Wayfair Inc.(W)

$82.46 (As of 02/14/20)

Price Target (6-12 Months): **$87.00**

Long Term: 6-12 Months	**Zacks Recommendation:** (Since: 05/02/19) Prior Recommendation: Underperform	**Neutral**
Short Term: 1-3 Months	**Zacks Rank:** (1-5)	**3-Hold**
	Zacks Style Scores:	VGM:D
	Value: D | Growth: D | Momentum: A	

Summary

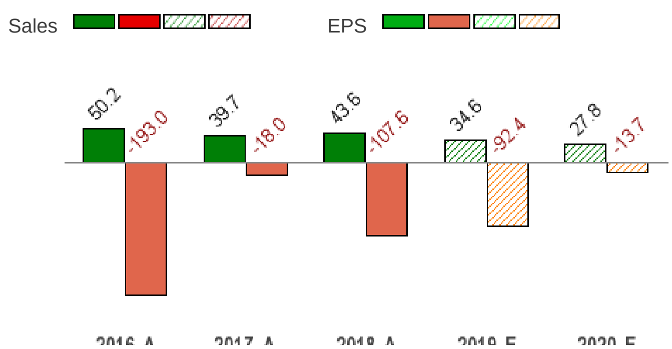
Wayfair is benefiting from strengthening direct retail business across the United States and international regions. This continues to drive the company's top line. Additionally, expanding active customer base is a tailwind. Further, the company stays confident about growth prospects in markets, namely the U.K. and Germany. This can be attributed to efforts to expand house-brand offerings in these countries. Further, the company is aggressively investing in international regions in order to bolster international presence, which remains a tailwind. However, the company is currently suffering from mounting investment expenses which are weighing on margin expansion. Further, rising competition from e-commerce giant Amazon, poses threat to the company's market position. Notably, the stock has underperformed its industry over a year.

Price, Consensus & Surprise

Data Overview

52 Week High-Low	$173.72 - $78.61
20 Day Average Volume (sh)	1,825,106
Market Cap	$7.7 B
YTD Price Change	-8.8%
Beta	1.84
Dividend / Div Yld	$0.00 / 0.0%
Industry	Internet - Commerce
Zacks Industry Rank	Top 45% (114 out of 255)
Last EPS Surprise	-4.7%
Last Sales Surprise	1.2%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/28/2020
Earnings ESP	0.0%
P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	0.9

Sales and EPS Growth Rates (Y/Y %)



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

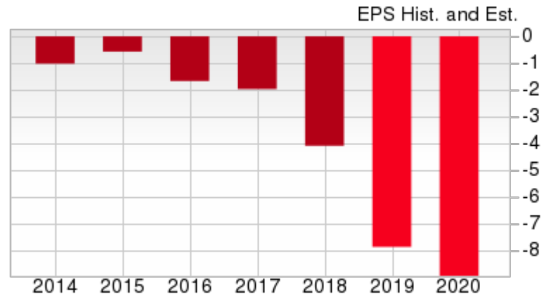
EPS Estimates

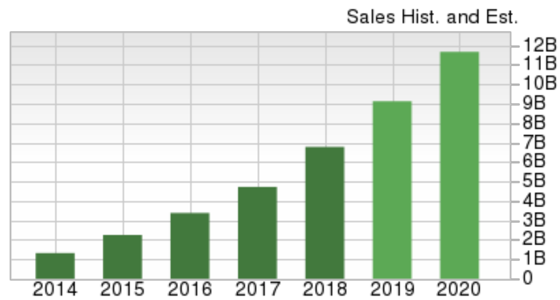
	Q1	Q2	Q3	Q4	Annual*
2020	-$2.49 E	-$1.85 E	-$2.27 E	-$2.42 E	-$8.95 E
2019	-$1.62 A	-$1.35 A	-$2.23 A	-$2.63 A	-$7.87 E
2018	-$0.91 A	-$0.77 A	-$1.28 A	-$1.12 A	-$4.09 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

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

- 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.

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.

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

- 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.

Last Earnings Report

Wayfair Q3 Loss Wider Than Anticipated, Revenues Beat

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

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 $2.31billion, 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.

Recent News

On **Nov 13, 2019**, Wayfair introduced features like AR and room planner 3D for its mobile shopping app to make it easier for customers to shop from anywhere.

On **Oct 24, 2019**, Wayfair partnered with Big Sister Association of Greater Boston to launch a workplace mentoring program at Wayfair's Boston headquarters.

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 26.4% in the past six-month period and up 32.5% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are up 18.2% and 13.6% in the past six-month period, respectively. Over the past year, the Zacks sub-industry is up 23% and the sector is up 18.9%.

The S&P 500 index is up 16.2% in the past six-month period and 20.9% in the past year.

The stock is currently trading at 0.64X forward 12-month sales, which compares to 4.21X for the Zacks sub-industry, 1.09X for the Zacks sector and 3.58X 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 1.1X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our $87 price target reflects 0.67X 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	0.64	4.21	1.09	3.58
	5-Year High	2.04	5.76	1.11	3.58
	5-Year Low	0.62	3.1	0.8	2.54
	5-Year Median	1.1	4.58	0.92	3
EV/Sales TTM	Current	1	5.39	1.32	3.32
	5-Year High	2.53	8.09	1.32	3.32
	5-Year Low	0.78	4.18	0.88	2.16
	5-Year Median	1.45	6.21	1.06	2.79

As of 02/14/2020

Industry Analysis **Zacks Industry Rank:** Top 45% (114 out of 255)

Top Peers

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

Industry Comparison Industry: Internet - Commerce

Industry Peers

	W Neutral	X Industry	S&P 500	AMZN Neutral	EBAY Neutral	WMT Neutral
VGM Score	D	-	-	B	B	C
Market Cap	7.68 B	2.67 B	24.61 B	1,062.76 B	30.36 B	334.47 B
# of Analysts	15	3	13	13	15	14
Dividend Yield	0.00%	0.00%	1.78%	0.00%	1.47%	1.80%
Value Score	D	-	-	D	C	C
Cash/Price	0.14	0.14	0.04	0.05	0.10	0.03
EV/EBITDA	-24.24	7.73	14.06	27.60	12.04	15.95
PEG Ratio	NA	1.36	2.09	2.87	1.23	4.58
Price/Book (P/B)	NA	5.29	3.29	17.12	10.58	4.27
Price/Cash Flow (P/CF)	NA	19.54	13.65	31.84	11.42	13.62
P/E (F1)	NA	26.81	19.21	77.44	12.64	22.68
Price/Sales (P/S)	0.89	2.04	2.70	3.79	2.81	0.64
Earnings Yield	-10.85%	1.86%	5.19%	1.29%	7.92%	4.41%
Debt/Equity	-3.30	0.21	0.71	0.38	2.52	0.83
Cash Flow ($/share)	-3.92	0.45	6.92	67.05	3.34	8.66
Growth Score	D	-	-	A	C	C
Hist. EPS Growth (3-5 yrs)	NA%	16.19%	10.85%	110.19%	-2.66%	0.13%
Proj. EPS Growth (F1/F0)	-13.72%	12.79%	7.17%	19.81%	6.67%	4.43%
Curr. Cash Flow Growth	135.27%	8.64%	8.56%	31.33%	8.64%	5.58%
Hist. Cash Flow Growth (3-5 yrs)	NA%	15.24%	8.36%	49.26%	-6.76%	-0.35%
Current Ratio	1.17	1.51	1.23	1.10	1.16	0.81
Debt/Capital	NA%	23.75%	42.91%	27.39%	71.58%	45.25%
Net Margin	-9.27%	-0.75%	11.81%	4.13%	16.54%	2.77%
Return on Equity	NA%	9.84%	16.86%	21.07%	50.71%	18.47%
Sales/Assets	3.74	0.90	0.54	1.41	0.54	2.24
Proj. Sales Growth (F1/F0)	27.84%	17.50%	3.85%	19.18%	0.32%	3.08%
Momentum Score	A	-	-	B	B	C
Daily Price Chg	0.37%	0.00%	0.06%	-0.70%	2.55%	0.38%
1 Week Price Chg	5.99%	1.12%	2.47%	3.51%	7.87%	1.71%
4 Week Price Chg	-22.49%	0.00%	0.59%	13.68%	6.18%	1.72%
12 Week Price Chg	0.17%	8.22%	6.98%	23.07%	9.16%	-1.64%
52 Week Price Chg	-31.33%	-0.10%	16.62%	31.57%	5.01%	19.66%
20 Day Average Volume	1,825,106	145,986	2,020,569	4,425,081	14,665,531	5,287,791
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	-0.10%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.05%	5.74%	5.44%	-0.10%
(F1) EPS Est 12 week change	0.87%	-1.30%	-0.17%	3.82%	5.44%	0.07%
(Q1) EPS Est Mthly Chg	0.00%	-2.05%	-0.24%	2.19%	5.09%	-0.02%

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	A
VGM Score	D

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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