At Home Group, Inc. (NYSE:HOME)

Consumer Discretionary – Home Furnishing

Hitting it Home

March 1st, 2019

At Home Group Inc. (At Home) is an American big-box retail chain carrying a broad variety of products ranging from furniture to home décor accessories. At Home operates 178 stores across the US with a headquarters located in Plano, Texas.

Thesis

At Home has been aggressively growing and investing in marketing to expand and solidify their customer segment. As they expand, the company also gains more negotiating power with vendors and increases margins, thus funding further expansion. We believe that with the leadership of the management team, and the established price differentiation strategy, At Home will establish themselves as a significant player in the home furnishing industry.

Drivers

In a highly competitive market, At Home's success will depend heavily on the price at which they sell their products, the accessibility of store fronts, and the design of their merchandise. We believe that with the introduction of new stores as a main driver, paired with numerous new marketing approaches, At Home will appeal to larger customer segments and attract new home buyers with the use of their growing loyalty program. The new distribution center will enable this expansion, while improving margins by increasing operational efficiency and cutting transportation costs.

Valuation

Our target share price is $28.00. We arrived at this using a 50/50 weighting based on the exit multiple from our DCF and both the EV/EBITDA multiple as well as the P/E multiple from our Comparable Company Analysis. Based on this, we assigned a **HOLD** rating with an expected return of 14.3%.

Analyst: Noah Sayani, BCom. '22
contact@westpeakresearch.com

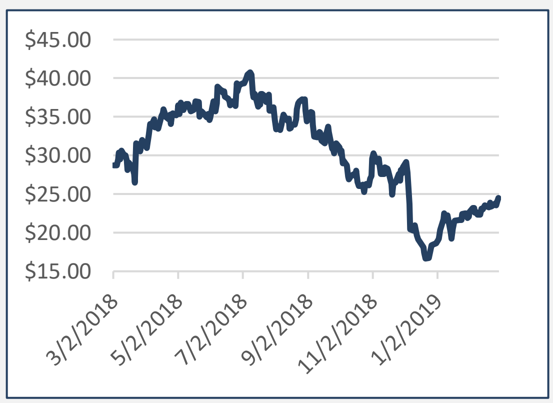
Equity Research	United States
Price Target	**US$ 28.00**
Rating	Hold
Share Price (Mar. 1 Close)	US$ 24.50
Total Return	14.3%

Key Statistics	
52 Week H/L	$40.97/$15.89
Market Capitalization	$1.3B
Average Daily Trading Volume	1.4M
Net Debt	$466.5M
Enterprise Value	$1.8B
Net Debt/EBITDA	2.9x
Diluted Shares Outstanding	66.5M
Free Float	73%
Dividend Yield	N/A

WestPeak's Forecast

	2018A	2019E	2020E
Revenue	$951M	$1.15B	$1.47B
EBITDA	$139M	$111M	$224M
Net Income	$32M	$31M	$91M
EPS	$0.53	$1.30	$1.43
P/E	21.6x	15.6x	12.8x
EV/EBITDA	10.8x	9.0x	7.8x

1-Year Price Performance



Business Overview/Fundamentals

Business Summary

At Home Group Inc. is a big-box retailer, providing customers with affordable and modern home furnishing products. The home decor superstore dedicates more space per store in their showroom than any other player in the industry and carries over 50,000 stock keeping units (SKUs) in store, 70% of which are unbranded and designed specifically for them. With a focus on an aggressive, yet strategic expansion, At Home Group continues to open stores in an effort to increase market share in a highly fragmented and growing industry. The company currently operates 178 stores in 36 states, with a plan to double this number by fiscal year 2024.


Source: Company Website

At Home Products

Home Furnishings

With the largest assortment of home décor products among all big-box retailers, At Home carries a variety of home furnishing items consisting of accent furniture, mirrors, patio cushions, rugs and wall art. Each of these home furnishing products have many different styles for every consumer preference and are a staple for the company, as they made up approximately 46% of net sales in fiscal year 2018. At Home's products are price leaders in the industry and the business is able to compete well with e-commerce giants such as Amazon in this area.

Source: Company Website

Accent Décor

To compliment many of the main product designs, accent décor is the largest product segment of fiscal year 2018 making up 50% of total net sales. Main products include: artificial flowers and trees, bedding, bath, candle, garden and outside décor, holiday accessories, home organization, pillows, pottery, vases, and window treatments. These low-cost to produce products are accessible for all consumer spending levels and provide At Home with substantial margins even with their established cost differentiation approach from competitors. In addition, these accent décor products are sold mostly at regular price allowing 80% of At Home's net sales of all products to be made without any price adjustments.

Source: Company Website

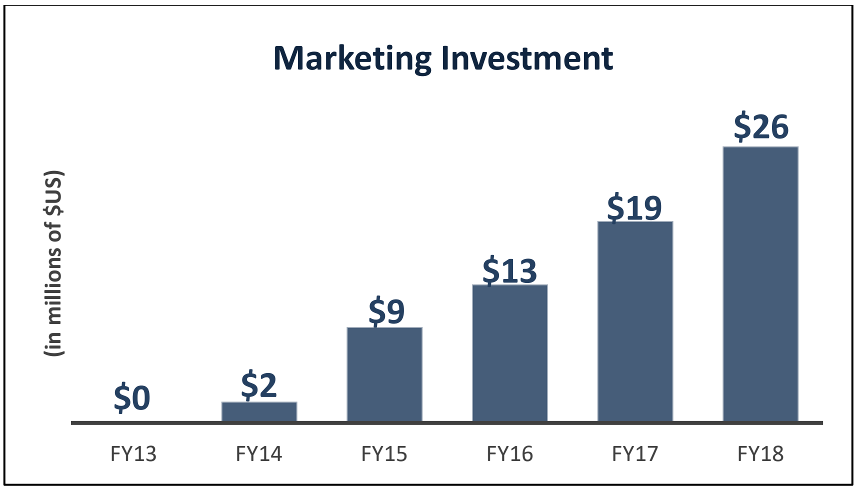
At Home's Product Conclusion

The large range of products paired with a price differentiation strategy in the home furnishing industry represents At Home's expandable business model. Unlike competitors, At Home focuses on low basket prices per visit of approximately $65. This along with high volume in their large store fronts enable consumers to visit frequently and return each season, always having a wide variety of new products to select from. With this strategy, consumers can follow design trends in the short run and change them up regularly, increasing same-store sales growth.

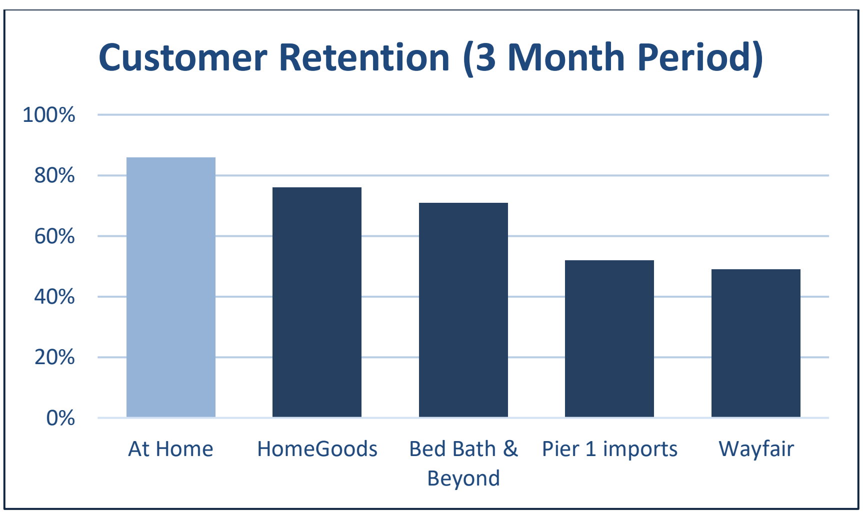
At Home works with over 500 different vendors to value-engineer products for consumers, focusing on both quality and price. In fiscal year 2018, 40% of merchandise was purchased through domestic vendors and 60% through foreign. At Home concentrates efforts to expand their direct sourcing, allowing them to purchase directly through factories in Asia rather than domestic agents or trading companies. While each vendor is important, no single vendor holds a stake of over 5% of total company sales showing that At Home is not reliant on any one single vendor for their low-cost production, but rather has diversified product sourcing.

Future Outlook

Looking to the future, At Home Group Inc. aims to drive growth mainly through the addition of new stores, while focusing to increase same store growth with several marketing initiatives. Currently, as a result of these newly implemented marketing strategies, over 50% of At Home's customers visit at least once a month to enjoy the changing product display. This number continues to grow with further investment into TV and digital advertising, as well as outreach through direct mail and catalogues. These marketing approaches are effective due to the low, however increasing, brand awareness that At Home continues to establish in the industry as a new, yet prominent player. At Home's customers have shown high intent to shop at the big-box retailer once they have been visited the store. This is due to three main reasons – price, selection, and ability to see/touch the product before purchase. At Home is also a leader among its peers with customer retention and we believe that with the planned marketing investment will provide the company much needed exposure to continue its expansion.

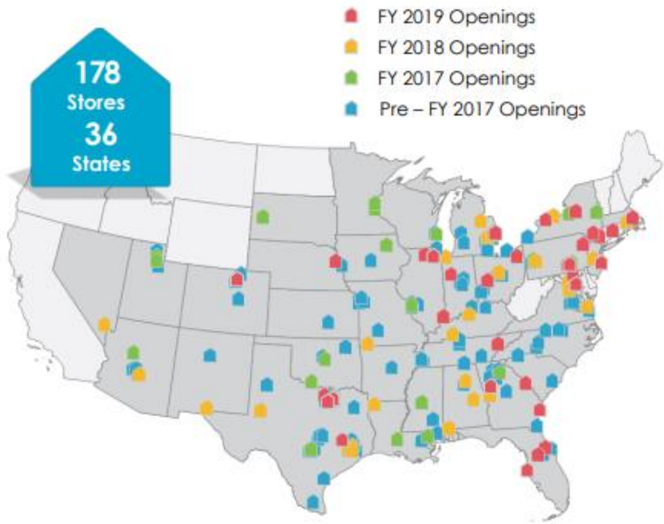


Source: Investor Presentations



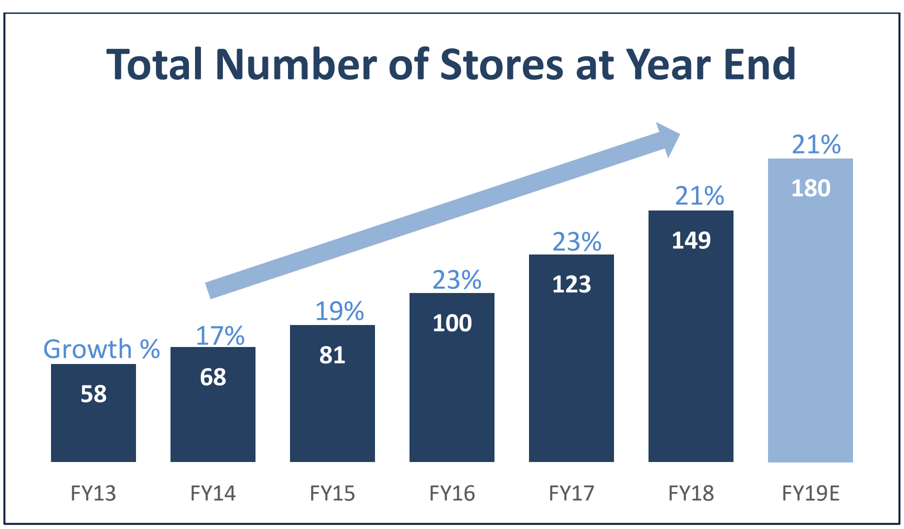
Source: Investor Presentations

The company plans to open a new distribution center in Pennsylvania in early fiscal year 2020 which would nearly double the current capacity to serve over 350 stores. The early planning of this distribution center allows for At Home to implement the same proven cross-stock capabilities and automation currently used in the Texas-based distribution center in this new distribution center. With a new distribution center, At Home has the capacity to continue their new store growth at a similar rate as in the past by searching for second and third generation real estate, offering more desirable lease terms across the country.



Source: [Investor Presentations]

While new store growth is a main priority, At Home also focuses on increasing same store growth by targeting more of the millennial market and appealing to their shopping needs. The company concentrates efforts to digitally enable in-store sales and ensure all products and prices are easily viewed from anywhere to promote ease of browsing even on mobile devices. Another marketing initiative launched in August of 2017 that has proven very successful, but still has plenty room for expansion, is the loyalty and credit card program. Since launch, over 3.5 million members have joined, acting as a main driver for same store growth of 6.5% in fiscal year 2018, a 2.8% increase from the previous year. At Home hopes to continue with their 19 straight quarters of positive same store growth, while aiming for a target of low to mid-single digit increases per year.

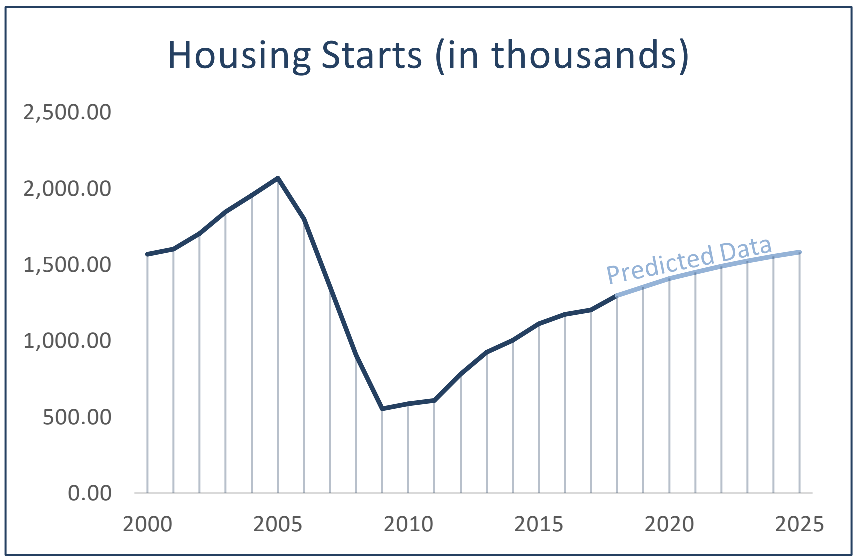


Source: [Investor Presentations]

Industry Analysis

In the United Sates, the home furnishing industry has increased over the past 5 years due to a rise in disposable income paired with an increasing housing market; however, the number of enterprises has decreased by approximately 0.5% during this period. Industry operators are experiencing heightened competition particularly from online channels and discount retail stores. In 2017, the industry generated $34.7B in revenue with big-box retailers averaging larger profit margins due to lower costs of goods from buying in bulk (IBIS World). Over the next 5 years we anticipate competition to continue to intensify, however revenue growth to expand annually at a rate of 0.9% to $37.0B with homeownership levels and housing starts as a key driver. In addition, the industry is projected to benefit from customers seeking high customer service levels as well as off-price products, giving retail stores the upper hand, despite the growing mobile market.

Housing Starts Growth

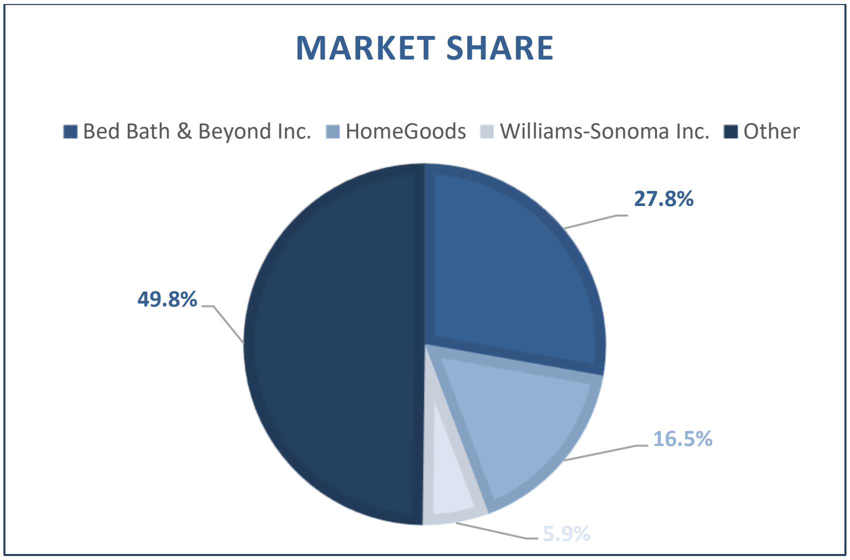


Source: IBIS World

Housing Starts measures the number of new, privately owned housing units started in each year, including both single-unit and multi-unit developments. Housing starts are a key driver for the home furnishing industry as the industry relies heavily on new real-estate for their low-cost furnishing products. Even with a slowdown in the real estate market, housing starts will continue to rise over the next 5 years, especially due to the larger developments that are in the planning process of construction. In addition, rising levels of employment and population in the US will support these gains. Ten-year treasury interest rates have dropped from a high of 3.23% in October of 2018 to approximately 2.65% (CNBC), thus allowing for more affordability in homes for the coming years. The west coast has experienced extreme price increases over the past five years and the housing market is slowing down, however the east coast has been relatively more stable, thus maintaining the affordability and expansion. The number of housing starts as a whole is also predicted to increase at a decreasing rate over the next 5 years in addition to consumer spending, leading to accelerated growth for the industry and an opportunity for At Home Group to capture the new home buyer target market, which they created an advertising focus on this past year.

Competition

The home furnishing industry is a highly competitive market with mid-level barriers to entry and a medium concentration level. The four largest players in the industry are estimated to account for 53.8% of the revenue in 2018 with the remaining market share composed of small to medium-size players supplying local demand. At Home Group has positioned itself well to take advantage of the fastest growing aspect of the home furnishing industry as a big box retailer specializing in low-cost goods.



Source: IBIS World

Home Furnishing Cost Structure

Profits and purchases

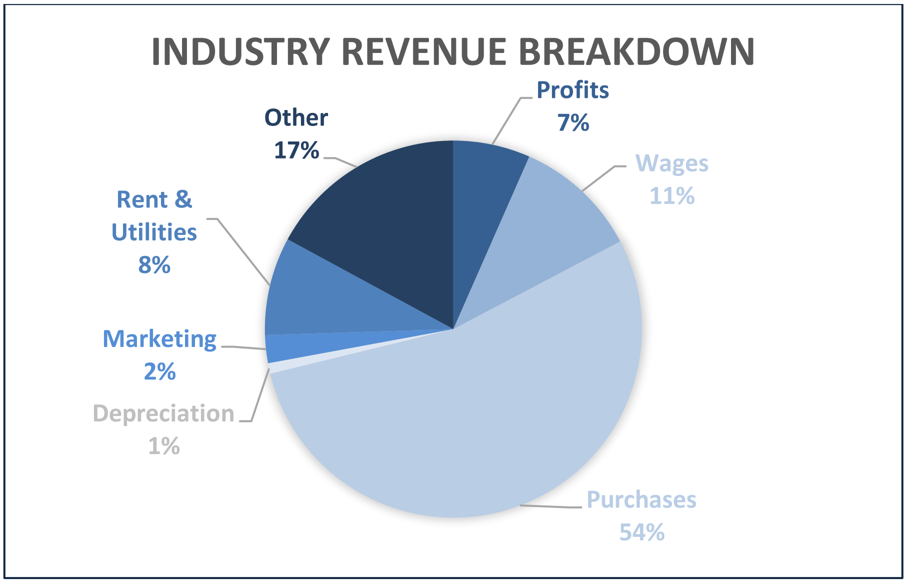
The average profit margin for the home furnishing industry is 6.6%. At Home, among other companies that buy in bulk and have higher negotiation power with suppliers, are able to increase their profit margins as purchase costs are the single largest of expenses, accounting for 53.9% of total revenue in the industry. Both the industry average and At Home Group's purchasing costs have decreased and are projected to continue to decrease over the next few years as more products are being sourced from abroad as well as in higher quantity from local distributers.

Wages

Employee compensation, including payroll and benefits, accounts for 10.7% of the total revenue in 2018. This industry relies heavily on employees for daily operations, customer service, and maintenance. Industry labour costs have decreased the past five years due cuts in the labour force and seasonal employee hires. At Home group has taken advantage of both full-time and seasonal workers to ensure high customer service, while continuing to meet industry averages.

Marketing, depreciation and other expenses

Over the past 5 years, overall market demand has increased, causing a slowdown on investments into marketing. At Home, however, hopes to establish a new loyal customer base while taking advantage of the market growth, thus the company has increased its marketing investment substantially. Additionally, since industry capital expenditures are low compared with manufacturing, depreciation costs are estimated at 0.9% of revenue. Rent and utilities costs are expected to represent 8.4% of revenue and At Home Group seeks second generation real estate to lower rent costs.



Source: IBIS World

Catalysts

Expanding the Loyalty Program for Data Collection

The addition of a loyalty program in August of 2017 acted as a key driver for same store sales throughout fiscal year 2018 and will continue to expand in the future. A new undeveloped benefit from this feature is the data collection that will give At Home insight to their customer's preferences in both design and product trends. This data can be used to improve in-store product placement and even direct marketing strategies. Chief Technology Officer Sumit Anand has been added to the team as of July of 2018 and his experience with e-commerce and information technology would support this venture perfectly. This addition will allow At Home Group to further their insight on their customer base, while opening new stores and deciding on effective marketing techniques for their different customer segments.

Increase of Seasonal Products

At Home aims to develop their product line while taking advantage of sales trends in each quarter. The third and fourth quarters have sustained higher net revenue year-over-year due to holiday and seasonal products made available. With a broad range of staple products, At Home has room to develop their seasonal selection and expand the time frame in which seasonal products can be sold, thus taking advantage of the high-volume period. In addition, At Home has already established a marketing emphasis on millennials, who make up a significant portion of their accent décor sales. This targeted customer segment would value the expanded seasonal selection and we believe that this growth could be another way for At Home to continue with their sustained in-store growth.

Management Team

Lewis Lee Bird III, Chairman of the Board and Chief Executive Officer

Lewis L. Bird III has been Chairman and CEO for the At Home Group Inc. since April 5th, 2017 and December 2012 respectively. Previously, from 2011-2012, Mr. Bird was a Managing Director of Operations and Consumer Practice Leader at The Gores Group LLC. His role included overseeing the company's portfolio and leading operational due diligence efforts for both consumers and retail sectors. Mr. Bird's experience ranges far beyond these two positions as he has previously served as the acting Head of Cooperate Mergers and Acquisitions at Nike, Chief Financial Officer at Old Navy Division, and Chief Operating Officer at Gap Inc. Lewis L. Bird III has worked to expand many companies, both organically and inorganically, and has implemented a similar focus with At Home Group's with the organic new stores growth as a main driver of this expansion.

Mr. Bird was paid a base salary of $700,000 in fiscal year 2018 along with $935,000 in non-equity bonus pay and $37,000 in other compensation for a total of $1.67 million. Mr. Bird currently owns approximately 38K shares of At Home Group Inc. which is 0.059% of current shares outstanding. With the stated revenue breakdown, along with his past year's compensation, we believe that CEO Mr. Bird is being compensated appropriately and that his motives are aligned with the company's growth mentality and share price. Mr. Bird has also been awarded Entrepreneur of the Year for Retail and Hospitality in 2017, presented by EY, for his extraordinary success in areas such as innovation and financial performance.

Peter S. G. Corsa, Chief Operating Officer

Peter S. G. Corsa joined At Home as Chief Stores Officer in March of 2013 and was promoted to his current position in December of 2016. Prior to joining At Home, Mr. Corsa served as Vice President of KSL Resorts from January 2011 to April 2013, which operates luxury resorts throughout the United States. From 2006-2011, he served as the executive Vice President of Retail for Stuart Weitzman and as Senior Director of Store Operations for Cap from 2004-2006. Mr. Corsa received his Master of Business Administration from St. Mary's College of California and has played a critical for the planned opening and operations of the new distribution center.

Summary

After reviewing the past performances, compensation, and roles of the management team, we believe that At Home is well diversified and qualified with the lead of Lewis L. Bird III as CEO. Each member of the executive team has clear roles and responsibilities and together, as a well-structured team, they are equipped to continue their expansionary vision and implement new strategies for the long term.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

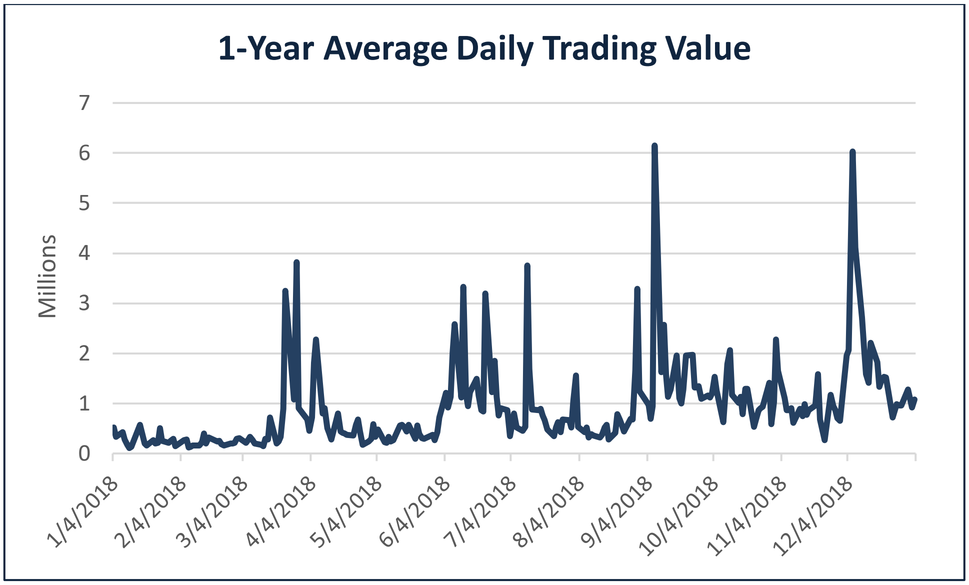
At Home Group's shareholder Base is fairly concentrated, with the largest shareholder ownership belonging to AEA Investors LP with 16.57% of free float. This private equity company was founded in 1968 and has approximately 11 billion in assets. AEA Investors believes in a relationship-driven approach to investing through partnerships with exceptional management teams in the middle market helping them build and grow their company. Below is chart showing the top 10 shareholders.

Shareholders	Shares Owned	% Outstanding Shares	Filing Date
(Name)	(mm shares)	(%)	(Date)
AEA Investments LP	10.54	16.57	9/11/2018
Starr Investment Holdings LLC	6.32	9.94	10/8/2018
Capital Group Cos Inc.	3.88	6.10	9/30/2018
Vanguard Group Inc.	3.64	5.73	9/30/2018
BlackRock Inc.	2.60	4.09	9/30/2018
Victory Capital Management Inc.	2.32	3.65	9/30/2018
FMR LLC	2.22	3.50	9/30/2018
Partners Group Holding AG	2.02	3.17	9/30/2018
Voya Investment Management LLC	1.65	2.59	9/30/2018
Lord Abbett & Co LLC	1.56	2.45	9/30/2018

Source: Bloomberg

Liquidity

As of January 3rd, 2018, At Home Group's 1-year average trading volume was 1.35 million shares. The spikes in daily volume throughout the year can be attributed towards the quarterly earnings reports from the company.



Source: Yahoo Finance

Valuation

Comparable Company Analysis

For our analysis, we chose well-established companies that sell home furnishing products with large store fronts. We also placed an emphasis on American companies that would experience similar macro-economic trends such as increasing real estate costs and imposed tariffs on foreign merchandise. The following companies all qualified for these factors and were used in the comparable company's analysis as a result:

Kirkland's Inc.

Kirkland's is a retail chain based in Tennessee that sells home décor, furniture, textile, and other accessories. The US chain operates 434 stores in 37 states with an e-commerce enabled website.

Williams-Sonoma, Inc.

Williams-Sonoma is a consumer retail company that sells kitchenware and home furnishings. Based out of San Francisco, it is currently one of the largest specialty retailers in the world.

BJ's Wholesale Club Holdings, Inc.

BJ's Wholesale is an American warehouse club chain operating in the East Coast of the United States and the state of Ohio. With 216 locations across the US and a recent IPO date of June 28th, 2018, BJ's is in an expansionary phase, similar to the At Home Group.

RH

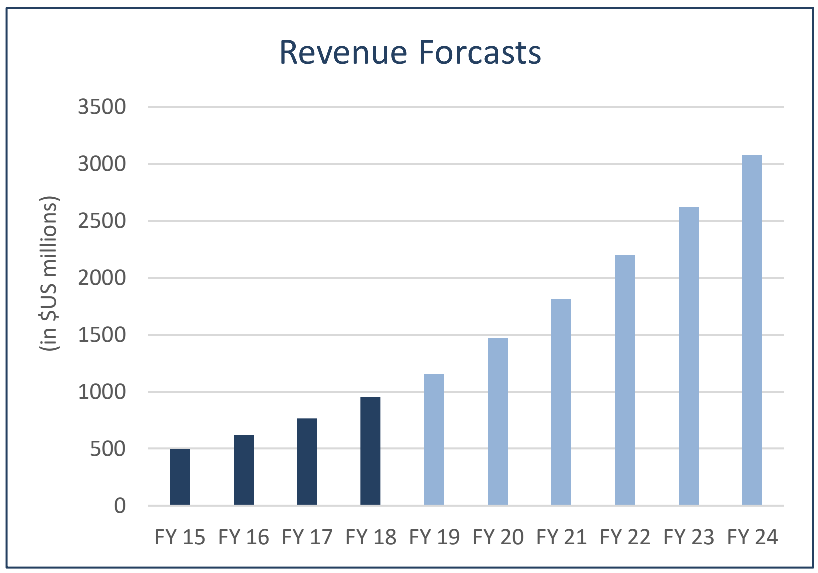
RH is a home-furnishing company selling its merchandise through retail stores, catalog, and online. Based in California, it operated a total of 70 galleries.

The TJX Companies, Inc.

TJX was established in 1956 and is an American department store headquartered in Massachusetts. The department store uses a similar price differentiation approach as At Home Group and several subsidiaries, such as HomeGoods.

Discounted Cash Flows Analysis

Revenue Forecasts



Our revenue forecasts for At Home are based on management's expected new store openings for the next 5 years combined with an estimated average revenue per store, based on when the store opens. The number of new stores opened per year is expected to increase at an increasing rate; however, we believe that revenue per store will also increase at a constant rate of 5% during the next 5 years. We also believe that due to the industry growth rate and the housing start increases, At Home has opportunities to capture more of the market share. While investments in marketing have increased heavily, we predict slight operational issues with the opening of the new distribution center and take managements advice on store closing to account for any misfortune with new markets.

Margin Assumptions

At Home has been experiencing expanding margins from lowered COGS due to increased outsourcing and negotiations while buying merchandise in bulk. As advised by management, the opening of the new distribution center will increase Q4 SG&A costs and progressively shift to a COGS expense as it becomes operational, thus increasing operational efficiency. To account for this expense, we have increased Q4 SG&A by 24.4% from the previous year's Q4. In addition, we have decreased COGS gradually over the next 5 fiscal years.

Weighted Average Cost of Capital (WACC)

We arrived at a weighted average cost of capital of 10.38% from a risk-free rate of 2.6% based on a market risk premium of 8.8% which resulted in a cost of equity of 13.7%. The beta value of 1.27 was taken from Bloomberg and the cost of debt (1.7%) was calculated using a 2.5% pre-tax cost of debt and an effective tax rate of 31.6%.

Recommendation

HOLD

We believe that At Home is currently fairly by the market. Using an equal 50% weighting for both the DCF and the Comparable Company Analysis, we arrived at a target share price of $28.00. We believe the increase in housing starts in the United States paired with At Home's revitalized marketing campaign targeted at new home buyers will sustain their forecasted same-store sales growth. In addition, the industry is predicted to increase in the next few years and At Home will take advantage of the newly targeted customer segment potential with their new store growth as a main driver. At Home management has successfully expanded the company during the past two years and plans on using a similar aggressive growth strategy including the introduction of another distribution center to ensure all new stores are fully stocked and profitable. With an implied upside of 14.3%, we recommend At Home as a **HOLD** for investors with a medium risk tolerance**.**

Risks

Imposed Tariffs, Taxes and Other Trade Restrictions

At Home Group currently imports over 60% of their merchandise from vendors in foreign countries as of fiscal year 2018 and they plan to continue outsourcing products. In addition, many of the company's domestic vendors also import goods from outside the US; thus, newly imposed taxes and tariffs on foreign goods could increase foreign product costs and cause for an increase in overall purchase costs. Since many home furnishing companies rely heavily on bulk purchasing to produce the low-cost products, these potential trade restrictions could have a large impact on the companies reported financial results.

Costs of Expansion

Real estate is critical to the success of At Home as they continue with their expansionary phase and open a number of profitable stores over the coming years. An increase in price of real estate could cause for At Home Group's margins to decrease as they may face difficulties when negotiating acceptable lease terms. This could pose a potential risk to the company's growth plan which is dependent on their ability to open profitable new stores. Additionally, rising construction and development costs associated with current and potential real estate projects may impact the feasibility of such project, thus affecting the company predicted revenues and growth rates.

Consumer Behavior

Home furnishing companies such as At Home are susceptible to the effects of lower than anticipated seasonal sales. Revenues in quarter four tend to be greater as a result of these seasonal sales; however, if consumer demand decreases during this time period, revenues will drop for that quarter and the company will not be able to sustain their projected same-store sales growth plan. To account for this, At Home could increase the time frame in which they sell seasonal and holiday products allowing for these products to get more exposure and for the consumers to have a longer time to purchase these products. This approach will also spread out the seasonal revenue amongst Q3, so that the consumer behavior for one quarter in isolation does not have as much of an impact on the entire fiscal year same store growth. Many retailers are taking a similar approach, allowing customers to plan ahead and therefore purchase these staple items early.

Economic Downturn

While housing starts are predicted to increase over the next 5 years, a potential economic downturn could slow down the home furnishing industry growth, therefore cutting into revenues. During the slow times for the economy, consumer discretionary product sales may fall; however, At Home Group has positioned itself as a price leader, thus preparing them sustain sales over other mid-priced furnishing companies. In addition, At Home carries many small staple items that are low-cost with high margins, allowing them to still offer value to consumers wishing to spend less per basket each visit.

Appendix 1: Model Summary

	Jan-16	Jan-17	Jan-18	Apr-18	Jul-18	Oct-18	Jan-19	Jan-19	Jan-20	Jan-21	Jan-22	Jan-23	Jan-24
(Figures in mm USD)	FY2015	FY2016	FY2017	Q1-2018	Q2-2018	Q3-2018	Q4-2018	FY2018	FY2019	FY2020	FY2021	FY2022	FY2023
Income Statement													
Revenue	622.2	765.6	950.5	256.2	288.5	267.2	370.7	1,182.5	1,472.6	1,813.5	2,197.6	2,618.7	3,073.5
EBITDA	90.9	109.6	138.6	35.7	2.6	33.9	46.3	118.6	208.8	284.7	347.2	432.1	507.1
Net Income	3.6	27.1	31.8	18.4	(10.1)	11.1	16.9	36.3	84.2	137.2	184.4	248.0	305.4
Earnings Per Share	$ 0.07	$ 0.48	$ 0.50	$ 0.28	$ (0.16)	$ 0.17	$ 0.25	$ 0.55	$ 1.26	$ 2.06	$ 2.77	$ 3.72	$ 4.59
Cash Flow Statement													
Capital Expenditures	(102.5)	(124.3)	(232.7)	(78.6)	(81.8)	(109.7)	(46.0)	(316.1)	(180.7)	(176.0)	(162.2)	(145.9)	(126.4)
Acquisitions	-	-	-	-	-	-	-	-	-	-	-	-	-
Divestitures	45.6	62.1	62.4	49.6	43.0	55.8	16.0	164.5	158.0	158.0	158.0	158.0	158.0
Dividend Payment	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Per Share	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -
Dividend Payout to Earnings	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Payout to Core FCF	-	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Yield	-	-	-	-	-	-	-	-	-	-	-	-	-
Balance Sheet													
Current Assets	191.4	258.9	300.0	315.1	366.3	394.7	420.9	420.9	583.7	797.5	1,099.6	1,480.2	1,937.5
Non-Current Assets	863.4	954.5	1,073.3	1,144.3	1,195.7	1,240.6	1,254.4	1,254.4	1,213.7	1,167.9	1,113.4	1,048.4	971.0
Assets	1,054.8	1,213.4	1,373.3	1,459.4	1,562.0	1,635.2	1,675.4	1,675.4	1,797.4	1,965.4	2,213.0	2,528.6	2,908.5
Current Liabilities	170.5	252.5	342.7	368.1	413.4	462.4	485.6	485.6	523.4	554.3	617.4	685.1	759.6
Non-Current Liabilities	515.1	426.0	439.7	470.7	484.6	493.0	493.0	493.0	493.0	493.0	493.0	493.0	493.0
Liabilities	685.7	678.5	782.4	838.8	898.0	955.5	978.7	978.7	1,016.4	1,047.3	1,110.5	1,178.1	1,252.6
Shareholders' Equity	369.2	534.9	590.9	620.6	664.0	679.8	696.7	696.7	780.9	918.1	1,102.5	1,350.5	1,655.9
Cash	5.4	7.1	8.5	13.5	10.4	12.9	(42.3)	(42.3)	50.3	235.8	423.6	679.0	1,001.0
Debt													
Net Debt	(5.4)	(7.1)	(8.5)	(13.5)	(10.4)	(12.9)	42.3	42.3	(50.3)	(235.8)	(423.6)	(679.0)	(1,001.0)
Minority Interests	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	n/a	n/a	n/a					0.4 x	n/a	n/a	n/a	n/a	n/a
Operating Metrics													
Return on Equity (ROE)	1.0%	5.1%	5.4%					5.2%	10.8%	14.9%	16.7%	18.4%	18.4%
Return on Assets (ROA)	0.3%	2.2%	2.3%					2.2%	4.7%	7.0%	8.3%	9.8%	10.5%
Return on Invested Capital (ROIC)	-2.4%	4.8%	4.3%					5.0%	8.3%	13.2%	17.2%	22.8%	28.1%
Valuation Metrics													
Stock Price (High)		$ 10.19	$ 34.02	$ 35.97	$ 40.76	$ 37.27	$ 24.50	$ 40.76	$ 24.50	$ 24.50	$ 24.50	$ 24.50	$ 24.50
Stock Price (Low)		$ 17.02	$ 13.97	$ 26.46	$ 34.61	$ 25.30	$ 24.50	$ 24.50	$ 24.50	$ 24.50	$ 24.50	$ 24.50	$ 24.50
Stock Price (Average)		$ 13.61	$ 24.00	$ 31.22	$ 37.69	$ 31.29	$ 24.50	$ 32.63	$ 24.50	$ 24.50	$ 24.50	$ 24.50	$ 24.50
Diluted Shares Outstanding (Average)		56.9	63.7	65.9	62.9	66.6	66.6	65.5	66.6	66.6	66.6	66.6	66.6
Market Capitalization (Average)		774.0	1,528.8	2,056.7	2,370.0	2,083.7	1,631.8	2,137.2	1,631.8	1,631.8	1,631.8	1,631.8	1,631.8
Enterprise Value (Average)		766.9	1,520.2	2,043.2	2,359.7	2,070.8	1,674.1	2,179.5	1,581.5	1,396.0	1,208.2	952.8	630.8
P/E		28.6 x	48.1 x					58.9 x	19.4 x	11.9 x	8.8 x	6.6 x	5.3 x
EV/EBITDA		7.0 x	11.0 x					18.4 x	7.6 x	4.9 x	3.5 x	2.2 x	1.2 x
FCF Yield to Market Capitalization		-7.5%	-11.6%					-7.5%	-3.0%	-1.7%	5.3%	10.5%	15.3%
FCF Yield to Enterprise Value		-7.6%	-11.6%					-7.3%	-3.1%	-2.0%	7.1%	18.0%	39.7%
Free Cash Flow													
EBIT	62.2	72.7	89.8	24.2	(11.8)	19.1	30.2	61.7	145.4	221.0	288.4	379.2	461.3
Tax Expense	14.2	(15.7)	(33.8)	(0.1)	8.4	(1.0)	(9.5)	(19.5)	(45.9)	(69.7)	(91.0)	(119.7)	(145.6)
D&A	2.5	4.2	6.1	1.6	1.6	1.6	-	-	-	-	-	-	-
Capital Expenditures	(102.5)	(124.3)	(232.7)	(78.6)	(81.8)	(109.7)	(46.0)	(316.1)	(180.7)	(176.0)	(162.2)	(145.9)	(126.4)
Changes in NWC	43.5	4.7	(6.2)	18.1	20.3	17.1	58.3	113.8	32.3	(2.6)	51.2	57.5	60.8
Unlevered Free Cash Flow	19.8	(58.3)	(176.8)	(34.8)	(63.3)	(72.9)	32.9	(160.1)	(48.9)	(27.3)	86.4	171.2	250.2

Noah Sayani | contact@westpeakresearch.com

Appendix 2: Discounted Cash Flow

(Figures in mm USD)	Jan-16 FY2015	Jan-17 FY2016	Jan-18 FY2017	Apr-18 Q1-2018	Jul-18 Q2-2018	Oct-18 Q3-2018	Jan-19 Q4-2018	Jan-19 FY2018	Jan-20 FY2019	Jan-21 FY2020	Jan-22 FY2021	Jan-23 FY2022	Jan-24 FY2023
Free Cash Flow													
EBIT	62.2	72.7	89.8	24.2	(11.8)	19.1	30.2	61.7	145.4	221.0	288.4	379.2	461.3
Less: Tax expense	14.2	(15.7)	(33.8)	(0.1)	8.4	(1.0)	(9.5)	(19.5)	(45.9)	(69.7)	(91.0)	(119.7)	(145.6)
Add: Depreciation and amortization	2.5	4.2	6.1	1.6	1.6	1.6	-	-	-	-	-	-	-
Less: Capital expenditures	(102.5)	(124.3)	(232.7)	(78.6)	(81.8)	(109.7)	(46.0)	(316.1)	(180.7)	(176.0)	(162.2)	(145.9)	(126.4)
Less: Change in net working capital	43.5	4.7	(6.2)	18.1	20.3	17.1	58.3	113.8	32.3	(2.6)	51.2	57.5	60.8
Unlevered Free Cash Flow	**19.8**	**(58.3)**	**(176.8)**	**(34.8)**	**(63.3)**	**(72.9)**	**32.9**	**(160.1)**	**(48.9)**	**(27.3)**	**86.4**	**171.2**	**250.2**
Discount factor				-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow				**-**	**-**	**-**	**32.1**	**32.1**	**(47.5)**	**(21.7)**	**61.9**	**110.7**	**146.0**

WACC Calculations

Cost of Equity	
Risk-free rate	2.6%
Expected market return	11.3%
Market Risk Premium	**8.8%**
Beta	1.27
Cost of Equity	**13.7%**

Cost of Debt	
Pre-tax cost of debt	2.5%
Effective tax rate	31.6%
Cost of Debt	**1.7%**

WACC	
Market value of equity	1,555.7
Market value of debt	488.0
Total Capitalization	**2,043.7**
Cost of equity	13.7%
Cost of debt	1.7%
WACC	**10.8%**

Discounted Cash Flow Valuations

Perpetuity Growth Method		Exit Multiple Method	
Perpetuity Growth Rate	**2.0%**	**Terminal EV/EBITDA Multiple**	**10.3 x**
PV sum of unlevered FCF	281.5	PV sum of unlevered FCF	281.5
Terminal value	1,691.2	Terminal value	2,772.8
Enterprise Value	**1,972.7**	**Enterprise Value**	**3,054.2**
Add: Cash	15.4	Add: Cash	15.4
Less: Debt	466.5	Less: Debt	466.5
Less: Other EV adjustments	-	Less: Other EV adjustments	-
Equity Value	**1,521.6**	**Equity Value**	**2,603.1**
Shares outstanding	63.5	Shares outstanding	63.5
Implied Share Price	**$ 23.96**	**Implied Share Price**	**$ 41.00**

Current Price	$ 24.50	Current Price	$ 24.50
Implied Price	**$ 23.96**	**Implied Price**	**$ 41.00**
Total Return	**-2.2%**	**Total Return**	**67.3%**

Perpetuity Growth Rate \ WACC	11.75%	11.25%	10.75%	10.25%	9.75%
1.00%	$ 17.82	$ 19.44	$ 21.23	$ 23.23	$ 25.46
1.50%	$ 18.93	$ 20.69	$ 22.65	$ 24.84	$ 27.30
2.00%	$ 20.16	$ 22.08	$ 24.22	$ 26.64	$ 29.38
2.50%	$ 21.53	$ 23.63	$ 25.99	$ 28.68	$ 31.74
3.00%	$ 23.04	$ 25.36	$ 27.99	$ 30.99	$ 34.45

Terminal EV/EBITDA Multiple \ WACC	11.75%	11.25%	10.75%	10.25%	9.75%
8.3 x	$ 30.81	$ 31.70	$ 32.62	$ 33.57	$ 34.55
9.3 x	$ 34.86	$ 35.85	$ 36.88	$ 37.93	$ 39.01
10.3 x	$ 38.92	$ 40.01	$ 41.13	$ 42.28	$ 43.46
11.3 x	$ 42.97	$ 44.16	$ 45.38	$ 46.63	$ 47.92
12.3 x	$ 47.03	$ 48.31	$ 49.63	$ 50.99	$ 52.38

Appendix 3: Comparable Company Analysis

(Figures in mm USD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple: 2017A EV/EBITDA	2018E EV/EBITDA	2019E EV/EBITDA	P/E Multiple: 2017A P/E	2018E P/E	2019E P/E
Kirkland's Inc.	(NasdaqGS:KIRK)	146.3	122.5	2.9 x	4.6 x	3.3 x	14.4 x	29.8 x	20.0 x
Williams-Sonoma, Inc.	(NYSE:WSM)	3,997.2	4,192.4	6.4 x	6.4 x	6.3 x	14.5 x	13.8 x	11.5 x
BJ's Wholesale Club Holdings, Inc.	(NYSE:BJ)	3,548.6	5,455.9	13.8 x	13.9 x	10.2 x	52.9 x	46.3 x	20.9 x
RH	(NYSE:RH)	2,434.2	3,633.4	22.8 x	15.0 x	9.6 x	91.1 x	37.6 x	13.7 x
The TJX Companies, Inc.	(NYSE:TJX)	54,490.7	54,011.8	12.0 x	11.5 x	10.8 x	25.0 x	22.3 x	18.2 x
At Home Group Inc.	**(XCH: TCK)**	**1,555.7**	**2,006.8**	**14.5 x**	**12.5 x**	**10.4 x**	**41.5 x**	**26.1 x**	**18.8 x**
Median					**11.5 x**	**9.6 x**		**29.8 x**	**18.2 x**
Mean					**10.3 x**	**8.0 x**		**30.0 x**	**16.9 x**
High					**15.0 x**	**10.8 x**		**46.3 x**	**20.9 x**
Low					**4.6 x**	**3.3 x**		**13.8 x**	**11.5 x**

	EV/EBITDA Implied Price		P/E Implied Price	
Median	$ 21.91	$ 22.23	$ 27.97	$ 23.64
Mean	**$ 18.95**	**$ 17.39**	**$ 28.17**	**$ 21.92**
High	$ 31.01	$ 25.84	$ 43.54	$ 27.20
Low	$ 4.60	$ 2.84	$ 12.98	$ 14.96

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Noah Sayani
Analyst

WestPeak Research Association
contact@westpeakresearch.com