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Wayfair, Inc. (W)

Q1 2016 Earnings Call

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MANAGEMENT DISCUSSION SECTION

Operator: Good morning. My name is Melissa, and I will be your conference operator today. At this time, I would like to welcome everyone to the Wayfair First Quarter 2016 Earnings Release Conference 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] Thank you.

Ms. Julia Donnelly, Head of Investor Relations at Wayfair. You may begin your conference.

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

Good morning, and thank you for joining us. Today, we will review our first quarter 2016 results. With me are Niraj Shah, Co-Founder, Chief Executive Officer and Co-Chairman; Steve Conine, Co-Founder and Co-Chairman; and Michael Fleisher, Chief Financial Officer. We will all be available for Q&A following today's prepared remarks.

I would like to remind you that we will be making forward-looking statements during this call regarding future events and financial performance, including guidance for the second quarter of 2016. These statements are only predictions based on assumptions that are believed to be reasonable at the time they are made and are subject to significant risks and uncertainties. You should not rely on these forward-looking statements as representing our views in the future. Except as required by law, we undertake no obligation to publicly update or revise these statements.

Our actual results may differ materially and adversely from any forward-looking statements discussed on this call. For a discussion of factors that could affect our future performance, results and business, please refer to our Quarterly Report or Form 10-Q, which we expect to file in the near future, and other reports we have on file from time-to-time with the SEC.

Please note that during the course of this conference call, we may discuss certain non-GAAP financial measures as we review the company's performance. 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 is available for replay on our IR website.

Now, I'd like to turn the call over to Niraj.

Niraj S. Shah

Chief Executive Officer, Co-Chairman & Co-Founder

Thanks, Julia, and thank you all for joining this morning. We're excited to update you on another strong quarter of performance. We generated $747 million in net revenue in Q1, up 76%. Our Direct Retail business which is now 95% of the total increased by $342 million to $712 million, representing 93% growth. Our total active customer account also reached 6.1 million customers.

Though the fourth quarter of 2015 was exceptionally strong and included the benefit of holiday sales, we're extremely pleased that during the first quarter, we were able to increase Direct revenue by an incremental $26 million. The growth in our Direct Retail business is led by Wayfair.com in the U.S. where we believe we are taking an increasing share of the dollars moving online in our categories.

As you can see in our updated slide posted on our IR website, we believe that we took about 40% of the U.S. online dollar growth in LTM Q1 2016 in furniture and home décor. There are many factors that drive that exceptional growth, our superior product selection and inspiring visual merchandising, our competitive price points for the mass market customer, our use of technology to enable seamless purchasing of goods online, and our advertising and brand investments that are introducing more customers to the Wayfair brand.

Over time, this has led to increasing repeat purchase behavior by our customers with year-over-year order growth from repeat customers continuing to outpace that of new customers. Moreover, in the first quarter, LTM net revenue per active customer increased 13.3% year-over-year to $392, and LTM orders per active customer increased to 1.71, up from 1.64 one year ago.

I'd like to update you on the investments and growth we're seeing in our international markets in Europe and Canada. One thing we probably have and emphasized enough is that we've been executing in these geographies for quite some time, operating sites in the UK since 2008 and Germany since 2009 and serving Canada through our U.S. sites since 2008.

We maintained a small team on the ground in Europe since 2008 to work on the UK and German sites to develop local supply relationships and to provide customer service. However, the team there remains subscale as we made the conscious decision to focus our efforts on the U.S. market, as we transitioned from hundreds of niche websites to a fully branded Wayfair.com site.

Once the U.S. transition to Wayfair.com was going well, by which we mean strong revenue growth and gross margins, we started laying even more groundwork in Europe in 2014. One of our senior most executives moved to Europe in 2014 to lead the effort of applying our U.S. playbook to the local markets in Europe.

While the front-end of the .uk and .de sites was configured for things like local currency and customer preferences, the back-end technology that powers the sites leverages the same architecture that currently supports the U.S. business. Today, because the underlying architecture is fully global, we can create a new product once in the catalog and use it in multiple geographies, languages and currencies.

Our focus in 2015 and 2016 has been on developing additional European supplier relationships to broaden and deepen the product catalog, and building out the logistics infrastructure and carrier relationships to ensure a great delivery experience for customers. We feel that we're far enough along with the overall offering in the UK that we've now started to invest with confidence in ad spend for new customer growth and to build the Wayfair brand.

The proprietary advertising technology stack, developed by our U.S. marketing team and engineers, is also being applied in Europe. The first step was getting customer conversion in these new geographies to the level where we believe we could scale ad spend productively. We've now passed that point in the UK and Canada, and we're scaling up the ad spend to fuel new customer acquisition there.

For example, this quarter, we ramped television advertising in the UK. We're excited to report that we're seeing preliminary results that are encouraging from the increased ad spend across all channels, and we've shared one of these ads on our IR website. Though growing off a small base, we're encouraged by the progress in the UK where Q1 year-over-year Direct revenue growth was more than 200%.

Our German site is in an earlier stage than our UK offering but also well on its way, and we'll continue to invest there to improve the site experience and product selection, before more aggressively ramping advertising spend to drive new customer acquisitions.

While we have served Canadian customers from our U.S. Wayfair site since 2008, we launched a specific Wayfair.ca site for the local Canadian market in January of this year. The site is tailored for the local customer with pricing in Canadian dollars, options for French language, and free shipping for orders over C$75. Canada is showing early progress with Q1 revenue for Canadian orders up more than 90% year-over-year.

Currently, the majority of Wayfair.ca orders are fulfilled by our U.S. supply chain, consolidated in our facilities and shipped over the border. As the Canadian business continues to scale, we anticipate serving the market increasingly through suppliers with a presence in Canada and our own Canadian logistics network. In Canada, we will continue to invest in advertising to acquire customers and to build the Wayfair brand.

As I noted on our last earnings call, we believe these markets represent a tremendous opportunity for us. Western Europe has a total addressable market size similar to that of the U.S. of nearly $250 billion. Canada, while much smaller, is highly fragmented and, we believe, underserved today. We've proven our model works in the U.S. and we have a unique opportunity to continue gaining share in the U.S. and also to win in these specific new markets.

As Michael will elaborate, these investments weigh on our P&L in terms of gross margin, ad spend and OpEx, but we believe it is the right long-term strategy to invest, as long as we continue to monitor the payback from these investments as we always do and continue to see robust customer growth.

It's worth noting that even with these substantial investments, we delivered a strong first quarter with solid gross margin and year-over-year ad spend leverage, both of which highlight the strength of our underlying U.S. business and its unit economics.

I'd also like to take a moment to update you on our customer service organization, which we believe is another key factor in driving our exceptional growth, customer repeat purchase behavior and growing brand awareness and loyalty. We view superior customer service as key to the value proposition of all of our brands. For that reason, we have chosen to run our customer service operations entirely in-house and position our customer service locations in the countries or region that they serve instead of an offshore location.

We also pride ourselves on having one of the best teams in the industry, and we were especially pleased to be recognized earlier this year with a gold in People's Choice Award for excellent customer service in the retail category.

We operate customer service centers in Massachusetts, Utah and Ireland and to keep up with the pace of growth, we've recently expanded to Texas, and we'll be opening additional sales and service locations this summer in Bangor and Brunswick, Maine. These three new sites will employ nearly 1,500 people when they reach full capacity. We also moved into new space for our sales and service team in Galway, Ireland to accommodate the ongoing growth of our European operations. We chose Maine and Texas for our new customer service centers, based on the high quality of the workforce and the strong college presence there.

With this talent pool and our competitive compensation plans that include not only good pay, but also 401(k) matching and full health benefits, we've been able to hire strong candidates who will really help us continue driving high customer satisfaction.

We're always looking for ways to take advantage of our increasing scale, and one new way we've been doing that in customer service is with the use of specialized service teams. For certain categories that are more complex by nature or exhibit a longer buying cycle such as flooring, lighting, plumbing, upholstery and mattresses, we funnel sales inquiries to specialized representatives who have deep domain expertise in that category.

Customers receive dedicated personalized service from our specialized representatives, who help them through all of their buying decisions, whether it's simply ordering fabric swatches or providing guidance on a full home renovation project.

The team tailors its approach depending on the buyer. A DIY customer may only need guidance on what products can ship quickly and meet their budget, while other customers may be looking for expert advice on categories like plumbing for a bathroom renovation. We believe that the high quality of our customer service drives our high customer satisfaction and is fueling the growing number of orders from repeat customers.

I'm also excited to report that our recruiting engine, which had not been keeping pace, is now up and running and staffed with over 80 talented people who have helped us accelerate hiring, both to keep up with the pace of current revenue growth and invest in the myriad of initiatives that show up as increased operating expenses before they start generating meaningful revenue and profit in the future. Michael will walk you through some of these details.

Overall, we feel that the business is firing on all cylinders and we are extremely pleased with our results this quarter.

I'll now turn the call over to Steve, who will speak to some of the new technology initiatives we have underway.

Steven K. Conine
Co-Chairman and Co-Founder

Thanks, Niraj, and good morning, everyone. Like in customer service where we pride ourselves on solving customer pain points and leveraging our scale to provide differentiated service, another key area of focus at Wayfair is how we use technology to improve the process of buying furniture and home decor online.

At Wayfair, we've spent the last 14 years custom developing technology to help our customer. Over the course of the next year, our pace of technology innovation will accelerate. Now more than ever, I'm excited about the team and the pace at which we are improving the customer experience. There are so many exciting projects underway, it is difficult to narrow the focus to just a few that can fit in the small time allotted for our quarterly calls. We are literally innovating across all areas of our business. From search to pricing, to marketing, to warehousing and transportation, I truly believe we are quickly closing the gap to making online shopping a better experience for our customers than traditional bricks-and-mortar.

As we look forward over the next few years, we are particularly excited about new 3D visualization technology and how that can be applied to our market. One near-term application is onsite imagery. 3D rendering will allow us to produce great photography, cheaper and faster, which will give our customer the beautiful images and inspiration she wants while showcasing the products she can afford. Over the next several years, our goal is to use 3D and virtual reality technology to make the experience of shopping online even easier for customers allowing them to visualize how Wayfair items would look in their home.

Last month, we demonstrated the early prototypes of this technology at the High Point Furniture Market and received an overwhelmingly positive response from our suppliers. In many ways, we are at the tipping point where technologies like these will allow us to make online shopping for home goods not just the equivalent of visiting a store, but markedly better.

From the very beginning, when Niraj and I started Wayfair, the goal has been to use technology to bring a superior shopping experience to our mass market customer. This shows in everything we do from the unmatched selection to how we merchandise, to how we run all our operations, to how we will manage to deliver experience and over time to how we will allow the customer to bring the product to life in their own home before making a purchase decision.

While 3D and virtual reality represent a small part of our engineering investment today, they are indicative of our company culture of using technology to help us delight our customers. Technology has always been in our DNA and as we build the company, we continue to be at the forefront of new technology adoption, as the leader in e-commerce for everything home.

I'll now turn the call over to Michael to walk through the financials.

Michael D. Fleisher
Chief Financial Officer

Thanks, Steve, and good morning, everyone. As always, I will highlight some of the key financial information for this quarter now, with more detailed information available in our earnings release and an updated set of charts in our investor presentation, which can be found on our IR website.

We have continued our trajectory a very strong growth this quarter. In Q1, our total net revenue increased 76.1% year-over-year to $747.3 million. As Niraj described, this growth was driven by our Direct Retail business, which increased 92.7% over Q1 2015 to $711.8 million. Our other business, which includes revenue from our small media business and from our retail partners, decreased as expected 35.4% over Q1 2015 to $35.5 million, as we continue to ramp down this non-core area of our business over time.

We are extremely pleased with the growth in the first quarter of our Direct business, which increased $342.5 million over Q1 2015 and $26.3 million over Q4 2015, which was an exceptionally strong quarter that included the benefit of holiday sales. We believe the strong growth is being driven by the strength of our repeat customer base, as year-over-year growth in orders from repeat customers continues to exceed growth in orders from new customers. As Niraj mentioned, we're also seeing Wayfair in the U.S. led by Wayfair.com, taking an increasing share of the online dollar growth in our categories.

As you can see in our updated slide posted to our IR site, we believe we're now taking approximately 38% of the online dollar growth in LTM Q1 2016 in our categories. Though starting from a smaller base, we're also encouraged by the early success we're seeing in our international Direct business where our first quarter year-over-year revenue growth exceeded the growth rate of the Direct business overall. In the UK, in particular, where we are the furthest along in terms of the customer experience and leaning in the most aggressively on ad spend, we actually saw Direct revenue growth year-over-year of more than 200%.

Our gross profit for the quarter, which is net of all product costs, delivery and fulfillment expenses, was $179.1 million or 24% of total net revenue, and was slightly above our target margin in the mid 23%s. This compares to 24.2% in the same quarter last year and 23.8% in Q4.

The remaining financials I'll share on a non-GAAP basis, excluding the impact of equity-based compensation and related taxes, which totaled $10.7 million in Q1 2016 and $8.2 million in Q1 2015. For a reconciliation of GAAP to non-GAAP reporting, please refer to our earnings release.

Customer service and merchant fees were 3.6% compared to 3.7% in Q1 2015. As Niraj discussed, we continue to scale our customer service organization to keep pace with the growth of our customer base.

Advertising spend was 13.1% of net revenue in the quarter or $97.7 million. Year-over-year ad spend as a percentage of sales improved 60 basis points from Q1 2015, when it was 13.7% of net revenue. This continues the trend we saw throughout 2015 and expect to continue to see throughout 2016 of year-over-year ad spend leverage due to our increasing mix of orders from repeat customers. As orders from repeat customers become a larger portion of our base, that drives ad spend leverage, because we spend far less on advertising to get our existing customers to buy again than to acquire a new customer. For new customer acquisition, we remain laser focused on maintaining our strict payback targets and ROI.

As we noted on our last earnings call, the pace of our year-over-year ad spend leverage moderated in the first quarter of 2016 when compared to the pace of our ad spend leverage in 2015, because advertising efficiencies in the U.S. are being partially offset by substantial new and increasing advertising investments in Europe and Canada.

For example, in the U.S. Direct Retail business alone, Q1 2016 year-over-year ad spend leverage was approximately 165 basis points, whereas consolidated year-over-year ad spend leverage was 60 basis points.

With our continued planned advertising investments in Europe and Canada, we anticipate the remainder of 2016 to follow a similar trend with total ad costs as a percent of revenue declining year-over-year, but at a more moderate pace than what we saw in 2015. This quarter, we continue to see strong customer metrics across the board. We added approximately 714,000 net new active customers this quarter, bringing the total active customer count to 6.1 million active customers. This is the second largest quarter of net new customer acquisition to-date, after an exceptionally strong fourth quarter of 2015 where we saw a bump in customers activating due to the holiday season.

LTM net revenue per active customer increased 13.3% year-over-year to $392 annually and LTM orders per active customer increased to 1.71 from 1.64 a year ago. Orders from repeat customers were 55.4% of total orders, and as you can see in the updated cohort chart we've posted to accompany this call, repeat dynamics across all our cohorts remain strong and show continued strong performance three years and four years post initial customer acquisition.

Our merchandising, marketing and sales spend on a non-GAAP basis was $32.8 million or 4.4% of net revenue compared to $19.4 million or 4.6% of net revenue in Q1 2015.

Non-GAAP operations, technology and G&A expense was $53.1 million for the quarter or 7.1% of net revenue compared to $28.9 million or 6.7% of net revenue in Q1 2015.

As we explained last quarter, these two line items are primarily head count and the increase in spend both on a year-over-year basis and on a quarterly basis is due to the ongoing investment in our team globally. As Niraj mentioned, with an expanded recruiting team and lower employee turnover, we've been able to begin to satisfy our hiring needs adding 795 net new employees in the first quarter for a total of 4,604 employees as of March 31.

Although we are hiring across many areas of our business, the largest areas of hiring in this quarter were customer service and warehouse, as we scale to keep up with the pace of revenue and customer growth; engineering, as we continue to invest in ongoing site improvements and all the new initiatives that will drive increased revenue and repeat in the future.

In Europe, as we continue to scale head count in the region, as of March 31, 2016, we had approximately 560 people in Europe, representing approximately 12% of our workforce for our business that represents less than 5% of consolidated revenue.

As expected, adjusted EBITDA for the quarter was negative $21 million or negative 2.8% of net revenue, compared to negative $12.3 million or negative 2.9% in net revenue in the same quarter a year ago. Even with substantial investment in Europe, we delivered a quarter with strong gross margin and ad spend leverage, though a global acceleration in hiring pace increased operating expenses and therefore resulted in adjusted EBITDA margins that were roughly flat to Q1 2015.

All of this speaks to the strengths of the underlying U.S. business, which continues to grow at an incredible pace and deliver the leverage in gross margin and ad spend that is allowing us to show a modest total investment at the adjusted EBITDA line, despite a larger investment in our international business.

Non-GAAP free cash flow for the quarter was negative $80.6 million, based on net cash from operating activities of negative $51.2 million, less capital expenditures of $29.4 million. Change in net working capital is typically a substantial use of cash for us in the first quarter. This is due to our normal seasonal pattern where we experience a large inflow of cash from sales in the holiday period that we then pay out to suppliers in the first quarter.

CapEx spending was 3.9% of net revenue this quarter, driven by ongoing investments in our technology infrastructure and equipment purchases and improvements for leased warehouses within our expanding supply chain network.

Our CapEx expense will be fairly lumpy, so while we expect 2016 CapEx to be roughly 4% of net revenues, we do anticipate running at a higher CapEx percentage for the second quarter of approximately 6%, as we put online a new data center on top of the continued rollout of our supply chain infrastructure.

Our inventory level was $17.8 million 0.7% of LTM sales, compared to 0.9% last quarter. It's important to note that while total net revenue in the quarter increased over $320 million from Q1 2015, inventory actually decreased by $2.2 million.

Non-GAAP diluted net loss per share was negative $0.36 on 84.4 million weighted average common shares outstanding. As of March 31, 2016, we had approximately $379.8 million of cash, cash equivalents and short and long-term investments. Overall, we're very excited with our first quarter results.

Now, I'd like to offer guidance for Q2 2016. We forecast that we will grow our Direct revenue between $285 million to $310 million year-over-year for the second quarter. This growth represents strong continued share gains and would have Wayfair taking more than a third of the share of the U.S. online dollar growth in our categories.

Our Direct Retail revenue comps for the rest of 2016 become increasingly difficult because of the acceleration we had in 2015, with Q2 2015 Direct growth of 81% versus Q1 2015 growth of 63% year-over-year. On a comp basis, our guidance represents Direct revenue growth of 65% to 70% over Q2 2015 for Direct revenue of $725 million to $750 million.

To give you increased transparency into the input for our guidance, I want to let you know that for Q2 quarter-to-date, we've experienced a Direct Retail growth rate in the high 70%s. As we've done in the past, we are not guiding to create an outsized beat, but rather are being prudent based on the nature of our mass market business where the customer has to show up and make purchases every day. Again, I would like to remind you that the comp is 17 percentage points harder in Q2 than in Q1 based on the growth inflection that started at this time last year.

We forecast other revenue to be between $30 million to $35 million, down 32% to 42% year-over-year, as we continue to deemphasize this business, for total net revenues of $755 million to $785 million.

We forecast adjusted EBITDA margin of negative 3.2% to negative 3.6%. Our continued losses at this level in Q2 are almost completely driven by our aggressive ongoing investment in the international business. As our U.S. business continues to grow fast, show strong year-over-year leverage in ad spend and is flowing through extremely well, as the unit economics continue to get better at scale.

As I noted earlier, due to our planned advertising investments in Europe and Canada, we anticipate the remainder of 2016 to follow a similar trend as we saw in the first quarter with ad cost as a percent of revenue showing moderate levels of leverage year-over-year, driven by the international spend offsetting strong U.S. ad spend leverage.

We also expect to continue our strong hiring pace in the second quarter, as we continue to rapidly ramp our hiring. As we get caught up, this will moderate some, which seems likely in the back half of this year. We continue to forecast that the whole business, even with the large investment in international, will be adjusted EBITDA breakeven to positive by Q4.

For modeling purposes for Q2 2016, please assume equity-based compensation and related tax expense of $14 million, average weighted shares outstanding of 84.8 million, and depreciation and amortization of approximately $13 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

Thanks, Michael. After an exceptional fourth quarter, we are delighted to deliver yet another quarter of strong revenue growth, solid gross margin, and continued ad spend leverage. We could not be more excited about the runway we have in front of us, with only 8% to 9% online penetration in our categories, an addressable market in the U.S. and Western Europe of approximately $500 billion and continuing evidence of repeat purchase behavior from our customers.

We feel that we're reaching a tipping point in the U.S. where our increased brand awareness, the growing number of millennials entering our target market and the improved customer experience we're delivering are all working to our advantage and allowing us to capture an increasing share of the online dollar growth in our categories.

We look forward to continuing to execute on our exciting roadmap and reporting the results to you over the coming quarters.

We'd now be happy to take your questions. So I'll turn the call over to the operator.

QUESTION AND ANSWER SECTION

Operator: Thank you. [Operator Instructions] Your first question comes from the line of Neely Tamminga from Piper Jaffray. Your line is open.

Neely J. N. Tamminga
Piper Jaffray & Co (Broker)

Q

Good morning, and job well done in this quarter for sure. Niraj, a few questions more on the international side of your business in terms of investment. Could you give us some benchmarking sort of thought points on how the aided and/or unaided awareness of the Wayfair brand is in each of those geographies that you're primarily targeting your investment and hat would be kind of a helpful context as you ramp up your advertising spend there?

And then, also, on the – I was just wondering, does it make sense to kind of keep some of the other revenue means through like third-party marketplace internationally to seed the brand, will you continue to do that for a while? Do you do that? Will you continue to do that for a while to kind of help seed the brand for Wayfair as you ramp that up? Thank you.

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

A

Sure, Neely. Thanks for your questions. Couple of thoughts on international to answer your questions.

On the aided and unaided, we actually do study similar to what we do in the U.S.. We do those in every country we operate in, on a regular basis. We haven't shared those results, but the way to summarize them outside the U.S. is that our awareness is still quite low. So it very much is similar to the U.S. before we really commence the significant brand buildings that over time has lifted the U.S. awareness to quite high levels.

And what we're seeing is that we had that same sort of early track, but it's still very much early. And so, as it develops over time, we'll definitely share those stats with you, and so, you can kind of see how it's playing out, but that's why we've commenced television advertising in the UK and Canada that we know the customer behaviors where we need it to be and then building the brand will be very valuable, and we're seeing the early traction on that, but again very early.

In terms of the marketplace question, our models, years ago, we did sort of fully engage on third-party marketplaces and that became a meaningful percentage of our revenue at one point. At this point, it's less than 5% of our revenue globally. And our general view is that, given the very significant investment we have in building our Direct business which is the brand, the experience on our site, the experience on our apps, we're really very much focused on getting customers to directly engage with us.

And so, we don't really – we do participate on some marketplaces, but we're very much more discerning than we were in the past where it was really all about just bulking up the revenue volume. And so, I think what you should really look to see us do now going forward is really be focusing on our Direct businesses as the primary vehicle even in an emerging market where we're still small today.

Neely J. N. Tamminga
Piper Jaffray & Co (Broker)

Q

That's helpful, Niraj. And just, if I may, a follow-up question. Strategy, obviously, in the U.S. too early on was kind of taking a bunch of consolidated sites, I'm making this up, but like faucet.com and parcel.com and things like that, and then, kind of forwarding people to the Wayfair brand. Is that similar? Are you buying URLs or sites over internationally kind of consolidating what seems to also be fairly fragmented over there? We're just trying to get an even clearer visibility as to what you're doing over internationally? Thank you.

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

A

Yeah. Yeah. Sure. So in the U.S., what we really did over time is we really built those sites from scratch, so in some cases, we bought domain names, but we really – we didn't really buy operating businesses, we've built those sites by lining up the suppliers and building the supply chain and building those sites and so on and so forth.

But when we entered these foreign markets in 2008-2009, we did the same thing. We started with these independent sites that we had built. And then, when our strategy became to build the Wayfair brand, what we did in the U.S., as you know, was in 2011-2012, we closed all the sites in the U.S. We redirected them to Wayfair.com, and then, we've really been investing in Wayfair.com.

Well, in that same timeframe, what we did is we closed all the sites in the UK, for example and we redirected them to wayfair.co.uk. and we had a site similar in Germany. So what we have operating in every foreign market is this sort of notion of a single branded destination for Wayfair that is what we're very much focused on improving the experience set and marketing.

The difference in the countries outside the U.S. is that it's only in the recent period here in the last couple of years that we've really bulked up the team and really invested in the effort to really get it to where we want to be, because prior to that, we're very much focused on the Wayfair brand in the U.S., and now, we're at a point where in the UK and Canada, for example, we're really ramping the brand advertising and we're kind of fully investing, but we have a single site strategy there for a number of years.

Neely J. N. Tamminga
Piper Jaffray & Co (Broker)

Q

That's very helpful. Thanks. Best wishes out there.

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

A

Thanks, Neely.

Michael D. Fleisher
Chief Financial Officer

A

Thanks, Neely.

Operator: Your next question comes from the line of Matthew Fassler from Goldman Sachs. Your line is open.

Matthew J. Fassler
Goldman Sachs & Co.

Q

Thanks a lot. Good morning. My first question relates to the second quarter EBITDA guide. We're trying to check the numbers, so correct me if I'm wrong, but I think you guided to a bit more deleverage in Q2 in terms of adjusted EBITDA margin than you experienced in Q1. So if you could tell us which lines items you'd expect to see that in.

Michael D. Fleisher
Chief Financial Officer

A

Yeah, Matt. It's Michael. I think that's correct. We came in Q1 at 2.8% EBITDA loss. We guided 3.2% to 3.6%. Obviously, some of that is just building guidance which I know you recognize.

I think the places where you'll see the – when you look at – do the year-over-year compares our ad spend and OpEx, that's the key lines, obviously. We showed, I think, pretty good ad spend leverage, 60 basis points this quarter Q1, year-over-year, and as I noted in my comments, much, much better ad spend leverage in the U.S. business, right, which continues to sort of continue to outperform. So that really is the international investment, and I expect that will continue in Q2. So a more modest ad spend leverage year-over-year there.

And then on the hiring side, we've continued to – we feel really good about the recruiting team today and the ramp of our hiring and the people we're bringing on board, and so, I think the other place where you'll see that show up a little bit is in the OpEx side.

Matthew J. Fassler
Goldman Sachs & Co.

Q

Got it. And then, my second question, somewhat related to that, I know that you had guided gross margin rate as we exited Q4, and you beat that guidance for what that's worth. What's your expectation directionally for gross margin in the quarter relative to Q1 to a year ago?

Michael D. Fleisher
Chief Financial Officer

A

I think from a gross margin perspective what we're really trying to keep everybody focused on is where we're focused, which is that sort of mid 23%s. I know this quarter, we delivered 24% gross margin, a little better than our anticipation.

As I think folks are aware, gross margin, when you're selling 7 million SKUs out there is your – it's -you're managing to it, but you're also it's a little bit of an output. And so, we're trying to balance taking the leverage that we've gotten as the business continues to scale and take some of that in gross margin, but also turn it back to the benefit of our customers. Part of that is price and I know that's the place where people go initially, but the other piece is in service, right? Can I deliver the product faster, can I have a better service delivery experience for the customer, does that cost me a little bit more, but then have that customer be a more likely repeat and have a better lifetime value.

And so, that's the balancing act we're going through and it's the reason we believe right now targeting our sales at sort of mid-23%s point is the right place to be.

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

A

And then, Matt, one thing – this is Niraj. One last thing I'll just mention on gross margin. Just, keep in mind, part of the reason we really encourage you to just do that is that we have a lot of very positive things going on, but they create all kinds of mix up and down. So the positive things like the things that could create mixed up is we're focusing on scaling our private label strategy, we're doing a lot to reduce our transportation expense, and these things, as you'd imagine, kind of continue to move gross margin up. Our buying power with our suppliers get better and better.

At the same time, we have these international geographies, which always any new markets start to lower gross margin, we have category mix where a lot of newer categories where we're seeing exciting growth some of the renovation categories like plumbing and flooring and some of what we're doing in housewares and some of the core related categories, anything that's small starts to lower gross margin. So you also have all kinds of mix shift underway between countries and categories.

And so, all this nets in the gross margin. So what I'd just echo is what Mike was saying is that, our gross margin is not really driven by a promotional pricing strategy, it's actually driven all these activities in the business where actually the ones pulling it up and the ones pulling it down are actually all positive. Clearly, it's just a function in the near-term period whether they pull it up or down.

Matthew J. Fassler
Goldman Sachs & Co.

Q

And just my final follow-up, is international moving the gross margin line item at all or is it much more a function – much more an impact on the various other expenses?

Michael D. Fleisher
Chief Financial Officer

A

No, it's definitely, it's a gross margin mover. We're definitely subscale there, and so, we don't have the same – anywhere near the same buying power we have in the U.S. And so, as the international business continues to grow from a mix perspective, it's adding lower gross margin business near-term, but obviously, that business scales will get the same leverage we have in the U.S. as well.

Matthew J. Fassler
Goldman Sachs & Co.

Q

That's great. Thank you, guys.

Michael D. Fleisher
Chief Financial Officer

A

Thanks, Matt.

Operator: Your next question comes from the line of Seth Basham from Wedbush Securities. Your line is open.

Seth M. Basham
Wedbush Securities, Inc.

Q

Thanks a lot and good morning.

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

A

Good morning.

Seth M. Basham
Wedbush Securities, Inc.

Q

My first question is just on advertising. If we could get a little bit more clarity as to how you think about advertising spend going forward, in the first quarter, it seemed like international advertising investments weighed on advertising leverage overall by 100 basis points. How do you expect that to play out in 2Q and the back half of the year?

Michael D. Fleisher
Chief Financial Officer

A

I think at a high level, Seth, it should play out similarly. I think the thing we started explaining last quarter is that we won't have the leverage levels that we had in 2015 over 2014 largely because of the international investment, and that's why I kind of tried to point out that 60-basis-point leverage year-over-year, but 165 basis points in the U.S. so that you can sort of see that weight that the international investment is putting there.

And if you think about it, as we ramp up TV as an example in the UK, I don't want to call it a fixed cost, but it's – you're out there and you got to put the TV out there even though that business is still subscale to handle that level of TV, because you're trying to grow the business aggressively. And so, I think you'll continue to see the sort of lower levels of total ad spend leverage throughout the balance of this year as we continue to sort of make that investment.

And then, we talked about last time spending, round numbers $10 million on TV in Europe, and if you extrapolate that out on a percentage basis of how we spend our TV in the U.S., you'd get to a total international ad spend roughly of $65 million forecast for this year, that's going to move around a little bit as we see how the business performs. But for rough math, you can sort of see that that's a lot of weight on the system, for a business that's still 5% of revenues.

Seth M. Basham
Wedbush Securities, Inc.

Q

Got it. Okay. So if we think about that 100 basis points drag in the first quarter, that's not expected to expand to a higher drag in the second quarter?

Michael D. Fleisher
Chief Financial Officer

A

No, I don't think the drag will be higher. I mean I guess the way I'm thinking about it is that there's – you should expect roundly lower levels of total ad spend leverage year-over-year. So the 60 basis points in Q1, I think, was pretty good. But – and it's a combination of the continued leaning in on international and continued good ad spend leverage in the U.S.

Seth M. Basham
Wedbush Securities, Inc.

Q

Okay. Then my last follow-up question. If that's the case, then the other places in the P&L, where you expect more pressure in the second quarter year-over-year relative to the first, it's really on the hiring side, a lot of the people cost, that's the way to interpret it?

Michael D. Fleisher
Chief Financial Officer

A

Yeah. I think that's right. As we continue to hire at a good pace and we, most importantly, I think, continue to find super high quality people that meet our thresholds. I think we are very disciplined about who we want to bring on the team, both from a skill set and culture fit and aggressiveness standpoint, and we feel really good about the recruiting team on a global basis and the work they're doing. So I think we'll continue to see a good ramp in hiring in Q2 like we did in Q1.

Seth M. Basham
Wedbush Securities, Inc.

Q

Very good. Thank you and good luck.

Michael D. Fleisher
Chief Financial Officer

A

Thanks, Seth.

Operator: Your next question comes from the line of Oliver Wintermantel from Evercore ISI. Your line is now open.

Oliver Wintermantel
Evercore ISI

Q

Thank you. Good morning, guys. The growth in international, and I think that's visible also as the guidance for the second quarter is masking the profitability in the U.S. Maybe you can put some measurement – metrics around the profitability in the U.S. business around, so we can see how the U.S. business is performing, excluding international?

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

A

Sure. This is Niraj. Yeah. So I guess, couple of thoughts there. One, we just sort of discussed it a moment ago, but the way to think about international, obviously, international creates investment in multiple places, and the one we talked a lot about is ad spend leverage, and then, we just start talking about the head count.

One of the other things I alluded to is it creates negative mix in gross margin, so really to trying to capture the international investment, you end up thinking about sort of investment on all three lines if you will. What we've been saying is that, the U.S. business strength is sufficiently strong than on the gross margin line. We're not forecasting it to go down even with the effects, which we commented were meaningful of the negative gross margin drag of international.

Then said on the advertising cost lines, the U.S. is gaining so much momentum that it's actually offsetting the negative mix of international there. We talked about the U.S. direct ad spend leverage was 165 basis points and then the total was only 60 basis points. So you can see the kind of large investments there and if you back out the math, you'd actually see the international ad spend runs a significant percentage of revenue rise 30%, 40% of revenue in Europe, and that's just a function of not yet having that customer base on the repeat side because it's so early, right.

And then on the head count side, we've talked about how it's 5%, 6% of revenue outside of the United States, but it's 12% of head count. And so, while it's not a super clean read in terms of calculating exactly, you can add those up and I think any conclusion you would come to is that the U.S. business, the economics and the profits of U.S. business have to be very, very significant, because as you add up those three lines and you look at the revenue base we're operating again, that's a lot of dollars you get to. So I'd encourage you to just model each of those three sections and then add them up.

Oliver Wintermantel
Evercore ISI

Q

Got it. Thank you. And from the last one, on the average order value was up 16%, there was a step-up in this quarter. Have you changed your view in that or because I think in the past you said it should stay around $200, but there's a step-up. So some thoughts around that would be helpful. Thank you.

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

A

Yeah. Yes. Let me just comment on that. Some of the challenges for some of our metrics are they getting effective? We're doing so many different things that each of which we're very excited about, they create mix effects. And so, let me just touch on that.

The metric we're actively trying to drive is the number of dollars a year a given customer spends with us. So we're trying to get more and more customers to come back, and for the customers that come back, we want them to give us more share of wallet, right? So that's what we're very much interested in having to happen. And if you derive that number, you get a number $392, which would be an understated number, because it would also include active customers who've only been in the number one quarter, two quarters, things like that.

That numbers continue to tick up. We're very excited to try to get that number to go up. The way we're trying to get that number to go up is we keep making the experience better, we're making delivery better, we're making customer service better. We're also in the categories we've been in for a while, but have not really fleshed out, so the things like plumbing and flooring and housewares and seasonal décor, decorative accents, we're flushing those out, and mattresses.

Well, the net effect of all of that is, you get all these different categories growing at different rates, you have different things going to get folks more engaged, get them to visit more often, and as a result, you get what you hope which is you pick up incremental purchases.

What happens though, as you know, is something that might be a higher average order category like one of these renovation categories that if you tap into the customer there and they start buying for you and they tend to spend a lot of money over a period of time, that may increase your average order value. Well, when you get something that go well, like seasonal décor and decorative accents, both of which are going quite well, you actually get lower average order values there, a bit down.

So the way we sort of address that is we're not trying to manage the average order value, so it will be what it is. We have enough things going that are large and enough things are going that are small that we sort of feel like that number probably won't move a lot over time, but it's going to bounce around, because each of these initiatives sort of has its own momentum and velocity behind it, but the real outcome we're going for is the dollar spend per customer per year. And as we pick up incremental orders from the net average order value, it'll just sort of be what it is.

Oliver Wintermantel
Evercore ISI

Q

Got it. Thanks very much. Good luck.

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

A

Thanks, Oli.

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

Justin Post
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Great. Thank you. A couple of questions. I think there's a little frustration maybe in the stock about the added investments. So I just wanted to ask you, what are you thinking about are your constraints on spending? How do you think about – you obviously enter new countries or even ramp that up, so what is the constraint on how much you are able to spend?

And then the second question is just in the U.S., how is the competitive landscape evolving, when you look at things like selection and rankings in Google and other factors? How do you see the competitive environment today versus maybe a year ago? Thank you.

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

A

Yeah. Sure. Great. Thanks, Justin. So on your first question, about how we think about investments, the way we'd think about it is we're making very specific-focused investments. So when we talk about categories, there's not a long list, there's a short list of categories, I've just kind of mentioned a bunch a minute ago.

If we think about the countries, we're talking specifically about Canada, we're talking about the UK, we're talking about Germany, it's not a long list. So we're only interested in taking things on where we feel like the long-term outcome could be very significant for us as a business, where we think we can win, where we feel like we understand what we need to do, and where we think we can actually afford to do what we need to do to win.

So we're really not excited to take sort of flyers, if you will, and then that – outcome of all of that is the list of things we talk about that we're investing in. That said, if we invest in something, we're going to do it to win. So the idea of sort of dabbling in things is also not super interesting, because our view is, you should either do it or not do it, but if you dabble, you're sort of guaranteed to lose money, and obviously, that wouldn't be exciting for anyone involved.

In terms of the competitive landscape, what I would say there is, frankly, over time, because of the strength, the increasing strength of the Wayfair brand, the customer-based loyalty we have there and how we're seeing that develop, frankly, we are seeing more and more preference towards Wayfair, and more and more awareness of and indications of excitement for Wayfair. So frankly, we've always focused on our customer first, and you obviously always will have competitors out there. And so, you're going to watch what they do.

But really, how you decide what to do, in our mind, has very little to do with what our competitors do and has a lot more to do with what we figure out that our customer wants. And then, we want to execute that as best as possible thereby earning effectively their loyalty. And that's been our strategy. It's working well. So it's not that we are more or less watching competitors, we continue to pay attention to who they are, but frankly, the strategy is the same. We just keep focusing on giving the customer the experience that they're looking for and doing it in a way that frankly, I believe, we're outpacing a lot of folks you consider to be our competitors.

Justin Post
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Okay. Great. And maybe two quick follow-ups. Do you think your selection advantage has grown over the last year? And the second one is, are you using social marketing at all, and are you seeing any results there that you can talk about?

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

A

Yeah, sure. So yeah, so the answer to both is, yes. So on selection, I feel like our selection advantage has always been meaningful, and it's actually, we believe, substantially grown, primarily through what we've been doing with visual merchandising, what we've been doing with our private label exclusive brands. These are increasingly creating ways for people to find products they're excited about that, frankly, they can't find from others. And I think that's very substantial because in this category, which is non-branded, which is highly visual, where customers want to own unique items. The fact that they could find a large selection of affordably priced items, with the best visual merchandising out there, for a mass audience at Wayfair is going to keep pulling them back, and we've been building that advantage I think substantially fairly quickly.

In terms of social, that's a channel we spend a meaningful amount of money on the paid side and we do a lot on the organic side from just engagement with our communities. And I think given the category how visual it is and how much folks share content online and then thoughts, and excitement, it's continued to work well for us. We continue to invest there where Facebook, Pinterest, a number of folks have cited us as a partner that they do things with. And so, we're excited to continue to develop that.

Justin Post
Merrill Lynch, Pierce, Fenner & Smith, Inc.

Q

Okay. Thank you.

Operator: Your next question comes from the line of Michael Graham from Canaccord. Your line is open.

Michael Graham
Canaccord Genuity, Inc.

Q

Hey. Thanks. Just two on the customer cohorts. The first is that, when you look this cohort slide and you see that 2015 cohort starting at such a high spend level. Just wondering is that because you're in more categories now or is it just because the average price points going up or just how would you explain that initial high level of spend and do you think that can keep increasing?

And then, the second one is just on this repeat purchase behavior, is there a story behind what these customers are buying as they come back in? Do they typically come and buy large items and then they buy smaller items or is there any story to be told as to why they're staying so engaged? Thanks.

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

A

Sure, Mike. Yeah. So on the cohort slide, the thing I would highlight there, that's slide 18 in our presentation on our website, the thing I would highlight there is, based on that year that the customer first purchased in, the Wayfair experience, the Wayfair brand has changed markedly over just a handful of years.

The brand only got launched at the end of 2011. We didn't finish redirecting all the sites until towards the end of 2012. We only tested the brand marketing in 2013. So really, 2014 was the first significant year of brand marketing, 2015 being the second. So the experience that customers had just from the awareness of the brand, the quality of the visual merchandising, the way in which the product's experienced the navigation, the app and all that, that's changed dramatically over those couple of few years.

So the 2015 cohort is going to start off by having a first experience that was meaningfully better than the 2014 cohort, which would have a meaningfully better experience than very first time in the 2013. And so, you see that playing out over time where you're seeing folks get more engaged and in fact build a tighter relation with Wayfair, and that's what those numbers show you. And we think that that is something that is sustainable and can keep going.

In terms of repeat and the story in AOV, the truth is the initial order and the repeat order AOVs are not really very different. And so, there is no discernible pattern in terms of what they buy first and then what they buy later. It has a lot more to do with what they need, when we happen to find them, when they happen to find us.

And so, there is no particular story. We do know that we still even with the progress we've made on repeat, there's still a lot of share of wallet opportunity. And even with the dramatic growth in active customers to 6.1 million or just a little over 6 million, we still have a small amount – in the U.S. they're 60 million between the $50,000 and $250,000 household income and if you add the international geographies, you would double that number. So we still have a small number of the customers who we think Wayfair would be the far away the best place for them.

Michael Graham
Canaccord Genuity, Inc.

Q

Okay. Thank you.

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

John Blackledge
Cowen & Co. LLC

Q

Great. Thanks. Just two questions. Niraj, could you compare the cost of getting a repeat customer back to the site versus the cost of getting a new customer, and the leverage you're seeing there?

And then, Michael, the CapEx was a bit higher. I think you've referenced 4% of total sales, last year, it was 2%. How should we think about that or could you just describe again what the CapEx uptick was this year, and how should we think about it kind of 2017 and out? Thank you.

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

A

Yeah. Thanks, John. This is Niraj. Let me just address the first question. So on the cost of the repeat customer, I mean that is where the leverage is in the model. So the repeat customer, the ad spend, one of the things we've commented on a number of times is that, when we talk about the long-term ad spend of 6% to 8%, we've said that the repeat customer already, the ad spend for the repeat customer is below that range.

And so, despite the fact that it's early still for the brand, so on and so forth, the reality is the ad spend for repeat customers is very below that range and that's why the ad cost keeps moving down as a percentage of revenue, despite the fact that we're able to get a lot of new customers, we pay for that acquisition cost, and even with that, we're getting year-over-year ad leverage. That is all coming on the back of the fact that repeat customer advertising cost is so low.

Michael D. Fleisher
Chief Financial Officer

A

Hey. It's Michael. On the CapEx spend, so yes, Q1 was 3.9%. And as I said in my comments, I think roughly 4% of sales is a sort of a reasonable number for this year, and I think probably going forward as well. Q2 will be higher more like 6%, and CapEx spend is by definition lumpy. The key items that we're spending CapEx on haven't really changed, primarily technology, right? So in Q2, we're going to put a new data center online, that's why there is a sort of uptick there. It will give us a huge amount of incremental capacity that we need, frankly, because of the growth, and you would expect us to be doing that at this time of year to be well ahead by the time we get to a holiday and peak load demands.

And then the other side is facility buildout. Some of that is continued office facility buildout for our incremental people, and some of that is the continued buildout of our delivery infrastructure supply chain network, right? So as we've talked about in the past, as we're building out warehouse space, they tend to be fairly low capital intensity, right? They're not highly automated facilities, they're mostly steel racking and things of that nature. But there's still a real capital cost as we're sort of building out incremental square footage there.

John Blackledge
Cowen & Co. LLC

Q

Thank you.

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

A

Thanks.

Operator: Your last question comes from the line of Aaron Kessler from Raymond James. Your line is open.

Aaron M. Kessler
Raymond James & Associates, Inc.

Q

Great. Thanks, guys. Couple of questions. Just a follow-up on CapEx, is it possible to break down the components of that roughly for the year? And is it right Michael, you said 4% the rate kind of long-term level to think about there? And just on the stock-based comp, I think it's a bit of a step-up in Q2. Is there a good level to think about for the rest of the year on stock-based comp as well? Thank you.

Michael D. Fleisher
Chief Financial Officer

A

Yeah. I think – so on the stock-based comp, I think we've been historically conservative in our forecast there. And I don't – so I think that continues to be the case and obviously, it's highly tied to the stock price and the share price at any point in time. So it's a complicated one to forecast.

And I think so if you look at what took place in Q1, and if you look at what we're guiding for Q2, I think you sort of see the ends of the spectrum, and – but there's no substantive change in sort of how we're going out stock or anything else that's driving that stock-based comp piece.

And then on CapEx, there's some further detail that we provide in the Q about technology spend and infrastructure spend on the supply chain side, but we haven't provided further detail than that and we'll sort of think about that as we go forward and if that's a little bigger number, in the next couple of quarters, we'll consider giving a little more detail about some of the key areas we're putting that money to work.

Aaron M. Kessler
Raymond James & Associates, Inc.

Q

Got it. And just quickly on the repeat customers, when you – obviously, nice growth there, when you see – anything you call in terms of the change in buying behavior over the years when you do see the repeat customers, are they – how are they changing kind of what they're buying on the site? Thank you.

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

A

Sure. Yeah. This is Niraj. So the biggest thing to think about is, the way the customer thinks about Wayfair is the customer does think about home as a category and home is driven by a bunch of different things. So you have needs based on season, right? You're kind of cleaning up your house in the spring, you're getting the backyard ready for the summer, you are going to host Thanksgiving, you have these different things that drive some needs.

Other things are it's time that you want to redo your living room and you're excited about that or you happen to be renovating or what have you. And then, some of this is based on, you just see something you get really excited about, so some of the content pieces we do or something might be a piece that encourages you or gets you excited to buy a piece of décor that you weren't going to have a plan to buy but you just decided to buy.

So what happens is that the repeat customers is sort of the outcome of what we're working on doing, which is really getting all our customers engaged with us, where they're looking to us to see what's new, what's interesting, what's up there for styles, what functional solutions exist for their needs. And we get to measure that engagement, right? We know how often they're visiting us or clicking on an app notification or clicking on an email or directly coming to the site, how much of the content they're consuming, we know all of this, right?

And then, the way it would manifest that you would get to see is that on occasion over time, they actually do buy things. And so then that shows up in the repeat purchase behavior and the dollars from repeat and so on and so forth that then manifests with the ad spend leverage and so on and so forth. But the way I would encourage you to think about it is really what we want is we want the customer to think of Wayfair is their go to for home. So anything around home, they're thinking Wayfair is the best place for them to get what they want or to find solutions or to find inspiration and those unique pieces.

And the repeat behavior, we would hope to see over time, would manifest from that, meaning it would be more purchases and it would add up, in aggregate, to be more dollars. But it would not be any pattern around a specific category that we're trying to move them toward so on and so forth, that would much more be at the personal level and it'll be based on them increasingly thinking Wayfair as their top-of-mind place.

Aaron M. Kessler
Raymond James & Associates, Inc.

Q

Okay. Great. Thanks a lot.

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

Well, thanks everyone for joining us today, and then thanks for your time.

Operator: Ladies and gentlemen, this concludes today's conference call. You may now disconnect.