

FLASH REPORT


WAYFAIR (W) 3Q16 RESULTS: DESPITE SOLID QUARTER, SOFTER CONSUMER SPENDING HAS SALES OUTLOOK BELOW EXPECTATIONS

	3Q16	3Q15	YoY Change
Revenues (USD Mil.)	\$861.5	\$593.9	45.0%
Gross Margin	23.4%	23.8%	(40) bps
SG&A/Sales	30.6%	26.9%	366 bps
Operating Margin	(7.1)%	(2.6)%	(402) bps
Adjusted EPS	\$(0.54)	\$(0.13)	(315.4)%

Source: Company reports/Fung Global Retail & Technology

- **Boston-based online home goods retailer Wayfair reported adjusted 3Q16 EPS of \$(0.54), ahead of the \$(0.59) consensus estimate, but down from \$(0.13) in the year-ago period. Revenues were \$861.5 million, up 45.0% year over year and above the consensus estimate of \$845.9 million.**
- **Orders in 3Q16 totaled 3.4 million, above the consensus estimate of 3.2 million. Average order value was \$244, compared with \$235 in the year-ago period. Ending active customers totaled 7.4 million, up 60% year over year and versus consensus of 7.3 million. Mobile orders accounted for 40.3% of the total, up from 35.1% in the year-ago quarter.**
- **For 4Q16, Wayfair expects revenue of \$920–\$960 million, below the \$1.03 billion consensus estimate. Additionally, the company expects direct retail revenue in the range of \$890–\$925 million, below the \$995 million consensus estimate.**

3Q16 RESULTS

Boston-based online home goods retailer Wayfair reported 3Q16 revenues of \$861.5 million, up 45.0% year over year and above the consensus estimate. Direct retail revenue rose by 52.7% year over year, to \$832.4 million (96% of total sales), while the number of active customers in the company's direct retail business increased by 60.4% year over year, to 7.4 million.

Direct retail revenue consists of sales generated primarily through the sites of the company's brands, which include Wayfair, Joss & Main, AllModern, DwellStudio and Birch Lane.

Average order value was \$244, up from \$235 during the year-ago period. Total orders delivered in the third quarter were 3.4 million, an increase of 47.1% year over year. Repeat customers placed 56.9% of total orders, compared with 55.2% in the year-ago quarter. Mobile orders accounted for 40.3% of the total, up from 35.1% in the year-ago quarter.

Despite beating analysts' estimates and posting strong revenue growth, Wayfair is moving in the opposite direction of profitability. Operating expenses, driven by increased costs in customer service, marketing and logistics, increased by 64.5% year over year, growing faster than revenue. Gross margin declined slightly, dropping 40 basis points year over year, to 23.4%. The company's free cash flow fell from a gain of \$35.3 million to a loss of \$13.97 million.



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Adjusted EPS came in at \$(0.54), down from \$(0.13) in the prior-year period, but was \$0.05 higher than the consensus estimate.

Wayfair executives remarked that they are pleased with third quarter results and will stay focused on taking market share from online and traditional retailers into 2017 as the company focuses on marketing and expands into countries that include Canada, the UK and Germany.

The company continues to invest in three key categories: international expansion, warehousing and logistics infrastructure, and rolling out new products such seasonal décor.

OUTLOOK

For 4Q16, Wayfair expects:

- Revenue of \$920–\$960 million, short of \$1.03 billion consensus estimate.
- Direct retail revenue in the range of \$890–\$925 million, below the \$995 million consensus estimate.
- Other revenue of \$30–\$35 million versus the consensus estimate of \$35 million.
- Full-year capital expenditures are expected to be ~4% of net revenue, unchanged from prior guidance.

Wayfair did not provide sales guidance for 2017. Company executives noted that softer consumer spending is pressuring sales growth and, thus, the company is being conservative in its guidance.



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