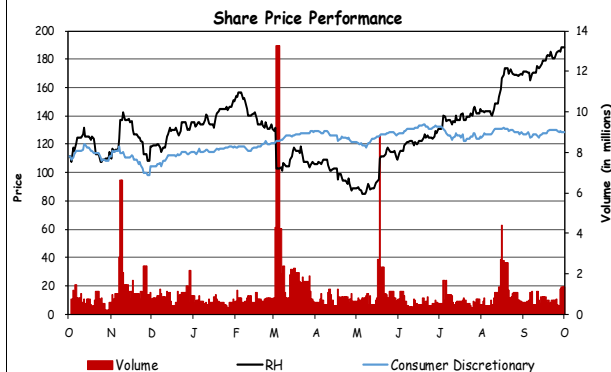


RH	Symbol: RH
Analyst	Paul Liguori
Buy below	\$188.40
Sell above	\$221.79
Probability of Price Increase	98%
Last Price	\$188.59
Intrinsic Value	\$192.86
Target Dividends	\$0.00
Target Price	\$216.66



Description
RH, together with its subsidiaries, operates as a retailer in the home furnishings.

Sector Consumer Discretionary
Industry Specialty Retail
Last Guidance December 11, 2018
Next earnings date December 9, 2019

People

Friedman, Gary, Chairman & CEO
Chaya, Eri, President, Chief Creative & Merchandising Offic
Price, DeMonty, President and Chief Operating, Service & Values
Stanchak, David, President and Chief Real Estate & Development O
Preston, Jack, Chief Financial Officer
Citragno, Glenda, Chief Accounting Officer & Principal Accounting

Top Competitors

Williams-Sonoma, Inc.	Aaron's, Inc.
At Home Group Inc.	Lowe's Companies, Inc.
Bed Bath & Beyond Inc.	Urban Outfitters, Inc.
Sleep Number Corporation	The Home Depot, Inc.
Pier 1 Imports, Inc.	Kirkland's, Inc.

Market Statistics

Market Capitalization (mil)	\$3,522.11
Last Price per share	\$188.59
52 week high	\$190.56
52-week low	\$84.11
Volatility	58.77%
Daily volume (mil)	1.33
Short interest	31.90%
Days to cover short interest	6.58
Beta	1.69

Financials

Profitability	RH (LTM)	RH Historical	Peers' Median (LTM)
Return on Capital	8.6%	7.82%	14.57%
Adjusted EBITDA Margin	11.3%	8.12%	9.34%
Return on Equity	-178.4%	4.1%	10.6%
Adjusted Net margin	6.3%	4.4%	5.5%
Invested Funds	RH (LTM)	RH Historical	Peers' Median (LTM)
Cash/Capital	0.2%	4.0%	3.5%
NWC/Capital	2.1%	16.7%	13.0%
Operating Assets/Capital	89.2%	67.8%	74.4%
Goodwill/Capital	8.6%	8.2%	2.3%
Capital Structure	RH (LTM)	RH Historical	Peers' Median (LTM)
Total Debt/(Market Cap.+ Other Claims on Capital)	0.48	0.32	0.47
Minority Interest/(Market Cap.+ Other Claims on Capital)	0.0%	0.0%	0.0%
Preferred Equity/(Market Cap.+ Other Claims on Capital)	0.0%	0.0%	0.0%
CGFS Credit Rating	CCC		CC
Credit Rating Model	b- to b		bb to bb+
Probability of Default Model	a- to a		b+ to bb-
Likely Current Cost of Debt	4.54%		5.69%
Likely Current Cost of Equity (Cost of Debt + MRP)	10.50%		11.65%
Likely Current WACC	8.24%		9.4%

Investment Thesis

A UNIQUE COMPANY PAIRED WITH A UNIQUE BUYING OPPORTUNITY

I am initiating coverage of Restoration Hardware with a BUY at \$188.59 (market price) and a \$216 price target. I view RH as a specialty store that has created a brand and an experience like none other. By creating a retail spaces "galleries" in large, affluent cities such as Boston, NYC, West Palm, and Aspen. By offering services such as single item purchases all the way to full interior design services, a wide range of consumers can be hit. To add onto that, they have now creates restaurants and bars to bring attractiveness to hang out at their beautifully designed and perfectly placed locations, creating another added aspect of luxury and appeal to the consumer. With 8 positive earnings surprises as well as astronomical growth over all aspects, it is no shock that this company's stock is booming. However, it has hit a range where consumers can now become weary- offering what is in my mind, a great purchase opportunity.

For the long:

1. A New Prototype Design Gallery to Increase Capital Efficiencies:

A new RH prototype Design Gallery was created that is an innovative and flexible blueprint, which is believed to enable quicker disruptive product assortment and immersive retail experience into the market. The new model is a standard they will utilize in the future that is based on key learnings from their recent Gallery openings and will range in size from 33,000 leased selling square feet inclusive of their integrated hospitality experience to 29,000 leased selling square feet without. These new Galleries will represent their assortments from RH Interiors, Modern, Baby & Child, Teen and Outdoor and contain interior design offices and presentation rooms where design professionals can work with clients on their projects. Due to the reduced square footage compared to their recent Design Gallery openings and the efficient design, this new model will be more capital efficient with less development time and cost risk, but yield similar productivity. An anticipation of the new prototype Design Galleries will represent approximately two thirds of our target markets. Future prototype location examples include Edina, MN, Corte Madera, CA, Columbus, OH and Charlotte, NC.

2. Bespoke Design Gallery Growth:

RH will continue to develop and open larger Bespoke Design Galleries in the top metropolitan markets, similar to those opened in New York and Chicago. These iconic locations are highly profitable statements for their brand, and are believed to create a long-term competitive advantage that will be difficult to duplicate. A continuation to open indigenous Bespoke Galleries in the best second home markets where the wealthy and affluent visit and vacation. These Galleries are tailored to reflect the local culture and are sized to the potential of each market. Examples of indigenous Bespoke Galleries include the Hamptons, Palm Beach, Yountville and Aspen.

3. Secondary Market Growth:

RH is developing a new Gallery model tailored to secondary markets. Targeted to be 10,000 to 18,000 square feet, these smaller expressions of the brand will enable them to gain share in markets currently only served by smaller competitors. Examples of target secondary markets include Hartford, CT, Oklahoma City, OK and Milwaukee, WI, among others. An expectation is for these Galleries to require a substantially smaller net investment than larger Design Galleries and to pay back capital investments within two years in most instances. The plan is to test a few of these Galleries over the next several years, and if proven successful, the format could lead to an increase in long-term Gallery targets.

For the short:

1. Keep an eye on Chinese Trade Tensions:

As with most small cap stocks, the lingering trade tensions are always something to watch for when investing, wpecially with a company that sources almost half of their goods from China. If all goes to plan, which it should, then this shouldn't be a worry.

2. 52 Week Highs:

Consumers must not be weary of the 52 week highs of a booming company, such as this one. Based off of my valuation, this company is not even close to being done growing.

Key Catalysts for price change

- Chinese Trade War
- Consumer buying habits
- Real Estate Market

Valuation

My \$217 price target is derived from Discounted Unlevered Free Cash Flow estimates

Ownership Change in Ownership (over the past "Number" months)

Shares outstanding (mil)	18.68	
Weighted Diluted shares outstanding (mil)	25.17	
Options and Warrants (Shares equivalent)	0.87	
% shares held by institutions	110%	"INPUT from BB"
% shares held by investments Managers	82%	"INPUT from BB"
% shares held by hedge funds	19.44%	"INPUT from BB"
% shares held by VC/PE firms	0.483%	"INPUT from BB"
% shares held by insiders	13.72%	-38.06%
Poison Pill and Type	NONE	

Quarterly Earning Surprises (Actual/Median Estimates)

Revenue	Last 5 quarters
8/4/2018	\$2563.192 (-3.1%)
11/3/2018	\$2546.232 (0.7%)
2/2/2019	\$2683.564 (-2.2%)
5/4/2019	\$2393.684 (2.3%)
8/3/2019	\$2826.056 (1.2%)
History:	Last 7 years
Mean Surprise	-0.15%
99th percentile "surprise" range	-4% to 4%
EBITDA	Last 5 quarters
8/4/2018	\$371.628 (2.3%)
11/3/2018	\$315.98 (6.9%)
2/2/2019	\$521.66 (5.7%)
5/4/2019	\$377.576 (19.5%)
8/3/2019	\$514.072 (6.6%)
History:	Last 7 years
Mean Surprise	-0.06%
99th percentile "surprise" range	-23% to 23%

RH	Symbol: RH	Cost of Capital Estimates			
Analyst	Paul Liguori		C6FS Credit Rating	Credit Rating Model	Probability of Default ModelModel
Buy below	\$188.40	Implied Cost of Borrowing (RH)	5.2%	6.4%	4.1%
Sell above	\$221.79	Implied Cost of Borrowing (Peers)	5.7%	5.6%	6.9%
Probability of Price Increase	98%		Base Year	Explicit Period (2 years)	Continuing Period
Last Price	\$188.59	Cost of New Debt Estimate	5.90%	5.00%	5.00%
Intrinsic Value	\$192.86	Country Risk Premium Estimate	6.60%	6.60%	6.60%
Target Dividends	\$0.00	Cost of Equity Estimate	12.50%	11.60%	11.60%
Target Price	\$216.66	WACC Estimate	9.65%	8.81%	8.81%

Forecast Assumptions					
Fiscal Year	Revenue Growth	EBITDA Margin	CAPEX/Revenue	DPR/CAPEX	Other
Base Year (Actual)	3.22%	13.5%	5.5%	0.54	SBC/Revenue 0.80%
year 1	10.26%	17.7%	6.1%	0.62	Constant/same as LTM
year 2	7.38%	15.2%	5.5%	0.67	Lease term 10
year 3	6.95%	15.3%	4.8%	0.86	Rent Expense/Revenue 4.22%
year 4	8.22%	16.5%	4.5%	0.71	Tappers off to historical average
year 5	8.02%	17.0%	4.3%	0.73	R&D life 10
year 6	3.86%	17.2%	3.7%	0.60	R&D Expense/Revenue 0.00%
year 7	4.31%	18.9%	3.2%	0.47	Constant/same as LTM
year 8	4.75%	20.7%	2.6%	0.33	LIFO Reserve Tappers off to zero
year 9	5.20%	23.2%	2.0%	0.20	Non-operating pension costs Tappers off to zero
year 10	5.65%	26.5%	1.5%	0.07	Net financing pensions costs Tappers off to zero
year 11	6.10%	30.9%	0.9%	-0.07	Overfunded pension plans Tappers off to zero
year 12	6.54%	36.7%	0.3%	-0.20	Capitalized interests Constant/same as LTM
year 13	6.99%	37.1%	-0.3%	-0.33	Dividends/Revenue 0.11%
year 14	7.44%	55.0%	-0.8%	-0.47	Tax Rate 22.01%
year 15	7.89%	64.0%	-1.4%	-0.60	
Continuing Period	2.52%	9.0%	5%	-0.73	

Simulation Assumptions					
Random Variables	Distribution Assumption	MAX	Likely	MIN	
Deviations in annual Revenue Growth--Expl. Per.	Triangular	3.57%	0%	-3.05%	<div>Sensitivity: Price Variance Attribution Analysis</div> <div><div>5.64%</div>Revenue growth</div> <div><div>66.69%</div>EBITDA Margin</div> <div><div>14.50%</div>CAPEX/Rev</div> <div><div>10.04%</div>Discount Rate</div> <div><div>0.00%</div>TEV/Rev</div> <div><div>0.00%</div>TEV/EBITDA</div> <div><div>0.00%</div>P/BV</div> <div><div>0.00%</div>P/E</div> <div><div>0.00%</div>Asset Recovery Rate</div>

Valuation			
DCF Valuation			
	Base	Explicit Period (Average)	Continuing Period
Revenues	\$2,612.38	\$4,353.46	\$6,841.49
EBITDA Margin	11%	27%	9%
UFCF	\$226.33	\$1,014.79	\$344.31
WACC	9.65%	8.81%	8.81%
ROIC	8.63%	30.94%	16.49%
Relative Valuation			
	Median Justified Multiple	Basis	Implied Equity Value
EV/Rev (FW)	1.1x	\$2,796.11	\$734.51
EV/EBITDA (FW)	11.5x	\$477.38	\$3,001.68
P/BV (TTM)	2.1x	\$0.00	\$0.00
P/E (FW)	15.9x	\$259.33	\$4,111.33

Intrinsic Value Distribution--Probability (Upside)=98.2%

Asset Based Valuation		Valuation Summary			
Recovery Rate	60%	Intrinsic Value	Target Price	Model Weight	
Capital	\$5,528.17	DCF Valuation	\$ 196.43	\$ 220.23	100%
Intangibles	\$210.39	EV/Rev (FW)	\$ 28.22	\$ 30.94	0%
Claims	\$2,856.97	EV/EBITDA (FW)	\$ 115.31	\$ 126.43	0%
Implied Equity Value	\$333.70	P/BV (TTM)	\$ -	\$ -	0%
		P/E (FW)	\$ 157.94	\$ 173.17	0%
		Asset Based Valuation	\$ 12.82	\$ 14.06	0%
		Price per Share	\$ 196.43	\$ 220.23	100%