

Williams-Sonoma, Inc.(WSM)

\$42.52 (As of 03/31/20)

Price Target (6-12 Months): **\$36.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform
(Since: 03/30/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

4-Sell

Zacks Style Scores:

VGM:A

Value: A

Growth: A

Momentum: F

Summary

Williams-Sonoma reported better-than-expected fourth-quarter fiscal 2019 results. The top and bottom lines surpassed the Zacks Consensus Estimate by 1.5% and 3.9%, and grew 0.4% and 1.4% from a year ago, respectively. Fiscal 2019 earnings and revenues also rose 8.5% and 4%, respectively, from the prior year. West Elm — its biggest growth catalyst — continues to add to the strength of Pottery Barn brands. Also, cross-brand initiatives such as The Key, Business-to-Business and in-home Design Crew are expected to become important growth drivers. However, it suspended its fiscal 2020 guidance due to the global impact of coronavirus pandemic. Although its shares have outperformed the industry so far this year, estimates for fiscal 2020 have moved south over the past seven days, depicting analysts' concern over its prospects.

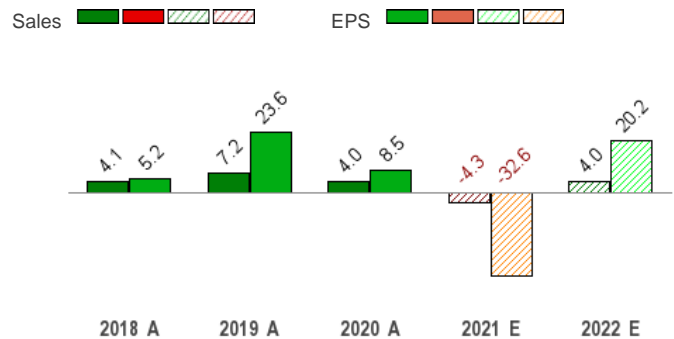
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$77.00 - \$26.01
20 Day Average Volume (sh)	1,930,133
Market Cap	\$3.3 B
YTD Price Change	-42.1%
Beta	1.24
Dividend / Div Yld	\$1.92 / 4.5%
Industry	Retail - Home Furnishings
Zacks Industry Rank	Bottom 28% (184 out of 254)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	3.9%
Last Sales Surprise	1.5%
EPS F1 Est- 4 week change	-34.2%
Expected Report Date	06/04/2020
Earnings ESP	-357.8%

P/E TTM	8.8
P/E F1	13.0
PEG F1	1.8
P/S TTM	0.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,144 E	1,284 E	1,496 E	1,929 E	5,872 E
2021	1,061 E	1,277 E	1,421 E	1,836 E	5,646 E
2020	1,241 A	1,371 A	1,442 A	1,844 A	5,898 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2022	\$0.38 E	\$0.38 E	\$1.02 E	\$2.15 E	\$3.92 E
2021	\$0.03 E	\$0.39 E	\$0.87 E	\$2.03 E	\$3.26 E
2020	\$0.81 A	\$0.87 A	\$1.02 A	\$2.13 A	\$4.84 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 03/31/2020. The reports text is as of 04/01/2020.

Overview

Headquartered in San Francisco, CA, **Williams-Sonoma, Inc.** is a multi-channel specialty retailer of premium quality home products. Incorporated in 1973, the company has five brands and each of the brands are operating segments.

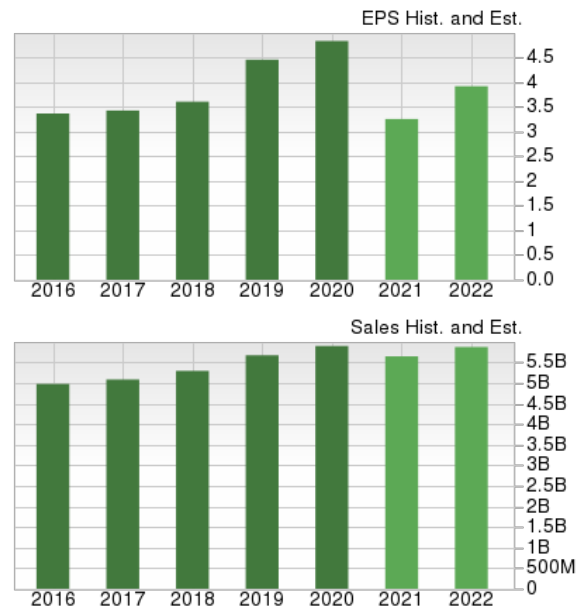
Pottery Barn (accounting for 37.5% of fiscal 2019 total revenues) is the largest brand of the company and offers premium quality furniture, lighting, tabletop, outdoor and decorative accessories.

West Elm (24.9%) produces personalized products designed by the company's team of artists and designers.

Williams-Sonoma (17.5%) offers cookware, tools, cutlery, electrics, tabletop and bar, outdoor, furniture and cookbooks.

Pottery Barn Kids and Teen (15.4%) deals with products used for putting up nurseries, bedrooms and play spaces. It also caters to the teenage population with furniture, bedding, lighting and decorative accents for teen bedrooms, dorm rooms, study spaces and lounges.

Other segment (4.7%) primarily consists of international franchise operations, Rejuvenation and Mark and Graham. Rejuvenation offers premium quality products which are inspired from history and are manufactured in facilities in Portland, OR. Mark and Graham is known for personalized gift items. The brand manufactures women's and men's accessories, home décor and seasonal items.



Reasons To Sell:

▼ **Coronavirus Outbreak Hurts Near-Term Prospects:** The novel coronavirus outbreak across 192 countries and territories have led to the closure of many retail stores throughout the world. The latest U.S. retail sales data for February fell 0.5% from January, registering largest decline since December 2018. Industry experts are concerned that there might be more hurdles in the future as consumers are restricting their buying habits to only essential items amid the life-threatening disease spread.

Coronavirus-related woes, higher shipping costs and a competitive retail environment mar the company's prospects.

Williams Sonoma announced temporarily close of stores in North America. The company is planning to extend store closures nationwide. Given the unpredictable effects of the coronavirus on consumer behavior and economic activity in general, the company has decided to temporarily suspend its full-year guidance.

Meanwhile, it expects near-term softness as overall consumer demand is likely to decline. Also, it is suspending all capital expenditures that are non business-critical and substantially reducing its inventory level for the year.

▼ **Soft Comps at Williams Sonoma Brand & Margin Pressure:** Despite better-than-expected results in fiscal 2019, the company reported weak comps in its namesake brand. The company's Williams Sonoma brand has been witnessing flat or negative comps in the trailing four quarters, partially driven by tough comparisons against higher levels of promotions. Notably, the namesake brands' comps grew just 0.4% in fiscal 2019 compared with 1.7% growth registered in the year-ago period.

Apart from soft comps, higher shipping costs from a larger mix of furniture and increased tariffs have been pressurizing gross margins of the company. In fiscal 2019, adjusted gross profit contracted 80 basis points year over year.

▼ **Intense Competition:** The specialty e-commerce and retail businesses are highly competitive. Williams-Sonoma competes with other retailers that market same kind of merchandises. The company also competes with national, regional and local businesses that follow a similar retail store strategy, and also with traditional furniture stores, department and specialty stores. The substantial sales growth in the e-commerce industry in the last decade has encouraged the entry of new competitors and business models as well. Increased competition can reduce Williams-Sonoma's sales and harm its operating results and business.

▼ **Dependent on Foreign Vendors:** Williams-Sonoma's business is highly dependent on foreign countries, predominantly Asia and Europe. In fiscal 2018, the company sourced approximately 66% of its merchandise from outside the United States. Thus, any economic or regulatory changes in foreign countries will affect Williams-Sonoma's business. Implementation of tax or tariffs may lead to an increase in the cost of goods sold and in turn result in higher product prices. This might also cause a decline in consumer demand, denting the company's financial performance.

Risks

- **Leading E-commerce Retailer:** Williams-Sonoma is one of the largest e-commerce retailers in the United States. The company has a history of driving market share gains, supported by strong e-commerce websites, direct mail catalogs and retail stores, along with shipping fees received for the delivery of merchandise. Notably, shares of Williams-Sonoma have outperformed its industry so far this year. The strong performance was backed by a solid earnings surprise history, having surpassed the consensus estimate in all the trailing nine quarters.

Its innovative efforts have helped the company to drive e-commerce growth. In fiscal 2019, e-commerce revenues touched an all-time high of more than 56% of total revenues. The company's investment in merchandising of its brands, efficient catalog circulations and digital marketing boosts revenues from the e-commerce channel.

Meanwhile, the company aims to maximize growth and boost profitability in the long term, given substantial growth engines. The company is expected to generate more revenues from the e-commerce channel, as it focuses to re-platform mobile sites to progressive web app technology, streamline checkout process and implement the next-generation of machine learning, on-site search as well as personalization experience. It intends to focus more on growth drivers that includes West Elm, newly launched Business-to-Business offering, its emerging brands — Williams Sonoma Home, Rejuvenation, and Mark and Graham — as well as its largest brand Pottery Barn and namesake brand Williams-Sonoma. The company registered above-industry average ROIC of 20.9% and non-GAAP ROIC of 22.4% in fiscal 2019.

- **West Elm & Emerging Businesses Continue to Shine:** West Elm continued its accelerated growth trajectory in fiscal 2019. This is evident from its 10th consecutive year of double-digit growth and another year of strong comps growth of 14.4% in fiscal 2019. The growth was primarily driven by strong e-commerce and broad-based strength across the product categories, mostly in made-to-order upholstery, along with key customer acquisition categories of textiles and decorative accessory. Meanwhile, its emerging businesses, Rejuvenation and Mark and Graham, continue to expand product offerings.
- **Focus on Marketing & Digitalization:** Williams-Sonoma is focused on enhancing customer experience through technology innovation and operational improvement. In order to drive brand awareness and increase customer engagement as well as cross-selling opportunities, the company shifted its advertising spend toward social media campaigns and in cross-brand initiatives. Cross-brand initiatives such as The Key, Design Crew Room Planner and The One Registry are expected to be incremental growth drivers for all its brands in fiscal 2020 and beyond.

It has also been reworking on its marketing strategy, placing more emphasis on digital targeted marketing and investing in store remodeling. In digital advertising, the company is transitioning from catalog mailing to higher impact digital channels to drive short-term return on investment and long-term gains and customer growth. Higher digital marketing is driving incremental customer count. Its newest division, Williams-Sonoma Inc. Business-to-Business, made significant progress during the third and fourth quarters of fiscal 2019.

- **Focus on Innovation:** Williams-Sonoma is focused on enhancing customer experience through technology innovation and operational improvement. In order to drive brand awareness and increase customer engagement as well as cross-selling opportunities, the company shifted its advertising spend toward social media campaigns and in cross-brand initiatives. Cross-brand initiatives such as The Key, Design Crew Room Planner and The One Registry are expected to be incremental growth drivers for all its brands in fiscal 2020 and beyond. During fiscal 2019, more than 9 million members were added to its cross-brand loyalty program, The Key, which continued approximately half of its sales in stores. Ongoing rise of members is an important contributor to growth.

In technology innovation, the company launched its machine-learning search engine across the brands and improved mobile site speed to deliver a faster and more compelling experience. The company is constantly testing new technologies to enhance the shopping experience. These technologies include additional design chart capabilities, product recommendations, payments, financing solutions and improvements to its Outward room planner in Pottery Barn children's businesses.

Last Earnings Report

Williams-Sonoma Q4 Earnings & Revenues Beat Estimates

Williams-Sonoma Inc. posted better-than-expected fourth-quarter fiscal 2019 results in the quarter under review. However, the company suspended its full-year guidance due to the global impact of coronavirus pandemic.

Nonetheless, West Elm — its biggest growth catalyst — continues to renew strength in Pottery Barn brands. Also, cross-brand initiatives such as The Key, Business-to-Business as well as in-home Design Crew are expected to become important growth drivers.

Non-GAAP earnings of \$2.13 per share surpassed the Zacks Consensus Estimate of \$2.05 by 3.9%. The figure also inched up 1.4% year over year.

Moreover, revenues of \$1,843.6 million beat the consensus mark of \$1,815 million by 1.5% and increased 0.4% year over year.

Comps increased 7.6% in fiscal fourth quarter compared with 5.5% growth in the preceding quarter and 2.4% in the year-ago quarter.

Comps in the West Elm brand increased 13.9% compared with 11.1% growth in the prior-year quarter. Pottery Barn's comps rose 6.7% against 0.4% decline in the year-ago quarter. Comps in Pottery Barn Kids and Teen increased 7.9% compared with 1.6% growth registered in the prior-year quarter. Notably, the Williams Sonoma brand's comps rose 3.3% against 2.1% decline in the preceding quarter and 0.1% growth registered in the year-ago quarter.

Operating Highlights

Non-GAAP gross margin was 37.6%, down 110 basis points (bps) from fourth-quarter fiscal 2018. The downside was primarily caused by lower occupancy leverage, higher shipping costs stemming from a greater mix of furniture sales and the impact of the implementation of China tariffs.

Non-GAAP selling, general and administrative expenses accounted for 26.1% of net revenues compared with 26.9% in the year-ago quarter, down 80 bps. The upside was driven by leverage across employment and advertising from higher sales as well as consistent cost-saving initiatives. However, non-GAAP operating margin contracted 30 bps to 11.6% in the quarter.

Financials

Williams-Sonoma reported cash and cash equivalents of \$432.2 million as of Feb 2 compared with \$339 million on Feb 3, 2019.

During fiscal fourth quarter, the company invested \$65 million in the business and returned \$74 million to its stockholders through dividend payouts as well as share repurchases. Notably, the company paid out \$38 million worth of dividends and repurchased about \$36 million shares.

Fiscal 2019 Highlights

Non GAAP earnings came in at \$4.84 per share that exceeded the high-end of the guidance and increased 8.5% year over year. Comps growth was 6% (at the high-end of the guidance range), with positive comps growth across its brands, including West Elm at 14.4%, Pottery Barn at 4.1% as well as Pottery Barn Kids and Teen at 4.5%.

Total revenues were \$5,898 million, up 4% from fiscal 2018 end.

Fiscal 2020 Guidance Suspended

Given the unpredictable effects of the coronavirus on consumer behavior and economic activity in general, the company decided to temporarily suspend its full-year guidance.

Quarter Ending 01/2020

Report Date	Mar 18, 2020
Sales Surprise	1.51%
EPS Surprise	3.90%
Quarterly EPS	2.13
Annual EPS (TTM)	4.83

Recent News

Williams-Sonoma Boosts E-Commerce Business Amid Coronavirus - Mar 31, 2020

In the event of temporary closure of all U.S. and Canada stores due to the coronavirus pandemic, Williams-Sonoma, Inc. has been greatly focusing on the e-commerce business. The company has announced that it will extend store closure for another two weeks.

This leading home specialty retailer of high-quality and sustainable products has been putting in continued efforts to contain the COVID-19 pandemic. Since March 18, it has closed all its stores across the country.

Given the unpredictable effects of coronavirus on consumer behavior and economic activity in general, the company has temporarily suspended its full-year guidance. Also, it has suspended all capital expenditures that are non business-critical and is substantially reducing the inventory level for the year. Notably, the company expects near-term softness to prevail, as overall consumer demand is likely to decline in the future.

Valuation

Williams-Sonoma's shares are down 42.1% in the year-to-date period and 26.2% over the trailing 12-month period. Stocks in the Zacks sub-industry and the Zacks Retail-Wholesale sector are down 47.8% and 12.2% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 35.1% and 4.8%, respectively.

The S&P 500 index is down 19.8% in the year-to-date period and 10% in the past year.

The stock is currently trading at 8.49X forward 12-month earnings, which compares to 9.86X for the Zacks sub-industry, 23.03X for the Zacks sector and 16.12X for the S&P 500 index.

Over the past five years, the stock has traded as high as 23.6X and as low as 6.14X, with a 5-year median of 13.9X. Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$36 price target reflects 7.01X forward 12-month earnings.

The table below shows summary valuation data for WSM.

Valuation Multiples - WSM					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	8.49	9.86	23.03	16.12
	5-Year High	23.6	22.77	26.19	19.34
	5-Year Low	6.14	9.86	19.06	15.18
	5-Year Median	13.9	15.23	23.09	17.44
P/S F12M	Current	0.54	0.47	0.9	2.85
	5-Year High	1.56	1.31	1.11	3.43
	5-Year Low	0.39	0.47	0.8	2.54
	5-Year Median	0.87	0.85	0.92	3
EV/EBITDA TTM	Current	6.61	7.2	13.65	9.57
	5-Year High	12.88	11.95	16.25	12.88
	5-Year Low	8.27	5.22	10.89	8.27
	5-Year Median	10.78	8.31	12.51	10.78

As of 03/31/2020

Industry Analysis Zacks Industry Rank: Bottom 28% (184 out of 254)



Top Peers

At Home Group Inc. (HOME)	Outperform
The Home Depot, Inc. (HD)	Neutral
Haverty Furniture Companies, Inc. (HVT)	Neutral
The Lovesac Company (LOVE)	Neutral
Lowes Companies, Inc. (LOW)	Neutral
RH (RH)	Neutral
Tempur Sealy International, Inc. (TPX)	Neutral
Ethan Allen Interiors Inc. (ETH)	Underperform

Industry Comparison Industry: Retail - Home Furnishings				Industry Peers		
	WSM Underperform	X Industry	S&P 500	ETH Underperform	RH Neutral	TPX Neutral
VGM Score	A	-	-	A	B	B
Market Cap	3.29 B	198.01 M	17.97 B	265.00 M	1.91 B	2.35 B
# of Analysts	10	5	13	3	10	8
Dividend Yield	4.52%	0.00%	2.37%	8.22%	0.00%	0.00%
Value Score	A	-	-	A	B	B
Cash/Price	0.13	0.13	0.06	0.10	0.02	0.03
EV/EBITDA	6.13	6.62	10.93	6.62	8.12	8.50
PEG Ratio	1.64	0.91	1.74	NA	0.63	0.54
Price/Book (P/B)	2.67	0.94	2.39	0.73	102.33	6.56
Price/Cash Flow (P/CF)	5.86	4.85	9.48	4.43	4.57	6.94
P/E (F1)	11.86	10.21	14.84	8.52	8.59	10.17
Price/Sales (P/S)	0.56	0.37	1.91	0.37	0.72	0.76
Earnings Yield	7.67%	9.09%	6.65%	11.74%	11.65%	9.84%
Debt/Equity	0.89	0.89	0.70	0.32	75.90	4.74
Cash Flow (\$/share)	7.26	1.91	7.01	2.30	22.00	6.30
Growth Score	A	-	-	D	B	A
Hist. EPS Growth (3-5 yrs)	9.36%	0.42%	10.89%	-2.71%	41.69%	0.47%
Proj. EPS Growth (F1/F0)	-32.67%	-16.96%	1.29%	-23.08%	0.36%	7.20%
Curr. Cash Flow Growth	6.05%	6.33%	6.03%	7.23%	12.37%	22.94%
Hist. Cash Flow Growth (3-5 yrs)	4.89%	4.95%	8.55%	0.23%	61.75%	5.02%
Current Ratio	1.09	1.09	1.24	1.45	0.61	1.16
Debt/Capital	46.97%	55.78%	42.36%	24.52%	98.70%	82.58%
Net Margin	6.04%	2.73%	11.64%	3.64%	8.32%	6.10%
Return on Equity	33.13%	5.86%	16.74%	10.05%	-232.62%	70.68%
Sales/Assets	1.50	1.31	0.54	1.23	1.09	1.02
Proj. Sales Growth (F1/F0)	-4.27%	1.20%	1.61%	-8.90%	2.70%	4.75%
Momentum Score	F	-	-	A	C	F
Daily Price Chg	-1.96%	-0.98%	-2.05%	-5.37%	-14.86%	-2.52%
1 Week Price Chg	15.62%	9.24%	12.32%	0.71%	35.07%	39.61%
4 Week Price Chg	-31.92%	-36.63%	-18.09%	-22.63%	-45.23%	-43.96%
12 Week Price Chg	-42.35%	-44.64%	-24.90%	-44.64%	-53.46%	-48.35%
52 Week Price Chg	-26.23%	-64.28%	-18.55%	-46.10%	-0.77%	-24.92%
20 Day Average Volume	1,930,133	509,038	4,222,189	396,812	2,182,603	2,147,858
(F1) EPS Est 1 week change	0.00%	-5.58%	-0.18%	0.00%	-11.17%	-11.62%
(F1) EPS Est 4 week change	-34.22%	-18.84%	-3.16%	0.00%	-14.57%	-23.10%
(F1) EPS Est 12 week change	-34.15%	-22.56%	-4.36%	-20.88%	-14.57%	-22.56%
(Q1) EPS Est Mthly Chg	-96.95%	-63.95%	-2.63%	0.00%	-30.94%	-13.95%

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	A
Growth Score	A
Momentum Score	F
VGM Score	A

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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