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Wayfair, Inc. (W)

Q2 2017 Earnings Call
**CORPORATE PARTICIPANTS**

Julia B. Donnelly  
Director-Strategic Finance & Investor Relations, Wayfair, Inc.

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

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

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

**OTHER PARTICIPANTS**

Seth M. Basham  
Analyst, Wedbush Securities, Inc.

Adrienne Yih  
Analyst, Wolfe Research LLC

Peter Jacob Keith  
Analyst, Piper Jaffray & Co.

Charles Grom  
Analyst, Gordon Haskett Research Advisors

John Blackledge  
Analyst, Cowen and Company

Christopher Horvers  
Analyst, JPMorgan Securities LLC

Justin Post  
Analyst, Bank of America Merrill Lynch

**MANAGEMENT DISCUSSION SECTION**

Operator: Good morning, ladies and gentlemen. My name is Emily and I will be your host operator on this call. All lines have been placed on mute to prevent any background noise. After the speakers’ remarks, there will be a question-and-answer session. [Operator Instructions]

At this time, I would like to introduce Julia Donnelly, Director of Investor Relations and Strategic Finance at Wayfair. Please go ahead.

Julia B. Donnelly  
Director-Strategic Finance & Investor Relations, Wayfair, Inc.

Good morning and thank you for joining us. Today, we will review our Second Quarter 2017 Results. With me are Niraj Shah, Co-Founder, Chief Executive Officer and Co-Chairman; and Michael Fleisher, Chief Financial Officer. Steve Conine, Co-Founder and Co-Chairman is joining us remotely by phone. We will all be available for Q&A following today’s prepared remarks.
I would like to remind you that we will be make forward-looking statements during this call regarding future events and financial performance, including guidance for the third quarter of 2017. 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 2016 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 these statements whether as a result of any new information, future events or otherwise.

Also, please note that during this call, we will discuss certain non-GAAP financial measures as we review the company’s performance. 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 IR website.

Now, I would like to turn the call over to Niraj.

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

Thanks, Julia and thank you all for joining us this morning. Our second quarter results were very strong. On our last call, we talked about being thrilled with the momentum in our business, both in terms of revenue growth and profitability. And I’m pleased to report that those trends have continued.

In Q2, we generated $1,102 million in Direct Retail revenue, up 46% year-over-year and $1,123 million in total net revenue, up 43% year-over-year. This represents year-over-year dollar growth of approximately $350 million in the Direct Retail business and the first quarter in our history where total net revenue had surpassed $1 billion. We saw top line strength in both our U.S. and International segments with U.S. Direct Retail revenue up 39% year-over-year and International Direct Retail revenue up 136% year-over-year.

First, I'd like to update you on our U.S. business. We believe that there are many factors contributing to the impressive growth we are seeing. The first is that there remains a secular shift underway as consumers began purchasing more of their home goods online. We believe the home goods market in the U.S. is only about 10% online today, but that this online portion is growing at about 15% annually, while the offline portion is barely growing. Simply, put the wind is at our backs as consumers increasingly embrace the selection and convenience of shopping online instead of in physical brick-and-mortar stores. The customer experience that we offer and the consumer brand that we have created are resonating, allowing us to continue to acquire new customers within our payback targets and stimulate more repeat purchases from our existing base of customers.

With the year-over-year Direct Retail revenue growth in the U.S. accelerating to 39% in Q2, we know some investors will ask, what's the one thing that's really driving that acceleration? In reality, there is no one thing, but rather it's the secular shift to online that I just described, plus the compounding effect of many of the initiatives we've been working on for about two years.

We monitor the success of each individual initiative to validate that it is driving our desired outcome. For example, we see the revenue growth in categories that we have had new teams going after, like plumbing, flooring, door and cabinet hardware, mattresses, seasonal décor, house wares and wedding registry. We see that the
merchandising and lifestyle imagery like we use extensively with our house brands, drives higher sales conversion.

We see the net sales lift from providing fast delivery via CastleGate and the higher customer satisfaction with large parcel orders delivered by the Wayfair Delivery Network, also known as WDN. It's a lot of hard work to execute on all these initiatives simultaneously, and while they're growing pains along the way, the combined effect is an ever improving consumer experience that is driving continuing gains across many parts of our business.

Michael will go into some of the details later in the call, but you can see the strength I'm referring to across our Q2 KPIs. LTM orders per active customer reached a new high watermark of 1.74, repeat orders in the second quarter increased 55% year-over-year driving the percent of orders from repeat customers to a new high of 61%. And LTM revenue per active customer increased to $402, up 2% versus Q1. It's difficult to forecast when each of these initiatives I described earlier will yield results and how meaningful they will be. But when combined together, we believe we're in the early innings of seeing the true potential benefits from much of the work we're doing.

With that context, I'd like to update you briefly on some of the recent highlights across our logistics networks. Today, we have over 7 million square feet of space in the U.S. and Europe across our CastleGate facilities and WDN consolidation centers, cross-docks and last-mile delivery depositions. We began 2016 with approximately 1 million square feet, so the ramp-up in our footprint over the last 18 months has been significant. On the heels of this rollout, I thought it would make sense to explain how we work with suppliers in the program and how the program has matured since its initial launch.

As we've described in the past, the CastleGate fulfillment network is a network of large warehouses in which we operate effectively as a 3PL for our suppliers, allowing them to store their small parcel and large parcel inventory in our warehouses and pay us storage and pick-and-pack fees. These warehouses are strategically located and use presorting and dedicated transportation to speed up delivery of small parcel and large parcel items. For example, small parcel items from our CastleGate network can now reach approximately 95% of the U.S. population with either next day or two-day delivery. This fast delivery speed via CastleGate delights our customers and benefits our suppliers and us with increased sales conversion.

When an existing supplier is interested in participating in CastleGate, we typically start with a pilot program, focused on a small subset of the supplier's best selling small parcel SKUs. Because the supplier is sending only a small volume of product to our CastleGate network during the pilot, they typically will pull the product from their domestic warehouse. Once the items are in the CastleGate network, we turn on the badging on the site showing our customers that these small parcel items will be delivered in two days or the next day. Customers generally prefer to buy items that can deliver quickly. So suppliers whose products show one to two day delivery badging on the site, see a significant sales lift. Some of that revenue lift is due to CastleGate suppliers taking share on the site from non-CastleGate suppliers, but even net of that cannibalization, Wayfair sees a net increase in sales conversion by showing customers a faster delivery promise.

After we've demonstrated the sales lift to the supplier during their CastleGate pilot, we then work with the supplier to scale their program by adding more of their best selling SKUs to the network. With the addition of CastleGate large parcel warehouse space over the last nine months, which is integrated into the WDN network, we are now able to accept large parcel items from suppliers into CastleGate as well.

As CastleGate has matured, we're taking further steps to reduce costs for us and for our suppliers and to improve replenishment forecasting. One example is the freight pickup program, where we leverage our rates with trucking companies to pickup full truckloads of supplier product from their domestic warehouses, allowing us to pass along
cost savings to the supplier and eliminate complexity for them. With significantly increased volume flowing into CastleGate, suppliers are also able to send full containers of small or large parcel product directly from factories overseas to our CastleGate network.

With the build out of the CastleGate footprint in New Jersey, California, and Georgia to handle this inbound container traffic, we’ve been able to meaningfully reduce the cost of the inbound trip for the supplier by reducing the number of inbound miles and eliminating the supplier's need to unload product at their domestic warehouse. In June, approximately 60% of the inbound volume into U.S. CastleGate facilities was container direct, up from zero when we first launched CastleGate.

On the forecasting side, we are investing in proprietary item level forecasting and new replenishment systems to improve the accuracy of the forecast we give to suppliers, and working with the suppliers to adhere to these forecasts to improve the in-stock rates of their products.

In Q2, approximately 14% of U.S. small parcel direct net revenue was shipped from the CastleGate network, up from approximately 10% in October last year and approximately 6% in Q2 of last year. Given the high rate of growth for our overall business, this means that U.S. small parcel direct net revenue shipping from the CastleGate network in the second quarter increased approximately 200% year-over-year.

We anticipate continued increases in the revenue penetration of CastleGate shipments, but want to remind everyone that scaling this part of the business takes time as we work through very fast sell-through and high turns of fast delivery products, lead times with suppliers’ overseas production, improvements to our forecasting capabilities and ramping up new warehouse space.

The Wayfair Delivery Network or WDN describes several different areas of our large parcel network where we have started to take direct operating control of our transportation and delivery, instead of relying on contracted third-party operators. Examples include our Wayfair operating consolidation centers, cross-docks, line-haul and last-mile home delivery facilities. As we’ve noted before, our plan is by the end of 2017 to have virtually all of our U.S. large parcel orders flowing through the Wayfair-controlled middle mile and to have 15 to 20 Wayfair-controlled last-mile delivery facilities that cover approximately 50% to 60% of U.S. large parcel home deliveries.

Today, we are operating 12 of our own last-mile delivery facilities in the U.S., up from 7 as of March 31, with the addition of Houston, San Francisco, Greensboro North Carolina, Detroit, and the Baltimore, Washington D.C. metropolitan area. Because we are starting with major metropolitan areas, these 12 facilities already give us coverage of approximately 44% of U.S. large parcel orders.

Our first last-mile delivery facility was located in our own backyard here in the Boston area as we took the better part of a year experimenting with staffing, training, technology development and integration to make sure that we could deliver the best customer experience possible.

One of the greatest learnings to come out of that initial pilot here in Boston was that we could really improve the large parcel delivery experience through better training and incentive structures for delivery personnel. Whereas third-party delivery agents are motivated primarily by completing the greatest number of deliveries per day possible, we can motivate delivery personnel upon the customer experience they deliver since we care about customer lifetime value as well as delivery efficiency.
By controlling the large parcel delivery experience end-to-end, we can also leverage technology in new ways like enabling schedule and cart upon checkout, daily routing for last-mile delivery trucks and an Uber like day of delivery tracking feature that is now live in nine cities.

We're excited to see early positive results from the 12 cities where we have taken over control of last-mile home deliveries from third-party operators with customer Net Promoter Scores in those cities increasing by about 20% on average.

If you're curious to learn more about CastleGate and WDN, we have posted a video on our IR site that describes what we are up to. This video is part of our Annual Supplier Summit in Boston in June when we invite the owners or CEOs of our key suppliers for a full-day briefing on various strategic initiatives.

Now, I'd like to talk to you about our International business. Our International business in Canada, the UK and Germany also had a strong quarter with Q2 International Direct Retail revenue reaching $126 million, up 136% year-over-year. We operate wayfair.co.uk in the UK and wayfair.de in Germany today, all supported by teams in Berlin, London, Galway, Ireland and Boston.

We focused first on the UK, since it was an English speaking country and as a result, our UK business is farther ahead today than our German business. We've scaled advertising in the UK and are seeing traction with consumers including aided brand awareness in the UK of 41%. We also launched our first CastleGate warehouse in the UK in the fall of 2016 and are seeing promising early results with CastleGate.

Notably about half the products in the UK CastleGate warehouse come from U.S. suppliers who we helped to introduce to the UK market and with whom we enjoy better wholesale economics due to the scale of our overall relationship. We also launched a financing program with Barclays in early 2017 and are seeing revenue penetration of 7% of UK revenue for eligible orders, defined as orders over £400.

Similar to our financing relationships with [ph] ADS (14:55) and a firm in the United States, Barclays bears the credit risk on those financing transactions. In Germany, our focus remains on building out the breadth and depth of our product catalogue and improving the on-site experience with native German language translation and improved product level merchandising. Once we have the German site closer to parity with UK site, we intend to ramp-up brand advertising spend there as well.

Our Canadian business also continues to perform very well. Canada was able to leverage much of the product catalogue and logistics infrastructure we already had in the United States and therefore had somewhat of a head start when we launched it in January of 2016. We also found that the Canadian market was underserved, which has further contributed to our strong growth in this market.

Our initial entry into Canada was with wayfair.ca, which is an English language site, but in March of 2017, we also launched a French version of the site to cater to French Canadian customers. We are already seeing strong engagement on the French site, with 11% of Canadian orders shipping to Québec in Q2, up from 6.5% before the launch of the French site.

With Québec representing over 20% of the overall Canadian population, we hope to see continued strong growth from our customers in Québec. We're also pleased to report that we are seeing increased aided brand awareness throughout Canada with aided brand awareness now at 62%.
In many ways, what's happening in Canada and the UK showcase our business model at work. We start with great service, vast selection and engaging visual merchandising and then layer on our logistics capabilities and fast delivery, all powered by our proprietary technology. When the space is then built, we then use our marketing engine in both online direct response and brand building to generate traffic that yields a high conversion and strong repeat, which then over time creates a large base of repeat customers. This is what drives the virtuous cycle. When we see the growing brand awareness and base of repeat customers like we are in Canada and the UK, we know that our model is working.

Now before I turn the call over to Steve and Michael, I want to comment briefly on our investment philosophy. As co-founders and significant equity holders in the company, Steve and I have always run the company with long-term value creation in mind. We see lots of opportunity, both in the macro sense with a roughly $600 billion addressable market opportunity across North America and Europe with only about 10% online penetration today, and in the micro sense, where we see the significant strides our teams are making across our many initiatives.

Our three major investment areas have not changed; building out our International business, investing in our proprietary logistics networks and growing our teams to further penetrate various categories in our total addressable market. In Q2, our better than expected net revenue growth had significant flow through, resulting in $20 million of positive adjusted EBITDA in the United States and a loss of $2 million of adjusted EBITDA on a consolidated basis.

While we're excited to see these results, we do want to remind everyone that our near-term goal is to run the business at free cash flow breakeven to positive, and that our path to profitability won't necessarily come in a straight line. As you'll remember, we added head count aggressively in the first half of 2016 and spent last year really digesting all of those new hires.

In the last three quarters, we’ve added less than 100 net new employees per quarter, in areas like marketing, merchandising, operations and technology. This quarter we added approximately 160 net new employees in these areas and we expect to ramp that hiring going forward to a regular and sustainable pace. We will also continue to scale our advertising spend within our contribution margin payback threshold of one year. Michael will go into further details later in the call.

Now, I'll turn the call over to Steve who will update you on some of the ways we're using technology to enhance visual search and visual merchandising on our sites.
the scale of both our active customer base and the large library of product images we can offer to satisfy shopper's searches.

Search with Photo is just one example of why we're excited about how visual search can further improve the Wayfair shopping experience. We have a team of people across the company focused on the use of new technology to make it easier for our customers to create looks and purchase products for their home. Visual search is playing a major part in these product developments and our customers are already benefiting from our investment. For example, the machine learning platform that visual search uses is improving the relevance of product recommendations and the customers also viewed section of our product pages.

We know that our customers often invest considerable time in planning purchases for their home and that they also frequently want help putting together a whole room. One way we help customers with this today is through Idea Boards, where customers can easily save products as inspiration and share ideas with family and friends. Visualizing how a new table or chair will look in a living room can be challenging, but we're constantly exploring innovative ways to enable our customers to do just that. We have talked in the past for example about the potential impact our augmented reality applications will have on the experience of our customers. As augmented reality or AR technology today, is still in its infancy, it's important that we continue to improve the features we offer to our customers who may not be early adopters of new technologies. That's why we are excited to have recently introduced the room planner feature to our Idea Boards. Enabling shoppers to easily create a conceptual view of the room they are designing on Wayfair. It's early days for room planner but as our 3D image library grows, customers will be able to create rich and malleable views of the room they are planning in a way that we think will be industry leading.

Finally, I wanted to highlight an exciting partnership that we're involved and launched recently. As I mentioned earlier, we've been working on our 3D and AR capabilities for some time, which has positioned us nicely to partner with other leaders in the space. Last week, ASUS launched the ASUS ZenFone AR, the first smartphone with virtual reality and augmented reality capabilities partnering closely with Google and Verizon.

We're delighted that our Wayfair AR shopping app will be one of three apps and the only non-gaming app used in Verizon's in-store demonstrations and related promotions. We're very pleased to have been a part of the launch and to be in a position to learn from the experience of the early users of this technology.

By equipping our customers with these innovative shopping features, we believe we are continuing to offer a shopping experience that is at the forefront of e-commerce for the home. Many of the investments we have made in this area are in the earliest stages of bearing fruit and we look forward to capitalizing further on these over time. This is just one example of the important work of our over 1,100 engineers and data scientists who help us leverage technology to transform the customer experience.

Now, I'll turn the call over to Michael.

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

Thanks, Steve. And good morning everyone. As always, I will highlight some of the key financial information for the quarter with more detailed information available in our earnings release and in our Investor Presentation on our IR site.

In Q2, our Direct Retail business increased 46% year-over-year to $1.102 billion and our total net revenue increased 43% year-over-year to $1.123 billion. Our other business, which primarily includes revenue from our
retail partners, but also includes revenue from our small media business, decreased as expected to $20 million as we continue to ramp down our retail partner business.

Our KPIs, which we report on a consolidated global basis, also showed strength across the board in Q2. LTM active customers increased to 9.5 million customers, up 43% year-over-year and up 692,000 net new active customers sequentially compared to Q1. LTM revenue per active customer reached $402, up $8 versus Q1 as we feel like we have struck the right balance again between frequency and average order value. Frequency, as measured by LTM orders per active customer, reached a new high of 1.74, and average order value for the quarter was $258, up 16% versus Q1 and flat year-over-year.

Please note that the sequential increase in average order value this quarter is partly due to the seasonal impact of the outdoor category, which tends to have a higher AOV. Also please remember that we view AOV as an output, not an input to our planning model. Repeat orders in the second quarter increased 55% year-over-year, driving the percent of orders from repeat customers to a new high of 61%.

On a housekeeping note, please note that next year when we refresh our investor presentation and materials, we will no longer include our wayfair.com customer cohort slide in our investor presentation. We may update the slide periodically going forward. As a more established consumer brand with the majority of our revenue coming from repeat orders, we think we have proven out the cohort model with over five years of continued strong cohort performance. In the U.S., our Direct Retail business increased to $977 million in Q2, up 39% year-over-year. This represents a sequential acceleration in the year-over-year U.S. Direct Retail growth rate.

As Niraj mentioned earlier, we believe the strong growth is being fueled both by the secular shift to online as well as the compounding effect of many of the initiatives we’ve been working on for the last couple of years, such as our proprietary logistics networks, house brands and growth categories. Our Direct Retail International business in Canada, in the UK, and Germany, increased to $126 million, up 136% versus Q2 2016.

Our International business continues to gain traction as we build out the offering, increase brand awareness, acquire new customers and stimulate repeat purchases. We know we are still in the early innings of penetration in these three countries and see lots of opportunity ahead. Notably repeat orders now represent approximately 40% of total international orders. So we will see lots of headroom to drive that number over time closer to the company-wide average of 61%.

The remaining financials I'll share on a non-GAAP basis, excluding the impact of equity-based compensation and related taxes, which totaled $16 million in Q2 2017. For a reconciliation of GAAP to non-GAAP reporting, please refer to our earnings release on our IR site.

Our gross profit for the quarter, which is net of all product costs, delivery and fulfillment expenses was $270 million, or 24% of net revenue. This gross margin declined from 24.7% during the first quarter of 2017, but it did not decline as much as we anticipated during our last earnings call when we noted that we were targeting the business at a gross margin in the low-23% range for Q2 and the rest of 2017.

Given the variability we’ve seen in gross margin, I thought I’d pause for a minute to discuss the various puts and takes that go into the consolidated gross margin and why it has been a difficult number to forecast. One obvious factor is that we sell over 8 million products, each with a slightly different margin profile, compared to other specialty retailers, who might only sell thousands of SKUs and effectively curate their gross margin. For us, predicting exactly what the mix of products will be every quarter is virtually impossible given the vast selection we offer.
On the product cost side, we enjoy better wholesale pricing with our suppliers as we grow our volume with them over time. But we also have a negative mix impact from our newer growth categories and our International business where we don’t have the same scale yet with suppliers and where the rate of growth is harder to predict.

On the shipping and fulfillment side, the CastleGate and WDN networks that we’ve put in place over the last two years will generally lower the transportation cost and damage rate per order over time, but they initially weigh somewhat on gross margin as we rollout new facilities and get them ramped up to full efficiency. On top of all of that, there is the overlay of our general philosophy, which is that we intend to share some of the margin gains with our customers by being appropriately market priced and also by providing higher levels of service, like weekend and evening deliveries. I hope that background helps to illuminate why forecasting gross margin in our business is extremely complex and why trying to pinpoint a narrow range of a few basis points is unrealistic, especially during this period when we continue to transform our business through various initiatives.

Given all the above, I expect the business will operate in the near-term in the range of about 23% to 24%. Advertising spend was $124 million in the quarter or 11.1% of net revenue, which represents 90 basis points of year-over-year ad spend leverage. In general, ad spend efficiencies are driven by our increasing mix of orders from repeat customers because we spend less on advertising to get our existing customers to buy again than to acquire a new customer. This quarter, we delivered more year-over-year ad spend leverage than anticipated due to the outperformance in revenue through the quarter.

We continue to manage our ad spend to an overall one-year payback. And the strength of our conversion and repeat rates is leading to an increase in our addressable inventory within our payback threshold. This better performance is an outcome of the investments that Niraj and Steve described earlier across our major initiatives to drive an ever better customer experience. With the continuing revenue strength and ROI we are seeing into Q3, and as we continue to spend fully up to our payback days target, the ad spend as a percentage of net revenue will increase sequentially in the third quarter in the U.S.

Since the International business does not yet have the same base of repeat orders as the more mature U.S. business does, it runs at a higher ad cost as a percent of net revenue. Thus as the International business continues to grow faster than the U.S. business and takes share, it creates upward pressure on the consolidated ad spend as a percent of net revenue.

Given this mix shift impact from International as well as increasing sequential ad spend in the U.S., we expect consolidated ad spend as a percent of net revenue in the third quarter to be approximately flat or slightly above the 11.8% it was in Q3 last year.

Our non-GAAP merchandising, marketing and sales expense and operations, technology and G&A expense are driven primarily by compensation costs. In Q2, these two line items combined were $128 million, up sequentially approximately $3 million versus Q1 2017. As discussed on our last earnings call, please remember that Q1 included approximately $2 million of accelerated depreciation and amortization, related to sub-leases in our Boston headquarters, as part of our strategy to have enough space for our growth while managing our current period costs.

In the second quarter, we added 341 net new employees for a total of 6,049 employees as of June 30, 2017. As Niraj mentioned, approximately 160 of those net new employees were in OpEx areas like marketing, merchandizing, operations and technology compared to less than 100 net new employees per quarter added in
those areas during the last three quarters, and about 500 net new employees per quarter added in those areas during the first half of 2016.

As I indicated on our prior earnings call, we began increasing our hiring this quarter, back up to a more normalized pace after slowing down our hiring the last three quarters to digest the influx of new employees from the first half of 2016.

We expect to continue that ramp for the remainder of 2017 with hiring levels above the Q2 2017 level, but below the first half of 2016 level as we catch up a bit from a few quarters of very low hiring. The bulk of these new OpEx hires are consistent with the three main investment areas Niraj outlined earlier, including building out our international business, developing our proprietary logistics networks, and growing teams to further penetrate various categories within our addressable market.

Please note that we also continue to bear the burden of unutilized rent from CastleGate and WDN facilities that have not yet reached full utilization. This unutilized rent burden sits in operations, technology and G&A and has run in the $5 million to $7 million range per quarter for the first two quarters of 2017.

As utilization of existing facilities increases, their drag on the P&L will become less significant, though this trend will also be somewhat offset by the opening of more WDN last-mile delivery facilities and incremental space we add to the CastleGate network over time.

Adjusted EBITDA for the second quarter was negative $2 million or negative 0.2% of net revenue. Adjusted EBITDA in Q2 for the U.S. business was positive $20 million, significantly higher than the at or slightly above breakeven level we anticipated because of the outperformance in revenue driving lower ad spend as a percent of revenue and relatively modest hiring. Adjusted EBITDA in Q2 for the International business was negative $23 million as expected, and consistent with dollar losses over the last several quarters as the International business runs at a lower gross margin, higher ad spend as a percent of revenue, and higher relative OpEx burden as that business ramps up to scale.

As a reminder of the 6,049 employees we now have, approximately 700 of them or 12% are located in Europe. Non-GAAP free cash flow for the quarter was negative $27 million based on net cash from operating activities of $18 million and capital expenditures of $45 million. As expected, CapEx spending was 4% of net revenue this quarter which is slightly elevated from historic levels due to the timing of our logistics facilities coming online and timing of our continued technology investments related to scale.

As there are no major CastleGate warehouses projected to come online during the rest of 2017, and the upfront CapEx cost associated with our last-mile home delivery facility rollout are significantly lower, we still expect CapEx to run at approximately 3% of net revenue for the full year 2017, though it is likely to remain above that level in Q3 just based on timing.

As of June 30, 2017, we had approximately $283 million of cash, cash equivalents and short and long-term investments.

Now, let me turn to guidance for Q3 2017. We forecast Direct Retail revenue of $1.140 billion to $1.165 billion, a growth rate of approximately 37% to 40% year-over-year. More specifically, we expect U.S. Direct Retail growth in the range of 32% to 35% and International Direct Retail growth in the range of 85% to 95%. As I've done in the past to provide transparency, our Direct Retail gross revenue quarter-to-date is growing above 40% year-over-year.
As you can see, our guidance for Q3 implies another strong quarter of revenue performance and share taking. Our intention is to continue outpacing the underlying growth of the online market for home in the U.S. and internationally, and we feel good about the recent momentum we're seeing as our team successfully drives the initiatives we've been investing in.

Setting guidance is always a difficult task given our rate of growth and predicting the exact timing of the payoff from various initiatives adds an additional layer of complexity. The guidance we're giving for Q3 reflects that and our desire to be prudent when forecasting our mass market consumer business, where the customer has to show up every day. We forecast other revenue to be between $15 million to $20 million, for total net revenue of $1.155 billion to $1.185 billion for the third quarter. For consolidated adjusted EBITDA, we forecast margins of negative 1.7% to negative 2% for Q3 2017. As we continue to invest in the International business, we expect it to continue running at adjusted EBITDA losses of plus or minus negative $25 million per quarter. We expect adjusted EBITDA for Q3 in the U.S. business to run at a profitable margin, but at a lower adjusted EBITDA margin than it did in Q2. While we're pleased that the U.S. business reached such high profitability in Q2, since it demonstrates the flow through and profit generating capacity of that business, we know some of that profitability was attributed to lower ad spend and a relatively modest level of OpEx hiring. As I discussed earlier, we intend to capitalize on the opportunities we see by ramping ad spend some sequentially, and catching up a bit on OpEx hiring in Q3, which will weigh somewhat on the adjusted EBITDA margins in the U.S.

For context, please note that the U.S. business has now demonstrated positive adjusted EBITDA for three quarters in a row with Q3 on track to be the fourth quarter in a row. For modeling purposes for Q3 2017, please assume equity based compensation and related tax expense of approximately $20 million to $21 million, average weighted shares outstanding of 87.3 million, and depreciation and amortization of approximately $21 million to $23 million.

Now, let me turn the call over to Niraj before we take your questions.

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

Thanks, Michael. As you can tell, Steve and I are very excited about the momentum in our business and our ability to take advantage of the opportunity we see ahead of us, both in the U.S. and internationally. We could not be prouder of our over 6,000 employees, and the initiatives they are driving to make the customer experience better and better. The secular tailwind from offline to online is certainly in our favor, but you still have to win the customers' trust in repeat purchases.

Everything we're working on is focused on continuing to push the edge to deliver the best home shopping experience possible, and therefore put ourselves in the best position to take those dollars as they move online.

With that, I'll now ask the operator to open up the line, so we can answer a few of your questions.
QUESTION AND ANSWER SECTION

Operator: [Operator Instructions] And your first question comes from the line of Seth Basham from Wedbush Securities. Your line is open.

Seth M. Basham
Analyst, Wedbush Securities, Inc.

Thanks a lot. Good morning, and great quarter.

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

Thanks, Seth.

Seth M. Basham
Analyst, Wedbush Securities, Inc.

My first question is just making sure I understand some of the Direct Retail revenue growth trends that you're talking about. Since your last earnings call, it seems like revenue growth accelerated further, and quarter-to-date you've talked to over 40% growth, can you give a little bit more color on how much more than 40% you're growing quarter-to-date?

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

Sure, Seth. It's Niraj. I think, our quote about the revenue growth at the earnings last quarter was similar to what we just said quarter-to-date was. So we've been at the – we've been growing at a good clip for a while now, so there is a lot of things underway in our business. We've got the CastleGate ramp, the exclusive brands are ramping, the Wayfair Delivery Network is ramping, so these are all driving really good results, and you're seeing them in the numbers.

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

And I think, some of the – you can see some of the confidence we have in where we're at and where we're moving in the – if you – through the comparison of the guidance last quarter versus this quarter. I know, we're giving the same color about where we're at quarter-to-date, right, north of 40%, but obviously we were guiding more conservatively against that last quarter. This quarter, we're guiding 37% to 40%, so we obviously have a greater confidence about where we're at.

Seth M. Basham
Analyst, Wedbush Securities, Inc.

Got it, okay. And then second and last question is, as we think about the advertising spend outlook in the near-term here, you intend to ramp that. When do you expect to bring down that payback period threshold to drive even higher advertising leverage?

Niraj S. Shah
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.
Yeah, so, this is Niraj. The key to where the advertising leverage comes from, it actually doesn't come from pulling back the ad spend, it actually comes from the mix towards repeat customers. And if the repeat customers come back and if you look for years now every quarter, the repeat business grows faster than the new, that repeat ones had a significant lower ad cost, and so that's what drives the leverage.

The unit cost of getting a new customer hasn't really changed, so we're still getting a new customer at a very economical rate as we improve the customer experience, it actually opens up in larger addressable market customers we can get, so that same unit cost per customer. And then based on the experience getting stronger and stronger, we're able to earn more and more of the repeat business from them over time, which gives us the ad cost leverage. So, it's not really that we ever going to pull back on advertising, it's that the ad cost as a percentage keeps falling because of the mix shift towards repeat. Occasionally you have things like what you are seeing right now, where there is a combination of like the international business providing some deleverage and us improving the experience enough in the U.S. it opens up a whole new tranche of customers we can get very economically, but these things may cause it not to deleverage every single quarter, but you basically – if you look at it over time that trend line for leverage will continue.

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

And Seth, just to clarify one thing, we did say that we'll see some increase in ad spend as a percent of revenue sequentially. I just want sort of people to note that, I think year-over-year we tried to be clear that we should be at or maybe slightly above last year's levels, but pretty close to last year's levels.

Seth M. Basham
Analyst, Wedbush Securities, Inc.

Understood. Thanks a lot and good luck.

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

Thanks, Seth.

Operator: Your next question comes from the line of Peter Keith from Piper Jaffray. Your line is open.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Hi. Thanks. Good morning and good quarter. You guys had a very nice flow through on the strong revenue growth. And I guess in the past, you've talked about moving past some of the peak cost builds around International and logistics. So, I was curious if there's going to be puts and takes every quarter, but is this type of flow through representative of what we would see on call it 40% plus direct revenue growth going forward?

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

Hey, Peter. It's Niraj. Let me try to address that, and then Michael may chime in with some more thoughts. What I would tell you, so on International, I – perhaps we did say that, I don't recall saying that, I think, on International I think the commentary we try to provide is more to expect this kind of level of losses to actually continue for some time because the reality is International is a mix of multiple different countries, they are in different phases of their ramp up and the initial phase of ramp up is quite expensive because you don't yet have a repeat base. And we
have not yet ramped up Germany, for example. UK is in the middle of a ramp up. Canada is in the middle of a ramp up. So International, I wouldn't say we're past the peak of the cost. In logistics, I think, we did make that comment specifically with regards to going from the 1 million square feet to 7 million square feet, because basically we had virtually none of our volume going through an asset base network and then we ramp up the asset base network, definitionally when you we open a million square feet warehouse, it's empty day one, but you're paying the same rent that you'd pay day X when its full. The initial part of the ramp up is just much more expensive than once you're kind of running it at good clip even if you add incremental couple million, few million square feet, the reality is it's much lower cost on a relative basis.

So that is – we made that comment, but I wouldn't say we've necessarily come off that cost level, I'd say that it's not kind of continuing to grow. And then on OpEx hiring, we've hired a tremendous number of people end of 2015, beginning of 2016, and then we have an absorption period, and we're now increasing the hiring, not back up to the rate we we're at, but to a more normal rate. So I think, you little bit see this combination of things. From the standpoint of our flow through, what I would tell you is that flow through is less a function of a rate of growth than it is of the revenue levels. And so the way to think about it is just we have just under 20% contribution margin on revenue, and so when you add revenue 20% in number unless you spend it on OpEx or advertising, it flows through, so I think that's what you're getting at when you grow at such a fast rate, and so we added $350 million year-over-year, that's $70 million more. Obviously we flow through a bunch of it, the rest we spent.

And so the question, what's the relative basis? The answer is that we don't tie the two together, so we only invest in things that we think have an incredibly high ROI. And so if we don't have things to invest that have incredibly high ROI, we won't do it. And if we do invest in them, we expect a very significant economic payback. Our overall goal for our finances is to be free cash flow positive and be self-funding, so we're definitely headed there, and we think we're headed there on quite a nice clip. But we don't tie our investment decision to our rate of growth.

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

Yeah, the only thing I'd add to that is I think if you look at the flow through in Q2, the one thing that I think we anticipated might have come in stronger would have been hiring, and so – and now actually sitting here in early August through July, which we're likely sort of picked up that pace to the place we want to be, but I would have had more OpEx expense and less flow through, because I would have had hiring be heavier than the 160 OpEx people we added in Q2, we anticipated having more folks than that.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Okay. That's helpful, guys. And one other follow-up question I want to address was the exclusive brands, I think, in the past you said you're at about 45% of sales, could you give us an update on where you are currently and maybe even where you think that the total penetration could go over time?

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

Yeah, sure. So, we update that number every couple of quarters, every few quarters, so we didn't update it this quarter, but what you can see from the data points we have in the past, it continued to ramp very quickly and I think what we said in the past which is still absolutely true is that, it is ramping and we expect that it will continue to ramp quite quickly and the program is working very well. And so I think the expectation you can have is that for the categories which are the vast majority of our categories that are non-branded categories, we expect it to be
the dominant share of volume in those categories, and so we'll keep updating you on that every couple of quarters, but that's going very well and continuing to take share at a fast clip.

Peter Jacob Keith
Analyst, Piper Jaffray & Co.

Okay. Thanks so much and good luck for the coming quarter.

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

Thanks.

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

Thanks, Peter.

Operator: Your next question comes from the line of John Blackledge from Cowen. Your line is open.

John Blackledge
Analyst, Cowen and Company

Great, thank you. Just a couple of questions. For Niraj, just given the secular tailwinds that you discussed and investments you're making, is it possible for the company to maintain kind of getting that $0.30 or $0.40 of every new dollar spent in the category over the long-term, and kind of what would upset that trend? And then just wondering how selection has grown for the CastleGate program maybe over the past year or so and is selection is a big part of that program going forward?

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

Sure, John. The first question, this is the thing I think we're really excited about is that in the Internet the share is not given out equally. And so, whoever the big winner or maybe in some categories a couple of winners but it's very concentrated. Whoever they are, they take the vast majority of the shares that moves online. And in home, we believe that we can be that company, and if you look at everything we're investing in, you look at how it's playing out, I think right now, certainly in the U.S. and Canada in the markets we're more developed, you're seeing that happen and we're certainly working very hard to make sure that continues to happen. So we're very bullish on that.

The $350 million year-over-year in Direct Retail growth, I think if you just think about that, again as I said, that's a $1.4 billion rate that we're taking share at a year. And then we're looking for that number to grow. So we're very optimistic that the long cycle investments we're making are paying off providing a very valuable customer experience that's manifesting in not just the customer acquisition working but in the repeat, which is really driving the leverage in the model. So, answer is we're very bullish about the prospects for that.

On CastleGate, the selection there has ramped very nicely and so when we built these additional warehouses, on one hand, it certainly allows us to position goods in more locations, but the reality is the other thing is it frankly just allows us to have more selection in these buildings, because we are constrained on space with the 1 million square feet. As we continue to ramp it, we have now a very significant portion of the country on next day delivery,
we have more or less the whole country on two-day delivery with significant portion of Canada on two-day delivery and the number of items continue to increase at a very fast clip.

You can see that on our site, if you browse around and look at what's badged with next day and two-day delivery, it obviously changes depending on your ZIP code, but you can get a feel for it. You'll see that the selection is quite vast and that will continue grow as well. So we're not giving out an exact number of items, maybe we'll do that next quarter, but it's a fair amount, you can see that on the site today.

John Blackledge  
*Analyst, Cowen and Company*

Thank you very much.

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

Thanks, John.

**Operator:** Your next question comes from the line of Justin Post from Merrill Lynch. Your line is open.

Justin Post  
*Analyst, Bank of America Merrill Lynch*

Hey, a couple of questions. First, when you look at the U.S. growth, can you help us understand how much is new categories, I know you've entered into some new areas versus growth in your traditional categories or categories that are around more than a year and has that also accelerated the categories that have been around more than a year?

And then secondly, a lot of companies in the sector have been talking about GAAP reporting, how do you think about that and the value in your U.S. business on a GAAP basis. And then finally, of course, there has been a lot of news about Amazon expanding their capabilities in the category, maybe just some high level thoughts about that? Thank you.

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

Sure. Thanks, Justin. Let me tackle the first and the third, I'm going to let Michael tackle the GAAP question. On the first, on the U.S. growth, what I would tell you is that, we're happy with how the new categories are performing, but the reality is, they're still quite small in the scheme of the business, they're quite small.

So, when you look at the amount of growth that's being driven in our total business, the load is being carried by furniture and décor. And it's not that the new categories that we're failing on them or they are not working, but it's just they're not very big yet, so even though they're growing at a nice rate, it'll be some time before they can be very significant contributors. So, if you play that over time, I think they can be really nice drivers of the business, but that's more in the future than today.

In terms of your question about Amazon, what I would say is, look, anyone in physical goods retail is going to have to contend with Amazon, because Amazon is a general merchandiser who wants to be in every category. I think the reality is certain categories are much more a natural fit for them than others. Any of these consumable categories where you're doing replenishment type ordering it's going to be very good for them, paper towels, and
toilet paper and AA batteries and groceries and even anything that's like a branded kind of good that everyone wants the same one, so a 42-inch Samsung TV.

As soon as you get into categories that are more emotive, more visual, people want unique items, the delivery requires a unique type of handling system, it's not a small item with kind of U.S. Postal Service type delivery, I think it's not necessarily where their engine is tuned for and we purposely focus on a category that fits that very well, which is that home – people want unique items, it's non-branded, it's highly visual, it's emotive and prone to damage, there's a whole series of things that frankly we've oriented around and vertically integrated around.

So, I think we're seeing the growth in the business not because our customers choose not to use Amazon, they're all Amazon members and they're Prime members, they enjoy Amazon, but because the experience we offer is highly differentiated in a category that's particularly interesting to them, and it's one of the very few that's different enough that they're going to buy from someone else. So, we feel pretty good about where we sit, but I'd say we obviously pay attention to them. Let me turn it over to Michael for the GAAP.

**Michael D. Fleisher**

*Chief Financial Officer, Wayfair, Inc.*

Yeah. Justin, maybe I'm not sure I 100% understand the GAAP question, but we obviously report all of the GAAP measures. We give a bunch of incremental information around equity-based comp, EBITDA, the adjusted EBITDA numbers largely because we have almost every investor I talk to calculates it and wants to look at it in a slightly different way, like to have their own way. And so our goal has always been to sort of provide as full a transparency as possible, so here is the GAAP stuff that we got to give full prominence and sort of use the right, the straight up accounting, and then here are a whole bunch of other measures that if you want to include equity based comp as a cost or not include equity base comp as a real cost, you can sort of pick and choose to do it however you want.
Sure. Yeah. Happy to answer those questions. So, basically on CastleGate, the penetration is sort of – it’s growing up at a good clip, but it’s across all the categories. So it doesn’t really have a particular category concentration in terms of the goods that are being bought there. And then in terms of the satisfaction of what we’re seeing is that, we check the Net Promoter Score, we triangulate on customer satisfaction a few different ways; we also look at customer’s repeat propensity in terms of in 30 days and 90 days, how likely are they to come back if they experience x or y.

And what we see is that the CastleGate program drives meaningful gains for us, not just on that initial conversion, but on things around customer satisfaction and repeat as well. So, the program has many benefits to us, it has other side benefits as well in terms of how we handle the goods and reduce damage and other things as well.

On exclusive brands, the penetration we announced last quarter was up to 45%, and we didn’t give the exact number this quarter, but it does continue to grow. And there, the margin profile of the items is not terribly different than the margin profile of other items. So we’re not necessarily using that program to take excess margin, although we’ve tested the price elasticity and what we found is that we do have the ability to, what we’ve chosen so far is not to. And so that’s something that frankly we deal with and the opportunity we have in the future, where we can frankly, we could take margin there, but a lot of what we’re orienting those programs around, is really about helping the customer find what they’re looking for. So, if you look at the photography we do in that program, we show a lamp with a table, with a rug, with a sofa and then everything in that picture is from that brand, and so we’re doing a lot of it around basically navigation, browse, product discovery as well as frankly eliminating price competition for the exact item.

Adrienne Yih  
Analyst, Wolfe Research LLC

Okay, great. Thank you very much. Best of luck.

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

Thank you.

Operator: Your next question comes from the line of Charles Grom from Gordon Haskett. Your line is open.

Charles Grom  
Analyst, Gordon Haskett Research Advisors

Hi. Thanks. Good morning. In the past you guys have provided a long-term adjusted EBITDA guidance of I believe 8% to 10%. I’m curious when you provided that forecast, what was the embedded assumption for repeat customers, because clearly at 61.3% which was I think up about 400 basis points year-over-year. You’re getting some nice traction on that front, so just wanting to see the opportunity for leverage in the model?

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

Sure. Can you just say the first sentence. I missed the first sentence what you said. I heard the part about the repeat growing.

Charles Grom  
Analyst, Gordon Haskett Research Advisors
I'm just trying to get a sense of, when you guys have provided the 8% to 10% long-term EBITDA guidance, what was your assumption for repeat customers when you made that guidance?

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

Yeah. So, the way to think about it is, it's not necessarily hinged solely to the amount of business that's repeat, there's kind of a few different things in there, right, because you have the advertising leverage which has a lot to do with the repeat and new mix, but you also have a gross margin assumption which basically, we've said this few times in terms of, we think we can unlock more than the delta between where we are in the long-term gross margin through these things, many times the difference, but it's transportation, efficiencies, it's the private label, exclusive brands program that I just talked about as well as just the buying power as we buy more and more in volume. It's that, and then it's also the OpEx leverage over time, because even though we continue to hire on the OpEx side, the truth is the revenue growth is at such a heady rate that the OpEx gets diluted as a percentage of revenue over time. So it's a combination of the three, and we've never said, oh, it's an x percent repeat will be there. So we've never guided that specifically.

Charles Grom  
Analyst, Gordon Haskett Research Advisors

Okay. That's helpful. And then just the LTM net revenue per customer was basically flat year-over-year, can you share with us how that breaks down in the U.S. versus International?

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

We actually don't break that out between U.S. and International. As we did this quarter where we talked about, International repeat running at a different level than the U.S. repeat each quarter or every couple of quarters will give some additional flavor of what's going on in the International business and so we'll talk about that 12 months revenue. But the thing to remember is the International business is sort of similar to what the U.S. business was some time ago, right. So you should expect that all of those statistics [indiscernible] (1:02:15) revenue repeat rate, orders per active customer, et cetera run lower in the International business than the U.S. business.

Charles Grom  
Analyst, Gordon Haskett Research Advisors

Okay, great. Thanks a lot.

Operator: Your last question comes from the line of Chris Horvers from JPMorgan. Your line is open.

Christopher Horvers  
Analyst, JPMorgan Securities LLC

Thanks, good morning. So I'm trying to understand or think about the medium term growth rate of International revenues in the markets that you are in. I understand you're starting to comp market launches, but at the same time, you started from further back, whereas in the U.S. you had websites prior to rolling it into Wayfair, and so you knew the customer, you knew how the market operated, whereas in these southern markets you came in later. So wouldn't that suggest that the growth rate in International should sustain itself at a higher level for a longer period of time?
Niraj S. Shah  
Chief Executive Officer, Co-Chairman & Co-Founder, Wayfair, Inc.

Yeah, Chris, so I think the answer is, yes, but I don't know if you can do it on the percentage comp, but I think if you look at the rate at which the dollar growth will ramp, I would agree with you. So, the International has been ramping like $60 million, $65 million year-over-year, dollars added in the quarter, the guide I think gets you up in there. And basically, the way to think about it is, because we're effectively executing the whole playbook at once, it's both on one hand more expensive and on the other hand, you would expect to see that ramping much faster and so that would be – I think that's a fair expectation.

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

And I think Chris as we always point out, there is a mix of what's going on, right. We're in three different countries and they have slightly different profiles in terms of how fast they are growing, how much scale they have obtained. And to your point, some of them have different levels of leveraging the existing infrastructure than others, right. The Canada business had a very steep ramp because it got to leverage, really leverage the U.S. business in a very aggressive way.

Christopher Horvers  
Analyst, JPMorgan Securities LLC

And then as a follow-up. Can you talk about where you are from a returns and damages perspective? And what you've seen with WDN and CastleGate, is that improving? And then the final point to that is, when you thought about that 8% to 10% profitability target, so what was predicated in the returns and damages line to get to those levels?

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

Sure. So, we break those two apart, because they are sort of different drivers, they have different drivers to them, so returns is the number that has kind of been running around 5% for a long time and it's not a number we necessarily – we tried to bring it down in the sense that we try to make sure the photography is really illustrative of the item, we add product information, we do all those types of things, but at the same time, we don't want someone to feel like they can't return an item. So we try to make it very easy and convenient on one hand for a customer to return an item. On the other hand, if they're returning it because it's not as expected or it's different than what they wanted, we'd certainly want to eliminate that; we want them to have a real feel for what they're ordering. That number though tends to stay in and around that 5% range and we don't necessarily expect that to necessarily move.

The damages number is not a number we've ever fully disclosed, but we've made the comment a number of times that the way people think about returns as being a vexing problem in apparel, the vexing problem in our category would be more damages than returns, because these goods are kind of prone to damage and they're not necessarily the standard delivery that exists out there, it's not meant to handle these types of items. And so, a lot of what we built between CastleGate and WDN, our own presorting and transportation operations, our packaging engineers who work with our suppliers, some over packing operations we have and other things are basically meant to basically significantly reduce damage. And we continue to see nice gains there.

And so when we talk about the gross margin, how in the long run we have the 25% to 27% number and today we're hovering in on the 23% to 24% range. And we talk about that delta, so that's kind of couple, a few point difference, then we'd say that, oh, we think we can earn more than multiples of that. It's because when you look at
the cost savings we can get from the transportation network we’re building out, when you look at the price
elasticity we can get on the exclusive brands programs, when you look at the buying volume discounts we can get
as we buy more and in more quantity and more and more comes in container direct via our suppliers from Asia,
which is not us sourcing from factories, but it’s just our suppliers giving us better pricing as they gain efficiencies.

And when you look at things like reducing damage and other things, there’s a huge amount of gains there. We are
using some of it to basically give value back to the customer, and that’s not just lower prices, but it’s how we do
delivery and it’s our white glove operations, we’re basically going to be offering evening and weekend deliveries,
and other things that are basically non-traditional, but some of it we’re going to keep. And so there’s no exact
assumption that’s in that 8% to 10% but it’s certainly an area that’s ripe with opportunity.

Christopher Horvers
Analyst, JPMorgan Securities LLC

Thanks very much.

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

I think we’re fortunately well past our 9 o’clock time. So, thank you everybody for your participation today and we
look forward to talking to everybody next quarter.

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

Thanks, everyone.

Operator: This does conclude today’s conference call. You may now disconnect.