FLASH REPORT

RH RESTORATION HARDWARE

RESTORATION HARDWARE (RH) 3Q16 RESULTS: EPS TOPS ESTIMATE, BUT COMPANY LOWERS FY16 GUIDANCE, CITING SLOW HOLIDAY SALES AND BUSINESS-MODEL CHANGES

	3Q16	3Q15	YoY Change
Revenues (USD Mil.)	$549.3	$532.4	3.1%
Adjusted Gross Margin	32.2%	36.7%	(450) bps
Adjusted SG&A/Sales	28.9%	27.3%	160 bps
Adjusted Operating Margin	3.3%	9.4%	(610) bps
Adjusted EPS	$0.20	$0.65	(69.2)%

Source: Company reports/Fung Global Retail & Technology

- **Restoration Hardware reported 3Q16 adjusted EPS of $0.20, ahead of the $0.16 consensus estimate but down 69.2% year over year. Revenues rose by 3.1% from the year-ago quarter, to $549.3 million, also beating the consensus estimate, which called for revenues of $527.7 million.**
- **Comps, including direct revenues, declined by 6% year over year, compared with a 7% increase in the prior-year period and consensus of (12.8)%. Management attributed the decline to disruption related to the company's transition from a promotional business model to a membership model, the timing of recognizing membership revenues related to the transition and efforts to reduce inventories.**
- **Restoration Hardware lowered its FY16 guidance, citing "consumer softness" related to the US election and a later-than-planned launch of its fall catalog, which has affected sales of its Holiday Collection. The company now expects adjusted EPS of $1.19–$1.29, versus previous guidance of $1.60–$1.80 and the $1.64 consensus estimate. Full-year revenues are now expected to be $2.11–$2.14 billion, which represents growth of 0%–1%, versus previous guidance of 1%–3%.**

3Q16 RESULTS

Restoration Hardware reported 3Q16 revenues of $549.3 million, up 3.1% year over year and above the $527.7 million consensus estimate.

Store revenues increased by 9% year over year, to $306.8 million, on top of a 16% increase in store revenues in the year-ago period. The increase was partially offset by a 3% decline in direct revenues, to $242.5 million. Direct revenues represented 44% of total net revenues.

Comparable-brand sales, which include direct sales, declined by 6% year over year, versus a 7% increase in the year-ago period and the (12.8)% consensus estimate.

Adjusted EPS was $0.20, ahead of the $0.16 consensus estimate but down 69.2% year over year.

Management attributed the decline to costs related to the company's transition from a promotional business model to a membership model, the timing of recognizing membership revenues related to the transition and efforts to reduce inventories.

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OUTLOOK

The company lowered its FY16 guidance and now expects adjusted EPS of $1.19–$1.29, versus previous guidance of $1.60–$1.80 and the $1.64 consensus estimate. The company expects FY16 revenues of $2.11–$2.14 billion, which represents growth of 0%–1%, versus previous guidance of 1%–3%. The revenue figure is below the $2.16 billion consensus estimate.

Management noted that business in November, in the current quarter, was below expectations due to “consumer softness” related to the US election, the Holiday Collection not selling as strongly as had been expected and delayed delivery of its fall catalog.

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