

WILLIAMS SONOMA

Williams-Sonoma, Inc. (NASDAQ: WSM)

Phi Gamma Nu

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Executive Summary



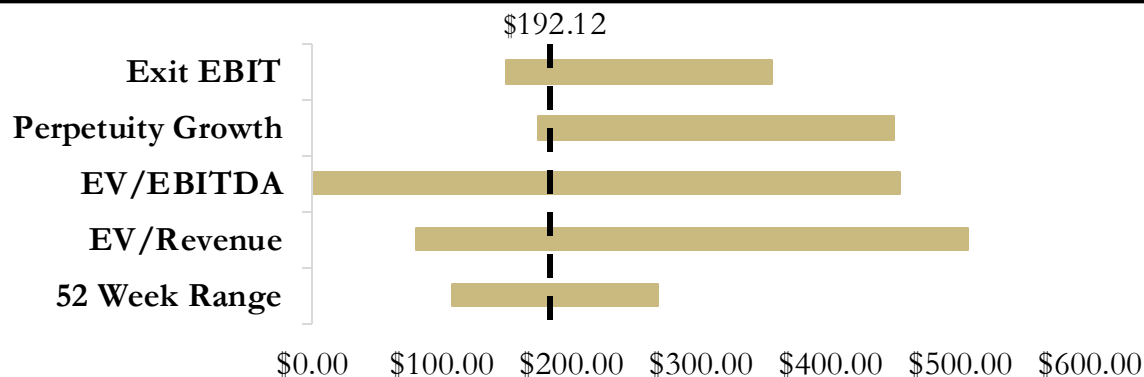
Recommendation

We recommend a **BUY** for WSM with a target price of \$192.12, implying a 23.63% upside over a 12-month time horizon

10-K Summary

1. E-Commerce accounted for **70%** of revenues, up from pre-pandemic 58%
2. Revenues highly **seasonal**, with most earnings realized October to January
3. Continued **closures** of brick-and-mortar retail stores, averaging 29 store closures annually

10-K Summary



Catalysts

Financial Growth



- EPS growth, stock buybacks
- Decreasing operating expenses
- Switching over to eCommerce sales

International Expansion



- International expansion plans 2023
- Small international footprint thus far
- Past e-commerce implementation

GreenRow Sub-brand



- First sub-company in over ten years
- Satisfies new customer demographic
- Third-parties/quality products

Industry Overview



Industry Background

- Broad industry selling furniture and kitchen appliances
- Mainly a **D2C** distribution method online and in-person
- Main markets are concentrated in America and China
- U.S. market value of **\$87bn** and **CAGR 3-4%** into 2028
- **10% CAGR** throughout the COVID-19 pandemic years

Industry Trends



Rise of **e-commerce** revenues over brick-and-mortar sales due to the decline of malls and covid-induced trends



Increased demand for **eco-friendly** furniture and with from sustainable product procurement practices



Uncertainty in future furniture demand due to strong **inflationary headwinds** and mortgage rate hikes

Key Players



Revenue: \$44.0bn
Market Cap: n/a
Share Price: n/a

ARHAUS

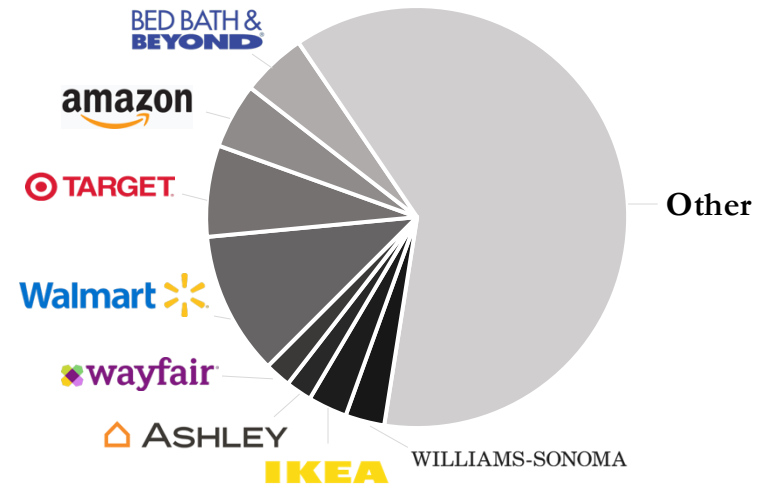
Revenue: \$1.3bn
Market Cap: \$1.2bn
Share Price: \$9.20

RH

Revenue: \$3.0bn
Market Cap: \$4.8bn
Share Price: \$265.20

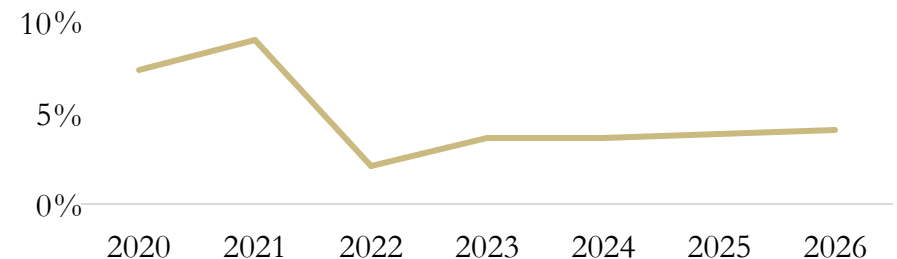
Breakdown and Future Growth

Home Furnishing Market Share by Brand



Fragmented market with numerous competitors and **low saturation**. The Top 10 brands only control **around 50%** of market share, with opportunity to expand market share

Industry Projected Growth



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Company Overview



Company Breakdown

Description: American cookware and home furnishing conglomerate with a 600-store and 60-country footprint. One of the nation's largest e-commerce retailers.

Year Founded: 1956

Headquarters: San Francisco, California

Performance Metrics (Q3 2023)

Revenue: \$1.9bn (down 12.9% from Q3 FY22)

Profit Margin: 10.82% (down 13.4% from Q3 FY22)

Market Cap: \$10.0bn

Management Team



Laura Alber, CEO & President | 2010-Present

- Ex-Pottery Barn senior buyer
- B.A. from University of Pennsylvania



Jeff Howie, CFO | 2002-Present

- Ex-Macy's and Saks
- B.A. from Dartmouth

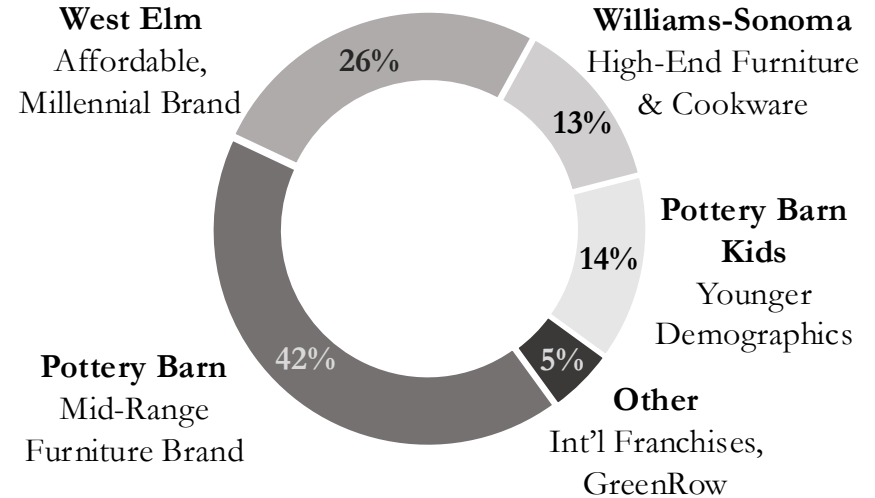


Yasir Anwar, CTO | 2018- Present

- Ex-Walmart and Macy's
- E-Commerce specialist

Brands Portfolio Breakdown

WSM Brands by Revenue (2022)



Past Stock Performance



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Catalyst #1: GreenRow Trajectory



First Brand in 10+ Years



- **Unique home décor** and furniture that including brighter colors/modern designs
- International research of **product inspiration** and new practices

ESG Practices



- Natural products and packaging designed for **reuse and recycling**
- Responsibly sourced and **natural materials** produced ethically

Third-Party Partnerships



- Certifications guarantee harmless **chemical-free** product lines
- Partnerships with Fair Trade USA and the Global Recycling Standard

New Consumer Demographic

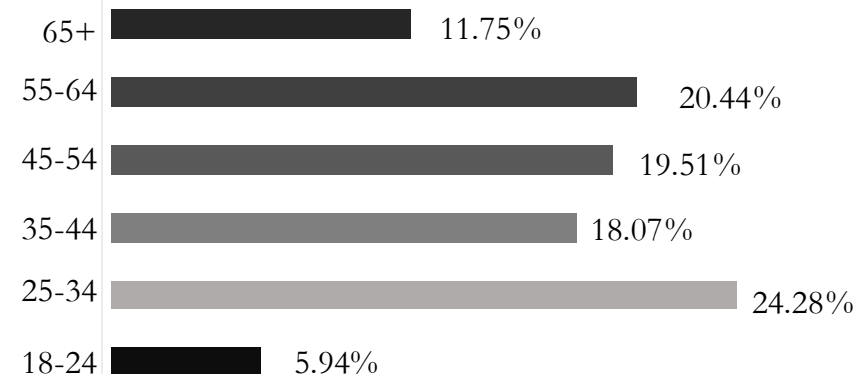


- Appeals to **younger demographic** of homebuyers and designers
- Neutral/minimalistic designs that fit **modern practices** and trends

Future Predictions

- WSM gained **2.2%** after GreenRow announcement
- Nosedive 7.7% after Outward acquisition in 2011
- Expected revenue of \$10mm in its first fiscal year
- Operation expenses of \$250mm expected to fund

Williams-Sonoma Current Customer Demographics



Catalyst #2: International Expansion

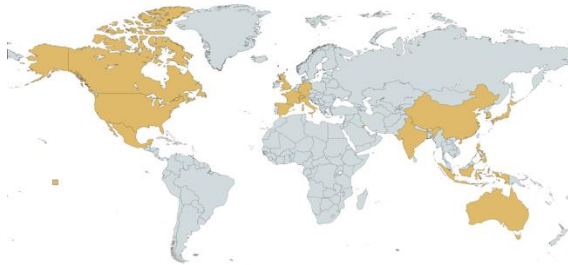
Current International Presence

Brick-and-Mortar Stores

- United Kingdom, Canada, Australia, & Middle East
- 163 stores in US, 625 stores total

E-commerce presence

- Shipping reach to over 60 countries in 5 continents
- International sales accounts for 10% of the total revenue



Financing Expansion Feasibility

Stock Buy Backs

- Received \$1B in shares
- Low debt-to-equity ratio in comparison to competitors

Supply Chain

- Plans to invest \$250mm in LT supply-chain growth
- Established distribution centers ensure easy transition into new markets

E-commerce Capabilities

- Invested in large bandwidth for their online sites and mobile offerings for increased demand

Projected Revenues

Forecasted Growth

- Initial investment will pay off in around 3-4 years
- Accessing international customer markets will continue growing as we establish a larger supply chain

Revenue Breakdown (thousands)

2024: -\$453,753.81

2025: \$228,606.78

2026: \$388,088.92

2027: \$628,503.80

2028: \$531,859.58

Existing Markets

- **Leverage existing** franchise and affiliate store networks globally
- **EU** (western European) region: Spain, France, and Italy.

Initial Digital Expansion

- Establish a localized supply chain to **lower costs** of operation
- Expand website presence and **localize services** for country

Marketing Campaign

- Marketing to boost **brand recognition** (\$20 mm) locally
- Targeted **advertisement** campaign on country-specific media platforms

Brick and Mortar Entry

- **Evaluate** digital sales and demand analysis of respective country
- Engage in **capital-intensive** physical market entry

Catalyst #3: Strong Financial Growth



Main Indicators

Projected Higher EPS



- Projected high EPS forecast of **17.27** in 2027
- Positive surprise nearly **70%** of the time, and returned over **28%** in annual returns

Stock Buybacks



- New stock repurchase program of **\$1B**, increasing quarterly dividend by **15%**
- Shareholders received **\$3.2B** in past 5 years

Decreasing OpEx



- Operating expenses for the quarter ending July 31, 2023, were **\$1.591 B**
- **10.21% decline** in operation expenses year-over-year

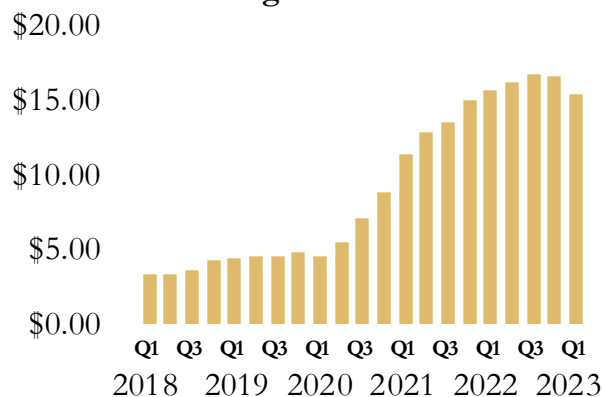
More Ecommerce



- Online sales accounted for **70%** of revenue
- Online sales totaled about **\$5.72 B** in the previous year

Historic Trends

Earnings Per Share



Current Statistics

EPS \$3.12

D/E 0.86

Global Revenue \$8.7M

Selling Sq Footage 3.81

Future Growth

New Markets

- Beginning to service non-household markets such as restaurants, hotels, football stadiums, and office spaces

Progressive web app technology

- New generation of machine learning
- Increased consumer data collection
- Streamlining the checkout process with data collection search and personalization experiences

Risks & Mitigants



Competitors Investing in Ecommerce

Risks

- Consumer behavior shifting away from in-person
- Brand name recognition not as strong as cheaper competitors such as Amazon, Target, Walmart
- Sales may be affected by companies that have larger online market share with similar products



Mitigants

- Differentiating products and brands by prioritizing quality, sustainability, and customer satisfaction
- Improve customer contact points to make good impressions and increase word-of-mouth marketing
- Effectively marketing and competitively pricing

Prolonged Supply Chain Concerns

Risks

- COGS increased by 5% due to shipping costs
- Business will be harmed if unable to timely and efficiently deliver to customers ordering online
- Expanding current e-commerce structure needs restructuring and therefore more time and costs



Mitigants

- Stabilizing shipping labor cost fluctuations and increasing e-commerce revenues to lessen impact
- Successfully anticipate merchandise returns by using product testing to decrease shipping costs
- Diversify product suppliers and delivery services

Reliant on Third Party Vendors

Risks

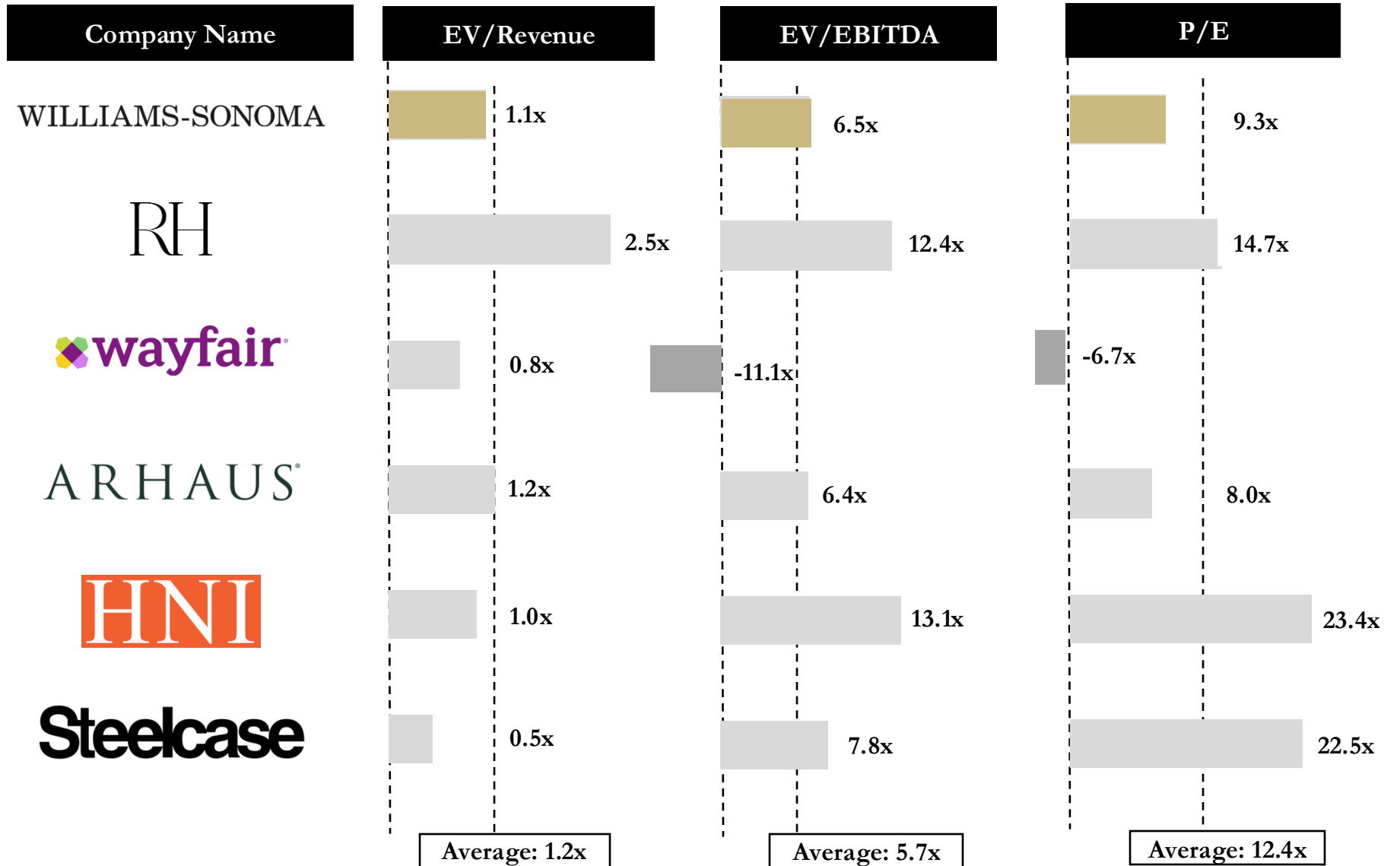
- Dependent on foreign vendors and third-party agents for timely sourcing of merchandise
- May struggle to maintain good quality control
- Inconsistencies among vendors can damage reputation and customer satisfaction as a whole



Mitigants

- Have a contingency plan in case of supply-chain issues and proper organization to monitor that
- Maintain frequent communication and audits
- Implement continuous monitoring of vendor activities through various managerial checkpoints

Comparable Companies Analysis



Discounted Cash Flow Analysis



Unlevered Cash Flow Calculations

| Fiscal Year <i>Fiscal Year End Date</i> | Actual | | | | | Estimated | | | | |
|--|------------------------|------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|-------------------------|
| | 2019A <i>2/2/19</i> | 2020A <i>2/1/20</i> | 2021A <i>1/30/21</i> | 2022A <i>1/29/22</i> | 2023A <i>1/28/23</i> | 2024E <i>1/27/24</i> | 2025E <i>1/25/25</i> | 2026E <i>1/24/26</i> | 2027E <i>1/23/27</i> | 2028E <i>1/22/28</i> |
| EBIT | 435,953 | 465,874 | 910,697 | 1,453,116 | 1,498,422 | 1,166,689 | 1,208,063 | 1,542,093 | 1,671,253 | 1,883,115 |
| Tax Rate | (22.1%) | (23.9%) | (22.4%) | (24.8%) | (21.0%) | (21.0%) | (21.0%) | (21.0%) | (21.0%) | (21.0%) |
| Depreciation and Amortization | 188,808 | 187,759 | 188,655 | 196,087 | 214,153 | 201,926 | 198,612 | 194,314 | 188,646 | 181,263 |
| Capital Expenditure | 190,100 | 186,280 | 169,510 | 226,520 | 354,120 | 335,403 | 336,281 | 342,890 | 357,810 | 367,916 |
| Changes in Net Working Capital | | (264,628) | (250,796) | (9,500) | 306,347 | (127,401) | (1,832) | (52,270) | (8,533) | (22,427) |
| Unlevered Free Cash Flow | | 731,981 | 1,180,638 | 1,432,183 | 1,052,108 | 915,609 | 818,533 | 1,121,948 | 1,159,659 | 1,323,434 |
| PV of UFCF | | | | | | 830,115 | 672,811 | 836,099 | 783,508 | 810,670 |

Sensitivity Analysis Table

| | | Perpetuity Growth Rate | | | | | | Exit Multiple | | | | |
|------|-------|------------------------|--------|--------|--------|--------|-------|---------------|----------|----------|----------|----------|
| | | 1.50% | 2.00% | 2.50% | 3.00% | 3.50% | | 9.0x | 9.5x | 10.0x | 10.5x | 11.0x |
| WACC | 11.3% | 172.42 | 179.80 | 188.02 | 197.23 | 207.62 | 11.3% | \$202.03 | \$210.63 | \$219.23 | \$227.83 | \$236.43 |
| | 10.8% | 182.97 | 191.34 | 200.72 | 211.30 | 223.33 | 10.8% | \$206.36 | \$215.16 | \$223.96 | \$232.75 | \$241.55 |
| | 10.3% | 194.73 | 204.28 | 215.05 | 227.30 | 241.35 | 10.3% | \$210.82 | \$219.81 | \$228.81 | \$237.81 | \$246.81 |
| | 9.8% | 207.92 | 218.89 | 231.36 | 245.67 | 262.25 | 9.8% | \$215.39 | \$224.59 | \$233.79 | \$243.00 | \$252.20 |
| | 9.3% | 222.81 | 235.52 | 250.09 | 266.97 | 286.77 | 9.3% | \$220.08 | \$229.49 | \$238.91 | \$248.33 | \$257.74 |

Blended Share Price

| Blended Share Price | Weight | | |
|---------------------|----------|------|---------|
| Exit | \$228.82 | 0.35 | \$80.09 |
| Gordon | \$215.08 | 0.35 | \$75.28 |
| Comps | \$122.53 | 0.3 | \$36.76 |
| Blended: | \$192.12 | | |
| Upside | 23.63% | | |

Growth Perpetuity (35%): Stable revenue generation by firm

Exit Multiple (35%): Similar exit multiples in the industry

Comps (30%): Other methods are more representative

WACC Calculation

Weighted Average Cost of Capital 10.3%

- Slightly greater percentage in equity than debt
- Lower percentage than industry leader: Wayfair
- Relatively safe for making future operating investments
- Reduced debt by 100 million in 2022
- CEO stated wanting to maintain a strong balance sheet
- Prioritizing returning capital to shareholders

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Final Recommendation - **BUY**



We recommend a **BUY** for WSM with a target price of \$192.12, implying a 23.63% upside over a 12-month time horizon

Investment Thesis

1. GreenRow Trajectory



- The market has not responded adequately to the company's first new brand in 10 years
- Collaborating with celebrities and others through endorsements such as GreenPan

2. International Expansion



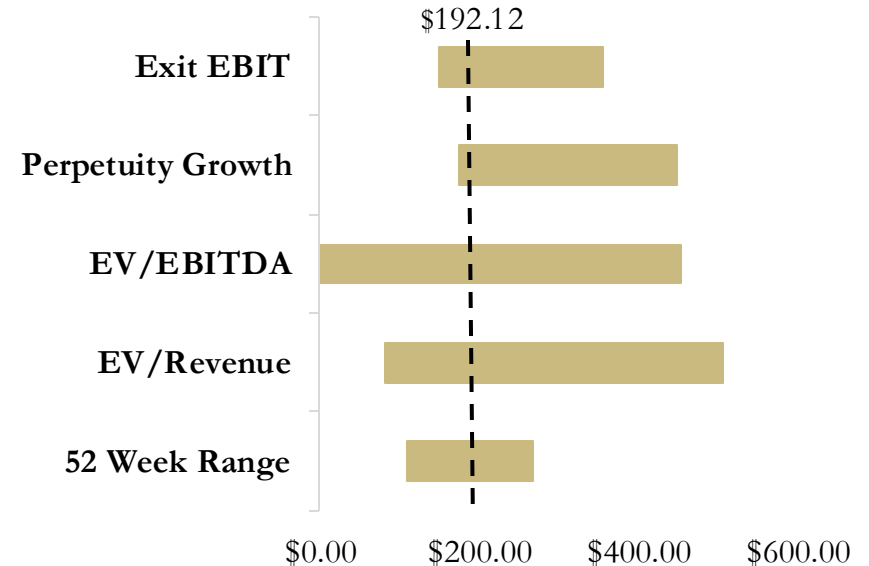
- Plan for future expansion was undervalued by market and other international stores doing well
- Has the potential to significantly increase market size and sales for company with current outlook

3. Healthy & Stable Financials



- Supported by financial gain of previous catalysts and aligns with company plans to increase earnings to current shareholders
- Forecasted profitability points to security and reliability in dividend payment with recent debt comfortability and stock buybacks

Football Field Valuation



Competitive Advantages

Unique Product Portfolio

- A conglomerate of many stores with different niches

A Successful Shift to Online Sales

- Credits ecommerce presence for 70% of revenue

Impressive Growth Record

- Earnings per share have increased drastically over time

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Thank You!

Any Questions?

Appendix: Income Statement

| INCOME STATEMENT | | | | | | | | | | |
|---|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Actual | | | | | Estimated | | | | |
| <i>Fiscal Year</i> | 2019A | 2020A | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E | 2027E | 2028E |
| <i>Fiscal Year End Date</i> | 2/ 3/ 19 | 2/ 2/ 20 | 1/ 31/ 21 | 1/ 30/ 22 | 1/ 29/ 23 | 1/ 28/ 24 | 1/ 26/ 25 | 1/ 25/ 26 | 1/ 24/ 27 | 1/ 23/ 28 |
| Pottery Barn | 2,177,344 | 2,214,397 | 2,526,241 | 3,120,687 | 3,555,521 | 3,591,076 | 3,698,808 | 3,883,749 | 4,233,286 | 4,529,616 |
| West Elm | 1,292,928 | 1,466,537 | 1,682,254 | 2,234,548 | 2,278,131 | 2,016,146 | 2,036,307 | 2,077,034 | 2,180,885 | 2,246,312 |
| Williams Sonoma | 1,056,125 | 1,032,368 | 1,242,271 | 1,345,851 | 1,286,651 | 1,196,585 | 1,244,449 | 1,337,783 | 1,434,772 | 1,535,206 |
| Pottery Barn Kids and Teen | 895,762 | 908,561 | 1,042,531 | 1,139,893 | 1,132,937 | 1,008,314 | 1,028,480 | 1,064,477 | 1,117,701 | 1,162,409 |
| Other | 249,434 | 276,145 | 289,892 | 404,957 | 421,177 | 408,542 | 441,225 | 474,317 | 499,219 | 524,179 |
| Total Revenues | \$5,671,593 | \$5,898,008 | \$6,783,189 | \$8,245,936 | \$8,674,417 | \$8,220,663 | \$8,449,270 | \$8,837,359 | \$9,465,863 | \$9,997,722 |
| Cost of Goods Sold | (3,570,580) | (3,758,916) | (4,146,920) | (4,613,973) | (4,996,684) | (4,932,398) | (5,069,562) | (5,037,295) | (5,395,542) | (5,598,724) |
| Gross Profit | 2,101,013 | 2,139,092 | 2,636,269 | 3,631,963 | 3,677,733 | 3,288,265 | 3,379,708 | 3,800,064 | 4,070,321 | 4,398,998 |
| Selling, General and Administrative Expense | (1,476,252) | (1,485,459) | (1,536,917) | (1,982,760) | (1,965,158) | (1,919,650) | (1,973,033) | (2,063,657) | (2,210,423) | (2,334,620) |
| Depreciation and Amortization | (188,808.0) | (187,759.0) | (188,655.0) | (196,087.0) | (214,153.0) | (201,926) | (198,612) | (194,314) | (188,646) | (181,263) |
| Operating Profit (EBIT) | 435,953 | 465,874 | 910,697 | 1,453,116 | 1,498,422 | 1,166,689 | 1,208,063 | 1,542,093 | 1,671,253 | 1,883,115 |
| Interest Income/expense-net | (6,706) | (8,853) | (16,231) | (1,865) | 2,260 | (3,288) | (6,759) | (8,837) | (9,466) | (9,998) |
| Earnings before Taxes | 429,247 | 457,021 | 894,466 | 1,451,251 | 1,500,682 | 1,163,401 | 1,201,304 | 1,533,256 | 1,661,787 | 1,873,117 |
| Provision for Income Tax | (95,563) | (100,959) | (213,752) | (324,914) | (372,778) | (244,314) | (252,274) | (321,984) | (348,975) | (393,355) |
| Net Income (Loss) | \$333,684 | \$356,062 | \$680,714 | \$1,126,337 | \$1,127,904 | \$919,087 | \$949,030 | \$1,211,272 | \$1,312,811 | \$1,479,763 |

Appendix: Balance Sheet

| BALANCE SHEET | | | | | | | | | | |
|---------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Actual | | | | | Estimated | | | | |
| <i>Fiscal Year</i> | 2019A | 2020A | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E | 2027E | 2028E |
| <i>Fiscal Year End Date</i> | 2/3/19 | 2/2/20 | 1/31/21 | 1/30/22 | 1/29/23 | 1/28/24 | 1/26/25 | 1/25/26 | 1/24/27 | 1/23/28 |
| ASSETS | | | | | | | | | | |
| Cash and Cash Equivalents | 338,954 | 432,162 | 1,200,337 | 850,338 | 367,344 | 246,620 | 422,463 | 618,615 | 946,586 | 1,199,727 |
| Accounts Receivables | 107,102 | 111,737 | 143,728 | 131,683 | 115,685 | 145,215 | 158,191 | 170,435 | 182,764 | 195,057 |
| Merchandise Inventories, Net | 1,124,992 | 1,100,544 | 1,006,299 | 1,246,372 | 1,456,123 | 1,392,973 | 1,517,441 | 1,553,150 | 1,665,494 | 1,746,338 |
| Prepaid Expenses | 101,356 | 90,426 | 93,822 | 69,252 | 64,961 | 49,324 | 53,731 | 48,242 | 51,731 | 55,211 |
| Other Current Assets | 21,939.0 | 20,766.0 | 22,894.0 | 26,249.0 | 31,967.0 | 32,079.73 | 32,192.86 | 32,306.39 | 32,420.32 | 32,534.65 |
| Total Current Assets | 1,694,343 | 1,755,635 | 2,467,080 | 2,323,894 | 2,036,080 | 1,866,212 | 2,184,020 | 2,422,749 | 2,878,995 | 3,228,867 |
| Right of Use Assets | 0 | 1,166,383 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Lease Right-of-use Assets | 0 | 0 | 1,086,009 | 1,132,764 | 1,286,452 | 1,221,535 | 1,255,504 | 1,313,171 | 1,406,563 | 1,485,593 |
| Property and Equipment, net | 929,635 | 929,038 | 873,894 | 920,773 | 1,065,381 | 67,846 | 69,733 | 72,936 | 78,123 | 82,512 |
| Deferred Income Taxes | 44,055 | 47,977 | 61,854 | 56,585 | 81,389 | 1,125,808 | 1,157,116 | 1,210,264 | 1,296,336 | 1,369,174 |
| Goodwill | 85,382 | 85,343 | 85,446 | 85,354 | 77,307 | 83,766 | 83,766 | 83,766 | 83,766 | 83,766 |
| Other Assets | 59,429 | 69,666 | 87,141 | 106,250 | 116,407 | 254,536 | 261,614 | 273,630 | 293,091 | 309,559 |
| Total Assets | 2,812,844 | 4,054,042 | 4,661,424 | 4,625,620 | 4,663,016 | 4,619,703 | 5,011,753 | 5,376,517 | 6,036,875 | 6,559,472 |
| LIABILITIES | | | | | | | | | | |
| Accounts Payable | 526,702 | 521,235 | 542,992 | 612,512 | 508,321 | 642,790 | 700,226 | 716,704 | 768,545 | 805,851 |
| Accrued Expenses | 163,559 | 175,003 | 267,592 | 319,924 | 247,594 | 271,775 | 296,059 | 318,975 | 342,047 | 365,055 |
| Current Debt | 0 | 299,818 | 299,350 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Operating Lease Liabilities | 0 | 227,923 | 209,754 | 217,409 | 231,965 | 201,692 | 219,714 | 236,720 | 253,843 | 270,917 |
| Income Taxes Payable | 21,461 | 22,501 | 69,476 | 79,554 | 61,204 | 435,490 | 110,727 | 119,297 | 127,927 | 136,531 |
| Gift Cards and Other Deferred Revenue | 290,445 | 289,613 | 373,164 | 447,770 | 479,229 | 435,490 | 435,490 | 435,490 | 435,490 | 435,490 |
| Other Liabilities | 72,645 | 73,462 | 85,672 | 94,517 | 108,138 | 101,645 | 110,727 | 119,297 | 127,927 | 136,531 |
| Total Current Liabilities | 1,074,812 | 1,609,555 | 1,848,000 | 1,771,686 | 1,636,451 | 2,088,881 | 1,872,943 | 1,946,484 | 2,055,778 | 2,150,376 |
| Long-term Debt | 299,620 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Long Term Operating Lease Liabilities | 0 | 1,094,579 | 1,025,057 | 1,066,839 | 1,211,693 | \$1,244,948 | \$1,279,568 | \$1,338,341 | \$1,433,522 | \$1,514,068 |
| Other Long-term Liabilities | 81,324 | 86,389 | 116,570 | 106,528 | 103,794 | \$7,399 | \$7,604 | \$7,954 | \$8,519 | \$8,998 |
| Deferred Rent and Lease Incentives | 201,374 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Deferred Lease Incentive | 0 | 27,659 | 20,612 | 16,360 | 10,027 | \$7,398.60 | \$7,604.34 | \$7,953.62 | \$8,519.28 | \$8,997.95 |
| Total Liabilities | 1,657,130 | 2,818,182 | 3,010,239 | 2,961,413 | 2,961,965 | 3,348,626 | 3,167,720 | 3,300,732 | 3,506,339 | 3,682,440 |

Appendix: Unlevered Free Cash Flow Build

| UNLEVERED FREE CASH FLOW BUILDOUT | | | | | | | | | | |
|-----------------------------------|----------------|----------------|----------------|------------------|------------------|------------------|------------------|------------------|------------------|------------------|
| | Actual | | | | | Estimated | | | | |
| Fiscal Year | 2019A | 2020A | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E | 2027E | 2028E |
| <i>Fiscal Year End Date</i> | <i>2/2/19</i> | <i>2/1/20</i> | <i>1/30/21</i> | <i>1/29/22</i> | <i>1/28/23</i> | <i>1/27/24</i> | <i>1/25/25</i> | <i>1/24/26</i> | <i>1/23/27</i> | <i>1/22/28</i> |
| EBIT | 435,953 | 465,874 | 910,697 | 1,453,116 | 1,498,422 | 1,166,689 | 1,208,063 | 1,542,093 | 1,671,253 | 1,883,115 |
| Tax Rate | (22.1%) | (23.9%) | (22.4%) | (24.8%) | (21.0%) | (21.0%) | (21.0%) | (21.0%) | (21.0%) | (21.0%) |
| Depreciation and Amortization | 188,808 | 187,759 | 188,655 | 196,087 | 214,153 | 201,926 | 198,612 | 194,314 | 188,646 | 181,263 |
| Capital Expenditure | 190,100 | 186,280 | 169,510 | 226,520 | 354,120 | 335,403 | 336,281 | 342,890 | 357,810 | 367,916 |
| Changes in Net Working Capital | | (264,628) | (250,796) | (9,500) | 306,347 | (127,401) | (1,832) | (52,270) | (8,533) | (22,427) |
| Unlevered Free Cash Flow | | 731,981 | 1,180,638 | 1,432,183 | 1,052,108 | 915,609 | 818,533 | 1,121,948 | 1,159,659 | 1,323,434 |
| PV of UFCF | | | | | | 830,115 | 672,811 | 836,099 | 783,508 | 810,670 |

Appendix: DCF Valuations

| GORDON GROWTH METHOD | |
|------------------------|------------|
| Terminal Year FCF | 1,323,434 |
| Perpetuity Growth Rate | 2.50% |
| Terminal Value | 17,393,446 |
| PV of Terminal value | 10,654,355 |
| PV of FCF | 3,933,202 |
| Enterprise Value | 14,587,557 |

| NET DEBT | |
|-------------------|-----------|
| Long-Term Debt | 1,168,200 |
| Preferred Equity | 0 |
| Minority Interest | 0 |
| Cash | 367,344 |
| Net Debt | 800,856 |

| COST OF EQUITY | |
|-----------------------|-------|
| Risk-Free Rate | 4.6% |
| Market Rate of Return | 12.4% |
| Beta | 1.59 |
| Cost of Equity | 17% |

| EXIT MULTIPLE METHOD | |
|----------------------|------------|
| Terminal Year EBIT | 1,883,115 |
| Exit Multiple | 10.0x |
| Terminal Value | 18,831,151 |
| PV of TV | 11,535,021 |
| PV of FCF | 3,933,202 |
| Enterprise Value | 15,468,223 |

| WEIGHTED AVERAGE COST OF CAPITAL | |
|----------------------------------|-------|
| Cost of Equity | 17.0% |
| Percentage of Equity | 53.8% |
| Cost of Debt | 2.47% |
| Percentage of Debt | 46.2% |
| Weighted Average Cost of Capital | 10.3% |

| IMPLIED FAIR VALUE PER SHARE | | |
|------------------------------|---------------|---------------|
| | Gordon Growth | Exit Multiple |
| Enterprise Value | 14,587,557 | 15,468,223 |
| Net Debt | 800,856 | 800,856 |
| Equity Value | 13,786,701 | 14,667,367 |
| Diluted Shares Outstanding | 64100 | 64100 |
| Implied Fair Value per Share | \$215.08 | \$228.82 |

| SENSITIVITY ANALYSIS | | | | | | | | | | | | |
|----------------------|-------|------------------------|--------|--------|--------|--------|-------|---------------|----------|----------|----------|----------|
| | | Perpetuity Growth Rate | | | | | | Exit Multiple | | | | |
| | | 1.50% | 2.00% | 2.50% | 3.00% | 3.50% | | 9.0x | 9.5x | 10.0x | 10.5x | 11.0x |
| WACC | 11.3% | 172.42 | 179.80 | 188.02 | 197.23 | 207.62 | 11.3% | \$202.03 | \$210.63 | \$219.23 | \$227.83 | \$236.43 |
| | 10.8% | 182.97 | 191.34 | 200.72 | 211.30 | 223.33 | 10.8% | \$206.36 | \$215.16 | \$223.96 | \$232.75 | \$241.55 |
| | 10.3% | 194.73 | 204.28 | 215.05 | 227.30 | 241.35 | 10.3% | \$210.82 | \$219.81 | \$228.81 | \$237.81 | \$246.81 |
| | 9.8% | 207.92 | 218.89 | 231.36 | 245.67 | 262.25 | 9.8% | \$215.39 | \$224.59 | \$233.79 | \$243.00 | \$252.20 |
| | 9.3% | 222.81 | 235.52 | 250.09 | 266.97 | 286.77 | 9.3% | \$220.08 | \$229.49 | \$238.91 | \$248.33 | \$257.74 |

| Blended Share Price | | Weight | |
|---------------------|----------|----------|---------|
| Exit | \$228.82 | 0.35 | \$80.09 |
| Gordon | \$215.08 | 0.35 | \$75.28 |
| Comps | \$122.53 | 0.3 | \$36.76 |
| Blended: | | \$192.12 | |
| Upside | | 23.63% | |

Appendix: Comparable Companies Analysis

COMPARABLE COMPANIES ANALYSIS

| Company | Ticker | Market Data | | | | | Financials | | | Valuation | | |
|----------------------|--------|-------------|-------------------------------|-------------------------|---------------------|-----------------------|--------------------|--------|------------|------------|-----------|-------|
| | | Share Price | Shares Outstanding (Millions) | Equity Value (Millions) | Net Debt (Millions) | Enterprise Value (EV) | Revenue (Millions) | EBITDA | Net Income | EV/Revenue | EV/EBITDA | P/E |
| Williams-Sonoma | WSM | 140.01 | 64 | 8,961 | 875.00 | 9,835.64 | 8,264 | 1,524 | 965 | 1.1x | 6.5x | 9.3x |
| Restoration Hardware | RH | 263.91 | 18 | 4,750 | 3,319.50 | 8,070 | 3,181 | 650 | 324 | 2.5x | 12.4x | 14.7x |
| Wayfair | W | 59.34 | 116 | 6,883 | 2,813.00 | 9,696 | 11,890 | (870) | (1,035) | 0.8x | -11.1x | -6.7x |
| Arhaus | ARHS | 8.99 | 140 | 1,259 | 272.40 | 1,531 | 1,290 | 238 | 158 | 1.2x | 6.4x | 8.0x |
| HNI Corporation | HNI | 33.87 | 47 | 1,592 | 718.20 | 2,310 | 2,210 | 176 | 68 | 1.0x | 13.1x | 23.4x |
| Steelcase | SCS | 11.04 | 114 | 1,259 | 497.80 | 1,756 | 3,235 | 226 | 56 | 0.5x | 7.8x | 22.5x |
| High | | | | | | | | | | 2.5x | 13.1x | 23.4x |
| 75th Percentile | | | | | | | | | | 1.2x | 12.4x | 22.5x |
| Average | | | | | | | | | | 1.2x | 5.7x | 12.4x |
| Median | | | | | | | | | | 1.0x | 7.8x | 14.7x |
| 25th Percentile | | | | | | | | | | 0.8x | 6.4x | 8.0x |
| Low | | | | | | | | | | 0.5x | -11.1x | -6.7x |

| | | | | | | | | | | | | |
|---------------------------|--|--|--|--|--|--|--|--|--|------------|-----------|-----------|
| Williams-Sonoma Valuation | | | | | | | | | | EV/Revenue | EV/EBITDA | P/E |
| Implied Enterprise Value | | | | | | | | | | 10,127.42 | 8,717.00 | 12,807.59 |
| Net Debt | | | | | | | | | | 875.00 | 875.00 | 875.00 |
| Implied Market Value | | | | | | | | | | 9,252.42 | 7,842.00 | 11,932.59 |
| Shares Outstanding | | | | | | | | | | 64 | 64 | 64 |
| Implied Value Per Share | | | | | | | | | | 144.57 | 122.53 | 186.45 |

Appendix: Depreciation Schedule

| Depreciation Schedule | | | | | | | | | | |
|--|------------------------------------|------------|------------|------------|-------------|--------------|--------------|--------------|--------------|--------------|
| | 2019A | 2020A | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E | 2027E | 2028E |
| CAPEX | | | | | | | | | | |
| Revenue | 5671593 | 5898008 | 6783189 | 8245936 | 8674417 | 8220663.195 | 8955216.393 | 9648371.889 | 10346267.15 | 11042201.55 |
| Asser Purchases | 190,102 | 186276 | 169513 | 226,517 | 354117 | 513470 | 759935 | 1139903 | 1744051 | 2703279 |
| Total CAPEX | 190,102 | 186,276 | 169,513 | 226,517 | 354,117 | 513,470 | 759,935 | 1,139,903 | 1,744,051 | 2,703,279 |
| CAPEX Change % | | -2% | -10% | 25% | 36% | 45% | 48% | 50% | 53% | 55% |
| Depreciation | | | | | | | | | | |
| | <i>Average Useful Life (Years)</i> | | | | | | | | | |
| Depreciation (New) | 10 | | | | | | | | | |
| Total New D&A | 19010.2 | 18,628 | 16,951 | 22,652 | 35,412 | 51,347 | 75,994 | 113,990 | 174,405 | 270,328 |
| Depreciation (Historical) | 1,812,767 | 1,883,350 | 1,953,975 | 2,062,335 | 2,154,009 | 2,205,356 | 2,281,349 | 2,395,340 | 2,569,745 | 2,840,073 |
| Total Depreciation | 1,831,777 | 1,901,978 | 1,970,926 | 2,084,987 | 2,189,421 | 2,256,703 | 2,357,343 | 2,509,330 | 2,744,150 | 3,110,401 |
| Depreciation as % of Rev | 32.3% | 32.2% | 29.1% | 25.3% | 25.2% | 27.5% | 26.3% | 26.0% | 26.5% | 28.2% |
| Depreciation & Capital Expenditure | | | | | | | | | | |
| | Actual | | | | | Estimated | | | | |
| Fiscal Year | 2019A | 2020A | 2021A | 2022A | 2023A | 2024E | 2025E | 2026E | 2027E | 2028E |
| Fiscal Year End Date | 02/03/2019 | 02/02/2020 | 01/31/2021 | 01/30/2022 | 01/29/2023 | 01/31/2024 | 01/31/2025 | 01/31/2026 | 01/31/2027 | 01/31/2028 |
| Plant, Property, and Equipment | | | | | | | | | | |
| Beginning Balance | | 929,635.0 | 929,038.0 | 873,894.0 | 920,773.0 | 1,065,381.0 | 1,229,794.3 | 1,386,510.6 | 1,531,236.1 | 1,660,564.5 |
| Capital Expenditure | | 186,276.0 | 169,513.0 | 226,517.0 | 354,117.0 | 164,413.26 | 156,716.29 | 144,725.58 | 129,328.34 | 110,422.02 |
| Depreciation | | (70,600) | (70,600) | (108,300) | (91,700) | (201,926.30) | (198,612.21) | (194,313.74) | (188,645.88) | (181,262.83) |
| Ending Balance | 929,635.0 | 929,038.0 | 873,894.0 | 920,773.0 | 1,065,381.0 | 1,229,794.3 | 1,386,510.6 | 1,531,236.1 | 1,660,564.5 | 1,770,986.5 |
| Capital Expenditure | | 186,276 | 169,513 | 226,517 | 354,117 | 164,413.26 | 156,716.29 | 144,725.58 | 129,328.34 | 110,422.02 |
| As a % of Sales | | 3.16% | 2.50% | 2.75% | 4.08% | 2.00% | 1.75% | 1.50% | 1.25% | 1.00% |
| Depreciation | | 187,759.0 | 188,655.0 | 196,087.0 | 214,153.0 | | | | | |
| As a % of Capital Expenditures | | 101% | 111% | 87% | 60% | | | | | |
| Existing Plant, Property and Equipment | | | | | | | | | | |
| Gross PP&E | | 2812388 | 2827869 | 2983108 | 3219390 | | | | | |
| Non-Depreciable PP&E | | 0 | 0 | 0 | 0 | | | | | |
| Accumulated Depreciation | | 1883350 | 1953975 | 2062335 | 2154009 | | | | | |
| Net Plant, Property and Equipment | | 929038 | 873894 | 920773 | 1065381 | | | | | |
| Average Useful Life | 10 Years | | | | | | | | | |
| Over-ride | | | | | | | | | | |
| Mid-Year Adjustment Factor | 0.5 | | | | | | | | | |
| Depreciation Schedule | | | | | | | | | | |
| Depreciation from Existing PP&E | | | | | | \$193,705.64 | \$174,335.07 | \$154,964.51 | \$135,593.95 | \$116,223.38 |
| Depreciation from 2024 Capital Expenditure | | | | | | 8,220.66 | 16,441.33 | 16,441.33 | 16,441.33 | 16,441.33 |
| Depreciation from 2025 Capital Expenditure | | | | | | | 7,835.81 | 15,671.63 | 15,671.63 | 15,671.63 |
| Depreciation from 2026 Capital Expenditure | | | | | | | | 7,236.28 | 14,472.56 | 14,472.56 |
| Depreciation from 2027 Capital Expenditure | | | | | | | | | 6,466.42 | 12,932.83 |
| Depreciation from 2028 Capital Expenditure | | | | | | | | | | 5,521.10 |
| Total Depreciation | | | | | | \$201,926.30 | \$198,612.21 | \$194,313.74 | \$188,645.88 | \$181,262.83 |