Wayfair

BofA consumer conf.; W strikes confident tone on continued share gains & margins

Maintain Rating: BUY | PO: 75.00 USD | Price: 62.00 USD

Consumer conference takeaways

We hosted Wayfair management including CFO/CAO Kate Gulliver and James Lamb, Head of Investor Relations at the BofA Consumer Conference in Miami. In our view, mgmt. was most confident on: 1) the ability to sustain broad-based share gains and efforts to increase purchase frequency; 2); industry trends returning to growth and; 3) LT margin expansion (see pg. 2). Other topics included: 1) AOV is expected to stabilize in 2H24 and is not dependent on product mix improvement (could trend better if Perigold and exclusive products continue to outperform); 2) Red Sea disruptions are not expected to have a material impact on costs, particularly as shipping capacity coming on in the summer and; 3) Wayfair currently sees refinancing the 2025 converts through cash and high yield debt (or a term loan) as attractive opposed to new converts. We maintain Buy.

1Q guidance includes headwinds that could turn in 2Q

With 4Q earnings on Feb 22nd, Wayfair guided to 1Q24 revenues of down mid-single digits and vs. flat in 4Q. This factors in a slowdown in industry trends for the first seven weeks of the quarter (on tax refunds, weather and likely some give back from promotion driven sales in 4Q) and partially offset by share gains at record levels. While Wayfair did not update guidance, we think it's possible there could be a benefit going into 2Q from a catch-up in tax refunds (delayed this year but total refunds are not expected to be down). A warmer spring this year could also drive better sales of outdoor furniture, a key category for 2Q. Wayfair also assumes no near-term benefit from the new brand campaign launched March 10th but it could drive higher traffic through the year.

Furnishings industry primed for improvement

Wayfair is not guiding FY24 but did note that if current trends were compared to a hypothetical run-rate of 2-3%/yr starting in 2019 (adjusting out the impact of COVID), industry revenues are 7% lower on a dollar basis (and much more so for vols). Put another way, while a return to growth is difficult to predict (we think could be in 2H), trends should improve on a normalization of replacement, housing, rates, and services vs. disc. goods spend. Wayfair revenues do not correlate highly to existing home volumes (32% since 2015 by our calculation) but a recovery in housing trends will no doubt be a tailwind for the industry given that trends are now 25% below the 25yr avg. With growth initiatives in place and online gains improving, Wayfair is confident it can get back to double-digit YoY revenue expansion when the overall industry returns to growth.

Driving more frequency & share in the Wayborhood

With significant improvements in inventory availability, pricing and speed of delivery over the past five quarters (all drivers of 5 qtrs of share gains), Wayfair believes it is well-positioned to launch two key initiatives this year that could further increase purchase frequency. On average, customers purchase from Wayfair 2x a year, compared to 6-8x across all home goods. The "Welcome to the Wayborhood" brand campaign launched on Mar. 10th and is the first refresh since 2018. *Continued on next page.*

13 March 2024

Equity

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Stock Data

Price	62.00 USD
Price Objective	75.00 USD
Date Established	16-Feb-2024
Investment Opinion	C-1-9
52-Week Range	29.51 USD - 90.71 USD
Mrkt Val (mn) / Shares Out (mn)	7,068 USD / 114.0
Free Float	95.0%
Average Daily Value (mn)	270.41 USD
BofA Ticker / Exchange	W / NYS
Bloomberg / Reuters	W US / W.N
ROE (2024E)	NA
Net Dbt to Eqty (Dec-2023A)	NA
ESGMeter™	High

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AOV – average order value

Disc. – discretionary

LT – long-term

Timestamp: 13 March 2024 05:00AM EDT

The campaign includes more social media, increased messaging around the home and targeting of specific customer cohorts (such as starter families) Management is “very excited” about the potential for the campaign to drive a long-term lift in traffic and revenue. Wayfair sees a new tender-neutral loyalty program launching in 2H24 as an effective way to re-engage lapsed customers and drive purchase frequency across the company’s 85mn customer file. Putting all these factors together (large well-known brand, large customer file and new loyalty program), Wayfair also believes it is very well-positioned to navigate a potential reduction in the effectiveness of digital marketing this year from privacy changes and Google cookie deprecation.

Supplier advertising should inflect this year

Wayfair expects to see progress on expanding supplier advertising this year which is currently 1% of revenues and over the long term could add 2-3ppts to gross margin. Growth should be supported by testing in 2023, a rollout of new tech/tools for suppliers (such as ROAS measurement) and more normalized inventory levels. Importantly, supplier advertising is the least dependent on volume improvement, compared to Wayfair’s two other long-term gross margin drivers. Wayfair believes it can find additional efficiencies in logistics (following ~5ppts in gross improvements in 2023) but higher revenues will be required to achieve the majority of 1-2ppts in targeted gross margin gains. Wayfair is targeting 1-2ppts of gains in the “other” bucket which is driven by mix shift to premium/exclusive products as well as volume leverage.

For total EBITDA, Wayfair reiterated $450mn as the floor in 2024 and “somewhat irrespective of revenue”. The framework for $600mn+ in EBTIDA under flat revenues factors cost cutting already taken through early 2024 but no additional expense cuts or the flow through from the aforementioned gross margin drivers. Management’s commentary that it can achieve mid-to-high teens EBITDA flow through on the next $1bn of revenue is also based on the current expense base. Getting to 10%+ EBITDA (vs. our 5% est for 2024) will require getting back to double digit revenue growth and achieving long-term gross margin targets.

Price objective basis & risk

Wayfair (W)

Our PO of $75 is based on 0.8x 2025E EV/sales, which is below the historical average multiple of approx. 1x . We believe this is warranted given a significant improvement in EBTIDA 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.

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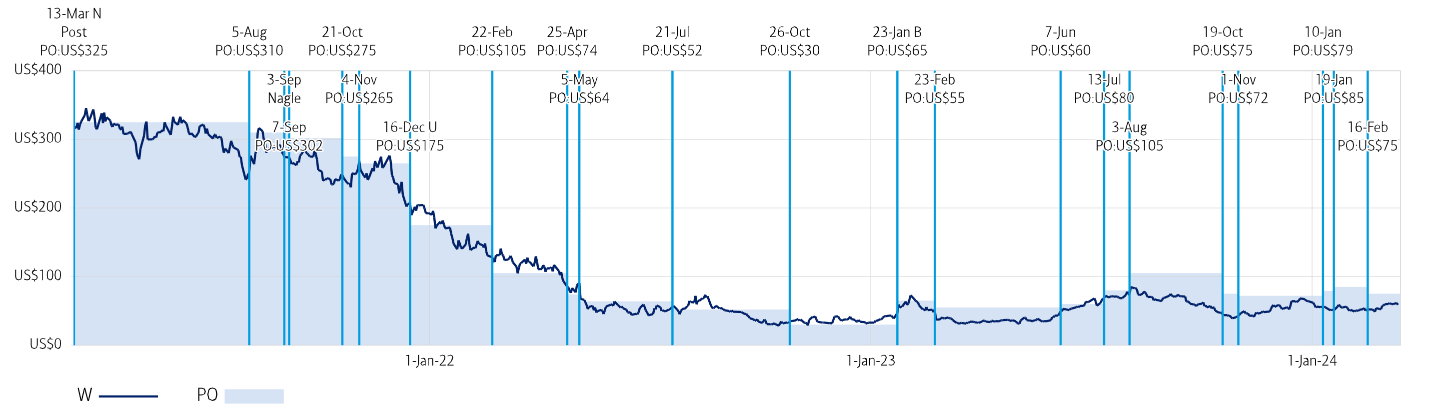
Wayfair (W) Price Chart



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

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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)

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