



Williams-Sonoma Inc. (WSM)

Updated March 18th, 2021 by Eli Inkrot

Key Metrics

Current Price:	\$162	5 Year CAGR Estimate:	-2.0%	Market Cap:	\$13 B
Fair Value Price:	\$120	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	04/22/21
% Fair Value:	135%	5 Year Valuation Multiple Estimate:	-5.8%	Dividend Payment Date:	05/28/21
Dividend Yield:	1.5%	5 Year Price Target	\$132	Years Of Dividend Growth:	15
Dividend Risk Score:	B	Retirement Suitability Score:	C	Last Dividend Increase:	11.3%

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 and 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 \$13 billion.

On March 17th, 2021 Williams-Sonoma announced Q4 and full year 2020 results for the period ending January 31st, 2021. For the quarter revenue increased 24.4% to \$2.29 billion, as the company's e-commerce segment grew 47.9%. Comparable brand revenue growth equaled 26.2%, 25.7%, 25.7% and 25.2% across the Williams-Sonoma, Pottery Barn, Pottery Barn Kids and Teen and West Elm segments respectively. Earnings-per-share equaled \$3.92 compared to \$2.10 in Q4 2019. For the year Williams-Sonoma generated revenue of \$6.78 billion, a 15.0% increase compared to 2019. Earnings-per-share equaled \$8.61 compared to \$4.49 in 2019.

Williams-Sonoma is not providing specific guidance for 2021, but the company did say that it expects this year's results to be in line with long-term guidance of mid-to-high single-digit revenue growth and operating margin expansion.

Also, on March 17th, 2021 Williams-Sonoma announced a \$0.59 quarterly dividend, representing an 11.3%. In addition, the company announced a new \$1 billion share repurchase authorization and repaid a \$300 million term loan early.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
EPS	\$2.22	\$2.54	\$2.82	\$3.24	\$3.37	\$3.41	\$3.52	\$4.05	\$4.49	\$8.61	\$7.50	\$8.28
DPS	\$0.73	\$0.88	\$1.24	\$1.32	\$1.40	\$1.48	\$1.56	\$1.72	\$1.92	\$1.97	\$2.36	\$3.00
Shares¹	100	98	94	92	90	87	84	79	79	79	77	70

Williams-Sonoma has a solid growth history. In the 2007 through 2019 period the company grew its earnings-per-share by an average compound rate of over 8% per year. Furthermore, 2020 proved to be a standout year amidst a difficult operating environment for many companies.

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 sales 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.

This strategy is showing promise amid the COVID-19 pandemic, as the e-commerce portion of the business took up the slack for the brick-and-mortar locations and then some. Recent results during the crisis suggests that Williams-Sonoma is better positioned to weather the storm and indeed appears to be thriving in the current environment.

We are forecasting lower results for 2021 and a 2% annual growth rate, but only because the base for 2020 set such a high bar. Compared to 2019, this still represents over 9% annualized growth.

¹ In millions.

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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Avg. P/E	16.6	15.8	19.4	20.8	22.2	15.5	14.1	14.0	14.3	8.2	21.5	16.0
Avg. Yld.	2.0%	2.2%	2.3%	2.0%	1.9%	2.8%	3.1%	3.0%	3.0%	2.8%	1.5%	2.3%

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, balance sheet and current situation, we believe a mid-teens multiple is a fair starting baseline for the security. With today's valuation of 21.5 times expected earnings, this implies the potential for a significant valuation headwind.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	33%	35%	44%	41%	42%	43%	44%	42%	43%	23%	31%	36%

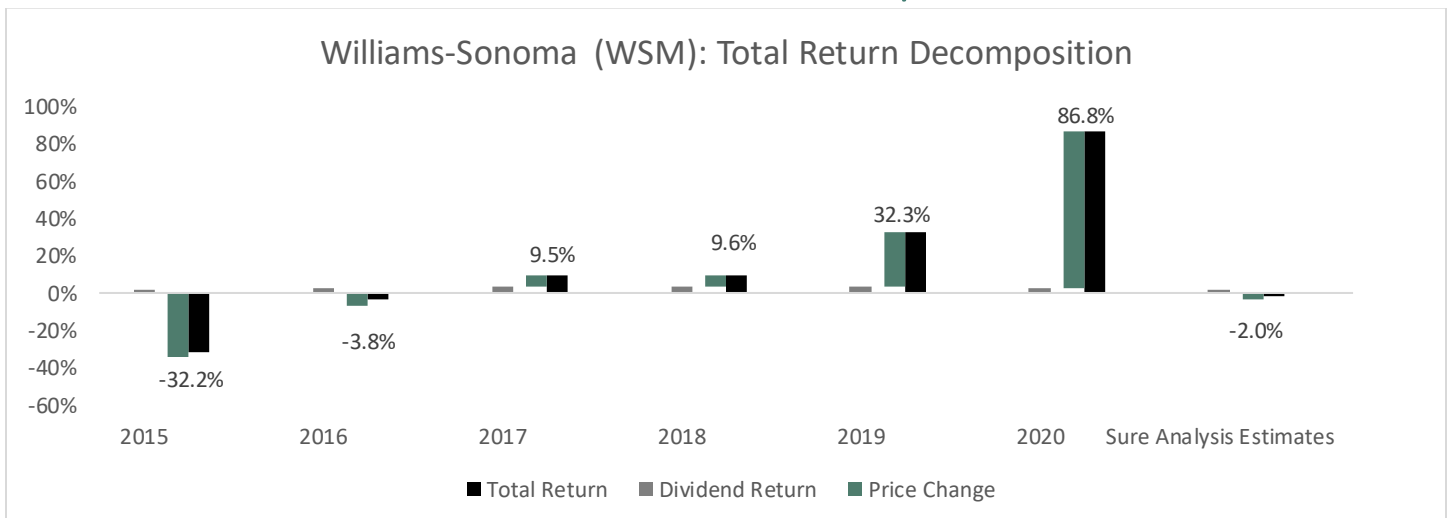
Williams-Sonoma's competitive advantage lies in its unique product portfolio and successful move to the online space. Although the company competes against formidable foes including traditional brick-and-mortar home improvement retailers such as Home Depot and Lowe's, and e-commerce players such as Amazon. Results have been solid in the last decade, but we caution that the company's business model can be cyclical. 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. In 2020 the company posted exceptional results.

Williams-Sonoma operates a relatively asset-light business model relative to other retailers, thanks to a high portion of online sales. As of the most recent report the company held \$1.2 billion in cash, \$2.5 billion in current assets and \$4.7 billion in total assets against \$1.8 billion in current liabilities and \$3.0 billion in total liabilities.

Final Thoughts & Recommendation

After being up 185%, 9% and 19% in our last three reports, shares are up another 46% in the last three months. The share price has been on an exceptional run. Williams-Sonoma has transformed itself into an Omni-channel retailer with a large e-commerce presence, which is proving resilient during the current crisis. However, we are forecasting -2.0% annual total return potential, stemming from 2% growth and the 1.5% dividend yield offset by a significant valuation headwind. Due to the materially higher share price and valuation as of late, shares earn a sell rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	3721	4043	4388	4699	4976	5084	5292	5672	5898	6783
Gross Profit	1460	1592	1704	1801	1844	1883	1932	2101	2139	2636
Gross Margin	39.2%	39.4%	38.8%	38.3%	37.1%	37.0%	36.5%	37.0%	36.3%	38.9%
SG&A Exp.	1078	1183	1252	1298	1356	1411	1478	1665	1673	1726
D&A Exp.	131	134	150	162	168	173	183	189	188	189
Operating Profit	382	409	452	502	489	473	454	436	466	911
Operating Margin	10.3%	10.1%	10.3%	10.7%	9.8%	9.3%	8.6%	7.7%	7.9%	13.4%
Net Profit	237	257	279	309	310	305	260	334	356	681
Net Margin	6.4%	6.4%	6.4%	6.6%	6.2%	6.0%	4.9%	5.9%	6.0%	10%
Free Cash Flow	161	159	260	257	341	327	310	396	421	1105
Income Tax	145	153	174	193	178	167	193	96	101	214

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	2061	2188	2337	2330	2417	2477	2786	2813	4054	4661
Cash & Equivalents	503	425	330	223	194	214	390	339	432	1200
Accounts Receivable	46	63	60	67	79	89	90	107	112	144
Inventories	553	640	813	888	978	978	1062	1125	1101	1006
Goodwill & Int. Ass.	---	---	---	---	---	---	---	85	85	85
Total Liabilities	806	879	1081	1106	1219	1229	1582	1657	2818	3010
Accounts Payable	218	259	405	397	447	454	459	527	521	543
Long-Term Debt	7	5	4	2	0	0	299	300	300	299
Shareholder's Equity	1255	1309	1256	1225	1198	1248	1204	1156	1236	1651
D/E Ratio	0.01	0.00	0.00	0.00	0.00	0.00	0.25	0.26	0.24	018

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	11.3%	12.1%	12.3%	13.2%	13.1%	12.5%	9.9%	11.9%	10.4%	15.6%
Return on Equity	18.8%	20.0%	21.7%	24.9%	25.6%	25.0%	21.2%	28.3%	29.8%	47.2%
ROIC	18.7%	19.9%	21.7%	24.8%	25.6%	25.0%	18.9%	22.6%	23.8%	39.1%
Shares Out.	100	98	94	92	90	87	84	82	79	79
Revenue/Share	34.91	40.01	44.43	49.36	54.03	56.83	61.48	68.88	74.45	85.80
FCF/Share	1.51	1.57	2.63	2.70	3.70	3.66	3.60	4.81	5.31	13.98

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

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