

Wayfair Inc.(W)

\$94.04 (As of 01/03/20)

Price Target (6-12 Months): **\$99.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/02/19)

Prior Recommendation: Underperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:F

Value: D

Growth: D

Momentum: D

Summary

Wayfair strengthening direct retail business across the international regions remains a major positive. Further, the company remains confident about its prospects in markets, such as, U.K. and Germany as it has made efforts to expand its house-brand offerings in these countries. However, the company's business has been facing growth headwinds due to exchange rate and weaker consumer spending. It is aggressively investing in international regions. Although these investments will boost Wayfair's international presence, it will obstruct margin expansion. Also, increasing advertising expenditures and rising competition from e-commerce giants pose risks. In addition, the stock has underperformed the industry in the past year.

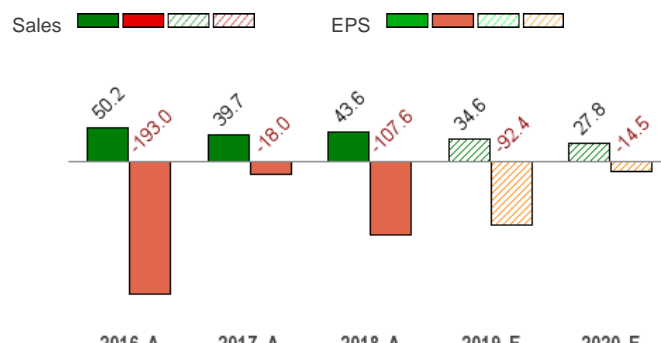
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$173.72 - \$78.61
20 Day Average Volume (sh)	1,820,430
Market Cap	\$8.8 B
YTD Price Change	4.1%
Beta	1.83
Dividend / Div Yld	\$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Bottom 20% (202 out of 252)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-4.7%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.9%
Expected Report Date	02/28/2020
Earnings ESP	-2.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2020	2,476 E	2,988 E	2,951 E	3,245 E	11,665 E
2019	1,945 A	2,343 A	2,305 A	2,535 E	9,125 E
2018	1,404 A	1,655 A	1,706 A	2,014 A	6,779 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2020	-\$2.49 E	-\$1.85 E	-\$2.29 E	-\$2.48 E	-\$9.01 E
2019	-\$1.62 A	-\$1.35 A	-\$2.23 A	-\$2.63 E	-\$7.87 E
2018	-\$0.91 A	-\$0.77 A	-\$1.28 A	-\$1.12 A	-\$4.09 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	1.0

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/03/2020. The reports text is as of 01/06/2020.

Overview

Wayfair Inc. is headquartered in Boston, Massachusetts. The company is one of the world's leading online sellers of home goods products, consisting of furniture and home decor.

Founded in 2002 as multiple e-commerce websites, the company came together as Wayfair.com in 2011. It operates worldwide through Wayfair.com and four other branded websites namely – Joss & Main, AllModern, Birch Lane and Perigold. The company currently offers more than 14 million products from more than 11,000 suppliers.

Additionally, the company operates in Canada, the U.K. and Germany through Wayfair.ca, Wayfair.co.uk and Wayfair.de, respectively.

The company has its own logistics network which contributed majorly to the total shipment of goods to the customers. The network is comprised of CastleGate and the Wayfair Delivery Network (WDN).

While CastleGate aids in minimizing damages and speeding up deliveries, WDN enables management of large parcel deliveries and facilitates last mile delivery services.

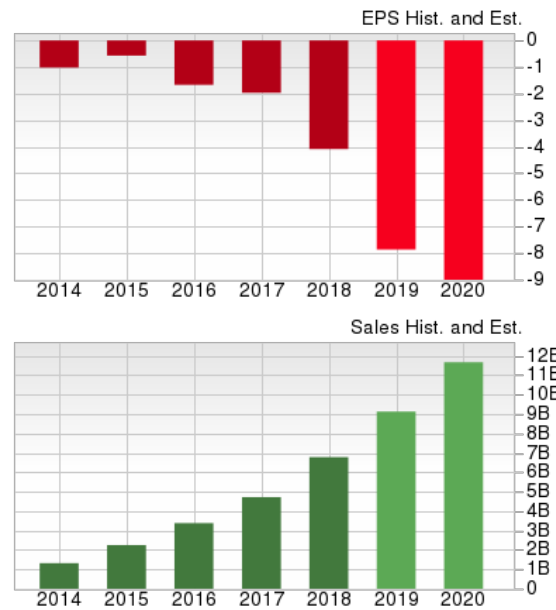
Wayfair generates net revenue from product sales through its five distinct sites and through sites operated by third parties. Wayfair also earns revenues from third-party advertisers that pay based on the number of advertisement-related clicks, actions, or impressions for ads placed on its sites.

Beginning fourth-quarter 2016, Wayfair changed its reportable segments from one to two. These segments are U.S. and International.

In 2018, the company generated a total revenue of \$6.8 billion, up 44.7% from \$4.7 billion in 2017. For the same year, U.S. accounted for 85.7% (up 40% from 2017) and International accounted for 14.3% (up 70% year over year).

The company had approximately 12,124 employees worldwide as of Dec 31, 2018.

The market for online home goods and furniture is very competitive, fragmented and rapidly changing. Wayfair competes across all segments of the home goods market. The competition includes furniture stores, big box retailers, department stores, specialty retailers, online retailers and marketplaces in the United States, Canada, the United Kingdom and Germany.



Reasons To Buy:

▲ Wayfair is the **leader in the growing homes goods market**. It is the second-largest participant in the United States online home goods market. The annual United States market for home goods is approximately \$270 billion, of which approximately 9% is sold online today as per the company's sec filing. This homes goods market is expected to continue to grow as the housing sector recovers, with rising affluence in specific demographics, driving demand for home goods items. Euromonitor also projects that the United States home goods market will grow about 2.5% annually through 2023. With the mass moving into new homes and the increasing use of online shopping, management expects online sales of home goods to increase. Moreover, with the company's aim to expand in international markets, Wayfair is bound to expand its sales and profits going forward.

▲ Over the last few years, Wayfair has been taking steps to **strengthen its position in the international markets**. It has been making efforts to expand its business in Canada, the United Kingdom, and Germany. In pursuance of this strategy, the company has been building international infrastructure, growing international supplier network and establishing brand presence in selected countries. The company continues to witness strong growth in Canada with the launch of French language site and especially, CastleGate facility.

▲ Wayfair has been witnessing strong growth across all its metrics. The percent of orders have increased steadily. In the third quarter, 67% of orders were from repeat customers, up 33.6% year over year. The increasing percentage of orders from repeat customers is a big positive for the company as it incurs less of advertising cost to reactivate a previous customer. Also, active customers increased 38% from the year-ago quarter to 19.1 million.

Wayfair's leading market position in the home goods market, strong metrics growth, focus on international expansion, technology and strong balance sheet are positives

Reasons To Sell:

- ▼ Wayfair's **increased advertising spending might impact profitability**. The company needs to continuously spend on its advertising to entice new and existing customers and thereby expand its customer base. Also, about 70% of Wayfair's online home products can be found on Amazon with similar pricing on the latter's website. Therefore in order to compete well with Amazon, Wayfair may have to reduce its prices or spend more on advertising. These factors could impact the company's profits going forward.
- ▼ Wayfair faces **intense competition** from all segments of the home goods market. These include furniture stores, big box retailers, department stores, specialty retailers, online retailers such as Amazon and marketplaces in the U.S., Canada, the United Kingdom and Germany. We believe unhealthy competition might adversely affect both the top line and the bottom-line growth.
- ▼ **Adverse Currency Fluctuation May Dent Sales**: Wayfair has been expanding its operations in international markets too, and is therefore highly vulnerable to exchange rate volatility. The weakening of the British Pound and Canadian dollar vis-a-vis the United States dollar, may negatively affect sales.

The increasing advertising expenditure, intense competition and foreign currency fluctuation remain concerns.

Last Earnings Report

Wayfair Q3 Loss Wider Than Anticipated, Revenues Beat

Wayfair Inc. reported non-GAAP loss of \$2.23 per share in third-quarter 2019, wider than the Zacks Consensus Estimate of a loss of \$2.13.

Total third-quarter revenues came in at \$2.31 billion, up 36% year over year. The figure also outpaced the Zacks Consensus Estimate of \$2.28 billion.

The year-over-year increase in revenues was driven by strengthening of the company's direct retail business across international regions.

Direct retail net revenues from the international segment increased 46% year over year to \$339 million (or up 50% on a constant-currency basis).

Although Wayfair has been facing foreign currency translation headwinds, management expects growth to accelerate in the near term due to logistics operations, allowing it to reduce the cost structure.

Quarter in Detail

Direct retail net revenues, which include sales generated primarily through Wayfair's sites, were \$2.3 billion in the third quarter, increasing 35.9% year over year.

Active customers increased 38% from the prior-year quarter to 19.1 million. Also, LTM net revenues per active customer increased 1.4% year over year to \$449 million.

Total number of orders delivered in the reported quarter was 9.1 million, up 31.5% year over year. In addition, orders per customer in the quarter were 1.85 million, reflecting an increase of 0.5% from the year-ago period. Further, repeat customers placed 6.1 million orders in the third quarter, up 33.6% year over year.

Operating Results

In the third quarter, Wayfair's gross margin was 23.4%, up 40 basis points on a year-over-year basis.

Adjusted EBITDA margin was (6.3%) compared with (4.5%) in the year-ago quarter. This was led by increasing investments, mainly in international regions served.

The company's operating expenses of \$799.6 million increased 48.6% year over year. Operating loss was \$259.7 million, wider than the prior-year loss of \$145.3 million.

Balance Sheet & Cash Flow

At the end of the third quarter, cash, cash equivalents and short-term investments were \$1.3 billion, up from \$714.5 million in the comparable year-ago period. Accounts receivables were \$75.7 million, down from \$77.3 million in the second quarter.

Cash from operations was (\$76.4) million and capital expenditure totaled \$68.6 million. Free cash flow was (\$180.9) million compared with (\$91.5) million in the second quarter.

Quarter Ending **09/2019**

Report Date	Oct 31, 2019
Sales Surprise	1.17%
EPS Surprise	-4.69%
Quarterly EPS	-2.23
Annual EPS (TTM)	-6.32

Recent News

On **Oct 14, 2019**, Wayfair introduced a flagship brand — Hykkon — in an effort to strengthen home furnishing offerings in Europe. Notably, the brand offers a wide range of home decors, textiles, lighting and furniture.

Valuation

Wayfair shares are down 33.1% in the six-month period and down 1.6% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 7% and 13.3% in the six-month period, respectively. Over the past year, the Zacks sub-industry is up 23.3% and the sector is up 32.7%.

The S&P 500 index is up 9.2% in the year-to-date period and 25.7% in the past year.

The stock is currently trading at 0.75X forward 12-month sales, which compares to 4.13X for the Zacks sub-industry, 1.07X for the Zacks sector and 3.47X for the S&P 500 index.

Over the past five years, the stock has traded as high as 2.04X and as low as 0.62X, with a 5-year median of 1.11X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$99 price target reflects 0.79X forward 12-month sales.

The table below shows summary valuation data for W

Valuation Multiples - W					
		Stock	Sub-Industry	Sector	S&P 500
P/S F12M	Current	0.75	4.13	1.07	3.47
	5-Year High	2.04	5.77	1.1	3.47
	5-Year Low	0.62	3.1	0.8	2.54
	5-Year Median	1.11	4.58	0.9	3
EV/Sales TTM	Current	1.08	4.81	1.23	3.14
	5-Year High	2.53	8.12	1.26	3.3
	5-Year Low	0.78	4.13	0.87	2.16
	5-Year Median	1.45	6.16	1.04	2.78

As of 01/03/2020

Industry Analysis Zacks Industry Rank: Bottom 20% (202 out of 252)



Top Peers

Target Corporation (TGT)	Outperform
Amazon.com, Inc. (AMZN)	Neutral
Bed Bath & Beyond Inc. (BBBY)	Neutral
eBay Inc. (EBAY)	Neutral
Haverty Furniture Companies, Inc. (HVT)	Neutral
J. C. Penney Company, Inc. (JCP)	Neutral
Lowes Companies, Inc. (LOW)	Neutral
Walmart Inc. (WMT)	Neutral

Industry Comparison Industry: Internet - Commerce				Industry Peers		
	W Neutral	X Industry	S&P 500	AMZN Neutral	EBAY Neutral	WMT Neutral
VGM Score	F	-	-	D	B	B
Market Cap	8.76 B	3.15 B	23.66 B	929.60 B	29.25 B	334.47 B
# of Analysts	15	3	13	13	14	14
Dividend Yield	0.00%	0.00%	1.79%	0.00%	1.56%	1.80%
Value Score	D	-	-	D	B	C
Cash/Price	0.15	0.14	0.04	0.05	0.11	0.03
EV/EBITDA	-27.27	7.34	13.88	32.43	9.93	15.95
PEG Ratio	NA	1.34	1.99	2.60	1.21	4.77
Price/Book (P/B)	NA	4.68	3.36	16.45	8.95	4.27
Price/Cash Flow (P/CF)	NA	19.82	13.62	36.24	13.44	13.62
P/E (F1)	NA	24.76	18.74	71.48	12.44	23.66
Price/Sales (P/S)	1.02	1.84	2.67	3.50	2.69	0.64
Earnings Yield	-9.58%	1.93%	5.32%	1.40%	8.04%	4.22%
Debt/Equity	-3.30	0.25	0.72	0.40	2.36	0.83
Cash Flow (\$/share)	-3.92	0.45	6.94	51.74	2.67	8.66
Growth Score	D	-	-	A	B	C
Hist. EPS Growth (3-5 yrs)	NA%	16.19%	10.56%	116.18%	-5.49%	0.13%
Proj. EPS Growth (F1/F0)	-14.47%	13.27%	7.41%	27.90%	4.33%	1.50%
Curr. Cash Flow Growth	135.27%	2.56%	14.83%	85.21%	0.23%	5.58%
Hist. Cash Flow Growth (3-5 yrs)	NA%	14.92%	9.00%	48.43%	-8.09%	-0.35%
Current Ratio	1.17	1.64	1.23	1.10	1.41	0.81
Debt/Capital	NA%	24.51%	42.92%	28.45%	70.28%	45.25%
Net Margin	-9.27%	0.33%	11.08%	4.27%	18.33%	2.77%
Return on Equity	NA%	9.21%	17.10%	22.52%	41.12%	18.47%
Sales/Assets	3.74	0.78	0.55	1.45	0.51	2.24
Proj. Sales Growth (F1/F0)	27.84%	14.90%	4.20%	18.48%	2.15%	2.21%
Momentum Score	D	-	-	F	F	A
Daily Price Chg	0.97%	-0.31%	-0.61%	-1.21%	-0.94%	-0.88%
1 Week Price Chg	9.62%	0.38%	0.13%	4.66%	-0.33%	-0.58%
4 Week Price Chg	17.74%	3.86%	2.60%	7.73%	3.36%	-0.65%
12 Week Price Chg	-10.15%	3.10%	8.87%	8.99%	-5.19%	-1.44%
52 Week Price Chg	11.19%	8.27%	29.34%	24.97%	26.98%	26.95%
20 Day Average Volume	1,820,430	183,597	1,603,615	2,979,273	6,776,030	4,147,225
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.11%
(F1) EPS Est 4 week change	0.87%	0.00%	0.00%	-1.22%	0.00%	0.11%
(F1) EPS Est 12 week change	-24.62%	-3.85%	-0.57%	-18.91%	-4.90%	1.41%
(Q1) EPS Est Mthly Chg	2.04%	0.00%	0.00%	-2.70%	0.00%	0.06%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	D
Momentum Score	D
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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