



Williams-Sonoma (WSM)

Updated November 22nd, 2018 by Jonathan Weber

Key Metrics

Current Price:	\$53	5 Year CAGR Estimate:	13.3%	Volatility Percentile:	85.4%
Fair Value Price:	\$67	5 Year Growth Estimate:	5.3%	Momentum Percentile:	81.9%
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.7%	Growth Percentile:	44.2%
Dividend Yield:	3.3%	5 Year Price Target	\$86	Valuation Percentile:	86.3%
Dividend Risk Score:	D	Retirement Suitability Score:	D	Total Return Percentile:	77.9%

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 also sells its goods through e-commerce and direct-mail catalogs. Williams-Sonoma was founded in 1956, is headquartered in San Francisco, and currently trades with a market capitalization of \$4.1 billion.

Williams-Sonoma reported its third quarter earnings results on November 15. The company grossed revenues of \$1.36 billion during the quarter, 4.6% more than during the prior year's period. Sales increased due to a combination of higher same store sales (3.1% above Q3 2017's levels), and higher ecommerce sales (up 8.2% year over year). Ecommerce sales now make up 55.0% of the company's total net revenues, which means that Williams-Sonoma is now more of an online commerce company than a traditional brick-and-mortar retailer.

Williams-Sonoma spent \$45 million to repurchase 750,000 shares during the third quarter. Spending \$45 million on buybacks per quarter equates to an annualized buyback pace of 4.4% at the current valuation.

On the bottom line, Williams-Sonoma generated earnings-per-share of \$0.95 during Q3, which was 13.1% more than the company's earnings-per-share during the previous year's quarter. Williams-Sonoma expects revenues of ~\$5.6 billion and earnings-per-share of \$4.26 - \$4.36 during the current fiscal year, which implies EPS of \$1.89 to \$1.99 during Q4.

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	\$4.31	\$5.58
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
Shares	106	107	105	100	98	94	92	90	87	84	80	68

Williams-Sonoma has a solid growth history. Over the last five years its earnings-per-share grew by ~7% 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 robust omni-channel sale strategy, Williams-Sonoma has established a strong e-commerce business. The majority of the company's sales are already derived from its online retail platforms. As online sales continue to outpace company-wide revenue growth Williams-Sonoma will become even more of an online retail company in the coming years.

Guidance for FY 2018, which sees EPS growing by 19% 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, which have lowered Williams-Sonoma's tax rate significantly. Williams-Sonoma was not able to expand its margins during the last year. This lowers Williams-Sonoma's organic earnings growth, as revenue growth and margin compression roughly offset each other. Williams-Sonoma forecasts another small margin decline for 2018. Earnings-per-share growth, when adjusted for tax rates, has been primarily driven by share repurchases in recent quarters. Those share repurchases will be a key factor for Williams-Sonoma's earnings-per-share growth going forward, too. Its recent \$500 million buyback program allows for repurchasing ~12% of the float.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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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	12.3	15.5
Avg. Yld.	2.7%	3.1%	1.9%	2.0%	2.2%	2.3%	2.0%	1.9%	2.8%	3.1%	3.3%	2.7%

Williams-Sonoma is currently trading at a valuation that is substantially lower than the valuation during the last couple of years as well as compared to the long-term median valuation. We see considerable upside potential towards a mid-teens price to earnings multiple, which will be a relevant tailwind for Williams-Sonoma's total returns going forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2023
Payout	171%	66.7%	30.1%	32.9%	34.6%	44.0%	40.7%	41.5%	43.4%	43.2%	39.9%	42.3%

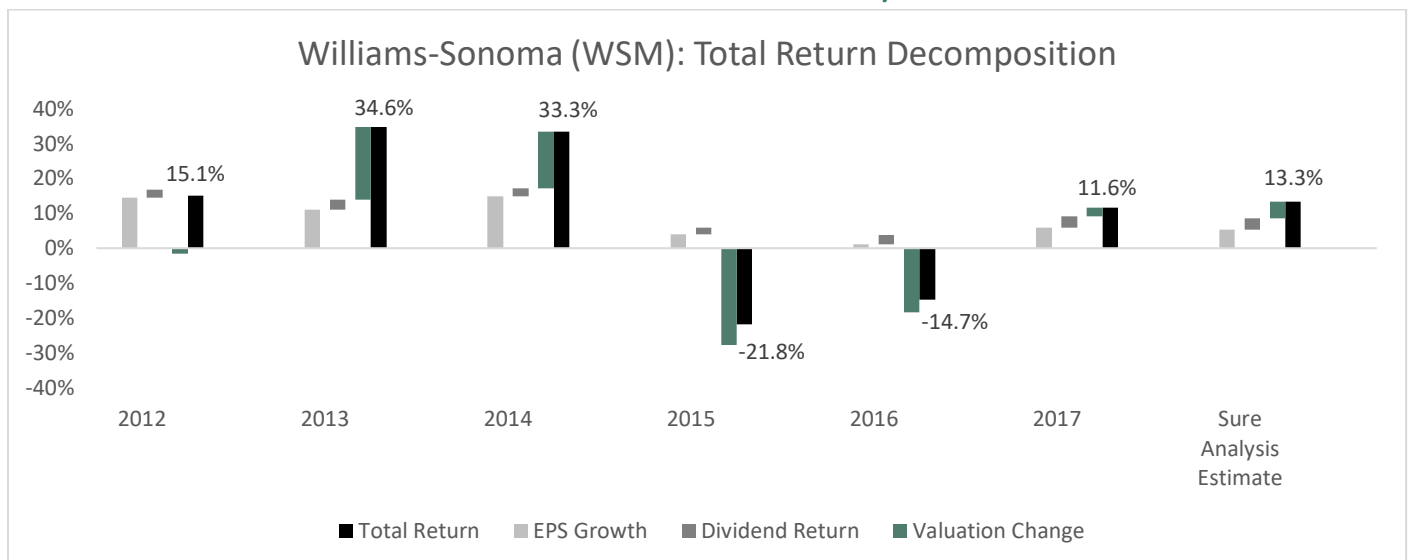
Williams-Sonoma operates a relatively asset-light business model relative to other retailers, thanks to a high portion of sales that are not made at brick-and-mortar stores. Roughly half of the company's assets are financed via liabilities, but the majority of those liabilities are not interest-bearing 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.

Williams-Sonoma competes with different companies. This includes traditional brick-and-mortar home improvement retailers such as Home Depot and Lowe's, which are both significantly larger, but also e-commerce players such as Amazon. Williams-Sonoma's product portfolio is relatively unique, as the combination of the products it sells is not offered by competitors. Williams-Sonoma's business model is quite cyclical, as consumers tend to avoid purchases of discretionary items during economic downturns. Williams-Sonoma earnings declined by 60% from 2007 to 2009.

Final Thoughts & Recommendation

Williams-Sonoma has transformed itself into an omni-channel retailer with a large ecommerce presence. This, coupled with a relatively unique product portfolio, shields Williams-Sonoma from the Amazon-fallout that has impacted many other retailers. Williams-Sonoma's earnings are not very recession-resilient. We rate Williams-Sonoma a buy right at current prices, as shares trade below fair value and as they offer a significant total return potential going forward.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Revenue	3361	3103	3504	3721	4043	4388	4699	4976	5084	5292
Gross Profit	1135	1103	1374	1460	1592	1704	1801	1844	1883	1932
Gross Margin	33.8%	35.6%	39.2%	39.2%	39.4%	38.8%	38.3%	37.1%	37.0%	36.5%
SG&A Exp.	1093	982	1050	1078	1183	1252	1298	1356	1411	1478
D&A Exp.	148	152	145	131	134	150	162	168	173	183
Operating Profit	42	121	323	382	409	452	502	489	473	454
Operating Margin	1.3%	3.9%	9.2%	10.3%	10.1%	10.3%	10.7%	9.8%	9.3%	8.6%
Net Profit	30	77	200	237	257	279	309	310	305	260
Net Margin	0.9%	2.5%	5.7%	6.4%	6.4%	6.4%	6.6%	6.2%	6.0%	4.9%
Free Cash Flow	38	418	294	161	159	260	257	341	327	310
Income Tax	12	43	123	145	153	174	193	178	167	193

Balance Sheet Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Total Assets	1935	2079	2132	2061	2188	2337	2330	2417	2477	2786
Cash & Equivalents	149	514	628	503	425	330	223	194	214	390
Accounts Receivable	37	44	42	46	63	60	67	79	89	90
Inventories	573	466	513	553	640	813	888	978	978	1062
Total Liabilities	787	868	873	806	879	1081	1106	1219	1229	1582
Accounts Payable	162	188	228	218	259	405	397	447	454	459
Long-Term Debt	25	10	9	7	5	4	2	0	0	299
Shareholder's Equity	1148	1212	1259	1255	1309	1256	1225	1198	1248	1204
D/E Ratio	0.02	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.25

Profitability & Per Share Metrics

Year	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Return on Assets	1.5%	3.9%	9.5%	11.3%	12.1%	12.3%	13.2%	13.1%	12.5%	9.9%
Return on Equity	2.6%	6.6%	16.2%	18.8%	20.0%	21.7%	24.9%	25.6%	25.0%	21.2%
ROIC	2.5%	6.5%	16.1%	18.7%	19.9%	21.7%	24.8%	25.6%	25.0%	18.9%
Shares Out.	106	107	105	100	98	94	92	90	87	84
Revenue/Share	31.45	28.90	32.00	34.91	40.01	44.43	49.36	54.03	56.83	61.48
FCF/Share	0.36	3.90	2.69	1.51	1.57	2.63	2.70	3.70	3.66	3.60

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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