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9 **UNITED STATES DISTRICT COURT**
10 **NORTHERN DISTRICT OF CALIFORNIA**

11
12 _____, Individually and on Behalf of
All Others Similarly Situated,

13 Plaintiff,

14 v.

15 RH, GARY FRIEDMAN, and JACK
16 PRESTON,

17 Defendants.

Case No.

**CLASS ACTION COMPLAINT FOR
VIOLATIONS OF THE FEDERAL
SECURITIES LAWS**

DEMAND FOR JURY TRIAL

1 Plaintiff _____ (“Plaintiff”), individually and on behalf of all others similarly
2 situated, by and through his attorneys, alleges the following upon information and belief, except as
3 to those allegations concerning Plaintiff, which are alleged upon personal knowledge. Plaintiff’s
4 information and belief is based upon, among other things, his counsel’s investigation, which
5 includes without limitation: (a) review and analysis of regulatory filings made by RH (“RH” or the
6 “Company”) with the United States (“U.S.”) Securities and Exchange Commission (“SEC”); (b)
7 review and analysis of press releases and media reports issued by and disseminated by RH; and (c)
8 review of other publicly available information concerning RH.

9 **NATURE OF THE ACTION AND OVERVIEW**

10 1. This is a class action on behalf of persons and entities that purchased or otherwise
11 acquired RH securities between March 27, 2024, and April 2, 2025, inclusive (the “Class Period”).
12 Plaintiff pursues claims against the Defendants under the Securities Exchange Act of 1934 (the
13 “Exchange Act”).

14 2. RH is a home furnishings retailer which operates in the United States and
15 internationally. It operates furniture galleries which frequently incorporate other businesses such as
16 restaurants, hotels and spas.

17 3. On January 24, 2025, at 1:00 PM EST, Hunterbrook Media published a report (the
18 “Report”) alleging, among other things, that the Company’s “demand” metric, which is “at the core
19 of RH’s growth narrative” is misleading. The Report states the demand metric, which the Company
20 alleges measures “the dollar value of orders placed,” “has not tracked the company’s growth in
21 deposits (aka deferred revenue), a standard GAAP metric, even though the two should, in theory,
22 look similar.” The Report shows the Company’s demand metric diverged from net sales, deferred
23 revenue, and customer deposits starting in and around the reporting date of the Company’s 2024
24 Annual 10-K filing. The Report states “[e]xperts who spoke to Hunterbrook have been unable to
25 make sense of the discrepancy.”

26 4. The Report also revealed satellite images of RH’s warehouses which showed a
27 “prodigious stockpile of inventory” including the Company’s warehouse in Patterson, California,
28 where inventory ballooned from 70 shipping containers in June 2023 to more than 260 shipping

1 containers in September 2024. The Report alleged “this apparent inventory buildup” required the
2 Company to “plow through inventory” by engaging in questionable expansions. The Report details
3 how the Company has potentially mislead investors concerning the demand drivers and success of
4 its numerous expansions. For example, the Report details how the Company’s 73-acre estate,
5 Aynhoe Park, located outside London, “was a ghost town” when reporters visited.

6 5. On this news, RH’s stock price fell \$23.46 or 5.4%, over two consecutive trading
7 days, to close at \$411.00 on January 27, 2025, on unusually heavy trading volume.

8 6. Then, on April 2, 2025, after the market closed, RH released its fourth quarter 2024
9 financial results, revealing, among other things, earnings per share of \$1.58 on \$812 million in
10 revenues, an increase of 10% year over year, far below the Company’s previous guidance of 18%
11 to 20% revenue growth. The Company further disclosed that it “ended the year with meaningful
12 debt” and “*excess inventory of \$200 to \$300 million at cost*” despite also reporting “*Total Demand*
13 *Increased 17% and RH Brand Demand Increased 21%.*”

14 7. On this news, RH’s stock price fell \$99.96, or 40.09%, to close at \$149.39 per share
15 on April 3, 2025, on unusually heavy trading volume.

16 8. Throughout the Class Period, Defendants made materially false and/or misleading
17 statements, as well as failed to disclose material adverse facts about the Company’s business,
18 operations, and prospects. Specifically, Defendants failed to disclose to investors: (1) RH’s demand
19 metric was materially misleading and/or did not measure “the dollar value of orders placed”; (2)
20 demand for RH products was lower than Defendants represented; (3) as a result, inventory levels
21 had become elevated beyond Defendants’ representations; (4) the Company’s expansions were, in
22 part, a response to elevated inventory levels, not customer demand; and (5) that, as a result of the
23 foregoing, Defendants’ positive statements about the Company’s business, operations, and
24 prospects were materially misleading and/or lacked a reasonable basis.

25 9. As a result of Defendants’ wrongful acts and omissions, and the precipitous decline
26 in the market value of the Company’s securities, Plaintiff and other Class members have suffered
27 significant losses and damages.

28

1 **JURISDICTION AND VENUE**

2 10. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act
3 (15 U.S.C. §§ 78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. §
4 240.10b-5).

5 11. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C.
6 § 1331 and Section 27 of the Exchange Act (15 U.S.C. § 78aa).

7 12. Venue is proper in this Judicial District pursuant to 28 U.S.C. § 1391(b) and Section
8 27 of the Exchange Act (15 U.S.C. § 78aa(c)). Substantial acts in furtherance of the alleged fraud
9 or the effects of the fraud have occurred in this Judicial District. Many of the acts charged herein,
10 including the dissemination of materially false and/or misleading information, occurred in
11 substantial part in this Judicial District. In addition, the Company’s principal executive offices are
12 located in this District.

13 13. In connection with the acts, transactions, and conduct alleged herein, Defendants
14 directly and indirectly used the means and instrumentalities of interstate commerce, including the
15 United States mail, interstate telephone communications, and the facilities of a national securities
16 exchange.

17 **PARTIES**

18 14. Plaintiff _____, as set forth in the accompanying certification, incorporated by
19 reference herein, purchased RH securities during the Class Period, and suffered damages as a result
20 of the federal securities law violations and false and/or misleading statements and/or material
21 omissions alleged herein.

22 15. Defendant RH is incorporated under the laws of Delaware with its principal
23 executive offices located in Corte Madera, California. RH’s common stock trades on the New York
24 Stock Exchange (“NYSE”) under the symbol “RH.”

25 16. Defendant Gary Friedman (“Friedman”) was the Company’s Chief Executive Officer
26 (“CEO”) at all relevant times.

27 17. Defendant Jack Preston (“Preston”) was the Company’s Chief Financial Officer
28 (“CFO”) at all relevant times.

1 18. Defendants Friedman and Preston (collectively the “Individual Defendants”),
2 because of their positions with the Company, possessed the power and authority to control the
3 contents of the Company’s reports to the SEC, press releases and presentations to securities analysts,
4 money and portfolio managers and institutional investors, i.e., the market. The Individual
5 Defendants were provided with copies of the Company’s reports and press releases alleged herein
6 to be misleading prior to, or shortly after, their issuance and had the ability and opportunity to
7 prevent their issuance or cause them to be corrected. Because of their positions and access to
8 material non-public information available to them, the Individual Defendants knew that the adverse
9 facts specified herein had not been disclosed to, and were being concealed from, the public, and that
10 the positive representations which were being made were then materially false and/or misleading.
11 The Individual Defendants are liable for the false statements pleaded herein.

12 **SUBSTANTIVE ALLEGATIONS**

13 **Background**

14 19. RH is a home furnishings retailer which operates in the United States and
15 internationally. It operates furniture galleries which frequently incorporate other businesses such as
16 restaurants, hotels and spas.

17 **Materially False and Misleading**

18 **Statements Issued During the Class Period**

19 20. The Class Period begins on March 27, 2024.¹ On that date, RH released its financial
20 results for the fourth quarter and fiscal year 2023 ended February 3, 2024 in a letter to shareholders,
21 concurrently filed as Exhibit 99.2 to a Form 8-K with the SEC. The shareholder letter touted the
22 company’s financial results, including its revenue, assets, and deferred revenue. The shareholder
23 letter further touted the Company’s numerous expansion plans, purportedly driven by demand. The
24 shareholder letter alleged that its “demand is an operating metric” used “in reference to the dollar
25 value of orders placed” and went on to state that “*For fiscal 2024, we are forecasting demand*
26 *growth of 12% to 14%*” and “*For the first quarter of fiscal 2024 we are forecasting demand*
27

28 ¹ Unless otherwise stated, all emphasis in bold and italics hereinafter is added.

1 *growth of positive mid-single digits.*” Specifically, the shareholder letter stated as follows, in
 2 relevant part:

3 **FISCAL 2023 HIGHLIGHTS**

4 GAAP Net Revenues of \$3.029B, GAAP Operating Margin of 12.1%, Adjusted
 5 Operating Margin of 13.0%, GAAP Net Income of \$128M, Adjusted Net Income of
 6 \$147M, Adjusted EBITDA Margin of 18.2%

6 **FOURTH QUARTER 2023 HIGHLIGHTS**

7 GAAP Net Revenues of \$738M, GAAP Operating Margin of 8.7%, Adjusted
 8 Operating Margin of 9.1%, GAAP Net Income of \$11M Adjusted Net Income of
 9 \$14M, Adjusted EBITDA Margin of 15.3%

* * *

	THREE MONTHS ENDED				YEAR ENDED			
	FEBRUARY 3, 2024	% OF NET REVENUES	JANUARY 28, 2023	% OF NET REVENUES	FEBRUARY 3, 2024	% OF NET REVENUES	JANUARY 28, 2023	% OF NET REVENUES
<i>(dollars in thousands, except per share amounts)</i>								
Net revenues	\$ 738,260	100.0 %	\$ 772,499	100.0 %	\$ 3,029,126	100.0 %	\$ 3,590,477	100.0 %
Cost of goods sold	417,309	56.5	403,093	52.2	1,640,107	54.1	1,778,492	49.5
Gross profit	320,951	43.5	369,406	47.8	1,389,019	45.9	1,811,985	50.5
Selling, general and administrative expenses	256,696	34.8	257,201	33.3	1,022,948	33.8	1,089,828	30.4
Income from operations	64,255	8.7	112,205	14.5	366,071	12.1	722,157	20.1
Other expenses								
Interest expense—net	59,418	8.1	34,674	4.4	198,296	6.6	113,210	3.2
Loss on extinguishment of debt	—	—	—	—	—	—	169,578	4.7
Other (income) expense—net	(3,388)	(0.5)	(4,811)	(0.6)	1,078	—	30	—
Total other expenses	56,030	7.6	29,863	3.8	199,374	6.6	282,818	7.9
Income before income taxes and equity method investments	8,225	1.1	82,342	10.7	166,697	5.5	439,339	12.2
Income tax expense (benefit)	(6,354)	(0.9)	(20,491)	(2.6)	28,261	0.9	(91,358)	(2.6)
Income before equity method investments	14,579	2.0	102,833	13.3	138,436	4.6	530,697	14.8
Share of equity method investments (income) loss	3,198	0.5	(4,063)	(0.5)	10,875	0.4	2,055	0.1
Net income	\$ 11,381	1.5 %	\$ 106,896	13.8 %	\$ 127,561	4.2 %	\$ 528,642	14.7 %

24 * * *

	FEBRUARY 3, 2024	JANUARY 28, 2023
	(in thousands)	
ASSETS		
Cash, cash equivalents and restricted cash	\$ 123,688	\$ 1,511,763
Merchandise inventories	754,126	801,841
Other current assets	224,088	199,060
Total current assets	1,101,902	2,512,664
Property and equipment—net	1,685,858	1,635,984
Operating lease right-of-use assets	625,801	527,246
Goodwill and intangible assets	216,960	215,681
Equity method investments	128,668	101,468
Deferred tax assets and other non-current assets	384,708	316,246
Total assets	\$ 4,143,897	\$ 5,309,289
LIABILITIES AND STOCKHOLDERS' EQUITY (DEFICIT)		
Liabilities		
Accounts payable and accrued expenses	\$ 366,585	\$ 374,949
Deferred revenue and customer deposits	282,812	325,754
Convertible senior notes due 2023	—	1,696
Convertible senior notes due 2024—net	41,835	—
Other current liabilities	181,636	183,574
Total current liabilities	872,868	885,973

* * *

Our Platform Expansion Plans for 2024 Include:

The opening of five North American Design Galleries including Cleveland, which opened last week, Palo Alto, Raleigh, Newport Beach and Montecito, all with integrated RH Interior Design Offices, restaurants and wine bars.

The opening of our first RH Interior Design Studio in Palm Desert, California. We believe there is an opportunity to address new markets locally by opening Design Studios in neighborhoods, towns and small cities where the wealthy and affluent live, visit and vacation, as well as augmenting some of our Design Galleries in larger markets with additional design services in stand-alone Design Studios.

We will also be opening two International Galleries, one in Brussels, which opened last week, and Madrid, opening this Summer. Both Galleries are located in beautiful historical buildings that elevate our product and render our brand more valuable.

Unfortunately, RH Paris has been delayed until Spring of 2025 due to construction restrictions relating to preparations for the Olympic Games this Summer.

We are also pleased to announce RH Sydney, The Gallery in Double Bay, a five-story development with a rooftop restaurant and wine bar, received council approval last month with plans to open in Fall of 2026 in what we believe is the most vibrant and desirable location in Australia.

* * *

1 ***For fiscal 2024, we are forecasting demand growth of 12% to 14% and revenue***
2 ***growth of 8% to 10% on a 52 versus 52-week basis.*** We are forecasting adjusted
3 operating margin in the range of 13% to 14% and adjusted EBITDA margin in the
4 range of 18% to 19%.

5 ***For the first quarter of fiscal 2024 we are forecasting demand growth of positive***
6 ***mid-single digits*** and revenues of negative low-single digits. We are forecasting
7 adjusted operating margin in the range of 6% to 7% and adjusted EBITDA margin
8 in the range of 12% to 13%.

9 * * *

10 Note: ***Demand is an operating metric that we use in reference to the dollar value***
11 ***of orders placed (orders convert to net revenue upon a customer obtaining control***
12 ***of the merchandise), and excludes exchanges and shipping fees.*** RH Core demand
13 represents the demand generated from the RH brand excluding RH Baby & Child,
14 RH Teen, RH Contract, RH Hospitality, RH Outlet, Membership and Waterworks.
15 ***Total Company demand represents the demand generated from all of our***
16 ***businesses, inclusive of sales from RH Outlet and RH Hospitality.***

17 21. On March 28, 2025, the Company submitted its annual report for the fiscal year
18 ended February 3, 2024 on a Form 10-K filed with the SEC, affirming the previously reported
19 financial results and reporting the Company's net cash provided by operating activities and
20 inventory reserves. The annual report further described the purported manner in which the Company
21 calculates and reports deferred revenues, demand, and inventory reserves. Specifically, the annual
22 report stated as follows, in relevant part:

23 **Net Cash Provided by Operating Activities**

24 Operating activities consist primarily of net income adjusted for non-cash items,
25 including depreciation and amortization, impairments, stock-based compensation,
26 loss on extinguishment of debt, cash paid attributable to accretion of debt discount
27 upon settlement of debt (prior to the adoption of ASU 2020-06 in fiscal 2022) and
28 the effect of changes in working capital and other activities.

For fiscal 2023, net cash provided by operating activities was \$202 million and
consisted of net income of \$128 million and an increase in non-cash items of \$331
million, partially offset by a change in working capital and other activities of \$257
million. The use of cash from working capital was primarily driven by a decrease in
operating lease liabilities of \$96 million primarily due to payments made under the
related lease agreements, an increase in prepaid expense and other assets of \$66
million, ***a decrease in deferred revenue and customer deposits of \$43 million***, a
decrease in accounts payable and accrued expenses of \$41 million, a decrease in
other non-current obligations of \$31 million and an increase in landlord assets under
construction, net of tenant allowances, of \$25 million. These uses of cash from
working capital were partially offset by a decrease in merchandise inventory of \$47
million.

* * *

1 based on historical trends of sales to members. Membership renewal fees are
2 recorded as deferred revenue when collected from customers and are recognized as
revenue on a straight-line basis over the membership period, or one year.

3 Customer deposits represent payments made by customers on custom orders. At the
4 time of order placement we collect deposits for all custom orders equivalent to 50%
of the purchase price. Custom order deposits are recognized as revenue when the
customer obtains control of the merchandise.

5 ***We expect that substantially all of the deferred revenue and customer deposits as
6 of February 3, 2024 will be recognized within the next six months as the
7 performance obligations are satisfied, and membership fees will be recognized over
the membership period.***

8 22. On June 13, 2024, RH released its financial results for the first quarter ended May 4,
9 2024 in a letter to shareholders, concurrently filed as Exhibit 99.2 to a Form 8-K with the SEC. The
10 shareholder letter touted the company's financial results, including its revenue, assets, and deferred
11 revenue. The shareholder letter alleged that "demand was up 3% in the quarter" and that "demand
12 is an operating metric" used "in reference to the dollar value of orders placed." The shareholder
13 letter went on to state that for the fiscal year, the Company "***continue[s] to expect demand growth
14 in the range of 12% to 14% and revenue growth of 8% to 10%***" and "***For the second quarter of
15 fiscal 2024 we are forecasting demand growth in the range of 9% to 10% and revenue growth of
16 3% to 4%.***" Specifically, the shareholder letter stated as follows, in relevant part:

17 **FIRST QUARTER 2024 HIGHLIGHTS**

18 Net Revenues of \$727M, GAAP Operating Margin of 7.5%, Adjusted Operating
19 Margin of 6.5%

20 * * *

	THREE MONTHS ENDED			
	MAY 4, 2024	% OF NET REVENUES	APRIL 29, 2023	% OF NET REVENUES
	<i>(dollars in thousands, except per share amounts)</i>			
Net revenues	\$ 726,960	100.0 %	\$ 739,162	100.0 %
Cost of goods sold	410,922	56.5	391,617	53.0
Gross profit	316,038	43.5	347,545	47.0
Selling, general and administrative expenses	261,375	36.0	248,305	33.6
Income from operations	54,663	7.5	99,240	13.4
Other expenses				
Interest expense—net	56,772	7.8	39,816	5.4
Other (income) expense—net	1,165	0.2	(653)	(0.1)
Total other expenses	57,937	8.0	39,163	5.3
Income (loss) before income taxes and equity method investments	(3,274)	(0.5)	60,077	8.1
Income tax expense (benefit)	(2,091)	(0.3)	16,585	2.2
Income (loss) before equity method investments	(1,183)	(0.2)	43,492	5.9
Share of equity method investments loss—net	2,442	0.3	1,602	0.2
Net income (loss)	\$ (3,625)	(0.5)%	\$ 41,890	5.7 %
Weighted-average shares used in computing basic net income (loss) per share	18,324,454		22,047,029	
Basic net income (loss) per share	\$ (0.20)		\$ 1.90	
Weighted-average shares used in computing diluted net income (loss) per share	18,324,454		23,758,788	
Diluted net income (loss) per share	\$ (0.20)		\$ 1.76	
	*	*	*	

	MAY 4, 2024	FEBRUARY 3, 2024
	<i>(in thousands)</i>	
ASSETS		
Cash and cash equivalents	\$ 101,787	\$ 123,688
Merchandise inventories	802,209	754,126
Other current assets	212,030	224,088
Total current assets	1,116,026	1,101,902
Property and equipment—net	1,693,190	1,685,858
Operating lease right-of-use assets	605,664	625,801
Goodwill and intangible assets	217,066	216,960
Equity method investments	128,908	128,668
Deferred tax assets and other non-current assets	425,685	384,708
Total assets	\$ 4,186,539	\$ 4,143,897
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Liabilities		
Accounts payable and accrued expenses	\$ 407,494	\$ 366,585
Deferred revenue and customer deposits	315,647	282,812
Convertible senior notes due 2024—net	41,862	41,835
Other current liabilities	171,488	181,636
Total current liabilities	936,491	872,868
	*	*

1 Our results for the first quarter largely reflected expectations with revenues of \$727
2 million, adjusted operating margin of 6.5%, and adjusted EBITDA margin of 12.3%.

3 ***Demand was up 3% in the quarter***, slightly below our guidance as growth softened
4 when interest rates once again exceeded 7% post the hawkish Fed commentary
5 throughout April.

6 * * *

7 ***We continue to expect demand growth in the range of 12% to 14%*** and revenue
8 growth of 8% to 10% on a 52- versus 52- week basis. We are forecasting adjusted
9 operating margin to be in the range of 13% to 14% and adjusted EBITDA margin in
10 the range of 18% to 19%.

11 ***For the second quarter of fiscal 2024 we are forecasting demand growth in the***
12 ***range of 9% to 10%*** and revenue growth of 3% to 4%. We are forecasting adjusted
13 operating margin to be in the range of 11% to 12% and adjusted EBITDA margin of
14 17% to 18%.

15 * * *

16 Note: ***Demand is an operating metric that we use in reference to the dollar value***
17 ***of orders placed (orders convert to net revenue upon a customer obtaining control***
18 ***of the merchandise)***, and excludes exchanges and shipping fees. RH Core demand
19 represents the demand generated from the RH brand excluding RH Baby & Child,
20 RH Teen, RH Contract, RH Hospitality, RH Outlet, Membership and Waterworks.
21 ***Total Company demand represents the demand generated from all of our***
22 ***businesses, inclusive of sales from RH Outlet and RH Hospitality.***

23 23. On June 13, 2024, the Company submitted its quarterly report for the period ended
24 May 4, 2024 on a Form 10-Q filed with the SEC, affirming the previously reported financial results
25 and reporting the Company's net cash provided by operating activities, the impacts of merchandise
26 inventory, and deferred revenue. Specifically, the report stated the following, in relevant part:

27 ***Net Cash Provided by Operating Activities***

28 Operating activities consist primarily of net income (loss) adjusted for non-cash
items, including depreciation and amortization, impairments, stock-based
compensation and the effect of changes in working capital and other activities.

For the three months ended May 4, 2024, net cash provided by operating activities
was \$56 million and consisted of an increase in non-cash items of \$78 million,
partially offset by a change in working capital and other activities of \$18 million and
a net loss of \$3.6 million. The use of cash from working capital was primarily driven
by a decrease in operating lease liabilities of \$24 million, a decrease in other current
and non-current liabilities of \$18 million and an increase in prepaid expense and
other assets of \$15 million. These uses of cash from working capital were partially
offset by a ***decrease in merchandise inventory of \$48 million***, an increase of
accounts payable and accrued expenses of \$41 million, ***an increase of deferred***
revenue and customer deposits of \$33 million, a decrease in landlord assets under
construction, net of tenant allowances, of \$8.8 million, and a decrease in accounts
receivable of \$7.8 million.

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* * *

Contract Liabilities

We defer revenue associated with merchandise delivered via the home-delivery channel. *We expect that substantially all of the deferred revenue and customer deposits as of May 4, 2024 will be recognized within the next six months as the performance obligations are satisfied.* In addition, we defer revenue when cash payments are received in advance of performance for unsatisfied obligations related to our gift cards. During both the three months ended May 4, 2024 and April 29, 2023, we recognized \$6.1 million of revenue related to previous deferrals related to our gift cards. We expect that approximately 75 percent of the remaining gift card liabilities will be recognized when the gift cards are redeemed by customers.

24. On September 12, 2024, RH released its financial results for the second quarter ended August 3, 2024 in a letter to shareholders concurrently filed as Exhibit 99.2 to a Form 8-K with the SEC. The shareholder letter alleged that *“demand was up 7% in the second quarter”* and that “demand is an operating metric” used “in reference to the dollar value of orders placed.” The shareholder letter stated the Company expected *“Demand in the range of 8% to 10%”* in the fiscal year and *“Demand growth in the range of 12% to 14%”* in the third quarter. Specifically, the shareholder letter stated as follows, in relevant part:

SECOND QUARTER 2024 HIGHLIGHTS

GAAP Net Revenues of \$830M up 3.6%, GAAP Operating Margin of 11.6%, Adjusted Operating Margin of 11.7%, GAAP Net Income of \$29M, Adjusted Net Income of \$33M, Adjusted EBITDA Margin of 17.2%

* * *

We are pleased to report that demand was up 7% in the second quarter and has continued to inflect positive, gaining momentum each month with July finishing up 10%. Demand accelerated into the third quarter with August up 12% and product margins inflecting positive despite operating in the most challenging housing market in three decades.

* * *

	THREE MONTHS ENDED				SIX MONTHS ENDED			
	AUGUST 3, 2024	% OF NET REVENUES	JULY 29, 2023	% OF NET REVENUES	AUGUST 3, 2024	% OF NET REVENUES	JULY 29, 2023	% OF NET REVENUES
	<i>(dollars in thousands, except per share amounts)</i>							
Net revenues	\$ 829,655	100.0 %	\$ 800,479	100.0 %	\$ 1,556,615	100.0 %	\$ 1,539,641	100.0 %
Cost of goods sold	454,898	54.8	420,406	52.5	865,820	55.6	812,023	52.7
Gross profit	374,757	45.2	380,073	47.5	690,795	44.4	727,618	47.3
Selling, general and administrative expenses	278,630	33.6	228,733	28.6	540,005	34.7	477,038	31.0
Income from operations	96,127	11.6	151,340	18.9	150,790	9.7	250,580	16.3
Other expenses								
Interest expense—net	59,262	7.2	44,422	5.5	116,034	7.5	84,238	5.5
Other (income) expense—net	(663)	(0.1)	(186)	—	502	—	(839)	(0.1)
Total other expenses	58,599	7.1	44,236	5.5	116,536	7.5	83,399	5.4
Income before taxes and equity method investments	37,528	4.5	107,104	13.4	34,254	2.2	167,181	10.9
Income tax expense	3,717	0.4	27,245	3.4	1,626	0.1	43,830	2.9
Income before equity method investments	33,811	4.1	79,859	10.0	32,628	2.1	123,351	8.0
Share of equity method investments loss—net	4,859	0.6	3,382	0.4	7,301	0.5	4,984	0.3
Net income	\$ 28,952	3.5 %	\$ 76,477	9.6 %	\$ 25,327	1.6 %	\$ 118,367	7.7 %

*

*

*

	AUGUST 3, 2024	FEBRUARY 3, 2024
	<i>(in thousands)</i>	
ASSETS		
Cash and cash equivalents	\$ 78,333	\$ 123,688
Merchandise inventories	917,331	754,126
Other current assets	223,619	224,088
Total current assets	1,219,283	1,101,902
Property and equipment—net	1,753,727	1,685,858
Operating lease right-of-use assets	624,641	625,801
Goodwill and intangible assets	217,240	216,960
Equity method investments	130,790	128,668
Deferred tax assets and other non-current assets	430,715	384,708
Total assets	\$ 4,376,396	\$ 4,143,897
LIABILITIES AND STOCKHOLDERS' DEFICIT		
Liabilities		
Accounts payable and accrued expenses	\$ 495,961	\$ 366,585
Deferred revenue and customer deposits	302,526	282,812
Convertible senior notes due 2024—net	41,890	41,835
Other current liabilities	170,177	181,636
Total current liabilities	1,010,554	872,868

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Due to our inflection ramping later than expected we are adjusting our full year forecast for fiscal 2024 as follows (52- versus 52-week basis):

Demand in the range of 8% to 10%

- Revenue growth in the range of 5% to 7%
- Adjusted Operating Margin in the range of 11% to 12%
- Adjusted EBITDA Margin in the range of 17% to 18%

For the third quarter of fiscal 2024 we are forecasting:

Demand growth in the range of 12% to 14%

- Revenue growth in the range of 7% to 9%
- Adjusted Operating Margin in the range of 15% to 16%
- Adjusted EBITDA Margin in the range of 21% to 22%

* * *

Note: Demand is an operating metric that we use in reference to the dollar value of orders placed (orders convert to net revenue upon a customer obtaining control of the merchandise) and excludes exchanges and shipping fees. RH Core demand represents the demand generated from the RH brand excluding RH Baby & Child, RH TEEN, RH Contract, RH Hospitality, RH Outlet, Membership and Waterworks. Total Company demand represents the demand generated from all of our businesses, inclusive of sales from RH Outlet and RH Hospitality.

25. On September 12, 2024, the Company submitted its quarterly report for the period ended August 3, 2024 on a Form 10-Q filed with the SEC, affirming the previously reported financial results and reporting the Company’s net cash provided by operating activities, the impacts of merchandise inventory, and deferred revenue. Specifically, the report stated the following, in relevant part:

Net Cash Provided by Operating Activities

Operating activities consist primarily of net income adjusted for non-cash items, including depreciation and amortization, impairments, stock-based compensation and the effect of changes in working capital and other activities.

For the six months ended August 3, 2024, net cash provided by operating activities was \$67 million and consisted of net income of \$25 million and an increase in non-cash items of \$161 million, partially offset by a change in working capital and other activities of \$119 million. The use of cash from working capital was primarily driven by an increase in merchandise inventory of \$163 million, a decrease in operating lease liabilities of \$48 million, a decrease in other current and non-current liabilities

1 of \$28 million, an increase in landlord assets under construction, net of tenant
2 allowances, of \$17 million and an increase in accounts receivable of \$12 million.
3 These uses of cash from working capital were partially offset by an increase of
4 accounts payable and accrued expenses of \$123 million, an *increase of deferred
5 revenue and customer deposits of \$20 million* and a decrease in prepaid expense and
6 other assets of \$6.2 million.

7 * * *

8 **Contract Liabilities**

9 We defer revenue associated with merchandise delivered via the home-delivery
10 channel. *We expect that substantially all of the deferred revenue and customer
11 deposits as of August 3, 2024 will be recognized within the next six months as the
12 performance obligations are satisfied.* In addition, we defer revenue when cash
13 payments are received in advance of performance for unsatisfied obligations related
14 to our gift cards. During the three months ended August 3, 2024 and July 29, 2023,
15 we recognized \$4.3 million and \$5.3 million, respectively, of revenue related to
16 previous deferrals related to our gift cards. During the six months ended August 3,
17 2024 and July 29, 2023, we recognized \$10 million and \$11 million, respectively, of
18 revenue related to previous deferrals related to our gift cards. We expect that
19 approximately 75 percent of the remaining gift card liabilities will be recognized
20 when the gift cards are redeemed by customers.

21 26. On December 12, 2024, RH released its financial results for the third quarter ended
22 November 2, 2024 in a letter to shareholders concurrently filed as Exhibit 99.2 to a Form 8-K with
23 the SEC. The shareholder letter touted the company's financial results, including its revenue, assets,
24 and deferred revenue. The shareholder letter alleged that *"Q3 Total Demand Growth increased
25 13%"* and that "demand is an operating metric" used "in reference to the dollar value of orders
26 placed." The shareholder letter stated the Company expected *"Q4 Total Demand growth of 20% to
27 22% and Revenue growth of 18% to 20%"* and *"FY Total Demand growth of 9.9% to 10.4% and
28 Revenue growth of 6.8% to 7.2%."* The shareholder letter also stated the Company expects to open
seven new us locations in 2025, including in Aspen. Specifically, the shareholder letter stated as
follows, in relevant part:

29 **THIRD QUARTER 2024 HIGHLIGHTS**

30 GAAP Net Revenues of \$812M, up 8.1%, GAAP Operating Margin of 12.5%,
31 Adjusted Operating Margin of 15.0% GAAP Net Income of \$33M, Adjusted Net
32 Income of \$49M, Adjusted EBITDA Margin of 20.8%

33 ***Q3 Total Demand Growth increased 13%, RH Brand Demand Growth increased
34 14%***

35 ***Nov Total Demand Growth accelerated to up 18%, RH Brand Demand Growth
36 accelerated to up 24%***

	*	*	*
	NOVEMBER 2, 2024		FEBRUARY 3, 2024
	<i>(in thousands)</i>		
ASSETS			
Cash and cash equivalents	\$	87,012	\$ 123,688
Merchandise inventories		978,553	754,126
Other current assets		212,186	224,088
Total current assets		1,277,751	1,101,902
Property and equipment—net		1,797,308	1,685,858
Operating lease right-of-use assets		599,836	625,801
Goodwill and intangible assets		217,463	216,960
Equity method investments		129,561	128,668
Deferred tax assets and other non-current assets		442,303	384,708
Total assets	\$	4,464,222	\$ 4,143,897
LIABILITIES AND STOCKHOLDERS' DEFICIT			
Liabilities			
Accounts payable and accrued expenses	\$	411,832	\$ 366,585
Deferred revenue and customer deposits		307,922	282,812
Convertible senior notes due 2024—net		—	41,835
Other current liabilities		176,513	181,636
Total current liabilities		896,267	872,868
	*	*	*

	THREE MONTHS ENDED				NINE MONTHS ENDED			
	NOVEMBER 2, 2024	% OF NET REVENUES	OCTOBER 28, 2023	% OF NET REVENUES	NOVEMBER 2, 2024	% OF NET REVENUES	OCTOBER 28, 2023	% OF NET REVENUES
	<i>(dollars in thousands, except per share amounts)</i>							
Net revenues	\$ 811,732	100.0 %	\$ 751,225	100.0 %	\$ 2,368,347	100.0 %	\$ 2,290,866	100.0 %
Cost of goods sold	450,392	55.5	410,775	54.7	1,316,212	55.6	1,222,798	53.4
Gross profit	361,340	44.5	340,450	45.3	1,052,135	44.4	1,068,068	46.6
Selling, general and administrative expenses	259,872	32.0	289,214	38.5	799,877	33.7	766,252	33.4
Income from operations	101,468	12.5	51,236	6.8	252,258	10.7	301,816	13.2
Other expenses								
Interest expense—net	57,590	7.1	54,640	7.3	173,624	7.4	138,878	6.1
Other expense—net	27	—	5,305	0.7	529	—	4,466	0.2
Total other expenses	57,617	7.1	59,945	8.0	174,153	7.4	143,344	6.3
Income (loss) before income taxes and equity method investments	43,851	5.4	(8,709)	(1.2)	78,105	3.3	158,472	6.9
Income tax expense (benefit)	9,256	1.1	(9,215)	(1.3)	10,882	0.5	34,615	1.5
Income before equity method investments	34,595	4.3	506	0.1	67,223	2.8	123,857	5.4
Share of equity method investments loss—net	1,427	0.2	2,693	0.4	8,728	0.3	7,677	0.3
Net income (loss)	\$ 33,168	4.1 %	\$ (2,187)	(0.3)%	\$ 58,495	2.5 %	\$ 116,180	5.1 %
	*		*		*			

1 *Based on current trends we are raising our fourth quarter and full year guidance*
2 *to:*

3 ***Q4 Total Demand growth of 20% to 22%, and Revenue growth of 18% to 20%***

4 Q4 Adjusted Operating Margin of 12.2% to 13.2%, and Adjusted EBITDA Margin
5 of 18.0% to 19.0%

6 ***FY Total Demand growth of 9.9% to 10.4%, and Revenue growth of 6.8% to 7.2%***

7 FY Adjusted Operating Margin of 11.5% to 11.7%, and Adjusted EBITDA Margin
8 of 17.2% to 17.4%

9 * * *

10 We plan to open seven North American Galleries in 2025 including Montreal,
11 Manhasset, Detroit, Oklahoma City, Los Gatos, Palm Desert and *Aspen*.

12 * * *

13 Note: ***Demand is an operating metric that we use in reference to the dollar value***
14 ***of orders placed (orders convert to net revenue upon a customer obtaining control***
15 ***of the merchandise) and excludes exchanges and shipping fees.*** RH Core demand
16 or other similar references to brand demand or RH Core brand demand represent the
17 demand generated from the RH brand excluding RH Baby & Child, RH Teen, RH
18 Contract, RH Hospitality, RH Outlet, Membership and Waterworks. ***Other***
19 ***references to demand or Total Demand represent the demand generated from all***
20 ***of our business, inclusive of sales from RH Outlet and RH Hospitality.***

21 27. On December 12, 2024, the Company submitted its quarterly report for the period
22 ended November 2, 2024 on a Form 10-Q filed with the SEC, affirming the previously reported
23 financial results and reporting the Company's net cash provided by operating activities, the impacts
24 of merchandise inventory, and deferred revenue. Specifically, the report stated the following, in
25 relevant part:

26 ***Net Cash Provided by Operating Activities***

27 Operating activities consist primarily of net income adjusted for non-cash items,
28 including depreciation and amortization, impairments, stock-based compensation
and the effect of changes in working capital and other activities.

For the nine months ended November 2, 2024, net cash provided by operating
activities was \$36 million and consisted of net income of \$58 million and an
increase in non-cash items of \$266 million, partially offset by a change in working
capital and other activities of \$288 million. The use of cash from working capital
was primarily driven by an ***increase in merchandise inventory of \$224 million***, a
decrease in operating lease liabilities of \$73 million, a decrease in other current and
non-current liabilities of \$33 million, an increase in landlord assets under
construction, net of tenant allowances, of \$33 million and an increase in accounts
receivable of \$7.9 million. These uses of cash from working capital were partially
offset by an increase in accounts payable and accrued expenses of \$44 million, ***an***

1 *increase in deferred revenue* and customer deposits of \$25 million and a decrease
2 in prepaid expense and other assets of \$13 million.

3 * * *

4 **Contract Liabilities**

5 We defer revenue associated with merchandise delivered via the home-delivery
6 channel. *We expect that substantially all of the deferred revenue and customer*
7 *deposits as of November 2, 2024 will be recognized within the next six months as*
8 *the performance obligations are satisfied.* In addition, we defer revenue when cash
9 payments are received in advance of performance for unsatisfied obligations related
10 to our gift cards. During the three months ended November 2, 2024 and October 28,
2023, we recognized \$4.6 million and \$7.5 million, respectively, of revenue related
to previous deferrals related to our gift cards. During the nine months ended
November 2, 2024 and October 28, 2023, we recognized \$15 million and \$19 million,
respectively, of revenue related to previous deferrals related to our gift cards. We
expect that approximately 75 percent of the remaining gift card liabilities will be
recognized when the gift cards are redeemed by customers.

11 28. The above statements identified in ¶¶20-27 were materially false and/or misleading,
12 and failed to disclose material adverse facts about the Company’s business, operations, and
13 prospects. Specifically, Defendants failed to disclose to investors: (1) RH’s demand metric was
14 materially misleading and/or did not measure “the dollar value of orders placed”; (2) demand for
15 RH products was lower than Defendants represented; (3) as a result, inventory levels had become
16 elevated beyond Defendants’ representations; (4) the Company’s expansions were, in part, a
17 response to elevated inventory levels, not customer demand; and (5) that, as a result of the foregoing,
18 Defendants’ positive statements about the Company’s business, operations, and prospects were
19 materially misleading and/or lacked a reasonable basis.

20 **Disclosures at the End of the Class Period**

21 29. On January 24, 2025, at 1:00 PM EST, Hunterbrook Media published the Report,
22 alleging, among other things, that the Company’s “demand” metric, which is “at the core of RH’s
23 growth narrative” is misleading. The Report states the demand metric, which allegedly measures
24 “the dollar value of orders placed” “has not tracked the company’s growth in deposits (aka deferred
25 revenue), a standard GAAP metric, even though the two should, in theory, look similar.” The Report
26 shows the Company’s demand metric diverged from net sales and deferred revenue and customer
27 deposits starting in and around the reporting date of the Company’s 2024 Annual 10-K filing. The
28

1 Report states “[e]xperts who spoke to Hunterbrook have been unable to make sense of the
2 discrepancy.”

3 30. The Report also revealed satellite images of RH’s warehouses which showed a
4 “prodigious stockpile of inventory” including a comparison of the Company’s warehouse in
5 Patterson, California, which indicated the Company’s build up had ballooned from 70 shipping
6 containers in June 2023 to more than 260 shipping containers in September 2024. The Report
7 alleged “this apparent inventory buildup” would require the Company to take “aggressive
8 markdowns to move product and generate cash” or “plow through inventory” by engaging in
9 questionable expansions. The Report details how the Company has potentially mislead investors
10 concerning the success of its numerous expansions. For example, the Report details how the
11 Company’s 73-acre estate, Aynhoe Park, located outside London, “was a ghost town” when
12 reporters visited. The report further alleges that the Company’s statements related to the progress
13 and promise of Company’s delayed nine-figure Aspen expansion did not match the reality of the
14 projects, where little progress been made, the Company’s real estate assets had not significantly
15 risen in value. The report further states “RH does not appear to have written off or taken an
16 impairment on any of its Aspen expenses — despite the project being years behind schedule and
17 still not open.”

18 31. Specifically, the Report stated as follows, in relevant part:

19 • **Inventory up despite declining margins:** In order to move product, RH has
20 resorted to “clearance” sales at up to 60% — and a wave of promotional emails. In
21 part as a result of this discounting, the company has missed consensus gross margin
22 estimates in seven of the last eight quarters — with its most recent miss being its
largest in a decade. But even with this “disruptive pricing,” as RH’s CEO calls it, RH
has seen its inventory soar, according to the company’s SEC filings and
Hunterbrook’s satellite analysis of five RH warehouses.

23 • **The mysterious “demand” metric at the core of RH’s growth narrative:** While
24 RH has posted disappointing top-line and bottom-line earnings — missing
25 expectations on revenues, profit, margins, EBITDA, earnings per share, customer
26 deposits, and cash flow — its CEO has boasted the company’s growth in “demand,”
27 a bespoke metric RH introduced that supposedly measures “the dollar value of orders
placed.” But in recent years, the growth in “demand” has not tracked the company’s
growth in deferred revenue, a standard metric, even though the two should, in theory,
look similar. Experts who spoke to Hunterbrook have been unable to make sense of
the discrepancy.

1 • **Revenue growth enabled by large capital expenditures:** RH’s sales per square
2 foot is at its lowest level in a decade — raising the possibility that the company’s
growth in revenue has just been a result of real estate expansion.

3 • **Failed international expansion:** With a limited universe of cities to expand into
4 within the United States, RH launched retail stores in England and Germany. RH
5 projected England would earn \$50 million to \$250 million of revenue in year one,
6 but it won’t hit the low end of its estimate in either of its first two years. A visit to
7 the site found more deer than customers. The Germany stores, meanwhile, led to
\$18.6 million in impairments, with RH declining to renew their leases and shipping
inventory back to the United States. One analyst chalked the difficult expansion up
to “literal” poor product-market fit — arguing European homes are not large enough
for RH’s furniture.

8 • **A looming impairment in Aspen?** RH’s Aspen development, costing over \$140
9 million to date, shows minimal progress, based on Hunterbrook’s review of local
10 records and drone footage. Key properties face significant delays and maintenance
issues. An analysis of nearby land values from Hunterbrook’s Real Estate Database
shows Friedman’s claims about the growth in the value of these properties does not
align with the broader real estate environment.

11 * * *

12 **The Mysterious “Demand” Metric and Growth Story That Have Helped RH To** 13 **Defy Gravity**

14 **An outlier from its peers**

15 Last month, RH reported earnings that might have sent another company’s stock
16 plummeting — missing expectations on revenues, profit, margins, EBITDA,
earnings per share, customer deposits, cash flow, and just about every other metric.

17 * * *

18 But despite all of these numbers — and the company’s cash position — RH stock
19 nonetheless spiked by as much as 18% in the day after reporting. And in the weeks
20 since, the company has continued to trade at a multiple more than double its peers
and at a record relative to its own historic valuation.

21 * * *

22 That is the magic of Gary Friedman.

23 * * *

24 **The new narrative**

25 On December 12, 2024, during a roughly two-hour earnings call, Friedman told a
26 grand new story — weaving a narrative that placed RH in a dialectic with Pablo
Picasso, Steve Jobs, and other creative leaders who are “comfortable making others
27 uncomfortable.” His point was that RH is no longer a furniture store. It’s a “platform
for taste.”

28 And even if it hasn’t been a particularly *profitable* platform recently, it will be soon,
Friedman asserted. RH claimed it will produce 18% to 20% revenue growth in the

1 fourth quarter, during the same three months when most of its peers are estimating
2 significant declines.

3 * * *

4 The key to Friedman’s narrative isn’t solely standard metrics like revenue or earnings
5 per share. It’s also another metric, one he introduced just a few years ago, called
6 “demand.”

7 Demand purportedly measures “the dollar value of orders placed” — the goal being
8 to better capture imminent revenue that hasn’t yet been officially recognized but will
9 be in future quarters. The sell side has gobbled it up, with demand factoring into the
10 way analysts write about the company’s trajectory. Financial publications and
11 observers have picked it up, too — with headlines like: “RH: Demand Growth is
12 Accelerating”; “Demand Remains Brisk”; “Demand Is Accelerating.”

13 But it’s unclear exactly how this demand is calculated. And curiously, RH’s growth
14 in this custom demand metric has not tracked the company’s growth in deposits (aka
15 deferred revenue), a standard GAAP metric, even though the two should, in theory,
16 look similar. (You’d really think a surge in the “dollar value of orders placed” would
17 lead to a surge in deposits — if not during the same quarter, then at least during the
18 following ones.)



19 The reality, however, is that year-over-year deposits have declined in recent years
20 — with only marginal growth in the most recently reported quarter.

21 * * *

22 Why It Doesn’t Seem Like Inventory Can Save the Day — Without Extreme 23 Discounts

24 RH does have one potential lifeline: almost a billion dollars worth of inventory. But
25 the data suggests this resource may be more of a burden than a buoy.

26 As RH has unleashed an aggressive discounting campaign, which accelerated over
27 the course of the last year, and embraced what it calls “disruptive pricing,” inventory
28

1 levels are actually increasing — not decreasing — indicating the company may be
2 struggling to move product even at reduced prices.

3 * * *

4 The numbers tell the story: Inventory has skyrocketed to a record 198 days,
5 representing a year-over-year increase of 38 days. Future (or, “forward”) inventory
6 sits at an all-time high of 185 days, while days of owned inventory has climbed to a
7 record 165 days.



15 This chart compares Gross Margin, Days Sales in Inventory (DSI), Days of Owned
16 Inventory, and Forward DSI over time. Key definitions: Gross Margin: (Revenue –
17 Cost of Goods Sold) ÷ Revenue; DSI: (Inventories ÷ Cost of Goods Sold) × Days in
18 the Quarter; Days of Owned Inventory: (Inventories – Accounts Payable) ÷ Cost of
19 Goods Sold) × Days in the Quarter; Forward DSI: (Inventories ÷ Next 12-Month
20 Estimated Cost of Goods Sold) × 365 Days. Data and estimates are sourced from
21 FactSet.

19 * * *

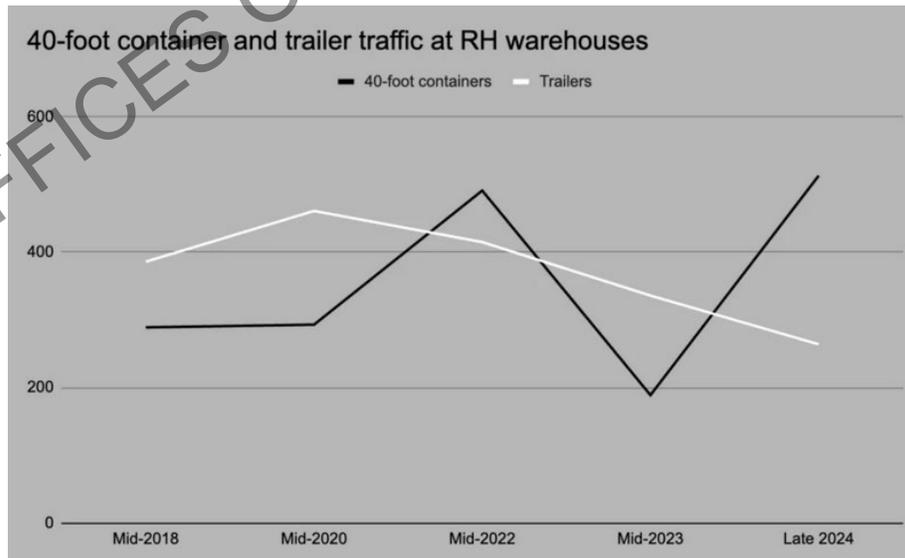
20 The prodigious stockpile of inventory can be seen from space. Hunterbrook collected
21 satellite imagery of five RH warehouses across the United States — analyzing the
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1 presence of 40-foot containers, used to import product from outside the country, and
2 53-foot box trailers, used to bring RH furniture to galleries and customers.



12 *53-foot trailer in a row of 40-foot ocean shipping containers at Restoration
13 Hardware's North East, Md., warehouse. Annotation: Hunterbrook, map data:
14 Google, ©2024 CNES/Airbus*

15 Overall, while the number of 53-foot trailers that transport goods to their final
16 destination on the outbound side decreased, on average, the number of 40-foot ocean
17 shipping containers on inbound docks at warehouses increased significantly in the
18 past year.



25 *Graphed total container and trailer traffic at four major Restoration Hardware
26 warehouses. Map data: Google, ©2024 CNES/Airbus, ©2024 MAXAR*

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Restoration Hardware's North East, Md., warehouse with the inbound side highlighted. Map data: Google, ©2024 CNES/Airbus



1 *In September 2024, for instance, more than 260 containers were sitting outside the*
2 *Patterson, Calif., warehouse, while only 70 were visible in June 2023 — raising*
3 *the possibility that the warehouse, itself, is full.*

4 This apparent inventory buildup presents RH with an unpalatable choice: Either take
5 even more aggressive markdowns to move product and generate cash — potentially
6 damaging its luxury brand positioning — or maintain pricing while watching its
7 critical cash reserves dwindle further due to sluggish sales.

8 * * *

9 Of course, discounts are just one of the ways RH can plow through inventory.
10 Another is expansion — and RH does not appear to be slowing down on that front.

11 RH opened two new galleries in the United States in December: RH Newport Beach
12 and RH Montecito. And RH has continued its international expansion as well — with
13 two stores in Germany and one in England, among others in Canada and Belgium,
14 with Paris and London set to open in 2025, and a store in Milan launching as well.

15 Whether RH can find a reliable customer base internationally, however, remains an
16 open question.

17 **Empty Showrooms, Impairments, and Other Signs of a Failed European**
18 **Expansion**

19 When a Hunterbrook reporter arrived at Restoration Hardware’s 73-acre estate,
20 Aynhoe Park, about two hours outside of London, he was greeted by three valets. It
21 was among the most social interactions of the day — as the gallery was a ghost town,
22 inhabited, over the course of the visit, by more deer than customers.

23 * * *

24 A receptionist said it was usually much busier. A valet said it was not — and that,
25 when people do visit, it’s “more for the food” than the furniture. Overall, the
26 consensus among staff seemed to be that about 100 people per day walk through the
27 doors.

28 The atmosphere was a far cry from RH England’s star-studded opening, where the
likes of Idris Elba and Ellen DeGeneres could be seen hobnobbing. Hopes were sky-
high, with Friedman having estimated that the store would bring in between \$40
million and \$250 million in sales in its first year and sharing that the press it had
received was “multiple times higher than any gallery we’ve ever opened because it’s
something nobody has seen before.”

In reality, RH England appears to have brought in significantly less in its first year
— with one UK filing indicating the real number may have been under \$10 million.
Friedman nonetheless reflected on the performance of RH England as “kind of where
we thought we’d be.”

The operation is on pace to fall short of the low end of its first-year estimates in its
second year, too, with Friedman writing in December that it would generate an
estimated \$31 million plus \$7 million in online demand.

* * *

1 **Delays Continue at Nine-Figure Aspen Expansion**

2 Europe isn't the only place where RH has struggled to realize its grand ambitions.
3 It's also happened here at home, in Aspen, where the company has attempted to build
4 an entire lifestyle industrial complex. In the December earnings call, Friedman called
5 it a "one-of-a-kind opportunity" on which he predicted an "outstanding return."

6 Hunterbrook reviewed public records, investor communications, local media
7 coverage, drone footage, videos, and photos to piece together the narrative behind
8 RH's Aspen "ecosystem" — a term the company uses to describe its real estate
9 developments in the mountain town. And the reality did not fully match the story
10 Friedman is weaving. (In 2023, Air Mail dove deep into the fraying relationship
11 between RH and Aspen locals.)

12 At the heart of this saga are three key properties: the historic Crystal Palace, the
13 former Bidwell building, and the Boomerang Lodge. These projects illustrate the
14 tension between RH's aspiration to redefine luxury and the stark realities of
15 construction delays, regulatory hurdles, and financial strain.

16 * * *

17 *Friedman has stated that he's not worried about the slow construction headway
18 RH is making, saying that its real estate assets in Aspen have already doubled or
19 tripled in value. Hunterbrook Media's proprietary real estate database found
20 evidence to the contrary — with median prices since RH's purchase remaining
21 relatively flat for \$1 million to \$5 million properties and appreciating only 30% in
22 the \$5-million-plus category.*

23 **Median Sales Price of Luxury Properties in Aspen 2019 to 2024**



24 And Hunterbrook found *limited progress on the Aspen facilities* since Air Mail's
25 report.

26 **The Crystal Palace: Luxury on a Fragile Foundation**

27 Located at 300-312 East Hyman Ave., the Crystal Palace project aims to transform
28 a 130-year-old dinner theater into an RH Guesthouse, complete with 20 luxury guest

1 rooms, an RH Bath House & Spa, and rooftop dining. But the project, which was
2 originally supposed to open in 2022, has faced delays since its inception in 2019.

3 * * *

4 The primary challenge stems from the building’s structural instability, including a
5 wall with lead paint and compromised integrity. Reports from experts hired by the
6 project developer noted, “It is our opinion that the existing wall is structurally
unstable and should be removed and rebuilt with existing brick.” These findings have
fueled debates with Aspen’s Historic Preservation Commission over how to proceed
without compromising the site’s historical essence.

7 As of October 2024, minimal progress had been made. City officials confirmed to
8 Aspen Daily News that RH has maintained active permits by making incremental
updates but has yet to finalize tenant improvement plans.

9 **The Bidwell Building: Slow Progress on RH’s Mountain House**

10 An incomplete shell is all that’s been built of an RH Gallery called the Mountain
11 House. It occupies the site of the former Bidwell building, torn down in 2020. The
12 project sits on a prime corner at 434 East Cooper Ave. Planned as a three-story luxury
experience featuring retail space and fine dining, the site is currently the only RH
project in Aspen that is making visible progress.

13 * * *

14 In 2021, a stop-work order halted construction after developer Mark Hunt failed to
15 pay encroachment fees — a dispute he later dismissed as a city “mistake.” The slow
16 progress also stems from RH and Hunt seeking multiple amendments to the original
construction plan, triggering extensive reviews by Aspen’s planning and historic
preservation teams.

17 Despite the setbacks, Friedman remains bullish: “It’s on the best corner in Aspen ...
18 We’ve got a great restaurant and hospitality experience. So that’s on track for next
year,” he said on an earnings call in June, 2024.

19 **The Boomerang Lodge: From Dereliction to Aspiration**

20 Perhaps the most challenging project is the former Boomerang Lodge at 500 West
21 Hopkins Ave., slated to become an RH Residences development. Once a mid-century
modern gem, the site is now an eyesore, fenced off and neglected for years.

22 * * *

23 The city of Aspen reached an agreement with developer Hunt, RH’s partner on the
24 property, in early 2024 to address the property’s decay. In exchange for avoiding
25 demolition-by-neglect actions, RH and its partners committed to meeting repair
26 deadlines starting in January. Yet progress has been slow, with Friedman citing
market uncertainty and high interest rates as reasons for delaying the project’s
27 timeline.

28 To this point, RH does not appear to have written off or taken an impairment on any
of its Aspen expenses — despite the project being years behind schedule and still not
open.

1 It wouldn't even be close to the first time a once-promising project wound up being
2 written down. In 2017, RH took impairments on RH Contemporary Art, RH Kitchen,
3 and the Waterworks reporting unit, which specializes in luxury bathroom goods,
4 prompting correspondence with the SEC.

5 32. On this news, RH's stock price fell \$23.46 or 5.4%, over two consecutive trading
6 days, to close at \$411.00 on January 27, 2025, on unusually heavy trading volume.

7 33. Then, on April 2, 2025, after the market closed, released its financial results for the
8 fourth quarter and fiscal year 2024 ended February 1, 2025 in a letter to shareholders concurrently
9 filed as Exhibit 99.2 to a Form 8-K with the SEC. The shareholder letter revealed, among other
10 things, earnings per share of \$1.58 on \$812 million in revenues, an increase of 10% year over year,
11 far below the Company's previous guidance of 18% to 20% revenue growth. The shareholder letter
12 further disclosed that it "ended the year with meaningful debt" and "*excess inventory of \$200 to*
13 *\$300 million at cost*" despite also reporting "*Total Demand Increased 17% and RH Brand*
14 *Demand Increased 21%.*" Specifically, the shareholder letter stated as follows, in relevant part:

15 **FOURTH QUARTER 2024 HIGHLIGHTS**

16 GAAP Net Revenues of \$812M Increased 10%, GAAP Operating Income of \$70M
17 Increased 9%, Adjusted Operating Income of \$92M Increased 38%, GAAP
18 Operating Margin of 8.7%, Adjusted Operating Margin of 11.3%, GAAP Net Income
19 of \$14M, Adjusted Net Income of \$32M, and Adjusted EBITDA Margin of 17.1%

20 On a comparable 13-week basis, Net Revenues Increased 18%, Operating Income
21 Increased 25% and Adjusted Operating Income Increased 57%

22 Q4 Total Demand Increased 17% and RH Brand Demand Increased 21%, in each
23 case on a comparable 13-week basis

24 **FISCAL 2024 HIGHLIGHTS**

25 GAAP Net Revenues of \$3.181B Increased 5.0%, GAAP Operating Margin of
26 10.1%, Adjusted Operating Margin of 11.3%, GAAP Net Income of \$72M, Adjusted
27 Net Income of \$107M, and Adjusted EBITDA Margin of 16.9%

28 On a comparable 52-week basis, Net Revenues Increased 6.8%

2024 Total Demand Increased 9% and RH Brand Demand Increased 12%, in each
case on a comparable 52-week basis

* * *

While we ended the year with meaningful debt, mostly due to our stock repurchases
of \$2.2 billion, we also ended the year with incredible business momentum and
meaningful assets. These assets include real estate that we believe has an estimated
equity value of approximately \$500 million, which we plan to monetize

1 opportunistically as market conditions warrant, and *excess inventory of \$200 to \$300*
2 *million at cost*, that we plan to turn into cash as we optimize our assortments post
3 our product transformation. Inclusive of our plans for significant and growing cash
4 flow from operations, we remain confident in our ability to make the necessary
5 investments to continue our industry leading growth, while paying down debt and
6 lowering interest expense.

7 34. On this news, RH's stock price fell \$99.96, or 40.09%, to close at \$149.39 per share
8 on April 3, 2025, on unusually heavy trading volume.

9 **CLASS ACTION ALLEGATIONS**

10 35. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil
11 Procedure 23(a) and (b)(3) on behalf of a class, consisting of all persons and entities that purchased
12 or otherwise acquired RH securities between March 27, 2024, and April 2, 2025, inclusive, and who
13 were damaged thereby (the "Class"). Excluded from the Class are Defendants, the officers and
14 directors of the Company, at all relevant times, members of their immediate families and their legal
15 representatives, heirs, successors, or assigns, and any entity in which Defendants have or had a
16 controlling interest.

17 36. The members of the Class are so numerous that joinder of all members is
18 impracticable. Throughout the Class Period, RH's shares actively traded on the NYSE. While the
19 exact number of Class members is unknown to Plaintiff at this time and can only be ascertained
20 through appropriate discovery, Plaintiff believes that there are at least hundreds or thousands of
21 members in the proposed Class. Millions of RH shares were traded publicly during the Class Period
22 on the NYSE. Record owners and other members of the Class may be identified from records
23 maintained by RH or its transfer agent and may be notified of the pendency of this action by mail,
24 using the form of notice similar to that customarily used in securities class actions.

25 37. Plaintiff's claims are typical of the claims of the members of the Class as all members
26 of the Class are similarly affected by Defendants' wrongful conduct in violation of federal law that
27 is complained of herein.

28 38. Plaintiff will fairly and adequately protect the interests of the members of the Class
and has retained counsel competent and experienced in class and securities litigation.

1 the Company which made them privy to confidential proprietary information concerning RH,
2 participated in the fraudulent scheme alleged herein.

3 **APPLICABILITY OF PRESUMPTION OF RELIANCE**

4 **(FRAUD-ON-THE-MARKET DOCTRINE)**

5 47. The market for RH's securities was open, well-developed and efficient at all relevant
6 times. As a result of the materially false and/or misleading statements and/or failures to disclose,
7 RH's securities traded at artificially inflated prices during the Class Period. On January 21, 2025,
8 the Company's share price closed at a Class Period high of \$454.52 per share. Plaintiff and other
9 members of the Class purchased or otherwise acquired the Company's securities relying upon the
10 integrity of the market price of RH's securities and market information relating to RH, and have
11 been damaged thereby.

12 48. During the Class Period, the artificial inflation of RH's shares was caused by the
13 material misrepresentations and/or omissions particularized in this Complaint causing the damages
14 sustained by Plaintiff and other members of the Class. As described herein, during the Class Period,
15 Defendants made or caused to be made a series of materially false and/or misleading statements
16 about RH's business, prospects, and operations. These material misstatements and/or omissions
17 created an unrealistically positive assessment of RH and its business, operations, and prospects, thus
18 causing the price of the Company's securities to be artificially inflated at all relevant times, and
19 when disclosed, negatively affected the value of the Company shares. Defendants' materially false
20 and/or misleading statements during the Class Period resulted in Plaintiff and other members of the
21 Class purchasing the Company's securities at such artificially inflated prices, and each of them has
22 been damaged as a result.

23 49. At all relevant times, the market for RH's securities was an efficient market for the
24 following reasons, among others:

25 (a) RH shares met the requirements for listing, and was listed and actively traded
26 on the NYSE, a highly efficient and automated market;

27 (b) As a regulated issuer, RH filed periodic public reports with the SEC and/or
28 the NYSE;

1 (c) RH regularly communicated with public investors via established market
2 communication mechanisms, including through regular dissemination of press releases on the
3 national circuits of major newswire services and through other wide-ranging public disclosures,
4 such as communications with the financial press and other similar reporting services; and/or

5 (d) RH was followed by securities analysts employed by brokerage firms who
6 wrote reports about the Company, and these reports were distributed to the sales force and certain
7 customers of their respective brokerage firms. Each of these reports was publicly available and
8 entered the public marketplace.

9 50. As a result of the foregoing, the market for RH's securities promptly digested current
10 information regarding RH from all publicly available sources and reflected such information in RH's
11 share price. Under these circumstances, all purchasers of RH's securities during the Class Period
12 suffered similar injury through their purchase of RH's securities at artificially inflated prices and a
13 presumption of reliance applies.

14 51. A Class-wide presumption of reliance is also appropriate in this action under the
15 Supreme Court's holding in *Affiliated Ute Citizens of Utah v. United States*, 406 U.S. 128 (1972),
16 because the Class's claims are, in large part, grounded on Defendants' material misstatements and/or
17 omissions. Because this action involves Defendants' failure to disclose material adverse
18 information regarding the Company's business operations and financial prospects—information that
19 Defendants were obligated to disclose—positive proof of reliance is not a prerequisite to recovery.
20 All that is necessary is that the facts withheld be material in the sense that a reasonable investor
21 might have considered them important in making investment decisions. Given the importance of
22 the Class Period material misstatements and omissions set forth above, that requirement is satisfied
23 here.

24 **NO SAFE HARBOR**

25 52. The statutory safe harbor provided for forward-looking statements under certain
26 circumstances does not apply to any of the allegedly false statements pleaded in this Complaint. The
27 statements alleged to be false and misleading herein all relate to then-existing facts and conditions.
28 In addition, to the extent certain of the statements alleged to be false may be characterized as forward

1 looking, they were not identified as “forward-looking statements” when made and there were no
2 meaningful cautionary statements identifying important factors that could cause actual results to
3 differ materially from those in the purportedly forward-looking statements. In the alternative, to the
4 extent that the statutory safe harbor is determined to apply to any forward-looking statements
5 pleaded herein, Defendants are liable for those false forward-looking statements because at the time
6 each of those forward-looking statements was made, the speaker had actual knowledge that the
7 forward-looking statement was materially false or misleading, and/or the forward-looking statement
8 was authorized or approved by an executive officer of RH who knew that the statement was false
9 when made.

10 **FIRST CLAIM**

11 **Violation of Section 10(b) of The Exchange Act and**

12 **Rule 10b-5 Promulgated Thereunder**

13 **Against All Defendants**

14 53. Plaintiff repeats and re-alleges each and every allegation contained above as if fully
15 set forth herein.

16 54. During the Class Period, Defendants carried out a plan, scheme and course of conduct
17 which was intended to and, throughout the Class Period, did: (i) deceive the investing public,
18 including Plaintiff and other Class members, as alleged herein; and (ii) cause Plaintiff and other
19 members of the Class to purchase RH’s securities at artificially inflated prices. In furtherance of
20 this unlawful scheme, plan and course of conduct, Defendants, and each defendant, took the actions
21 set forth herein.

22 55. Defendants (i) employed devices, schemes, and artifices to defraud; (ii) made untrue
23 statements of material fact and/or omitted to state material facts necessary to make the statements
24 not misleading; and (iii) engaged in acts, practices, and a course of business which operated as a
25 fraud and deceit upon the purchasers of the Company’s securities in an effort to maintain artificially
26 high market prices for RH’s securities in violation of Section 10(b) of the Exchange Act and Rule
27 10b-5. All Defendants are sued either as primary participants in the wrongful and illegal conduct
28 charged herein or as controlling persons as alleged below.

1 56. Defendants, individually and in concert, directly and indirectly, by the use, means or
2 instrumentalities of interstate commerce and/or of the mails, engaged and participated in a
3 continuous course of conduct to conceal adverse material information about RH's financial well-
4 being and prospects, as specified herein.

5 57. Defendants employed devices, schemes and artifices to defraud, while in possession
6 of material adverse non-public information and engaged in acts, practices, and a course of conduct
7 as alleged herein in an effort to assure investors of RH's value and performance and continued
8 substantial growth, which included the making of, or the participation in the making of, untrue
9 statements of material facts and/or omitting to state material facts necessary in order to make the
10 statements made about RH and its business operations and future prospects in light of the
11 circumstances under which they were made, not misleading, as set forth more particularly herein,
12 and engaged in transactions, practices and a course of business which operated as a fraud and deceit
13 upon the purchasers of the Company's securities during the Class Period.

14 58. Each of the Individual Defendants' primary liability and controlling person liability
15 arises from the following facts: (i) the Individual Defendants were high-level executives and/or
16 directors at the Company during the Class Period and members of the Company's management team
17 or had control thereof; (ii) each of these defendants, by virtue of their responsibilities and activities
18 as a senior officer and/or director of the Company, was privy to and participated in the creation,
19 development and reporting of the Company's internal budgets, plans, projections and/or reports;
20 (iii) each of these defendants enjoyed significant personal contact and familiarity with the other
21 defendants and was advised of, and had access to, other members of the Company's management
22 team, internal reports and other data and information about the Company's finances, operations, and
23 sales at all relevant times; and (iv) each of these defendants was aware of the Company's
24 dissemination of information to the investing public which they knew and/or recklessly disregarded
25 was materially false and misleading.

26 59. Defendants had actual knowledge of the misrepresentations and/or omissions of
27 material facts set forth herein, or acted with reckless disregard for the truth in that they failed to
28 ascertain and to disclose such facts, even though such facts were available to them. Such defendants'

1 material misrepresentations and/or omissions were done knowingly or recklessly and for the purpose
2 and effect of concealing RH's financial well-being and prospects from the investing public and
3 supporting the artificially inflated price of its securities. As demonstrated by Defendants'
4 overstatements and/or misstatements of the Company's business, operations, financial well-being,
5 and prospects throughout the Class Period, Defendants, if they did not have actual knowledge of the
6 misrepresentations and/or omissions alleged, were reckless in failing to obtain such knowledge by
7 deliberately refraining from taking those steps necessary to discover whether those statements were
8 false or misleading.

9 60. As a result of the dissemination of the materially false and/or misleading information
10 and/or failure to disclose material facts, as set forth above, the market price of RH's securities was
11 artificially inflated during the Class Period. In ignorance of the fact that market prices of the
12 Company's securities were artificially inflated, and relying directly or indirectly on the false and
13 misleading statements made by Defendants, or upon the integrity of the market in which the
14 securities trades, and/or in the absence of material adverse information that was known to or
15 recklessly disregarded by Defendants, but not disclosed in public statements by Defendants during
16 the Class Period, Plaintiff and the other members of the Class acquired RH's securities during the
17 Class Period at artificially high prices and were damaged thereby.

18 61. At the time of said misrepresentations and/or omissions, Plaintiff and other members
19 of the Class were ignorant of their falsity, and believed them to be true. Had Plaintiff and the other
20 members of the Class and the marketplace known the truth regarding the problems that RH was
21 experiencing, which were not disclosed by Defendants, Plaintiff and other members of the Class
22 would not have purchased or otherwise acquired their RH securities, or, if they had acquired such
23 securities during the Class Period, they would not have done so at the artificially inflated prices
24 which they paid.

25 62. By virtue of the foregoing, Defendants violated Section 10(b) of the Exchange Act
26 and Rule 10b-5 promulgated thereunder.

27
28

1 the Class suffered damages in connection with their purchases of the Company's securities during
2 the Class Period.

3 **PRAYER FOR RELIEF**

4 WHEREFORE, Plaintiff prays for relief and judgment, as follows:

5 (a) Determining that this action is a proper class action under Rule 23 of the Federal
6 Rules of Civil Procedure;

7 (b) Awarding compensatory damages in favor of Plaintiff and the other Class members
8 against all defendants, jointly and severally, for all damages sustained as a result of Defendants'
9 wrongdoing, in an amount to be proven at trial, including interest thereon;

10 (c) Awarding Plaintiff and the Class their reasonable costs and expenses incurred in this
11 action, including counsel fees and expert fees; and

12 (d) Such other and further relief as the Court may deem just and proper.

13 **JURY TRIAL DEMANDED**

14 Plaintiff hereby demands a trial by jury.

15 DATED: _____, 2025

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