



Williams-Sonoma (WSM)

Updated March 21st, 2019 by Eli Inkrot

Key Metrics

Current Price:	\$59	5 Year CAGR Estimate:	10.5%	Volatility Percentile:	84.9%
Fair Value Price:	\$69	5 Year Growth Estimate:	4.0%	Momentum Percentile:	67.9%
% Fair Value:	85%	5 Year Valuation Multiple Estimate:	3.2%	Growth Percentile:	23.0%
Dividend Yield:	3.3%	5 Year Price Target	\$84	Valuation Percentile:	77.5%
Dividend Risk Score:	D	Retirement Suitability Score:	D	Total Return Percentile:	61.1%

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 \$4.8 billion.

On March 20th, 2019 Williams-Sonoma announced Q4 and full year fiscal 2018 results for the period ending February 3rd, 2019. For the quarter, net revenue grew 9.3% to \$1.8 billion, driven by 2.4% comparable brand growth, including double-digit comp growth from West Elm. Adjusted earnings-per-share equaled \$2.10, representing a 25% increase compared to Q4 2017. For the year, net revenue grew 7.2% to \$5.7 billion, with positive comparable revenue growth in all brands. E-commerce net revenues grew 10.9% to \$3.1 billion and now make up 54.3% of total revenues, making Williams-Sonoma more of an online e-commerce company than a traditional brick-and-mortar retailer. Adjusted earnings-per-share totaled \$4.46 representing a 23.5% year-over-year increase and well ahead of the company's previous guidance.

Williams-Sonoma also provided fiscal year 2019 guidance. The company anticipates revenue of \$5.67 billion to \$5.84 billion, with adjusted earnings-per-share coming in between \$4.50 and \$4.70. Separately Williams-Sonoma announced an 11.6% increase in the dividend, to \$0.48 per quarter, along with a \$500 million increase in the company's share repurchase program – bringing the total available up to \$710 million.

Growth on a Per-Share Basis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
EPS	\$0.72	\$1.83	\$2.22	\$2.54	\$2.82	\$3.24	\$3.37	\$3.41	\$3.61	\$4.46	\$4.60	\$5.60
DPS	\$0.48	\$0.55	\$0.73	\$0.88	\$1.24	\$1.32	\$1.40	\$1.48	\$1.56	\$1.72	\$1.92	\$2.24
Shares	107	105	100	98	94	92	90	87	84	82	76	68

Williams-Sonoma has a solid growth history. Since 2007, the company has grown earnings-per-share by an average compound rate of nearly 9% per annum. However, this is skewed somewhat, as last year's 23.5% boost on the bottom line was aided significantly by a lower tax rate. Indeed, the company actually made more in earnings before taxes in 2017 compared to 2018. Stripping away this benefit, the company has been able to improve in the mid-single digits, which is the type of growth expectation that we are anticipating from this point.

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. 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.

The company's guidance for fiscal year 2019, which sees EPS growing by 0.9% to 5.4%, reiterates our assumption of moderate growth from this point. In addition, share repurchases will be a key factor for earnings-per-share growth as the company is now authorized to buy back up to \$710 million in shares, representing ~15% of the float.

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Valuation Analysis

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	Now	2024
Avg. P/E	21.6	15.8	16.6	15.8	19.4	20.8	22.2	15.5	14.1	11.3	12.8	15.0
Avg. Yld.	3.1%	1.9%	2.0%	2.2%	2.3%	2.0%	1.9%	2.8%	3.1%	3.4%	3.3%	2.7%

Williams-Sonoma has an interesting valuation history, with a typical multiple in the mid-teens coupled with occasional bouts of a 20+ earnings multiple. Taking into consideration the company's past performance, growth prospects and balance sheet, we believe a mid-teens multiple is a fair starting baseline for the security. With the current valuation under 13 times earnings, this implies a fair amount of potential valuation upside from this point.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2024
Payout	67%	30%	33%	35%	44%	41%	42%	43%	43%	39%	42%	40%

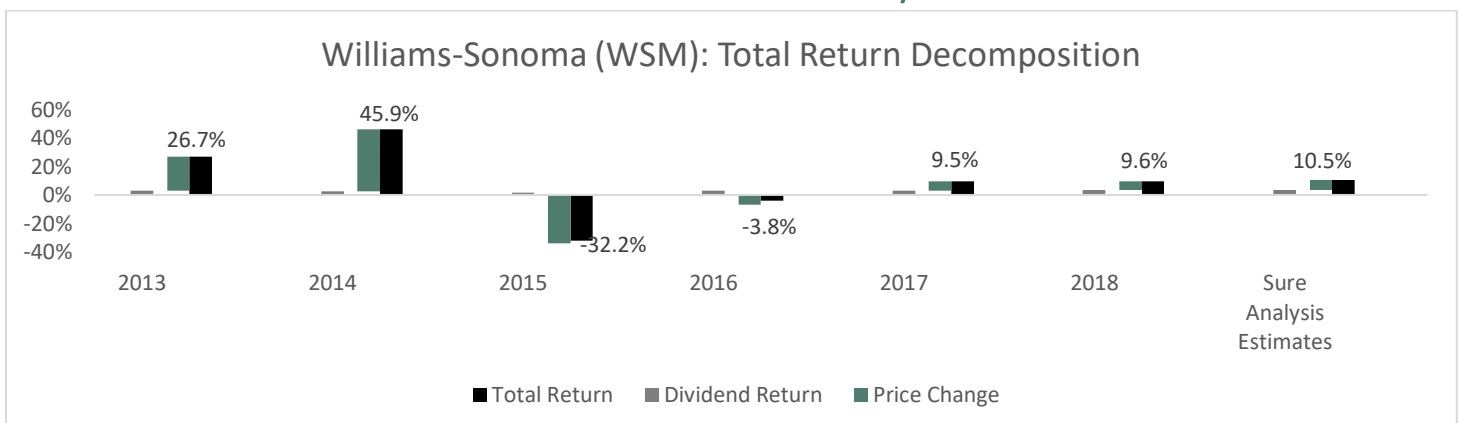
Williams-Sonoma's competitive advantage lies in its unique product portfolio and successful move to the online space. Still, the company competes against formidable foes including traditional brick-and-mortar home improvement retailers such as Home Depot and Lowe's, and e-commerce players such as Amazon. Results have been solid in the last decade, but we caution that the company's business model is quite cyclical, as consumers tend to avoid discretionary items during economic downturns. During the last recession Williams-Sonoma posted earnings-per-share of \$1.76, \$0.28, \$0.72 and \$1.83 during the 2007 through 2010 stretch while the dividend was held steady and ultimately increased.

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. As of the most recent report the company held \$339 million in cash, \$1.7 billion in current assets and \$2.8 billion in total assets against \$1.1 billion in current liabilities and \$1.7 billion in total liabilities. Long-term debt stood at \$300 million compared to underlying annual earnings power of ~\$350 million.

Final Thoughts & Recommendation

Shares are up about 11% since our last update, while earnings came in better than expected. Williams-Sonoma has transformed itself into an Omni-channel retailer with a large e-commerce presence. This, coupled with a relatively unique product portfolio, shields Williams-Sonoma from the Amazon effect that has impacted many other retailers. Still, Williams-Sonoma's earnings are not very recession-resilient. Despite the uptick in price, we continue to rate Williams-Sonoma a buy, as shares trade with a below average valuation and above average dividend yield, offering solid total return potential going forward.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Revenue	3103	3504	3721	4043	4388	4699	4976	5084	5292	5672
Gross Profit	1103	1374	1460	1592	1704	1801	1844	1883	1932	2101
Gross Margin	35.6%	39.2%	39.2%	39.4%	38.8%	38.3%	37.1%	37.0%	36.5%	37.0%
SG&A Exp.	982	1050	1078	1183	1252	1298	1356	1411	1478	1665
D&A Exp.	152	145	131	134	150	162	168	173	183	189
Operating Profit	121	323	382	409	452	502	489	473	454	436
Operating Margin	3.9%	9.2%	10.3%	10.1%	10.3%	10.7%	9.8%	9.3%	8.6%	7.7%
Net Profit	77	200	237	257	279	309	310	305	260	334
Net Margin	2.5%	5.7%	6.4%	6.4%	6.4%	6.6%	6.2%	6.0%	4.9%	5.9%
Free Cash Flow	418	294	161	159	260	257	341	327	310	396
Income Tax	43	123	145	153	174	193	178	167	193	96

Balance Sheet Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Total Assets	2079	2132	2061	2188	2337	2330	2417	2477	2786	2813
Cash & Equivalents	514	628	503	425	330	223	194	214	390	339
Accounts Receivable	44	42	46	63	60	67	79	89	90	107
Inventories	466	513	553	640	813	888	978	978	1062	1125
Goodwill & Int. Ass.	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	85
Total Liabilities	868	873	806	879	1081	1106	1219	1229	1582	1657
Accounts Payable	188	228	218	259	405	397	447	454	459	527
Long-Term Debt	10	9	7	5	4	2	0	0	299	300
Shareholder's Equity	1212	1259	1255	1309	1256	1225	1198	1248	1204	1156
D/E Ratio	0.01	0.01	0.01	0.00	0.00	0.00	0.00	0.00	0.25	0.26

Profitability & Per Share Metrics

Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Return on Assets	3.9%	9.5%	11.3%	12.1%	12.3%	13.2%	13.1%	12.5%	9.9%	11.9%
Return on Equity	6.6%	16.2%	18.8%	20.0%	21.7%	24.9%	25.6%	25.0%	21.2%	28.3%
ROIC	6.5%	16.1%	18.7%	19.9%	21.7%	24.8%	25.6%	25.0%	18.9%	22.6%
Shares Out.	107	105	100	98	94	92	90	87	84	82
Revenue/Share	28.90	32.00	34.91	40.01	44.43	49.36	54.03	56.83	61.48	68.88
FCF/Share	3.90	2.69	1.51	1.57	2.63	2.70	3.70	3.66	3.60	4.81

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

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