



Williams-Sonoma Inc. (WSM)

Updated June 1st, 2022, by Aristofanis Papadatos

Key Metrics

Current Price:	\$128	5 Year CAGR Estimate:	15.3%	Market Cap:	\$9.1 B
Fair Value Price:	\$199	5 Year Growth Estimate:	4.0%	Ex-Dividend Date:	7/21/22 ¹
% Fair Value:	64%	5 Year Valuation Multiple Estimate:	9.2%	Dividend Payment Date:	8/26/22
Dividend Yield:	2.4%	5 Year Price Target	\$242	Years Of Dividend Growth:	16
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Buy

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 \$9.1 billion.

In late May, Williams-Sonoma reported (5/25/22) financial results for the first quarter of fiscal 2022. Comparable brand revenue grew 9.5% over last year's quarter thanks to growth of 14.6% and 12.8% in Pottery Barn and West Elm, respectively. The company grew its earnings-per-share 20%, from \$2.93 to \$3.50, and beat the analysts' consensus by an impressive \$0.61. It was the ninth consecutive quarter in which it exceeded the analysts' consensus by a wide margin.

Thanks to its sustained business momentum, Williams-Sonoma has raised its dividend by 10% and has a share repurchase program of \$1.0 billion, enough to reduce the share count by 11% at the current stock price. In addition, management reiterated its long-term guidance for mid-to-high single digit annual revenue growth, including this year, 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
EPS	\$2.54	\$2.82	\$3.24	\$3.37	\$3.41	\$3.52	\$4.05	\$4.49	\$8.61	\$14.85	\$14.20	\$17.28
DPS	\$0.88	\$1.24	\$1.32	\$1.40	\$1.48	\$1.56	\$1.72	\$1.92	\$1.97	\$2.42	\$3.12	\$4.18
Shares²	98	94	92	90	87	84	79	79	79	75	69	63

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 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
Avg. P/E	15.8	19.4	20.8	22.2	15.5	14.1	14.0	14.3	9.7	11.1	9.0	14.0
Avg. Yld.	2.2%	2.3%	2.0%	1.9%	2.8%	3.1%	3.0%	3.0%	2.4%	1.5%	2.4%	1.7%

¹ Estimated date.

² 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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Williams-Sonoma has an interesting valuation history, with a typical multiple in the mid-teens coupled with occasional bouts of a 20+ earnings multiple. We assume a fair price-to-earnings ratio of 14.0, which is close to the 7-year average of the stock. The stock is currently trading at a 10-year low price-to-earnings ratio of 9.0, which is much lower than our assumed fair valuation level. The depressed valuation has resulted from record earnings, the effect of inflation on valuation and fears that inflation will hurt margins in the future. We view all these headwinds as temporary. If the stock reverts to its average valuation level over the next five years, it will enjoy a 9.2% 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%	22%	24%

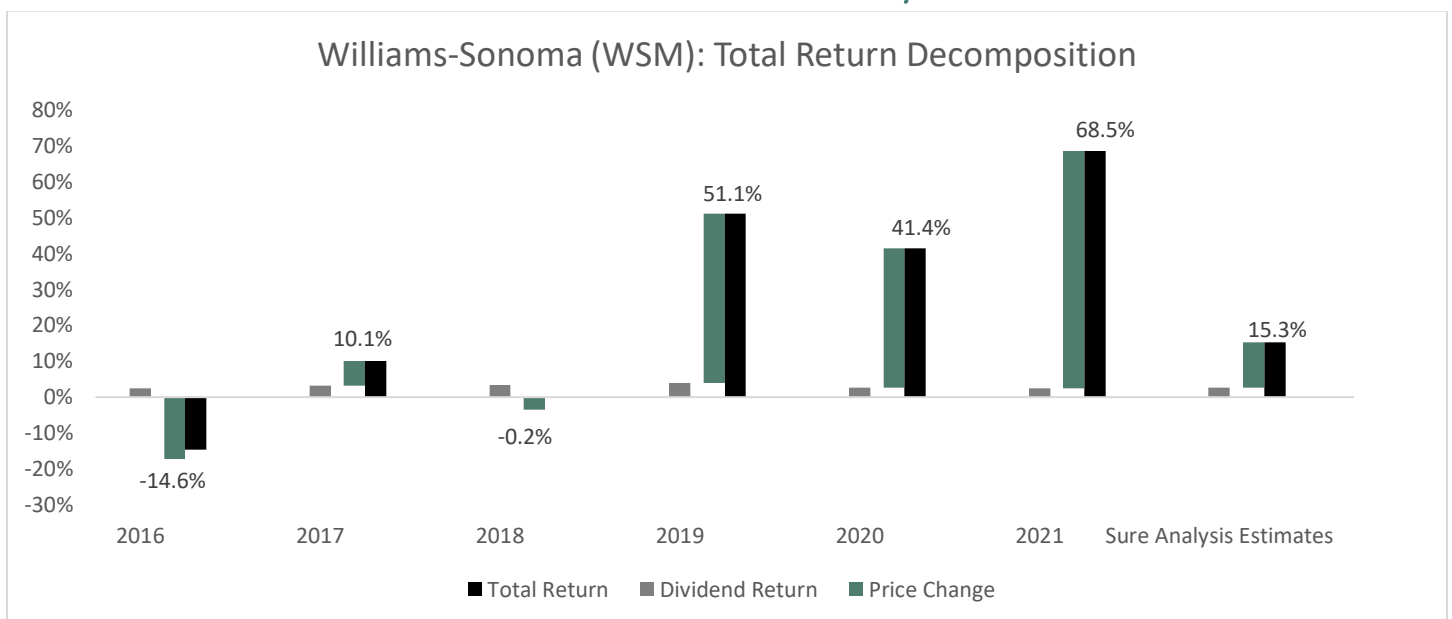
Williams-Sonoma's competitive advantage lies in its unique product portfolio and successful move to the online space. Notably, the company competes against formidable foes, including traditional brick-and-mortar home improvement retailers, such as Home Depot and Lowe's, and e-commerce players such as 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 \$2.4 billion, which is only 26% 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 fallen -42% 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 15.3% average annual total return thanks to 4.0% growth, a 2.4% dividend yield and a 9.2% 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	2021
Revenue	4,043	4,388	4,699	4,976	5,084	5,292	5,672	5,898	6,783	8,246
Gross Profit	1,592	1,704	1,801	1,844	1,883	1,932	2,101	2,139	2,636	3,632
Gross Margin	39.4%	38.8%	38.3%	37.1%	37.0%	36.5%	37.0%	36.3%	38.9%	44.0%
SG&A Exp.	1,183	1,252	1,298	1,356	1,411	1,478	1,665	1,673	1,726	2,179
D&A Exp.	134	150	162	168	173	183	189	188	189	196
Operating Profit	409	452	502	489	473	454	436	466	911	1,453
Operating Margin	10.1%	10.3%	10.7%	9.8%	9.3%	8.6%	7.7%	7.9%	13.4%	17.6%
Net Profit	257	279	309	310	305	260	334	356	681	1,126
Net Margin	6.4%	6.4%	6.6%	6.2%	6.0%	4.9%	5.9%	6.0%	10.0%	13.7%
Free Cash Flow	159	260	257	341	327	310	396	421	1,105	1,145
Income Tax	153	174	193	178	167	193	96	101	214	325

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	2188	2337	2330	2417	2477	2786	2813	4054	4661	4,626
Cash & Equivalents	425	330	223	194	214	390	339	432	1200	850
Accounts Receivable	63	60	67	79	89	90	107	112	144	132
Inventories	640	813	888	978	978	1062	1125	1101	1006	1,246
Goodwill & Int. Ass.	---	---	---	---	---	---	85	85	85	85
Total Liabilities	879	1081	1106	1219	1229	1582	1657	2818	3010	2,961
Accounts Payable	259	405	397	447	454	459	527	521	543	613
Long-Term Debt	5	4	2	0	0	299	300	300	299	---
Shareholder's Equity	1309	1256	1225	1198	1248	1204	1156	1236	1651	1,664
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	2021
Return on Assets	12.1%	12.3%	13.2%	13.1%	12.5%	9.9%	11.9%	10.4%	15.6%	24.3%
Return on Equity	20.0%	21.7%	24.9%	25.6%	25.0%	21.2%	28.3%	29.8%	47.2%	67.9%
ROIC	19.9%	21.7%	24.8%	25.6%	25.0%	18.9%	22.6%	23.8%	39.1%	62.3%
Shares Out.	98	94	92	90	87	84	82	79	79	75
Revenue/Share	40.01	44.43	49.36	54.03	56.83	61.48	68.88	74.45	85.80	108.00
FCF/Share	1.57	2.63	2.70	3.70	3.66	3.60	4.81	5.31	13.98	14.99

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

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