



Williams-Sonoma Inc. (WSM)

Updated November 20th, 2023, by Aristofanis Papadatos

Key Metrics

Current Price:	\$179	5 Year CAGR Estimate:	7.1%	Market Cap:	\$11.5 B
Fair Value Price:	\$199	5 Year Growth Estimate:	3.0%	Ex-Dividend Date:	10/19/23
% Fair Value:	90%	5 Year Valuation Multiple Estimate:	2.1%	Dividend Payment Date:	11/24/23
Dividend Yield:	2.0%	5 Year Price Target	\$230	Years Of Dividend Growth:	17
Dividend Risk Score:	A	Retirement Suitability Score:	B	Rating:	Hold

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 \$11.5 billion.

In mid-November, Williams-Sonoma reported (11/16/23) financial results for the third quarter of fiscal 2023.

Comparable brand revenue declined -15% over the prior year's quarter due to a -17% decline in Pottery Barn, a -22% decline in West Elm and a -2% decline in Williams-Sonoma. Despite high promotional activity from competitors, Williams-Sonoma sold its products at full price and thus posted record third-quarter operating margin of 17%. Earnings-per-share of \$3.66 dipped -2% due to tough comparisons vs. blowout results in last year's quarter but exceeded the analysts' consensus by a massive \$0.32. The company has exceeded the analysts' estimates in 24 of the last 25 quarters.

Management reiterated its long-term guidance for mid-to-high single digit annual revenue growth and an operating margin above 15%. It also raised its guidance for operating margin this year from 15%-16% to 16.0%-16.5%, as the retailer has refrained from offering material discounts. We have thus raised our forecast from \$13.70 to \$14.60.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$2.82	\$3.24	\$3.37	\$3.41	\$3.52	\$4.05	\$4.49	\$8.61	\$14.85	\$16.54	\$14.60	\$16.93
DPS	\$1.24	\$1.32	\$1.40	\$1.48	\$1.56	\$1.72	\$1.92	\$1.97	\$2.42	\$3.05	\$3.60	\$4.82
Shares¹	94	92	90	87	84	79	79	79	75	67	64	60

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 during the last three 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 three years and has led the company to post record earnings.

On the other hand, due to the high comparison base formed this year and the cautious guidance of management, we prefer to be on the safe side and thus we expect 3.0% average annual growth of earnings-per-share until 2028.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Avg. P/E	19.4	20.8	22.2	15.5	14.1	14.0	14.3	9.7	11.1	8.1	12.3	13.6
Avg. Yld.	2.3%	2.0%	1.9%	2.8%	3.1%	3.0%	3.0%	2.4%	1.5%	2.3%	2.0%	2.1%

¹ 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. We assume a fair price-to-earnings ratio of 13.6, which is the 8-year average of the stock. The stock is currently trading at a price-to-earnings ratio of 12.3, which is lower than our assumed fair valuation level. The cheap valuation has resulted from nearly record earnings and the effect of 16-year high interest rates on valuation. We view these headwinds as temporary. If the stock reverts to its average valuation level over the next five years, it will enjoy a 2.1% annualized gain in its returns.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	44%	41%	42%	43%	44%	42%	43%	23%	16%	18%	25%	28%

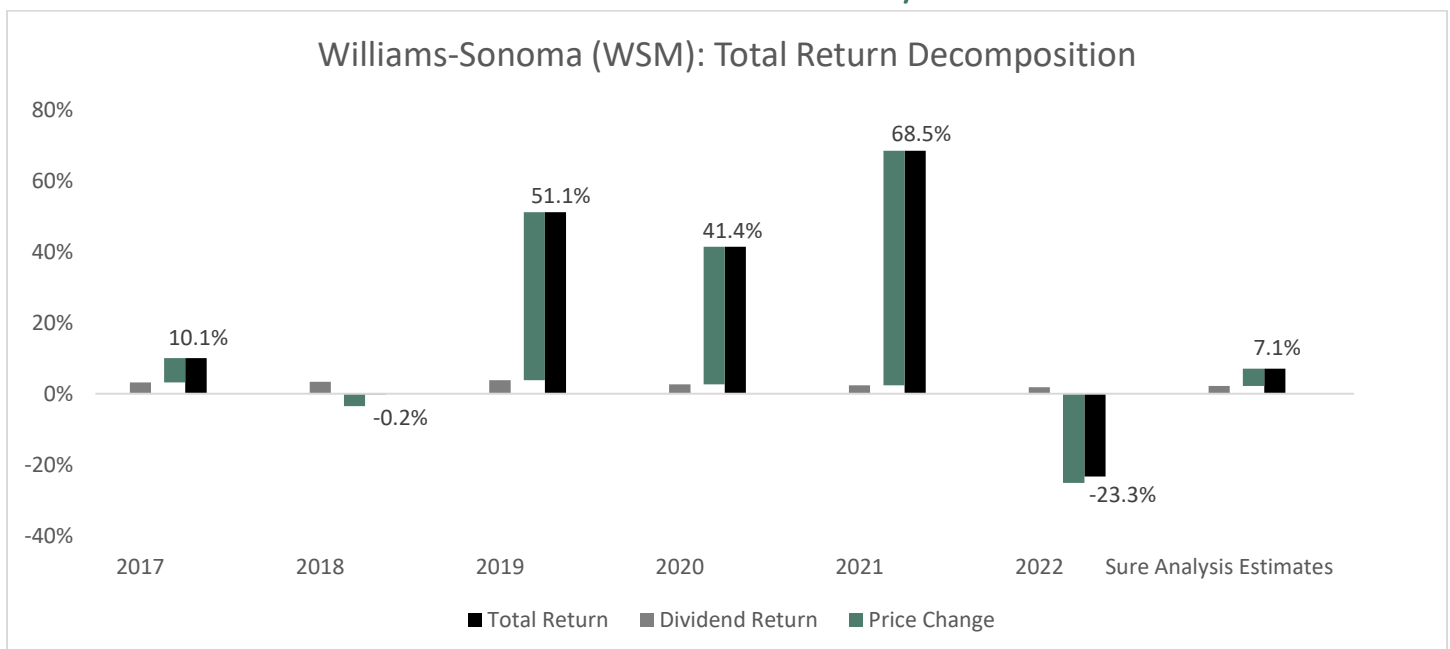
Williams-Sonoma's competitive advantage lies in its unique product portfolio and successful move to the online space. Notably, the company competes against formidable foes, including traditional brick-and-mortar home improvement retailers, such as Home Depot and Lowe's, and e-commerce players such as 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 2020-2022, 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 \$3.3 billion, which is only 29% of the market cap of the stock and less than four 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 rallied 28% since our last research report, in August, thanks to solid business performance but it could still offer a 7.1% average annual total return over the next five years thanks to 3.0% growth, a 2.0% dividend yield and a 2.1% annualized valuation tailwind. We lower our rating from "buy" to "hold" and note the material downside risk of the stock in the event of a recession.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	4,388	4,699	4,976	5,084	5,292	5,672	5,898	6,783	8,246	8,674
Gross Profit	1,704	1,801	1,844	1,883	1,932	2,101	2,139	2,636	3,632	3,678
Gross Margin	38.8%	38.3%	37.1%	37.0%	36.5%	37.0%	36.3%	38.9%	44.0%	42.4%
SG&A Exp.	1,252	1,298	1,356	1,411	1,478	1,665	1,673	1,726	2,179	2,179
D&A Exp.	150	162	168	173	183	189	188	189	196	214
Operating Profit	452	502	489	473	454	436	466	911	1,453	1,498
Operating Margin	10.3%	10.7%	9.8%	9.3%	8.6%	7.7%	7.9%	13.4%	17.6%	17.3%
Net Profit	279	309	310	305	260	334	356	681	1,126	1,128
Net Margin	6.4%	6.6%	6.2%	6.0%	4.9%	5.9%	6.0%	10.0%	13.7%	13.0%
Free Cash Flow	260	257	341	327	310	396	421	1,105	1,145	699
Income Tax	174	193	178	167	193	96	101	214	325	373

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	2337	2330	2417	2477	2786	2813	4054	4661	4,626	4,663
Cash & Equivalents	330	223	194	214	390	339	432	1200	850	367
Accounts Receivable	60	67	79	89	90	107	112	144	132	116
Inventories	813	888	978	978	1062	1125	1101	1006	1,246	1,456
Goodwill & Int. Ass.	---	---	---	---	---	85	85	85	85	77
Total Liabilities	1081	1106	1219	1229	1582	1657	2818	3010	2,961	2,962
Accounts Payable	405	397	447	454	459	527	521	543	613	508
Long-Term Debt	4	2	0	0	299	300	300	299	---	---
Shareholder's Equity	1256	1225	1198	1248	1204	1156	1236	1651	1,664	1,701
D/E Ratio	0.00	0.00	0.00	0.00	0.25	0.26	0.24	018	---	---

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	12.3%	13.2%	13.1%	12.5%	9.9%	11.9%	10.4%	15.6%	24.3%	24.3%
Return on Equity	21.7%	24.9%	25.6%	25.0%	21.2%	28.3%	29.8%	47.2%	67.9%	67.0%
ROIC	21.7%	24.8%	25.6%	25.0%	18.9%	22.6%	23.8%	39.1%	62.3%	67.0%
Shares Out.	94	92	90	87	84	82	79	79	75	69
Revenue/Share	44.43	49.36	54.03	56.83	61.48	68.88	74.45	85.80	108.00	125.53
FCF/Share	2.63	2.70	3.70	3.66	3.60	4.81	5.31	13.98	14.99	10.11

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

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