

RH

Price Target: \$226.21 (22.3% upside)

Team - GIC

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Mission Statement

CEO Gary Friedman

“Blur the lines between the residential and retail”

“The next step is how to blur the lines between home and hospitality”





RH INTERIORS



INTRODUCING

RH NEW YORK

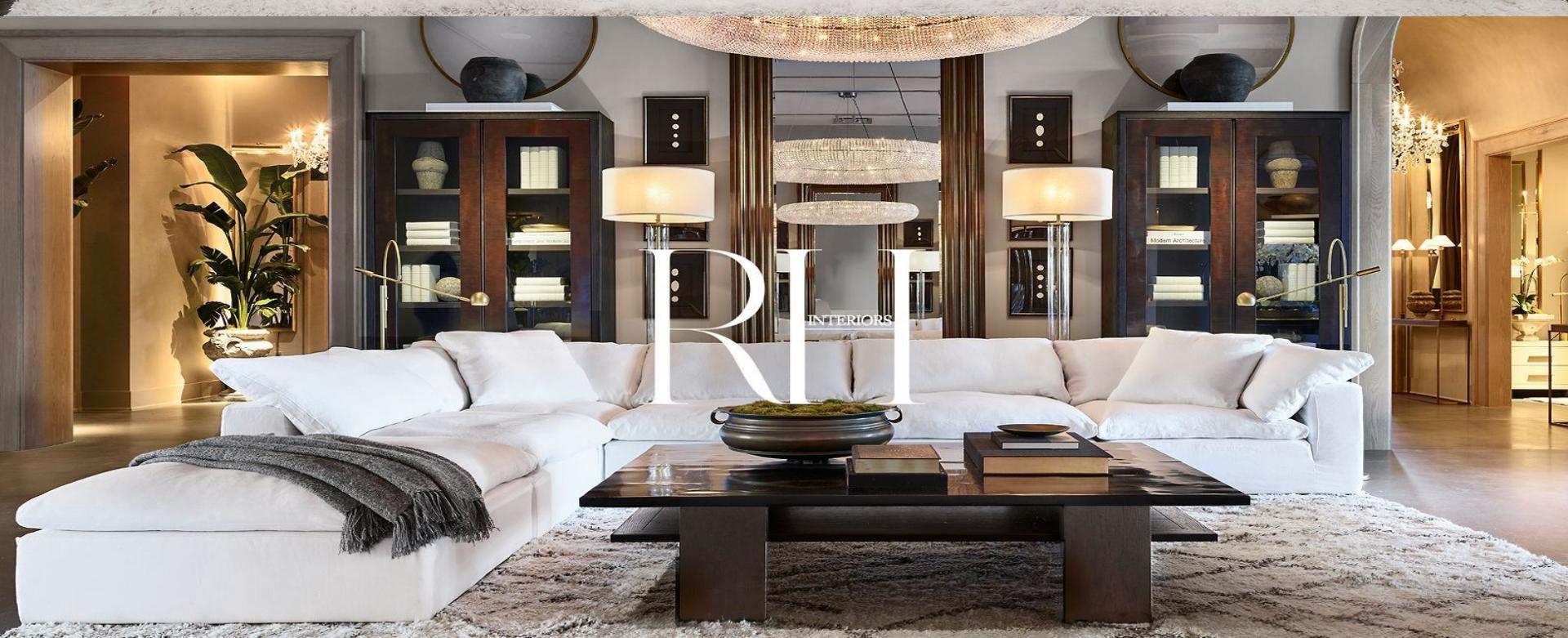
THE GALLERY IN THE HISTORIC MEATPACKING DISTRICT

ROOFTOP RESTAURANT

ROOFTOP PARK & WINE TERRACE

NEW YORK NIGHT BY ALISON BERGER

INTERIOR DESIGN & ATELIER



Company Overview

Brief Overview

Company Overview

- RH, formerly Restoration Hardware Holdings, Inc., is a leading luxury retailer in the home furnishings marketplace
- The Company currently has two segments
 - RH Segment
 - Waterworks
- Offers merchandise assortments across a range of categories, including furniture, lighting, textiles, bathware, decor, outdoor and garden, tableware, and child and teen furnishings
- Targeting customer demographic with >\$175K annual income

Financial Summary

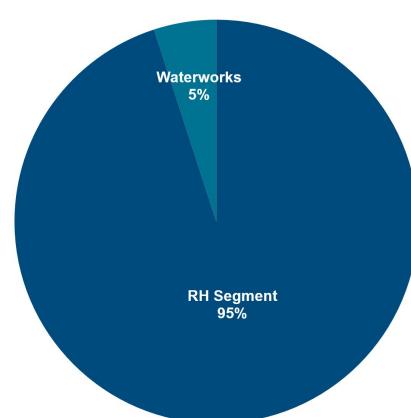
(Unit: Millions)	FY2014A	FY2015A	FY2016A	FY2017A
Revenue	1,867.4	2,109.0	2,134.9	2,440.2
Growth %	-	12.9%	1.2%	14.3%
EBITDA	200.2	230.2	110.0	201.4
Margin %	10.72%	10.91%	5.15%	8.25%
EBIT	165.7	185.6	53.0	131.3
Margin %	8.87%	8.80%	2.48%	5.38%
Net Income	91.0	91.1	5.4	2.2
Margin %	4.87%	4.32%	0.25%	0.09%
Depreciation	33.7	44.2	56.9	70.0
Amortization	0.8	0.4	0.1	0.1

Brief History

1980	Steven Gordon founds Restoration Hardware
1998	Initial Public Offering (IPO)
2001	Gary Friedman joins as CEO to drive restructuring efforts
2012	Rebranded as RH
2014	Opens first Next Generation Gallery
2016	Launches RH Members Program
2016	Acquires Waterworks
2017	~\$1B share repurchase, buying back ~50% of outstanding shares
2018	Opened first gallery store in New York

Revenue Pipeline

➤ By Business Segment



➤ By Distribution Channel



Company Overview

Business Segments

RH Segment



- Position luxurious galleries as showrooms (physical stores), while Source Books and websites act as virtual extensions of the stores
- As of February 2, 2019, the segment operated a total of 86 RH retail Galleries and 39 outlet stores
 - 20 Design Galleries
 - 43 legacy Galleries
 - 2 RH Modern Galleries
 - 6 RH Baby & Child Galleries
 - 15 Waterworks Showrooms
- Operates in the U.S and Canada
- As of February 2, 2019, the segment operated 39 outlet stores compared to 31 as of October 28, 2017
- Projected to develop and open highly profitable larger Bespoke Design Galleries in the top metropolitan markets

Waterworks



WATERWORKS

- Provides impeccable style and artisanal quality craftsmanship to bathrooms, kitchens and discerning spaces
- Operates 15 showrooms in the U.S and in the U.K. (Sourcing operations in Shanghai and Hong Kong)
- Offers exclusive products that encompass fittings, cabinetry, surfaces, bathtubs, washstands and vanities, lighting, hardware, accessories and more
- On May 27, 2016, RH acquired a controlling interest in Design Investors WW Acquisition Company, LLC, which owns the business operating under the name "Waterworks."

Company Overview

Key Strategies and Performance Statistics

RH Segment



- Lowered new Gallery opening cadence in 2016 to three to five Galleries per year in order to decrease the execution risk over the course of its real estate transformation and to lower capital requirements, as well as to put less pressure on its infrastructure, enabling greater capital discipline
- However, development of a new prototype Design Gallery will enable its operation to escalate new store opening cadence beginning in 2020 from 3-5 galleries to 5-7 galleries
 - The new prototype will range in size from 29,000 square feet to 33,000 square feet
 - Due to the reduced square footage and efficient design, these new Galleries should be significantly more capital efficient and have lower cost

Waterworks



W A T E R W O R K S

- 61.5% increase in net revenue to \$120.8 million in 2017A compared to \$74.8 million 2016A
 - The increase in net revenues is primarily due to fiscal 2017 representing fifty-three weeks of results, whereas fiscal 2016 only included thirty-five weeks of results as Waterworks was acquired on May 27, 2016

Company Overview

Management

CEO and Chairman Gary Friedman

- Serves as Chairman and Chief Executive Officer of RH, and Founder of the RH brand as we know it today
- Previously, served as our Co-Chief Executive Officer from July 2013 to January 2014, and as Chairman and Co-Chief Executive Officer from May 2010 to October 2012
- Spent 14 years at Williams-Sonoma where he was responsible for transforming Pottery Barn from a \$50 million dollar table top and accessories business, into a billion dollar plus home furnishings lifestyle brand

CFO Jack Preston

- Serves as RH's President, Chief Financial and Administrative Officer since August 2018
- Leads all financial and administrative functions at RH, including strategic and financial planning, accounting, treasury, tax, internal audit, investor relations, legal, and compliance, across the Company's multiple businesses and brands
- Previously served as the Chief Business Officer of Wheels Up, a private aviation company, from August 2016 to January 2017
- Served in various roles at Xoom Corporation, an online and mobile money transfer company, from May 2005 until December 2015 where he led the firm through its initial public offering in February 2013 its sale to PayPal in November 2015

CCO and President Eri Chaya

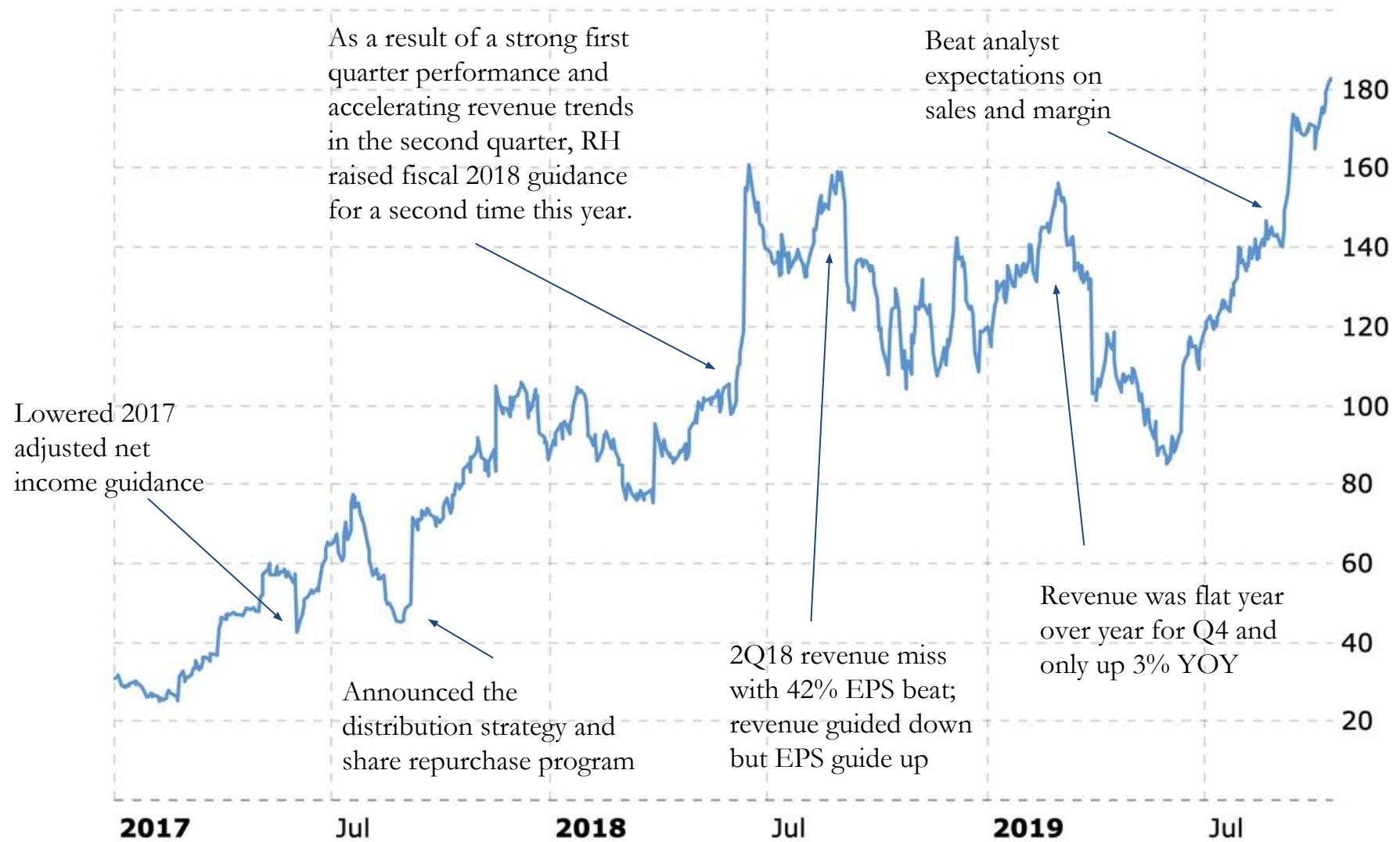
- Serves as RH's President, Chief Creative Officer and Director, leading product curation and integration, brand development and design, and Interior Design for RH Interiors, Modern, Outdoor, Baby & Child, and Teen, across the Company's physical, digital, and print channels of distribution
- Has been a member of the RH Board of Directors since 2012
- Prior to RH, she was a creative director at Goodby, Silverstein and Partners, an international advertising agency, and a creative director at Banana Republic

CRO and CDO Dave Stanchak

- Serves as RH's President, Chief Real Estate and Development Officer, and leads real estate development, architecture and design, for all of the Company's brands, concepts, and facilities
- Has worked as a senior executive, board member, consultant, investor, real estate broker and attorney in all aspects of high-growth, multi-unit retail brand development for over 20 years in the commercial real estate industry
- He has had direct responsibility for opening more than 2,500 retail store locations, managing real estate portfolios and deploying in excess of \$2 billion for retailers including RH, Dick's Sporting Goods, Field & Stream, Golf Galaxy, True Runner, etc.

Company Overview

Price Chart



2017

Jul

2018

Jul

2019

Jul

Industry Overview

Macro-economic Trend

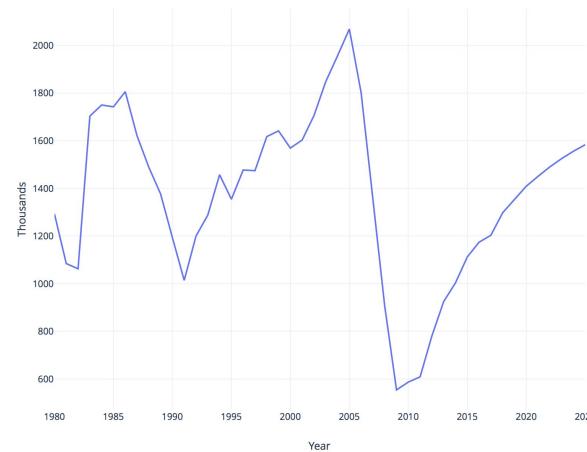
Industry Statistics

- Furniture and furnishing store sales in U.S: \$111.47 bn USD
 - Home furnishings stores in the U.S industry has grown by 3.3%
- Industry revenue is expected to rise at an annualized rate of 3.3% to \$35.3 billion over the five years to 2018
- Per capita disposable income is expected to increase at an annualized rate of 2.3% over the five years to 2018
 - As income levels trend higher, consumers are more likely to purchase discretionary goods
- About 65% of RH products come from overseas, mainly from contract manufacturers in China
 - U.S - China trade war lead to increase in tariffs from 10% to possibly 25%

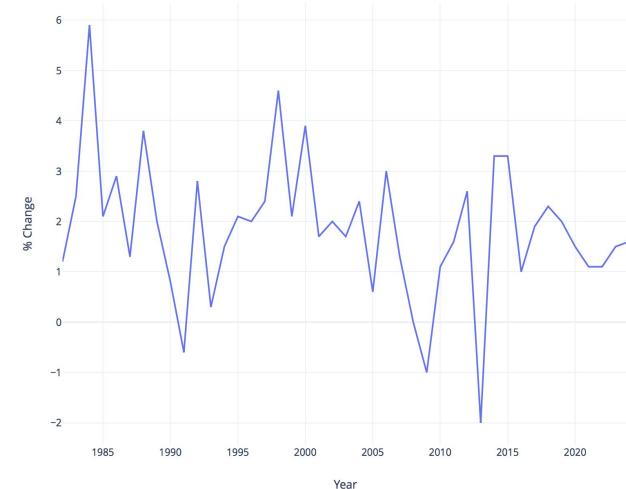
Economic Conditions

- Private Spending on Home Improvements in 2018: 209.3 billion
 - 1.8% improvement
 - Projected to increase by an additional 2% in 2019
- Consumer Confidence Index
 - Estimated Value in 2019: 119.7
- Homeownership Rate
 - Estimated Value in 2019: 64.7%
 - 2019-2024 Growth: 2%
- Housing Starts
 - 1,353.11 thousands
 - 4.3% increase

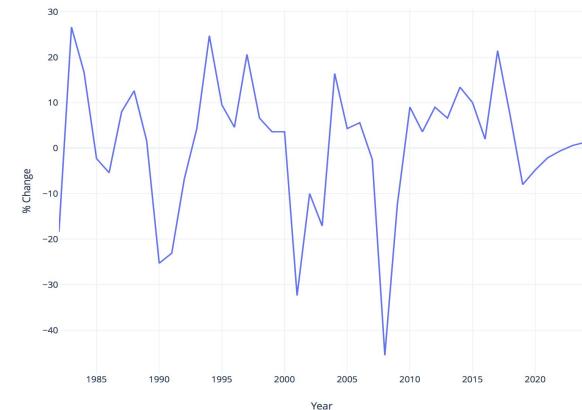
Housing starts



Per capita disposable income



Consumer Confidence Index



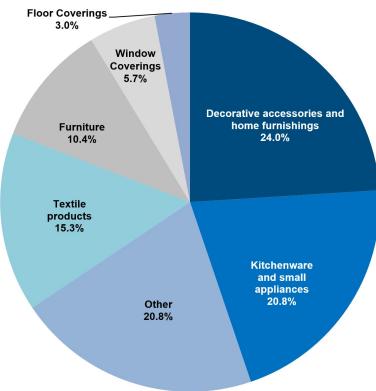
Industry Overview

Home Furnishing Industry

Demographics

- Households account for estimated 98% of market, 2% consists of retailers, wholesalers and other commercial buyers

2018 Products and Services Segmentation⁽¹⁾



Key Drivers

- The rise of telecommuting is driving the demand for home office furniture
 - Market for global home office furniture forecast to grow at a compound annual growth rate of 5.58 percent between 2014-2019
- The demand for luxury furniture is increasing
 - Sensitive to homeownership
 - Global luxury furniture market expected to grow over 4%
- Online - fastest growing channel in developing markets
 - CAGR: 16.6%

Revenue Distribution

- Profit for home furnishing stores expected to account for 6.6% of industry revenue
- Purchase costs expected to remain single largest expense accounting for 53.9% of total revenue
- Employee compensation, including payroll and benefits, represents 10.7% of revenue

Competition

- Intra-industry Competition
 - Low prices offered by stores make particular operator more desirable than those that retail products at a relatively higher price
 - Customer service
 - Extensive and variety of products leads to customers often overwhelmed. As a result, consumers are more likely to shop at stores where the employees are known to have extensive knowledge about
- Inter-industry Competition
 - high competition from large discount department stores, such as Walmart and Target

Footnotes

1) Source: IBIS World

Company

Industry

Thesis

Valuation

Risks

Industry Overview

Key Statistics

Sales of the Leading 10 Furniture Stores in the U.S in 2017 in Millions of U.S. Dollars⁽¹⁾



Key Industry Success Factors

- **Proximity to Key Markets**
 - Operators should be located in areas with high exposure to maximize exposure to consumers
- **Attractive Product Presentation**
 - Operators should clearly display products in an appealing manner to promote purchases
- **Effective Product Promotion**
 - In this competitive market, the ability to inform customers of various deals and sales is critical to increasing store traffic

Cost Breakdown



Investment Thesis

Overview

Transformation of Real Estate Platform

- Opportunity to boost sales growth by transforming real estate platform from ordinary retail footprint to a portfolio of Design Galleries
- We anticipate that all of RH's new deal structures should lead to lower capital requirements, higher unit profitability, and significantly higher returns on invested capital

Integrated Distribution Strategy

- IRH shut down three distribution warehouse to keep distribution cost down
- RH is planning on keeping its two coastal distribution centers with a smaller one
- In the future, RH will work on distributing the luxury furnitures through its own subsidiaries to drive down its cost

Brand Recognition Through Next-Generation Galleries

- Increase in brand recognition through fully furnished comprehensive complex
- RH is diversifying into an experience business with higher margins and a less cyclical business model
- Luxurious brand recognition is a gateway towards hospitality industry expansion
- Expanding to oversea markets (International Expansion)

Interest Rates and Recessionary Insulation

- Currently, there are many fears of recession, but RH has a target consumer which still has buying power during a recession
- Given the recent federal interest rate cuts, more people are buying homes as mortgage rates have become more appealing, in turn increasing demand for furniture

Investment Thesis

Transformation of Real Estate Platform

- Opportunity to boost sales growth by transforming real estate platform from ordinary retail footprint to a portfolio of Design Galleries
- An attractive long term sales growth of 8-12% annually, low-to-mid-teens operating margin, and high-teens net income growth

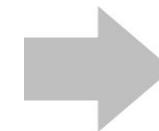
1) Development of a **new RH prototype Design Gallery** allows faster placement of disruptive product assortment. Due to the reduced square footage and efficient design, this new model is more capital efficient with less time and cost risk, but yield similar productivity

2) **New galleries tailored to secondary markets** are targeted to be 10,000 to 18,000 square feet, and these smaller stores will enable RH to expand target demographic and gain share in markets currently only served by smaller competitors

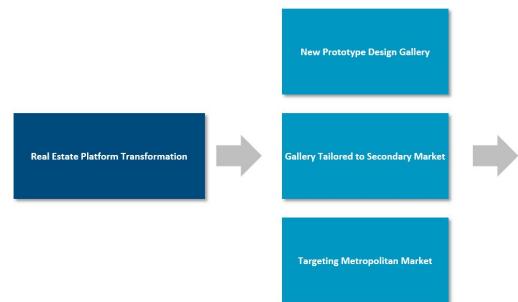
3) Development of more **Bespoke Design Galleries in the top metropolitan markets** are not only highly profitable statements for RH brand but they can create a long-term competitive advantage, setting a high barriers to entry for new entrants and make it harder to duplicate for already existing competitors

Transformation of Real Estate Platform

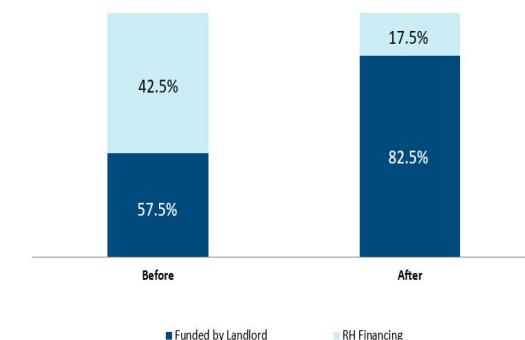
- Migration from a Traditional Leasing to a Development Model (Sale-Leaseback)



- Impact of Real Estate Strategic Alternative



- NEW Capital-light Leasing Model



Investment Thesis

Integrated Distribution Strategy

Enhanced Supply Chain and Infrastructure

- Through expansions and upgrades to warehousing, distribution and delivery operations, RH has improved supply chain and fulfillment capabilities, and has built a scalable infrastructure to support future growth
- Enhanced supply chain and fulfillment operations allow RH to manage customer orders and distribute merchandise to stores and customers in an efficient and cost-effective manner
- These upgrades have improved customer satisfaction by reducing delivery times, reducing damage to merchandise, and improving their customer's overall buying experience



Distribution Center Closure

- In fiscal 2017, RH completed the closure of their furniture fulfillment centers in Los Angeles and Dallas
- In total, RH eliminated 1.75 million square feet of distribution center space, resulting in savings in excess of \$20 million annually
- Moving forward, RH believes servicing their business from two coastal distribution centers will result in improved in-stock availability and significantly faster inventory turns

Investment Thesis

Brand Recognition & International Expansion

Next Generation Design Galleries Cater to European Market

New York Design Gallery

- Most innovative new retail experience in the global hub NYC
- Highly profitable, iconic location as RH's global calling card and bridge to European expansion
- RH design galleries provide luxurious design from their own interior designers
- RH is planning on opening galleries at London, Paris and other European cities and new galleries will have restaurants and other hospitality services included
- Hospitalization services happens because of increasing recognition by end customers on the products and services provided by RH's current galleries



Investment Thesis

Interest Rates & Recessionary Insulation

Luxury Demographic is Less Affected by Recession

Transitioning to Luxury Brand

- The company targets consumers with 175k annual income or greater
- Target consumers will be less affected by a downturn in the economy

Low Mortgage Rates

- Recent low mortgage rates can influence consumers with annual income close to the target bracket to make the investment on higher priced furniture
 - Rates down from 5% to 3.5% from November last year to September this year
 - Possibility of interest rate cuts in the future



CENTRAL ATRIUM
& GLASS ELEVATOR



Valuation

Comparables Analysis (COMPS)

RH											
Company Name	Weight	Enterprise Value	PE Actual	EV/EBITDA	P/S Actual	P/FCF Actual	LT Debt/EBITDA	EBITDA Margin	EBIT Margin Actual	SSS Growth LTM	
RH		4,034.5	31.4x	12.1x	1.5x	24.8x	2.6x	13.3%	10.4%	4.0%	
Average		42,031.30	30.8x	8.4x	0.6x	13.3x	1.4x	10.3%	3.2%	2.3%	
Median		3,473.38	15.5x	7.1x	0.5x	12.0x	1.1x	8.6%	5.4%	1.7%	
Weighted Average		26684.73	30.6x	7.9x	0.6x	11.9x	1.4x	10.8%	3.0%	1.5%	
Average		3,664.88	30.5x	7.3x	0.7x	10.5x	1.5x	11.6%	2.8%	0.9%	
Median		1,333.61	14.6x	6.9x	0.6x	11.5x	0.5x	8.7%	6.3%	0.0%	
Direct Competitors	0.85										
Macy's	0.05	12,687.1	4.7x	4.9x	0.3x	5.8x	2.1x	10.2%	6.4%	1.8%	
Williams-Sonoma	0.10	4,523.5	16.4x	6.9x	0.8x	11.5x	0.5x	11.8%	8.4%	3.8%	
Leon's Furniture	0.10	915.4	10.2x	6.2x	0.5x	9.8x	1.2x	8.4%	6.7%	0.2%	
Ethan Allen Interiors	0.10	464.8	14.6x	6.9x	0.7x	12.4x	0.0x	8.7%	6.2%	-	
Dillard's A	0.10	2,423.2	7.6x	4.8x	0.3x	11.6x	1.1x	7.7%	4.3%	1.6%	
Overstock.com	0.10	467.9	-	-	0.3x	-	-0.0x	-8.8%	-10.5%	-	
LaZBoy	0.10	1,333.6	16.7x	8.2x	0.9x	22.1x	0.0x	9.8%	7.9%	-	
Wayfair A	0.10	9,969.4	-	-	1.6x	-	-1.8x	-4.8%	-6.6%	-	
Bassett Furniture Inds	0.10	199.0	143.2	13.3x	-	0.4x	10.0x	61.1%	-	4.5%	
Average		157,130.6	31.4x	11.0x	0.6x	19.8x	1.4x	6.4%	4.2%	4.6%	
Median		91,460.8	28.5x	10.3x	0.5x	15.0x	1.5x	6.3%	4.2%	4.8%	
External Competitors	0.15										
Walmart	0.05	331,978.0	53.9x	10.3x	0.5x	15.0x	1.5x	6.3%	4.2%	3.37	
Target	0.05	47,952.9	11.8x	7.3x	0.5x	14.0x	1.5x	8.7%	5.4%	4.76	
Costco Wholesale	0.05	91,460.8	28.5x	15.3x	0.6x	30.4x	1.1x	4.1%	3.1%	5.58	

Comps Source: User Defined Comparables

- Peers selected based on three factors
 - Business Segment (High-end Furniture)
 - Geography (U.S. Dominance)
 - Size (Market Cap range from \$1 billion - \$5 billion)
- Weighted Average Metrics used to differentiate direct competitors and external competitors
- PE and EV/EBITDA slightly higher than industry peers
 - Reason: Higher margin figures & Same-Store-Sales growth than industry peers
- Higher than average debt figure due to recent construction of Next Generation Galleries
 - Projected to decrease due to transformation of Real Estate Operating Platform

Valuation

Discounted Cash Flow (DCF)

(Units: MM USD)	Historicals			Projection Period				
	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E
Revenue	2,135	2,440	2,534	2,722	2,919	3,108	3,299	3,488
%Growth	-	14.3%	3.9%	7.4%	7.2%	6.5%	6.1%	5.7%
Gross Income	689	849	1,027	1,116	1,226	1,312	1,395	1,483
%Margin	32.3%	34.8%	40.5%	41.0%	42.0%	42.2%	42.3%	42.5%
EBIT	99	147	289	367	432	472	505	541
%Margin	4.6%	6.0%	11.4%	13.5%	14.8%	15.2%	15.3%	15.5%
D&A	57	70	71	71	76	81	86	91
EBITDA	156	218	360	438	508	553	591	631
%Margin	7.3%	8.9%	14.2%	16.1%	17.4%	17.8%	17.9%	18.1%
Effective Tax Rate%	-	34.7%	13.8%	13.8%	20.0%	20.0%	20.0%	20.0%
EBIT*(1-t)		249.3	316.8	345.6	378.0	403.8	432.6	
(+) D&A		70.9	70.9	75.9	80.8	85.8	90.7	
(-) Change in NWC		-68.2	-73.5	-78.8	-83.9	-89.1	-94.2	
(-) Capex		154.8	163.3	172.2	183.4	194.6	205.8	
UFCF	233.6	297.9	328.1	359.3	384.0	411.6		
Discount Rate	-	6.1%	6.1%	6.1%	6.1%	6.1%	6.1%	
Discount Period	-	0.5	1.5	2.5	3.5	4.5		
PV of UFCF	-	289.1	300.1	309.6	311.7	314.8		

	Summary	
WACC	6.14%	
Sum of PV	1,525.3	
Terminal Value	4,356.8	
Enterprise Value	5,882.1	
(-) Net Debt	1,190.4	
(-) Minority Interest	0.0	
Equity Value	4,691.7	
D/SO	27.7	
Target Price	169.36	
Current Price	140.6	
Implied Upside	20.4%	

Exit Multiples Method	7 x
Terminal Value	4356.8

Weighted Average Cost of Capital	
Cost of Debt	2.8%
% of Debt	6%
Risk Free Rate	2.69%
Beta	0.52
ERP	7%
Cost of Equity	6.3%
% of Equity	94%

WACC **6.14%**

Exit Multiples	WACC						
	4.64%	5.14%	5.64%	6.14%	6.64%	7.14%	7.64%
5.4x	137.21	136.51	135.83	135.17	134.52	133.88	133.25
5.9x	148.60	147.91	147.23	146.56	145.91	145.27	144.65
6.4x	160.00	159.31	158.63	157.96	157.31	156.67	156.04
6.9x	171.40	170.70	170.02	169.36	168.70	168.06	167.44
7.4x	182.79	182.10	181.42	180.75	180.10	179.46	178.83
7.9x	194.19	193.49	192.81	192.15	191.50	190.86	190.23
8.4x	205.58	204.89	204.21	203.54	202.89	202.25	201.63

- Stable Revenue Growth driven by increase in Square Footage, E-Commerce growth, and improved Sales per Sq. ft.
- Focused on improving margin figures
- 22.3% Base-Case Upside Potential
- Used Direct Competitor EV/EBITDA as exit multiple

Risks and Mitigations

- **Slowdown in housing market**
 - Home furnishing retailers are typically correlated to housing trends, so weaker than expected housing demand could negatively impact RH
 - **Stock market correction could decrease consumer discretionary spending**
 - Any major correction would have a negative effect on the wealth of high net-worth individuals, decreasing top-line growth
 - **Risk of higher tariffs on Chinese goods**
 - 41% of RH products are sourced from China and are vulnerable to tariffs
 - **Rise of high-end discount retailers**
 - The increasing number of promotions and rise of discount high-end retailers such as One Kings Lane could disproportionately affect RH earnings
-
- **Mitigation:**
 - Housing market currently in strong position; shortage of homes right now and we expect supply to increase
 - **Mitigation:**
 - During recent decline, RH faired better than overall market; likely due to low elasticity of high-worth individuals
 - **Mitigation:**
 - Expectation with trade talks that tariffs could decrease; percentage down from 45% in 2017
 - **Mitigation:**
 - RH is founded upon a shopping experience that is different from the discount model of competitors

Conclusion

Investment Proposal



RI
OUTDOOR

Current Price: \$185.07

Target Price: \$226.21 (22.3% Upside)

Final Recommendation: **LONG** RH

Investment Horizon: 1.5-2.0 Years

Appendix



CENTRAL ATRIUM
& GLASS ELEVATOR

Valuation

Revenue Build

	RH Revenue Build									
(Units: MM USD)	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	
Total Revenue	2109.0	2134.9	2440.2	2534.4	2734.8	2906.4	3107.3	3294.4	3488.2	
Growth	11.9%	1.2%	14.3%	3.9%	7.9%	6.3%	6.9%	6.0%	5.9%	
Stores Revenue	1083.6	1178.9	1371.3	1426.8	1588.4	1722.3	1881.7	2025.9	2177.9	
Growth	-	8.8%	16.3%	4.0%	11.3%	8.4%	9.3%	7.7%	7.5%	
Sales per Sq. ft	1,462.3	1,247.5	1,096.5	1,023.4	982.5	962.8	962.8	962.8	962.8	
Growth	-	-14.7%	-12.1%	-6.7%	-4.0%	-2.0%	0.0%	0.0%	0.0%	
<i>Total Sq Ft (In millions Sq. ft)</i>	0.74	0.95	1.25	1.39	1.62	1.79	1.95	2.10	2.26	
Total Store Count (Incl. Outlet)	69	85	115	115	122	127	134	139	145	
Store Count (Excl. Outlet)	69	85	83	81	86	91	96	100	105	
Store Increase / Decrease	-	16	-2	-2	5	5	5	4	5	
Legacy Galleries	53	50	47	43	41	39	39	38	38	
Waterworks showrooms	-	15	15	15	15	15	15	15	15	
Design Galleries (Next Generation Design Gallery)	4	8	10	14	16	17	18	19	20	
Larger Format Galleries (Full-Line Design Gallery)	6	6	6	6	6	8	8	8	8	
Baby & Child Galleries	5	5	4	2	2	2	2	2	2	
RH Modern Gallery	1	1	1	1	2	3	4	5	6	
RH Prototype	-	-	-	-	4	7	10	13	16	
Outlet	-	-	32	34	36	36	38	39	40	
Total RH Weighted Average Store Size (In thousands Sq. ft)	10.7	11.1	10.9	12.1	13.3	14.1	14.6	15.1	15.6	
<i>YoY Growth</i>	-	3.5%	(2.2%)	11.5%	9.3%	6.3%	3.6%	3.8%	3.1%	
Legacy Galleries Average Store Size	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	8.0	
Waterworks showrooms Average Store Size	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	
Design Galleries (Next Generation Design Gallery) Average Store Size	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	42.0	
Larger Format Galleries (Full-Line Design Gallery) Average Store Size	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	19.0	
Baby & Child Galleries Average Store Size	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	4.0	
RH Modern Gallery Average Store Size	15	15	15	15	15	15	15	15	15	
RH Prototype Average Store Size	-	-	-	-	31	31	31	31	31	
Outlet Average Store Size	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	7.8	
Direct-to-Consumer Revenue (E-Commerce & Sourcebook)	1025.4	956.0	1068.8	1107.6	1146.3	1184.1	1225.6	1268.5	1310.3	
Growth	-	(6.8%)	11.8%	3.6%	3.5%	3.3%	3.5%	3.5%	3.3%	

Valuation

Projected Income Statement Figures

RH (RH)	Income Statement									
	2015A	2016A	2017A	2018E	2019E	2020E	2021E	2022E	2023E	
Sales	2,109.0	2,134.9	2,440.2	2,534.4	2,734.8	2,906.4	3,107.3	3,294.4	3,488.2	
Cost of Goods Sold (COGS) incl. D&A	1,339.1	1,445.5	1,590.9	1,507.0	1,613.5	1,685.7	1,796.0	1,900.9	2,005.7	
Gross Income	769.9	689.3	849.3	1,027.4	1,121.2	1220.7	1311.3	1393.5	1482.5	
SG&A Expense	565.3	590.1	701.8	738.2	752.1	790.5	839.0	889.5	941.8	
EBIT (Operating Income)	204.6	99.2	147.4	289.2	369.2	430.1	472.3	504.0	540.7	
+Depreciation & Amortization	44.6	57.0	70.1	70.9	70.9	75.6	80.8	85.7	90.7	
EBITDA	249.2	156.2	217.6	360.1	440.1	505.7	553.1	589.7	631.4	
Non-operating Expense	35.7	44.5	62.6	71.2	47.9	52.4	52.4	52.4	52.4	
Abnormal Losses	19.0	46.2	54.7	15.8	47.9	36.7	36.7	36.7	36.7	
Pretax Income	149.9	8.6	30.2	201.7	273.5	341.1	383.2	414.9	451.6	
Income Taxes	58.8	3.2	28.0	27.9	54.7	68.2	76.6	83.0	90.3	
Net Income	91.1	5.4	2.2	173.8	218.8	272.9	306.6	332.0	361.3	
Diluted Shares Outstanding	42.3	40.9	29.3	27.7	27.7	27.7	27.7	27.7	27.7	
EPS (diluted)	2.16	0.13	0.07	6.27	7.90	9.85	11.07	11.98	13.04	
EBITDA	249.2	156.2	217.6	360.1	440.1	505.7	553.1	589.7	631.4	

Valuation

Projected Income Statement Sensitivity Table

Percentage									
Revenue Growth%		1.2%	14.3%	3.9%	7.9%	6.3%	6.9%	6.0%	5.9%
<i>Upside</i>						8.3%	8.9%	8.0%	7.9%
<i>Base</i>						6.3%	6.9%	6.0%	5.9%
<i>Downside</i>						4.3%	4.9%	4.0%	3.9%
Gross Margin	36.5%	32.3%	34.8%	40.5%	41.0%	42.0%	42.2%	42.3%	42.5%
<i>Upside</i>						43.0%	43.2%	43.3%	43.5%
<i>Base</i>						42.0%	42.2%	42.3%	42.5%
<i>Downside</i>						41.0%	41.2%	41.3%	41.5%
SG&A Expense %	26.8%	27.6%	28.8%	29.1%	27.5%	27.2%	27.0%	27.0%	27.0%
<i>Upside</i>						26.2%	26.0%	26.0%	26.0%
<i>Base</i>						27.2%	27.0%	27.0%	27.0%
<i>Downside</i>						28.2%	28.0%	28.0%	28.0%
FCF Assumptions									
D&A Expense %		2.1%	2.7%	2.9%	2.8%	2.6%	2.6%	2.6%	2.6%
<i>Upside</i>						2.1%	2.1%	2.1%	2.1%
<i>Base</i>						2.6%	2.6%	2.6%	2.6%
<i>Downside</i>						3.1%	3.1%	3.1%	3.1%
Change in NWC	3.3%	4.4%	-15.8%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%	-2.7%
Change in NWC in Millions of \$	69.9	93.5	-384.7	-	-	-	-	-	-
Capex		6.3%	7.4%	4.6%	6.1%	6.0%	5.9%	5.9%	5.9%
Capex in Millions of \$	133.5	157.6	112.5						

Valuation

WACC Calculation

WACC Analysis – RH

(Unit: in Millions of USD)

Discount Rate Calculations - Assumptions:

Risk-Free Rate:	2.79%
Equity Risk Premium:	7.00%
Pre-Tax Cost of Debt:	3.50%

Comparable Companies - Unlevered Beta Calculation:

Name	Levered Beta	Debt	% Debt	Preferred Stock	% Preferred	Equity Value	% Equity	Tax Rate	Unlevered Beta
RH	1.19	1,198.1	25.7%	-	-	3,455.0	74.3%	13.8%	
Macy's	0.82	5,534.0	41.2%	-	-	7,911.1	58.8%	(4.5%)	0.47
Williams-Sonoma	1.11	359.6	7.7%	-	-	4,328.4	92.3%	36.0%	(0.58)
Overstock.com	0.96	3.1	0.5%	-	-	564.2	99.5%	21.0%	1.08
Leon's Furniture	0.24	172.2	16.9%	-	-	848.7	83.1%	26.0%	(0.06)
LaZBoy	0.85	35.3	2.5%	-	-	1,397.0	97.5%	32.9%	4.36
Ethan Allen Interiors	0.42	1.3	0.3%	-	-	502.1	99.7%	26.8%	0.45
Wayfair A	1.67	346.6	3.4%	-	-	9,957.4	96.6%	21.0%	5.49
Dillard's A	0.65	756.6	30.3%	-	-	1,741.6	69.7%	(9.9%)	0.44
Median:	0.83	259.4	5.5%	-	-	1569.3	94.5%	23.5%	0.46

RH

1.72

RH – Levered Beta & WACC Calculation:

	Unlevered Beta	Debt	% Debt	Preferred Stock	% Preferred	Equity Value	% Equity	Tax Rate	Levered Beta
Current Capital Structure:	0.46	\$ 1,198.1	25.7%	-	-	\$ 3,455.0	74.3%	13.8%	0.60
"Optimal" Capital Structure:	0.46	259.4	5.5%	-	-	1,569.3	94.5%	20.0%	0.52

Cost of Equity Based on Comparables, Current Capital Structure:

6.97%

Cost of Equity Based on Comparables, "Targeted" Capital Structure:

6.44%

WACC, Current Capital Structure and Historical Cost of Equity:

5.95%

WACC, "Targeted" Capital Structure:

6.24%

Valuation

WACC & Terminal Value Sensitivity

Exit Multiples	WACC						
	4.74%	5.24%	5.74%	6.24%	6.74%	7.24%	7.74%
7.9x	194.05	193.36	192.68	192.02	191.37	190.73	190.11
8.4x	205.44	204.75	204.08	203.41	202.76	202.13	201.50
8.9x	216.84	216.15	215.47	214.81	214.16	213.52	212.90
9.4x	228.24	227.55	226.87	226.21	225.56	224.92	224.29
9.9x	239.63	238.94	238.26	237.60	236.95	236.31	235.69
10.4x	251.03	250.34	249.66	249.00	248.35	247.71	247.09
10.9x	262.42	261.73	261.06	260.39	259.74	259.11	258.48