

Williams-Sonoma

WSM card data shows sequential improvement in 4Q

Reiterate Rating: NEUTRAL | PO: 250.00 USD | Price: 236.64 USD

WSM observed sales sequentially improve in 4Q

Bloomberg Second Measure credit and debit card data shows observed sales for WSM (88% correlated with WSM reported brand revenue comps) improved in 4Q, in-line with our expectation for a sequential comp improvement (see Exhibit 1). Our model assumes a comparable sales decline of (7.8)% in 4Q vs. (14.6)% reported in 3Q. The improvement in observed sales in 4Q reflected higher y/y transactions partially offset by declines in avg. transaction value as high-ticket discretionary spending remains weak (see Exhibit 2).

Premium home furnishings spending improves in 4Q

On a quarterly basis, 4Q (Nov.-Jan.) spending at premium furnishings retailers (92% correlated with WSM comps) declined (11.7)% y/y, a sequential improvement from (15.6)% y/y in 3Q (Aug.-Oct.), per BAC aggregated debit and credit card data (see Exhibit 4). Web traffic for West Elm, which WSM called out as the brand most impacted by customer pullback in furniture, continued to see y/y sequential improvement from August low (see Exhibit 5). See our economists' latest [BofA on USA](#) report for an explanation of the methodology, disclaimers and limitations related to BAC card data.

We remain cautious on near-term demand trends

We reiterate our Neutral rating given our cautious outlook for demand. Although sales continue to revert closer to 2019 levels, we do not expect a full margin reversion given: (1) WSM's more disciplined pricing strategy, (2) a more flexible cost structure given a larger e-commerce penetration, and (3) some competitors' increased focus on profitability. We still expect a challenging industry backdrop over the next several quarters given pulled-forward demand during the pandemic, but we are increasingly optimistic for a better housing market. Given higher peer multiples, we raise our PO to \$250 (was \$222), based on 16-17x (was 16x) our 2025E (was 2024E) EPS.

Estimates (Jan) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	14.85	16.54	14.47	14.33	15.00
GAAP EPS	14.75	16.32	14.18	14.33	15.00
EPS Change (YoY)	64.3%	11.4%	-12.5%	-1.0%	4.7%
Consensus EPS (Bloomberg)			14.54	14.96	15.29
DPS	2.60	3.12	3.28	3.44	3.61
Valuation (Jan)					
P/E	15.9x	14.3x	16.4x	16.5x	15.8x
GAAP P/E	16.0x	14.5x	16.7x	16.5x	15.8x
Dividend Yield	1.1%	1.3%	1.4%	1.5%	1.5%
EV / EBITDA*	9.5x	9.1x	10.9x	11.5x	11.5x
Free Cash Flow Yield*	7.5%	4.6%	6.6%	6.1%	6.0%

* For full definitions of *IQmethod*SM measures, see page 6.

04 March 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	222.00	250.00

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Stock Data

Price	236.64 USD
Price Objective	250.00 USD
Date Established	4-Mar-2024
Investment Opinion	C-2-7
52-Week Range	109.44 USD - 237.46 USD
Mrkt Val (mn) / Shares Out (mn)	15,179 USD / 64.1
Free Float	98.9%
Average Daily Value (mn)	220.87 USD
BofA Ticker / Exchange	WSM / NYS
Bloomberg / Reuters	WSM US / WSM.N
ROE (2024E)	50.1%
Net Dbt to Eqty (Jan-2023A)	-21.6%
ESGMeter™	High

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"](#).

WSM: Williams-Sonoma

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Timestamp: 04 March 2024 10:20AM EST

iQprofileSM Williams-Sonoma

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	40.1%	38.9%	29.4%	25.4%	23.8%
Return on Equity	68.4%	67.9%	50.1%	40.8%	36.6%
Operating Margin	17.7%	17.5%	16.2%	15.8%	16.0%
Free Cash Flow	1,145	699	1,007	921	912

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	1.2x	0.9x	1.3x	1.3x	1.3x
Asset Replacement Ratio	1.2x	1.7x	1.2x	1.4x	1.4x
Tax Rate	22.3%	24.7%	25.9%	25.0%	25.0%
Net Debt-to-Equity Ratio	-51.1%	-21.6%	-35.6%	-40.5%	-44.0%
Interest Cover	NM	NA	NA	NA	NA

Income Statement Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	8,246	8,675	7,720	7,473	7,434
% Change	21.6%	5.2%	-11.0%	-3.2%	-0.5%
Gross Profit	3,632	3,678	3,272	3,185	3,172
% Change	37.2%	1.3%	-11.1%	-2.6%	-0.4%
EBITDA	1,658	1,731	1,445	1,368	1,372
% Change	44.2%	4.4%	-16.5%	-5.3%	0.3%
Net Interest & Other Income	(2)	2	19	10	10
Net Income (Adjusted)	1,134	1,143	944	895	899
% Change	58.7%	0.8%	-17.4%	-5.1%	0.4%

Free Cash Flow Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,134	1,143	944	895	899
Depreciation & Amortization	196	214	191	184	184
Change in Working Capital	(263)	(610)	37	13	2
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	304	305	61	78	77
Capital Expenditure	(227)	(354)	(225)	(250)	(250)
Free Cash Flow	1,145	699	1,007	921	912
% Change	3.6%	-39.0%	44.2%	-8.6%	-1.0%
Share / Issue Repurchase	(899)	(880)	(425)	(500)	(500)
Cost of Dividends Paid	(188)	(217)	(214)	(215)	(216)
Change in Debt	(301)	0	0	0	0

Balance Sheet Data (Jan)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	850	367	736	942	1,137
Trade Receivables	132	116	103	100	99
Other Current Assets	1,342	1,553	1,393	1,346	1,339
Property, Plant & Equipment	921	1,065	1,100	1,165	1,232
Other Non-Current Assets	1,381	1,562	1,562	1,562	1,562
Total Assets	4,626	4,663	4,894	5,115	5,369
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	1,772	1,636	1,501	1,464	1,458
Long-Term Debt	0	0	0	0	0
Other Non-Current Liabilities	1,190	1,326	1,326	1,326	1,326
Total Liabilities	2,961	2,962	2,826	2,789	2,783
Total Equity	1,664	1,701	2,067	2,326	2,585
Total Equity & Liabilities	4,626	4,663	4,894	5,115	5,369

* For full definitions of iQmethodSM measures, see page 6.

Company Sector

Retailing-Hardlines

Company Description

WSM has four main segments: Pottery Barn, West Elm, Williams Sonoma and Pottery Barn Kids & Teen. The company also has two newer brands, Rejuvenation and Mark and Graham. The company operates over 500 stores primarily in the US and generates over 60% of its revenue from e-commerce.

Investment Rationale

WSM has a number of long-standing competitive advantages including strong e-commerce capabilities, iconic brands and a majority private label offering. However, this is balanced by our concerns that industry demand will remain tepid and WSM will need to reinvest in price to stay competitive.

Stock Data

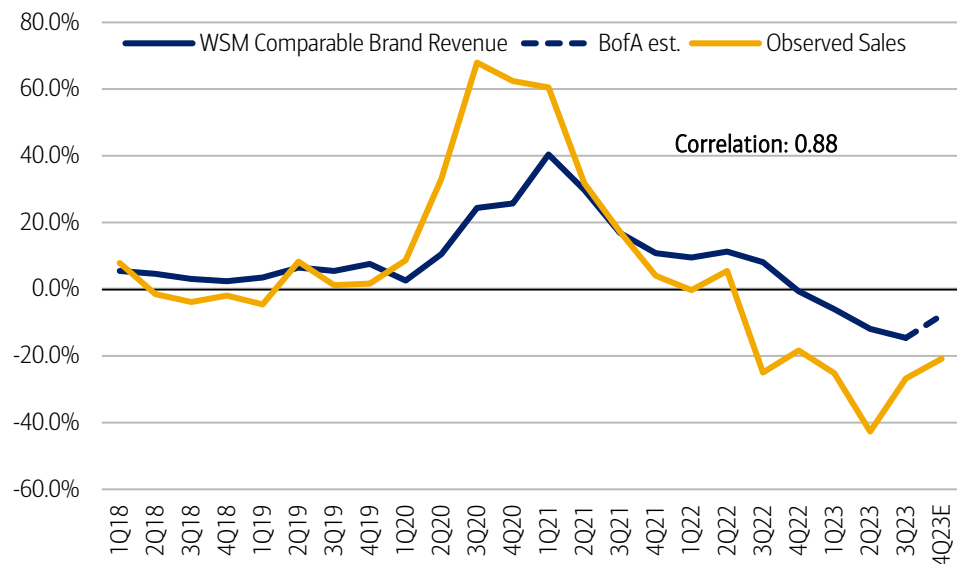
Average Daily Volume 933,360

Quarterly Earnings Estimates

	2023	2024
Q1	3.50A	2.64A
Q2	3.87A	3.12A
Q3	3.72A	3.66A
Q4	5.50A	5.07E

Exhibit 1: WSM observed sales have improved in 4Q, which is in-line with our forecast for an improvement in comps for 4QE

Bloomberg Second Measure credit & debit card data – Observed Sales (vs. WSM reported comps)

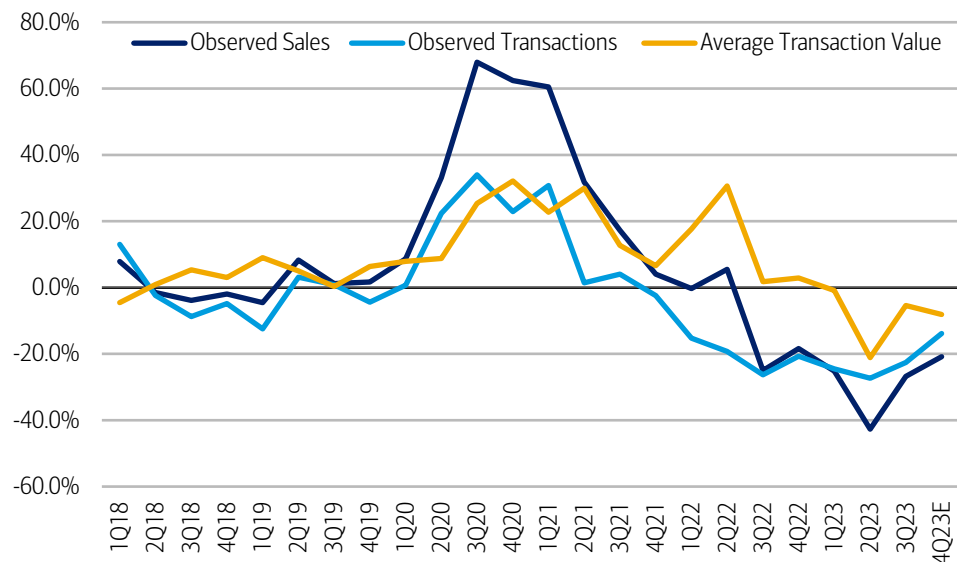


Source: Bloomberg Financial LP – ALTD <GO, BofA Global Research estimates

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Exhibit 2: Observed sales for WSM in 4Q reflected an improvement in observed transactions partially offset by weaker avg. transaction value

Bloomberg Second Measure credit & debit card data – Observed Sales, Observed Transactions & Avg. Transaction Value

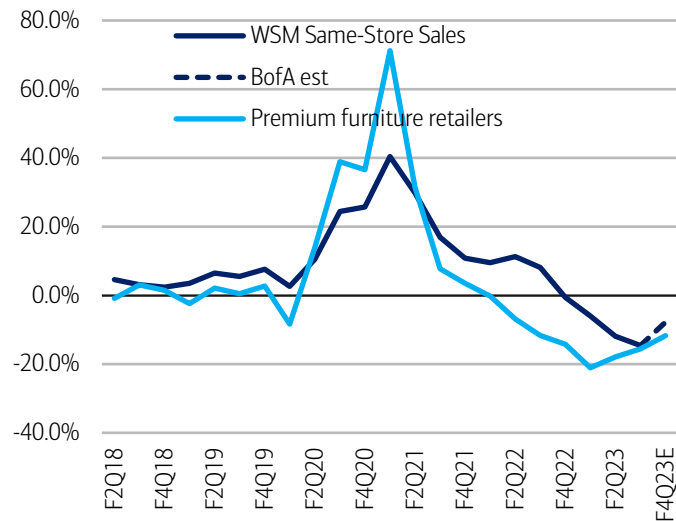


Source: Bloomberg Financial LP – ALTD <GO, BofA Global Research

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Exhibit 3: Premium furniture spending suggests 4Q WSM comp improvement

WSM comps vs. quarterly spending at premium furniture retailers (y/y% change) according to BAC card data



Source: BAC Internal data; Company filings

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Exhibit 4: Premium furnishings spending has improved from March trough of -23%

Monthly spending at premium furniture retailers (y/y % change) according to BAC card data

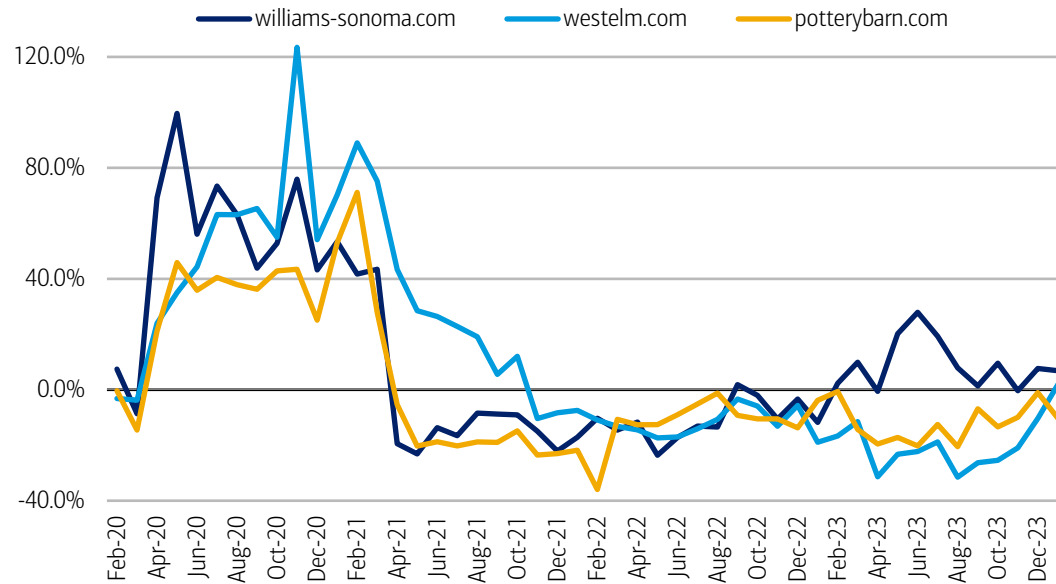


Source: BAC Internal data

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Exhibit 5: West Elm web traffic continues to recover in January

Monthly web traffic at (y/y% change) at Williams-Sonoma, West Elm, and Pottery Barn



Source: SimilarWeb

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Price objective basis & risk

Williams-Sonoma (WSM)

Our PO of \$250 is based on 16-17x our '25E EPS estimate. Our target multiple is roughly in-line with other mature-growth hardline retailers.

Upside risks to our PO are: 1) A stronger-than-expected housing market drives outsized home furnishings spend, 2) WSM's B2B and international growth initiatives provide a greater-than-expected tailwind and 3) The industry holds pricing better-than-expected.

Downside risks are: 1) Industry demand cools, 2) WSM needs to reinvest more in price and promotions, 3) SG&A costs stick even as comps decelerate, and 4) Recapture rates from WSM's store closure plans are worse-than-expected.

Analyst Certification

I, Jason Haas, CFA, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

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	Robert F. Ohmes, 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	Robert F. Ohmes, CFA
	Upbound Group Inc.	UPBD	UPBD US	Jason Haas, CFA
NEUTRAL				
	AutoZone Inc.	AZO	AZO 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
	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

$\text{NOPAT} = (\text{EBIT} + \text{Interest Income}) \times (1 - \text{Tax Rate}) + \text{Goodwill Amortization}$

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

$\text{EV} = \text{Current Share Price} \times \text{Current Shares} + \text{Minority Equity} + \text{Net Debt} +$

Other LT Liabilities

Enterprise Value

Denominator

$\text{Total Assets} - \text{Current Liabilities} + \text{ST Debt} + \text{Accumulated Goodwill}$

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

$\text{Market Cap} = \text{Current Share Price} \times \text{Current Basic Shares}$

Sales

Basic EBIT + Depreciation + Amortization

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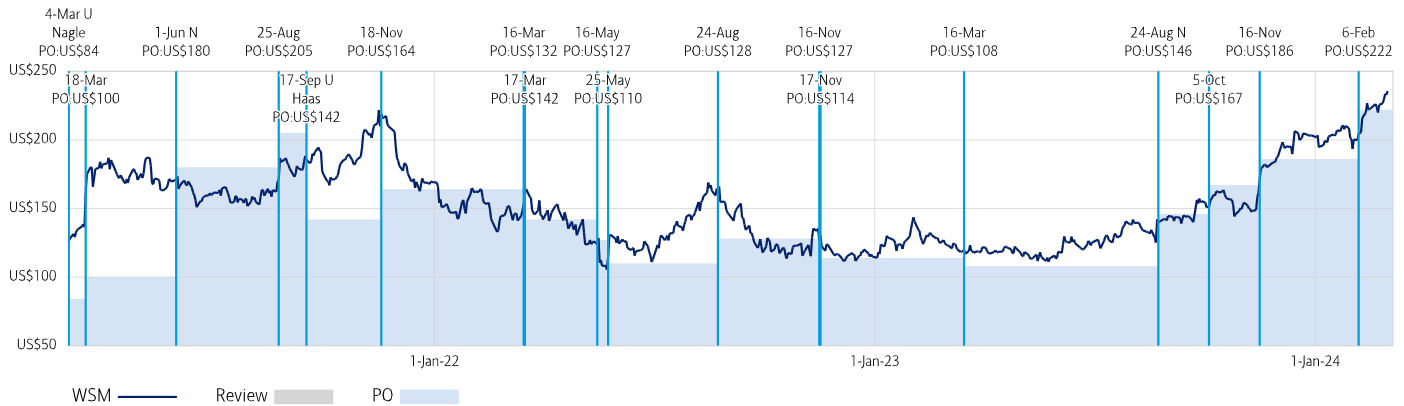
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Williams-Sonoma (WSM) Price Chart



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

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	96	57.83%	Buy	39	40.63%
Hold	32	19.28%	Hold	12	37.50%
Sell	38	22.89%	Sell	18	47.37%

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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Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

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