

Wayfair

Wayfair continues to drive structurally higher margins; Raise ests & PO to \$85

Reiterate Rating: BUY | PO: 85.00 USD | Price: 55.75 USD

Another large expense cut with very high flow through

Today, Wayfair announced plans to reduce headcount by approx. 1,650 employees, representing 13% of total global headcount. Wayfair expects to save more than \$280mn in net annualized costs, including \$150mn from cash compensation mainly in SG&A, as well as \$80mn in SBC and \$50mn in capex. Based on updated expectations for \$600mn+ in '24 EBTIDA (if revenues flat y/y), the \$150mn in cuts imply over 100% flow through and are inclusive of rehiring roles with more cost-appropriate staffing ("modified leveling") as well as a continued focus on thinning management layers.

W continues to see opportunity to rightsize employee base

In a separate note to employees, CEO Niraj Shah indicated the cuts were based on 1) rightsizing the work effort per activity area; 2) getting efficient on layers; 3) eliminating excess upleveling; and 4) rightsizing the amount of partner teams (business, product, design, research, analytics) to engineers. While Wayfair notes continued challenges in the furnishings category potentially limiting revenue growth near term, commentary suggests today's cuts are focused on rightsizing headcount and a high focus on efficiencies/margins to put the company in a strong position for profitable growth.

Now expect \$600mn+ in EBITDA in flat rev. environment

Based on the \$150mn in OPEX savings expected from the reductions, and inclusive of rebuilding roles Wayfair plans to modify in '24, Wayfair now expects to generate \$600mn in '24 EBITDA in a flat rev. environment. This would translate to an approx. 5.0%E margin and is well above previous expectations for \$450mn in EBITDA (3.8% margin). Despite a soft industry environment, we remain confident on the recovery of revenue trends into '25 (boosted by share gains) that should position Wayfair's cost basis for significant leverage over the next several years.

Cost actions well above expectations; PO to \$85; Buy

Shares are up 7% (vs. Nasdaq up 0.6%), with cost actions likely larger than investors expected. This is Wayfair's second major expense reduction (see [January 2023 upgrade note](#)) and signals an even greater than expected focus on cost efficiencies and quicker ramp to mid-single-digits EBITDA in 2024. We raise EBTIDA ests and lower 4Q revenues slightly to flat YoY (see pg. 3). We raise our PO to \$85 based on 0.9x EV/2025 Sales (from \$79 on 0.8x) on higher profitability and cash flow.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	2.11	(7.71)	(1.17)	0.69	3.30
GAAP EPS	(1.24)	(12.56)	(6.44)	(3.88)	(1.30)
EPS Change (YoY)	-59.1%	NM	84.8%	NM	378.3%
Consensus EPS (Bloomberg)			(1.16)	0.15	1.59
DPS	0	0	0	0	0
Valuation (Dec)					
P/E	26.4x	NM	NM	80.8x	16.9x
EV / EBITDA*	14.8x	NM	29.5x	14.8x	10.4x
Free Cash Flow Yield*	4.9%	-13.4%	2.8%	4.6%	9.3%

* For full definitions of *IQmethod*SM measures, see page 5.

19 January 2024

Equity

Key Changes

(US\$)	Previous	Current
Price Obj.	79.00	85.00
2023E Rev (m)	12,034.3	11,991.6
2024E Rev (m)	12,547.0	12,516.9
2023E EPS	-1.13	-1.17
2024E EPS	0.25	0.69
2025E EPS	1.63	3.30

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Stock Data

Price	55.75 USD
Price Objective	85.00 USD
Date Established	19-Jan-2024
Investment Opinion	C-1-9
52-Week Range	29.51 USD - 90.71 USD
Mrkt Val (mn) / Shares Out (mn)	6,356 USD / 114.0
Free Float	94.9%
Average Daily Value (mn)	231.45 USD
BofA Ticker / Exchange	W / NYS
Bloomberg / Reuters	W US / W.N
ROE (2023E)	NA
Net Dbt to Eqty (Dec-2022A)	NA
ESGMeter TM	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"](#).

SBC: Stock-based compensation

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 19 January 2024 11:48AM EST

iQprofileSM Wayfair

iQmethodSM – Bus Performance*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Return on Capital Employed	-3.6%	-64.6%	-51.0%	-30.3%	-7.3%
Return on Equity	NM	NM	NM	NM	NM
Operating Margin	-0.7%	-11.3%	-6.6%	-3.5%	-0.9%
Free Cash Flow	309	(851)	178	292	589

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash Realization Ratio	1.7x	NM	NM	5.6x	1.8x
Asset Replacement Ratio	0.3x	0.5x	0.4x	0.4x	0.4x
Tax Rate	NM	NM	NM	NM	NM
Net Debt-to-Equity Ratio	NM	NM	NM	NM	NM
Interest Cover	-3.0x	NM	-39.9x	-13.3x	-3.8x

Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Sales	13,708	12,218	11,992	12,517	13,762
% Change	-3.1%	-10.9%	-1.9%	4.4%	9.9%
Gross Profit	3,907	3,421	3,692	3,966	4,445
% Change	-5.2%	-12.4%	7.9%	7.4%	12.1%
EBITDA	614	(416)	309	614	874
% Change	-35.1%	NM	NM	98.8%	42.4%
Net Interest & Other Income	(36)	66	74	(33)	(33)
Net Income (Adjusted)	239	(817)	(133)	84	421
% Change	-57.9%	NM	83.7%	NM	401.6%

Free Cash Flow Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Income from Cont Operations (GAAP)	(131)	(1,331)	(729)	(469)	(159)
Depreciation & Amortization	323	371	417	420	420
Change in Working Capital	(150)	(219)	130	(85)	(122)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	369	514	517	606	630
Capital Expenditure	(101)	(186)	(156)	(180)	(180)
Free Cash Flow	309	-851	178	292	589
% Change	-74.9%	NM	NM	64.0%	101.4%
Share / Issue Repurchase	(300)	(75)	0	0	0
Cost of Dividends Paid	0	0	0	0	0
Change in Debt	0	678	678	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Cash & Equivalents	1,706	1,050	1,329	1,465	1,681
Trade Receivables	226	272	143	226	248
Other Current Assets	1,080	611	393	425	437
Property, Plant & Equipment	674	774	701	461	519
Other Non-Current Assets	884	873	825	816	847
Total Assets	4,570	3,580	3,390	3,392	3,732
Short-Term Debt	0	0	0	0	0
Other Current Liabilities	2,217	2,072	2,082	2,112	1,913
Long-Term Debt	3,052	3,137	3,207	3,207	3,207
Other Non-Current Liabilities	920	921	865	865	865
Total Liabilities	6,189	6,130	6,154	6,184	5,985
Total Equity	(1,619)	(2,550)	(2,764)	(2,792)	(2,252)
Total Equity & Liabilities	4,570	3,580	3,390	3,392	3,732

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Internet/e-Commerce

Company Description

Originally founded as CSN stores in 2002, Wayfair is a multi-brand eCommerce company that offers one of the widest selections of furniture, home goods, home decor and housewares online. Wayfair operates five eCommerce brands: Wayfair.com, Perigold, Joss & Main, AllModern, and Birch Lane.

Investment Rationale

Over the long term, Wayfair is positioned to grow as online penetration of the home goods category increases, expanding Wayfair's customer base, as well as the company's unique category selection and distribution network. After two difficult years, we are more positive on Wayfair hitting an inflection for positive EBITDA given improving topline trends and and substantial cost reductions.

Stock Data

Average Daily Volume 4,151,654

Quarterly Earnings Estimates

	2022	2023
Q1	-1.96A	-1.13A
Q2	-1.94A	0.21A
Q3	-2.11A	-0.13A
Q4	-1.69A	-0.13E

Estimate changes

Exhibit 1: Estimate changes

We raise our 2024/25 EBITDA projection to \$614mn/\$874mn from \$500mn/\$691mn

(\$'000 except per share data)	4Q23E			2023E			2024E			2025E		
	New	Old	Change	New	Old	Change	New	Old	Change	New	Old	Change
Total Revenue	3,103	3,145	(43)	11,992	12,034	(43)	12,517	12,547	(30)	13,762	13,762	0
Y/Y	0.1%	1.4%	-1.4%	-1.9%	-1.5%	-0.3%	4.4%	4.3%	0.1%	9.9%	9.7%	0.3%
Q/Q	5.4%	6.8%	-1.5%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	9.9%	9.7%	0.3%
Cost of revenue	2,141	2,170	(29)	8,300	8,329	(29)	8,551	8,570	(18)	9,317	9,331	(14)
As a % of revenue	69.0%	69.0%	0.0%	69.2%	69.2%	0.0%	68.3%	68.3%	0.0%	67.7%	67.8%	-0.1%
Gross Profit	962	975	(13)	3,692	3,705	(13)	3,966	3,977	(12)	4,445	4,431	14
Gross Margin	31.0%	31.0%	0.0%	30.8%	30.8%	0.0%	31.7%	31.7%	0.0%	32.3%	32.2%	0.1%
Total Sales & Marketing	512	519	(7)	1,924	1,931	(7)	1,995	2,020	(25)	2,174	2,202	(28)
As a % of revenue	16.5%	16.5%	0.0%	16.0%	16.0%	0.0%	15.9%	16.1%	-0.2%	15.8%	16.0%	-0.2%
Ops, Tech and G&A	456	458	(2)	1,872	1,874	(2)	1,851	1,895	(44)	1,817	1,995	(179)
As a % of revenue	14.7%	14.6%	0.2%	15.6%	15.6%	0.0%	14.8%	15.1%	-0.3%	13.2%	14.5%	-1.3%
Amortization of Intangibles	0	0	0	79	79	0	0	0	0	0	0	0
As a % of revenue	0.0%	0.0%	0.0%	0.7%	0.7%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
SBC	150	150	0	614	614	0	556	625	(69)	580	650	(70)
As a % of revenue	4.8%	4.8%	0.1%	5.1%	5.1%	0.0%	4.4%	5.0%	-0.5%	4.2%	4.7%	-0.5%
Total Operating Expenses	1,118	1,127	(9)	4,489	4,498	(9)	4,402	4,540	(138)	4,571	4,847	(276)
As a % of revenue	36.0%	35.8%	0.2%	37.4%	37.4%	0.1%	35.2%	36.2%	-1.0%	33.2%	35.2%	-2.0%
Oper. Income - GAAP	(156)	(152)	(5)	(797)	(793)	(5)	(436)	(562)	126	(126)	(416)	290
Margin	-5.0%	-4.8%	-0.2%	-6.6%	-6.6%	-0.1%	-3.5%	-4.5%	1.0%	-0.9%	-3.0%	2.1%
Earnings Before Tax	(165)	(161)	(5)	(723)	(719)	(5)	(469)	(595)	126	(159)	(449)	290
Income Tax Expense (Benefit)	0	0	0	6	6	0	0	0	0	0	0	0
Tax Rate	0%	0%	0%	-1%	-1%	0%	0%	0%	0%	0%	0%	0%
GAAP Net Income (Loss)	(165)	(161)	(5)	(729)	(725)	(5)	(469)	(595)	126	(159)	(449)	290
GAAP EPS	(\$1.40)	(\$1.36)	(\$0.04)	(\$6.44)	(\$6.40)	(\$0.04)	(\$3.88)	(\$4.95)	\$1.07	(\$1.30)	(\$3.71)	\$2.41
Net Loss	(165)	(161)	(5)	(729)	(725)	(5)	(469)	(595)	126	(159)	(449)	290
Stock based compensation	150	150	0	614	614	0	556	625	(69)	580	650	(70)
% of revenue	4.8%	4.8%	0.1%	5.1%	5.1%	0.0%	4.4%	5.0%	-0.5%	4.2%	4.7%	-0.5%
Depreciation & Amortization	105	105	0	417	417	0	420	437	(17)	420	457	(37)
% of revenue	3.4%	3.3%	0.0%	3.5%	3.5%	0.0%	3.4%	3.5%	-0.1%	3.1%	3.3%	-0.3%
Interest Income	5	5	0	20	20	0	33	33	0	33	33	0
EBITDA	95	99	(5)	309	313	(5)	614	500	114	874	691	183
EBITDA Margin	3.1%	3.2%	-0.1%	2.6%	2.6%	0.0%	4.9%	4.0%	0.9%	6.4%	5.0%	1.3%
Operating Metrics												
Orders Delivered	12	12	(0)	42	42	(0)	46	46	(0)	49	49	0
Y/Y Growth	11.4%	12.9%	-1.5%	5.1%	5.5%	-0.4%	8.3%	8.2%	0.2%	7.6%	7.3%	0.3%
AOV	253	\$253	\$0	286	\$286	\$0	275	\$275	\$0	280	\$280	\$0
Y/Y Growth	-10.5%	-10.5%	0.0%	-6.6%	-6.6%	0.0%	-4.0%	-4.0%	0.0%	2.0%	2.0%	0.0%
Active Customers	23	23	0	23	23	0	24	24	0	25	25	0
Y/Y Growth	2.5%	2.5%	0.0%	2.5%	2.5%	0.0%	5.0%	5.0%	0.0%	4.0%	4.0%	0.0%

Source: BofA Global Research estimates

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Price objective basis & risk

Wayfair (W)

Our PO of \$85 is based on 0.9x 2025E EV/sales, which is below the historical average multiple of approx. 1x. We believe this is warranted given a significant improvement in EBITDA and a return to revenue YoY growth, though below prior periods of expansion. If Wayfair were to achieve its target of mid-single digit EBITDA margins over the next few years, this would likely drive additional multiple expansion in our view.

Upside risks are 1) a larger-than-expected acceleration in sales post tough COVID compares in 2022, 2) better inventory availability as supply chain disruptions eases, 3) higher-than-forecast online growth for the industry as a whole, 4) stronger growth from newer initiatives including Wayfair Professional and, 5) EBITDA margin upside from COGS efficiencies, OPEX reductions and fixed cost leverage.

Downside risks are 1) High industry competition which could drive higher than expected investment in marketing or promotions, 2) brand complexity (five brands), 3) weaker than expected international segment performance, and 4) A softer than anticipated recovery in US furnishings in 2024/25.

Analyst Certification

I, Curtis Nagle, 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 - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Alphabet	GOOGL	GOOGL US	Justin Post
	Alphabet	GOOG	GOOG US	Justin Post
	Amazon.com	AMZN	AMZN US	Justin Post
	AppLovin	APP	APP US	Omar Dessouky, CFA
	DoorDash	DASH	DASH US	Michael McGovern
	DoubleVerify Holdings, Inc.	DV	DV US	Omar Dessouky, CFA
	Electronic Arts	EA	EA US	Omar Dessouky, CFA
	Expedia	EXPE	EXPE US	Justin Post
	Integral Ad Science Holding Corp.	IAS	IAS US	Omar Dessouky, CFA
	LegalZoom	LZ	LZ US	Michael McGovern
	Match Group	MTCH	MTCH US	Curtis Nagle, CFA
	Meta Platforms Inc	META	META US	Justin Post
	Pinterest	PINS	PINS US	Justin Post
	RH	RH	RH US	Curtis Nagle, CFA
	Roblox Corp. Class A	RBLX	RBLX US	Omar Dessouky, CFA
	Squarespace, Inc.	SQSP	SQSP US	Michael McGovern
	Uber	UBER	UBER US	Justin Post
	Udemy Inc	UDMY	UDMY US	Curtis Nagle, CFA
	Vivid Seats	SEAT	SEAT US	Curtis Nagle, CFA
	Wayfair	W	W US	Curtis Nagle, CFA
	Wix.com	WIX	WIX US	Michael McGovern
NEUTRAL				
	ACV Auctions	ACVA	ACVA US	Curtis Nagle, CFA
	Airbnb	ABNB	ABNB US	Justin Post
	Beyond Inc	BYON	BYON US	Curtis Nagle, CFA
	Booking Holdings Inc	BKNG	BKNG US	Justin Post
	Bumble	BMBL	BMBL US	Curtis Nagle, CFA
	Digital Turbine, Inc	APPS	APPS US	Omar Dessouky, CFA
	Duolingo	DUOL	DUOL US	Curtis Nagle, CFA
	eBay	EBAY	EBAY US	Justin Post
	Etsy, Inc.	ETSY	ETSY US	Curtis Nagle, CFA

US - Internet Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Instacart	CART	CART US	Justin Post
	Magnite, Inc.	MGNI	MGNI US	Omar Dessouky, CFA
	Snap	SNAP	SNAP US	Justin Post
	Take-Two Interactive	TTWO	TTWO US	Omar Dessouky, CFA
	Zillow	ZG	ZG US	Curtis Nagle, CFA
	Zillow	Z	Z US	Curtis Nagle, CFA

UNDERPERFORM

	Chewy Inc	CHWY	CHWY US	Curtis Nagle, CFA
	Lyft, Inc.	LYFT	LYFT US	Michael McGovern
	Opendoor Technologies	OPEN	OPEN US	Curtis Nagle, CFA
	Peloton	PTON	PTON US	Curtis Nagle, CFA
	Playtika	PLTK	PLTK US	Omar Dessouky, CFA
	Redfin Corp	RDFN	RDFN US	Curtis Nagle, CFA
	Shutterstock	SSTK	SSTK US	Curtis Nagle, CFA

iQmethodSM Measures Definitions**Business Performance**

Return On Capital Employed

Return On Equity
Operating Margin
Earnings Growth
Free Cash Flow

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

Denominator

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

Quality of Earnings

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

Numerator

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

Denominator

Net Income
Depreciation
Pre-Tax Income
Total Equity
Interest Expense

Valuation Toolkit

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

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

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

EV / EBITDA

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase[®] is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

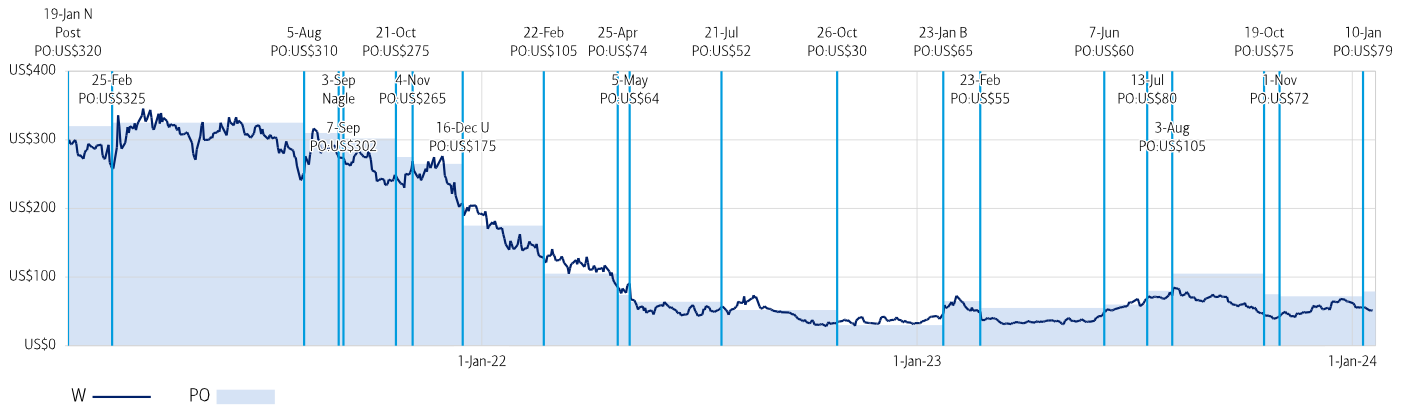
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Disclosures

Important Disclosures

Wayfair (W) Price Chart



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: Technology Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	215	53.09%	Buy	111	51.63%
Hold	97	23.95%	Hold	45	46.39%
Sell	93	22.96%	Sell	24	25.81%

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.

FUNDAMENTAL EQUITY OPINION KEY: Opinions include a Volatility Risk Rating, an Investment Rating and an Income Rating. **VOLATILITY RISK RATINGS**, indicators of potential price fluctuation, are: A - Low, B - Medium and C - High. **INVESTMENT RATINGS** reflect the analyst's assessment of both a stock's absolute total return potential as well as its attractiveness for investment relative to other stocks within its Coverage Cluster (defined below). Our investment ratings are: 1 - Buy stocks are expected to have a total return of at least 10% and are the most attractive stocks in the coverage cluster; 2 - Neutral stocks are expected to remain flat or increase in value and are less attractive than Buy rated stocks and 3 - Underperform stocks are the least attractive stocks in a coverage cluster. An investment rating of 6 (No Rating) indicates that a stock is no longer trading on the basis of fundamentals. Analysts assign investment ratings considering, among other things, the 0-12 month total return expectation for a stock and the firm's guidelines for ratings dispersions (shown in the table below). The current price objective for a stock should be referenced to better understand the total return expectation at any given time. The price objective reflects the analyst's view of the potential price appreciation (depreciation).

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.

INCOME RATINGS, indicators of potential cash dividends, are: 7 - same/higher (dividend considered to be secure), 8 - same/lower (dividend not considered to be secure) and 9 - pays no cash dividend. **Coverage Cluster** is comprised of stocks covered by a single analyst or two or more analysts sharing a common industry, sector, region or other classification(s). A stock's coverage cluster is included in the most recent BofA Global Research report referencing the stock.

Price Charts for the securities referenced in this research report are available on the [Price Charts website](#), or call 1-800-MERRILL to have them mailed.

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