

RH

2021

ANNUAL LETTER TO SHAREHOLDERS



A LETTER FROM OUR CHAIRMAN AND CEO

TO OUR PEOPLE, PARTNERS, AND SHAREHOLDERS,

Fiscal 2021 was another year of record results for RH with net revenues increasing 32% to \$3.759 billion versus \$2.849 billion a year ago, and up 42% versus 2019.

We continue to set new standards for financial performance in the home furnishings industry and our results now reflect those of the leading luxury brands as adjusted operating margin reached 25.6% in FY 2021.

We ended the year with \$90 million of net debt and nearly \$2.2 billion of cash on our balance sheet while generating ROIC of 73%.

Our performance demonstrates the desirability of our elevated and exclusive product, the connective power of our evolving ecosystem, the profitability of our fully integrated business model and the strategic separation created by our inspiring physical spaces.

While we enter 2022 with confidence that our efforts will continue to elevate and expand the RH brand for years to come, we also recognize there is a heightened level of economic uncertainty due to the ongoing impact of the pandemic coupled with record inflation, rising interest rates and global unrest. Although we lack the ability to predict economic outcomes on a macro scale, we do believe we have the business model, strategy and balance sheet to take advantage of opportunities that may present themselves, whether it be during times of economic expansion, contraction or dislocation.

As we look forward, let me outline both the near and long-term strategies we are pursuing as we continue our quest to build one of the most admired brands in the world.

#### 2022: THE YEAR OF THE NEW

While many of our plans were delayed by the virus, they were not disrupted by it. We used these past two years to reimagine and reinvent ourselves once again and believe 2022 will mark the beginning of the next chapter of growth and innovation for the RH brand. 2022, The Year of The New will include:

The opening of RH San Francisco at the Historic Bethlehem Steel Building, our most extraordinary new Bespoke Gallery to date.

The launch of RH Contemporary, the most compelling and potentially disruptive product introduction in our history.

The elevation and expansion of RH Interiors and RH Modern, inclusive of new collections and enhanced quality.

The unveiling of our first RH Guesthouse in New York, a revolutionary new hospitality concept for travelers seeking privacy and luxury in the \$200 billion North American hotel market.

The introduction of two new culinary concepts, an elevated live-fire restaurant opening in San Francisco, England and the New York Guesthouse, plus a Champagne and Caviar Bar also opening in the New York Guesthouse this year, with plans to expand both concepts to our future Galleries in Paris, London, Milan and Aspen. With average restaurant volumes approaching \$10 million, and a very profitable four wall model, we are making significant investments to build a world-class hospitality organization and see endless opportunities to elevate and activate our places and spaces, creating integrated and inspiring experiences for our members and customers that cannot be replicated online.

The debut of The World of RH, the first phase of our new digital portal highlighting the connective power of our evolving ecosystem of Products, Places, Services and Spaces, all designed to inspire customers to dream, dine, travel and live in a world thoughtfully curated by RH, creating an emotional connection with our customers unlike any other brand in the world.

The lift-off of RH1 & RH2, our customized Gulfstream G650 and G550 that will be available for charter later this year. The former has already generated press and praise as featured in the pages of Architectural Digest, the Wall Street Journal and the 20 titles of Modern Luxury.

The christening of RH3, our luxury yacht that will be available for charter in the Mediterranean and Caribbean. RH3 will be featured in the Robb Report, C Magazine and Boat International over the coming months.

The continued rollout of RH In-Your-Home, a unique and memorable delivery experience with Brand Ambassadors guiding every detail of the delivery and extending the selling experience into the home.

The expansion of the RH brand globally, beginning with the opening of RH England, The Gallery at the Historic Aynhoe Park, a magical 17th-century, 73-acre estate in the English countryside that will introduce RH to the UK in a dramatic and unforgettable fashion. Additionally, we have secured locations for Galleries in London, Paris, Munich and Dusseldorf, and are in lease or purchase negotiations for Galleries in Milan, Madrid, Brussels and France.

The opening of RH Palo Alto, The Gallery at Stanford Shopping Center, which will represent the next evolution of our highly productive prototype Galleries.

## RH BUSINESS VISION & ECOSYSTEM – THE LONG VIEW

We believe, “There are those with taste and no scale, and those with scale and no taste,” and the idea of scaling taste is large and far reaching.

Our goal to position RH as the arbiter of taste for the home has proven to be both disruptive and lucrative, as we continue our quest to build the most admired brand in the world.

Our brand attracts the leading designers, artisans and manufacturers, scaling and rendering their work more valuable across our integrated platform, enabling RH to curate the most compelling collection of luxury home products on the planet.

Our efforts to elevate and expand our collection will continue with the introductions of RH Contemporary, RH Couture, RH Bespoke, RH Color, RH Antiques & Artifacts, RH Atelier and other new collections scheduled to launch over the next decade.

Our plan to open immersive Design Galleries in every major market will unlock the value of our vast assortment, generating revenues of \$5 to \$6 billion in North America, and \$20 to \$25 billion globally.

Our strategy is to move the brand beyond curating and selling product to conceptualizing and selling spaces, by building an ecosystem of Products, Places, Services and Spaces that establishes the RH brand as a global thought leader, taste and place maker.

Our products are elevated and rendered more valuable by our architecturally inspiring Galleries, which are further elevated and rendered more valuable by our interior design services and seamlessly integrated hospitality experience.

Our hospitality efforts will continue to elevate the RH brand as we extend beyond the four walls of our Galleries into RH Guesthouses, where our goal is to create a new market for travelers seeking privacy and luxury in the \$200 billion North American hotel industry. Additionally, we are creating bespoke experiences like RH Yountville, an integration of Food, Wine, Art & Design in the Napa Valley, RH1 & RH2, our private jets, and RH3, our luxury yacht that is available for charter in the Caribbean and Mediterranean where the wealthy and affluent visit and vacation. These immersive experiences expose new and existing customers to our evolving authority in architecture, interior design and landscape architecture.

This leads to our long-term strategy of building the world's first consumer-facing architecture, interior design and landscape architecture services platform inside our Galleries, elevating the RH brand and amplifying our core business by adding new revenue streams while disrupting and redefining multiple industries.

Our strategy comes full circle as we begin to conceptualize and sell spaces, moving beyond the \$170 billion home furnishings market into the \$1.7 trillion North American housing market with the launch of RH Residences – fully furnished luxury homes, condominiums and apartments with integrated services that deliver taste and time value to discerning, time-starved consumers.

The entirety of our strategy will come to life digitally as we launch The World of RH, an online portal where customers can explore and be inspired by the depth and dimension of our brand.

Our authority as an arbiter of taste will be further amplified when we introduce RH Media, a content platform that will celebrate the most innovative and influential leaders who are shaping the world of architecture and design.

Our plan to expand the RH ecosystem globally multiplies the market opportunity to \$7 to \$10 trillion, one of the largest and most valuable addressed by any brand in the world today. A one percent share of the global market represents a \$70 to \$100 billion opportunity.

Our ecosystem of Products, Places, Services and Spaces inspires customers to dream, design, dine, travel and live in a world thoughtfully curated by RH, creating an emotional connection unlike any other brand in the world.

Taste can be elusive, and we believe no one is better positioned than RH to create an ecosystem that makes taste inclusive, and by doing so, elevating and rendering our way of life more valuable.

## CLIMBING THE LUXURY MOUNTAIN AND BUILDING A BRAND WITH NO PEER

Every luxury brand, from Chanel to Cartier, Aston Martin to Aman, Louis Vuitton to Loro Piana, Harry Winston to Hermès, was born at the top of the luxury mountain. Never before has a brand attempted to make the climb to the top, nor do the other brands want you to. We are not from their neighborhood, nor invited to their parties. We do understand that our work has to be so extraordinary that it creates a forced reconsideration of who we are and what we are capable of, requiring those at the top of the mountain to tip their hat in respect. We also appreciate that this climb is not for the faint of heart, and as we continue our ascent the air gets thin and the odds become slim.

Twenty years ago we began this journey with a vision of transforming a nearly bankrupt business with a \$20 million market cap and a box of Oxydol laundry detergent on the cover of the catalog into the leading luxury home brand in the world. The lessons and learnings, the passion and persistence, the courage required, and the scar tissue developed by getting knocked down ten times and getting up eleven leads to the development of the mental and moral strength that builds character in individuals and forms cultures in organizations. Lessons that can't be learned in a classroom, or by managing a business, they must be earned by building one. Or, by reaching the top of the mountain.

Onward Team RH.

Carpe Diem,

A handwritten signature in black ink, appearing to read 'Gary', with a stylized, flowing script.

Gary Friedman  
Chairman & Chief Executive Officer

## NON-GAAP FINANCIAL MEASURES

Adjusted operating margin, net debt and ROIC are non-GAAP financial measures that are defined and discussed in our 2022 proxy statement. In Annex A to our proxy statement, we present the reconciliation of GAAP to non-GAAP financial measures.

## FORWARD-LOOKING STATEMENTS

This letter contains forward-looking statements within the meaning of the federal securities laws, including without limitation, statements regarding: our continued strategic separation as we further elevate the RH Brand; our adjusted operating margins and ROIC; the power of our operating model; RH's stock performance including our belief as to future stock performance; statements regarding the pace at which we have reimagined and reinvented ourselves; the emergence of RH as a luxury brand generating luxury margins; the desirability and exclusivity of our products and our related ability to achieve industry leading revenues and margins; the desirability of our product; the power of our ecosystem; the profitability of our business model; the strategic separation created by our physical spaces; our continued elevation and expansion of the RH brand; our ability to take advantage of opportunities presented; the growth and innovation of the RH brand; our beliefs and views on the attributes of RH San Francisco, RH Contemporary, the New York Guesthouse, RH England, and RH Palo Alto, which we plan to open in 2022; our beliefs and views on the attributes of RH Interiors and RH Modern, which we plan to expand in 2022; the North American hotel industry; our plans to expand live-fire restaurants and Champagne and Caviar Bars to our future Galleries in Paris, London, Milan and Aspen; average restaurant volumes; the profitability of a four wall model; opportunities for RH to elevate its places and spaces and RH's ability to create integrated and inspiring experiences for its members and customers; the launch of The World of RH and its ability to create an emotional connection with customers; the lift-off of RH1 and RH2; the christening of RH3; the roll-out of RH In-Your Home; the expansion of RH globally; our future growth plans and strategies with respect to RH Contemporary, RH Couture, RH Bespoke, RH Color, RH Antiques & Artifacts, RH Atelier and other new collections; the elevation of and value added to our products by RH Galleries, interior design services and hospitality experience; the extension of the RH brand into adjacent businesses; our future growth plans and strategies with respect to RH Guesthouses, RH Residences and bespoke experiences like RH Yountville, RH1, RH2, and RH3; our long-term strategy of building the world's first consumer-facing architecture, interior design and landscape architecture services platform inside RH Galleries and our beliefs with respect to the anticipated benefits; the size of the North American housing market; our belief that our ecosystem of Products, Places, Services and Spaces will inspire RH customers and create a connection unlike any other brand in the world; our belief that immersive experiences will create an impression and connection unlike any other brand on the planet; our international expansion plans with respect to locations in Europe, including London, Paris, Munich and Dusseldorf, and additional locations for which we are in lease or purchase negotiations; our belief that RH can be the first to make the climb from the base to the top of the luxury mountain; our objectives of building a brand with no peer, creating a customer experience that cannot be replicated online, and our expectations regarding the benefits and achievement of such objectives; the alignment of our ESG programs with our long-term strategic goals and the interests of our people, customers and shareholders and their respective concerns; the enhancement and elevation of the RH brand through our ESG programs; the strategic alignment of our sustainability and environmental programs with the materials used to make RH products; gains achievable through the continuation of our initiative to lower energy consumption; the maintenance of our values and principles throughout our business; and any statements or assumptions underlying any of the foregoing.

You can identify forward-looking statements by the fact that they do not relate strictly to historical or current facts. These statements may include words such as "anticipate," "estimate," "expect," "project," "plan," "intend," "believe," "may," "will," "should," "likely" and other words and terms of similar meaning in connection with any discussion of the timing or nature of future events. We cannot assure you that future developments affecting us will be those that we have anticipated. All discussions of new developments are subject to inherent uncertainty as to timing and the manner in which a new development may ultimately be launched including that certain new concepts may be canceled prior to introduction. Important risks and uncertainties that could cause actual results to differ materially from our expectations include, among others: risks related to the COVID-19 pandemic and any ongoing impact on our business; risks related to our dependence on key personnel and any changes in our ability to retain key personnel; successful implementation of our growth strategy; risks related to the number of new business initiatives we are undertaking; successful implementation of our growth strategy including our real estate transformation and the number of new Gallery locations that we seek to open and the timing of openings; uncertainties in the current performance of our business including a range of risks related to our operations as well as external economic factors; general economic conditions and the housing market, as well as the impact of economic conditions on consumer confidence and spending; changes in customer demand for our products; our ability to anticipate consumer preferences and buying trends, and maintaining our brand promise to customers; decisions concerning the allocation of capital; factors affecting our outstanding convertible senior notes or other forms of our indebtedness; our ability to anticipate consumer preferences and buying trends, and maintain our brand promise to customers; changes in consumer spending based on weather and other conditions beyond our control; strikes and work stoppages affecting port workers and other industries involved in the transportation of our products; our ability to obtain our products in a timely fashion or in the quantities required; our ability to employ reasonable and appropriate security measures to protect personal information that we collect; our ability to support our growth with appropriate information technology systems; risks related to our sourcing and supply chain including our dependence on imported products produced by foreign manufacturers and risks related to importation of such products including risks related to tariffs and other similar issues, as well as those risks and uncertainties disclosed under the sections entitled "Risk Factors" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" in RH's most recent Form 10-K and Form 10-Q filed with the Securities and Exchange Commission, and similar disclosures in subsequent reports filed with the SEC, which are available on our investor relations website at [ir.rh.com](http://ir.rh.com) and on the SEC website at [www.sec.gov](http://www.sec.gov). Any forward-looking statement made by us speaks only as of the date on which we make it. We undertake no obligation to publicly update any forward-looking statement, whether as a result of new information, future developments or otherwise, except as may be required by any applicable securities laws.