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Wayfair, Inc. (W)

Q3 2025 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello, and thank you for standing by. My name is Tiffany and I will be your conference operator today. At this time, I would like to welcome everyone to the Wayfair Third 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]

I would now like to turn the call over to Ryan Barney, Head of Investor Relations. Ryan, please go ahead.

Ryan Barney

Head-Investor Relations, Wayfair, Inc.

Good morning, and thank you for joining us. Today, we will review our third quarter 2025 results. With me are Niraj Shah, Co-Founder, Chief Executive Officer and Co-Chairman; Steve Conine, Co-Founder and Co-Chairman; Kate Gulliver, Chief Financial Officer and Chief Administrative Officer; and Fiona Tan, Chief Technology 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 fourth 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 the 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 third quarter results with you. Q3 was a great success. Share gain further accelerated with revenue growing 9% year-over-year, excluding Germany. This came in tandem with more than 70% year-over-year growth in adjusted EBITDA. Our 6.7% adjusted EBITDA margin marks the highest level achieved in Wayfair's history outside of the pandemic period. As we've promised, substantial profitability flow-through is powered by a strong contribution margin and fixed cost discipline as our business has returned to growth.

As we shared in Q2, we see the groundwork we've laid over multiple years directly driving share capture and profitability, despite a category that remains stubbornly sluggish. Existing home sales continue to bounce along the same multi-decade lows we've seen since late 2022. Decreasing short-term interest rates certainly loosen financial conditions, but mortgages are a longer-duration product and will require more relief in long-term rates before we start to see a broader unlock in mobility. In that context, it is important to note that our plan to grow is driven by Wayfair-specific factors and is not reliant upon a recovery in the housing market.

In spite of the depressed housing environment, we've been encouraged to see that the category has moved past its multi-year trend of double-digit declines. Based on the data we have, the category started down low-single digits and has been inching closer and closer to flat over the course of 2025, though it remains structurally under-spent against the pre-pandemic baseline.

This directional improvement is all the more encouraging given the uncertainty our industry has faced around the evolving tariff landscape this year. These changes have only served to reinforce the relative strength of our model, consistently delivering the best value and experience to our customers while simultaneously enabling our suppliers to win share and grow their businesses. That strength should be very clear in the KPIs themselves.

Revenue growth was driven by order momentum. We saw orders grow by over 5% year-over-year in the quarter, including new orders growing mid-single digits for two quarters in a row. Active customers saw sequential growth for the first time since 2023. AOV was up roughly 2% in Q3, driven almost entirely by mix shift, as our higher-end brands and B2B outperformed the growth of the Wayfair business. Competition remains intense amongst our suppliers and provides a structural incentive to keep prices as low as possible to win share on our platform.

To measure our momentum, we anchor on quarter-over-quarter trends as a barometer of success. Q3 this year was the best sequential growth we've seen in a third quarter since 2019, following strong trends from the second

quarter. I'm sure many of you are wondering how much of this is intrinsic growth improvement versus something more transitory, like pull forward due to tariffs.

The only instances of pull forward we've identified came from a very short-lived increase in large appliances demand back in the early spring and a similarly short-lived increase in vanities late in the third quarter. Neither of these moves the aggregate in a meaningful fashion. We see our outperformance as structural share capture driven by our strong day-to-day execution against the core recipe, the early success of the new programs we've been able to launch, and from the broad gains we have brought to bear from our technology team.

Since the start of the year, we've highlighted these strong returns we're seeing from initiatives like Wayfair Rewards, Wayfair Verified, and our growing fleet of retail stores. These successes all reflect the deeper engineering resources we've been able to dedicate now that our multi-year replatforming is largely complete. At the turn of the decade, we made the decision to modernize our technology stack, including migration from data centers to the cloud. The simplest way to think about this is that by replatforming our code base, we can now be much more agile and, as a result, meaningfully ramp up the pace of innovation in what we can offer our customers and suppliers.

We completed the bulk of our replatforming earlier this year and the timing couldn't have been better as we're in the early innings of a new phase in how customers shop online. While AI has certainly become the buzzword of late, we've been on the forefront of machine learning for a long time, leveraging algorithms to drive everything from pricing decisions to marketing investments. Today, there's new ground being broken with the proliferation and sophistication of generative AI and Wayfair is a leader in the application of AI in retail.

To that end, I'm excited to have Fiona Tan, our Chief Technology Officer, here today to spend some time diving deeper into the ways we're bringing generative AI to bear across all of Wayfair. Let me now turn it over to her.

Fiona Tan

Chief Technology Officer, Wayfair, Inc.

Thank you, Niraj, and good morning, everyone. I'm thrilled to join you today to share how our technology teams are shaping the next chapter of Wayfair's growth, powered by a long leadership in AI and machine learning and now by pragmatic advances in generative and agentic AI.

Wayfair has always been a technology-focused, customer-obsessed company. Our promise to customers is to make it easy for them to create a home that's just right for them, and the rapid evolution of AI represents a considerable opportunity to deliver on that promise in new ways. Our long history of applying machine learning from the predictive models that power our core pricing and marketing engines to the algorithms that help us classify and organize a vast complex product catalog means we're not starting from zero, but instead scaling from a position of strength backed by the operational discipline to measure impact rigorously.

Our investments in AI are pragmatic and results-oriented, centered on three key strategic outcomes. First and most importantly, we are reinventing the customer journey. We are moving beyond simple personalization to create truly intuitive and inspiring shopping experiences that guide customers from the initial idea to the perfect product for their home.

Second, we power this best-in-class experience by supercharging our operations and our teams. We are embedding AI into our core processes to make them faster and more efficient and have provided generative AI tools to every employee. This allows us to deliver for our customers with a level of excellence that is difficult to replicate.

And third, we are powering our platform and ecosystem. We are building tools that make Wayfair the best possible partner for our suppliers and are ensuring our catalog is seamlessly integrated into the next generation of AI-driven commerce. Let me walk you through each of these.

Starting with the customer, we are using generative AI to make the shopping journey more intuitive and personal than ever before. We think about this as an AI-powered growth flywheel to inspire, engage, learn, and personalize. It all starts with inspiration and we're using generative AI in multiple ways to help customers discover products they'll love. We developed Muse, our proprietary AI-powered inspiration and discovery engine, to create shoppable photorealistic room scenes to capture the attention of low-intent customers and spark discovery.

Muse offers a visual browsing experience entirely powered by generative AI. We then incorporate learnings from Muse into our new Discover tab in our app, offering an endless look-based shopping experience that turns inspiration directly into action, delivering a measurable lift in conversion, as well as visit duration for customers that engage with the tab. In parallel, we're using generative AI to understand what inspires our customers beyond just their searches and clicks. Our new interest-based carousels are driving incremental revenue uplift by matching products to every customer's lifestyle and aesthetic, with contextual signals like location and weather coming soon to enhance personalization.

Once a customer is inspired, we engage them with a suite of AI-powered tools that builds confidence and removes friction from their journey. We've evolved our on-site search to be more intuitive, using a sophisticated LLM to move beyond traditional keyword matching. This allows us to interpret what a customer is looking for with far greater nuance, connecting them to the right products with greater precision.

For shoppers who have picture but not the words, our visual search allows them to simply upload or snap a photo and instantly find similar products from our catalog, turning real-world inspiration into a shoppable reality. When customers have specific questions, our AI-powered assistant provides instant, reliable answers by drawing directly from product specifications and reviews. These interactions feed our ability to learn and ultimately to personalize.

This is where we combine AI scale with our unique home expertise. We had our own interior designers annotate nuanced style pairings, then used LLMs to scale this understanding across our entire catalog. The results are compelling. Customers who see these designer quality personalized recommendations are a third more likely to save, add to cart, or order products, reflecting a much higher confidence in our selections.

And we are just getting started. We are now preparing to test a new generative AI feature called Complete the Look. What's unique here is our proprietary ability to generate a complete styled room scene, where the products visualized are directly inspired by real shoppable items in our catalog. This allows customers to move from individual product ideas to a complete shoppable design plan more intuitively than ever before.

None of this is possible without world-class execution. This brings me to our second pillar: supercharging our operations and our teams. A core part of our operational excellence is the quality of our product catalog itself. We are using generative AI at scale to improve the accuracy, consistency, and completeness of our product information. This makes our catalog more reliable for customers and simplifies the management process for our suppliers.

This catalog enrichment is already delivering an impactful lift in add-to-cart rates. At the same time, we are using AI to automatically detect and process duplicate items, which keeps the customer experience clean and is

projected to reduce the cost of this review process by three-quarters. With a more reliable catalog as our foundation, we deliver superior customer service. We recognize that the unique nature of our category, which involves high consideration and complex orders, requires a sophisticated approach to service. For immediate 24-by-7 resolutions on common inquiries, we use fully autonomous conversational AI agents.

For the more nuanced situations that benefit from human expertise, we've equipped our associates with a powerful real-time AI copilot, which combines several advanced capabilities. It uses our patent-pending, intent-based routing to connect customers to the right expert on the first try, and it uses advanced reasoning models to recommend better, more proactive solutions when a standard replacement won't be enough.

This holistic system is designed to lift first contact resolution and post-contact satisfaction, all while reducing our cost to serve and driving down waste. This focus on a reliable experience also extends to trust and safety. Our multimodal AI now uses computer vision to detect fraudulent imagery in real-time, better protecting both our customers and our suppliers.

Just as AI is evolving our operations, it's also up-leveling how we work. We're committed to ensuring that every Wayfairian can benefit from this AI transformation. Our engineers are integrating leading coding assistants to accelerate development cycles, while business teams in marketing and merchandising use generative tools to automate repetitive tasks and focus on more strategic work.

We have provided a generative AI license to every single employee, and we are fostering a culture of hands-on innovation that goes beyond just structured training. We're encouraging our entire team to find new ways to create value with these tools through programs like our Gen AI innovation challenge, where any employee, not just technical ones, can submit ideas that solve real business problems. In fact, many of these have already been implemented across the organization today.

By using leaderboards and other engagement models, we are making AI experimentation part of our everyday culture. This mindset, where our teams are learning with the same urgency and curiosity we expect of the technology itself, is fueling innovation that translates directly into better supplier tools and richer customer experiences.

Finally, our third pillar is about powering our platform and ecosystem. We win when our partners win, and that means using AI to both improve their operations and to drive more qualified customers to their products. For our suppliers, we've developed an AI agent that automates service ticket classification and resolves a portion of inquiries without manual intervention, a truly agentic implementation that we expect to drive measurable savings over time.

Simultaneously, we are using generative AI to put those suppliers' products in front of more customers. We've utilized LLMs to rapidly scale and optimize our SEO titles, leading to greater Wayfair presence in Google search and a higher volume of free traffic. We've also used Gen AI to create superior titles and ad copy for our Google Product Listing Ads, driving strong consistent results and a powerful synergy between our organic and paid marketing performance. This leadership in search is now the foundation for our work in generative engine optimization to ensure our products are not just discoverable, but are selected and recommended by these new AI platforms.

Looking ahead, we are actively shaping the future of agentic commerce with a clear dual-pronged strategy. First, we view this as a new additive channel for growth, so we will be where our customers are. This begins with ensuring a vast and specialized catalog is deeply integrated and accurately represented on leading AI and search

platforms, including Google, OpenAI, and Perplexity. This provides the foundational first-party truth on our selection, pricing, and delivery promises. But we are moving beyond just discovery to enable seamless transactions.

Our plan is to make our catalog fully transactable on leading AI platforms, allowing customers to shop with confidence and ease wherever their journey begins. Simultaneously, we are building deep competitive moats to ensure our own site and apps remain a premier shopping destination. These moats are built on our unique advantages, a powerful inspiration and personalization roadmap fueled by our proprietary data, our foundational strengths in selection and fast delivery, and unique programs like Wayfair Verified that build customer trust and confidence.

That belief in our unique advantages underscores how we're thinking about differentiation in the AI era. In a world of AI-driven commerce, retailers with a large, well-detailed catalog of products, verified supply chains, transparent fulfillment, and deep technology capabilities are advantaged. We believe that customer attention will flow to the most trustworthy API, not the loudest ad.

The disciplined investments we've made in our core data and technology architecture position us to deploy these technologies safely and at scale. This turns our deep technical heritage into a sustained competitive advantage, and it gives us confidence that we're not only keeping pace with the AI revolution, we're helping lead it.

Thank you. And now, I'll hand it over to Kate to review our financials.

Kate S. Gulliver

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

Thanks, Fiona, and good morning, everyone. Let's dive into our financial results for the third quarter before we move to guidance. Starting with the top line, revenue grew by 8% year-over-year on a reported basis and 9% year-over-year, excluding the impact of our exit from Germany. We saw healthy growth across both our segments, with the US business up 9% year-over-year and international up by 5%. 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 third quarter came in at 30.1% of net revenue, while customer service and merchant fees were 3.7%, and advertising was 10.6% of net revenue. As I discussed back in August, our focus is on improving contribution margin, that is gross margin, less customer service and merchant fees, and advertising, and balancing the tradeoffs between these three line items. The structural gross margin improvements we are achieving through initiatives like supplier advertising and logistics provides us with a wider envelope of dollars to reinvest back into the customer experience. We're doing this while driving savings in other lines of the P&L, such as advertising.

We think about where the ROI of each dollar of spend is maximized on a multi-quarter basis as we map out the mix of investments in the customer experience and advertising that generate the most EBITDA dollars. The net of this was a contribution margin of 15.8%, up 150 basis points year-over-year, and our best result since 2021. The bulk of this was driven by the considerable leverage we saw in advertising this quarter. We're continuing to see the dividends of investments made in prior quarters paying off, as well as the compounded effects of efforts to improve the mix of free versus paid traffic.

Last quarter, I mentioned the success we've had in driving adoption of our mobile app, and we saw that ramp even further in Q3. In fact, the revenue from our mobile app grew by double digits year-over-year, and total installs grew by nearly 40%. Some of this reduction in ad spend is one time in nature. We ran several holdout tests in the third quarter, which drove the outperformance versus guidance. These tests are important as they help us refine our perspective on incrementality of spend and play a valuable role in refining the machine learning algorithms that drive our advertising operations.

Selling, operations, technology, general and administrative expenses totaled \$360 million for the quarter. In total, we generated \$208 million of adjusted EBITDA in Q3 for a 6.7% margin. This is a remarkable achievement by more than 70% year-over-year. We ended the quarter with \$1.2 billion in cash, cash equivalents, and short-term investments, and \$1.7 billion in total liquidity when including our undrawn revolver. Cash from operations was \$155 million, offset by \$62 million of capital expenditure.

Free cash flow was \$93 million, an improvement of more than \$100 million compared to the third quarter of last year.

The improvement in our profitability picture has demonstrably changed our capital structure profile. A year ago, our net leverage was more than 4 times trailing 12-month adjusted EBITDA. Today, that sits at 2.8 times, well over a full turn reduction. Having managed our 2025 and 2026 convertible maturities, we've begun to turn our attention to our 2027 and 2028 bonds, which have strike prices of \$63 and \$45, respectively. In August, we used roughly \$200 million of cash to repurchase about \$101 million of principal on our 2028 notes.

Given the trading price of the stock, these bonds essentially trade as an equity substitute. So, said differently, the \$200 million of cash was effectively an offset to roughly 2.2 million shares of potential dilution and future interest expense through 2028, all while reducing the growth debt balance outstanding. We are operating with a dual mandate, reducing leverage while also managing dilution, and you'll see us continue to balance these goals opportunistically in the future.

Let's now turn to guidance for the fourth quarter. Our quarter-to-date performance is skewed by the timing of our fall Way Day, which ran in early October last year and is running right now for 2025. Controlling for that timing, we're seeing strong performance over the first month of the quarter, and we're excited about the holiday season ahead. Going forward, we're planning to move away from giving quarter-to-date results, given how often it is contorted by comparability issues, and we'll instead just anchor on the full quarter guide.

For the fourth quarter, we would expect net revenue to be up in the mid-single digits year-over-year, which includes the roughly 100 basis point drag from the impact of closing Germany. Turning to gross margins, we would continue to anchor you to the 30% to 31% range, likely coming in at the low end of the range once more as a function of both our reinvestment as well as the typical seasonality we see in the holiday quarter. Customer service and merchant fees should be just below 4% and advertising should be in an 11% to 12% range of net revenue.

As I mentioned a moment ago, the outperformance we saw in Q3 was driven in part by the holdout tests, which were one time in nature. While we're certainly making strong progress on driving structural improvement in ad costs as a percentage of net revenue, we would expect Q4 to come in modestly higher than Q3 in the absence of these tests, on top of our typically higher spend in the final months of the year.

The net of all these moving pieces should get us to a place where we drive a contribution margin that is in line with where we were in the second quarter of this year and a considerable improvement on a year-over-year basis.

SOTG&A is expected to stay in the \$360 million to \$370 million range, likely at the top end of the range given seasonality in the holiday quarter and some spend here tied to revenue like cloud computing costs. This continues to be the appropriate run rate to think about as we look to 2026. Following this all down, we anticipate adjusted EBITDA margins in the 5.5% to 6.5% range for the full quarter.

Now, let me touch on a few housekeeping items. We expect equity-based compensation and related taxes of roughly \$80 million to \$100 million. This includes approximately \$20 million of impact from the CEO performance award approved by our board in September. You should expect this to become a recurring part of stock-based compensation in the quarters ahead. The accounting treatment begins expensing the fair value of the grant today, but I want to be clear that there are no shares being issued right now, nor will any be issued until the share price targets are met.

Depreciation and amortization should be approximately \$71 million to \$77 million, net interest expense of approximately \$30 million, weighted average shares outstanding of approximately 130 million, and CapEx in the \$55 million to \$55 million range.

I want to now wrap up by taking a moment to turn the clock back to where we began 2025. In the shareholder letter Niraj and Steve published in February, they talked about our three core goals for the year: one, focus on tight execution to drive profitable growth through taking market share in what is likely a continued challenging market; two, continue improving the financial position and strength of the business; and lastly, invest in building the five long-term moats of the business.

We're very proud of how much we've been able to achieve across each of these. As we turn our sights to 2026, we plan to invest judiciously to grow the business at a rapid pace while growing adjusted EBITDA faster than revenue. None of this would be possible without the work of an exceptional team. So, I want to end today with an enormous thank you to everyone that works so hard to make all of this possible across the entire Wayfair team. And with that, we hope everyone takes a moment to check out the exciting Way Day deals.

Thank you. And now, Niraj, Steve, Fiona, and I will take your questions.

QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Christopher Horvers with JPMorgan. Please go ahead.

Jolie Wasserman

Analyst, JPMorgan Securities LLC

Q

Hi. This is Jolie Wasserman on for Chris. Our first question is more how you're thinking about the way the consumer is going to show up this holiday since you did move Way Day back a few weeks and away from some of these more major promos out there across retail like Prime Day. Does this mean you're anticipating spending is going to be more spread out this year, or are you seeing more of an urgency to get out ahead of the potential 232 tariffs?

Niraj S. Shah

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

A

Hi, Jolie. This is Niraj. Thanks for your question. Well, I mean, there's kind of a few different things wrapped up in there. What I would say on the tariffs, we really have not seen any consumer behavior based on the tariffs. So as we mentioned earlier on the call, the minor, minor pull-forwards we saw were lasted days in duration and were very small. So, we don't really think there's any tariff-induced behavior.

We actually think the holiday shopping is probably going to be similar to past years. And so, what we did with Way Day is we actually went back to the timing that we actually had not last year, but the two prior years. So, it's the same timing of 2022 and 2023, which is late in October. And last year in 2024, we did move it earlier in October. And what we kind of came to the conclusion for is that we think that the period that we've always done it in, late October, is probably more optimal. And so that we just went back to that. So, you should just view it as, yeah, we're running kind of a very similar seasonal cadence to what we traditionally do.

Jolie Wasserman

Analyst, JPMorgan Securities LLC

Q

That makes sense. And our second question is just more broadly how you're thinking about 2026, abilities to lap accelerated share gains, whether price increases are expected to become a bigger driver, and also just how you're thinking about getting some more of the gross margin, advertising margin expansions for 2026 more broadly.

Niraj S. Shah

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

A

Yeah, yeah. Great. Yeah, I mean, so for 2026, what I'd say is we're definitely focused on driving further top and bottom line growth. And EBITDA growth will definitely outpace revenue growth. And I think the way we're going to do that is kind of what we've been talking about since the beginning of this year, which is that since late 2022 through now, we've taken share through continued investment and improvements in the core recipe, which is price selection, speed, and availability.

But then what we've been able to do this year is augment that with the two other pillars of growth that we've historically had through the bulk of our 20-plus-year history, which is that we always improve the recipe, which is that core consumer value proposition. But then we augmented that with the second pillar, which was really about

new programs and innovation. So, some examples of what's been added over the last year and is really scaling is, for example, what we're doing in physical retail stores, our loyalty program, Wayfair Rewards, what we're doing with our editorial program, Wayfair Verified. Those are three notable examples, but there's a long list.

And then the third pillar. And the third pillar is that we have a technology organization of around 2,500 people. And these are software engineers, data scientists, applied science folks, product managers, designers. And these folks, generally, the bulk of their effort is focused on improving the customer and the supplier experience, which drives up conversion, drives up traffic, allows suppliers to do more for customers. It compounds through repeat gains. And what we did for the last two, three years, since 2022, is we spent a couple of years working on reshaping our organizational model so that we could be lean and focused and execute well. But we also spent about three years on a very large technology replatforming effort for almost all of our core systems.

And as we've gotten substantially through that by the end of last year, we've then seen the technology cycles return to driving the business forward. So, that's part of why we're able to launch all the new programs I mentioned in the second pillar. And it's also contributing a lot to the experience, which is the third pillar. So when you take those three pillars of growth, you see how they provide this compounding benefit. You can then see how we've been gaining momentum through this year. And you can see how, as you go into next year, you'll see further top line growth, further bottom line growth, and you'll see EBITDA growth outpace revenue growth.

Kate S. Gulliver

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

Jolie, I just want to touch on...

Jolie Wasserman

Analyst, JPMorgan Securities LLC

Great. Thank you.

Kate S. Gulliver

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

...your question around how to think about the gross margin and the ACNR for next year, because I think that speaks to a really important point that we spoke about a little bit in the prepared remarks, which is thinking about that contribution margin. So, the gross margin less the customer service or merchant fees, less the marketing expense get us to that contribution margin. Obviously, it's been sort of 15%-ish plus over the last few quarters. And we increasingly think that's a thoughtful way to sort of look at the business, right?

We want to make sure that that contribution margin is in a very healthy place. And then the flow-through to EBITDA is really strong, because that SOTG&A line below that is holding relatively constant. So, as you think about that contribution margin staying healthy, and that could be some interplay between gross margin and marketing spend, and then the flow-through being quite strong, that's how that EBITDA dollar growth is really outpacing that top line growth. And we're very focused on the EBITDA dollar growth continuing.

Jolie Wasserman

Analyst, JPMorgan Securities LLC

Got it. Thank you.

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

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Hey, everyone. I want to first ask about sales, a little follow-up to the prior question. So, your top line is running in a place where I think it aligns with the slide deck that you put out I think in 2022, mid- to high-single digits, if not, maybe close to that. Do you think the business is now at this inflection point where it continues to grow in that level? You said it was past some certain technology investments. I realize you can't control what the industry does, but it feels like you've gotten past a bunch of bumps or tough compares, plus industry normalizing. So, do you think we've gotten past this inflection point? Thanks.

Niraj S. Shah

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

A

Yes. So, I'm not 100% sure what you're referring to. But I think you might be referring to the Analyst Day that we had in the summer a little over two years ago, in the summer of 2023, in August 2023. There, I think we were talking about kind of the long-term potential of the business, and we provided a view as to how the revenue growth could be kind of meaningfully into the double digits by – when you think about our different lines of business and the initiatives we had and the potential and then getting past the technology replatforming, et cetera. And that we're still very bullish on how this compounding benefit will continue to accrue and our momentum will climb.

And then we also gave a view on EBITDA growth and how that could grow over time and get meaningfully into the double digits as well. And you're seeing that play out as we go through time. And we think a lot of benefits are still ahead of us as we get the benefits of volume, as we continue to deploy technology, et cetera. So, I would say, we feel very good about the direction we're on from that meeting we had two years ago.

Kate S. Gulliver

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

A

Yeah. I think I'd maybe add to that. I think what you're seeing here is share gains, as Niraj spoke about, that are compounding frankly because of the initiatives that we started a year plus ago, so things like the replatforming being completed and tech advancements that Niraj spoke to, our loyalty program, Wayfair Verified, over time, you'll have physical retail. And so, you're seeing that ongoing momentum. Obviously, there's a macro context that we're operating in, and we think the category itself right now is flat to slightly down, but that macro context could move things around on the top line.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then a quick follow-up. Any predictions if paid search moves more towards agentic, how does that change the advertising line? Is this something you can think about? Is there visibility on this, or it's just theoretical at this point?

Niraj S. Shah

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

A

I think we can both think about it, and it is theoretical at this point, so I'll give you some thoughts, but it's very, very early, right? And so, I think the way to think about it is – so there's no question that the use of the chatbots is growing quite quickly, and you can see how search will then evolve. And whether it's the search interfaces that exist today, like a Google search interface becomes more agentic, or whether it's that chatbots become a new way to search, there's different things, and they could all merge into whatever that new version is.

At the end of the day, the goal historically of search was to show the best answers to questions. And the goal of these agents is to help you find the best answers to your questions. And it's just a different way of doing it, trying to get you closer to answers that help you. Ultimately, if Wayfair is providing the best offerings and provides the best solutions for people, we're going to surface really well. Ultimately, whoever are the media owners of those properties, there's probably a high chance they're also going to monetize them through advertising, right? And so, I tend to think that paid search may turn into a different form of paid services, and organic search will turn into a new surface of how organic answers are provided.

We've had a long history of being a great partner to all the media properties, whether you're thinking about Google, or you're thinking about Meta, or you're thinking about Pinterest and the list goes on. I think co-developing products with them, being an early tester of them, being very optimized for them in the early days. And so, the work we're doing with the various AI, chat LLM companies is no different, and we're working with a number of them very closely, and that's part of the benefit of having a 2,500-person technology organization and being very technology-oriented in how we think about, how we approach the business and being led by folks who are definitely closer described to being engineers than merchants.

Simeon Ari Gutman

Analyst, Morgan Stanley & Co. LLC

Okay. Thanks. Good luck for the holiday.

Q

Niraj S. Shah

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

Thank you.

A

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

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Hi. Thanks. Good morning. Great results, guys. So, clearly, there's some share gains happening with your business, but it does seem like the industry backdrop is getting better, which I think is surprising to some investors given a sluggish housing market and tariffs. So Niraj, I was wondering if you could just opine on the industry backdrop, if you think it's getting better? And if so, why? And perhaps maybe there's some type of replacement cycle that's already starting up.

Q

Niraj S. Shah

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

Yeah, sure. I guess, I think the way to think about it, I think, is that the industry backdrop is getting better. And a different way to say that is, it is no longer getting worse at a fast rate, right? And so, if you think about kind of multiple years of double-digit declines, that means that you've kind of come pretty far off of where you were. And if you take the trend back to pre-COVID, we're quite far off what the trend, the long-term trend, had been. Now, what's happening now? Well, it's no longer declining at that type of rate, right? We think it's more like flattish.

A

So, one way to describe that is that it came off, perhaps you would call, a high, it broke trend, and then it basically has kind of "bottomed out", or it's at a low, at a depressed low of some sort. And once you're at that depressed low, things like the replacement cycle, folks who move still for whatever reason, the degree that household formation is still happening, those things are still going to cause people purchasing items. So, it's not like the low is where you purchase a zero in the category.

But then, there are cycles, and you're seeing that, every quarter that goes by, the percent of mortgages below 4% ticks down because some amount of folks refinance to a new mortgage because there is a reason to move, there is a reason to sell their house. There is something that overwhelms the fact that perhaps they had a low-cost mortgage and they're going to end up with a high-cost mortgage. So, it's happening. It's just happening slowly. And so, I do think when you look forward, you're going to see that housing is at a low right now, existing home sales. It will end up higher.

You'll see that the purchasing in the category will end up higher. And we do think there's kind of a long-term trend that it probably most things revert to the mean over some period of time. It will probably revert to the mean over some period of time. So, I think that's where you can see that it'll get better. It's just less clear that it's an acute upturn. And that's why we took some time this morning in the comments to try to clarify the strategy we have in the way in which we have the compounding gains and the compounding share gains and the compounding benefits to growth and even more to EBITDA is really around things we control.

So, some folks refer to that as self-help, but basically, improving the recipe is something we can do. Launching new programs, innovation, growing those is something we can do. Investing our technology efforts into improving the customer/supplier experience is something we can do. And we think that is how we, at only \$12 billion-ish in revenue out of \$500 billion in the TAM, have a lot of room to take share and grow, even while the category is more anemic. And as the category gets more energy into it, we would expect that to accrue to even more benefits to growth.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Q

Okay. That's very helpful. I guess, I had a follow-up question, too, from a topic that's been kind of ongoing during the quarter, which was that Amazon had stopped advertising through Google Shopping early in Q3. And I guess I'm wondering if you think this provided any benefit to sales or maybe ad leverage during the quarter.

Niraj S. Shah

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

A

Yeah. So, Amazon, for a certain period, cut their spending in a certain channel in half, then they came back in, and then they took the spending down entirely, and then they came back in certain countries. And so, they have done various things, probably different versions of testing what it's worth to them and the like. Most advertisers do holdout tests. We mentioned that we just did some recently of some large scale. Just you want to make sure that your advertising is productive and incremental and paying off in the way that you would need it to want to continue.

What they did does not have a very big impact on us at all. And the reason is just that where they're advertising – when you think about the pockets that we specialize in, we're a very significant player already. So, what happens is, when you think about who surfaces on these paid services in the auction, there's always multiple folks. And if you're already at a pretty high share, it doesn't really matter whether someone else comes in or out, they just get replaced by someone else. And it doesn't necessarily make sense for you to take more share, because you're already purchasing the optimal amount of share that it's worth to you.

And the places where they may advertise, where it's less relevant to you, you're not going to go advertise there anyway, even if the price went very close to zero, because it doesn't benefit you. It's not something that you participate in. It's not a category you sell in or where your offering makes sense to advertise. So, the net effect is, I'm sure for some folks who maybe were just under them in share, who – Amazon's bidding price was such that all

of a sudden the inventory opened up and they're the next person who could grab it, it would benefit them. But that's going to be very narrow in who it would help. And in our case, given our specialist nature and where we focus and the degree of share we have there, it didn't really have an impact on us.

Kate S. Gulliver

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

A

Yeah. Peter, to your question around, sort of what drove the ad spend leverage in the quarter, I would think about it as a few-fold. First, we are seeing nice gains in free traffic. We've talked about that. I mentioned on the prepared remarks increased downloads, frankly, of the app and app usage, which is an area that we've been driving for some time. And then there are some one-time benefits because of our own holdout tests this quarter.

And so, when you think about the sort of efficiency beyond that general 11% to 12% range, some of that was certainly driven by the holdout testing that we do. We think that's quite important, frankly, to ensure the efficacy of our modeling. But I would think about that in general. Yeah, and those are one-time in nature.

Peter Jacob Keith

Analyst, Piper Sandler & Co.

Q

Okay. Very helpful and good luck for the holiday season.

Kate S. Gulliver

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

A

Thank you.

Operator: Your next question comes from Maria Ripps with Canaccord. Please go ahead.

Maria Ripps

Analyst, Canaccord Genuity LLC

Q

Great. Congrats on the quarter and thanks for taking my questions. First, can you maybe give us a little bit more color on what drove sort of revenue acceleration in the later part of the quarter? Is there anything sort of worth highlighting in terms of performance by brand or consumer income levels? And can you quantify the impact of [ph] branded, this (00:45:36) pull forward to Q3?

Kate S. Gulliver

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

A

Maybe I'll just start on sort of revenue, and then Niraj, you can jump in. So, we don't typically disclose revenue by month or within the quarter. In general, revenue growth has been aided by all of these factors that we've been speaking to, which has been really the compounding share gains from initiatives that have been begun over a year ago. So, Wayfair Verified, the loyalty program, the improvements to the site experience from the replatforming, and we're seeing that continue to build momentum.

As it relates specifically to brand and income, we are seeing strength in the sort of higher-end brands. That's been for quite some time. So, Perigold, which is our luxury brand, and then the specialty retail brands, those all operate at a higher average order value, higher price points, have seen some really nice strength, which I think is consistent with what others have seen from consumers, that that higher-income consumer has held in a bit better.

Niraj S. Shah

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

A

Yeah. And what I would say, the strength we're seeing overall comes from the structural business initiatives we have, not pull forward. And we're continuing to see good momentum on the structural business initiatives, and those are things we control. So, I wouldn't think of pull forward playing a role in how the quarter played out.

Maria Ripps

Analyst, Canaccord Genuity LLC

Q

Got it. That's very helpful. And then just to follow up on agentic shopping, and I appreciate all the color there, can you maybe give us a little bit more color on how sort of agentic shopping for the furniture vertical could be different from shopping across maybe like other simpler items? And can you maybe give us a little bit more specifics in terms of how you're optimizing your platform and listings for organic chatbot search results?

Niraj S. Shah

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

A

Yeah. So, maybe I'll let Fiona share some thoughts, and then I'll add anything that maybe I have as well. Fiona, do you want to share any thoughts?

Fiona Tan

Chief Technology Officer, Wayfair, Inc.

A

Yeah. So, certainly, I think for agentic shopping, one of the things that is a little bit different for us in the home category is the fact that it is a more complex category. It's got high consideration items and very complex delivery promises. So, one of the things we want to make sure that we get right is the foundational first-party truth, to make sure that our catalog, pricing, fulfillment is perfectly integrated, and that's the critical first step. And we're working on that actively with all the partners that I mentioned earlier, the AI platforms. And then we also want to make sure that once customers are able to discover our products also that they're also able to transact. So, it's something that we are also working on with the partners. And then...

Niraj S. Shah

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

A

Yes. And I think, Maria, one thing we've always found is that – and this goes back even – back to the search days when you think about platforms like Google, Pinterest, and Meta, but certainly be true today, this is the category – it's not a UPC code commodity-driven category where you can specify what you need, and then a lot of the purchasing is replenishment purchasing, where you continue to buy the same items over time, and you want them delivered to you perhaps, or maybe you'll pick them up. But either way, you kind of know exactly what you want.

And so, product discovery is something that is, I think, unique in our category. And so, customers do have a lot of zeal to understand what's available, what styles are developing, what's changing in trends. So, I do think in the agentic world, there's a lot one can do with customers to help them, whether it's product visualization, taking their room and showing them images of what it could be. And I think there are things that can happen on these AI chatbots in there, but I think there's a lot we can also do on our own platform with customers, particularly with all the data we have about them.

And I think what you'll find is that there are certain things that may start more upper funnel. And as they move lower funnel, it may be different experiences they need that are helpful as the product discovery, product education, nuanced decision-making all occurs.

Maria Ripps

Analyst, Canaccord Genuity LLC

Great. That's very helpful. I appreciate the call.

Q

Operator: Your next question comes from the line of Brian Nagel with Oppenheimer. Please go ahead.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Hi. Good morning. Thank you for taking my question. Congrats on a nice quarter. So, the first question I want to ask just with regard to – it's a bit repetitive, but with regard to gross margin, in the commentary this quarter and then, I guess, just recently about the focus now on contribution margin, is there a philosophical change happening as you're thinking about gross margin? Are you seeing a lever within that line item now that you're increasingly likely to pull in order to drive a better outcome?

Q

Niraj S. Shah

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

Let me – I'll just say one thing and I'll turn over to Kate to answer your question. I would say, we're very focused on the long-term potential of the business, the long-term profitability of the business. So if you think about long term, how do we maximize EBITDA? There's multiple ways to maximize EBITDA. Margin rate is one feature. Revenue volume is another feature. And obviously, if you multiply these things by each other, you then end up with the EBITDA dollars, or we could talk about free cash flow dollars.

A

Ultimately, we care about the owner's earnings dollars, which is really the thing we're trying to optimize, which is where we do think of the stock-based compensation as a real cost. And so, the owner's earnings dollars, which is what we care about, we're going to optimize, and we're going to do that by both growing, by managing costs well. And there's an interplay between the two. Now, to answer your question more precisely from a financial modeling standpoint, let me turn it over to Kate.

Kate S. Gulliver

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

Yeah. I think Niraj articulated actually the philosophy and then the philosophy that's been consistent for some time, right? Which is ultimately what we're focused on is adjusted EBITDA dollars growth on this multi-quarter view. Perhaps, what you're hearing from us is we're trying to do a better job of articulating how that happens and the components there. So if we go to contribution margin, again, that's the gross margin, less the CS&M, less the ACNR, that contribution margin, we are also focused on optimizing contribution margin dollars on this multi-quarter view, and how do we manage the levers that make up contribution margin to get to that point.

A

As we think about the variable cost components that sort of drive that contribution margin, we're constantly testing what is the sort of optimum mix and what works best, again, with this multi-quarter dollars view, right? And so, to the specific question on gross margin, for the last many quarters, the optimum place to be has sort of been between the 30% and 31% range, closer to 30%, as you all have noticed. And that's been the right place, again, to optimize multi-quarter contribution margin dollars and then obviously multi-quarter adjusted EBITDA dollars, because as we think about having that fixed cost piece of that SOTG&A control, as we grow those contribution margin dollars, that flow-through to adjusted EBITDA dollars, you're seeing that these last several quarters is quite nice. So again, not a philosophical shift, but hopefully a better articulation of how we're managing it.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Q

No, that's really helpful. I appreciate all the color. My follow-up question. Look, I appreciate all the discussion today on Gen AI and how Wayfair is employing the technology. And nice to meet you over the phone, Fiona. So, I guess the question – and I don't want to go too short term on this, but clearly, Wayfair – there's an improving market share dynamic here we've seen. The question I have is, is Gen AI helping that? And I guess, maybe another way to ask it, from an investment standpoint, what should we be watching for in Wayfair results to basically say, look, here's a company that truly is using Gen AI to break away from the pack?

Niraj S. Shah

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

A

Yeah. So, one thing I would say to that, Brian, so if you think about the potential of what you could do with Gen AI, it's quite substantial. But like if you think about like a baseball game, last night went 18 innings, but say it normally goes 9 innings, you'd still say we're in like the first inning of what you can do. Now, I think what we're doing is meaningfully out ahead of most retailers, but what we're doing is still very early days compared to what we think the potential is. And so, the bulk of the gains are definitely yet to come.

And in terms of the market share dynamic, in terms of us gaining market share, meaning looking backwards over what's happened over this year so far, over the last couple of years, Gen AI would not have played a very big role in that. But what we're working on and deploying, we're very excited about, and we can see the trajectory of what it's doing. And so, we think it'll become meaningful over time. But this is just the latest in what's been an ongoing evolution of technologies.

We've been using machine learning for a decade or longer, and there's a lot – we've always done with technologies that's very helpful. And I think, basically, it's hard not to be excited about the potential of Gen AI. And I do think you will see some companies be much more adept at using it in a way that's differentiated and faster than others. And so, I do think it's yet the latest in something that will separate some from others through technology and the use of.

Brian Nagel

Analyst, Oppenheimer & Co., Inc.

Q

Sure. I appreciate all the color. Thank you.

Operator: Your next question comes from the line of Steve Forbes with Guggenheim Securities. Please go ahead.

Steven Forbes

Analyst, Guggenheim Securities LLC

Q

Good morning. Niraj, maybe change of topic to the multi-channel fulfillment offering. Curious if you can just expand on the general receptivity from the supplier network. Any comments on how you expect the offering to mature and just how fast, right, we should sort of think through CastleGate utilization as that program ramps over the coming years here?

Niraj S. Shah

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

A

Yeah. Sure, Steve. So, on multi-channel fulfillment, so we talked about that last quarter. It's a great example. When I talk about the three pillars of growth, I talk about the recipe. The second is programs, and the third was technology. And lot of the programs, the second pillar, are enabled by technology. Multi-channel fulfillment is a great example of another program, right? And so, that's something that required technology work for us to create it and launch it. Obviously, it then is something we execute in our physical operations in our facilities.

It's something that adds a lot of value to our suppliers. It helps us with a larger forward position inventory pool for our business. It creates a new revenue stream and margin stream associated with infrastructure we already have. And it's just another way we can be a deeper partner to our suppliers. So, it has many compounding benefits, the profitability being one of the benefits, meaning the direct profit of the program being one of the benefits, but there's all the other things.

And so, suppliers have actually been pretty excited about it. It's optimized for what they care about. Meaning that we focus – we generally sell larger, bulkier items. So, our program is optimized for larger bulkier items. Most of the fulfillment services suppliers can use that are out there are optimized for smaller, lighter packages which is the bulk of packages that ship every day, but not in the home space. And so, it's been a great offering for suppliers that they've been excited by. And we're seeing them – they start by trialing it out, and then they like it, they start ramping up. And then they start growing their usage over time. And so, we feel good about how that's going to go. The fulfillment center infrastructure we have is quite large. And so, it's just another way we can leverage it and use it and get volume into it.

In terms of CastleGate penetration, I think we – Kate, did we give a stat about how it hit kind of an all-time high last quarter?

Kate S. Gulliver

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

A

Yeah. We said last quarter there was roughly 25%. We give that stat from time to time. But I just – sort of stepping back on that, you are seeing nice momentum there. And that's certainly obviously helping as we think about improving that customer offering and getting it to where it's fast and as efficiently as possible.

Niraj S. Shah

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

A

Yeah. And just to be clear, that 25% number is the percent of our order volume that ships out of a CastleGate...

Kate S. Gulliver

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

A

Yeah.

Niraj S. Shah

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

A

...facility, not the percent of our fulfillment centers that are utilized. I think I've seen sometimes confusion on that, so just to clarify.

Steven Forbes

Analyst, Guggenheim Securities LLC

Q

Maybe just a quick follow-up. You talked about the replatforming in the shareholder letter earlier this year. I don't know if you could just maybe speak to how you would sort of qualify the benefits of moving past that, how they're

trending relative to expectations, and if any sort of new opportunities have emerged as you sort of plan for the next couple of years here.

Niraj S. Shah

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

A

Okay. So, yeah. So, the way to think about it is – so we're 23 years old. And what happens is, you build your technology infrastructure. And as I mentioned, we have thousands of people, so you're building a large technology infrastructure. Your systems, over time, there's a lot of benefit in replatforming them because what can happen – what will happen with our core systems is that they basically got very inter-tangled over time, and they weren't built very discreetly.

Because when you're smaller, building them discreetly, just would be much more expensive of an undertaking, and you don't get a lot of benefit. But as you get bigger, the way you can scale is you want them to be discrete and just interface with each other through APIs and other interfaces or published streams of data so that when a team is working on something, they don't need to then go into every other system. They can engage with those systems through published interfaces or easy, simple, clean interfaces.

And so, what happens as you go through that replatforming is obviously it's a very intensive activity and quite expensive from an investment standpoint, because you're spending your technology cycles for a long period of time on doing that work. But what you get out of it is then your developer velocity, your speed of developing new things is dramatically faster. Your ability to preclude kind of errors or issues in the platforms is much higher. So, the quality goes up, and you can actually also reduce costs. So, it's an undertaking that we've been very – sort of it was a necessary thing to do. But now that we're quite far along in it, we're seeing the benefits in terms of our developer velocity, the things we can launch, the speed at which we can launch them, the ways in which we can use third-party products as well as what we do first-party.

And so, it's been pretty exciting, and we're just – I'd say there's a lot of gains to come. But I highlight it because when we talk about the second pillar of new programs or when we just talk about the core supplier and customer experience, those are both highly reliant on technology and the use of technology. And so, it's a very marked difference that we're now back in a position where we have the technology cycles to invest in this way versus where we were committing those cycles to the replatforming. So, it's just we're in a very different place and we're seeing the benefits.

Steven Forbes

Analyst, Guggenheim Securities LLC

Q

Thank you.

Operator: That concludes our question-and-answer session. I will now turn the call back over to the Wayfair team for closing remarks.

Niraj S. Shah

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

Thanks, everybody, for joining the call this quarter. We're obviously excited with the momentum we're building in the business. Thanks for your interest in Wayfair. We look forward to talking to you next quarter.

Kate S. Gulliver

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

Thank you.

Operator: Ladies and gentlemen, this concludes today's call. Thank you all for joining. You may now disconnect.

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