



RH- NYSE: RH

Pitch Long  
IAG 2<sup>nd</sup> Round Pitch: 26/02/23  
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- Industry Overview

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International leader in furniture

## Capitalization

## Description

## Stock Performance – 1 Year

Current Valuation	
Share Price (9/13/19)	\$ 303
Shares Outstanding	26.03
Market Cap	7,000
Cash	2,154
Total Debt	2,471
Net Debt	317
Preferred Equity	0
Minority Interest	15
Enterprise Value	8,520

RH is a curator of design, taste and style in the luxury lifestyle market, offering furniture, lighting, textiles, rugs, bathware, décor and outdoor, as well as baby & child and teen products.



Key Stats	
52 Week High	\$ 412.7
52 Week Low	\$ 207.4

## Management

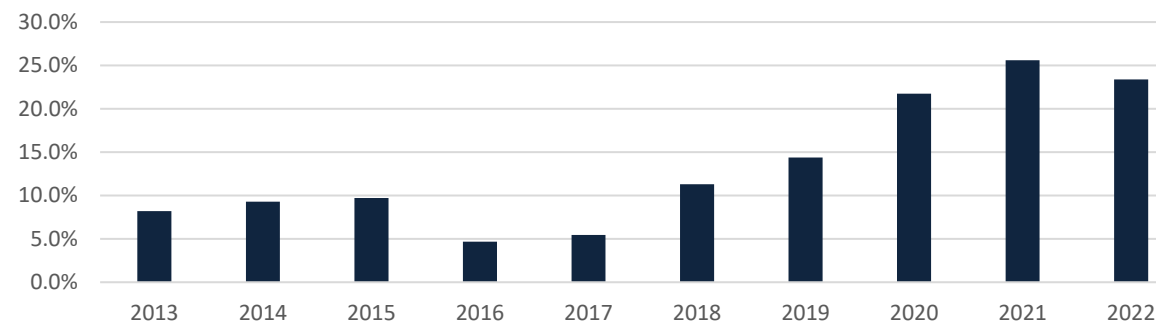
## Margins Breakdown



### Gary Friedman – CEO

- CEO Since: Jan 31, 2014
- Member of the board of directors since 2001
- Previously COO & President at Williams-Sonoma
- Over 30 years of industry-relevant experience
- Degree in mechanical engineering from Purdue

### EBIT Margins







## Core Services (70% of Revenue)



### Core Competency:

- Selling luxury and high-end furniture
- A leather sofa at RH would be priced at \$5000, while a similar sofa at Pottery Barn would be priced in the \$500-\$2000 range.
- Pricing is designed to position the brand as the luxury option in the home furnishing market



### RH Membership:

- Introduced in 2016
- \$175/annum, 25% discount available to members
- Additional benefit of RH Interior Design, which approx. 65% of customers utilise
- Members drive 97% of Sales
- 459,000 members in FY 2021 end

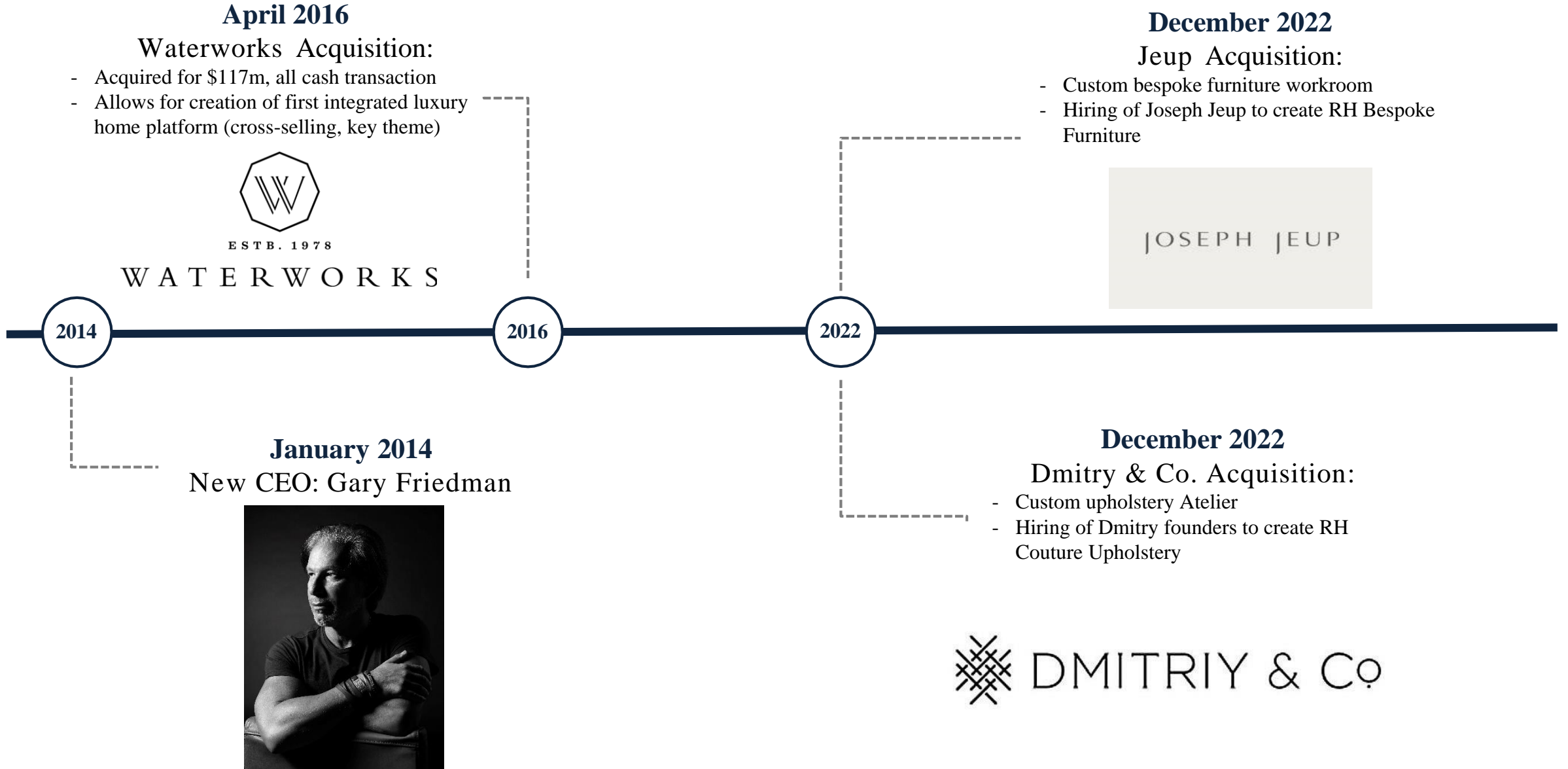
## Expansionary BUs (30% of Revenue)



### RH Guesthouse:

- Opened September 2022
- A new foray into luxury accommodation with a focus on privacy
- Also includes two restaurants
- Coincides with the launch of RH England with plans to open 3 restaurants at the Aynho Park (73 acre estate)
- Part of the greater brander experience and aesthetic







Key Competitors, but I would argue RH is competing with none of them



	RH	Industry Average	Williams Sonoma	BBBY	Wayfair	Arhaus	MillerKnoll
Gross Margin	49.40%	40.47%	44.05%	33.31%	27.69%	41.40%	34.28%
Operating Margin	24.93%	9.68%	17.62%	(1.01%)	(10.75%)	5.72%	1.01%
ROE	85.15%	29.78%	67.95%	(79.71%)	(21.1%)	59.74%	(1.59%)

## Key Statistics

**22%**      **157%**      **186%**

*Higher Gross Margins compared to industry average*

*Higher Net Operating Margin compared to industry average*

*Higher ROE than industry average, indicating efficient capital allocation*

Other 'Haute-couture' furniture retailers have been unable to scale

### Luxury Brand Comparison

- Very few luxury furniture brands exist that sell level of products such as RH
- Comparable brands are very specialist and are not to the same scale as RH
- RH effectively gains the best of both worlds, high volume and high margins in the luxury segment of the market

**rochebobois**  
PARIS



**BOCA DO LOBO**  
exclusive design

**DelightFULL**  
Unique Lamps

	RH	Roche Bobois	Boca do Lobo	DelightFULL
Revenue (millions)	<b>3,721</b>	<b>408</b>	<b>21.7</b>	<b>15.6</b>



The market has systematically not priced in RH's expansion plans to Europe and further Eastern geographies

## Current Scope of Operations

- As of 2022, RH had a limited international presence with most of its retail locations located in the United States and Canada (80), with 1 Waterworks showroom located in London
- RH has been expanding retail footprint in recent years, opening larger-format galleries, and updating legacy galleries to modern galleries
- Significant investment in e-commerce platform, with e-commerce revenue accounting for 57% of total revenue in FY 2021. E-commerce strength will be beneficial for accelerated expansion to new markets

## Europe Expansion Plans

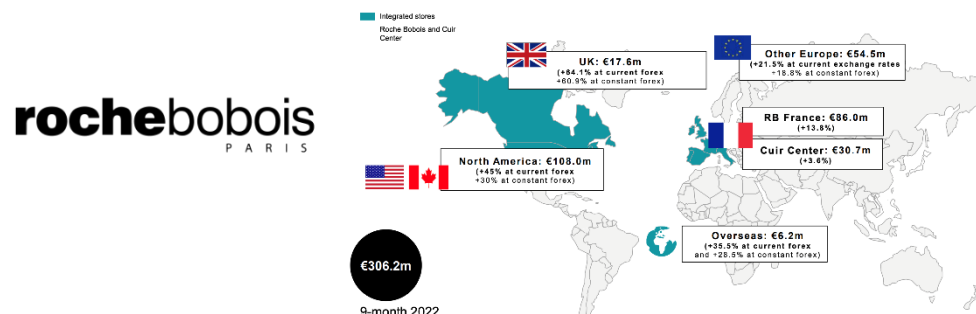
- As of 2022, RH has a single showroom in Europe, and that is a Waterworks showroom which was acquired through M&A
- RH England will be launching this Spring/Summer via launch of 'The Gallery' at the historic Aynhoe Park (73 acre estate), featuring 3 restaurants: The Orangery, The Conservatory and The Terrace
- RH Paris store on Champs-Élysées under construction and scheduled to open in 2024
- RH has also secured locations for stores in Munich and Dusseldorf and is further in lease or purchase negotiations for ones in Milan, Madrid and Brussels

## Case Study

### Roche Bobois's Geographic Breakdown

- French high-end luxury retailer of furniture
- Europe + England account for 60% of Roche Bobois's revenue, caveat in that they are a French brand so have better footing in Europe
- Their example demonstrates the potential for future revenue growth, even if in the short term this may come at the cost of lower margins for EU BU

### GEOGRAPHICAL BREAKDOWN OF 9-MONTH REVENUES





Growing European Market, with Strong Fundamentals

## Key Statistics

**5%**

*Market growth will accelerate  
at a CAGR of*

**35%**

*Growth in the luxury  
furnishing market contributed  
by Europe*

**7bn**

*Incremental growth in the  
luxury furnishing market in  
Europe*

## Summary

- In comparison the North American luxury furniture market is not as robust, with a CAGR of only 3.1% expected over the next 7 years
- Furthermore given similar tastes in Europe, to Northern America, scaling out to Europe should be easier, whereas the same cannot be said about different market segments where tastes vary a lot
- Furthermore RH's strength in the e-commerce sphere will greatly help to streamline launch of the international expansion project

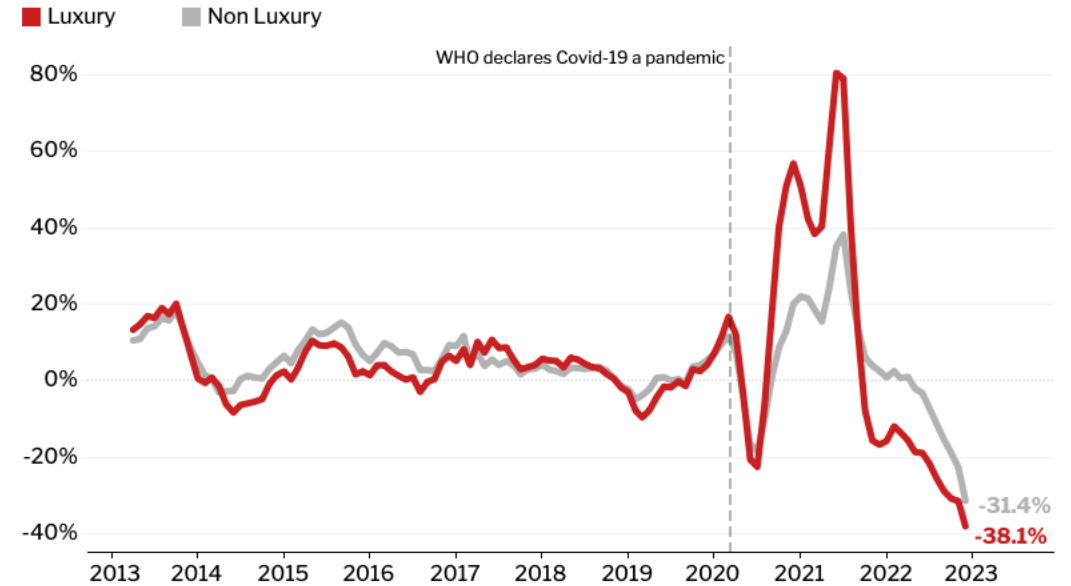




## Softness in Housing Market

- Sales of luxury U.S. homes fell 38.1% YoY, the biggest decline on record
- This outpaced the record 31.4% decline in sales of non-luxury homes
- Luxury properties are frequently used as investment properties and with homes values and rents poised to fall this year, investment prospects are lackluster
- Affluent buyers often have significant funds stores in the stock market, which has been losing value
- Also speaks towards the adverse macroeconomic environment, with mortgage rates increasing and thus cost weaker demand which also translates into lower prices

Luxury-Home Sales Post Record Decline  
Year-over-year change in homes sold



Source: Redfin analysis of MLS data  
 Note: All values are three month moving aggregates ending on date shown; most recent data point represents three months ending Nov. 30, 2022  
**REDFIN**

## Impact on RH

**Q3 2022 Revenue**  
**-13.6% vs. LY**

**Revenue Growth**  
**-3.5% to -4.5%**  
**for 2023**

**Q3 2022 NI**  
**-29.6% vs. LY**



## Putting the effects into perspective

### COVID-19 Effect

- Revenues having declined last year YoY, and a further decline this year has meant that the market has associated a cyclical decline in revenues with a slowing down of the business, conflating two distinct prospects
- There was incredible pent up demand during COVID, with a greater focus on one's living space, and also in immediate aftermath due to favourable macroeconomics policy
- While revenue has decreased YoY, it is still up 40.5% from 2 years ago (2020 vs. 2022), and this not an abnormal slowdown in the business, but rather an abnormal spike, which is reverting back to normal growth rate
- 11.7% CAGR from 2014 to 2020, which is excluding the effect of COVID, business is able to grow naturally
- How likely is it that they have reached their terminal revenue, and they will go into a period of continually declining revenue? Unlikely, yet the market is pricing RH in this manner

### RH wants to maintain brand image

- RH management is okay with revenues decreasing, they are prioritising long term brand value/image vs. short term profitability or better numbers. Enabled by the strong vested interest of CEO who has over 90% of net worth in RH
- Widespread discounting is prevalent in the furniture industry, many retailers are sending out as much as two sale emails per day, while it has been over 2 years since RH has sent out any promotional material
- RH is not optimising for short-term market share and does not want to risk long-term brand erosion and model destruction for the sake of marginally better quarterly earnings which the street places a lot of emphasis on
- Selling and Marketing expense on average for the last 5 years has been \$110.05m/annum, compared to \$618.5m (462.11% higher) at WSM for 134.46% greater revenue, implying RH's conservative marketing expenditure
- WSM spends \$1 to generate \$14.1, whereas \$1 of RH spend equates to \$33.8 of revenue
- Target market 200k+ income household, less likely to be affected by recession and recover considerably better than lower income households, putting RH in a good position when housing market picks up again



Pricing Power that is not accounted for by the market and launch of RH Contemporary



- RH Modern was introduced a few years ago with an emphasis on a minimalist look in furniture and home décor that now accounts for \$1bn in revenue
- RH Contemporary is a new line that has been launched
- Prices are generally a third higher than a corresponding product from the core RH assortment
- A proprietary mattress set called the Freshbed Sleep System can cost up to \$44,000
- Contemporary will be another \$1 billion business, given that it is partnering with designers and creating a further level of exclusivity with RH
- Friedman described it as “the most dramatic evolution of our brand toward where we want to go”
- Does potentially cannibalise some of the existing core RH business, but would only be incremental revenue
- Potential to give RH a serious boost over its current top line and position it for double-digit growth outside of organic sales and international expansion, could be margin accretive as well



WILLIAMS SONOMA  
CALIFORNIA

RH

Increasing power





*Great brands don't chase  
customers, customers chase great  
brands*

**RH CEO, Gary Friedman**  
**May 26, 2011**





## Key-Man Risk



- Placing knowledge, skills, and important relationships in the hands of the CEO
- Owns 3.31m shares (13.8%) of outstanding shares of RH
- Core to RH's story and journey to the top of the luxury pyramid

## Capital Overhang

- RH issued a \$2bn term loan with October 2028 maturity
- Borrowed at LIBOR + 2.5% at a BB rating from S&P
- If they are unable to find adequate uses for this cash
- At current rates approx. 160m servicing cost per annum of this debt

## Moving Away from Core Competency



- RH1, RH2, and RH3
- Potential for dilutive margins and takeaway from the core business, which is the cash cow
- Inefficient capital allocation
- Unclear path to payback timeframe on these assets and their ability to generate meaningful revenue
- Also applies to their foray into restaurants and travel which strays away from core competency





## Short Interest

- Of 23.95m shares outstanding, 3.1m shares are sold short
- This was something that RH had done in 2017, as part of an overall \$1bn USD stock buyback scheme, that helped to drive up share price in part by short sellers having to cover
- Sitting on \$2bn+ cash, could very easily deploy to share buybacks
- Doing this in aftermath of the accounting issue, could very easily serve as a catalyst for a short squeeze, which will aid short term stock performance

# 15.24%

*Short percent of Float*

## Accessing Economies of Scale, Making it Easier to Scale

		+5.65%	+7.6%	+32%
Revenue	2,505.7	2,647.4	2,848.6	3,758.8
COGS	1,518.5	1,552.4	1,516.2	1,903.4
		+2.2%	-2.3%	+25.5%



# Q & A

