



Citron RESEARCH

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The Most Compelling Story in Retail Price Target of \$250

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- For the casual observer, RH, the former Restoration Hardware, is an upscale furniture retailer that was turned around by design veteran and CEO Gary Friedman.
- This generalist overview of RH misses the forest through the trees as RH has created the most exciting concept in retail since the creation of the Apple store.
- RH, much like the early days of any disruptive company, cannot be judged on a quarter to quarter basis. True to the CEO's words, this has become a company with no peers. Did you hear that? No competition domestic or international.
- Never a report has been written on Wall Street where the pictures are more valuable than the words.

From Restoration Hardware to RH

- Gary Friedman started RH as a mall-based furniture retailer and therefore has always been valued against and given similar multiples to Ethan Allen, La-Z-Boy, and Williams Sonoma.
- This is what Restoration Hardware used to look like:



What RH has Become

“ Like LVMH, we are building a luxury platform... Similar to Apple, we are designing a seamlessly integrated ecosystem of businesses... our retail business is amplified and rendered more valuable by our interior design business - both are amplified and rendered more valuable by our physical galleries and real estate development business - and all are amplified and rendered more valuable by our hospitality business. ”

- RH CEO, Gary Friedman



The store is no longer just a place to buy products—it is the product

- The holy grail of retailing is to create a multi-generational venue where people congregate and obtain an emotional attachment to the brand that supersedes the products sold in stores. There are only two companies doing this on a grand scale: Apple... and RH.
- While Wall Street has stay focused on the furniture that's sold in the building it has completely disregarded the moat and most importantly the optionality that the building itself has created.

RH

“ This new, next generation RH Galleries are proven to be a destination within the communities they reside. ”

— Hobbs + Black Architects



“ Our whole concept was: How does the store become more like a town square? ...almost a community hub. ”

— Angela Ahrendts
Apple's SVP of retail and online stores

RH's Retail Strategy

- RH is even taking a bite out of the Apple playbook with the “restoration” of historic landmarks.

RH Greenwich at the Historic Post Office

Before



After



RH Chicago at the Historic 3 Arts Club

Before



After



RH Boston at the Historic Museum of Natural History

Before



After



How RH has Become the Most Important Story in Retail

- With the decline of physical retail, RH has become the only significant anchor tenant for shopping districts. Therefore, many landlords are offering to subsidize their buildout cost.

Case Study: RH Denver, The Gallery at Cherry Creek



Before



After

- RH has been able to secure their new galleries at a rent per square foot that is about 50% lower than their prior mall-based stores.
- In 2019, all of RH's real estate deals will be capital light where as much as 65% to 100% of the capital requirement will be funded by the landlord, versus 35% to 50% previously.
- And for the critics who say RH doesn't own the buildings, so what? Neither does Apple.
- If you still don't get it, watch this video before you read on. **RH Chicago at the Historic 3 Arts Club**

RH – In a Class by Itself

- The transformation from Restoration Hardware to RH has created a company with no peer.
- Yet, Wall Street gives RH the same multiple as these companies:



RH Denver
The Gallery at Cherry Creek



“ We believe when you step back and consider: one, we are building a brand with no peer; two, we are creating a customer experience that cannot be replicated online; and three, we have total control of our brand from concept to customer, you realize what we are building is extremely rare in today’s retail landscape, and we would argue, will also prove to be equally valuable. ”

– RH CEO, Gary Friedman

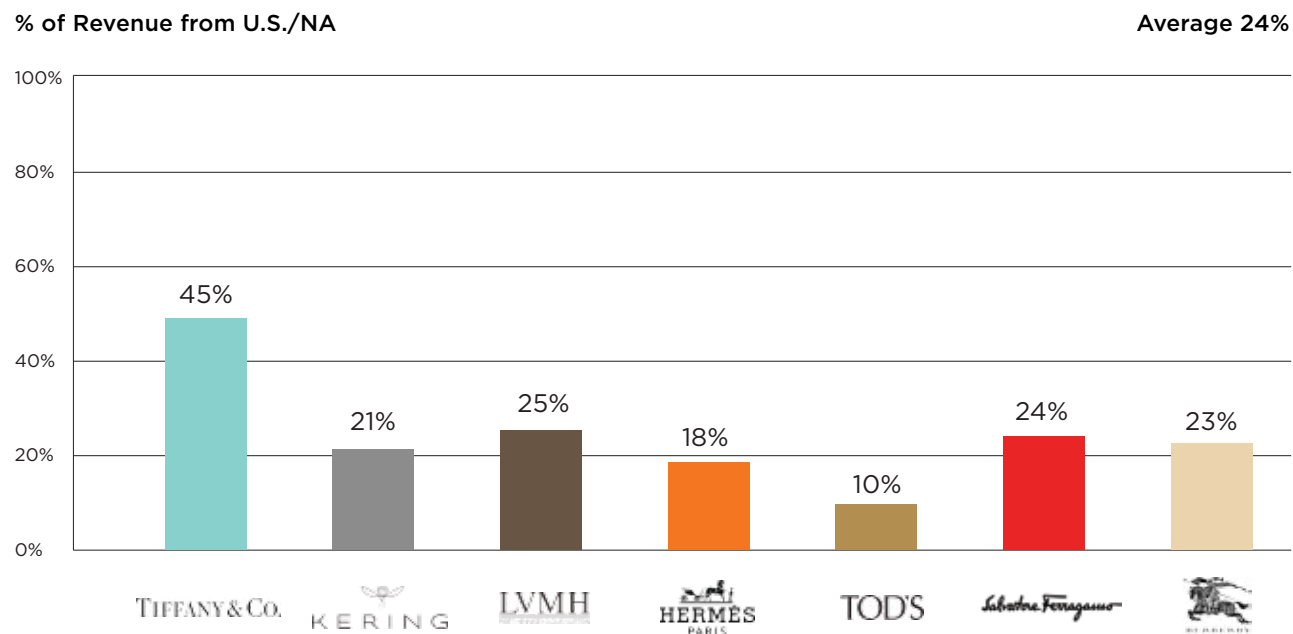
The Future of RH

- What RH has built in North America over the past six years is nothing short of breathtaking. But, what is most exciting is the future of RH internationally.
- It is of no doubt that RH is the leading name in luxury home goods/furniture.
- Currently, most luxury brands average 24% of their sales from North America.
- Without any competition globally, the opportunity is best articulated by Gary:

“ The international opportunity may be as big or bigger than the U.S. opportunity because the competition is – there’s really no competition internationally when we look at what we’re doing. We have all kinds of people that want to license it, right, want to franchise it, license it and we’ve just said no to everybody. ”

“ We’ve never been more excited and opportunistic about the future. I mean, how important international can be this business. There’s no competition up in the air. I mean, when we open internationally it’s going to be a slingshot. ”

– RH CEO, Gary Friedman



International combined with hospitality is why Gary cites a \$7-\$10 billion global opportunity.

How Do You Value Something Like RH?

- The stock is currently being valued at on par with Ethan Allen, La-Z-Boy, and Williams Sonoma.
- Without a doubt, Citron could say that the company deserves a luxury premium to its peers and the stock should trade at a P/E multiple of at least 20x (i.e., in line with LVMH). At this valuation, RH would trade at \$200.
- Once Wall Street wakes up and realizes that RH is to furniture what Whole Foods is to groceries, the multiple will readjust higher.
- Consider this: If RH traded at Whole Foods' takeout valuation, RH would trade at \$300.
- Note: Wayfair has more than 3x the market cap of RH, yet Wayfair faces direct competition with Amazon, has no brand, and is unprofitable.



RH has Become a Trophy Asset

- More so than Whole Foods, RH has become a trophy asset.
- Who would want to own the most important piece of real estate in every mid to high end shopping area in the US with the best lease terms? LVMH? Amazon? Williams-Sonoma? Hotel Operators? Private Equity?

LVMH	Long-term strategy is focused on offering the consumer a full spectrum of luxury experience.
Amazon	Focused on acquiring high end consumer with most important retail locations.
Williams Sonoma	Inability to compete on the high end and the only deal they should be looking at.
Hotel operators	Move into experiential luxury and new hotel line opportunity.
Private Equity	Rollout international and take public in another 6 years.

Price Target of \$250

- Citron understands Mr. Friedman is a polarizing CEO. However, regardless of whether you're a bear or a bull, the one undisputable fact is that Gary is more incentivized than any other investor in RH to monetize his holdings at a much higher price (i.e., sell the company).
- When including options and incentives, Gary owns over 27% of RH.
- At the 2017 Investor Day, Gary noted:
“I’m the biggest shareholder in the company. I have the most to gain and I have the most to lose here. This is like 97% of my net worth. This is not a casual investment.”



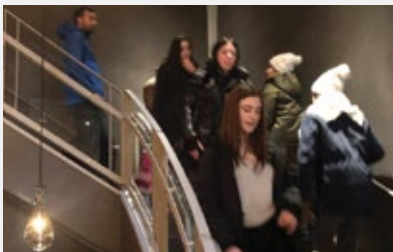
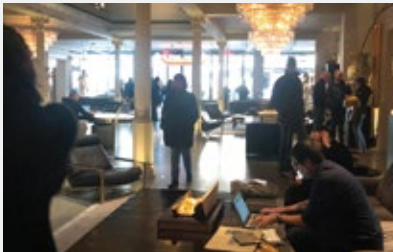
- We don't believe RH will stay public for much longer. The value of RH is clear and we expect an offer to be made that Gary can't refuse. At 61 years old and over 40 years in retail, Gary has successfully re-architected RH's operating platform.
- As large shareholders, we would be disappointed if RH sold for anything less than \$250 a share. This would still make it less expensive than Wayfair.

Business is Booming

- We sent our team to RH stores across North America this past weekend. The stores were packed and the wait was about 2 hours at each café.

Note: these pictures were taken this past weekend

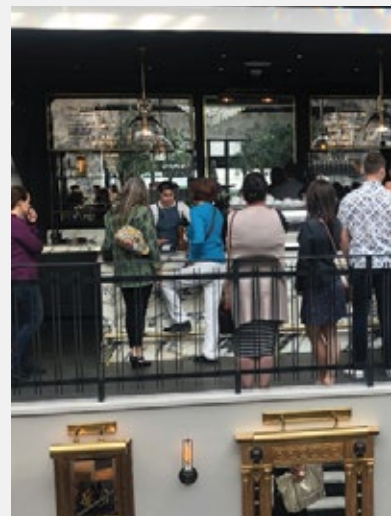
RH
New York



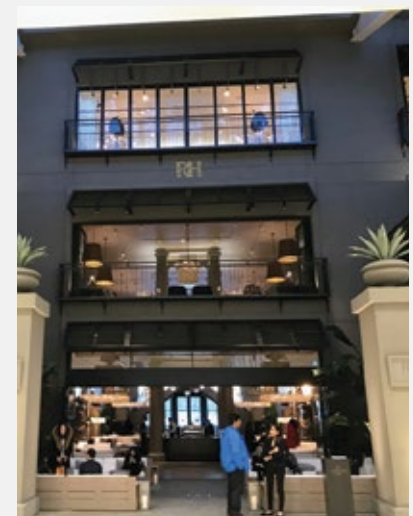
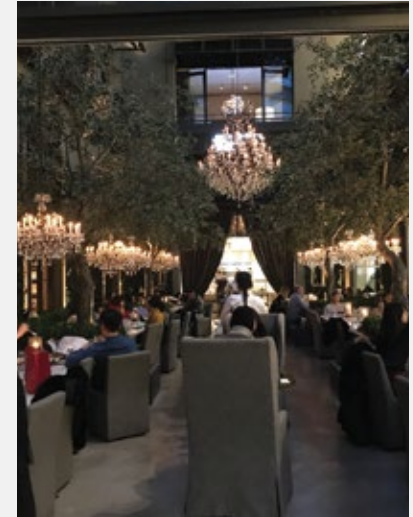
RH
Chicago



RH
Palm Beach



RH
Toronto



Conclusion

- As an investor there is nothing more important than understanding when a narrative has changed.
- The move from Restoration Hardware to RH was more than a name change but it was a shift in corporate strategy and retail concept that the world has never seen.
- It is our opinion that RH will reward shareholders with an over 100% return in the next 24 months.
- Gary - We care about you. Please use some sunscreen.



Cautious Investing to All

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