



Retail

ELEVATOR PITCH

Presented by Hedgeye Retail Sector

RH

Ticker	RH		2022A	2023E	2024E	2025E	2026E
Price	\$369	Hedgeye EPS	\$19.90	\$15.29	\$23.91	\$38.45	\$48.49
Market Cap	6.79 bn	Street EPS		\$10.57	\$14.55	\$16.94	\$23.01
Enterprise Value	8.40 bn	Variance		45%	64%	127%	111%
Short Interest	16.2%	P/E		24.1x	15.4x	9.6x	7.6x
Debt/EBITDA	3.0x	Target P/E		30.0x	30.0x	30.0x	30.0x
Sell Side Target	\$305	Implied Price		\$459	\$717	\$1,154	\$1,455

HEDGEYE EDGE | EARNINGS POWER HERE IS ENORMOUS

We think RH has meaningfully more top line growth ahead of it on a global scale, and at a much higher margin, than the current consensus numbers suggest. We've done the deep dive on per capita consumption and have identified over 40 markets in the US alone that should add over \$3bn in sales. Add Europe on top of that, where RH has no legacy reputation of being a mid-market brand -- it's going right to the top of the luxury spectrum -- and we get to more than 2x the revenue and EBIT dollar contribution over a TAIL duration vs the consensus. If we're right on the model, then RH will have successfully built a massive competitive moat globally as the only luxury home furnishings brand operating at scale, with even less competition outside the US than within our borders. With proof of concept in Europe will likely come a multiple in line with European Luxury peers. When applied to our estimates -- which draw the consensus, we think this stock trades well above \$1,500 on \$60 in EPS power by 2027 (January).

NEAR-TERM (TREND) | CONSUMER HASN'T BOTTOMED, BUT EPS HAS

RH and the home furnishings category has arguably been in a recession for the past two years. Current year earnings have come down from \$26 to \$11, which we think has far overshot to the downside. The company has been aggressively buying back stock (with CEO owning 23% of the stock nearly a quarter of the repo has been with his own money). We think estimates have bottomed and that business has inflected from a rate of change perspective.

KEY RISKS TO THE CALL | CONSUMER HASN'T BOTTOMED. EMEA RISK

Goes without saying that the consumer at the high end has yet to accelerate, and could get worse before it gets better. We think that's in our estimates. All eyes are on Europe. If RH allows it to fail, it will be a big hit to the multiple. We think the chance of that is diminimous, it's a question of capital needed to succeed.

COMPANY DESCRIPTION

RH, formerly known as Restoration Hardware, is the largest high-end Home Furnishings retailer in the US, and soon to be Europe. It operates 30 Design Galleries and ~60 Legacy stores (Design Gallery candidates) across 1.3mm square feet. RH has no competitors of scale.

KEY MODELING ASSUMPTIONS

	2022A	2023E	2024E	2025E	2026E
Revenue	\$3,590	\$3,290	\$3,776	\$4,594	\$5,219
YY % Change		-8.4%	14.8%	21.7%	13.6%
Gross Margin %	50.5%	49.2%	50.6%	51.4%	51.7%
EBIT Margin %	20.1%	17.8%	18.7%	22.9%	24.7%
EBITDA	\$822	\$733	\$873	\$1,261	\$1,506
Net Debt	\$1,612	\$2,184	\$2,181	\$1,485	\$1,095
Net Debt/EBITDA	2.0x	3.0x	2.5x	1.2x	0.7x
FCF/Share	\$8.66	\$14.91	\$19.54	\$34.11	\$44.04