From: Niraj Shah
Sent: Saturday, January 27, 2018 12:11 PM
To: Senior Managers
Subject: 2018.

Hi folks,

I hope you are having a nice weekend. For those of you in Boston today, it will hit a balmy 50 degrees Fahrenheit. Given the relative swing I would not be surprised to see people in shorts. But – as you guessed – that is not why I write!

While it is only late January, I feel like I am getting a nice view into where we are situated for this coming year. My set of data inputs are varied but informative: so far this year I have attended a couple trade shows (the annual US plumbing/hardware/large appliances show, and the large continental European furniture show), prepped for two more shows that start tomorrow (second largest US furniture market, and the annual flooring & tile show), finished the Q1 quarterly reviews/forecasts (FRM's) which is a nice opportunity to look at the business holistically, attended the largest consumer retail focused investor event for the large US public market investors, and done some deep dives on our logistics efforts (US & EU CastleGate, inbound logistics, home delivery roadmap). And some clear points of view come to mind. I will share those in a few minutes.

First, to help set the stage, a bit of level-setting -- one of the most startling emails this past week was one that was just one line long, and that only contained information that I already knew. It said:

~$1.4B Direct Retail net revenue, 48% YoY growth; US Adjusted EBITDA* profitable

It was a quick summary of what we will report as part of our Q4 results in a few weeks' time. I already knew those numbers. But just the same they were pretty amazing. Who grows 48% at $5 Billion in sales? While technically in total we are not profitable, that is primarily due to a long-term investment in Europe which will be a huge boon for us many years from now. Quite amazing. So if we can do it why are there not many folks doing this?

Oddly the answer has become obvious. We believe we have a few key advantages over other companies. Some of the big ones are that:

1) We are customer-oriented in everything we do – we start with this lens when thinking about what to do (while admitting there are tradeoffs), versus a lot of companies which are siloed and have destructive infighting and internally focused goals,
2) We have an ownership mentality (because we are all owners) and so we focus on the long term with a large appetite to invest money in the short term if it will yield benefit in the long-term durability and long term results (a lot of other companies obsess on quarterly and annual results to the point where they set compensation and success criteria based on these time constructs that are both arbitrary and quite short),
3) We understand that in today's world technology is truly transformative to everything, and software is the vehicle by which we can turn technology into tangible value for our customers, and we have built a rare ability (held by only a small number of companies in the world) to build our own software in a nuanced and rapid way at scale, and we continue to further embed this philosophy into everything we do,
4) We have the best team in the business, and in our business it comes down to people -- after all if you are customer oriented and know what customers value, how do you then do that thing? With your team of course, and then who wins? – Well, the better team! We have the

best team across all the traits we need: ambitious, intelligent, quantitative, creative, collaborative, etc.

So back to the outlook for this year. For 2+ years we have talked about many of the same things (1. international expansion, 2. building a fully integrated and optimized logistics operation that starts at source and extends to customer delivery, and 3. building a nuanced team to go deep on all our areas of focus – which are wide ranging and fairly extensive – wedding registry, flooring, returns, financing, hardware, outdoor décor, loyalty, design services, luxury/Perigold, personalization, floorcare, window coverings, 3D photo realistic renderings, specialized customer service, B2B, and the list goes on and on). Now two years in, we have found that the team size, across all of business, product and engineering, that it takes is larger than we thought, and the time it takes is longer than we want (oddly this is a very basic lesson in life – everything good is harder and takes longer than you thought). But despite that we are getting to game time on these things, we are seeing that we are getting lift-off velocity (varying points by initiative). It seems clear that over the next 12-18 months we will start to reap gains from these very large efforts. Truly exciting.

So as we enter 2018 we have now gotten to the deep level we wanted to get to 10 years ago – focusing on each and every class of goods we sell, with individual nuance. Really an amazing place – who other than Wayfair will worry about how to specifically tackle ______ class with nuance across all of merchandising, product, marketing, price, logistics, damage, etc. (and you can fill in the blank). As we push on it, we will encounter other challenges. But this will unlock great gains.

We need to keep a close eye on customer behavior because this should all manifest into more engagement, more visits, more loyalty and manifest into an increase in repeat rate. If it doesn't we need to look deep, but we will, and I think we will unlock continual (though non-linear) gains as we progress.

So first a pat on the back for everyone for a great 2017. And cheers to an exciting upcoming 2018 (one filled with hard work, but I think one that will continue to show us that all the hard work from the last two+ years, and all of the ongoing work, has been well worth it)!

--Niraj.

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