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Wayfair, Inc. (W)

Q2 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Ladies and gentlemen, thank you for standing by. My name is Crysta, and I will be your conference operator today. At this time, I would like to welcome everyone to the Wayfair Second Quarter 2025 Earnings Release Conference Call. All lines have been placed on mute to prevent any background noise. After the speakers' remarks, there will be a question-and-answer session. [Operator Instructions] .

Thank you. And I would now like to turn the conference over to Ryan Barney. Head of Investor Relations. Ryan, you may begin.

Ryan Barney
Head of Investor Relations, Wayfair, Inc.

Good morning, and thank you for joining us. Today we will review our second quarter 2025 results. With me are Niraj Shah, Co-Founder, Chief Executive Officer and Co-Chairman; Steve Conine, Co-Founder and Co-Chairman; and Kate Gulliver, Chief Financial Officer and Chief Administrative Officer. We will all be available for Q&A following today's prepared remarks. I would like to remind you that our call today will consist of forward-looking statements, including, but not limited to, those regarding our future prospects, business strategies, industry trends, and our financial performance, including guidance for the third quarter of 2025. All forward-looking statements made on today's call are based on information available to us as of today's date. We cannot guarantee that any forward-looking statements will be accurate, although we believe that we have been reasonable in our expectations and assumptions.

Our 10-K for 2024, our 10-Q for this quarter, and our subsequent SEC filings, identify certain factors that could cause the company's actual results to differ materially from those projected in any forward-looking statements made today. Except as required by law, we undertake no obligation to publicly update or revise any of these statements, whether as a result of any new information, future events or otherwise. Also, please note that during this call, we will discuss certain non-GAAP financial measures as we review the company's performance, including adjusted EBITDA, adjusted EBITDA margin and free cash flow. These non-GAAP financial measures should not be considered replacements for and should be read together with GAAP results. Please refer to the Investor Relations section of our website to obtain a copy of our earnings release and investor presentation, which contain descriptions of our non-GAAP financial measures and reconciliation of non-GAAP measures to the nearest comparable GAAP measures.

This call is being recorded and a webcast will be available for replay on our IR website. I would now like to turn the call over to Niraj.

Niraj S. Shah

Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

Thanks, Ryan, and good morning, everyone. We're pleased to be here today to discuss our second quarter results with you. The second quarter was a resounding success, defined by accelerating sales and share gains in tandem with expanding profitability. As we've discussed over the last few years, we can and will grow profitably while taking significant share in the market. We operate the business by balancing investing for the future with growing our current profitability, with the objective of maximizing EBITDA and free cash flow over the long-term. The second quarter was a nice proof point of the journey that we've been on, and even more exciting of what is to come. Year-over-year revenue growth of 6%, excluding the impact of Germany, marks the highest growth rate we have seen since early 2021.

Our over 6% adjusted EBITDA margin demonstrates the significant leverage in our model and as previewed in our Investor Day two years ago, is just the beginning of what we believe we can achieve over time. Switching gears, as we started the quarter, there was intense focus from investors on the ramifications of tariffs on our sector and how this would impact Wayfair's competitive position. As we've previously described, the marketplace forces of our inventory-light model give us unmatched flexibility with our global network of more than 20,000 suppliers, offering over 30 million products and constant competition to present the strongest value to the customer. The benefits of this model continue to prove self-evident despite the various ebbs and flows of the broad business environment. Specifically, when we look at the actual items that customers are viewing and purchasing today, prices have remained relatively consistent with the first quarter.

As we spoke about in the spring, suppliers take different approaches to managing cost increases. While some may pass through price increases, others who want to win share in a demand-constrained environment will choose to keep their prices more competitive, and will use all the methods at their disposal to do so. Our model allows us to service the products with the best value for our customers, enabling us and our suppliers to gain share and grow revenue. Pricing consistency is largely reflected in our results on average order value as well. Sequential growth in the second quarter mirrored what we saw last year, that worth talking through some of the moving pieces. AOV is an output of unit prices, items per order and mix. We've seen some modest growth in average items per order, but mix is the primary driver of year-over-year AOV growth. Our specialty retail brands in Perigold continue to outperform.

Q2 is the peak of the outdoor category in which we're a large participant and Wayfair Professional posted double-digit growth after a few quarters of increasing momentum. The strength in our top line was a combination of healthy AOV growth and a nice step up in order growth from Q1. This is partially a function of the new long-cycle initiatives that we've been seeding, and many of those efforts have started to bear fruit in 2025. We'll quickly run through a few of those now, but I'd encourage anyone less familiar with Wayfair to review some of our prior calls for more detail. We introduced Wayfair Verified in the fourth quarter, a curation program designed to give customers a shortcut to items in the catalog that reflect the highest quality and value standards across every style and price point. Wayfair Verified, is an editorial review program where our merchants hand-inspect key items and provide firsthand detail on why they have selected that specific item.

The Verified checkmark provides a guidepost for shoppers as they navigate our endless aisle, and the response from customers has been very positive. These items are driving outsized performance, converting over 25% better, achieving approximately 20% higher net promoter scores, and generating higher repeat purchase behavior compared to non-verified items. The number of items in the program and the prominence of them in the experience will continue to grow over the course of the year. The second initiative to call out is Wayfair Rewards, our paid loyalty program that launched last holiday season. The initial excitement we saw for Wayfair Rewards at the time of launch continues to gain traction, with member growth and customer lifetime value curves exceeding our initial expectations. We'll have more detail to share on the success we're having in the not too distant future.

Finally, physical retail continues to generate momentum across our portfolio of brands, as May marked the one-year anniversary of our first large-format Wayfair store outside of Chicago. We saw an impressive in-store response to major promotional events in the quarter, like Way Day and Memorial Day, showcasing the power of bringing the Wayfair brand to life and omnichannel experience. While the sales halo in the metro area from the store has been tremendous, the impact on categories where Wayfair is less top-of-mind is even more pronounced. In the Chicago DMA, we've seen over a 50% increase in lower ticket frequency purchases like kitchen accessories, and a more than 35% increase in higher consideration home improvement purchases like bathroom renovation items and kitchen cabinets.

Earlier this year, we announced additional Wayfair stores coming to Atlanta in 2026 and New York in 2027, and just this past week, we announced plans for a Wayfair store outside of Denver to open in late 2026. We're excited to see the impact that these stores have in these key metros as we look to replicate the success we've had in Chicago. We also opened our first Perigold store in May in Highland Village in Houston, and it's off to a great start, with a second store opening in West Palm Beach this fall. These are just three initiatives. The full list of initiatives is quite long, and some of the most exciting ones are due to the tech re-platforming efforts over the last few years. Ongoing improvements in the shopping experience, GenAI-powered enhancements for customers and suppliers, and an expansion of our supply chain capabilities are just a few of the areas seeing rapid advances.

Stepping back now, the roadmap we have on these various initiatives, combined with our relentless focus on top-tier execution, paints an exciting picture ahead where Wayfair is accelerating share capture and growth. All of this is possible due to the deep partnerships we have with our suppliers across technology and people, but also via deep operational integration across all aspects of their business. Our logistics offering is one of our key competitive moats, and an area where we see growing supplier eagerness to lean in. As a reminder to those new to Wayfair, CastleGate is our proprietary logistics network spanning inbound logistics, storage, and outbound fulfillment and is possible through the exhaustive technology and operations, with more than 60 buildings totaling 22 million square feet across multiple continents.

We've been investing in CastleGate since 2015 and have built out one of the world's only networks, custom designed for the fragile, heavy and bulky products that define the home category. CastleGate Forwarding is our inbound logistics and ocean freight forwarding operations. We enable suppliers to maintain a regular flow of goods as production shifts around the globe, and they fill up operations in new geographies. Many of our suppliers are small businesses who individually lack the volume to consistently secure cost-effective and reliable ocean freight capacity on their own. Our forwarding services provide access to large, high-quality ocean carriers on amenable terms, which we can then share at competitive rates with our suppliers. We enable this by not just providing the transportation capability to move the goods, but by also offering cost-effective ways to consolidate the goods to enable forward positioning to many locations.

We've seen a 40% year-over-year increase in total volume using our CastleGate Forwarding offerings over the last year, driven by increases in both active supplier shipping on our service and average containers per supplier. We've also expanded to new markets like Brazil and India, unlocking additional volume and enabling suppliers to more easily diversify their production footprint. Recent supply chain volatility has only reinforced the value we offer our suppliers. In fact, we've seen a more than 30% increase in long-term inbound commitments with suppliers compared to where we started the year. Once product has made its way into the domestic markets, suppliers are keen to leverage our CastleGate fulfillment network as the best way to forward-position their products. The percentage of our revenue that comes from products shipped out of our own fulfillment centers, what we call CastleGate Penetration, sits at roughly 25% today, up about 400 basis points year-over-year.

The benefits from the CastleGate Network are numerous. Suppliers achieve broad forward-positioning and speed badging, which lifts conversion, lowers incidence and return rates, lower shipping costs and thereby lowers retail prices to consumers. Lower prices, of course, drive conversion and enhance customer perception, leading to improved customer lifetime value. Logistics is one of the few areas where improvements help the supplier, the customer and Wayfair all at the same time. With the uptick in CastleGate Penetration, we've seen the percentage of items on site with speed badging increase by over 800 basis points year-over-year. The percentage of items with one- and two-day badges increased by approximately 400 basis points as we exited the second quarter. We've also seen a nice drop in average ship distance per order versus last year, driven by the growth in penetration.

CastleGate further enhances the customer experience from improved reliability with materially higher exact on-time reliability rates than dropship, driven by our tight control over fulfillment and carrier partnerships. This enhances the customer order to delivery experience and results in higher customer NPS. Suppliers enjoy the benefits they get from participating in the CastleGate network, and one piece of feedback we've heard over the years is a desire to take advantage of our capabilities for more of their order volume. To that end, we're excited to share a key development in our logistics offering, the expansion and marketing of CastleGate to suppliers for fulfilling orders outside of their Wayfair business, what we call multi-channel. Multi-channel has existed in the background for quite some time, but in a different format, and a very small scale, used primarily for clearing distressed inventory.

Over the past 18 months, we've invested in operational and technology efforts to evolve this offering into a comprehensive third party logistics service tailored for the home category. Pick and ship is our core service offering and provide suppliers with competitive rates, premium service, integrated inventory management, and streamlined order fulfillment for any of their customers. After testing with a small subset of suppliers in 2024, we launched the full offering to our entire supplier base earlier this year. The response has been resounding. Multi-channel volumes are rapidly scaling and we now have hundreds of suppliers utilizing the offering. We have line of sight to continued momentum as existing multi-channel suppliers are growing their inbound volumes and with a healthy pipeline of new suppliers onboarding to the program.

For suppliers, multi-channel provides a competitive 3PL alternative, specializing in heavier, larger home goods. For Wayfair, the benefits are significant as well. First, we generate an additional revenue stream and profit center that is accretive to adjusted EBITDA margins. Second, and perhaps more importantly, multi-channel opens up the next leg of CastleGate penetration by growing the inventory pool with which we can offer an enhanced customer experience. Suppliers can now more efficiently include a broader product set in CastleGate and can stock it deeper, expanding our offering of forward-positioned items and growing their in-stock rates, translating to better speed and lower prices for customers and improving our network efficiency. Ultimately, the multi-channel offering creates a win for our suppliers, a win for our customers, and a win for Wayfair. That's the philosophy we bring to everything we do.

Every dollar we spend solves for the best outcome across our customers, suppliers, and Wayfair. Two decades of this approach has taught us that building great things takes time. But when done with thought, care, and prudence, we can have a payoff well worth the wait. You're seeing some of that this quarter with years of work we've done leading to some of the best growth and profitability flow through our business that we've seen since the pandemic. We couldn't be more excited for what lies ahead in 2025 and beyond.

And thank you, and with that let me turn it over to Kate.

Kate S. Gulliver

Chief Financial Officer & Chief Administrative Officer, Wayfair, Inc.

Thanks, Niraj, and good morning, everyone. Let's dive into our results for the second quarter. Starting with the top line, net revenue grew 5% year-over-year and 6% excluding the impact of our exit from Germany. This was driven by strong performance across all of our brands and geographies, with our US business up over 5% and our international segment growing over 3% compared to the second quarter of last year, showcasing the momentum we're seeing in Canada, the UK, and Ireland. Our Q2 sequential order growth of 10% reflects strong execution and share capture despite a complex operating backdrop. Let me continue to walk down the P&L. As I do, please note that the remaining financials include depreciation and amortization but exclude equity-based compensation, related taxes, and other adjustments. I will use the same basis when discussing our outlook as well. Gross margin for the quarter came in at 30.1% of net revenue.

For over a year now, we've discussed how our ability to measure demand elasticity in virtually real-time enables us to make tactical investments on a level of granularity and precision that few other retailers can replicate. The result of this work drives our share spread wider and leads to outcomes like we saw in the second quarter, growing orders as well as growing gross profit dollars, and we continue to see high return from these investments today. Niraj spoke at length about CastleGate and the ways that our model is advantaged as we drive penetration higher. This gives us more flexibility as we think about strategic areas of reinvestment in our goal to maximize adjusted EBITDA dollars. Multi-channel is an important part of that puzzle, so it might be worthwhile to walk through the economics as it starts to scale. Multi-channel revenue gets recognized as net revenue, and program costs mostly sit in cost of goods sold.

The offering has a similar gross margin profile to the business in aggregate. And critically, the flow-through becomes very attractive as we think about bridging from the gross margin rate of the multi-channel business to its profit contribution. The costs after gross profit are much smaller than they are for the business at large, meaning multi-channel has a variable profit profile closer to its gross margin, making for accretive economics as this business grows. This is an important concept that we've discussed in pieces before but bears some reiteration now. We are always solving for growing multi-quarter adjusted EBITDA dollars. We achieve this by optimizing revenue growth with our flow-through after accounting for gross profit, customer service and merchant fees, and advertising costs. Most of these expenses are largely variable like gross profit and customer service and merchant fees, or can be dialed up and down based on payback like advertising expense.

These flow-through dollars offset our selling, operations, technology, general and administrative or SOTG&A expense, our bucket of fixed costs. Let's walk through how we did on that basis this quarter. Customer service and merchant fees came in at 3.6% of net revenue for the quarter. Advertising was 11.4%, showing a solid path of sequential declines from the peak Q4 2024 and Q1 2025 levels. There are multiple factors coming together to drive the advertising leverage seen in this quarter. First, as we've shared in the past, we are rigorous about holding each of our channels to specific payback periods and that we adjust spend when testing data indicates that we are over or under our threshold. We were also seeing some efficiency here from areas where testing data has shown we should pull back spend to hold to our targets. We are constantly evaluating the effectiveness of our marketing spend, and due to our proprietary ad tech stack and tooling we can nimbly react to ROI data.

Second, as we discussed last year, we made a sizable push into the middle and upper funnel channels beginning in the fourth quarter of last year. Some of those were more nascent channels to Wayfair like TikTok, Instagram, YouTube and more where we were testing the efficacy of these investments. Last fall, we explained how there's an initial deleverage period that comes as you ramp to scaled spending across several channels at the same time and that many of these take multiple quarters to pay back. These investments set the stage for future revenue and you see this bearing fruit here today as revenue and dollars associated with prior quarter spend flows in. It's also worth noting that we are seeing encouraging momentum in direct traffic. Starting with our loyalty program, Wayfair Rewards is more than a way to generate incremental share of wallet and order momentum, but naturally leads to more direct traffic as customers return to Wayfair to spend the rewards dollars on their next find for their home.

We also continue to see healthy engagement with our App where the second quarter marks the highest level of installs since Q4 2020, and the percent of Wayfair US revenue from the App continues to climb steadily to all-time highs from approximately 30%. Now, coming back to the concept of flow-through, we drove a rate of 15.2% in the second quarter, 30.1% gross margin, less 3.6% for customer service and merchant fees, and 11.4% for advertising. That's the best result we've had since 2023, and was critical to the success we had on driving EBITDA and free cash flow dollars in the quarter. We think this is a helpful construct for investors to bear in mind as they model the business, as it takes a more comprehensive view of our cost structure than any one of our variable line items alone, and combined with SOTG&A leverage, drives total EBITDA flow-through.

Selling, operations, technology, general and administrative expenses were $370 million in the second quarter. This was down by roughly $30 million compared to the second quarter of last year. While we did see modest sequential growth, some of this was due to mix-shift between OpEx and capitalized labor. In fact, when you pair the SOTG&A with our site and software development costs in the quarter, our capitalized labor line, we have now reached the lowest levels of combined spend since Q2 2019, a testament to the years of cost efficiency we have driven across the organization. In total, we generated $205 million of adjusted EBITDA dollars in the second quarter for a 6.3% margin on net revenue, including a 7.8% adjusted EBITDA margin in our US segment. As Niraj mentioned earlier, we are now realizing the powerful profitability flow-through of our model, which we have been building towards for years, even in a very challenging environment.

We ended the quarter with $1.4 billion of cash, cash equivalents and short-term investments, and $1.8 billion of total liquidity. Cash from operations was $273 million, and capital expenditures came in at $43 million. This reflects the March technology restructuring following our re-platforming efforts, which drove lower capitalized labor combined with tight discipline around fulfillment CapEx and some timing variants on physical retail, some of which will rebalance in the quarters ahead. Free cash flow in the second quarter was $230 million, the strongest free cash flow generation since the third quarter of 2020, with approximately 20% quarter-over-quarter revenue growth, driving a healthy working capital benefit. We deployed approximately $200 million of cash in the quarter to retire more of our 2025 notes, and nearly all of our remaining 2026 notes at attractive discounts to par.

Looking ahead, after just a small step of the remaining 2025 due in October, we will sit with a clean balance sheet all the way out to September of 2027. This has been a remarkable evolution in our capital structure over the last year, driven by intense operating discipline and rapid profitability growth. Let's now turn to guidance for the third quarter of 2025. Beginning with the top line quarter-to-date, we are trending up in the mid-single digits year-over-year, and we would expect to end the quarter up in the low to mid-single digits. This outlook for the full quarter continues to include approximately 100 basis points of drag from the exit of our German business earlier in the year. Turning to gross margins, we will guide you to the lower end of the 30% to 31% range once again. Just like our operating philosophy across all parts of our business, whether it's investments in the customer experience and sharp pricing, or thinking about the growth of multi-channel over time, we will always be thoughtful and data-driven about whether to pocket gross margin gains for tactically reinvest them.

Customer service and merchant fees should be just below 4% in line with recent quarters. We expect advertising to be in the range of 11% to 12% of net revenue, reflecting a continuation of the dynamics we saw last quarter. This range should be the correct ballpark going forward. Stepping back, we do not view any of these line items in isolation. In any given period, a dollar of investment that impacts the gross margin line may have higher ROI than a dollar on the advertising line, and vice versa. As you've seen us demonstrate, we remain nimble in our investment mix across the P&L, solving for the highest volume of revenue and EBITDA dollars across a multi-year view. Finally, SOTG&A is expected to be in the range of $360 million to $370 million once again in the third quarter. This is the right quarterly run rate for the business today, in light of all of our operating efficiency work. Following the guidance down, we anticipate adjusted EBITDA margin to be in the 5% to 6% range for Q3.

Now, let me touch on a few housekeeping items. We expect equity-based compensation and related taxes of roughly $75 million to $95 million. Depreciation and amortization should be approximately $73 million to $79 million. Net interest expense of approximately $30 million. Weighted average shares outstanding of approximately $130 million. And CapEx in a $55 million to $65 million range. Wrapping up this quarter's results are just an early illustration of the strength of our model. Our healthy top line growth and robust profitability are a reflection of the value we bring to both our customers and our suppliers, as well as the tremendous evolution we've undertaken in our cost structure, all while continuing to invest for the years ahead. As you've heard us say many times in the past, this is a Wayfair now built to both drive exciting share capture and profitability expansion at the same time.

We have never been more focused on the opportunity in front of us and confident in our strategy, discipline and execution. Thank you. And with that, Niraj, Steve and I will take your questions.

QUESTION AND ANSWER SECTION

Operator: thank you. We will now begin the question-and-answer session. [Operator Instructions] Your first question comes from the line of Christopher Horvers with JPMorgan. Please go ahead.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning everybody. So, some related top-line questions. Can you talk about how you think the market grew and how your share gains have shaped up over the past year or so, and through the second quarter here? And do you think any of the strength in the business is related to consumer pull-forward around fear about tariffs? Obviously the quarter dates very strong still, but, anything you pick up on the consumer side, whether it's pull-forward or some differential between the low and high-end consumer, would be really helpful. Thank you.

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

Thanks, Chris. Well great. Let me share, I guess, a few thoughts related to all that. I guess what I would say on the market, if I just start with the macro, and then maybe I'll talk specifically about Wayfair. If you just look broadly at the market, what I would say is that the market this year is definitely better than the last three years, where it was down substantially each year. But, I think the market is still flat to down low-single digits. And I would describe the market not as having strength, but as sort of feeling like it's bottomed out, like bumping along the bottom. And in terms of pull-forward, we have not seen any signs of pull-forward. Like if I showed you a demand chart and asked you, hey, where this year were tariffs announced, when were they escalated, when were they rolled back, when were they settled, you would not be able to find any points in that demand chart that would make you feel [indiscernible] (00:28:31) like oh, something happened here or something happened there. So that's not really there.

There's no question the higher end market is stronger than mass. That's definitely the case. I think you kind of see that in a lot of different data, but that's not really surprising if you just think about the category being discretionary. So, what I would say is, the category is kind of – it's on a bottom. It's bumping along the bottom after a few years of declines. It's not showing great strength, but it's just, maybe you can call it stable-ish, because flat to down low singles is not moving around a ton. Now, what's happening at Wayfair I think is very different, which is that I think our strength is structural, and I think what we've been doing over the course of time is building momentum. And over this year we've been seeing momentum build from Q1 to Q2, and we've seen momentum continue to build Q2 to Q3. So, we're actually, I think, pulling away and I think the reason for that is specific to some Wayfair-specific drivers.

And the way I think about that is that we've sort of had one main pillar, and we've talked a lot about it, which is how we've taken share every quarter since the fourth quarter of 2022, which is that we've focused a lot on improving the core recipe, which is price, selection, availability, speed of delivery. And by working with our suppliers and being very focused on those things, we may be able to kind of continue to improve the customer experience with those things, the customer benefits from those things, and that has been a driver of our share gain. I would say what's notable, though, is historically we've had three pillars in how we grow and we've had that one back intact kind of post-COVID since fourth quarter 2022, and it's worked for us to take share, but we now have the other two pillars back intact. And that's the notable change.

So, the second pillar is basically just to remind everyone on the call, we have a 2,500-person technology organization. And so those are software engineers, data scientists, product managers, designers, and we build a tremendous amount of our own technology. And with that, we're able to improve the customer experience and improve the supplier experience in a way that grows the business. Well, for a number of the last few years, we've basically focused that team on re-platforming a lot of our core systems. And so, that took the vast majority of our development cycles. And it, both at the time and in hindsight, was the right decision. So, even though we weren't able to progress the business with technology, the truth is building the modern platforms to facilitate faster developer velocity and to basically deprecate the old platforms, it allows us to really be much stronger with the technology we can put forward.

Well, now that we're very far into that re-platforming effort, a lot of the cycles of that team are now back building feature and function to improve the customer experience, improve the supplier experience, and you see that affect things, whether it's conversion rates, whether that's enabling suppliers to do more on the platform, whether that's launching new GenAI-powered features, whether that's efficiency gains in our operations. And so, that's been a great boost, that second pillar is back intact. And then the third pillar is somewhat related to that second pillar, but it's – as from 2022 to 2024, we also embarked on getting our organizational structure back, working great post-COVID. So, that's the balancing of senior with junior folks, the rightsizing of teams, and that that took a lot of work and was very distracting.

Well, as we got through that – we have a great team today, a great team in place, and now they're back driving the business forward at a faster speed than we've had before. And, one of the ways that we – they provide benefit to the business is launching new programs. So, we talked about a few of these on the call, Wayfair Rewards, Wayfair Verified, brick-and-mortar stores. There's a long list. There's improvements we're making in logistics. There's a whole series of things. Those new programs are somewhat reliant on the team having the cycles for it, and somewhat reliant on the technology support for those. So, now we have these three pillars back in place, right? The recipe keeps getting better, the technology cycles are available to drive the business forward, and we've been launching growing new programs. And so, I think that's where you're seeing the momentum build.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

And then, my follow-up question is for Kate. How do you think about the long-term profitability ladder higher? If you went back to the 2023 Analyst Day, you definitely saw the benefit of leverage on advertising, leverage on SOTG&A. A key piece to the low double-digit-plus EBITDA margin target was also gross margin. So, can you talk about like is there something changing in the business that makes that sort of paradigm and framework different as we look forward versus what you talked about in 2023? Thank you.

Kate S. Gulliver
Chief Financial Officer & Chief Administrative Officer, Wayfair, Inc.

A

Yeah. Thanks, Chris. So, as you alluded to, in the Analyst Day in 2023 we spoke to getting to towards north of 10% adjusted EBITDA margins. And I think you're seeing us actually make really nice progress on that path, and we feel very good about our ability to achieve that and continue to see momentum there. To your point, there are a few different elements to that. I referenced on the call part of how we look at it internally is to think through the components that really drive to what we would call our contribution margin, so the gross margin less the customer service and merchant fees and less the ad cost, and ensuring that we're optimizing on that contribution margin to then cover off on the SOTG&A and provide that really nice incremental flow-through that you saw this quarter and we want to continue to see.

And we do trade off across the elements within there to ensure that we're doing the right thing to maximize over time adjusted EBITDA dollars, which ultimately then drives one of our core North Stars such as driving positive owner's earnings, so the adjusted EBITDA dollars less the CapEx less the [ph] fees (00:34:41). You saw that very nicely positive this quarter. And so, the combination of the gross margin, the customer service, the AC&R, those things driving to that contribution margin, trying to drive that up over time then helps you get to that adjusted EBITDA dollars and helps you get to that adjusted EBITDA margin that we talked about. So, wouldn't say that there's anything fundamentally different in the way that we're looking at the business, but we do want to provide a framework to help folks think through how we make trade-offs across those lines to ensure that we are driving to maximizing adjusted EBITDA dollars, which then in turn obviously drives that margin.

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

And the only thing I would just chime in to add to what Kate said, because Kate, I think, recapped it really well, is that positive owner's earnings and maximizing that is really a goal we have. So, if you think about that, well, how would you do that? Well, if you kind of run out scenarios, you would see that, hey, if I believe I can grow revenue at a pretty meaningful rate and do it while protecting the flow-through at a significant level, you would see that that compounds very quickly. And so, you end up optimizing for that because that is what's going to give you kind of that asymmetric upside. And so, we're very focused on that. You're starting to see that manifest when you see the highest revenue growth, highest profit since 2021, and we're telling you momentum is building. Well, okay, well where could that go if that builds over time? Well, that's what we believe the opportunity is, but – so, that's not focusing on revenue growth and that's not focusing on profitability.

It's a combination of the two, right? So, you need to have the flow-through. And if you couple that with meaningful revenue growth, then you really are going to maximize the dollars.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Got it. Thanks very much.

Kate S. Gulliver
Chief Financial Officer & Chief Administrative Officer, Wayfair, Inc.

A

Thanks, Chris.

Operator: Your next question comes from the line of Peter Keith with Piper Sandler. Please go ahead.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Hey, thanks. Good morning and great results, guys. Following up on the flow-through question, so the flow-through margin does look particularly good right now, and the Q3 guide looks like it's holding steady at a strong level, maybe even strengthening. I'm wondering are we at like a new normal? We can see the power of the model with revenue growth? Or is there somewhat of an elevated contribution margin today as we're kind of coming off the bottom and now starting to see some of that incremental growth?

Kate S. Gulliver
Chief Financial Officer & Chief Administrative Officer, Wayfair, Inc.

A

Yeah. I can -start and then Niraj, feel free to jump in. I think actually for many quarters, we've spoken about the impact that the cost discipline we've held to over the last few years, the impact of that on overall profitability as we started to see momentum in the top line, and that this was really poised for significant flow-through as you saw that momentum. And we're really pleased with that flow-through, that contribution margin this quarter, and then obviously the incremental margins being very solid this quarter because of that SOTG&A holding in there and remaining in that $360 million to $370 million as we said. So, I think what you're hearing from us is this is what we expected to see. We've been driving the business to this point for many years now, and you see the momentum in the top line really manifesting in that nice adjusted EBITDA flow-through and that nice adjusted EBITDA margin.

So, it's not that there isn't anything abnormal in here, there isn't anything unusual. It's just really that build over the last few years getting us to this point.

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

And what I – Peter, I think – just to make sure, I think I understood the question correctly. So, I think if you look at that contribution margin of 15%, I think you were asking is there some reason that that's too high. I would say if you do think back to the Investor Day and you think about what we're talking about now, we think no, we think that's a good level and that's the point. It's like if you have that – if you have that level of contribution margin and you couple it with meaningful revenue growth, that's how you create the outcome we're talking about.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. Very good. And then, I did want to follow-up on the marketing. And so, it is interesting that you made the investment in Q4 around influencers. You saw the deleverage then and now you're seeing accelerated growth. Could you unpack that a little bit? Are you starting to see an uptick in some of that middle and upper-income customers coming into the funnel, which could be a direct result of that marketing? And how's it been going and could you even accelerate it further?

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

Yeah. So, what I would say, so if you kind of look inside the ad cost bucket, I think what you would see is there's two significant trends that are both happening at the same time. One is that the emerging channels, which would be things like influencers or things like TikTok, like segments where we've been under-penetrated, arguably behind, and we've focused on figuring out the right recipe to crack them economically, we've made really good headway there and we're growing them quite nicely and they are getting us in front of a new incremental set of customers, so we're really excited about that. I will say that the amount of the total budget that's spent in those areas is still pretty modest, but it's actually performing really well, growing nicely. I would say the bigger thing that's happened on the add cost line is through a lot of testing and some enhancements to some of our measurement models.

We've also been able to identify pockets of our spend, which we do not believe we're contributing at the economic payback we wanted. So, even though they were creating some revenue for us, it was not at a cost level that would make sense to us. So, there what we've done is we've trimmed out those pockets of spend because we're now able to identify them better, and as we trim them out, it creates a revenue headwind. So, like-for-like, ad costs would be higher, revenue would be higher, but it makes sense to trim them out. They're not worth that level of spend. And so, what you've seen is that overall, even though we're growing these emerging channels, on net we're getting a lot of advertising cost leverage because of how those two add together. And we're pretty excited about the combination of those two things that are happening. And you could hear from Kate's guide, kind of our expectation that we – that there's nothing kind of one-time about that.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Very good. Thanks so much.

Operator: Your next question comes from the line of David Bellinger with Mizuho. Please go ahead.

David Bellinger
Analyst, Mizuho Securities USA LLC

Q

Hey, good morning. Thanks for the question. Could you just help us understand the progression of the revenue growth through the quarter, especially in the US? And you mentioned not a lot of price moving across the platform yet, so, how should we think about that layering in over the back half?

Kate S. Gulliver
Chief Financial Officer & Chief Administrative Officer, Wayfair, Inc.

A

Yeah. So, I think you're talking about the Q2 revenue growth perhaps and maybe a little bit of the Q3 momentum. Obviously, we don't guide revenue by month, but I think what you saw here was a very solid Q2 revenue growth and Q2 revenue comp. We did make the point on the call, that we're not seeing any changes in price and we do think that that's frankly due to the benefit of the marketplace model. And so, you're seeing that marketplace competitive dynamic enabled at prices that are on page one, those best sellers, the ones that are at the top of the sort order where folks are actually driving the volume are maintaining their price efficiency. And that's resulting in ongoing customer engagement, that results in order volume inc.-wide being slightly positive this quarter. And indeed, as we look into the second quarter, you actually see order volume building more momentum into that – the third quarter order volume building more momentum.

So, as we think about how this trends in the third quarter, we've actually said we're actually trending mid-single digits quarter-to-date, coming off of a very nice Black Friday and July promotion, and we feel really good about the momentum that we're seeing in the business.

David Bellinger
Analyst, Mizuho Securities USA LLC

Q

Great. Thank you, Kate. And maybe a longer-term question, as we start to explore some of this agentic shopping AI agents, we're starting to see more of this across consumer. Understanding Wayfair is using Decorify and Muse, is there anything else we should be aware of in terms of customer-facing AI? We've seen some of this new beta testing on the app, a Discover tab with some AI-generated images, and Niraj, you were just talking about the pivot from the developers showcasing more features. So, anything new there, anything else we should be aware of going forward? Thank you.

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

Yeah. Thanks, David. So, what I would say is, there's a bunch of places that are consumer-facing where the experience is getting improved through GenAI. And so, some of that you'll see in things like search results in sort order, in product descriptions, product-level imagery, attribute sort of a coverage and accuracy. So, there's a lot of things like that, that are already happening, and then there's a lot more to come. And so, one of the things, you know, I'm sure you kind of think about in our category, it's different than a category where you know exactly what you want, where most retail categories are branded, and large portion of those are consumable categories where you're buying the same thing or you're buying something you kind of very specifically know what you want.

Here, we're – there's a lot more product discovery, there's a lot of content around trends, you might create different types of events, you're trying to personalize based on someone's style, on their price point, you're trying to have engaging content. So, they come back more often. And then how you can use video and the cost and the quality of what you can create on videos dropping really fast with GenAI. So there's a lot of things that we're also working on that are yet to come. And then there's sort of really engaging features like you mentioned, Decorify and Muse, there's what we do in the Discover tab, and there's more coming there as well, including a lot of – types of experiences that would have a lot more to do with like what we're doing with influencers off-site and what we could do on site. So, I would say that's an area that you can just kind of keep watching.

And so, we've done a bunch of things, but there's a lot more coming as well, and I think in our category, it can make for a very rich experience.

David Bellinger
Analyst, Mizuho Securities USA LLC

Q

Great. Thank you, both.

Operator: Your next question comes from the line of Oliver Wintermantel with Evercore ISI. Please go ahead.

Oliver Wintermantel
Analyst, Evercore Group LLC

Q

Yeah. Thanks. And good morning. Could you guys comment on the revenues from repeat customers versus orders from new customers? It looks like orders from new customers grew a little bit faster this quarter. Want to see what the trends were there through the quarter?

Kate S. Gulliver
Chief Financial Officer & Chief Administrative Officer, Wayfair, Inc.

A

Yeah. Ollie, as you point out, we did see new order growth this quarter, which is exciting. We always want to see that kind of momentum, but we're not seeing anything fundamentally different in the repeat business as well. And so, as you think about how do we build the top line and the share gains over time, some of those share gains are going to come from lifetime value of repeat customers and some of those share gains are going to come from new customer acquisition, new customers engaging on the platform. And so, we want to be seeing is both of those moving in the right direction. We feel really good about directionally where those – where each of those are trending.

Oliver Wintermantel
Analyst, Evercore Group LLC

Q

Got it. Thank you. And then a follow-up on mix. I think, Niraj, you said that within AOV, mix was the biggest driver. If you can maybe comment on the three parts like units per order, items per order or the mix, if – what the magnitudes were. Thank you.

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

Yeah. Thanks, Ollie. I think – so, if you think about mix where we've got some higher-end brands, some lower-end brands, we have different geographies, we have different categories, mix has a lot of impact in that number. And so, I think we talked about this earlier in the call about how some of the other factors or items are up marginally, but mix is a very big piece of the total. So, I guess, well, the same way we were talking about – the price level of items has not really changed, and so most of what you're seeing in AOV is really mixed, I guess. That would be...

Kate S. Gulliver
Chief Financial Officer & Chief Administrative Officer, Wayfair, Inc.

A

Yeah. And I think, Ollie, it speaks a little bit to there could be mix within our categories but there can also be mix across our brands. So, that helps – you're speaking to the momentum we've talked in the past about Perigold, some of the specialty retail brands, and our B2B business. All of these things come in at substantially higher AOVs, and so that mix helps drive the overall AOV up even when you're not seeing like-for-like pricing changes. And I think it's important – there was a lot of discussion around are we going to see like-for-like pricing changes, so I think it's important to call out that's not what we're seeing. We are seeing some typical seasonality in AOV and we are seeing this mixed benefit in AOV.

Oliver Wintermantel
Analyst, Evercore Group LLC

Q

Thanks very much and good luck.

Kate S. Gulliver
Chief Financial Officer & Chief Administrative Officer, Wayfair, Inc.

A

Thank you.

Operator: Your next question comes from the line of Jonathan Matuszewski with Jefferies. Please go ahead.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Nice quarter and thanks for taking my questions. The first one was on market share. Is there any evolution you're seeing in the source of your gains? Obviously, you've had a string of multiple quarters of consecutive share gains but fragmented industry. Are you seeing any different changes in terms of where you are picking up share? That's my first question. Thanks.

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

Thanks. Sure, Jon. Thanks for your question. I would say at a high level no. I mean, what we're still seeing is that it's obviously a very large category, it's very fragmented. There's been some notable companies who had decent size who went out of business. There's also a very long tail of smaller companies have gone out of business, and then there's a lot of folks who are just losing share over time. There's a relatively small number of folks who are winning and taking share. And in the past, we've mentioned Amazon is taking share, we've mentioned HomeGoods is taking share, and we've commented that we believe that ourselves and those two, if you look back over the last few years, are the three notable largest share winners. That's what would look consistent in the data as we look at it over time. So, the same story is playing out and it's just kind of continuing.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Thanks. And then, just a quick follow-up on David's question, maybe more from an external lens. But we've been seeing a growing percentage of your site traffic being referred by folks like ChatGPT or Perplexity. It's small overall but growing exponentially, so maybe if you could discuss how Wayfair is positioning itself externally to benefit from consumers increasingly using these LLMs as shopping assistants. Thanks.

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

Yeah. Sure, Jon. So, I think you're describing it well in the sense that whether it's OpenAI or Google Gemini or Perplexity, the amount of traffic coming from them is rising but it's very, very small. And so that said, given the magnitude of the change, it's not something you're going to ignore. So, our view is we're kind of doing multiple things. One is how do you optimize the interaction with them so that those platforms can understand Wayfair well so that as they're recommending things, they can recommend Wayfair. Then, a number of those platforms also have desires to get into shopping in the same way Google got into Google Shopping or Pinterest got into shopping and different goals of how high in the funnel they want to stay. And it's going to vary by category because, again, if you're replenishing commodities that you buy on a weekly or bi-weekly basis, that's one level of execution they can do.

If it's a much more complex category, there's a different level of assistance they can provide. And so, we're working with each of the major players on ways that we can optimize things together. I think this is a area where our technology strength can help us a lot because a lot of what our team can do, the same way we've been a close partner with Google and Meta and Pinterest and others over the years as they've evolved their kind of upper funnel products and we've been able to help them and benefit by being very early in, it's analogous, I think, to what's happening here. And I think we benefit from being a category where, frankly, product selection is not a commodity UPC item with a SKU number where just – who's got the cheapest price that can have it delivered by Friday where that's a thing; where the customer actually wants to pick the right thing; where it's complicated to pick or delivery is a complicated activity; these are fragile-heavy, prone to damage items.

So, I think this is the other thing we're seeing, is that each category type will manifest differently and I think we're set up well for our category and to be a partner with these folks as they become a larger source of where customers start.

Jonathan Matuszewski
Analyst, Jefferies LLC

Q

Helpful. Best of luck.

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

Thank you.

Operator: Your next question comes from the line of Simeon Gutman with Morgan Stanley. Please go ahead.

Pedro Gil
Analyst, Morgan Stanley & Co. LLC

Q

Good morning. This is Pedro Gil on for Simeon. Nice quarter. Thanks for taking our questions. My first one is about demand. How do you reconcile the improvement in demand that you're capturing this quarter with the fact that housing turnover is still depressed? And are you seeing an uptick in the replacement cycle absent the housing cycle? And as a follow-up, what are you hearing from vendors in terms of profitability? Do they feel like they're earning enough or do prices potentially need to increase in the back half of the year?

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

Yeah. Yeah, so, on demand, I mean, I tried to kind of address this earlier in some of my comments in the sense that I wouldn't say the category is doing great. So, to your point about housing turnover being depressed, if you look at the demand level in the category, you know, you've got – you've had three years where it went down by kind of significant amounts per year. And now you have it kind of flat to down. I think I said I thought it was flat down low-single digits. So, that's not a strong environment and I think one of the reasons it is that way is exactly what you mentioned about housing turnover and existing home sales being off by so much. So, I think that's still the case. Now, the way I reconcile how we're doing with that to your question is that I think our strength is structural and specific to Wayfair, and that was what I was trying to describe with the three pillars, and effectively, how we're able to grow through our own actions.

I think it's important to realize, the category is still a very big category. So you have hundreds of billions of dollars of spend in this category, and it is very fragmented. It's arguably far too fragmented, and the strong players are providing an experience that's much, much better than what the average participant can provide. So, what would it naturally then make sense for customers to do? I think that's where we can pull demand away from places that someone may have gone, by providing that customer with a better experience, and that's across the recipe, that's across what we can do with technology, and that's across what we can do in new programs. So, we think that's what's happening and we think there's like a lot of evidence to support that. And you can kind of see that yourself.

On your second question around suppliers and profitability, are the margins workable? I think what we've seen from suppliers is that they're very keen to not raise prices on goods, because what they've seen is if they raise prices on goods, they lose demand for those goods quite quickly, and it's a competitive world. There's a lot of suppliers. We have over 20,000 suppliers on our platform, and they are, to some degree in competition with each other. So, they know that, hey, if I take an item that's doing well, I raise its price, it could kill that item. I don't want to do that. So, suppliers are pretty keen to figure out how to maintain those prices and there's a lot of levers between is there room on the manufacturer's margin? Is there room in their margin? Is there room in what they've built in for ocean freight pricing, where ocean freight is – has stayed at lower level prices and has not become elevated again.

And so, there's ways to work to make sure that items that are popular with customers at a certain price point can stay that way. And so, this is what we're hearing broadly from suppliers.

Pedro Gil
Analyst, Morgan Stanley & Co. LLC

Q

Got it. Thank you. Good luck.

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

Thank you.

Operator: We have time for one more question and that question comes from the line of Brian Nagel with Oppenheimer. Please go ahead.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Hi. Good morning. Thanks for slipping me in here. Nice quarter. So...

Kate S. Gulliver
Chief Financial Officer & Chief Administrative Officer, Wayfair, Inc.

A

Thank you.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

...my first question, and it's going to be repetitive, so I apologize, but just looking at the sales trajectory here in Q2 and then the guidance into Q3, there's clearly been a nice inflection stronger. So, I guess the way I want to ask the question is, did – you know, over the – these – this period, so to say, did Wayfair pull some specific lever, or did – it was more a matter of just kind of the business coming together to drive the stronger top line?

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

Yeah. Thanks, Brian. I would actually say, I think the demand has been building, and I think it's just now building to a level that it's easier to see. And obviously, as it continues to build, it will become increasingly easier to see. Right? So, I think the way I would describe it is that there's no single lever. In fact, I think I highlighted that. If you do ad costs like-for-like, you would actually see a higher level of revenue growth. So, in other words, we created a revenue headwind by rationalizing some of the ad costs based on some of the improvements we were able to make, in the way we were able to measure and model different tranches of the ad cost, in a way that's actually been a great benefit for us overall. Because, again, as I mentioned, revenue growth is one goal. The contribution margin flow-through is the other goal. The combination creates this – a growth in dollars and the owner's earnings, which is really the ultimate goal.

And so, there's not one lever. It's a – it's what I described with the three pillars playing out, and that's been playing out, you know, not necessarily this quarter, but over the course of this year, and you're just seeing – you're seeing this building.

Kate S. Gulliver
Chief Financial Officer & Chief Administrative Officer, Wayfair, Inc.

A

Yeah. The momentum – you know, as Niraj said earlier a few times, the momentum feels, you know, to us, driven by these structural business initiatives, not by any one-time events, any unique pull-forward or anything like that. And that momentum is continuing.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Got it. That's very helpful. My second question, just with regard to gross margin. So, again, you're kind of guiding towards, for Q3, that lower end than normalized range. But, you've mentioned a lot, you know, how much control you have over this and, you know, kind of your decision, you know, to reinvest upside. When you're looking at the gross margin, particularly as sales are turning stronger, what specific is that – what is that reinvestment? What – where are you putting that upside back into the model so to say?

Kate S. Gulliver
Chief Financial Officer & Chief Administrative Officer, Wayfair, Inc.

A

Yeah, it's a great question. I mean, as we've spoken about in the past, we always want to be thoughtful about how we're continuing to drive value for our customer. Right? And so, one of the levers that we think about is investing in price. We've talked about in the past using our large, first-party data sets to really have a fine-tuning on that elasticity curve, and where we think we should be optimizing on that curve. And so, often when we think about price investments which can take the form of take rate reductions or co-investment in promotion, we're thinking about where we want to land on that elasticity curve to overall drive gross profit dollars on this multi-quarter basis, ultimately, flow-through, right, that 15% contribution margin that we hit this quarter and we talked about, and ultimately driving adjusted EBITDA dollars, and adjusted EBITDA margin.

And so, we'll take into account where we think we should be on that elasticity curve to ensure that we are optimizing there. But we also invest in other parts of the customer experience, like for example, speed, or improvements in the delivery experience from [ph] deluxing (00:59:24) or consolidation of delivery. All of these things are really important to us to help, overall, drive value for our customer and drive that adjusted EBITDA dollars growth and adjusted EBITDA margin.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Okay. That's very helpful I appreciate it. Thank you.

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

A

All right. Thank you.

Operator: And that concludes our question-and-answer session. And I will now turn the conference back over to the Wayfair team for closing comments.

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

I just want to thank everyone for your interest in Wayfair, for joining us today. We look forward to talking with you again next quarter, and I hope everyone's enjoying the summer.

Operator: This concludes today's conference call. Thank you for your participation and you may now disconnect.