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Wayfair, Inc. (W)

Q1 2021 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good day, and thank you for standing by. Welcome to the Wayfair Q1 2021 Earnings Release and Conference Call. At this time, all participants are in a listen-only mode. After the speakers' presentation, there will be a question-and-answer session. [Operator Instructions]

I would now like to hand the call over to our speaker today, Jane Gelfand, Head of Investor Relations, Corporate Development and Capital Markets. Please go ahead.

Jane Gelfand

Head of Investor Relations, Corporate Development & Capital Markets, Wayfair, Inc.

Good morning, and thank you for joining us. Today, we will review our first quarter 2021 results. With me are Niraj Shah, Co-Founder, Chief Executive Officer and Co-Chairman; Steve Conine, Co-Founder and Co-Chairman; and Michael Fleisher, Chief Financial Officer. We will all be available for Q&A following today's prepared remarks.

I would like to remind you that we will make forward-looking statements during this call regarding future events and financial performance, including guidance for the second quarter of 2021. 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 2020, 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.

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Also, please note that during today's call, we will discuss certain non-GAAP financial measures as we review the company's performance. These include measures such as adjusted EBITDA 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, 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 Investor Relations website.

I would now like to turn the call over to Niraj.

Niraj S. Shah

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

Thanks, Jane, and good morning, everyone. We're excited to share the details of our first quarter results, which were again characterized by strong revenue growth, solid profitability and positive free cash flow. While macro conditions are always changing and promise to be especially dynamic in 2021, Wayfair's focus remains squarely on connecting all of the industry's customers and suppliers on our unique platform, which is custom built to address the specific needs of shopping for the home.

As a reminder, we refer to ourselves as a platform because we bring together the best aspects of a marketplace model, while also incorporating the benefits of a first-party or 1P retail experience for the customer.

Jumping to the category is fundamentally unlike nearly every other vertical of retail. Each purchase is a personal, highly-emotional expression of one's feeling of home and much of the category is unbranded and differentiated. These are high consideration purchases and require a 1P experience for the customer.

Shoppers need inspiration through relevant content, discovery through a wide assortment, and confidence that is built through strong merchandising, fair prices, reliable delivery and effortless customer service. Our aim is to set the bar ever higher on each of these dimensions with a best-in-class customer experience as our North Star.

In the process, we are building the preeminent destination for shopping for the home, a trusted household brand that tens of millions of customers return to again and again as they seek inspiration, explore a vast selection and discover the products they love. To do this effectively, Wayfair has flipped the script on what powers the business and adopted the most attractive aspects of a marketplace model when it comes to our suppliers.

Instead of working with a select few suppliers, we embrace an inventory-light third-party model and instead focus on building the tools and services to allow every supplier to easily and productively access our customers.

We let suppliers do what they do best; ideation, design, manufacturing, and we deliver them solutions like end-to-end logistics services, technology and media and merchandising tools that they use to enhance their reach to the customer and grow their business. Years of investment have put us in the position to fundamentally leverage our scale for the benefit of both our suppliers and our customers, creating a whole that is greater than the sum of its parts.

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In our investor presentation, we showed this platform as a flywheel where scale begets growth, which leads to further efficiency. We see this in action each quarter, and Q1 was no exception. First quarter net revenue grew to $3.5 billion, up $1.1 billion and 49% year-over-year.

Our active customer count grew by 57% over the first quarter of last year to reach $33 million, and we delivered 14.7 million orders, 49% more than a year prior. Our shoppers love the experience they have on Wayfair, which keeps them coming back. And Q1 marked the first time that 75% of our orders came from repeat customers.

Repeat order growth year-over-year accelerated versus Q4. Repeat order growth once again outpaced growth in new orders, which were approximately 800,000 higher year-over-year. Accelerating growth in repeat is in part a reflection of those newer customers acquired in 2020, coming back and becoming more loyal.

You may ask what we are doing to keep this flywheel in motion and to accelerate it. We are ambitious in going after our $800-plus billion total addressable market. We continue to invest with conviction in all aspects of the platform; improving both customer and supplier experiences, expanding our reach, testing new concepts and failing, learning and scaling quickly.

Just a couple of examples to demonstrate what I mean on each front. When it comes to the supplier experience, these endeavors have recently included scaling up our Asia-based logistics operations and freight forwarding business. This has been especially powerful given the upheaval and congestion in the ocean container market and has allowed participating suppliers to maintain a steady flow of goods to the US and Europe to keep their businesses on track.

We also continue to invest in successfully expanding our reach in Canada and in Europe. Since the onset of the pandemic, our active customer count has increased by nearly 70% in international. And orders from repeat customers are up more than 800 basis points as a percentage of total order mix. We are adding additional CastleGate capacity in Germany to accommodate our growth and to open the door to further market expansion in Europe.

And when it comes to experimenting with new concepts, we push ourselves to be forward-looking, unbiased and methodical. In 2021, among our many ongoing initiatives, we're laying the groundwork to test into physical retail, introducing new customer-facing creative, refining the unique positioning of each of our brands, and developing new supplier-facing services.

We are balancing our various endeavors with continued profitability and free cash flow generation. 2020 marked the first year of profitability for Wayfair since we went public, and we expect to remain profitable quarter in and quarter out in 2021. With Q1 gross margin of 29% and $206 million in adjusted EBITDA, a 6% margin, we're demonstrating the structurally profitable nature of our platform model.

We generated over $200 million in adjusted EBITDA this quarter, while simultaneously and ambitiously investing for the future, including thousands of people who are working on exciting multiyear initiatives.

While the magnitude of margins will move quarter-to-quarter and the various tailwinds and headwinds with which we contend will change over time. We are confident that strong profitability will continue and will expand over time as our various investments continue to bear fruit.

Like many of you, we are eager to see the world move post pandemic. We've been encouraged by the early signs of normalization as vaccinations are increasingly made available to the general public.

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Many have asked us what this new normal will look like for Wayfair and shopping for the home. While time will tell, some of the early data points we have seen, paint a picture that looks very promising for our business over the long-term.

In the early innings of the pandemic, we saw a shift in shopping behavior as customers rush to outfit their home offices and home schooling environments. However, this demand surge very quickly extended across the many, many classes that we sell, a phenomenon that has persisted through today.

More than a year into doing nearly everything from our homes, has only intensified the emotional value we place on our personal spaces, as we have reimagined what we want our homes to look like, and have expanded our to-do and wish lists to achieve these visions.

While demand for COVID-impacted categories, like travel and entertainment, is returning, we also believe the pandemic has fundamentally increased the share of wallet customers will spend on their homes in the future and the amount they will spend online. That's partly because as we sit here today and the world begins to reopen, many people know that they will still be spending more time at home and have become much more comfortable shopping online.

Remote work will continue to be a reality for many. And even as companies begin the process of returning to offices, new norms around flexibility will give people the opportunity to spend more time at their homes. We are all eager to host friends and family again, too, and to make those occasions extra special.

We're closely watching category demand trends in those countries that have had greater relative success in reopening, even when we don't operate there. We're also paying attention to how demand on our platform evolves state-by-state in the United States, given various levels of vaccinations, restrictions and adherence.

Across the board, the early takeaway suggests that even in geographies where the economy has largely reopened, spending on the home has remained elevated compared to pre-pandemic levels.

Most importantly for Wayfair, e-commerce demand is now structurally higher for our category, though still quite underpenetrated, and could well accelerate more quickly going forward than pre-COVID. All of these trends are encouraging, though it is still very much early days.

As you know, this persistent level of demand has brought some challenges to the industry, as multiple points of strain have emerged across the supply chain. Earlier in the pandemic, inventory availability and outbound bottlenecks were the biggest sources of stress. More recently, inventory constraints have been magnified due to inbound issues, namely ocean container availability and port congestion. These are challenges faced by the entire industry, driven by broad macro pressures.

Retail sales remain more elevated broadly and suddenly dramatic shifts to e-commerce have produced intense demand on existing logistics infrastructure across the spectrum. On the whole for our category, inventory availability and delivery times are sequentially improving, though it is in fits and starts, and will likely take towards the end of the year to fully normalize.

Though we cannot entirely avoid some of these challenges, our platform model and years of logistics investments put us in a position to weather them better than most and more significantly, to help extend these benefits to our

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supplier partners. Having a virtually limitless catalog gives us the flexibility to ensure customers see the products we know we can get to them quickly.

Our logistics network and scale has given us a uniquely advantaged seat as we deal with major providers of transportation, which translates to better terms and a position of priority, which we can effectively share with our suppliers. These relative advantages allowed us to move Way Day back to its strategic timing in the spring. We just hosted the annual event last week. And though it's too early to give you a full accounting, we were very pleased with the customer reaction to the truly great deals we were able to line up. The event set a new Way Day record and we saw broad-based momentum, with particular emphasis on outdoor, upholstery and bedroom classes.

Wrapping up, some of you have asked whether we will change the way we operate as we exit out of the pandemic environment. The answer is both yes and no. No, in the sense that we have always run a long-term oriented business. The way we acquire, service and retain our customers is inherently dynamic and optimized around customer lifetime value. The way we work with our suppliers is also about establishing collaborative, productive and ongoing relationships.

We're not focused on any single quarter, but instead on a longer-term vision for Wayfair. The sum total of all this work is also what gave us confidence to effectively raise our long-term profitability targets earlier this year. And yes, in the sense that nothing at Wayfair is static and the amount of change we pursue gets larger every year.

It is this energy that elevates every dimension of the platform experience and ultimately creates and widens competitive moats. We know that the home will remain a major focal point for everyone even post-pandemic. We're just getting started helping them capture that unique feeling of home, and we have a long runway ahead.

Now, I'll turn it over to Steve to talk a bit more about our supplier services.

Steven K. Conine

Co-Chairman and Co-Founder, Wayfair, Inc.

Thanks, Niraj, and good morning, everyone. One of the key enablers to our supplier success on the Wayfair platform and, frankly, to Wayfair itself, are the services and tools we develop for their use. These currently span offerings across media, merchandising and logistics with more to come. Rather than speaking the abstract, I want to use our time today to bring each of our current offerings to life. I'll do so through some real examples of how these services have benefited individual suppliers over the last couple of years.

I'd like to start with our Media business, through which our suppliers can purchase advertising to enhance their competitive positioning on our platform. We take a different approach here than other e-commerce retailers because the very unique nature of the home category requires a browse-oriented customer shopping journey.

Our foundational guiding principle is that, advertising done right should be accretive to the customer experience. As a result, we have been very deliberate about our media inventory, including the type, quantity and the pace at which we release it. We first launched media services in the US a few years ago, consisting predominantly of our on-site display ads. We followed in late 2018 with the launch of WayUp, our sponsored products format.

Today, we continue to expand the sophistication of our media services, including by adding functionality like keyword bidding and options to display several related SKUs in a single promotional unit. We are driving education across our diverse supplier base to encourage adoption and are pleased to report that the Media business has scaled quite nicely over the last two years with a lot more to go.

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We are just starting to launch a similar suite of services in Europe, leveraging the same technology and playbook that has proven successful in the US. There are more than 4,000 suppliers using our media services today, a figure which grew by 4x over the last 12 months.

Even our earliest adopters, many of whom have sophisticated digital marketing capabilities, continue to see strong ROI through sponsored listings and are increasing spend with us. One such early adopter of sponsored products was a large rug supplier.

After a set of initial media campaigns earlier in the year, this supplier quickly ramped its budget with us across both on-site display and sponsored products in late 2019. They did so on the back of very competitive returns on ad-spend, and the clear value of being able to differentiate their products on our platform.

Over the course of 2020, this supplier's spend increased by nearly 400%, and the number of promoted SKUs increased by more than threefold. More recently, this supplier has also become a valuable and willing partner for experimenting on new media products with us.

This sort of testing is leading to interesting learnings and ideas, which we are beginning to share with our broader supplier base. We are also just beginning to scale our merchandising as-a-service offering, which you can think of as 3D visual asset creation.

Product imagery, video and other visual assets are some of the most important elements to selling home products online. They drive more traffic, higher conversion, fewer returns and happier customers.

Traditionally, suppliers and retailers rely on physical photo studios to create this imagery, which is costly and logistically complex. We have made multiyear investments in 3D imaging technology to create virtual imagery that is significantly cheaper, faster and of higher quality than through traditional photography studios.

All the supplier has to do is send us some reference imagery of their products, we handle the rest, to make that e-commerce ready. Our supplier partners are excited and hundreds are already using the service. The imagery we create drives significant product sales through increased clicks-and-conversion while also reducing supplier cost. This offering proved particularly useful during the pandemic.

In 2020, suppliers were very motivated to create digital imagery, but were constrained in their ability to do so given many photo studios were closed in lockdown.

For example, one of our lighting suppliers approached us to help them create imagery for several products in their catalogue. Through merch-as-a-service, this supplier was able to create photorealistic 3D models of its products and select a variety of virtual room scenes to visualize them in.

The resulting lifestyle images were higher quality and were produced more quickly and cheaply than any traditional option, all without having to move the product to another location. The early results have impressed and the supplier now intends to use merch-as-a-service for hundreds of their top products. Just as we can leverage our technology for the benefits of suppliers, we also leverage our scale through our fulfilment platform.

We've talked about our different logistics services for several years now, but it's worth painting the picture again in the context of our offering today. Our earliest investments were across our CastleGate warehouses and Wayfair Delivery Network. As a reminder, the WDN is our proprietary middle and last mile delivery solution for the vast

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majority of large parcels. Those bulkiest of products, which cannot flow through the common carrier networks. In concert, we've built out our own set of fulfillment centers, which we call CastleGate. The CastleGate network consists of 17 warehouses and over 18 million square feet across North America and Europe.

CastleGate let suppliers forward position their products close to the customer, improving delivery times, optimizing inventory management and enabling damage reduction. The third and newest pillar of our logistics business is International Supply Chain. ISC offers consolidation, ocean cargo and drayage service to suppliers moving Asian manufactured inventory to North America and Europe. Leveraging our scale, we purchased bulk cargo capacity from some of the largest freight providers in the world and pass on both the savings and the assurance of guaranteed space to our suppliers. We can offer this for full containers bound for either CastleGate locations or suppliers' warehouses.

Across multiple suppliers, we can also breakbulk and construct optimized consolidated containers bound for each of our CastleGate locations, unlocking speed and lowering supply chain costs, ISC completes the puzzle for a full suite of door-to-door services, helping suppliers get products from their manufacturing sites directly to customers doorstep through Wayfair. Suppliers value the end-to-end convenience and the ability to scale quickly on the Wayfair platform.

For example, we have a US-based supplier of bedroom furniture that previously imported products from a manufacturing site in Southeast Asia to a single warehouse located in the Midwest. The supplier would then dropship at a high cost all over the US, and as a result, had no two-day badging across its catalog.

The supplier started forward positioning its most important products across CastleGate locations in 2019 and integrated ISC by year-end. This drove inbound transportation costs down by a double-digit percentage for the supplier, led to a one-third improvement in order to delivery days and introduce speed badging to more than 40% of its catalog.

Between multiple ocean carriers and related middlemen, drayage providers, warehouse operators, customs brokerage and last mile delivery, this supplier would normally have to interface with 5 to 10, sometimes unreliable links in the supply chain. We consolidated that down to one solid relationship, with us. And we were able to help this supplier more than quadruple its business on the Wayfair platform in 2020.

As you can see, we have invested in building the tools that our supplier partners, regardless of size or sophistication, need to grow and scale their businesses. Our interests are mutually aligned here in a myriad of ways. All of these services save our suppliers' time, cost and hassle. They all surface product to the customer in enhanced ways, whether through better merchandising or more reliable delivery. And several of these offerings are accretive to the bottom line. These are win-win-win elements of our platform model with strong supplier interest and adoption to date.

I'll now turn the call over to Michael.

Michael D. Fleisher

Chief Financial Officer, Wayfair, Inc.

Thank you, Steve, and good morning, everyone. Let's take a look at the financial details for the first quarter before discussing the forward outlook. As you saw in our press release this morning, Q1 total net revenue was $3.5 billion. This was $1.1 billion more than the first quarter of last year, representing 49% growth year-over-year. We saw a strong growth and sequential acceleration in the growth rate year-over-year in both the US and International segments. The US reported revenue growth of 43% over Q1 of 2020, up $846 million.

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As we mentioned back in February, we did see some benefit from stimulus in both January and once again, in March, though we estimate the net lift from the two was relatively mild. International momentum was also very strong at 85% growth over the prior year.

A slower vaccine rollout and continued COVID-related restrictions across Canada, the UK and Germany, all likely contributed to the results. And reported growth also benefited from a weaker US dollar year-over-year. On a constant currency basis, international revenue grew 73% from the prior year.

Niraj discussed our KPIs earlier, so I'll now move further down the P&L. As I do, please note that I'll be referencing the remaining financials on a non-GAAP basis, which includes depreciation and amortization, but excludes stock-based compensation, related taxes and other adjustments.

Q1 gross margin was 28.9%, showing 400 basis points of leverage compared to last year. Positive year-over-year drivers included merchandising gains and strength in media supplier services. These gains were partially offset by category mix, as outdoor got an earlier start than expected and tends to operate at a lower gross margin profile.

While we are not totally immune from sequentially higher shipping costs, we believe Wayfair is better insulated than much of the industry, thanks to our scale and business model. Importantly, we are also continuing to drive underlying logistics efficiencies and therefore, expect the net impact of any shipping inflation will not be overly meaningful this year.

Customer service and merchant fees were 4.1% of net revenue in the first quarter, in line with our outlook. Advertising as a percent of net revenue was right in line with guidance at 10.5% or about 130 basis points lower than last year.

Our selling, operations, technology and G&A or OpEx expense line came in at $373 million. This was a little lower than we expected this quarter and is mostly timing as our pace of hiring started the year a little more slowly and is now picking up.

For the first quarter, adjusted EBITDA was $206 million or 5.9% of net revenue. This adjusted number does not include the $12 million charge related to the consolidation of several of our customer service centers, which we undertook in March.

In the US, adjusted EBITDA was $227 million for an 8.1% margin, while the International segment booked slightly negative adjusted EBITDA at negative $21 million or negative 3.3% of net revenue. Capital expenditures in the quarter were $65 million. This was somewhat lower than we originally forecast, as we purposely delayed some racking projects.

We ended the quarter with $2.7 billion of cash and highly liquid investments on our balance sheet and free cash flow generation for the quarter was $111 million. We have now posted four straight quarters of positive free cash flow, including in Q1, which historically tended to mark a seasonal low point for cash flow.

In addition, you may have noted that we closed our new revolving credit facility in the quarter, tripling the borrowing capacity on our revolver to $600 million and adding further support to our already strong balance sheet.

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We're also using our balance sheet to reinforce our focus on diversity, equity and inclusion within Wayfair and in our communities. In April, we announced plans to allocate $30 million to social impact investments, including a $20 million commitment to the Black Economic Development Fund.

Moving on to our outlook. It's always difficult to guide precisely, but this quarter makes things especially tricky. As usual, I will provide you with some broad strokes on Q2. But first, I want to better ground us in terms of the kind of period we are comping.

This time last year, we were just getting used to working, living, schooling and doing just about everything else from home. For many of our customers, this meant a flurry of online purchases to better equip themselves to deal with this new reality. It also meant spending a good portion of the CARES Act stimulus checks, which hit checking accounts beginning in early April.

While demand across the classes was broad, there were certainly spikes in so-called COVID classes, like home office and play room. And some of this very specific spike demand is what we are currently anniversarying.

With all this in mind, we're not surprised by a negative year-over-year gross revenue trend quarter-to-date, which is currently showing down in the high-single-digits. That said, the year-over-year comp, though it is trending as expected, is not very meaningful in a period like this.

We are instead closely watching revenue trends for sequential stability and growth and are quite pleased by what we're seeing thus far. The sequential trend is the best reflection of how our now much larger base of 33 million active customers is repeating and contributing to a very strong net revenue performance.

A quick side note, some of you may also be wondering how much Way Day would have added to the quarter-to-date growth rate. But I'll just remind you that we hosted the Save Big, Give Back event, which ran for a week and was very successful in lieu of Way Day last year, and we comped that in April. So we are effectively lapping a weeklong event last year with a strong two-day event this year.

Turning now to profitability. Q2 should clearly demonstrate our ability to remain strongly profitable, even while continuing our ongoing ambitious investments and while comparing against an extraordinary period last year. Moreover, we have good visibility into multiple drivers, which should continue to benefit margins over the coming years.

This is why we're indicating that our original long-term EBITDA margin goal of 8% to 10% is now no longer appropriate and too low. You'll recall, we originally set this range at the time of Wayfair's IPO.

In the more than six years since, the business has evolved considerably with new elements like logistics and supplier services, not to mention our size and scale, which have meaningfully added to our long-term margin potential, from where we stood back in 2014. We continue to expect to see earnings growth, both near term and long-term.

When it comes to the Q2 P&L, we expect gross margins in the 27% to 28% range. We forecast customer service and merchant fees between 3.5% and 4% of net revenue. And while advertising as a percent of net revenue will move around depending on the opportunities we see in the period, we continue to believe 10% to 11% is an appropriate range to forecast.

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We also project SOTG&A or OpEx dollars, excluding stock-based compensation and related taxes, to grow sequentially versus Q1 to somewhere between $390 million to $400 million in Q2.

All in, this means that Q2 adjusted EBITDA should be strongly positive at or above Q1 on a dollar basis. To put a finer point on it, we believe Q2 net revenue will be higher than Q1 net revenue and Q2 adjusted EBITDA will be at or above Q1 levels. And we expect to be strongly profitable every quarter of 2021.

In general, we expect that as we deliver sequential top-line growth over time, it will translate to growing EBITDA dollars, even as we continue aggressively investing in our future.

Touching now on a few housekeeping items for Q2. Please assume equity-based compensation and related tax expense of approximately $89 million to $91 million, depreciation and amortization of approximately $75 million to $80 million, CapEx in an $80 million to $90 million range, again, subject to timing.

You will notice that we adopted a new standard for debt accounting this quarter. At our current capital structure, this will mean that our P&L interest expense will be lower at approximately $8 million to $9 million in Q2 and will more closely reflect the coupon rates on our outstanding converts.

Also, at our current capital structure, we expect basic weighted average shares outstanding to equal approximately 104 million shares. Though as a reminder, our fully diluted weighted average shares outstanding will ultimately be driven by the net income result in Q2 and the result of applying the if-converted method to our converts.

To wrap-up, I will go back to where Niraj started. Though some volatility this year is unavoidable, we are all focused on a much bigger future and are convinced that Wayfair's unique platform positioning, our strategic investments and our long-term orientation will equate to continued strong growth and improving profitability for many years to come in the context of a huge TAM and a long runway for further e-commerce penetration.

Our focus is on the sequential strength of our business, even as we lap the exceptional spikes of the 2020 pandemic. Our customer cohorts are healthy and stable, and the home is still very much top of mind. Our suppliers are bought in and seeing in real time the benefits of the services and tools we are providing and building for them. And our employees are focused on driving valuable change across all facets of the platform at an accelerating rate.

Thank you very much. And now Niraj, Steve and I will be happy to take your questions.

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QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] Your first question comes from the line of Peter Keith with Piper Sandler.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Hi. Thanks. Good morning, everyone. Thanks for taking the question. I was curious on the supplier services that Steve outlined with media, merchandising and logistics. If any one of those three has been gaining particular traction over the last year or even in the recent months, I would think potentially on the logistics side with the container issues would be a standout. But I'd be curious if there's any specific call outs amongst the three?

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

A

Thanks, Peter. I'll start, and then I don't know, I'll ask Steve or Michael might want to jump in. Yeah, thanks for your question, too. So on the supplier services what I would say is we're seeing nice growth. The two that are the farthest along that are growing nicely, and they're all growing nicely, but the two that are farthest along would be what we're doing on logistics, which is both the warehousing offering, which is the traditional CastleGate offering. But then what we're doing with the CastleGate logistics inbound services, the ISC, ocean freight brokerage business.

And then the other one is what we're doing on advertising, supplier advertising on our site, which we've been calling media. That said, I'd say all of these are still very much in the early days. So while they show really nice percentage growth, they're quite small relative to potential. And then, what I would say we're doing on other supplier services like merchandising, it's still very much – or super early. So, they're all working really well. But from a contribution to the total, I would say that the vast – the runway is really all still in front of us.

Steven K. Conine
Co-Chairman and Co-Founder, Wayfair, Inc.

A

Yeah, I don't have anything to add to that, Niraj.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay, thanks. Maybe a question for Michael. Just on the gross margin guidance, 27% to 28%. I guess kind of quarter-on-quarter, it seems like the guidance continues to get a little bit better. We know there's concerns around maybe increased promotions coming down the pipeline. Can you just talk about the structural benefits that you're seeing that's given you a little more confidence in that gross margin guide?

Michael D. Fleisher
Chief Financial Officer, Wayfair, Inc.

A

Thanks, Peter. So yes, as you noted, we've tightened the range a little bit to 27% to 28% and sort of brought up the bottom end. And I think that's just around the confidence of now having delivered a few quarters consistently at about 29%. Look, I think there's some potential near-term for downward pressure from shipping costs. I don't think we're worried about promotions and the promotional environment right now. And at the same time, as you know, we've got a huge set of logistics investments that are starting to bear fruit in a meaningful way that offset

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the other shipping cost potential pressures. So, I think 27%, 28% is a good place to target, particularly sort of in the environment we're in today.

Peter Jacob Keith
Analyst, Piper Sandler & Co.

Q

Okay. Thanks a lot, guys. Good luck.

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

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Good morning. Great quarter, congratulations.

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

A

Thanks, Brian.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

So, my first question is for Michael. You're recognizing, obviously, a very fluid environment and you're not guiding revenue – you're not guiding specifically revenue for Q2. But can you provide some colors for us as to how we should think about the full quarter and how revenues should trend maybe through May and June?

Michael D. Fleisher
Chief Financial Officer, Wayfair, Inc.

A

Thanks, Brian. Look, as you guys know, we've held up giving net revenue guidance for about a year now because the pandemic has created all sorts of volatility. And frankly, Q2 is likely to be the toughest quarter to forecast due to the spiky nature of Q2 last year. In particular, April last year had a very strong back half. May was the biggest month from a comp perspective. And then by June, comps were coming back down, though still somewhat elevated.

So, in many ways, I think your educated guess, the last I heard consensus is somewhere in the sort of negative 7%, negative 8% net revenue range is probably as good as any. The year-over-year result is going to end up being whatever it's going to be. I think most importantly, we're very focused on sequential dollar stability and growth. That's what we spoke to about in the prepared remarks. And frankly, we're really encouraged by what we're seeing.

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

A

And let me just – this is Niraj. I just want to chime in for a second. Because I think there's obviously a traditional modeling focus on year-over-year growth. And what's interesting, year-over-year growth matters when you're growing nominally above inflation, inflation is 2% and you're growing at 4$, year-over-year trends matter.

If you look at our growth rate, 2014, 2019 is 48% CAGR, last year is higher with the pandemic at 55%. What happened a year ago really doesn't matter. So if you really want to understand the business, really the sequential trend tells you a lot more.

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And if you look at our historic sequential trend, the way that four quarters kind of roll, Q4 to Q1 generally is a little bit down, because you're coming off holiday into the first quarter of the year. Q1 to Q2 is generally a nice step-up in growth. Q2 to Q3 is generally flattish. And Q3 to Q4 is a step-up in growth as you go in holiday. And if you look over the last seven years, where you have all the quarters, you kind of see that pattern play out pretty cleanly in a normal years.

And so what happens in our business, if you think about, how it's driven by repeat, now 75% of the orders are repeat. You look at this last quarter repeat orders grew 58%, new orders grew 28%. So we're getting a lot of new customers.

But really where we make the ton of money, is they enjoy the experience, they come back and we keep making the experience better-and-better, so they come back more-and-more, right? It's a real flywheel. So then what happens is what matters the most for next quarter is really what we did this quarter. How many more customers do we get? What was their repeat behavior? What improvements do we make?

And that affects them what they do in the next quarter. And then that affects what they do in the next quarter. So the sequential trends, I think, actually, even though they're particularly helpful because of the pandemic, I think they actually tell you a lot more about the business in general.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

That's very helpful. I appreciate all the color. And then just maybe a quicker follow-up. I came – it was mentioned in prepared comments on stimulus and I think the comment you made is that you think any benefits of the stimulus, I guess, as most recent round of stimulus have been mild.

That seems different than what I'm hearing from a lot of other companies I cover, the benefits have been much more substantial. So I guess the colored questions here is how are you looking at them as mild? And why do you think that is in the case of Wayfair?

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

A

Yeah. So I think there's a couple of things, so I think the first round of stimulus was very significant for everybody, particularly based on their online business, because if you remember the first round of stimulus, brick-and-mortar was closed. So brick-and-mortar retailers didn't benefit from the first round of stimulus. So a bricks-and-mortar-based guy is going to talk about the current stimulus being great, and they're going to say that the first round was really not that as great.

But it's because they closed all their stores, and they didn't have much going on online. So they have a relative difference. If you're online, you've been beneficiary through the whole thing to a significant degree. So now you're comparing it to kind of the peak of the COVID, the very beginning of the lockdown, where effectively all the money went back out. If you look at what's happened with the stimulus broadly over time is an increasing amount has gone into savings with each round of stimulus.

And that's why the US consumers are sitting with close to $4 trillion in savings in the bank, up from $800 billion before COVID, right? So those who have money have way more, and they saved an increasing amount of the stimulus checks.

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So I think if you look at how it plays out, what we're describing is the effect it had on us, and we're describing it relative to the effect of the one last April. And you can kind of – if you think about really just focusing on online, which is really where all the gains have been, is very significant kind of that you kind of get it all back out in the market versus less now.

But if you're a brick-and-mortar guy, obviously, you're benefiting from your stores being open now. So that's basically, I think, the difference.

Brian Nagel
Analyst, Oppenheimer & Co., Inc.

Q

Got it, really helpful. Congrats again, best of luck you all. Thanks.

Steven K. Conine
Co-Chairman and Co-Founder, Wayfair, Inc.

A

Thanks, Brian.

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

A

Thank you.

Operator: Your next question comes from the line of Justin Post with Bank of America.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. Thanks a lot for taking my question. Just on an industry level. You guys were innovators in the category and really got ahead of a lot of the offline guys. They're definitely refocused on online. How do you think that could affect the overall industry? And specifically, as you think about marketing channels, does that change anything? And also the online promotional environment, how do you think about that? And do you think you can keep gaining share as we look forward over the next couple of years? Thank you.

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

A

Thanks, Justin. So I appreciate you saying that we were innovators. I would just like to argue my point, which is I think we are innovators. And so I think we're doing a lot that's actually – the moat of us versus the main competitors we have were a handful of very large retailers, the general merchandise guys who focus on grocery and the home improvement guys who focus on building materials and then, obviously, the generalist e-commerce platforms.

That's really our main competition, even though it's a fragmented world and there's a lot of competitors out there, hundreds and hundreds, thousands of them. What we're finding is that none of them really focus on home, and so they want home to just be another category that they fit into the mix, even down to how they think about logistics, even though that there's only a couple of them who are really investing into logistics in a significant way.

And if you look at where the investments are it's into these networks, optimized for grocery or these networks that are kind of one-hour delivery networks or, there is networks that benefits the bulk of their business. But if you look at what we're doing on home, if you look at our digital brokerage business for the inbound freight and how it's

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optimized for our industry, if you look at what we're doing with the optimization around large parcels, you'll find that we're actually, the mode is widening.

Similarly, if you look at the merchandising, that we're doing and what we're doing with imaging and rendering imagery, there's still significant differences of us versus the large competitors we have, and it's all because we're specialized on this category. And if you look at their innovation, groceries delivered right into your refrigerator. They're doing very interesting things. It's just not in the category that we're in.

And so, I do think we're going to be able to, to answer your question, more specifically, I think we're going to be able to keep taking share and an excess rate going forward. It doesn't mean that these guys are going to go away. They're going to be around, but remember we have less than 2% market share in the market we're focused on. And even with that very conservative math we have in the IR deck where it gets us to 8x's big by 2030, which is like $112 billion, the market at that point is $1.2 trillion.

And so we would have less than 10% share. And it's using three conservative assumptions on top of each other to get to that, which is kind of imputed CAGR if back it out of 23%. If you look at the rate we've been growing and, obviously, we've been growing at a rate well in excess of that. So I do think if you kind of look at how share [ph] of plan (45:55), I think you're going to see that we cleanly take share, and we're a very big winner in a category that's still, even if we beat that number handily, it's still, we have a pretty small share in a very fragmented industry.

Justin Post
Analyst, BofA Securities, Inc.

Q

Great. Thank you.

Operator: Your next question comes from the line of Seth Basham with Wedbush.

Seth Basham
Analyst, Wedbush Securities, Inc.

Q

Thanks a lot and good morning and congrats on a great quarter. My question is around the cohorts that you guys have acquired over the course of the pandemic. And what you're seeing from them thus far in terms of the behavior relative to pre-pandemic cohorts. Are you seeing them behave similarly? Or are they churning out or spending less than pre-pandemic cohorts?

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

A

Thanks, Seth. We're seeing them play out, very similar to any other customer cohort. And the thing I would point you to where you really see that is if you just look at the share of orders that are repeat versus new and you see how that's continuing to tick up, it's following a pattern that was there well before the pandemic, we just hit 75% like, 74.5% or something. And if you – in our IR deck, we show you a five-year view of it. You just see how it keeps cleanly ticking up.

And it doesn't mean we're not getting new customers. We just got, whatever, 3.75 million orders from new customers this last quarter. So we're getting tons of new customers, but the growth is driven by the repeat and people coming back, that was up 58%, we had like 11 million repeat orders this quarter.

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And that still has huge runway, because as I mentioned, we have less than 2% market share. So, even with the customers we have, we're still only getting about $500 per customer per year, which has a huge amount of running room, and obviously there's a lot more customers to get to.

Seth Basham
Analyst, Wedbush Securities, Inc.
Q

Got it. So as you look at the balance of the year, you start facing tougher comparisons and [ph] searches (47:44) customer growth. Do you expect those trends to continue and expect to continue to grow your new customers at a material rate, like we saw in the first quarter?

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

Yeah. The way I would encourage you to think about it, as I was kind of touching on this earlier in one of the earlier questions, if you just think about it sequentially, I think that gives you the way to think about it and model it, then you can back out whatever you want to call it year-over-year. So, the year-over-year doesn't really matter. The question is, hey, so we got this bunch of new customers this quarter, okay, so now we go into next quarter we have 33 million active customers.

What happens next quarter, are they repeating at the same frequency, or does the frequency tick up a little and it continues to tick up a little, every quarter, right. And then are there still new customers yet, okay, yeah, so the new customer number, how many are going to be in [ph] market (48:25), so if you kind of take out those COVID quarters, you can see a clean line going back many years of how many new customers are tipping into the bucket.

And remember, they're new in the sense that they placed their first order with us, but they're not necessarily new entirely to us, meaning, we have huge reach to customers. I mean, we have tens of millions of customers who are on our email list, millions of millions of customers who download the app, who haven't yet bought, right.

So what happens is those folks kind of eventually tip in, and then of course we're getting new folks into those kind of early stage aspects of the funnel, too. So if you look at it sequentially, and just kind of look at what trends were like, and you say, okay, hey, are these guys investing things that make the customer experience better so will repeat continue to slowly tick up? Will customers continue to tip in? That sort of gives you a way to think about growth.

And then if you look at EBITDA, we have all those structural pillars we talk about, those four pillars that are going to keep driving up the EBITDA margin, and maybe like driving up gross margin. And that is still early too and so you can kind of get your head around, well, if they keep getting them to scale that the customer kind of math tells you. Do you think that these pillars will actually accrue to more margin, it's pretty easy to see how that'll happen. And so that kind of gives you the way to think about it.

Seth Basham
Analyst, Wedbush Securities, Inc.
Q

Got it helpful. Thank you very much. And good luck.

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

Thank you.

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Operator: Your next question comes from the line of Steven Forbes with Guggenheim.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Good morning. So Niraj, maybe just a quick follow-up, right, on the sequential trends. If we look at sort of the LTM net revenue per active customer strength in the first quarter, is the commentary you're laying out here lead to the expectation of continued strengthening sequentially in that particular line item? Or what is all the visits, right, the millions of members who have downloaded the – what does that mean for that particular line item?

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

A

So I think you're asking about the LTM revenue per active customer, the number that'd be like $461 right now?

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Correct. Yeah.

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

A

Yeah. Okay. So that's the number when I refer to like, oh, we're only getting $500 per year, that's effectively what I'm referring to. And when I talk about ticking, repeat keeps ticking up slowly. You can look at that number and if you take a long view, you see it's ticking up, but you see it ticks up slowly. And the reason it ticks up slowly is you're getting tons of new customers in. You just made a purchase for the first time and you're mixing them with what's a significant number in absolute count, but it's smaller in a proportion who, went from first to second. And that's bigger than who went from second to third order and third to fourth order, fourth to fifth order. But these are each growing. And as they grow, they spend more with us.

And so that number moves up. But it moves up slowly, because you have so many customers piling in the top of that funnel, right? And obviously, that number is weighted by the customers who are in each tranche and how loyal they are and the age of the customers, because you're mixing in customers who bought yesterday with customers who bought a year ago, right, because it's a trailing metric.

And so yes, we would look for that number to go up over time. It bounces around a little bit, but that number would be basically the easier number to look at, I think, is the repeat order growth and the new order growth to really think about it. But this number will be impacted by that, because as customers repeat more often, become more loyal, they do spend more per year with us.

Michael D. Fleisher
Chief Financial Officer, Wayfair, Inc.

A

Yeah. The only other thing I'd add...

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Thank you.

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Michael D. Fleisher
Chief Financial Officer, Wayfair, Inc.

A

The only thing I'd add there is, if you look at the investor deck where we take that number back over time, you can see back in 2016, it was $395 right? Like as Niraj said, it's a – we're gaining wallet share year-in, year-out, and we think there's a long runway for that to continue.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

And then just a quick follow-up. I don't know if you could provide some color on the anticipated cadence of International EBIT margin or just simplistically, if we should assume the first quarter is sort of the trough here in terms of the performance for 2021?

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

A

So, I think the way to think about International is the same way I was kind of guiding you to think about the whole business, but effectively, it's earlier stage, meaning, right. If you look at it, we're getting tons of new customers because we have so few on a relative basis to the size of the market compared to the US. And then, in fact, the repeats continuing to expand, and it's expanding nicely.

So in other words, all those metrics underneath in the International segment keep going the right way. So revenue will compound, revenue should grow faster in International over time than it can in the US, even though both will grow at a very significant rate. So then if you look at the EBITDA, your question, specifically, I think on profit, international profit, what you'll see there is, ultimately, we basically are – we have been investing in International for our long-term plan, not for the near-term plan.

What I mean by that is, when we really decided to invest in International in 2014, we started summer of 2014. We purposely decided to headquarter our business in Germany, and we've headquartered ourselves, as you know, in Berlin, Germany. But the first market we focused on was the UK. So they go, hey why? So, you put headquarter in Berlin, why would you do that if you're focused on the UK?

Well, the reason is our long-term plan is to be expand throughout Europe and have – basically, this is a North American playbook. But the UK was the first market. Well, as we prove that out, and became the leader in the UK, today we're a household brand in the UK, we're the leader online in home in the UK, and that business continues to grow at a very fast rate.

We then in 2017, expanded to focus on Germany. And then, they say, well, why aren't you expanding more? And so well, we want to prove out Germany and Germany work. So now you roll forward. We're two years into what's a four-year cycle to build a brand in Germany, that's working really well. And so now we're in a position where [ph] you understand, (53:55) well what's interesting is, all the investments we've made that the pan-European transportation network where we move goods from 30 different countries, and we deliver them today in the UK and Germany. The country category teams, we have a team based in Berlin. We have an Italian category team, there's native Italian speakers who cover our suppliers in Italy. We have one of these for Spain, one of these for Poland. They're all based in Berlin.

We've made all these investments over time because of what we're doing with our long-term plan in Europe. And for example, just to give you some context, we have over 2,000 people in Europe, only 100 are in London. So it's really – we built the same kind of operation we have in Boston built it in Berlin. And so from a leverage standpoint,

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the way profitability will play out is you're going to see us, on one hand, be ambitious and expanding Europe in a methodical manner. However, the economics will keep getting better. You say, how could the economic keep getting better and profit really keep getting better over time as you expand.

The reason is you take something that's more mature like the UK, where it started with really low gross margins. Those margins then rise over time. It's so much bigger than anything that's newer, right, that its growth outpaces the growth in [ph] something newer (55:02).

So basically, the long story short, international EBITDA will keep getting better over time. But really, where we are with a mature – more mature piece, but it can still grow like wildfire is the US. So profit is real going to be driven by the US business, but International, it's on the right trajectory. I don't know, Michael, do you have anything on international EBITDA? I think the question had some near-term question aspect to it too.

Michael D. Fleisher
Chief Financial Officer, Wayfair, Inc.

A

No. I think you covered exactly how we're thinking about the trajectory there. We're obviously not going to sort of guide out International forward quarters anywhere for the whole business, but the whole – the International business continues to be on a great trajectory.

We're making the investments in a really balanced and thoughtful way there. And you're continuing to see the leverage show up on as Niraj pointed out, the leverage show up on the substantive investment we've been making in the International business over the last few years.

Steven Forbes
Analyst, Guggenheim Securities LLC

Q

Thank you.

Michael D. Fleisher
Chief Financial Officer, Wayfair, Inc.

A

Thanks, Steven.

Operator: And we have reached our allotted time for questions. At this time, I would like to turn the call back to Niraj for closing remarks.

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

Well, thank you, all, for joining for the call. We appreciate your interest in Wayfair. And we're really excited about the future. We see a tremendous growth ahead, and we will update you again next quarter. Thank you.

Operator: This concludes today's conference. Thank you for participating. You may now disconnect.

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