



# Williams-Sonoma Inc. (WSM)

Updated March 17<sup>th</sup>, 2022, by Aristofanis Papadatos

## Key Metrics

<b>Current Price:</b>	\$164	<b>5 Year CAGR Estimate:</b>	12.1%	<b>Market Cap:</b>	\$12.3 B
<b>Fair Value Price:</b>	\$223	<b>5 Year Growth Estimate:</b>	4.0%	<b>Ex-Dividend Date:</b>	4/21/22
<b>% Fair Value:</b>	74%	<b>5 Year Valuation Multiple Estimate:</b>	6.3%	<b>Dividend Payment Date:</b>	5/27/22
<b>Dividend Yield:</b>	1.9%	<b>5 Year Price Target</b>	\$271	<b>Years Of Dividend Growth:</b>	16
<b>Dividend Risk Score:</b>	A	<b>Retirement Suitability Score:</b>	B	<b>Last Dividend Increase:</b>	9.9%

## 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 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 \$12.3 billion.

In Mid-March, Williams-Sonoma reported (3/16/22) financial results for the fourth quarter of fiscal 2021. Comparable brand revenue grew 10.8% over the prior year's quarter thanks to growth of 16.2%, 18.3% and 4.5% across the Pottery Barn, West Elm and Williams Sonoma segments, respectively. The company grew its adjusted earnings-per-share 37%, from \$3.96 to an all-time high of \$5.42, and exceeded the analysts' consensus by an impressive \$0.60.

Thanks to its sustained business momentum, Williams-Sonoma raised its dividend by 10% and announced a share repurchase program of \$1.5 billion, enough to reduce the share count by 12% at the current stock price. In addition, management reiterated its long-term guidance for mid-to-high single digit annual revenue growth, with a path to reach \$10 billion in sales by 2024 (from \$8.2 billion in 2021).

## Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>EPS</b>	\$2.54	\$2.82	\$3.24	\$3.37	\$3.41	\$3.52	\$4.05	\$4.49	\$8.61	\$14.85	<b>\$14.20</b>	<b>\$17.28</b>
<b>DPS</b>	\$0.88	\$1.24	\$1.32	\$1.40	\$1.48	\$1.56	\$1.72	\$1.92	\$1.97	\$2.42	<b>\$3.12</b>	<b>\$4.18</b>
<b>Shares<sup>1</sup></b>	98	94	92	90	87	84	79	79	79	75	<b>71</b>	<b>63</b>

Williams-Sonoma has a solid growth history. Between 2007 and 2019, 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 grow its profits through the last couple of years. 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 upcoming years.

This strategy is showing promise amid the COVID-19 pandemic, as the e-commerce portion of the business has posted blowout results in the last two years and has led the company to post record earnings.

On the other hand, due to the high comparison base formed this year, we prefer to be on the safe side and thus we have assumed just 4.0% average annual growth of earnings-per-share over the next five years.

## Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
<b>Avg. P/E</b>	15.8	19.4	20.8	22.2	15.5	14.1	14.0	14.3	9.7	11.1	<b>11.5</b>	<b>15.7</b>
<b>Avg. Yld.</b>	2.2%	2.3%	2.0%	1.9%	2.8%	3.1%	3.0%	3.0%	2.4%	1.5%	<b>1.9%</b>	<b>1.5%</b>

<sup>1</sup> In millions.

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Williams-Sonoma has an interesting valuation history, with a typical multiple in the mid-teens coupled with occasional bouts of a 20+ earnings multiple. The stock is currently trading at a price-to-earnings ratio of 11.5, which is much lower than the 10-year average of 15.7. If the stock reverts to its average valuation level over the next five years, it will enjoy a 6.3% annualized gain in its returns.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	35%	44%	41%	42%	43%	44%	42%	43%	23%	16%	<b>22%</b>	<b>24%</b>

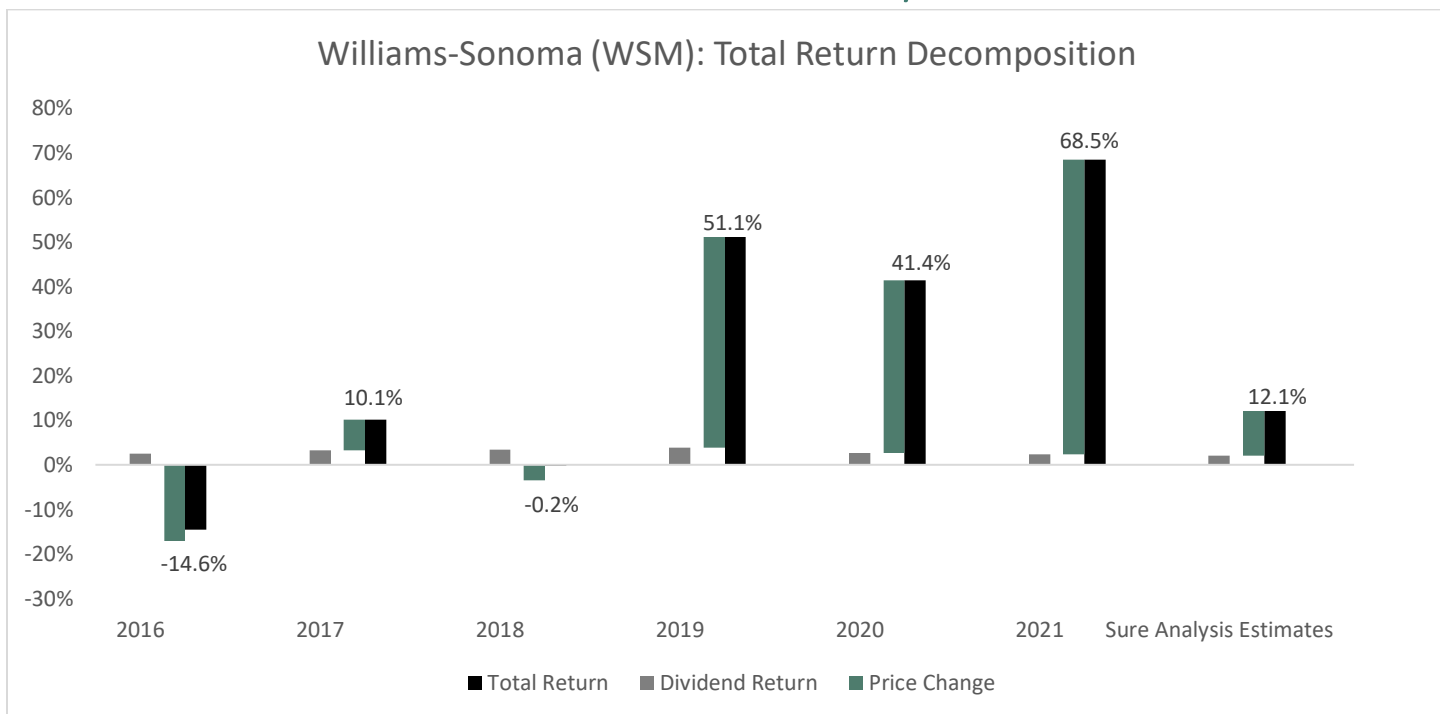
Williams-Sonoma's competitive advantage lies in its unique product portfolio and successful move to the online space. Notably, the company competes against formidable foes, including traditional brick-and-mortar home improvement retailers, such as Home Depot and Lowe's, and e-commerce players such as Amazon. Results have been solid in the last decade, but we caution that the company's business model can be cyclical. During the Great 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 2020-2021, 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. It also has a rock-solid balance sheet, with net debt of \$2.1 billion, which is only 17% of the market cap of the stock and only two times the annual earnings of the company.

## Final Thoughts & Recommendation

Williams-Sonoma has transformed itself into an omni-channel retailer with a large e-commerce presence, which has proved resilient during the coronavirus crisis. The stock has incurred a 26% correction off its peak in November, mostly due to high inflation and the fears of a potential recession. It has thus become attractive. We expect it to offer a 12.1% average annual total return thanks to 4.0% growth, a 1.9% dividend yield and a 6.3% annualized expansion of valuation level. We rate the stock as a buy but note its significant downside risk in the event of a recession.

## Total Return Breakdown by Year



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## Income Statement Metrics

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

## Balance Sheet Metrics

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

## Profitability & Per Share Metrics

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