

Sonos, Inc.

F1Q recap: Raising PO as SONO reports a strong holiday quarter

Reiterate Rating: NEUTRAL | PO: 18.60 USD | Price: 16.46 USD

Strong EPS beat and continued market share gains

Sonos reported F1Q results of -8.9% revenue YoY (-10.5% YoY ex. FX) vs. our -11.5% estimate and -12.7% consensus. Sonos called out gains in both dollar and unit market share in the US home theater category. Gross margin expansion of 374bp was above our estimate of 126bp and consensus of 218bp, partially driven by FX tailwinds of 100bp and offset by the impact of additional promotional activity. EPS of \$0.84 was above our estimate of \$0.56 and consensus of \$0.58. Per our latest [Monthly hardline retail spending snapshot published 11 January 2024](#), for December 2023, spending at consumer electronics (CE) & hobby retailers experienced a sharp sequential decline and was down (11.0)% YoY vs. (4.4)% YoY in November 2023. Although SONO's F1Q results were better-than-expected, we're concerned that CE industry demand remains soft.

Guidance maintained due to pulled forward demand

Sonos maintained its FY24 guidance and still expects revenue growth -3 to +3%, 45.4-46.4% adj. gross margin, and \$150-180mn adj. EBITDA. Sonos maintained guidance despite the earnings beat as it believes that an extended promotion period has pulled forward some demand from F2Q. The guidance continues to assume a 2H24 product launch in a new multi-billion-dollar category that will help generate over \$100mn from new products in 2024. This is the beginning of a multi-year product cycle where Sonos expects to see payoffs from its R&D investments. FY24 gross margin is expected to be driven by lower component costs, favorable product mix, fewer spot component purchases, and lower excess component provisions.

Still cautious on near-term industry demand

Reflecting the earnings beat, we are raising our 2024/2025/2026 EPS by 19/7/6% respectively and raising our PO from \$12.5 to \$18.6 now based on 19x F25E EV/EBITDA including stock-based compensation (17x F24E prior) in line with the peer set (AAPL 21x, LOGI 18x, GRMN 16x). Given continued softness in consumer electronics spending, the long replacement cycle of home audio products, weak housing turnover, and Sonos' increased promotions, we remain cautious. We expect it could still take several quarters for home audio sales to rebound. We reiterate our Neutral rating as we continue to see balanced risk/reward and believe in Sonos' long-term potential as a leading innovator in wireless audio.

Estimates (Sep) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	1.24	0.93	0.91	0.98	1.16
GAAP EPS	0.50	(0.08)	0.29	0.32	0.44
EPS Change (YoY)	-32.2%	-25.0%	-2.2%	7.7%	18.4%
Consensus EPS (Bloomberg)			0.74	0.88	NA
DPS	0	0	0	0	0
Valuation (Sep)					
P/E	13.3x	17.7x	18.1x	16.8x	14.2x
GAAP P/E	32.9x	NM	56.8x	51.4x	37.4x
EV / EBITDA*	12.8x	25.1x	22.5x	17.8x	14.5x
Free Cash Flow Yield*	-3.6%	2.5%	6.7%	6.1%	7.5%

* For full definitions of *IQmethod*SM measures, see page 4.

06 February 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	12.50	18.60
2024E Rev (m)	1,653.0	1,652.4
2025E Rev (m)	1,786.9	1,786.2
2026E Rev (m)	NA	1,930.9
2024E EPS	0.77	0.91
2025E EPS	0.92	0.98
2026E EPS	NA	1.16

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Stock Data

Price	16.46 USD
Price Objective	18.60 USD
Date Established	6-Feb-2024
Investment Opinion	C-2-9
52-Week Range	9.78 USD - 21.98 USD
Mrkt Val (mn) / Shares Out (mn)	2,044 USD / 124.2
Free Float	98.0%
Average Daily Value (mn)	25.87 USD
BofA Ticker / Exchange	SONO / NAS
Bloomberg / Reuters	SONO US / SONO.OQ
ROE (2024E)	22.2%
Net Dbt to Eqty (Sep-2023A)	-42.5%
ESGMeter TM	Medium

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to "BofA ESGMeter Methodology".

GRMN- Garmin

AAPL- Apple

LOGI : Logitech

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iQprofileSM Sonos, Inc.

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	26.0%	16.6%	16.4%	17.8%	18.1%
Return on Equity	29.4%	22.5%	22.2%	21.7%	21.4%
Operating Margin	10.7%	6.7%	6.8%	7.6%	8.4%
Free Cash Flow	(74)	50	136	126	153

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	-0.2x	0.8x	1.6x	1.4x	1.4x
Asset Replacement Ratio	1.2x	1.0x	0.9x	0.9x	0.8x
Tax Rate	0.8%	10.8%	10.1%	10.0%	10.0%
Net Debt-to-Equity Ratio	-49.0%	-42.5%	-45.1%	-53.9%	-61.9%
Interest Cover	NM	NM	NM	NA	NA

Income Statement Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	1,752	1,655	1,652	1,786	1,931
% Change	2.1%	-5.5%	-0.2%	8.1%	8.1%
Gross Profit	798	723	758	823	894
% Change	-1.6%	-9.4%	4.9%	8.6%	8.6%
EBITDA	151	77	86	109	133
% Change	-30.3%	-49.0%	11.8%	26.6%	22.3%
Net Interest & Other Income	(21)	25	16	4	4
Net Income (Adjusted)	166	121	116	126	150
% Change	-33.2%	-26.8%	-4.3%	8.8%	18.9%

Free Cash Flow Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	166	121	116	126	150
Depreciation & Amortization	39	49	54	58	63
Change in Working Capital	225	71	(16)	4	4
Deferred Taxation Charge	2	1	0	0	0
Other Adjustments, Net	(459)	(142)	32	(13)	(14)
Capital Expenditure	(46)	(50)	(50)	(50)	(50)
Free Cash Flow	-74	50	136	126	153
% Change	NM	NM	172.0%	-7.9%	22.2%
Share / Issue Repurchase	(190)	(130)	(68)	(60)	(60)
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	0	0	0	0

Balance Sheet Data (Sep)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	275	220	238	343	476
Trade Receivables	101	68	67	73	79
Other Current Assets	491	372	369	397	428
Property, Plant & Equipment	86	87	83	75	62
Other Non-Current Assets	235	256	256	256	256
Total Assets	1,188	1,002	1,012	1,144	1,301
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	536	354	356	378	401
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	92	129	129	129	129
Total Liabilities	628	484	485	507	531
Total Equity	561	519	527	636	770
Total Equity & Liabilities	1,188	1,002	1,012	1,144	1,301

* For full definitions of iQmethodSM measures, see page 4.

Company Sector

Electronics

Company Description

As the inventor of multi-room wireless audio products, Sonos offers smart speakers for use inside and outside of the home that are easy to set up, provide a premium sound experience and can stream content from more than 130 providers including Pandora, Apple Music and Spotify, among others. In F2022, it generated 60% of its \$1.75bn in revenues from the Americas, 33% from EMEA, and 7% from Asia-Pacific.

Investment Rationale

We rate Sonos at a Neutral. Although Sonos is leading innovator in wireless audio with long-term growth potential from existing households, new households, and new products/services, we are concerned that prolonged industry softness will weigh on demand.

Stock Data

Average Daily Volume 1,571,433

Quarterly Earnings Estimates

	2023	2024
Q1	0.79A	0.84A
Q2	0.04A	-0.35E
Q3	0.16A	0.25E
Q4	-0.07A	0.18E

Price objective basis & risk

Sonos, Inc. (SONO)

Our \$18.6 price objective is based on 19x F25E EV/EBITDA multiple (including stock-based compensation). This multiple is in-line with comparable consumer device stocks.

Risks are (1) the broader economy, including trends in consumer discretionary spending, (2) competitive activity in the retail audio market, (3) risk that ongoing litigation against Google has an unfavorable outcome, (4) US-China trade relations as the company manufactures a sizeable portion of its products in China, (5) Sonos' ability to develop new and differentiated products, (6) promotions and markdowns pressuring margins, (7) Sonos' success in protecting its competitive position through a combination of patents, trademarks, and other forms of intellectual property rights. Should the economy or consumer demand for Sonos' products prove better-than-expected, the stock could exceed our price objective. Fundamentals could also wind up worse than expected, causing downside to the shares relative to our price objective.

Analyst Certification

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US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Arhaus, Inc	ARHS	ARHS US	Jason Haas, CFA
	Boot Barn	BOOT	BOOT US	Jason Haas, CFA
	Driven Brands	DRVN	DRVN US	Jason Haas, CFA
	Five Below Inc.	FIVE	FIVE US	Jason Haas, CFA
	Floor and Decor Holdings, Inc.	FND	FND US	Robert F. Ohmes, CFA
	Genuine Parts	GPC	GPC US	Jason Haas, CFA
	Lowe's Companies, Inc.	LOW	LOW US	Elizabeth L Suzuki
	Mattel	MAT	MAT US	Jason Haas, CFA
	Mister Car Wash	MCW	MCW US	Jason Haas, CFA
	Ollie's	OLLI	OLLI US	Jason Haas, CFA
	O'Reilly Automotive, Inc.	ORLY	ORLY US	Jason Haas, CFA
	Petco	WOOF	WOOF US	Jason Haas, CFA
	PROG Holdings Inc	PRG	PRG US	Jason Haas, CFA
	Rollins Inc.	ROL	ROL US	Jason Haas, CFA
	Tempur Sealy International Inc.	TPX	TPX US	Jason Haas, CFA
	The Home Depot, Inc.	HD	HD US	Elizabeth L Suzuki
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO US	Jason Haas, CFA
	Hasbro	HAS	HAS US	Jason Haas, CFA
	Sonos, Inc.	SONO	SONO US	Jason Haas, CFA
	Williams-Sonoma	WSM	WSM US	Jason Haas, CFA
UNDERPERFORM				
	Advance Auto Parts, Inc.	AAP	AAP US	Jason Haas, CFA
	Best Buy Co., Inc.	BBY	BBY US	Robert F. Ohmes, CFA
	Snap-on	SNA	SNA US	Elizabeth L Suzuki
	Tractor Supply Company	TSCO	TSCO US	Jason Haas, CFA



US - Retail Hardline Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Whirlpool	WHR	WHR US	Jason Haas, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

Quality of Earnings

Cash Realization Ratio
Asset Replacement Ratio
Tax Rate
Net Debt-To-Equity Ratio
Interest Cover

Valuation Toolkit

Price / Earnings Ratio
Price / Book Value
Dividend Yield
Free Cash Flow Yield
Enterprise Value / Sales

EV / EBITDA

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income
Operating Profit
Expected 5 Year CAGR From Latest Actual
Cash Flow From Operations – Total Capex

Numerator

Cash Flow From Operations
Capex
Tax Charge
Net Debt = Total Debt – Cash & Equivalents
EBIT

Numerator

Current Share Price
Current Share Price
Annualised Declared Cash Dividend
Cash Flow From Operations – Total Capex
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +
Other LT Liabilities
Enterprise Value

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill
Amortization
Shareholders' Equity
Sales
N/A
N/A

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Denominator

Diluted Earnings Per Share (Basis As Specified)
Shareholders' Equity / Current Basic Shares
Current Share Price
Market Cap = Current Share Price × Current Basic Shares
Sales

Basic EBIT + Depreciation + Amortization

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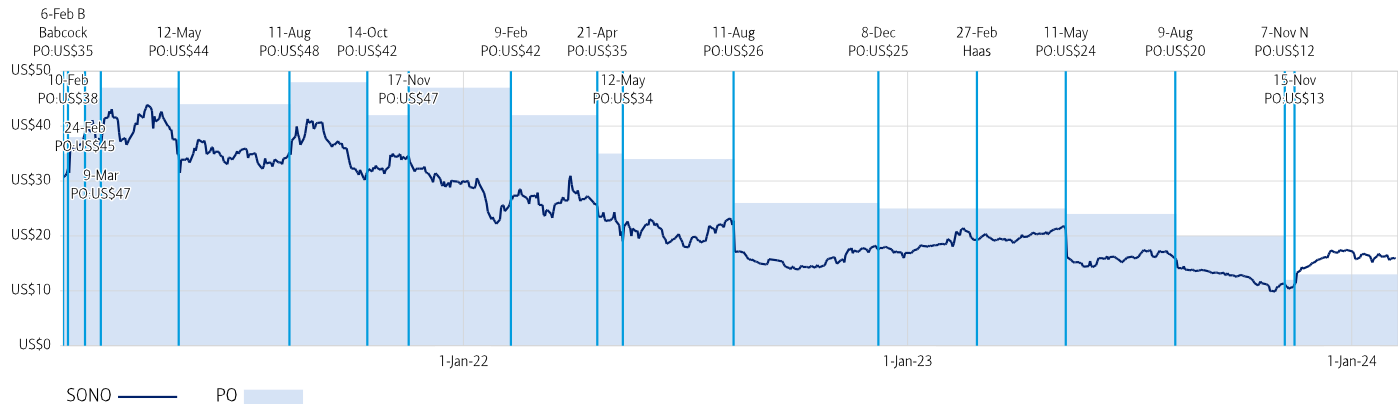
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Important Disclosures

Sonos (SONO) Price Chart



SONO — PO ■■■■
B: Buy, N: Neutral, U: Underperform, PO: Price Objective, NA: No longer valid, NR: No Rating

The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Electronics Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	32	54.24%	Buy	13	40.63%
Hold	11	18.64%	Hold	3	27.27%
Sell	16	27.12%	Sell	4	25.00%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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