



# CFA Institute®

## **CFA Institute Research Challenge** hosted by **Local Challenge CFA Society Salt Lake** **Value Vision**

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NASDAQ: LOVE

**Current Price:** \$16.10  
as of January 10, 2026

**Industry:** Furniture

**Target Price:** \$20.19

**Sector:** Consumer Discretionary

**Upside/Downside:** 25.4%

**Recommendation:**

Value Vision Team recommends a **BUY** with a 25.4% upside potential

**Free Float:** ~90%

**Market Cap:** 192.1M

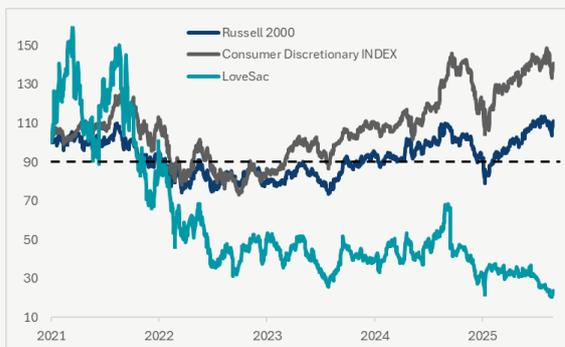
## Executive Summary

### Figure 1: Recommendation Summary

Date	January 10, 2026
Target Price	<b>\$20.19</b>
Current Price	\$16.10
Upside	<b>25.4%</b>
Shares Outstanding	14.6M
52 Week High	39.48
52 Week Low	11.26

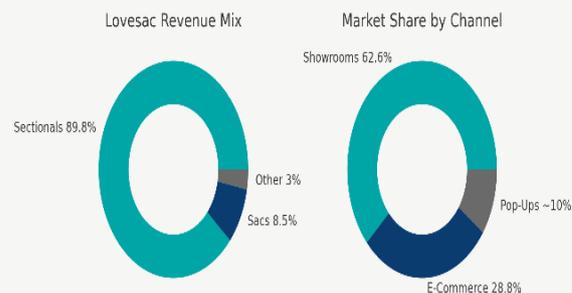
Source: Bloomberg, Team Analysis

### Figure 2: LOVE Vs Main Indices, Re-based to 100 (2021-2025)



Source: Bloomberg, Team Analysis

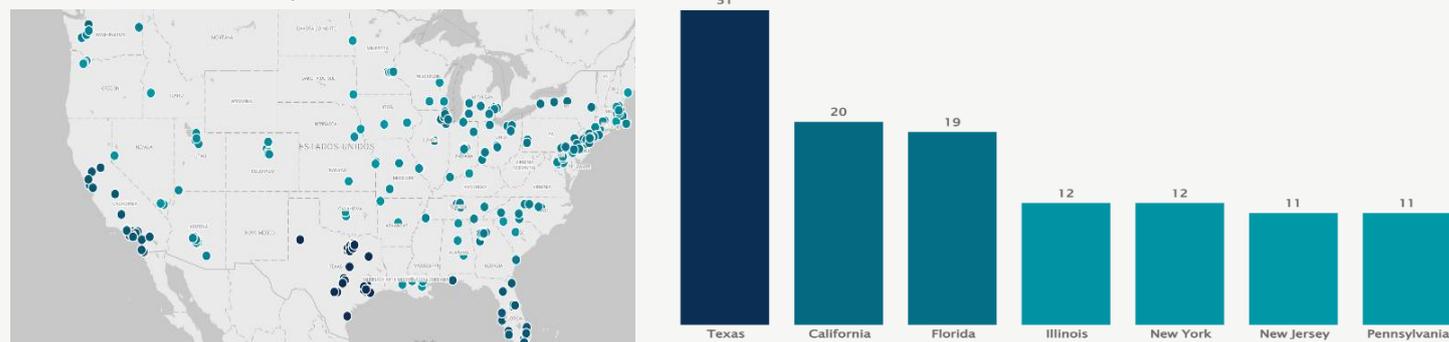
### Figure 3: Segment Breakdown



Source: Lovesac's 10k, Team Analysis

### Figure 4 and 5: Store Locations by State; States with more than 10 stores.

Source: Lovesac's Website, Team Analysis



We initiate coverage on Lovesac (NASDAQ: LOVE) with a **BUY** recommendation and a price target of **\$20.19**. This represents a **25.4%** upside from the close price of **\$16.10** as of **January 10, 2026**. The target price is based on DCF valuation. We defined Lovesac as a growth company inside a mature market. Lovesac's strategy follows its Key Success Factors: customer loyalty building, customizable products with premium pricing, technology adherence and supplier diversification. Lovesac is well positioned in industry trends, though we forecast that its cyclical, competitive and low margin industry will generate instability in the near term.

### Investment Thesis Summary

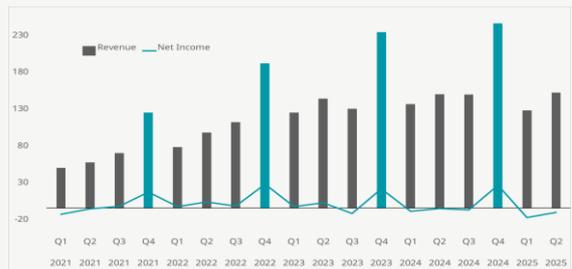
We pitch Lovesac as buy because we see its recent poor performance as the market overlooking its potential. The payoff is asymmetric because we believe Lovesac can pass its gross margin strength to more normalized operational margins. The U.S. furniture market is huge and mature, accounting for about ~250bi in market value in 2024. Demand is cyclical and Lovesac uses the industry's strategy of providing sales deals during the holidays. **We believe across different scenarios that growth will slow down, reaching 3%-5% CAGR.** This will be a direct result of new customers arriving from the showroom's expansion and recurring customers. The model is attractive, as customers pay in advance, inventory is not heavily held, and suppliers are paid later in the cycle. **Repeat customers drive about ~47% of revenue and Lovesac is always innovative, having about 35 U.S patents and 63 foreign patents.** There is a huge discrepancy between Gross Margin - at ~58% - and Profit Margin - at about 2% (way lower than the industry average). Marketing expenditure was stable at 12%, and we see this as an opportunity to help profit margin stabilize. Balance sheet is healthy, with Lovesac having available around **~84 million of cash (2025), and a 1.6 current ratio.** On the other hand, working capital can be a factor to worry about, as the cash conversion cycle is getting bigger, reaching the 103 days mark in Q4 2025, a huge spike from **64 days in 2020.** We see its supply-chain diversification across 8 countries as a strength, especially now where industry trends revolve on tariffs and uncertainty. On valuation, our analysis got us to **11.7%** on the base case. Growth assumptions for the bull case revolve around **5% CAGR**, below Lovesac's past double digit growth but still generous, giving the risk factor that surrounds Lovesac's strategy. The biggest risk factors are its growing **operating leases**, expected to grow even more by 2032; tariff and macro volatility; operating margins recovery, and product concentration (**Sectionals are responsible for about 91.4% of revenue**). Lovesac has brought in experienced leadership to execute on this growth strategy. Also, it has better ESG scores (on average) when compared to peers.

**Figure 6: Retail Sales: Furniture and Home Furniture Vs. Gross Domestic Product (Annualized)**



Source: FRED, Team Analysis

**Figure 7: Lovesac's Quarterly Revenue**



Source: Bloomberg, Team Analysis

**Figure 8: Liquidity Ratios**



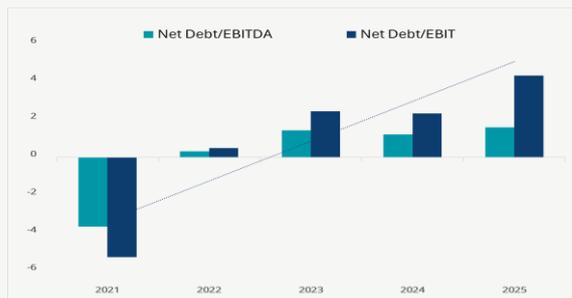
Source: Bloomberg, Team Analysis

**Figure 9: Working Capital**



Source: Bloomberg, Team Analysis

**Figure 10: Net Debt/EBITDA and Net Debt/EBIT**



Source: Bloomberg, Team Analysis

## 1. Business Description

The Lovesac company is a high-end premium furniture developer and retailer based in Stamford, Connecticut. It was created in 1995, when it started selling common seating furniture. After a while, it developed its groundbreaking modular furniture, denominated Sectionals. Or even better, Sactionals! Now, the brand is betting on omnichannel development, tech-driven furniture and increased brand awareness.

### 1.1 Product Mix

The product mix is based on mainly three different lines of products: Sectionals, Sacs and Accessories. Lovesac's revenue is mostly concentrated in **Sectionals**, which contributes to about **90% of sales**. Sectionals are mainly modular couches that are flexible, customizable, washable and tech-forward. **Sacs**, the most famous product, accounts for about 8% of sales. Accessories such as pillows, tables, and ottomans contributes for about 2% of revenue (Figure 3).

### 1.2 Sales Strategy and Channel Mix

Lovesac has an integrated approach to sales, which includes showrooms, e-commerce, and pop-ups. Showrooms serve as classic hubs, generating 60% of sales (Figure 3), while growing online sector and pop-up sales like Costco support convenience for customers and broad reach of the Company.

### 1.3 Business Life Cycle

Lovesac remains in a growth phase, expanding its showroom footprint, investing in technology and brand awareness, and refining its omnichannel platform. Continued innovation and expansion indicate the business is not yet mature.

### 1.4 Growth Strategy and Value Proposition

Growth is driven by brand building, product innovation, and channel optimization. The showroom base more than doubled from 110+ in 2022 to ~260 in 2025. Modular design, technology integration, and sustainability initiatives reinforce differentiation and support repeat purchases.

### 1.5 Cyclicity

Furniture is highly cyclical, with retail sales linked to macro conditions (Figure 6). Lovesac is also seasonal, with profitability concentrated in the fourth fiscal quarter due to promotional periods like Black Friday and Christmas (Figure 7).

## 2. Business Model

### 2.1 How Lovesac Makes Money

Lovesac's most recent 10-K paints the picture: it is a direct-to-customer company, generating value through an omni-channel strategy that drives retention. Payment is collected before order fulfillment. Suppliers are paid later usually through Accounts Payable, and the company does not own any of its showrooms, leveraging on operating leases. Its innovative design is also seen as a competitive edge.

### 2.2 Cost Structure

Supply chain and sourcing: **Production is fully outsourced**, with a diversified supplier footprint across countries including **China, India, Indonesia, Malaysia, Mexico, Taiwan, the United States, and Vietnam**. We view this geographic diversification as a strength. Marketing spend is about 12% of net sales and has remained relatively stable over the past three years. Showrooms: Rent is embedded within SG&A and has risen steadily as the company expanded its showroom base (over 110 net new stores). Because Lovesac leases rather than owns locations, operating lease obligations have increased.

### 2.3 Customer Profile and Behavior

Lovesac's internal data indicates a target customer aged 25-54 with household income above \$75,000 (FY2025 10-K). We view this as attractive due to higher rates of household formation and furniture purchases. The growing share of U.S. households earning over \$100,000 also aligns with this profile (IBISWorld).

### 2.4 Growth Levers

Key levers include: (1) increased brand-awareness with new showrooms as a way to educate the new customers, which creates long-term value as customers tend to return; (2) innovation, being well positioned in industry trends; (3) premium positioning, that presents itself as huge advantage but can also suffer in economic downturns; and (4) the omnichannel platform, where management seeks to generate long-term value (Company's 10k)

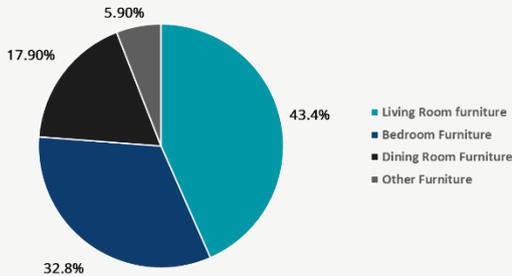
### 3. Industry Overview

Figure 11: Key Value Drivers



Source: Company's 10-k, Team Analysis

Figure 12: Products Segmentation



Source: IBIS World

Figure 13: Key External Drivers

Key External Drivers	Impact
Private Spending on Home Improvements	Positive
Producer Price Index: Sawmill Lumber	Positive
Value of Residential Construction	Positive
Per Capita Disposable Income	Positive
Households earning more than \$100,000	Positive

Source: IBIS World

Figure 14: Competitive Forces



Source: IBIS World

Figure 15: Current vs. 2Y Average Historical Premiums

Metric	Current	Hist Avg	Diff	# SD
Current Price				
BF P/E	21%	2%	20%	1.2
BF EV/EBITDA	-24%	-19%	-5%	-0.4
BF EV/EBIT	20%	0%	20%	1.3
BF EV/Rev	-29%	-22%	-7%	-0.9
LF P/BV	-33%	-19%	-14%	-1

Source: Bloomberg, Team Analysis

### 3.1 Market Size and Growth

The home furnishing and furniture industry represents a large and growing segment of the global consumer goods market, encompassing products such as seating, sofas, tables, cabinets, and related accessories. Globally, this industry was estimated at just over \$1 trillion USD in 2024, and according to an analysis by Grand View Research, it's estimated to reach \$1.7 trillion USD by 2030, representing a CAGR of 9.2% (Grand View Research, 2024). North America was the largest market in 2024 and represented 36.7% of the market share. While North America is the largest market, Grand View Research found that Asia Pacific was the fastest growing market (Grand View Research, 2024).

Given that Lovesac only sells its products within the United States, it's fair to compare it only to the U.S. market. Of the 36.7% market share that North America holds in this industry, the U.S. represents 67.6% of it. This puts the U.S. market share for 2024 at \$252.25 billion.

### 3.2 Housing/Renovation Trends

We see Lovesac well positioned in the housing and renovation trends, as can be seen in the company's Key Value Drivers, such as *Lifetime Value*, *Customization* and *Designed for Life* approach (Figure 11). Also, Living Room furniture accounts for about half of the customer industry now, favoring Lovesac line of business (Figure 12).

### 3.3 Consumer Spending Trends and External Drivers

As mentioned earlier, the furniture industry and the consumer discretionary sector are inherently cyclical. Household income, an important metric, is increasing, and there are more households earning +\$100,000. The disposable income associated with these households is also trending higher. The Producer Price Index: Sawmill Lumber experienced a surge during the pandemic, and it is now trending sideways (Figure 13).

Not only is it broadly cyclical based on economic trends, but it is also cyclical each calendar year. Radial, which is an e-commerce logistics provider, conducted a survey to better understand consumer trends within this industry for 2024. This survey focused on U.S. consumers, so it provides important context to understand the broader market that Lovesac is attacking. Radial found that only **34% of consumers prefer to buy on an "as needed basis"**, while a combined **38% of consumers prefer to purchase home furnishing and furniture on holidays or promotional events**. The remaining 28% prefer to purchase when they are doing a home renovation or full redecoration (Figure 19).

### 3.4 Trade/Tariff/Freight Environment

Tariffs have made a material impact on the Home Furnishing and Furniture industry. Great insight into this has been provided by the Home Furnishing Association (HFA). From their website, you can learn that they started in 1920 and are "North America's largest organization devoted specifically to the needs and interests of home furnishings retailers, with more than 1,500 members representing more than 13,000 storefronts globally" they regularly post relevant statements on how current trade and tariff regulation are affecting the industry (Home Furnishing Association, n.d.).

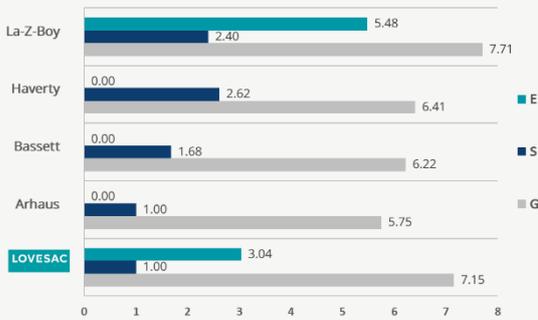
This industry has proven to be sensitive to the recent trend of tariff wars in the global economy. The U.S. market has specifically been at the center of this as President Trump has utilized tariffs as leverage in the global economy. There was a significant example this year of how companies in this industry are affected by external political decisions. In May of 2025, The U.S. and China agreed to a 90-day cease-fire in their tariff policies. It is hard to predict if this decision will stand. The U.S. cut tariffs on Chinese goods from 145% to 30%, and China reduced tariffs from 125% to 10%. When this news came out, Wayfair and RH saw an immediate benefit in their stock price, which jumped 21% and 17% respectively. These massive swings have proven to introduce a new level of risk into this market, as most of the companies have international manufacturing and are at the whim of these external decisions. Interestingly, as mentioned before, **Lovesac prepared for this after decreasing its exposure to China and diversifying its production across 8 different countries.**

## 4. Competitive Overview

### 4.1 Competitor Mapping

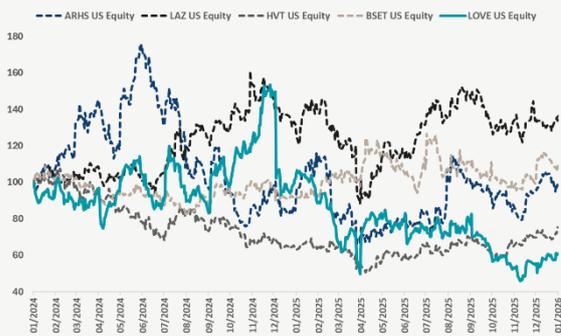
Based on the product offering from Lovesac, they are operating within the mid-to-premium furniture market in the U.S. This market is somewhat saturated,

Figure 16: ESG Score Comparison



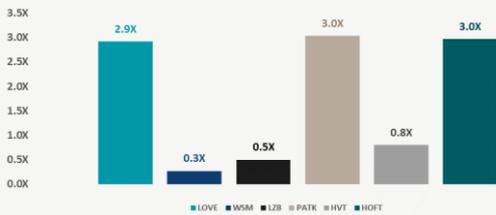
Source: Bloomberg, Team Analysis

Figure 17: Stock Performance against peers from 2024 to 2026 (Factor 100)



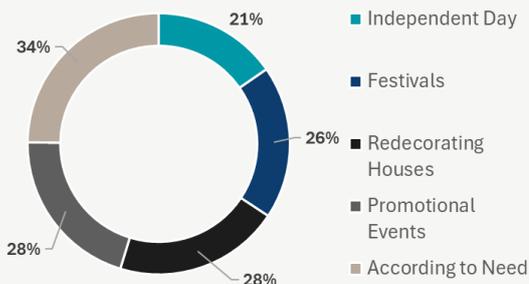
Source: Bloomberg, Team Analysis

Figure 18: Debt / EBITDA



Source: Bloomberg, Team Analysis

Figure 19: Seasonality Trends



Source: Grand View Research

Figure 20: Lovesac's Margins Trend Vs. Industry

Margins	2021	2022	2023	2024	2025	Trend
Gross Margin	54.49	54.86	52.77	57.27	58.45	Up
EBITDA Margin	6.70	13.09	11.05	10.42	9.23	Down
Operating Margin	4.64	7.72	5.68	4.29	2.01	Down
Net Income Margir	4.59	9.21	4.07	3.41	1.70	Down

Source: Bloomberg, IBIS World, Team Analysis

with differing company sizes (Figure 14). At the top of this market, you have the high-volume and broad offering companies like IKEA, Ashley Furniture, and Wayfair. These companies benefit from a well-known name and trust as they make it easy to purchase all sorts of home furnishing needs in one place. While Lovesac is somewhat a direct competitor to these companies, it's fairer to look at these companies, and other large furniture provides, **like macro competitors that shape this entire industry**. They tend to offer scale, pricing power, and product depth that smaller companies within the industry can't compete with. It's appropriate to compare Lovesac to companies **similar in size and operations**. For this reason, the closest comparisons that will be analyzed further are **Arhaus, Bassett Furniture, Havertys Furniture Companies, and La-Z Boy**. These companies share, on some scale, similar revenue ranges and product offerings. Unlike the large companies mentioned earlier, these relatively smaller to mid-size companies tend to offer and emphasize quality construction, differentiated design, and a more personable shopping experience making it feel like your purchase is truly designed for you, and not every home in the country. LAZ has already gone through most of its growth phase, reflecting its low Debt/EBITDA of 0.5x compared to an almost 6 times higher ratio in LOVE.

#### 4.2 Peer Strengths vs Lovesac

Arhaus offers the broadest assortment and has a product mix more similar to larger home-furnishing retailers. This allows them to capture customers shopping for lighting, mattresses, rugs, or accessories and potentially convert them into sectional or living room seating purchases. Bassett and Havertys also offer broad product ranges, though smaller than Arhaus. Haverty benefits from being well-known in the Southwest and Midwest, which can provide an edge over Lovesac in two important regions of the U.S. Though they all share a similar score in Governance, LAZ and LOVE lead on Environmental initiatives (Figure 16). Collectively, what separates these peers from Lovesac is their ability to address a wider variety of home furnishing needs beyond seating. This enables them to target a broader customer base and capture wallet share through cross-selling and repeat purchases. Lovesac will likely struggle to compete on breadth given its narrower SKU range. **Stock Performance** - Lovesac's stock has underperformed over the past two years, especially in 2025, while peers such as LAZ and BSET generated stronger returns for investors. We view this divergence as an opportunity to buy Lovesac at a discount (Figure 17).

#### 4.3 Lovesac Differentiation

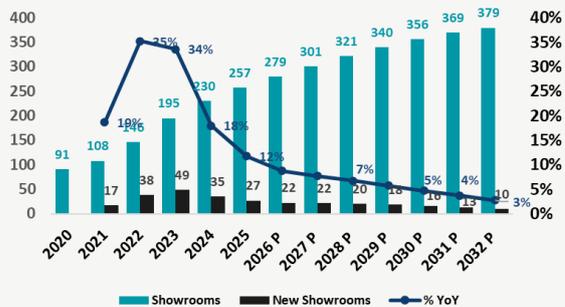
Lovesac has two key differentials compared to peers. First, it offers a highly customizable selection of sectionals. This allows customers to maintain existing furniture and build upon it as their needs evolve. Traditional one-piece furniture cannot match this modularity. Lovesac offers **replaceable covers, interchangeable components, and add-on accessories** that allow customers to refresh or expand a sectional without purchasing an entirely new piece. We see this as opportunity to strengthen customer retainability and long-term value creation. Second, Lovesac has invested in the technological aspects of its furniture. In its financial statements, R&D is not separately disclosed and appears embedded in SG&A. SG&A increased from **\$111M in 2021 to \$370M in 2025**, the highest level to date. In Item 7 of its 10-K, the company states "We are a technology driven company," and it has supported this positioning through product innovation. Lovesac has patented the **StealthTech Sound + Charging System**, which integrates charging and surround sound directly into the couch. This premium feature differentiates Lovesac from peers while keeping technology hidden from view and avoiding surface clutter.

#### 4.4 Pricing Power

Given this differentiation, Lovesac benefits from unique pricing power. True substitutes are limited due to their combination of modularity, upgradeability, integrated technology, and Sacs. In contrast, peers tend to compete more on style, brand heritage, and assortment breadth. Lovesac's distinct value proposition reduces the need to compete primarily through discounting, supporting margin durability. Even though Lovesac's premium is highly competitive, margins are deteriorating in the past few years (Figure 20). Premium peers such as Arhaus and Bassett help set pricing expectations in the mid-to-high-end category. Even so, Lovesac's differentiated offering creates a moat that supports pricing above many mid-sized competitors without materially weakening demand. Over time, continued **increases in brand awareness and showroom penetration may further strengthen pricing power and support long-term margin expansion**.

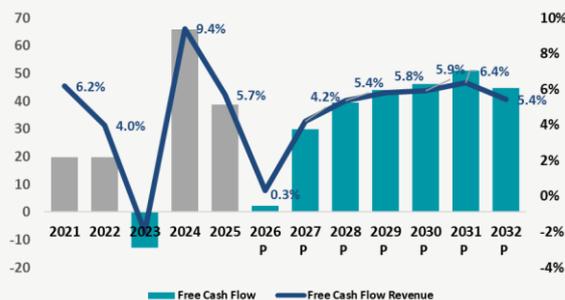
### 5. Investment Summary

Figure 21: Showrooms YoY and new Stores



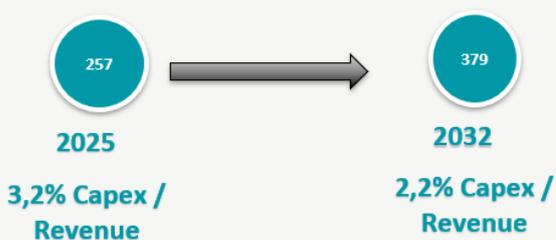
Source: Bloomberg, Team Analysis

Figure 22: Free Cash Flow over Revenue



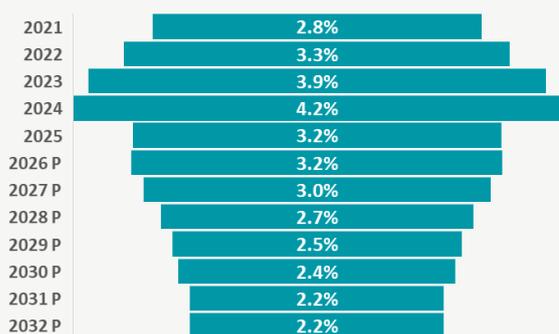
Source: Bloomberg, Team Analysis

Figure 23: New Stores



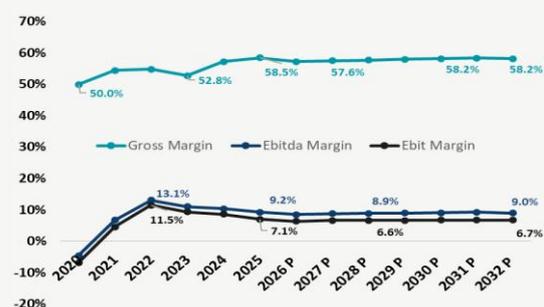
Source: Bloomberg, Team Analysis

Figure 24: CAPEX over Revenue



Source: Bloomberg, Team Analysis

Figure 25: Lovesac Margins



Source: Bloomberg, Team Analysis

## 5.1 DFL Product Moat

Lovesac's moat is built around its patented modular Sectionals platform and its iconic Sacs, which remain the brand's most recognizable products. Unlike traditional couches that are typically a one-time purchase, Lovesac designed its core product to evolve with the customer. If a household moves, remodels, or simply wants a different look, customers can reconfigure the layout, expand the sectional, or replace covers to refresh the furniture without buying an entirely new set. This creates a practical reason to stay within the Lovesac ecosystem and increases the lifetime value of the original purchase. This modular "upgrade path" supports repeat behavior that is structurally difficult for competitors to copy without redesigning their entire product architecture and supply chain. In Item 7 of the FY2025 10-K ("New Customer"), Lovesac reports that repeat customers accounted for **46.8%** of all transactions in fiscal 2025, up from **43.6%** in fiscal 2024. This rising repeat mix reinforces the idea that Lovesac's differentiation is not just brand-led, but product-led. It also helps explain why the company has been able to sustain premium pricing and maintain gross margins in the mid-to-high 50s even as overall growth normalizes (Figure 25).

## 5.2 Omnichannel Flywheel

Much effort has gone into Lovesac improving its omnichannel efficiency. Listening to the Kickoff Call with the CFO, he specifically spoke about how they treat their website as their largest store, and they have invested into creating a seamless experience of having their showrooms and online storefront complement each other. One of those changes has been the ability for people to go into a showroom in person to look at the material, design a potential furniture layout, and then save their layout and quote in the Lovesac system with a Quote ID and their email address. A customer can then go back onto the website whenever and look up their quote, make any changes, and complete their purchase. Their showrooms in general are designed to be inventory-light and allow people to see the offers in person, but since the website is treated as the largest showroom, sales are trending to be completed online. This becomes more important as showroom expansion decelerates total showrooms rise from **257 (2025) to 379 (2032P)** in our projections, while annual new openings **drop to around 10 by 2032P**, shifting growth emphasis toward conversion and productivity rather than footprint (Figure 23).

## 5.3 Margin Recovery Path

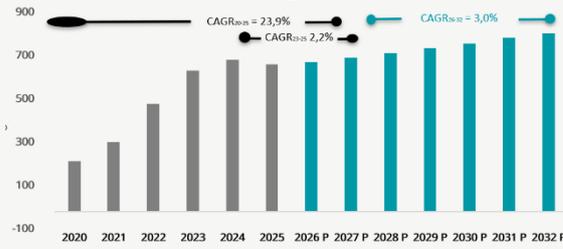
There are two main stories to follow when looking at their margins. Starting off with their gross margins, there is a lot to like about their performance over the past five years. From 2021-2025, the company's gross margin improved from 54.5% to 58.5%. More notably, there was a steep decline in gross margin in 2023 which saw it down to 52.8%, so there has been a strong recovery in just two years. With an industry average gross margin of 54.7%, Lovesac sits in a good position and demonstrates as proof of their DFL Product Moat. They have proven that its customers are willing to pay premium prices. In contrast, its operating margin tells a different story as it has trended downwards over the same period. **There was a peak of 11.5% in 2022, and since then CAPEX has been taking more as a percentage of revenue, reaching about 4% in 2024 (Figure 24).** We believe that Lovesac will be now in a Margin Recovery Path, and we expect Free Cash Flow over Revenue to come back to more sustainable levels as expenditures in CAPEX are reduced to about 2% (Figure 22).

## 5.4 Cyclicity & Demand Risk

Because Lovesac sells higher-ticket items, its cyclicity may be more pronounced. It is one of Lovesac's biggest challenges in its effort to increase showrooms to increase sales per store (Figure 21). The cash flow profile also reflects this sensitivity: free cash flow margin swings materially (including a negative year), then normalizes to mid-single digits in the out-years (roughly 4-6% range), suggesting volatility during reset periods but improving resilience as CAPEX intensity declines. As noted earlier, the company has built a repeat-customer base and enables smaller add-on purchases or simple appearance changes (e.g., covers and accessories). This gives customers a lower-cost way to refresh existing furniture during downturns without committing to a full replacement, and it supports the **gradual decline in CAPEX/Revenue from about 3.2% (2025) toward ~2.2% by 2032P**, helping protect free cash generation when demand slows (Figure 23).

## 6. Financial Analysis

Figure 26: Revenue projections (USD)



Source: Bloomberg, Team Analysis

Figure 27: Revenue Projections (Bear, Base, Bull)



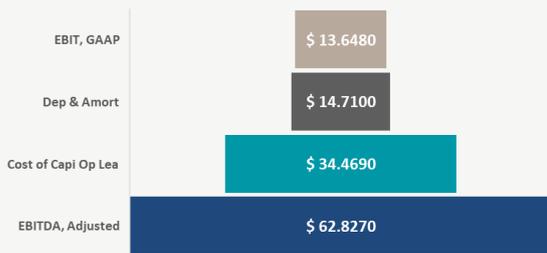
Source: Bloomberg, Team Analysis

Figure 28: EBITDA Margin



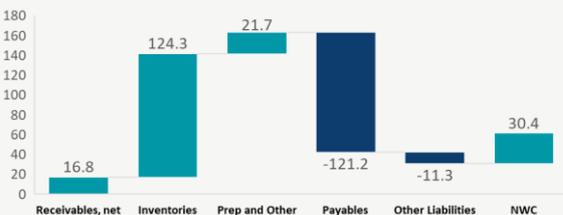
Source: Bloomberg, Team Analysis

Figure 29: Adjusted EBITDA to GAAP EBIT



Source: Bloomberg, Team Analysis

Figure 30: Net Working Capital Bridge



Source: Bloomberg, Team Analysis

The conflict between robust top-line growth, increasing gross profitability, and declining operating leverage is evident in Lovesac's recent financial results. Although the business has shown that it can scale revenue and maintain premium pricing, this has not yet resulted in steady growth in operating margins. In other words, Lovesac is proving demand and differentiation at the product level, but the cost structure has not yet flexed in a way that converts that demand into durable profitability. This tension is central to the investment debate: whether the company can translate brand strength and growth in its gross margin to healthier operating margins.

### 6.1 Growth in Revenue and Cyclicalty

Due to aggressive showroom expansion and rising brand awareness, Lovesac's quarterly revenue has increased significantly over the past few years (Figure 7), with modeled revenue implying a **~23.9% CAGR from 2020-2025** (Figure 26). However, performance has become more concentrated in the fourth fiscal quarter, and revenue growth has become more erratic. The discretionary nature of Lovesac's products and the industry's dependence on sales occasions like Black Friday and Holidays are reflected in this seasonality. This cyclicalty is further supported by Figure 6, which illustrates how closely retail furniture sales follow GDP growth. Importantly, the forward curve suggests material deceleration. Only **~2.2% CAGR from 2025-2032** (and **~3.0% from 2026-2032**), despite ongoing showroom additions. This implies that store expansion boosts awareness but does not fully shield the business from broader consumer spending and housing cycles. As growth normalizes, planning risk increases because fixed costs are built for expansion, but demand can revert quickly when the macro backdrop shifts.

### 6.2 Margin Profile: Gross Strength, Operating Weakness

One obvious strength has been Lovesac's gross margin performance. Gross margin significantly improved from 2023 lows and is currently above industry averages, as was previously discussed and shown in the margin charts. Operating margins, on the other hand, present a less positive picture. Net income has been steadily declining, reaching about **~2%** in the most recent fiscal year, despite a recovery in gross margin. Scenario work illustrates the sensitivity: by **2032**, profit margin ranges from roughly **~4.4% (bull)** to **~2.8% (base)** and **~1.2% (bear)**. The EBITDA profile shows a similar "peak then compress" pattern. EBITDA margin was about **~13.1% in 2022**, versus roughly **~9.2% in 2025** and **~8.5% in 2026P**, stabilizing near single digits thereafter. This divergence highlights an expanding fixed cost base, largely payroll, marketing, and showroom rent, and negative operating leverage when revenue growth slows. Put simply, gross margin strength is necessary, but not sufficient, if operating margins continue to be compressed and overhead count remains high.

### 6.3 Liquidity and Working Capital

Figures 8 and 9's liquidity metrics show that Lovesac is still financially solvent despite becoming more dependent on working capital. With a substantial cash balance and access to its revolving credit facility, the business is able to maintain appropriate current and quick ratios. However, working capital requirements have increased, led by inventory. The Working Capital Bridge (Figure 30) shows inventories as the primary use (**~\$124.3M**), alongside receivables (**~\$16.8M**) and prepaid/other (**~\$21.7M**), partially offset by payables (**~\$121.2M**) and other liabilities (**~\$11.3M**), resulting in net working capital of approximately **~\$30.4M**. Due to supply chain normalization efforts and slower-than-expected sell-through, inventory growth has surpassed revenue growth. This supports future demand but raises execution risk if consumer spending weakens. A longer cash conversion cycle increases sensitivity to margin compression and reduces flexibility, especially if clearing inventory requires heavier promotions.

### 6.4 Leverage and Capital Structure

As shown in Figure 10, the company maintains very low leverage with no long-term debt on the balance sheet. Net Debt to EBITDA and EBIT ratios are low. While this indicates low solvency risk in the short term, the lack of leverage means operating results must work harder to generate equity returns. The EBITDA-to-EBIT chart (Figure 29) also clarifies earnings quality: **Adjusted EBITDA (~\$62.8M)** is reduced by **operating lease cost of capital (~\$34.5M)** and **D&A (~\$14.7M)** to **GAAP EBIT (~\$13.6M)**, reinforcing how fixed obligations and non-cash charges pressure operating profitability. From a capital efficiency perspective, ROIC still lags the company's cost of capital, implying that profits remain

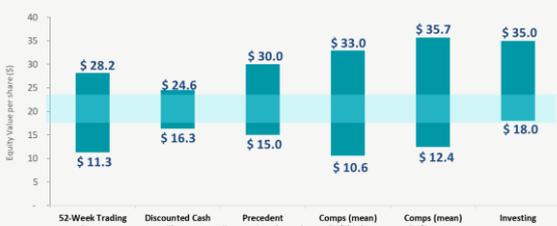
**Figure 31: Days Inventory Vs. Days Payable**



Source: Bloomberg, Team Analysis

## 7. Valuation

**Figure 32: Valuation Summary**



Source: Team Analysis

**Figure 33.1: Valuation Details**

VALUATION	2026	2027	2028	2029	2030	2031
Free Cash Flow	\$ 2.2	\$ 29.9	\$ 39.4	\$ 43.9	\$ 46.2	\$ 51.1
Terminal Value (7.2 x Exit Multiple)						536
<b>g</b>						2.0%
WACC	11.69%	11.69%	11.69%	11.69%	11.69%	11.69%
Discount Factor	0.90	0.80	0.72	0.64	0.58	0.52
PV Free Cash Flow	2	24	28	28	27	26

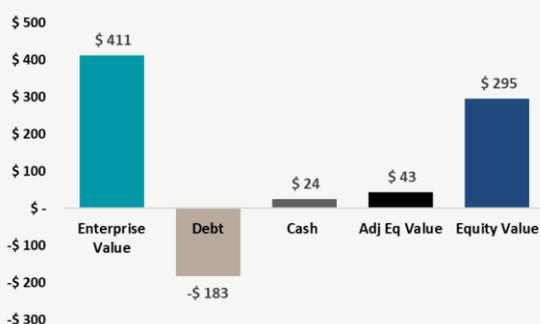
Source: Team Analysis

**Figure 33.2: Valuation Details**

<b>PV Free Cash Flow</b>	<b>\$ 135</b>
<b>PV Terminal Value</b>	<b>\$ 276</b>
<b>Enterprise Value</b>	<b>\$ 411</b>
Less: Total Financial Debt	-\$ 183
Less: Noncontrolling Interest	\$ -
Plus: Cash and Cash Equivalents	\$ 24
<b>(=) Equity Value</b>	<b>\$ 252</b>
<b>x Mid-year adjustment factor</b>	<b>1.057</b>
<b>x Valuation date adjustment factor</b>	<b>1.106</b>
<b>(=) Adj. Equity Value</b>	<b>\$ 295</b>
<b>Shares Outstanding</b>	14.61
<b>(=) Share Price</b>	<b>\$ 20.2</b>

Source: Team Analysis

**Figure 34: Enterprise Value to Equity**



Source: Team Analysis

**Figure 35: WACC Calculation**

Equity - Weight (%)	53.7%
Debt - Weight (%)	46.3%
Tax	22.0%
Cost of Equity - Ke (%)	18.1%
Cost of Debt - Kd (%)	5.5%
<b>WACC (%)</b>	<b>11.7%</b>

limited. Overall, the financials paint a picture of a company with strong brand equity and pricing power at the gross margin level, but one that has yet to demonstrate scalable profitability. These realities underpin our valuation framework and scenario analysis, where future equity value is driven less by top-line growth and more by the company's ability to stabilize margins, tighten cost discipline, and improve working-capital efficiency. This becomes even more important in non-peak quarters when demand is less supported by promotional incentives and holidays.

### 7.1 Base Case

We assume that Lovesac will grow modestly and have little operating leverage during the forecast period in our base case. The company's current weighted average cost of capital is reflected in the **11.69% discount rate** that we apply (Figure 33.1 and Figure 35). Our target price stays around the \$20 mark in the **DCF model, Comps EV/EBITDA and Comps EV/Revenue (Figure 32)**. For our analysis, we primarily relied on our DCF analysis. While comparable metrics were valuable, we do not see any significant change to industry multiples, and believe Lovesac's growth will come from gaining repeat customers, helping to drive free cash flow. We think Lovesac's distinctive modular product design, strong customer loyalty, and well-known brand will result in value creation over the next ten years, though not significantly. The demand for discretionary furniture purchases is constrained by structural headwinds in the housing market, particularly weaker multifamily and single-family housing start. We do see Lovesac's Free Cash Flow to return to stability after the showroom opening strategy decelerates, reaching about \$30 million after 2027 (Figure 33.1). From the standpoint of profitability, we presume that margins stay mostly constant. Rather than generating significant margin expansion, investments in technology, logistics, and operational efficiency mainly counteract inflationary pressures. Therefore, rather than operating leverage, modest revenue growth is the main driver of incremental value creation (Figure 27). Due to its brand and devoted customer base, Lovesac trades at a premium P/E multiple when compared to mass-market peers, but at a lower price than more upscale rivals. Due to market skepticism regarding margin expansion and reinvestment returns, the company trades at a discount on enterprise-based metrics. All things considered, our base case shows a steady but value-neutral outlook, with Enterprise Value at around \$411 million, an Adjusted Equity Value of ~\$295 million, a target price of ~\$20.2, and a 25.4% potential upside (Figure 33.2 and Figure 34).

### 7.2 Bull Case

We assume that Lovesac successfully transforms its investments in technology and brand equity into long-term growth and operating leverage in our bull case. We project **revenue growth of roughly 5.0% CAGR**, fueled by a stabilization of the housing market, a slowdown in inflation, and a resurgence of consumer spending on high-end furniture (Figure 26). Furniture replacement and upgrade cycles improve as pent-up housing demand is released as mortgage rates return to normal. Importantly, the bull case assumes that Lovesac's investments in smart furniture, modular scalability, and supply chain optimization result in observable efficiency gains. In this case, Lovesac maintains a slight first-mover advantage in smart and modular furniture, allowing it to defend prices and boost customer lifetime value through add-on configurations and repeat purchases. With continuing operating leverage, ROIC also accelerates materially above WACC in the terminal period, Lovesac will have easier access to the capital markets. This will allow the company to continue to expand, while lowering growth capital expenditures. Lovesac achieves an **EV/EBITDA multiple of 14.0x-16.0x**, as improved investor confidence in growth and margin durability drives a significantly higher implied equity value. This would drive our target price to at about **\$24.6** (Figure 32).

### 7.3 Bear Case

In our base case, we assume Lovesac experiences a longer-than-expected period of demand weakness and margin compression because of ongoing housing market softness and consumer trade-down. We model 1.5% revenue growth,

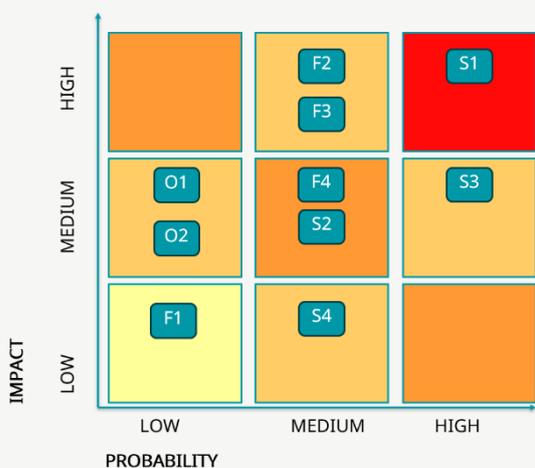
Figure 36: Exit EBITDA Multiple Vs. WACC Sensitivity

		Implied Share Price				
		EBITDA Exit Multiple				
		6.2x	6.7x	7.2x	7.7x	8.2x
WACC	\$ 20.2	16.0	17.4	18.9	20.4	21.8
	12.7%	16.5	18.0	19.5	21.0	22.5
	11.7%	17.1	18.7	20.2	21.7	23.3
	11.2%	17.7	19.3	20.9	22.4	24.0
	10.7%	18.3	19.9	21.5	23.1	24.7

Source: Team Analysis

## 8. Investment Risks

Figure 37: Risk Matrix



Source: Lovesac 10k, Team Analysis

Figure 38: Revenue Growth Vs. WACC Sensitivity Analysis

		Implied Share Price				
		Revenue Growth Rate				
		1.0%	2.0%	3.0%	4.0%	5.0%
WACC	12.7%	16.32	17.58	18.90	20.28	21.71
	12.2%	16.91	18.20	19.54	20.94	22.40
	11.7%	17.51	18.82	20.19	21.62	23.11
	11.2%	18.12	19.46	20.86	22.32	23.84
	10.7%	18.74	20.11	21.54	23.03	24.58

Source: DFC model, Team Analysis

Figure 39: Sensitivity Analysis

Sensitivity Analysis	
Enterprise Value	411
Adj. Equity Value	295
Share Price	20.19
Growth Rate	3.00%
Assumed EBITDA Exit Multiple	7.2x
Weighted Average Cost of Capital (WACC)	12%
Implied FCF Perpetuity Growth Rate	2.0%
Implied 2025 EV/EBITDA	6.5x
Implied 2025 EV/REVENUE	0.6x
Implied 2026 EV/EBITDA	7.0x
PV of TV as % of Enterprise Value	67.1%

Source: DCF Model, Team Analysis

assuming lower transaction volume and a continued shift toward smaller, lower-ticket transactions due to mostly new accessories to already sold inventory. Management has already noted continued weakness in transactions below \$6,000, which we believe to be indicative of pressure on core demand. We assume negative mix effects as customers trade down, with lower-priced products possessing structurally lower margins. Inflation remains elevated, keeping raw material and logistics costs high, and EBITDA and EBIT margins below 10% and 2.5%, respectively. We also assume ongoing R&D and technology spending is higher than in the recent past to maintain competitive positioning, and that any early first mover advantages the company has accrued in the modular and smart furniture categories is eroded by larger, better-capitalized competitors. Lovesac's current investment in next-generation technology has not led to substantial market gain and has allowed new entrants into the marketplace. We increase the discount rate to 10.9% to account for tighter financial conditions, increased cost of capital, and broad investor rotation into large-cap defensive equities. As a mid-cap growth-oriented company, and operating in the consumer discretionary items sector, Lovesac is likely to be disproportionately affected in the current environment. Using these assumptions, the company trades at an EV/EBITDA multiple of 10.4x-12.8x, which implies a downside equity value of approximately \$16.3 per share (Figure 32).

### 8.1 Financial risks

**[F1] Liquidity risk for Lovesac is low:** Cash and equivalents: \$83.7 million as of February 2, 2025 (10k), zero debt outstanding with 32.6 million available from Wells Fargo credit facility, Current ratio of 1.59x, down from 2024. Pressure Points: Cash conversion cycle deterioration: 103.9 days (Q4 FY2025) vs. 64.6 days (FY2020), 61% lengthening. Working capital intensity: \$124.3 million inventory (up 26% YoY) with 160.5 days inventory held Seasonal cash consumption: Q1-Q3 typically cash-consumptive, with 35.5% of annual revenue concentrated in Q4. Operating cash flow volatility: \$39.0 million in FY2025 vs. \$76.4 million in FY2024. Result: Critically low and falling operating margin. Cash can be eaten up quickly.

**[F2] Market risk is high:** According to Q3 earnings call, furniture industry declined 4% YTD, but Lovesac achieved some growth, decline in the number of transactions below the \$6,000 price point impacting middle class consumers. Also, with household formation and furniture purchasing concentrated in Lovesac's target demographic (25-54 years, \$75K+ income), the company faces headwinds from elevated mortgage rates leading to low home turnover, unaffordability of housing, weakened consumer confidence. The combination of premium price positioning (average transaction \$6,000+), four-year category decline, and high correlation to discretionary spending cycles creates elevated sensitivity to macroeconomic deterioration (Figure 37)

**[F3] Operating leverage risk is critical:** Profit Margin collapsed from 4.4% (FY2024) to 2.0% (FY2025) on a decline of 2.8% revenue. Negative operating leverage ratio of 2.7x vs. retail industry typical 1.5-2.0x. Fixed costs: \$222.9M lease obligations through 2035 (\$32.0M due within 12 months). SG&A expenses rose \$17.2M (+6.5%) despite revenue decline: payroll +\$15.8M, equity comp +\$3.7M, rent +\$1.7M. SG&A as % of sales expanded to 41.4% from 37.7% - maybe growth is too aggressive.

**[F4] Capital efficiency is concerning:** ROIC below WACC, such growth rate is quite risky/unsustainable and eroding competitive advantage.

### 8.2 Business and Strategic Risks

**[S1] Revenue Concentration is critical:** Sectionals: 91.4% of net sales. Patent protection (35 U.S., 63 foreign utility patents) provides moat but concentrated in single product. New product diversification (high-end sectional) delayed to mid-2027. If sectionals fail, then everything fails.

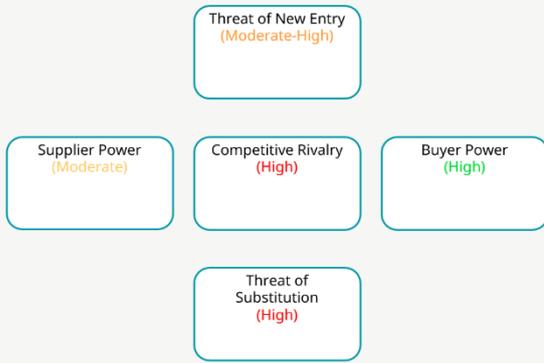
**[S2] Competitive Position is moderate:** Gross margins 58.5% vs. industry average 40-45% can be maintained thanks to patents, but critically low profit margin of 2% compared to industry 5-10%. Efficiency gap compared to peers.

**[S3] Showroom Expansion Deceleration is high execution risk:** FY2027 Plan: ~10 net new showrooms vs historical 30+, must have stronger dependence on new products and e-commerce - change in plans and quite rapid.

**[S4] New products launch:** Delayed - Snugg platform launched in FY2026 (no revenue contribution disclosed). High-end sectional planned mid-2027, while new customer growth collapsed from +13.3% (FY2024) to +1.4% (FY2025), suggesting acquisition saturation or rising customer acquisition cost.

### 8.3 Operational Risks

Figure 40: Porter's Five Forces



Source: Team Analysis

**[O1] Tariff and Supply Chain Risk:** Critical and volatile. Gross margin compression: 320 bps, net impact of 240 bps margin decline. They are affected by tariffs and want to move production to the US. They have too aggressive plan of moving the production to the US which is not doable – it typically takes 12-18 months, and new tariffs will emerge in Jan 1st, 2027.

**[O2] Technology and Infrastructure risk is low/moderate:** Newly hired CTO (Q3 FY2026) signals infrastructure investment priority. E-commerce represents 28.8% of sales (\$196.3M). Digital configuration tools are critical to customer experience, and Jacob Pat has a lot of experience with e-commerce. But since this field is relatively new to the company, it is prone to usual risks such as cybersecurity, website downtime, and host providers being down.

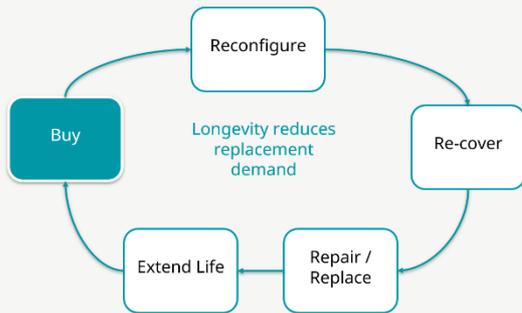
### 8.4 Porter's Five Forces Summary

- 1) Threat of new entrants: Moderate-High** (low capital for DTC e-commerce, contract manufacturing accessible).
- 2) Supplier bargaining power: Moderate** (diversified base across 8 countries, some vendor concession success in tariff negotiations).
- 3) Buyer bargaining power: High** (premium price point makes customers price-sensitive, low switching costs, transparent online pricing).
- 4) Substitute threat: High** (traditional sectionals, other modular systems, DIY/used furniture, alternative seating). Price differential: Lovesac is often 30-50% premium.
- 5) Competitive rivalry: High** (fragmented market, zero-sum growth dynamics, high fixed costs, promotional intensity increasing).

**Extra: Industry attractiveness: Low-Moderate Unfavorable structural characteristics persist (Figure 40).**

## 9. Environmental, Social, Governance

Figure 41: "Designed for Life" Product Cycle Diagram



Source: Team Analysis, Company's 10k.

### 9.1 Environmental

Lovesac has made measurable progress reducing operational carbon footprint. The company's Scope 1 emissions dropped to 0.142 million tons of CO2 (FY2024) from 0.215 million tons in FY2023, and zero Scope 2 emissions (Market-based) achieved in FY2024 and FY2025 through renewable energy procurement across all U.S. showrooms. Climate policy was formally adopted in FY2025 with Emission Reduction Initiatives active since FY2021. However, Scope 3 emissions remain undisclosed, representing a material disclosure risk for California climate law.

Lovesac's "Designed for Life" philosophy creates inherent ESG advantages through product longevity and circular design principles. Sectionals platforms enable lifetime use through reconfiguration, reducing replacement demand. 322 million bottles were repurposed by the Company by end FY2025 toward 1 billion targets by 2040 with 100% recycled plastic bottle fabric in upholstery thanks to the Company's partnership with Reprieve. Lovesac also progresses toward 100% certified sustainable wood sourcing. Additionally, 30+ million pounds of post-industrial foam was repurposed into proprietary Durafoam fill. Circular economy positioning provides competitive moat aligned with regulatory trends and consumer preferences. The company is ahead of industry average in circular revenue capture, though full commercialization of product return/resale platform remains in pilot phase.

Lovesac's total energy consumption was 7.57 million units (FY2024), up 76% from FY2022, reflecting business expansion across 257 showrooms. The Company's water policy has been active since FY2022; first zero-landfill and net-zero emissions manufacturing facility launched. Given Lovesac's high expansion, energy consumption increase is explained, however there is room for improvement (Bloomberg).

### 9.2 Social

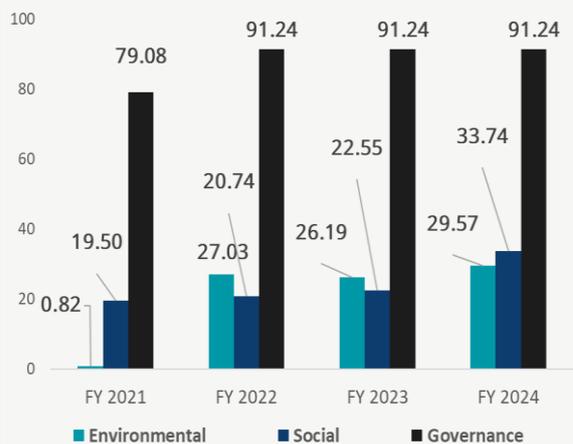
Diversity metrics show mixed progress. While women's representation in management improved to 48%, overall workforce diversity declined slightly with women in workforce down to 57% from 60% in 2021. The furniture retail sector requires diverse talent to connect with broad customer demographics. Current board diversity (25% women) lags institutional investor expectations. However, Lovesac's long-term diversity goal include having 50% of women in leadership roles, as well as 30% BIPOC representation. The company also implemented some Belonging initiatives such as Equal opportunity policy (since 2019) in addition to steering committee and action council directing their initiatives, their impact is measured via annual engagement survey.

Figure 42: Board Independence



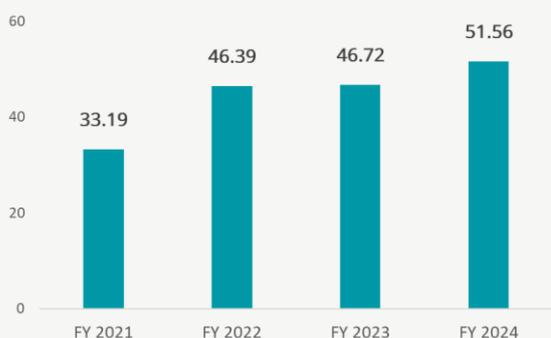
Source: Bloomberg ESG Overview

**Figure 43: ESG Disclosure Scores by Category**



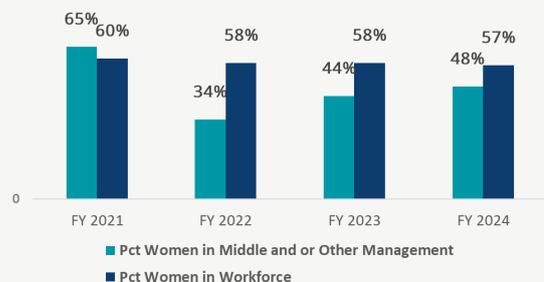
Source: Bloomberg ESG Overview

**Figure 44: ESG Disclosure Scores**



Source: Bloomberg ESG Overview

**Figure 45: Women in the Company**



Source: Bloomberg ESG Overview

Significant increase in training hours (26,739 in FY2024, up 176% from FY2023) indicates strategic investment in talent development. This is financially material given retail sector's high turnover and importance of product knowledge for premium furniture sales. The company's omni-channel model requires digitally savvy associates capable of seamless online-offline customer experience. TRIR (total recordable incident rate) increased 20% year-over-year to 1.74 in FY2024, reversing prior improvement trend. Retail sector TRIR typically ranges 2.0-3.0, suggesting Lovesac performs relatively well, but upward trend is concerning given store expansion. Workplace incidents create financial risks through workers' compensation costs, regulatory penalties, and reputational damage.

Supply chain governance is robust. 100% ethical audit compliance and vendor diversification provide critical risk mitigation, together with geographic diversification to 8 countries and third-party auditing of suppliers to enforce the Company's zero tolerance policy for child labor and human trafficking. However, Scope 3 emissions disclosure for supplier operations remains absent.

Lovesac actively participates in community engagement programs, which include more than 550 volunteering hours in the inaugural volunteer month, \$286,000 in product donations, and \$15,000 in charitable grants (Bloomberg).

### 9.3 Governance

Board structure meets institutional investor standards with 75% independence exceeding NYSE requirement, with majority members being independent. All key committees are fully independent. Board size of 8 is appropriate for company scale. Regular board evaluations and active committee engagement (4-7 meetings annually) demonstrate oversight effectiveness. Share ownership guidelines align executive and shareholder interests, incentivizing long-term value creation over short-term gains, though share buyback program of FY2025 turned out to be negative decision due to share price drop.

Environmental score increased 10x from FY2021 to FY2022, reflecting initiation of formal climate strategy and emissions disclosure and supporting ESG rating upgrades and institutional investor engagement. Governance scores nearly doubled over five-year period. Social score, while being relatively high, remained flat, indicating opportunity for enhanced social performance and disclosure. Overall, disclosure improved 130% over six years to 51.6% from 22.5% in FY2018, with governance disclosure reaching 91% completeness from 58.3% in FY2018. Environmental and social disclosure lags, presenting opportunities to enhance transparency on material issues (Bloomberg).

### 9.4 Industry

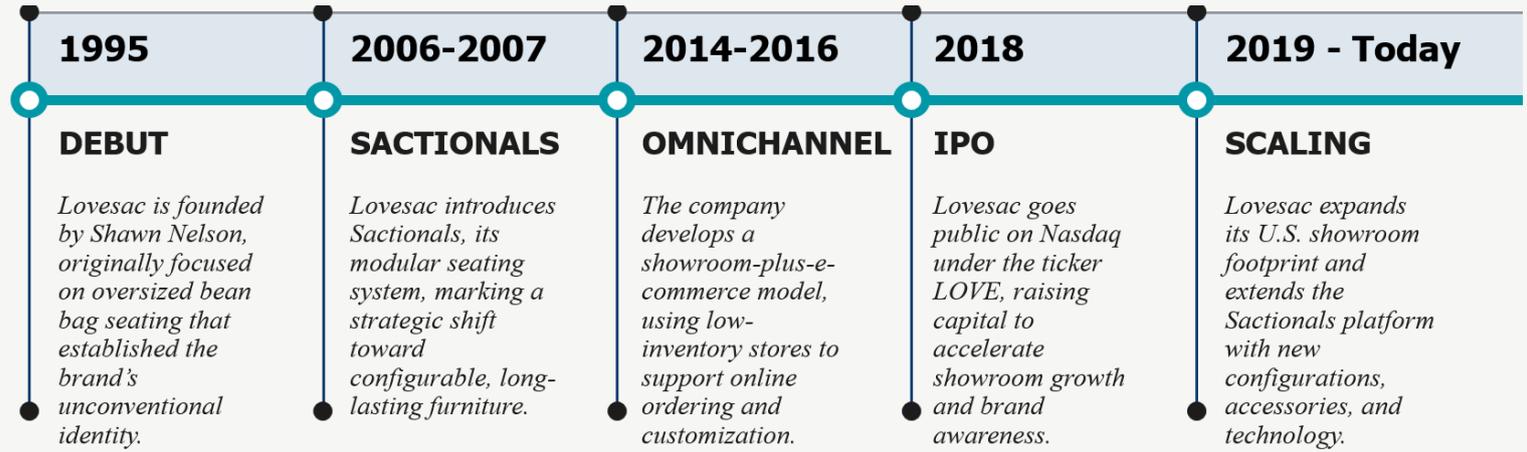
Lovesac is leading in plastic bottle repurpose and achieving Zero Scope 2 emissions ahead of its mid cap peers. The Company's "Designed for Life" longevity model also favorably differentiates Lovesac's products among others. However, the company lacks behind disclosing Scope 3 emissions and renewable energy in supply chain.

Overall, Lovesac's ESG profile is improving and it is above furniture industry average, supported by genuine commitment to circular economy principles and transparent disclosure. The "Designed for Life" model creates sustainable competitive advantage justifying premium pricing. However, Scope 3 disclosure gaps, internal control weaknesses, and diversity below benchmarks require active management attention (Bloomberg).

# ANNEX – Table of Content

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## ANNEX 1 – Lovesac’s History



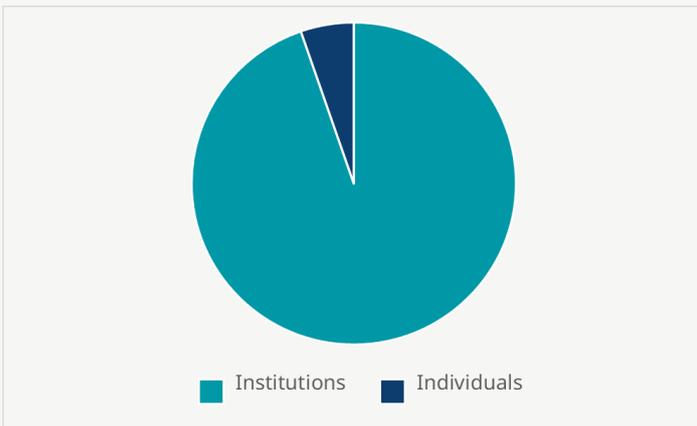
Source: Company S-1 Filing

## ANNEX 2 – Flagship Products

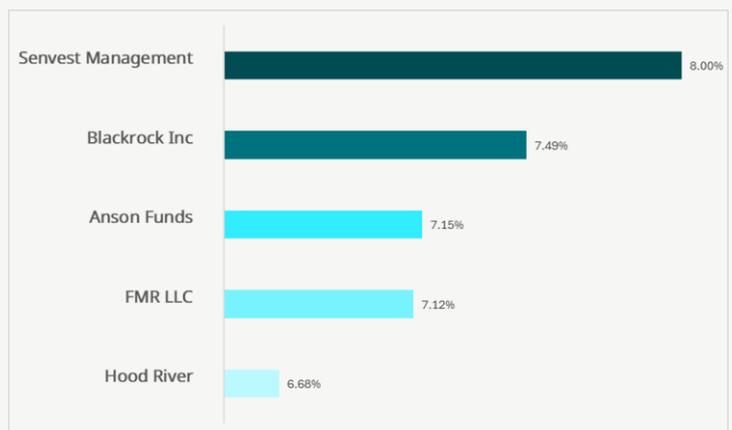


Source: Lovesac’s Website

## ANNEX 3 – Shareholder Structure



Source: Bloomberg, Team Analysis



## ANNEX 4 – Executives

<i>Name and Position</i>	<i>Background</i>
<b>Shawn Nelson</b> – CEO	Founder and Chief Executive Officer, Lead Designer and Brand Architect, Winner of Richard Branson's <i>The Rebel Billionaire</i> (2005), Strategic Design and Innovation Background
<b>Mary Fox</b> – President & COO	President and Chief Operating Officer, Global Consumer Operations Expert, Former Senior Executive at BIC, L'Oréal, and Walmart, Sustainability and Supply Chain Leadership Background
<b>Jacob Pat</b> – Chief Technology & Digital Transformation Officer	Chief Technology and Digital Transformation Officer, Enterprise Technology and Digital Transformation Expert, Former Technology Leader at Salesforce and DECIEM
<b>Keith Siegner</b> - Executive VP/CFO/Treasurer	Executive Vice President and Chief Financial Officer, Capital Markets and Corporate Finance Expert, Former Senior Finance Executive at Yum! Brands and Vindel
<b>Heidi Cooley</b> – Chief Marketing Officer (CMO)	Executive Vice President and Chief Brand and Marketing Officer, Global Brand and Marketing Expert, Former Chief Marketing Officer at Crocs

## ANNEX 5 – Board Members

<i>Board of Directors</i>	<i>Tenure</i>	<i>Background</i>
<b>Andrew Heyer</b> – Chairman	8.8	Chairman of the Board, Consumer Private Equity and Investment Expert, Founder and Chief Executive Officer of Mistral Equity Partners
<b>Alan Boehme</b>	0.3	Director, Global Technology and Digital Transformation Expert, Former CIO and CTO at H&M Group, Procter & Gamble, and The Coca-Cola Company
<b>Sharon M. Leite</b>	4.7	Director, Consumer Retail Operations Expert, Chief Executive Officer of The Vitamin Shoppe and Former Senior Executive at Godiva and Sally Beauty.
<b>Shirley Romig</b>	6.5	Director, Growth Strategy and Operations Expert, Chief Accelerator Investment Officer at Techstars and Former Executive at Lyft, Equinox, and Saks
<b>Vineet Mehra</b>	3.4	Director, Global Marketing and Customer Growth Expert, Chief Marketing Officer of Chime and Former Marketing Leader at Walgreens Boots Alliance and Ancestry
<b>Walter McLallen</b>	6.5	Director, Leveraged Finance and Private Equity Expert, Managing Member of Meritage Capital Advisors and Former Senior Executive at CIBC World Markets
<b>Wan Ling Martello</b>	0.1	Director, Global Consumer and Financial Leadership Expert, Founding Partner of BayPine and Former Global CFO and Regional CEO at Nestlé

Source: Company's 10-k, Company's Website, Team Analysis

## ANNEX 6 – Key Assumptions

### Revenue – 3%

1. Experienced Leadership.
2. IBIS World Growth for the industry: 2.2%.
3. GDP Growth Expectations for the U.S (5y): around 2%.
4. Company has been growing revenue in double digits the past few years.
5. IBIS World Trends: Rally in home renovations; e-commerce growth; customization and smart furniture driving sales. Lovesac is well positioned in all of them.

### Costs

1. Tariffs: company outsources all of its production in 8 different countries. There might be effects but not significant due to their diversification in production.
2. Costs margins have been improving slightly in the past 1-2 FY

### CAPEX and Depreciation

1. Historically, significant capital expenditure has been invested in opening new showrooms and updating existing showrooms. This capital expenditure has increased in the past and may continue to increase in future periods as we open additional showrooms. Capital expenditures are expected to support showroom growth, including capital outlays for leasehold improvements, fixtures and equipment, and the construction of new showrooms. Cash paid for capital expenditures was \$21.5 million in fiscal 2025. Capital expenditure is projected to be in the range of \$22.0 million to \$28.0 million for fiscal 2026

## ANNEX 7 – Cost of Equity

Risk-Free Rate	4.2%
Market Risk Premium	6.3%
Beta	2.20
<b>Cost of Equity</b>	<b>18.1%</b>

Source: Bloomberg, Team Analysis

Cost of equity calculations were derived using the CAPM model with inputs sourced from Bloomberg.

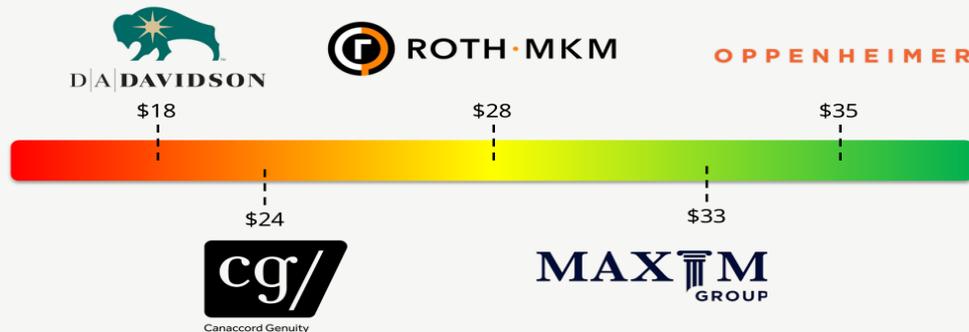
## ANNEX 8 – Cost of Debt

Pre-Tax Cost-of-Debt	5.5%
Tax-Rate	22%
<b>Cost of Debt</b>	<b>4.3%</b>

Source: Bloomberg, Team Analysis

Cost of debt was established by looking at their 10-K. Their operating leases make up all of their debt, so it is fair to use the rate given in their financial statement of 5.5%.

## ANNEX 11 – Analyst Recommendations



## ANNEX 9 – WACC Sensitivity Analysis

## ANNEX 10: Implied 2026 EV/EBITDA

WACC Sensitivity Analysis		Pre-tax Cost of Debt				
		4.8%	5.3%	5.8%	6.3%	6.8%
Debt-to-Total Capitalization	0.1					
	-11.3%	9.2%	9.2%	9.1%	9.1%	9.0%
	-1.3%	8.7%	8.7%	8.7%	8.7%	8.7%
	8.7%	8.2%	8.3%	8.3%	8.3%	8.4%
	18.7%	7.7%	7.8%	7.9%	8.0%	8.0%
28.7%	7.3%	7.4%	7.5%	7.6%	7.7%	

Implied 2026 EV/EBITDA						
EBITDA Exit Multiple						
	6.98	6.2x	6.7x	7.2x	7.7x	8.2x
12.7%	6.04x	6.34x	6.65x	6.96x	7.27x	
12.2%	6.18x	6.50x	6.81x	7.13x	7.44x	
11.7%	6.33x	6.65x	6.98x	7.30x	7.63x	
11.2%	6.48x	6.81x	7.15x	7.48x	7.81x	
10.7%	6.63x	6.98x	7.32x	7.66x	8.01x	

Source: Team Analysis

## ANNEX 12: Valuation Summary

Dollars millions, except as indicated	Hist.	Hist.	Hist.	Hist.	Hist.	Latest FYE	Est.	Est.	Est.	Est.	Est.	Est.	
	2-Feb-20	2-Feb-21	2-Feb-22	2-Feb-23	2-Feb-24	2-Feb-25	2-Feb-26	2-Feb-27	2-Feb-28	2-Feb-29	2-Feb-30	2-Feb-31	2-Feb-32
Sales	233	321	498	651	700	681	691	712	733	755	778	802	824
% growth		37.4%	55.3%	30.7%	7.5%	(2.8%)	1.5%	3.0%	3.0%	3.0%	3.0%	3.1%	2.8%
Cost of Goods Sold	(117)	(146)	(225)	(308)	(299)	(283)	(296)	(302)	(310)	(317)	(325)	(334)	(345)
Gross Profit	117	175	273	344	401	398	395	410	423	438	452	468	479
% margin	50.0%	54.5%	54.9%	52.8%	57.3%	58.5%	57.2%	57.6%	57.8%	58.0%	58.2%	58.4%	58.2%
Selling, General & Administrative	(127)	(153)	(208)	(272)	(328)	(335)	(336)	(347)	(358)	(370)	(381)	(394)	(405)
EBITDA	(11)	21	65	72	73	63	59	62	65	68	71	74	74
% margin	(4.6%)	6.7%	13.1%	11.1%	10.4%	9.2%	8.5%	8.8%	8.9%	9.0%	9.1%	9.2%	9.0%
% growth		(301.8%)	203.4%	10.4%	1.4%	(13.9%)	(6.1%)	5.8%	4.3%	4.3%	4.4%	4.4%	0.5%
Depreciation & Amortization	(5)	(7)	(8)	(11)	(13)	(15)	(15)	(15)	(16)	(18)	(19)	(20)	(19)
EBIT	(15.8)	14.9	57.3	61.1	60.4	48.1	43.8	47.1	48.6	50.3	52.2	54.4	55.5
% margin	(6.8%)	4.6%	11.5%	9.4%	8.6%	7.1%	6.3%	6.6%	6.6%	6.7%	6.7%	6.8%	6.7%
Operating Taxes	3	(3)	(12)	(13)	(13)	(10)	(9.2)	(9.9)	(10.2)	(10.6)	(11.0)	(11.4)	(11.7)
NOPAT	(12)	12	45	48	48	38	35	37	38	40	41	43	44
% margin	(5.4%)	3.7%	9.1%	7.4%	6.8%	5.6%	5.0%	5.2%	5.2%	5.3%	5.3%	5.4%	5.3%
% growth		(194.1%)	285.3%	6.6%	(1.2%)	(20.3%)	(9.0%)	7.6%	3.2%	3.6%	3.7%	4.1%	2.1%
Plus: Depreciation & Amortization	5.2	6.6	7.9	10.8	12.6	14.7	15.2	15.3	16.5	17.5	18.6	19.7	18.9
Less: Capital Expenditures	(11)	(9.1)	(16)	(26)	(29)	(22)	(22)	(21)	(20)	(19)	(18)	(17)	(18)
(Increase) / Decrease in NWC	(7.8)	10.5	(16.8)	(46.5)	34.8	7.6	(25.6)	(1.4)	4.2	5.3	4.8	6.0	-
Free Cash Flow	(25.8)	19.8	19.9	(12.9)	65.9	38.8	2.2	29.9	39.4	43.9	46.2	51.1	44.8
% growth		(176.9%)	0.2%	(164.9%)	(611.0%)	(41.1%)	(94.3%)	1,256.8%	31.8%	11.4%	5.2%	10.6%	(12.3%)
Free Cash Flow / Revenue		6.2%	4.0%	(2.0%)	9.4%	5.7%	0.3%	4.2%	5.4%	5.8%	5.9%	6.4%	5.4%
Terminal Value													
Weighted Average Cost of Capital (WACC)						11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%	11.7%
Discount Period							1.00	2.00	3.00	4.00	5.00	6.00	
Discount Factor							0.90	0.80	0.72	0.64	0.58	0.52	
Present Value of Free Cash Flow							2	24	28	28	27	26	
Present Value of Terminal Value													

Source: Bloomberg, Team Analysis

## ANNEX 13: DuPont Analysis

	2020	2021	2022	2023	2024	2025	2026 P	2027 P	2028 P	2029 P	2030 P	2031 P	2032 P
Gross Margin	50.0%	54.5%	54.9%	52.8%	57.3%	58.5%	57.2%	57.6%	57.8%	58.0%	58.2%	58.4%	58.2%
Ebitda Margin	-4.6%	6.7%	13.1%	11.1%	10.4%	9.2%	8.5%	8.8%	8.9%	9.0%	9.1%	9.2%	9.0%
Ebit Margin	-6.8%	4.6%	11.5%	9.4%	8.6%	7.1%	6.3%	6.6%	6.6%	6.7%	6.7%	6.8%	6.7%

Source: Bloomberg, Team Analysis

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