

Williams-Sonoma, Inc.(WSM)

\$73.35 (As of 01/27/20)

Price Target (6-12 Months): **\$77.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 05/09/19)

Prior Recommendation: Outperform

Short Term: 1-3 Months

Zacks Rank: (1-5)

2-Buy

Zacks Style Scores:

VGM:A

Value: B

Growth: B

Momentum: B

Summary

Shares of Williams-Sonoma have outperformed its industry over the past year. The outperformance can be primarily attributed to e-commerce channel, innovative efforts, investment in merchandising of brands and digital marketing. The price performance is mainly backed by solid earnings surprise history. Its earnings beat the analysts' expectation in all of the trailing four quarters. The company's multi-channel shopping platform and continued enhancement of the e-commerce channel also bodes well. Notably, the company's upbeat outlook for the current year is encouraging. However, higher shipping costs and a competitive retail environment mar the company's future prospects. Also, weak comps at the namesake brand are a concern.

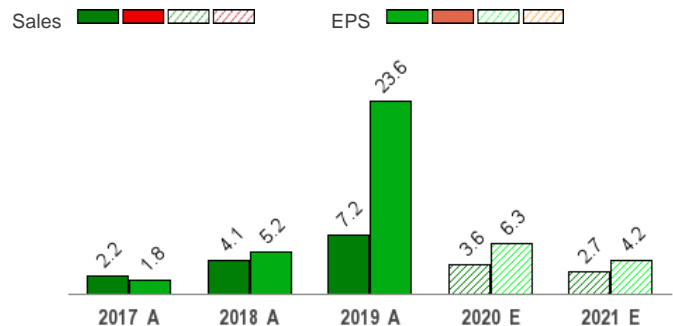
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$77.00 - \$50.14
20 Day Average Volume (sh)	703,286
Market Cap	\$5.7 B
YTD Price Change	-0.1%
Beta	0.87
Dividend / Div Yld	\$1.92 / 2.6%
Industry	Retail - Home Furnishings
Zacks Industry Rank	Top 31% (78 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.0%
Last Sales Surprise	2.1%
EPS F1 Est- 4 week change	0.1%
Expected Report Date	03/18/2020
Earnings ESP	1.1%
P/E TTM	15.3
P/E F1	15.5
PEG F1	2.1
P/S TTM	1.0

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	1,263 E	1,392 E	1,467 E	1,916 E	6,035 E
2020	1,241 A	1,371 A	1,442 A	1,825 E	5,877 E
2019	1,203 A	1,275 A	1,357 A	1,836 A	5,672 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.82 E	\$0.92 E	\$1.09 E	\$2.17 E	\$4.94 E
2020	\$0.81 A	\$0.87 A	\$1.02 A	\$2.06 E	\$4.74 E
2019	\$0.67 A	\$0.77 A	\$0.95 A	\$2.10 A	\$4.46 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 01/27/2020. The reports text is as of 01/28/2020.

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.

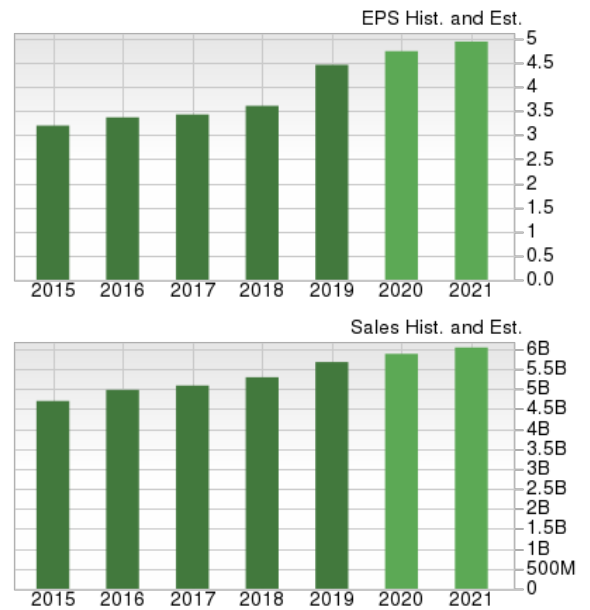
Pottery Barn (accounting for 38.6% of third-quarter fiscal 2019 total revenues) is the largest brand of the company and offers premium quality furniture, lighting, tabletop, outdoor and decorative accessories.

West Elm (27.1%) produces personalized products designed by the company's team of artists and designers.

Williams-Sonoma (14.2%) offers cookware, tools, cutlery, electrics, tabletop and bar, outdoor, furniture and cookbooks.

Pottery Barn Kids and Teen (15.8%) 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 (4.3%) 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. Notably, shares of Williams-Sonoma have gained 39.2% in the past year compared with its industry's 22.7% rally. The price performance was backed by a solid earnings surprise history, having surpassed the consensus estimate in all the trailing seven quarters.

Its innovative efforts have helped to drive e-commerce growth to an all-time high contribution of 57% to total revenues in third-quarter fiscal 2019 results. The company's investment in merchandising of its brands, efficient catalog circulations and digital marketing boosts revenues from the e-commerce channel. With more than 54% of the company's business (as of fiscal 2018) conducted online, Williams-Sonoma is among the top 25 internet retailers in North America.

Backed by strong growth trend in the first nine months of fiscal 2019, the company lifted the lower end of its earnings, revenues and comps guidance for the current fiscal year during the third quarter conference call, even after factoring in the new tariffs. 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 industry average ROIC of 18.6% in fiscal 2018, an increase of 270 basis points (bps) compared with fiscal 2017.

▲ **West Elm & Emerging Businesses Continue to Shine:** West Elm continued its accelerated growth trajectory in fiscal 2018. This is evident from its ninth consecutive year of double-digit growth and another year of strong comps growth of 9.5% in fiscal 2018. This positive trend continued in the first half of fiscal 2019, as is evident from the company's double-digit revenue improvement (up 15.7%) and strong comps growth of 14.5% (versus 8.9% a year ago). 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. New stores in Rejuvenation are also performing pretty well.

▲ **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. Its 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 2019 and beyond. Markedly, the company plans to launch the Room Planner in Pottery Barn children's businesses to redefine customers' shopping experience with these 3D-Powered tools.

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 quarter. 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.

▲ **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. Its 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 2019 and beyond. During fiscal third quarter, 800,000 members were added to cross-brand loyalty program, The Key, bringing total membership to 7.2 million. Ongoing rise of members is an important contributor to growth. On an average, key members currently spend three times more than non-key members, with two times higher purchase frequency. Key members are three times more likely to shop across multiple brands. This also provides a significant boost to sales, as key members typically spend more than five times the value of their rewards.

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Its newest division, Williams-Sonoma Inc. Business-to-Business, made significant progress during the third quarter. The fiscal third quarter also marked the successful relaunch of its business-to-business membership program, which now encompasses seven membership types, providing a much broader platform to attract and acquire new customers. 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.

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

Reasons To Sell:

▼ **Soft Comps at Williams Sonoma Brand & Margin Pressure:** In spite of better-than-expected overall results in the respective fiscal first, second and third quarter, 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 dipped 1.6% in the first nine months of fiscal 2019 against 3.1% 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.

▼ **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.

Higher shipping costs and a competitive retail environment mar the company's prospects.

Last Earnings Report

Williams-Sonoma Beats on Q3 Earnings & Revenue Estimates

Williams-Sonoma Inc. reported third-quarter fiscal 2019 results, wherein both the top and bottom line beat the Zacks Consensus Estimate and improved year over year. The company raised guidance for fiscal 2019 earnings and revenues on strong business trend. However, decline in comps at the namesake brand and lower gross margin might have hurt investors' sentiments.

Nonetheless, West Elm — its biggest growth catalyst — continues to renew strength in Pottery Barn brands. Also, cross-brand initiatives such as The Key and Business-to-Business are expected to become important growth opportunities. Notably, during the third quarter, strong contributions from The Key made a positive impact on the quarterly results.

Non-GAAP earnings of \$1.02 per share surpassed the Zacks Consensus Estimate of \$1 by 2%. The figure also increased 7.4% year over year.

Moreover, revenues of \$1,442.5 million beat the consensus mark of \$1,413 million by 2.1% and grew 6.3% year over year.

Comps increased 5.5% in the fiscal third quarter compared with 6.5% growth in the preceding quarter and 3.1% in the year-ago quarter.

The West Elm brand's comps grew 14.1% compared with 8.3% growth in the prior-year quarter. Pottery Barn's comps rose 3.4% compared with 1.4% in the year-ago quarter. Comps in Pottery Barn Kids and Teen increased 4%, versus flat growth registered in the prior-year quarter. Notably, emerging brands — Rejuvenation as well as Mark and Graham — registered double-digit increases. However, the Williams Sonoma brand's comps declined 2.1% in the quarter against 2.1% growth registered in the year-ago quarter.

Operating Highlights

Non-GAAP gross margin was 36%, down 50 basis points (bps) from third-quarter fiscal 2018. The downside was primarily caused by higher shipping costs, driven by a greater mix of furniture sales and impact of the implementation of China tariffs. This was partly offset by benefits from strong occupancy leverage.

Non-GAAP selling, general and administrative expenses accounted for 28.4% of net revenues compared with 28.9% in the year-ago quarter, reflecting a decrease of 50 bps. This improvement was driven by leverage across employment and advertising from higher sales as well as consistent cost-saving initiatives. Non-GAAP operating margin remains flat year over year at 7.6% in the quarter.

Financials

Williams-Sonoma reported cash and cash equivalents of \$155 million as of Nov 3, 2019 compared with \$339 million on Feb 3, 2019.

During the first nine months of fiscal 2019, the company invested \$121 million in the business and returned \$226 million to its stockholders through dividends payouts as well as share repurchases. Notably, the company paid out \$113 million worth of dividends and repurchased about \$113 million shares.

Fiscal 2019 Guidance

Considering solid results in the first nine months of fiscal 2019, the company now expects non-GAAP earnings per share in the band of \$4.65-\$4.80, up from prior expectation of \$4.60-\$4.80.

Net revenues are projected in the range of \$5.770-\$5.900 billion compared with \$5.740-\$5.900 billion expected earlier. Comps are likely to increase 3.5-6% year over year compared with prior expectation of 3-6%. Non-GAAP operating margin is still expected to be in line with the fiscal 2018 level.

The company expects to close 25 stores and bring the total store count to 601 by the end of the year.

Long-Term View Reaffirmed

Total net revenues are expected to grow in mid-to-high single digits. Non-GAAP operating income is likely to be in line with revenue growth and provide stability to operating margin. The company expects above-industry average ROIC in the long term.

Quarter Ending **10/2019**

Report Date	Nov 21, 2019
Sales Surprise	2.09%
EPS Surprise	2.00%
Quarterly EPS	1.02
Annual EPS (TTM)	4.80

Valuation

Williams-Sonoma's shares are up 39.2% in the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 22.7% and 14.9%, respectively.

The S&P 500 index is up 21.9% in the past year.

The stock is currently trading at 14.85x forward 12-month price to earnings, which compares to 12.36x for the Zacks sub-industry, 24.71x for the Zacks sector and 18.62x for the S&P 500 index.

Over the past five years, the stock has traded as high as 25.14x and as low as 10.24x, with a 5-year median of 13.98x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$77 price target reflects 15.59x 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 F 12M	Current	14.85	12.36	24.71	18.62
	5-Year High	25.14	21.87	26.23	19.34
	5-Year Low	10.24	12.36	19.07	15.18
	5-Year Median	13.98	15.69	22.95	17.45
P/S F12M	Current	0.94	0.86	1.05	3.46
	5-Year High	1.57	1.34	1.11	3.46
	5-Year Low	0.64	0.71	0.8	2.54
	5-Year Median	0.87	0.85	0.91	3
EV/EBITDA TTM	Current	10.87	10.87	15.33	12.25
	5-Year High	12.33	12.04	15.39	12.86
	5-Year Low	5.83	5.61	10.37	8.48
	5-Year Median	7.38	8.47	12.38	10.68

As of 01/27/2020

Industry Analysis Zacks Industry Rank: Top 31% (78 out of 255)



Top Peers

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

Industry Comparison Industry: Retail - Home Furnishings				Industry Peers		
	WSM Neutral	X Industry	S&P 500	ETH Neutral	RH Outperform	TPX Outperform
VGM Score	A	-	-	A	B	A
Market Cap	5.68 B	397.01 M	23.86 B	465.32 M	4.06 B	4.79 B
# of Analysts	11	4	13	3	8	8
Dividend Yield	2.62%	0.00%	1.81%	4.80%	0.00%	0.00%
Value Score	B	-	-	B	C	B
Cash/Price	0.03	0.10	0.04	0.10	0.01	0.01
EV/EBITDA	11.75	10.05	13.94	10.05	13.64	17.30
PEG Ratio	2.14	0.88	2.00	NA	1.04	0.61
Price/Book (P/B)	5.06	1.48	3.25	1.26	NA	14.41
Price/Cash Flow (P/CF)	11.09	7.59	13.46	7.59	12.20	17.39
P/E (F1)	15.47	15.68	18.67	12.99	18.51	15.90
Price/Sales (P/S)	0.96	0.63	2.62	0.63	1.53	1.64
Earnings Yield	6.46%	6.23%	5.35%	7.71%	5.40%	6.28%
Debt/Equity	1.26	0.32	0.72	0.32	-23.61	5.04
Cash Flow (\$/share)	6.61	2.04	6.92	2.30	17.53	5.09
Growth Score	B	-	-	A	B	B
Hist. EPS Growth (3-5 yrs)	8.68%	0.69%	10.68%	-2.18%	41.69%	0.45%
Proj. EPS Growth (F1/F0)	6.38%	-2.79%	7.51%	-13.67%	35.35%	45.95%
Curr. Cash Flow Growth	13.12%	6.33%	13.40%	7.23%	66.37%	2.14%
Hist. Cash Flow Growth (3-5 yrs)	5.62%	2.48%	8.78%	0.23%	61.75%	2.48%
Current Ratio	1.29	1.13	1.22	1.46	0.62	1.13
Debt/Capital	55.77%	60.18%	42.92%	24.35%	NA	83.44%
Net Margin	5.86%	3.16%	11.39%	4.23%	7.09%	5.35%
Return on Equity	33.81%	6.79%	17.19%	11.39%	-201.81%	70.52%
Sales/Assets	1.63	1.31	0.54	1.31	1.17	0.98
Proj. Sales Growth (F1/F0)	3.62%	3.62%	4.09%	-5.76%	7.21%	16.05%
Momentum Score	B	-	-	C	F	C
Daily Price Chg	-2.19%	-1.35%	-1.40%	-1.35%	-3.25%	1.36%
1 Week Price Chg	-2.09%	-0.62%	-1.09%	-1.11%	-0.58%	-0.66%
4 Week Price Chg	-0.12%	0.30%	-0.25%	-8.81%	0.93%	2.07%
12 Week Price Chg	8.70%	-11.17%	3.64%	-11.17%	23.45%	2.41%
52 Week Price Chg	39.18%	-26.74%	18.08%	-6.67%	61.32%	72.59%
20 Day Average Volume	703,286	335,335	1,615,215	251,437	1,063,964	537,946
(F1) EPS Est 1 week change	0.08%	0.00%	0.00%	0.00%	0.00%	0.02%
(F1) EPS Est 4 week change	0.08%	0.00%	0.00%	-11.21%	0.00%	0.20%
(F1) EPS Est 12 week change	0.43%	-9.49%	-0.17%	-14.77%	5.71%	3.58%
(Q1) EPS Est Mthly Chg	0.18%	0.00%	0.00%	-3.26%	0.00%	0.00%

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	B
Growth Score	B
Momentum Score	B
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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