(80)	(75)	(78)
Net Income (Adjusted)	(208)	(106)	(92)	(62)	(38)
% Change	20.9%	49.3%	12.7%	33.0%	38.4%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	(220)	(118)	(102)	(70)	(46)
Depreciation & Amortization	100	111	150	152	154
Change in Working Capital	(1)	(26)	(8)	(13)	(13)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	136	82	65	68	70
Capital Expenditure	(74)	(68)	(100)	(111)	(111)
Free Cash Flow	-59	-18	5	26	54
% Change	72.9%	69.6%	NM	421.9%	111.3%
Share / Issue Repurchase	(50)	(12)	(30)	(40)	(20)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	106	22	16	40	43

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	182	162	152	178	255
Trade Receivables	NA	NA	NA	NA	NA
Other Current Assets	199	233	255	269	286
Property, Plant & Equipment	647	627	577	536	493
Other Non-Current Assets	1,440	1,516	1,528	1,575	1,594
Total Assets	2,468	2,538	2,512	2,558	2,628
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	331	344	357	358	362
Long-Term Debt	722	802	817	858	900
Other Non-Current Liabilities	182	188	188	188	188
Total Liabilities	2,483	2,688	2,729	2,817	2,883
Total Equity	(15)	(151)	(217)	(260)	(256)
Total Equity & Liabilities	2,468	2,538	2,512	2,558	2,628

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Leisure

Company Description

Soho House & Co Inc is a group of private membership clubs and lifestyle brands that provides places to connect, eat, drink, stay, relax and work. The company is a unique, founder-led network that has grown from a single location in 1995 to 30 Soho Houses, 9 Soho Works as of 2021.

Investment Rationale

Our Buy rating on Soho House & Co is based on 1) its international exposure, 2) de-risked earnings estimates, and 3) abatement of FX pressures.

Stock Data

Average Daily Volume 349,648

Quarterly Earnings Estimates

	2023	2024
Q1	-0.07A	-0.21E
Q2	0A	-0.10E
Q3	-0.20A	-0.05E
Q4	-0.28A	-0.10E

Price objective basis & risk

Soho House & Co Inc (SHCO)

Our \$7.50 PO is based on approx 12x our 2025E EBITDA, in line with leisure peer comps.

Downside risks are: 1) construction and opening delays, 2) unproven other revenue membership model, and 3) execution challenges given management's targeted growth initiatives.

Analyst Certification

I, Shaun C. Kelley, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

US - Gaming, Lodging and Leisure Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Boyd Gaming Corp	BYD	BYD US	Shaun C. Kelley
	Choice Hotels International	CHH	CHH US	Dany Asad
	DraftKings, Inc.	DKNG	DKNG US	Shaun C. Kelley
	Hilton Worldwide	HLT	HLT US	Shaun C. Kelley
	Host Hotels & Resorts Inc.	HST	HST US	Shaun C. Kelley
	Hyatt Hotels	H	H US	Shaun C. Kelley
	Marriott International Inc.	MAR	MAR US	Shaun C. Kelley
	Penn Entertainment	PENN	PENN US	Shaun C. Kelley
	Ryman Hospitality Properties	RHP	RHP US	Shaun C. Kelley
	Soho House & Co Inc	SHCO	SHCO US	Shaun C. Kelley
	VICI Properties	VICI	VICI US	Shaun C. Kelley
	Wyndham Hotels & Resorts, Inc.	WH	WH US	Dany Asad
NEUTRAL				
	Apple Hospitality REIT Inc.	APLE	APLE US	Dany Asad
	Caesars Entertainment Inc	CZR	CZR US	Shaun C. Kelley
	Churchill Downs Incorporated	CHDN	CHDN US	Shaun C. Kelley
	Hilton Grand Vacations Inc	HGV	HGV US	Dany Asad
	Las Vegas Sands	LVS	LVS US	Shaun C. Kelley
	MGM Resorts International	MGM	MGM US	Shaun C. Kelley
	Park Hotels & Resorts Inc.	PK	PK US	Dany Asad
	Vail Resorts, Inc	MTN	MTN US	Shaun C. Kelley
	Wynn Resorts Ltd	WYNN	WYNN US	Shaun C. Kelley
UNDERPERFORM				
	DiamondRock Hospitality	DRH	DRH US	Dany Asad
	Gaming & Leisure Properties, Inc.	GLPI	GLPI US	Shaun C. Kelley
	Marriott Vacations Worldwide	VAC	VAC US	Shaun C. Kelley
	Pebblebrook Hotel Trust	PEB	PEB US	Shaun C. Kelley
	Playa Hotels & Resorts	PLYA	PLYA US	Shaun C. Kelley
	Red Rock Resorts, Inc.	RRR	RRR US	Shaun C. Kelley
	RLJ Lodging Trust	RLJ	RLJ US	Dany Asad
	Sportradar Holding AG	SRAD	SRAD US	Shaun C. Kelley
	Summit Hotel Properties	INN	INN US	Dany Asad
	Sunstone Hotel Investors	SHO	SHO US	Dany Asad
	Travel + Leisure Co	TNL	TNL US	Dany Asad



iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

EV / EBITDA

Numerator

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

Amortization

Shareholders' Equity

Sales

N/A

N/A

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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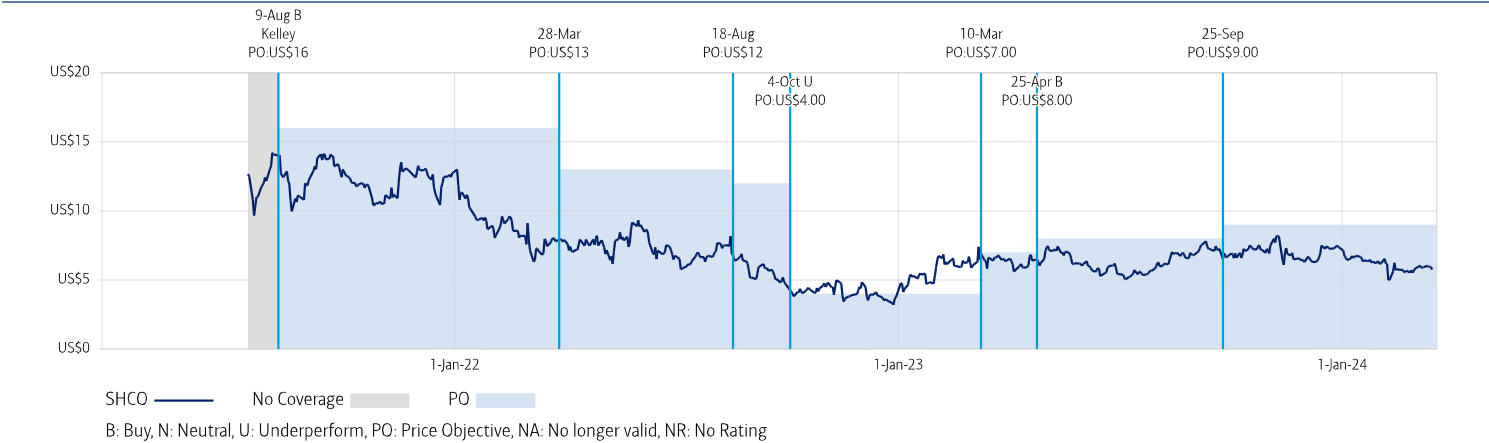
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Soho House & Co Inc (SHCO) Price Chart



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Equity Investment Rating Distribution: Leisure Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	16	55.17%	Buy	9	56.25%
Hold	7	24.14%	Hold	5	71.43%
Sell	6	20.69%	Sell	4	66.67%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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