



# Williams-Sonoma Inc. (WSM)

Updated March 29<sup>th</sup>, 2024, by Aristofanis Papadatos

## Key Metrics

|                             |       |  |       |                                  |          |
|-----------------------------|-------|--|-------|----------------------------------|----------|
| <b>Current Price:</b>       | \$318 | <b>5 Year CAGR Estimate:</b>               | -1.9% | <b>Market Cap:</b>               | \$20.1 B |
| <b>Fair Value Price:</b>    | \$215 | <b>5 Year Growth Estimate:</b>             | 4.0%  | <b>Ex-Dividend Date:</b>         | 4/18/24  |
| <b>% Fair Value:</b>        | 148%  | <b>5 Year Valuation Multiple Estimate:</b> | -7.5% | <b>Dividend Payment Date:</b>    | 5/24/24  |
| <b>Dividend Yield:</b>      | 1.4%  | <b>5 Year Price Target</b>                 | \$262 | <b>Years Of Dividend Growth:</b> | 18       |
| <b>Dividend Risk Score:</b> | A     | <b>Retirement Suitability Score:</b>       | C     | <b>Rating:</b>                   | Sell     |

## 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 \$20.1 billion.

In mid-March, Williams-Sonoma reported (3/13/24) results for the fourth quarter of fiscal 2023. Comparable brand revenue dipped -7% over the prior year's quarter due to a -10% decline in Pottery Barn and a -15% decline in West Elm. Despite high promotional activity from competitors, Williams-Sonoma sold its products at full price and thus posted an operating margin of 20%. Earnings-per-share of \$5.44 dipped -1% due to tough comparisons vs. blowout results in 2022 but beat the analysts' consensus by \$0.28. The company has beaten the analysts' estimates in 25 of the last 26 quarters.

Management reiterated its long-term guidance for mid-to-high single digit annual revenue growth and an operating margin above 15%. It also posted guidance for flat sales and an operating margin of 16.5%-16.8% this year. As the company is proving that it can sustain the blowout earnings it achieved during the pandemic, the stock has rallied 30% since its earnings report.

## Growth on a Per-Share Basis

| Year                      | 2014   | 2015   | 2016   | 2017   | 2018   | 2019   | 2020   | 2021    | 2022    | 2023    | 2024           | 2029           |
|---------------------------|--------|--------|--------|--------|--------|--------|--------|---------|---------|---------|----------------|----------------|
| <b>EPS</b>                | \$3.24 | \$3.37 | \$3.41 | \$3.52 | \$4.05 | \$4.49 | \$8.61 | \$14.85 | \$16.54 | \$14.85 | <b>\$15.50</b> | <b>\$18.86</b> |
| <b>DPS</b>                | \$1.32 | \$1.40 | \$1.48 | \$1.56 | \$1.72 | \$1.92 | \$1.97 | \$2.42  | \$3.05  | \$3.48  | <b>\$4.52</b>  | <b>\$6.05</b>  |
| <b>Shares<sup>1</sup></b> | 92     | 90     | 87     | 84     | 79     | 79     | 79     | 75      | 67      | 65      | <b>63</b>      | <b>60</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 during the last four 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 four 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 4.0% average annual growth of earnings-per-share until 2029.

## Valuation Analysis

| Year             | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024        | 2029        |
|------------------|------|------|------|------|------|------|------|------|------|------|-------------|-------------|
| <b>Avg. P/E</b>  | 20.8 | 22.2 | 15.5 | 14.1 | 14.0 | 14.3 | 9.7  | 11.1 | 8.1  | 9.4  | <b>20.5</b> | <b>13.9</b> |
| <b>Avg. Yld.</b> | 2.0% | 1.9% | 2.8% | 3.1% | 3.0% | 3.0% | 2.4% | 1.5% | 2.3% | 2.5% | <b>1.4%</b> | <b>2.3%</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. We assume a fair price-to-earnings ratio of 13.9, which is the 10-year average of the stock. The stock has rallied 78% since our last research report, in November, and thus it is currently trading at a nearly 10-year high price-to-earnings ratio of 20.5. If the stock reverts to its average valuation level over the next five years, it will incur a -7.5% annualized drag in its returns.

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

| Year   | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021 | 2022 | 2023 | 2024 | 2029 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 41%  | 42%  | 43%  | 44%  | 42%  | 43%  | 23%  | 16%  | 18%  | 23%  | 29%  | 32%  |

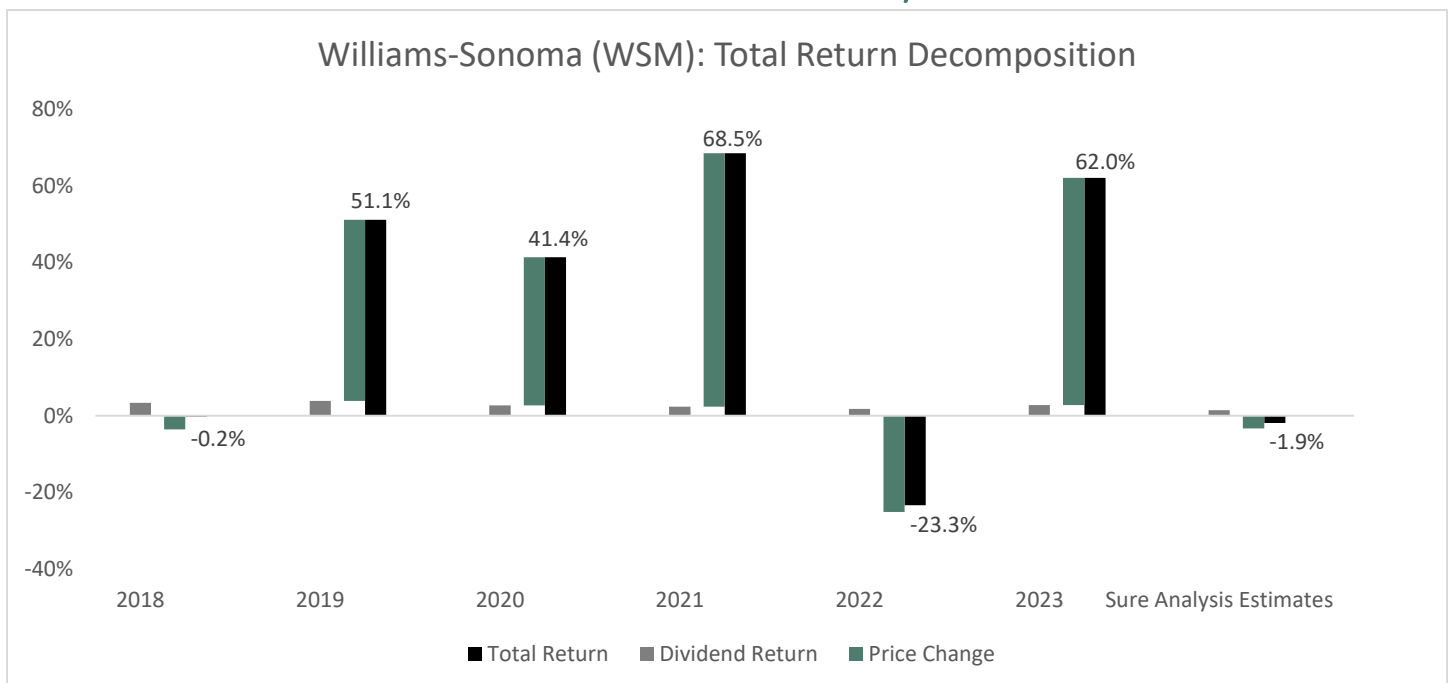
Williams-Sonoma's competitive advantage lies in its unique product portfolio and successful move to the online space. Notably, the company competes against formidable foes, including traditional brick-and-mortar home improvement retailers, such as Home Depot and Lowe's, and e-commerce players such as 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 \$1.7 billion, which is only 8% of the market cap of the stock and less than twice 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 78% since our last research report, in November, as it has proved it can sustain the record earnings it achieved during the pandemic. Due to its rich valuation, it could offer a -1.9% average annual total return over the next five years, as 4.0% growth and a 1.4% dividend may be offset by a -7.5% annualized valuation headwind. Williams-Sonoma receives a sell rating due to its risk whenever its business decelerates.

## Total Return Breakdown by Year



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## Income Statement Metrics

| Year                    | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021  | 2022  | 2023  |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| <b>Revenue</b>          | 4,699 | 4,976 | 5,084 | 5,292 | 5,672 | 5,898 | 6,783 | 8,246 | 8,674 | 7,751 |
| <b>Gross Profit</b>     | 1,801 | 1,844 | 1,883 | 1,932 | 2,101 | 2,139 | 2,636 | 3,632 | 3,678 | 3,304 |
| <b>Gross Margin</b>     | 38.3% | 37.1% | 37.0% | 36.5% | 37.0% | 36.3% | 38.9% | 44.0% | 42.4% | 42.6% |
| <b>SG&amp;A Exp.</b>    | 1,298 | 1,356 | 1,411 | 1,478 | 1,665 | 1,673 | 1,726 | 2,179 | 2,179 | 2,059 |
| <b>D&amp;A Exp.</b>     | 162   | 168   | 173   | 183   | 189   | 188   | 189   | 196   | 214   | 233   |
| <b>Operating Profit</b> | 502   | 489   | 473   | 454   | 436   | 466   | 911   | 1,453 | 1,498 | 1,244 |
| <b>Operating Margin</b> | 10.7% | 9.8%  | 9.3%  | 8.6%  | 7.7%  | 7.9%  | 13.4% | 17.6% | 17.3% | 16.1% |
| <b>Net Profit</b>       | 309   | 310   | 305   | 260   | 334   | 356   | 681   | 1,126 | 1,128 | 950   |
| <b>Net Margin</b>       | 6.6%  | 6.2%  | 6.0%  | 4.9%  | 5.9%  | 6.0%  | 10.0% | 13.7% | 13.0% | 12.3% |
| <b>Free Cash Flow</b>   | 257   | 341   | 327   | 310   | 396   | 421   | 1,105 | 1,145 | 699   | 1,492 |
| <b>Income Tax</b>       | 193   | 178   | 167   | 193   | 96    | 101   | 214   | 325   | 373   | 324   |

## Balance Sheet Metrics

| Year                            | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2020 | 2021  | 2022  | 2023  |
|---------------------------------|------|------|------|------|------|------|------|-------|-------|-------|
| <b>Total Assets</b>             | 2330 | 2417 | 2477 | 2786 | 2813 | 4054 | 4661 | 4,626 | 4,663 | 5,274 |
| <b>Cash &amp; Equivalents</b>   | 223  | 194  | 214  | 390  | 339  | 432  | 1200 | 850   | 367   | 1,262 |
| <b>Accounts Receivable</b>      | 67   | 79   | 89   | 90   | 107  | 112  | 144  | 132   | 116   | 123   |
| <b>Inventories</b>              | 888  | 978  | 978  | 1062 | 1125 | 1101 | 1006 | 1,246 | 1,456 | 1,246 |
| <b>Goodwill &amp; Int. Ass.</b> | ---  | ---  | ---  | ---  | 85   | 85   | 85   | 85    | 77    | 77    |
| <b>Total Liabilities</b>        | 1106 | 1219 | 1229 | 1582 | 1657 | 2818 | 3010 | 2,961 | 2,962 | 3,146 |
| <b>Accounts Payable</b>         | 397  | 447  | 454  | 459  | 527  | 521  | 543  | 613   | 508   | 608   |
| <b>Long-Term Debt</b>           | 2    | 0    | 0    | 299  | 300  | 300  | 299  | ---   | ---   | ---   |
| <b>Shareholder's Equity</b>     | 1225 | 1198 | 1248 | 1204 | 1156 | 1236 | 1651 | 1,664 | 1,701 | 2,128 |
| <b>D/E Ratio</b>                | 0.00 | 0.00 | 0.00 | 0.25 | 0.26 | 0.24 | 018  | ---   | ---   | ---   |

## Profitability & Per Share Metrics

| Year                    | 2014  | 2015  | 2016  | 2017  | 2018  | 2019  | 2020  | 2021   | 2022   | 2023   |
|-------------------------|-------|-------|-------|-------|-------|-------|-------|--------|--------|--------|
| <b>Return on Assets</b> | 13.2% | 13.1% | 12.5% | 9.9%  | 11.9% | 10.4% | 15.6% | 24.3%  | 24.3%  | 19.1%  |
| <b>Return on Equity</b> | 24.9% | 25.6% | 25.0% | 21.2% | 28.3% | 29.8% | 47.2% | 67.9%  | 67.0%  | 49.6%  |
| <b>ROIC</b>             | 24.8% | 25.6% | 25.0% | 18.9% | 22.6% | 23.8% | 39.1% | 62.3%  | 67.0%  | 49.6%  |
| <b>Shares Out.</b>      | 92    | 90    | 87    | 84    | 82    | 79    | 79    | 75     | 69     | 65     |
| <b>Revenue/Share</b>    | 49.36 | 54.03 | 56.83 | 61.48 | 68.88 | 74.45 | 85.80 | 108.00 | 125.53 | 118.74 |
| <b>FCF/Share</b>        | 2.70  | 3.70  | 3.66  | 3.60  | 4.81  | 5.31  | 13.98 | 14.99  | 10.11  | 22.86  |

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

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