

Williams-Sonoma, Inc.(WSM)

\$86.15 (As of 06/18/20)

Price Target (6-12 Months): **\$100.00**

Long Term: 6-12 Months

Zacks Recommendation:

Outperform

(Since: 06/17/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

1-Strong Buy

Zacks Style Scores:

VGM:C

Value: C

Growth: D

Momentum: B

Summary

Shares of Williams-Sonoma have outperformed its industry so far this year. The price performance was backed by a solid earnings surprise history, having surpassed the Zacks Consensus Estimate in all the trailing 10 quarters. The company's multi-channel shopping platform and continued enhancement of the e-commerce channel are expected to drive growth. Notably, its first-quarter fiscal 2020 comps grew 2.6% year over year defying the COVID_19 related disruptions, buoyed by accelerated comps growth in the e-commerce business. Although lower occupancy leverage, higher shipping costs stemming from a greater mix of furniture sales and increased e-commerce sales have been weighing on margins, its focus on innovation, and marketing and digitalization techniques are helping it gain further.

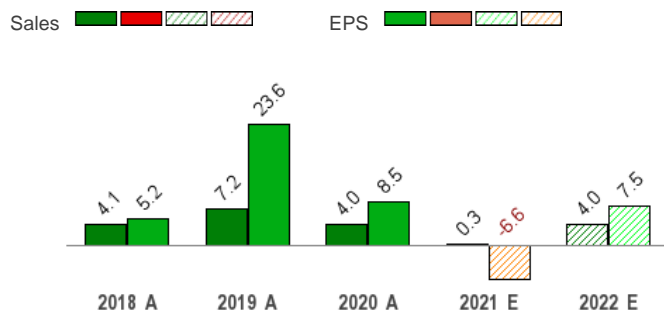
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$88.13 - \$26.01
20 Day Average Volume (sh)	1,897,300
Market Cap	\$6.7 B
YTD Price Change	17.3%
Beta	1.70
Dividend / Div Yld	\$1.92 / 2.2%
Industry	Retail - Home Furnishings
Zacks Industry Rank	Top 2% (4 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	722.2%
Last Sales Surprise	14.5%
EPS F1 Est- 4 week change	39.6%
Expected Report Date	08/26/2020
Earnings ESP	0.0%
P/E TTM	18.1
P/E F1	19.1
PEG F1	2.6
P/S TTM	1.1

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2022	1,280 E	1,439 E	1,530 E	1,859 E	6,152 E
2021	1,235 A	1,392 E	1,461 E	1,849 E	5,914 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	\$0.79 E	\$0.74 E	\$1.12 E	\$2.28 E	\$4.86 E
2021	\$0.74 A	\$0.84 E	\$0.97 E	\$2.01 E	\$4.52 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 06/18/2020. The reports text is as of 06/19/2020.

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.

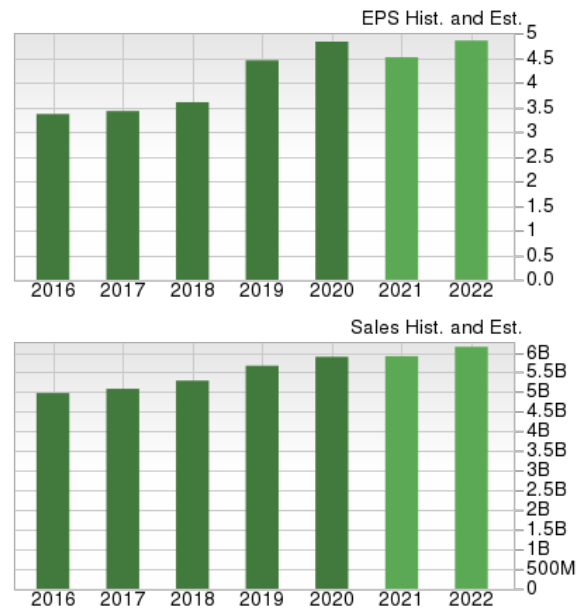
Pottery Barn (accounting for 37.5% of fiscal 2019 total revenues) is the largest brand of the company and offers premium quality furniture, lighting, tabletop, outdoor and decorative accessories.

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 Buy:

▲ **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. The strong performance was backed by a solid earnings surprise history, having surpassed the consensus estimate in all the trailing 10 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. Despite 616 stores being closed for more than half of the first quarter of fiscal 2020, its e-commerce revenue growth accelerated to more than 30%.

Continued enhancement of e-commerce channel, optimization of supply chain and the transformation of retail fleet by investing in new and remodeled stores are expected to drive growth

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.

▲ **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. To maximize online demand during this unprecedented time, it has expanded online services including Design Chat, Virtual Design appointment and Ask the Expert via leveraging the outward Inc. 3D visualization technology.

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 in second half of fiscal 2019.

▲ **Strong Financial Position:** Williams Sonoma has strong liquidity to navigate through the current environment due to COVID-19. The company ended the fiscal first quarter with solid liquidity, including \$861 million cash and cash equivalents, along with \$200 million of unsecured revolving credit facility. Its current cash level is sufficient to meet the short-term obligation of \$712.4 million.

Long-term debt obligations totaled 1.4 billion, up from \$1.1 billion at fiscal 2019-end. Notably, it strengthened the liquidity position by one-year extension of the \$300-million term loan to January 2022. The company has no significant debt maturity in the near future.

▲ **West Elm & Emerging Businesses Continue to Shine:** West Elm's accelerated growth trajectory continued in the fiscal first quarter. This is evident from 3.3% comps growth in the fiscal first quarter (despite coronavirus-related disruptions), followed by 10th consecutive year of double-digit growth 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. The company has been experiencing strong comps growth in early second-quarter fiscal 2020.

Meanwhile, its emerging businesses, Rejuvenation and Mark and Graham, continue to expand product offerings. In the fiscal first quarter, comps grew 2.4% in the said brand.

▲ **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.

Risks

- **Coronavirus Impacts Near-Term Prospects:** Owing to widespread closure of retail stores, Williams Sonoma believes that COVID-19 will impact customers' demand for the rest of fiscal 2020. Given the unpredictability stemming from the coronavirus outbreak, the company has decided to temporarily suspend its full-year guidance.

Although the e-commerce business yielded better-than-expected results in the fiscal first quarter, the bottom line declined 8.6% year over year. Comps also declined sequentially. It is suspending all capital expenditures that are non business-critical and substantially reducing the inventory level for the year.

- **Margin Pressure:** Higher shipping costs from a larger mix of furniture, lower occupancy leverage and tariffs have been putting pressure on gross margins of the company. In fiscal 2019, adjusted gross profit contracted 80 basis points (bps) year over year. Again, in first-quarter fiscal 2020, the metric fell 140 bps year over year. Non-GAAP operating margin also contracted 60 bps to 6.4% in the fiscal first quarter.
 - **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.
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Last Earnings Report

Williams-Sonoma Q1 Earnings Beat on E-commerce Growth

Williams-Sonoma Inc. reported better-than-expected first-quarter fiscal 2020 results. Defying market expectations, the company's comps increased year over year in the quarter, buoyed by accelerated comps growth in the e-commerce business. Notably, Pottery Barn's e-commerce demand gained momentum throughout the quarter.

Earnings & Revenues

Non-GAAP earnings of 74 cents per share surpassed the Zacks Consensus Estimate of 9 cents by 722.2%. The figure, however, declined 8.6% year over year.

Revenues of \$1,235 million beat the consensus mark of \$1,079 million by 14.5% but remained almost flat year over year. The better-than-expected revenues were driven by a significant acceleration in e-commerce revenue growth to more than 30%.

Comps increased 2.6% year over year in the fiscal first quarter compared with 7.6% growth in the preceding quarter and 3.5% in the year-ago quarter. Although comps were lower sequentially and on a year-over-year basis, the fact that the company registered comps growth despite having all of its 616 stores closed for more than half of the quarter is encouraging.

Pottery Barn Kids and Teen's comps rose 8.5% compared with 1.2% growth in the year-ago quarter. Comps in Williams Sonoma increased 5.4% against the 1.6% decline registered in the prior-year quarter. The West Elm brand's comps rose 3.3% versus 11.8% growth in the year-ago quarter. However, comps in the Pottery Barn brand decreased 1.1% against 1.5% growth in the prior-year quarter.

Operating Highlights

Non-GAAP gross margin was 34.5%, down 140 basis points (bps) from first-quarter fiscal 2019. The downside was primarily caused by lower occupancy leverage, higher shipping costs stemming from a greater mix of furniture sales and increased e-commerce sales in the quarter.

Non-GAAP selling, general and administrative expenses accounted for 28.1% of net revenues compared with 28.9% in the year-ago quarter, reflecting an improvement of 80 bps. The upside was driven by advertising leverage owing to gradual shift in advertising spend from catalog to more efficient digital initiatives. The company also generated solid returns from advertising investments due to strength of the multi-channel model. However, non-GAAP operating margin contracted 60 bps to 6.4% in the quarter.

Financials

Williams-Sonoma reported cash and cash equivalents of \$861 million as of May 3, 2020 compared with \$432.2 million on Feb 2, 2020. It further boosted liquidity during the quarter by one-year extension of the \$300-million term loan and a new \$200-million unsecured revolving facility, which has not yet been drawn upon.

During the fiscal first quarter, the company invested \$42 million in the business and returned \$39 million to stockholders through dividend payouts.

Fiscal 2020 Guidance Suspended

Given the unpredictability stemming from the coronavirus outbreak, it decided to temporarily suspend its full-year guidance.

Quarter Ending **04/2020**

Report Date	May 28, 2020
Sales Surprise	14.47%
EPS Surprise	722.22%
Quarterly EPS	0.74
Annual EPS (TTM)	4.76

Valuation

Williams-Sonoma's shares are up 17.3% in the year-to-date period and 40.1% over the trailing 12-month period. Stocks in the Zacks sub-industry are down 3.8% but the Zacks Retail-Wholesale sector is up 12.2% in the year-to-date period. Over the past year, the Zacks sub-industry and sector is up 16.1% and 18.5%, respectively.

The S&P 500 index is down 3.4% in the year-to-date period but up 5.4% in the past year.

The stock is currently trading at 18.52X forward 12-month earnings, which compares to 23.66X for the Zacks sub-industry, 33.05X for the Zacks sector and 22.4X for the S&P 500 index.

Over the past five years, the stock has traded as high as 24.36X and as low as 6.14X, with a 5-year median of 13.89X. Our Outperform recommendation indicates that the stock will perform better than the market. Our \$100 price target reflects 21.5X 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	18.52	23.66	33.05	22.4
	5-Year High	24.36	30.05	33.05	22.4
	5-Year Low	6.14	11.83	19.06	15.23
	5-Year Median	13.89	15.26	23.36	17.49
P/S F12M	Current	1.12	0.95	1.13	3.49
	5-Year High	1.56	1.31	1.13	3.49
	5-Year Low	0.39	0.48	0.81	2.53
	5-Year Median	0.86	0.85	0.95	3.02
EV/EBITDA TTM	Current	12.03	10.28	17.81	11.53
	5-Year High	12.49	11.95	17.91	12.85
	5-Year Low	5.31	5.22	11.05	8.25
	5-Year Median	7.35	8.27	12.79	10.82

As of 06/18/2020

Industry Analysis Zacks Industry Rank: Top 2% (4 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
Haverty Furniture Companies, Inc. (HVT)	Outperform	1
The Lovesac Company (LOVE)	Outperform	1
Ethan Allen Interiors Inc. (ETH)	Neutral	3
The Home Depot, Inc. (HD)	Neutral	3
Lowe's Companies, Inc. (LOW)	Neutral	2
RH (RH)	Neutral	1
Tempur Sealy International, Inc. (TPX)	Neutral	2
At Home Group Inc. (HOME)	Underperform	4

Industry Comparison Industry: Retail - Home Furnishings				Industry Peers		
	WSM	X Industry	S&P 500	ETH	RH	TPX
Zacks Recommendation (Long Term)	Outperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	1	-	-	3	1	2
VGM Score	C	-	-	A	D	B
Market Cap	6.70 B	339.44 M	21.93 B	315.56 M	4.90 B	3.78 B
# of Analysts	11	4.5	14	4	11	8
Dividend Yield	2.23%	0.00%	1.93%	6.90%	0.00%	0.00%
Value Score	C	-	-	A	C	B
Cash/Price	0.14	0.15	0.06	0.37	0.00	0.06
EV/EBITDA	11.38	4.57	12.69	7.67	12.65	12.14
PEG Ratio	2.64	1.91	2.97	NA	2.41	1.91
Price/Book (P/B)	5.46	2.81	3.02	0.93	256.37	18.94
Price/Cash Flow (P/CF)	11.87	7.13	11.62	5.28	11.56	11.63
P/E (F1)	19.06	30.06	21.45	324.53	22.20	30.18
Price/Sales (P/S)	1.14	0.46	2.33	0.46	1.94	1.17
Earnings Yield	5.25%	1.82%	4.37%	0.33%	4.50%	3.32%
Debt/Equity	1.16	1.16	0.77	0.63	73.90	10.21
Cash Flow (\$/share)	7.26	1.98	7.01	2.30	22.00	6.30
Growth Score	D	-	-	B	F	B
Hist. EPS Growth (3-5 yrs)	9.68%	1.34%	10.87%	-4.63%	55.02%	1.34%
Proj. EPS Growth (F1/F0)	-6.56%	-25.25%	-10.65%	-97.60%	-1.78%	-39.43%
Curr. Cash Flow Growth	6.05%	6.05%	5.46%	7.23%	-8.66%	22.94%
Hist. Cash Flow Growth (3-5 yrs)	4.89%	4.89%	8.55%	0.23%	24.44%	5.02%
Current Ratio	1.28	1.31	1.29	1.96	0.65	1.39
Debt/Capital	53.62%	62.58%	45.14%	38.52%	98.67%	91.08%
Net Margin	5.75%	2.53%	10.53%	2.59%	7.17%	6.82%
Return on Equity	31.92%	3.81%	16.06%	8.17%	-507.50%	87.42%
Sales/Assets	1.45	1.24	0.55	1.10	1.05	1.03
Proj. Sales Growth (F1/F0)	0.28%	-1.01%	-2.61%	-20.25%	-2.02%	-9.16%
Momentum Score	B	-	-	B	B	B
Daily Price Chg	-0.60%	-1.47%	-0.07%	0.08%	0.97%	-2.45%
1 Week Price Chg	-6.23%	-4.07%	-7.25%	-10.14%	-4.22%	-8.81%
4 Week Price Chg	29.47%	31.40%	6.92%	6.85%	34.50%	24.17%
12 Week Price Chg	96.11%	74.27%	16.91%	0.41%	135.12%	52.42%
52 Week Price Chg	40.08%	-9.35%	-5.63%	-40.37%	120.46%	-0.23%
20 Day Average Volume	1,897,300	585,746	2,574,456	304,786	1,496,932	903,498
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	3.46%
(F1) EPS Est 4 week change	39.63%	23.67%	0.00%	0.00%	50.86%	25.76%
(F1) EPS Est 12 week change	32.38%	-32.82%	-14.21%	-96.88%	-13.06%	-56.07%
(Q1) EPS Est Mthly Chg	147.59%	24.03%	0.00%	0.00%	137.85%	34.97%

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	C
Growth Score	D
Momentum Score	B
VGM Score	C

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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