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Wayfair, Inc. (W)

Q3 2026 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Hello everyone. Thank you for joining us, and welcome to the Wayfair Q3 2026 Earnings Release and Conference Call. After today's prepared remarks, we will host a question-and-answer session. [Operator Instructions]

I will now hand the conference 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 2026 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 fourth quarter of 2026. 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've been reasonable in our expectations and assumptions.

Our 10-K for 2025, 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

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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 contribution profit, contribution margin, 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 contains descriptions of our non-GAAP financial measures and reconciliations 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 to discuss our third quarter results. Q3 was our strongest quarter of growth in the post-pandemic period, with total net revenue up 9.7% year-over-year and our US business growing over 11%. That growth flowed through nicely to the bottom line with an adjusted EBITDA margin of 6.9%, our best Q3 results since 2020.

At the start of this year, we told you we expected to take share in the US at a pace we had not seen in several years. We entered 2025 with a US share spread in the mid-single digits, widened it to high-single digits by year-end and promised to push it into the double-digits in 2026. With US revenue growing double-digits against a roughly flat category here in Q3 we've done exactly that. That growth was driven by orders which were up 12% year-over-year. That translated to strength in customer growth with active customers up more than 4% and new customer orders up over 14%, another post-pandemic record.

The momentum we have on orders and customers gives us confidence that our share gains are structural because order growth compounds over time while AOV growth does not. We're very excited by the trajectory we're on and we're still in the early innings.

Earlier this year, I described the many pistons powering our engine of growth and you're seeing their success in real time as they work in tandem. We're frequently asked which of these is the biggest driver to our share success. The answer is that it isn't any single one. Programs like Wayfair Rewards, Wayfair Verified, Delivery+, our stores along with longstanding businesses like Perigold, our specialty retail brands and Wayfair Professional, all sit on top of a core recipe of assortment, availability, speed and price, that is the strongest it has been in our history. Most of these initiatives are still early in their maturity and they compound on that core and on one another to produce outcomes like we just delivered in the third quarter.

Let me give you an example of how that works in practice. A shopper walks into one of our stores and discovers the depth of our catalog, including categories like bedding and tabletop she may never have thought to buy from Wayfair. She joins Wayfair Rewards at checkout, giving her one more reason to come back. Her kitchen table arrives in days rather than weeks because we're sit close to our CastleGate Fulfillment Centers. And the next time she shops online, the verified badge helps her choose with confidence. She comes back more often, she benefits from low prices due to rewards, and for Wayfair, our ad costs have fallen, improving her customer lifetime value.

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And as she helps our volume grow, suppliers invest more in our platform and sharpen their pricing, which makes the offer even better for the next customer. That's why we have real confidence that our US share spread can keep building into 2027 and beyond. You've heard us say this many times that our success has been independent to the macro. And when the category does return to growth, that spread will apply to a much larger base.

We're also following the same playbook now in our international markets, albeit at an earlier stage with more to roll out in the coming quarters. Our approach remains the same, grow faster than the market, flow that growth through to maximize adjusted EBITDA dollars and keep reinvesting in what earns the customer's loyalty. The concept of loyalty is a critical one to our flywheel. We began this year talking about loyalty in the scope of our rewards program. And I now want to round out the year returning to the topic of loyalty and how we think about it across our marketing investments.

Over the past two years, we've grown orders faster while spending less on advertising as a share of revenue, which was under 10% this quarter for the first time since 2021. This is even as we've invested more in our brand and channels that are newer to the mix. So, today I'd like to spend some time on what has driven that progress, why we believe it lasts, and where we're headed. The first driver is that more customers are coming to us directly. Rewards, Verified, our stores, and a better, faster site and app, all give customers more reasons to start their shopping with Wayfair.

In the third quarter, revenue from direct visits was up more than 15% from a year earlier. That comes in tandem with nice improvements in our core channels. For example, we've grown our text message audience by more than 40% over the past year, with revenue from those texts up by more than 30%.

The second driver is measurement, which has always been central to how we run Wayfair. From our earliest days, we've built our own in-house tools to understand what every marketing dollar returns. And that discipline is a big part of how we've stayed efficient.

Over the last few years, several things shifted at once. Privacy changes across the major platforms made traditional attribution less reliable, and customer behavior evolved in the post-pandemic environment, changing where and how people shop for their homes.

In response to this, we've significantly increased how often we test, leaning more heavily on controlled experiments that isolate the true incremental impact of our spend. Not surprisingly, that combination has surfaced opportunities to reallocate spend. Where the spend was mostly reaching shoppers already on their way to Wayfair, we've pulled it back. And where it reliably drives incremental sales, as with influencers, we're leaning in. This is one of several factors that helped our conversion rate increase by more than 30 basis points since early 2025.

We've shifted more spend towards building the Wayfair brand, with TV now a larger share of our marketing mix, including the fall campaign we launched in September in tandem with the NFL season, and into newer channels like creators and video. These investments build familiarity and trust in the Wayfair name, and you can see it in how customers find us. Branded search visits, when a customer types in something like Wayfair sofa to a search engine, were up more than 17% in Q3. Every customer who comes to us directly is one we don't need to pay to reach again, which frees up dollars to keep investing in growth.

Creators are the clearest example of where we ramped investment. Home is a category made for creator content. A product styled in a real home answers the questions every shopper is asking, which is how it will look in her

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space. So, we built our program around what creators told us they needed, and we treat them the way we treat our suppliers. We succeed when they succeed, and that work is paying off.

Sales driven by creator content grew more than 70% during this past Way Day versus our event last fall. The program now includes tens of thousands of creators who together with our partner networks have produced hundreds of thousands of new pieces of content this year, far ahead of what we produced in 2025. Creator program sales have already surpassed their full year 2025 total, and LTK, our largest creator network partner, recognized Wayfair this year for leading what's next in creator commerce.

There's a lot we're excited for ahead, such as creator storefronts on the site and app, which is set for a full rollout in 2027. Creators are one example of how we are increasing our reach to make sure we are prominent everywhere a customer may start their home shopping journey. These journeys can start in many places, in a store, a social feed, a search interface, or an AI assistant. Wherever her journey begins, we want Wayfair to be there and to make it easy for her to keep shopping with us.

In terms of AI applications and agents, our goal is simple. And the same is how we think of other surfaces. Wayfair's catalog should be available wherever shoppers are, and optimized for the channel. To that end, we're working across the major AI platforms and agent applications, rather than betting on any single one. We're confident that Wayfair is well-positioned to compete here because we bring strengths we've spent two decades building. The broadest selection in the category, rich and accurate product information, customer reviews, competitive pricing, and fast, reliable delivery.

We share tens of millions of products with these platforms, and we're using AI of our own to enrich that catalog data at scale. While AI assistants are a new place for customers to start, we're seeing that the destination is usually the same. Most shoppers who discover us through these tools continue their journey on Wayfair's own site and app. And even when a customer does buy inside an AI assistant, Wayfair remains the retailer. The order lives in our Wayfair account, and we own the delivery and service promise. Either way, the relationship is with us. It's still early, but this traffic is growing quickly.

AI referred visits more than doubled sequentially in the third quarter to roughly 1% of our total traffic. Much of our progress here comes from working hand-in-hand with the platforms themselves and from partnerships with Google, OpenAI, and Meta, and these show what this looks like. Google has been an important partner for nearly our entire history. When Google set out to build an open standard for agentic commerce with the industry, Wayfair was a foundational partner in co-developing the Universal Commerce Protocol.

Today, customers can find our products and even complete a purchase from Wayfair in Google's AI experiences. We're also seeing many shoppers discover products in Google's AI experiences and then continue shopping on Wayfair's site, which helps us build lasting relationships with those customers. With OpenAI, we were one of the first advertisers on ChatGPT and one of the first to launch a Wayfair-branded shopping agent that customers can chat with directly inside the platform.

Many conversations with our agent are multi-turn, and the most common request is help decorating or coordinating a room, exactly the kind of inspiration-led shopping where Wayfair's assortment and design expertise stand apart. And when she's ready to buy, she completes her purchase on Wayfair.com, where her orders, her rewards, and her saved looks all live together. So, a conversation that starts in ChatGPT begins the beginning of a direct relationship with Wayfair. We were also one of the first partners announced for Meta's Muse. Our full AI-optimized catalog is now live in Muse, and we're partnering with Meta to explore richer agent-led experiences.

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So, much home inspiration already starts in social feeds, and an assistant that helps a shopper turn that inspiration into a home she can actually buy is a natural fit for the breadth of our catalog. The better AI agents get at helping customers navigate a vast, unbranded, and complex category like home, the more our scale, our data, and our logistics advantages come through. Whether a customer first meets us through a creator, a search, or an AI assistant, our goal is the same, to turn that first interaction into a lasting relationship so that the next time she's shopping for her home, she comes to Wayfair directly. That loyalty is what has been driving our direct traffic higher as shoppers choose to come back to our site and app to have a shopping experience custom tailored for the home category and increasingly for that customer herself.

That is where much of our customer experience investment heading into 2027 is focused, making our site work more like a personal design partner with room ideas tailored to her style and complete looks built around what she's browsing, all anchored to inventory we can deliver. That's the flywheel we're building. Every customer we earn, wherever she first finds us, becomes one who comes back to us directly, more often and at a lower cost. And that is what we believe will keep fueling both our share gains and our adjusted EBITDA growth into 2027 and beyond.

With that, let me turn it over to Kate to walk through our financials.

Kate S. Gulliver

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

Thanks, Niraj, and good morning, everyone. Let's dive into our financial results for the third quarter. Revenue for Q3 grew by 9.7% year-over-year, with the US segment up by 11.4% and our international segment down by 2.3%. As we discussed last quarter, our international markets are in earlier stages of share capture than our US business, and the home furnishings category in Canada and the UK continues to lag the US market.

Orders were up by 12.2% versus the third quarter of last year, while AOV contracted by roughly 2%. Most of the decline was driven by various facets of mix shift as the spread between the Wayfair.com business and our other higher AOV business lines narrowed.

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 was 29.6% of net revenue, driven by investments we continue to make into loyalty and the broader customer experience. Customer service and merchant fees were 3.7% of net revenue, while advertising was 9.9% of net revenue.

As Niraj called out, the first time we've had a single digit result on this line since 2021. The net of this was a contribution margin of 16.1%. The progress we've made on advertising is a reflection of years of work as we've retooled our testing and expanded our channel portfolio. We'll get to guidance in a moment, but some of the advertising cost outperformance here in Q3 was also a function of timing, and we would expect this number to come back up in Q4 as we lean in ahead of the holiday season.

Selling operations, technology, general, and administrative expenses were $378 million in the third quarter. This came in slightly higher than our guided range as we saw a few one-time costs hit in the quarter, including the competition and markets authority settlement in the UK. Reflecting the one-time nature, we fully expect to return to a range of $360 million to $370 million next quarter. That didn't stop us from delivering one of our most profitable quarters in history with adjusted EBITDA of $236 million for a 6.9% margin on net revenue.

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Working to the bottom of the P&L, we delivered $62 million of net income here in Q3, a more than $160 million improvement compared to the third quarter of last year. On our last call, we shared an in-depth breakdown of the bridge between producing positive adjusted EBITDA and positive net income, and we're pleased to see that play out here in Q3. We ended the third quarter with $1.1 billion of cash and equivalents on our balance sheet and $1.5 billion of total liquidity when including a revolving credit facility.

Cash from operations was $198 million while capital expenditures were $62 million for free cash flow generation of $136 million in the quarter, more than 40% higher than what we produced in the third quarter of 2025. While we had less activity on the capital markets front this quarter, I would be remiss if I didn't call out the double upgrades we received from both S&P and Moody's, matching what we received from Fitch earlier in the spring.

We talked at some length about our capital structure priorities on the last call, and part of that included a transition from repurchasing our convertible bonds to repurchasing our equity outright. Q3 marked the beginning of that. We repurchased $60 million of shares at a full offset to the stock-based compensation we paid out in the quarter. The result is a roughly flat share count quarter-over-quarter. As we discussed, we intend to make this offset a recurring part of our capital allocation strategy while remaining opportunistic to modify when we believe it is appropriate.

Now let me turn to guidance for the fourth quarter. Starting with the top line, we would guide you to a high-single digit growth range for Q4. We're pleased with the momentum we've seen to start the quarter with Way Day last week nicely setting up the holiday events later this month.

Turning to gross margin, I would continue to guide you to the range of 29.5% to 30.5% of net revenue, once more targeting the lower portion of the range. Customer service and merchant fees should be in line with what we delivered in Q3 as a percent of net revenue and advertising should be in a 10.5% to 11.5% of net revenue range. We do expect advertising as a percentage of revenue to come up in Q4 compared to Q3.

As I mentioned a moment earlier, there is some seasonality at play as we lean in heavier during the holiday season. But would still expect healthy year-over-year leverage on advertising versus what we reported in the fourth quarter of 2025. SOTG&A should continue to be in a range of $360 million to $370 million. Working your way down the P&L, we would expect adjusted EBITDA margin in a range of 6% to 7% of net revenue for the fourth quarter.

Now let me touch on a few housekeeping items. We expect equity-based compensation and related taxes of roughly $60 million to $70 million. Depreciation and amortization should be approximately $59 million to $65 million. Net interest expense of approximately $42 million. Weighted average shares outstanding of approximately $138 million. CapEx in a $70 million to $80 million range. You're beginning to see this line item grow as we ramp up our investment in stores and that will continue into 2027.

Of course, this is all in the construct of strong performance from our stores which allows us to self-fund that growth while still driving robust and growing free cash flow. As we head into the holiday season and look ahead to 2027, I want to step back for a moment. A year ago, we told you we would invest judiciously to grow the business at a rapid pace while growing adjusted EBITDA faster than revenue and that is exactly what this quarter shows.

Our US share spread is now in the double-digits. That growth is coming from orders and customers. We are spending less to acquire each of these customers and more of each incremental dollar is reaching the bottom line, in adjusted EBITDA, in net income, and in free cash flow. With a stronger balance sheet and a share count

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we are tightly controlling, we are turning that growth into more value per share. Most of the initiatives Niraj described are still early and we believe the best of this compounding is still ahead of us.

Thank you. And with that, Niraj, Steve, and I will take your questions.

QUESTION AND ANSWER SECTION

Operator: We will now begin the question-and-answer session. Please limit yourself to one question and one follow-up. [Operator Instructions] Your first question comes from the line of Simeon Gutman with Morgan Stanley. Your line is open. Please go ahead.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Good morning, everyone. Thanks for taking our question. So, my first question is on loyalty. Can you talk about how pleased you are with the level of growth that you're getting and the level of, call it gross profit dollar growth? And Niraj, is there a way to tell us the level of innings that you are with this? Does this completely change your ability to talk to consumers? It feels like it's only a couple of quarters in. And I would – I want to ask how much, I guess, the share spread, are we early in the share spread equation? Could that even grow even further? Thanks.

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

A

Hey, Simeon, thanks for your question. Yeah, let me start with loyalty. And so, on loyalty, I'd say, so we're very pleased. We launched it not quite, probably about two years ago. And what we've seen is it's been growing at a nice rate. But to your question about innings and the growth ahead of us, the way to think about it is there's a lot that's ahead of us because what you get, sort of the folks who are paying the most attention, your most interested customers early, but a lot of what we think is ahead of us is the program has very substantial benefits. When we talk to customers about it, they get very excited about it. It would still be relatively easy for a customer to be unaware of the program.

And so, if you think about all the places on our surfaces where we can help existing members know of all the benefits, additional benefits they have, so we can get more dollars per year from them and gross profit dollars per year as you asked, or when you think about the large, much larger number of people who have not yet joined, where they can then learn about what the program is, the benefits they get, and then sign up. And then once they sign up the behavior changes because they want to take advantage of the program that they just joined. That's still ahead of us. So, I would say that we think we're, in terms of innings, it's not the first inning, but it's not far into the game, call it the third inning or something, second inning. It's pretty early in the game. And we think this can ramp to be a much higher percentage of revenue than it is today.

And as you know, the core tenet of the program is that it offers customers really tangible value in a way that encourages them to consider us much more top of mind as their go-to place for all things home, getting them buying across more categories. The dollars per year go up. And our profit dollars per year go up because the really the ad load associated with the revenue we get from that customer drops significantly. So, even though we're giving them benefits, we're net a winner on this.

In terms of how that ties in with share spread, how we think about share spread, we've talked now for a couple of years about how when we entered 2025, we were at 0% year-over-year growth, which was taking share because

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the category was negative, but it was not a lot of growth. And we talked about how we could go from 0% to 5%, 5% to 10%, 10% to 15%, 15% to 20% to 20 plus. And we talked about how the recipe, price selection, speed availability was the foundation of how we've been taking share since 2022. But that in 2025, we were now in a position where we could augment that with new programs because we've gotten far enough in the tech re-platform that we could allocate efforts to that. Rewards, Loyalty, Verified, Delivery+, some examples. Well, those have gone well. Those have helped accelerate our growth.

Now that we're even further into the replatforming and a big merchandising catalog change, we now – the whole concept of product-led growth can now get more cycles and obviously agentic coding can even further accelerate that. And so, with the way we think about it is, we're basically at 10%, right. So, we started talking about this as 0%, 0% to 5%, 5% to 10%, 10% to 15%, 15% to 20%, 20% plus. We're basically at 10% and we're basically just marching along this agenda. And so, you're going to see that continue to happen.

And so, from a share spread standpoint, we don't expect the categories growing at those rates, like stepping up at those rates. So, the share spread is effectively the difference. You're going to see that continue to widen.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay. And then we're talking about EBITDA growth, and we talked about the outlook for this year being faster than revenue growth. Is that a reframing – going forward, a permanent reframing? We shouldn't think about margin anymore. We should think about dollar growth, and how does physical retail affect that growth rate one way or the other?

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

A

Yeah. So, well, I think ultimately the thing we're optimizing for certainly is EBITDA dollar growth. But if EBITDA dollar growth grows faster than revenue growth, the margin does expand over time. But I think, we want to focus on EBITDA dollar growth because EBITDA dollars can go up two ways. One is the margin rate expanding, but the other is the revenue dollars expanding. And I think the way that you can actually get the furthest over any meaningful period of time is actually to think about both of those and not over-optimize for the margin rate.

So, the margin rate will continue to rise, but you're going to see the EBITDA dollars grow faster because on a relative basis between margin rate and revenue dollar growth, you're going to see the contribution from revenue dollar growth be quite high.

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

A

And Simeon, I'd add, one, I think, you mentioned that, is that a sort of a change or a shift. That's actually, I think, pretty consistent with how we've talked about it for some time and how you've seen it play out for several quarters in a row now. You also, I think, added how is physical stores impacting this EBITDA dollar growth rate. And I think, it's important to note that as we think about the stores, we're quite focused on the contribution of those stores. And we're seeing, as we've talked about, some really nice performance out of the Chicago market that's driving significant revenue growth there. We're seeing really nice performance from the additional two stores.

And so, as we think about how that flows through the P&L, we're focused on that continuing to be, over the long run, still meeting that improved EBITDA dollar growth and improved EBITDA margin growth. The stores

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themselves, we've long talked about those being self-funding. So, as we think about the investment in stores on a capital perspective, that as well we want to do in a self-funding way.

Simeon Ari Gutman
Analyst, Morgan Stanley & Co. LLC

Q

Okay, have a great fourth quarter. Thanks.

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

A

Thank you.

Operator: Your next question comes from the line of Chris Horvers with JPMorgan. Your line is open. Please go ahead.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Thanks. Good morning, everybody. I know you don't speak directly to quarter-to-date, but you did mention momentum. We've seen some other categories at retail slow down based on the data points that we can see. We've had a very highly contested election, the highest midterm spending of all time. You've gas prices up. And so, can you talk about what you've seen from the home furnishings market growth rate? Was there any sort of shake in the market here in October? And any concern about the consumer? Or do you think there's some deferral of spending to post-election, especially as we think about the double-digit share gains in 3Q versus the high single-digit guide for 4Q?

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

A

Yeah, I think, you're going to have two questions wrapped in there, right? So, one is like, how do we think the category is doing? And the second is, how are we doing, right? And so, I think, if you break those apart, I think, the category continues to bump along. And so, it's a category that's been out of favor for some time, but it's a very, very large category. And it's cyclical, but we're probably on the low end of the cycle or at the bottom. And so – and we're seeing, we're not seeing any signs of it. It's basically bumping along and that it's kind of been that way for a while. So, I'd say consider that, sort of, holding the course it's been on.

In terms of how we're doing, we feel like we're doing quite well, but I think we're doing quite well for the reasons I mentioned earlier, right? The recipe, what we're doing with product-led growth, what we're doing with programs, and we feel pretty happy with our continued performance and our continued momentum. And it's not necessarily because the macro is changing at all. It's really because of the things we're doing.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Q

Understood. And then on the advertising rate side, especially in light of the success that you're seeing in Loyalty, if you went back to the IPO, I think, you targeted a 6% to 8% margin rate on advertising. You were a hair below that in the third quarter on an 80% repeat rate. As we think about potential advertising efficiency, to what extent does this rate comes down over time back to that original goal as you build out the brand as you mentioned? And then to what extent is that improved tied to our higher repeat rate? We're just wondering how that 80% compare

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to maybe some of the more established home furnishings brands out there in the retail world, and how high that needs to go to maybe get that advertising rate down into that original 6% to 8%.

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

Yeah. So for some of the modeling questions, let me, I'll turn it over to Kate in just one second, but let me talk about the 80%. So, I think, the way to think about the 80%, we're not particularly focused on the 80%, meaning we want to grow repeat a lot and we want to acquire new customers. And the 80% is like the mix of the two. And so, if you're doing both equally well, the 80% would hold. Ultimately, as you get bigger and bigger, you might say, there's less new customers to get and so the repeat could grow. I think, at the end of the day, the repeat number should be pretty high because if repeat's not working, then the business is not working in retail.

If you're not delivering your customers a good experience, they're not coming back. Whether you have a problem in the near term or the midterm, you're going to have a problem. And so, we tend to look at repeat on a narrower definition, which is our net repeat rate. So, different customer cohorts, how often are they coming back? And so it's not the metrics that are easy to see when you zoom out to the total because that has a lot mixed into it together. But basically we're seeing repeat strengthening and climbing whether that's a more loyal customer or that's a relatively new customer to the brand. Whether that's a e-com only customer or that's a customer – e-com customer, who's then experienced stores and then what they do. So, we cut it up many, many ways.

And so, we're seeing that all going the right way which is effectively the leading indicator of your future revenue and your future revenue growth rate. In terms of the how the guidance and the P&L is shaped, let me turn it over to Kate.

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

Yeah, Chris, I'm impressed that you can pull a model from 12 years ago that I'm embarrassed to say I was probably involved in developing. So, thank you for the call back. But as it speaks to sort of ACNR leverage, clearly we are seeing some nice momentum on ACNR leverage over the past 12 months. And I think a number of the things that Niraj mentioned are helping to drive that. So loyalty is something that should drive ACNR leverage and structural improvement over time, further order volume growth and repeat growth to your point does drive ACNR leverage and you see that start to show up and repeat order growth has actually grown quite nicely over the last several quarters. Niraj shared a stat on his call, when he was talking about the marketing spend saying that revenue from – or direct revenue associated with direct traffic is up 15% year-over-year.

So, you're seeing that momentum and that push that does help give more structural ACNR leverage. That said, we do see some seasonality here. So I just want to remind folks that we sort of called out some of the improvements this quarter, maybe hit a little bit better because of the seasonality that we might see in the fourth quarter. And we noted that obviously in the guide, but over time, you have seen that nice engagement there.

Christopher Horvers
Analyst, JPMorgan Securities LLC
Q

Thanks so much.

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

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Oliver Wintermantel
Analyst, Evercore ISI

Q

Thanks. Good morning, guys. So, your contribution margin reached 16.1% despite lower gross margins, and as we think about 4Q in next year, how much of that improvement is sustainable, and where do you think you have to reinvest?

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

A

Yeah, Kate, why don't you?

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

A

I'll start. So, the first thing I'd point to is, we've talked for some quarters now about 15% being sort of a general place where we're operating contribution margin from. Is that the right position to, as we talked about a few questions ago, really hit on that place of accelerating revenue growth and accelerating EBITDA dollar growth faster than that revenue growth? So that 15% place seems to be generally, sort of the right balance of trade-off on that gross margin and the ACNR. Obviously, this quarter, you did see that accelerate a little bit. Again, as we just talked about with Chris, some of that is due to the seasonality of the marketing spend, and so in the guide, you know that that goes back to roughly that 15% place for next quarter.

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

A

I think, the thing, just to zoom back out, right, we were talking a few minutes ago about EBITDA dollar growth and margin rate and what we're trying to do. So, if you think about the business, ultimately what we'd like to have is a very large business. So, what is that? That's revenue with a very large amount of profit, right? And what is that? That's the EBITDA dollars or the owner's earnings, your EBITDA less cash flow, whatever way you want to think about it, but ultimately it's what is the true intrinsic profit associated with that revenue, right? And so, then the question is like, how do you get there? So, the strategy of how we get there is what we talked about, right? We believe in the recipe, we believe in programs, we believe in product-led growth. We think these things are really going to, that strategy executed well, will get this outcome.

So, then when you start going to like lines in between on the P&L, those lines have a number of things and trades in them, but ultimately the way you can tell if you're making the right trade is going to be the combination of what is that revenue growth and the revenue dollars and what are the profit dollars? And if you're growing the profits faster than you're growing the revenue, your margin rate will continue to tick up. And at that point, our view is what you'd want to do is not worry about the margin rate speed of going up, like the, basically the velocity, what you want to worry about is, are you maximizing the dollars as you go, because, ultimately you want to get to the biggest dollars and the margin rate will keep climbing if you do exactly what I said well. But if you over optimize for the margin rate, you may end up with less dollars than you could otherwise, right? So, you want to do both, which is you're growing the margin rate, but that's secondary to growing the dollars. And so, you're growing the margin rate while growing the dollars in maximum amount. And you're doing that by balancing the margin rate contribution with the profit – with the revenue contribution times the margin rate, right? And so, the lines in between, to our mind, there's always trade-offs and we're going to optimize those to get the outcome I just described.

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Oliver Wintermantel
Analyst, Evercore ISI

Q

Got it. Thank you. And then just on international EBITDA, the loss widened to $25 million. So, can you maybe talk about what is driving the deterioration there and what needs to change before the US growth initiatives can translate into better international results?

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

A

I'll turn it over to Kate in just a second, but let me just say, I tried to address this in the script. I think, the thing to realize is like when we talked about how, as we got our tech cycles back, we were able to focus on programs and focus on product-led growth. There's a little bit of a sequence to that and we prioritized Wayfair.com as the first place we did that work.

So, you can see that by like some elements, like when did we launch Rewards? Like, for example, we launched Rewards a year and a half or more later in our foreign markets. Or there's still programs like Delivery+ or stores that we have not launched in our other markets. So, there's basically a lag associated with the strategy playing out in other markets relative to playing out in the US. That's the main point I would make, but let me turn it over to Kate.

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

A

Yeah, I think, Niraj spoke to the revenue piece. Obviously on the top line, we've long said that the sort of maturity curve is at an earlier state in these markets. And I think when Niraj speaks to represents how we think that can improve over time as we launch these initiatives, Loyalty, for example, just launched in the spring in both markets, and we see nice engagement there. Specifically on your point on the EBITDA dollars, I did mention on the call, we had a one-time expense on the SOTG&A line that was specific to the UK, the Competition and Markets Authority there. And so, that obviously would have an impact on the EBITDA dollars in the UK this quarter, or in international this quarter, rather.

Oliver Wintermantel
Analyst, Evercore ISI

Q

Got it. Thanks very much and good luck.

Operator: Your next question comes from the line of Maria Ripps with Canaccord. Your line is open. Please go ahead.

Maria Ripps
Analyst, Canaccord Genuity LLC

Q

Great. Good morning, and thanks for taking my question. I just want to circle back to market share gains, and I guess how much of their outperformance is coming from structural improvements in your competitive position versus perhaps sort of opportunities created by the current industry environment? And then how should we think about sort of incremental drivers of further share sort of acceleration from here? And then I have a quick follow-up.

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

A

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Yeah, so I think, the market share gains, I mean, ultimately, the environment, whether it's a weak or a strong environment, ultimately, it's competitive between you and your competitors. And so, I think, it's really about what you're doing that and how does that line up with what customers want relative to what competitors are doing. And so, I think, I would say it's more structural, right? So, in other words, there's things we're doing on how we reach customers from a marketing standpoint. There's things we're doing on how we do delivery, things we're doing around how we provide selection, things around how we help customers have confidence in items around curation.

And these things I think would matter whether it was an up market or down market from a macro standpoint. So, in that sense, I would say, I think it's structural. And the drivers to expand the share spread, to expand the share gains are really the same things I've referenced, right? It's the recipe, it's the programs, and it's the product-led growth. And those things, a number of things I would point out there. You don't necessarily need new ones of those because most of those are things that compound.

And so, you can continue to execute on that program as you make it stronger and stronger. It has a compounding effect. They also compound between each other. So, there's interplay between each other. Someone joins Rewards. In the meantime, they download the app. And then in the meantime, you're making the app better. In the meantime, you figure out new things to do during promotions that are more engaging. You augment selection in a category, right? These things all compound on each other.

Maria Ripps
Analyst, Canaccord Genuity LLC

Q

Got it, that's very helpful. And then you touched on AI partnerships and sort of some of the key developments there. But as product discovery sort of shifts toward like AI agents, how would you expect sort of your customer acquisition strategy to evolve? And what are the implications for marketing efficiency and spending over time?

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

A

Yeah, so I think, AI agents, AI surfaces, that's just an evolution in our mind for our category relative to, properties like Meta or Pinterest or Google from years past. And the reason I say that is ultimately customers may start their experience any number of places and whether they do it entirely on their own or whether they do it with a friend or whether they do it with an agent, the question is, at what point do they want to be more involved in that?

So, in other words, if they start by working with an agent, if it was a category that's more of a commodity, we'd expect the agent could take quite a lot of agency and execute that all the way through for you. If it's a category like picking out a sweater or buying a sofa, we think the agent can help you get started. And what the agent would be able to help you be aware of is that Wayfair has the biggest selection. It has the most editorial content. It has the best price value.

It has the fastest delivery, these types of things, and it can then steer you there. But ultimately, we believe that what you're going to find is most customers are really going to want to be the ones who then explore and the things we can do on our surfaces with the customer, I think, are richer experiences than what the agent can do for them. If they want the agent to transact for them, we mentioned we do this with Google today. They could do that.

We think that's a rare case, which is the same thing Google found with shopping or Pinterest found with buyable pins, so on and so forth, which is just that customers ultimately, depending on the category, behave differently. And that we just think that that's common use case. But what you're going to find is that we're going to optimize ourselves in all these places, optimize ourselves in how we work with agents, optimize how we're working, how

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we're handling, how we appear on AI surfaces in the organic results, optimize how we work in AI services as the ad products get developed and mature over time.

And you actually find us being early partner with all of these folks and helping effectively build this product set in all of these places, just like we've done in kind of all the other products over the years.

Maria Ripps
Analyst, Canaccord Genuity LLC

Q

Got it. That's very helpful. Thank you.

Operator: Your next question comes from the line of Michael Lasser with UBS. Your line is open. Please go ahead.

Michael Lasser
Analyst, UBS Securities LLC

Q

Good morning. Thank you so much for taking my question. As you've seen this growth over the last several quarters, is the nature of the customer or the composition of the basket any different than either what Wayfair has experienced in past cycles or what you've expected? The intention of the question is to try and determine to what degree are customers buying more décor-related items, and they're going to come back as the furniture element of the category really starts to recover. Thank you so much.

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

A

Yeah. I think, I mean, the answer to your question is yes and no. Like we have such a broad base of customers who all kind of engage in different ways. So, one of the things we've been very excited about, what we've seen, for example, with stores, is that, it does make us much more obvious and a strong source for all these frequency items, this is what you've referred to decor, bedding, housewares, and so that's been exciting. And to the earlier question about AOV, that would, for example, draw down AOV, but to your point, it would be more top of mind.

We're getting their purchases, big and small, so we're growing revenue per customer per year, and the more top of mind you are, the more you're going to be in line for that big purchase when they get around to it, because they're going to think of you as a place to go explore for that, right? So, there's that, but I don't want to make too much of that. Like, what we're doing is we're doing things on every dimension. I mentioned earlier, for example, large appliances. We're growing a large appliances business where there's very few folks who have selection from LG and Samsung and GE and Electrolux and, the majors, and we're one of the handful, and I think, we are particularly well-positioned to build that business.

Well, that's a category we've got to build awareness of, and that's a category that we're actively growing at a very fast rate, but it's relatively small, and that doesn't play into the thesis of, focusing on decor. So, we're doing both is, I guess, my only point. I don't know, Kate?

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

A

Yeah, Michael, I'd just add, because I enjoyed your piece on the overall cycle and the sort of replacement cycle in the category. I would say right now we don't see the category sort of seeing that yet, right? And, again, what we're seeing is our own share gains. Now, those are broad-based, as Niraj pointed out, across a number of different

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categories. So, something like stores is driving frequency, but something like our own initiatives may drive bigger, bulkier items. But it's not as if we're seeing pronounced, sort of, outperformance in one sector or another.

And this is why we go back to the point of AOV being an output, not an input, because we're not driving, trying to drive pronounced outperformance of one sector or another. We're, in fact, trying to drive wholesale share gain, and I think we are seeing that.

Michael Lasser
Analyst, UBS Securities LLC

Q

Understood. Thank you very much for that. My follow-up question is, as you look at the drivers of the gross margin in the third quarter, how much of the change was due to what might be termed reactive factors, like consumers getting a discount because of the loyalty program, versus more proactive factors, such that you are taking some of this outperformance and working with your vendors to lower price? And the intention of the question is obviously what your message seems to be as you get into next year, your gross margin might fall below the 29.5% low end of the range that you're guiding to this year, to just help frame, if that is a realistic expectation, the different pieces of what be driving that more proactive that will help future quarters versus reactive, this is a function of how the model is going to work. Thank you so much.

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

A

Yeah. I'm going to turn it over to Kate to answer that, but the one thing I just want to remind you is, like, what we mentioned earlier, right, is that we intend to grow profit dollars faster than we grow the revenue dollars. So, if you think about that, that means margin rate is holding in there, right? And so, again, there's these lines in between, but there's a lot of puts and takes, as you're saying. But I think chaining together a bunch of negative things wouldn't get you the outcome we're talking about.

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

A

So, Michael, I appreciate the question because I think it hits on a key point, which is sort of, Niraj just highlighted, which is how we're thinking about the interplay across items. And we're really focused on that contribution margin. And as we've said for a few quarters now, that currently we believe the right place to operate is that sort of 15-ish percent contribution margin. And that will help meet that goal of accelerating EBITDA dollar growth on this multi-quarter view faster than top-line growth, but also growing the business, overall.

And so, what does that mean from a GM perspective, a gross margin perspective? We said there's a few different ways that we have seen good investment opportunities in gross margin. You did see that show up. I would actually say that loyalty is a proactive investment on our part because we have decided that that as an initiative is really helpful to the overall business. It makes our growth overall more efficient and more profitable because we know that the marketing spend to get those customers back in is significantly less. They come more direct. They're more engaged. They buy across categories, actually, as you just mentioned in the first question. And so, they have sort of a broader-based experience with us. And we think that's going quite well.

So, we would say that that was an intentional strategy to sort of overall drive the flywheel that drives that EBITDA dollar growth, but then does, yes, have some impact on the gross margin. But the net of all of that is that contribution margin, sort of 15%-ish.

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Michael Lasser
Analyst, UBS Securities LLC

Q

Very helpful. I hope you guys have a great holiday. Thank you so much.

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

A

Thank you. You too, Michael.

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

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Hey, thank you. Good morning. Nice quarter, guys. Kate, you just mentioned the last comment around loyalty, making your business more efficient, more profitable. I was hoping you could update us on where you guys stand from a loyalty membership count. I think, you came into the year with a little over a million, maybe a goal of doubling it. How's that been going? Do you think you're on track to at least double it in 2026?

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

A

Yeah. We do from time to time give updates on programs like loyalty. We're feeling good about the momentum and, overall sort of engagement there. I think, there's two pieces that we're focused on there. One is the members. As you mentioned, we feel like we're on track. That's going well. The second is the engagement of those members. So, getting them to, sort of increase that incrementality of spend. And, that's going well. That is going well as well.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. All right. Well, we'll pivot over to stores. You know, it's maybe a little early, but you do have the Atlanta and Columbus stores now open. Are those seeing a similar type of performance as the Chicago store in its early months? And then related to that, I'm wondering if some of this store success begets more success. In other words, are landlords starting to realize that you guys are driving traffic or could become a large tenant? Are you starting to get more calls and better real estate deals as you're looking to expand that real estate pipeline?

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

A

Yeah, thanks. I'll make a couple of comments and then also if Kate can join in, add any thoughts she has. So, landlords are seeing that our stores draw significant traffic, that we've seen them be very keen to get us into their centers. We've continued to stay very disciplined and picky about which centers we think fit what we want. And we're also continuing to learn a lot about the right size space, the right type of space, the right trade area, the right location in the trade area, the right co-tenancy. And because the landlords are pretty keen to get us, we're able to combine sort of getting what we need and the right economics to get the financial outcomes we want. So, that's been a pretty clear signal.

As we have more stores open and they're replicable in terms of seeing those strong results, that's the other thing I think the landlords have noticed because they'll visit multiple locations and they say, okay, oh, geez, I've got a

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very strong view of what I'm going to get here, and they kind of, there's not a lot of concepts that are growing that there can be draws like this. So, yeah, that's all going quite well.

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

A

Yeah, Peter, to your specific question on, how are Atlanta and Columbus performing, we see very similar results in Atlanta and Columbus to what we saw in Chicago and so that state-level lift is holding nicely. Obviously, that is a blunt force metric, right? We do a lot of detailed analysis underneath that to understand the lift, but we are – we feel very good about the trajectory there. So, that's quite exciting.

As Niraj mentioned, certainly having some stores in the ground, does help us in ongoing landlord discussions. We have already announced additional leases and as you can tell, if you go back and look through the leases, we have five stores opening next year and we're quite excited about those.

Operator: Your next question comes from the line of Chuck Grom with Gordon Haskett. Your line is open. Please go ahead.

Chuck Grom
Analyst, Gordon Haskett Research Advisors

Q

Hey, thanks very much. Good quarter. I wanted to double-click on the AOV decline and not from a negative perspective, more from a positive one, in that you mentioned that the spread of the business is narrowing. So, I presume that the core Wayfair business actually got better in the quarter. So, maybe just talk to that. And then more recently, you talked about the success of Way Day. What do you think you did differently? And what is the preview for the upcoming holiday season? Thank you.

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

A

Yeah, thanks Chuck. Yeah, so look at the end of the day, our total company result can only vary so much from the result of Wayfair.com given the sheer size of Wayfair.com. I mean, it's not the entirety of the business. These other businesses are meaningful, but from just a percentage standpoint, it's a very large business, right? And so, if it's not doing well, as a company, we can't do well. And so, what you're seeing though, is that Wayfair is doing well. You're also seeing that our other businesses are doing well.

And then when you add them up, this is how do we go 0% to 5%, 5% to 10%, 10% to 15%, 15% to 20%, 20% to 20 plus. These things all contribute, right? And that's effectively the route we're marching along. And that's working well. And that's why we feel very confident we're continuing to march along that trajectory. In terms of a Way Day, as I mentioned, Way Day went well, I'd say one of the things we continue to learn, like this year, we did a shorter event than we did last year. We continue to hone the calendar.

I wouldn't say we necessarily have like more sales or more event days, but we're kind of continuing to know how to shape the calendar. And then we're adding features in that are kind of increasingly exciting. For years, we drive people in by getting them to be on our email list or download the app. Now, the text messaging list is now meaningful. We've added things into promotional events, things like flash deals and other promotional type levers that suppliers can use that just make these events more exciting.

And it also makes it that if it's a three-day event, not everything is the same each of the three days. There's reasons to come back maybe multiple times during that. So, I'd say we continue to learn how to shape it. And

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then, as you know, we're in a variety. We're only in home goods, but we're in quite a variety of subcategories of home. And so, we're also finding different ways to kind of mix across those categories in a way that makes what we're doing more and more interesting as a place for customers to come and check out. So, I do think there's innovation in what we're doing in addition to the fact that just the core recipe, price, selection, speed, availability is very strong.

Chuck Grom
Analyst, Gordon Haskett Research Advisors

Q

Great. Thank you very much. Appreciate it.

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

Andrew Tsai
Analyst, Jefferies LLC

Q

Good morning. This is Andrew Tsai for Jonathan. Thanks so much for taking the question. You said rewards changes behavior once customers join. A few weeks in, are you seeing a similar shift with Perigold Insider, which is higher fee and also higher AOVs? And is it pulling in new households or mostly just existing Perigold shoppers?

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

A

Yeah, so it's – looks like conditions is saying it's super early, but the way to think about it is, the same way we've watched the launches of rewards in other geographies, we watched how it launched in – the Perigold program launched for Perigold and it launched very strong. So, we know, like, first few days, what type of revenue penetration we'd like to see, what number of sign-ups we'd like to see, and that's off to a really good start. As you mentioned, it's very early, so extrapolating is dangerous, but the trajectory – the early trajectory is actually very strong.

Andrew Tsai
Analyst, Jefferies LLC

Q

Great. Thank you.

Operator: We have reached the end of the Q&A session. I will now turn the call back to the Wayfair team for closing remarks.

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

Hi, everybody. We just want to thank you for your continued interest in Wayfair and for joining. We hope everyone has a great holiday season, and we just want to remind you, whether it's Perigold or Wayfair, make sure you shop with us. We also have a specialty retail brand. So, thank you for your interest.

Operator: This concludes today's call. Thank you for attending. You may now disconnect.

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