

Williams-Sonoma, Inc.
NYSE:WSM
Analyst: Florent Polito

Sector: Consumer Disc.

BUY

Price Target: \$68.96

Key Statistics as of 04/22/2016

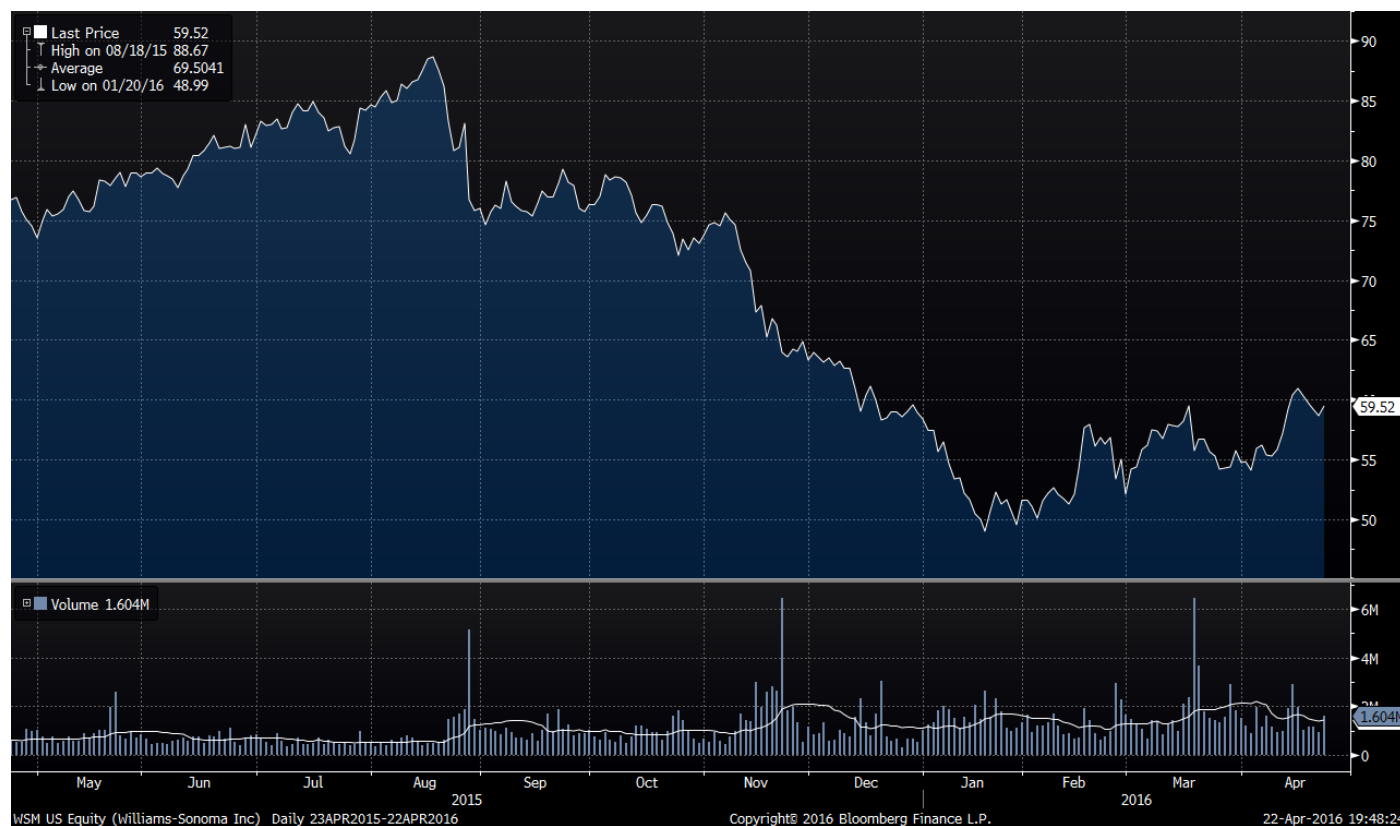
Market Price:	\$59.52
Industry:	Specialty Retail
Market Cap:	\$5.31B
52-Week Range:	\$48.99-\$88.67
Beta:	0.78

Thesis Points:

- Expectations of slowing growth may be proven wrong due to refocalized strategy
- The bullish housing market will drive revenues up
- The diversification of WSM products is a strength the company will benefit from in 2016

Company Description:

Williams-Sonoma Inc. is a consumer retail company that sells kitchenwares, home furnishings and food. Most of its products are French inspired. The company is mostly established in the United States but has a presence in North America, Europe, Middle East and is expanding in South Africa and the Philippines, through both company owned stores and franchises. The company operates more than 600 stores with 26,800 employees for a total revenue of \$4.4 Billion.

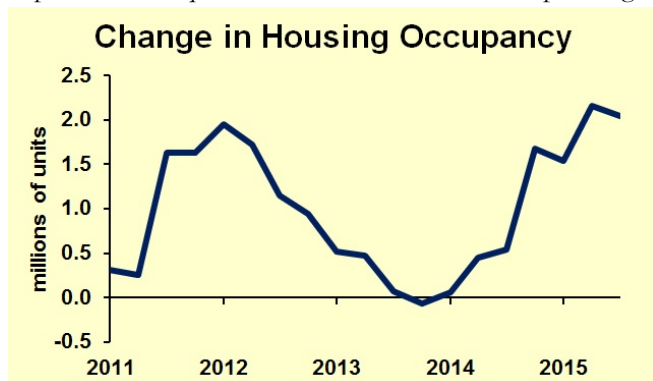


Thesis

WSM is a company with an increasing presence inside and outside the USA. Due to a weak 2015 growth, expectations have been lowered for the company, but chances are those expectations are actually wrong. The company can benefit from the diversification and quality of its products as well as its partnerships and a bullish housing market to secure a higher growth than forecasted. While 2015 have shown different WSM problems such as the distribution of their products, the company has made the necessary changes that will drive its growth in 2016 and 2017.

Industry Outlook

WSM revenues may directly be impacted by the housing market growth, in effect as a seller of mostly indoor and outdoor home furniture, it has a tie with the housing market. While interest rates are not expected to increase tremendously during 2016, there has been a noted tendency of an increase in housing occupancy which means more and more persons get a house, and this trend is forecasted to keep growing in 2016 and 2017, along a slight expected increase in home price. 2016 and 2017 should therefore have a positive impact on WSM sales. Moreover the strong actual dollar coupled with low oil prices have increased consumer confidence, with an expected consequences of an increase in their spending.



Management

The company is focused on delivering outstanding quality products with big added value, WSM is also implied in offering fair wages and working conditions in its factories and stores. Because the company does not have agents and vendor and distribution type of relations, it can eliminate several layers of cost and offer lower price compared to the competition. The company is focused on providing a safe and caring work

environment as its people are mostly those that create the experience to the customers and will drive the sales. The company has been rated 3.9 stars out of 5 on the website Indeed by 700 different employees which highlights that the company has and shows overall a positive image.

Products

The company operate several brands and offers a wide range of products under different names which are Williams-Sonoma, Williams-Sonoma Home, Pottery Barn, Pottery Barn Kids, PBTeen, Rejuvenation, and Mark and Graham. Those products includes home and kitchen furnishings, modern housewares, personalized gifts for both children, young adults, and families. The company is targeting a wide range of age demographics in order to keep a strong brand name and keep its loyal customers as they evolve with time. Those products are offered with best-in-class services, and WSM values timeless designs and superior quality at a compelling value. The diversity of its products and the quality of services coupled to skilled labor gives an edge and a sort of personalized experience to customers that can only benefit the company.

Company Strategy

With its direct sourcing, the company has an edge over conventional retailers, and help the company afford consistent high level of quality for both food and furnitures from construction to engineered packaging. The company is planning on expanding internationally through franchises. The company is implanted in 9 countries outside the US with 69 stores and plans to have a presence in 35 countries within 10 years, and is already developing its company-owned businesses in the UK and in Australia. WSM also has partners in the Middle East, Mexico, the UK and the Philippines, and recently developed a partnership in South Africa with Ram Brands.

To lower more its costs WSM is starting to regionalize its supply chain. The company has opened a new distribution center in the state of Georgia to offer faster and lower-cost deliveries. Several other distribution centers are planned to be opened on the West Coast, the Midwest, the Southeast and on the East Coast. Furthermore WSM is planning on closing stores which costs are deemed too high to focus on retail stores that offer a high valuable experience to the customers in

strategic points. WSM is presently expanding its West Elm presence with the opening of 18 stores in 2015 and plan to open 13 stores in 2016

Financials

WSH has had a relatively weak 2015 year with its gross margin lowered by 120 points from 38.3% to 37.1% which impacted the EBITDA margin and the Net Income margin. Those numbers must have been those dragging the stock down as the investors had foreseen during the year that the company had had an increase in its operating cost. At the same time, the earnings call last month has been the occasion for WSM to show that the company was about to cut costs thus it is to be expected that the company will have better margins for the coming year, thanks for example to the development of distribution centers, capital expenditures in 2016 will amount 200 million of dollars. There is still some indicators that the company is doing well, the dividend payaout ratio has been increased from 40.59% to 42.02%, and the return on Equity has increased from 24.90% to 25.59% while the ROIC has increased from 24.09% to 24.64% showing that the company even with weaker results than impacted is still profitable.

Conclusion

To conclude, forecasts are merely pessimistic on WSM due to a poor performance in 2015 but the company has what it takes to show growth in 2016 and 2017, the company does not have any indicators that would suggest that it gets worse on that time, therefore it seems logical that the stock price can only increase. Through a valuation of the company with discounting its cash flows, WSM has presently an intrinsic value of \$62.50 and a target price at \$68.96, a 18.3% return over a year.

Williams-Sonoma Inc. (wsm)

CENTER FOR GLOBAL FINANCIAL STUDIES

NEUTRAL

Analysis by Florent POLITO

Current Price:

\$59.52

Intrinsic Value

\$62.50

Target 1 year Return: 18.3%

Probability of Price Increase: 93.33%

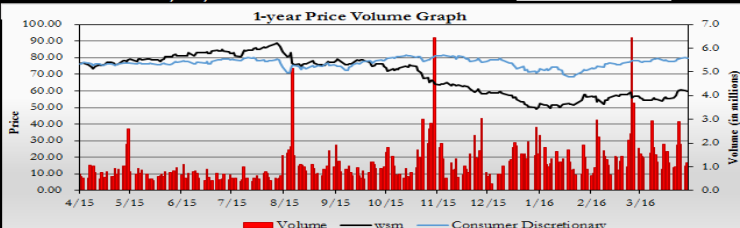
4/22/2016

Divident Yield:

2.4%

Target Price

\$68.96



Description
Williams-Sonoma, Inc. operates as a multi-channel specialty retailer of various products for home.

General Information
Sector: Consumer Discretionary
Industry: Specialty Retail
Last Guidance: November 3, 2015
Next earnings date: May 20, 2016
Estimated Country Risk Premium: 6.22%
Effective Tax rate: 39%
Effective Operating Tax rate: 58%

Market Data

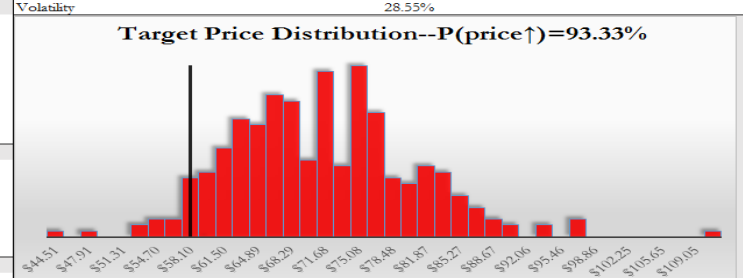
Market Capitalization	\$5,238.96
Daily volume (mil)	1.60
Shares outstanding (mil)	89.25
Diluted shares outstanding (mil)	92.10
% shares held by institutions	55%
% shares held by investments Managers	79%
% shares held by hedge funds	9%
% shares held by insiders	8.26%
Short interest	11.62%
Days to cover short interest	6.80
52 week high	\$89.38
52-week low	\$47.33
Levered Beta	1.13
Volatility	28.55%

Past Earning Surprises

Quarter ending	Revenue	EBITDA
2/1/2015	-1.89%	0.35%
5/3/2015	2.09%	4.90%
8/2/2015	1.75%	-4.62%
11/1/2015	1.38%	-0.44%
1/31/2016	-1.96%	-6.48%
Mean	0.28%	-1.26%
Standard error	0.9%	2.0%

Peers

Bed Bath & Beyond Inc.	13.32% per annum over 5y
Tractor Supply Company	20.67% per annum over 3y
Pier 1 Imports, Inc.	7.66% per annum over 4y
Restoration Hardware Holdings, Inc.	34.45% per annum over 2y
The Home Depot, Inc.	0% per annum over 0y
Mattress Firm Holding Corp.	N/M
Loew's Companies, Inc.	N/M
Best Buy Co., Inc.	N/M

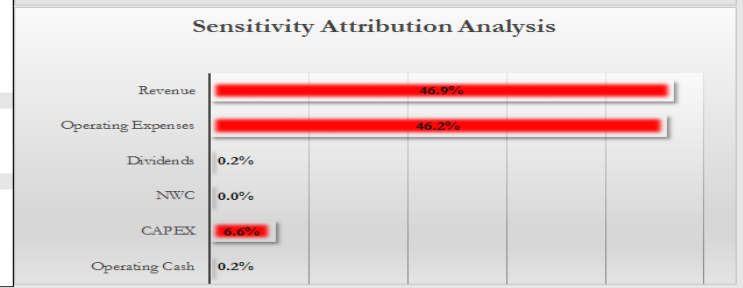


Management

Management	Position
Alber, Laura	Chief Executive Officer, Pre
Whalen, Julie	Chief Financial Officer and
Stangl, Sandra	President of Pottery Barn, P
Hayes, Janet	President of the Williams-So
Brett, James	President of West ELM Brand
Miller, Dean	Chief Operating Officer and

Total compensations growth

0.64% per annum over 5y
-0.24% per annum over 3y
14.3% per annum over 4y
10.26% per annum over 2y
N/M
N/M



Profitability

	wsm (LTM)	wsm (5 years historical average)	Industry (LTM)
ROIC	5.4%	16.31%	20.37%
NOPAT Margin	3%	9.59%	6.9%
Revenue/Invested Capital	1.63	1.70	2.96
ROE	6.4%	19.30%	24.53%
Adjusted net margin	3%	9.15%	6.5%
Revenue/Adjusted Book Value	2.27	2.11	3.75

Total return to shareholders

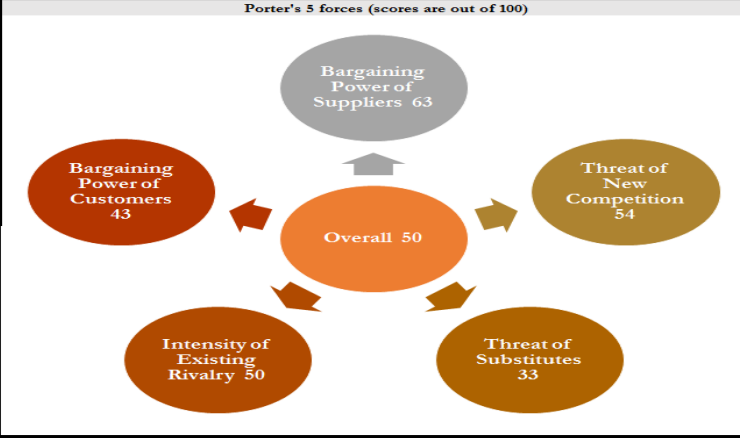
	wsm (5 years historical average)	Industry (LTM)
11.5%		
17%		
7.3%		
N/A		
14%		
84%		

Invested Funds

	wsm (LTM)	wsm (5 years historical average)	Industry (LTM)
Total Cash/Total Capital	6.5%	11.5%	17%
Estimated Operating Cash/Total Capital	6.5%	7.3%	N/A
Non-cash working Capital/Total Capital	4.9%	7.6%	14%
Invested Capital/Total Capital	100.0%	95.8%	84%

Capital Structure

	wsm (LTM)	wsm (5 years historical average)	Industry (LTM)
Total Debt/Common Equity (LTM)	0.39	0.32	0.23
Cost of Existing Debt	2.46%	2.50%	4.79%
Estimated Cost of new Borrowing	2.98%	2.53%	3.93%
CGFS Risk Rating	2.46%	AA	AA
Unlevered Beta (LTM)	0.00%	1.30	0.92
WACC	8.37%	9.93%	8.21%



Revenue growth

Period	Revenue growth
Base Year	5.9%
1/31/2017	4.8%
1/31/2018	5.0%
1/31/2019	5.3%
1/31/2020	3.4%
1/31/2021	2.1%
1/31/2022	2.3%
1/31/2023	2.4%
1/31/2024	2.6%
1/31/2025	2.7%
1/31/2026	2.9%
Continuing Period	3.0%

Valuation

	NOPAT margin	ROIC/WACC
3.3%	0.65	
9.4%	2.02	
9.6%	2.10	
9.7%	2.06	
9.8%	2.03	
9.9%	1.99	
9.8%	1.94	
9.7%	1.91	
9.6%	1.88	
9.5%	1.86	
9.4%	1.83	
9.3%	1.80	

Invested Capital

Period	Invested Capital
Base Year	\$2,214.89
1/31/2017	\$2,385.11
1/31/2018	\$2,699.29
1/31/2019	\$2,815.26
1/31/2020	\$3,052.67
1/31/2021	\$2,978.93
1/31/2022	\$3,130.98
1/31/2023	\$3,391.67
1/31/2024	\$3,587.07
1/31/2025	\$3,772.51
1/31/2026	\$3,908.12
Continuing Period	

Net Claims

	Price per share
\$1,813.77	\$62.55
\$1,508.12	\$68.89
\$1,248.35	\$75.64
\$900.03	\$82.62
\$523.84	\$89.80
\$82.80	\$97.18
-\$381.65	\$104.69
-\$841.65	\$112.36
-\$1,298.33	\$120.19
-\$1,751.76	\$128.22
-\$2,202.00	\$136.44