Williams-Sonoma (WSM)

Updated May 23th, 2018 by Jonathan Weber

Key Metrics

Current Price:	$49	**5 Year CAGR Estimate:**	15.1%	**Quality Percentile:**	N/A
Fair Value Price:	$66	**5 Year Growth Estimate:**	5.3%	**Momentum Percentile:**	N/A
% Fair Value:	74%	**5 Year Valuation Multiple Estimate:**	6.2%	**Total Return Percentile:**	N/A
Dividend Yield:	3.6%	**5 Year Price Target**	$84	**Valuation Percentile:**	

Overview & Current Events

Williams-Sonoma is a specialty retailer that operates home furnishing and houseware brands such as Williams-Sonoma, Pottery Barn, West Elm, Rejuvenation, Mark & Graham and others. Williams-Sonoma operates traditional brick-and-mortar retail locations but sells its goods through e-commerce and direct-mail catalogs as well. Williams-Sonoma was founded in 1956, is headquartered in San Francisco, and is currently valued at $4.0 billion.

Williams-Sonoma's most recent quarterly results were announced on March 14, the company reported earnings-per-share of $1.68 for the fourth quarter of 2017, an increase of eight percent year over year. The company also reported revenues rising by six percent to $1.7 billion, guidance for 2018 sees EPS of $4.17 and revenues of $5.55 billion.

Growth on a Per-Share Basis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
EPS	$0.28	$0.72	$1.83	$2.22	$2.54	$2.82	$3.24	$3.37	$3.41	$3.61	***$4.17***	***$5.40***
DPS	$0.48	$0.48	$0.55	$0.73	$0.88	$1.24	$1.32	$1.40	$1.48	$1.56	***$1.72***	***$2.36***

Williams-Sonoma has a solid growth history, over the last five years its EPS grew by seven percent annually. Its growth since 2008 has been a lot stronger, but 2008 had been a very weak year due to the impact of the last financial crisis. Unlike many other retailers Williams-Sonoma has been able to increase its profits through the last couple of years, which is, among other factors, due to its consistent revenue growth. Thanks to its omni-channel sale strategy Williams-Sonoma has established a strong e-commerce business in the past. The majority (52% in the most recent quarter) of the company's sales are already derived from its online retail platforms.

Its huge online presence (where sales rose by another 8% in Q4) was the primary driver behind the company's 6% sales growth in its most recent quarter versus the same quarter a year ago.

Guidance for FY 2018 (which sees EPS growing by 16% year over year) is impacted by two special items that will lead to unusually high growth. The first one is the impact of a 53rd week in fiscal year 2018 (versus 52 weeks in FY 2017), the other is the impact of tax law changes, those will significantly lower Williams-Sonoma's tax rate going forward.

Williams-Sonoma unfortunately wasn't able to keep its margins flat (or expand them further) during the last year, the company's operating margin declined from 9.6% to 8.9%. This lowers Williams-Sonoma's organic earnings growth (as revenue growth and margin depression roughly offset each other in 2017), and Williams-Sonoma forecasts another small margin decline for 2018 (to 8.6%). Earnings per share growth, when adjusted for tax rates, have been primarily driven by share repurchases in 2017. Those share repurchases will be a key factor for EPS increases going forward, too, as Williams-Sonoma has announced a new $500 million buyback program that could lower its share count by 12%.

Williams-Sonoma's dividend grew 7% annually over the last five years, in line with its EPS growth.

Valuation Analysis

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	Now	2023
Avg. P/E	---	21.6	15.8	16.6	15.8	19.4	20.8	22.2	15.5	14.1	***11.5***	***15.5***
Avg. Yld.	2.7%	3.1%	1.9%	2.0%	2.2%	2.3%	2.0%	1.9%	2.8%	3.1%	***3.6%***	***3.2%***

Williams-Sonoma's valuation has declined substantially over the last couple of years, right now shares are trading at a significant discount to their historic average (17.5) and median (19). Due to recent margin pressures and investors being wary of traditional retail companies (even though brick-and-mortar makes up less than half of Williams-Sonoma's revenues) Williams-Sonoma's valuation will likely not reach those levels again going forward.

Williams-Sonoma's dividend yield is at the high end of the historic range, coupled with a solid dividend growth rate shares of the company have merit as an income investment.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
GP/A	73.7%	58.8%	52.9%	64.3%	70.9%	72.6%	72.6%	77.3%	76.0%	75.6%	***75.0%***	***73.0%***
Debt/A	44.5%	40.7%	41.8%	40.8%	39.3%	40.2%	46.2%	47.6%	50.4%	49.6%	***50.0%***	***50.0%***
Int. Cov.	---	220	105	910	---	---	---	---	780	690	***650***	***500***
Payout	171%	66.7%	30.1%	32.9%	34.6%	44.0%	40.7%	41.5%	43.4%	43.2%	***41.2%***	***43.7%***
Std. Dev.	63.3%	55.2%	37.5%	37.7%	26.8%	20.8%	26.1%	21.9%	29.5%	25.3%	***29.0%***	***28.0%***

Williams-Sonoma operates a relatively asset-light business model (relative to other retailers) thanks to a high portion of sales that are not made at brick-and-mortar stores. Combined with high asset turnover this allows for very high gross profits relative to the assets it owns. Roughly half of the company's assets are financed via liabilities, but the majority of those liabilities are not interest-bearing long term debt, but rather items such as accounts payable and customer deposits. Due to a low portion of interest-bearing liabilities Williams-Sonoma's interest expenses are very low, which is why its interest coverage ratio is so high (in some years interest income was higher than interest expenses).

Williams-Sonoma competes with different companies; Traditional brick-and-mortar home improvement retailers such as Home Depot and Lowe's (which are both significantly larger) to some extent, but also with e-commerce players such as Amazon (to some extent). Williams-Sonoma's product portfolio is relatively unique, though, as the combination of the products it sells (across several brands) is not offered by competitors. Williams-Sonoma's business model is relatively cyclical, as consumers tend to avoid purchases of discretionary goods like the ones Williams-Sonoma offers during economic downturns. This is why Williams-Sonoma suffered an earnings decline of 60% from 2007 to 2009.

Final Thoughts & Recommendation

Williams-Sonoma is a small retailer that is not focused on physical stores, but that rather has a significant online presence. It has established a profitable niche and was able to grow continuously for a long time, but more recently Williams-Sonoma has been facing some pressure on its margins, a trend that will continue (at least) through 2018. Thanks to high shareholder returns via dividends and buybacks and an inexpensive valuation Williams-Sonoma could still deliver compelling total returns over the coming years. It is a buy at current prices for investors looking for retail e-commerce exposure through investing in a clearly undervalued business.

Total Return Breakdown by Year