promontory
investment research

Coeur Mining, Inc.
GE Vernova
Paymentus Holdings, Inc.
RH

Winter 2026 Equity Report

Foreword

Promontory Investment Research is proud to present its twenty-third equity research report. This winter, our Research Analysts produced high-quality work in six industry coverage pods, and we've selected four reports to share with you: Coeur Mining Inc., a silver and gold miner; GE Vernova, a leading energy equipment manufacturing and services company; Paymentus Holdings, Inc., a leading provider of cloud-based electronic bill presentment and payment solutions; and RH, an upscale American home-furnishings company.

As with all of Promontory's previous equity research publications, we take immense pride in the thoroughness and dedication demonstrated by our Research Analysts this quarter. This report represents the culmination of their hard work, and we hope you find it as insightful and enjoyable to read as they found it rewarding to create.

Since Promontory's fall recruiting cycle, our newest members have quickly put their training into practice, stepping into their roles as Research Analysts and applying their newly acquired skills. Throughout this process, the Research Committee has played a key role in guiding their development, providing support and mentorship to ensure a strong foundation in financial analysis. This collaborative effort has strengthened our research process, resulting in the rigorous, original equity analyses presented in this report.

Alongside our research, we are committed to fostering a strong and engaged community. This winter's Basic Financial Training Program, led by the Teaching Committee, has produced a new class of Research Analysts who are both engaged and eager to learn. To support this, we continue to host speaker series, fireside chats, and exclusive Promontory recruiting events, ensuring that Promontory remains not only a place for original investment research but also a thriving network of individuals distinguished through traits of discipline, curiosity, motivation, judgment, and candor. This quarter also included some of our mainstay social events such as the Chinatown dinner and the Promontory Point Bonfire. Thank you for your continued support—we look forward to sharing even more with you in the future.

Promontory Investment Research Board

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Coeur Mining, Inc.

Natural Resources
Winter 2026

Investment Overview

We recommend an investment in Coeur Mining, Inc (NYSE: CDE). based on a structurally improved cost profile, expanding free cash flow, and underappreciated asset optionality following its all-stock acquisition of New Gold. The transaction repositions Coeur meaningfully down the global precious-metals cost curve, driven by the addition of New Afton's low-cost, copper-byproduct-credited production and improved portfolio mix, with consolidated AISC expected to decline by double digits. Pro forma, the combined company is projected to generate ~$3.0bn of EBITDA and ~$2.0bn of free cash flow in 2026, providing balance-sheet flexibility to fund exploration, extend mine lives, and selectively advance high-return projects such as Silvertip. Our valuation implies approximately 15% upside to the current share price, with downside protection from lower-quartile cost positioning and upside from copper exposure, Canadian silver growth, and disciplined capital allocation that the market has not fully priced in.

NYSE: CDE

Rating:	Buy
Price: (at close, 02/13/26)	$22.42
Recommendation	$25.68

52 week range	$	4.58 - 27.77
Shares outstanding	mn	637
Shares O/S Pro Froma	mn	1184.3
Market capitalization	$mn	14460
Consensus	$	22.0
Sector		Mining & Metals
Revenue		$1979 million

Price performance

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Company Overview

History

Coeur Mining, Inc. was founded in 1928 as Coeur d'Alene Mines Corporation in Idaho. In 2013, the company reincorporated in Delaware and changed its name to Coeur Mining, Inc. The company has a 98-year operating history in precious metals mining and is headquartered in Chicago, Illinois, with the CEO being Mitchell J. Krebs. Coeur operates as a producer of gold and silver with assets located across North America. Its long operating history reflects sustained involvement in precious metals mining and continuous development of mining projects in the United States, Mexico, and Canada.

Business Model

Coeur's business model focuses on producing gold and silver while generating cash flow from a diversified asset base. The company operates in mining-friendly jurisdictions and seeks to balance production across multiple sites to reduce operational and jurisdictional risk.

The company is vertically integrated across mining, processing, and refining stages.
The company is vertically integrated across mining, processing, and refining stages. Ore is extracted, processed on site, and refined into doré bars or concentrates before sale. This structure allows Coeur to manage production internally from extraction through initial refining.

Gold represents 65% and silver 35% of Q3 2025 quarterly revenue. Production volumes show substantial scale: Q3 2025 quarterly production of 111,364 gold ounces and 4.8 million silver ounces.

Operating Segments

Coeur operates five producing mines and one exploration project.
1. Las Chispas is an underground silver-gold mine in Sonora, Mexico, acquired in February 2025.
2. Palmarejo is a gold-silver complex in Chihuahua, Mexico, operating since 2009.
3. Rochester is an open pit heap leach silver-gold mine in Nevada that began operations in 1986 and completed a major expansion in 2024.
4. Kensington is an underground gold mine in Alaska that began operations in 2010.

5. Wharf is an open pit heap leach gold mine in South Dakota acquired in 2015.
6. Although mining operations were suspended in 2020 due to market conditions, Silvertip is now classified as an exploration asset while Coeur progresses technical and stakeholder discussions and permitting activities toward a potential restart.

End Markets & Products

Coeur's primary products are gold and silver doré bars, along with gold concentrate produced at Kensington. These products are sold to a broad range of customers such as multinational banks, bullion trading firms, refiners, and third-party smelters around the world.

One keynote is that Coeur avoids dependence on any single buyer. As of the end of 2024, the company had seven trading counterparts, with no customer accounting for a dominant share of sales. This diversification lowers counterparty risk and strengthens Coeur's negotiating position in metals markets.

Recent Developments

In February 2025, Coeur completed its estimated $1.58 billion acquisition of SilverCrest, adding the high-grade Las Chispas mine to its portfolio. Later that year, the company announced a $7 billion acquisition of New Gold, which will create a larger, all-North-American precious metals producer with significantly greater scale. The New Gold acquisition represents a major strategic repositioning for Coeur. By adding two large, low-cost Canadian operations, the combined company is expected to materially lower its overall cost structure and increase margins. Management projects combined 2026 EBITDA of approximately $3.0 billion, suggesting both scale and improved efficiency.

Coeur has had multiple attempts at positioning itself on the lower parts of the cost curve. In 2024, the Rochester expansion resulted in output increasing by roughly 50% and unit costs decreasing by more than 10%. Financial results reflect this improvement, with record Q3 2025 adjusted EBITDA of $299 million and free cash flow of $189 million. The acquisition of New Gold now furthered this strategic reposition. New Gold's expected 2026 Costs Applicable to Sales (CAS) of $834 per ounce compared favorably to Coeur's standalone $1,303 per ounce. The blended company's projected $1,077 per ounce represents a 17% reduction, moving Coeur closer to the lower end of the global cost curve.

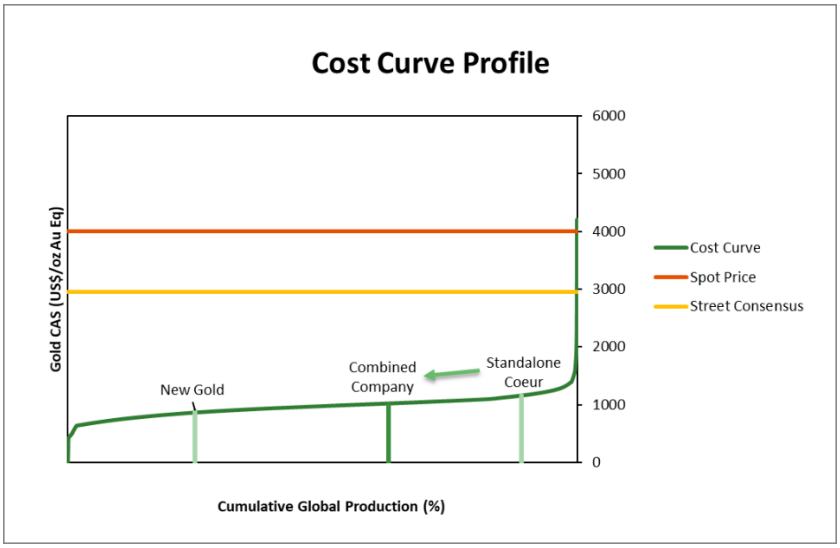
Cost Curve & Competitive Moat

Coeur's cost profile has improved meaningfully over the past year as inflationary pressures eased. Diesel, power, and labor costs all declined in 2025, supporting lower unit operating costs. In Q3 2025, adjusted cash costs fell to $1,215 per ounce of gold and $14.95 per ounce of silver, reflecting improved efficiency across operations.

While Coeur's consolidated costs have declined, there remains meaningful variation across individual mines. Las Chispas and Palmarejo operate at relatively low costs, below $950 per gold ounce, while Kensington and Rochester remain higher-cost assets, exceeding $1,500 per ounce in Q3 2025. Wharf occupies a middle position with costs near $1,080 per ounce.

This means both risk and opportunity within the portfolio. Higher-cost mines are more sensitive to commodity price swings but also provide upside if operational improvements continue. Management has indicated that its strategy focuses on shifting the overall portfolio toward lower-cost, higher-margin assets over time.

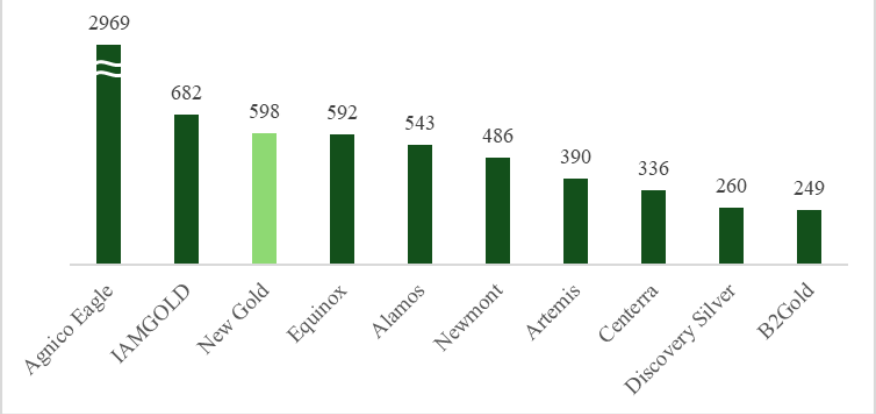
The company benefits from strong operational leverage. The Rochester expansion allows Coeur to spread fixed costs over higher production volumes, lowering per-unit costs. Combined with a low net leverage ratio of 0.1x and a cash balance of $266 million, Coeur enters its next growth phase with financial flexibility and balance sheet strength.



Industry Overview

Peer Analysis & Positioning

Following the New Gold acquisition, Coeur ranks among the top 10 largest precious metals companies globally and among the top five silver producers. The company's primary peers in the silver and precious metals sector include Pan American Silver, Hecla Mining, First Majestic, IAMGOLD, and Equinox Gold. Within the Canadian gold peer group, comparable companies include Agnico Eagle, IAMGOLD, Equinox, Alamos, and Newmont. Coeur reports a sector-leading free cash flow yield and daily trading liquidity exceeding $380 million, supporting the overall theme of positioning among larger and more liquid precious metals producers.



(2026E Canadian Gold Equivalent Production in Koz Au Eq)

Precious metals producers generate revenue primarily from gold and silver, with prices influenced by interest rates, inflation expectations, currency movements, and geopolitical conditions. Revenue and margins therefore fluctuate with changes in commodity prices.

Various Precious Metal Price Trends and Volatility

• Precious metals pricing exhibits extreme volatility driven by macroeconomic factors. Gold prices during 2024 ranged from a high of $2,778 on October 30, 2024, to a low of $1,985 on February 14, 2024, while silver fluctuated between a high of $34.51 on October 23, 2024, and a low of $22.09 on February 14, 2024.

• Copper prices are expected to remain broadly stable but subject to typical industrial metals volatility. Consensus estimates as of October 2025 project prices of $4.37/lb in 2025, rising to $4.50/lb in 2026 and remaining at that level through 2030, before moderating to a long-term assumption of $4.45/lb. New Gold's New Afton mine provides the primary copper exposure for the combined company, producing 39.1 million pounds year-to-date in 2025, with pro forma output expected to reach approximately 92 million pounds annually by 2026E, or roughly 8% of consolidated revenue.

• Recent price trajectories show substantial appreciation, with average realized gold prices increasing 41% year-over-year in Q1 2025 and silver prices up 36% compared to the prior year. Q3 2025 average realized prices reached $3,148 per gold ounce and $38.93 per silver ounce, representing 36% and 30% increases year-over-year respectively.

• Gold and silver prices are affected by U.S. dollar strength, speculation, global currency values, political and economic conditions, ETF flows, prevailing interest rates, inflation expectations, and central bank holdings. Price volatility can be extreme, as demonstrated when silver increased 5% between May 23-29, 2024, then decreased 6% on June 7, 2024, due to coordinated market manipulation rather than fundamental supply-demand changes.

Capital Requirements

• The industry demonstrates significant capital requirements across multiple investment categories. Coeur's 2025 guidance calls for $187-225 million in total capital expenditures, with sustaining capital of $142-156 million and development capital of $55-69 million. Exploration investment alone is budgeted at $77-93 million, comprising $67-77 million expensed and $10-16 million capitalized.

• Over the past five years, the company invested $285 million in exploration, resulting in 26% increase in gold reserves and 30% increase in silver reserves. This demonstrates the continuous capital commitment required to maintain and expand mineral inventory.

• Rochester's expansion exemplifies industry capital intensity, with the POA 11 expansion requiring significant investment in a three-stage crushing

facility, new leach pad, and Merrill-Crowe processing facility to extend mine life. Kensington's multi-year underground development program and tailings dam expansions represent additional examples of substantial capital requirements.

Geographic Footprint

Coeur's operations are fully concentrated in North America, with assets located in the United States, Mexico, and Canada. U.S. operations include Rochester in Nevada, Kensington in Alaska, and Wharf in South Dakota, which together generated approximately 55% of Q3 2025 revenue.

Mexican operations include Las Chispas in Sonora and Palmarejo in Chihuahua, which contribute a significant portion of silver production. In Canada, Coeur maintains the Silvertip exploration project in British Columbia and is expected to add additional assets through the pending New Gold acquisition.

Industry Headwinds & Challenges

Mining operations face extensive federal, state, local and foreign laws governing environmental protection, prospecting, development, production, mine closure, taxes, labor standards, and occupational health. Expenditures for environmental compliance in 2025 are expected to range from $12.3-13.3 million.

Mexico presents some challenges, with ejidos controlling surface access rights despite federal mining concessions. The company faces ongoing VAT disputes with Mexican authorities totaling $27.9 million in unrecovered payments. Late 2024 tax increases in Mexico raised EBITDA and revenue-based fees on gold and silver operations. Nevada also implemented new excise taxes on gross proceeds from gold and silver mining following COVID-19 revenue losses, while Pillar Two global minimum tax rules now apply to Coeur given expanded operations.

Coeur is subject to risks with international trading policies. It notes that exposure to "risks from the imposition of tariffs by the United States or by countries where the combined company operates or sources materials could result in higher operating and capital costs, supply chain disruptions, and potential production delays."

Investment Theses

Thesis 1: Coeur's all-stock acquisition of New Gold is a margin and cost-curve driven strategic consolidation positioning the combined company for higher through-cycle returns.

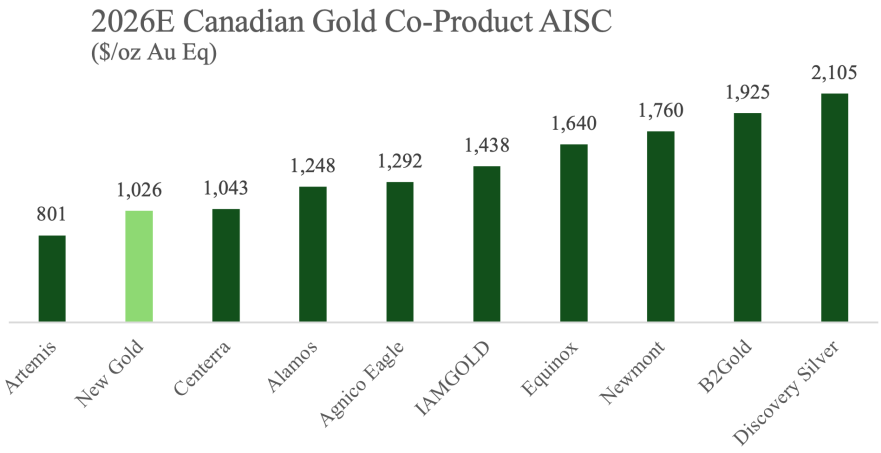
Acquisition Summary

On November 3rd, 2025, Coeur announced an all-stock acquisition of New Gold at a ~16% premium with an equity value of ~$7bn. Of the combined company, Coeur would own 62% and New Gold 38%. The acquisition of New Gold creates approximately a combined market capitalization of $20bn with seven high-quality North American operations. The combined entity is projected to generate $3bn of expected EBITDA in 2026 and $2bn in FCF, expanding its cash reserves and allowing Coeur to reinvest into exploration and current development projects. Industry M&A trends highlight increased deal closings. From 2024 to mid-2025, mining M&A surpassed the post-super-cycle peak of 2011-2012 and is on track to set a two-decade record. Some themes fueling this cycle are less market or price optimism and more geopolitical uncertainty, trade disputes, rising costs, supply gaps, strategic urgency, and a shift towards clean energy. Additionally, company acquisition allows a bypass of often lengthy regulatory and developmental processes, which accelerates production timelines. Coeur continues to concentrate production in lower jurisdictional risk areas, specifically Canada and the United States, which bolsters long-term stability and growth. The acquisition of New Gold would add two new mines to Coeur's portfolio: New Gold's New Afton and Rainy River mines. Both New Afton and Rainy River are currently in production and have exploration projects that aim to extend its mine life. New Afton, located in British Columbia, currently produces copper, gold, and silver. The mine was acquired in 1999 and began production in 2012. The block cave mine is accompanied by a grind-flotation mill operation and recently had its mine life extended from 2030 to 2031. New Gold's second mine, Rainy River, produces gold and silver. The mine was first acquired by New Gold through the acquisition of the original owner, Rainy River Resources Limited, in 2013. In 2015, New Gold also acquired Bayfield Venture Limited, which held a 100% interest in six patented and six unpatented claims adjacent to Rainy River Mine, which is now incorporated into the mine. Rainy River began production in 2018 and is currently an open-pit mine. However, Rainy River's exploration program is targeting a large underground mine on the property. The underground exploration is currently designated as "Indicated Mineral Resource". Additionally, exploration efforts are continued by open-pit extensions along with the underground ore zone expansion. Rainy River's reserves currently support a mine life out to 2033, but ongoing exploration aims to keep the plant at full capacity beyond then.

Thesis 1a: The transaction structurally compresses Coeur's consolidated AISC.

The acquisition of New Gold will shift Coeur to the lower-end of the cost curve, expanding margins and freeing up cash that can be reinvested into the business. New Gold's New Afton has an industry-low all-in sustaining costs (AISC), which is a non-GAAP measure that quantifies the amount

needed to produce one ounce of gold, due to copper by-product credits. By-product minerals are treated as incidental, and revenue from by-product minerals are credited against total costs. This designation significantly decreases reported costs for New Gold's New Afton mine, with the company even reporting negative costs in peak quarters due to a larger volume of derived copper. Along with silver, New Gold's production of both copper and silver significantly discounts gold production costs and continues to increase. In FY24, New Gold's consolidated AISC was $1,239/oz. The company falls roughly within the bottom 15-20% of global gold producers, well below marginal production.



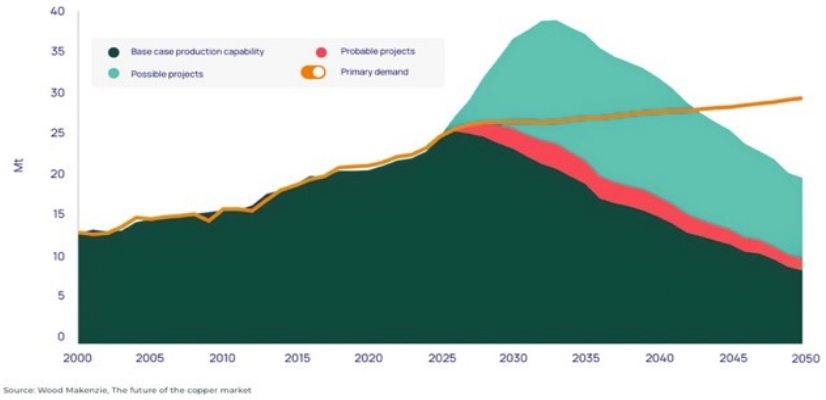
In Q3 FY25, New Gold's consolidated AISC dropped to $966/oz, a 19% decrease from the prior year. New Gold's co-product AISC is estimated to compress even further going into 2026, with copper/silver production increasing and reducing overall gold costs. Lowered AISC costs will expand margins, increase cash flow, and protect Coeur from cyclical price volatility. Consolidated AISC improves margin resilience across commodity cycles. At the bottom of a cycle, Coeur will be better positioned to sustain profit, especially given the volatile nature of the gold and silver market. Not only does operating lower on the cost curve protect margins during downturns, but it also generates higher upside during bull markets.

Coeur doesn't release AISC for each mine; however, they do disclose their cost-associated to sales (CAS), which, on average, per mine was around $1,400/gold ounce. CAS is generally smaller than AISC, and consensus believes Coeur falls below the marginal production cost (around $1,855/gold oz). We can assume Coeur has historically fallen among the higher end of the spectrum at around $1,600-1,650/gold oz. We estimate through a blended-revenue calculation that the combined consolidated AISC post-acquisition will fall around $1,350-1,450/oz. Management guides towards double-digit decreases in costs post-acquisition, which falls in line with our projection. We believe the market is not pricing in the costs pro forma. Sell-side reports continue to report on the physical expansion and increased FCF of the acquisition; however, fail to dig deeper and calculate cost curves, which ultimately determine the profitability and success of companies in the mining industry. Mineral prices are dictated by the marginal producer. These mines incur the highest costs and fall around the 90th percentile of the cost curve. Thus, the farther a company falls beneath the marginal producer, the larger the margin of profit. Assuming a double-digit decrease in costs, Coeur would benefit from ~30% margin expansion. Increased cash will not only expand margins but also subsequently increase cash available to reinvest in exploration and development projects. Using BOE EBITDA calculations assuming a $2,000/oz gold cost and Coeur's current estimated AISC around $1,650/oz, post-acquisition margin expansion is projected to be around ~30%. In a capital-intensive industry, such as mining, internally generated capital is a durable competitive advantage. Both Coeur and New Gold have boasted positive FCF over the past couple of years, but such is not the case for most producers. Profit volatility is common in an industry dictated by such volatile prices. Often, mid-tier producers, similar to Coeur and New Gold rely on external financing to fund growth, but by combining two mid-tier cash-generative producers, the transaction increases flexibility and enhances Coeur's ability to generate compounding growth. Both companies continue to develop their current mines, as well as invest in exploratory projects. By increasing free cash, Coeur can continue to expand investment in future projects, like zone expansions, which lengthen mine life and the overall profile of Coeur's mines.

Thesis 1b: The addition of copper diversifies Coeur's revenue base and is supported by robust demand outpacing supply.

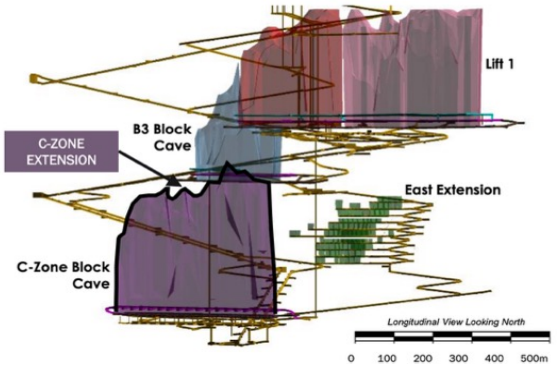
Along with gold, Coeur's acquisition of New Gold will cut the company a slice of the rapidly expanding copper market. Through M&A, Coeur is able to expand its production capacity while bypassing regulation and exploration requirements. Demand for copper amidst rapidly expanding sectors, specifically tech and defense, has gone up drastically. Demand will grow to 42 million metric tons by 2040, a 50% increase from current levels. Copper is utilized in many different tech applications. Amidst the renewables transition, electric vehicles use 3-4x more copper than internal combustion vehicles. Copper is crucial to the transmission and distribution of grid energy, as well as in defense-related technology and weapons systems. However, supply is not projected to sustain with the uptake. Copper production is expected to peak in 2030, while demand growth expands far beyond. There is no shortage of copper demand, especially given that demand is far outpacing future supply, thus protecting demand for copper.

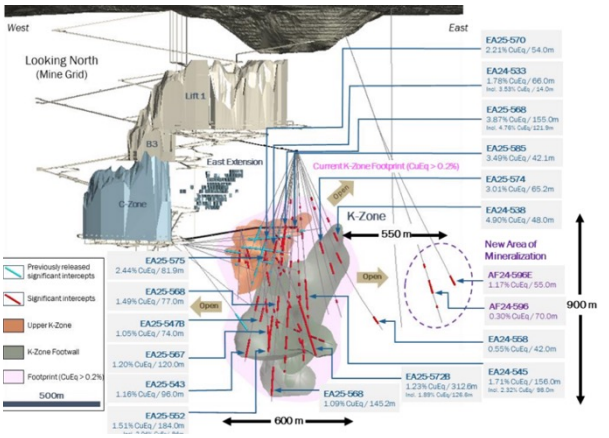
Global copper production and primary demand



Source: Wood Makenzie, The future of the copper market

In FY24, gold production contributed to 65% of Coeur's revenue, with the remaining 35% derived from silver. Post-acquisition, copper will contribute ~6% of revenue given FY24 revenue. Gold will grow in distribution percentage to ~72%, and silver will trade off with copper, with gold growth shrinking to ~21% of revenue. Copper production is projected to continue its growth through the expansion of the C-Zone block cave in the New Afton Mine. C-Zone remains on track to ramp up to full processing capacity of approximately 16,000 tons per day beginning in mid-2026. Additionally, the development of the East Extension project has reported average copper and gold grades that are more than double the average grade of other zones. Using the mine's life-of-mine grade schedule and anchoring to 2025's operating levels, we project copper sales volume in New Afton increasing from roughly ~62M lbs in 2026 to approximately ~64–69M lbs during the high-grade phase in 2027–2028, before moderating in later years as grade sequencing normalizes. This increase is affected primarily by the expansion of C-Zone as well as higher ore grades, resulting in a small but consistent mid-single-digit revenue contribution from copper post-acquisition. Additionally, the New Afton project is looking to expand its K-Zone, which similarly derives copper-gold porphyry and is currently being tested for its internal grade distribution and footprint. With increased FCF and capital allocation opportunities, Coeur can focus on deriving higher-grade core and ultimately expand New Afton's mine life. K-Zone exploration and development began in the second quarter of 2025, and by September, New Gold had announced the system had more than doubled in size. A preliminary K-Zone mineral resource estimate is expected to be announced in early 2026, which should hopefully serve as a potential catalyst for growth if good results are found. Management indicates that successful K-Zone expansion could potentially extend the mine life beyond 2040, adding almost 10 years to New Afton's mine life and expanding Coeur's mine portfolio. We believe the market is undervaluing the potential growth of copper production and overall copper demand pro forma. Sell-side reports continue to focus on increasing silver prices, rather than organic growth that Coeur will experience, amplified by the acquisition of New Gold.





Thesis 2: Coeur's Canadian silver segment is underappreciated and well positioned for sustained, low-cost growth, supported by favorable macro tailwinds and a strong combination of key projects

Coeur's recent acquisition of New Gold is not only an important strategic decision to increase the operation size of the company, but it also marks a crucial pivot into expanding Coeur's portfolio of Canadian mines and its North American presence. While New Gold's Rainy River and New Afton mine both are primarily gold producing mines, we will argue that its addition is important to Coeur's silver operations in Canada and its potential expansion in the segment going forward.

Coeur and New Gold's combination creates a 100% North American PM producer that operates a total of seven mines, estimated to deliver 20 million ounces of silver and 900,000 ounces of gold in 2026. The immediate benefit is that the combined company is expected to generate $3.0 billion EBITDA and $2.0 billion FCF, which is an increase of $1 billion and $550 million, respectively. There is also more benefit to immediate material realization of the accretive acquisition than recognized, as the deal instantly injected $103.7 million of cash plus $72 million of bullion as a result of

the transaction. This was important in the strengthening of Coeur's balance sheet, as alongside increased revenue in 2025, it allowed the company to repay the revolving credit facility for the acquisition in full, cover tax payments at Palmerejo and Las Chispas, and prepayment agreement balances at Rochester, Kensington and Wharf. In the end, they were also able to spare a total of $159.8 million in CapEx. All in all, we believe that the strengthening of the balance sheet at this moment is key in providing liquidity to ongoing silver projects, like Silvertip, as we will describe later. Moreover, given the medium to long term nature of Silvertip, increased free cash flow creates the flexibility to continue investment in the project without jeopardising shareholder returns.

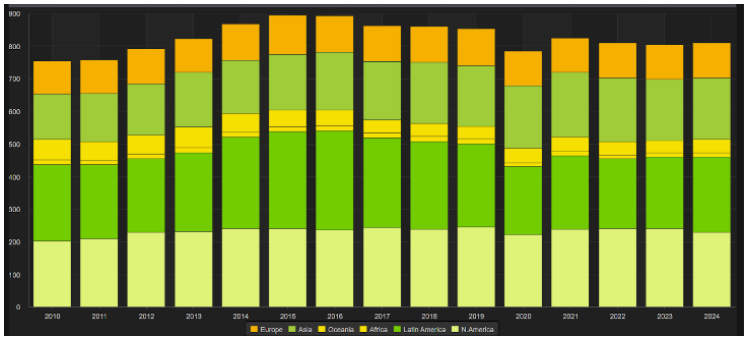
To go more in detail about New Gold's specific mines acquired, the mine of interest is the New Afton mine located in Kamloops, British Columbia. New Afton is by far the most profitable. We think that many sell-side analysts, although aware of the immediate benefit to the cost curve, are ignorant of the fundamental cause of such an effect. In fact, New Afton is the only block caving mine in the entirety of Canada, which is a method in which a large ore body is mined vertically, as it is dug from underneath, then uses gravity to allow the ore to slowly collapse upon itself. The benefit to block caving is that once the CapEx spending is made upfront, the operating expense is extremely attractive and stable compared to other techniques. Given that New Gold project ounces produced from 60,000 – 70,000 oz in 2025, to 110,000 – 125,000 oz in 2026, to 130,000 – 150,000 oz in 2027, the mining cost per ounce rapid nose dives and continually pushes Coeur down the cost curve. Thus, we believe that not only does the benefit to Coeur's cost curve from New Gold have longer term implications than most anticipated, but also that the extra saved in the process is available for reinvestment in future CapEx, namely, building out the Silvertip project.

While the mineral economy in the United States is rather built out and mature, Canada not only is resource rich in its geography, but also is at an inflection point where macro tailwinds seek to turn the tide on its mineral industry and enable future growth in the country. As the recognition over the importance of critical minerals grew, Canada is seizing the opportunity to develop its domestic industry. Canada's 2025 Budget heavily emphasized ideas of nation building projects to secure supply chains of crucial material likely including its domestic silver, given its increased importance in EVs, electrification, solar energy, etc… Specific districts, like Ontario, have enacted a One Project, One Process permitting framework, which streamlines the mining permitting process, cutting ore-to-surface time. The province also launched a $500 million Critical Minerals Processing Fund to expand processing capacity, which is used to cut red tape, decrease taxes, and make investments into mines. The newly acquired Rainy River mine in Ontario could benefit from such policy, but more broadly, we see this trend, in congruence with more support for laxer mining laws in Yukon and other provinces, creating enough pressure to bring tailwinds for the minerals industry across Canada broadly. This is all to reiterate that this growth is relatively new to Canada—as Trudeau was very hawkish on mineral development, and Carney was able to do a U-Turn with policies affecting the sector. We think there's value to this, since as we'll discuss later, the asymptotic capacity of United States production and increased demand for critical minerals like silver, will put Canada in the spotlight as a unique producer.

When analyzing Coeur's revenue, net income, and EBIT, they're all heavily correlated with the spot price of gold and silver. It only makes sense for such a relationship given that their sales directly depend on the spot price they can sell their mineral at. Thus, we argue that the price of silver will stay elevated at a reasonable level that maintains profitability for Coeur, even amid massive asset price volatility currently. The first thing to recognize about silver is that it's heavily influenced by its production, and therefore supply. That is, silver is a poly-metallic byproduct, meaning it only comes out when mining alongside zinc and lead, whereas gold is independently mined for. Copper grade is about ~50,000g/t, whereas silver is ~125g/t. Gold is ~5g/t, but the economic value of silver makes it such that ~80g/t of silver is 1g/t of gold, so its recovery value by volume is much less inefficient, which is why there remains a permanent recovery rate cap on silver. Thus, there is a consistent supply constraint, and also one of the core reasons why we saw a 95 million ounce deficit of silver in 2025. This alone doesn't justify silver's sustained pricing, but such property of silver's demand makes it very precarious and sensitive to demand growth.

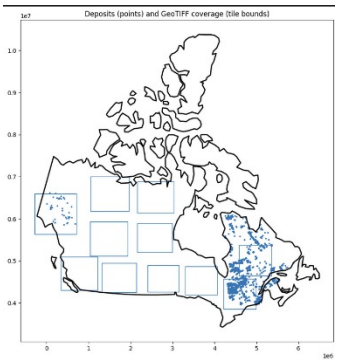
The very obvious elephant in the room is the concern that silver has become a bubble with its apparent skyrocketing price. Indeed, the spot price for silver at the beginning of 2025 has exponentially grown from around $30 to $80 today, for a ~170% increase. There's a wide array for why the price has been driven so high, one of which being its constrained supply. But with it, there are concerns about the weakening dollar, interest rate cuts, and geopolitical uncertainty. We think that while there are a lot of conversations about silver rallying beyond the $100 mark and potentially even higher in 2026 and 2027, a reasonable and conservative approach would be assuming that some kind of correction is due. However, this is not necessarily a devastating event for Coeur. As a miner, Coeur naturally profits more when the spot price of silver is driven up by investor price exposure, even if industrial demand does not necessarily increase by the same amount. But even so, as seen in the previous 2 or 3 years, the industrial demand for silver also has risen, creating a sufficiently thick deficit. As a precious metal used in a variety of crucial applications, including solar panels, electronics, EVs, and now AI chips, demand jumped from 1.102 billion ounces in 2021 to 1.284 billion ounces in 2022, and stayed around such numbers onwards. Given how slow the increase in supply is, the deficit that opened in 2022 remains substantial. Thus, we can draw a picture for silver pricing as it affects Coeur. (Calculate necessary spot price for Coeur to break even in EBIT)… The growth in price driven by industrial demand

remains a bottom line for silver price in the years to come, as long as this physical deficit exists. However, volatility from futures specification and price exposure adds additional revenue to Coeur on top of the industrial bottom line. So even if there is a correction, which we doubt would reset it back to pre 2025 prices (Werbach worries were immediately partially corrected), Coeur should still be sitting comfortably above the industrial bottom, or even at the industrial bottom. There's also an argument that we want to make that the recent growth in revenue is partially not correlated to rising silver prices. In the past 5 years dating back to FY 21, $1.2 billion in CapEx, so as management pointed out, they've just started to garner significant cash flow after a period of heavy reinvestment. The same case holds for New Gold, where they've invested $778 million in CapEx since FY 22. Thus, it just so happens that the period in which they're reaping the benefit of their reinvestment coincided with the rising commodity prices, not that it's dependent on it necessarily.

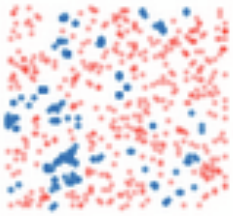


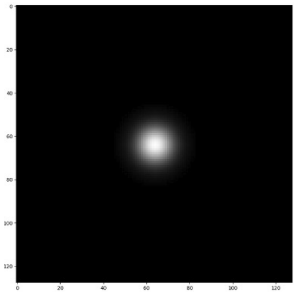
Finally, we arrived at Silvertip. Silvertip is an underground silver-zinc exploration project in northern British Columbia owned by Coeur through its subsidiary. The mine was acquired in late 2017, in hopes of expanding Coeur's silver production in Canada at the time. However, due to a deteriorating market at the time, slower than expected production, and mill maintenance challenge, the project was then shut down in early 2020. Since then, Coeur has been evaluated for a restart in the region. So, naturally, with silver being a massive part of this thesis, we wanted some independent evaluation of how profitable Silvertip will be, which not only tells us the regionally plausible mineable deposit, but also the expected mineral near the area that Coeur could potentially expand into.

The challenge with Silvertip is a fundamental information asymmetry. While Coeur has rough potential estimates of deposits extractable of the region, it is an outdated estimate and at best, not very transparent. This, coupled with the fact that operation was at first halted given economic viability concerns, makes Silvertip's potential suspicious, even if it has enormous upsides in silver production. To combat this, we decided that we'll give it our best shot with the information on hand to create an expected value and plausible interval of recoverable silver in ounces. Specifically, our broad aim is that with the aid of recent advances in convolutional neural networks (CNN) for imagery classification/segmentation, open source satellite data that contains spectral band imagery, and gives about geological, mineral, grade data, we can reach an educated estimation that can not only confirm Coeur's decision in reopening Silvertip, but also give insight into its updated NAV and cash flow.



We'll begin with the data collection and processing stage. We'll split the acquisition of data into two steps—the satellite data acquisition and the label acquisition. For satellite data, we access the European Union's open source Sentinel 2 data through the Copernicus Ecosystem terminal. Sentinel 2 captures a total of 12 bands of multispectral data of different wavelengths, which when combined, gives insight into vegetation index, air quality, humidity, mineral absorption features, geology, etc... We take three patches of satellite data spread across Canada in Ontario and Yukon. We avoid British Columbia, where Silvertip resides, so that we avoid overfitting to the region and keep our model generalized. With our three satellite data samples, they are rasterized to become tensors of size C x H x W, where each c in C is 1/12 band of data spread across a 2D HxW map, then stacked on all 12 bands. Then, we use Rasterio to standardize the resolution, spatial units, and orientation. Then, we move on to the labeling process. We used online repositories that contain dataset of all recorded mines and deposits containing silver in Yukon and Ontario to create a list of positive labels that we can use. We, again using Rasterio, project these labels onto the correct spatial dimension, and sanitize it so that we only take in the data that falls in the patch of which we have satellite data on. Then, by creating buffer zones with a predetermined distance, we stochastically sample points from areas with low probability of deposit existence. (realize that this method has to be used, since every area that doesn't have an existing deposit doesn't mean that silver doesn't exist there). With all our datapoints, we then take each point and create a minipatch surrounding it. This minipatch is a chunk out of our patches of satellite data, and they contain labels of 0 or 1 to denote whether they're a positive or negative minipatch. However, we want to convert these labels in a way so that they can be mechanistically interpreted in the CNN. Thus, for negative patches, we create a 128x128 matrix of 0s, while for positive patches, we create a mask that utilizes the gaussian blob method to create a distribution of decreasing labeling from the center, where the centermost pixel is 1. This creates accuracy as most of our patches aren't filled up by the entirety of the deposit, but are rather centered on it. Thus, this mask tells the CNN to learn the surrounding features of the deposit and recognize the deposit through such features, but only return high probabilities in the area with the actual deposit. Finally, we employ a unique split method to enhance training, where we have three experimental datasets. Recall that we have three patches of satellite data and its

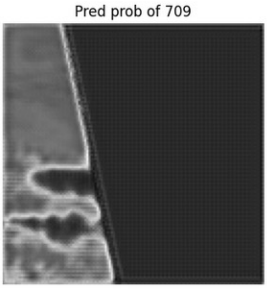




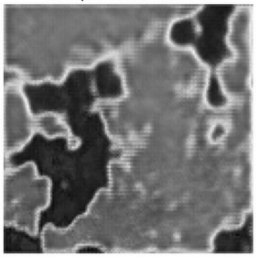
corresponding samples—we are going to make each experimental set use one of the patches as the test split, and the other two as the training split. So we have three experimental sets of the same three sample sets, only that they are split differently.

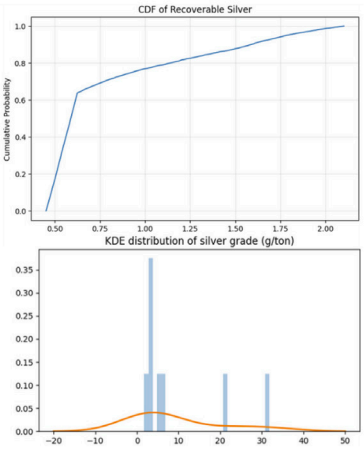
Then comes the training aspect. Given that we want more interpretability from the model rather than a simple classification task to predict whether a given patch tests positive for silver deposit, we need to make this a segmentation CNN. The most logistically implementable architecture that was available to us was the common UNet architecture. It consists of sending the initial matrix through encoder blocks consisting of convolutional layers and max pooling, then when it reaches its bottleneck, sending it through decoder blocks and upscaling it back to its base size while concatenating with encoder results for context retention, which we can then interpret as our segmentation output. The graphic displays the architecture and its general idea, but our input size, encoder steps, etc.. are all different, so take it with a grain of salt. We decided that in each encoder, we'd fit two sequences of convolution, Batch Norm, and ReLU. The same follows for the decoders. We started with a base size of 64, had four encoder steps, and a bottleneck of 64 x 16 filters. For our criterion, we used Binary Cross Entropy with Logit Loss and a positive weight of 3.0 to prevent it answering that all samples are negative to reduce loss. We used the Adam optimizer with a learning rate of 1e-4. We ultimately ran for one epoch for three different experiment sets. On our evaluation/ test set, you can see the prediction it made for Normetmar, which is an existing mine labeled as positive, and 709, which is a patch labeled as negative that has no deposits. The logit activation on Normetmar is much more widespread and visible, whereas for 709, other than the noise to the left, is mostly unactivated and dead. Now, for the final evaluation on the Silvertip patch, we see broader, even activation consistent with mineral activity in the area. However, the actual deterministic output that we want to utilize is the logits of the image converted to a probability map. We put the logit matrix through a sigmoid function, then take the mid range as the best proxy. We get K_i=(p_(i,max)-p_(i,min))/2 for some i th mine. The P_(s,max) we calculated for Silvertip was 0.97 and the P_(s,min) we calculated was 0.26. Then, for each sample in our positive samples dataset, we take their K_ito obtain g_i= K_i/T_i , where T_i is the total tonnage of ore rock mined for that i th positive sample. Thus, g_i represents tonnage per unit of k_i for a specific ii th deposit. As such, we take the mean of all the g_i to then obtain g_avg, which is the average tonnage per unit of K. The g_avg we obtained was 20,940,626 ton/K. With g_avg, we then get V_s = g_avg (K_s), where V_s is our predicted tonnage of ore rock for silver tip, and K_s is the K score for Silvertip. The V_s we calculated was 7,356,396 tons. After obtaining our estimated tonnage of ore rock in the Silvertip area, we created a pipeline to estimate how much of that is true Silver, and how much of that Silver is extractable. Thus, we obtained that listed out prior silver grade (g/t converted to oz/t) at each existing mine with the approximate same size as Silvertip's estimated size. With it, we used Scipy's kernel density estimation tool to create a distribution of silver grade we could run simulations on. Then, from papers, we also estimated that a good range of recovery percentage for most mines is around 75% to 90% , so we also created a standard distribution around that that we could sample from for our simulation. Ultimately, we ran this quasi Monte Carlo simulation with 10,000 iterations, where each iteration was $S\_E = V\_s \cdot G\_i \cdot \varphi\_i$, where S_E is expected silver retrieved, G_i is the specific simulated event's silver grade, and i is the specific simulated event's recovery percentage. As a result, we had a list of 10,000 possible S_E, which we plotted as a histogram distribution. We can also visualize it as a cumulative distribution function. Ultimately, we can reasonably use the 40th percentile estimate, 50th percentile estimate, and 60th percentile estimate to get three cases (bear, base, bull) of recovered ounces of silver. From our findings, we come to the following conclusion. For the bear case, we should assume that Silvertip has around **56,086,955** ounces of recoverable silver. For the base case, **58,826,309** ounces of recoverable silver. And for the bull case, **61,463,268** ounces of recoverable silver.

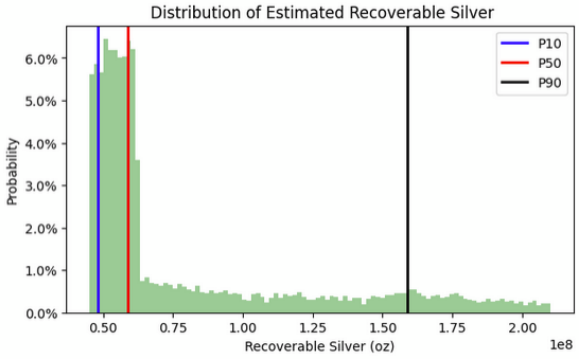
Pred prob of 709

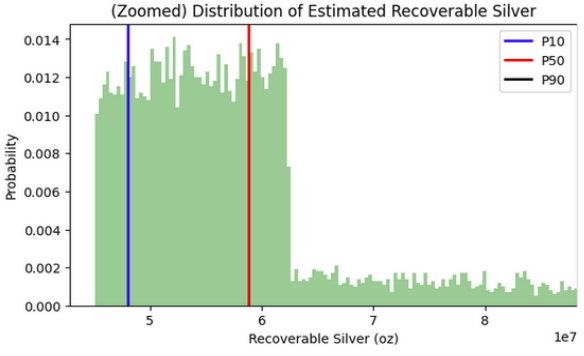


Pred prob of Normetmar



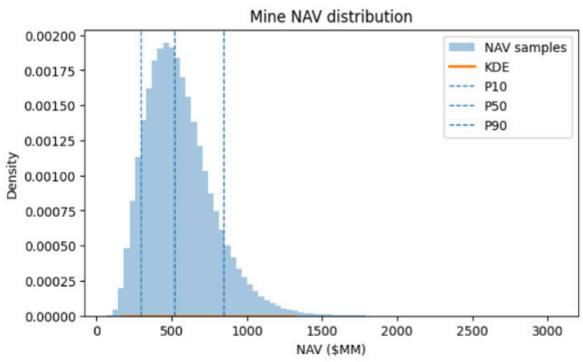


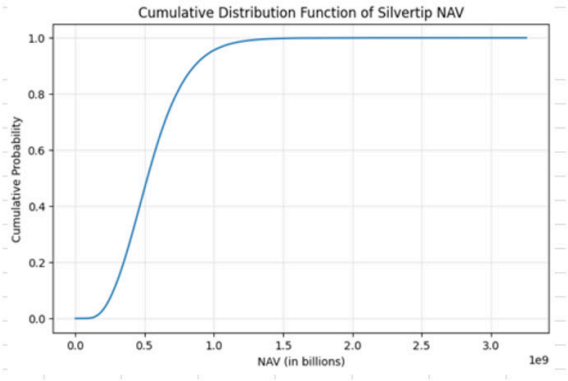




Then, given our data regarding the possible percentiles of recoverable silver, we created distributions based on recoverable silver, future silver spot price, possible OpEx percentage at Silvertip (samples from previous mines), possible CapEx percentage at Silvertip (sampled from previous mines of the same ore output), and possible tax percentage distribution. Based on those distributions, we ran Monte Carlo simulations of N = 100,000 to output an aggregate possibility space of potential Net Asset Valuation of just Silvertip. Our 10th percentile estimate is $293 million in total NAV, 50tph percentile estimate is $520 million in NAV, and 90th percentile is $847 million in NAV.

(in MM)	10th Percentile	50th Percentile	90th Percentile
Silvertip NAV	293	520	847





Adjusting for price, we also have added a sensitivity table that samples the 50th percentile of all other variables except for silver spot price to observe its impact on our NAV estimation.

Silvertip NAV Ag Sensitivity Table			
Ag Price ($/oz)	Median NAV ($MM)	Δ vs base median ($MM)	% change vs base
30	455.17	-66.27	-13%
40	596.41	74.97	14%
50	737.61	216.18	41%
60	878.84	357.40	69%
70	1020.02	498.58	96%
80	1161.18	639.74	123%
90	1302.36	780.92	150%

Investment Risks

Commodity price sensitivity

Both theses rely heavily on metal prices, which might be turbulent. A decline in either copper or silver prices would directly reduce by-product credits and raise consolidated AISC as well as compress operating margins and free cash flow. Given the historical volatility of industrial metals and silver, this represents the most direct and consequential threat.

Mitigation

The company can partially mitigate metal price volatility through portfolio diversification across gold, silver, and copper, thus reducing reliance on any single commodity. By-product credits from copper at New Afton also lower effective production costs, providing margin protection during weaker precious-metal price environments. Additionally, maintaining operations in the lower half of the global cost curve allows the company to remain cash-flow positive even during cyclical downturns.

Integration and synergy risks

The first thesis assumes that Coeur can successfully and smoothly integrate New Gold and realize double digit AISC reductions. In practice, mining integrations might fall short due to operational complexity across multiple mines and jurisdictions, higher-than-expected sustaining capital requirements among, organizational friction, or delays in mine planning and procurement. If target synergies are not achieved, Coeur's cost position might be weakened.

Mitigation

Integration risk is reduced by the fact that New Gold's primary assets are already producing operations. Coeur also has recent acquisition experience through the SilverCrest transaction, which should provide an internal expertise for combining operations, procurement, and mine planning. Retaining key operational personnel and implementing phased integration rather than immediate consolidation further lowers execution risk and allows management to capture synergies gradually without disrupting production.

Development and execution risks

A significant part of the upside depends on assets that still require continued exploration and execution. Rainy River needs successful underground expansion to justify its value, and Silvertip remains an exploration stage project. Underperformance at any of these operations due to either geology, costs or other factors would reduce long term cash flow and make our narratives and projections overly optimistic.

Mitigation

Rainy River expansion can be paced according to operating performance and commodity prices, while Silvertip remains optional rather than required for near-term valuation support. This optionality allows management to defer or slow spending during unfavorable conditions, preserving liquidity while still maintaining long-term upside if exploration results meet expectations.

Valuation

Operating Build

We forecasted production volumes, commodity prices and costs attributable to each particular mine (CDE and NG) for each of the revenue-producing mines using multiple proxies and a statistically rigorous approach (outlined below). Silvertip was forecasted separately using the methodology outlined in Thesis 2.

Coeur Mining
Volume Production
(USD)

		Historical Period					Forecast Period					
	Units	FY-2020	FY-2021	FY-2022	FY-2023	FY-2024	FY-2025E	FY-2026E	FY-2027E	FY-2028E	FY-2029E	FY-2030E
Revenue by mines												
Sales volume - Gold - Palmarejo	Kozt	110.8	108.8	107.2	99.0	108.8	100.6	102.6	104.9	106.1	105.7	105.4
Average realized price per oz - Gold - Palmarejo	$Abs	1390.0	1380.0	1471.0	1565.0	1751.0	**3422.3**	3398.8	3316.3	3266.3	3228.6	3205.5
Total revenue - Gold - Palmarejo	$M	154.0	150.2	157.6	155.0	190.5	344.3	348.6	348.0	346.4	341.1	337.9
Sales volume - Silver - Palmarejo	Kozt	6302.0	6806.0	6695.0	6534.5	6796.7	6250.0	6539.3	6590.7	6672.3	6745.5	6806.0
Average realized price per oz - Silver - Palmarejo	$Abs	21.0	25.0	21.8	24.2	27.7	37.3	39.6	39.2	39.0	38.7	38.5
Total rev. - Silver - Palmarejo	$M	132.5	170.2	145.8	158.2	188.5	233.2	259.2	258.3	260.1	261.4	262.2
Total revenue - Palmarejo	**$M**	**286.6**	**320.3**	**303.4**	**313.2**	**379.1**	**577.5**	**607.7**	**606.3**	**606.5**	**602.5**	**600.0**
Sales volume - Gold - Rochester	Kozt	26.3	27.7	34.4	38.5	38.4	63.5	58.7	60.8	63.5	66.7	70.3
Average realized price per oz - Gold - Rochester	$Abs	1765.0	1793.0	1875.0	1965.0	2387.0	3397.7	3398.8	3316.3	3266.3	3228.6	3205.5
Total revenue - Gold - Rochester	$M	46.3	49.7	64.4	75.6	91.5	215.8	199.4	201.8	207.5	215.5	225.2
Sales volume - Silver - Rochester	Kozt	3054.0	3242.0	3029.0	3339.8	4389.4	6796.0	6543.6	6652.9	6835.0	7305.7	7660.9
Average realized price per oz - Silver - Rochester	$Abs	20.9	25.0	21.5	24.1	28.3	38.5	39.6	39.2	39.0	38.7	38.5
Total revenue - Silver - Rochester	$M	63.9	81.2	65.2	80.5	124.3	261.8	259.3	260.8	266.4	283.1	295.1
Total revenue - Rochester	**$M**	**110.3**	**130.8**	**129.7**	**156.0**	**215.8**	**477.5**	**458.8**	**462.5**	**473.9**	**498.6**	**520.3**
Sales volume - Gold - Kensington	Kozt	124.8	122.2	109.0	84.7	95.4	102.3	111.6	114.1	118.6	133.1	143.8
Average realized price per oz - Gold - Kensington	$Abs	1735.0	1757.0	1852.0	1913.0	2362.0	3450.4	3398.8	3316.3	3266.3	3228.6	3205.5
Total revenue - Gold - Kensington	$M	216.5	214.7	201.8	162.0	225.2	353.0	379.2	378.4	387.3	429.8	460.9
Total revenue - Kensington	**$M**	**216.5**	**215.0**	**202.5**	**162.5**	**225.1**	**353.0**	**379.2**	**378.4**	**387.3**	**429.8**	**460.9**
Sales volume - Gold - Wharf	Kozt	94.4	91.7	79.5	93.4	98.3	102.3	96.0	96.0	96.0	96.0	96.0
Average realized price per oz - Gold - Wharf	$Abs	1777.0	1795.0	1874.0	1961.0	2315.0	3401.3	3398.8	3316.3	3266.3	3228.6	3205.5
Total revenue - Gold - Wharf	$M	167.7	164.5	148.9	183.1	227.6	347.9	326.3	318.4	313.6	310.0	307.7
Average realized price per oz - Silver - Wharf	$Abs	21.1	25.4	22.4	23.8	27.5	36.0	39.6	39.2	39.0	38.7	38.5
Total revenue - Silver - Wharf	$M	2.4	2.2	1.1	6.3	6.4	1.9	1.9	1.9	1.9	1.9	1.9
Total revenue - Wharf	**$M**	**170.3**	**166.7**	**150.1**	**189.5**	**234.0**	**349.8**	**328.2**	**320.3**	**315.5**	**311.8**	**309.6**
Sales volume - Gold - Las chispas	Kozt			11.4	58.2	59.8	57.8	58.6	58.7	58.4	58.6	58.6
Average realized price per oz - Gold - Las chispas	$Abs	1781.8	1799.1	1820.9	1949.6	2371.8	3425.8	3398.8	3316.3	3266.3	3228.6	3205.5
Total revenue - Gold - Las chispas	$M						197.3	199.1	194.7	190.6	189.1	187.7
Sales volume - Silver - Las chispas	Kozt			1120.3	5620.0	5750.0	5491.9	5620.6	5620.9	5577.8	5606.4	5601.7
Average realized price per oz - Silver - Las chispas	$Abs	20.4	25.1	21.4	23.4	28.1	38.9	39.6	39.2	39.0	38.7	38.5
Total revenue - Silver - Las chispas	$M						212.7	222.8	220.3	217.4	217.2	215.8
Total revenue - Las chispas	**$M**			**42.1**	**244.9**	**300.9**	**417.8**	**421.9**	**415.1**	**408.1**	**406.3**	**403.5**
Total revenue	**$M**	**785.5**	**832.8**	**785.6**	**821.2**	**1054.0**	**2175.6**	**2195.8**	**2182.6**	**2191.2**	**2249.0**	**2294.3**

Coeur Mining
Cost Build
(USD)

	Units	FY-2020	FY-2021	FY-2022	FY-2023	FY-2024	FY-2025E Consensus	FY-2026E	FY-2027E	FY-2028E	FY-2029E	FY-2030E
		Historical Period					Forecast Period					
Cost Applicable to Sales (Mines)												
Palmarejo		125.2	153.7	182.6	194.3	195.5	191.8	169.1	168.5	167.9	167.7	167.5
Rochester		86.1	131.2	165.2	171.3	154.6	208.0	192.9	195.5	195.2	194.0	192.8
Kensington		121.7	133.1	155.7	152.7	157.8	182.5	150.8	150.8	150.9	151.2	151.6
Wharf		89.6	93.6	103.1	114.7	98.4	120.8	194.1	189.4	186.6	184.5	183.2
Las Chispas							155.2	96.0	95.7	97.2	98.2	92.6
Other (Royalty)												
Total Cost		422.68	511.54	606.53	632.90	606.19	858.25	802.93	799.95	797.81	795.56	787.66
Assumptions (Margins)												
Wharf		52.6%	56.1%	68.7%	60.5%	42.0%	59.15%	59.15%	59.15%	59.15%	59.15%	59.15%
CAPEX												
Palmarejo		37.5	166.5	246.4	263.4	72.7	65.6	55.7	40.5	29	29.1	24.2
	% of Revenue	13.09%	51.99%	81.20%	84.10%	19.18%	11.36%	9.16%	6.68%	4.78%	4.83%	4.03%
Kensington		19.8	27.5	31.5	53.3	68.7	60.5	52.2	34.3	34.4	26.6	26.9
	% of Revenue	9.1%	12.8%	15.6%	32.8%	30.5%	17.1%	13.8%	9.1%	8.9%	6.2%	5.8%
Rochester		37.5	166.5	246.4	263.4	72.7	65.6	55.7	40.5	29	29.1	24.2
	% of Revenue	34.0%	127.3%	190.0%	168.8%	33.7%	13.7%	12.1%	8.8%	6.1%	5.8%	4.7%
Wharf		2.4	8.1	3.2	2.5	7.2	17.5	7.4	6.1	5.8	5.8	5.8
Las Chispas				69.1	41.6	49	34.6	44.7	37.1	28.8	26.4	23.7
Total		97.2	368.6	596.6	624.2	270.3	243.8	215.7	158.5	127	117	104.8

New Gold
Volume Production
(USD)

			FY-2020 VA Actuals	FY-2021 VA Actuals	FY-2022 VA Actuals	FY-2023 VA Actuals	FY-2024 VA Actuals	FY-2025 VA Actual	FY-2026E Consensus	FY-2027E Consensus	FY-2028E Consensus	FY-2029E Consensus	FY-2030E Consensus
			Historical Period						Forecast Period				
Benchmark Prices													
Benchmark prices - Gold	$Abs	Analytics	1,559.00	1,788.00	1,817.00	1,788.00	2,413.00	3,550.70	3,398.85	3,316.33	3,266.32	3,228.56	3,205.55
Benchmark prices - Silver	$Abs	Analytics	20.52	24.55	21.8	23.4	28.24	39.29	39.63	39.20	38.98	38.75	38.52
Benchmark prices - Copper	$Abs	Analytics	2.8	4.11	4	3.85	4.15	4.5	6.1	5.99	5.77	5.85	6.19
Sales Volume - Gold													
Sales Volume - Gold - New afton	Koz	Analytics	56.83	45.69	37.97	66.22	64.90	63.90	66.00	82.60	92.80	105.70	87.30
Revenue - Gold - New Afton	$M		88.60	81.70	69.00	118.40	156.60	226.90	402.60	494.77	535.46	618.35	540.39
Sales Volume - Gold - Rainy River	Koz	Analytics	231	230	227	276	228	280	417.8	515.7	572.9	582.2	418.8
Revenue - Gold - Rainy River	$M		360.70	410.90	413.10	494.3	551.1	994.50	1420.04	1710.23	1871.27	1879.67	1342.48
Sales Volume - Gold - Total	Koz	Analytics	293.14	286.92	271.37	321.18	298.3	354.39	483.80	598.30	665.70	687.90	506.10
Revenue - Gold - Total	$M		449.30	98.60	91.10	120.80	707.70	1,221.40	1822.64	2205.00	2406.73	2498.01	1882.87
Sales Volume - Silver													
Sales Volume - Silver - New Afton	Kozt	Analytics	253	212	87	103	127	155	128	128	128	128	128
Revenue - Silver - New Afton			5	5	2	2	4	6	5	5	5	5	5
Sales Volume - Silver - Rainy river	Kozt	Analytics	390	134	197	162	521	461	310.86	297.69	324.90	346.18	376.81
Revenue - Silver- Rainy River			8.0	3.3	4.3	3.8	14.7	18.1	18.10	11.67	12.66	13.41	14.51
Sales Volume - Silver - Total	Kozt	Analytics	643	346	284	265	648	616	439.29	425.69	452.90	474.18	504.81
Revenue - Silver - Total			13	9	6	6	18	24	23	17	18	18	19
Sales Volume - Copper - New Afton													
Sales Volume - Copper - New Afton	Klbs	Analytics	64,607.14	56,618.00	27,950.00	41,636.36	47,831.33	52,133.33	63,794.74	69,282.46	56,935.09	34,298.25	28,124.56
Revenue - Copper - New Afton	$M		180.90	232.70	111.80	160.30	198.50	234.60	389.15	415.00	328.52	200.64	174.09
Revenue - Copper - Total	Klbs	Analytics	180.90	232.70	111.80	160.30	198.50	234.60	389.15	415.00	328.52	200.64	174.09
Total Revenue	$M		643.40	339.80	209.10	287.30	924.50	1,480.20	2,234.98	2,636.69	2,752.90	2,717.03	2,076.40

Pro-Forma DCF

As industry norm suggest, we used a median EV/EBITDA multiple of 18.0x based on competitors outlined below to achieve a discounted Terminal Value of $25.2 Bn which brought our implied EV to $28.9 Bn which led to a post Balance Sheet Adjustment Equity Value of $30Bn. We used the exchange ratio for the CDE NG merger to calculate shares issued and received an implied share price of $25.68.

Pro Forma (CDE+NG)
Discounted Cash Flows
(USD, mm)

	Historical Period					CAGR	Forecast Period					CAGR
	2021	2022	2023	2024	2025	(14' - 24')	2026	2027	2028	2029	2030	(25' - 29')
Revenue	**1,578**	**1,390**	**1,608**	**1,979**	**3,589**	**22.80%**	**4,411**	**4,833**	**4,936**	**4,908**	**4,325**	**-0.49%**
%growth		-12%	16%	23%	81%		23%	10%	2%	-1%	-12%	
EBIT	**190**	**(53)**	**23**	**346**	**1,429**	**65.59%**	**1,657**	**1,814**	**1,808**	**1,732**	**1,426**	**-3.69%**
%margin	12%	-4%	1%	18%	40%		38%	38%	37%	35%	33%	
EBITDA	515.14	254.04	358.00	719.56	1894.13		2142.2	2356.5	2413.9	2398.9	2150.2	
Taxes	48	(13)	6	87	357		414	453	452	433	356	
NOPAT	**143**	**(40)**	**17**	**260**	**1,072**	**65.59%**	**1,243**	**1,360**	**1,356**	**1,299**	**1,069**	**-3.69%**
Plus: Dereciation & Amortization	324	307	334	372	465		485	543	606	667	724	
Less: Capital Expenditures	(557)	(645)	(631)	(454)	(655)		(886)	(950)	(953)	(932)	(728)	
Less: Increases in Net Working Capital	(61)	(49)	84	(16)	185		195	89	(4)	29	(62)	
Unlevered Free Cash Flow	**(29)**	**(329)**	**(363)**	**194**	**697**		**646**	**865**	**1,013**	**1,005**	**1,128**	**14.93%**
WACC **9.20%**												
Discount Period							0.871	1.871	2.871	3.871	4.871	4.871
Discount Period (mid-period)							0.436	1.371	2.371	3.371	4.371	
Discount Factor							0.962	0.886	0.812	0.743	0.681	0.651
PV of Unlevered Free Cash Flow							**622**	**767**	**822**	**747**	**768**	

Implied Enterprise Value	
Sum of near-term PV unlevered free cash flows	**3,725**
Terminal Value	
Terminal year (2030E) EBITDA	2,150
Terminal EBITDA multiple	18.0 x
Terminal Value	**38,743**
Discount factor	0.65
Present value of Terminal Value	**25,236**
% of Enterprise value	87.14%
Implied Enterprise Value	**28,960**

Implied Equity Value & Share Price	
Implied Enterprise Value	**28,960**
Add: Balance sheet adjustments	938
Add: NAV (Silvertip)	520
Implied Equity Value	**30,419**
Fully diluted shares outstanding (thousands)	1,184
Implied Share Price	**$ 25.68**
Implied Upside	14.56%

Assumptions	
Tax-rate	25%
Valuation date	2/16/26
Stub period	0.871
Days per year	365
Current share price	$22.42

Comparable Companies and WACC

Coeur Mining
Comparable Companies
(USD, mm)

Data from: 2/14/26

Ticker	Company	Market Cap.	Total Debt	EV	Adjusted EBITD	Revenue	EV/EBITDA	P/E
CDE	**Coeur**	13,448	364	13,819	808	1,054	17.10x	31.58x
PAAS	Pan American Silver	23,040	857	23,486	1,524	2,819	15.41x	33.49x
HL	Hecla Mining	14,001	263	14,273	506	930	28.21x	72.90x
AG	First Majestic Silver	10,580	237	10,834	438	561	24.74x	164.00x
EQX	Equinox Gold	11,800	1,627	13,078	977	1,514	13.39x	158.00x
AGI	Alamos Gold	17,759	250	17,641	896	1,347	19.69x	35.35x
BVN	Buenaventura Mining	9,535	711	9,946	552	1,155	18.02x	21.21x

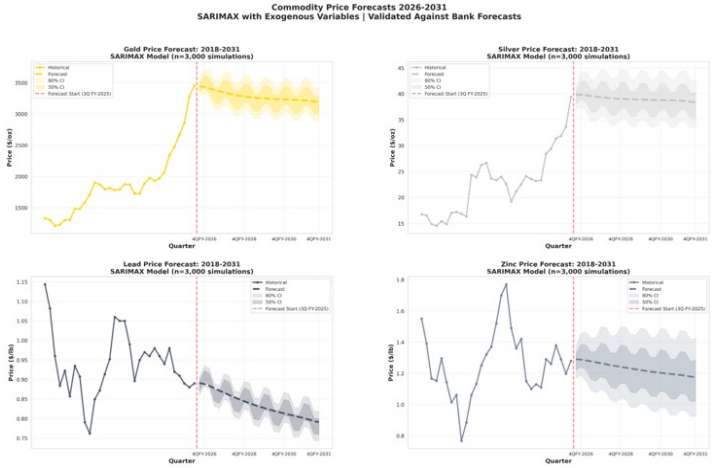
Pro Forma WACC
Beta and WACC
(USD, mm)

WACC Calculation	
Risk Free	4.61%
Unlevered Beta	1.07
Levered Beta	1.10
Equity Risk Premium	4.33%
Effective Tax Rate	25.00%
Cost of Equity	9.36%
Cost of Debt	5.86%
Current Stock Price (Coeur)	22.42
Shares Outstanding (Coeur in mm)	642.11
Current Stock Price (NG)	11.06
Shares Outstanding (NG in mm)	791.70
Market Cap: Coeur (mm)	14,396.11
Market Cap NG (mm)	8756.202
Total Debt (mm)	761
Market Cap (mm)	23,152.31
Percent Equity	96.82%
Percent Debt	3.18%
WACC	9.20%

Company	Market Cap (mm)	Total debt (mm)	D/E Ratio		Unlevered Beta	Effective Tax Rate
Equinox Gold	11,800.00	1,627.00	13.79%		1.23	25.00%
Harmony Gold Mining Company Ltd	12,271.00	122.00	0.99%		0.58	25.00%
Pan American Silver Corp.	23,040.00	857.00	3.72%		1.07	25.00%
Hecla Mining Company	14,001.00	263.00	1.88%		1.24	25.00%
Buenaventura Mining	9,535.00	711.00	7.46%		0.32	25.00%
				Median beta	1.07	
Coeur Mining		364		Levered Beta	1.10	25.00%
New Gold Mining		397				
Pro Forma Debt		761	3.29%			

Commodity Price Forecasts

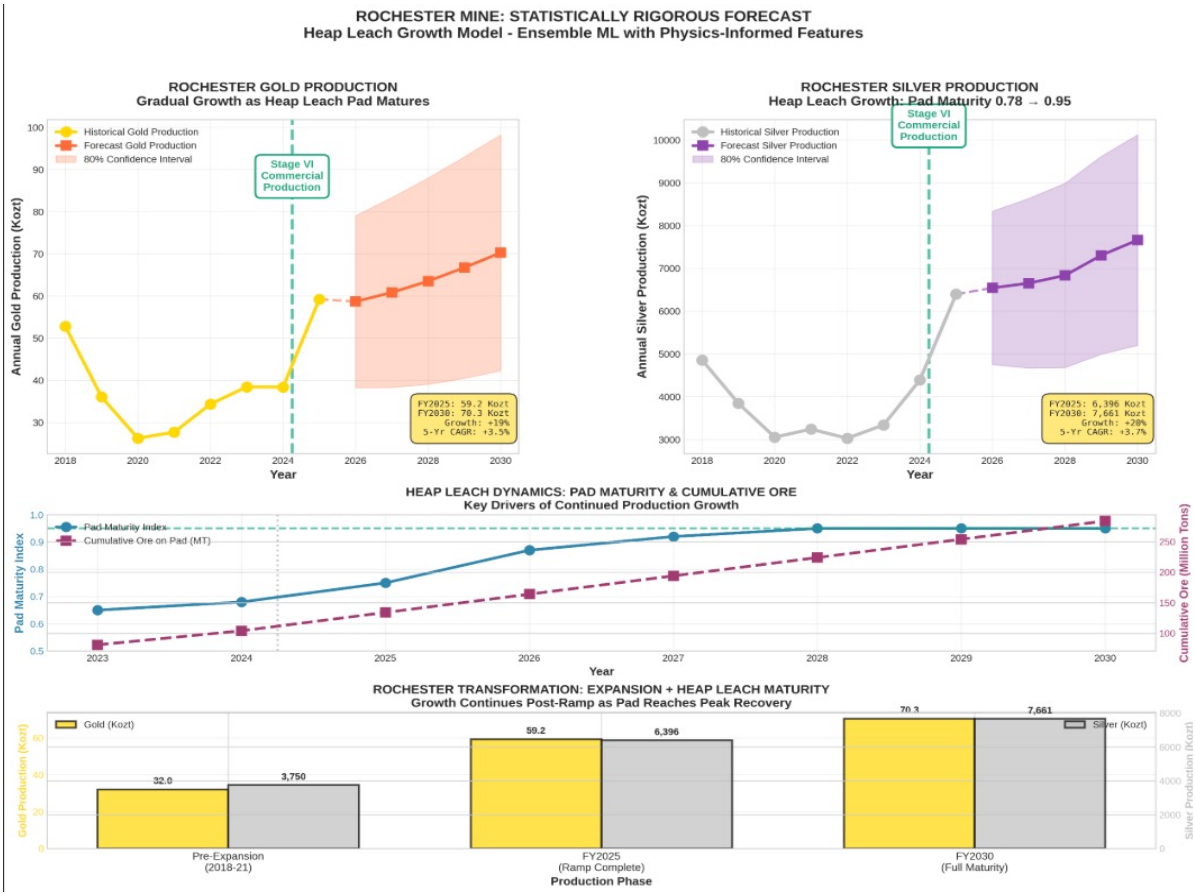
Commodity prices are forecast using a SARIMAX (Seasonal ARIMA with Exogenous Variables) framework estimated on quarterly data from 2018 onward. For each metal, the model jointly captures autoregressive dynamics, mean reversion, and seasonal structure, while conditioning on a set of exogenous macro drivers (e.g., real rates, USD strength, industrial activity proxies, and energy inputs where relevant). Forecasts from 2026–2031 are generated via Monte Carlo simulation (n = 3,000 paths), propagating both parameter and shock uncertainty to construct probabilistic outcomes. The central forecast is taken as the simulation mean/median, with 80% and 50% confidence intervals derived from the simulated distribution. Model outputs are cross-validated against major bank commodity outlooks to ensure directional and level consistency, while retaining an internally consistent, data-driven price path.

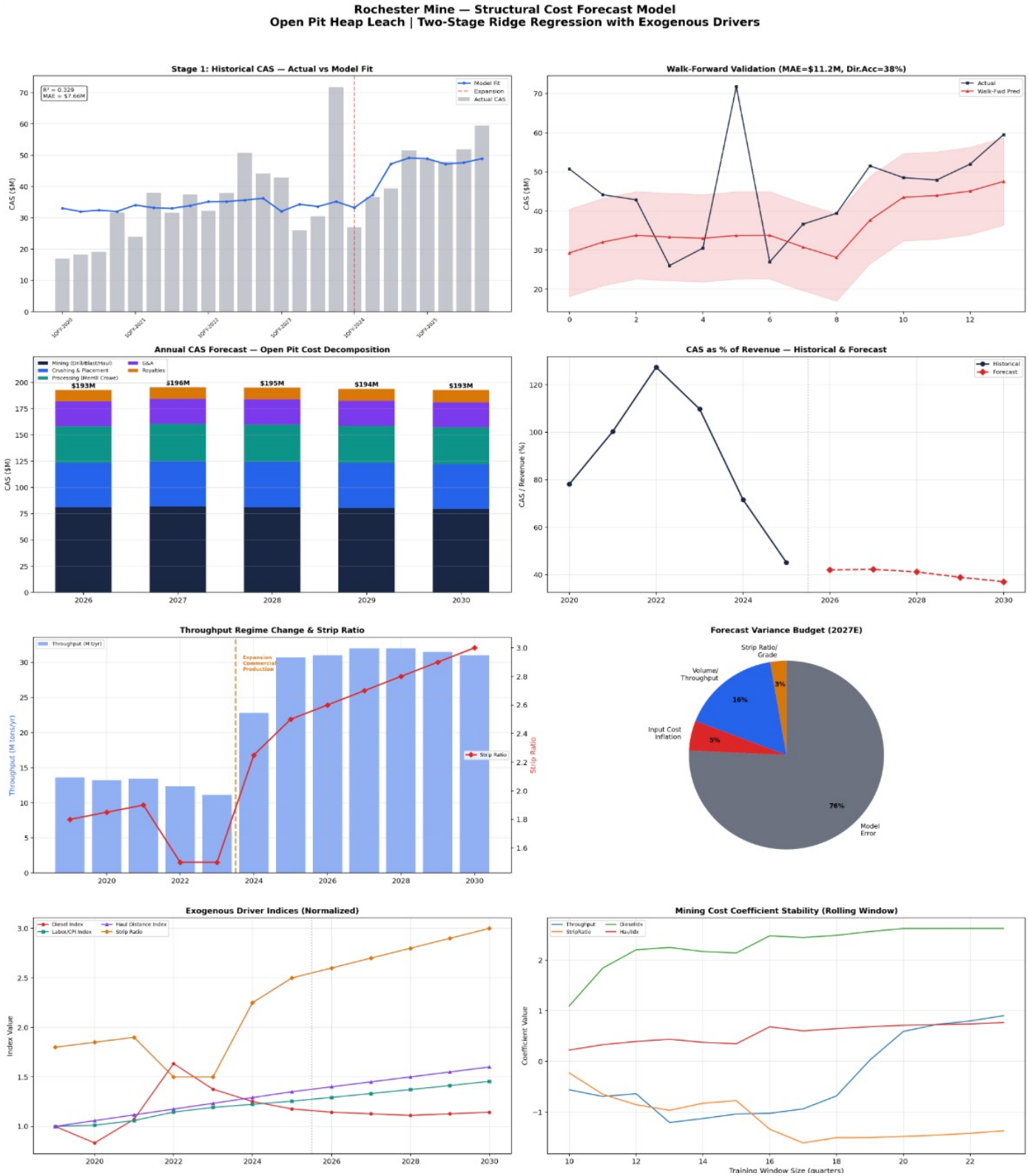


Rochester Mine (Production and Cost Build)

Rochester's production forecast is constructed using a **heap-leach growth framework** that explicitly links metal output to p**ad maturity, cumulative ore stacked, and recovery kinetics**, rather than relying on simple trend extrapolation. Gold and silver volumes are modeled as a function of leach pad maturation from mid-ramp to full commercial recovery, with production increasing as irrigation efficiency, solution flow, and effective recovery approach steady-state levels. The volume path is stress-tested via an ensemble approach and expressed with probabilistic confidence bands to reflect operational variability during the transition to full maturity.

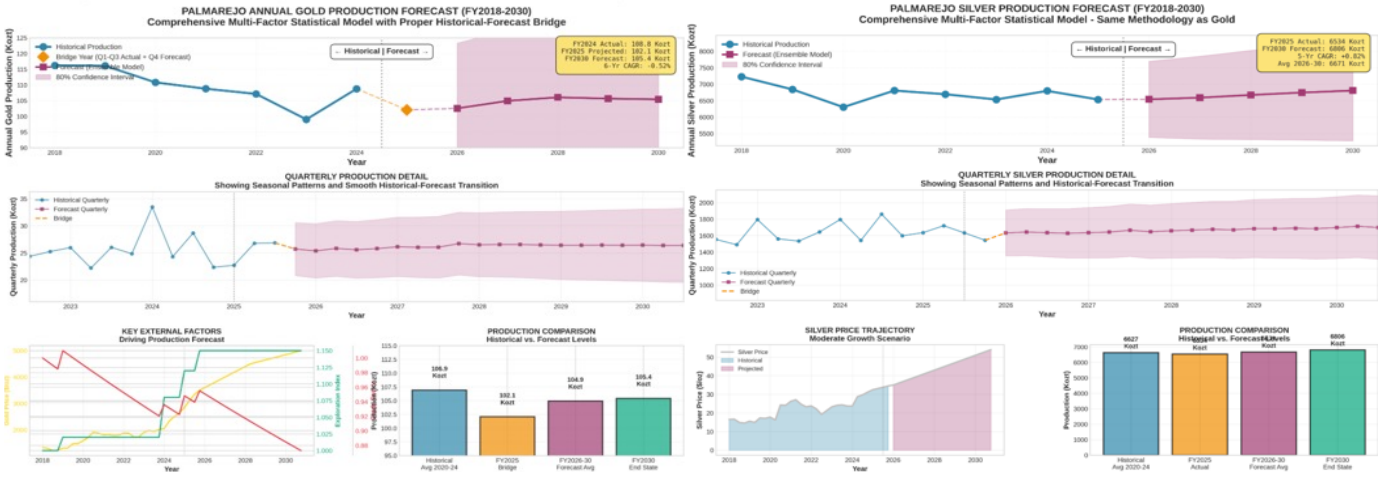
Operating costs are modeled separately using a **two-stage structural CAS build**. In Stage 1, historical costs are fit using **ridge regression** to stabilize coefficients and isolate the marginal impact of key physical and macro drivers, including throughput, strip ratio, haul distance, labor and diesel indices, and processing intensity. In Stage 2, costs are normalized to forecast throughput and revenue to derive forward CAS and CAS-as-a-percentage-of-revenue, capturing both scale efficiencies and mix effects as the mine moves into higher-throughput regimes. The model is validated using walk-forward testing and variance attribution, ensuring that forecast dispersion is dominated by operational uncertainty rather than coefficient instability.



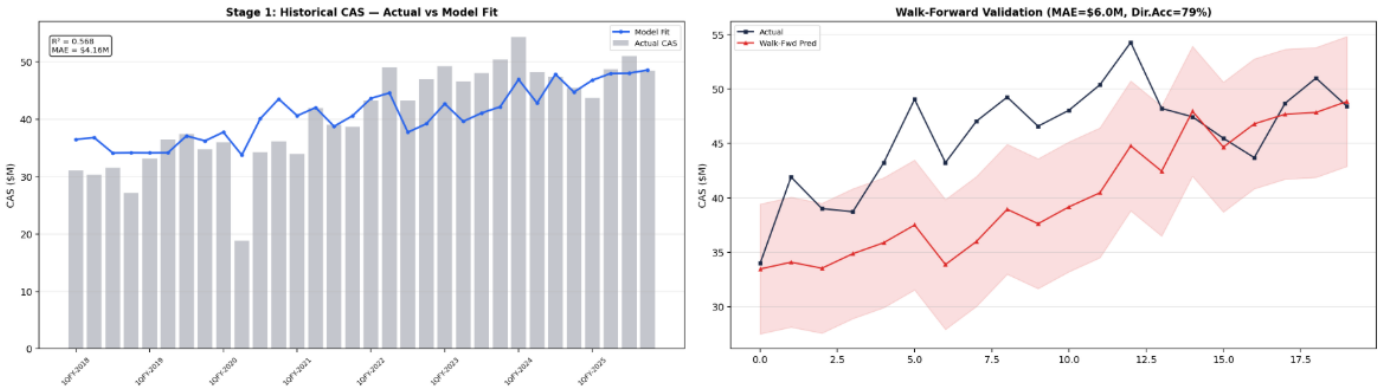


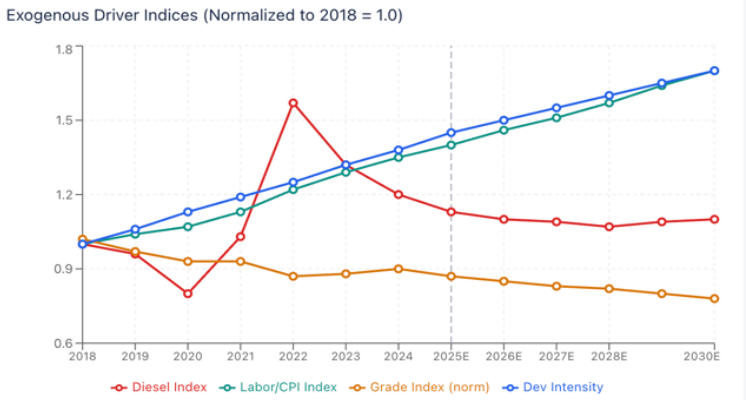
Palmarejo Mine Production Volume and Cost Build

We used a similar methodology as that of Rochester as shown below for Palmarejo's Gold and Silver Mine.



Palmarejo Mine — Structural Cost Forecast Model
Two-Stage Ridge Regression with Exogenous Drivers





GE Vernova

Industrials
Winter 2026

Investment Overview

GE Vernova (NYSE: GEV) is a scaled power and grid OEM with a large installed base that is entering a multi-year upcycle where delivery certainty and services capability matter more than lowest upfront price, shifting bargaining power upstream and supporting structural margin expansion. We expect revenue and profitability to step up as Electrification captures outsized growth from utility substation, transformer, and switchgear upgrades tied to hyperscaler-led load growth and broader grid expansion, while Gas Power benefits from a capacity-constrained "slots market" that enables better pricing and higher long-term service attachment. The market is still anchoring on near-term Wind losses from legacy fixed-price and offshore contracts, but as those roll off and contract discipline improves, a services-driven mix shift in Power and Electrification should lift consolidated EBITDA toward management's 2028 framework (about $56B revenue and about 20% EBITDA margin) and translate into durable free cash flow supported by a long-dated services backlog and RPO.

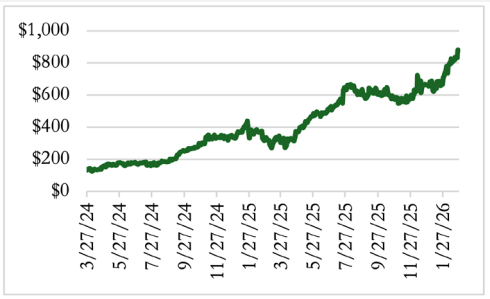
On this view, GEV's current valuation underestimates the durability of the consolidation flywheel in mission-critical infrastructure, the embedded annuity from services, and the incremental pricing power created by customer-funded interconnection structures that reduce utility price sensitivity and accelerate procurement.

NYSE: GEV

Rating:	Buy
Price: (at close, 02/26/26)	$876.46
Recommendation	$1197.16

52 week range	$	252.25- 894.93
DSO	mn	269.53
Market capitalization	$bn	236.23
EPS (FY 2024)	$	17.70
Consensus	$	850.43
Sector		Specialty Industrial Machinery
Revenue		$38.07 billion

Price performance



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Company Overview

GE Vernova ("GEV") is the energy-focused business separated from General Electric and listed as an independent public company on April 2, 2024. The company positions itself as a pure-play power and electrification platform built to support electrification and decarbonization, with offerings that "generate, transfer, orchestrate, convert, and store electricity."

Business Model

GE Vernova is best understood as a large installed-base OEM with a service-annuity. Across its portfolio, the company sells long-cycle equipment and turnkey projects, then monetizes the installed base over decades through parts, upgrades, and long-term service agreements (LTSAs), which management highlights as a key source of visibility and margin durability.

Analytically, the earnings and cash profile are driven by (i) backlog/RPO (renewable purchase obligation) conversion on large projects, (ii) services attachment and execution across the installed base, and (iii) underwriting discipline and productivity/lean initiatives to manage long-cycle project risk and supply-chain/inflation pressure. Management emphasizes backlog visibility and services mix as the core stabilizers of performance as the company scales as a stand-alone.

GE Vernova's revenue is a mix of equipment sales (~54%) and recurring service revenue (~46%) in its Power, Wind, and Electrification segments. New equipment is often more price-elastic and exposed to macro cycles. Services tend to be more price-inelastic since customers face high switching costs, especially in Gas Power where GE Vernova notes ~7,000 installed turbines and ~1,700 under long-term service agreements with about 10 years average remaining contract life. GE Vernova reports Remaining Performance Obligations (RPO) that function like a contracted

revenue backlog. On December 31, 2024, RPO was $119.0B (equipment $43.0B, services $76.0B), with the services RPO extending far longer-dated than equipment. By Sept 30, 2025, RPO rose to $135.3B (equipment $54.1B, services $81.2B).

Revenue Breakdown

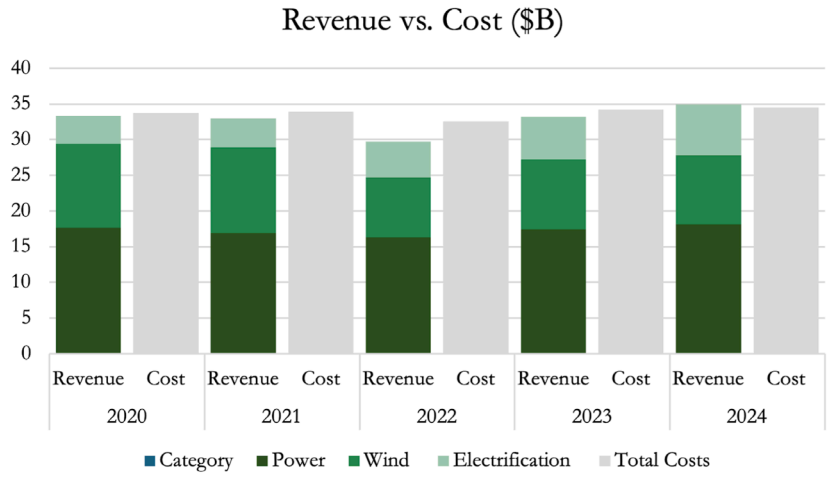
In 2024, total revenue was $34.8B:
• Power ($18.1B), including gas, steam, hydro, and nuclear, sells turbines and plant solutions and then monetizes the installed base through multi-year service contracts that typically run 5-25 years. Customers often pay based on utilization (per operating hour), which makes service revenue partially linked to run-hours in terms of volume.
• Wind ($9.7B) sells turbines/blades and long-life services to operators. Wind includes onshore and offshore turbines and blades (including LM Wind Power) and a growing services business supported by monitoring and performance optimization. GE Vernova has services agreements on ~23,000 onshore turbines from an installed base of ~57,000.
• Electrification ($7.6B) sells hardware and digital services to industrial customers managing power flow from generation to consumption. Electrification provides grid equipment and software transmission, distribution,
HVDC, transformers, switchgear, and automation benefiting from grid expansion and modernization driven by renewables interconnection and rising electricity demand.

Cost Breakdown

Costs are primarily driven by inputs (materials, components, labor) for equipment and services, and SG&A and R&D to a lesser extent. In 2024, wind was still loss-making at the segment EBITDA line while Power and Electrification were positive. Companywide gross margin improved from 14.5% in 2023 to 17.4% in 2024 as a result of improvements in pricing and productivity, as well as reduced losses in parts of Wind.

GE Vernova buys ~$20B per year of materials and components from 100+ countries. Its cost base is exposed to a global supply chain. GE Vernova has internal manufacturing, but it relies heavily on third-party suppliers, contract manufacturers, service providers, and commodity markets for inputs. The company mitigates its exposure to price volatility, tariffs, and inflation through long-term supplier agreements. Management describes operating in a supply-constrained environment with shortages, inflationary pressures, and manufacturing disruptions, which can put pressure on margin and timing. The firm adjusts pricing and contractual terms based on industry demand and inflation.

Figure 1: Revenue v. Cost by Segment for GE Vernova



Management

GE Vernova is led by Scott L. Strazik, the company's CEO and President. He has spent more than two decades at GE, and previously led major parts of GE's power businesses. The CFO is Ken Parks, who brings decades of senior finance experience.
Under their leadership (as an independent company since April 2024) GE Vernova reported strong 2024 results, including about $44B in orders, about $35B in revenue, and a backlog around $119B, with improved free cash flow year over year. In late 2025, management also raised its multi year outlook, doubled the quarterly dividend to $0.50.

Industry Overview

GE Vernova operates as an energy equipment manufacturer and service provider in the energy transition industry, a broad and rapidly evolving

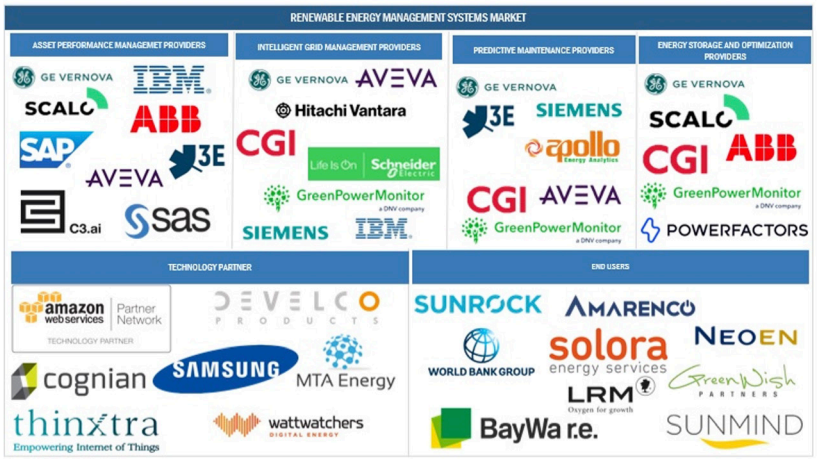
industry driving the shift from traditional fossil-fuel-based energy systems to low-carbon, electrified, and sustainable power infrastructure.

Vernova manufactures equipment and provides services across three main segments: power, wind, and electrification, and is focused on electrifying and decarbonizing the energy sector. The company's customers span utilities, independent power producers, governments, AI data centers, industrial end-users, and municipalities. The electric power transmission industry in the US has generated revenues of $536.2B in 2024. The renewable fragment of the industry is expected to swell through 2030 with new laws and incentives for supporting environmentally friendly initiatives.

Competitive Landscape

Operating within the global power generation and renewable energy infrastructure industry, GE Vernova competes with both established power equipment manufacturers (Siemens, Mitsubishi, Schneider Electric, Vestas (wind)), as well as emerging renewable energy providers. GE Vernova is weighted towards complex, long-lead, mission critical-equipment and services, an area that is primarily dominated by few incumbent players. This industry is characterized by high barriers to entry, with the combination of large upfront capital costs, complex grid integration, and strict regulatory hurdles. The industry is primarily dominated by a few key players, although there has been more fragmented in recent years with more renewable energy startup entrants.

Figure 2: Energy Infrastructure Breakdown



Important industry trends and dynamics

1. Consolidation from Large Players/Fragmentation Along the Edges

Driven by the need for scale, technological differentiation, and increasing grid demand/expansion, many of the largest players within the renewable energy infrastructure industry have begun to accelerate M&A activity. In addition, the most important commercial customers are increasingly favoring established players, with the need for large amounts of clean energy to be reliably delivered only rising to meet the new demand for artificial intelligence (AI) infrastructure, data centers, and other types of global technology. The combination of these two factors has resulted in consolidation at the center of the industry, particularly in key submarkets such as battery energy storage systems (BESS) and grid electrification solutions.

At the same time, innovation along the margins of the industry has enabled a wave of new entrants, particularly in areas such as grid software, energy storage integration, and agrivoltaics (dual-use solar/farming). These emerging players typically do not compete directly with the large OEMs mentioned earlier in terms of large-scale infrastructure, but instead target modular, software-driven, or asset-light niches that stand alongside existing systems. As a result, while the core infrastructure layer continues to consolidate around a small group of dominant players, the broader ecosystem is becoming more fragmented, with startups and specialized firms attempting to capture value through differentiated technologies, analytics, and system-level enhancements.

2. Booming Demand Drives Concerns of Oversupply

Rapid growth in AI workloads and hyperscale data centers have greatly increased demand for reliable, high-capacity power. These increased demands have placed the energy transition industry in an infrastructure bottleneck as demand for electricity accelerates faster than generation and grid capacity. These requirements have stretched supply chains for complex equipment such as gas/wind turbines, transformers, and grid hardware thin, resulting in extended lead times and increased pricing power for established energy OEMs (GE Vernova's backlog extends into 2029).

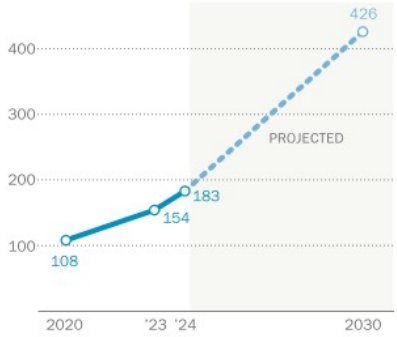
However, there are growing concerns around potential oversupply risks, especially as the market believes that AI-demand is a primary industry growth driver, with a lot of turbine and equipment demand rising from AI-development. The industry may face contraction if companies cannot turn AI into the future growth and success companies and the market predict it to be.

3. Regulatory Shifts

Over the past year, regulatory developments have continued to reshape the landscape of the renewable energy infrastructure industry. Federal actions have created uncertainty: the Department of the Interior paused offshore wind leasing and removed designated areas (June 2025), while funding cuts across agencies are affecting project siting and financing. Proposed changes from the EPA, including potential repeal of the endangerment finding and modifications to fossil plant emissions standards, could further dampen renewable demand. Trade policies are also contributing to regulatory pressure, with increasing scrutiny being put on antidumping investigations targeting solar and battery inputs, as well as Section 232 inquiries potentially extending to wind and electrical components, collectively raising compliance costs and market uncertainty for developers and suppliers.

Electricity consumption at U.S. data centers is expected to more than double by 2030

Total electricity consumption by U.S. data centers (terawatt-hours)



Note: 2030 projection is based on IEA's "base case" scenario, which assumes current industry forecasts and regulatory conditions persist.
Source: International Energy Agency, "Energy and AI," April 2025.

PEW RESEARCH CENTER

Investment Theses

Investment Thesis 1: Customer-Funded Grid Expansion Is Shifting Leverage Upstream to OEMs

With management guiding to $44-45B of revenue and 11-13% EBITDA margins in 2026, and targeting ~$56B of revenue and ~20% EBITDA margins by 2028, the sentiment baked into the stock price today is that higher-margin backlog will convert into sustained multi-year earnings expansion beginning in 2027 and beyond.

Figure 3: GEV Financial Performance & Guidance

Metric	2023	2024	2025	2026 Guidance	2028 Outlook	23→24 Growth	24→25 Growth
Orders ($B)	41.6	44.1	59.3	—	—	6%	34%
Revenue ($B)	33.2	34.9	38.1	44–45	~56	5%	9%
Adjusted EBITDA ($B)	0.8	2	3.2	~4.9–5.9*	~11.2*	150%	60%
Adjusted EBITDA Margin	2.40%	5.80%	8.40%	11–13%	~20%	+340 bps	+260 bps
Free Cash Flow ($B)	0.4	1.7	3.7	5.0–5.5	—	+$1.3B	+$2.0B
Total Backlog / RPO ($B)	115.6	119	150.2	—	—	3%	26%
Equipment Backlog ($B)	40.5	43	64.2	Growing	—	6%	49%

This growth, stated in FY 2025 earnings reports on January 28th 2026, caused the stock to climb 13% to today's elevated price of $802 per share. While backlog growth, margin expansion, and free cash flow acceleration are clearly reflected in the current valuation, we believe GEV remains undervalued as the market has yet to fully appreciate the structural shift in bargaining power from utilities to OEMs.

Pre-Hyperscaler Era

Utilities own and operate the electricity system: power plants, substations, transmission lines, and local distribution networks. In most markets, they are regulated monopolies. That means they are allowed to earn a fixed return on the capital they invest, but only after regulators approve those investments. Their revenues and returns are capped by public utility commissions, which set rates based on approved costs plus an allowed return on equity.

An OEM designs and produces the equipment that makes the grid function. GE Vernova manufactures gas turbines, high voltage transformers, switchgear, substation systems, and grid technology. Utilities install this equipment into their system and often sign long-term service agreements so the OEM maintains and services the equipment for decades.

Before today's hyperscaler wave, utilities controlled the pace of infrastructure buildout because they controlled capital deployment and bared demand risk. Utilities set their rates subject to an allowed return on equity (ROE) based on approved project costs ("rate base"), both determined

by a regulator (state public utility commissions in the U.S.). If a utility's project costs are deemed unreasonable or excessive by the regulator, the regulator will exclude some costs from the Rate Base and hence the utility will not be able to make the stated ROE.

Example: utility needs to build $1B substation for industrial customer

Time 0:	**Time 1:**	**Time 2:**
The utility files a rate case asking to include that $1B in its rate base	Regulator asks: • Was this project necessary? • Was the scale / cost reasonable in size? • Was the cost competitive?	If approved: • Allowed ROE = say 10% • Utility earns 10% on that $1B If regulator disallows $100M as imprudent: • Rate base becomes $900M • Utility earns 10% on that $900M instead of $1B… which is a permanent earnings hit

Because utilities earn a fixed return based on an approved rate base, it is paramount for utilities to be cost-conscious, and hence price sensitive, when purchasing equipment from OEMs. For example, if a hyperscaler likely over-requested for energy, or if the utility likely chose an overpriced OEM for no justifiable reason, then the regulator will reduce the rate base. Thus, utilities have (i) run competitive RFPs, (ii) emphasized lowest-cost qualified OEMs, (iii) avoided speculative capacity, and (iv) staged investments cautiously/slowly. This dynamic has kept top-line growth reserved for GEV, which has averaged ~9% since 2022.

Post-Hyperscaler Era: The Structural Shift to Customer Funded Infrastructure

Today, electricity demand is skyrocketing due to hyperscale data centers, electrification, and industrial reshoring. In response, utilities must build substations, upgrade transmission lines, and in many cases develop new power plants. The key change is who funds that buildout.

In today's power-constrained environment, utilities are in a strong negotiating position and have increasingly structured interconnection agreements that shift funding and risk toward industrial customers:

1. Contribution in Aid of Construction (CIAC): The customer pays the full upfront cost of the required infrastructure. The contributed capital does not go into the rate base. However the utility can essentially expand their network at zero risk / cost.

2. Refundable Advance: The customer pays the full upfront cost of the required infrastructure. The utility reimburses the cost back to the customer through bill credits, based on how much energy the customer utilizes. If usage is lower than promised, the customer does not get fully reimbursed.

3. Minimum Loan / Take-or-Pay Agreement: The utility pays the full upfront cost of the required infrastructure. Meanwhile, the customer agrees in advance to buy a minimum amount of electricity each year. Even if they use less power than expected, they still have to pay for that minimum level.

In short, these agreements practically guarantee that utilities earn their expected ROE by mitigating scale-back risk: the risk that customers consume less electricity than projected, which could lead to a reduced recoverable rate base and lost return.

Summarized, these new interconnection agreement structures achieve the following for utility companies:

1. Reduces capital pressure: Utilities don't need to issue debt or equity before the buildout. This allows utilities to place orders faster with OEMs.

2. Transfers scale-back risk: If customers' power needs are scaled back or delayed, the downside risk is absorbed by the customer rather than the utility. This allows utilities to become more aggressive buyers from OEMs.

Speed to Market + Reduced Utility Contraints = Underappreciated OEM Risk (r) and Growth (g)
What does this mean? Because capital and risk concerns are reduced, **utilities can buy more from OEMs at a faster pace**. When hyperscalers fund infrastructure and sign long-term load commitments, utilities are under pressure to energize projects quickly. From the hyperscaler's perspective,

the economic value of getting a data center online sooner can be enormous. Speed to market is paramount, and trumps the additional spend on energy infrastructure required by utilities. Impatient hyperscalers will sign more interconnection agreements which will cause multiple utilities to order from OEMs at the same time. Instead of utilities being limited by capital, OEMs become limited by manufacturing capacity and lead times. If OEMs then raise prices, this price will be absorbed by the hyperscalers which increases their cost of buildout by a minute percent (~1%). Instead of OEMs being subject to utility constraints, utilities are subject to OEM manufacturing capacity. Leverage flows upstream which increases OEM pricing power. Thus, a contention can be made that the overall risk (r) and future growth (g) of the OEM industry is still underappreciated, even at a GEV valuation that seems to be priced to perfection.

As shown in Figure 3, GEV's backlog growth is substantial. The market broadly understands that AI and data center demand is driving such backlog. **What is less appreciated, however, is that new interconnection agreements reduce utilities' price sensitivity and accelerate procurement timelines, shifting leverage upstream to OEMs.** It is this underlying dynamic which will drive margin expansion and top line growth beyond guidance in the next 5 years.

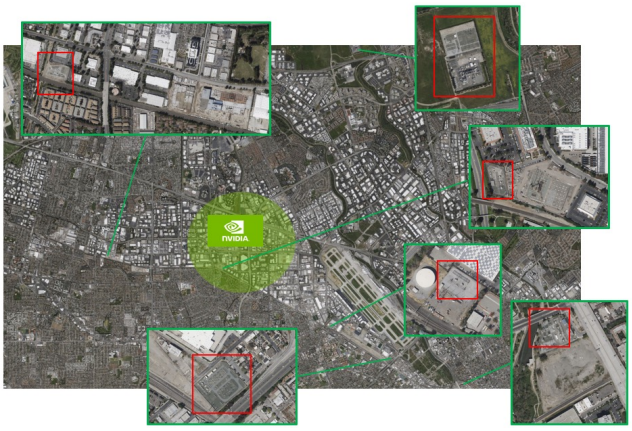
Growth Will Flow Disproportionately to GE Vernova's Electrification Segment

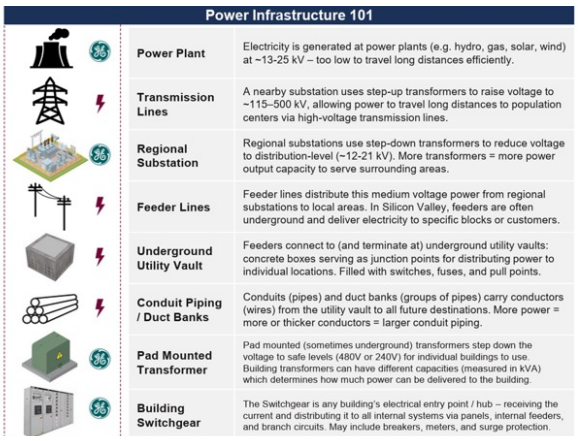
GE Vernova's Electrification segment produces the core equipment that allows electricity to move reliably from where it is generated to where it is consumed. This includes transformers, switchgear and breakers, substations, HVDC systems, and grid control software. These components sit at the most critical points of the grid, where electricity is stepped up for long-distance transmission or stepped down so it can safely power homes, businesses, and large loads like data centers. Even if utilities build new power plants, they must still upgrade and expand their transmission and distribution networks to actually deliver that power. In practice, expanding the grid means building new substations or adding transformers and switchgear to existing ones – all of which are core products with high switching costs, with GE Vernova's Electrification segment being the dominant supplier in the space.

A substation is essentially a fenced area filled with transformers and electrical equipment that safely adjusts voltage so power can travel long distances and then be delivered to homes and businesses. Substations are usually built with extra space so more equipment can be added later as demand grows. When a utility expands an existing substation, it is usually easier and faster to buy from the same company that supplied the original equipment. That is because the transformers, breakers, and control systems are designed to work together as a coordinated system. Switching to a different supplier can require reconfiguring protection settings, redoing engineering studies, qualifying new equipment standards, retraining maintenance crews, carrying different spare parts, and undergoing additional testing and regulatory review. Each of those steps adds time, cost, and execution risk, so utilities often prefer to expand using the OEM platform that is already installed.

The case study below highlights Silicon Valley, one of the most electricity-constrained and high-demand regions in the United States. Shown are multiple substations surrounding a dense industrial corridor that includes hyperscaler headquarters, advanced manufacturing facilities, and data centers. As illustrated, each substation is constructed with significant excess physical capacity, often with ample open yard space to accommodate additional transformers and switchgear as load increases. This design approach is common across the grid, as substations are typically engineered with expansion in mind. The implication is straightforward: incremental electricity demand is often met not by building entirely new infrastructure from scratch, but by expanding existing substations. Every substation already equipped with GE Vernova hardware therefore represents embedded future expansion opportunity. **As electricity demand scales, the OEM with the largest installed electrification footprint has the greatest built-in runway for incremental growth, positioning larger platforms to compound faster than smaller competitors.**

Case Study: Substation - Data Center Ecosystem in Silicon Valley





GE Vernova's scale and near-term financial capacity allows it to make the most of this dynamic. The company's technology base supports roughly 25% of the world's electricity, and its 10-K discloses 91 manufacturing sites globally, including 33 dedicated to Electrification. In 2025, Electrification generated $9.6B of revenue (+28%), expanded equipment backlog to $30.5B (+53% YoY) and signed over $2B of direct data center orders – which now makes complete sense because extra substation space should literally allow for rapid, 1.5x-3x backlog runway. It just so happens that now hyperscaler demand warrants such expansion. The company has also generated $3.7B of free cash flow in 2025 and ended the year with nearly $9B of cash, providing the balance sheet strength to fund expansion. This has allowed Management to commit ~$6B of cumulative capex from 2025-2028 across the business, and in February 2026 complete the acquisition of the remaining 50% of Prolec GE for $5.275B, adding ~10,000 employees and seven transformer manufacturing sites in the Americas, including five in the U.S.. We can compare this to GE Vernova's electrification competitors: Siemens Energy has announced ~$1B of U.S. investment and 1,500+ new jobs, with large power transformer production ramping toward 2027. Hitachi Energy has also announced ~$1B of U.S. grid manufacturing investment with new capacity targeted closer to 2028.

In short, GE Vernova's existing scale within the industry allows it to (i) secure near-term growth more quickly, (ii) generate free cash flow earlier and reinvest it into accretive capacity and strategic assets, and (iii) deepen its economic moat as switching costs compound over time. Every transformer and switchgear bay GE Vernova installs today increases embedded switching costs and creates natural follow-on demand as substations are expanded in the future. The math is simple: hypothetically, if GE Vernova secures twice the substation buildouts as its competitor, GE Vernova has inherently secured double the runway (on an absolute basis) for Electrification backlog. Thus, **scale compounds: the larger the installed Electrification footprint, the greater the structural runway for incremental growth.** GE Vernova is uniquely positioned to execute this strategy because of its current scale and cash flow generation, which allow it to invest more, meaningfully ahead of competitors and crystalizing its installed-base advantage.

Applications to Valuation

We project Electrification revenue to grow 27% in 2026, driven by 33.1% growth in Grid Solutions, before moderating thereafter – a conservative assumption in our view: Electrification grew 28% in 2025, led by 35.5% growth in Grid Solutions, and that did not yet reflect the incremental substation and manufacturing capacity added through the Prolec acquisition. This will result in top line revenue increasing by 17% in 2026, (in summary) supported by (i) industry tailwainds from greater OEM leverage paired with (ii) structural tailwinds from the electrification sector and GE Vernova's scale, free cash flow generation, and subsequent near-term investment. When paired together, these factors are synergistic and will lead to outsized free cash flow generation that the market has not yet recognized.

Investment Thesis 2: Power infrastructure is consolidating around scaled, qualified suppliers in the bottleneck categories that matter, and GE Vernova is positioned to capture disproportionate value.

Power generation and grid equipment markets are consolidating because customer priorities have shifted. Delivery certainty and execution reliability increasingly matter more than upfront price when projects carry high penalty risk and schedule outcomes determine economics. This preference shift is concentrating market share and pricing power among scaled manufacturers with qualified capacity and service capabilities. GE Vernova is positioned to benefit because it combines a large installed base of roughly 7,000 gas turbines with long-duration services obligations and a strategy to reinvest free cash flow into capacity expansion and targeted bottleneck acquisitions. Management's 2028 outlook of $52 billion revenue, roughly 20 percent adjusted EBITDA margin, and $22 to $24 billion cumulative free cash flow describes how scale converts to profitability and then funds reinvestment that expands scale again.

Demand surge and bottlenecks are making delivery the procurement driver

The first-order driver is a demand surge that is overwhelming supply chains across critical equipment. Electricity demand growth is pushing generation buildout and grid expansion at the same time that transformer, switchgear, and high-voltage component capacity remains constrained. The International Energy Agency expects annual grid investment to rise by roughly 50 percent by 2030. In parallel, U.S. grid-scale utility transformer demand rose sharply between 2019 and 2025 and average delivery times extended to roughly 143 weeks by Q2 2025. These conditions change procurement behavior. When schedule risk and liquidated damages determine project returns, buyers stop optimizing for the lowest bid and instead pay for delivery slots and execution certainty from proven suppliers.

This environment naturally favors incumbents in high-capex, high-fixed-cost manufacturing. Smaller competitors face a difficult choice. They can invest heavily to expand capacity without certainty that they will win enough work to earn adequate returns, or they can remain subscale and lose relevance as buyers consolidate around suppliers with reliable delivery and field execution. The highest quality suppliers can expand more confidently because they have multi-year backlogs and recurring services revenue that smooths cycles. Over time, procurement preference and capital intensity create a sorting mechanism that concentrates activity in the companies that can underwrite risk, qualify capacity, and support assets over decades.

This is not one uniform three-player market, but concentration is accelerating in the constraint nodes

Gas turbines already show concentrated supply dynamics. Data from Global Energy Monitor indicates the top three manufacturers supply a large share of turbine capacity for plants under construction, and concentration appears higher in named development pipelines with backlogs that extend toward 2030. The grid equipment landscape is more fragmented than turbines, but the key point is where the constraints sit. Large power transformers, long-lead switchgear packages, and specific high-voltage components face qualification and manufacturing bottlenecks that do not clear quickly. In those constraint categories, a small number of scaled, qualified suppliers can pull away because buyers cannot substitute away from delivery and quality.

The investment conclusion is that GE Vernova does not need every grid product to become a three-player oligopoly for the thesis to work. The value accrues where lead times are longest, qualification barriers are highest, and failure costs are greatest. If those bottleneck categories consolidate, pricing power and share gains can concentrate even while other grid categories remain competitive and fragmented.

Scale converts to cash flow, and services are the cash flow moat that funds the loop

In constrained markets, scaled OEMs gain two advantages. First, they can be more selective about which contracts they accept and price appropriately for risk and inflation. Second, they can attach long-term service agreements that create recurring cash flow and reinforce customer dependence on the incumbent ecosystem. GE Vernova has explicitly described the current environment as a slots market where incremental volume is monetized through selling scarce delivery positions rather than competing on price alone. Selectivity improves contract mix by avoiding low-quality work and by prioritizing projects where service attachment and lifecycle economics are favorable.

Services are central because they turn equipment leadership into durable cash generation. As of December 31, 2025, GE Vernova's services remaining performance obligations were $85.993 billion, which represented 57 percent of total RPO. Only about 17 percent of that services RPO is expected to be recognized within one year, compared with 37 percent for equipment. This creates long-duration visibility that supports reinvestment and reduces dependence on new equipment cycle timing. The installed base amplifies this effect. GE Vernova has approximately 7,000 gas turbines deployed globally, with about 1,800 units under long-term service agreements that average around 10 years of remaining contract life. Competitors and entrants cannot replicate that position quickly because it requires decades of fleet deployment, parts infrastructure, engineering depth, and field service networks.

The flywheel is real, but investors should track it through measurable checkpoints

The consolidation loop can be described simply. Demand growth and component bottlenecks elevate time-to-delivery as the gating variable. Customers then gravitate toward bankable incumbents, which increases concentration. Concentration enables selectivity and pricing for risk, which improves mix and increases service attachment. Higher margin and more stable cash conversion then fund reinvestment into capacity, standardization, engineering depth, and targeted acquisitions that remove bottlenecks. Reinvestment improves delivery and execution reliability, which drives higher win rates and larger backlogs. The loop repeats and the gap widens.

This mechanism is easiest to underwrite when it is tied to a few measurable checkpoints. The first checkpoint is lead times and evidence of a slots market, which should show up as disciplined pricing and improving contract quality. The second checkpoint is service attachment and services margin, which reflects whether the installed base is being monetized more effectively. The third checkpoint is capacity additions and order conversion, which shows whether reinvestment is translating into throughput and incremental backlog without sacrificing profitability. GE Vernova's 2028 outlook includes a capacity ramp to roughly 24 gigawatts of annualized gas turbine deliveries, which provides a tangible benchmark for the capacity portion of the loop.

GE Vernova's differentiators versus other turbine leaders

The consolidation thesis is not just that scale matters. It is that GE Vernova has specific wedges that translate into wins in a constrained environment. One wedge is the installed base and long-duration services obligations that support cash generation through cycles. Another wedge is the company's willingness to buy constraints and to expand manufacturing footprint where lead times are extreme. The Prolec GE acquisition is a clear example because it adds transformer manufacturing capacity and service infrastructure that would take years to replicate organically. A third wedge is management's stated intent to reinvest cumulative free cash flow into capacity expansion, standardization, and targeted acquisitions, which supports a compounding advantage when customers are prioritizing delivery certainty.

M&A is a bottleneck strategy, and it should be evaluated by mechanism, timing, and feasibility

In this market, targeted acquisitions and partnerships can be strategic necessities rather than optional growth. When constrained components determine project schedules, leaders can buy qualified capacity instead of waiting for bottlenecks to resolve. The Prolec GE transaction demonstrates the logic. It expands manufacturing footprint and adds infrastructure that can improve delivery speed and increase grid attachment. It also positions the company to win more turnkey or bundled scopes as customers prefer fewer counterparties that can reliably deliver.

Potential targets should be framed around the bottleneck they solve and the mechanism by which value is created. Transformer capacity targets support lead time reduction and order conversion. Switchgear and substation capability supports broader project scope and one-stop bidding. High-voltage components remove internal constraints that limit transformer and substation throughput. Aftermarket service acquisitions expand recurring revenue capture and increase fleet reach. Regional scale targets can add manufacturing capacity and market access but often carry higher governance and integration risk. Feasibility matters and should be explicit. Public targets may be expensive in a hot cycle, private equity-owned assets may demand premium pricing, and strategic or national assets may be difficult to acquire even if partnership could be viable.

Potential M&A Targets:

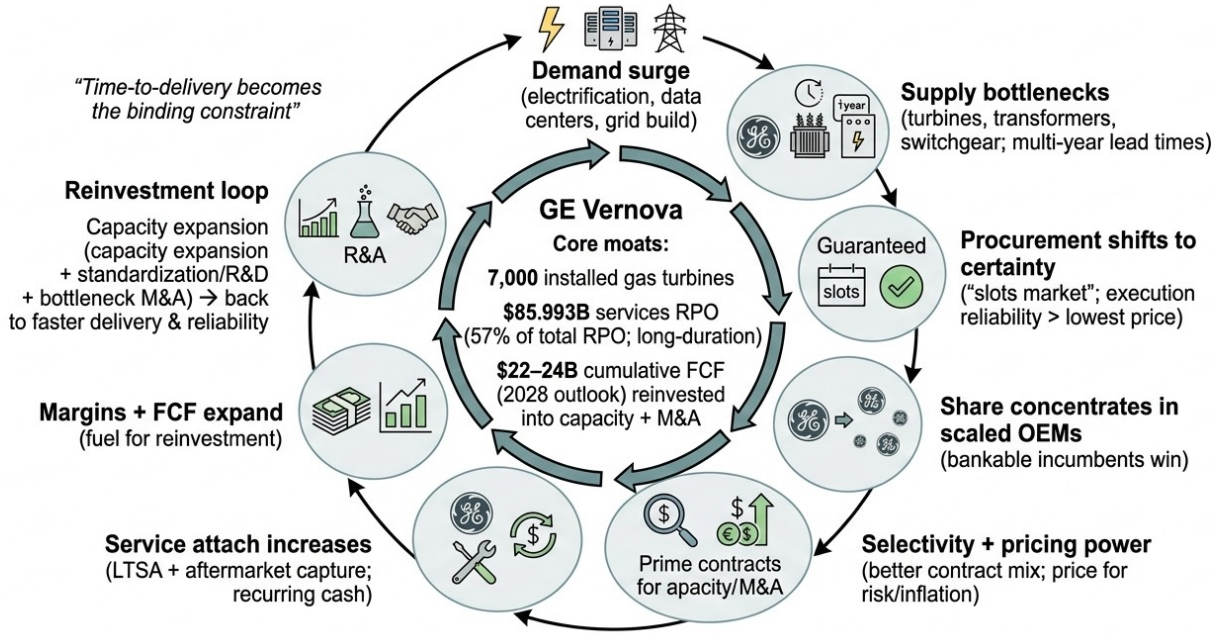
Company	Rationale	Strategic fit	Estimated size (revenue range)	Key risk
Prolec GE	Buy a transformer bottleneck + services to improve delivery speed and grid "attach."	Vertical scale inside Electrification; accelerates N. America manufacturing footprint.	~$3–5B implied (management: "plus ~$4B from Prolec GE").	Integration and execution risk; transformer cycle mean-reversion.
Hammond Power Solutions Inc.	Add dry-type transformer capacity leveraged to data center and industrial loads.	Bolt-on manufacturing + likely cross-selling into grid projects.	~$0.7–0.9B (2024 sales ~$788M).	Multiple risk in "hot" transformer market; integration across geographies.
Powell Industries, Inc.	Acquire switchgear capability amid long lead times; increase project scope per substation.	Complements substation solutions; improves "one-stop" bids.	~$1.0–1.3B (FY2025 revenue ~$1.1B).	Cyclicality to industrial capex; project execution risk.
Arteche	Scale in instrument transformers/protection and power electronics adjacencies.	Expands high-voltage measurement/control content; software/power electronics bridge.	~$0.4–0.6B (2024 sales €447.4M).	Europe-heavy exposure; integration + product liability/qualification.
Trench Group GmbH	Buy critical HV components (e.g., bushings) that bottleneck transformers/substations.	Directly supports transformer and high-voltage assembly throughput.	~$0.8–1.1B (FY2025 revenue €906.5M).	Private-equity ownership / price risk; concentrated component supply chains.
EthosEnergy	Buy independent turbine/generator services to expand aftermarket capture.	Adds recurring services, parts/repair infrastructure, and "fleet agnostic" reach.	~$0.8–1.0B (2024 revenue $894.8M).	Margin volatility on fixed-price contracts; OEM/customer conflicts.
Efacec	Opportunistic carve-out/turnaround for distribution transformers and grid equipment.	Expands EU footprint; complements grid upgrades and T&D projects.	~$0.3–0.4B (owner lists revenues ~€300M).	Turnaround complexity; disclosure limitations; restructuring liabilities.
CG Power and Industrial Solutions Limited	Access India's grid build + transformer/switchgear expansion capacity.	Emerging-market manufacturing scale; potential JV/partial stake logic.	~$1.0–1.3B (FY25 revenue ~USD 1.146B stated).	Control/shareholder complexity; cross-border approvals; integration distance.
Hyosung Heavy Industries Corp.	Buy/partner for UHV transformer and breaker strength in tight US/EU markets.	Adds UHV tech + backlog; accelerates delivery reliability.	~$4–6B (2025 sales 5.96T won).	Low feasibility (strategic/national asset), antitrust, geopolitical constraints.

Targeted M&A: Buy the Bottlenecks (GE Vernova)

	Transformers (capacity constraint)	Switchgear/Substations (scope + lead time)	HV Components (bushings/instrument transformers)	Aftermarket Services (capture + fleet reach)	Regional Scale (India/Asia/EU footprint)
Candidate target companies	**Prolec GE** Strategic lever: shorten lead times Est. revenue range: ~$0.7–0.9B Key risk: inteplate–adds capacity + services	**Powell Industries** Strategic lever: expand one-stop bid Est. revenue range: ~$0.7–0.9B Key risk: cycle mean reversion	**Trench Group** Strategic lever: bushings, HV Est. revenue range: ~$0.7–0.9B Key risk: cycle mean reversion	**EthosEnergy** Strategic lever: increase service attach Est. revenue range: ~$0.7–1.9B Key risk: independent turbine/generator services	**CG Power** Strategic lever: increase service attach Est. revenue range: ~$0.7–1.9B Key risk: Regional Scale; India transformers/ switchgear; JV/partial stake
	Hammond Power Solutions Strategic lever: shorten lead times Est. revenue range: ~$0.7–0.9B Key risk: dry-type; data centers/industrial		**Arteche** Strategic lever: inspand one-stop attach Key risk: instrument instrument transformers/protection		
	Efacec Strategic lever: shorten lead times Est. revenue range: ~$0.7–0.9B Key risk: Transformers / Grid equipment; EU footprint; turnaround				
	Hyosung Heavy Industries Strategic lever: shorten lead times Est. revenue range: ~$0.7–0.9B Key risk: Transformers / HV (UHV); mark as "low feasibility"				

Strategy: acquire/partner where lead times are the constraint; prioritize qualified capacity + recurring service revenue.

Power Infrastructure Consolidation Flywheel (GE Vernova)



Conclusion

Power infrastructure is consolidating fastest in the categories where capacity is scarce, qualification barriers are high, and execution failures are costly. In those bottleneck nodes, delivery certainty and reliability displace lowest price, which concentrates share and expands margins

for scaled, qualified suppliers. GE Vernova enters this regime with a large installed base, $85.993 billion of services RPO, and a stated plan to generate and reinvest $22 to $24 billion of cumulative free cash flow through 2028 while scaling throughput toward roughly 24 gigawatts of annualized gas turbine deliveries. If the checkpoints move in the right direction, meaning lead times stay tight enough to support slot economics, service attachment increases, and capacity additions translate into incremental backlog, the company should capture disproportionate value as consolidation accelerates.

Investment Thesis 3: Market is anchoring on temporary Wind losses while a services-driven Power + Electrification mix shift forces margins higher as legacy contracts roll off

GE Vernova is in the middle of a transition that is distorting reported earnings but improving the underlying economics of the business. Since the spin-off, headline results have been dominated by Wind losses tied to legacy offshore and fixed-price contracts, masking strong growth and margin expansion in Power and Electrification. The revenue build shows total revenue increasing from 34.2B in FY23 to 38.5B in FY25, with a path toward 52B by 2028 driven by Gas Power demand, grid investment, and services growth. The core thesis is that current margins reflect cleanup of the past, while the backlog and mix shift point to structurally higher profitability over the medium term.

Near-Term Wind Losses Mask Improving Backlog Quality

Reported margins remain depressed because GE Vernova is accelerating the burn-off of legacy, loss-making wind contracts, especially offshore fixed-price exposure, creating near-term EBITDA drag of about 400M in 2026. This is occurring alongside an intentional decline in lower-quality onshore wind backlog as management prioritizes standardized, higher-visibility projects. The revenue build shows the mix shifting underneath the noise: total revenue rises from 34.2B in FY23 to 38.5B in FY25, with Power growing from 17.4B to 19.8B and Electrification growing from 6.9B to 9.6B, while Wind declines from 9.8B to 9.1B and remains loss making at roughly negative 6.6 percent EBITDA margin in FY25, or negative 598M EBITDA. Services already represent about 46 percent of revenue and about 57 percent of RPO, but the recognition profile is long dated so improved contracts take time to flow into reported results.

Catalyst: Backlog Reset + Renegotiations + Mix Shift (2027–2029)

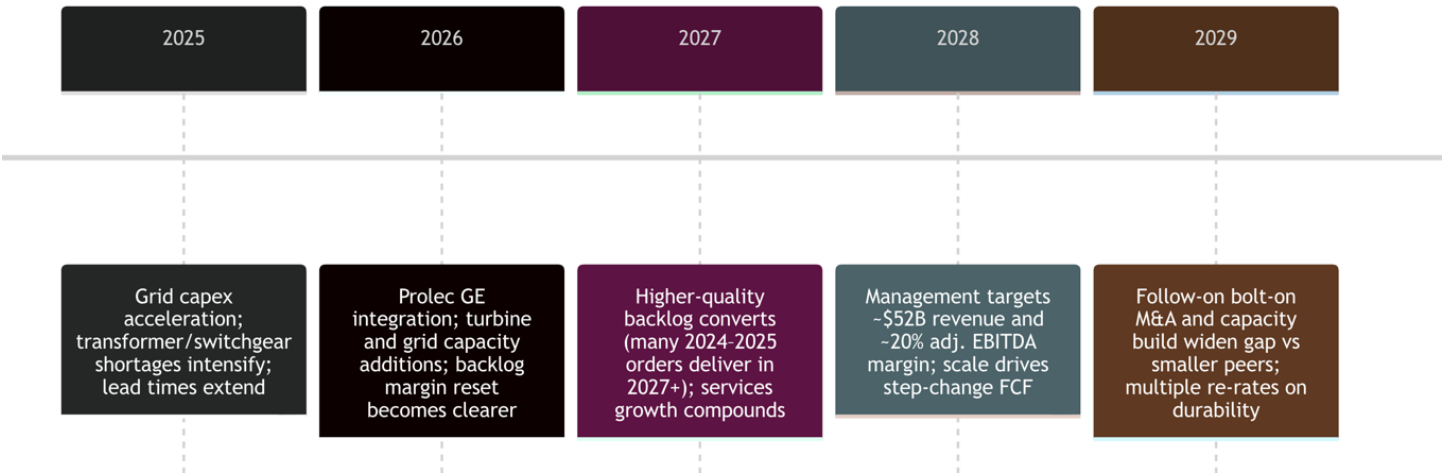
As legacy wind contracts roll off, remaining exposure is addressed through renegotiations and improved contract structures, including better indexation and risk-sharing that reflect current cost structures, while standardized turbine platforms improve predictability and execution. Over the same period, the revenue mix continues rotating toward higher-margin segments shown in the build: Gas Power scales from 13.2B in FY23 to 16.0B in FY25 and benefits from SRAs converting into repriced equipment orders plus a rising services attach rate, while Electrification accelerates on grid expansion and data center driven demand, supported by more than 2B of data center orders signed in 2025 and Grid Solutions scaling from roughly 4.0B in FY23 to 6.6B in FY25. With Power services backlog around 70B and growing, the backlog quality reset becomes visible in consolidated margins as Wind moves from loss drag toward neutral or positive contribution and Electrification margins progress from low single digits toward mid teens.

Margin expansion is not dependent on a cyclical rebound but on structural mechanics embedded in the revenue build. First, backlog burn math works in favor of profitability: as loss-making Wind contracts roll off and are replaced with indexed, risk-adjusted agreements, negative margin revenue declines as a share of total sales. Second, mix shift drives operating leverage. Power and Electrification are already demonstrating mid-teens margin profiles, so as revenue scales toward 52B by 2028 with a larger contribution from these segments, consolidated margins mechanically rise even if Wind only returns to breakeven. If Wind moves from negative 6.6 percent margin to breakeven while Power and Electrification sustain mid-teens margins on a 52B revenue base, consolidated EBITDA expands materially without requiring ambitious assumptions. Third, services carry structurally higher and more stable margins than equipment, and with about 57 percent of RPO tied to services, each incremental dollar of services revenue improves margin durability and reduces earnings volatility. The margin reset is therefore arithmetic, not aspirational.

Mispricing: Market Anchored to Spin-Off Losses, Not Forward Mix

Investors extrapolate current Wind losses as structural rather than transitional and underweight the lag between contract improvement and reported profitability because services revenue recognition is long dated, with only about 17 percent recognized within one year. The market is underestimating the speed of legacy backlog burn-off, the margin uplift from renegotiated and indexed wind contracting and platform standardization, and the scale of Electrification demand tied to AI-driven load growth and grid buildout. With Wind losses tapering after 2026 and the revenue base building toward 52B by 2028, the mix shift toward Power, Electrification, and services drives margin expansion faster than consensus expects and supports a rerating toward a higher-quality industrial multiple.

As legacy Wind contracts burn off and renegotiated, better-structured agreements replace them, the drag on consolidated margins fades. At the same time, Power continues monetizing tight capacity through repriced orders and services attach, while Electrification scales on AI-driven load growth and grid expansion. By 2028 to 2029, the revenue base is larger and tilted toward higher-margin segments, supported by a services backlog that provides recurring visibility. The market is anchoring to depressed 2025 to 2026 results, but the forward mix embedded in the revenue build supports margin expansion and a rerating toward a higher-quality industrial multiple.



Investment Risks and Mitigants

Risk 1: Hyperscaler-Funded Infrastructure May Prove Temporary, Reversing Utility Procurement Dynamics

Risk: Customer-funded buildout creates false sense of sustained demand acceleration

The thesis assumes hyperscalers will continue signing long-term take-or-pay agreements and funding utility infrastructure through CIAC and refundable advances, but if AI capex slows or data center economics deteriorate, these agreements could stall or be renegotiated. If hyperscalers pull back, utilities revert to traditional regulatory capital constraints where price sensitivity returns and competitive RFPs favor lowest-cost bidders, eliminating the upstream leverage shift to OEMs.

The current backlog strength reflects pull-forward of future demand rather than sustained structural acceleration. If electricity load growth normalizes post-AI buildout, the "slots market" pricing power disappears and GE Vernova faces margin compression as capacity comes online into weaker demand, leaving the company with excess manufacturing footprint and deteriorating contract terms.

Mitigant: Structural grid bottlenecks and energy transition create durable multi-decade demand regardless of AI cycle

Even excluding hyperscaler demand, grid infrastructure investment must rise approximately 50% by 2030 per the International Energy Agency to accommodate electrification, industrial reshoring, and renewable integration. U.S. grid-scale transformer demand increased 274% between 2019 and 2025 before most hyperscaler projects materialized, indicating the supply-demand imbalance predates and extends beyond data center buildout. The equipment installed today requires decades of service and eventual replacement, creating annuity-like revenue streams that persist regardless of near-term order volatility.

GE Vernova's $85.993 billion services backlog provides multi-year earnings visibility independent of new equipment orders. With only 17% of services RPO recognized within one year and approximately 1,800 turbines under long-term service agreements averaging 10 years remaining life, the company has built-in cash flow durability that stabilizes results even if equipment orders moderate. The installed base cannot be displaced quickly, and lifecycle economics favor OEM service providers over third-party alternatives.

Risk 2: We Are at Peak Margins and Cyclical Downturn Will Expose Operating Leverage in Reverse

Risk: Current margins reflect temporary capacity scarcity rather than sustainable competitive advantage

The thesis relies on margins expanding from current levels to approximately 20% EBITDA by 2028, but today's pricing power exists only because supply is constrained. As GE Vernova and competitors complete capacity expansions over the next 24 to 36 months, the "slots market" dynamic reverses and customers regain negotiating leverage. Incremental capacity coming online into a normalizing demand environment forces price competition, particularly if smaller competitors become desperate for volume to cover their own fixed cost bases.

High fixed-cost manufacturing exhibits brutal downside operating leverage during cyclical downturns. If revenue growth slows or contracts, the company's expanded manufacturing footprint becomes a liability rather than asset. Fixed costs that generated margin expansion during the upcycle become margin compression during downcycle, and the company faces a choice between underutilizing expensive capacity or accepting

low-margin contracts to keep factories running, either path destroying shareholder value.

Mitigant: Oligopoly structure and service mix provide margin floor that historical cyclical industrials lacked

The three-player market structure (GE Vernova, Siemens Energy, Mitsubishi Power controlling more than 75% of development capacity) creates rational pricing discipline that prevents destructive competition even during softer demand periods. Unlike fragmented industrial markets where dozens of competitors chase volume during downturns, a consolidated oligopoly can manage capacity utilization collectively. Historical aerospace consolidation demonstrates this dynamic: Boeing and Airbus maintained pricing discipline through multiple cycles specifically because duopoly economics eliminated the competitive desperation that drives margin collapse.

Services revenue representing 57% of total RPO creates a margin floor and cash flow stability absent in equipment-only industrial businesses. Service contracts are multi-year, inflation-indexed, and carry structurally higher margins than equipment sales while requiring minimal incremental capex. Even if equipment margins compress during a cyclical downturn, the growing services base provides earnings stability and prevents the kind of cliff-like margin deterioration seen in pure manufacturing plays. The company's guidance shows services growing faster than equipment, meaning the mix shift itself is countercyclical to equipment volatility.

Risk 3: Wind Segment Losses Persist Longer Than Expected, Overwhelming Margin Gains in Power and Electrification

Risk: Legacy offshore contracts contain embedded liabilities that cannot be renegotiated away

Wind segment losses of approximately $598 million EBITDA in FY25 (negative 6.6% margin) assume management can successfully renegotiate fixed-price offshore contracts and standardize turbine platforms to eliminate execution risk. However, many of these contracts contain penalty clauses and customer relationships that limit renegotiation leverage, particularly in European markets where regulatory and political pressure favors project completion over OEM profitability. If technical execution issues persist or offshore projects face further delays, losses could extend beyond 2026 and require additional reserves or write-downs.

The thesis assumes Wind moves from negative 6.6% margin to breakeven by 2027-2028, but achieving this requires not just contract roll-off but also successful platform standardization and supply chain stabilization in an offshore wind industry that has seen widespread cost overruns across all major OEMs. If Siemens Energy and Vestas continue struggling with similar issues, it suggests systemic offshore wind economics are broken rather than company-specific execution problems, meaning GE Vernova's Wind segment may face structural unprofitability that requires exit or divestiture rather than turnaround.

Mitigant: Wind is declining share of revenue mix while Power and Electrification scale absorbs any extended losses

Wind revenue is declining both absolutely and as percentage of total sales, falling from $9.8 billion in FY23 to $9.1 billion in FY25 while total revenue grows from $34.2 billion to $38.5 billion. By 2028, even if Wind remains at current revenue levels, it will represent less than 18% of the $52 billion revenue base, meaning the segment's margin impact on consolidated results diminishes each year. Power and Electrification are scaling fast enough that their absolute EBITDA growth overwhelms Wind losses: if Power and Electrification deliver mid-teens margins on $42 billion combined revenue by 2028, they generate approximately $6.3 billion EBITDA, making even $500 million of Wind losses manageable within consolidated results.

Management has demonstrated willingness to walk away from uneconomic contracts and restructure the Wind business rather than chase volume, as evidenced by intentionally allowing lower-quality onshore backlog to decline. The company is actively renegotiating offshore contracts to include indexation and risk-sharing provisions, and has restructured project execution teams to improve delivery predictability. Even in downside scenario where some offshore projects cannot be saved, the loss is contained to specific legacy contracts rolling off by 2027-2028 rather than ongoing structural losses in new bookings, meaning the earnings trajectory improves regardless of whether Wind reaches breakeven or simply stops losing money at current pace.

Valuation

Revenue Build

Fiscal Year	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Revenues ($000s)													
Power	**17,436**	**18,068**	**19,767**	**22,067**	**24,913**	**28,337**	**31,686**	**35,005**	**38,579**	**42,292**	**46,319**	**49,992**	**52,723**
%Revenue		*51.2%*	*51.3%*	*49.6%*	*49.7%*	*50.1%*	*49.5%*	*48.2%*	*46.9%*	*45.3%*	*43.8%*	*42.5%*	*41.2%*
Gas Power	13,220	14,465	16,006	18,231	20,877	24,043	27,098	30,079	33,329	36,712	40,411	43,775	46,232
%growth		*9.4%*	*10.7%*	*13.9%*	*14.5%*	*15.2%*	*12.7%*	*11.0%*	*10.8%*	*10.1%*	*10.1%*	*8.3%*	*5.6%*
Nuclear Power	827	819	1,018	1,091	1,174	1,267	1,379	1,491	1,598	1,702	1,805	1,905	1,999
%growth		*(1.0%)*	*24.3%*	*7.1%*	*7.6%*	*7.9%*	*8.9%*	*8.1%*	*7.2%*	*6.5%*	*6.0%*	*5.5%*	*5.0%*
Hydro Power	887	781	806	891	994	1,100	1,221	1,358	1,487	1,621	1,752	1,887	2,020
%growth		*(12.0%)*	*3.2%*	*10.6%*	*11.6%*	*10.7%*	*11.0%*	*11.2%*	*9.5%*	*9.0%*	*8.0%*	*7.7%*	*7.1%*
Steam Power	2,502	2,003	1,937	1,854	1,869	1,927	1,988	2,077	2,164	2,257	2,351	2,425	2,472
%growth		*(19.9%)*	*(3.3%)*	*(4.3%)*	*0.8%*	*3.1%*	*3.1%*	*4.5%*	*4.2%*	*4.3%*	*4.2%*	*3.2%*	*1.9%*
Wind	**9,826**	**9,700**	**9,110**	**10,230**	**9,923**	**9,441**	**9,201**	**9,011**	**8,825**	**8,644**	**8,466**	**8,292**	**8,121**
%Revenue		*27.5%*	*23.7%*	*23.0%*	*19.8%*	*16.7%*	*14.4%*	*12.4%*	*10.7%*	*9.3%*	*8.0%*	*7.1%*	*6.4%*
Offshore	7,761	7,781	8,241	9,915	9,688	9,235	9,007	8,827	8,651	8,478	8,308	8,142	7,979
%growth		*0.3%*	*5.9%*	*20.3%*	*(2.3%)*	*(4.7%)*	*(2.5%)*	*(2.0%)*	*(2.0%)*	*(2.0%)*	*(2.0%)*	*(2.0%)*	*(2.0%)*
Onshore	1,455	1,377	652	228	183	164	156	148	141	134	127	121	115
%growth		*(5.4%)*	*(52.7%)*	*(65.0%)*	*(20.0%)*	*(10.0%)*	*(5.0%)*	*(5.0%)*	*(5.0%)*	*(5.0%)*	*(5.0%)*	*(5.0%)*	*(5.0%)*
LM Wind Power	610	542	217	87	52	42	37	36	34	32	31	29	28
%growth		*(11.1%)*	*(60.0%)*	*(60.0%)*	*(40.0%)*	*(20.0%)*	*(10.0%)*	*(5.0%)*	*(5.0%)*	*(5.0%)*	*(5.0%)*	*(5.0%)*	*(5.0%)*
Electrification	**6,899**	**7,550**	**9,642**	**12,234**	**15,300**	**18,831**	**23,139**	**28,567**	**34,920**	**42,449**	**51,032**	**59,265**	**66,984**
%Revenue		*21.4%*	*25.0%*	*27.5%*	*30.5%*	*33.3%*	*36.1%*	*39.4%*	*42.4%*	*45.5%*	*48.2%*	*50.4%*	*52.4%*
Grid Solutions	3,955	4,957	6,620	8,682	11,073	13,811	17,213	21,533	26,686	32,841	40,047	46,967	53,390
%growth		*25.3%*	*33.5%*	*31.1%*	*27.5%*	*24.7%*	*24.6%*	*25.1%*	*23.9%*	*23.1%*	*21.9%*	*17.3%*	*13.7%*
Power Conversion & Storag	1,548	1,676	2,049	2,495	3,091	3,811	4,646	5,679	6,815	8,116	9,435	10,695	11,946
%growth		*8.3%*	*22.3%*	*21.7%*	*23.9%*	*23.3%*	*21.9%*	*22.2%*	*20.0%*	*19.1%*	*16.2%*	*13.4%*	*11.7%*
Electrification Software	874	917	973	1,057	1,137	1,208	1,280	1,356	1,419	1,492	1,550	1,602	1,648
%growth		*4.9%*	*6.1%*	*8.7%*	*7.5%*	*6.2%*	*6.0%*	*5.9%*	*4.7%*	*5.2%*	*3.9%*	*3.4%*	*2.8%*
Solar & Storage Solutions	522												
Total Revenue	**34,161**	**35,318**	**38,519**	**44,531**	**50,136**	**56,608**	**64,025**	**72,584**	**82,324**	**93,385**	**105,817**	**117,548**	**127,829**
%growth		*3.4%*	*9.1%*	*15.6%*	*12.6%*	*12.9%*	*13.1%*	*13.4%*	*13.4%*	*13.4%*	*13.3%*	*11.1%*	*8.7%*

Income Statement

in millions	HISTORICAL PERIOD			FORECAST PERIOD									
	FY2023A	**FY2024A**	**FY2025A**	**FY2026E**	**FY2027E**	**FY2028E**	**FY2029E**	**FY2030E**	**FY2031E**	**FY2032E**	**FY2033E**	**FY2034E**	**FY2035E**
Total Revenue	**33,239.0**	**34,935.0**	**38,068.0**	**44,530.9**	**50,136.5**	**56,608.3**	**64,025.3**	**72,583.5**	**82,324.1**	**93,385.0**	**105,817.1**	**117,548.2**	**127,828.6**
Growth, %		*5.10%*	*8.97%*	*16.98%*	*12.59%*	*12.91%*	*13.10%*	*13.37%*	*13.42%*	*13.44%*	*13.31%*	*11.09%*	*8.75%*
Cost Of Goods Sold	(28,421.0)	(28,850.0)	(30,533.0)	(36,960.7)	(37,101.0)	(41,890.2)	(47,378.8)	(52,986.0)	(60,096.6)	(68,171.0)	(75,130.1)	(83,459.2)	(90,758.3)
% of rev	*-85.50%*	*-82.58%*	*-80.21%*	*-83.00%*	*-74.00%*	*-74.00%*	*-74.00%*	*-73.00%*	*-73.00%*	*-73.00%*	*-71.00%*	*-71.00%*	*-71.00%*
Gross Profit	**4,818.0**	**6,085.0**	**7,535.0**	**7,570.3**	**13,035.5**	**14,718.2**	**16,646.6**	**19,597.6**	**22,227.5**	**25,213.9**	**30,686.9**	**34,089.0**	**37,070.3**
Gross Margin, %	*14.50%*	*17.42%*	*19.79%*	*17.00%*	*26.00%*	*26.00%*	*26.00%*	*27.00%*	*27.00%*	*27.00%*	*29.00%*	*29.00%*	*29.00%*
Selling General & Admin Exp.	(4,845.0)	(4,632.0)	(4,949.0)	(4,808.7)	(4,796.6)	(4,851.4)	(4,818.9)	(4,822.3)	(4,830.9)	(4,824.0)	(4,825.7)	(4,826.9)	(4,825.5)
R & D Exp.	(896.0)	(982.0)	(1,197.0)	(1,025.0)	(1,068.0)	(1,096.7)	(1,063.2)	(1,076.0)	(1,078.6)	(1,072.6)	(1,075.7)	(1,075.6)	(1,074.7)
Operating Income	**(923.0)**	**471.0**	**1,389.0**	**1,736.6**	**7,170.9**	**8,770.1**	**10,764.5**	**13,699.3**	**16,318.0**	**19,317.3**	**24,785.5**	**28,186.5**	**31,170.1**
Operating Margin, %	*-2.78%*	*1.35%*	*3.65%*	*3.90%*	*14.30%*	*15.49%*	*16.81%*	*18.87%*	*19.82%*	*20.69%*	*23.42%*	*23.98%*	*24.38%*
Interest and Other Financial Charges - net	(98.0)	120.0	186.0	69.3	125.1	126.8	107.1	119.7	117.9	114.9	117.5	116.7	116.4
Non-Operating Benefit Income	567.0	536.0	459.0	520.7	505.2	495.0	507.0	502.4	501.4	503.6	502.5	502.5	502.8
Other Income / Expense - net	324.0	1,372.0	795.0	830.3	999.1	874.8	901.4	925.1	900.4	909.0	911.5	907.0	909.2
EBT	**(130.0)**	**2,499.0**	**2,829.0**	**3,156.9**	**8,800.4**	**10,266.7**	**12,279.9**	**15,246.5**	**17,837.8**	**20,844.8**	**26,317.0**	**29,712.7**	**32,698.5**
Provision / Benefit for Income Taxes	(344.0)	(939.0)	2,051.0	(789.2)	(2,200.1)	(2,566.7)	(3,070.0)	(3,811.6)	(4,459.4)	(5,211.2)	(6,579.2)	(7,428.2)	(8,174.6)
% of EBT				*25.00%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*	*25.00%*
Net Income	**(474.0)**	**1,560.0**	**4,880.0**	**2,367.7**	**6,600.3**	**7,700.0**	**9,210.0**	**11,434.9**	**13,378.3**	**15,633.6**	**19,737.7**	**22,284.5**	**24,523.9**
Net Margin, %	*-1.43%*	*4.47%*	*12.82%*	*5.32%*	*13.16%*	*13.60%*	*14.38%*	*15.75%*	*16.25%*	*16.74%*	*18.65%*	*18.96%*	*19.18%*

Cash Flow Statement

				FORECAST PERIOD									
	FY2023A	**FY2024A**	**FY2025A**	**FY2026E**	**FY2027E**	**FY2028E**	**FY2029E**	**FY2030E**	**FY2031E**	**FY2032E**	**FY2033E**	**FY2034E**	**FY2035E**
Net Income	(474.0)	1,559.0	4,879.0	2,367.7	6,600.3	7,700.0	9,210.0	11,434.9	13,378.3	15,633.6	19,737.7	22,284.5	24,523.9
Depreciation and amortization of property, plant, and equipment	724.0	895.0	615.0	872.7	1,063.4	1,267.1	1,488.3	1,731.2	2,001.0	2,302.3	2,640.2	3,019.4	3,428.7
Amortization of intangible assets	240.0	277.0	238.0	212.8	1,702.1	2,082.0	2,350.8	2,540.8	2,675.2	2,770.3	2,837.6	2,885.1	2,918.7
Other operating activities	(58.0)	(918.0)	(1,372.0)	(782.7)	(782.7)	(782.7)	(782.7)	(782.7)	(782.7)	(782.7)	(782.7)	(782.7)	(782.7)
Other adjustments	(376.0)	(350.0)	(3,469.0)	(1,398.3)	(1,398.3)	(1,398.3)	(1,398.3)	(1,398.3)	(1,398.3)	(1,398.3)	(1,398.3)	(1,398.3)	(1,398.3)
Changes in operating working capital	1,130.0	1,119.0	4,097.0	(5,073.8)	(317.7)	522.3	33.4	43.1	127.2	53.6	50.2	128.0	(160.2)
Net Cash Flow from Operating Activities	**1,186.0**	**2,582.0**	**4,988.0**	**(3,801.6)**	**6,867.1**	**9,390.5**	**10,901.4**	**13,569.0**	**16,000.7**	**18,578.9**	**23,084.7**	**26,136.0**	**28,530.1**
Additions to property, plant, and equipment and internal-use software	(744.0)	(883.0)	(1,277.0)	(2,226.5)	(2,506.8)	(2,830.4)	(3,201.3)	(3,629.2)	(4,116.2)	(4,669.2)	(5,290.9)	(5,877.4)	(6,391.4)
Dispositions of property, plant, and equipment	60.0	25.0	39.0	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3	41.3
Purchases of and contributions to equity method investments	(83.0)	(114.0)	(87.0)	-	-	-	-	-	-	-	-	-	-
Sales of and distributions from equity method investments	232.0	244.0	464.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Acquisition on Business Net of Cash Acquired	-	-	-	(5,300.0)	(3,000.0)	(3,000.0)	(3,000.0)	(3,000.0)	(3,000.0)	(3,000.0)	(3,000.0)	(3,000.0)	(3,000.0)
Proceeds from principal business dispositions	-	813.0	60.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0
All other investing activities	(199.0)	(122.0)	47.0	(91.3)	(91.3)	(91.3)	(91.3)	(91.3)	(91.3)	(91.3)	(91.3)	(91.3)	(91.3)
Net Cash Flow from Investing Activities	**(734.0)**	**(37.0)**	**(754.0)**	**(7,376.5)**	**(5,356.8)**	**(5,680.4)**	**(6,051.3)**	**(6,479.2)**	**(6,966.2)**	**(7,519.2)**	**(8,140.9)**	**(8,727.4)**	**(9,241.4)**
Net increase / decrease in borrowings of maturities of 90 days or less	16.0	(23.0)	-	-	-	-	-	-	-	-	-	-	-
Transfers from / to parent	(361.0)	2,933.0	-	-	-	-	-	-	-	-	-	-	-
Dividends paid to stockholders	-	-	(275.0)	-	-	-	-	-	-	-	-	-	-
Other financing activities	(63.0)	742.0	(3,537.0)	-	-	-	-	-	-	-	-	-	-
Net Cash Flow from Financing Activities	**(408.0)**	**3,652.0**	**(3,812.0)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Cash, cash equivalents, and restricted cash at beginning of period	**2,067.0**	**1,551.0**	**8,205.0**	**8,849.0**	**(2,329.1)**	**(818.8)**	**2,891.2**	**7,741.4**	**14,831.1**	**23,865.6**	**34,925.3**	**49,869.1**	**67,277.7**
Net change in cash	44.0	6,197.0	422.0	(11,178.1)	1,510.3	3,710.0	4,850.1	7,089.8	9,034.5	11,059.6	14,943.9	17,408.6	19,288.6
Effect of currency exchange rate	22.0	(147.0)	224.0	-	-	-	-	-	-	-	-	-	-
Net change in cash classified within businesses held for sale	(582.0)	603.0	(2.0)	-	-	-	-	-	-	-	-	-	-
Increase / decrease in cash, cash equivalents, and restricted cash	(516.0)	6,653.0	644.0	(11,178.1)	1,510.3	3,710.0	4,850.1	7,089.8	9,034.5	11,059.6	14,943.9	17,408.6	19,288.6
Cash, cash equivalents, and restricted cash as of end of the period	**1,551.0**	**8,204.0**	**8,849.0**	**(2,329.1)**	**(818.8)**	**2,891.2**	**7,741.4**	**14,831.1**	**23,865.6**	**34,925.3**	**49,869.1**	**67,277.7**	**86,566.4**
Net Working Capital													
Decrease / increase in current receivables	(839.0)	(1,297.0)	(1,928.0)	(11,194.9)	(2,643.2)	(3,051.7)	(3,497.4)	(4,035.5)	(4,593.0)	(5,215.6)	(5,862.1)	(5,531.6)	(4,847.5)
Decrease / increase in inventories, including deferred inventory costs	(240.0)	(641.0)	(1,433.0)	1,637.2	(1,850.8)	(40.4)	(1,379.0)	(1,580.4)	(1,614.6)	(2,047.5)	(2,325.0)	(2,003.8)	(2,398.3)
Decrease / increase in current contract assets	113.0	(409.0)	(456.0)	(3,620.0)	(1,625.6)	(1,876.8)	(2,150.9)	(2,481.9)	(2,824.8)	(3,207.7)	(3,605.3)	(3,402.0)	(2,981.3)
Increase / decrease in accounts payable and equipment project payables	(716.0)	667.0	(105.0)	(3,745.5)	1,065.9	23.3	794.2	910.2	929.9	1,179.2	1,339.0	1,154.1	1,381.3
Increase / decrease in contract liabilities and current deferred income	2,812.0	2,799.0	8,019.0	11,849.4	4,736.0	5,467.9	6,266.5	7,230.7	8,229.6	9,345.2	10,503.6	9,911.4	8,685.7
Total change in operating working capital	**1,130.0**	**1,119.0**	**4,097.0**	**(5,073.8)**	**(317.7)**	**522.3**	**33.4**	**43.1**	**127.2**	**53.6**	**50.2**	**128.0**	**(160.2)**

Balance Sheet

				FORECAST PERIOD									
	Dec-31-2023	Dec-31-2024	Dec-31-2025	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
ASSETS													
Cash, cash equivalents, and restricted cash	1,551	8,205	8,848	(2,329)	(819)	2,891	7,741	14,831	23,866	34,925	49,869	67,278	86,566
Current receivables - net - nonrelated party	7,409	8,177	9,803	20,998	23,641	26,693	30,190	34,226	38,819	44,034	49,896	55,428	60,276
Inventories, including deferred inventory costs	8,253	8,587	10,429	8,792	10,643	10,683	12,062	13,642	15,257	17,305	19,630	21,633	24,032
Current contract assets	8,339	8,621	9,294	12,914	14,540	16,416	18,567	21,049	23,874	27,082	30,687	34,089	37,070
All other current assets	352	564	1,445										
Assets of business held for sale	1,444	-	396										
Current receivables - net - related party	80	-	-										
Total Current Assets	**27,428**	**34,153**	**40,216**	**40,375**	**48,004**	**56,683**	**68,561**	**83,748**	**101,815**	**123,346**	**150,082**	**178,428**	**207,944**
Property, plant, and equipment - net	5,228	5,150	6,006	7,319	8,721	10,243	11,914	13,771	15,845	18,170	20,780	23,596	26,518
Goodwill	4,437	4,263	4,439	4,380	4,380	4,365	4,391	4,379	4,379	4,378	4,382	4,379	4,380
Intangible assets - net	1,042	813	727	5,814	7,112	8,030	8,679	9,139	9,463	9,693	9,855	9,970	10,052
Contract and other deferred assets	621	555	378	518	484	460	487	477	475	480	477	477	478
Equity method investments	3,555	2,149	1,834	2,513	2,165	2,171	2,283	2,206	2,220	2,236	2,221	2,226	2,228
Deferred income taxes	1,582	1,639	5,321	2,847	3,269	3,812	3,310	3,464	3,529	3,434	3,475	3,479	3,463
All other assets	2,228	2,763	4,095	3,029	3,296	3,473	3,266	3,345	3,361	3,324	3,343	3,343	3,337
Total Non-current Assets	**18,693**	**17,332**	**22,800**	**26,419**	**29,426**	**32,554**	**34,330**	**36,780**	**39,271**	**41,716**	**44,533**	**47,471**	**50,454**
Total assets	**46,121**	**51,485**	**63,016**	**66,794**	**77,430**	**89,237**	**102,891**	**120,528**	**141,086**	**165,061**	**194,615**	**225,899**	**258,398**
LIABILITIES													
Accounts payable and equipment project payables - nonrelated party	7,900	8,602	8,809	5,063	6,129	6,153	6,947	7,857	8,787	9,966	11,305	12,459	13,841
Accounts payable and equipment project payables - related party	532	-	-										
Accounts payable and equipment project payables	8,432	8,602	8,809	5,063	6,129	6,153	6,947	7,857	8,787	9,966	11,305	12,459	13,841
Contract liabilities and deferred income	15,074	17,587	25,774	37,623	42,359	47,827	54,094	61,325	69,554	78,899	89,403	99,314	108,000
All other current liabilities	4,352	5,496	6,310										
Liabilities of business held for sale	1,448	-	79										
Current Liabilities	**29,306**	**31,685**	**40,972**	**42,687**	**48,489**	**53,980**	**61,041**	**69,182**	**78,341**	**88,866**	**100,708**	**111,774**	**121,841**
Deferred income taxes	382	827	1,162	790	790	892	909	845	859	876	872	863	868
Non-current compensation and benefits	3,273	3,264	3,171	3,236	3,236	3,227	3,217	3,229	3,227	3,225	3,225	3,227	3,226
All other liabilities	4,780	5,116	5,416	5,104	5,104	5,185	5,202	5,149	5,160	5,174	5,171	5,164	5,167
Noncurrent Liabilities	8,435	9,207	9,749	**9,130**	**9,130**	**9,304**	**9,328**	**9,223**	**9,247**	**9,276**	**9,268**	**9,254**	**9,261**
Total Liabilities	**37,741**	**40,892**	**50,720**	**51,817**	**57,619**	**63,284**	**70,369**	**78,405**	**87,588**	**98,141**	**109,977**	**121,027**	**131,102**
EQUITY													
Common stock	-	3	3	3	3	3	3	3	3	3	3	3	3
Additional paid-in capital	-	9,733	9,813	9,813	9,813	9,813	9,813	9,813	9,813	9,813	9,813	9,813	9,813
Retained earnings	-	1,611	6,154	8,694	13,529	19,671	26,240	35,841	47,217	60,638	78,357	98,590	121,014
Treasury common stock, at cost	-	(43)	(3,385)	(3,385)	(3,385)	(3,385)	(3,385)	(3,385)	(3,385)	(3,385)	(3,385)	(3,385)	(3,385)
Net parent investment	8,051	-	-	-	-	-	-	-	-	-	-	-	-
Accumulated other comprehensive income / loss - net attributable to GEV	(635)	(1,759)	(1,407)	(1,267)	(1,267)	(1,267)	(1,267)	(1,267)	(1,267)	(1,267)	(1,267)	(1,267)	(1,267)
Total equity attributable to GE Vernova	**7,416**	**9,546**	**11,178**	**13,858**	**18,693**	**24,835**	**31,404**	**41,005**	**52,381**	**65,802**	**83,521**	**103,754**	**126,178**
Noncontrolling interests	964	1,047	1,118	1,118	1,118	1,118	1,118	1,118	1,118	1,118	1,118	1,118	1,118
Total equity	**8,380**	**10,593**	**12,296**	**14,976**	**19,811**	**25,953**	**32,522**	**42,123**	**53,499**	**66,920**	**84,639**	**104,872**	**127,296**
Total liabilities and equity	**46,121**	**51,485**	**63,016**	**66,794**	**77,430**	**89,237**	**102,891**	**120,528**	**141,086**	**165,061**	**194,615**	**225,899**	**258,398**

				FORECAST PERIOD									
	Dec-31-2023	Dec-31-2024	Dec-31-2025	FY2026E	FY2027E	FY2028E	FY2029E	FY2030E	FY2031E	FY2032E	FY2033E	FY2034E	FY2035E
ASSUMPTIONS													
Working Capital													
Sales	33239	34935	38068	44530.93	50136.4875	56608.31095	64025.3459	72583.53777	82324.06393	93384.98071	105817.056	117548.2069	127828.5644
Cost of Sales	-28421	-28850	-30533	-30533	-36961	-37101	-41890	-47379	-52986	-60097	-68171	-75130	-83459
Days of Sales Outstanding	169.36	171.14	172.11	172.11	172.11	172.11	172.11	172.11	172.11	172.11	172.11	172.11	172.11
Days of Inventory on Hand	90.01	95.71	105.10	105.10	105.10	105.10	105.10	105.10	105.10	105.10	105.10	105.10	105.10
Days of Payables Outstanding	56.76	60.16	60.53	60.53	60.53	60.53	60.53	60.53	60.53	60.53	60.53	60.53	60.53
Other CA (% of Sales)	30%	26%	29%	29%	29%	29%	29%	29%	29%	29%	29%	29%	29%
Other CL (% of Sales)	63%	66%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%	84%
Accounts Receivable	7,489	8,177	9,803	20998	23641	26693	30190	34226	38819	44034	49896	55428	60276
Inventory	8,253	8,587	10,429	8792	10643	10683	12062	13642	15257	17305	19630	21633	24032
Accounts Payable	8,432	8,602	8,809	5063	6129	6153	6947	7857	8787	9966	11305	12459	13841
Other Current Assets	10,135	9185	11135	12914	14540	16416	18567	21049	23874	27082	30687	34089	37070
Other Current Liabilities	20,874	23,083	32,163	37623	42359	47827	54094	61325	69554	78899	89403	99314	108000
Net Working Capital	(3,429)	-5736	-9605	17	334	-188	-221	-264	-391	-445	-495	-623	-463
Change in Net Working Capital		(2,307)	-3869	9622	318	-522	-33	-43	-127	-54	-50	-128	160
PP&E													
Capex (% of Sales)		2.53%	3.35%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Depreciation (% of Beginning Net PP&E)		17.12%	11.94%	14.53%	14.53%	14.53%	14.53%	14.53%	14.53%	14.53%	14.53%	14.53%	14.53%
Beginning Net PP&E Balance		5,228	5,150	6,006	7,319	8,721	10,243	11,914	13,771	15,845	18,170	20,780	23,596
(+) Capital Expenditures		883	1277	2227	2507	2830	3201	3629	4116	4669	5291	5877	6391
(-) Depreciation	-724	-895	-615	-873	-1063	-1267	-1488	-1731	-2001	-2302	-2640	-3019	-3429
(-) Dispositions	-60	-25	-39	-41	-41	-41	-41	-41	-41	-41	-41	-41	-41
Ending Net PP&E Balance	5,228	5,150	6,006	7319	8721	10243	11914	13771	15845	18170	20780	23596	26518
Intangibles													
Ammortization (% of Beginning Intangible Assets)		26.58%	29.27%	29.27%	29.27%	29.27%	29.27%	29.27%	29.27%	29.27%	29.27%	29.27%	29.27%
Beginning Intangible Asset Balance		1,042	813	727	5,814	7,112	8,030	8,679	9,139	9,463	9,693	9,855	9,970
(+) Acquistion of Businesses		48	152	5,300	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000	3,000
(-) Amortization	-240	-277	-238	-213	-1702	-2082	-2351	-2541	-2675	-2770	-2838	-2885	-2919
Ending Intangible Asset Balance	1,042	813	727	5,814	7,112	8,030	8,679	9,139	9,463	9,693	9,855	9,970	10,052
Retained Earnings													
Net Income				2,368	6,600	7,700	9,210	11,435	13,378	15,634	19,738	22,285	24,524
(-) Dividends Paid				0	0	0	0	0	0	0	0	0	0
Retained Earnings	-	1611	6154	8,522	13,529	19,671	26,240	35,841	47,217	60,638	78,357	98,590	121,014

Discounted Cash Flow Analysis

	HISTORICAL			PROJECTED									
Year	2023A	2024A	2025A	2026E	2027E	2028E	2029E	2030E	2031E	2032E	2033E	2034E	2035E
Revenue	33,239.0	34,935.0	38,068.0	44,530.9	50,136.5	56,608.3	64,025.3	72,583.5	82,324.1	93,385.0	105,817.1	117,548.2	127,828.6
revenue growth		*5.10%*	*8.97%*	*16.98%*	*12.59%*	*12.91%*	*13.10%*	*13.37%*	*13.42%*	*13.44%*	*13.31%*	*11.09%*	*8.75%*
EBIT	(923.0)	471.0	1,389.0	1,736.6	7,170.9	8,770.1	10,764.5	13,699.3	16,318.0	19,317.3	24,785.5	28,186.5	31,170.1
%rev	*-2.78%*	*1.35%*	*3.65%*	*3.90%*	*14.30%*	*15.49%*	*16.81%*	*18.87%*	*19.82%*	*20.69%*	*23.42%*	*23.98%*	*24.38%*
(+) D&A	724.0	895.0	615.0	872.7	1,063.4	1,267.1	1,488.3	1,731.2	2,001.0	2,302.3	2,640.2	3,019.4	3,428.7
%rev	*2.18%*	*2.56%*	*1.62%*	*1.96%*	*2.12%*	*2.24%*	*2.32%*	*2.39%*	*2.43%*	*2.47%*	*2.50%*	*2.57%*	*2.68%*
(-) CapEx	(744.0)	(883.0)	(1,277.0)	(2,226.5)	(2,506.8)	(2,830.4)	(3,201.3)	(3,629.2)	(4,116.2)	(4,669.2)	(5,290.9)	(5,877.4)	(6,391.4)
%rev	*-2.24%*	*-2.53%*	*-3.35%*	*-5.00%*	*-5.00%*	*-5.00%*	*-5.00%*	*-5.00%*	*-5.00%*	*-5.00%*	*-5.00%*	*-5.00%*	*-5.00%*
(-) Change in NWC	1,130.0	1,119.0	4,097.0	(5,185.2)	(331.7)	506.1	14.8	21.7	102.8	26.0	19.1	98.6	(185.9)
FCF	380.8	1,503.1	4,532.3	(5,167.2)	3,889.9	5,871.2	6,805.8	8,946.2	10,878.8	12,919.7	16,949.1	19,507.9	21,475.7
Discounted FCF				(4,795.5)	3,350.5	4,693.2	5,049.0	6,159.5	6,951.3	7,661.7	9,328.2	9,964.2	10,180.3

WACC Calculation	
Risk Free	4.09%
Unlevered Beta	0.50
Levered Beta	0.50
Equity Risk Premium	7.44%
Effective Tax Rate	21.00%
Cost of Equity	7.84%
Cost of Debt	3.40%
Current Stock Price	802.0
Shares Outstanding	269.5
Market Cap	216,197.7
Total Debt	3,796.0
Net Debt	(5,139.0)
Percent Equity	98.27%
Percent Debt	1.73%
WACC	**7.75%**

Terminal Value: Gordon Growth Method	
Terminal Growth Rate	2.50%
Terminal Value	**419,260**
Present Value of TV	198,745
Sum of Near Term Cash Flows	58,542
Implied Enterprise Value	257,287
Implied Equity Value	**262,426**
Implied Share Price	973.75
Current Share Price	876.46
Upside	**11.10%**

	WACC							
	11.1%	7.7%	8.2%	8.7%	9.2%	9.7%	10.2%	10.7%
4.0%		48.8%	28.6%	12.8%	0.1%	-10.3%	-19.0%	-26.4%
3.5%		33.8%	17.3%	4.0%	-6.9%	-15.9%	-23.6%	-30.2%
3.0%		21.9%	8.1%	-3.2%	-12.7%	-20.7%	-27.5%	-33.5%
Terminal Growth R 2.5%		12.4%	0.6%	-9.3%	-17.7%	-24.8%	-31.0%	-36.3%
2.0%		4.5%	-5.8%	-14.5%	-21.9%	-28.4%	-34.0%	-38.9%
1.5%		-2.1%	-11.2%	-18.9%	-25.6%	-31.5%	-36.6%	-41.2%
1.0%		-7.7%	-15.8%	-22.8%	-28.9%	-34.3%	-39.0%	-43.2%

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promontory investment research

Paymentus Holdings, Inc.

Financials
Winter 2026

Investment Overview

We recommend a BUY on Paymentus Holdings (NYSE: PAY) at a price target of $29.57 (28.00% implied upside) to be realized over the next 5 years as the market is undervaluing a company with an accelerated network effect, strong future enterprise revenue, and frictionless international expansion.

Investment thesis overview:

Thesis 1: Market overestimates the timeline of Paymentus' IPN network, which is their proprietary ecosystem connecting billers and customers. The firm's push into banks and insurance verticals will lead to sticky revenue and transaction volume growth that act as a bulwark against the belief that Paymentus is a cyclical company.

Thesis 2: Market is not fully pricing the upside derived from Paymentus' expansion into the enterprise segment. Enterprise billers provide further utility and accelerate the aforementioned network effect by providing further utility to the IPN.

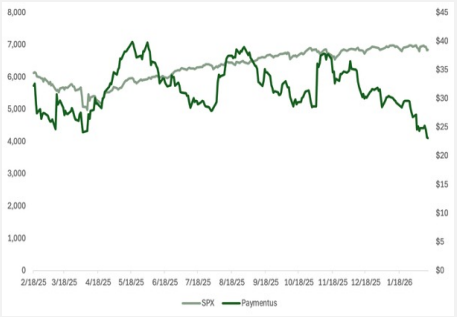
Thesis 3: Market overestimates the market penetration costs from Paymentus' long term global expansion plan. The firm is only priced like a domestic company with no room to grow internationally.

NYSE: PAY

Rating:	Buy
Price: (at close, 02/13/26)	$23.10
Recommendation	$29.57

52 week range	$	22.65 - 40.43
Shares outstanding	mn	125.98
Market capitalization	$bn	2.9
EPS (TTM)	$	0.47
Consensus	$	31.71
Sector		Payments Technol-
Revenue		$1197 million

Price performance



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Company Overview

Paymentus is a cloud-based bill payment solutions provider that delivers bills on behalf of billers and collects payments from customers via a unified digital payment platform. By offering a unified payments experience, improving bill conversion, streamline payment analytics, and increase proportion of auto pay for these businesses. They serve billing entities across all sizes and industries like insurance and small businesses. Paymentus has 2200 clients in North America, and its platform has been used by 46mm consumers, implying 13% of the total U.S. population. Paymentus operates primarily in the United States, with some operations in Canada and India. On a Rule of 40 basis, Paymentus is a 61% company.

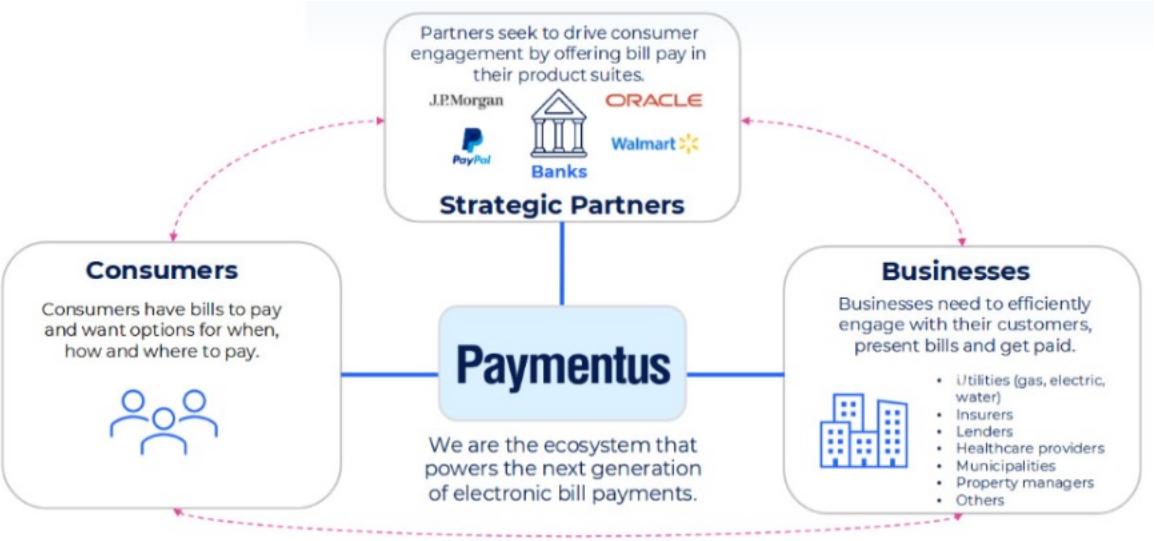
Paymentus went public on the New York Stock Exchange on May 26, 2021, pricing its initial public offering at $21 per share, which implied an equity valuation of approximately $2.4 billion. As of November 2025, Paymentus trades at an estimated market capitalization of $4.3 billion and reported 2024 revenue of approximately $800 million. Paymentus was founded in 2004 by Dushyant Sharma, the current CEO, and the company is headquartered in Charlotte, North Carolina.

Management

Paymentus is led by Dushyant Sharma, who founded Derivion (an e-billing ASP automating bill delivery that was acquired by Metavante) prior to taking charge as CEO of Paymentus. CFO Sanjay Kalra joined Paymentus in 2023, spearheading measures to help Paymentus maintain operating leverage and navigate inflationary pressures, such as inflation-adjustable pricing. Paymentus management's long-term vision and prudence have enabled strong backlog growth and execution, amplifying its partner network and reach.

Product Overview

Billing and Payments: Paymentus delivers bills on behalf of businesses and facilitates the collection of payments from consumers. The company utilizes merchant processors to act as collection and paying agents, whereby the merchant processor receives funds from customers and forwards such funds to the biller based on instructions received from the company. From a consumer perspective, the omni-channel payment infrastructure allows for ease in selecting and paying using people's preferred payment methods across industries and offerings in healthcare, education, subscriptions, and tax payment. From a biller perspective, Paymentus offers a lot more consumer payment insights via the Paymentus Agent Dashboard, which generates analytics and insights based on specific biller's payment activity.



Banking and Fintech: Paymentus offers the Instant Payment Network, an integrated real-time payment network. The platform enables fintech partners to integrate Paymentus capabilities to support bill management, loan repayments, instant money transfers, and peer-to-peer transfers.

Developers: Paymentus offers company-specific integrations through a developer portal that provides access to its library of application programming interfaces and a testing environment. The company supports multiple integration models, including Fully Hosted, iFrame Integration, and API Integration, depending on the level of automation desired by users.

Business Center: Paymentus offers A/R and A/P management solutions that integrate with customers' existing accounting systems. The platform enables automated data entry and configurable approval rules to streamline payment workflows. Business Center is offered through a subscription-based pricing model, with tiers being Essentials ($49 per month for up to 20 users) and an Enterprise tier available via custom quotation, in addition to transaction-based fees.

Profit Model: Paymentus provides an integrated business finance management solution for small and medium-sized businesses. The PROFIT offering includes prepaid business cards, budgeting tools, business banking, automated bookkeeping, invoicing, and payments. The product is offered through a tiered subscription model, including Free, Growth ($29), Take Off ($69), and Premium ($109) plans.

From an infrastructure setup perspective, Paymentus is developed on a single code base which allows the company to easily deploy new features and tools across its entire biller base simultaneously. Integration is achieved through a single point of connection to billers' core financial and operating systems, also making the onboarding process for customers easier.

Revenue and Cost Drivers

Revenue	Fee per Transaction	Direct Transaction Costs	Client Service Costs	Contribution Profit
# of Transactions	Convenience Fee	Interchange Fees	Product Support	Gross Profit
Fee per Transaction	Absorbed Fee	Assessment Fees	Client Implementation	(+) COGS
		Network Fees	Customer Care	(-) Network Fees

Key Initiatives

Paymentus management has defined 3 growth horizons that guides its strategy (see figure below).

Since its acquisition of Tele-Works in April 2014, Paymentus has greatly scaled its presence and dominance in the utilities sector, serving small to mid-sized utility providers and achieving strong unit economics. Paymentus is now adopting a "vertical agnostic" approach by continuously onboarding clients from different verticals, including insurance, government agencies, telecommunications, financial services, and property management. It has also seen strength in the large enterprise segment of the market.

Paymentus is specifically targeting banks to accelerate its platform's growth, with strong demand from mid-tier banks and credit unions for its Integrated Payment Network (IPN). It catalyzed this initiative with the $152.2 million acquisition of the financial technology company Payveris, providing access to Payveris's MoveMoney platform (which allows financial institutions offer digital money movement to customers) and its unified P2P and A2A capabilities delivered on a single payment rail, serving 265 banks and credit unions. Paymentus has strategic partnerships with JPMorgan Chase, U.S. Bank, and Citizens Financial Group.

Industry Overview

The bill payment industry has undergone a technological transformation as billers, financial institutions, and consumers demand integrated Electronic Bill Presentment and Payment Solutions (EBPP). EBPP solutions offer reduced processing times, lower costs, and enhanced security. Paymentus operates as a provider of this critical financial infrastructure, operating in an industry that serves clients across utilities, government, insurance, financial services, and more. The global market for EBPP is promising, sized at 29.4 billion bills in 2024 and projected to reach 42.1 billion bills by 2030, representing a CAGR of 6.2%. Domestically, the U.S. market currently processes approximately 16 billion to 17 billion bills annually. These factors have led the market size to be estimated at $4,190.35 million in 2026 and projected to reach $15,585.32 million by 2035.

Competition

The EBPP market is fragmented, competitive, and rapidly evolving. The industry is comprised of legacy solution providers, in-house platforms built by large financial institutions, and other fintech vendors. Paymentus is unique in the industry as EBPP is the firm's main product, while players of similar size view EBPP as part of a portfolio of services they can offer clients. Pure play EBPP competitors besides Paymentus are typically smaller, private, and concentrated into certain industry coverages. As a result of offering a similar product, providers differentiate themselves through their speed of implementation, breadth of channels, and security.

Competitor Category	Characteristics	Offerings	Example Companies
Legacy Solution Providers	EBPP service is often built through acquisitions and is paired with other core products	Offer solutions that can be bundled alongside EBPP services	Fiserv (2007, CheckFree) ACL Worldwide (2013, Official Payments)
Financial Institutions	Traditionally held 70%-90% of the bill payment market share, now down to approximately 20% Some players utilize fintech vendors as their EBPP service	Provide internally developed solutions for EBPP to their own clients. Maintains security and creates a seamless experience	Truist, KeyBank, First Citizens Bank
Fintech Vendors	Often focused on the SMB (Small to Midsize Business) side of the market along with specialized industries	Smaller focus field allows deeper specialization making firms attractive for certain industries	Invoice Cloud, Direct Biller

Competitors

The competitors in the market can also be segmented into companies that offer EBPP as part of their product portfolio, or as companies that offer

EBPP as their core revenue driver.

Portfolio Players: Paymentus directly competes against EBPP product offerings from other financial companies with a suite of services to offer. These companies aim to offer multiple products in order to cross-sell solutions to their clients, creating a suite of service offerings. Additionally, being a full-service provider appeals to larger institutions that prefer one-stop-shops as opposed to having to utilize multiple vendors

1. CheckFree Next (NASDAQ FISV) - Fiserv's bill payment technology – CheckFree Next – has 29 million bill pay users and serves 4,000 financial institution clients. Fiserv is a global financial technology company that provides payments, processing, and digital banking solutions to financial institutions and merchants. Fiserv is primarily bank-centric while Paymentus is biller-centric and controls the consumer interface.

2. Kubra HQ - Kubra HQ is an AI-powered, cloud-native platform that integrates billing, payments, and communications. With three main billing products MyHQ+, EZ-PAY+, and BizHQ+, the company directly competes with Paymentus across industries. However, while Kubra HQ wins business by bundling their communications technology, Paymentus offers flexible and focused bill payment processing

3. Flywire (NASDAQ FLYW) - Flywire offers modern payment software and EBPP with a primary focus on cross-border and high value payment flows. While Paymentus focuses on domestic clients, Flywire is strongest for those who need currency conversion, global settlement, and localized payment. Flywire processed $29.7 billion in total payment volume and generated $492 million in revenue. They serve more than 4,600 global clients in over 140 countries.

4. BillerIQ (NYSE FIS) - BillerIQ is the EBPP product from Fidelity National Information Services (FIS). BillerIQ does digital billing primarily for businesses and allows clients to accept multiple payment types. BillerIQ is often bundled with the rest of FIS' larger financial suite while Paymentus is a focused EBPP company.

5. ACL Speedpay (NASDAQ: ACIW) - ACI Speedpay originated from ACI Worldwide's acquisition of Western Union's U.S. Speedpay business. The service now serves over 3,000 clients with EBPP. ACL Speedpay operates across industries like government and healthcare.

Pure Play EBPP - Characterized by their smaller size, private status, and concentrated focus, pure play EBPP firms also compete against Paymentus. These companies typically position themselves as best-in-class providers with the ability to provide tailored solutions. Paymentus is one of the only pure play companies that operates at scale.

1. Invoice Cloud - Invoice Cloud is a fintech EBPP that covers four industries: Utilities, Insurance, Local Tax, and County Tax. While Invoice Cloud is more attractive for smaller less volume heavy clients, Paymentus is a better fit for large national billers.

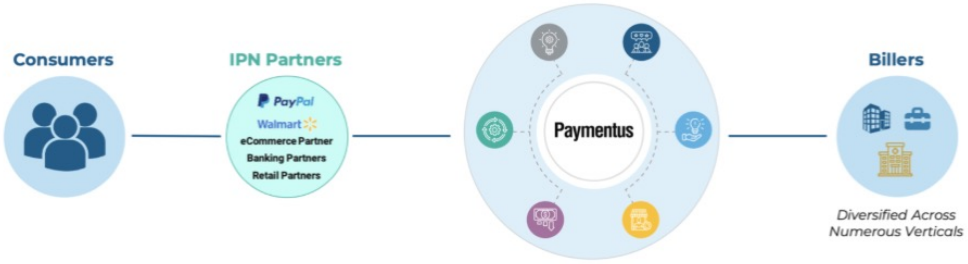
2. DirectBiller - DirectBiller is a multi-channel billing and payments solution used by banks, businesses, and financial institutions to handle EBPP. Direct Biller is a product of Aliaswire, and often operates through channel partners. The firm has facilitated $100B in payment volume alongside 1B+ transactions.

3. PayIt - PayIt is a cloud-based EBPP platform focused on state and local governments, helping agencies modernize how residents pay fees and access services. They offer services across property tax, fines, utilities, and licensing. PayIt is vertically focused on government use cases while Paymentus targets large scale recurring billers across multiple industries.

Investment Theses

Thesis 1: Market Overlooks the Time Horizon for Paymentus' IPN Network Effect

The Integrated Payment Network (IPN) is Paymentus' proprietary ecosystem designed to connect billers, consumers, and IPN partners, which consist of eCommerce, banking, and retail partners. It seeks to allow billing companies to enable consumers access to all payment methods within a singular platform.



Legacy bill payment infrastructure has been characterized by outdated banking systems and siloed payment processors that have failed to adapt to the modern digital payments environment. Banks, which have historically commanded 70-90% market share of bill payments, now make up approximately 20%. The IPN represents Paymentus' answer to this structural problem by rebuilding the payment stack into a cohesive network.

Utilities billers represent approximately 50% of total revenue, serving as the IPN's foundational revenue base as bill payments are non-discretionary, providing sticky revenue. Financial institutions, specifically banks are central to Paymentus' expansion strategy.

This affinity for banks stems from a few key reasons:
1. Banks are motivated to modernize given that the primary checking account is crux of customer retention and their decreased share of the bill payments space. Thus, they serve as sticky relationships.

2. Banks will refer their commercial clients to Paymentus, adding new billers to the Paymentus ecosystem .

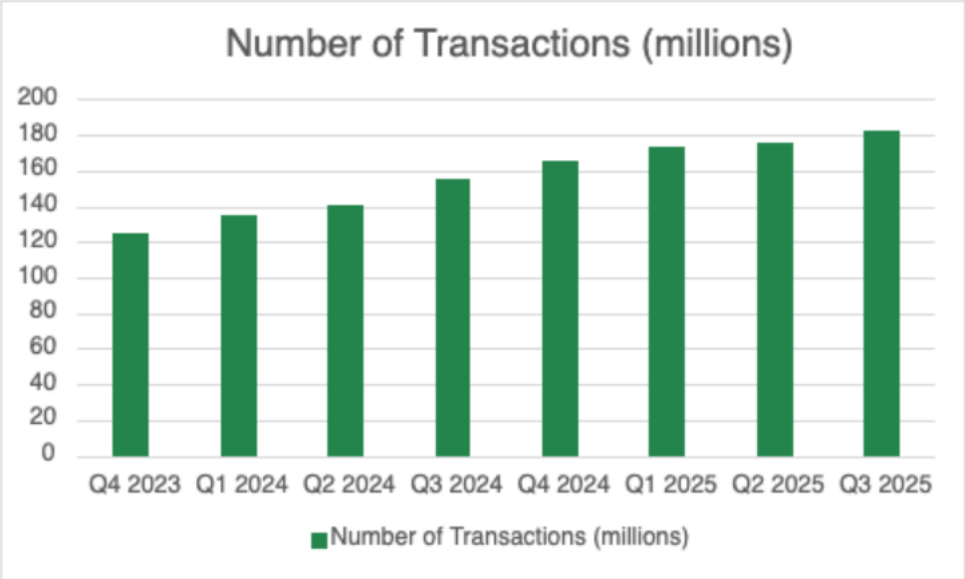
3. Banks will integrate Paymentus solutions to offer improved bill payment services to retail customers and collect payments for its own products, such as mortgages.

4. Banks will engage with Paymentus to sell solutions and white-labeled solutions obtained from Paymentus, which create revenue-sharing agreements.

5. Paymentus can partner with banks' treasury service divisions to help them monetize complex large enterprise deals.

Insurance providers also represent a newer, strategically significant vertical for Paymentus, with management highlighting multiple insurance client onboardings during Q3 2025. Expansion into the insurance vertical allows Paymentus to capture large transaction volumes as Paymentus seeks to implement bi-directional payment rails, capturing claims payouts and premium payments.

Paymentus' IPN benefits from a flywheel effect, where efficient biller and partner acquisition expands the network, leading to organic growth as their consumers are onboarded, increasing profitability that adds more members onto the network, fueling growth. Transaction volume has been significantly increasing on a quarterly basis, highlighting the impact of this network effect on the growth of the IPN.



The IPN has driven a pronounced network effect, evident in the IPN's early, utilities-centric stage.

Among various utilities partnerships, Paymentus notably partnered with Omaha's Metropolitan Utilities District to replace many of its physical offices, which were mainly sites for cash collection, with Walmart Bill Pay, Paypal digitized cash options, and Venmo channels through the IPN. In the process, Paymentus drove 600% growth in Walmart Bill Pay transactions in the first five months, 35% increase in digital wallet payments in 2023, and 3x AutoPay transactions since 2018, showcasing the fruition of the network effect that characterizes the IPN.

Paymentus carried out a similar initiative with the city of Baltimore, which used Paymentus in an effort to modernize bill payments to the city. Since go live, Paymentus's IPN has rapidly shifted behavior toward higher-value, omnichannel digital payments, with wallets like Apple Pay and PayPal quickly becoming top 5 tender types, IVR volume nearly tripling, and Discover/Amex expanding to 17% of card transactions and $27M in

spend. Together with 4,000+ AutoPay enrollments (≈25K transactions) and ~494K wallet payments (8.8% of total volume), this shows the network driving broader payment choice, higher engagement, and more throughput over the same infrastructure. live, value, omni channel digital payments, with wallets like Apple Pay and PayPal quickly becoming top 5 tender types, IVR volume nearly tripling, and Discover/Amex expanding to 17% of card transactions and $27M in spend. Together with 4,000+ AutoPay enrollments (≈25K transactions) and ~494K wallet payments (8.8% of total volume), this shows the network driving broader payment choice, higher engagement, and more throughput over the same infrastructure.

The Street projects YoY change in transactions processed decreasing from 22.1% in FY2025 to 21.5% in FY2026 and 10% in FY 2027, before increasing to 20% in FY2028 and later decreasing to 15% in FY2029, viewing Paymentus and its IPN as highly sensitive to macroeconomic cycles in the near-term, specifically inflationary environments impacting customers' IT budgets and driving interchange headwinds that hit gross profit margins. Projections for YoY change in net revenue per transaction follow a similar trajectory, falling from 10.5% to 1% in FY 2029.

Furthermore, multiple street analysts (from Goldman Sachs, J.P. Morgan, and Wells Fargo) have raised price targets despite hold ratings, indicating confidence in the IPN's ability to drive sustained growth, yet a lack of certainty surrounding its potential in the near-term.

We believe this outlook fails to fully account for the sustained network effect driven by the ongoing expansion into the banks and insurance verticals.

Paymentus's push into banks and financial institutions amplifies the same network effect seen in utilities on a much larger scale. Banks add their commercial and consumer clients, the latter of which provides highly sticky revenue with low churn through various loans. The Federal Reserve's quarterly Senior Loan Officer Opinion Survey highlights expected increases in demand for loans across all categories in 2026, and while this may seem like a cyclical-bound growth catalyst, U.S. total loan demand has consistently increased at a CAGR of ~5.55% (between 2000 and 2025) despite macroeconomic cycles, enabling the IPN to capitalize on future loan growth.

Additionally, the insurance space is shifting toward instant payments, with 23% of consumers willing to pay a fee for instant access to funds to receive insurance disbursements between $500 and $1,000, and 18% to receive a lower disbursement. Instant payments are spreading across the global insurance space, with real-time transactions in 2023 reaching $266 billion and projected to pass $575 billion in 2028. However, the U.S. insurance industry has been recognized as slow to bring this advent to scale due to costly reform of legacy investments and uneven adoption.

Given these tailwinds, we believe that the IPN benefits from a network facilitated by increased transaction volumes as a result of financial institutions and insurers onboarded, and subsequently the consumers they address, allowing for strong growth within the next 5 years, considering that bill payments are sticky across both of these verticals.

Thesis 2: Market Misprices the Upside from Paymentus' Enterprise Segment Expansion

Paymentus has historically operated in the SMB segment, and their recent expansion into the enterprise segment will accelerate long-term growth, representing a TAM expansion that is not fully reflected in current market expectations. The company began onboarding large enterprise customers in Q3 2024, earlier than initially planned for 2025, which allowed Paymentus to realize a full year of revenue contribution in 2025 and increase the backlog for biller contracts. Moreover, through the onboarding of large enterprise customers in 2025, Paymentus showed that its platform has the capacity to support significantly greater transaction volumes and operational complexity than previously assumed, rather than needing substantial CapEx to adapt their platform to this client demographics.

While enterprise opportunities were historically viewed as limited in size due to the existence of built-in payment processing in these enterprises, increasing payment inflow and outflow complexity at large organizations has expanded the opportunity set. Since 2020, consumer preference for using online payment methods versus traditional payment methods (i.e. by cheque or by ACH) has accelerated in growth, driving a 10% increase of online payment preference out of all payment methods available. Some verticals have driven a large amount of increased adoption, with segments like phone bill growing from 66% to 78%, and utilities from 61% to 71%. The increase in the number of bills paid through online payments led to the built-in payment processing platforms being inadequate to handle the volume and breadth of payment sources that consumer desire to utilize. As a result, many enterprises have outgrown their built-in payment systems that lack the scale and flexibility required to manage modern payment demands, as they were built to accommodate online payments when it was not the predominant form in which bills were paid. This creates a meaningful opportunity for Paymentus to serve these customers, and is evidenced by the fact that some of the verticals experiencing the largest shift in consumer preference, namely telecommunications, utility, and insurance, are cited as the largest contributors to outperformance in revenue growth over the past two years.

From a size perspective, while numbers weren't disclosed, the 43% YoY growth in revenue in Q3 2025 was primarily attributed to the growth of large enterprise and mid-market clients, alongside verticals expansion simultaneously enabled by the adaptability of their payments ecosystem. This development aligns with Paymentus' Horizon 1/2/3 strategy articulated at IPO, which outlined progression from mid-market customers toward larger, more complex enterprise clients. Moreover, the 2025 onboarding of large-scale enterprise affirmed Paymentus' platform capacity to handle larger and more complex transactions needed by these clients with minimal change to their existing infrastructure. This reveals their capacity to service mid-market clients and potential for further growth within this segment. As Paymentus continues to execute this strategy, a greater share

of total bill payment volume becomes addressable, materially expanding the company's total addressable market and supporting sustained long-term growth across multiple verticals. This will drive up the total number of bills processed and have a positive tailwind on revenue growth. While enterprise clients can pose more pricing pressure than SMB clients, Paymentus has seen the first wave of enterprise clients in 2024 being a positive catalyst to both revenue per transaction processed and contribution profit. This suggests that the impact on the number of payments and operating leverages outweighs the impacts on fees charged.

These benefits from enterprise level expansion are particularly significant when considering the amplifier effect it has on the Integrated Payment Network. As larger enterprise billers join the platform, network density increases, strengthening the utility of IPN for both billers and consumers. While the current market expectations primarily reflect growth from existing billers and contracted customers, they also do not fully account for the compounding network effects embedded in IPN. As more enterprise customers are onboarded, IPN adoption can increase switching costs and thus make Paymentus more competitively positioned. In addition, enterprise level customers operate with larger scale and are more likely to operate across multiple verticals, which creates further need for IPN as it can extend scope of payment across all verticals. Therefore, the combination of enterprise client expansion and IPN-driven network effects will be mutually reinforcing in supporting higher revenue per customer, greater platform stickiness, and incremental long-term growth that remains underappreciated in current valuation.

Paymentus and ACL Speedpay (ACL Worldwide) Comparison

A large portion of Paymentus leadership, including their Head of Product, Head of Operations, and much of the sales team, were originally part of the Speedpay team at Western Union (acquired by ACL Worldwide in 2019). Key differences between the two firms provide insight into Paymentus' competitive advantage, along with an intuitive understanding of their growth strategy.

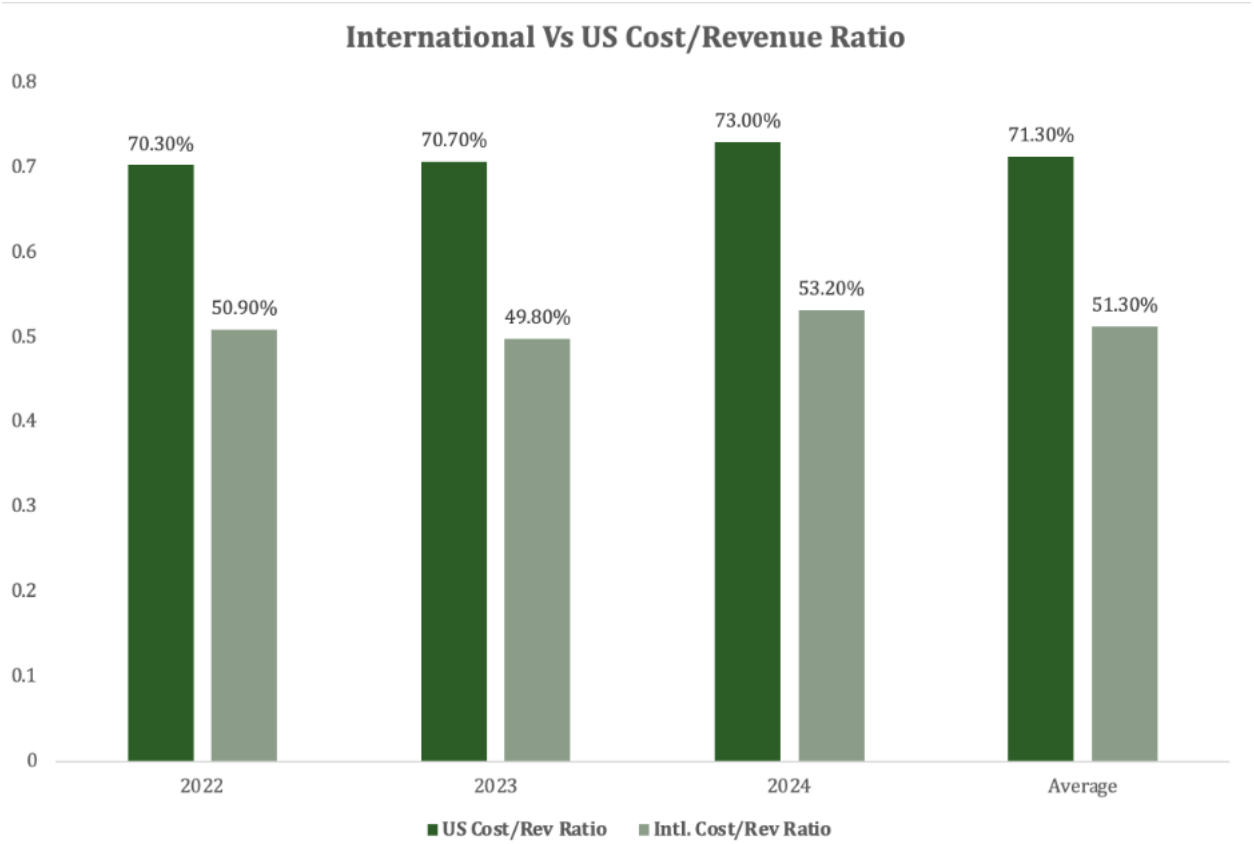
Company	Client Type	Service	Specialty
Paymentus	Utilities, municipalities, healthcare, and financial services	Highly adaptive software that can be tailored to client needs Operates through a transaction-based pricing model Works with partners like PayPal, Amazon, Walmart, and J.P. Morgan Chase	Speed: Aims to get clients up and running with their service in 30-45 days Single code base allows the firm to deploy new features and tools to the entire client base.
ACL Speedpay	Large utilities, consumer financial corporations, insurance, mortgages	"Custom shop model" that builds bespoke billing solutions for large enterprise clients	Complex and difficult implementations Building success within existing client base

Thesis 3: International Expansion Presents Frictionless Growth and Sticky Revenue

Despite currently contributing less than 2% of the firm's total revenue, international sales present an underpriced growth area with a frictionless "land and expand" model. Paymentus possesses the ability to expand into international markets while avoiding high customer acquisition costs and retaining local resources. The proprietary IPN (see Thesis 1) allows Paymentus to be agile around regulations and other usual international roadblocks.

The street views Paymentus as a company with limited international expansion abilities, or lack of focus on foreign market growth. Sell-side shows confidence in Paymentus' ability to climb in the short run. The street fails to price in, however, that international expansion presents attractive growth and opportunity. In the long run, Paymentus can occupy a diverse range of geographic markets leading to resilient revenue.

Year	Intl % of Total Revenue	Intl % of Total Cost	US Cost/Rev Ratio	Intl. Cost/Rev Ratio
2022	1.99%	1.45%	70.3%	50.9%
2023	1.85%	1.31%	70.7%	49.8%
2024	1.76%	1.29%	73.0%	53.2%
Averages	1.87%	1.35%	71.3%	51.3%



Paymentus shows strong operational efficiency in its international operations. From 2022-2024, the firm showed an Average Cost/Revenue rate of 51.3% (benchmarked against their US percentage of 71.3%). The firm operates efficiently in foreign markets by leveraging existing customer relationships with clients that have an international presence. In the short run, Paymentus' international unit economics are strong, and in the long run, they capitalize off of a network effect achieved through their IPN.

Land and Expand:

1. Select existing clients with international customers
a. Through following these existing clients into new markets, Paymentus can expand while conserving local resources. Mechanically, this looks like expanding existing contracts to have coverage over international billers. The existing domestic relationship gives them a competitive advantage in winning these contracts. Cross border utilities companies like Harris Utilities are strong targets.

2. Utilize partner and financial institution networks
a. Paymentus' partners seek a unified technology platform to power money movements for their customers in foreign markets. PayPal, which has over 375 million active accounts worldwide and uses the Paymentus platform to power its domestic bill pay experience, needs an EBPP processor for their international markets.

3. Adapt cloud-based platform to local requirements
a. The company's modern technology stack is designed to quickly adapt to local payment channels and varying regulatory schemes across different countries. This allows Paymentus to cost-effectively extend features originally designed for U.S. verticals into powerful use cases for international markets.

4. Integrate IPN
a. The IPN (Thesis 1) provides a scalable infrastructure that can be utilized as the company moves through international markets. The IPN reduces risks like new UX learning, low consumer trust, and adoption risk.

Canada Case Study: A key target of international expansion, existing client lists and regulatory agility create a resilient long-term growth plan undervalued by current sell-side reports. Paymentus' current relationships with partners like Oracle Partner Network and MRI Software allow them

to reach into the market without paying to acquire new customers. Additionally, Paymentus is already integrated into the Canadian regulatory environment, registered as a Payment Service Provider with the Bank of Canada and as a Money Service Business with FINTRAC. These existing certifications reduce regulatory burdens and decrease the barrier to entry in Canada. Existing competitor dynamics are similar to that of the United States, competing against many of the same players (KUBRA, Chase Paymentech, Fiserv). As a result, Paymentus is not only familiar with market competitive pressure, but is able to successfully navigate it.

International revenue is sticky, and through the enterprise contracts targeted by Paymentus (Thesis 2), they are guaranteed to fill reoccurring bill orders. Especially as Paymentus shows a soft specialization in utilities, which contributes to over 50% of their revenue, it seems likely that their international prospects would be similar in industry type. The results are clients that present reliable cash flows with minimal volatility. Paymentus' platform agnosticism also allows it to have a 90-day global onboarding timeline compared to competitors 12+ months. To achieve this accelerated timeline, Paymentus draws upon key drivers like their omnichannel payment services. It is our conviction that international market penetration presents a smaller challenge than what currently might be believed.

While it is true that international sales make up a small portion of total revenue, leading some sell-sides to price the stock purely off its domestic potential, the marginal success Paymentus has experienced with its early international expansion shows a high upside with minimal risk. Paymentus captures only around 4% of the total US market, but with $2 trillion hanging in the global market, expanding broadly can yield large returns. Expanding Paymentus is also an example of asymmetric risk/reward, as Paymentus risks relatively little capital in leveraging their existing client relationships.

As Paymentus increases their international presence, they gain exposure to the broader market with new customers. As more billers, banks, and partners join their IPN, the platform's value grows exponentially. This creates a large flywheel effect, where Paymentus gains a defensive moat with each new client added to their network.

Investment Risks and Mitigants

Risk 1: The IPN Network is overstated, given dependence on billers.

The IPN is fundamentally dependent on winning individual biller contracts rather than on organic adoption. Consumers do not choose to join the IPN, but are then migrated when their biller adopts the platform. Each incremental addition requires a sales-driven onboarding process that limits the compounding dynamics of the IPN.

Mitigating Factor: While it may be true that biller acquisition is a key driver of the network effect, the expansion into banks and financial institutions diversifies distribution beyond a one-to-one biller relationship. Through integration with digital banking platforms, treasury systems, and white-labeled bill pay offerings, Paymentus is not as reliant on individual billers as banks refer commercial clients and integrate payment flows (centered around the checking account), consistently adding transaction volume.

Risk 2: Paymentus' tech stack and agility is a mismatch for enterprise level needs

Paymentus' core value proposition has historically emphasized rapid deployment, configurable billing and payment workflows that reduce integration friction for mid-market billers. However, the largest enterprise billers, particularly tier-1 utilities, national insurers, and government agencies, often require highly customized payment orchestration across legacy environments. These buyers frequently expect bespoke workflow layers. If Paymentus' platform cannot economically support this level of configurability without significant custom engineering, implementation timelines may lengthen and their competitive win rates against incumbent enterprise vendors may remain low.

Mitigating Factor: While it is true that Paymentus' tech stack emphasizes agility and rapid deployment, their historical success in the past year with enterprise accounts has been seamless, serving as a warrant that they are able to handle the complexity of larger billers. Additionally, as the company accumulates large-biller deployments, the infrastructure can be repackaged towards subsequent implementations. This learning curve allows Paymentus to deploy the same agility but in building more complex solutions.

Risk 3: International expansion has an extended timeline making revenue growth inconsequential

International expansion may ultimately prove strategically sound for Paymentus but is unlikely to contribute meaningfully to revenue growth within investor time horizons due to structurally long ramp periods. Paymentus' regulatory agility may fail to give them an edge in market penetration or they could face more intense competition than expected. Paymentus might also choose to moth ball the initiative in order to focus effort into other strategic errors.

Mitigating Factor: Through prioritizing countries with similar regulatory frameworks, high digital payment penetration, and sizable enterprise billers, the company can test and refine its platform in manageable pilots before committing significant resources. The land and expand model also

allow them to avoid overcommitting capital. Strong connections with existing partners allows Paymentus to overcome long ramps and competitive barriers.

Valuation

Base Case

Paymentus Holdings
Financials, $ 000s

Fiscal Year Ending Dec 31	2020A	2021A	2022A	2023A	2024A	2025E	2026E	2027E	2028E	2029E	EBITDA Multiple	Perpetuity Growth
Total Revenue	**301,767**	**395,524**	**497,001**	**614,490**	**871,745**	**1,145,701**	**1,437,396**	**1,742,124**	**2,055,707**	**2,364,063**		
% Growth		*31.07%*	*25.66%*	*23.64%*	*41.86%*	*31.43%*	*25.46%*	*21.20%*	*18.00%*	*15.00%*		
EBITDA	**28,491**	**26,804**	**27,823**	**58,083**	**92,331**	**117,880**	**182,294**	**210,289**	**272,727**	**312,383**	**312,382.64**	**312,382.64**
Less: Depreciation & Amortization	(8,069)	(13,295)	(24,063)	(30,600)	(36,484)	(47,544)	(59,374)	(71,552)	(79,937)	(91,689)		(91,689.15)
EBIT	**20,422**	**13,509**	**3,760**	**27,483**	**55,847**	**70,336**	**122,920**	**138,738**	**192,790**	**220,693**		220,693.49
Weighted Average Tax Rate	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*	*21%*		21%
Less: Taxes @ 21%												-
NOPAT	**16,133**	**10,672**	**2,970**	**21,712**	**44,119**	**55,566**	**97,107**	**109,603**	**152,304**	**174,348**		174,347.85
Plus: Depreciation & Amortization	8,069	13,295	24,063	30,600	36,484	47,544	59,374	71,552	79,937	91,689		91,689.15
Less: Capital Expenditures	(14,847)	(20,279)	(31,020)	(34,299)	(36,576)	(40,100)	(43,122)	(43,553)	(41,114)	(47,281)		(47,281.26)
Less: (Increases) in Working Capital		(11,225)	(14,676)	3,687	(30,142)	(5,327)	(13,070)	(6,185)	(12,774)	555		555.08
Unlevered Free Cash Flow	**9,355**	**(7,537)**	**(18,663)**	**21,700**	**13,885**	**57,684**	**100,289**	**131,417**	**178,353**	**219,311**		**219,310.83**
EBITDA Multiple / Perpetuity Growth Rate											11.9x	2.50%
Implied Terminal Value											**3,728,911.56**	**3,041,198.92**
PV of Terminal Value											**3,728,911.56**	**3,041,198.92**
Plus: PV of Forecasted Unlevered Free Cash Flow						**52,491.35**	**83,046.69**	**99,027.71**	**122,298.65**	**136,847.66**	**493,712.04**	**493,712.04**
Implied Enterprise Value											**4,222,623.60**	**3,534,910.97**
Less: Balance Sheet Adjustments											0.00	0.00
Implied Equity Value											**4,222,623.60**	**3,534,910.97**
Shares Outstanding											131,178	131,178
Implied Equity Value per Share											**$32.19**	**$26.95**
% Premium / (Discount) to Current											*39.35%*	*16.66%*

Operating Build (Base Case)

Paymentus Holdings
Financials, $ 000s

Fiscal Year ended December 31	Historical Period FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	Forecast Period FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Revenue Build										
Transactions processed, mm	195.0	280.5	366.8	458.2	597.0	758.19	932.57	1,119.09	1,320.52	1,518.60
Y/Y		*43.8%*	*30.8%*	*24.9%*	*30.3%*	27.00%	23.00%	20.00%	18.00%	15.00%
Consensus						728.80	885.20	973.80	1,168.50	1,343.80
Consensus Growth, %						*22.08%*	*21.46%*	*10.01%*	*19.99%*	*15.00%*
PIR Projections Delta, %						*4.92%*	*1.54%*	*9.99%*	*1.99%*	*0.00%*
Revenue per Transaction, $	1.55	1.41	1.35	1.34	1.46	1.51	1.54	1.56	1.56	1.56
Y/Y		*-9.0%*	*-4.3%*	*-0.7%*	*9.0%*	3.50%	2.00%	1.00%	0.00%	0.00%
Consensus						1.61	1.65	1.76	1.85	1.87
Consensus Growth, %						*10.27%*	*2.48%*	*6.67%*	*5.11%*	*1.08%*
PIR Projections Delta, %						*6.77%*	*0.48%*	*5.67%*	*5.11%*	*1.08%*
Net Revenue, 000s	**$ 301,767**	**$ 395,524**	**$ 497,001**	**$ 614,490**	**$ 871,745**	**$ 1,145,701**	**$ 1,437,396**	**$ 1,742,124**	**$ 2,055,707**	**$ 2,364,063**
Y/Y		*31.1%*	*25.7%*	*23.6%*	*41.9%*	*31.4%*	*25.5%*	*21.2%*	*18.0%*	*15.0%*
Consensus						12,404	13,059	13,878	13,114	13,350
Consensus Growth, %						-98.58%	5.28%	6.27%	-5.51%	1.80%
PIR Projections Delta, %						130.00%	20.18%	14.93%	23.51%	13.20%
Revenue Assumptions										
Y/Y Transactions processed Growth, %		43.8%	30.8%	24.9%	30.3%	**27.0%**	**23.0%**	**20.0%**	**18.0%**	**15.0%**
Base						27.00%	23.00%	20.00%	18.00%	15.00%
Bull						32.00%	34.00%	36.00%	36.00%	36.00%
Bear						20.00%	20.00%	10.00%	10.00%	15.00%
Y/Y Revenue per Transaction Growth, %		-9.0%	-4.3%	-0.7%	9.0%	**3.5%**	**2.0%**	**1.0%**	**0.0%**	**0.0%**
Base						3.50%	2.00%	1.00%	0.00%	0.00%
Bull						4.00%	3.00%	2.00%	1.00%	0.00%
Bear										
Cost Build										
Net Revenue	301,767	395,524	497,001	614,490	871,745	1,145,701	1,437,396	1,742,124	2,055,707	2,364,063
Cost of Good Sold	(209,140)	(274,144)	(347,323)	(432,148)	(633,575)	(847,819)	(1,049,299)	(1,271,751)	(1,480,109)	(1,702,125)
R&D	(24,510)	(34,122)	(41,220)	(44,248)	(51,334)	(63,014)	(71,870)	(87,106)	(92,507)	(106,383)
Sales and Marketing	(31,842)	(43,917)	(73,295)	(83,996)	(105,052)	(126,027)	(143,740)	(174,212)	(205,571)	(236,406)
G&A	(17,847)	(32,968)	(38,139)	(36,005)	(36,927)	(45,828)	(57,496)	(78,396)	(92,507)	(106,383)
Operating Profits	18,428	10,373	(2,976)	18,093	44,857	63,014	114,992	130,659	185,014	212,766
Cost Case Assumptions										
Gross Margins	30.69%	30.69%	30.12%	29.67%	27.32%	**26.00%**	**27.00%**	**27.00%**	**28.00%**	**28.00%**
Base						26.00%	27.00%	27.00%	28.00%	28.00%
Bull						28.00%	28.00%	29.00%	29.00%	30.00%
Bear										
R&D as a % of Net Revenue	8.12%	8.63%	8.29%	7.20%	5.89%	**5.50%**	**5.00%**	**5.00%**	**4.50%**	**4.50%**
Base						5.50%	5.00%	5.00%	4.50%	4.50%
Bull										
Bear										
S&M as a % of Net Revenue	10.55%	11.10%	14.75%	13.67%	12.05%	**11.00%**	**10.00%**	**10.00%**	**10.00%**	**10.00%**
Base						11.00%	10.00%	10.00%	10.00%	10.00%
Bull										
Bear										
General and Administrative as a % of Net Revenue	5.91%	8.34%	7.67%	5.86%	4.24%	**4.00%**	**4.00%**	**4.50%**	**4.50%**	**4.50%**
Base						4.00%	4.00%	4.50%	4.50%	4.50%
Bull										
Bear										

Financial Statements

Income Statement

	Historical Period					Forecast Period				
Fiscal Year ended December 31	**FY2020A**	**FY2021A**	**FY2022A**	**FY2023A**	**FY2024A**	**FY2025E**	**FY2026E**	**FY2027E**	**FY2028E**	**FY2029E**
Income Statement										
Revenue	**$301,767**	**$395,524**	**$497,001**	**$614,490**	**$871,745**	**$1,145,701**	**$1,437,396**	**$1,742,124**	**$2,055,707**	**$2,364,063**
Cost of Goods Sold	(209,140)	(274,144)	(347,323)	(432,148)	(633,575)	(847,819)	(1,049,299)	(1,271,751)	(1,480,109)	(1,702,125)
Gross Profit	**92,627**	**121,380**	**149,678**	**182,342**	**238,170**	**297,882**	**388,097**	**470,374**	**575,598**	**661,938**
Gross Margin, %	*30.69%*	*30.69%*	*30.12%*	*29.67%*	*27.32%*	*26.00%*	*27.00%*	*27.00%*	*28.00%*	*28.00%*
R&D	(24,510)	(34,122)	(41,220)	(44,248)	(51,334)	(63,014)	(71,870)	(87,106)	(92,507)	(106,383)
Sales and Marketing	(31,842)	(43,917)	(73,295)	(83,996)	(105,052)	(126,027)	(143,740)	(174,212)	(205,571)	(236,406)
G&A	(17,847)	(32,968)	(38,139)	(36,005)	(36,927)	(45,828)	(57,496)	(78,396)	(92,507)	(106,383)
EBIT (Operating Income)	**18,428**	**10,373**	**(2,976)**	**18,093**	**44,857**	**63,014**	**114,992**	**130,659**	**185,014**	**212,766**
Net Interest Income / (Expense)	52	(6)	1,663	7,019	8,742	7,702	3,404	3,765	5,123	6,706
Other non-recurring income	-	-	-	-	345	-	-	-	-	-
Foreign exchange gain (loss)	(116)	(1)	5	12	-	-	-	-	-	-
Earnings before Taxes	**18,364**	**10,366**	**(1,308)**	**25,124**	**53,944**	**70,715**	**118,396**	**134,424**	**190,136**	**219,472**
Income Taxes	(4,653)	(1,066)	795	(2,802)	(9,775)	(14,850)	(24,863)	(28,229)	(39,929)	(46,089)
Net Income	**$13,711**	**$9,300**	**($513)**	**$22,322**	**$44,169**	**$55,865**	**$93,532**	**$106,195**	**$150,208**	**$173,383**
EBITDA	**28,491**	**26,804**	**27,823**	**58,083**	**92,331**	**117,880**	**182,294**	**210,289**	**272,727**	**312,383**
		6.8%	5.6%	9.5%	10.6%	10.3%	12.7%	12.1%	13.3%	13.2%

Cash Flow Statement

	2020-12-31 Year Ended December 31, 2020	2021-12-31 Year Ended December 31, 2021	2022-12-31 Year Ended December 31, 2022	2023-12-31 Year Ended December 31, 2023	2024-12-31 Year Ended December 31, 2024	2025-03-31 Three Months Ended March 31, 2025	2025-06-30 Six Months Ended June 30, 2025	2025-09-30 Nine Months Ended September 30, 2025
Cash flows from operating activities								
Net income	$ 13,711	$ 9,300	$ (513)	$ 22,322	$ 44,169	$ 13,813	$ 28,520	$ 46,264
Adjustments to reconcile net income to net cash provided by operating activities								
Depreciation and amortization	8,069	13,295	24,063	30,600	36,484	10,740	21,223	31,491
Deferred income taxes	1,638	(660)	(2,981)	413	(1,349)	(1,013)	(1,991)	3,043
Stock-based compensation	1,994	3,136	6,736	9,390	10,990	3,042	7,770	12,929
Amortization of capitalized warrants cost			1,231	1,911	2,006	559	1,124	1,696
Non-cash lease expense	2,802	2,497	2,135	1,789	2,389	573	1,158	1,758
Amortization of capitalized contract acquisition cost			827	1,088	1,751	418	873	1,384
Amortization of contract asset	-	669						
Provision for expected credit losses and credit adjustments	100	106	499	886	3,369	1,440	3,038	53
Other non-cash adjustments			-	-	(213)	-	-	-
Change in operating assets and liabilities								
Accounts and other receivables	(8,689)	(14,736)	(24,518)	(9,472)	(46,921)	18,386	20,220	14,807
Prepaid expenses and other assets	840	1,346	1,211	(1,184)	(3,417)	(377)	986	(7,513)
Accounts payable	14,636	7,380	4,766	6,017	13,825	5,691	2,516	13,934
Accrued and other liabilities						(7,120)	(2,421)	(113)
Accrued liabilities	2,759	(44)	3,400	6,288	7,159			
Operating lease liabilities	(2,641)	(2,443)	(1,832)	(1,817)	(2,253)	(604)	(1,225)	(1,861)
Contract liabilities	184	474	3,299	(361)	(1,097)	401	716	721
Income taxes receivable, net of payable	217	(827)	1,544	958	(3,258)	4,492	(587)	(1,597)
Net cash provided by operating activities	35,620	19,493	19,867	68,828	63,634	50,441	81,920	116,996
Cash flows from investing activities								
Business combinations, net of cash and restricted cash acquired	(290)	(57,400)	(3,260)	-	-			
Other intangible assets acquired	-	(130)	(280)	-	-			
Purchases of property and equipment	(458)	(979)	(1,257)	(600)	(457)	(60)	(176)	(279)
Purchases of interest-bearing deposits			-	-	(3,691)	-	(913)	(1,633)
Proceeds from matured interest-bearing deposits			-	-	3,506	1,051	1,547	1,547
Capitalized internal-use software development costs	(14,389)	(19,300)	(29,763)	(33,699)	(36,119)	(9,278)	(18,166)	(27,414)
Net cash used in investing activities	(15,137)	(77,809)	(34,560)	(34,299)	(36,761)	(8,287)	(17,708)	(27,779)
Cash flows from financing activities								
Proceeds from initial public offering, net of underwriter's disc	-	224,595						
Proceeds from private placement	-	50,000						
Redemption of Series A preferred stock	-	(23,013)						
Payment of dividends on Series A preferred stock	-	(34,412)						
Proceeds from repayment of related party loan	-	813						
Proceeds from exercise of stock-based awards	-	315	1,490	616	338	51	91	97
Payments of taxes withheld on net settled vesting of restricted stock units						(1,943)	(3,764)	(7,175)
Settlement of holdback liability related to prior acquisitions			-	-	(545)	-	-	-
Financial institution funds in-transit	-	1,984	(33,443)	-	-			
Payments of deferred offering costs	-	(1,961)						
Payments on other financing obligations	(1,035)	(4,562)	(5,062)	(1,709)	-			
Payments on finance leases	(323)	(272)	(268)	(102)	-			
Proceeds from issuance of common shares	-							
Proceeds from issuance of Series A preferred shares	-							
Payment on debt assumed in acquisitions	-							
Net cash used in financing activities	(1,358)	213,487	(37,283)	(1,195)	(207)	(1,892)	(3,673)	(7,078)
Effect of exchange rate changes on Cash and cash equivalents	114	(8)	(168)	176	(450)	(25)	95	(76)
Net increase in cash, cash equivalents and restricted cash	19,239	155,163	(52,144)	33,510	26,216	40,237	60,634	82,063
Cash, cash equivalents and restricted cash								
Cash and cash equivalents and Restricted cash at the beginni	27,427	46,666	201,829	149,685	183,195	209,411	209,411	209,411
Cash and cash equivalents and Restricted cash at the end of period	**$**	**$ 201,829**	**$ 149,685**	**$ 183,195**	**$ 209,411**	**$ 249,648**	**$ 270,045**	**$ 291,474**
Reconciliation of Cash and cash equivalents and Restricted Cash:								
Cash and cash equivalents at the beginning of period		46,666	168,386	147,334	179,361	205,900	205,900	205,900
Restricted cash at the beginning of period		-	-	2,351	3,834	3,511	3,511	3,511
Restricted funds held for financial institutions at beginning of period		-	33,443	-	-			
Cash and cash equivalents and Restricted cash at the beginning of period	$	46,666	$ 201,829	$ 149,685	$ 183,195	$ 209,411	$ 209,411	$ 209,411
Cash and cash equivalents at the end of period		168,386	147,334	179,361	205,900	245,849	266,422	287,908
Restricted cash at the end of period		-	2,351	3,834	3,511	3,799	3,623	3,566
Restricted funds held for financial institutions at end of period		33,443						
Cash and cash equivalents and Restricted cash at the end of p	$ 46,666	$ 201,829	$ 149,685	$ 183,195	$ 209,411	$ 249,648	$ 270,045	$ 291,474
Supplemental disclosure of cash flow information:								
Cash paid for income taxes, net of refunds	$ 2,891				$	508	$ 10,256	$ 11,075
Non-cash investing activities:								
Unpaid capitalized internal-use software development costs and equipment in accounts payable					$	102		
Right-of-use assets obtained in exchange of operating lease obligations					$	-	$ 510	$ 510
Fair value of Class A common stock issued for acquisitions	$ -							
Property and equipment purchases in accounts payable	7							
Business acquisition liability in accrued liabilities and financ	-							
Non-cash financing activities:								
Prepaid insurance funded through short-term borrowings	$ 1,389							
Issuance of warrant	-							
Property and equipment acquired through finance lease liabili	814							
Intangibles acquired through other financing obligations	55							

Balance Sheet

Fiscal Year ended December 31	FY2020A	FY2021A	FY2022A	FY2023A	FY2024A	FY2025E	FY2026E	FY2027E	FY2028E	FY2029E
Balance Sheet										
Assets:										
Current Assets										
Cash and Cash Equivalents	46,666	168,386	147,334	179,361	205,900	267,761	381,694	519,705	701,291	921,638
Restricted cash and cash equivalents	-	-	2,351	3,834	3,511	3,673	3,592	3,632	3,612	3,622
Accounts Receivables	28,034	43,935	67,789	76,389	119,816	155,178	194,687	232,476	274,321	310,742
Income Tax Receivables	2,011	2,488	1,493	259	3,356	2,618	2,200	1,317	1,644	2,539
Prepaid Expenses and Other Current Assets	3,117	41,627	9,994	10,505	13,058	11,186	11,583	11,942	11,570	11,698
Total Current Assets	**$ 79,828**	**$256,436**	**$228,961**	**$270,348**	**$345,641**	**$440,416**	**$593,755**	**$ 769,073**	**$ 992,439**	**$1,250,239**
Non-current Assets										
Property and Equipment, net	1,772	2,044	1,823	1,558	1,157	1,442	41,680	1,873	39,241	8,040
Capitalized internal-use software development costs	20,963	30,888	46,032	58,787	67,375	57,398	61,187	61,987	60,190	61,121
Intangible Assets, net	296	42,088	36,017	27,158	19,076	20,637	16,792	14,200	12,981	11,067
Goodwill	13,205	129,413	131,851	131,860	131,815	131,842	131,839	131,832	131,838	131,836
Operating lease right-of-use assets	8,322	7,703	9,561	10,027	7,801	9,130	8,986	8,639	8,918	8,848
Deferred tax asset	270	163	116	94	367	231	299	265	282	273
Prepaid expenses and other assets, less current portion	218	4,207	7,178	5,031	3,015	5,075	4,374	4,154	4,534	4,354
Total Non-current Assets	**$ 45,046**	**$216,506**	**$232,578**	**$234,515**	**$230,606**	**$225,753**	**$265,156**	**$ 222,950**	**$ 257,984**	**$ 225,540**
Liabilities:										
Current Liabilities										
Accounts payable	16,825	24,748	29,232	35,182	49,871	68,981	86,543	104,890	123,770	144,700
Accrued liabilities	10,201	12,491	15,809	21,301	26,462	34,778	43,632	56,367	66,513	83,582
Financial institution funds in-transit	-	33,443	-	-	-	-	-	-	-	-
Current portion of operating lease liabilities	3,010	1,456	1,462	1,853	2,090	2,090	2,090	2,090	2,090	2,090
Contract liabilities	612	2,173	4,358	4,089	2,937	2,937	2,937	2,937	2,937	2,937
Income tax payable	463	122	635	363	190	-	-	-	-	-
Total Current Liabilities	**$ 31,111**	**$ 74,433**	**$ 51,496**	**$ 62,788**	**$ 81,550**	**$108,786**	**$ 135,203**	**$ 166,284**	**$ 195,310**	**$ 233,309**
Non-Current Liabilities										
Deferred tax liability	3,499	3,318	680	1,067	-	-	-	-	-	-
Operating lease liabilities, less current portion	5,476	6,463	8,608	8,661	6,318	6,318	6,318	6,318	6,318	6,318
Contract liabilities, less current portion	-	1,713	2,826	2,731	2,783	2,783	2,783	2,783	2,783	2,783
Accrued and other liabilities, less current portion	-	-	-	-	-	-	-	-	-	-
Finance leases and other finance obligations, net of current portion	412	883	750	-	-	-	-	-	-	-
Total liabilities	**$ 40,498**	**$ 86,810**	**$ 64,360**	**$ 75,247**	**$ 90,651**	**$117,887**	**$ 144,304**	**$ 175,385**	**$ 204,411**	**$ 242,410**
Shareholder's Equity:										
Common Stock	517	12	12	12	12	12	12	12	12	-
Treasury Stock	(579)	-	-	-	-	-	-	-	-	-
Additional Paid in Capital	29,175	356,017	367,767	377,773	389,904	378,481	382,053	383,479	381,338	382,290
Accumulated Other Comprehensive Income (Loss)	216	168	(22)	87	(233)	(56)	(67)	(119)	(81)	(89)
Retained Earnings	55,047	29,935	29,422	51,744	95,913	151,778	245,310	351,505	501,713	675,096
Total Shareholders' Equity	**$ 84,376**	**$386,132**	**$397,179**	**$429,616**	**$485,596**	**$530,215**	**$627,308**	**$ 734,878**	**$ 882,982**	**$1,057,297**
Total Liabilities & Shareholders' Equity	**$124,874**	**$472,942**	**$461,539**	**$504,863**	**$576,247**	**$756,888**	**$906,814**	**$1,076,547**	**$1,282,704**	**$1,533,016**

RH

Consumer & Retail
Winter 2026

Investment Overview

We highlight a bullish outlook for RH. We estimate a 26% upside with moderate assumptions. RH's recent results show the company growing in a cyclical category despite a historically weak housing backdrop. Management attributed Q3 performance to continued share gains and emphasized that revenue growth occurred "despite the worst housing market in almost 50 years" and significant tariff-related disruption.

The core investment question is not whether housing and interest rates matter—they do—but whether RH's strategic separation (membership-driven pricing, destination "gallery" retail, and a widening ecosystem of services and experiences) can (a) sustain share gains through the downcycle and (b) expand earnings power as macro conditions normalize. RH's filings explicitly position hospitality and immersive physical retail as incremental demand drivers and difficult-to-replicate differentiation versus online-only formats.

RH business blends a traditional retail P&L with material real-estate and development intensity. This is visible in reported lease obligations, elevated buildout activity, and dedicated segment reporting for real-estate-related investments, making RH's risk/return profile closer to a hybrid of luxury retail and development projects than a "typical" furniture retailer.

Company Overview

RH (NYSE: RH), originally known as Restoration Hardware, has transformed from a niche catalog retailer into a leading luxury home furnishings platform under the leadership of CEO Gary Friedman. Friedman, who retains a ~24.5% ownership stake, took the position in 2001 and spearheaded a bold repositioning of RH from a mall-based hardware/furniture chain on the brink of bankruptcy into an integrated lifestyle brand with global aspirations.

Company History

• 1990s–2001: Restoration Hardware was a nostalgia-themed catalog and mall retailer (~$350M sales) until Gary Friedman joined in 2001. He refocused the company on high-end design and quality, averting bankruptcy and setting the stage for an upscale reinvention.

• 2008 (LBO): A private equity buyout (led by Catterton and others) provided capital to restructure operations. RH began rolling out large-format "Design Galleries", moving away from small mall stores to spacious showrooms that could display its products in lavish, home-like settings.

• 2012 (IPO & Rebrand): RH returned to the public markets with an IPO, using proceeds to pay down debt and accelerate its gallery expansion. The company officially rebranded from "Restoration Hardware" to "RH," signaling a shift toward a broader luxury lifestyle identity.

• 2016–2023 (Platform Expansion): RH launched a $100/year membership program (now $200) that gives members ~30% off all products, which today drives ~95% of sales. It also introduced in-gallery hospitality (upscale restaurants, wine bars) and published lavish "Source Book" catalogs, redefining RH as an aspirational lifestyle platform rather than a promotional retailer. This era also saw the opening of the first RH Guesthouse (a boutique hotel) and standalone design studios, extending the brand into hospitality and services.

NYSE: RH

Rating:	Buy
Price: (at close, 02/23/26)	$182.48
Recommendation	$262

52 week range	$	123.03-369.59
DSO	mn	20.0
Market capitalization	$bn	3.4
EPS (FY 2024)	$	3.62
Consensus	$	205.06
Sector		Home Furnishings
Revenue		$3180.7million

Price performance

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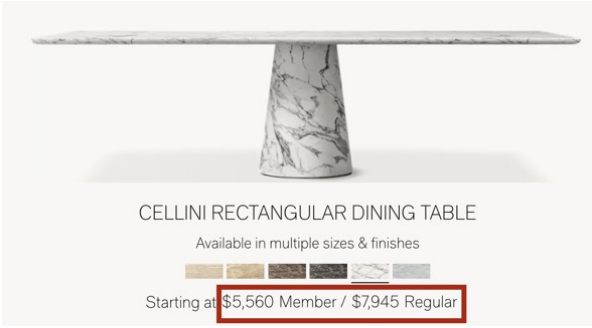
• 2024–2025 (Global Expansion): RH made its European debut, opening flagship galleries in the U.K. (RH England) and Europe (e.g. Paris in late 2025), with plans for London and Milan in 2026. By November 2025, RH's footprint had grown to 73 large-scale galleries (68 in North America, 5 in Europe), plus 43 outlet stores and various hospitality spaces. This international rollout underscores RH's ambition to become a global luxury brand, integrating retail, hospitality, and design services.

Today, RH's model is characterized by spectacular showroom galleries that double as experience centers, a membership-driven pricing strategy, and tightly controlled upscale assortments. These elements have created a distinct niche: RH commands premium pricing and industry-leading margins, yet its membership model fosters customer loyalty and reduces reliance on promotions. Founder Gary Friedman's continued stewardship and significant equity stake align management with shareholders, albeit with the caveat of founder control in strategic decision-making.

Business Model

RH (formerly Restoration Hardware) is a luxury lifestyle brand and integrated ecosystem operating at the intersection of home furnishings, design services, hospitality, and immersive retail. Unlike traditional furniture retailers that compete primarily on price and assortment, RH positions itself as a curated luxury platform, offering high-end products within architecturally distinctive Design Galleries that function as both showrooms and brand destinations.



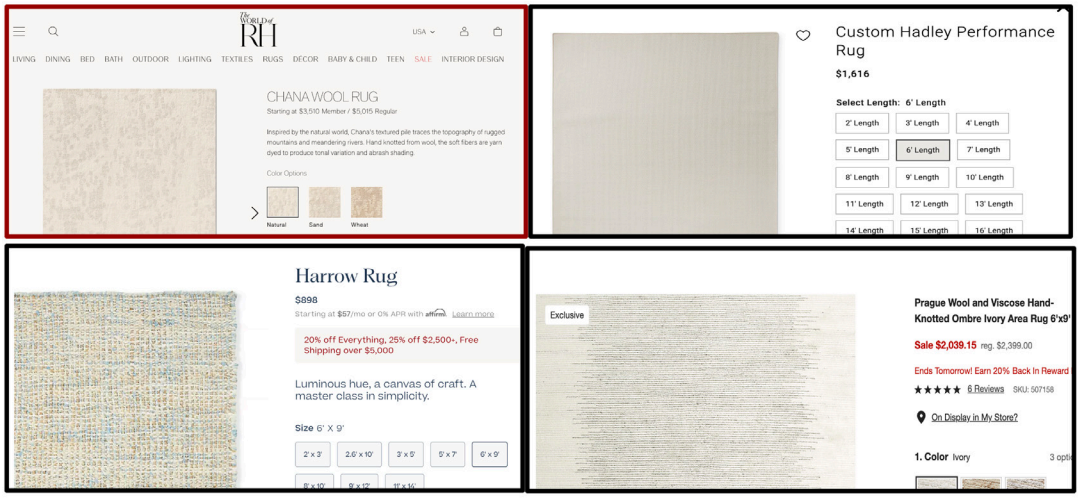
The company's core business consists of the design, sourcing, and sale of premium home furnishings sold through a vertically integrated channel strategy. RH reaches customers through a combination of large-format Design Galleries, outlet locations, hospitality venues, digital platforms, sourcebooks, and its trade channel, allowing it to control the customer experience across both physical and digital touchpoints. Revenue is primarily generated through direct-to-consumer sales, with a growing contribution from ancillary services and experiential offerings.

A central pillar of RH's business model is its membership program, which requires customers to pay an annual fee in exchange for consistent pricing discounts across most categories. The annual membership costs $200 and gives a 30% discount off all items. This structure encourages repeat purchasing, consolidates customer spend within the RH ecosystem, and reduces reliance on promotional activity that characterizes much of the broader home furnishings industry. By trading episodic discounting for an always-on value proposition, RH seeks to smooth demand and deepen customer loyalty, particularly among affluent households making large, discretionary purchases.

RH further differentiates itself through its experiential retail strategy, integrating hospitality concepts such as restaurants, wine bars, and rooftop terraces into many of its Design Galleries. These spaces are intended to transform retail locations into lifestyle destinations, increasing dwell time, strengthening brand affinity, and reinforcing RH's positioning as a luxury brand rather than a transactional retailer. Complementing this approach, RH offers interior design services that embed the brand more deeply into customers' long-term home projects and renovation decisions.

In recent years, RH has pursued an ambitious platform expansion strategy, including international growth, product line extensions, and investments in brand elevation. The company has expanded into European markets, most notably with flagship gallery openings, while also continuing to invest in new product categories and design innovation. While these initiatives introduce near-term cost and margin variability, management views them as foundational to building a global luxury brand with long-duration earnings power.

Overall, RH operates a distinctive, vertically integrated luxury model that combines product curation, experiential retail, and ecosystem economics. The company's strategy prioritizes brand strength, customer lifetime value, and long-term differentiation over short-term volume maximization, positioning RH to potentially outperform traditional peers across the cycle.



Industry Overview

Competitive Positioning

RH is the luxury player in the home furnishings industry, competing most directly with other premium players like Williams-Sonoma and Arhaus. On top of its luxury branding, RH's main edge is the membership model. While other companies have attempted to implement membership models to offer rewards like free shipping and occasional discounts, RH's model is distinct in that it offers a major price discount across the majority of its items for an annual fee. On the contrary, most competitors instead rely on promotional cycles, offering seasonal sales to drive revenue during holidays or demand troughs.

Housing Market

The home furnishings industry is directly tied to the housing market. Therefore, the industry is cyclical and highly sensitive to housing-market trends and broader consumer confidence. Recent macro conditions have been challenging. U.S. existing home sales fell to roughly 4.0 million units annually in 2025, levels not seen since the late 1970s. RH's CEO Gary Friedman has described this period as "the worst housing market in almost 50 years," marked by a sharp pullback in home buying and remodeling activity. High mortgage rates and economic uncertainty have curtailed consumers' willingness to invest in furniture, creating a tough backdrop for all industry players. Indeed, after a pandemic-driven boom, many furniture retailers saw flat or declining sales in 2024 as demand cooled.

However, the recovery of the housing market would be a major tailwind for the entire industry. Though the market is still struggling, there have been a few signs toward a recovery. First, the average 30 year fixed-rate mortgage fell to 6.01%, the lowest rate since September 2022, and refinance application has doubled over the past year, helping many buyers reduce their personal mortgage payments. Furthermore, in January 2026, national housing inventory was up 10% year over year as new construction has picked up. Though the housing market is still in a rough spot, as the "lock-in effect" still exists as 82% of homeowners still have mortgages under 5% on their current homes, the general consensus among experts is that 2026 will be a transition year toward more affordable housing. Therefore, in the coming years, we can expect to see more homes sold, and therefore more furniture sold across the industry.

Experts see the luxury and custom home segment as more resilient than traditional furniture retailers, as affluent buyers remain insulated from broader economic pressures and consistently anchor demand for unique, high-end home furnishings. Even still, RH needed to adapt to sustain sales through the poor housing market, raising its membership discount from 25% to 30% to respond to competitors' promotional deals.

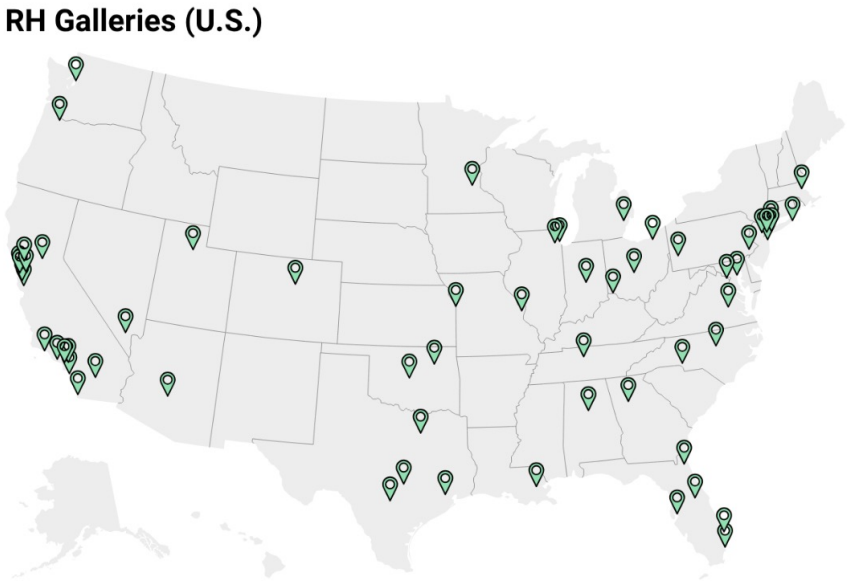
Tariffs

Compounding the macro slump, the industry has faced significant cost headwinds from tariffs and supply chain disruptions. The U.S. government's trade actions have introduced two kinds of tariffs that hurt the industry. First, IEEPA reciprocal tariffs notably have placed 20% rates on goods from China and Vietnam, the two largest exporters of raw materials and upholstered furniture for the industry. Second, the administration enforced Section 232 tariffs in October 2025, placing a 25% rate on all upholstered furniture (sofas, chairs, etc.) and a 10% duty on softwood timber and lumber. If a good is subject to both Section 232 tariffs and IEEPA reciprocal tariffs (e.g. a sofa from Vietnam), then in most cases, only the Section 232 tariff will apply. To deal with these tariffs, RH has led the industry in shifting production out of Asia, with 52% of upholstered furniture production in the United States and 21% now in Italy.

Though the February 2026 Supreme Court ruling to invalidate the broad IEEPA reciprocal tariffs and the Trump Administration's response with a 150 day 10% global tariff under Section 122 of the Trade Act of 1974 has complicated the tariff outlook, experts believe that for now, there won't be any significant price changes in the industry. The tariff environment is still too uncertain for companies to drop their prices, and the Trump Administration is actively looking for legal mechanisms to reinstate many of the tariffs that were struck down. That means for now, industry players still pay 25% on upholstered goods and 10% on timber and lumber, but there could be marginal relief on non-upholstered goods (decorative accessories and outdoor furniture) that now only have a 10% duty.

Geographic Footprint

RH has 74 galleries across the United States and Europe, including 47 Design Galleries. Management has stated that it aggressively wants to expand into Europe, as experts describe the European home furnishings industry as more fragmented and prone to disruption than the U.S. market.



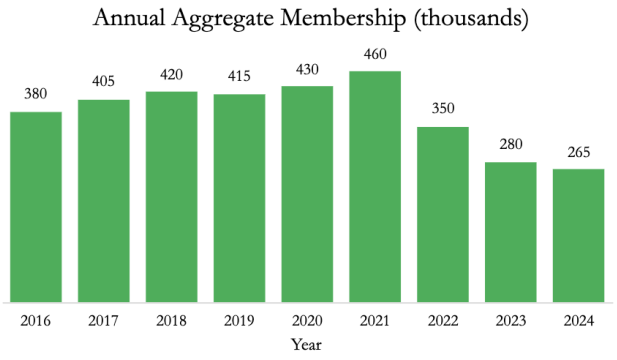
Investment Theses

Investment Thesis 1: Pricing Power and Market Share Gains

Pricing Power

RH's pricing power is structural and derives from its luxury brand positioning, differentiated membership model, and affluent customer base. These factors allow it to raise prices and expand revenue consistently, even as broader furniture demand weakens. The result is market share consolidation in the high-end home furnishings category.

In FY 2025, RH reported ~9% revenue growth in Q3, notably outpacing implied broader furnishing retail trends, which have been soft due to the weak housing market. RH's revenue increase was also accompanied by improving profitability — adjusted EBITDA margins of roughly 17.6% in the quarter — showing pricing discipline can help support margins in a tough macro environment. Management guided for ~9.0–9.2% full-year revenue growth and meaningful free cash flow expansion, even while admitting macro pressure remains a headwind. Taken together, this suggests pricing increases are not simply masking softness, but rather are contributing materially to revenue and profit expansion.



In Q3 fiscal 2025, RH generated ~$83 million in free cash flow, with year-to-date free cash flow approaching $198 million and full-year expectations between $250 million and $300 million. This demonstrates that pricing discipline and margin preservation are translating into real cash, even as the company navigates cost headwinds from tariffs and international expansion.
In terms of brand positioning and luxury ecosystem, RH has evolved beyond traditional retail into a luxury lifestyle brand, supported by large gallery experiences that resemble design showrooms. This brand elevation gives the company confidence to price high and maintain those prices without heavy discounting.

One important aspect of RH's client retention strategy, which differentiates it from competitors is the membership model that RH offers. Roughly 95% of RH's sales are from members, even though members represent only 40% of total customers. This structure encourages customers to concentrate purchases within the RH ecosystem, increases lifetime value, and allows the company to raise list prices without undermining perceived value or brand prestige. Part of RH's pricing power comes from its customer base loyalty. Repeat purchase rate reaches 68% within 24 months of initial transaction. Average customer lifetime value exceeds $12,000, justified by many room furnishing projects and seasonal updates.

Market Share Gains

RH has grown sales while many competitors struggle. In Q3 2025, RH reported revenue growth that outpaced peers such as Wayfair and La-Z-Boy, during one of the weakest housing markets in decades. It is worth noting that the average RH furniture unit price is much higher than that from Wayfair, and given the fact that despite the housing market volatility people still chose luxury over necessity positions RH as a resilient market player in the sector.

Morningstar commented that RH has gained share in the large and highly fragmented U.S. furniture and home furnishing market (a ~$136B category), suggesting share capture rather than market expansion is driving growth. RH holds a dominant, high-end position in the luxury furniture market, with a market share of approximately 57.66%.

RH itself has described the recent housing backdrop as the "worst in nearly 50 years," yet still delivered mid-to-high single-digit growth. If pricing power were cyclical, tied to boom conditions, we would expect sales to falter sharply in the face of higher rates, low housing turnover, and macro pressure. Instead, the company demonstrated resilience, suggesting structural demand from its core luxury customer base is strong enough to absorb price increases.

While much of the market has focused on macro headwinds — tariff pressure, a weak housing market, and near-term earnings volatility — RH's stock currently trades at valuations that may not fully reflect its structural business advantages. The market may also be extrapolating near-term volatility (tariff costs, housing softness) too far into the future, while undervaluing the persistence of RH's pricing power and its ability to steal share. Because valuation multiples compress when short-term earnings disappoint or risk sentiment rises, investors can overlook the underlying structural story, even though longer-term revenue and share trends remain intact.

Investment Thesis 2: Design Gallery Construction Creates an Underappreciated Competitive Moat

RH's gallery transformation and construction requires massive upfront investment that can not be replicated by competitors, creating major barriers to entry in replicating the gallery experience that RH offers. By investing in these galleries through the downturn of the housing market, RH has successfully built on its luxury ecosystem to secure its pricing power and create opportunities for more revenue streams. The market appears to be treating RH simply as a high-end furniture retailer, missing how RH's strategic investments in a depressed housing market have created barriers that no other brand can replicate.

In addition to the various aspects of RH's non-core business-related operations, their gallery ecosystem creates rising barriers to entry that traditional furniture retailers cannot overcome. Large-format experiential galleries require substantial upfront capital while integrating hospitality demands and operational capabilities (restaurant management, liquor licensing, chef partnerships) that furniture retailers lack. More fundamentally, only a luxury brand can support the economics: the model requires premium pricing power and high average transaction values to justify the real estate and hospitality investments, creating a unique positioning that competitors can not claim. These structural advantages support the case for a premium multiple relative to peers: barriers protect long-term margin structure, high average transaction values create operating leverage on any revenue recovery, and the experiential model reduces commoditization risk that typically compresses multiples for specialty retailers.

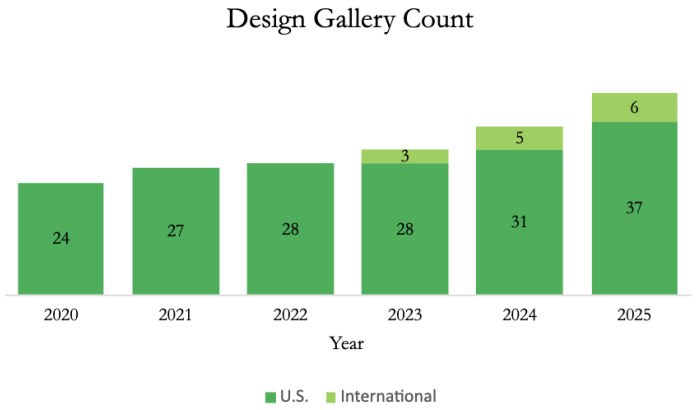
RH has pushed to transform many legacy galleries (traditional retail stores) into Design Galleries that feature unique architecture, restaurants, and wine bars. RH's recent transformations and focused actions have demonstrated strong success; for example, RH transformed a money-losing retail store in Aventura Mall, increasing revenue from $2 million to $44 million in the same location with the same square footage. Design Galleries have driven substantial growth in both suburban, affluent areas like Newport Beach and Palo Alto, and in densely populated metropolitan areas like RH New York City, which remains RH's highest volume gallery.

RH is aggressively constructing new Design Galleries domestically and abroad, and management's promise of "extraordinary and remarkable" physical experiences has proved wildly successful. In Q2 2025, RH England saw 76% year-over-year growth in demand for the physical gallery compared to 34% growth for online demand, evidence that the experiential format drives customer engagement beyond simple brand awareness. RH Paris, which opened on September 5, 2025, reinforced this on a larger scale. Daily foot traffic in its opening period exceeded New York, and its design pipeline, the backlog of active interior design engagements representing committed future revenue, surpassed the combined first-six-day pipeline of the previous five European galleries. 50% of Parisians already recognized the RH brand before the doors opened, reflecting years of organic brand equity ahead of any physical presence, indicating high potential demand across Europe. Management has indicated that European and potentially Middle Eastern expansion could double the size of RH over five to seven years, and with RH London and RH Milan opening in 2026, Paris is best understood as the template rather than the ceiling. RH's restaurants, a feature of the Design Galleries, further complement this strategy, currently responsible for 12% of total revenue with an average spend of $45 per person, and the restaurants cover an average of 65% of their gallery's rent, in select cases covering gallery rent entirely.

The FY2021 margin profile establishes what a mature RH gallery portfolio is capable of generating. At 24.6% operating margins, RH was producing returns that no traditional furniture retailer can approach, a direct consequence of the gallery model's fixed cost structure operating at full productivity. The sell side has largely treated this as a result of COVID, discounting FY2021 margins as unsustainable demand-driven inflation. But the

FY2022 data undermines that interpretation. As pandemic demand normalized and revenue declined 4.5% from the FY2021 peak, RH's operating margin held at 20.1%. A retailer riding purely cyclical tailwinds does not maintain 20% margins as revenue falls. The compression that followed reflects two specific and temporary factors: revenue fell sharply as the housing market weakened, while gallery rent, staffing, and occupancy costs remained largely fixed. Tariffs added further gross margin pressure from FY2024 onward. Neither factor reflects the underlying economics of the gallery model.

The market continues to force a narrative that RH's successes have been solely from cyclical factors and past industry tailwinds and that the struggles have been driven by a structurally weaker demand environment. The development of this moat through Design Gallery construction will secure margins long term both domestically and internationally.



Investment Thesis 3: Mispriced Transformation Amid Temporary Margin Pressure

The market is currently valuing RH as if it were a structurally impaired, housing-dependent furniture retailer. The current evidence suggests something materially different: a scaled luxury platform deliberately operating through an investment-heavy trough, with significant embedded operating leverage and competitive consolidation tailwinds that are not reflected in the current multiple.

In Q3 of 25, RH delivered ~9% revenue growth in what management described as one of the weakest housing environments in nearly fifty years. Importantly, this was not driven by promotional activity or mix degradation. Selling square footage increased by 8-10% YoY, reflecting RH's continued gallery expansions, implying mid-single-digit comparable sales growth. This relationship implies that comparable sales at existing locations (excluding just the impact of new gallery openings) likely grew in the mid-single-digit range (~4–6%), demonstrating a healthy underlying demand for existing locations rather than expansion-driven growth. RH has been outpacing many public peers and continues gaining market share in the luxury retail segment as weaker competitors face declining demand, while RH's core locations generate increasing sales productivity even in a historically weak housing environment. In a fragmented luxury furniture market where smaller independent designers lack scale, sourcing leverage, and balance sheet flexibility, RH's relative outperformance likely reflects structural consolidation rather than cyclical noise. Unlike smaller competitors that rely on third-party distributors (independent retailers accounting for roughly 22% of total market share) and operate with limited purchasing volume, RH operates on a global scale, allowing it to secure proprietary designs and maintain more consistent inventory availability–advantages that become more pronounced during periods of supply chain disruption and demand volatility. Additionally, RH's vertically integrated model, strong liquidity position, and ability to continue investing in large-format Design Galleries during a downturn enable it to capture displaced demand from financially constrained competitors that are reducing inventory, closing showrooms, or exiting the market entirely. As a result, RH's continued comparable sales growth in a contracting housing environment likely reflects permanent market share gains driven by industry consolidation, rather than temporary cyclical outperformance that would reverse when housing demand recovers.

The market's response, however, has centered on margin compression. RH missed consensus on adjusted EPS and EBITDA in Q3 and guided to FY25 operating margins of 11.6–11.9%, below the previously expected 13–14% range. But this compression is analytically traceable and largely transitory. Roughly 210 bps of margin pressure stems from tariffs (net of mitigation efforts, Q32025), alongside incremental drag from international gallery openings and brand extension investments. Management has indicated that operating margins are expected to recover as tariff pressures subside and infrastructure investment moderates. RH has guided to adjusted operating margins of approximately 14–15% longer term, reflecting normalization from FY25's investment- and tariff-depressed levels as new galleries mature and begin contributing at full productivity. These are not demand-driven impairments; they are timing mismatches between investment and return realization.

Second, CapEx intensity is moderating relative to revenue. The heavy buildout phase associated with international expansion and gallery transformation is front-loaded, as RH has already completed several of its highest-cost flagship projects, including its initial entry into the U.K. with RH England at Aynho Park and major domestic gallery conversions. Management has indicated that future gallery openings will follow a more measured cadence of approximately 3–5 new galleries per year, compared to peak periods of accelerated investment, while international expansion is focused on a defined pipeline of major gateway cities in Europe which are expected to contribute incremental revenue without requiring the same

level of upfront infrastructure investment once regional supply chains and distribution are established. As this cadence normalizes, depreciation growth slows relative to EBITDA, expanding operating leverage. This dynamic is visible in the forward profile: EBITDA is projected to reaccelerate meaningfully in FY26–27, while EBIT margins recover toward low-to-mid teens.

Third, the membership model structurally enhances margin recovery. With ~95% of sales flowing through the $200 annual membership, RH operates on an "everyday value" architecture rather than episodic discounting. This creates pricing discipline, reduces promotional volatility, and supports gross margin stability once tariff comparisons lap. Unlike mid-market peers that must stimulate demand through markdowns, RH's value proposition is embedded in its ecosystem rather than in transient price cuts. This creates a more stable and predictable earnings profile as RH's revenue is less dependent on promotional spikes / seasonal discounts that compress margins, in comparison to several of its competitors that rely on aggressive markdowns or reactive price increases to offset cost pressures. A model characterized by embedded pricing power, lower promotional intensity, and more stable gross margins warrants a higher multiple, as it reflects structurally lower cyclicality, lower risk, and reduced earnings risk relative to traditional furniture retailers.

Free cash flow generation further reinforces the asymmetry. RH generated $83 million in Q3 free cash flow and maintains FY25 FCF guidance of $250–300 million. This level of cash production during peak investment and tariff headwinds demonstrates resilience in working capital management and inventory normalization. Inventory is down double digits year-over-year, and the company is progressing toward its targeted ~$300 million reduction. Importantly, this is not distressed inventory liquidation but controlled normalization—limiting the need for margin-destructive promotions.

The capital structure, while leveraged, is not deteriorating. Sequential net debt reduction and positive free cash flow mitigate liquidity concerns. As EBITDA increases, leverage ratios improve mechanically, creating additional equity torque.

Perhaps most compelling is that a robust housing recovery is not necessary for meaningful upside. Even stabilization in existing home sales, layered onto continued share consolidation, maturing gallery productivity, and the Spring 2026 brand extension—which broadens addressable demand without diluting brand positioning—can drive substantial operating income expansion. In other words, RH's earnings inflection is partly self-help and partly macro, not wholly dependent on a cyclical rebound.

The mispricing lies in timing perception. The market is discounting current margin pressure due to expansion, tariffs, and macro headwinds, but not underwriting the operating leverage embedded in the asset base. RH's operating margin has historically expanded as gallery investments mature. For instance, RH's operating margin was ~14.3% in Q2 FY2025, up from 11.6% the prior year, demonstrating over 270bps of margin expansion as fixed costs were leveraged against rising sales. As tariff comparisons lap, gallery vintages mature, and incremental revenue flows through a largely fixed cost structure, RH transitions from margin compression to margin expansion. RH's gallery model embeds substantial forward operating leverage. Once opened, galleries require relatively stable staffing and occupancy costs, allowing incremental revenue growth to disproportionately translate into profit. This dynamic has already been evidenced by adjusted EBITDA increasing to $185.1 million in Q2 FY2025, up ~30% year-over-year, even on mid-single-digit revenue growth. When that inflection becomes visible in reported results, the multiple should re-rate alongside earnings.

RH is not a challenged retailer fighting structural decline. It is a scaled luxury platform executing a multi-year transformation, temporarily obscured by investment timing and macro friction. The market is valuing the cost of building the platform—but not the earnings power that emerges once the build phase subsides.

A key concern that is temporarily influencing the current valuation for RH is tariff exposure, which has contributed meaningfully to recent gross margin compression. However, the market appears to be underwriting tariff-related gross margin pressure as if it represents a permanent impairment to earnings power and structural efficiency, while the impact of tariffs is more likely a temporary headwind tied to policy timing and supply chain adjustment rather than structural deterioration in the underlying economics of the business. RH sources a meaningful portion of its merchandise from Asia, including Vietnam, where U.S. tariffs increased to approximately 20% on most exports, raising input costs. RH initially absorbed part of this impact to preserve pricing integrity and brand positioning, reflecting a deliberate strategic choice rather than an inability to recover margins. Importantly, RH's membership-based pricing model allows for selective price adjustments without relying on broad promotional discounting, enabling it to offset cost inflation more effectively than mid-market peers serving more price-sensitive customers.

Scale further mitigates tariff exposure. RH's global sourcing footprint, vendor relationships, and purchasing volume provide leverage to renegotiate supplier terms, shift production geographically, and optimize logistics—advantages smaller competitors lack. As sourcing diversifies and tariff comparisons annualize, the cost impact should moderate, while incremental revenue flows through RH's largely fixed cost base, supporting margin recovery.

Critically, tariff pressure is inherently transitional. As sourcing shifts, supply chains diversify, and tariff comparisons annualize, the direct cost impact on RH's imports should diminish. At the same time, galleries opened during the current investment cycle will begin contributing at full productivity, allowing incremental revenue to flow through a largely fixed cost structure.

Investment Risks and Mitigants

Risk 1: Depressed Housing Market slows consumer purchases in furniture.

Revenue gained from RH is primarily linked to the activity of the housing market, as well as the overall state of the economy. If housing turnover slows down, home prices fall, or mortgage rates increase, demand for large, discretionary, luxuries such as high-end furniture and home décor items diminishes. New home purchases, renovations, or second-home investments are correlated activities, and several of these projects are linked to home purchases. In a depressed housing market, projects are all on hold, and order volume for RH is in turn greatly reduced, and pressure on revenue growth is high. The high fixed-cost structure for RH, including the large-size galleries, their hospitality concepts, and the leases for the high-end real estate, creates operating leverage. If there is a substantial decrease in sales, margins for fixed costs can remain the same. This is a large contributor to the volatility in profits during downturns of the economy, as well, especially if the housing market remains down for several consecutive quarters.

Mitigant 1: RH's positioning as a luxury/premium brand positions it well for success even in a depressed housing market. RH's positioning as a luxury brand significantly mitigates cyclical housing risk. Its core customer base consists of affluent, high-net-worth individuals who are less sensitive to interest rate fluctuations and short-term macroeconomic stress. These customers often renovate primary and secondary residences regardless of broader housing turnover trends and are more likely to make multiple, high-value purchases. As a result, RH's revenue tends to be more resilient than mass-market furniture retailers during downturns. Furthermore, RH's differentiated gallery model and experiential retail strategy enhance pricing power and customer loyalty. The integration of hospitality, immersive galleries, and digital visualization tools improves conversion, lowers operating inefficiencies, and strengthens brand stickiness. This premium ecosystem allows RH to sustain performance even in softer housing environments.

Risk 2: Gallery construction requires significant capital investment.

For example, RH invested between $50 million and $60 million to construct RH Newport Beach. These investments include architectural redevelopment, premium urban real estate, hospitality buildouts, and large-scale design infrastructure. Because each gallery represents a meaningful capital commitment, misjudging location demand, consumer traffic, or regional economic conditions could materially impair returns on invested capital.

Mitigant 2: Despite high upfront costs, RH Galleries generate massive revenues with low payback periods; based on RH projections, most North American galleries pay back in between 1 and 1.5 years, while more iconic European galleries take closer to 3 years. Full Line Design Galleries, averaging roughly 25,000 gross square feet and 21,500 selling square feet, have historically targeted average payback periods of 20 months or less on initial investment.

Additionally, RH's hospitality integration significantly enhances gallery-level economics. For example, management noted that the RH Ocean Grill at RH Newport Beach ($20+ million restaurant investment) is expected to generate mid-$20 million revenue in its second full year, with projected cash flow potentially covering rent for the entire 90,000 square foot gallery. These multi-concept revenue streams, combined with lower return rates driven by digital visualization tools, support strong unit-level productivity and help justify the company's capital-intensive strategy.

Valuation

Base Case

RH

Fiscal Year Ending Dec 31		2020	2021	2022	2023	2024	2025E	2026E	2027E	2028E	2029E	
Total Revenue		**2,848.60**	**3,758.80**	**3,590.40**	**3,029.10**	**3,180.70**	**3,498.89**	**3,846.04**	**4,165.60**	**4,545.15**	**4,935.74**	
% Growth		*0.00%*	*31.95%*	*-4.48%*	*-15.63%*	*5.00%*	*10.00%*	*9.92%*	*8.31%*	*9.11%*	*8.59%*	
EBIT		466.86	927.18	722.16	366.07	322.59	347.75	393.73	450.72	522.61	601.11	
NOPAT		369	732	571	289	255	275	311	356	413	475	
Plus: Depreciation & Amortization		100	96	109	119	130	136	137	142	151	163	
Less: Capital Expenditures		(129)	(185)	(174)	(269)	(231)	(210)	(231)	(250)	(273)	(296)	
Less: Increases in Working Capital			(107)	(279)	(498)	(256)	(415)	(163)	(48)	(43)	(51)	
Unlevered Free Cash Flow			**750**	**784**	**637**	**410**	**615**	**380**	**296**	**334**	**393**	
EBITDA Multiple / Perpetuity Growth Rate												9x
Implied Terminal Value												**6,881**
WACC	5.44%											
Discount Period							0.42	0.92	1.42	1.92	2.42	2.92
Discount Factor							0.98	0.95	0.93	0.90	0.88	0.86
PV of Terminal Value											5,894	
Plus: PV of Forecasted Unlevered Free Cash Flow							**601.48**	**361.66**	**274.59**	**301.50**	**345.51**	
Implied Enterprise Value											7,779	
Less: Balance Sheet Adjustments											(2,541)	
Implied Equity Value											**5,238**	
Shares Outstanding											20	
Implied Equity Value per Share											**262**	
% Premium / (Discount) to Current											*44%*	

Assumptions

Tax-rate	21%
Valuation date	2/25/26
Stub period	0.85
Current share price 2/23/2026	182.48

Operating Build (Base Case)

RH | Operating Build

	Historicals										Projected				
	FY2020	FY2021	FY2022	FY2023	2024Q3	2024Q4	FY2024	2025Q1	2025Q2	2025Q3	2025Q4	2026E	2027E	2028E	2029E
Revenue Build															
Design Galleries EOP	24	27	28	31	36	38	38	38	40	43	43	47	51	56	61
Design Galleries Opened	2	3	1	3	1	2	7	0	2	3	0	4	4	5	5
Design Galleries Closed	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Design Galleries Leased Selling Square Footage EOP, 000s sq ft	792	905.4	947.5	1036.2	1,174.60	1,239.50	1240.3	1240.3	1302.5	1353.4	1353.4	1471.231481	1583.63488	1720.51483	1855.91048
Additional Sq Footage (000s) gained via openings	65.3	113.4	42.1	88.7	37.6	64.9	204.1		62.2	50.9	0	117.8314815	112.403395	136.879951	135.395657
Lost Sq Footage via closures	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Avg Square Footage Gain (000s) per design Gallery Opening	32.65	37.80	42.10	29.57	37.60	32.45	29.16		31.10	16.97	29.47	29.46	28.10	27.38	27.08
Interior Design Offices Leased Selling Square Footage - EoP, 000s sq ft						3	3	3	3	3	3	3	3	3	3
Baby & Child and TEEN Galleries Leased Selling Square Footage - EoP, 000s s	15.6	8.4	8.4	8.4	8.4	6.6	6.6	2.4	2.4	2.4	2.4	2.4	2.4	2.4	2.4
Modern Galleries Leased Selling Square Footage - EoP, 000s sq ft	16.6	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8	12.8
Outdoor Galleries Leased Selling Square Footage - EoP, 000s sq ft								4.2	6.8	6.8	6.8	6.8	6.8	6.8	6.8
Legacy Galleries Leased Selling Square Footage - EoP, 000s sq ft	277.4	270	259	259	231.5	202.5	202.5	202.5	202.5	196.3	196.3	196.3	196.3	196.3	196.3
RH Galleries Leased Store Selling Square Footage - EoP, 000s sq ft	1101.6	1196.6	1227.7	1316.4	1427.3	1461.4	1462.2	1462.2	1527	1571.7	1571.7	1689.531481	1801.93488	1938.81483	2074.21048
RH Segment Revenue (excl. outlets) mm	2,541.90	3,314.80	3,138.60	2,590.60	704.1	693.8	2,729.80	698	774.7	760.8	747.37	3317.76	3609.26	3961.10	4322.47
Y/Y RH Segment revenue (excl. outlets) growth, %		30.41%	-5.32%	-17.46%		*-1.46%*	5.37%	*13.50%*	*8.10%*	8.05%	7.72%	11.30%	8.79%	9.75%	9.12%
RH revenue per leased store selling square foot $/sq ft	2307.46	2770.18	2556.49	1967.94	493.31	474.75	1866.91	477.36	507.33	484.06	475.52	1963.72	2002.99	2043.05	2083.91
Y/Y RH revenue (excl. outlets) per leased store selling square foot growth, %		20.05%	-7.71%	-23.02%		-3.76%	-5.13%	4.23%	-1.87%	-1.87%	0.16%	1%	2%	2%	2%
RH Outlets EOP Stores	38	38	37	42	38	40	40	42	43	43	43	43	43	43	43
RH outlet revenue per store k$/store	$4,934	$7,342	$6,731	$6,101	$1,662	$1,744	$6,491	$1,634	$1,694	1744	$1,846.90	$7,368.52	$7,848.92	$8,315.44	$8,810.40
Y/Y RH outlet revenue per store growth, %		48.80%	-8.32%	-9.36%	*11.70%*	*4.93%*	6.39%	*9.40%*	*5.90%*	4.90%	5.90%	6.50%	6.52%	5.94%	5.95%
RH Outlet Revenue mm	187.49	279.00	249.05	256.24	63.16	69.76	259.64	68.63	72.84	74.99	79.42	316.85	337.50	357.56	378.85
RH Segment Revenue mm	2729.39	3593.80	3387.65	2846.84	767.26	763.56	2989.44	766.63	847.54	835.79	826.78	3634.61	3946.77	4318.66	4701.32
Waterworks															
Waterworks showrooms - EoP, # of stores	15	14	14	14	14	14	14	14	14	14	14	14	14	14	14
Waterworks showrooms opened, # of stores	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Waterworks showrooms closed, # of stores	0	1	0	0	0	0	0	0	0	0	0	0	0	0	0
Waterworks Leased Selling Square Footage - EoP, 000s sq ft	57.4	57.4	57.4	60.2	60.2	60.2	60.2	60.2	62.6	62.6	62.6	62.6	62.6	62.6	62.6
Waterworks Revenue, mm	119.2	165	191.8	193.5	43.669	50.642	192.9	48.954	52.434	47.989	72.7646667	211.4305938	218.830665	226.489738	234.416879
Y/Y Waterworks revenue growth, %		38.42%	16.24%	0.89%	-5.40%	-2.18%	-0.31%	-1.88%	7.60%	9.89%	43.68%	-4.82%	3.50%	3.50%	3.50%
Waterworks Revenue per leased selling square foot $/sq ft	2076.66	2874.56	3341.46	3214.29	725.40	841.23	3204.32	813.19	837.60	766.60	861.72	3377.49	3495.70	3618.05	3744.68
Y/Y Waterworks revenue per leased store selling square foot growth, %		38.42%	16.24%	-3.81%		15.97%	-0.31%	-1.91%	3.54%	5.68%	2.44%	3.00%	3.50%	3.50%	3.50%
Net Revenue, mm	2848.59	3758.80	3579.45	3040.34	810.93	814.20	3182.34	815.58	899.98	883.78	899.55	3846.04	4165.60	4545.15	4935.74
											9.95%	9.92%			
Cost Build															
RH Segment Expense Forecasting															
RH Segment Revenue	2729.39	3593.80	3387.65	2846.84	767.26	763.56	2989.44	766.63	847.54	835.79	826.78	3634.61	3946.77	4318.66	4701.32
RH Gross Profit	1,274.10	1,772.70	1,708.40	1,286.10	338.9	335.8	1,313.20	329.8	380.9	363.7	348.72	1596.09	1752.91	1939.67	2135.05
RH Gross Margin	46.68%	49.33%	50.43%	45.18%	44.17%	43.98%	43.93%	43.02%	44.94%	43.52%	42.18%	43.91%	44.41%	44.91%	45.41%
Y/Y RH Gross Margin Improvement, bps	560	235	128	-523	-69	124	-140	31	82	-62	-180	50	50	50	50
Segment Cogs based on Gross Margins	1455.29	1821.10	1679.25	1560.74	428.36	427.76	1676.24	436.83	466.64	472.09	478.06	2038.52	2193.86	2378.99	2566.27
RH Segment SGA	808.4	861.8	1,010.90	944.4	220.2	250.4	1,015.80	278.3	256.2	266.5	301.72	1229.50	1331.15	1447.94	1566.83
RH Segment Adjusted SGA margin	29.62%	23.98%	29.84%	33.17%	28.70%	32.79%	33.98%	36.30%	30.23%	31.89%	36.49%	33.83%	33.73%	33.53%	33.33%
Y/Y RH Segment adjusted SG&A margin improvement, bps	560	235	128	-523	903	92	-140	30	280	-322	370	10	-10	-20	-20
Waterworks Expense Forecasting															
Waterworks Revenue	119.2	165	191.8	193.5	43.669	50.642	192.9	48.954	52.434	47.989	72.7646667	211.4305938	218.830665	226.489738	234.416879
Waterworks Gross Profit	51.4	82.7	103.5	102.9	22.4	27	101.8	25.539	28.353	26.086	38.87	114.28	118.50	122.88	127.41
Waterworks Gross Margin	43.12%	50.12%	53.96%	53.18%	51.29%	53.32%	52.77%	52.17%	54.07%	54.36%	53.42%	54.05%	54.15%	54.25%	54.35%
Y/Y Waterworks Gross Margin Improvement, bps	83	705	382	-79	-172	148	-44	-40	45	307	10	55	10	10	10
Segment Cogs based on Gross Margins	67.8	82.3	88.3	90.6	21.269	23.642	91.1	23.415	24.081	21.903	33.8971072	97.14800352	100.329353	103.614391	107.006477
Waterworks SGA	47.4	65	75.2	78.6	19.3	20.3	79.7	20.232	21.484	20.68	29.10	87.15	89.54	92.00	94.52
Waterworks Adjusted SGA margin	39.77%	39.39%	39.21%	40.62%	44.20%	40.09%	41.32%	41.33%	40.97%	43.09%	39.99%	41.22%	40.92%	40.62%	40.32%
Y/Y Waterworks adjusted SG&A margin improvement, bps	-32	33	20	-139	-197	266	-71	-39	-60	113	-10	-13	-30	-30	-30

Financial Statements

RH
Financials
USD, millions (unless otherwise stated)

	Historical Period					Forecast Period				
Year	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Income Statement										
Net revenues	2,849	3,759	3,590	3,029	3,181	3,499	3,846	4,166	4,545	4,936
Cost of goods sold	(1,552)	(1,523)	(1,903)	(1,778)	(1,640)	1,957	2,136	2,294	2,483	2,673
Gross Profit	1,296	2,236	1,687	1,251	1,541	1,542	1,710	1,871	2,063	2,262
Selling, general and administrative expenses	(859)	(928)	(1,090)	(1,023)	(1,092)	(1,194)	(1,317)	(1,421)	(1,540)	(1,661)
Income / loss from operations	467	927	722	366	323	348	394	451	523	601
Interest expense-net	(69)	(65)	(113)	(198)	(231)	(164)	(163)	(153)	(156)	(5)
Other expense	(20)	(32)	(170)	(1)	(3)	(2)	(2)	(2)	(2)	(2)
Income / loss before income taxes	377	830	439	167	89	182	228	296	364	595
Income tax expense / benefit	(105)	(134)	91	(28)	(5)	(17)	(21)	(27)	(33)	(54)
Income before equity method investments	273	697	531	138	84	165	208	269	331	541
Share of equity method investments losses	(1)	(8)	(2)	(11)	(11)	(11)	(11)	(11)	(11)	(11)
Net income	272	689	529	128	72	154	197	258	320	530
Diluted Shares Outstanding	27.3	31.1	26.6	21.6	20.0	20	20	20	20	20
EPS	9.96	22.13	19.90	5.91	3.62	8	10	13	16	26
EBITDA	567	1,023	831	485	453	484	531	593	674	765
% of revenue	19.90%	27.22%	23.14%	16.01%	14.24%	13.82%	13.80%	14.23%	14.82%	15.49%
Balance Sheet										
Assets										
Cash, cash equivalents and restricted cash (incl. construction-related restricte	100	2,178	1,512	124	30	(52)	3	111	259	604
Accounts receivable-net	59	58	60	55	63	61	67	73	80	87
Prepaid expense and other current assets	97	121	139	169	178	605	660	709	767	826
Merchandise inventories	544	734	802	754	1,020	900	982	1,055	1,142	1,230
Total Current Assets	801	3,091	2,513	1,102	1,291	1,514	1,713	1,948	2,248	2,746
Property and equipment-net	1,077	1,228	1,636	1,686	1,883	2,009	2,143	2,280	2,425	2,575
Operating lease right-of-use assets	456	551	527	626	617	617	617	617	617	617
Goodwill and intangible assets	213	214	216	217	217	165	126	96	73	55
Other non-current assets	250	355	316	385	419	419	419	419	419	419
Equity method investments	101	101	101	129	127	127	127	127	127	127
Total Assets	2,898	5,540	5,309	4,144	4,555	4,852	5,144	5,487	5,908	6,540
Liabilities & Equities										
Accounts payable and accrued expenses	424	442	375	367	413	477	521	559	605	652
Short Term Notes	2	13	2	42	-	-	-	-	-	-
Other Current Liabilites	423	608	429	464	492	571	623	669	724	780
Operating lease liabilities	72	-	80	-	-	-	-	-	-	-
Total Current Liabilities	922	1,064	886	873	905	1,048	1,144	1,229	1,329	1,432
Real estate loans	-	-	18	18	16	16	16	16	16	16
Debt	564	2,197	2,447	2,389	2,571	2,571	2,571	2,571	2,571	2,571
Non-current operating lease liabilities	448	541	506	576	573	573	573	573	573	573
Non-current finance lease liabilities	485	561	653	567	631	631	631	631	631	631
Other non-current obligations	32	9	14	19	22	22	22	22	22	22
Total Liabilities	2,451	4,370	4,525	4,441	4,718	4,861	4,957	5,042	5,143	5,245
Total Stockholders' Equity	447	1,170	785	(297)	(164)	(9)	187	446	766	1,295
Total Liabilities & Equity	2,898	5,540	5,309	4,144	4,555	4,852	5,144	5,487	5,908	6,540
Balance Check	YES	YES	YES	YES	YES	YES	YES	YES	YES	YES

RH
Financials
USD, millions (unless otherwise stated)

	Historical Period					Forecast Period				
Year	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**	**2025**	**2026**	**2027**	**2028**	**2029**
Cash Flow										
CFO										
Net income / loss	272	689	529	128	72	154	197	258	320	530
Depreciation and amortization	100	96	109	119	130	136	137	142	151	163
Noncash adjustments	320	212	265	212	229	-	-	-	-	-
Accretion of debt discount upon settlement of debt	(84)	(55)	-	-	-	-	-	-	-	-
Net change from operations	608	941	902	458	432	290	334	400	471	693
Accounts receivable	(10)	2	(2)	5	(8)	2	(6)	(6)	(7)	(7)
Prepaid expense and other assets	(67)	(50)	(103)	(66)	(19)	(427)	(55)	(49)	(58)	(59)
Accounts payable and accrued expenses	64	43	(56)	(41)	47	64	44	39	46	46
Inventory	(105)	(190)	(77)	47	(269)	120	(82)	(73)	(87)	(88)
Deferred Revenue	116	107	(62)	(43)	9	-	-	-	-	-
Other current assets/liabilities	(104)	(191)	(199)	(158)	(174)	79	52	46	55	56
Total CFO	501	662	404	202	17	128	286	358	421	642
CFI										
Capital expenditures	(129)	(185)	(174)	(269)	(231)	(210)	(231)	(250)	(273)	(296)
Acquisitions	(69)	(9)	3	(38)	(10)	-	-	-	-	-
Total Cash from Investments	(198)	(194)	(171)	(307)	(240)	(210)	(231)	(250)	(273)	(296)
CFF										
Proceeds and Repayment of Debt	(237)	1,610	36	(28)	133	-	-	-	-	-
Total other financing activities	(6)	(3)	61	(2)	10	-	-	-	-	-
Repurchases of common stock	-	-	(1,000)	(1,253)	(12)	-	-	-	-	-
Total cash from financing activities	(244)	1,607	(902)	(1,283)	131	-	-	-	-	-
FX Effects	0	(0)	(0)	0	(1)	-	-	-	-	-
Net Change in cash	59	2,075	(670)	(1,388)	(93)	(82)	55	108	148	346
ASSUMPTIONS										
Days Receivable	8	6	6	7	7	6	6	6	6	6
Days Payable	100	106	72	75	92	89	89	89	89	89
Days Prepaid	76	48	70	169	201	113	113	113	113	113
Days Inventory	128	176	154	155	227	168	168	168	168	168
Days other current liabilities	100	146	82	95	109	106	106	106	106	106
ETR	-28%	-16%	21%	-17%	-5%	-9%	-9%	-9%	-9%	-9%

Promontory Investment Research
Winter 2026 Report, Issue 23
promontoryinvestmentresearch.com

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