



wayfair® (W) 1Q17 Results: Beats on Revenue and EPS, 2Q Guidance Above Consensus

Figure 1. Wayfair 1Q17 Key Metrics

	1Q17	1Q16	YoY Change
Revenues (USD Mil.)	\$960.8	\$747.3	28.6%
Gross Margin	24.7%	24.0%	70 bps
SG&A/Sales	30.5%	29.6%	90 bps
Adjusted Operating Margin	(5.9)%	(5.5)%	(37) bps
Adjusted EPS	\$(0.48)	\$(0.36)	(33.3)%

Source: Company reports/Fung Global Retail & Technology

- Wayfair reported 1Q17 adjusted EPS of \$(0.48), ahead of the \$(0.57) consensus estimate, but down from \$(0.36) in the year-ago period. Total revenues were \$960.8 million, up 28.6% year over year and above the consensus estimate of \$934.8 million.
- Orders delivered in 1Q17 totaled 4.2 million, below the consensus estimate of 4.3 million but above the year-ago total of 3.0 million. Active customers in the direct retail business totaled 8.9 million, up 45.8% year over year and above the consensus estimate of 8.6 million.
- For 2Q17, Wayfair expects revenue of \$1.03–\$1.06 billion, above the \$989 million consensus estimate. Additionally, the company expects direct retail revenue to grow at a rate of approximately 34%–37% year over year, to \$1.02–\$1.04 billion, above the \$972 million consensus estimate.

1Q17 Results

Boston-based online home goods retailer Wayfair reported 1Q17 adjusted EPS of \$(0.48), which was ahead of the \$(0.57) consensus estimate.

Total revenues were \$960.8 million versus expectations of \$934.8 million, and were up 28.6% year over year. Direct retail revenue rose by 32.1% year over year, to \$940.4 million, and accounted for 97.9% of total sales. Direct retail growth was driven by a 45.8% increase in the number of active customers (to 8.9 million) in the company's direct retail business, which was partially offset by a decline in average order value. Private label brands grew to account for approximately 45% of Wayfair.com revenue.

North American direct retail revenues (which accounted for 89.1% of total direct retail sales) were up 25% year over year, driven by improved online visual merchandising and progress in the home improvement category. The international direct retail business increased by 163% year over year, driven by expansion into Canada.

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 \$223, down from \$238 in the year-ago period. Orders delivered in the quarter totaled 4.2 million, an increase of 40.3% year over year. Repeat customers placed 60.4% of total orders, compared with 55.4% in the year-ago quarter,



and they placed 2.5 million orders in total, up 53.3% year over year. Mobile orders accounted for 44.6% of total orders, up from 38.6% in the year-ago quarter.

Wayfair remarked that management is pleased with the first-quarter results and expects momentum to continue into April and May. The company will continue to focus on international expansion into countries that include Canada, the UK and Germany.

Outlook

For 2Q17, Wayfair expects revenue of \$1.03–\$1.06 billion, above the \$989 million consensus estimate. Additionally, the company expects direct retail revenue in the range of \$1.02–\$1.04 billion, above the \$972 million consensus estimate, with a growth rate of approximately 34%–37% year over year. Adjusted EBITDA is expected to decline by 2.0%–2.3%, versus (2.2)% in 1Q17, driven by continued investment in the international business.

Full-year capital expenditures are expected to be approximately 3% of net revenue, although the company expects that percentage to be higher in the second quarter. Wayfair did not provide sales guidance for FY17. The consensus estimate calls for FY17 revenue of \$4.24 billion, up 25.4%, and adjusted EPS of \$(1.58) compared with FY16 adjusted EPS of \$(2.29). Company executives noted that softer consumer spending is pressuring sales growth, but said that the company believes it will outperform the online market for home goods.

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