

Wayfair Inc.  
Form 10-Q  
May 02, 2019  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended March 31, 2019

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File Number: 001-36666

Wayfair Inc.

(Exact name of registrant as specified in its charter)

Delaware 36-4791999  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)

4 Copley Place, Boston, MA 02116  
(Address of principal executive offices) (Zip Code)  
(617) 532-6100

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer   
Non-accelerated filer  Smaller reporting company   
Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

Edgar Filing: Wayfair Inc. - Form 10-Q

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading symbol(s)	Name of each exchange on which registered
Class A Common Stock, \$0.001 par value per share	W	The New York Stock Exchange
Class		Outstanding at April 25, 2019
Class A Common Stock, \$0.001 par value per share		64,071,179
Class B Common Stock, \$0.001 par value per share		27,568,791

---

Table of Contents

WAYFAIR INC.  
 INDEX TO QUARTERLY REPORT ON FORM 10-Q  
 For the Quarterly Period Ended March 31, 2019

Page

Part I. FINANCIAL INFORMATION

<u>Item 1.</u>	<u>Unaudited Consolidated and Condensed Financial Statements</u>	
	<u>Consolidated and Condensed Balance Sheets as of March 31, 2019 and December 31, 2018</u>	<u>3</u>
	<u>Consolidated and Condensed Statements of Operations for the Three Months Ended March 31, 2019 and 2018</u>	<u>4</u>
	<u>Consolidated and Condensed Statements of Comprehensive Loss for the Three Months Ended March 31, 2019 and 2018</u>	<u>5</u>
	<u>Consolidated and Condensed Statements of Stockholders' Deficit for the Three Months Ended March 31, 2019 and 2018</u>	<u>6</u>
	<u>Consolidated and Condensed Statements of Cash Flows for the Three Months Ended March 31, 2019 and 2018</u>	<u>7</u>
	<u>Notes to the Unaudited Consolidated and Condensed Financial Statements</u>	<u>8</u>
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	<u>23</u>
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>31</u>
<u>Item 4.</u>	<u>Controls and Procedures</u>	<u>33</u>
<u>Part II. OTHER INFORMATION</u>		
<u>Item 1.</u>	<u>Legal Proceedings</u>	<u>34</u>
<u>Item 1A.</u>	<u>Risk Factors</u>	<u>34</u>
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>34</u>
<u>Item 6.</u>	<u>Exhibits</u>	<u>35</u>
	<u>Signatures</u>	<u>36</u>

Table of Contents

PART I

FINANCIAL INFORMATION

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including statements regarding our investment plans, our future customer growth, our future results of operations and financial position, our business strategy and our plans 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," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions.

Forward-looking statements are based on current expectations of future events. We cannot guarantee that any forward-looking statement will be accurate, although we believe that we have been reasonable in our expectations and assumptions. Investors should realize that if underlying assumptions prove inaccurate or that known or unknown risks or uncertainties materialize, actual results could vary materially from the Company's expectations and projections. Investors are therefore cautioned not to place undue reliance on any forward-looking statements. These forward-looking statements speak only as of the date of this Quarterly Report on Form 10-Q and, except as required by applicable law, we undertake no obligation to publicly update or revise any forward-looking statements contained herein, whether as a result of any new information, future events or otherwise.

Factors that could cause or contribute to differences in our future results include, without limitation, the following:

- our ability to acquire new customers and sustain and/or manage our growth;
- our ability to increase our net revenue per active customer;
- our ability to build and maintain strong brands;
- our ability to manage our global growth and expansion;
- our ability to compete successfully;
- the rate of growth of the Internet and e-commerce;
- economic factors, such as interest rates, the housing market, currency exchange fluctuations and changes in customer spending;
- world events, natural disasters, public health emergencies, civil disturbances, and terrorist attacks; and
- developments in, and the outcome of, legal and regulatory proceedings and investigations to which we are a party or are subject, and the liabilities, obligations and expenses, if any, that we may incur in connection therewith.

A further list and description of risks, uncertainties and other factors that could cause or contribute to differences in our future results include the cautionary statements herein and in our other filings with the Securities and Exchange Commission, including those set forth under Part II, Item 1A, Risk Factors of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2018. We qualify all of our forward-looking statements by these cautionary statements.

Table of Contents

WAYFAIR INC.  
CONSOLIDATED AND CONDENSED BALANCE SHEETS  
(In thousands, except share and per share data)  
(Unaudited)

	March 31, 2019	December 31, 2018
Assets		
Current assets		
Cash and cash equivalents	\$722,360	\$849,461
Short-term investments	83,302	114,278
Accounts receivable, net of allowance of \$10,540 and \$9,312 at March 31, 2019 and December 31, 2018, respectively	60,596	50,603
Inventories	43,643	46,164
Prepaid expenses and other current assets	207,931	195,430
Total current assets	1,117,832	1,255,936
Property and equipment, net	430,548	606,977
Goodwill and intangible assets, net	700	2,585
Operating lease right-of-use assets	552,033	—
Long-term investments	—	6,526
Other noncurrent assets	12,752	18,826
Total assets	\$2,113,865	\$1,890,850
Liabilities and Stockholders' Equity		
Current liabilities		
Accounts payable	\$705,974	\$650,174
Accrued expenses	207,206	212,997
Unearned revenue	146,460	148,057
Other current liabilities	170,173	127,995
Total current liabilities	1,229,813	1,139,223
Lease financing obligation, net of current portion	—	183,056
Operating lease liabilities	607,630	—
Long-term debt	750,156	738,904
Other liabilities	5,413	160,388
Total liabilities	2,593,012	2,221,571
Commitments and contingencies (Note 6)		
Convertible preferred stock, \$0.001 par value per share: 10,000,000 shares authorized and none issued at March 31, 2019 and December 31, 2018	—	—
Stockholders' deficit:		
Class A common stock, par value \$0.001 per share, 500,000,000 shares authorized, 63,653,911 and 62,329,701 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	64	63
Class B common stock, par value \$0.001 per share, 164,000,000 shares authorized, 27,747,581 and 28,417,882 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively	28	28
Additional paid-in capital	802,973	753,657
Accumulated deficit	(1,281,228 )	(1,082,689 )
Accumulated other comprehensive (loss)	(984 )	(1,780 )
Total stockholders' deficit	(479,147 )	(330,721 )
Total liabilities and stockholders' deficit	\$2,113,865	\$1,890,850

The accompanying notes are an integral part of these Unaudited Consolidated and Condensed Financial Statements.

3

---

Table of Contents

WAYFAIR INC.  
CONSOLIDATED AND CONDENSED STATEMENTS OF OPERATIONS  
(In thousands, except per share data)  
(Unaudited)

	Three months ended	
	March 31,	
	2019	2018
Net revenue	\$ 1,944,829	\$ 1,404,269
Cost of goods sold	1,474,373	1,080,445
Gross profit	470,456	323,824
Operating expenses:		
Customer service and merchant fees	76,473	53,884
Advertising	243,969	161,646
Selling, operations, technology, general and administrative	343,648	211,363
Total operating expenses	664,090	426,893
Loss from operations	(193,634 )	(103,069 )
Interest expense, net	(9,238 )	(5,407 )
Other income, net	3,078	941
Loss before income taxes	(199,794 )	(107,535 )
Provision for income taxes	595	240
Net loss	\$(200,389 )	\$(107,775 )
Net loss per share, basic and diluted	\$(2.20 )	\$(1.22 )
Weighted average number of common stock outstanding used in computing per share amounts, basic and diluted	91,104	88,467

The accompanying notes are an integral part of these Unaudited Consolidated and Condensed Financial Statements.

Table of Contents

WAYFAIR INC.  
 CONSOLIDATED AND CONDENSED STATEMENTS OF COMPREHENSIVE LOSS  
 (In thousands)  
 (Unaudited)

	Three months ended	
	March 31,	
	2019	2018
Net loss	\$(200,389)	\$(107,775)
Other comprehensive loss:		
Foreign currency translation adjustments	844	(760 )
Net unrealized loss on available-for-sale investments	(48 )	(135 )
Comprehensive loss	\$(199,593)	\$(108,670)

The accompanying notes are an integral part of these Unaudited Consolidated and Condensed Financial Statements.



Table of Contents

## WAYFAIR INC.

## CONSOLIDATED AND CONDENSED STATEMENTS OF STOCKHOLDERS' DEFICIT

(In thousands)

(Unaudited)

	Class A and Class B Common Stock					
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
Balance at December 31, 2017	88,209	\$ 88	\$537,212	\$(583,266 )	\$ (2,363 )	\$(48,329 )
Net loss	—	—	—	(107,775 )	—	(107,775 )
Other comprehensive income	—	—	—	—	(895 )	(895 )
Exercise of options to purchase common stock	10	—	29	—	—	29
Issuance of common stock upon vesting of RSUs	640	1	—	—	—	1
Shares withheld related to net settlement of RSUs	(5 )	—	(391 )	—	—	(391 )
Equity compensation expense	—	—	25,499	—	—	25,499
Adoption of ASU No. 2014-09	—	—	—	4,657	—	4,657
Balance at March 31, 2018	88,854	\$ 89	\$562,349	\$(686,384 )	\$ (3,258 )	\$(127,204 )
	Class A and Class B Common Stock					
	Shares	Amount	Additional Paid-In Capital	Accumulated Deficit	Accumulated Other Comprehensive Loss	Total Stockholders' Deficit
Balance at December 31, 2018	90,748	\$ 91	\$753,657	\$(1,082,689)	\$ (1,780 )	\$(330,721 )
Net loss	—	—	—	(200,389 )	—	(200,389 )
Other comprehensive income	—	—	—	—	796	796
Exercise of options to purchase common stock	21	—	67	—	—	67
Issuance of common stock upon vesting of RSUs	633	1	—	—	—	1
Shares withheld related to net settlement of RSUs	(1 )	—	(165 )	—	—	(165 )
Equity compensation expense	—	—	49,414	—	—	49,414
Adoption of ASU No. 2016-02	—	—	—	1,850	—	1,850
Balance at March 31, 2019	91,401	\$ 92	\$802,973	\$(1,281,228)	\$ (984 )	\$(479,147 )

The accompanying notes are an integral part of these Unaudited Consolidated and Condensed Financial Statements.

Table of Contents

## CONSOLIDATED AND CONDENSED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three months ended	
	March 31,	
	2019	2018
Cash flows from operating activities		
Net loss	\$(200,389)	\$(107,775)
Adjustments to reconcile net loss to net cash used in operating activities		
Depreciation and amortization	39,583	25,962
Equity based compensation	47,060	24,400
Amortization of discount and issuance costs on convertible notes	12,456	4,281
Other non-cash adjustments	(1,374)	) 111
Changes in operating assets and liabilities:		
Accounts receivable	(11,570)	) 6,010
Inventories	2,427	(6,491)
Prepaid expenses and other current assets	(10,535)	) (17,218)
Accounts payable and accrued expenses	46,631	34,058
Unearned revenue and other liabilities	(4,933)	) 23,821
Other assets	(704)	) (236)
Net cash used in operating activities	(81,348)	) (13,077)
Cash flows from investing activities		
Sale and maturities of short-term investments	37,936	11,390
Purchase of property and equipment	(60,626)	) (21,363)
Site and software development costs	(24,843)	) (13,154)
Other investing activities	2,838	(267)
Net cash used in investing activities	(44,695)	) (23,394)
Cash flows from financing activities		
Taxes paid related to net share settlement of equity awards	(165)	) (391)
Deferred financing costs	(791)	) —
Net proceeds from exercise of stock options	67	29
Net cash used in financing activities	(889)	) (362)
Effect of exchange rate changes on cash and cash equivalents	(169)	) (101)
Net decrease in cash and cash equivalents	(127,101)	) (36,934)
Cash and cash equivalents		
Beginning of period	849,461	558,960
End of period	\$722,360	\$522,026
Supplemental cash flow information		
Cash paid for interest on long-term debt	\$809	\$746
Purchase of property and equipment included in accounts payable and accrued expenses and in other liabilities	\$3,143	\$4,727
Construction costs capitalized under finance lease obligation and other leases	\$—	\$28,323

The accompanying notes are an integral part of these Unaudited Consolidated and Condensed Financial Statements.



Table of ContentsNotes to Consolidated and Condensed Financial Statements  
(Unaudited)

## 1. Basis of Presentation

Wayfair Inc. (the "Company") is one of the world's largest online destinations for the home. Through its e-commerce business model, the Company offers visually inspired browsing, compelling merchandising, easy product discovery and attractive prices for over fourteen million products from over 11,000 suppliers.

The consolidated and condensed financial statements and other disclosures contained in this Quarterly Report on Form 10-Q are those of the Company. The consolidated and condensed balance sheet data as of December 31, 2018 was derived from audited financial statements. The accompanying consolidated and condensed balance sheet as of March 31, 2019, the consolidated and condensed statements of operations, consolidated and condensed statements of comprehensive loss, consolidated and condensed statements of stockholders' deficit, and consolidated and condensed statements of cash flows for the periods ended March 31, 2019 and 2018 are unaudited. The unaudited interim financial statements have been prepared on the same basis as the audited consolidated financial statements and in the opinion of management, reflect all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of the Company's financial position as of March 31, 2019 and statements of operations, comprehensive loss, statements of stockholders' deficit, and cash flows for the periods ended March 31, 2019 and 2018. The financial data and the other information disclosed in these notes to the consolidated and condensed financial statements related to these periods are unaudited.

The consolidated and condensed statements of operations, comprehensive loss, stockholders' deficit, and cash flows for the period ended March 31, 2019 are not necessarily indicative of the results of operations and cash flows that may be expected for the year ending December 31, 2019, or for any other period.

## 2. Summary of Significant Accounting Policies

The Company has identified the significant accounting policies that are critical to understanding its business and results of operations.

## Leases

The Company adopted ASU No. 2016-02, "Leases" ("ASU 2016-02") on January 1, 2019 using the modified retrospective approach. The Company also elected the package of practical expedients, which among other things, allowed the Company to carryforward historical lease classification. The adoption of the standard resulted in 1) the derecognition of building assets and finance lease obligations for certain leases that did not pass the sale-leaseback criteria, 2) the derecognition of construction in progress assets and other long-term liabilities for certain lease arrangements whereby the Company is no longer considered the deemed construction owner of the construction projects, and 3) the recognition of operating lease right-of-use ("ROU") assets and lease liabilities for lease arrangements with an initial term greater than twelve months.

Adoption of ASU 2016-02 resulted in the following adjustments to the balance sheet (in thousands):

	December 31, 2018	ASU 2016-02 Adjustments	January 1, 2019
Balance sheet line item			
Property and equipment, net	\$ 606,977	\$ (227,709 )	\$ 379,268
Operating lease right-of-use assets	\$ —	\$ 524,082	\$ 524,082
Other noncurrent assets	\$ 18,826	\$ (6,814 )	\$ 12,012
Other liabilities	\$ 160,388	\$ (155,996 )	\$ 4,392
Other current liabilities	\$ 127,995	\$ (9,624 )	\$ 118,371
Lease financing obligation, net of current portion	\$ 183,056	\$ (183,056 )	\$ —
Operating lease liabilities	\$ —	\$ 636,385	\$ 636,385
Accumulated deficit	\$ (1,082,689)	\$ 1,850	\$ (1,080,839)

The adoption of the standard did not have a notable impact on the Company's liquidity or a materially adverse impact on the Company's debt covenant compliance.



## Table of Contents

The Company determines if an arrangement is a lease at inception. Operating leases are included in "Operating lease right-of-use assets," "Other current liabilities," and "Operating lease liabilities" on our consolidated and condensed balance sheets. As of March 31, 2019, the Company has not entered into material financing lease arrangements. Lease expense for minimum lease payments is recognized on a straight-line basis over the lease term. The Company's lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. The Company has lease arrangements with lease and non-lease components. For the Company's warehouse and fulfillment center lease arrangements, the Company accounts for lease and non-lease components separately. For all other lease arrangements, the Company accounts for lease and non-lease components as a single lease component.

Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future minimum lease payments over the lease term at commencement date. As most of the Company's leases do not provide an implicit rate, the Company uses its estimated incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The determination of the Company's incremental borrowing rate requires judgment. The incremental borrowing rate for each lease is primarily based on publicly-available information for companies within the same industry and with similar credit profiles. The rate is then adjusted for the impact of collateralization, the lease term and other specific terms included in the Company's lease arrangements. The incremental borrowing rate was determined at lease commencement, or as of January 1, 2019 for operating leases existing upon adoption of ASC 842. The incremental borrowing rate is subsequently reassessed upon a modification to the lease arrangement. The operating lease ROU asset also includes any lease payments made prior to commencement date and excludes lease incentives and initial direct costs incurred. ROU assets are subsequently assessed for impairment in accordance with the Company's accounting policy for long-lived assets.

### Stock Compensation

The Company adopted ASU No. 2018-07, Compensation – Stock Compensation (Topic 718), Improvements to Nonemployee Share-Based Payment Accounting ("ASU 2018-07") on January 1, 2019. The ASU simplifies aspects of share-based compensation issued to non-employees by making the guidance consistent with the accounting for employee share-based compensation. The adoption of ASU 2018-07 did not have a material impact the Company's consolidated financial position, results of operations or cash flows.

### Hosting Arrangements

In August 2018, the FASB issued guidance related to a customer's accounting for implementation costs incurred in hosting arrangements. The guidance aligns the requirements for capitalizing implementation costs incurred in cloud computing arrangements with the requirements for capitalizing costs to develop or obtain internal-use software. This guidance is effective for interim and annual reporting periods beginning after December 15, 2019, and early adoption is permitted. This guidance may be applied either retrospectively or prospectively. The Company early adopted the guidance on a prospective basis as of January 1, 2019. The adoption of the guidance did not have a material impact on the Company's consolidated financial position, results of operations, or cash flows.

The Company believes that other than the implementation of ASU 2016-02 and ASU 2018-07, there have been no significant changes during the three months ended March 31, 2019 to the items disclosed in Note 2, Summary of Significant Accounting Policies, included in Part II, Item 8, Financial Statements and Supplementary Data, of the Company's Annual Report on Form 10-K for the year ended December 31, 2018.

## 3. Marketable Securities and Fair Value Measurements

### Marketable Securities

As of March 31, 2019 and December 31, 2018, all of the Company's marketable securities were classified as available-for-sale and their estimated fair values were \$83.3 million and \$120.8 million, respectively. The Company periodically reviews its available-for-sale securities for other-than-temporary impairment. The Company considers factors such as the duration, severity and the reason for the decline in value, the potential recovery period, and its intent to sell. As of March 31, 2019, the Company's available-for-sale securities primarily consisted of corporate bonds and other government obligations that are priced at fair value. During the three months ended March 31, 2019 and 2018, the Company did not recognize any other-than-temporary impairment losses. The maturities of the Company's long-term marketable securities generally range from one to two years. The cost basis of a marketable

security sold is determined by the Company using the specific identification method. During the three months ended March 31, 2019 and 2018, the Company did not have any realized gains or losses.

Table of Contents

The following tables present details of the Company's marketable securities as of March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term:				
Investment securities	\$83,350	\$ 10	\$ (58 )	\$ 83,302
Total	\$83,350	\$ 10	\$ (58 )	\$ 83,302
	December 31, 2018			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Estimated Fair Value
Short-term:				
Investment securities	\$114,402	\$	—\$ (124 )	\$ 114,278
Long-term:				
Investment securities	6,603	—	(77 )	6,526
Total	\$121,005	\$	—\$ (201 )	\$ 120,804

## Fair Value Measurements

The Company's financial assets and liabilities are measured at fair value, which is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date (exit price). The three levels of inputs used to measure fair value are as follows:

Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2—Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable or can be corroborated by observable market data for substantially the full-term of the asset or liability

Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability

This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The Company measures its cash equivalents and short-term and long-term investments at fair value. The Company classifies its cash equivalents and restricted cash within Level 1 because the Company values these investments using quoted market prices. The fair value of the Company's Level 1 financial assets is based on quoted market prices of the identical underlying security. The Company classifies short-term and long-term investments within Level 2 because unadjusted quoted prices for identical or similar assets in markets are not active. The Company does not have any assets or liabilities classified as Level 3 financial assets. The following tables set forth the fair value of the Company's financial assets measured at fair value on a recurring basis as of March 31, 2019 and December 31, 2018 based on the three-tier value hierarchy (in thousands):

	March 31, 2019			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds and other funds	\$611,809	\$—	\$	—\$611,809
Short-term investments:				
Investment securities	—	83,302	—	83,302
Other non-current assets:				
Certificate of deposit	5,000	—	—	5,000
Total	\$616,809	\$83,302	\$	—\$700,111



Table of Contents

	December 31, 2018			
	Level 1	Level 2	Level 3	Total
Cash equivalents:				
Money market funds	\$715,086	\$—	\$	—\$715,086
Short-term investments:				
Investment securities	—	114,278	—	114,278
Other non-current assets:				
Certificate of deposit	5,000	—	—	5,000
Long-term:				
Investment securities	—	6,526	—	6,526
Total	\$720,086	\$120,804	\$	—\$840,890

## 4. Intangible Assets and Goodwill

As of March 31, 2019 and December 31, 2018, the Company had \$0.3 million and \$0.5 million of intangible assets respectively. Amortization expense related to intangible assets was \$0.1 million and \$0.3 million for the three months ended March 31, 2019 and 2018, respectively.

In January 2019, the Company sold certain intellectual property. The proceeds from the sale exceeded the \$1.7 million goodwill carrying value. Goodwill was \$0.4 million and \$2.1 million as of March 31, 2019 and December 31, 2018, respectively.

## 5. Property and Equipment, net

The following table summarizes property and equipment, net as of March 31, 2019 and December 31, 2018 (in thousands):

	March 31, 2019	December 31, 2018
Furniture and computer equipment	\$384,081	\$339,761
Site and software development costs	195,734	172,653
Leasehold improvements	153,337	109,929
Construction in progress	15,531	90,104
Buildings (leased - Note 6)	—	184,694
	748,683	897,141
Less accumulated depreciation and amortization	(318,135 )	(290,164 )
Property and equipment, net	\$430,548	\$606,977

Property and equipment depreciation and amortization expense was \$39.4 million and \$25.7 million for the three months ended March 31, 2019 and 2018, respectively.

## 6. Leases

After Adoption of ASU 2016-02

The Company has lease arrangements for warehouse, fulfillment center, office, and data center spaces. These leases expire at various dates through 2034. Operating lease expense was \$25.6 million and \$14.5 million in the three months ended March 31, 2019 and 2018, respectively.

Table of Contents

The following table presents other information related to leases (in thousands):

	March 31, 2019
Supplemental cash flows information	
Cash payments included in operating cash flows from lease arrangements	\$24,323
Right-of-use assets obtained in exchange for lease obligations	\$44,764

## Additional lease information

Weighted average remaining lease term	9 years
Weighted average discount rate	6.6 %

Future minimum lease payments under non-cancellable leases as of March 31, 2019 were as follows (in thousands):

	Amount
2019 (excluding the three months ended March 31, 2019)	\$82,351
2020	113,566
2021	108,290
2022	101,830
2023	97,637
Thereafter	389,900
Total future minimum lease payments	893,574
Less: Imputed interest	(225,107 )
Total	\$668,467

The following table presents total operating leases (in thousands):

	March 31, 2019
Balance sheet line item	
Other current liabilities	\$60,837
Operating lease liabilities	607,630
Total operating leases	\$668,467

As of March 31, 2019, the Company has entered into \$558.8 million of additional operating leases, primarily related to build-to-suit warehouse leases that have not yet commenced. As the Company does not control the underlying assets during the construction period, the Company is not considered the owner of the construction projects for accounting purposes. These operating leases will commence between 2019 and 2021 with lease terms of 2 to 15 years. Before Adoption of ASU 2016-02

The Company established assets and liabilities for the estimated construction costs incurred under lease arrangements where the Company is considered the owner for accounting purposes only to the extent the Company is involved in the construction of structural improvements or takes construction risk prior to commencement of a lease. These are referred to as "build-to-suit leases". Upon occupancy of facilities under build-to-suit leases, the Company assesses whether these arrangements qualify for sales recognition under the sale-leaseback accounting guidance. If the Company continues to be the deemed owner, the facilities are accounted for as financing leases.

In the year ended December 31, 2018, the construction efforts related to three warehouse lease arrangements were completed. In the first warehouse lease arrangement, the Company concluded it had a letter of credit of \$2.5 million and as a result the Company did not meet the sale-leaseback criteria for derecognition of the building assets and liabilities. In both the second and third warehouse lease arrangements, the Company provided non-recourse financing to the lessor and as a result the Company did not meet the sale-leaseback criteria for derecognition of the building assets and liabilities.

Table of Contents

Accordingly, these leases were accounted for as financing leases and \$101.0 million was recorded in "Lease financing obligation, net of current portion" and "Property and equipment, net," respectively, in the Company's consolidated and condensed balance sheet as of December 31, 2018.

## 7. Commitments and Contingencies

## Letters of Credit

The Company has issued letters of credit for approximately \$30.8 million and \$26.8 million as security for certain lease agreements as of March 31, 2019 and December 31, 2018, respectively.

## Legal Matters

On January 10, 2019 and January 16, 2019, putative securities class action complaints were filed against the Company and three of its officers in the U.S. District Court for the District of Massachusetts. The two complaints allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, relating to certain prior disclosures of the Company. Each plaintiff seeks to represent a class of shareholders who purchased or acquired stock of the Company between August 2, 2018 and October 31, 2018 and seeks damages and other relief based on allegations that the defendants' conduct affected the value of such stock. The Company intends to defend these lawsuits vigorously. At this time, based on available information regarding this litigation, the Company is unable to reasonably assess the ultimate outcome of these cases or determine an estimate, or a range of estimates, of potential losses.

From time to time the Company is involved in claims that arise during the ordinary course of business. Although the results of litigation and claims cannot be predicted with certainty, the Company does not currently believe that the outcome of any of these other legal matters will have a material adverse effect on the Company's results of operation or financial condition. Regardless of the outcome, litigation can be costly and time consuming, as it can divert management's attention from important business matters and initiatives, negatively impacting the Company's overall operations. In addition, the Company may also find itself at greater risk to outside party claims as it increases its operations in jurisdictions where the laws with respect to the potential liability of online retailers are uncertain, unfavorable, or unclear.

## 8. Equity-Based Compensation

The board of directors of the Company (the "Board") adopted the 2014 Incentive Award Plan ("2014 Plan") to grant cash and equity incentive awards to eligible participants in order to attract, motivate and retain talent. The 2014 Plan is administered by the Board with respect to awards to non-employee directors and by the compensation committee of the Board with respect to other participants and provides for the issuance of stock options, stock appreciation rights ("SARs"), restricted stock, restricted stock units ("RSUs"), performance shares, stock payments, cash payments, dividend awards and other incentives. Prior to the adoption of the 2014 Plan, Wayfair LLC issued certain equity awards pursuant to the Wayfair LLC Amended and Restated Common Unit Plan (the "2010 Plan"), which was administered by the board of directors of Wayfair LLC. Awards issued under the 2010 Plan that remain outstanding currently represent Class A or Class B common stock of the Company.

8,603,066 shares of Class A common stock were initially available for issuance under awards granted pursuant to the 2014 Plan. The 2014 Plan also contains an evergreen provision whereby the shares available for future grant are increased on the first day of each calendar year beginning January 1, 2016 and ending on and including January 1, 2024. As of January 1, 2019, 6,202,378 shares of Class A common stock were available for future grant under the 2014 Plan. Shares or RSUs forfeited, withheld for minimum statutory tax obligations, and unexercised stock option lapses from the 2010 and 2014 Plans are available for future grant under the 2014 Plan.

The following table presents activity relating to stock options for the three months ended March 31, 2019:

	Options	Weighted-Average Exercise Price	Weighted-Average Term (Years)	Remaining Contractual
Outstanding at December 31, 2018	79,802	\$ 3.05	2.5	
Options exercised	(21,018)	\$ 3.18		
Outstanding and exercisable at March 31, 2019	58,784	\$ 3.00	2.2	



Table of Contents

Intrinsic value of stock options exercised was \$3.1 million for the three months ended March 31, 2019. Aggregate intrinsic value of stock options outstanding and currently exercisable is \$8.5 million. All stock options were fully vested at March 31, 2019.

The following table presents activity relating to restricted common stock for the three months ended March 31, 2019:

	Shares	Weighted- Average Grant Date Fair Value
Unvested at December 31, 2018	20,000	\$ 44.34
Unvested as of March 31, 2019	20,000	\$ 44.34

Aggregate intrinsic value of unvested restricted common stock is \$3.0 million as of March 31, 2019. Unrecognized equity based compensation expense related to unvested restricted common stock is \$1.4 million with a weighted average remaining vesting term of 0.8 years as of March 31, 2019.

The following table presents activity relating to RSUs for the three months ended March 31, 2019:

	Shares	Weighted- Average Grant Date Fair Value
Outstanding at December 31, 2018	7,970,959	\$ 72.43
RSUs granted	825,910	\$ 163.51
RSUs vested	(634,851 )	\$ 60.98
RSUs forfeited/canceled	(262,301 )	\$ 76.89
Outstanding as of March 31, 2019	7,899,717	\$ 82.70

The intrinsic value of RSUs vested was \$81.0 million for the three months ended March 31, 2019. Aggregate intrinsic value of RSUs unvested is \$1.2 billion as of March 31, 2019. Unrecognized equity based compensation expense related to outstanding RSUs is \$598.2 million with a weighted average remaining vesting term of 1.5 years at March 31, 2019.

#### 9. Unearned Revenue

The Company has three types of contractual liabilities: (i) cash collections from its customers prior to delivery of products purchased, which are initially recorded in "Unearned revenue," and are recognized as net revenue when the products are delivered, (ii) unredeemed gift cards and store credits, which are initially recorded in "Unearned revenue," and are recognized in the period they are redeemed, and (iii) membership rewards redeemable for future purchases, which are earned by customers on purchases made with the Company's Wayfair branded, private label credit card, and are initially recorded in "Other current liabilities," and are recognized as net revenue when redeemed. The portion of gift cards and store credits not expected to be redeemed are recognized as net revenue based on historical redemption pattern, which is substantially within twenty-four months from the date of issuance. Contractual liabilities included in "Unearned revenue" and "Other current liabilities" in the consolidated and condensed balance sheets were \$146.5 million and \$2.7 million at March 31, 2019 and \$148.1 million and \$3.1 million at December 31, 2018, respectively. During the three months ended March 31, 2019, the Company recognized \$112.4 million and \$0.9 million of net revenue included in "Unearned revenue" and "Other current liabilities," respectively, at December 31, 2018.

Net revenue from contracts with customers is disaggregated by Direct Retail and Other net revenue and by geographic region because this manner of disaggregation best depicts how the nature, amount, timing, and uncertainty of revenue and cash flows are affected by economic factors. Refer to Note 10, Segment and Geographic Information, for additional detail.

#### 10. Segment and Geographic Information

Operating segments are defined as components of an enterprise for which separate financial information is available that is evaluated on a regular basis by the Chief Operating Decision Maker ("CODM") in deciding how to allocate resources to an individual segment and in assessing performance. The Company's CODM is its Chief Executive Officer.



Table of Contents

The Company's operating and reportable segments are U.S. and International. These segments reflect the way the CODM allocates resources and evaluates financial performance, which is based upon each segment's Adjusted EBITDA. Adjusted EBITDA is defined as loss before depreciation and amortization, equity-based compensation and related taxes, interest and other income and expense, provision for income taxes, and non-recurring items. These charges are excluded from evaluation of segment performance because it facilitates reportable segment performance comparisons on a period-to-period basis.

The Company allocates certain operating expenses to the operating and reportable segments, including "Customer service and merchant fees" and "Selling, operations, technology, general and administrative" based on the usage and relative contribution provided to the segments. It excludes from the allocations certain operating expense lines, including "Depreciation and amortization, "Equity based compensation and related taxes," "Interest expense, net," "Other (income), net," and "Provision for income taxes." There are no revenue transactions between the Company's reportable segments.

## U.S.

The U.S. segment primarily consists of amounts earned through product sales through the Company's five distinct sites in the U.S. and through websites operated by third parties in the U.S.

## International

The International segment primarily consists of amounts earned through product sales through the Company's international sites.

Revenue from external customers for each group of similar products and services are not reported to the CODM. Separate identification of this information for purposes of segment disclosure is impractical, as it is not readily available and the cost to develop it would be excessive. No individual country outside of the U.S. provided greater than 10% of total revenue.

The following tables present Direct Retail and Other net revenues and Adjusted EBITDA attributable to the Company's reportable segments for the periods presented (in thousands):

	Three months ended	
	March 31,	
	2019	2018
U.S. Direct Retail	\$1,644,050	\$1,186,205
U.S. Other	13,648	15,379
U.S. segment net revenue	1,657,698	1,201,584
International Direct Retail	287,131	202,685
International segment net revenue	287,131	202,685
Total net revenue	\$1,944,829	\$1,404,269
	Three months ended	
	March 31,	
	2019	2018
Adjusted EBITDA:		
U.S.	\$(27,782 )	\$(7,938 )
International	(74,436 )	(42,022 )
Total reportable segments Adjusted EBITDA	(102,218 )	(49,960 )
Less: reconciling items (1)	(98,171 )	(57,815 )
Net loss	\$(200,389)	\$(107,775)

(1) Adjustments are made to reconcile total reportable segments Adjusted EBITDA to consolidated net loss including the following (in thousands):

Table of Contents

	Three months ended March 31,	
	2019	2018
Depreciation and amortization	\$39,583	\$25,962
Equity based compensation and related taxes	51,833	27,147
Interest expense, net	9,238	5,407
Other (income), net	(3,078 )	(941 )
Provision for income taxes	595	240
Total reconciling items	\$98,171	\$57,815

The following table presents the activity related to the Company's net revenue from Direct Retail sales derived through the Company's sites and Other sales derived through websites operated by third parties and fees from our media solutions business (in thousands):

	Three months ended March 31,	
	2019	2018
Net revenue		
Direct Retail	\$1,931,181	\$1,388,890
Other	13,648	15,379
Net revenue	\$1,944,829	\$1,404,269

The following table presents total assets attributable to the Company's reportable segments reconciled to consolidated amounts (in thousands):

	March 31, 2019	December 31, 2018
Assets by segment		
U.S.	\$788,194	\$670,344
International	117,133	56,177
Total reportable segments assets	905,327	726,521
Plus: reconciling corporate assets	1,208,538	1,164,329
Total assets	\$2,113,865	\$1,890,850

U.S. and International segment assets consist primarily of "Accounts receivable," "Inventories," "Prepaid expenses and other current assets," "Property and equipment, net" and "Operating lease right-of-use assets." Corporate assets include "Cash and cash equivalents," marketable securities, "Long-term investments," corporate facilities, "Goodwill and intangible assets, net," and capitalized internal-use software and website development costs.

#### 11. Income Taxes

Income tax expense was \$0.6 million and \$0.2 million for the three months ended March 31, 2019 and 2018, respectively. The income tax expense recorded in the three months ended March 31, 2019 and 2018 is primarily related to income earned in certain foreign jurisdictions and U.S. state income taxes.

Deferred income taxes reflect the impact of temporary differences between the amounts of assets and liabilities for financial reporting purposes and such amounts as measured by tax laws. The Company has deferred tax assets related to its net operating loss carryforwards accumulated since the fourth quarter of 2014 and related to net operating loss carryforwards of certain of its foreign subsidiaries. A valuation allowance against net deferred tax assets is required if, based upon the available evidence, it is more likely than not that some or all of the deferred tax assets will not be realized. The Company reassesses the valuation allowance on a quarterly basis and has provided a valuation allowance on substantially all of its worldwide net deferred tax assets.

The Company had no material unrecognized tax benefits as of March 31, 2019 and December 31, 2018. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of income tax expense.





Table of Contents

12. Stockholders' Deficit

Preferred Stock

The Company authorized 10,000,000 shares of undesignated preferred stock, \$0.001 par value per share, for future issuance. As of March 31, 2019, the Company had no shares of undesignated preferred stock issued or outstanding.

Common Stock

The Company authorized 500,000,000 shares of Class A common stock, \$0.001 par value per share, and 164,000,000 shares of Class B common stock, \$0.001 par value per share, of which 63,653,911 and 62,329,701 shares of Class A common stock and 27,747,581 and 28,417,882 shares of Class B common stock were outstanding as of March 31, 2019 and December 31, 2018, respectively. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion rights. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock may be converted into one share of Class A common stock at the option of its holder and will be automatically converted into one share of Class A common stock upon transfer thereof, subject to certain exceptions. In addition, upon the date on which the outstanding shares of Class B common stock represent less than 10% of the aggregate number of shares of the then outstanding Class A common stock and Class B common stock, or in the event of the affirmative vote or written consent of holders of at least 66 2/3% of the outstanding shares of Class B common stock, all outstanding shares of Class B common stock shall convert automatically into Class A common stock. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of common stock are entitled to receive dividends out of funds legally available if the Board, in its discretion, determines to issue dividends and then only at the times and in the amounts that the Board may determine. Since the Company's initial public offering through March 31, 2019, 54,291,080 shares of Class B common stock were converted to Class A common stock.

13. Credit Agreement

On February 21, 2019 (the "Closing Date"), the Company, as guarantor, and Wayfair LLC, a wholly-owned subsidiary of the Company, as borrower (the "Borrower") entered into an Amended and Restated Credit Agreement (the "Amended Credit Agreement") with Citibank, in its capacity as administrative agent, swing line lender and letter of credit issuer, and certain other lenders party thereto. The Amended Credit Agreement replaced the Company's existing credit facility with Citibank. The Amended Credit Agreement consists of:

A secured revolving credit facility under which the Borrower may borrow up to \$165 million, subject to certain sublimits, with a final maturity date of February 21, 2022 (the "Revolver"). The Revolver may be increased to up to \$200 million in the aggregate within 90 days following the Closing Date.

• The Borrower also has the right, subject to certain customary conditions, to increase the Revolver by \$50 million.

• The Revolver has the following sublimits:

a \$100 million letter of credit sublimit; and

a \$15 million swing line sublimit.

The Borrower's obligations under the Amended Credit Agreement are guaranteed by the Company and certain of its subsidiaries (together, the "Guarantors"). The obligations of the Borrower and the Guarantors are secured by first-priority liens on substantially all of the assets of the Borrower and the Guarantors, including, with certain exceptions, all of the capital stock of the Company's domestic subsidiaries and 65% of the capital stock of the Company's first-tier foreign subsidiaries.

The proceeds of the Revolver may be used to finance working capital, to refinance certain existing indebtedness and to provide funds for permitted acquisitions, repurchases of equity interests and other general corporate purposes. Borrowings under the Revolver will bear interest through maturity at a variable rate based upon, at the Borrower's option, either the Eurodollar rate or the base rate (which is the highest of (x) Citibank's prime rate, (y) one-half of 1.00% in excess of the federal funds effective rate, and (z) 1.00% in excess of the one-month Eurodollar rate), plus, in each case an applicable margin. As of the Closing Date, the applicable margin for Eurodollar rate loans was 1.75% per annum and the applicable margin for base rate loans was 0.75% per annum. The applicable margin is subject to specified changes depending on the Liquidity (as defined in the Amended Credit Agreement) of the Company.



## Table of Contents

Any amounts outstanding under the Revolver are due at maturity. In addition, subject to the terms and conditions set forth in the Amended Credit Agreement, the Borrower is required to make certain mandatory prepayments prior to maturity.

The Amended Credit Agreement contains affirmative and negative covenants customarily applicable to senior secured credit facilities, including covenants that, among other things, will limit or restrict the ability of the Borrower and the Guarantors, subject to negotiated exceptions, to incur additional indebtedness and additional liens on their assets, engage in mergers or acquisitions or dispose of assets, pay dividends or make other distributions, voluntarily prepay other indebtedness, enter into transactions with affiliated persons, make investments, and change the nature of their businesses. The Amended Credit Agreement also contains customary events of default, subject to thresholds and grace periods, including, among others, payment default, covenant default, cross default to other material indebtedness, and judgment default. In addition, the Amended Credit Agreement requires the Company to maintain certain levels of Free Cash Flow (as defined in the Amended Credit Agreement).

The Company did not borrow any amounts under its credit agreement during the three months ended March 31, 2019 and the year ended December 31, 2018.

### 14. Convertible Debt

On September 15, 2017, the Company issued \$431.25 million aggregate principal amount of 0.375% Convertible Senior Notes due 2022 (the "2017 Notes"), which includes the exercise in full of a \$56.25 million over-allotment option, to certain financial institutions as the initial purchasers of the 2017 Notes (the "2017 Initial Purchasers"). On September 11, 2017, in connection with the pricing of the 2017 Notes, the Company entered into privately negotiated capped call transactions (the "2017 Base Capped Call Transactions") with two of the 2017 Initial Purchasers and certain other financial institutions (the "2017 Option Counterparties") and, in connection with the exercise in full of the over-allotment option by the 2017 Initial Purchasers, on September 14, 2017, entered into additional capped call transactions (such additional capped call transactions, the "2017 Additional Capped Call Transactions" and, together with the 2017 Base Capped Call Transactions, the "2017 Capped Call Transactions") with the 2017 Option Counterparties. Collectively, the 2017 Capped Call Transactions covered, initially, the number of shares of the Company's Class A common stock underlying the 2017 Notes, subject to anti-dilution adjustments substantially similar to those applicable to the 2017 Notes.

On November 15, 2018, the Company amended and restated the 2017 Capped Call Transactions (the "Restated 2017 Capped Call Transactions") with each of the 2017 Option Counterparties in order to, among other things, provide that the options underlying the Restated 2017 Capped Call Transactions can, at the Company's option, remain outstanding until September 1, 2022, which is the maturity date for the 2017 Notes, even if all or a portion of the 2017 Notes are converted, repurchased or redeemed prior to such date.

In November 2018, the Company issued \$575.0 million aggregate principal amount of 1.125% Convertible Senior Notes due 2024 (the "2018 Notes" and together with the 2017 Notes, the "Notes"), which includes the exercise in full of a \$75.0 million option granted to the initial purchasers, to certain financial institutions as the initial purchasers of the 2018 Notes (the "2018 Initial Purchasers"). The issuance of \$500.0 million of 2018 Notes closed on November 19, 2018 and the additional \$75.0 million of additional 2018 Notes, which were issued pursuant to the exercise of the 2018 Initial Purchasers' option to purchase such additional 2018 Notes, closed on November 29, 2018. On November 14, 2018, in connection with the pricing of the 2018 Notes, the Company entered into privately negotiated capped call transactions (the "2018 Base Capped Call Transactions") with one of the 2018 Initial Purchasers and certain other financial institutions (the "2018 Option Counterparties") and, in connection with the exercise in full of the 2018 Initial Purchasers' option to purchase such additional 2018 Notes, on November 27, 2018, entered into additional capped call transactions (such additional capped call transactions, the "2018 Additional Capped Call Transactions" and, together with the 2018 Base Capped Call Transactions, the "2018 Capped Call Transactions") with the 2018 Option Counterparties. Collectively, the 2018 Capped Call Transactions cover, initially, the number of shares of the Company's Class A common stock underlying the 2018 Notes, subject to anti-dilution adjustments substantially similar to those applicable to the 2018 Notes.

The net proceeds from the sale of the 2017 Notes and 2018 Notes were approximately \$420.4 million and \$562.0 million, respectively, after deducting the initial purchasers' discounts and the offering expenses payable by the Company. The Company used approximately \$44.2 million and \$93.4 million, respectively, of the net proceeds from the 2017 Notes and 2018 Notes to pay the cost of the 2017 Capped Call Transactions and the 2018 Capped Call Transactions, respectively. The Company intends to use the remainder of the net proceeds from the Notes for working capital and general corporate purposes.

The Notes are general unsecured obligations of the Company. The Notes rank senior in right of payment to any of the Company's future indebtedness that is expressly subordinated in right of payment to the Notes; rank equal in right of payment to the Company's existing and future unsecured indebtedness that is not so subordinated; are effectively subordinated in right of

Table of Contents

payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and are structurally subordinated to all existing and future indebtedness and liabilities of the Company's subsidiaries.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component, representing the conversion option, which does not meet the criteria for separate accounting as a derivative as it is indexed to the Company's own stock, was determined by deducting the fair value of the liability component from the par value of the Notes. The difference between the principal amount of the Notes and the liability component represents the debt discount, which is recorded as a direct deduction from the related debt liability in the consolidated and condensed balance sheet and amortized to interest expense using the effective interest method over the term of the Notes. The effective interest rate of the 2017 Notes and 2018 Notes is 6.0% and 8.1% respectively. The equity component of the 2017 Notes and 2018 Notes of approximately \$95.8 million and \$181.5 million, respectively, is included in additional paid-in capital in the consolidated and condensed balance sheet and is not remeasured as long as it continues to meet the conditions for equity classification. The Company allocated transaction costs related to the Notes using the same proportions as the proceeds from the Notes. Transaction costs attributable to the liability component were recorded as a direct deduction from the related debt liability in the consolidated and condensed balance sheet and amortized to interest expense over the term of the Notes, and transaction costs attributable to the equity component were netted with the equity component in shareholders' equity.

The following table presents the outstanding principal amount and carrying value of the 2017 Notes and 2018 Notes as of the date presented (in thousands):

	March 31, 2019		December 31, 2018	
	2017	2018	2017	2018
	Notes	Notes	Notes	Notes
Principal amounts:				
Principal	431,250	575,000	431,250	575,000
Unamortized debt discount	(75,002)	(181,092)	(79,911)	(187,435)
Net carrying amount	356,248	393,908	351,339	387,565

The following table presents total interest expense recognized related to the 2017 Notes and 2018 Notes (in thousands):

	Three months ended March 31, 2019		Three months ended March 31, 2018
	2017	2018	2017
	Notes	Notes	Notes
Contractual interest expense	809	—	—
Interest cost related to amortization of the debt discount	4,504	7,961	5,027

The estimated fair value of the 2017 Notes was \$661.1 million as of March 31, 2019. The estimated fair value of the 2018 Notes was \$834.9 million as of March 31, 2019. The estimated fair value of the Notes was determined through consideration of quoted market prices. The fair value is classified as Level 2, as defined in Note 3, Marketable Securities and Fair Value Measurements. As of March 31, 2019, the if-converted value of the 2017 and 2018 Notes exceeded the principal amount by \$184.0 million and \$158.3 million, respectively.

## 2017 Notes

The 2017 Notes were issued pursuant to an indenture, dated September 15, 2017 (the "2017 Indenture"), between the Company and U.S. Bank National Association, as trustee. The Company pays interest on the 2017 Notes semiannually in arrears at a rate of 0.375% per annum on March 1 and September 1 of each year. The 2017 Notes are convertible

based upon an initial conversion rate of 9.61 shares of the Company's Class A common stock per \$1,000 principal amount of 2017 Notes (equivalent to a conversion price of approximately \$104.06 per share of the Company's Class A common stock). The conversion rate will be subject to adjustment upon the occurrence of certain specified events, including certain distributions and dividends to all or substantially all of the holders of the Company's Class A common stock, but will not be adjusted for accrued and unpaid interest. The Company will settle any conversions of the 2017 Notes in cash, shares of the Company's Class A common stock or a combination thereof, with the form of consideration determined at the Company's election.

The 2017 Notes will mature on September 1, 2022, unless earlier purchased, redeemed or converted. Prior to June 1, 2022, holders may convert all or a portion of their 2017 Notes only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at

Table of Contents

least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the 5 business day period after any 10 consecutive trading day period (the "2017 Notes measurement period") in which the trading price per \$1,000 principal amount of 2017 Notes for each trading day of the 2017 Notes measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day; (3) with respect to any 2017 Notes called for redemption by the Company, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On and after June 1, 2022 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2017 Notes at any time, regardless of the foregoing circumstances. Holders of 2017 Notes who convert their 2017 Notes in connection with a notice of a redemption or a make-whole fundamental change (each as defined in the 2017 Indenture) may be entitled to a premium in the form of an increase in the conversion rate of the 2017 Notes.

For more than 20 trading days during the 30 consecutive trading days ended March 31, 2019, the last reported sale price of the Company's Class A common stock exceeded 130% of the conversion price of the 2017 Notes. As a result, the 2017 Notes became convertible at the option of the holders on April 1, 2019 and will continue to be convertible during the second quarter of 2019. From April 1, 2019 through the date of this filing, none of the 2017 Notes has been converted.

The Company may not redeem the 2017 Notes prior to September 8, 2020. On or after September 8, 2020, the Company may redeem for cash all or part of the 2017 Notes if the last reported sale price of the Company's Class A common stock equals or exceeds 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including at least one of the five trading days immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading days ending on, and including the trading day immediately preceding the date on which the Company provides notice of the redemption. The redemption price will be 100% of the principal amount of the 2017 Notes to be redeemed, plus accrued and unpaid interest, if any. Upon the occurrence of a fundamental change (as defined in the 2017 Indenture), holders may require the Company to repurchase all or a portion of their 2017 Notes for cash at a price equal to 100% of the principal amount of the 2017 Notes to be repurchased plus any accrued but unpaid interest to, but excluding, the fundamental change repurchase date.

The 2017 Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the 2017 Notes then outstanding may declare the entire principal amount of all the 2017 Notes plus accrued interest, if any, to be immediately due and payable.

2018 Notes

The 2018 Notes were issued pursuant to an indenture, dated November 19, 2018 (the "2018 Indenture"), between the Company and U.S. Bank National Association, as trustee. The Company will pay interest on the 2018 Notes semiannually in arrears at a rate of 1.125% per annum on May 1 and November 1 of each year commencing on May 1, 2019. The 2018 Notes are convertible based upon an initial conversion rate of 8.5910 shares of the Company's Class A common stock per \$1,000 principal amount of 2018 Notes (equivalent to a conversion price of approximately \$116.40 per share of the Company's Class A common stock). The conversion rate will be subject to adjustment upon the occurrence of certain specified events, including certain distributions and dividends to all or substantially all of the holders of the Company's Class A common stock, but will not be adjusted for accrued and unpaid interest. The Company will settle any conversions of the 2018 Notes in cash, shares of the Company's Class A common stock or a combination thereof, with the form of consideration determined at the Company's election.

The 2018 Notes will mature on November 1, 2024, unless earlier purchased, redeemed or converted. Prior to August 1, 2024, holders may convert all or a portion of their 2018 Notes only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater



than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period (the "2018 Notes measurement period") in which the trading price per \$1,000 principal amount of 2018 Notes for each trading day of the 2018 Notes measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day; (3) with respect to any 2018 Notes called for redemption by the Company, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On and after August 1, 2024 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2018 Notes at any time, regardless of the foregoing circumstances. Holders of 2018 Notes who convert their 2018 Notes in connection with a make-

## Table of Contents

whole fundamental change or a notice of redemption (each as defined in the 2018 Indenture) may be entitled to a premium in the form of an increase in the conversion rate of the 2018 Notes.

For more than 20 trading days during the 30 consecutive trading days ended March 31, 2019, the last reported sale price of the Company's Class A common stock exceeded 130% of the conversion price of the 2018 Notes. As a result, the 2018 Notes became convertible at the option of the holders on April 1, 2019 and will continue to be convertible during the second quarter of 2019. From April 1, 2019 through the date of this filing, none of the 2018 Notes has been converted.

The Company may not redeem the 2018 Notes prior to May 8, 2022. On or after May 8, 2022, the Company may redeem for cash all or part of the 2018 Notes if the last reported sale price of the Company's Class A common stock equals or exceeds 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including at least one of the five trading days immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading days ending on, and including the trading day immediately preceding the date on which the Company provides notice of the redemption. The redemption price will be 100% of the principal amount of the 2018 Notes to be redeemed, plus accrued and unpaid interest, if any.

Upon the occurrence of a fundamental change (as defined in the 2018 Indenture), holders may require the Company to repurchase all or a portion of their 2018 Notes for cash at a price equal to 100% of the principal amount of the 2018 Notes to be repurchased plus any accrued but unpaid interest to, but excluding, the fundamental change repurchase date.

The 2018 Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the 2018 Notes then outstanding may declare the entire principal amount of all the 2018 Notes plus accrued interest, if any, to be immediately due and payable.

### Capped Call Transactions

The Restated 2017 Capped Call Transactions and 2018 Capped Call Transactions (collectively, the "Capped Call Transactions") are expected generally to reduce the potential dilution and/or offset the cash payments the Company is required to make in excess of the principal amount of the Notes upon conversion of the Notes in the event that the market price per share of the Company's Class A common stock is greater than the strike price of the Capped Call Transactions (which initially corresponds to the initial conversion price of the Notes and is subject to certain adjustments under the terms of the Capped Call Transactions), with such reduction and/or offset subject to a cap based on the cap price of the Capped Call Transactions. The 2017 Capped Call Transactions have an initial cap price of \$154.16 per share of the Company's Class A common stock, which represents a premium of 100% over the last reported sale price of the Company's Class A common stock on September 11, 2017, and is subject to certain adjustments under the terms of the Restated 2017 Capped Call Transactions. The 2018 Capped Call Transactions have an initial cap price of \$219.63 per share of the Company's Class A common stock, which represents a premium of 150% over the last reported sale price of the Company's Class A common stock on November 14, 2018, and is subject to certain adjustments under the terms of the 2018 Capped Call Transactions. Collectively, the Capped Call Transactions cover, initially, the number of shares of the Company's Class A common stock underlying the Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Notes.

The Capped Call Transactions are separate transactions, in each case, entered into by the Company with the 2017 Option Counterparties and 2018 Option Counterparties, and are not part of the terms of the Notes and will not affect any holder's rights under the Notes. Holders of the Notes will not have any rights with respect to the Capped Call Transactions. The Capped Call Transactions do not meet the criteria for separate accounting as a derivative as they are indexed to the Company's stock. The premiums paid for the Capped Call Transactions have been included as a net reduction to additional paid-in capital within shareholders' equity.

### 15. Net Loss per Share

Basic and diluted net loss per share is presented using the two-class method required for participating securities: Class A and Class B common stock. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. For more information on the rights of Class A and Class B common stockholders, see Note 12, Stockholders' Deficit.

Basic net loss per share is computed using the weighted-average number of shares of common stock outstanding during the period. Diluted net loss per share is computed using the weighted-average number of shares of common stock and, if dilutive, common stock equivalents outstanding during the period. The Company's common stock equivalents consist of shares issuable upon the release of restricted stock units, and to a lesser extent, the incremental shares of common stock issuable upon the exercise of stock options and unvested restricted stock. The dilutive effect of these common stock equivalents is reflected in diluted earnings per share by application of the treasury stock method. The Company's basic and diluted net loss per share are

21

---

Table of Contents

the same because the Company has generated net loss and common stock equivalents are excluded from diluted net loss per share because they have an antidilutive impact.

The Company allocates undistributed earnings between the classes on a one-to-one basis when computing net loss per share. As a result, basic and diluted net loss per Class A and Class B shares are equivalent.

The following table presents the calculation of basic and diluted net loss per share (in thousands, except per share data):

	Three months ended March 31,	
	2019	2018
Net loss	\$(200,389)	\$(107,775)
Weighted average common shares used for basic and diluted net loss per share computation	91,104	88,467
Net loss per common share:		
Basic and Diluted	\$(2.20 )	\$(1.22 )

Dilutive common stock equivalents, representing potentially dilutive common stock options, restricted stock and restricted stock units, of 8.0 million and 7.9 million for the three months ended March 31, 2019 and 2018, respectively, were excluded from diluted earnings per share calculations for these periods because of their anti-dilutive effect. Furthermore, the shares of Class A common stock that would be issuable if the Company elects to settle the Notes in shares were excluded from the diluted earnings per share calculation (using the if-converted method) for the three month period ended March 31, 2019 because their effect would have been anti-dilutive.

The Company may settle the conversions of the Notes in cash, shares of the Company's Class A common stock or any combination thereof at its election. For the 2017 Notes, the number of shares of the Company's Class A common stock issuable at the conversion price of \$104.06 per share is expected to be 4.1 million shares and for the 2018 Notes, the number of shares of the Company's Class A common stock issuable at the conversion price of \$116.40 is expected to be 4.9 million shares. However the Capped Call Transactions are expected generally to reduce the potential dilution of the Company's Class A common stock upon any conversion of Notes and/or offset the cash payments the Company is required to make in excess of the principal amount of the Notes. Under the Restated 2017 Capped Call Transactions, the number of shares of Class A common stock issuable at the conversion price of \$154.16 is expected to be 2.8 million shares and under the 2018 Capped Call Transactions, the number of shares of Class A common stock issuable at the conversion price of \$219.63 is expected to be 2.6 million shares. For more information on the Notes and the Capped Call Transactions, see Note 14, Convertible Debt.

Table of Contents

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated and condensed financial statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our audited consolidated financial statements and related notes included in our Annual Report on Form 10-K for the year ended December 31, 2018. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those included in the Special Note Regarding Forward Looking Statements and in Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2018, our actual results may differ materially from those anticipated in these forward-looking statements.

The following discussion includes financial information prepared in accordance with generally accepted accounting principles ("GAAP"), as well as certain adjusted or non-GAAP financial measures such as Adjusted EBITDA, non-GAAP diluted net loss per share and free cash flow. Generally, a non-GAAP financial measure is a numerical measure of financial performance, financial position or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. Management believes the use of these non-GAAP measures on a consolidated and reportable segment basis assists investors in understanding the ongoing operating performance of our business by presenting comparable financial results between periods. For more information on these non-GAAP financial measures, including reconciliations to the most directly comparable GAAP financial measures, see "Non-GAAP Financial Measures" below.

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "Wayfair," "the Company," "we," "us" or "our" refer to Wayfair Inc. and its consolidated subsidiaries.

## Overview

We are one of the world's largest online destinations for the home. Through our e-commerce business model, we offer visually inspired browsing, compelling merchandising, easy product discovery and attractive prices for over fourteen million products from over 11,000 suppliers. Because of the large market opportunity we see in front of us, we are currently investing across our business, including investments to expand our international business, to build our proprietary logistics network and to continue developing various product categories.

Our operating and reportable segments are U.S. and International. The following table presents Direct Retail and Other net revenues attributable to the Company's reportable segments for the periods presented (in thousands):

	Three months ended	
	March 31,	
	2019	2018
U.S. Direct Retail	\$1,644,050	\$1,186,205
U.S. Other	13,648	15,379
U.S. segment net revenue	1,657,698	1,201,584
International Direct Retail	287,131	202,685
International segment net revenue	287,131	202,685
Total net revenue	\$1,944,829	\$1,404,269

For more information on our segments, see Note 10, Segment and Geographic Information, included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q.

Table of Contents

## Key Financial and Operating Metrics

We measure our business using both financial and operating metrics. Our free cash flow metric is measured on a consolidated basis. Our net revenue and Adjusted EBITDA metrics are measured on a consolidated and segment basis. See Note 10, Segment and Geographic Information, included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q. All other key financial and operating metrics are derived and reported from our Direct Retail sales, which includes sales generated primarily through our five distinct sites. These metrics do not include net revenue derived from the websites operated by our retail partners and our media solutions business. We do not have access to certain customer level information on net revenue derived through our retail partners and therefore cannot measure or disclose it.

	Three months ended		
	March 31,		
	2019	2018	% Change
<b>Consolidated Financial Metrics</b>			
Net Revenue	\$ 1,944,829	\$ 1,404,269	38.5 %
Adjusted EBITDA	\$(102,218 )	\$(49,960 )	
Free cash flow	\$(166,817 )	\$(47,594 )	
<b>Direct Retail Financial and Operating Metrics</b>			
Direct Retail Net Revenue	\$ 1,931,181	\$ 1,388,890	39.0 %
Active Customers	16,408	11,795	39.1 %
LTM Net Revenue per Active Customer	\$442	\$432	2.3 %
Orders Delivered	8,163	5,888	38.6 %
Average Order Value	\$237	\$236	0.4 %

## Non-GAAP Financial Measures

## Adjusted EBITDA

To provide investors with additional information regarding our financial results, we have disclosed here and elsewhere in this Quarterly Report on Form 10-Q Adjusted EBITDA, a non-GAAP financial measure that we calculate as income (loss) before depreciation and amortization, equity-based compensation and related taxes, interest and other income and expense, provision for income taxes, and non-recurring items. We have provided a reconciliation below of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included Adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure used by our management and board of directors to evaluate our operating performance, generate future operating plans, and make strategic decisions regarding the allocation of capital. In particular, the exclusion of certain expenses in calculating Adjusted EBITDA facilitates operating performance comparisons on a period-to-period basis. Accordingly, we believe that Adjusted EBITDA provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management and board of directors.

Adjusted EBITDA has limitations as an analytical tool, and you should not consider it in isolation or as a substitute for analysis of our results as reported under GAAP. Some of these limitations are:

Although depreciation and amortization are non-cash charges, the assets being depreciated and amortized may have to be replaced in the future, and Adjusted EBITDA does not reflect cash capital expenditure requirements for such replacements or for new capital expenditure requirements;

Adjusted EBITDA does not reflect equity based compensation and related taxes;

Adjusted EBITDA does not reflect changes in our working capital;

Adjusted EBITDA does not reflect income tax payments that may represent a reduction in cash available to us;

Adjusted EBITDA does not reflect depreciation and interest expenses associated with the lease financing obligation; and

Other companies, including companies in our industry, may calculate Adjusted EBITDA differently, which reduces its usefulness as a comparative measure.



Table of Contents

Because of these limitations, you should consider Adjusted EBITDA alongside other financial performance measures, including various cash flow metrics, net loss and our other GAAP results.

The following table reflects the reconciliation of net loss to Adjusted EBITDA for each of the periods indicated (in thousands):

	Three months ended March 31,	
	2019	2018
Reconciliation of Adjusted EBITDA		
Net loss	\$(200,389)	\$(107,775)
Depreciation and amortization	39,583	25,962
Equity based compensation and related taxes	51,833	27,147
Interest expense, net	9,238	5,407
Other (income), net	(3,078 )	(941 )
Provision for income taxes	595	240
Adjusted EBITDA	\$(102,218)	\$(49,960 )

## Free Cash Flow

To provide investors with additional information regarding our financial results, we have also disclosed here and elsewhere in this Quarterly Report on Form 10-Q free cash flow, a non-GAAP financial measure that we calculate as net cash provided by (used in) operating activities less net cash used to purchase property and equipment and site and software development costs. We have provided a reconciliation below of free cash flow to net cash provided by (used in) operating activities, the most directly comparable GAAP financial measure.

We have included free cash flow in this Quarterly Report on Form 10-Q because it is an important indicator of our business performance as it measures the amount of cash we generate. Accordingly, we believe that free cash flow provides useful information to investors and others in understanding and evaluating our operating results in the same manner as our management.

Free cash flow has limitations as an analytical tool because it omits certain components of the cash flow statement and does not represent the residual cash flow available for discretionary expenditures. Further, other companies, including companies in our industry, may calculate free cash flow differently. Accordingly, you should not consider free cash flow in isolation or as a substitute for analysis of our results as reported under GAAP. Because of these limitations, you should consider free cash flow alongside other financial performance measures, including net cash provided by (used in) operating activities, capital expenditures and our other GAAP results.

The following table presents a reconciliation of free cash flow to net cash used in operating activities for each of the periods indicated (in thousands):

	Three months ended March 31,	
	2019	2018
Net cash used in operating activities	\$(81,348 )	\$(13,077)
Purchase of property and equipment	(60,626 )	(21,363 )
Site and software development costs	(24,843 )	(13,154 )
Free cash flow	\$(166,817)	\$(47,594)

## Key Operating Metrics (Direct Retail)

## Active Customers

As of the last date of each reported period, we determine our number of active customers by counting the total number of individual customers who have purchased at least once directly from our sites during the preceding twelve-month period. The change in active customers in a reported period captures both the inflow of new customers as well as the outflow of existing customers who have not made a purchase in the last twelve months. We view the number of active customers as a key indicator of our growth.





## Table of Contents

### LTM Net Revenue Per Active Customer

We define LTM net revenue per active customer as our total net revenue derived from Direct Retail sales in the last twelve months divided by our total number of active customers for the same preceding twelve-month period. We view LTM net revenue per active customer as a key indicator of our customers' purchasing patterns, including their initial and repeat purchase behavior.

### Orders Delivered

We define orders delivered as the total Direct Retail orders delivered in any period, inclusive of orders that may eventually be returned. As we ship a large volume of packages through multiple carriers, actual delivery dates may not always be available, and as such we estimate delivery dates based on historical data. We recognize net revenue when an order is delivered and therefore orders delivered, together with average order value, is an indicator of the net revenue we expect to recognize in a given period. We view orders delivered as a key indicator of our growth.

### Average Order Value

We define average order value as total Direct Retail net revenue in a given period divided by the orders delivered in that period. We view average order value as a key indicator of the mix of products on our sites, the mix of offers and promotions and the purchasing behavior of our customers.

### Factors Affecting our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us but also pose risks and challenges, including those discussed in Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2018.

### Components of Our Results of Operations

#### Net Revenue

Net revenue consists primarily of sales of product from our sites and through the websites of our online retail partners and includes related shipping fees. We deduct cash discounts, allowances and estimated returns from gross revenue to determine net revenue. We recognize product revenue upon delivery to our customers. Net revenue is primarily driven by growth of new and active customers and the frequency with which customers purchase. The products offered on our sites are fulfilled with product we ship to our customers directly from our suppliers and, increasingly, from our CastleGate warehouses.

We also generate net revenue through third-party advertisers that pay us based on the number of advertisement related clicks, actions, or impressions for advertisements placed on our sites. Net revenue earned under these arrangements is included in net revenue and net revenue through our third-party advertisers is recognized in the period in which the click, action or impression occurs. This revenue has not been material to date.

#### Cost of Goods Sold

Cost of goods sold consists of the cost of product sold to customers, shipping and handling costs and shipping supplies and fulfillment costs. Fulfillment costs include costs incurred in operating and staffing fulfillment centers, such as costs attributed to receiving, inspecting, picking, packaging and preparing customer orders for shipment. Cost of goods sold also includes direct and indirect labor costs, including equity-based compensation, for fulfillment center oversight, including payroll and related benefit costs. The increase in cost of goods sold is primarily driven by growth in orders delivered, the mix of the product available for sale on our sites and transportation costs related to delivering orders to our customers.

We earn rebates on our incentive programs with our suppliers. These rebates are earned upon shipment of goods. Amounts due from suppliers as a result of these rebate programs are included as a receivable and are reflected as a reduction of cost of goods sold. We also perform logistics services for suppliers through our CastleGate solution, which are earned upon completion of preparing customer orders for shipments and are reflected as a reduction in costs of goods sold on the consolidated and condensed statements of operations. We expect cost of goods sold expenses to remain relatively stable as a percentage of net revenue but some fluctuations are expected due to the wide variety of products we sell.

Table of Contents

## Customer Service and Merchant Fees

Customer service and merchant fees consist of labor-related costs, including equity-based compensation, of our employees involved in customer service activities and merchant processing fees associated with customer payments made by credit cards and debit cards. Increases in our customer service and merchant fees are driven by the growth in our revenue and are expected to remain relatively consistent as a percentage of revenue. We expect customer service and merchant fees expenses to remain relatively stable as a percentage of net revenue.

## Advertising

Advertising consists of direct response performance marketing costs, such as display advertising, paid search advertising, social media advertising, search engine optimization, comparison shopping engine advertising, television advertising, direct mail, catalog and print advertising. We expect advertising expense to continue to increase but decrease as a percentage of net revenue over time due to our increasing base of repeat customers.

## Selling, operations, technology and general and administrative

Selling, operations, technology, general and administrative expenses primarily include labor-related costs, including equity-based compensation, of our operations group, which includes our supply chain and logistics team, our technology team, which builds and supports our sites, category managers, buyers, site merchandisers, merchants, marketers and the team who executes our advertising strategy, and our corporate general and administrative team, which includes human resources, finance and accounting personnel. Also included are administrative and professional service fees including audit and legal fees, insurance and other corporate expenses, including depreciation and rent. We expect selling, operations, technology, general and administrative expenses will continue to increase as we grow our net revenue and operations.

## Interest Expense, Net

Interest expense, net consists primarily of interest expense in connection with our convertible notes and lease financing obligations. Interest expense is offset by interest earned on cash, cash equivalents and short- and long-term investments held by us.

## Other Income, Net

Other income, net consists primarily of foreign currency (losses) gains.

## Results of Consolidated Operations (in thousands)

Comparison of the three months ended March 31, 2019 and 2018

## Net revenue

	Three months ended		
	March 31,		
	2019	2018	% Change
Direct Retail	\$1,931,181	\$1,388,890	39.0 %
Other	13,648	15,379	(11.3 )%
Net revenue	\$1,944,829	\$1,404,269	38.5 %

In the three months ended March 31, 2019, net revenue increased by \$540.6 million, or 38.5% compared to the same period in 2018, primarily as a result of an increase in Direct Retail net revenue. In the three months ended March 31, 2019, Direct Retail net revenue increased by \$542.3 million, or 39.0% compared to the same period in 2018, primarily due to sales to a larger customer base, as the number of active customers increased 39.1% as of March 31, 2019 compared to March 31, 2018. Additionally, LTM net revenue per active customer increased 2.3% as of March 31, 2019 compared to March 31, 2018. The \$1.7 million or 11.3% decrease in Other revenue in the three months ended March 31, 2019 as compared to the same period in 2018 was primarily due to decreased sales through our retail partners, as we continue to focus more on our Direct Retail business over time.

Table of Contents

## Cost of goods sold

	Three months ended March 31,		
	2019	2018	% Change
Cost of goods sold	\$1,474,373	\$1,080,445	36.5 %
As a percentage of net revenue	75.8	% 76.9	%

In the three months ended March 31, 2019, cost of goods sold increased by \$393.9 million, or 36.5%, compared to the same period in 2018. Of the increase in cost of goods sold, \$316.7 million was due to the increase in products sold to our larger customer base. In addition, shipping and fulfillment costs increased \$77.2 million as a result of the increase in products sold during the period. Cost of goods sold as a percentage of net revenue decreased in the three months ended March 31, 2019 compared to the same period in 2018 as a result of changes in the mix of the products sold.

## Operating expenses

	Three months ended March 31,		
	2019	2018	% Change
Customer service and merchant fees (1)	\$76,473	\$53,884	41.9 %
Advertising	243,969	161,646	50.9 %
Selling, operations, technology, general and administrative (1)	343,648	211,363	62.6 %
Total operating expenses	\$664,090	\$426,893	55.6 %
As a percentage of net revenue			
Customer service and merchant fees (1)	3.9	% 3.8	%
Advertising	12.5	% 11.5	%
Selling, operations, technology, general and administrative (1)	17.7	% 15.1	%
	34.1	% 30.4	%

(1) Includes equity-based compensation and related taxes as follows:

	Three months ended March 31,	
	2019	2018
Customer service and merchant fees	\$1,976	\$970
Selling, operations, technology, general and administrative	\$48,865	\$25,612

The following table summarizes operating expenses as a percentage of net revenue, excluding equity-based compensation and related taxes:

	Three months ended March 31,	
	2019	2018
Customer service and merchant fees	3.8 %	3.8 %
Selling, operations, technology, general and administrative	15.2 %	13.2 %

Excluding the impact of equity based compensation and related taxes, customer service costs and merchant processing fees increased by \$21.6 million in the three months ended March 31, 2019 compared to the same period in 2018, primarily due to the increase in net revenue during the three months ended March 31, 2019.

Our advertising expenses increased by \$82.3 million in the three months ended March 31, 2019 compared to the same period in 2018, primarily as a result of an increase in online and television advertising. Advertising increased as a percentage of net revenue in the three months ended March 31, 2019 compared to the same period in 2018. The increase was primarily attributable to increased investment to generate future new customer growth, partially offset by ongoing leverage due to our increasing mix of orders from repeat customers.

Excluding the impact of equity based compensation and related taxes, selling, operations, technology, general and administrative expense increased by \$109.0 million in the three months ended March 31, 2019 compared to the same period in 2018. As our revenue continues to grow, we have invested in headcount in both operations and technology to

continue to

28

---

Table of Contents

deliver a great experience for our customers. The increase in selling, operations, technology, general and administrative expense was primarily attributable to personnel costs, rent, information technology, and depreciation and amortization.

## Liquidity and Capital Resources

## Sources of Liquidity

	March 31, 2019	December 31, 2018
	(in thousands)	
Cash and cash equivalents	\$722,360	\$849,461
Short-term investments	\$83,302	\$114,278
Accounts receivable, net	\$60,596	\$50,603
Long-term investments	\$—	\$6,526
Working capital	\$(111,981)	\$116,713

## Historical Cash Flows

	Three months ended March 31,	
	2019	2018
	(in thousands)	
Net loss	\$(200,389)	\$(107,775)
Net cash used in operating activities	\$(81,348 )	\$(13,077 )
Net cash used in investing activities	\$(44,695 )	\$(23,394 )
Net cash used in financing activities	\$(889 )	\$(362 )

At March 31, 2019, our principal source of liquidity was cash and cash equivalents and short- and long-term investments totaling \$805.7 million, which includes \$562.0 million of net proceeds from the issuance of our 2018 Notes in November 2018, partially offset by \$93.4 million in premiums paid at the same time for separate capped call transactions. We believe that our existing cash and cash equivalents and investments, together with cash generated from operations and the cash available under our revolving credit facility, will be sufficient to meet our anticipated cash needs for at least the foreseeable future. However, our liquidity assumptions may prove to be incorrect, and we could exhaust our available financial resources sooner than we currently expect. In addition, we may elect to raise additional funds at any time through equity, equity linked or debt financing arrangements.

Capital expenditures were 3.3% of net revenue for the year ended December 31, 2018, and related primarily to our ongoing investments in our technology infrastructure, and equipment purchases and improvements for leased warehouses within our expanding supply chain network. Capital expenditures were 4.4% of net revenue for the quarter ended March 31, 2019. For the three months ending June 30, 2019, we expect capital expenditures to be approximately 4.0% to 5.0% of net revenue as we continue to build out our logistics network.

Our future capital requirements and the adequacy of available funds will depend on many factors, including those described herein and in our other filings with the SEC, including those set forth under in Part II, Item 1A, Risk Factors, of this Quarterly Report on Form 10-Q and in our Annual Report on Form 10-K for the year ended December 31, 2018. We may not be able to secure additional financing to meet our operating requirements on acceptable terms, or at all.

## Operating Activities

Cash flows in connection with operating activities consisted of net loss adjusted for certain non-cash items including depreciation and amortization, equity-based compensation, and certain other non-cash expenses, as well as the effect of changes in working capital and other activities. Operating cash flows can be volatile and are sensitive to many factors, including changes in working capital and our net loss.

Cash used in operating activities in the three months ended March 31, 2019 was \$81.3 million and was driven primarily by a net loss of \$200.4 million and other non-cash items of \$1.4 million, partially offset by cash provided by operating assets and liabilities of \$21.3 million, the net impact of certain non-cash items including depreciation and amortization expense of \$39.6 million, equity based compensation of \$47.1 million, and amortization of discount and

issuance costs related to our convertible notes of \$12.5 million.

29

---

## Table of Contents

Cash used in operating activities in the three months ended March 31, 2018 was \$13.1 million and was driven primarily by net loss of \$107.8 million, partially offset by cash provided by operating assets and liabilities of \$39.9 million and certain non-cash items including depreciation and amortization expense of \$26.0 million, equity based compensation of \$24.4 million, amortization of discount and issuance costs related to our convertible notes of \$4.3 million and other non-cash items of \$0.1 million.

### Investing Activities

Our primary investing activities consisted of purchases of property and equipment, particularly purchases of servers and networking equipment, investment in our sites and software development, purchases and disposal of short-term and long-term investments, and leasehold improvements for our facilities.

Cash used in investing activities in the three months ended March 31, 2019 was \$44.7 million and was primarily driven by purchases of property and equipment of \$60.6 million and site, software development costs of \$24.8 million, partially offset by a net increase in the maturity of short-term investments of \$37.9 million and other investing activities of \$2.8 million.

Cash used in investing activities in the three months ended March 31, 2018 was \$23.4 million and was primarily driven by purchases of property and equipment of \$21.3 million and site, software development costs of \$13.2 million, and other investing activities of \$0.3 million, partially offset by net increase in the maturity of short-term investments of \$11.4 million.

### Financing Activities

Cash used in financing activities in the three months ended March 31, 2019 was \$0.9 million and was primarily due to \$0.8 million of deferred finance costs and \$0.2 million statutory minimum taxes paid related to net share settlements of equity awards, partially offset by \$0.1 million net proceeds from exercise of stock options.

Cash used in financing activities in the three months ended March 31, 2018 was \$0.4 million and was primarily due to \$0.4 million statutory minimum taxes paid related to net share settlements of equity awards.

### Stock Repurchase Program

On February 22, 2018, we announced that our board of directors authorized the repurchase of up to \$200 million of our Class A common stock. This repurchase program has no expiration but may be suspended or terminated by the board of directors at any time. Under the repurchase program, we are authorized to repurchase, from time to time, outstanding shares of Class A common stock in the open market, through privately negotiated transactions, or otherwise, including pursuant to a Rule 10b5-1 plan.

The actual timing, number and value of shares repurchased will be determined by the Company in its discretion and will depend on a number of factors, including market conditions, applicable legal requirements, our capital needs and whether there is a better alternative use of capital. We have no obligation to repurchase any amount of Class A common stock under the program.

### Credit Agreement and Convertible Notes

For information regarding our credit agreement and convertible notes, see Note 13, Credit Agreement, and Note 14, Convertible Debt, respectively, included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q. As disclosed in Note 14, Convertible Debt, included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q, the conditional conversion feature of the 2017 Notes and the 2018 Notes was triggered as of March 31, 2019, and the 2017 Notes and the 2018 Notes are currently convertible at the option of the holders, in whole or in part between April 1, 2019 through June 30, 2019. Whether the 2017 Notes and the 2018 Notes will be convertible following such quarter will depend on the continued satisfaction of this condition or another conversion condition in the future. If one or more holders elect to convert their 2017 Notes or 2018 Notes, unless we elect to satisfy our conversion obligation by delivering solely shares of our Class A common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity. From April 1, 2019 through the date of this filing, none of the 2017 Notes or 2018 Notes has been converted.

### Off-Balance Sheet Arrangements



We do not engage in any off-balance sheet activities. We do not have any off-balance sheet interest in variable interest entities, which include special purpose entities and other structured finance entities.

## Table of Contents

### Contractual Obligations

There have been no material changes to our contractual obligations and estimates as compared to the contractual obligations described in Contractual Obligations included in Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, of the Company's Annual Report on Form 10-K for the year ended December 31, 2018, except as disclosed in Note 7, Commitments and Contingencies, included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q.

### Critical Accounting Policies

Our financial statements are prepared in accordance with accounting principles generally accepted in the U.S. The preparation of our financial statements and related disclosures requires us to make estimates, assumptions and judgments that affect the reported amount of assets, liabilities, net revenue, costs and expenses and related disclosures. We believe that the estimates, assumptions and judgments involved in the accounting policies described below have the greatest potential impact on our financial statements and, therefore, we consider these to be our critical accounting policies. Accordingly, we evaluate our estimates and assumptions on an ongoing basis. Our actual results may differ from these estimates under different assumptions and conditions.

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in Note 2, Summary of Significant Accounting Policies, included in Part II, Item 8, Financial Statements and Supplementary Data, of the Company's Annual Report on Form 10-K for the year ended December 31, 2018, except as disclosed in Note 2, Summary of Significant Accounting Policies - Leases, included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q.

### ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We have operations both within the U.S. and internationally, and we are exposed to market risks in the ordinary course of our business, including the effects of foreign currency fluctuations, interest rate changes and inflation. Information relating to quantitative and qualitative disclosures about these market risks is set forth below.

#### Interest Rate Sensitivity

Cash and cash equivalents and short-term and long-term investments were held primarily in cash deposits, certificates of deposit, money market funds, and corporate debt. The fair value of our cash, cash equivalents and short-term and long-term investments would not be significantly affected by either an increase or decrease in interest rates due mainly to the short-term nature of these instruments.

Our 2017 Notes, which were issued in September 2017, carry a fixed interest rate of 0.375% per year and our 2018 Notes, which were issued in November 2018, carry a fixed interest of 1.125% per year. Since the Notes bear interest at a fixed rate, we have no direct financial statement risk associated with changes in interest rates.

Interest on the revolving line of credit incurred pursuant to the credit agreement described herein would accrue at a floating rate based on a formula tied to certain market rates at the time of incurrence; however, we do not expect that any change in prevailing interest rates will have a material impact on our results of operations.

#### Foreign Currency Risk

Most of our sales are denominated in U.S. dollars, and therefore, our total revenue is not currently subject to significant foreign currency risk. However, as our international business has grown, fluctuations in foreign currency exchange rates have started to have a greater impact. Our operating expenses are denominated in the currencies of the countries in which our operations are located or in which net revenue is generated, and as a result we face exposure to adverse movements in foreign currency exchange rates, particularly changes in the British Pound, Euro, and Canadian Dollar, as the financial results of our international operations are translated from local currency, or functional currency, into U.S. dollars upon consolidation. Fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our consolidated statement of operations. To date, foreign currency transaction gains and losses have not been material to our financial statements, and we have not engaged in any foreign currency hedging transactions, but we may do so in the future. The effect of foreign currency exchange on our business historically has varied from quarter to quarter and may continue to do so, potentially materially.



Table of Contents

Inflation

We do not believe that inflation has had a material effect on our business, financial condition or results of operations. We continue to monitor the impact of inflation in order to minimize its effects through pricing strategies, productivity improvements and cost reductions. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition and results of operations.

Table of Contents

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the rules and forms of the Securities and Exchange Commission, or SEC. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q, other than those listed below, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

During the quarter ended March 31, 2019, we implemented controls to ensure we adequately evaluated our contracts and properly assessed the impact of the new lease accounting standard on our financial statements to facilitate adoption of the standard on January 1, 2019.

Table of Contents

PART II

OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding our legal proceedings, see Note 7, Commitments and Contingencies - Legal Matters, included in Part I, Item 1, Unaudited Consolidated and Condensed Financial Statements, of this Quarterly Report on Form 10-Q, which is incorporated into this item by reference.

Item 1A. Risk Factors

There are no material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2018.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Recent Sales of Unregistered Securities

During the three months ended March 31, 2019, we issued 38,454 shares of Class B common stock upon the vesting of outstanding restricted stock units, net of shares withheld to satisfy statutory minimum tax withholding obligations. The issuance of these securities was pursuant to written compensatory plans or arrangements with our employees, consultants, advisors and directors in reliance on the exemption provided by Rule 701 promulgated under the Securities Act, relative to transactions by an issuer not involving any public offering, to the extent an exemption from registration was required.

Recent Purchases of Equity Securities

During the three months ended March 31, 2019, we did not repurchase any shares of our common stock.

Table of Contents

Item 6. Exhibits.		Incorporated by Reference			
Exhibit		Filed	FormFile No.	Filing	Exhibit
Number	Exhibit Description	Herewith		Date	Number
10.1	<u>Amended and Restated Credit Agreement dated February 21, 2019 among Wayfair LLC, Wayfair Inc., each other Loan Party from time to time party thereto, each Lender from time to time party thereto and Citibank, N.A., as Administrative Agent, Swing Line Lender and L/C Issuer.</u>		8-K	001-366662/22/2019	10.1
31.1	<u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>	X			
31.2	<u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.</u>	X			
32.1#	<u>Certification of Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	X			
32.2#	<u>Certification of Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u>	X			
101.INS	XBRL Instance Document	X			
101.SCH	XBRL Taxonomy Extension Schema Document	X			
101.CAL	XBRL Taxonomy Calculation Linkbase Document	X			
101.DEF	XBRL Taxonomy Definition Linkbase Document	X			
101.LAB	XBRL Taxonomy Labels Linkbase Document	X			
101.PRE	XBRL Taxonomy Presentation Linkbase Document	X			
+ Indicates a management contract or compensatory plan					

This certification is deemed not filed for purposes of section 18 of the Securities Exchange Act of 1934, as amended # (Exchange Act), or otherwise subject to the liability of that section, nor shall it be deemed incorporated by reference into any filing under the Securities Act of 1933, as amended or the Exchange Act.

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

WAYFAIR INC.

Date: May 2, 2019 By: /s/ NIRAJ SHAH

Niraj Shah  
Chief Executive Officer and President  
(Principal Executive Officer)

Date: May 2, 2019 By: /s/ MICHAEL FLEISHER

Michael Fleisher  
Chief Financial Officer  
(Principal Financial and Accounting Officer)