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BUSINESS | EARNINGS

Restoration Hardware Warns Shipping Problems Will Hurt Profit

New Line of RH Modern furniture meets with delays

By **KHADEEJA SAFDAR**

Updated March 30, 2016 8:47 a.m. ET

Restoration Hardware Holdings Inc. lowered its earnings forecast for the current quarter, citing shipping problems and extra costs tied to troubles with a new line of modern furniture.

The high-end retailer, which launched RH Modern last fall to target millennials and city dwellers, has struggled to stock and ship the merchandise. Last month, executives warned the shipping delays would hurt results for the quarter ended Jan. 30.

On Tuesday, the company said the problems would persist into the current quarter. “We are, however, experiencing higher cancel rates and one-time costs due to shipping delays, which will put pressure on both revenue and earnings in the first half,” CEO Gary Friedman said Tuesday. “While expensive in the short term, we believe it is the right thing to do for our customers.”

The company expects investments related to “customer accommodations due to RH Modern production delays” to reduce first-quarter adjusted earnings by 12 cents to 15 cents a share. Accordingly, the retailer forecast adjusted per-share earnings of 4 cents to 6 cents in the first quarter, compared with Wall Street’s expectation of 17 cents.

For the fourth quarter, Restoration Hardware’s profit fell 22% to \$33.3 million from \$42.5 million a year earlier. Revenue rose to \$647.2 million from \$582.7 million. Comparable brand revenue rose 9% from a year ago, compared with a 24% increase in the same period last year.



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On a conference call, Mr. Friedman said around 70% of RH Modern items are in stock now, and the company is normally operating at closer to 90% in stock. He said he expects to be operating at normal inventory levels by the end of the second quarter.

“There’s a finite number of customers at the high end of the market and they are very important to our business and to our model and it’s unfortunate that we’ve disappointed so many of them, but we’re making the investments to try to maintain and enhance that relationship,” Mr. Friedman said.

He said the peak problems with RH Modern were in January and February but “we’re not out of the woods yet. We still have order delays. We still have a lot of goods that we have to deliver.”

Shares of Restoration Hardware, which had fallen about 50% on the year, slipped 4% in late trading to \$37.45. The stock had closed up 42 cents at \$39.01 in regular trading.

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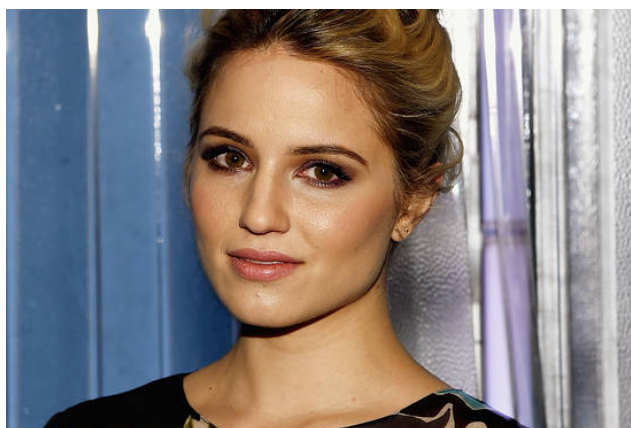
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