February 2024

To our Shareholders:

Thank you for your continued interest in Wayfair.

2024 marks our 10th year as a public company and 22nd year in business. Throughout our history, there are a few key things that have defined us at our best: (1) a singular focus on what's most important for both our customers and our suppliers, underpinned by category-defining technology capabilities; (2) a belief that our team is strongest when nimble, relentlessly execution-focused and lean; and (3) a long-term owner's mindset to focus on driving the best ROI over time versus optimizing for the short term. When we first started this business, we bootstrapped its growth for ten years to $500 million in annual sales, and we had no choice but to operate in this construct. As we reflect back on 2023, we see it as the 'Year of the Reset' as we returned to these core principles - to both our near-term benefit, and more importantly to reset our operating model as we look out at the future of Wayfair and our mission to be the best place to shop for the home.

The good news is that the hardest work of the reset is now behind us and 2024 has us moving forward adroitly. We are excited about where we sit today, the market share we have gained, and the initiatives we have underway. Market share is a telling measure - it is zero sum, and competitors do not yield share easily. In the last 18 months our market share has grown to record highs, and we believe the best is yet to come. In this year's letter we will step back to explain what and why.

The Year of the Reset

The last 18 months have at times been very difficult, very productive, very rewarding, and sometimes all three simultaneously. We started the journey with a clear understanding in the summer of 2022 that: (1) our core recipe had weakened through the trials and tribulations of Covid, and (2) that our organizational model had become inefficient, expensive and bloated. With the Covid period waning, we were in a position to change these and we aggressively tackled both head on.

The core recipe, simply put, is the essence of our customer offer. It is very simple and refers to making sure that we are great at availability (is the right item in stock?), speed (how fast can we deliver it?) and price (is our retail price attractive?). We have done well for customers over decades by ensuring that the core recipe is not only intact but always improving. During Covid, supply chain congestion, production shutdowns, rapid inflation, and other unusual factors impeded the flywheel from working as it should, and in fact our recipe regressed. During the summer of 2022, we were able to solve not only availability but also make progress on price as inflation receded, and we entered Q4 2022 with the flywheel spinning again. In 2023 we were able to meaningfully improve delivery speed, while continuing to improve availability and price. And so for the past five quarters, and now in our sixth, we have been taking market share and compounding those gains.

At the same time, we became more attuned to inefficiencies in our organizational model. Our corporate organization had grown very large, much more senior than in our history, and very expensive. Despite this much higher level of investment, we were not getting more done, but rather less. More senior people meant more people one had to meet with to coordinate plans and to negotiate what to do. This led to long strategy documents extolling plans for a given area, which then took time for others to read. This led to more meetings. This was a bad cycle.

We decided to reduce the size of our team in the summer of 2022. Soon thereafter, we discovered we were getting more done, and it was getting done faster and at a lower cost. This led to the realization that we had only scratched the surface of our efficiency gains, and in Jan 2023 we further reduced the size of our team. Yet again we found the same thing - getting more done, and faster, at a lower cost. Unfortunately yet again it became clear that we had not yet gotten back to where we needed to be. And so this time we did things differently - we did a white sheet org model exercise and rebuilt the org from the ground up. This led to a reduction in Jan 2024 but one rooted in our core principles of organizational design. And again, while it is early, it does seem like we are getting more done, and faster, and at a lower cost. It also feels like we have the right level leaders in charge of the right things.

Widening Our Moats

We have spoken in the past about the home goods market being unique, and how that can pose challenges. It is a large market at ~10% of physical goods sales, roughly $800 billion in North America and Europe, and highly fragmented. It is visual and emotive, it is largely unbranded, and customers want to own items that reflect their unique style. The desire for uniqueness has resulted in vast selection being available from a large number of suppliers. Many home categories consist of heavy, bulky items that are expensive, hard to deliver, and prone to damage. Many of these high-consideration items are purchased infrequently, so customers often do not know what they want, nor what is offered.

Tackling all of the aforementioned challenges while delivering on the core recipe is not easy. But if one can do that well, one will build moats that help keep away competitors and that draw in customers. We are specifically built for Home and we are building moats in a few dimensions: (a) Brand, (b) Logistics, (c) Curation, and (d) Physical Retail.

First, brand. Having a recognizable brand is a way for customers to recall who you are, understand what you provide, and remember how you are different from their alternatives. This is more important in Home than elsewhere. As we mentioned earlier, in addition to being unbranded, the majority of the categories in Home are uniquely complex to shop and deliver. As a result it would not be surprising that a customer would want to be discerning as to where they buy these items. How else can they have confidence that they will get what they were promised, and that any problems will be rectified? In Wayfair we have built a well known and loved household brand in the mass segment. We are augmenting Wayfair with three Specialty Retail Brands - AllModern, Birch Lane, and Joss & Main - and one luxury platform, Perigold. While the landscape of home retailers is very fragmented, we believe we can build a stable of well loved brands that each has a strong customer following for the high quality offerings that it provides.

Second, logistics. The moat created by logistics may be self-evident. In a category where ~20% of every revenue dollar is spent on some form of logistics (factory to port, ocean container freight, drayage, linehaul, warehousing, last mile delivery, etc.), where the items are prone to damage, and where speed matters, there is tremendous value in optimizing logistics operations and costs. It is one of the only areas where you can both reduce cost (lower the logistics cost) and improve the experience (lower damage rates, increase delivery speed) at the same time. While there are third-party providers for certain aspects of the chain who can provide great services at a low cost, there are many pieces where more benefit is created by being vertically integrated to optimize for Home-specific use cases. Now, with our infrastructure built (both physical operations and the associated technology), and with the third parties we use deeply integrated, we can add additional services on top. Some of these are offered by local retailers but not by national retailers, and some of these are only offered at high cost.

The beauty is that by using our logistics and technology, we can offer these services and improve the customer experience, increase margin, and widen this moat in the process. Some examples include scheduled delivery in cart (pick a date and time of your choosing for deliveries of large items), consolidated deliveries (deliver all your items, both large and small, all together on a date of your choosing), deluxing (open, inspect and repair any items while in transit to ensure successful deliveries and lower costs for larger items), haul away (offer to take away used items you no longer want - e.g. the mattress we are replacing, or an old piece of furniture), etc. Every 1% we reduce our logistics cost provides either an incremental margin benefit or an opportunity to provide even lower retail prices, or a combination of both.

Third, curation. Curation is a complicated word. On one hand we aim to offer a vast selection so that anyone can find the item that they want. For example, if you want pink barstools we would endeavor to have numerous choices for you to pick from. At the same time, we want to make it easy for you to find that right item for you, and for you to easily understand its qualities, gain confidence in what it is or is not, and get this item quickly, for a great price. Part of how we do this is to have items that are both better-selling and have a proven better customer experience (e.g. high review ratings, lower damage) curated into brands that we assemble. These are either our three Specialty Retail Brands, which play at the very high end of mass and right below luxury, or into our Flagship Brands, which start at the low end of mass and span across the good and better range. This is tens of thousands of items, but also only tens of thousands of items out of millions of items. We then build out additional content for these items to help make shopping easy and hassle free. In a catalog of tens of millions of items, allowing the best items to shine helps our customers, our suppliers and Wayfair. It lowers cost (we together with our suppliers pass on the benefits of inventory turns and logistics savings to the customer), makes it fun to shop and improves margins (by increasing the conversion rate, while also increasing repeat). While the trend on the Internet is for customers to buy items that seem beautiful only to be disappointed when the item arrives at their house, we are working in the other direction to make sure that we satisfy customers upon the item's arrival at their home.

And fourth, Physical Retail. As a company that started with a sole focus on ecommerce you may ask why we view Physical Retail as a moat. Ironically the answer is the converse of the questions we encountered when we went public 10 years ago - in such a tactile and visual category, where many customers want design help, shop with a friend or family member, and need services like financing, will people actually shop online? Well, the answer to that is "yes."

But they will also, for certain occasions, prefer brick and mortar stores. As we have all seen with mature categories like electronics and office supplies, the market tends to get to 50/50 online/offline and then stay there. We see Home as no different. We have a well loved brand, a large customer list, a great offering, a fast and nuanced delivery capability, and supplier owned inventory sitting in our supply chain. Said differently, we already have everything one needs to be a nationwide brick & mortar retailer, other than the stores themselves. By combining our strengths and linking our moats, the online and offline combination allows a customer to shop the way they want, when they want, and allows us to further lock in our position in Home. This manifests as a larger share of wallet and higher margins. We are early in this journey with less than 10 stores, and our first Wayfair store opening in May (in Wilmette, north of Chicago), but we see the large potential and are thoughtfully investing in it.

While each moat is highly impactful on our business, and further differentiates us, it is the aggregate that will allow us to become the dominant force in Home over time.

Profitability and Growth - An And or an Or?

As we have moved along the 18 month journey of rationalizing costs, our embedded profitability has become much more clear, particularly since we have done it without curtailing our growth levers - Specialty Retail Brands, B2B/Wayfair Professional, International markets, Perigold, Physical Retail stores, improvements in the core recipe, supplier advertising, etc.

We have already removed close to $2 billion of various costs, and as a result, this year we will have mid single digit Adjusted EBITDA even without any growth. As we grow, the flow through of earnings on additional revenue is very high - for example, the next billion will flow through to Adjusted EBITDA in the mid to high teens percentage range. And this is what puts 10%+ Adjusted EBITDA in sight. While Adjusted EBITDA is an incomplete metric in that it misses certain costs, the direction, level, and forward ramp shows the fast progress.

As we look to the next phase of profitability, we want to share our thinking on two topics: (1) how should one view the tradeoff between growth and profits, and (2) what should one expect with respect to how we think about earnings into the future.

First, growth vs. profits. The old adage would view these as in close to perfect opposition, or at a minimum quite inversely correlated. While a sheer focus on maximizing profits now would be inconsistent with future growth (for example we would shutter all of our emerging categories and smaller business lines, eliminate all early stage technology efforts, raise prices, not open retail stores, etc.), there is actually a balance that we think is optimal. Once you think about that you move to the questions of timeframe and risk. One key learning from the last several years is that we should expect very high levels of return from a very small amount of invested capital. A second key learning is that headcount investments are often not inherently productive (it is quite common that a small team can accomplish more than a large team). And a third is that some of the highest returns can come from a small amount of money being invested in a very high return activity, but over an extended period of time.

When we discuss getting to well over 10% Adjusted EBITDA we do this in the context of also investing for future growth at the same time. The reason this can be done is due to the high returns that are possible on the efforts we are pursuing, and the benefits of leveraging the fixed costs and investments that we have already incurred.

This brings us to the second topic, how do we think about our goals for earnings into the future? We think the true economic profitability of the business is best measured by our ability to generate Adjusted EBITDA in excess of capital expenditures and equity-based compensation, essentially treating all expenses as if they were cash paid at the moment they are incurred. One of these expenses is equity based compensation, where we think the best measure is share count. We aim to not only reduce the amount of dilution going forward but ultimately reduce share count, thus accruing more benefit to all existing shareholders. In tandem, we will compound growth in free cash flow (FCF) with improving profitability and the working capital benefit that accrues as we grow. We believe that the combination of FCF (growing) and share count (ultimately, shrinking) are the two best ways to measure the financial success of the business.

We are now in a solid financial position where we can settle debts with cash as they come due, and we are set to see earnings rise quickly as we return to growth. We intend to keep working to make our operation more efficient while we pursue growth in tandem. We expect that this will make Adjusted EBITDA, Net Income and FCF all grow over time. We will maximize our Free Cash Flow while simultaneously tightly controlling and ultimately reducing total share count, and treat this combination as our north star.

Summary

The process we began back in 2022 to return to our roots is working. The benefits are becoming evident in our successes around share capture and growing profitability. We have many things to be excited for as we look forward - both in newer business lines with potential for significant growth as well as innovation and iteration that will continue to propel our core business to keep growing and taking share. At just $12 billion dollars of our more than $800 billion dollar addressable market, or less than 2% market share, we still have so much left to work for.

As we said at the outset, our mission is to make Wayfair the best place to shop for the home over not just the next quarter or year, but the next decade and beyond. It is this long term approach, alongside our core principles, that has always informed how we operate the business. We believe the best is yet to come and have never been more excited to execute against the tremendous opportunity in front of us.

We thank our employees for their focus and commitment and for executing every day and making this journey possible. And we thank you, our shareholders, for your interest and support.

Sincerely,

Niraj	Steve
Niraj Shah	Steve Conine
Co-Founder, Co-Chairman & CEO	Co-Founder & Co-Chairman

Use of Non-GAAP Financial Measures: To supplement our consolidated financial statements presented in accordance with generally accepted accounting principles ("GAAP"), we use certain non-GAAP financial measures, including Adjusted EBITDA and Free Cash Flow. We use these non-GAAP financial measures internally in analyzing our financial results and believe they are useful to investors, as a supplement to GAAP measures, in evaluating our ongoing operational performance. Non-GAAP financial measures should not be considered replacements for, and should be read together with, the most comparable GAAP financial measures.

Adjusted EBITDA is a non-GAAP financial measure that is calculated as net income or loss before depreciation and amortization, equity-based compensation and related taxes, interest income or expense, net, other income or expense, net, provision or benefit for income taxes, net, non-recurring items and other items not indicative of our ongoing operating performance.

Free Cash Flow is a non-GAAP financial measure that is calculated as net cash provided by or used in operating activities less net cash used to purchase property and equipment and site and software development costs.

We calculate forward-looking non-GAAP Adjusted EBITDA based on internal forecasts that omit certain amounts that would be included in forward-looking GAAP net income or loss. We do not attempt to provide a reconciliation of forward-looking non-GAAP Adjusted EBITDA guidance to forward looking GAAP net income or loss because forecasting the timing or amount of items that have not yet occurred and are out of our control is inherently uncertain and unavailable without unreasonable efforts. Further, we believe that such reconciliations would imply a degree of precision and certainty that could be confusing to investors. Such items could have a substantial impact on GAAP measures of financial performance.

For full financial data and non-GAAP reconciliations, please refer to Wayfair's earnings release issued on February 22, 2024, available at https://investor.wayfair.com/reporting/quarterly-results/default.aspx.

Caution concerning forward-looking statements: This letter contains forward-looking statements within the meaning of federal and state securities laws. All statements other than statements of historical fact contained in this letter —including statements regarding our future results of operations and financial position, business and capital markets strategy and plans, profitability goals and the financial impact and expected savings of our cost efficiency plan, the results of our workforce realignment plan and objectives of management for future operations—are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "goals," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential," or "continue," or the negative of these terms or other similar expressions. You are cautioned not to rely on these forward-looking statements, which are based on current expectations of future events. For important information about the risks and uncertainties that could cause actual results to vary materially from the assumptions, expectations, and projections expressed in any forward-looking statements, please review the "Forward-Looking Statements" section of the Wayfair earnings release issued on February 22, 2024 as well as the most recently filed Wayfair Reports on Forms 10-K and 10-Q. Wayfair does not undertake to update any forward-looking statement as a result of new information or future events or developments.