RH's Play at Lifestyle Branding is More than Window Dressing

Price $175.50 **Growth Holding** **June 6, 2025**

- RH has transformed from mid-market furniture retailer to luxury lifestyle brand through opulent flagship galleries and integrated hospitality.
- Expects return to positive free cash flow during 2025, as well as 10-13% revenue growth despite tariff and macroeconomic impacts.
- The stock has collapsed 37.9% over trailing twelve months as markets fixate on short-term European execution risk and tariff pressures.
- RH's rejection of digital advertising in favor of curated print Sourcebooks creates authentic demand that resonates with demographics fatigued by ubiquitous e-commerce strategies
- Asset-light expansion model with landlords funding large portions of buildout costs through sale-leaseback structures enables geographic scaling without capital intensity

Investment Thesis

RH (RH) formerly Restoration Hardware, is a North American high-end home goods store. Since 2010, RH has transformed itself from a typical mid-market furniture store into an upper-market brand. The next step in this brand transformation is creating an "attainable fantasy" lifestyle brand through aestheticized experiences like dining at restaurants or staying at hotels furnished with all RH furniture. The company's rejection of digital advertising and social media presence in favor of print Sourcebooks and print advertising creates genuinely authentic demand in a world saturated by e-commerce.

Despite the transformation, the market prices RH as a cyclical furniture retailer rather than its burgeoning position as a lifestyle brand. The stock has collapsed 37.9% over the trailing twelve months as the market fixates on short-term execution risk. While there are growing pains in the European expansion and tariff pressures, we believe that the fundamental shift in the business model sets RH up for long-term growth and an eventual re-pricing by the market.

Estimated Fair Value

EFV (Estimated Fair Value) = EFY26 EPS (Earnings Per Share) times P/E (Price/EPS)

EFV = E27 EPS X P/E = $14.51 X 11.3x = $359.85

We believe that the luxury and lifestyle reposition create long-term brand equity that will unlock earnings power as it moves away from cyclical retail. Additionally, once short-term risks like tariffs have clearer guidance, we believe that RH will be able to allocated capital more strategically to mitigate them.

	E2025	E2026	E2027
Price-to-Sales	1.1	1.0	0.9
Price-to-Earnings	17.5	12.3	9.7

SeekingAlpha Analyst Consensus

The Transformation

In 2010, while still private, RH announced it was leaving the mid-market space, dominated by peers like Ikea and Wayfair, and would be repositioning itself to be a higher-end store. Labeled as 'legacy locations', these stores are very similar to a typical big-box retailer, 7,500 sqft galleries anchored to strip retail or malls. By the 2012 re-listing, it had introduced a handful of 'design' format galleries. The new galleries were larger, typically 20-80k sqft, and had high-end standalone structures.

In 2015, it opened its first flagship format, held within historical buildings or massively opulent structures designed to mimic historical architecture. The flagship locations are typically more than 70k sqft, and include sit-down restaurants, bars, and event spaces. The idea was to bring in destination shoppers from a wider area, and represent 'attainable fantasy' with the areas furnished entirely with RH offerings. To complete its portfolio, it acquired Waterworks in 2016, to provide bathroom and kitchen furnishings.

With the success of the embedded hospitality locations, RH opened its first standalone hospitality asset, a large restaurant and wine bar in Napa, similarly furnished with products available in its catalogue. Keeping with this lifestyle concept, in 2022 it opened an ultra-luxury hotel in New York, called a 'guesthouse', with a handful of rooms designed to feel more like an apartment curated by RH.

Operations

Retail		
Type	**Number of Locations**	**Average Square Footage**
North America		
Design Galleries (includes flagships)	33	34,100
Legacy Galleries	27	7,500

Modern Gallery	1	12,800
Under 18 Gallery	2	3,300
Design Office	1	3,000
Waterworks	10	4,300
Outlets	40	N/A
Europe		
Design Galleries (includes flagships)	5	23,400
Waterworks	3	4,300
Asia		
Waterworks	1	4,300

There are 27 remaining legacy galleries, which RH is slowly converting into the design gallery format, closing them if the market no longer supports the concept or there is an existing RH location, with 4 stores converted and 4 others closed during the year ending February 2025. RH currently has three flagships under construction in Paris (2025), London (2026), and Milan (2026), all of which will be contained in historic structures and include hospitality. While not under construction, RH is planning to open a design gallery in Sydney 'in the coming years.'

Currently RH operates 4 design galleries and 1 flagship location in Europe. Two of the galleries are in Germany and recently took a $19 million impairment on the carrying value of leases they are in until 2027, effectively meaning these stores are going to generate less cash flow than expected. We believe that much of this is due to tariff impacts coupled with the pace of expansion straining fulfilment architecture. Inventory fulfilment is done through a series of distribution centers rather than in-store, and currently it does not appear RH has major fulfilment infrastructure in Europe, instead relying on international shipping. Given the 3 additional flagship openings in Europe, we believe that during 2025 RH will likely open a dedicated fulfilment location in Europe.

Following the success of the amenities like restaurants within flagships, all of the new converted legacy galleries and new design gallery construction also include amenities. By no means are these amenities loss leaders, according to a 2022 interview with the CEO each restaurant makes around $10 million in revenues which would put them firmly into the upper portion of the fine dining category. In total RH now has 21 integrated hospitality locations within its galleries, and 1 guesthouse open with another under construction, and the previously mentioned standalone RH restaurant and wine bar in Napa.

To further build equity as a luxury lifestyle brand, in 2021 RH acquired two gulfstream jets, and in early 2025 launched its 130 foot charter yacht – all furnished by RH.

Aside from the typical retail footprint, RH operates 40 outlet locations selling primarily returned merchandise and discontinued stock. It now offers RH Design, with a single office so far, which is similar to a personal shopper but for furniture where designers working with RH customers work to 'bring projects to life'.

Historically, furniture stores have struggled to establish brand loyalty, which is at least part of the reason the market is still so fragmented. In the US, the top 5 firms hold under 50% market share, with RH at number 6. Europe's exact market is harder to pin down, though we estimate based on CSIL's $188 billion market size that the top 5 firms likely represent under 40% of sales.

The relatively low switching costs in furniture require investment in loyalty and advertising to drive sales, we believe that RH has very unique positions in both of these areas. The RH membership is a $200 a year subscription fee that grants discounts of 25% on all full priced items. RH generates 98% of sales from its 265,000 loyalty members. Loyalty members have declined by 5.7% year over year, which we believe is entirely due to the broad economic slowdown rather than a structural failure.

RH does not engage in traditional digital advertising outside of promotional emails to loyalty members. The primary vector for advertising are large 'Sourcebooks' which contain hundreds of pages of collections of goods available at RH locations. These are mailed out to existing loyalty members, targeting individuals, or on request. RH sticks to print for external advertising too choosing style-heavy magazines such as Architectural Digest, and WSJ Magazine.

In-fact, RH's only official digital presence is its website "world of RH" and is designed like a sleek lifestyle website, rather than an e-commerce retailer, where users can download pdf copies of source books. RH's amenities are a hotbed of organic social media activity, with a 2022 ranking showing Chicago's flagship restaurant being the #9 most Instagrammed restaurant in the city. RH's openings are turned into VIP events, attended by the likes of Vogue Magazine.

Not only does this cut down on traditional advertising budgets, but it also turns customers who are out of the demographic of RH's market into organic advertising platforms as they attend amenities or window shop in the opulent flagship locations.

Novel Expansion

RH announced in 2021 that it would be investing in Aspen to create an 'Aspen Ecosystem,' a $146 million investment in RH furnished and branded experiences using the wealthy ski-town as a test market. The Ecosystem is slated to include a standalone

Spa, several restaurants, another Guesthouse, a standalone gallery, and even standalone residences intended to be sold. The pilot residences are pre-furnished and pre-built housing targeting the ultra-rich or property investors. The RH Residences are being demoed in Aspen and in Ontario, with standalone homes in Aspen and 196 condos in Ontario. We believe this is attempting to target the absolute top-of-the-market, in a similar way that wardrobe builders at luxury retailers like Mytheresa operate, or hotels like Ritz-Carleton offer branded residences.

While the Aspen residences are fully developed by RH, the Ontario residences are branding and furnishing only. We believe that most of the future RH residence arrangements will follow the Ontario format and focus on FF&E (furnishings, furniture, and equipment) sales, while collecting a one-time licensing fee typically running 2-5% of the sale. According to Cornell Real Estate Review, branded residences sell at an average premium of 31%, though most branded residences are dominated by luxury hotel brands like Ritz-Carleton. RH's premium is likely lower as its brand strength as luxury is still being built. The length of the revenue tail to RH is long but likely small, with most branded residences not-operated by the licensor receiving a small annual fee for the continued branding usage.

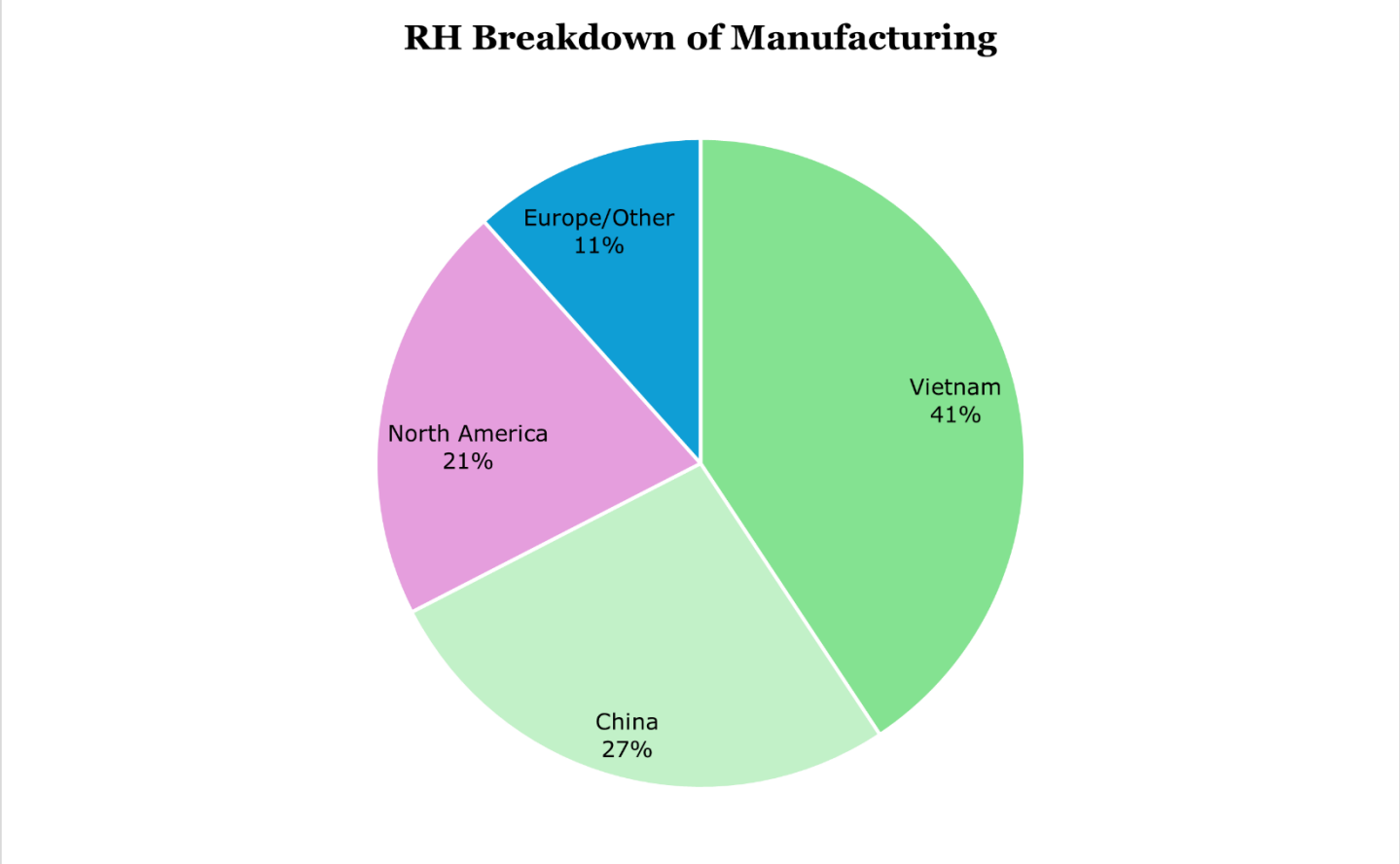
During the earnings call for the year ending February 2025, RH announced it would be unveiling a "New Concept" that would include two freestanding galleries, a separate website presence, and a new Sourcebook. In our view the new concept stores are likely designed to be ultra-luxury appointment-only locations as they are integrating high-end upholstery and a bespoke furniture designers into this concept, with one occupying the old Ralph Lauren flagship on Greenwich Avenue in New York City Though, the new format may be delayed due to tariffs increasing costs beyond what was envisioned.

Sourcing and Manufacturing

Contrary to other furniture brands who have large design teams internally, RH typically hires out designers in a process it calls "curation versus creation". This allows them to demo a relatively high volume of items across a variety of flavors in their design catalogue and selecting those that do best to continue production over the long term.

This selection helps keep inventory positioning more agile, given the long product cycle of furniture and design. The long product cycle is a double-edged sword, allowing at least some weathering of tariffs or supply chain failures in the short term, but long-cycle inventory can also build as consumers defer durable purchases or as tastes change. As of the quarter ending February 2025, RH has 189.5 days of inventory on hand, or around $1 billion. We believe much of this activity is front-loading inventory to avoid the

new tariffs. The CEO stated that it was additionally amplified by not wanting to sell out of legacy products as RH introduces new editions of Sourcebooks.



Much of RH's production is in Asia. After the 2018 trade spat with China, RH did attempt to diversify away from production there, though much of the upholstery and lighting manufacturing is still in China. Given the high-end customer target, passing on costs is likely to be easier though the specific impacts are hard to estimate given the changing nature of trade policy and ongoing economic uncertainty.

Risk

The Aspen project has run into both high costs of construction, unfriendly locals, and rapidly appreciating real estate prices that made some development locations better off sold. According to local journalism, very little progress on construction has been made on any of the locations despite the $146 million so far spent. One of the locations slated to be an opulent 6 bedroom home, was recently sold for $26 million after being acquired for $11 million. Given this sale occurred at a profit and land values have continued to grow in Aspen since 2021, we believe the risk of major financial loss associated with the Aspen project are small.

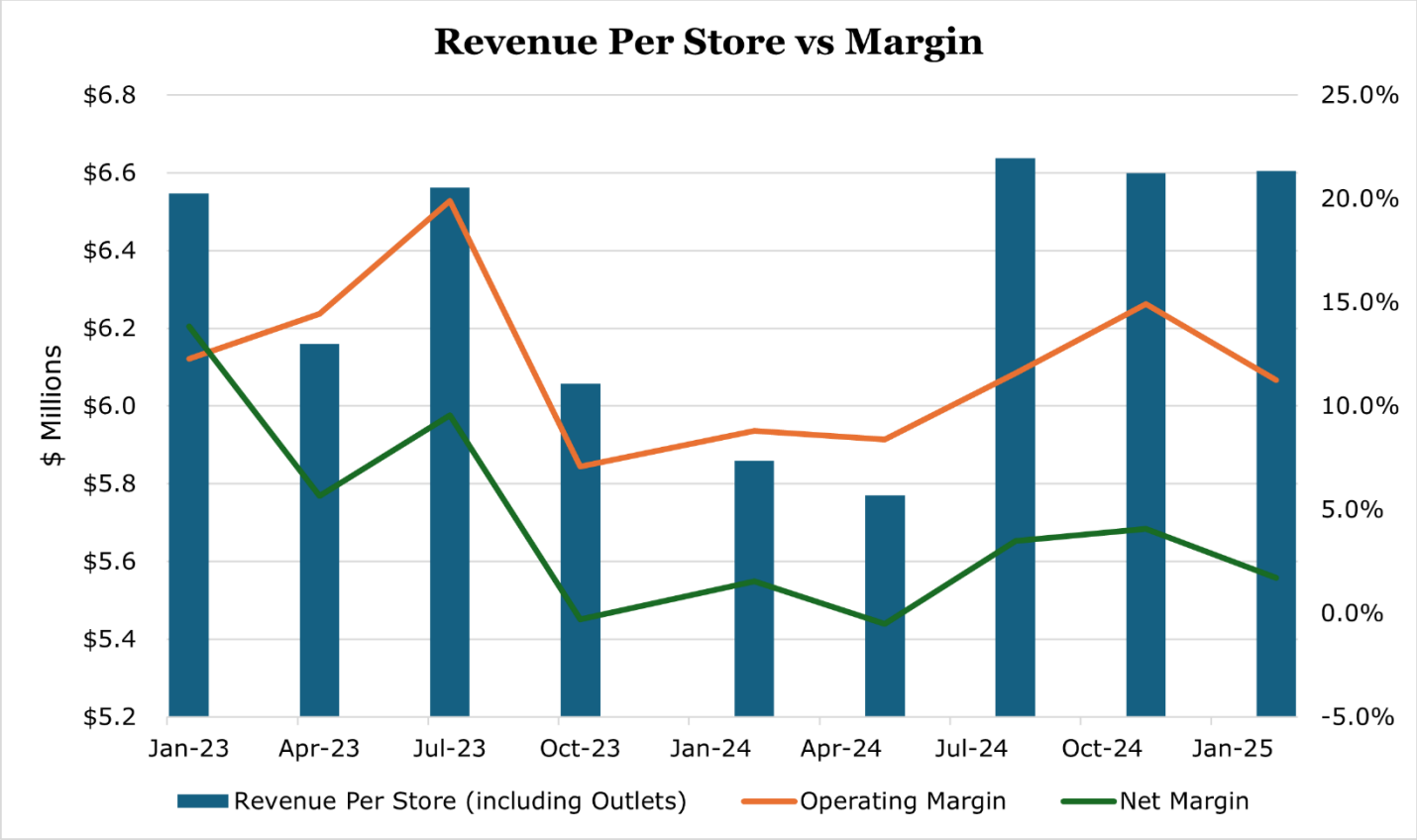
Demand for furniture and furnishings is inextricably linked to broader housing market conditions. The CEO was transparent in stating that we are currently in the worst housing market in more than 50 years. However, RH does continue to grow revenues at an above-market pace posting 10.0% revenue growth year over year for the quarter ending February 2025. While we think that RH will likely be weighed down in the short-term, the luxury-market positioning likely both dampens impacts of high-cost housing, as well as mitigates at least part of the tariff impact.

A potential wildcard is work from home and a potential recession. Stanford estimates that around 25% of working days are currently still work from home, which could be boosted during a recession as companies want to retain talent and cut costs like office expenses. Recessions also typically invoke "cocooning" where even individuals unimpacted by job loss cut back on external spending and increase spending on categories like home furnishings or premium grocery trips. We believe that this effect, while minor, does at least provide a softer landing in the event of a recession.

We believe that the main risk to the European expansion is that the 'attainable fantasy' aesthetic is Americentric in nature. It is possible that RH has missed the mark in Europe, sitting too high for mass market and too low for lifestyle luxury. While some success stories exist in Europe for lifestyle brand-building in short periods, like the previously mentioned Mytheresa, an American brand entering Europe currently could face backlash.

Financials and Outlook

For the year ending February 2025, the total company saw 5.0% revenue growth, with gross margins declining by 140bps to 44.5%. Both the RH segment and Waterworks margins declined due to higher supply chain costs associated with international expansion. Operating margins declined by 157bps to 11.1% due to increased compensation expenses associated with international expansion and increased Sourcebook circulation.



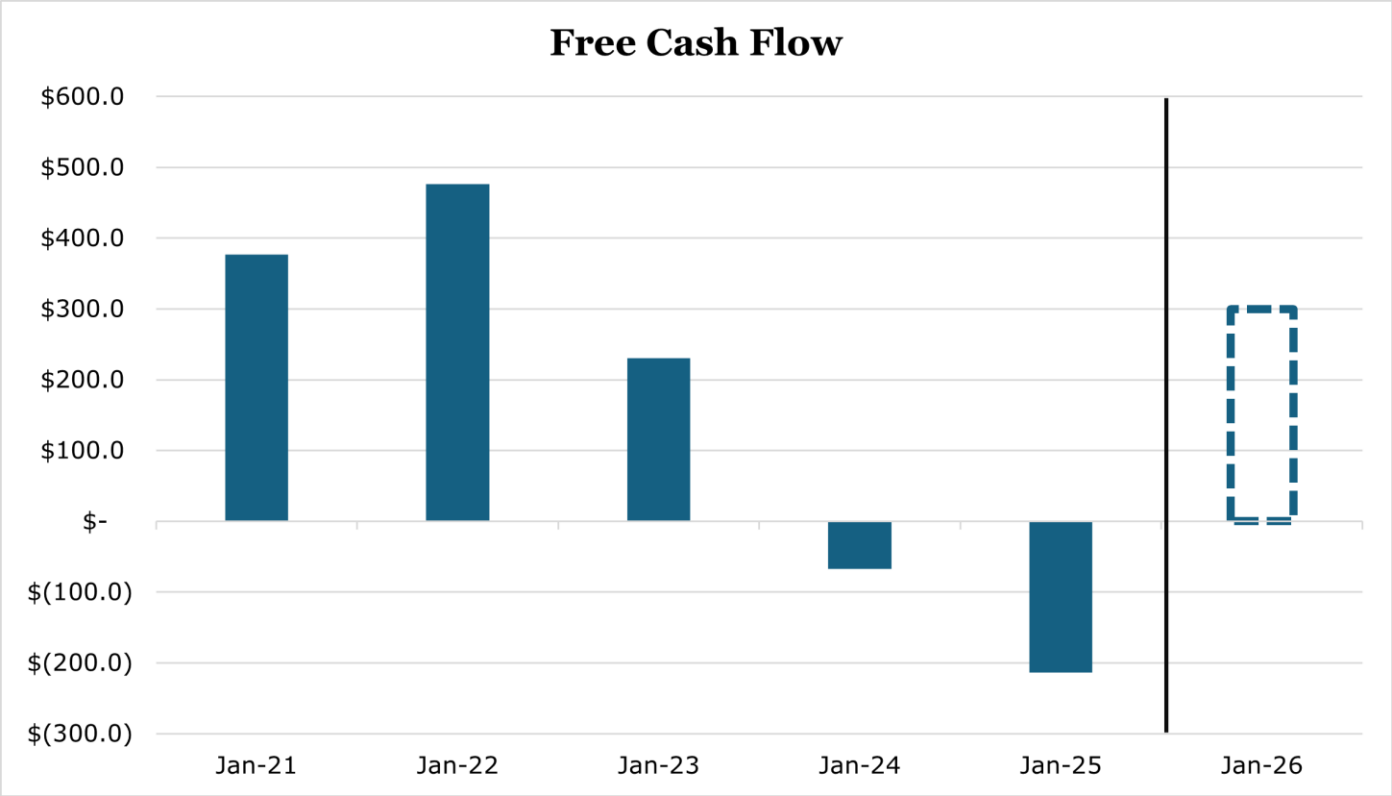
From quarter ending Jan 2023 to quarter ending February 2025

On a per store basis, revenues were flat sequentially and up 12.7% year over year for the quarter ending February 2025. For the year ending February 2026 RH forecasts revenue growth between 10% and 13% and adjusted operating margin of 14% to 15%. We believe that the final figure will likely fall on the lower end of guidance given the current macroeconomic environment. Aside from tariffs, management expects operating headwinds of 160-200bps during 2025 due to the continued push toward openings in Europe. We also expect some minor headwinds of under 50bps associated with new Sourcebook circulation in the first half of 2025.

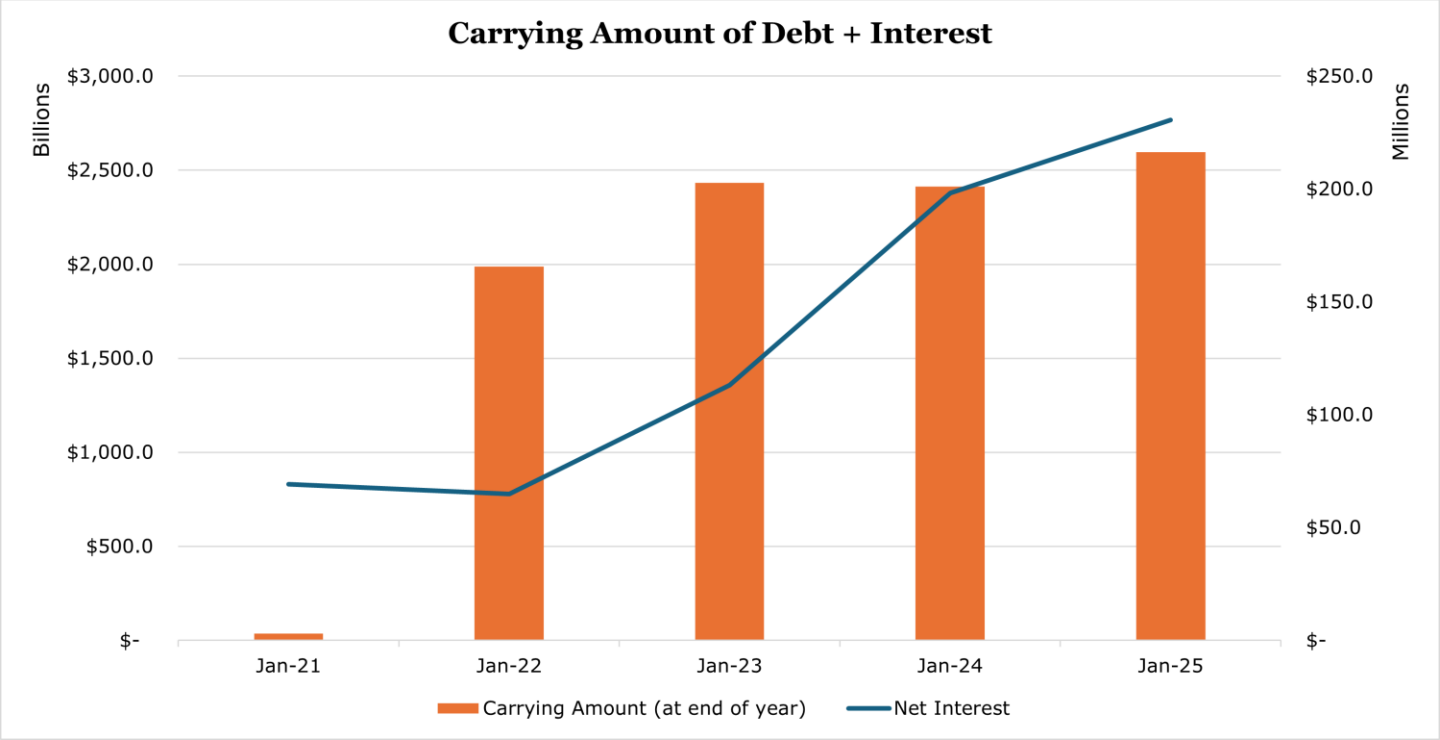
The balance sheet has deteriorated ending the quarter ending February 2025 with $30.4 million in cash, down from $123.7 million in February 2024. While a lot of the cash burn has been store opening including $230.8 million in capex, the cyclical downturn likely to be experienced from tariffs may put a heavy weight on the expected return to $250-350 million in free cash flow previously estimated by management.

RH opens new galleries with a sale-leaseback model or landlord-funded buildouts, which should also provide at least some kickback of Capex to the company.

The CEO did state that 25% tariffs are 'manageable' and the problem is more the uncertainty surrounding policy is restricting their ability to make long-term decisions. Some inputs, like Teak wood from Indonesia with 32% tariffs, are not able to be sourced elsewhere. In this situation, the most likely outcome in our view is selling through the inventory already held and removing it from the show floor and catalogue until more stable guidance is provided on trade.



RH has $2.6 billion in debt, coming from a $2.0 billion variable loan at LIBOR + 2.5% and another $500 million variable loan at SOFR + 3.25% to fund a massive 17% share repurchase. At the time, the CEO stated that he expected the Fed to aggressively lower rates during 2024 which obviously never materialized, and later admitted was a mistake. We do not believe that RH will engage in further share repurchases in the medium term. This debt has spiked interest expense to levels that are actively eroding the bottom line, though RH affirms they are confident in paying down this debt.



All things considered; we do not think RH is at risk of bankruptcy or major financial distress with much of the debt maturing in October 2028. In our view, the worst case is management has to pause expansionary spending, engage in high levels of promotional activity, sell off real estate, or raise capital. There is a $400 million credit facility that remains undrawn at 5.66% interest, which could provide an emergency buffer if there are no more levers. We believe there is still ample time to work out growing pains in Europe and the broader market to recover before it poses a serious risk to continuing operations.

Conclusion

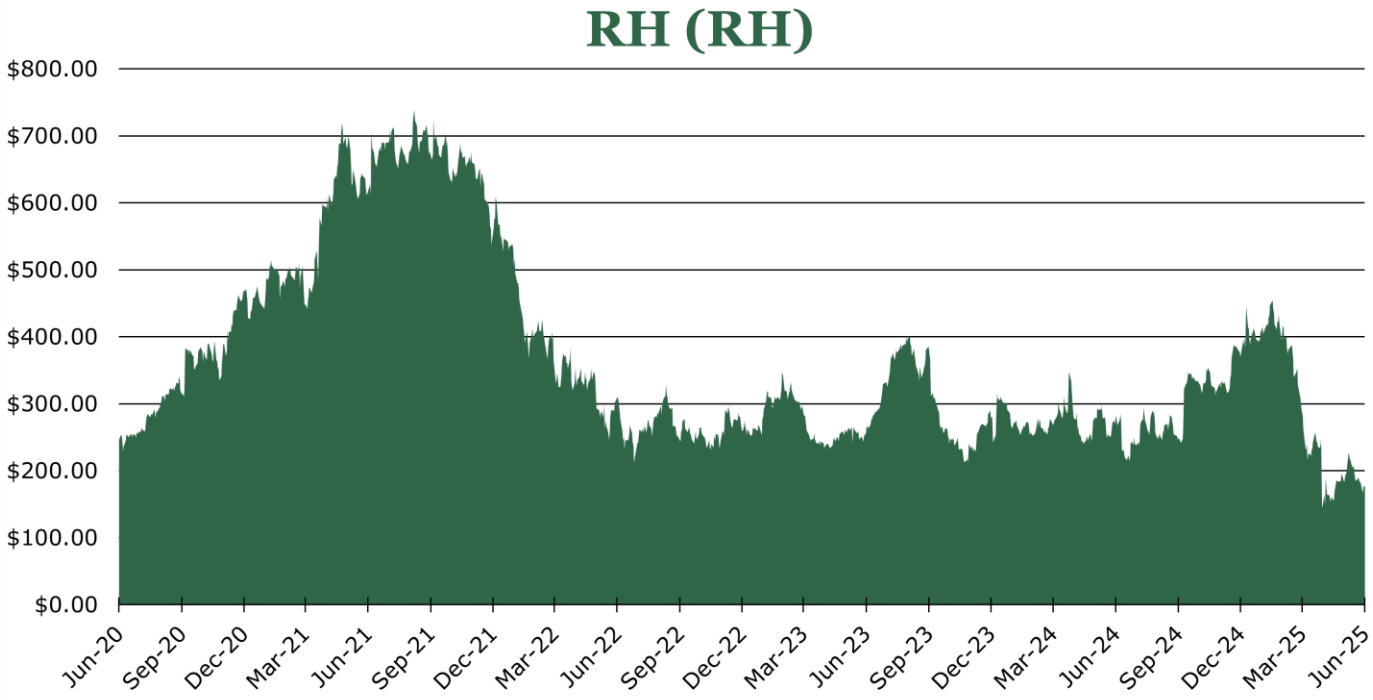
RH has created many opportunities that typical cyclical retailers are unable to replicate which we believe provide monetization to those even outside of RH's target demographic. In its target demographic, upcoming bespoke-focused concept stores, European flagship expansion, standalone amenities and RH residences represent logical and coherent extensions of the brand as it reaches higher into ultra-luxury.

While the short term does have challenges, upper management's compensation structure is locked up mostly in the success of RH. We are confident that management will be able to weather the short-term uncertainty surrounding tariffs, downturns associated with high-cost housing, and European growing pains.

We expect RH to return to positive free cash flow during the second half of 2025 as new stores open and inventory destocking reverses the front-loaded inventory build that occurred during the quarter ending February 2025. Overall, we believe that RH's stock price collapse presents an attractive entry for long-term growth.

Peer Comparisons

	RH (RH)	Arhaus (ARHS)	Wayfair (W)	Williams-Sonoma (WSM)	Ethan Allen Interiors (ETD)
Price-to-Earnings	17.19	20.92	72.31	18.92	13.26
Price-to-Sales (TTM)	1.03	0.95	0.45	2.59	1.09
EV-to-EBITDA (FWD)	10.10	11.80	16.79	12.65	8.05
EBITDA Margin	15.21%	8.92%	-1.10%	21.04%	13.60%
Dividend Yield	-	-	-	1.63%	7.39%


RH (RH)
$800.00
$700.00
$600.00
$500.00
$400.00
$300.00
$200.00
$100.00
$0.00
Jun-20
Sep-20
Dec-20
Mar-21
Jun-21
Sep-21
Dec-21
Mar-22
Jun-22
Sep-22
Dec-22
Mar-23
Jun-23
Sep-23
Dec-23
Mar-24
Jun-24
Sep-24
Dec-24
Mar-25
Jun-25

Disclaimer and Related Information

This report was written by Julie Brown and reviewed and edited by Benjamin C. Halliburton.

This article or video features Benjamin C. Halliburton, CFA or an investment idea(s) that Mr. Halliburton or Tradition Investment Management, LLC (Tradition) may invest in. Mr. Halliburton is the founder and owner of Tradition Investment Management, LLC, a registered investment adviser. Tradition is doing business as (DBA) Building Benjamins in the publishing, email, and website space. All material on the website should be considered paid advertising by Tradition. This article is a financial publication and is provided for educational purposes only. It is not an investment recommendation nor investment advice. It does not take into account your personal circumstances and whether this investment is appropriate for you, your objectives, or your risk tolerance. Under no circumstance is Building Benjamins or Tradition Investment Management LLC responsible for any actions that you may take after reading this educational information. Nothing from Building Benjamins should be considered personal investment advice. Building Benjamins and Tradition Investment Management LLC, the website, emails, interviews, social media pages, and other materials are published by Building Benjamins and do not necessarily match the opinions of the individuals or companies published or quoted herein. Investing, particularly stock or ETF investing, is risky and may result in losses and sometimes loss of your entire investment. Stock investing has company-specific operational risks like demand, competition, legal and regulatory, and broader financial market risks like liquidity, Economic cycle, and government policy. You may lose money in any stock investment or other investments and are solely responsible for those decisions.

Mr. Halliburton, Tradition Investment Management LLC, and/or the authors on this site may or may not have positions in the securities discussed in this educational report. Neither the author(s) nor Tradition Investment Management, LLC will knowingly trade ahead of any customer buy or sell resulting from this information. The information herein is shared as an educational endeavor. Mr. Halliburton, Tradition Investment Management LLC, and/or the authors on this site may transact in the security discussed at a later date, prior to, or without notification in this format. This is not investment advice but only a discussion of select investments for educational purposes. Building Benjamins is an investment website, blog, or newsletter, and the information contained cannot be reproduced, copied, or redistributed without the prior written authorization of Building Benjamins or Tradition Investment Management LLC. US copyright laws apply. We rely on information from sources we believe reliable, including the companies themselves, but cannot guarantee the accuracy of the information we provide. You rely on this information at your own risk and are responsible for the verification of the data.