WILLIAMS-SONOMA, INC.

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EXECUTIVE SUMMARY

Over the past half century, Williams-Sonoma, Inc. (WSM) has established itself as a leader in the home-furnishings industry by providing a superior quality, premium product. Its portfolio of brands, including Williams-Sonoma, Williams-Sonoma Home, Pottery Barn, Pottery Barn Kids, PB Teen, west elm, and Rejuvenation, offers a expansive range of products that cover different segments within the industry, and which appeal to various customer age and wealth demographics. It has further distinguished itself with its bridal registries, multiple distribution channels, including catalogs and e-commerce sites, and as a provider of upscale furnishings to restaurants and hotels[1].

Despite the relative strength of the WSM brand, the economic slowdown and associated housing crisis in the United States have crippled the home-furnishings industry, particularly for a premium purveyor, such as Williams-Sonoma. Low consumer confidence and low disposable income have contributed to declining growth and profitability.

These economic challenges, coupled with increased Internet use by consumers, have resulted in the entry of new, predominantly e-commerce-based, competitors, such as Amazon's Casa.com property. They have also resulted in stiffened competition from existing competitors, particularly those who operate lower-cost businesses, such as Wal-Mart, Target, and IKEA. In response to such challenges, WSM has begun to expand its West Elm brand, which offers contemporary products at slightly lower prices, and whose business model is similar to that of a more pure catalog/online retail company, with its stores functioning primarily as product showrooms. While West Elm has shown strong growth in the past several years, WSM has continued to struggle to improve growth across its other brands and across its portfolio as a whole. In recent years, the original brand, Williams-Sonoma, has floundered, and in response to this, last week, WSM launched Agrarian, a "lifestyle" line, which offers DIY projects, such as live plants, bee-keeping supplies, and do-it-yourself cheese-making kits. It plans to offer

some of these products in select namesake stores, and to offer the entire line on its website and in its catalog.

This strategic report will identify and analyze the key issues currently affecting Williams-Sonoma and will provide short- and long-term recommendations. The report consists of five main sections: Company Overview and Background, Competitive Analysis, Financial Analysis, SWOT Analysis, and Strategic Recommendations.

We recommend that, in order to maximize growth and profitability in the near-term, Williams-Sonoma focus on the following initiatives:

- Maximize efficiency in retail operations
- Grow e-commerce operations
- Expand the west elm brand
- Explore potential partnerships

These strategies, combined with further improvements in supply chain management, broadened international expansion, and brand revitalization, will ensure the best positioning for Williams-Sonoma in the long-term, especially once the U.S. housing market rebounds.

HISTORY

Founded in Sonoma, California in 1956, Williams-Sonoma is a specialty retailer of home products with multiple brands that appeal to particular consumer demographics. Although originally just a provider of kitchenware and culinary equipment, including cookware, cookbooks, cutlery, informal dinnerware, glassware, table linens, specialty foods and cooking ingredients, and bridal and gift items, it has expanded its offerings to include multiple home furnishing lines, which retail furniture, textiles, decorative accessories, lighting, and tabletop items, as well as a recently acquired lighting and hardware line[1].

Williams-Sonoma was originally a purveyor of hardware; however, following a trip to France in the late 1950's, founder Chuck E. Williams began to stock French kitchenware in his store. Post-war fascination with French cuisine coupled with the scarcity of French kitchenware ensured Williams' early success in Northern California, and in 1958, Williams moved his store from Sonoma to San Francisco.

In 1971, Williams began publishing a mail-order catalog to expand the reach of his business beyond San Francisco. The next year, Williams expanded further by taking on partners and opening up more stores. In 1973, Williams-Sonoma was officially incorporated and acquired a new management team.

Williams-Sonoma achieved considerable success during this period for several reasons. A key contributor to Williams-Sonoma's early success was its commitment to customer service. Williams arranged the store merchandise in such a way that customers could easily distinguish between comparable products and so that they would have to interact with the store staff in order to take the product off the shelf, thus demanding a high level of customer service. Further, local products were shipped free of charge via UPS, almost any customer could open a charge account, and returns were accepted without question. Another central reason for Williams-Sonoma's early and lasting success was its role as the introducer and original distributor of balsamic vinegar to the American market in 1977[2].

By 1978, however, Williams-Sonoma found itself saddled with debt. Williams decided to sell his share of the company, although he continued to be involved in the

selection of products and the development of the catalogue. Williams-Sonoma's financial troubles led to it being bought by entrepreneur W. Howard Lester for just $100,000 at a time when it had five stores, annual revenues of roughly $4 million, and $700,000 in debt. Despite Lester's lack of retail experience, he would lead the company to success over the next three decades.

In 1982, Williams-Sonoma decided to expand into other areas of the home, and, in doing so, acquired Gardeners Eden, a catalogue that offered plants, tools, and garden-related accessories. In 1983, Lester took Williams-Sonoma public. By this time, the brand had grown to 19 stores. Its catalog mailings reached 30 million customers annually, and accounted for more than 75 percent of the company's $35 million in annual revenues. The initial public offering consisted of one million shares at $23 per share. With the capital raised in the IPO, Williams-Sonoma built a new distribution system and expanded to a total of 31 stores by 1986.

During this time, the company established another catalogue concept, Hold Everything, which offered home organization and storage solutions and which, in 1985, expanded to include retail locations in California. In 1986, Williams-Sonoma purchased the Pottery Barn brand from The Gap, Inc. At the time, Pottery Barn had $6 million in sales and consisted of 21 retail locations, mostly in Manhattan, that offered dinnerware, ceramics, and a narrow selection of furniture. The retail business began to constitute a larger percentage of the company's sales, having risen to 36 percent by the end of that year. Simultaneously, Williams-Sonoma's revenue climbed above $100 million. Aggressive expansion continued throughout the eighties, with the number of Williams-Sonoma stores increasing to 64 by 1988, as well as the company's first international catalogue and retail store in Japan. Lester hired former Pillsbury Co. president Kent Larson as president and chief operating officer. By the end of 1988, retail sales accounted for 53 percent of Williams-Sonoma's sales[1].

Not all of Williams-Sonoma's holdings were successful during this period. A joint venture with Ralph Lauren failed after only one year. An attempt to establish a retail chain based on the Gardener's Eden catalogue also failed. Despite this, the company's revenues, led by its growing Williams-Sonoma retail chain, continued to increase rapidly, rising from $174 million in 1988 to $287 million in 1990. In 1991, Williams-Sonoma became one of the first specialty retailers to computerize and link its bridal and

wedding registries across all stores. This created an advantage over most of its competitors at a crucial time, as recession in the early 1990's hurt the expanding Williams-Sonoma brands badly. While revenue continued to increase during this period, profits fell from $11.2 million in 1990 to $1.8 million by 1992.

As the recession ended, the company successfully recovered and by the end of 1993, earnings again climbed past $11 million. The turnaround was due in part to a restructuring of the company's retail operations, including the addition of a line of cookbooks and a focus on in-store promotions. Pottery Barn, which had operated at a $5 million loss in 1992, also saw substantial changes. These included swapping out more than 80 percent of the retail stores' merchandise. The company also introduced a 24-hour television shopping network. By 1994, sales had reached $528.5 million, and net earnings were $19.6 million. This expansion continued through the nineties; in 1998, sales reached over $1 billion from over three hundred stores, and the firm listed on the New York Stock Exchange. Concurrently, the internet was becoming a major factor in the retail industry by the end of the nineties. Williams-Sonoma followed in suit with an operational website for online sales as well as an online version of its bridal registry by the end of 1999.

Williams-Sonoma continued to grow steadily during the first six years of the new millennium as it introduced new brands such as Pottery Barn Kids in 1999, Pottery Barn Bed & Bath in 2000, the lower-market West Elm in 2002, PBTeen in 2003, and Williams-Sonoma Home in 2004. Williams-Sonoma, Pottery Barn, and Pottery Barn Kids expanded into Canada starting in 2001, with stores in Toronto, Vancouver, and Calgary. In 2007, Pottery Barn Kids launched a retail spinoff called Threads, which offered baby clothing, accessories, and gifts. However, the financial crisis and associated housing market crisis in the second half of the 2000's devastated the home-furnishings industry, causing Williams-Sonoma to abandon the Threads concept, shut down Hold Everything, and to close its Williams-Sonoma Home and Pottery Barn Bed & Bath retail locations. Net income fell from $214 million in 2006 to only $30 million by 2009, and the stock price fell accordingly.

In recent years, though, the company has recovered, posting $200 million in earnings in 2011, bolstered in part by the opening of thirteen franchised stores in the Middle East[4], increased focus on the success of the West Elm brand, and cost reductions

through maximization of retail space efficiency and improved supply chain management. In November 2011, it acquired Rejuvenation, Inc, a small hardware and lighting catalogue and retail chain. In February 2012, it introduced Cultivate.com, an e-commerce property that offers design ideas and resources for homeowners and design professionals. In April 2012, it launched Agrarian, a “lifestyle” line within its namesake brand that is meant to target customers who favor the outdoors and “who want to expand their involvement with food beyond cooking with top-notch pots and pans”[10].

Its long-term strategic direction remains uncertain, however, owing largely to the continued recession in the housing market, as well as increased competition, particularly in the e-commerce space. Leadership changes are also likely to alter the direction of the company, with the passing of long-time leader W. Howard Lester in May 2010 and the subsequent appointment of Laura Alber, president since 2006, as chief executive officer[1].

FINANCIAL ANALYSIS

OVERVIEW AND STOCK PERFORMANCE

In the fiscal year 2011, Williams Sonoma reported total net revenues of USD $3.721 billion, a 6.2% increase from the 2010 fiscal year net revenues of $3.504 billion. For 2011, net income was USD $236.93 million, total assets were $2.06 billion, and total liabilities were USD $805.58 million. Also, ROA was 11.15%, ROE was 18.61%, Price/Earnings Ratio was 17.2, and Earnings per Share were $2.27. The current market cap is USD $4.00 billion. Williams-Sonoma's stock price rose steadily through the early 2000's as the housing market boomed, but dropped drastically when the stock market took a downturn in 2008. In 2009, they began to rise again, alongside company revenues, until they unexpectedly dropped in the middle of 2011. This decline was due primarily to decreased consumer confidence, and while revenues and profits have continued to improve through early 2012, the stock price has yet to recover to its early 2011 price, owing to market instabilities. Since the company is currently going through several transitions, most analysts advise that investors hold their stock until they see signs of forward progress or further instability.

WSM, BBBY, PIR Stock Performance, 2002-2012

Source: Yahoo! Finance

Revenues

Total net revenues for FY2011 were $3.721 billion, which represented 6.2% growth from FY2010 net revenues of $3.504 billion. However, comparable brand revenue growth, which includes both comparable store net revenues and total direct-to-consumer net revenues, only increased by 7.3% in FY2011 as compared to 13.9% growth in FY2010. Revenue growth over the past two years has been particularly strong when compared to a five-year growth rate of 0.72%.

Brand Revenues and Brand Revenue Growth

	Net Revenues (millions)		Comparable Brand Revenue Growth	
	FY 11	**FY 10**	**FY 11**	**FY 10**
Pottery Barn	$ 1,601	$ 1,511	7.6%	17.7%
Williams-Sonoma*	$ 994	$ 1,006	<0.3%>	5.0%
Pottery Barn Kids	$ 522	$ 488	7.4%	16.4%
West Elm	$ 336	$ 260	30.3%	20.8%
PBteen	$ 212	$ 198	7.4%	21.1%
Other	$ 56	$ 41	N/A	N/A
Total	**$ 3,721**	**$ 3,504**	**7.3%**	**13.9%**

*Williams-Sonoma includes Williams-Sonoma Home direct-to-consumer net revenues.
Source: WSM SEC Filings – 2011 10-K

Direct-to-consumer net revenues in FY2011 increased 12.4% to $1.633 billion, as compared to $1.453 billion in FY2010. This growth was led by Pottery Barn, West Elm, and Pottery Barn Kids; however, there were increases across the entire brand portfolio aside from a slight decline in the growth of the Williams-Sonoma brand. The growth of e-commerce also contributed significantly to this growth, as e-commerce net revenues increased 17.9% from $1.197 billion in FY2010 to $1.410 billion in FY2011. DTC net revenues generated 44% of total net revenues for FY2011, as compared to 41% in FY2010. Further, within DTC growth, e-commerce net revenues grew to generate 37.9% of total net revenues in FY2011, versus 34.1% in FY2010. DTC, and particularly e-commerce revenue growth is crucial for Williams-Sonoma, as DTC channels have substantially higher operating margins than retail operations. Retail net revenues accounted for the remaining 56% of total net revenues, and showed growth of 1.8% from $2.052 billion in FY2010 to $2.088 billion in FY2011, despite a net reduction of 16 stores. Further, excluding the Williams-Sonoma Home stores, many of which are in the process of closure, retail net revenues increased 3.2%. E-commerce sales and strong performance and expansion of the West Elm brand drove overall portfolio growth. It is important to note that the retail industry is highly seasonal, particularly for high-end specialty retailers, and William-Sonoma relies heavily on its performance in the last

quarter of each fiscal year, as Q4 is when they generate approximately one-third of their total annual net revenues.

PROFITABILITY AND GROWTH

In FY2011, Williams-Sonoma reported a net income of $236.93 million, which represented a profit margin of 6.4% on $3.721 billion in net revenues. Net income and the profit margin increased from the FY2010 net income of $200.28 million and 5.7% respectively. This increase was due to renewed consumer confidence and demand, increased efficiency, particularly in the retail channel, as well as inherently higher margins in the growing e-commerce channel.

As aforementioned, total brand revenue growth for FY2011 was only 7.3%, as compared to 13.9% in FY2010. The apparent decline in revenue growth is likely more a function of 2010 having been a particularly strong growth year relative to 2008 and 2009, both of which saw negative growth of 15.6% and 9.3% respectively, owing to the financial crisis. Gross margin as a percentage of net revenues in FY2011 was 39.2%, unchanged from FY2010. Cost reductions due to decreased occupancy expenses as a result of store closures were offset by high promotional activity, such as decreases in customer shipping fees to encourage e-commerce growth.

LIQUIDITY

As of January 2011, Williams-Sonoma had $628.40 million in cash and cash equivalents. By January 2012, this number had decreased to $503.76 million. At the end of FY2011, Williams-Sonoma had a net income of $236.93 million compared to previous year earnings of $200.28 million.

Net cash flows from operating activities decreased from $355.99 million in FY2010 to $291.33 million in FY2011. In addition, total cash flows from investing activities were $157.70 million in FY2011 compared to $64.0 million in 2010. Investing activities in FY2011 were composed primarily of capital expenditures of $130.35 million. Lastly, total cash flows from financing activities were $259.04 million in FY2011 compared to

$178.32 million in FY2010. The financing activities in 2011 included $194.43 million in stock repurchases and $68.88 million in dividends paid.

Industry Comparable Analysis

It is difficult to perform a comprehensive industry comparable analysis considering that Williams-Sonoma faces stiff competition from different types of retailers, including department stores, discount superstores, as well as specialty retailers. Two of its closest competitors, however, are Pier 1 Imports (PIR), which falls into the category of being a specialty home-furnishings retailer, and Bed Bath & Beyond (BBBY), which is a home-furnishings superstore that sells mid-range merchandise and has a limited selection of high-end products. Consequently, it merchandises its products at lower cost and price than Williams-Sonoma. Pier 1 Imports specializes in imported home furnishings and décor that vary from mid-range to high-end. Bed Bath and Beyond is the largest home-furnishings retailer in the United States with 45,000 employees and 1,000 stores, and its sales are approximately double those of Williams-Sonoma. Additionally, it managed an impressive operating margin of 15.2% in FY2011, while Williams-Sonoma's operating margin was 10.3%, and Pier 1 Imports retained just 7.8% of its sales. That said, Pier 1 Imports has also shown itself to be a fervent competitor with stock growth of 68% over the past year, though it has a high beta at 5.15, as compared to Williams-Sonoma's beta of 1.81, and Bed, Bath, and Beyond's low beta of 1.1, meaning that its performance is highly variable as the economy fluctuates. Pier 1 Imports also operates close to 1,000 stores throughout the United States, which is almost double that of Williams-Sonoma, though they have fewer employees. The number of employees at Williams-Sonoma and Pier 1 is somewhat misleading, however, because though WSM and PIR reported 2011 employees of 28,000 and 17,000 respectively, the majority of those are seasonal employees. A more accurate employee statistic is the number of full-time employees, which is 6,700 at WSM and 3,400 at PIR.

COMPARISON OF KEY FINANCIALS, APRIL 2012

	WSM	PIR	BBBY
Market Cap	4.00 B	2.01 B	15.95 B
Employees	26,900	17,000	45,000
Qtrly Rev Growth(yoy)	6.10%	8.20%	6.80%
Revenue (ttm)	3,648	1,483	9,273
Gross Profit Margin (ttm)	39.5%	41.6%	41.5%
EBITDA (ttm)	505.83 M	168.1 M	1.66 B
Operating Margins (ttm)	10.3%	9.1%	15.9%
Net Income (ttm)	236.93 M	110.79 M	921.95 M
EPS (ttm)	2.12	0.95	3.72
P/E (ttm)	17.2	17.6	18.04
PEG (5 yr expected)	1.33	1.2	1.01
P/S (ttm)	1.076	1.3	1.6

Source: Yahoo! Finance

Currently, Williams Sonoma's ROA is at 11.15%, and its ROIC is at 18.49%. This is substantially lower than both Pier 1 Imports with an ROA of 15.86% and an ROIC of 28.86% and Bed Bath & Beyond with an ROA of 16.15% and an ROIC of 23.92%. From this perspective, Williams-Sonoma is applying assets and invested capital in an inferior manner to Pier 1 Imports and Bed Bath & Beyond. Further, Williams-Sonoma's current and quick ratios are 2.24 and 0.77 respectively, which are, again, lower than Pier 1 Imports at 2.35 and 0.81 respectively, and Bed Bath & Beyond at 2.86 and 1.02 respectively. This means that Williams-Sonoma is the least liquid of the three companies and, thus, trails Pier 1 Imports and Bed Bath & Beyond in terms of eliminating current liabilities and paying off current obligations, even once inventories

are excluded from assets. The debt to equity ratio is negligible for all three companies, meaning that neither Williams-Sonoma, nor Pier 1 Imports or Bed Bath & Beyond is using debt to finance their operations; thus, from that standpoint, the risk of investment is minimal.

KEY RATIOS

	WSM	PIR	BBBY
ROA	11.15	15.86	16.15
ROIC	18.49	28.86	23.92
Current Ratio	2.24	2.35	2.86
Quick Ratio	0.77	0.81	1.02
Debt to Equity Ratio	0.01	0.03	-

Source: Yahoo! Finance

MANAGEMENT AND ANALYST OUTLOOK

Williams-Sonoma executives project a positive outlook for the company and have stated that they expect 2012 to be a record year of growth and progress, particularly for their e-commerce business. They believe that new projects in the pipeline will ensure future success. Additionally, they point to the newly consolidated east-coast distribution operations, the new, state-of-the-art furniture upholstery warehouse in North Carolina, and new sourcing offices in China, Vietnam, and Singapore as evidence that Williams-Sonoma is better equipped than ever before to fulfill consumer demand at the best possible combination of profit margins and product quality. However, analysts are apprehensive, not only because of the fiercely competitive nature of the home-furnishings industry, and the lagging recovery of the United States housing market, but particularly due to the recent retirement announcement of long-time COO and CFO Sharon McCollam, which accompanied the earnings announcement for 2011. The announcement was very unexpected, considering that she is relatively young, and "creates uncertainty" for the company going forward. Analysts advise that investors hold their stock and that potential investors wait to buy until there are signs of forward progress. CEO Laura Alber has responded to this apprehension by emphatically stating in press releases and at investor meetings that the change in leadership will not be a

setback for the company, as the appointment of Julie Whalen, who has previously served as corporate controller and treasurer and who has been with the company since 2001, as acting CFO until they find a suitable permanent hire will ensure internal stability. To further assuage investor fears, McCollam stated in her retirement announcement, "The organization is deep in tenure and I leave knowing that it has never been as well-positioned as it is today to take its multi-channel strategies to the next level." It is crucial that Williams-Sonoma make this transition smoothly and successfully in order to boost investor confidence and competitive positioning for the long-term.

Competitive Analysis

Porter's Five Forces Framework

Force	Strategic Significance
Internal Rivalry	High
Supplier Power	Low-Moderate
Buyer Power	Moderate
Entry and Exit	Moderate
Substitutes and Complements	High

Internal Rivalry

Williams Sonoma faces significant competition, which varies between its brands since each targets a slightly different demographic. The original brand, Williams-Sonoma, sells modish cookware, including pots, pans, utensils, flatware, glassware, and small appliances. Williams-Sonoma operates 259 stores and markets to an upper-middle class demographic. Its primary competitors are Macy's, Bed Bath and Beyond, Crate and Barrel, Pier 1 Imports, Bloomingdales, and Nordstrom.

Pottery Barn and West Elm are both home-furnishing retailers that offer products in the upper-middle price range. Pottery Barn primarily sells traditional-style furnishings that could appeal to any age demographic, and are more upscale than those offered by West Elm, but are inferior to the luxury furnishings offered by Williams-Sonoma Home. The West Elm brand features contemporary furniture designs and other housewares. Its home furnishings are more moderately priced and have more modern styling than those of Pottery Barn and Williams-Sonoma Home because it primarily targets a younger, less affluent demographic. The products appeal to the style-savvy consumer of chic and modern home decor. This brand pays particular attention to green practices and strives to offer a collection made primarily from organic materials. While Pottery Barn's primary competitors are Crate and Barrel, Restoration Hardware, Sauder Furniture, and Pier 1 Imports, West Elm's primary competitors are IKEA, BoConcept, CB2, EQ3, Urban Outfitters, and Bed Bath and Beyond, and Williams-Sonoma Home's

primary competitors are Restoration Hardware, Bloomingdale's, Nordstrom, and Ethan Allen. There is also a bit of competition between the three brands due to the overlapping nature of their products.

The largest competitor for all of Williams-Sonoma's brands, though much less so for Williams-Sonoma Home than for the others, is Bed Bath and Beyond (BBBY). BBBY is the dominant home merchandise retailer in the United States, with total sales of almost double those of Williams-Sonoma. Bed Bath & Beyond offers less expensive products than Williams-Sonoma and generally caters to a younger demographic. Its primary competitors are Target, Wal-Mart, Home Depot, Sears, Lowe's Companies, and JC Penny. Concentration within the home-furnishings industry is very low: according to IBIS in 2007, the top four home-furnishings retailers only accounted for 12.5% of the entire market in the United States, with Bed Bath and Beyond holding 5%, Williams-Sonoma holding 3%, Linens-and-Things holding 2.6%, and Pier 1 Imports holding 1.8% of market share. While those numbers are outdated and there has likely been some industry consolidation since the recession, especially since Linens-and-Things has since ceased operations, overall industry concentration remains very low.

WSM has significant industry advantage over BBBY and many of its other competitors due to its superior quality and brand recognition, particularly among more affluent buyers. Its high quality causes repeat customers to be loyal to the company, and it attracts potential customers. Bed Bath And Beyond doesn't offer products that match Williams-Sonoma or Pottery Barn in quality, and, thus, its competitors, including Target, Wal-Mart, and Sears, do not either. One of William-Sonoma's big advantages is that it offers a full-range of products and can appeal to both higher-end and lower-end demographics, which maximizes its potential client market. As aforementioned, the risk in this is the potential for becoming its own competitor and cannibalizing its profits if there is too much overlap between similar brands, such as West Elm and Pottery Barn or Pottery Barn and Williams-Sonoma Home.

Due to the many players in the home-furnishings industry, there are no real switching costs for customers. That said, Williams-Sonoma strives to ensure customer loyalty. WSM was hands down the top performer in the "store experience" cluster of a survey measuring customer satisfaction with retail stores done by IBM. On average, 53 percent of Williams-Sonoma's consumers expressed high satisfaction with their store

experiences. Notably, 80 percent of customers were highly satisfied with the store's neatness and nearly half gave top marks for the "fun and entertaining shopping experience" it provides. Capitalizing on its store-experience strengths, Williams-Sonoma develops customers by providing interesting, relevant store events. For example, it recently identified a group of prospective customers who had purchased gifts through the store's online bridal registry. To induce an in-store visit, it designed a promotion inviting the group to participate in cooking lessons and demonstrations. The price to attend the class was USD$30, for which participants received an opportunity to learn how to prepare popular recipes, a chance to meet and talk with professional chefs, a free tasting, and a recipe book. However, many of its competitors perform well in serving customers successfully, as well, as Wal-Mart and Nordstrom both receive high customer ratings in the same surveys.

Supplier Power

Williams-Sonoma purchases merchandise from numerous foreign and domestic manufacturers and importers, the largest of which accounted for approximately 4.7% of its purchases during FY2010 and approximately 3.9% of its purchases in FY2011. Approximately 61% of its merchandise purchases in FY2011 were foreign-sourced from vendors in 50 countries, predominantly from Asia and Europe, meaning that WSM relies on a significant numbers of suppliers, and no one supplier has substantial power relative to another.

In the supply chain, WSM has been striving to reduce costs through recent initiatives in distribution, transportation, packaging, and quality returns. These initiatives included: completing the first phase of the firm's multi-year east coast distribution center consolidation; optimizing inbound and outbound packaging; improving efficiency in personalization operations; and consolidating shipments of customers' furniture and non-furniture orders into one delivery. Another significant supply chain initiative was Asian sourcing, where WSM expanded "in-country" operations. This initiative allowed it to establish factory specific expertise, improve vendor performance,

and reduce returns, replacements and damages. In FY2011, it opened new sourcing offices in China, Vietnam, and Singapore in order to better explore new product sources and negotiate with suppliers in those areas. WSM gained similar efficiencies from the expansion of its North Carolina upholstered furniture operation, which has become the dominant supplier of its upholstered furniture.

In terms of real estate costs, WSM reduced retail occupancy costs and closed an additional 24 stores or 2% of retail leased square footage in FY2010. In FY2011, it closed a net 16 stores to achieve a decrease of 1.5% in retailed leased square footage, which included the closure of many William-Sonoma Home stores at the end of FY2010[1].

William-Sonoma's dependence on foreign vendors means sensitivity to changes in the value of the U.S. dollar relative to other foreign currencies. For example, any upward valuation in the Chinese Yuan, the euro, or any other foreign currency against the U.S. dollar may result in higher costs for goods produced in those areas. Although approximately 97% of foreign purchases of merchandise are negotiated and paid for in U.S. dollars[1], declines in foreign currencies and currency exchange rates might negatively affect the profitability and business prospects of WSM.

WSM usually must order merchandise, and enter into contracts for the purchase and manufacture of such merchandise, up to twelve months in advance of the applicable selling season and frequently before trends are known. The extended lead times for many purchases may make it difficult for WSM to respond rapidly to new or changing trends. Vendors also may not have the capacity to handle demands or may go out of business in times of economic crisis. In addition, the seasonal nature of the specialty home products business requires WSM to carry a significant amount of inventory prior to peak selling season in Q4. As a result, WSM is vulnerable to demand and pricing shifts and to misjudgments in the selection and timing of merchandise purchases

Inability to acquire desired merchandise on acceptable terms, or the loss of one or more of WSM vendors could have a negative effect on business and operating results because WSM would be missing products important to each brand's collections until alternative supply products are sourced. Further, WSM risks not being able to develop relationships with new vendors, and, thus, not being able to find products from alternative sources, or only being able to find products that are of a lesser quality or are

at higher cost to the company than the original goods.

Buyer Power

WSM operates in an industry with high buyer power because customers can so easily switch between brands and substitute other brands. That said, buyer concentration is very low, which decreases the bargaining power of customers. Also, in the case of Williams-Sonoma, the unwillingness of customers to switch to Williams-Sonoma due to dependency on other home-furnishings retailers is minimal. Customers that rely on expensive department stores in better economic times may be apt to switch to WSM with its high quality and more moderate prices, while many customers who frequent lower-priced retailers would likely buy from WSM if they had the disposable income.

However, in the past five years, buyer price sensitivity has become a more substantial issue than it ever has been in the company's history, owing to the financial crisis. As consumers' disposable incomes have decreased, so have their discretionary purchases, which has damaged the retail industry as a whole. Further, in response to their lower disposable income, many customers have moved to brands that offer products at lower price points. Williams-Sonoma has tried to combat this issue by introducing more moderately priced product lines and by expanding their middle-range West Elm brand. These strategies have created a broad potential client market, but have also increased the risk of the Williams-Sonoma brands becoming competitors and cannibalizing the firm's profits. This is a particular risk for West Elm and Pottery Barn, which are quite similar.

Entry and Exit

The largest cost of entry into the market is the building up of inventories for brick-and-mortar firms and is less about building up purchasing power. However the substantial sales growth in the direct-to-customer industry within the last decade, particularly in e-commerce, has encouraged the entry of many new competitors, as well as increased competition from established companies. In addition, the recent decline in the economic

environment has generated increased competition from discount retailers who, in the past, may have competed with WSM to a smaller degree or not at all.

Williams Sonoma helps preserves its market share through its specialty knowledge. Since WSM is a specialty store, its primary focus is on offering superior product quality and superior customer service. In order to sell their products at premium prices and maintain their margins, they must offer a high level of customer assistance and service so that customers believe that it is worth paying more at Williams-Sonoma than patronizing its competitors. This is a significant advantage over many of its competitors, particularly the larger ones, such as Bed Bath and Beyond that rely on high margins from low staff costs and offer very little customer service and specialty knowledge.

WSM operating segments are aggregated at the channel level for reporting purposes due to the fact that WSM brands are interdependent for economies of scale. Williams-Sonoma, thus, has a large breadth of shared inventory to help reduce costs across brands. That being said, WSM lacks the size of some of its competitors like Wal-Mart who offer a broader range of services and who rank lower in terms of inventory efficiency.

Inventory Outstanding Rankings, April 2012

WSM Days Inventory Outstanding Rankings		
Overall	29th percentile	1762 of 2496
Sector	18th percentile	432 of 528 in Services
Industry	66th percentile	2 of 6 in Home Furnishing Stores

WSM Days Inventory Outstanding Range, Past 5 Years		
Minimum	72.24	Jan 2010
Maximum	127.01	Apr 2008
Average	101.92	

Source: Yahoo! Finance

Still, large department stores and discount superstores maintain substantial purchasing power over wholesalers and manufacturers, such as WSM. Further, these chains have made strides to improve operating performance and have lowered their margins in order to drive sales.

SUBSTITUTES AND COMPLEMENTS

As aforementioned, customers can easily switch brands due to the sheer volume of customers and the number of options with which they are faced. This is inherent to the retail industry, rather than a problem unique to Williams Sonoma. It would seem easier to switch between lower-priced companies like Bed Bath & Beyond because there is a greater number of similar competitors in the lower price range due to a larger customer base. Bed Bath & Beyond has to contend with Home Depot, Target, TJK, and Wal-Mart and has a much smaller market share than Williams Sonoma for their respective customer bases. However, Bed Bath & Beyond was the top domestic merchandise retailer in the United States, and it has double the sales and a higher profit margin than Williams-Sonoma. That said, Williams-Sonoma multiple brands complement one another, thereby making each other more desirable.

SWOT Analysis

Strengths	**Weaknesses**
• Premium high quality products • Brand strength • Multiple sales platforms • Multiple brands • Strong infrastructure	• Performance tied to housing market • Declining long-term profitability • Leadership changes • Continued low consumer confidence
Opportunities	**Threats**
• Brand revitalization • Expansion of e-commerce • Continued maximization of retail space efficiency • Improved supply chain management • Expansion of west elm brand • Further international expansion • Potential partnerships	• Intense competition • Failure of bounce back in the U.S. housing market • Self-cannibalization

Strengths

- Premium high quality products
    - Prominent home-furnishings specialty retailer across the U.S.
    - Gained recognition for superior quality products at a premium, yet still affordable price point.
- Brand strength
    - Strong reputation across all seven brands, which includes Williams-Sonoma, Pottery Barn, Pottery Barn Kids, Pottery Barn Teen, Williams-Sonoma Home, west elm, and Rejuvenation.
- Multiple sales platforms

- Approximately 600 retail stores in 44 U.S. states and Canada, which comprise 60% of sales each year.
- Direct-to-consumer sales, achieved through seven catalogs and e-commerce sites, constitute approximately 40% of sales each year.
- Popularity of the e-commerce sites has caused sales to shift in that direction over the past decade, signaling that the split between retail and DTC may become more equal, or sales may shift largely towards DTC in the long-term.

- Multiple brands
  - Each brand appeals to a slightly different age or wealth demographic, allowing Williams-Sonoma to capture a large potential customer base.
- Strong infrastructure
  - Distribution centers all over the United States, which improves order fulfillment capabilities significantly.

WEAKNESSES

- Performance tied to housing market
  - As the housing market continues to struggle, so do home-furnishings retailers. Even if the housing market picks up again, consumer demand for home-furnishings will lag behind by several years, meaning that Williams-Sonoma must figure out a strategy around the housing depression in the short-term.
- Declining long-term profitability
  - With the housing bubble long past, home-furnishings retailers have been struggling, and will likely continue to struggle in the long-term due to the entry of new competitors with lower-priced products, including Walmart, Target, and IKEA.
- Leadership changes
  - Analysts are very apprehensive about the future of Williams-Sonoma due to the retirement of long-time COO and CFO Sharon McCollam following the announcement of earnings for 2011 in early March.
- Continued low consumer confidence

  - Low consumer confidence continues to plague the entire retail industry, especially with prolonged unemployment and conflict among U.S. governmental leaders.

Opportunities

- Brand Revitalization
  - Focus on why Williams-Sonoma has developed such a strong reputation and channel that into promotions and direct marketing to target consumers, particularly in younger age groups.
  - Examine different pricing initiatives, such as if there is room to lower price through increased foreign outsourcing (without decreasing quality).
  - Consider becoming a 100% domestic "U.S. made" producer as strategy to attract consumers.
- Expansion of e-commerce
  - Further development of infrastructure in order to improve order fulfillment, such as through guaranteed shipping times.
  - Since shipping rates are seen by consumers as a barrier to purchase, determine how much they can be decreased in order to increase sales without damaging margins.
  - Focus on history as dominant bridal registry retailer and optimize e-commerce experience for brides deciding where to direct their guests' purchases.
  - eGiftStar and other online incentives for shopping on Williams-Sonoma or purchasing goods online.
- Continued maximization of retail space efficiency
  - Inspect all stores in the United States to determine whether their sales justify their existence, as well as whether they are located in a way that will maximize sales within their respective areas.
  - Close stores where leases are disproportionately high.
  - In urban areas, especially where leases are more expensive, close stores that may be cannibalizing each other's sales, and focus on one "flagship" store per area that can offer a broad range of products.

- Improved supply chain management
  - While each brand is different stylistically, similarities in price but differences in demographic do not necessitate that the furniture offered is different, or that the quality is different (e.g. between Pottery Barn and Pottery Barn Kids), meaning potential cost reductions in sourcing the same or similar materials across brands.
- Expansion of West Elm brand
  - Its advantage of being at a lower price point is key to attracting customers as the housing market continues to be depressed, particularly for the younger demographic.
  - Specifically target similar brands, such as IKEA, in order to capture market share for younger demographic that is just beginning to purchase home-furnishings and form brand allegiances.
- Further international expansion
  - Examine closely the success of the stores already open in the Middle East and use that information in order to determine if and where more stores should be opened internationally.
- Potential Partnerships
  - Look for partners with complementary products, or higher-end department stores with inadequate home-furnishing departments who may be interested in the brand strength and consumer following of Williams-Sonoma.

THREATS

- Intense Competition
  - In response to the recession, department and premium stores have begun to offer lower-priced products and/or product lines in order to attract less affluent consumers.
  - Discount superstores are beginning to be able to offer higher quality products at lower prices due to their high reliance on foreign outsourcing.
  - Web retailers, such as Casa.com, may prove to be a substantial threat if they gain momentum since their costs are much lower than WSM without any retail real estate fixed costs.

- Failure of U.S. Housing Market Bounce back
    - Bounce back is critical to the success of Williams-Sonoma because, otherwise, there will not be enough consumer demand for home furnishings to keep Williams-Sonoma profitable.
- Permanent loss of customers due to recession
    - Due to decreases in disposable income, many customers have decreased their discretionary spending and have moved to products and retailers at lower price points. Williams-Sonoma risks declining profitability in the long-term if it is unable to induce those customers to buy again.
- Self-cannibalization
    - Particularly as the West Elm brand is further developed, Williams-Sonoma must fight the potential for intense intra-brand competition, as it can only seek to hurt the individual brands in the long-term.

STRATEGIC RECOMMENDATIONS

CHALLENGES

From its inception in Sonoma, Williams-Sonoma has differentiated itself by offering a superior quality, premium product. While its product offerings have evolved significantly since then, the commitment to quality has allowed it to maintain relative dominance as a specialty home-furnishings retailer. This commitment to quality has also created a strong brand image, across the entire portfolio of brands. Its portfolio of seven distinct brands, the use of both retail and direct-to-consumer sales, and its robust infrastructure for customer service and order fulfillment have all contributed to its strong reputation. However, Williams-Sonoma has faced numerous challenges in recent years, largely due to the decline of the housing market, the entry of new, lower-cost and higher-margin competitors, and generally low consumer confidence. In order for WSM to surmount these challenges, as well as to position itself for long-term success, it is crucial for the firm to leverage its existing customer base, and to utilize the strength of its brands in order to attract potential customers. The long-term challenge to WSM, and to the home-furnishings industry at large, is that the United States housing market may never bounce back to pre-recession levels, or, if it does, that it may take several years, at least. Further, once the housing market does bounce back, there is a substantial risk of permanent losses in demand due to customers moving to lower price points in the long-term if they get used to having less disposable income. The long-term goal for WSM is to circumvent such a threat by cutting costs enough to offer a superior product at a slightly lower price, as well as by expanding internationally.

SHORT-TERM RECOMMENDATIONS

Maximize Efficiency in Retail Operations

Over the past year, Williams-Sonoma has begun to examine all of their retail store locations to determine which, if any, are unnecessary or harmful to the company because the lease and operation costs are greater than the store's sales. This has led them to consolidate some stores, particularly in urban areas, where it is more profitable to maintain a large, centrally located showroom than it is to operate multiple, smaller stores.

WSM should expand on this initiative by taking several measures. First, it should rely on its stores as showrooms rather than fulfillment centers, particularly for its larger merchandise, including furniture. In essence, the purpose of the stores should be for customers to see and potentially order the products, rather than to bring them home from the store. This will reduce inventory holding and costs because merchandise will be consolidated at distribution centers rather than spread across the retail locations, similar to order fulfillment for the DTC sales channels. Williams-Sonoma should consider implementing a model followed by other retail companies with substantial direct-to-consumer operations, such as J. Crew, and offer free shipping if the product is ordered from the store in order to maximize customer experience. In addition, it should stress increased convenience to the customer because the logistics of furniture transport and delivery are taken care of. The potential challenge in this strategy is customer dissatisfaction because they don't get the product instantly. In order to circumvent this issue somewhat, WSM should implement a standardized delivery schedule so that customers will not be surprised by the time it takes for them to receive their orders.

As Williams-Sonoma closes some stores and transitions others to showrooms, it should also consider expanding its use of "pop-up stores" for its West Elm, PBTeen, and Rejuvenation brands. Pop-up stores are meant to test demand in a certain market, and so have leases that are short-term in nature. They may not carry a full range of products, but rather just the most popular products in order to introduce the market to the best aspects of the brand. They are less expensive to operate than more permanent

retail locations because inventory holdings are lower, short-term leases are less costly, and it is easy for the firm to pull the store from the market if sales do not meet expectations. Currently, Williams-Sonoma operates three pop-up stores for its West Elm brand, as well as one pop-up store for its PBTeen brand, but it stands to increase growth across both of those brands, as well as for the newly acquired Rejuvenation brand by increasing its use of pop-up stores.

Grow E-Commerce Operations

For FY2011, Williams-Sonoma reported that fifty-six percent of its sales were generated by its retail operations, while forty-four percent of its sales were from its direct-to-consumer operations, which includes seven catalogs and seven e-commerce sites. The percentage of direct-to-consumer sales increased by four percent between FY2010 and FY2011, primarily due to increases in e-commerce sales. Thus, Williams-Sonoma should focus on making the best use of its e-commerce properties to increase sales, particularly as it attempts to maximize efficiency in its retail locations through store consolidation and a shift from a store delivery model to a showroom model. E-commerce costs are much lower and margins are higher than retail operations because there are no retail real estate fixed costs. WSM should target significant e-commerce growth over each of the next several years in order that the majority of its sales are generated by its e-commerce operations to minimize costs, especially as it competes with new competitors, such as Amazon. Its e-commerce growth should target the ability to pay for the costs of its retail operations without needing to keep backroom inventory at those locations.

There are several ways for WSM to go about e-commerce expansion and development. If it uses its stores as showrooms in order to cut inventory space and costs, the firm should simultaneously improve order fulfillment so that it is almost, if not just, as convenient and quick for customers to order products through retail stores or from e-commerce sites as it would be to take them home from the store.

Expand the West Elm Brand

As WSM consolidates retail stores for its Williams-Sonoma and Pottery Barn brands, its should open new West Elm stores in order to create a customer base for its emerging, fastest-growing brand. This is especially important because West Elm appeals to a younger generation, many of who are starting out on their own now or in the near future. This generation has grown up with the Internet, which means that, though there is a significant threat from online competitors, many of these competitors are at a disadvantage because they don't have any brick-and-mortar locations where customers can preview their goods. This is particularly important for the younger customer demographic because they are unlikely to have prior experience with home-furnishings retailers and, thus, are apt to purchase from retailers whose goods they can examine prior to purchase. WSM has an opportunity to differentiate itself by offering showrooms where these potential customers can personally view and try out different pieces and styles of furniture, assessing their quality while comparing different style ideas. Williams-Sonoma should also promote its most recently developed e-commerce property, Cultivate, as a way for potential customers to design rooms in their houses using the full range of Williams-Sonoma products.

Further, WSM should focus on expanding its West Elm offerings in order to provide a broader range of mid-priced merchandise. They should specifically target close competitors, such as IKEA, in order to increase their market share relative to these competitors.

Explore Potential Partnerships

In order to maximize revenues and brand exposure without taking on too much risk, WSM should consider partnerships with other high-end retailers or department stores that may not have (or may have inadequate) home-furnishing departments, and that would be interested in leveraging the brand strength and customer loyalty of Williams-Sonoma. Such a partnership should be branded or unbranded.

One potential partnership could be with Nordstrom, which is an upscale department store offering men's, women's, and children's clothing, shoes, accessories, and beauty. Unlike some of its competitors, such as Bloomingdales, Nordstrom does

not have a full home furnishings department, but rather currently only offers home décor accessories, and only at a select few of its stores. Similar to how JC Penney is creating Martha Stewart mini-shops in its stores, Nordstrom could consider doing the same with Williams-Sonoma or Pottery Barn mini-shops in its stores, thereby creating a more upscale version of the concept. This could be beneficial for both chains, as Nordstrom could expand their offerings without having to develop an entire housewares and furnishings line internally, while Williams-Sonoma would benefit from the increased customer exposure, particularly because Nordstrom is typically located in desirable urban locations.

LONG-TERM RECOMMENDATIONS

Improve Supply Chain Management

While Williams-Sonoma has already been focusing on improving its supply chain management in recent years, as it expands the West Elm brand and consolidates retail locations it should increase its focus on buying products that multiple brands can offer through slight alteration. While each brand is stylistically different, the brands do not vary much in terms of price or quality. Variations in demographic do not necessitate that basic product offerings vary significantly, just that they be different enough that the customer can distinguish between them and establish a preference so that the brands do not directly compete with one another. In purchasing and offering similar merchandise across brands, it can increase its bargaining power over suppliers in order to obtain products in larger quantities and at lower prices. Simultaneously, such methods of enhanced supply chain management keep inventory costs low, which is crucial for e-commerce sales, because margins stand to be increased substantially if inventory can be consolidated and holding times can be diminished.

Similar to e-commerce supply chain management, retail management can be increased dramatically if Williams-Sonoma decides to pursue a showroom concept for

its stores rather than its current product fulfillment model because it will shift inventory management to distribution centers, thereby consolidating inventory management across all channels.

Broaden International Expansion

In 2009, Williams-Sonoma began expansion into the Middle East, with a multiyear franchise agreement with MH Alshaya Co. to launch Pottery Barn and Pottery Barn Kids stores in Dubai and Kuwait in 2010[4]. As of the end of FY2011, 13 franchised Pottery Barn, West Elm, and Pottery Barn Kids stores were operating throughout the United Arab Emirates and Kuwait. The intention is to increase that number to 18 stores, including Williams-Sonoma, West Elm, and PBTeen, by the end of FY2012[5]. There is little data about how the international stores have been performing, but the plan to open more stores indicates that they have been successful thus far. If this is the case, Williams-Sonoma should consider expanding further internationally, to include other parts of Asia, Europe, and Australia. As it did in the Middle East, Williams-Sonoma should start by introducing its brands that it believes can perform best in the region, considering age and socio-economic demographics, and then include its other brands if its initial stores are successful.

A logical expansion progression would include developing its relationship with MH Alshaya Co. to include other regions in which it operates stores, such as Russia, Poland, Turkey, and North Africa. However, Williams-Sonoma should also explore the feasibility of partnerships with franchisers similar to that with MH Alshaya Co. who operate in other, potentially more lucrative regions. In FY2011, Williams-Sonoma expanded their international shipping operations for their e-commerce business from 75 countries to 99 countries[5]. This indicates that many countries may already be familiar with the Williams-Sonoma brands, and that Williams-Sonoma should examine where the greatest international e-commerce demand originates and open stores in those areas.

Revitalize the WSM Brand

In the long-term, Williams-Sonoma should consider an entire revitalization of the brand in order to emphasize its long and successful history, as well as its strong reputation and commitment to quality and service. It should consider promotions that tie each brand and the company as a whole to its roots, whether through in-store promotions, such as including traditionally popular, smaller products free with purchases above a certain cost threshold, through e-commerce promotions, such as free-shipping, or through renewed focus on the registries segment of its business. It should focus its marketing efforts on regaining past customers who have knowledge of WSM's quality, and it should target consumers in younger age groups that are just now building brand allegiances.

While Williams-Sonoma has traditionally expanded by opening new brands, the economy is still not stable enough to attempt such expansion successfully. Further, while Williams-Sonoma could try to acquire smaller companies, such as it did with Rejuvenation, it lacks the capital to acquire a brand strong enough to impact growth significantly. Another option is for WSM to expand by creating new, varied product lines within its existing brands, such as it has done in the past week with the launch of Agrarian, its high-end DIY "lifestyle" line.

WSM should explore different pricing initiatives, such as creating sub-brands within its current brands that could allow it to offer the same level of customer service at slightly lower prices and quality in order to attract the more middle-range buyer. One strategy would be to increase foreign outsourcing in order to lower price without compromising quality considerably. Aside from varied pricing strategies, as aforementioned, Williams-Sonoma should focus on the potential for revitalization through potential partnerships with other strong specialty retailers and department stores.

Another strategy to consider in brand revitalization, while not low-cost, would be to establish itself as a 100% domestic, "U.S. made" producer in order to attract customers who believe U.S. made products to be superior quality and who want to bolster the U.S. economy, similar to recent strategies in the automotive industry.

APPENDIX

Williams-Sonoma, Inc.
Consolidated Statements of Earnings

		Fiscal Year Ended					
Dollars and shares in thousands, except per share amounts		Jan. 29, 2012		Jan. 30, 2011		Jan. 31, 2010	
Net revenues		$ 3,720,895		$ 3,504,158		3,102,704	
Cost of goods sold		2,261,039		2,130,299		1,999,467	
Gross margin		1,459,856		1,373,859		1,103,237	
Selling, general and administrative expenses		1,078,124		1,050,445		981,795	
Operating income				323,414		121,442	
Interest (income) expense, net		(98)		354		1,153	
Earnings before income taxes		381,830		323,060		120,289	
Income taxes		144,899		122,833		42,847	
Net earnings		$ 236,931		$ 200,227		77,442	
Basic earnings per share		$ 2.27		$ 1.87		0.73	
Diluted earnings per share		$ 2.22		$ 1.83		0.72	
Shares used in calculation of earnings per share:							

Basic		104,352		106,956		105,763	
Diluted		106,582		109,522		107,373	

Williams-Sonoma, Inc.

Consolidated Balance Sheets

Dollars and shares in thousands, except per share amounts		Jan. 29, 2012		Jan. 30, 2011	
ASSETS					
Current assets					
Cash and cash equivalents		$ 502,757		$ 628,403	
Restricted cash		14,732		12,512	
Accounts receivable, net		45,961		41,565	
Merchandise inventories, net		553,461		513,381	
Prepaid catalog expenses		34,294		36,825	
Prepaid expenses		24,188		21,120	
Deferred income taxes, net		91,744		85,612	
Other assets		9,229		8,176	
Total current assets		1,276,366		1,347,594	
Property and equipment, net		734,672		730,556	
Non-current deferred income taxes, net		12,382		32,646	
Other assets, net		37,418		20,966	
Total assets		$ 2,060,838		$ 2,131,762	

LIABILITIES AND STOCKHOLDERS' EQUITY					
Current liabilities					
Accounts payable		$ 218,329		$ 227,963	
Accrued salaries, benefits and other		111,774		122,440	
Customer deposits		190,417		192,450	
Income taxes payable		22,435		41,997	
Current portion of long-term debt		1,795		1,542	
Other liabilities		27,049		25,324	
Total current liabilities		571,799		611,716	
Deferred rent and lease incentives		181,762		202,135	
Long-term debt		5,478		7,130	
Other long-term obligations		46,537		51,918	
Total liabilities		805,576		872,899	
Commitments and contingencies – See Note J					
Stockholders' equity					
Preferred stock, $.01 par value, 7,500 shares authorized, none issued		0		0	
Common stock, $.01 par value, 253,125 shares authorized,					

100,451 shares issued and outstanding at January 29, 2012; 104,888 shares issued and outstanding at January 30, 2011		1,005		1,049	
Additional paid-in capital		478,720		466,885	
Retained earnings		762,947		777,939	
Accumulated other comprehensive income		12,590		12,990	
Total stockholders' equity		1,255,262		1,258,863	
Total liabilities and stockholders' equity		$ 2,060,838		$ 2,131,762	

Quarterly Comparable Brand Revenue Growth History by Concept*
FY 2011 – FY 2006

FY 2011	Q1 11	Q2 11	Q3 11	Q4 11	FY 11
Pottery Barn	7.9%	3.4%	7.0%	11.3%	7.6%
Williams-Sonoma**	3.1%	0.7%	0.1%	<2.3%>	<0.3%>
Pottery Barn Kids	10.9%	7.6%	5.2%	6.4%	7.4%
West Elm	31.1%	28.6%	27.0%	34.5%	30.3%
PBteen	7.5%	19.5%	6.5%	0.7%	7.4%
Total	**9.0%**	**6.5%**	**7.3%**	**6.6%**	**7.3%**

FY 2010	Q1 10	Q2 10	Q3 10	Q4 10	FY 10
Pottery Barn	23.7%	19.1%	16.1%	13.7%	17.7%
Williams-Sonoma**	7.2%	6.6%	2.3%	4.8%	5.0%
Pottery Barn Kids	24.3%	24.9%	11.7%	9.7%	16.4%
West Elm	10.1%	19.0%	23.6%	29.3%	20.8%
PBteen	21.7%	22.0%	17.1%	23.4%	21.1%
Total	**18.1%**	**16.5%**	**12.5%**	**10.9%**	**13.9%**

FY 2009	Q1 09	Q2 09	Q3 09	Q4 09	FY 09
Pottery Barn	<27.9%>	<20.7%>	<2.7%>	8.1%	<11.1%>
Williams-Sonoma**	<14.1%>	<11.6%>	<3.7%>	5.9%	<3.2%>
Pottery Barn Kids	<27.7%>	<25.8%>	<5.2%>	9.4%	<12.0%>
West Elm	<29.4%>	<30.9%>	<19.7%>	<4.3%>	<21.7%>
PBteen	<16.8%>	<22.4%>	<0.7%>	17.6%	<4.7%>
Total	**<24.3%>**	**<20.1%>**	**<4.6%>**	**7.2%**	**<9.3%>**

FY 2008	Q1 08	Q2 08	Q3 08	Q4 08	FY 08
Pottery Barn	<9.6%>	<14.0%>	<26.5%>	<31.9%>	<21.4%>
Williams-Sonoma**	<3.5%>	<3.0%>	<10.8%>	<16.2%>	<10.4%>
Pottery Barn Kids	<11.5%>	<10.5%>	<17.0%>	<23.5%>	<16.1%>
West Elm	1.9%	1.3%	<12.6%>	<22.0%>	<8.2%>
PBteen	29.4%	25.1%	<2.4%>	<14.5%>	4.8%
Total	**<6.4%>**	**<8.2%>**	**<19.2%>**	**<23.9%>**	**<15.6%>**

FY 2007	Q1 07	Q2 07	Q3 07	Q4 07	FY 07
Pottery Barn	0.3%	1.6%	0.6%	<0.7%>	0.3%
Williams-Sonoma**	0.5%	3.3%	2.1%	2.5%	2.2%
Pottery Barn Kids	0.1%	<3.5%>	0.7%	<2.6%>	<1.4%>

West Elm	19.6%	24.1%	17.8%	4.4%	15.3%
PBteen	19.8%	17.7%	26.7%	30.8%	24.9%
Total	**1.8%**	**2.8%**	**3.0%**	**1.5%**	**2.2%**

FY 2006	Q1 06	Q2 06	Q3 06	Q4 06	FY 06
Pottery Barn	4.6%	1.0%	<3.1%>	<2.4%>	<0.3%>
Williams-Sonoma**	3.5%	2.3%	3.9%	4.3%	3.7%
Pottery Barn Kids	11.4%	14.2%	7.6%	4.4%	9.0%
West Elm	20.0%	12.7%	10.1%	11.2%	13.0%
PBteen	15.1%	18.2%	14.1%	12.2%	14.5%
Total	**6.3%**	**4.3%**	**1.4%**	**1.8%**	**3.2%**

* Comparable Brand Revenue Growth includes both comparable store net revenues and total direct-to-customer net revenues. Outlet comparable store net revenues are included in their respective brands. See the company's 10-K and 10-Q filings for the definition of comparable stores.
** Williams-Sonoma includes Williams-Sonoma Home direct-to-customer

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