PETITIONER'S

EVIDENCE

“economic obsolescence” - the loss in value of property caused by factors external to the property. These may include things as the economics of the industry; availability of financing; loss of material/or labor sources; passage of new legislation; reduced demand for the product; increased competition; or similar factors (page 67).

Valuing Machinery and Equipment: The Fundamentals of Appraising Machinery and Technical Assets

ASSESSOR'S EXHIBIT B
83 PAGES

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

FORM 10-Q

(Mark One)

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

For the quarterly period ended May 3, 2020.

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: 001-14077

WILLIAMS-SONOMA, INC.
(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of incorporation or organization)	**94-2203880** (I.R.S. Employer Identification No.)
3250 Van Ness Avenue, San Francisco, CA (Address of principal executive offices)	**94109** (Zip Code)

Registrant's telephone number, including area code: (415) 421-7900

(Former name, former address and former fiscal year, if changed since last report)

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

Title of each class:	Trading Symbol(s):	Name of each exchange on which registered:
Common Stock, par value $.01 per share	WSM	New York Stock Exchange, Inc.

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, a 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. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ☐ No ☒

As of May 31, 2020, 77,758,981 shares of the registrant's Common Stock were outstanding.

Table of Contents

WILLIAMS-SONOMA, INC.
REPORT ON FORM 10-Q
FOR THE QUARTER ENDED MAY 3, 2020

TABLE OF CONTENTS

PART I. FINANCIAL INFORMATION

Table of Contents

ITEM 1. FINANCIAL STATEMENTS

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(Unaudited)

In thousands, except per share amounts	Thirteen Weeks Ended May 3, 2020	Thirteen Weeks Ended May 5, 2019
Net revenues	$1,235,203	$1,241,132
Cost of goods sold	820,943	796,801
Gross profit	414,260	444,331
Selling, general and administrative expenses	365,615	370,199
Operating income	48,645	74,132
Interest expense, net	2,159	2,253
Earnings before income taxes	46,486	71,879
Income taxes	11,063	19,223
Net earnings	$ 35,423	$ 52,656
Basic earnings per share	$ 0.46	$ 0.67
Diluted earnings per share	$ 0.45	$ 0.66
Shares used in calculation of earnings per share:		
Basic	77,262	78,683
Diluted	78,399	79,867

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Unaudited)

In thousands	Thirteen Weeks Ended May 3, 2020	Thirteen Weeks Ended May 5, 2019
Net earnings	$ 35,423	$ 52,656
Other comprehensive income (loss):		
Foreign currency translation adjustments	(5,276)	(3,009)
Change in fair value of derivative financial instruments, net of tax of $196 and $74	549	204
Reclassification adjustment for realized (gain) on derivative financial instruments, net of tax of $13 and $24	(37)	(67)
Comprehensive income	$ 30,659	$ 49,784

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)

In thousands, except per share amounts	May 3, 2020	February 2, 2020	May 5, 2019
ASSETS			
Current assets			
Cash and cash equivalents	$ 861,002	$ 432,162	$ 107,683
Accounts receivable, net	104,829	111,737	102,195
Merchandise inventories, net	1,070,681	1,100,544	1,155,427
Prepaid expenses	90,433	90,426	98,213
Other current assets	22,099	20,766	22,128
Total current assets	2,149,044	1,755,635	1,485,646
Property and equipment, net	907,219	929,038	916,030
Operating lease right-of-use assets	1,175,402	1,166,383	1,200,972
Deferred income taxes, net	33,320	47,977	34,215
Goodwill	85,335	85,343	85,357
Other long-term assets, net	67,795	69,666	66,145
Total assets	$4,418,115	$4,054,042	$3,788,365
LIABILITIES AND STOCKHOLDERS' EQUITY			
Current liabilities			
Accounts payable	$ 423,375	$ 521,235	$ 385,646
Accrued expenses	137,495	175,003	109,169
Gift card and other deferred revenue	299,353	289,613	291,839
Income taxes payable	24,049	22,501	24,384
Current debt	487,823	299,818	—
Operating lease liabilities	224,541	227,923	227,427
Other current liabilities	85,458	73,462	75,750
Total current liabilities	1,682,094	1,609,555	1,114,215
Deferred rent and lease incentives	26,254	27,659	30,536
Long-term debt	299,868	—	299,670
Long-term operating lease liabilities	1,109,473	1,094,579	1,139,625
Other long-term liabilities	81,497	86,389	82,551
Total liabilities	3,199,186	2,818,182	2,666,597
Commitments and contingencies – See Note F			
Stockholders' equity			
Preferred stock: $.01 par value; 7,500 shares authorized; none issued	—	—	—
Common stock: $.01 par value; 253,125 shares authorized; 77,759, 77,137 and 78,808 shares issued and outstanding at May 3, 2020, February 2, 2020 and May 5, 2019, respectively	778	772	788
Additional paid-in capital	596,184	605,822	571,772
Retained earnings	641,917	644,794	564,127
Accumulated other comprehensive loss	(19,351)	(14,587)	(13,945)
Treasury stock, at cost: 8, 14 and 14 shares as of May 3, 2020, February 2, 2020 and May 5, 2019, respectively	(599)	(941)	(974)
Total stockholders' equity	1,218,929	1,235,860	1,121,768
Total liabilities and stockholders' equity	$4,418,115	$4,054,042	$3,788,365

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
(Unaudited)

In thousands	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at February 2, 2020	77,137	$ 772	$ 605,822	$644,794	$ (14,587)	$ (941)	$ 1,235,860
Net earnings	—	—	—	35,423	—	—	35,423
Foreign currency translation adjustments	—	—	—	—	(5,276)	—	(5,276)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	549	—	549
Reclassification adjustment for realized (gain) on derivative financial instruments, net of tax	—	—	—	—	(37)	—	(37)
Conversion/release of stock-based awards [1]	622	6	(28,747)	—	—	(171)	(28,912)
Reissuance of treasury stock under stock-based compensation plans [1]	—	—	(499)	(14)	—	513	—
Stock-based compensation expense	—	—	19,608	—	—	—	19,608
Dividends declared	—	—	—	(38,286)	—	—	(38,286)
Balance at May 3, 2020	77,759	$ 778	$ 596,184	$641,917	$ (19,351)	$ (599)	$ 1,218,929

In thousands	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance at February 3, 2019	78,813	$ 789	$ 581,900	$584,333	$ (11,073)	$ (235)	$ 1,155,714
Net earnings	—	—	—	52,656	—	—	52,656
Foreign currency translation adjustments	—	—	—	—	(3,009)	—	(3,009)
Change in fair value of derivative financial instruments, net of tax	—	—	—	—	204	—	204
Reclassification adjustment for realized (gain) on derivative financial instruments, net of tax	—	—	—	—	(67)	—	(67)
Conversion/release of stock-based awards [1]	571	5	(25,298)	—	—	(113)	(25,406)
Repurchases of common stock	(576)	(6)	(2,874)	(30,010)	—	(958)	(33,848)
Reissuance of treasury stock under stock-based compensation plans [1]	—	—	(332)	—	—	332	—
Stock-based compensation expense	—	—	18,376	—	—	—	18,376
Dividends declared	—	—	—	(39,549)	—	—	(39,549)
Adoption of accounting pronouncements [2]	—	—	—	(3,303)	—	—	(3,303)
Balance at May 5, 2019	78,808	$ 788	$ 571,772	$564,127	$ (13,945)	$ (974)	$ 1,121,768

[1] *Amounts are shown net of shares withheld for employee taxes.*
[2] *Relates to our adoption of ASU 2016-02, Leases, in fiscal 2019.*

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

In thousands	Thirteen Weeks Ended May 3, 2020	Thirteen Weeks Ended May 5, 2019
Cash flows from operating activities:		
Net earnings	$ 35,423	$ 52,656
Adjustments to reconcile net earnings to net cash provided by (used in) operating activities:		
Depreciation and amortization	46,224	46,838
(Gain) loss on disposal/impairment of assets	16,185	(323)
Amortization of deferred lease incentives	(1,405)	(2,306)
Non-cash lease expense	54,262	51,596
Deferred income taxes	(2,585)	(4,126)
Tax benefit related to stock-based awards	12,039	14,898
Stock-based compensation expense	19,703	18,529
Other	129	69
Changes in:		
Accounts receivable	8,950	4,684
Merchandise inventories	28,513	(31,460)
Prepaid expenses and other assets	(215)	(4,914)
Accounts payable	(92,871)	(144,399)
Accrued expenses and other liabilities	(29,050)	(49,196)
Gift card and other deferred revenue	9,960	1,558
Operating lease liabilities	(57,629)	(55,099)
Income taxes payable	6,240	2,915
Net cash provided by (used in) operating activities	53,873	(98,080)
Cash flows from investing activities:		
Purchases of property and equipment	(42,321)	(36,148)
Other	242	107
Net cash used in investing activities	(42,079)	(36,041)
Cash flows from financing activities:		
Borrowings under revolving line of credit	487,823	—
Payment of dividends	(39,391)	(36,868)
Tax withholdings related to stock-based awards	(28,912)	(25,406)
Repurchases of common stock	—	(33,848)
Net cash provided by (used in) financing activities	419,520	(96,122)
Effect of exchange rates on cash and cash equivalents	(2,474)	(1,028)
Net increase (decrease) in cash and cash equivalents	428,840	(231,271)
Cash and cash equivalents at beginning of period	432,162	338,954
Cash and cash equivalents at end of period	$861,002	$ 107,683

See Notes to Condensed Consolidated Financial Statements.

WILLIAMS-SONOMA, INC.
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

NOTE A. FINANCIAL STATEMENTS - BASIS OF PRESENTATION

These financial statements include Williams-Sonoma, Inc. and its wholly owned subsidiaries ("we," "us" or "our"). The Condensed Consolidated Balance Sheets as of May 3, 2020 and May 5, 2019, the Condensed Consolidated Statements of Earnings, the Condensed Consolidated Statements of Comprehensive Income, the Condensed Consolidated Statements of Stockholders' Equity and the Condensed Consolidated Statements of Cash Flows for the thirteen weeks then ended, have been prepared by us, without audit. In our opinion, the financial statements include all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position at the balance sheet dates and the results of operations for the thirteen weeks then ended. Intercompany transactions and accounts have been eliminated. The balance sheet as of February 2, 2020, presented herein, has been derived from our audited Consolidated Balance Sheet included in our Annual Report on Form 10-K for the fiscal year ended February 2, 2020.

The results of operations for the thirteen weeks ended May 3, 2020 are not necessarily indicative of the operating results of the full year.

Certain information and footnote disclosures normally included in the annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been omitted. These financial statements should be read in conjunction with the Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the fiscal year ended February 2, 2020.

COVID-19

On March 11, 2020, the World Health Organization declared a novel strain of the coronavirus (COVID-19) to be a global pandemic and recommended containment and mitigation measures worldwide. In March 2020, we announced the temporary closures of all of our retail store operations to protect our employees, customers and the communities in which we operate and to help contain the COVID-19 coronavirus pandemic. While subsequent to quarter end we have announced the reopening of over 350 stores, we have extended such closures in locations where retail restrictions have not been lifted. The preventative or protective actions that governments and businesses around the world have taken to contain the spread of COVID-19 have resulted in a period of disruption that has materially reduced customer store traffic, and thus our retail store revenues, which comprised approximately 44% of our net revenues in fiscal 2019. Throughout the first quarter, we continued to operate our e-commerce sites and distribution centers and continued to deliver products to our customers.

As a result of the COVID-19 pandemic and the resulting closure of all of our retail locations, we identified certain assets whose carrying value was now deemed to have been partially impaired. Given the material reductions in our retail store revenues and operating income during the first quarter of fiscal 2020, we evaluated our estimates and assumptions related to our stores' future sales and cash flows, and performed a comprehensive review of our stores' long-lived assets for impairment, including both property and equipment and operating lease right-of-use assets, at an individual store level. Key assumptions used in estimating fair value of our store assets in connection with our impairment analyses are sales growth, gross margin, employment costs, lease escalations, market rental rates, changes in local real estate markets in which we operate, inflation, and the overall economics of the retail industry. Our assumptions account for the estimated impact from the recent closure of all of our retail stores and reflect the re-opening of our retail stores throughout fiscal 2020 as allowed by the local governmental requirements in the states in which we operate. As a result, during the first quarter of fiscal 2020, we recorded store asset impairment charges within selling, general and administrative expenses of approximately $11,825,000 related to property and equipment and $3,795,000 related to operating lease right-of-use assets.

In addition, during the first quarter of fiscal 2020, we recorded charges of approximately $11,378,000 representing write - offs for inventory with minor damage that we could not liquidate through our outlets due to store closures resulting from COVID-19.

We test goodwill for impairment annually (on the first day of the fourth quarter), or between annual tests whenever events or changes in circumstances indicate that the fair value of a reporting unit may be below its carrying amount. As of May 3, 2020 and May 5, 2019, we had goodwill of $85,335,000 and $85,357,000, respectively, primarily related to our fiscal 2017 acquisition of Outward and to our fiscal 2011 acquisition of Rejuvenation, Inc. As a result of the COVID-19 pandemic and the resulting closure of all of our retail locations during the quarter, we evaluated the need to test goodwill for potential impairment. Our most recently completed qualitative goodwill impairment assessment indicated that the fair values of our reporting units significantly exceeded their carrying values. Further, we currently do not expect the impact of COVID-19 to significantly affect the long-term estimates or assumptions of revenue and operating income growth, nor the long-term strategies of our brands, considered in our most recently completed goodwill assessment. Therefore, we currently do not consider the pandemic to be a triggering event requiring the testing of goodwill between annual tests, and accordingly, we have not recorded any goodwill impairment charges during the first quarter of fiscal 2020.

As of the end of the quarter, we had finalized rent concession negotiations on a limited portion of our stores and therefore any impact on our financials was immaterial for the first quarter of fiscal 2020. We expect most outstanding lease concession negotiations to be finalized during the second quarter of fiscal 2020.

In response to COVID-19, the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") was signed into law on March 27, 2020. The CARES Act provides tax provisions and other stimulus measures to affected companies. The impact of the CARES Act was not material to our result of operations and financial position for the first quarter of fiscal 2020. We are continuing to assess the financial relief available to us under the CARES Act and expect to record any further impact during the second quarter of fiscal 2020.

These events and changes in circumstances, including a more prolonged and/or severe COVID-19 pandemic, may lead to increased impairment risk in the future; therefore, we will continue to monitor events and changes in circumstances that may indicate the need to test our long-lived assets, including goodwill, for potential impairment.

New Accounting Pronouncements
In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses* (Topic 326): Measurement of Credit Losses on Financial Instruments. This standard is intended to introduce a revised approach to the recognition and measurement of credit losses, emphasizing an updated model based on expected losses rather than incurred losses. This ASU was effective for us in the first quarter of fiscal 2020. The adoption of this ASU did not have a material impact on our financial condition, results of operations or cash flows.

In August 2018, the FASB issued ASU 2018-15, *Intangibles—Goodwill and Other—Internal-Use Software* (Subtopic 350-40): Customer's Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract. This ASU aligns the requirements for capitalizing implementation costs incurred in a hosting arrangement that is a service contract with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. Accordingly, the amendments require an entity in a hosting arrangement that is a service contract to follow the guidance in Subtopic 350-40 to determine which implementation costs to capitalize as an asset related to the service contract and which costs to expense. This ASU was effective for us in the first quarter of fiscal 2020. The adoption of this ASU did not have a material impact on our financial condition, results of operations or cash flows.

In December 2019, the FASB issued ASU 2019-12, *Simplifying the Accounting for Income Taxes* (Topic 740). This standard simplifies the accounting for income taxes by eliminating certain exceptions to the guidance in Accounting Standards Codification ("ASC") 740 related to the approach for intraperiod tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. The standard also simplifies aspects of the accounting for franchise taxes and enacted changes in tax laws or rates and clarifies the accounting for transactions that result in a step-up in the tax basis of goodwill. The standard is effective for public companies for fiscal years, and interim periods within those fiscal years, beginning after December 15, 202 0 , and early adoption is permitted. We do not expect the adoption of this ASU to have a material impact on our financial condition, results of operations or cash flow.

NOTE B. BORROWING ARRANGEMENTS

Credit Facility
We have a credit facility which provides for a $500,000,000 unsecured revolving line of credit ("revolver") and a $300,000,000 unsecured term loan facility ("term loan"). The revolver may be used to borrow revolving loans or request the issuance of letters of credit. We may, upon notice to the administrative agent, request existing or new lenders, at such lenders' option, to increase the revolver by up to $250,000,000 to provide for a total of $750,000,000 of unsecured revolving credit.

During the first quarter of fiscal 2020, we drew down $487,823,000 on the revolver (at a weighted average interest rate of 2.00%). Additionally, as of May 3, 2020, $12,177,000 in issued but undrawn standby letters of credit were outstanding under the revolver, for a total outstanding balance on the revolver of $500,000,000. The standby letters of credit were issued to secure the liabilities associated with workers' compensation and other insurance programs. During the first quarter of fiscal 2019, we had no borrowings under the revolver. The revolver matures on January 8, 2023, at which time all outstanding borrowings must be repaid and all outstanding letters of credit must be cash collateralized. We may, prior to the first and second anniversaries of the closing date of the amendment of the credit facility, elect to extend the maturity date for an additional year, subject to lender approval.

As of May 3, 2020, we had $300,000,000 outstanding under our term loan (at a weighted average interest rate of 2.55%).

On May 11, 2020, we entered into an amendment to our credit facility (the "Credit Facility Amendment"), which, among other changes, extends the maturity date and amends the interest rate of the term loan, modifies covenants under the credit facility, and maintains the maturity date and interest rate of the revolver. The term loan now matures on January 8, 2022, at which time all outstanding principal and any accrued interest must be repaid. Based on this Credit Facility Amendment, borrowings under our term loan have been presented as long-term debt in our Condensed Consolidated Balance Sheet as of May 3, 2020. Costs incurred in connection with the issuance of the term loan are presented as a reduction to the carrying value of the debt in our Condensed Consolidated Balance Sheet. Under the Credit Facility Amendment, the interest rate applicable to the credit facility is variable, and may be elected by us as: (i) the London Interbank Offer Rate ("LIBOR") plus an applicable margin based on our leverage ratio ranging from 0.91% to 1.775% for a revolver borrowing, and 1.75% to 2.5% for the term loan, or (ii) a base rate as defined in the credit facility, plus an applicable margin ranging from 0% to 0.775% for a revolver borrowing, and 0.75% to 1.5% for the term loan.

In addition to the Credit Facility Amendment, subsequent to quarter end, we entered into a new agreement (the "364-Day Credit Agreement") for an additional $200,000,000 unsecured revolving line of credit. Unde r the 364-Day Credit Agreement, the interest rate is variable and may be elected by us as: (i) LIBOR plus an applicable margin based on our leverage ratio ranging from 1.75% to 2.5% or (ii) a base rate as defined in the agreement, plus an applicable margin ranging from 0.75% to 1.5%. The 364-Day Credit Agreement matures on May 10, 2021.

The Credit Facility Amendment and the 364-Day Credit Agreement contain certain restrictive loan covenants, including, among others, a financial covenant requiring a maximum leverage ratio (funded debt adjusted for lease and rent expense to earnings before interest, income tax, depreciation, amortization and rent expense), and covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, merge or consolidate, and dispose of assets. As of May 3, 2020, we were in compliance with our covenants under our credit facilities and based on current projections, we expect to remain in compliance throughout the next 12 months.

Letter of Credit Facilities
We have three unsecured letter of credit reimbursement facilities for a total of $70,000,000, each of which matures on August 23, 2020. The letter of credit facilities contain covenants that are consistent with our credit facility. Interest on unreimbursed amounts under the letter of credit facilities accrues at a base rate as defined in the credit facility plus an applicable margin based on our leverage ratio. As of May 3, 2020, an aggregate of $7,099,000 was outstanding under the letter of credit facilities, which represents only a future commitment to fund inventory purchases to which we had not taken legal title. The latest expiration possible for any future letters of credit issued under the facilities is January 21, 2021.

NOTE C. STOCK-BASED COMPENSATION

Equity Award Programs
Our Amended and Restated 2001 Long-Term Incentive Plan (the "Plan") provides for grants of incentive stock options, nonqualified stock options, stock-settled stock appreciation rights (collectively, "option awards"), restricted stock awards, restricted stock units (including those that are performance-based), deferred stock awards (collectively, "stock awards") and dividend equivalents up to an aggregate of 36,570,000 shares. As of May 3, 2020, there were approximately 2,479,000 shares available for future grant. Awards may be granted under the Plan to officers, employees and non-employee members of the board of directors of the company (the "Board") or any parent or subsidiary. Shares issued as a result of award exercises or releases are primarily funded with the issuance of new shares.

Option Awards
Annual grants of option awards are limited to 1,000,000 shares on a per person basis and have a maximum term of seven years. The exercise price of these option awards must not be less than 100% of the closing price of our stock on the day prior to the grant date. Option awards granted to employees generally vest evenly over a period of four years for service-based awards. Certain option awards contain vesting acceleration clauses resulting from events including, but not limited to, retirement, merger or a similar corporate event.

Stock Awards
Annual grants of stock awards are limited to 1,000,000 shares on a per person basis and have a maximum term of seven years. Stock awards granted to employees generally vest evenly over a period of four years for service-based awards. Certain performance-based awards, which have variable payout conditions based on predetermined financial targets, generally vest three years from the date of grant. Certain stock awards and other agreements contain vesting acceleration clauses resulting from events including, but not limited to, retirement, disability, death, merger or a similar corporate event. Stock awards granted to non-employee Board members generally vest in one year. Non-employee Board members automatically receive stock awards on the date of their initial election to the Board and annually thereafter on the date of the annual meeting of stockholders (so long as they continue to serve as a non-employee Board member).

Stock-Based Compensation Expense
During the thirteen weeks ended May 3, 2020 and May 5, 2019, we recognized total stock-based compensation expense, as a component of selling, general and administrative expenses, of $19,703,000 and $18,529,000, respectively.

Restricted Stock Units

The following table summarizes our restricted stock unit activity during the thirteen weeks ended May 3, 2020:

	Shares
Balance at February 2, 2020	2,884,194
Granted [1]	1,080,400
Released [2]	(954,419)
Cancelled	(53,699)
Balance at May 3, 2020	2,956,476
Vested plus expected to vest at May 3, 2020	2,390,537

[1] *Excludes 267,000 restricted stock units for which the accounting grant date has not yet been determined and consequently for which no expense has been recognized. These awards reduced the shares available for future grant under the Plan.*

[2] *Excludes 170,308 incremental shares released due to achievement of performance conditions above target.*

NOTE D. EARNINGS PER SHARE

Basic earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding for the period. Diluted earnings per share is computed as net earnings divided by the weighted average number of common shares outstanding and common stock equivalents outstanding for the period. Common stock equivalents consist of shares subject to stock-based awards with exercise prices less than or equal to the average market price of our common stock for the period, to the extent their inclusion would be dilutive.

The following is a reconciliation of net earnings and the number of shares used in the basic and diluted earnings per share computations:

In thousands, except per share amounts	Net Earnings	Weighted Average Shares	Earnings Per Share
Thirteen weeks ended May 3, 2020			
Basic	$ 35,423	77,262	$ 0.46
Effect of dilutive stock-based awards		1,137	
Diluted	$ 35,423	78,399	$ 0.45
Thirteen weeks ended May 5, 2019			
Basic	$ 52,656	78,683	$ 0.67
Effect of dilutive stock-based awards		1,184	
Diluted	$ 52,656	79,867	$ 0.66

Stock-based awards of 8,000 and 11,000 were excluded from the computation of diluted earnings per share for the thirteen weeks ended May 3, 2020 and May 5, 2019, respectively, as their inclusion would be anti-dilutive.

NOTE E. SEGMENT REPORTING

We identify our operating segments according to how our business activities are managed and evaluated. Each of our brands are operating segments. Because they share similar economic and other qualitative characteristics, we have aggregated our operating segments into a single reportable segment.

The following table summarizes our net revenues by brand for the thirteen weeks ended May 3, 2020 and May 5, 2019.

	Thirteen Weeks Ended	
In thousands	May 3, 2020	May 5, 2019
Pottery Barn	$ 479,615	$ 492,126
West Elm	315,430	309,483
Williams Sonoma	199,302	194,894
Pottery Barn Kids and Teen	188,552	177,046
Other [1]	52,304	67,583
Total [2]	$ 1,235,203	$ 1,241,132

[1] *Primarily consists of net revenues from our international franchise operations, Rejuvenation and Mark and Graham.*
[2] *Includes net revenues related to our international operations (including our operations in Canada, Australia, the United Kingdom and our franchise businesses) of approximately $55.2 million and $86.6 million for the thirteen weeks ended May 3, 2020 and May 5, 2019.*

Long-lived assets by geographic location are as follows:

In thousands	May 3, 2020	May 5, 2019
U.S.	$ 2,117,469	$ 2,136,000
International	151,602	166,719
Total	$ 2,269,071	$ 2,302,719

NOTE F. COMMITMENTS AND CONTINGENCIES

We are involved in lawsuits, claims and proceedings incident to the ordinary course of our business. These disputes, which are not currently material, are increasing in number as our business expands and our company grows. We review the need for any loss contingency reserves and establish reserves when, in the opinion of management, it is probable that a matter would result in liability, and the amount of loss, if any, can be reasonably estimated. In view of the inherent difficulty of predicting the outcome of these matters, it may not be possible to determine whether any loss is probable or to reasonably estimate the amount of the loss until the case is close to resolution, in which case no reserve is established until that time. Any claims against us, whether meritorious or not, could result in costly litigation, require significant amounts of management time and result in the diversion of significant operational resources. The results of these lawsuits, claims and proceedings cannot be predicted with certainty. However, we believe that the ultimate resolution of these current matters will not have a material adverse effect on our Condensed Consolidated Financial Statements taken as a whole.

NOTE G. STOCK REPURCHASE PROGRAM AND DIVIDENDS

Stock Repurchase Program
During the thirteen weeks ended May 3, 2020, we did not repurchase any shares of our common stock and as of May 3, 2020, there was $574,982,000 remaining under our current stock repurchase program. As of May 3, 2020, we held treasury stock of $599,000 that represents the cost of shares available for issuance intended to satisfy future stock-based award settlements in certain foreign jurisdictions.

During the thirteen weeks ended May 5, 2019, we repurchased 593,096 shares of our common stock at an average cost of $57.07 per share and a total cost of approximately $33,848,000.

Stock repurchases under our program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability and other market conditions.

Dividends
We declared cash dividends of $0.48 per common share during the thirteen weeks ended May 3, 2020 and May 5, 2019, respectively. Our quarterly cash dividend may be limited or terminated at any time.

NOTE H. DERIVATIVE FINANCIAL INSTRUMENTS

We have retail and e-commerce businesses in Canada, Australia and the United Kingdom, and operations throughout Asia and Europe, which expose us to market risk associated with foreign currency exchange rate fluctuations. Substantially all of our purchases and sales are denominated in U.S. dollars, which limits our exposure to this risk. However, some of our foreign operations have a

Table of Contents

functional currency other than the U.S. dollar. To mitigate this risk, we hedge a portion of our foreign currency exposure with foreign currency forward contracts in accordance with our risk management policies. We do not enter into such contracts for speculative purposes. The assets or liabilities associated with the derivative financial instruments are measured at fair value and recorded in either other current or long-term assets or other current or long-term liabilities. As discussed below, the accounting for gains and losses resulting from changes in fair value depends on whether the derivative financial instrument is designated as a hedge and qualifies for hedge accounting in accordance with the Accounting Standards Codification ("ASC") 815, *Derivatives and Hedging* .

Cash Flow Hedges

We enter into foreign currency forward contracts designated as cash flow hedges (to sell Canadian dollars and purchase U.S. dollars) for forecasted inventory purchases in U.S. dollars by our Canadian subsidiary. These hedges have terms of up to 18 months. All hedging relationships are formally documented, and the forward contracts are designed to mitigate foreign currency exchange risk on hedged transactions. We record the effective portion of changes in the fair value of our cash flow hedges in other comprehensive income ("OCI") until the earlier of when the hedged forecasted inventory purchase occurs or the respective contract reaches maturity. Subsequently, as the inventory is sold to the customer, we reclassify amounts previously recorded in OCI to cost of goods sold. Changes in the fair value of the forward contract related to interest charges (or forward points) are excluded from the assessment and measurement of hedge effectiveness and are recorded in cost of goods sold. Based on the rates in effect as of May 3, 2020, we expect to reclassify a net pre-tax gain of approximately $ 702,000 from OCI to cost of goods sold over the next 12 months.

We also enter into non-designated foreign currency forward contracts (to sell Australian dollars and British pounds and purchase U.S. dollars) to reduce the exchange risk associated with our assets and liabilities denominated in a foreign currency. Any foreign exchange gains or losses related to these contracts are recognized in selling, general and administrative expenses.

As of May 3, 2020 and May 5, 2019, we had foreign currency forward contracts outstanding (in U.S. dollars) with notional values as follows:

In thousands	May 3, 2020	May 5, 2019
Contracts designated as cash flow hedges	$ 11,600	$ 10,800
Contracts not designated as cash flow hedges	$ —	$ —

Hedge effectiveness is evaluated prospectively at inception, on an ongoing basis, as well as retrospectively using regression analysis. Any measurable ineffectiveness of the hedge is recorded in selling, general and administrative expenses. No gain or loss was recognized for cash flow hedges due to hedge ineffectiveness and all hedges were deemed effective for assessment purposes for the thirteen weeks ended May 3, 2020 and May 5, 2019.

The effect of derivative instruments in our Condensed Consolidated Financial Statements during the thirteen weeks ended May 3, 2020 and May 5, 2019, pre-tax, was as follows:

In thousands	May 3, 2020	May 5, 2019
Net gain recognized in OCI	$ 745	$ 278

	May 3, 2020		May 5, 2019	
In thousands	Cost of goods sold	Selling, general and administrative expenses	Cost of goods sold	Selling, general and administrative expenses
Line items presented in the Condensed Consolidated Statement of Earnings in which the effects of derivatives are recorded	$ 820,943	$ 365,615	$ 796,801	$ 370,199
Gain (loss) recognized in income				
Derivatives designated as cash flow hedges	$ 50	$ —	$ 108	$ —
Derivatives not designated as hedging instruments	$ —	$ 2	$ —	$ (6)

The fair values of our derivative financial instruments are presented below according to their classification in our Condensed Consolidated Balance Sheets. All fair values were measured using Level 2 inputs as defined by the fair value hierarchy described in Note I.

In thousands	May 3, 2020	May 5, 2019
Derivatives designated as cash flow hedges:		
Other current assets	$ 698	$ 475

We record all derivative assets and liabilities on a gross basis. They do not meet the balance sheet netting criteria as discussed in ASC 210, *Balance Sheet* , because we do not have master netting agreements established with our derivative counterparties that would allow for net settlement.

NOTE I. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

We determine the fair value of financial and non-financial assets and liabilities using the fair value hierarchy established by ASC 820, *Fair Value Measurement* , which defines three levels of inputs that may be used to measure fair value, as follows:

- Level 1: inputs which include quoted prices in active markets for identical assets or liabilities;
- Level 2: inputs which include observable inputs other than Level 1 inputs, such as quoted prices in active markets for similar assets or liabilities; quoted prices for identical or similar assets or liabilities in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the asset or liability; and
- Level 3: inputs which include unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the underlying asset or liability.

The fair values of our cash and cash equivalents are based on Level 1 inputs, which include quoted prices in active markets for identical assets.

Debt
As of May 3, 2020, the fair value of our debt, which consists of outstanding borrowings under our revolver and term loan, approximates its carrying value, as the instruments are relatively short-term in nature and the interest rate under the term loan is based on observable Level 2 inputs, which consist primarily of quoted market interest rates for instruments with similar maturities.

Foreign Currency Derivatives and Hedging Instruments
We use the income approach to value our derivatives using observable Level 2 market data at the measurement date and standard valuation techniques to convert future amounts to a single present value amount, assuming that participants are motivated but not compelled to transact. Level 2 inputs are limited to quoted prices that are observable for the assets and liabilities, which include interest rates and credit risk ratings. We use mid-market pricing as a practical expedient for fair value measurements. Key inputs for foreign currency derivatives are the spot rates, forward rates, interest rates and credit derivative market rates.

The counterparties associated with our foreign currency forward contracts are large credit-worthy financial institutions, and the derivatives transacted with these entities are relatively short in duration, therefore, we do not consider counterparty concentration and non-performance to be material risks at this time. Both we and our counterparties are expected to perform under the contractual terms of the instruments. None of the derivative contracts we entered into are subject to credit risk-related contingent features or collateral requirements.

Long-lived Assets
We review the carrying value of all long-lived assets for impairment, primarily at an individual store level, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. We measure property and equipment at fair value on a nonrecurring basis using Level 3 inputs as defined in the fair value hierarchy. We measure right-of-use assets on a nonrecurring basis using Level 2 inputs that are corroborated by market data. Where Level 2 inputs are not readily available, we use Level 3 inputs. Fair value of these long-lived assets is based on the present value of estimated future cash flows using a discount rate commensurate with the risk.

The significant unobservable inputs used in the fair value measurement of our store assets are sales growth, gross margin, employment costs, lease escalations, market rental rates, changes in local real estate markets in which we operate , inflation and the overall economics of the retail industry. Significant fluctuations in any of these inputs individually could significantly impact our measurement of fair value.

During the first quarter of fiscal 2020, we recognized impairment charges of $11,825,000 related to the impairment of property and equipment and $3,795,000 related to the impairment of operating lease right-of-use assets, due to the impact of COVID-19. During the first quarter of fiscal 2019, no impairment charges were recognized.

There were no transfers in and out of Level 3 categories during the thirteen weeks ended May 3, 2020 or May 5, 2019.

NOTE J. ACCUMULATED OTHER COMPREHENSIVE INCOME

Changes in accumulated other comprehensive income (loss) by component, net of tax, are as follows:

In thousands	Foreign Currency Translation	Cash Flow Hedges	Accumulated Other Comprehensive Income (Loss)
Balance at February 2, 2020	$ (14,593)	$ 6	$ (14,587)
Foreign currency translation adjustments	(5,276)	—	(5,276)
Change in fair value of derivative financial instruments	—	549	549
Reclassification adjustment for realized (gain) on derivative financial instruments [1]	—	(37)	(37)
Other comprehensive income (loss)	(5,276)	512	(4,764)
Balance at May 3, 2020	$ (19,869)	$ 518	$ (19,351)
Balance at February 3, 2019	$ (11,259)	$ 186	$ (11,073)
Foreign currency translation adjustments	(3,009)	—	(3,009)
Change in fair value of derivative financial instruments	—	204	204
Reclassification adjustment for realized (gain) on derivative financial instruments [1]	—	(67)	(67)
Other comprehensive income (loss)	(3,009)	137	(2,872)
Balance at May 5, 2019	$ (14,268)	$ 323	$ (13,945)

[1] *Refer to Note H for additional disclosures about reclassifications out of accumulated other comprehensive income and their corresponding effects on the respective line items in the Condensed Consolidated Statements of Earnings.*

NOTE K. REVENUE

The majority of our revenues are generated from sales of merchandise to our customers through our e-commerce websites, our direct mail catalogs, or at our retail stores and include shipping fees received from customers for delivery of merchandise to their homes. The remainder of our revenues are primarily generated from sales to our franchisees and other wholesale transactions, breakage income related to stored-value cards, and incentives received from credit card issuers in connection with our private label and co-branded credit cards.

We recognize revenue as control of promised goods or services are transferred to our customers. We record a liability at each period end where we have an obligation to transfer goods or services for which we have received consideration or have a right to consideration. We exclude from revenue any taxes assessed by governmental authorities, including value-added and other sales-related taxes, that are imposed on and are concurrent with revenue-generating activities. Our payment terms are primarily at the point of sale for merchandise sales and for most services.

See Note E for a discussion of our net revenues by operating segment.

Merchandise Sales
Revenues from the sale of our merchandise through our e-commerce websites, at our retail stores, as well as to our franchisees and wholesale customers are, in each case, recognized at a point in time when control of merchandise is transferred to the customer. Merchandise can either be picked up in our stores or delivered to the customer. For merchandise picked up in the store, control is transferred at the time of the sale to the end customer. For merchandise delivered to the customer, control is transferred when either delivery has been completed, or we have a present right to payment which, for certain merchandise, occurs upon conveyance of the merchandise to the carrier for delivery. We exclude from revenue any taxes assessed by governmental authorities, including value-added and other sales-related taxes, that are imposed on and are concurrent with revenue-generating activities. Our payment terms are primarily at the point of sale for merchandise sales and for most services. We have elected to account for shipping and handling as fulfillment activities, and not as a separate performance obligation.

Revenue from the sale of merchandise is reported net of sales returns. We estimate future returns based on historical return trends together with current product sales performance. As of May 3, 2020 and May 5, 2019, we recorded a liability for expected sales returns of approximately $33,357,000 and $30,154,000 within other current liabilities and a corresponding asset for the expected net realizable value of the merchandise inventory to be returned of approximately $11,603,000 and $11,204,000 within other current assets in our Condensed Consolidated Balance Sheet.

Stored-value Cards
We issue stored-value cards that may be redeemed on future merchandise purchases. Our stored-value cards have no expiration dates. Revenue from stored-value cards is recognized at a point in time upon redemption of the card and as control of the merchandise is transferred to the customer. Revenue from estimated unredeemed stored-value cards (breakage) is recognized in a manner consistent with our historical redemption patterns over the estimated period of redemption of our cards of approximately four years, the majority of which is recognized within one year of the card issuance. Breakage revenue is not material to our Condensed Consolidated Financial Statements.

Credit Card Incentives
We enter into agreements with credit card issuers in connection with our private label and co-branded credit cards whereby we receive cash incentives in exchange for promised services, such as licensing our brand names and marketing the credit card program to customers. Services promised under these agreements are interrelated and are thus considered a single performance obligation. Revenue is recognized over time as we transfer promised services throughout the contract term.

Customer Loyalty Programs
We have customer loyalty programs which allow members to earn points for each qualifying purchase. Points earned enable members to receive certificates that may be redeemed on future merchandise purchases. This customer option is a material right and, accordingly, represents a separate performance obligation to the customer. The allocated consideration for the points earned by our loyalty program members is deferred based on the standalone selling price of the points and recorded within gift card and other deferred revenue within our Condensed Consolidated Balance Sheet. The measurement of standalone selling prices takes into consideration the discount the customer would receive in a separate transaction for the delivered item, as well as our estimate of certificates expected to be redeemed, based on historical redemption patterns. This measurement is applied to our portfolio of performance obligations for points earned, as all obligations have similar economic characteristics. We believe the impact to our Condensed Consolidated Financial Statements would not be materially different if this measurement was applied to each individual performance obligation. Revenue is recognized for these performance obligations at a point in time when certificates are redeemed by the customer. These obligations relate to contracts with terms less than one year, as our certificates generally expire within 6 months from issuance.

Deferred Revenue

We defer revenue when cash payments are received in advance of satisfying performance obligations, primarily associated with our stored-value cards, merchandise sales, and incentives received from credit card issuers. As of May 3, 2020 and May 5, 2019, we held $301,031,000 and $298,557,000 in gift card and other deferred revenue on our Condensed Consolidated Balance Sheet, substantially all of which will be recognized into revenue within the next 12 months.

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

FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements that involve risks and uncertainties, as well as assumptions that, if they do not fully materialize or are proven incorrect, could cause our business and results of operations to differ materially from those expressed or implied by such forward-looking statements. Such forward-looking statements include statements related to: the impact of the COVID-19 pandemic on our business, results of operations and financial condition, our strategic initiatives; our merchandise strategies; our growth strategies for our brands; our beliefs regarding the resolution of current lawsuits, claims and proceedings; our stock repurchase program; our expectations regarding our cash flow hedges and foreign currency risks; our planned use of cash; our future compliance with the financial covenants contained in our credit facilities; our belief that our cash on-hand, in addition to our available credit facilities, will provide adequate liquidity for our business operations over the next 12 months; our beliefs regarding our exposure to foreign currency exchange rate fluctuations; and our beliefs regarding seasonal patterns associated with our business, as well as statements of belief and statements of assumptions underlying any of the foregoing. You can identify these and other forward-looking statements by the use of words such as "may," "should," "expects," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential," "continue," or the negative of such terms, or other comparable terminology. The risks, uncertainties and assumptions referred to above that could cause our results to differ materially from the results expressed or implied by such forward-looking statements include, but are not limited to, those discussed under the heading "Risk Factors" in this document and our Annual Report on Form 10-K for the year ended February 2, 2020, and the risks, uncertainties and assumptions discussed from time to time in our other public filings and public announcements. All forward-looking statements included in this document are based on information available to us as of the date hereof, and we assume no obligation to update these forward-looking statements.

OVERVIEW

Williams-Sonoma, Inc. is a specialty retailer of high-quality products for the home. These products, representing distinct merchandise strategies – Williams Sonoma, Pottery Barn, Pottery Barn Kids, West Elm, Pottery Barn Teen, Williams Sonoma Home, Rejuvenation, and Mark and Graham – are marketed through e-commerce websites, direct-mail catalogs and 616 stores. These brands are also part of The Key Rewards, our free-to-join loyalty program that offers members exclusive benefits across the Williams-Sonoma family of brands. We operate in the U.S., Puerto Rico, Canada, Australia and the United Kingdom, offer international shipping to customers worldwide, and have unaffiliated franchisees that operate stores in the Middle East, the Philippines, Mexico and South Korea, as well as e-commerce websites in certain locations. In 2017, we acquired Outward, Inc., a 3-D imaging and augmented reality platform for the home furnishings and décor industry.

The following discussion and analysis of financial condition, results of operations, and liquidity and capital resources for the thirteen weeks ended May 3, 2020 (“first quarter of fiscal 2020”), as compared to the thirteen weeks ended May 5, 2019 (“first quarter of fiscal 2019”), should be read in conjunction with our Condensed Consolidated Financial Statements and the notes thereto. All explanations of changes in operational results are discussed in order of magnitude.

COVID-19

On March 11, 2020, the World Health Organization declared a novel strain of the coronavirus (COVID-19) to be a global pandemic and recommended containment and mitigation measures worldwide. In March 2020, we announced the temporary closures of all of our retail store operations to protect our employees, customers and the communities in which we operate and to help contain the COVID-19 coronavirus pandemic. While subsequent to quarter end we have announced the reopening of over 350 stores, we have extended such closures in locations where retail restrictions have not been lifted. Throughout the first quarter, we continued to operate our e-commerce sites and distribution centers and continued to deliver products to our customers.

First Quarter of Fiscal 2020 Financial Results

Net revenues in the first quarter of fiscal 2020 decreased by $5,929,000, or 0.5%, compared to the first quarter of fiscal 2019, with comparable brand revenue growth of 2.6%. This slight decline was primarily driven by the temporary closure of all 616 of our retail stores throughout the back half of the quarter due to COVID-19, almost entirely offset by an increase in e-commerce revenues. The decrease in net revenues also included a 36.3% decrease in international revenues primarily related to our company-owned and franchise operations, driven by temporary retail store closures.

For the first quarter of fiscal 2020, we delivered positive comparable brand revenue growth in almost all of our brands. In the Williams Sonoma brand, we saw growth in nearly all merchandise categories, with particular strength in electrics, cookware, food and housewares. Growth in Pottery Barn Kids and Teen accelerated even further this quarter. As a business that generated the majority of its revenues in fiscal 2019 from online sales, we were primed to meet the surge in demand for children’s home furnishings as schools and childcare centers closed nationwide, and parents turned to us for study and playroom solutions to keep their children occupied at home. In West Elm, furniture continued to lead our growth in the first quarter with strong demand for our expanded outdoor assortment, as well as home office furniture. In the Pottery Barn brand, despite a decline in comparable brand revenues for the quarter, we began the quarter with positive trends in all product divisions and our on-line growth initiatives continued to contribute incrementally to the brand.

Across the company, we implemented planned reductions in selling, general and administrative expenses, inventory and capital expenditures and we will continue to prioritize investments in strategic priorities. In order to further bolster our financial flexibility, we also increased our liquidity position. As of May 3, 2020, we now have over $860,000,000 in cash as a result of our performance and our decision to draw down on our existing revolving line of credit. Additionally, subsequent to quarter end, we also were able to obtain additional liquidity through the extension of our $300,000,000 term loan and an additional $200,000,000 in an unsecured 364-day revolving line of credit.

For the first quarter of fiscal 2020, diluted earnings per share was $0.45 (which included a $0.15 impact related to store asset impairments, an $0.11 impact related to inventory write-offs, and a $0.03 impact associated with the acquisition-related compensation expense and amortization of acquired intangibles of Outward, Inc.) versus $0.66 in the first quarter of fiscal 2019 (which included a $0.09 impact related to certain employment-related expenses and a $0.06 impact associated with acquisition-related compensation expense, amortization of acquired intangibles as well as the operations of Outward, Inc.).

Our ability to grow revenue during the COVID-19 pandemic speaks to the power of our omnichannel model, and our organizational agility rooted in a longstanding culture of innovation. We are particularly encouraged to see that our e-commerce growth has been fueled by new customers and previously retail-only customers. To maximize demand online, we have enhanced our digital experience and expanded our services, including Design Chat, Virtual Design Appointment and Ask the Expert, leveraging our Outward Inc. 3D visualization technology, and redeployed our retail associates to serve our customers in these new ways. A key part of our success is our omni services, including Buy Online Pick Up in Store and we have accelerated our speed to market in a number of digital innovations to enhance the convenience of shopping online. We have also redeployed more resources to digital content creation and are producing more live events to engage and interact with our customers in real time.

Looking Ahead

Throughout the remainder of fiscal 2020, we will continue to invest in strengthening our digital-first model, enhancing the convenience of our online business. We will also continue to prioritize the growth initiatives that we laid out at the beginning of last year, including West Elm and our cross-brand initiatives The Key and Business to Business.

The long-term impact of COVID-19 on our business, results of operations and financial condition remains uncertain. A prolonged pandemic could further interrupt our operations, our vendors' operations, the economy and overall consumer spending, which could have a material impact on our revenues, results of operations, and cash flows. For more information on risks associated with COVID-19, please see "Risk Factors" in Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 2, 2020, as well as in Note A to our Condensed Consolidated Financial Statements and Part II, Item 1A of this Quarterly Report on Form 10-Q.

NET REVENUES

Net revenues primarily consist of sales of merchandise to our customers through our e-commerce websites, direct mail catalogs, and at our retail stores and include shipping fees received from customers for delivery of merchandise to their homes. Our revenues also include sales to our franchisees and wholesale customers, breakage income related to our stored-value cards, and incentives received from credit card issuers in connection with our private label and co-branded credit cards.

Net revenues in the first quarter of fiscal 2020 decreased by $5,929,000, or 0.5%, compared to the first quarter of fiscal 2019, with comparable brand revenue growth of 2.6%. This slight decline was primarily driven by the temporary closure of all 616 of our retail stores throughout the majority of the quarter due to COVID-19, almost entirely offset by an increase in e-commerce revenues. The decrease in net revenues also included a 36.3% decrease in international revenues primarily related to our company-owned and franchise operations, driven by temporary retail store closures.

Comparable Brand Revenue

Comparable brand revenue includes comparable store sales and e-commerce sales, including through our direct mail catalogs, as well as shipping fees, sales returns and other discounts associated with current period sales. Comparable stores are typically defined as permanent stores where gross square footage did not change by more than 20% in the previous 12 months and which have been open for at least 12 consecutive months without closure for seven or more consecutive days. Comparable stores that were temporarily closed on March 17, 2020 throughout the quarter due to COVID-19 were not excluded from the comparable stores calculation. Outlet comparable store net revenues are included in their respective brands. Sales to our international franchisees are excluded from comparable brand revenue as their stores and e-commerce websites are not operated by us. Sales from certain operations are also excluded until such time that we believe those sales are meaningful to evaluating their performance. Additionally, comparable brand revenue growth for newer concepts is not separately disclosed until such time that we believe those sales are meaningful to evaluating the performance of the brand.

	Thirteen Weeks Ended	
Comparable brand revenue growth (decline)	May 3, 2020	May 5, 2019
Pottery Barn	(1.1%)	1.5%
West Elm	3.3%	11.8%
Williams Sonoma	5.4%	(1.6%)
Pottery Barn Kids and Teen	8.5%	1.2%
Total [1]	2.6%	3.5%

[1] *Total comparable brand revenue growth includes the results of Rejuvenation and Mark and Graham.*

Table of Contents

STORE DATA

	Store Count					Average Leased Square Footage Per Store	
	February 2, 2020	Openings	Closings	May 3, 2020 [1]	May 5, 2019	May 3, 2020	May 5, 2019
Williams Sonoma	211	1	—	212	219	6,900	6,800
Pottery Barn	201	—	—	201	205	14,400	14,100
West Elm	118	2	(1)	119	113	13,200	13,100
Pottery Barn Kids	74	—	—	74	78	7,700	7,500
Rejuvenation	10	—	—	10	10	8,500	8,500
Total	614	3	(1)	616	625	10,700	10,500
Store selling square footage at period-end						4,148,000	4,094,000
Store leased square footage at period-end						6,580,000	6,549,000

[1] *Store counts as of May 3,2020 do not reflect those stores temporarily closed due to COVID-19.*

COST OF GOODS SOLD

	Thirteen Weeks Ended			
In thousands	May 3, 2020	% Net Revenues	May 5, 2019	% Net Revenues
Cost of goods sold [1]	$820,943	66.5%	$796,801	64.2%

[1] *Includes total occupancy expenses of $174,873,000 and $173,853,000 for the first quarter of fiscal 2020 and the first quarter of fiscal 2019, respectively.*

Cost of goods sold includes cost of goods, occupancy expenses and shipping costs. Cost of goods consists of cost of merchandise, inbound freight expenses, freight-to-store expenses and other inventory related costs such as shrinkage, damages and replacements. Occupancy expenses consist of rent, depreciation and other occupancy costs, including common area maintenance, property taxes and utilities. Shipping costs consist of third-party delivery services and shipping materials.

Our classification of expenses in cost of goods sold may not be comparable to other public companies, as we do not include non-occupancy related costs associated with our distribution network in cost of goods sold. These costs, which include distribution network employment, third-party warehouse management and other distribution related administrative expenses, are recorded in selling, general and administrative expenses.

First Quarter of Fiscal 2020 vs. First Quarter of Fiscal 2019

Cost of goods sold increased by $24,142,000, or 3.0%, in the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019. Cost of goods sold as a percentage of net revenues increased to 66.5% in the first quarter of fiscal 2020 from 64.2% in the first quarter of fiscal 2019. This increase was primarily driven by increased shipping costs due to a significantly greater portion of our total revenues being generated from e-commerce, the year-over year impact from incremental China tariffs, expenses for inventory write-offs of approximately $11,378,000 due to the closure of our outlet stores in the first quarter of 2020, as well as the deleverage of occupancy costs due to the closure of all of our retail stores during the back half of the quarter. This increase was partially offset by higher product margins from less promotions during the first quarter of fiscal 2020.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

	Thirteen Weeks Ended			
In thousands	May 3, 2020	% Net Revenues	May 5, 2019	% Net Revenues
Selling, general and administrative expenses	$365,615	29.6%	$370,199	29.8%

Selling, general and administrative expenses consist of non-occupancy related costs associated with our retail stores, distribution and manufacturing facilities, customer care centers, supply chain operations (buying, receiving and inspection) and corporate administrative functions. These costs include employment, advertising, third party credit card processing and other general expenses.

First Quarter of Fiscal 2020 vs. First Quarter of Fiscal 2019

Selling, general and administrative expenses decreased by $4,584,000, or 1.2%, in the first quarter of fiscal 2020 compared to the first quarter of fiscal 2019. Selling, general and administrative expenses as a percentage of net revenues decreased to 29.6% in the first quarter of fiscal 2020 from 29.8% in the first quarter of fiscal 2019. This decrease as a percentage of net revenues was driven by the leverage of advertising costs due to the ongoing shift in our advertising spend from catalog to more efficient digital initiatives, as well as stronger returns on our advertising investments, cost reductions across the business in response to the impact of COVID-19, as well as severance-related expenses recorded during the first quarter of fiscal 2019 that did not recur in fiscal 2020, partially offset by store asset impairment charges of approximately $15,620,000 due to the impact of COVID-19 on our retail stores.

INCOME TAXES

The effective tax rate was 23.8% for the first quarter of fiscal 2020, and 26.7% for the first quarter of fiscal 2019. The decrease in the tax rate is primarily due to an excess tax benefit from stock-based compensation in fiscal 2020 compared to a deficiency of the tax benefit in fiscal 2019.

LIQUIDITY AND CAPITAL RESOURCES

As of May 3, 2020, we held $861,002,000 in cash and cash equivalents, the majority of which was held in interest-bearing demand deposit accounts and money market funds, and of which $72,764,000 was held by our international subsidiaries. As is consistent within our industry, our cash balances are seasonal in nature, with the fourth quarter historically representing a significantly higher level of cash than other periods.

In fiscal 2020, we plan to use our cash resources to fund our inventory and inventory-related purchases, employment-related costs, advertising and marketing initiatives, property and equipment purchases and dividend payments. We have a credit facility which provides for a $500,000,000 unsecured revolving line of credit ("revolver"), and a $300,000,000 unsecured term loan facility ("term loan"). The revolver may be used to borrow revolving loans or to request the issuance of letters of credit. We may, upon notice to the administrative agent, request existing or new lenders to increase the revolver by up to $250,000,000, at such lenders' option, to provide for a total of $750,000,000 of unsecured revolving credit. As a precautionary measure to maximize our liquidity and to increase our available cash on hand in the event of a protracted COVID-19 pandemic, during the first quarter of fiscal 2020, we drew down $487,823,000 on our revolving line of credit, for an outstanding balance on our revolver of $500,000,000 as of May 3, 2020. We had no borrowings under the revolver during the first quarter of fiscal 2019. As of May 3, 2020, we had $300,000,000 outstanding under our term loan. Additionally, as of May 3, 2020, a total of $12,177,000 in issued but undrawn standby letters of credit was outstanding under the credit facility. The standby letters of credit were issued to secure the liabilities associated with workers' compensation and other insurance programs

In order to further strengthen our liquidity position, maximize our balance sheet and maintain financial flexibility, in May 2020, we entered into an amendment to our credit facility which, among other changes, extends the maturity date and amends the interest rate of the term loan, modifies covenants under the credit facility, and maintains the maturity date and interest rate of the revolver. Under the credit facility amendment, the term loan now matures on January 8, 2022, at which time all outstanding principal and any accrued interest must be repaid. Additionally, subsequent to quarter end we entered into a new agreement for an additional $200,000,000 unsecured 364-day revolving line of credit.

As of May 3, 2020, we had three unsecured letter of credit reimbursement facilities for a total of $70,000,000, of which $7,099,000 was outstanding. These letter of credit facilities represent only a future commitment to fund inventory purchases to which we had not taken legal title.

The Credit Facility Amendment and the 364-Day Credit Agreement contain certain restrictive loan covenants, including, among others, a financial covenant requiring a maximum leverage ratio (funded debt adjusted for lease and rent expense to earnings before interest, income tax, depreciation, amortization and rent expense), and covenants limiting our ability to incur indebtedness, grant liens, make acquisitions, merge or consolidate, and dispose of assets. We are currently in compliance with our financial covenants under our credit facilities and, based on our current projections, we expect to remain in compliance throughout the next 12 months. We believe our cash on hand, in addition to our available credit facilities, will provide adequate liquidity for our business operations over the next 12 months.

Cash Flows from Operating Activities
For the first quarter of fiscal 2020, net cash provided by operating activities was $53,873,000 compared to net cash used in operating activities of $98,080,000 for the first quarter of fiscal 2019. For the first quarter of fiscal 2020, net cash provided by operating activities was primarily attributable to net earnings adjusted for non-cash items and a decrease in merchandise inventories, as well as, a decrease in accounts payable due to cost containment measures throughout the quarter. Net cash provided by operating activities in the first quarter of fiscal 2020 improved compared to net cash used in operating activities in the first quarter of fiscal 2019, primarily due to a year-over-year reduction in merchandise inventories and an increase in accounts payable and accrued expenses.

Cash Flows from Investing Activities
For the first quarter of fiscal 2020, net cash used in investing activities was $42,079,000 compared to $36,041,000 for the first quarter of fiscal 2019, and was primarily attributable to purchases of property and equipment.

Cash Flows from Financing Activities
For the first quarter of fiscal 2020, net cash provided by financing activities was $419,520,000 compared to net cash used in financing activities of $96,122,000 for the first quarter of fiscal 2019. For the first quarter of fiscal 2020, net cash provided by financing activities was primarily attributable to borrowings under our revolving line of credit partially offset by the payment of dividends, and tax withholdings related to stock-based awards. The increase in cash provided by financing activities in the first quarter of fiscal 2020 compared to the use of cash in the first quarter of fiscal 2019 was primarily attributable to borrowings under the revolving line of credit and a reduction in stock repurchases.

Stock Repurchase Program and Dividends
See Note G to our Condensed Consolidated Financial Statements, *Stock Repurchase Program and Dividends,* within Item 1 of this Quarterly Report on Form 10-Q for further information.

Critical Accounting Policies
Management's Discussion and Analysis of Financial Condition and Results of Operations is based on our Condensed Consolidated Financial Statements, which have been prepared in accordance with U.S. GAAP. The preparation of these Condensed Consolidated Financial Statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures of contingent assets and liabilities. These estimates and assumptions are evaluated on an ongoing basis and are based on historical experience and various other factors that we believe to be reasonable under the circumstances. Actual results could differ significantly from these estimates. During the first quarter of fiscal 2020, there have been no significant changes to the critical accounting policies discussed in our Annual Report on Form 10-K for the year ended February 2, 2020.

Seasonality
Our business is subject to substantial seasonal variations in demand. Historically, a significant portion of our revenues and net earnings have been realized during the period from October through January, and levels of net revenues and net earnings have typically been lower during the period from February through September. We believe this is the general pattern associated with the retail industry. In preparation for and during our holiday selling season, we hire a substantial number of additional temporary employees, primarily in our retail stores, customer care centers and distribution facilities, and incur significant fixed catalog production and mailing costs.

Contractual Obligations, Commitments, Contingencies and Off-balance Sheet Arrangements
Except as described in Note B of Part I, Item 1, there were no material changes during the quarter to the Company's contractual obligations, commitments, contingencies and off-balance sheet arrangements that are described in Part II, Item 7 of the Company's Annual Report on Form 10-K for the fiscal year ended February 2, 2020, which is incorporated herein by reference.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risks, which include significant deterioration of the U.S. and foreign markets, changes in U.S. interest rates, foreign currency exchange rate fluctuations, and the effects of economic uncertainty which may affect the prices we pay our vendors in the foreign countries in which we do business. We do not engage in financial transactions for trading or speculative purposes.

Interest Rate Risk
Our revolver and our term loan each have a variable interest rate which, when drawn upon, subjects us to risks associated with changes in that interest rate. During the first quarter of fiscal 2020, we drew down $487,823,000 on our revolving line of credit, for an outstanding balance on our revolver of $500,000,000. Additionally, we have $300,000,000 outstanding under our term loan and a new $200,000,000 unsecured revolving line of credit that has not been drawn upon. A hypothetical increase or decrease of one percentage point on our existing variable rate debt instruments would not materially affect our results of operations or cash flows.

In addition, we have fixed and variable income investments consisting of short-term investments classified as cash and cash equivalents, which are also affected by changes in market interest rates. As of May 3, 2020, our investments, made primarily in interest bearing demand deposit accounts and money market funds, are stated at cost and approximate their fair values.

Foreign Currency Risks
We purchase a significant amount of inventory from vendors outside of the U.S. in transactions that are denominated in U.S. dollars. Approximately 2% of our international purchase transactions are in currencies other than the U.S. dollar, primarily the euro. Any foreign currency impact related to these international purchase transactions was not significant to us during the first quarter of fiscal 2020 or the first quarter of fiscal 2019. Since we pay for the majority of our international purchases in U.S. dollars, however, a decline in the U.S. dollar relative to other foreign currencies would subject us to risks associated with increased purchasing costs from our vendors in their effort to offset any lost profits associated with any currency devaluation. We cannot predict with certainty the effect these increased costs may have on our financial statements or results of operations.

In addition, our businesses in Canada, Australia and the United Kingdom, and our operations throughout Asia and Europe, expose us to market risk associated with foreign currency exchange rate fluctuations. Substantially all of our purchases and sales are denominated in U.S. dollars, which limits our exposure to this risk. However, some of our foreign operations have a functional currency other than the U.S. dollar. While the impact of foreign currency exchange rate fluctuations was not material to us in the first quarter of fiscal 2020 or the first quarter of fiscal 2019, we have continued to see volatility in the exchange rates in the countries in which we do business. As we continue to expand globally, the foreign currency exchange risk related to our foreign operations may increase. To mitigate this risk, we hedge a portion of our foreign currency exposure with foreign currency forward contracts in accordance with our risk management policies (see Note H to our Condensed Consolidated Financial Statements).

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures
As of May 3, 2020, an evaluation was performed by management, with the participation of our Chief Executive Officer ("CEO") and our Chief Financial Officer ("CFO"), of the effectiveness of our disclosure controls and procedures. Based on that evaluation, our management, including our CEO and CFO, concluded that our disclosure controls and procedures are effective to ensure that information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 is accumulated and communicated to our management, including our CEO and CFO, as appropriate, to allow for timely discussions regarding required disclosures, and that such information is recorded, processed, summarized and reported within the time periods specified in the rules and forms of the Securities and Exchange Commission.

Changes in Internal Control Over Financial Reporting
There was no change in our internal control over financial reporting that occurred during our most recent fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information required by this Item is contained in Note F to our Condensed Consolidated Financial Statements within Part I of this Form 10-Q.

ITEM 1A. RISK FACTORS

See Part I, Item 1A of our Annual Report on Form 10-K for the fiscal year ended February 2, 2020 for a description of the risks and uncertainties associated with our business. We are providing the following information regarding changes that have occurred to the previously disclosed risk factors in our Form 10-K. Except for such additional information, we believe there have been no material changes from the risk factors previously disclosed in our Form 10-K.

Our business has been and may continue to be materially impacted by the COVID-19 pandemic, and the duration and extent to which this will impact our future results of operations and overall financial performance remains uncertain.

Our business has been and may continue to be materially impacted by the COVID-19 pandemic, which has negatively affected the U.S. and global economies, disrupted businesses and financial markets, and led to significant travel and transportation restrictions, mandatory closures of non-essential retailers and other businesses, and orders to “shelter-in-place”.

The preventative or protective actions that governments and businesses around the world have taken to contain the spread of COVID-19 have resulted in a period of disruption that has and may continue to negatively impact our retail store revenues, which comprised approximately 44% of our net revenues in fiscal 2019. In March 2020, we temporarily closed all of our retail stores and have extended such closures in locations where retail restrictions had not been lifted. While we have begun to re-open stores in specific locations consistent with government guidelines, there is significant uncertainty around our customers’ willingness to visit retail stores even after they are reopened. Further, while we have implemented strict safety protocols based on Center for Disease Control and Prevention and government recommendations in stores that we have re-opened, there is no guarantee that such protocols will be effective, and any virus-related illnesses linked or alleged to be linked to our stores, whether accurate or not, may negatively affect our reputation, operating results and/or financial condition.

Although to date, the impact of our store closures on our retail store revenues has been predominantly offset by growth in our e-commerce business, there is no guarantee that such growth will continue if the recent economic downturn continues or deteriorates further due to the COVID-19 pandemic, and results in decreased consumer spending in the markets in which we operate. Further, we have and may continue to record store asset impairment charges and write-offs due to store closures, which may affect our operating results.

We have also implemented work-from-home policies for certain employees, which continue to be in effect. While such policies have not significantly impacted productivity or disrupted our business to date, over a prolonged period time, such policies could adversely impact our ability to conduct our business in the ordinary course.

Governmental mandates, illness or the absence of a substantial number of distribution center employees may require that we temporarily close one or more of our distribution centers, or may prohibit or significantly limit us, or our third party logistics providers from delivering packages to our customers and our stores, which could complicate or prevent us from fulfilling e-commerce orders and, once some or all of our stores reopen, could complicate or prevent our ability to supply merchandise to our stores. As of the date of this report, all our distribution centers remain open and operational, and we are not experiencing material disruptions in the delivery of our products despite the temporary closure of one of our distribution centers in April 2020.

Further, COVID-19 related containment efforts and illnesses could also impact our vendors who manufacture or deliver our merchandise to us or our customers, which could adversely affect our ability to acquire and sell our merchandise, thus adversely affecting our results of operations, cash flows and liquidity.

While the extent of the economic impact of COVID-19 and the duration of that impact may be difficult to assess or predict, the widespread pandemic has resulted in significant disruption of global financial markets, which has impacted the value of our common stock. In addition, a recession or long-term market correction, resulting from the spread of COVID-19 could in the future materially impact the value of our common stock over the long-term, impact our access to capital and affect our business in the near and long-term.

We currently believe that our available cash, cash equivalents and cash flow from operations will be sufficient to finance our operations and expected capital requirements for at least the next 12 months unless we experience a material decline in revenue relating to the COVID-19 pandemic. However, we might experience periods during which we encounter additional cash needs, and we might need additional external funding to support our operations. To maximize our liquidity and increase our available cash on hand in the event of a protracted COVID-19 pandemic, as previously disclosed, on March 23, 2020 we drew down $488,000,000 on our revolving line of credit, for an outstanding balance of $500,000,000 as of the end of the first quarter of fiscal 2020. In addition, on May 11, 2020, we entered into an agreement to amend the Credit Facility for our $300,000,000 unsecured term loan facility to extend its maturity date by one year to and also entered into a 364-Day Credit Agreement for an additional $200,000,000 unsecured revolving line of credit. If we are unable to access additional credit at the levels we require, or the cost of credit is greater than expected, it could adversely affect our operating results. Further, additional borrowings on our revolving line of credit has resulted or will result in us incurring additional interest expense, which would negatively affect our earnings.

The COVID-19 pandemic continues to rapidly evolve. The ultimate impact of the COVID-19 pandemic on our results, financial position and liquidity will depend on future developments, which are highly uncertain and cannot be predicted, such as the severity and transmission rate of the disease, the extent and effectiveness of containment actions, particularly as areas are reopened, and the impact of these and other factors on our stores, offices, employees, distributors, vendors and customers. If we are not able to respond to and manage the impact of such events effectively, our business, operating results, financial condition and cash flows could be adversely affected.

Please see Note A to our Condensed Consolidated Financial Statements and “Management’s Discussion and Analysis of Financial Condition and Results of Operations” for more information about the potential impact of the COVID-19 pandemic on our business, and the actual operational and financial impacts that we have experienced to date.

ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

Stock repurchases under our program may be made through open market and privately negotiated transactions at times and in such amounts as management deems appropriate. The timing and actual number of shares repurchased will depend on a variety of factors including price, corporate and regulatory requirements, capital availability and other market conditions. The stock repurchase program does not have an expiration date and may be limited or terminated at any time without prior notice. There were no repurchases of common stock in the first quarter of fiscal 2020. For additional information, please see Note G to our Condensed Consolidated Financial Statements within Part I of this Form 10-Q.

ITEM 3. DEFAULTS UPON SENIOR SECURITIES

Not applicable.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5. OTHER INFORMATION

None.

Table of Contents

ITEM 6. EXHIBITS

(a) Exhibits

Exhibit Number	Exhibit Description
31.1*	Certification of Chief Executive Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
31.2*	Certification of Chief Financial Officer, pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended
32.1*	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
32.2*	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101*	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended May 3, 2020, formatted in Inline XBRL: (i) Condensed Consolidated Statements of Earnings, (ii) Condensed Consolidated Statements of Comprehensive Income, (iii) Condensed Consolidated Balance Sheets, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows and (vi) Notes to Condensed Consolidated Financial Statements, tagged as blocks of text and including detailed tags
104*	Cover Page Interactive Data File (formatted as Inline XBRL and contained in the Interactive Data Files submitted under Exhibit 101).

* Filed herewith.

SIGNATURE

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.

WILLIAMS-SONOMA, INC.

By: /s/ Julie Whalen

Julie Whalen
Duly Authorized Officer and Chief Financial Officer

Date: June 5, 2020

Exhibit 31.1

CERTIFICATION

I, Laura Alber, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Williams-Sonoma, Inc.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 5, 2020

By: /s/ Laura Alber

Laura Alber

Chief Executive Officer

Exhibit 31.2

CERTIFICATION

I, Julie Whalen, certify that:

1. I have reviewed this quarterly report on Form 10-Q of Williams-Sonoma, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: June 5, 2020

By: /s/ Julie Whalen

Julie Whalen

Chief Financial Officer

Exhibit 32.1

CERTIFICATION BY CHIEF EXECUTIVE OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the period ended May 3, 2020 of Williams-Sonoma, Inc. (the "Company") as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Laura Alber, Chief Executive Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

By: /s/ Laura Alber
Laura Alber
Chief Executive Officer

Date: June 5, 2020

Exhibit 32.2

CERTIFICATION BY CHIEF FINANCIAL OFFICER
PURSUANT TO 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

In connection with the Quarterly Report on Form 10-Q for the period ended May 3, 2020 of Williams-Sonoma, Inc. (the “Company”) as filed with the Securities and Exchange Commission on the date hereof (the “Report”), I, Julie Whalen, Chief Financial Officer of the Company, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that:

1. The Report fully complies with the requirements of section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and

2. The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company as of and for the periods presented in the Report.

By: /s/ Julie Whalen
Julie Whalen
Chief Financial Officer

Date: June 5, 2020

US INDUSTRY (SPECIALIZED) REPORT OD4272

Kitchen & Cookware Stores

Simmer down: Rebounding growth in the housing market is anticipated to boost industry demand

Jared Ristoff | September 2020

Contents

About IBISWorld

IBISWorld specializes in industry research with coverage on thousands of global industries. Our comprehensive data and in-depth analysis help businesses of all types gain quick and actionable insights on industries around the world. Busy professionals can spend less time researching and preparing for meetings, and more time focused on making strategic business decisions that benefit you,your company and your clients. We offer research on industries in the US, Canada, Australia, New Zealand, Germany, the UK, Ireland, China and Mexico, as well as industries that are truly global in nature.

Covid-19

Coronavirus Impact Update

IBISWorld's analysts constantly monitor the industry impacts of current events in real-time – here is an update of how this industry is likely to be impacted as a result of the global COVID-19 pandemic:

• Establishments in the Kitchen and Cookware Stores industry were forced to temporarily close across the United States in accordance with the government mandated closure of nonessential businesses. This temporary closure is anticipated to result in a decline in industry revenue and profitability in 2020. For more detail, please see the Executive Summary chapter.

• The industry relies on high levels of consumer confidence and per capita disposable income to increase revenue. The coronavirus pandemic in 2020 has resulted in declines in both consumer confidence and disposable income, resulting in a decline in demand for industry products. For more detail, please see the Current Performance chapter.

• Many households are increasingly cooking and baking at home during the COVID-19 (coronavirus) pandemic. However, this trend is not anticipated to benefit the Kitchen and Cookware Stores industry because this demand has been largely satiated by e-commerce retailers and mass merchandisers. Kitchen and Cookware stores have been closed during most of the pandemic, and consequently, consumers have turned to e-commerce retailers or mass merchandisers to purchase kitchen and cookware products. For more detail, please see the Current Performance chapter.

Note: The content in this report is currently being updated to reflect the trends outlined above.

About This Industry

Industry Definition

This industry includes operators that primarily sell kitchen and cookware such as pots and pans, bakeware, cutlery and utensils. Merchandise is generally purchased from domestic manufacturers and wholesalers and then sold to the public.

Major Players

Williams-Sonoma Inc.

Main Activities

The primary activities of this industry:

Retailing kitchenware

Retailing cookware

Retailing bakeware

Retailing kitchen utensils

The major products and services in this industry:

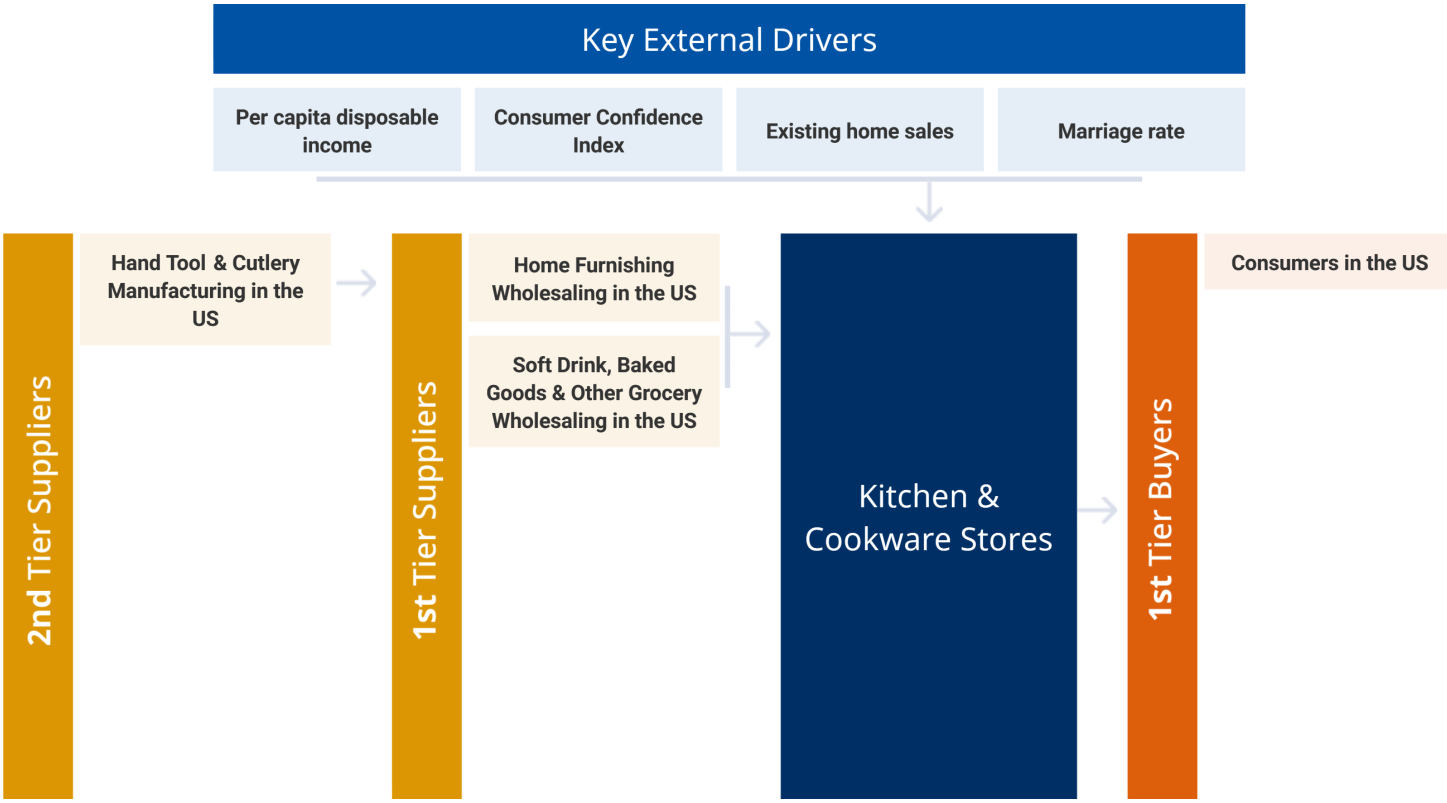
Bakeware

Cookware

Cutlery and utensils

Electronics, appliances and other

Supply Chain



SIMILAR INDUSTRIES

Vacuum, Fan & Small Household Appliance Manufacturing in the US
Complementor

Home Furnishings Stores in the US
Competitor

Department Stores in the US
Competitor

Used Goods Stores in the US
Competitor

RELATED INTERNATIONAL INDUSTRIES

Houseware Retailing in Australia

Furniture, Lighting & Homeware Retailers in the UK

Home Furnishings Stores in Canada

Industry at a Glance

Key Statistics

$15.4bn
Revenue

Annual Growth 2015-2020	Annual Growth 2020-2025	Annual Growth 2015-2025
-3.1%	2.5%	

$417.1m
Profit

Annual Growth 2015-2020	Annual Growth 2015-2025
-14.7%	

2.7%
Profit Margin

Annual Growth 2015-2020	Annual Growth 2015-2025
-2.4%	

4,140
Businesses

Annual Growth 2015-2020	Annual Growth 2020-2025	Annual Growth 2015-2025
-2.1%	-0.5%	

87,916
Employment

Annual Growth 2015-2020	Annual Growth 2020-2025	Annual Growth 2015-2025
-2.3%	1.3%	

$1.8bn
Wages

Annual Growth 2015-2020	Annual Growth 2020-2025	Annual Growth 2015-2025
-2.4%	1.5%	

Key External Drivers

% = 2015-2020 Annual Growth

0.8%
Consumer Confidence Index

2.8%
Per capita disposable income

1.1%
Existing home sales

-2.2%
Marriage rate

Industry Structure

POSITIVE IMPACT

Capital Intensity
Low

Concentration
Low

Regulation
Light

Technology Change
Low

Globalization
Low

MIXED IMPACT

Life Cycle
Mature

Revenue Volatility
Medium

Barriers to Entry
Medium

NEGATIVE IMPACT

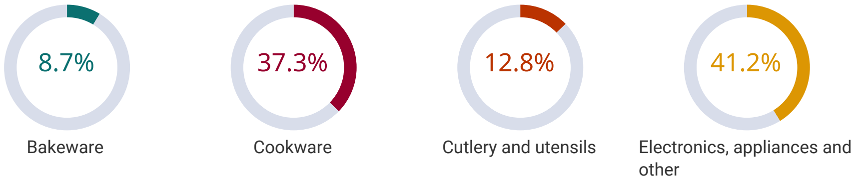
Industry Assistance
None

Competition
High

Key Trends

- Falling existing home sales have negatively influenced industry demand
- Most industry operators solely retail industry-specific goods
- The industry is characterized by a large number of small and independent players
- The expanding housing market will likely support more product innovation
- The real estate market is expected to support sales of industry products
- External competition will likely remain high
- Industry retailers have continued to experience mounting external competition

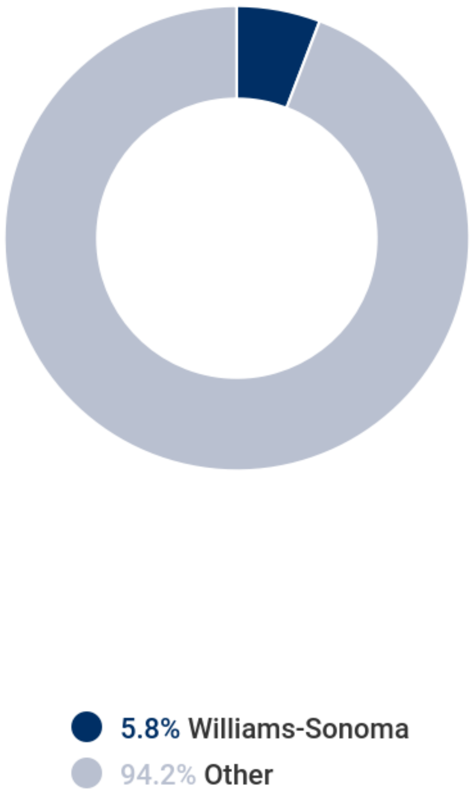
Products & Services Segmentation



Kitchen & Cookware Stores
Source: IBISWorld

Major Players

% = share of industry revenue



Kitchen & Cookware Stores
Source: IBISWorld

SWOT

S STRENGTHS

Low Imports
Low Customer Class Concentration
Low Capital Requirements

W WEAKNESSES

None & Steady Level of Assistance
High Competition
Low Profit vs. Sector Average
High Product/Service Concentration

O OPPORTUNITIES

High Revenue Growth (2020-2025)
Marriage rate

T THREATS

Very Low Revenue Growth (2005-2020)
Low Revenue Growth (2015-2020)
Low Outlier Growth
Low Performance Drivers
Consumer Confidence Index

Executive Summary

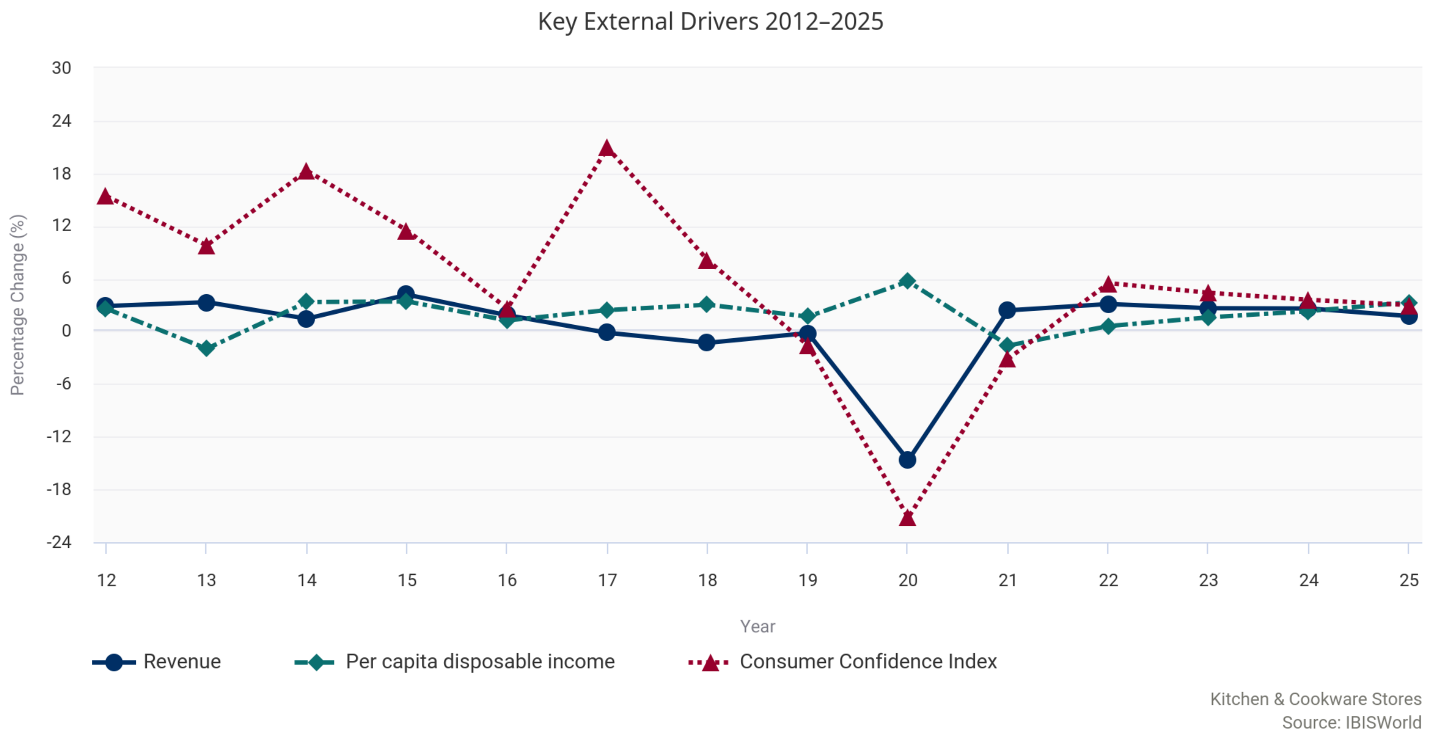
The Kitchen and Cookware Stores industry has experienced a decline over the five years to 2020 in line with contracting markets for both new kitchen equipment and replacement goods.

During the five-year period, decline in housing market activity has resulted in a contraction of industry demand from new equipment buyers. Existing home sales have declined and housing starts have marginally risen during the period, leading to uneven demand from consumers on the move to furnish their new kitchens with quality appliances and cookware and hampering the industry's new equipment market. Falling consumer confidence and per capita disposable income have also harmed the replacement market for the industry. Overall, IBISWorld anticipates that industry revenue will decrease at an annualized rate of 3.1% over the five years to 2020 to reach $15.4 billion, including a decline of 14.7% in 2020 due to the COVID-19 (coornavirus) pandemic inducing temporary closures of industry establishments.

Although economic conditions have improved throughout most of the five years to 2020, supporting demand for kitchen and cookware products, industry retailers have continued to experience mounting external competition from a range of operators that include department stores, mass merchandisers and online-only retailers. Rising competition has forced many operators to engage in price discounting, capping profit margin growth and discouraging new entrants. As a result of these trends, the average industry profit margin, measured as earnings before interest and taxes, is expected to total 2.7% of revenue in 2020, down from 5.1% in 2015.

Over the five years to 2025, rebounding growth in the housing market and subsequent rises in home sales, as well as an increase in the Consumer Confidence Index, are anticipated to boost demand for industry products. However, an increasing level of both internal and external competition, is projected to hinder the industry from a more robust expansion. Operators will have to work harder to gain a competitive edge over other internal and external competitors, leading companies that cannot differentiate themselves to continue exiting the industry. As a result of these trends, IBISWorld anticipates that industry revenue will grow at an annualized rate of 2.5% over the five years to 2025 to total $17.5 billion.

Industry Performance



Key External Drivers

Per capita disposable income

Most kitchenware and cookware products are considered discretionary purchases. Therefore, a rise in household disposable income increases the propensity for consumers to buy industry goods, causing growth in demand. Per capita disposable income is expected to decrease in 2020.

Consumer Confidence Index

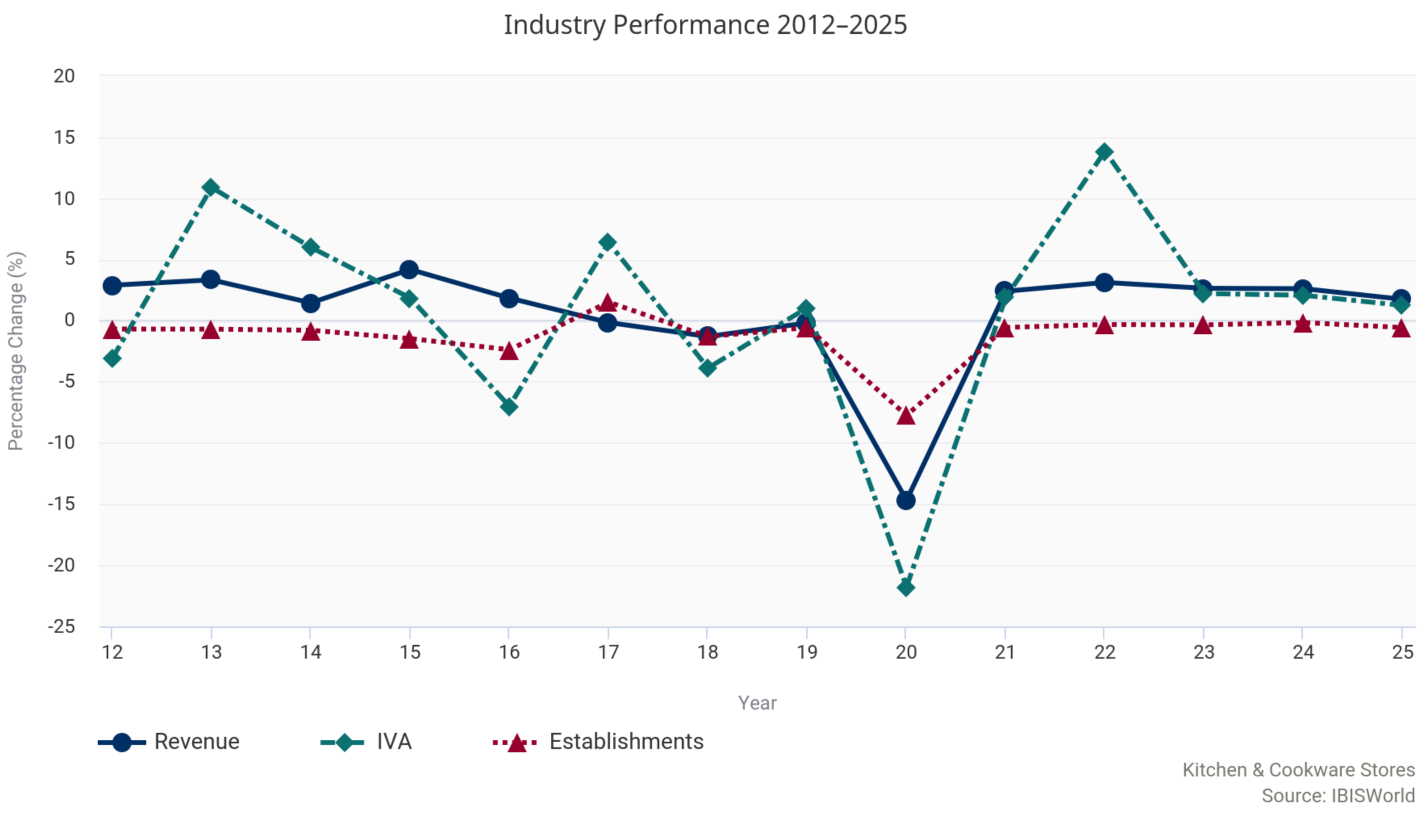
The Consumer Confidence Index measures the level of consumer optimism toward economic conditions, such as unemployment, economic growth and inflation. When consumer perceptions of the economy are positive, households are able to spend freely on industry items, supporting demand for kitchen and cookware. The Consumer Confidence Index is expected to contract in 2020, posing a potential threat to the industry.

Existing home sales

Kitchen and cookware are most often purchased when people move into new homes. Therefore, a rise in existing home sales, which reflects the frequency of household relocations, leads to higher demand for industry products. Existing home sales are expected to decrease in 2020.

Marriage rate

Consumers often give and receive kitchenware and cookware as wedding gifts. Therefore, as the marriage rate in the United States increases, more kitchen items and cookware are purchased and traded. When the marriage rate falls, demand for industry products declines. The marriage rate is expected to decrease in 2020. However, the marriage rate is anticipated to rise during the second half of 2020, as coronavirus induced limitations on weddings begin to recede. This rise represents a potential opportunity for the industry.



Current Performance

Over the five years to 2020, the Kitchen and Cookware Stores industry has endured tumultuous conditions.

Throughout most of the current period, industry demand has benefited from favorable macroeconomic conditions including falling unemployment, a stable rise in wages, increasing consumer confidence and per capita disposable income and rising housing market activity. Both the new cookware equipment and replacement markets have expanded since 2015, supporting industry revenue. However, the coronavirus pandemic in 2020 has resulted in a decline in consumer confidence and per capita disposable income, subsequently harming demand for industry products. Overall, IBISWorld anticipates that revenue for the industry will fall at an annualized rate of 3.1% over the five years to 2020 to reach $15.4 billion, including a projected 14.7% contraction in 2020 due to the coronavirus induced temporary closure of industry establishments.

Downstream demand

As households comprise virtually the entire market for industry goods, demand for the Kitchen and Cookware Stores industry is largely determined by changes in consumer confidence, per capita disposable income and housing market activity.

The Consumer Confidence Index is projected to rise at an annualized rate of 2.7% over the past five years, indicating consumers' resurgent confidence in the economy. Rising consumer confidence during the current period, coupled with growing per capita disposable income, led many households to turn to kitchen and cookware stores to purchase replacement implements for their homes throughout most of the current period.

However, falling existing home sales over the past five years have negatively influenced demand for the Kitchen and Cookware Stores industry. Most consumers purchase kitchen and cookware products when they move into new homes. Therefore, a fall in existing home sales, which reflects the frequency of household relocations, leads to lower demand for industry products. Overall, existing home sales are expected to fall at an annualized rate of 2.1% over the five years to 2020, lessening demand for industry products. As existing home sales have fallen, fewer consumers moved into new spaces and outfitted them with kitchen goods from industry retailers.

Competitive pressures

While demand conditions over the five years to 2020 have been mixed, kitchen and cookware stores have experienced heightened external competition from alternative retail outlets, such as department stores, mass merchants, grocery stores and online retailers.

In particular, mass merchandisers have continued to present the most significant threat to industry operators. These retailers lure customers away from smaller specialty stores by offering lower prices and the convenience of one-stop shopping. Due to their significant size, mass merchants, such as Walmart Inc. and Target Corporation, are able to achieve significant costs savings. These savings are then passed down to consumers in the form of bargain prices, increasing their appeal. Additionally, the convenience of one-stop shopping has increasingly attracted consumers to external retailers.

While most industry operators solely retail industry-specific goods, department stores, mass merchants and grocery stores give consumers the opportunity to shop for a range of products in one location. Time-poor consumers have come to prefer these stores because they streamline and simplify errands. Over the past five years, operators have also been subject to mounting competition from online kitchenware retailers that can leverage their lack of retail space to offer lower prices. Amazon.com Inc. and other broadline e-commerce retailers sell considerable amounts of industry products, siphoning away industry revenue. The industry's mounting external competitive environment has had a detrimental influence on profitability, encouraging price competition among operators that has ultimately hindered growth in profit margins. Overall, the average industry profit margin, measured as earnings before interest and taxes, is expected to account for 2.7% of revenue in 2020, down from 5.1% in 2015.

Industry landscape

> **The Kitchen and Cookware Stores industry is characterized by a large number of small and independent players.**

The majority of operators employ fewer than 10 staff members, while under 20.0% of industry establishments are expected to have more than 20 employees. Over the past five years, competitive pressures have forced smaller retailers that comprise the majority of industry operators to adapt to a changing retail landscape. Primarily, many of these smaller companies have had to lower their prices to compete direct competitors as well as e-commerce retailers. Large industry companies, such as Williams-Sonoma Inc. can create exclusive partnerships with manufacturers and leverage a broad product range and economies of scale to offer kitchenware at lower prices than competitors. In response, smaller companies have brought down prices to remain competitive. Others have thought outside the box, offering cooking classes and in-store demonstrations to attract customers.

These tactics provide a level of differentiation, which has lured customers seeking high levels of personalized customer service and product knowledge to industry stores. They have also helped decelerate the industry's decline in employees; over the five years to 2020, industry employment is expected to fall an annualized 2.3% to 87,916 workers. However, wages have risen as a proportion of revenue, as operators at large have continued to rely upon skilled employees to operate cooking classes and product demonstrations. Additionally, having a well-staffed store has enabled many smaller operators to leverage a solid customer service experience to remain competitive. These strategies have been successful for many smaller operators, but they have been unsuccessful for a greater number. Overall, competitive pressures and price competition have led many operators to exit the industry during the current period. Accordingly, industry enterprise figures are anticipated to contract an annualized 2.1% over the five years to 2020 to reach 4,140 operators.

Historical Performance Data

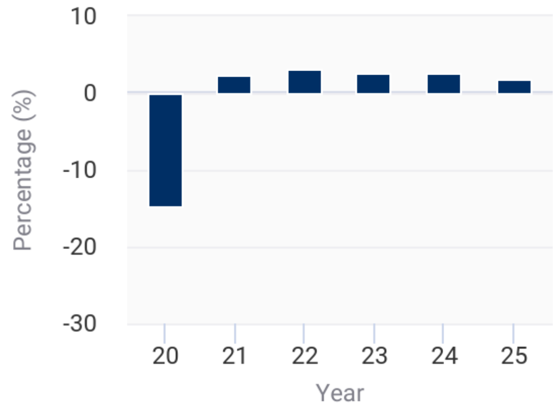
Year	Revenue ($m)	IVA ($m)	Estab. (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)	Per capita disposable income
2011	16,083	2,653	8,507	4,937	90,706	N/A	N/A	1,914	N/A	45,261
2012	16,549	2,571	8,449	4,933	92,122	N/A	N/A	1,827	N/A	45,558
2013	17,101	2,851	8,390	4,811	94,059	N/A	N/A	1,945	N/A	43,894
2014	17,350	3,022	8,324	4,740	93,054	N/A	N/A	1,964	N/A	44,540
2015	18,076	3,078	8,202	4,607	98,924	N/A	N/A	1,994	N/A	45,568
2016	18,409	2,863	8,007	4,521	96,511	N/A	N/A	1,998	N/A	45,575
2017	18,380	3,046	8,128	4,550	100,843	N/A	N/A	2,035	N/A	45,740
2018	18,143	2,928	8,022	4,487	100,283	N/A	N/A	2,021	N/A	46,172
2019	18,109	2,959	7,977	4,458	100,356	N/A	N/A	2,021	N/A	46,457
2020	15,450	2,314	7,359	4,140	87,916	N/A	N/A	1,766	N/A	44,844

Industry Outlook

Outlook

IBISWorld anticipates that the Kitchen and Cookware Stores industry will return to growth over the five years to 2025.

Industry Outlook 2020–2025



Kitchen & Cookware Stores
Source: IBISWorld

Economic improvements will likely boost overall consumer spending, encouraging individuals to increase expenditure on quality supplies for their kitchens. In addition, the rebound in the housing market and the subsequent rise in home sales will further drive demand. Moreover, an anticipated rise in the Consumer Confidence Index will boost industry sales; positive consumer perceptions of the economy indicate that households will increase spending on industry items, boosting demand for kitchen and cookware. However, high external competition from department stores, discount retailers and e-commerce businesses is expected to persist during the five-year period, posing a threat to industry operators. As a result of these factors, industry revenue is anticipated to rise at an annualized rate of 2.5% over the five years to 2025 to total $17.5 billion.

The continued threat from high levels of internal and external competition is expected to hamper profit growth during the five-year outlook period. However, as the overall economy rebounds from the coronavirus pandemic induced decline in 2020, industry demand is anticipated to recover. Additionally, consumers are more likely to purchase higher priced industry goods during times of positive economic outlook, further boosting the industry profit margin. As a result, the average industry profit margin, measured as earnings before interest and taxes, is anticipated to rise from 2.7% of revenue in 2020 to 4.5% of revenue in 2025. However, intense competition and relatively low profit margins are expected to discourage new operators from entering the industry. Accordingly, industry enterprises are projected to decline at an annualized rate of 0.5% to 4,033 companies. This gradual decline in the number of retailers will be due in part to the growing inability of smaller operators to carve out niche markets that would enable them to compete with larger operators both within and outside the industry. Furthermore, the industry's workforce is expected to grow at a decelerated pace as companies exiting the industry cut into the industry's workforce. Accordingly, industry employment is expected to rise at an annualized rate of 1.3% during the outlook period to total 93,618 workers.

Cooking with gas

The real estate market is expected to support sales of industry products over the five years to 2025.

Existing home sales are anticipated to rise at an annualized rate of 3.7% over the next five years as consumers take advantage of relatively low interest rates and an expansionary economic climate. Consumers are more likely to purchase kitchen and cooking supplies when moving into a new home, bolstering industry demand. Furthermore, IBISWorld estimates per capita disposable income will grow at an annualized rate of 2.3% during the same period. This trend will enable consumers to make greater purchases of discretionary goods, including industry products.

The expanding housing market will also likely support more product innovation within the industry, increasingly catering to the time-poor consumer. Kitchen and cookware stores have started selling more specialty products that are convenient and multifunctional. For example, the iGrill meat thermometer syncs with a smartphone and enables consumers to monitor food from up to 200.0 feet away. Meanwhile, toaster and coffee maker combos are also an increasingly popular industry product currently on the market. Although product innovation occurs in the upstream manufacturing industry, IBISWorld expects the trend of innovation to persist over the five years to 2025, as consumers demand more efficient and multifunctional products with the latest technologies.

Temperatures rise

> **Despite rising demand for kitchen and cookware stores, external competition will remain high.**

The convenience of one-stop shopping will continue to attract budget-conscious, time-poor consumers who want to find kitchen and cookware products while also shopping for other general home goods and groceries in one location. However, as disposable incomes rise, consumers are projected to loosen their budgets and splurge on higher-quality kitchen and cookware products. Customers will likely also demand better customer service because they often rely on store employee's advice and knowledge when making high-end purchases. Consumers with higher discretionary budgets will likely seek out options beyond the deals of mass merchants, returning to specialty shops that offer a broader range of quality products and better customer service.

Even though consumers will return to specialty kitchen and cookware stores, competition among industry operators is expected to increase considerably over the next five years. Differentiation will become increasingly important in order for industry operators to gain a competitive edge. Larger industry players, such as Williams-Sonoma Inc., tend to set themselves apart from other players by providing superior customer service and a comprehensive product selection. Other smaller industry players, such as Sur La Table Inc., have carved out a niche market by offering quality, less expensive private label products, thereby attracting customers by providing significant cost savings. Smaller companies have also started offered cooking classes and product demonstrations in stores. Over the five years to 2025, IBISWorld projects industry players will need to continue these marketing techniques and strategies to remain competitive.

Performance Outlook Data

Year	Revenue ($m)	IVA ($m)	Estab. (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)	Per capita disposable income
2020	15,450	2,314	7,359	4,140	87,916	N/A	N/A	1,766	N/A	44,844
2021	15,822	2,359	7,318	4,111	88,947	N/A	N/A	1,791	N/A	45,088
2022	16,317	2,686	7,295	4,091	90,477	N/A	N/A	1,827	N/A	45,784
2023	16,748	2,745	7,270	4,072	91,644	N/A	N/A	1,855	N/A	47,111
2024	17,185	2,802	7,259	4,061	92,943	N/A	N/A	1,886	N/A	48,575
2025	17,486	2,837	7,218	4,033	93,618	N/A	N/A	1,904	N/A	50,187

Industry Life Cycle

The life cycle stage of this industry is ⊖ Mature

LIFE CYCLE REASONS

The industry's contribution to the economy is growing steadily

The industry is consolidating

The industry's product market has been stable

Indicative Industry Life Cycle

Kitchen & Cookware Stores
Source: IBISWorld

The Kitchen and Cookware Stores industry is in the mature stage of its life cycle. Over the 10 years to 2025, industry value added, which measures the industry's contribution to the US economy, is estimated to fall at an annualized rate of 0.8%. Meanwhile, US GDP is projected to rise at an annualized rate of 1.9% during the same period. Comparatively, these rates indicate that the industry will grow at a slower rate than the overall US economy, causing its share of the economy to fall.

Trends of consolidation and a stable product market also indicate an industry in the mature stage of its life cycle.

Products sold by this industry have become integrated into the lives of US consumers. As people purchase houses or move into new homes, they buy industry goods to outfit their kitchens. Despite this integration, there has been moderate product innovation in the kitchen and cookware market. However, this innovation has not significantly altered the industry's landscape. Product changes have primarily been cosmetic, including minor variations in designs to satisfy consumers' changing tastes. However, IBISWorld anticipates that kitchen and cookware products will experience an increasing level of technological change over the five years to 2025.

Products and Markets

Supply Chain

KEY BUYING INDUSTRIES

1st Tier

Consumers in the US

KEY SELLING INDUSTRIES

1st Tier

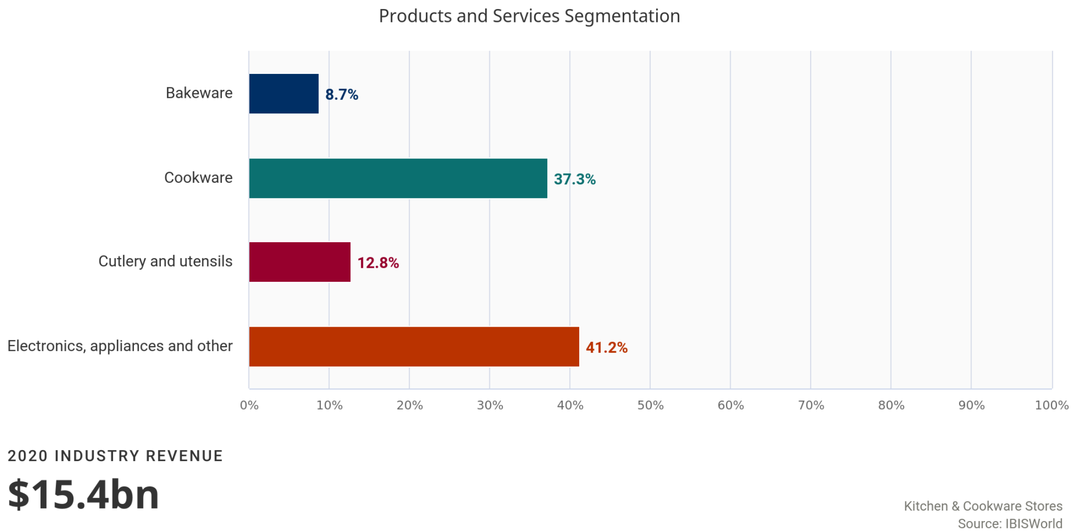
Home Furnishing Wholesaling in the US

Soft Drink, Baked Goods & Other Grocery Wholesaling in the US

2nd Tier

Hand Tool & Cutlery Manufacturing in the US

Products and Services



2020 INDUSTRY REVENUE

$15.4bn

Product trends within the Kitchen and Cookware Stores industry have primarily focused on convenience and functionality.

Additionally, consumers have placed a growing focus on increased color options and shapes. However, the most prominent product trend occurring within the industry stems from consumers increasingly demanding sustainable and ethical products. Moreover, small kitchen appliances are expected to have grown considerably over the past year, as consumers with more money to spend have increasingly replaced their kitchen appliances.

Electronics, appliances and other

The mixed array of electronics, appliances and other industry products accounts for an estimated 41.2% of industry revenue in 2020, representing the largest product segment for the industry.

This segment includes small appliances, other electronics, cookbooks and table linens. Electronics and appliances account for the vast majority of revenue in this segment and have been a significant driver of industry growth over the five years to 2020. Overall, this segment's share of industry revenue has risen during the five-year period, largely supported by growth in small appliances and electronics. The multifunctional nature of pressure cookers, crock pots, blenders, food processors and other kitchen electronics has enticed consumers over the past five years. Cookbooks are also expected to have experienced a rise in its share of industry revenue during the current period. While overall book sales are expected to have declined over the past five years, cookbooks, conversely, grew due to a rise in the number of consumers staying in and cooking at home. This trend has been driven in part by consumers' greater interest in healthy eating.

Cookware

> **The industry's second-largest product segment, accounting for 37.3% of annual revenue in 2020, consists of cookware products.**

Products accounted for in this segment include pots, pans, Dutch ovens, skillets and teakettles. These products come in a wide range of prices, from $10.00 to more than $500.00. Moreover, cookware products are increasingly being given as gifts and retailers are capitalizing on the trend by offering personalization services. Over the five years to 2020, this segment's share of industry revenue is anticipated to have risen moderately. Due to the coronavirus pandemic in 2020, which has resulted in consumer confidence and spending falling, many households have turned to kitchen and cookware stores to purchase implements to use to cook meals at home. This demand has helped decelerate industry revenue decline, however, some the majority of this demand was satisfied by e-commerce retailers or mass merchandisers because many industry operators were forced to temporarily close their establishments.

Bakeware

> **Bakeware, including baking sheets, loaf pans, cake pans, mixing bowls and measuring tools, is estimated to account for 8.7% of industry revenue in 2020.**

Products in this category tend to be much less expensive than cookware. The Riedel Marketing Group estimates that average bakeware costs one-third of average cookware equipment, which keeps revenue for this segment relatively low. These products are also often discretionary in nature. Many consumers need loaf pans and baking sheets for everyday cooking and baking; however, novelty cake pans and specialty cupcake pans are not necessities. Over the past five years, consumers have increasingly opted to make their own baked goods rather than purchase high-end products outside the home, which has bolstered unit volume of bakeware sold for the industry. As a result, IBISWorld estimates this segment's share of industry revenue has risen during the current period.

Cutlery and utensils

Cutlery and utensils account for an estimated 12.8% of industry revenue in 2020.

Cutlery sold by the industry includes knives, cutting boards and knife blocks. Utensils include whisks, ladles, tongs, spoons and spatulas. Over the past five years, IBISWorld expects revenue for this segment to have declined as a share of total industry revenue as these products do not typically need to be replaced frequently. Additionally, cutlery and utensil prices have stagnated during the period, while the price and unit sales volumes of other segments have increased. As a result, IBISWorld expects that revenue for the cutlery and utensil segment has contracted over the past five years relative to other product segments.

Demand Determinants

The primary factors affecting demand for products within the Kitchen and Cookware Stores industry include disposable income levels, consumer confidence, housing sales and price.

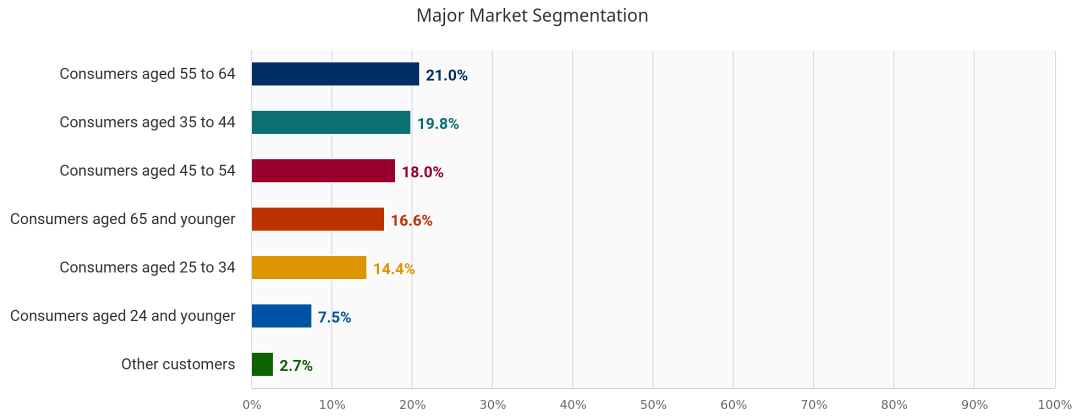
Since many goods sold by this industry are more expensive than kitchen items sold at mass merchandisers or department stores, consumer's disposable income significantly affects demand for cookware from this specialty industry. However, when incomes are low, consumers cut back on spending and refrain from buying expensive goods. If consumers are in extreme need of cookware, but their disposable income has lowered, they often purchase kitchen items from used goods stores, garage sales or mass merchandisers, detracting from industry demand. The coronavirus pandemic in 2020 has resulted in a decrease in disposable income levels and subsequent decline in demand for expensive kitchen and cookware items.

Consumer confidence affects consumers' perceptions of economic prosperity. When confidence is high, demand for new home goods such as cookware increases; however, when it is low, consumers become pessimistic and retail sales tend to soften, particularly for more expensive and high-end items. The number of housing sales also influences new purchases for this industry. As more Americans move into new houses or condominiums, they are more likely to invest in kitchen items. In turn, the amount of merchandise bought at cookware stores increases. However, if the level of housing sales drops and more individuals stay in their existing homes, they generally spend less on new kitchen goods. Consumer confidence and existing home sales have both declined in 2020, resulting in lower demand for industry products.

The coronavirus pandemic has resulted in an increase of consumers cooking meals and baking at home. However, this increase in demand has been satiated largely by e-commerce retailers and mass merchandisers who were permitted to remain open during the temporary closure of nonessential businesses throughout the United States. These retailers have benefited from the rise in e-commerce during the pandemic, as well as consumers seeking to make fewer trips to satisfy their shopping needs.

Industry cookware purchases are also determined by prices since most consumers are price conscious. Demand for products supplied by this industry is subsequently affected by the price charged by operators. Since some industry products, such as cookware sets and appliances, are regarded as big-ticket items, consumers often shop for the best available price for them.

Major Markets



2020 INDUSTRY REVENUE

$15.4bn

Kitchen & Cookware Stores
Source: IBISWorld

According to the IBISWorld estimates, households account for an estimated 97.4% of the market, while the remaining 2.6% of the market consists of retailers, wholesalers and other commercial buyers. Within the household segment, there are three main markets separated by age: individuals under 25, individuals aged 25 to 64 and individuals who are 65 and older.

Consumers aged 25 to 64

Consumers between the ages of 25 and 64 are estimated to account for the overwhelming majority of revenue for the Kitchen and Cookware Stores industry, contributing 73.2% to annual industry revenue in 2020. Consumers in this age demographic are typically employed; therefore, these consumers generally have steady income streams, enabling them to freely spend on kitchen items. This demographic also is home to the highest percentage of homeowners, who purchase products for home cooking and entertaining. Overall, demand from this demographic has widened over the five years to 2020 in line with improved household finances.

Consumers aged 65 and older

Consumers aged 65 years old and up are expected to account for 16.6% of industry cookware sales in 2020. Most of these consumers have entered retirement and have reduced disposable income, which restricts their spending on industry items. Typically, this demographic is not concerned with the latest trends and spends little on replacement goods such as luxury cupcake pans. However, this segment is expected to experience growth over the outlook period as baby boomers increasingly enter traditional retirement age.

Consumers aged 24 and younger

Consumers under the age of 25 represent the smallest buyers of kitchen items, accounting for an estimated 7.5% of industry revenue in 2020. This is because most consumers in this age group are too young to spend a substantial amount of money on kitchen goods. While some consumers in this demographic do demand kitchen goods, they typically have limited income. Therefore, they often purchase less expensive kitchen items from other retailers such as department stores, limiting industry demand from this demographic.

International Trade

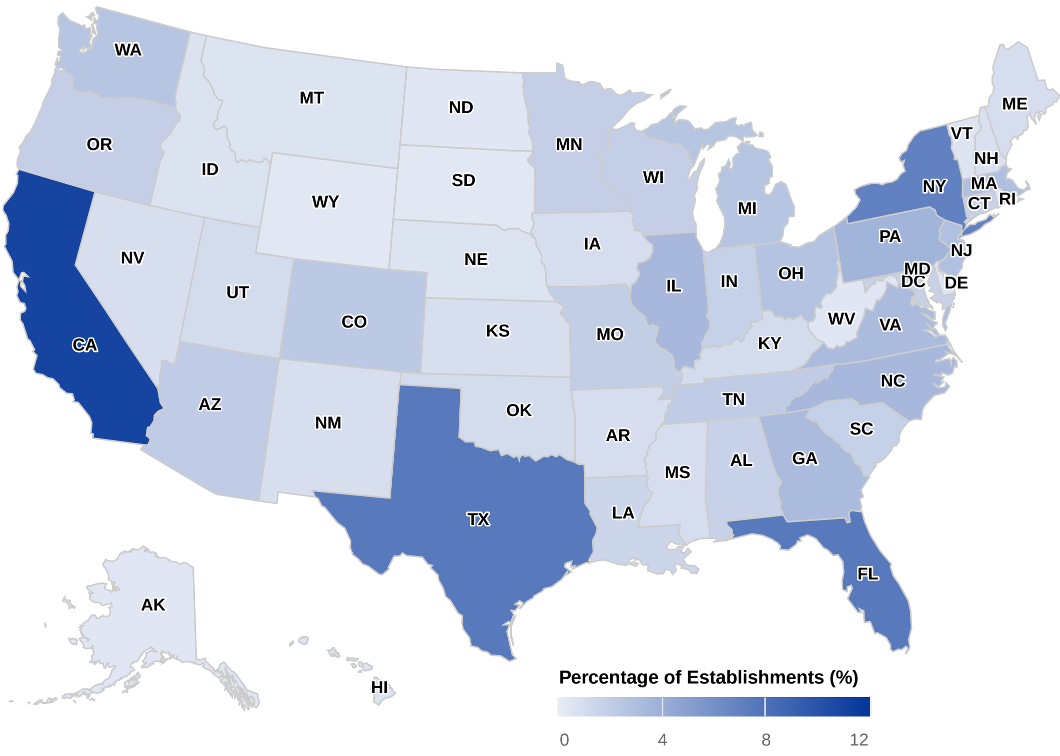
Exports in this industry are Low and Steady

Imports in this industry are Low and Steady

Merchandise trade figures are classified into the relevant upstream industries; therefore, the Kitchen and Cookware Stores industry has low (i.e. zero) trade by convention. However, the industry regularly handles imported items such as cutlery, appliances and kitchenware products. While the majority of sales for kitchen goods are derived from the domestic market, the international market has experienced some competition over the five years to 2020, largely due to the influx of imported merchandise from China. At the retail level, this factor has led to some price discounting by wholesalers and manufacturers to ensure that their products reach store shelves.

Business Locations

Business Concentration in the United States



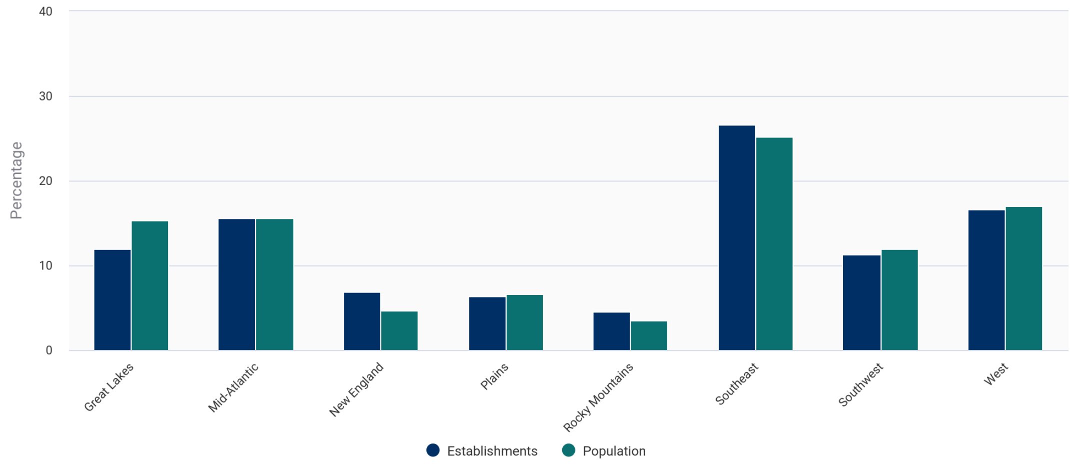
Kitchen & Cookware Stores
Source: IBISWorld

Similar to most retail industries in the United States, the geographical spread of establishments in the Kitchen and Cookware Stores industry closely reflects the distribution of the national population. Generally, the greater the number of residents, the stronger demand will be for industry products. In 2020, IBISWorld estimates that industry establishments will be most highly concentrated in the Southeast region, which captures the highest US population share.

Based on US Census Bureau data and IBISWorld estimates, the Southeast region is expected to account for 26.7% of industry establishments in 2020. In turn, population projections indicate that this region will also account for the largest share of the nation's population. Due to a larger older population with houses, Florida alone is estimated to hold 7.4% of all establishments.

Close behind in their share of industry establishments are the West and Mid-Atlantic regions, with an estimated 16.7% and 15.6% of industry outlets, respectively. The two regions similarly contain the second and third-largest share of the US population, respectively. The West region's high concentration is driven by California, which is expected to account for 10.9% of total industry locations.

Distribution of Establishments vs Population



Kitchen & Cookware Stores
Source: IBISWorld

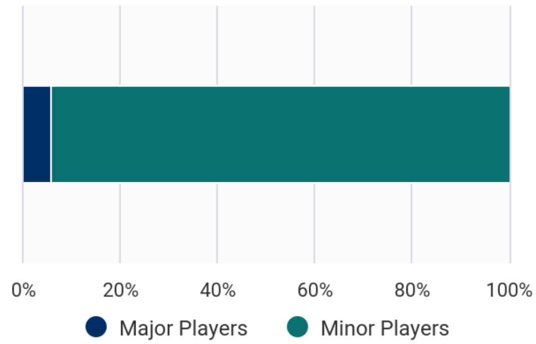
Competitive Landscape

Market Share Concentration

Concentration in this industry is Low

The Kitchen and Cookware Stores industry exhibits a low level of market share concentration, with the two largest players combining to account for less than 10.0% of total industry revenue in 2020. The remaining share of the market is mostly composed of small-sized players that successfully supply their local demand. While there are several chains that command more market share than competitors, over 60.0% of industry operators in 2020 are smaller operators with nine or fewer employees. These businesses are spread out throughout the country, as there are many communities that industry chain retailers have not yet established locations in. While the industry's product offerings are mostly of a discretionary nature, demand for kitchen goods is high enough to support these smaller businesses, keeping market share concentration low.

Market Share Concentration



Kitchen & Cookware Stores
Source: IBISWorld

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

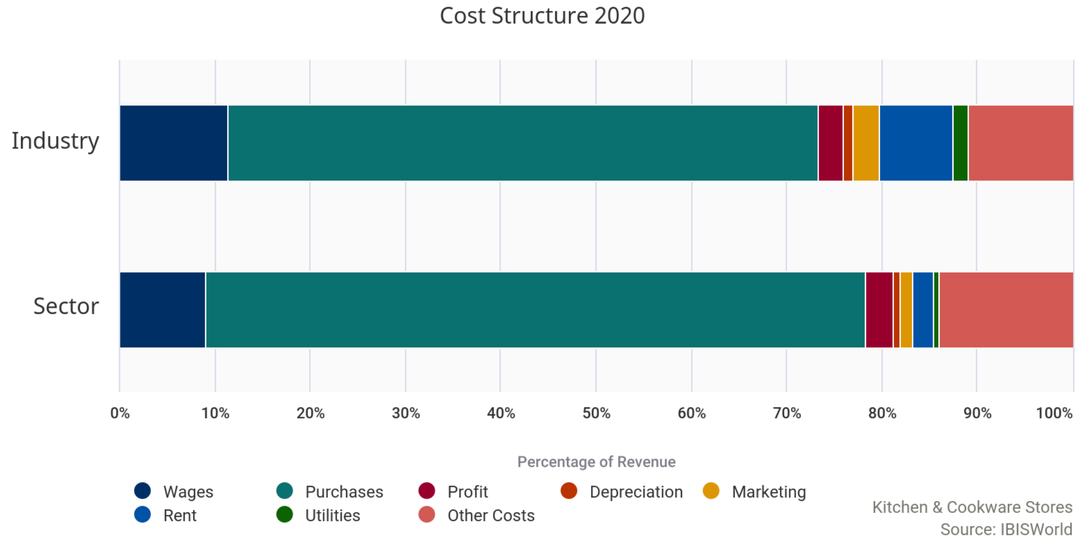
Ability to control stock on hand: Operators need to ensure that adequate stock controls are in place to reduce inventory costs and increase stock turns.

Proximity to key markets: Operators should be located in areas with high retail foot traffic to maximize exposure to consumers.

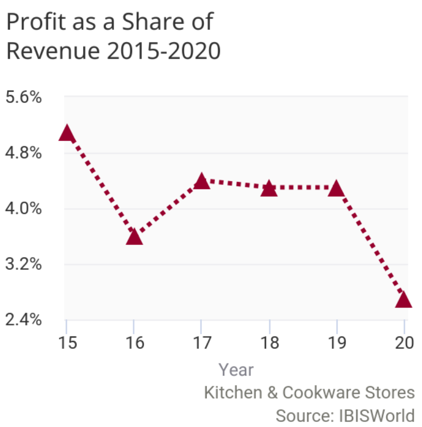
Attractive product presentation: Operators should clearly display products in an appealing manner to promote purchases.

Experienced work force: Since industry competition is fierce and customers often require help and advice regarding products, it is important to have knowledgeable staff.

Cost Structure Benchmarks



Profit

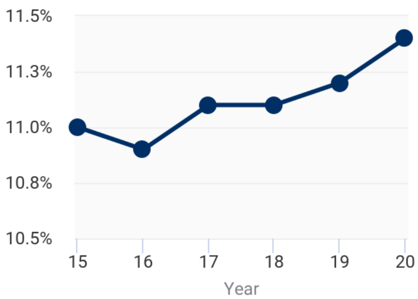


Over the five years to 2020, profit, measured as earnings before interest and taxes, for the Kitchen and Cookware Stores industry has been impaired by increased competition from large discount department stores. By offering kitchen and cookware goods at lower prices, these retailers attracted consumers with conservative spending habits. To stay competitive, many industry companies have resorted to discount and promotional activity, which ultimately constrained margin growth. Overall, the average industry profit margin is expected to account for 2.7% of revenue in 2020, down from 5.1% in 2015. However, some favorable trends have enabled profit margins to improve in certain years. As per capita disposable income levels have grown throughout most of the period, consumers have increasingly flocked to industry retailers. Additionally, the product mix of the industry has trended toward a focus on higher-end goods that command higher profit margins. However, the temporary closure of industry establishments in 2020 due to the coronavirus pandemic has severely harmed industry profit in 2020.

Wages

Wages account for the second-largest industry cost, consuming an estimated 11.4% of revenue in 2020. Industry operators rely heavily on employees for daily operations such as customer service, processing transactions, maintaining store displays and inventory and stock checks. In addition, some kitchen stores employ part-time chefs or cookware experts for demonstrations and information sessions. Wages as a percentage of revenue have risen during the period, as companies have been careful not to cut staff because expert customer service provides a significant competitive advantage that industry incumbents have over mass merchandisers. However, operators have become more reliant on part-time workers as well as laborsaving software and technology, to cut down on benefit outlays and other associated costs.

Wages as a Share of Revenue 2015-2020

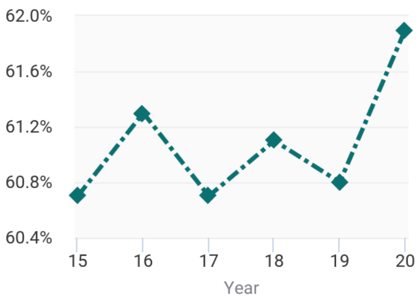


Kitchen & Cookware Stores
Source: IBISWorld

Purchases

Purchase costs are the single-largest expense for the industry, accounting for an estimated 61.9% of total revenue in 2020. This figure has increased during the current five-year period, which can be attributed to a return in consumer expenditure that has supported increased inventory levels and a shift in product mix that has favored more expensive higher-end goods. As customers have purchased more high-end goods over the past five years, operators have stocked more of these high-end goods with higher purchase costs, boosting purchase expenditures.

Purchases as a Share of Revenue 2015-2020



Kitchen & Cookware Stores
Source: IBISWorld

Depreciation

Depreciable assets in this industry include fittings and fixtures, computer inventory systems, cash registers, other point-of-sale computer systems, warehousing equipment and software used for day-to-day operations. IBISWorld expects the industry's average depreciation costs are low, accounting for an estimated 0.9% of industry revenue in 2020. Over the past five years, depreciation costs as a percentage of industry revenue are estimated to have remained stagnant.

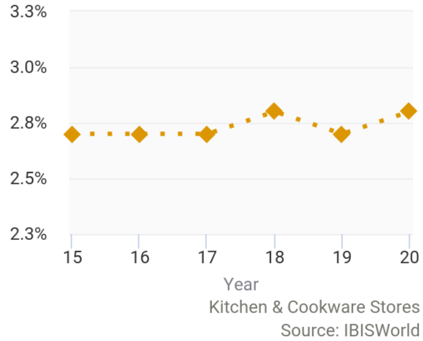
Depreciation as a Share of Revenue 2015-2020

Kitchen & Cookware Stores
Source: IBISWorld

Marketing

Traditionally, advertising has been important to the industry because operators rely heavily on price promotions and marketing to drive sales. However, some stores have been more creative with their marketing in recent years, bringing in famous chefs for cookbook signings. IBISWorld estimates that marketing and promotional costs will account for 2.8% of total industry revenue in 2020.

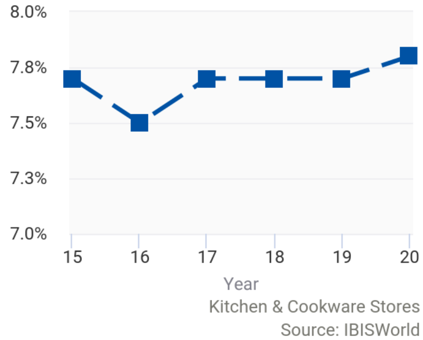
Marketing as a Share of Revenue 2015-2020



Rent

Like many retail industries, rental costs still comprise a significant proportion of revenue at an estimated 7.8% of revenue in 2020. Store exposure is a key factor in running successful retail establishments, and retailers require premium storefront space in high-traffic areas to boost demand.

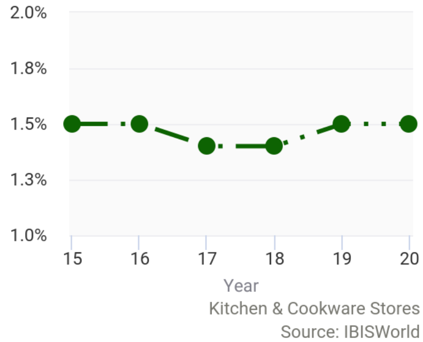
Rent as a Share of Revenue 2015-2020



Utilities

Similar to rental costs, utility costs comprise a moderate proportion of revenue at an estimated 1.5% of revenue in 2020.

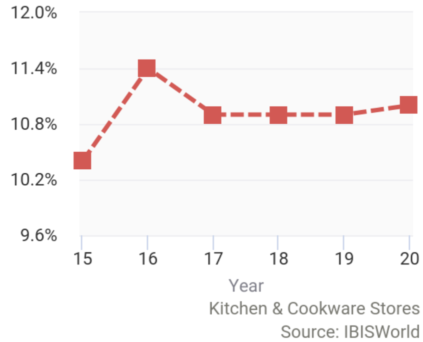
Utilities as a Share of Revenue 2015-2020



Other Costs

Other costs for the industry include administrative, insurance and security costs. These miscellaneous costs are expected to total the remainder of annual industry revenue.

Other Costs as a Share of Revenue 2015-2020



Basis of Competition

Competition in this industry is ⚠ High and Increasing

> **Operating in a saturated market, operators are exposed to a high level of competition within the Kitchen and Cookware Stores industry.**

Operators compete with one another on factors such as location of stores, price and quality of products, merchandise assortment and presentation and customer service.

Internal competition

> **Operators in the Kitchen and Cookware Stores industry are subject to a high degree of price competition.**

Although operators price products to maximize returns, industry companies must stay conscious of the prices charged for similar items by competitors to remain competitive. In particular, low prices offered by stores can make them more desirable than stores that retail products at relatively higher prices. Over the five years to 2020, this trend has enabled larger retailers, such as William-Sonoma, to boost sales. By operating at a national scale, the company has been able to buy in bulk and pass down cost savings in the form of lower prices, luring consumers away from smaller stores.

Customer service is also an important basis for competition among operators since industry employees often need specific knowledge regarding product performance. To this end, consumers typically shop at stores where they are more confident of receiving informative advice from knowledgeable employees. This trend is especially true for major player Williams-Sonoma. The company prides itself on providing excellent advice on its many products, even letting customers try different items, such as cutlery. Over the past five years, most operators have increased their focus on adequately training employees to discuss various customer queries.

External competition

> **Industry operators also experience a high degree of competition from external industries.**

These includes large discount department stores, such as Walmart and Target. These large stores can maximize costs savings by establishing relationships with manufacturers and purchasing large inventory volumes at once, enabling them to offer discounted products to consumers. As a result, industry operators have contended with increased pricing pressures due to external competition from big-box retailers.

Barriers to Entry

Barriers to entry in this industry are ⊖ Medium and Steady

New operators planning to enter the Kitchen and Cookware Stores industry must overcome several barriers. The most significant of these involves the level of external competition from discount department stores. These larger-sized operators benefit from economies of size and scope, since they are able to purchase a variety of merchandise in bulk at discounted prices. Therefore, they can then pass on these cost savings to consumers via lower product prices without effectively reducing their product margins. Similar strategies are implemented by the industry's major competitors such as Bed Bath & Beyond, which has significant buying power to achieve lower unit costs and access to exclusive product agreements with manufacturers.

Barriers to entry checklist

Competition	High
Concentration	Low
Life Cycle Stage	Mature
Technology Change	Low
Regulation & Policy	Light
Industry Assistance	None

Prospective operators planning to enter this industry also need to consider the level of market dominance exerted by the top two players, which account for less than 10.0% of the total market share. While this indicates low market share, locating near one of these major players could be detrimental for a new entrant. Competition arises from the high profile and more cost-efficient chain stores that are already established in the industry, such as Williams-Sonoma. Strong market dominance by highly visible brands makes it difficult for new entrants to attract consumers. New entrants may find it difficult to compete with these national chain stores in terms of brand awareness, product range and price.

The initial cost of establishing or purchasing a retail outlet and the inventory can be expensive and may also present a barrier for new entrants. Prospective companies may have difficulty securing the necessary capital to build or purchase a new store. In addition, operators require a line of credit to purchase store inventory, which can be extensive depending on the specific nature of the merchandise. Retailers need to have established relationships with suppliers to guarantee a consistent and reliable supply of quality products, which may also be a barrier for new entrants. This factor is compounded by the effect of exclusive agreements, between wholesaler and retailer, on the ability of new entrants to secure a supply of certain merchandise.

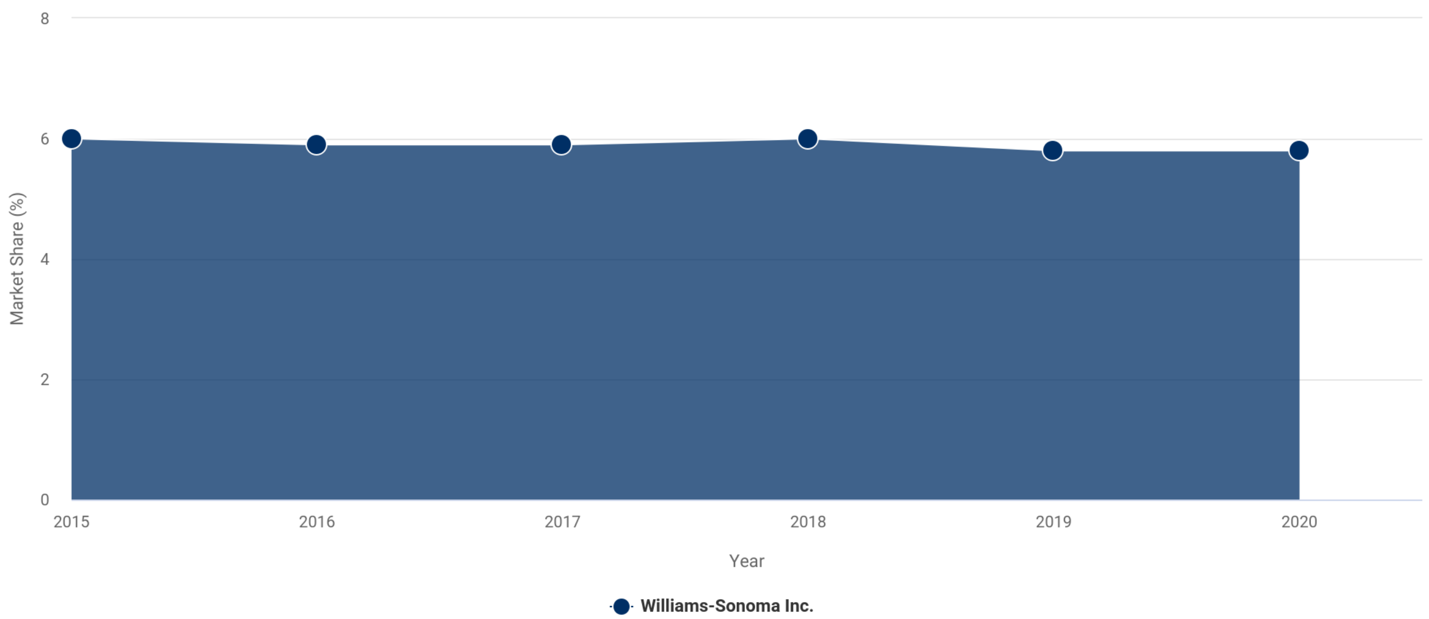
Industry Globalization

Globalization in this industry Low and Steady

Globalization levels have remained relatively stable for the Kitchen and Cookware Stores industry over the five years to 2020. This industry has historically been characterized by a large number of small independent retail stores that operate locally or regionally. Even for large players, international operations are mostly limited to China and Mexico. This industry also continues to be dominated by domestically owned companies. In terms of international trade, globalization has increased due to the influx of inexpensive merchandise imported from Asian countries, particularly China. Nevertheless, this is factored in at the corresponding manufacturer level, keeping globalization relatively low for the retail industry.

Major Companies

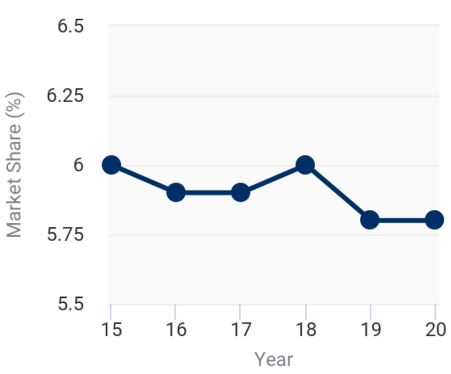
Major Players and Their Market Share 2015–2020



Major Players

WILLIAMS-SONOMA INC.

Williams-Sonoma Inc.



Market Share: 5.8%

Williams-Sonoma Inc. (Williams-Sonoma) is one of the largest specialty retailers of home products. Founded in 1956 and headquartered in San Francisco, the company has expanded to include five retail store brands, eight direct mail catalogs and seven e-commerce websites that sell a wide selection of culinary equipment, furniture and home furnishings. Overall, the company reported total revenue of $5.9 billion in fiscal 2019 (year-end February; latest data available). The company's Williams-Sonoma retail stores are the only operations relevant to the Kitchen and Cookware Stores industry. The company's catalog business, e-commerce websites and other retail stores, such as Pottery Barn and West Elm, are not included in this industry. Williams-Sonoma currently operates 230 retail stores throughout more than 40 states. IBISWorld estimates that just under 18.0% of total company revenue is derived from Williams-Sonoma stores, comprising the company's industry-relevant revenue.

Financial performance

IBISWorld estimates that over the five years to fiscal 2020, Williams-Sonoma's industry-specific revenue is anticipated to fall at an annualized rate of 2.0% to reach $897.4 million. This decline is largely due to the coronavirus pandemic in 2020, as Williams-Sonoma temporarily closed its stores in accordance with government mandated closure of nonessential businesses. Additionally, the closure of industry stores is likely to have increased consumers willingness to purchase kitchen and cookware items online, harming Williams-Sonoma's industry relevant revenue. Moreover, although the company's overall revenue has grown, industry relevant revenue has been stagnant during the period, as Williams-Sonoma experienced an increasing percentage of its sales generated from its e-commerce business. In fact, the company's e-commerce sales increased during the five-year period to generate 56.0% of net revenue in fiscal 2019 (latest data available), detracting from its retail operations. Williams-Sonoma is known as a high-end retailer in this industry, and revenue growth fell in 2020 as consumers became less confident spending money on discretionary purchases during a time of economic uncertainty.

Williams-Sonoma Inc. (US industry-specific segment) - financial performance*

Year**	Revenue ($m)	Growth (% change)	Operating Income ($m)	Growth (% change)
2015-16	993.6	N/C	50.7	N/C
2016-17	1002.2	0.9	36.1	-28.8
2017-18	1022.4	2.0	45.0	24.7
2018-19	1056.1	3.3	45.4	0.9
2019-20	1032.4	-2.2	44.3	-2.4
2020-21	897.4	-13.1	23.9	-46.0

Source: Annual report and IBISWorld

Note: *Estimates; **Year-end February

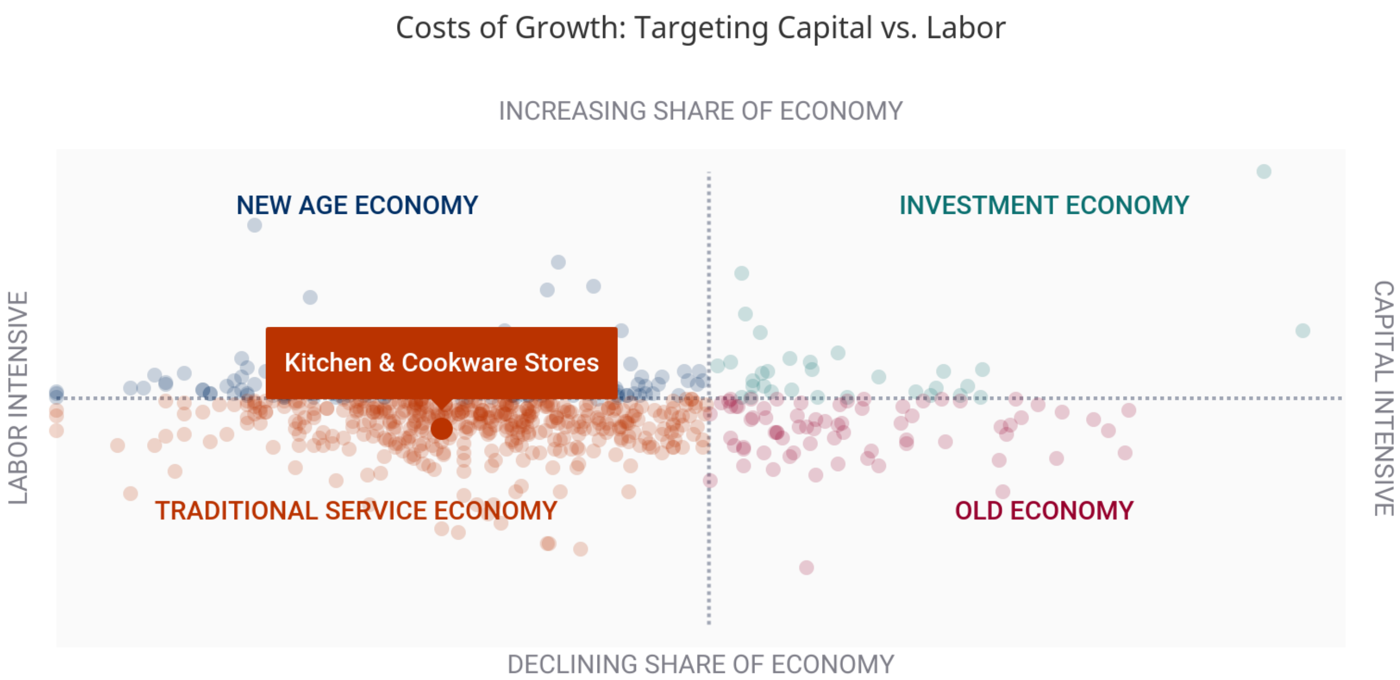
Other Players

A large percentage of companies in the Kitchen and Cookware Stores industry are small enterprises that operate on a local or regional basis. For example, the Biggest Little Kitchen Store, operated by California-based Home and Farm Supply, has one location in the state.

SUR LA TABLE INC.

Based in Seattle, Sur La Table Inc. (Sur La Table) retails cookware, cutlery, dinnerware and bakeware to professional and home chefs. The company was founded in 1972 with one retail location in Seattle's Pike Place Market; currently, the company operates 134 stores nationwide, along with a catalog and website. Sur La Table generally sells higher-end kitchen items, including All-Clad and Le Creuset cookware. However, the company also sells mid-priced kitchen tools, small appliances and more. Since the company retails moderate to high-end kitchen items, stores are generally located in neighborhoods with a mix of upscale national brands and creative local merchants. Furthermore, Sur La Table stores are sometimes attached to high-end grocery stores that attract a significant amount of consumer traffic. Investcorp, a global provider and manager of alternative investment products, completed its acquisition of the company in 2011. Over the five years to 2020, Sur La Table has expanded its operations and gained an increasing presence in the Kitchen and Cookware Stores industry. Overall, IBISWorld estimates that the company's industry-relevant revenue will total $281.3 million in 2020, representing an industry market share of 1.8%.

Operating Conditions



Kitchen & Cookware Stores
Source: IBISWorld

Capital Intensity

The level of capital intensity is Low

The level of capital expenditure in the Kitchen and Cookware Stores industry is measured in terms of the depreciation of assets. For this industry, depreciable assets include items such as fixtures, fittings, cash registers, point-of-sale (POS) systems and warehousing equipment. In general, capital expenditure for this industry is undertaken at the establishment of new operations, as assets are replaced or when stores undergo refurbishments. Overall, in 2020, industry operators are expected to allocate $0.08 toward capital investment for every $1.00 spent on wages.

Over the past decade, the industry has undergone considerable change with the implementation of computer scanning technology. Its implementation has simplified labor tasks and minimized the level of human error in processing purchases. POS systems have enabled operators to computerize their inventory, resulting in better stock control and cost efficiencies. Many administrative and bookkeeping tasks have also been automated by software that is counted as a depreciable asset. In addition to technology, a few kitchen stores such as Sur La Table have installed large kitchens to host cooking classes in. This strategy enables companies to draw customers into their establishments and encourage sales by showing customers the different ways they can use in-store products. As competition from department stores and other larger external operators has grown, more industry companies have added these kitchens as a way to differentiate and win sales. The addition of these kitchens has boosted capital spending levels for the industry since 2015.

The industry further incurs labor costs through the need to employ staff for company stores. Duties undertaken by employees include customer service, maintaining store displays, processing consumer purchases and maintaining computer systems. Unlike capital costs, which can vary, labor costs are an integral and important part of operating expenditure. Many operators are small in this industry and cannot afford the larger capital outlays that larger-sized companies can. These smaller businesses rely more heavily on laborers for day-to-day operations. Therefore, labor costs for this industry are considerably larger than capital expenditure. Additionally, stores have sought to differentiate from competitors by hiring more highly knowledgeable workers to provide information big-box retailers cannot, which places a premium on wages. This trend has resulted in wages rising as a proportion of revenue during the period. Meanwhile, spending on laborsaving technology has remained equally important to operator success in the industry, leading to capital intensity to remain stagnant during the five-year period.

The most relevant technologically disruptive force pertaining to the Kitchen and Cookware Stores industry is the rising trend of direct-to-consumer kitchen and cookware start-ups.

These startup kitchen and cookware direct-to-consumer brands, including Great Jones, Potluck and Misen, aim to target consumers directly by retailing their own manufactured kitchen and cookware bundle sets, along with individual pieces of kitchen and cookware items. These startups are often able to pass along cost savings to consumers achieved from reducing the product supply chain by acting as manufacturer, distributor and retailer of kitchen and cookware products, representing a substitute for industry retail establishments. Incumbent industry operators may respond to this disruptive threat by forming partnerships with startup direct-to-consumer manufacturers or augmenting marketing expenditures to maintain brand recognition in light of heightened external competition.

The level of technology change is Low

As is the case with many retail industries, e-commerce has contributed an increasing presence in the sale of products in the Kitchen and Cookware Stores industry.

All major players in this industry have established online websites, offering merchandise for sale online. While product prices are comparable, delivery charges vary significantly between operators because of the heft of most of the industry's products. Some charge extra for the shipping and handling of heavier objects, such as cookware or appliances, while others do not. Consumers that are savvier with online purchasing have begun to factor these shipping costs into their price determinations, which has affected industry operators' online presences. While most industry operators still derive most of their revenue from in-store purchasing, major players have experienced an uptick in the proportion of online sales and have adjusted retail strategies accordingly.

Most technological improvements in this industry have enabled better management of operations and inventory. These improvements include computer scanning cash registers and automated inventory equipment. Many industry operators have implemented computerized POS equipment, which controls and records merchandising, distribution, sales and stock markdowns. Bar code scanning increases labor productivity, ensuring greater control over the distribution of goods and reducing errors along the supply chain. Radio frequency identification (RFID) provides real-time information on inventory, helping to reduce shrinkage problems and improving efficiency.

To reduce losses incurred as a result of theft, retailers have begun implementing security and loss prevention advancements such as closed-circuit TV cameras, source tagging, signature-capture technology (used at the POS terminal for credit card transactions), and fingerprint scanning systems that verify customer identities. In this case, RFID can also be used to reduce theft. This technology tracks products from the time they leave the assembly line to the time they leave the store by releasing continuous signals from a chip. These chips have been inserted in products at the manufacturing stage and are monitored by a radio frequency receiver.

Revenue Volatility

The level of volatility is ⊖ Medium

Volatility vs. Growth

Kitchen & Cookware Stores
Source: IBISWorld

Note: Revenue growth and decline reflective of 5-year annualized trend. Y-axis is in logarithmic scale. Y-axis crosses at long-run GDP. X-axis crosses at high volatility threshold.

Revenue volatility for the Kitchen and Cookware Stores industry has been low to moderate over the five years to 2020.

There are several factors that collectively determine demand for kitchen goods; this diversity has helped level out fluctuations in individual demand determinants during the five-year period. Growth in per capita disposable income throughout most of the period has increased demand for industry goods. However, the increasing prevalence of online kitchen and cookware retailers and the rise of e-commerce have limited industry revenue growth. Overall, during the current five-year period, revenue for the industry is anticipated to have risen as much as 4.2% in 2015 and fallen as much as 14.7% in 2020 due to the coronavirus pandemic induced temporary closure of industry establishments.

Regulation & Policy

The level of regulation is ✓ Light and is Steady

No specific regulations apply to the Kitchen and Cookware Stores industry; however, industry operators are subject to broader-reaching pieces of legislation.

While the consumer market accounts for the vast majority of industry revenue, cookware and bakeware for commercial use has to pass certain standards set by the National Sanitation Foundation (NSF) and Food and Drug Administration (FDA) in regard to the quality of equipment used. For operators to appeal to a commercial clientele, goods that meet these standards must be stocked.

Operators must also follow regulations governing the retail sector at large. Regulations relevant to this sector are generally covered at the state level. States have enacted their own antitrust laws to ensure that the general public is provided with the best prices, quality and choice. Companies must also comply with the Fair Labor Standards Act and various state laws governing matters such as minimum wage, overtime and other working conditions. Store owners must further comply with the provisions of the Americans with Disabilities Act of 1990, as amended, which generally require that stores be accessible to customers with disabilities.

Industry Assistance

The level of industry assistance is ⚠ None and is Steady

The Kitchen and Cookware Stores industry operates with little assistance.

The Home Furnishing Association (HFA) is the largest industry association, representing 1,200 members and nearly 7,000 stores by providing market research, education and networking opportunities. The HFA also provides a monthly magazine that details trends in home furnishings and updates to the regulatory environment of the industry itself.

Other than the advocacy of industry associations such as the HFA and the National Kitchen and Bath Association, little assistance is granted to operators, even though goods sold in this industry are often levied with an import tax. While tariffs apply to goods supplied by this industry, they are applied at the manufacturing level. Retail operators purchase goods from manufacturers or wholesalers after the tariff has already been applied. Assistance for industry operators has remained low and steady during the five-year period.

The US Coronavirus Aid, Relief, and Economic Security Act (CARES) which was introduced and signed into law in March of 2020 is a $2.0 trillion economic relief package designed to provide direct economic assistance for American workers, families and small businesses as well as preserve jobs for American industries. The Paycheck Protection Program, which was established by the CARES Act is implemented by the Small Business Administration and provides small businesses with funds to pay up to eight weeks of payroll costs including benefits. Funds can also be used to pay interest on mortgages, rent and utilities. The CARES Act and Paycheck Protection Program will support industry operators with payroll and rent payments, as many operators are small businesses and also have been temporarily closed due to being qualified as nonessential businesses by the government.

Key Statistics

Industry Data

Year	Revenue ($m)	IVA ($m)	Estab. (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Domestic Demand ($m)	Per capita disposable income
2011	16,083	2,653	8,507	4,937	90,706	N/A	N/A	1,914	N/A	45,261
2012	16,549	2,571	8,449	4,933	92,122	N/A	N/A	1,827	N/A	45,558
2013	17,101	2,851	8,390	4,811	94,059	N/A	N/A	1,945	N/A	43,894
2014	17,350	3,022	8,324	4,740	93,054	N/A	N/A	1,964	N/A	44,540
2015	18,076	3,078	8,202	4,607	98,924	N/A	N/A	1,994	N/A	45,568
2016	18,409	2,863	8,007	4,521	96,511	N/A	N/A	1,998	N/A	45,575
2017	18,380	3,046	8,128	4,550	100,843	N/A	N/A	2,035	N/A	45,740
2018	18,143	2,928	8,022	4,487	100,283	N/A	N/A	2,021	N/A	46,172
2019	18,109	2,959	7,977	4,458	100,356	N/A	N/A	2,021	N/A	46,457
2020	15,450	2,314	7,359	4,140	87,916	N/A	N/A	1,766	N/A	44,844
2021	15,822	2,359	7,318	4,111	88,947	N/A	N/A	1,791	N/A	45,088
2022	16,317	2,686	7,295	4,091	90,477	N/A	N/A	1,827	N/A	45,784
2023	16,748	2,745	7,270	4,072	91,644	N/A	N/A	1,855	N/A	47,111
2024	17,185	2,802	7,259	4,061	92,943	N/A	N/A	1,886	N/A	48,575
2025	17,486	2,837	7,218	4,033	93,618	N/A	N/A	1,904	N/A	50,187

Annual Change

Year	Revenue (%)	IVA (%)	Estab. (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Domestic Demand (%)	Per capita disposable income (%)
2011	3.38	7.91	-5	-7	6	N/A	N/A	1.60	N/A	-0.46
2012	2.89	-3.10	-1	-0	2	N/A	N/A	-4.55	N/A	0.65
2013	3.33	10.9	-1	-2	2	N/A	N/A	6.48	N/A	-3.66
2014	1.45	5.99	-1	-1	-1	N/A	N/A	0.98	N/A	1.47
2015	4.18	1.85	-1	-3	6	N/A	N/A	1.51	N/A	2.30
2016	1.84	-7.00	-2	-2	-2	N/A	N/A	0.20	N/A	0.01
2017	-0.16	6.38	2	1	4	N/A	N/A	1.85	N/A	0.36
2018	-1.30	-3.88	-1	-1	-1	N/A	N/A	-0.71	N/A	0.94
2019	-0.19	1.05	-1	-1	0	N/A	N/A	0.02	N/A	0.61
2020	-14.7	-21.8	-8	-7	-12	N/A	N/A	-12.6	N/A	-3.48
2021	2.40	1.91	-1	-1	1	N/A	N/A	1.42	N/A	0.54
2022	3.12	13.9	-0	-0	2	N/A	N/A	1.99	N/A	1.54
2023	2.64	2.21	-0	-0	1	N/A	N/A	1.56	N/A	2.89
2024	2.61	2.07	-0	-0	1	N/A	N/A	1.66	N/A	3.10
2025	1.74	1.24	-1	-1	1	N/A	N/A	0.92	N/A	3.31

Key Ratios

Year	IVA/Revenue (%)	Imports/Demand (%)	Exports/Revenue (%)	Revenue per Employee ($'000)	Wages/Revenue (%)	Employees per estab.	Average Wage
2011	16.5	N/A	N/A	177	11.9	10.7	21,097
2012	15.5	N/A	N/A	180	11.0	10.9	19,828
2013	16.7	N/A	N/A	182	11.4	11.2	20,679
2014	17.4	N/A	N/A	186	11.3	11.2	21,107
2015	17.0	N/A	N/A	183	11.0	12.1	20,155
2016	15.6	N/A	N/A	191	10.9	12.1	20,701
2017	16.6	N/A	N/A	182	11.1	12.4	20,180
2018	16.1	N/A	N/A	181	11.1	12.5	20,150
2019	16.3	N/A	N/A	180	11.2	12.6	20,140
2020	15.0	N/A	N/A	176	11.4	11.9	20,087
2021	14.9	N/A	N/A	178	11.3	12.2	20,137
2022	16.5	N/A	N/A	180	11.2	12.4	20,192
2023	16.4	N/A	N/A	183	11.1	12.6	20,246
2024	16.3	N/A	N/A	185	11.0	12.8	20,294
2025	16.2	N/A	N/A	187	10.9	13.0	20,335

Additional Resources

Additional Resources

Home Furnishings Association

http://www.myhfa.org

Cookware Manufacturers Association

http://www.cookware.org

National Retail Federation

http://www.nrf.com

Industry Jargon

BIG-BOX STORE

A retail store that is differentiated by its sheer size and large range of specialty products.

PRIVATE LABEL

Products sold as the house brand of a particular supermarket or retail chain, rather than the specific manufacturer.

RADIO FREQUENCY IDENTIFICATION (RFID)

A technology that tracks products from the time they leave the assembly line to the time they leave the store by releasing continuous signals from a chip.

Glossary Terms

BARRIERS TO ENTRY

High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY

Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labor. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labor; medium is $0.125 to $0.333 of capital to $1 of labor; low is less than $0.125 of capital for every $1 of labor.

CONSTANT PRICES

The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the "real" growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the US Bureau of Economic Analysis' implicit GDP price deflator.

DOMESTIC DEMAND

Spending on industry goods and services within the United States, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT

The number of permanent, part-time, temporary and seasonal employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE

A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT

The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS

Total value of industry goods and services sold by US companies to customers abroad.

IMPORTS

Total value of industry goods and services brought in from foreign countries to be sold in the United States.

INDUSTRY CONCENTRATION

An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE

The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA)

The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE

The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%, medium is 5% to 20%, and high is more than 20%. Imports/domestic demand: low is less than 5%, medium is 5% to 35%, and high is more than 35%.

LIFE CYCLE

All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT

Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT

IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

REGIONS

West | CA, NV, OR, WA, HI, AK

Great Lakes | OH, IN, IL, WI, MI

Mid-Atlantic | NY, NJ, PA, DE, MD

New England | ME, NH, VT, MA, CT, RI

Plains | MN, IA, MO, KS, NE, SD, ND

Rocky Mountains | CO, UT, WY, ID, MT

Southeast | VA, WV, KY, TN, AR, LA, MS, AL, GA, FL, SC, NC

Southwest | OK, TX, NM, AZ

VOLATILITY

The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES

The gross total wages and salaries of all employees in the industry.

NEVADA HEALTH RESPONSE

CURRENT STATUS: MITIGATION MEASURES

View all of the most recent information regarding COVID-19 mitigation measures.

Click here for more information.

Governor Directives and Declarations

Reopening/Stay At Home/Social Distancing/Stop the Spread

- **Directive 036**
    - Directive 036 – Guidance
    - Lease Addendum Promissory Note
    - Tenant Declaration
- **Declaration of Emergency Directive 035**
  Emergency directive 35 formalizes additional restrictions implemented to help slow the spread of COVID-19 in Nevada. This measures informed by public health experts, business and economic leaders.

- **Declaration of Emergency Directive 034 – Youth Sports**
    - Nevada Guidance for Adult & Youth Sports **(Updated 10/16/2020)**
    - COVID Screening Guide – Sports
    - COVID Screening Check In – Sports
- **Declaration of Emergency Directive 033 – Updated Guidance for Safe Gatherings**
    - Nevada Guidance for Safe Gatherings – Celebrations, Ceremonies, and Events **(Updated 10/15/2020)**
    - Large Gathering Venue COVID-19 Preparedness & Safety Plan Submission Guide
    - Nevada Places of Worship, Life-Rites Ceremonies and Gatherings – Celebrations, Ceremonies, and Events **(Updated 12/15/2020)**
    - Nevada COVID-19 Guidance for Gatherings at Private Residences
    - Open House/Showings Guidance
    - Comprehensive List of Screening Documents
        - COVID-19 Screening for Employees Guide
        - COVID-19 Screening for Employees Guide (Spanish)
        - COVID-19 Screening for Employees – Sign In Sheet
        - COVID-19 Screening for Employees – Sign In Sheet (Spanish)
        - COVID-19 Screening for Visitors Guide
        - COVID-19 Screening for Visitors Guide (Spanish)
        - COVID-19 Screening for Visitors – Sign In Sheet
        - COVID-19 Screening for Visitors – Sign In Sheet (Spanish)
    - Comprehensive List of Signage Documents
        - Capacity Signage – Landscape

        - Capacidad Limitada Signage – Landscape
        - Capacity Signage – Portrait
        - Capacidad Limitada Signage – Portrait

- **Directive 031 – Extension of Residential Evictions Moratorium (Updated 08/31/2020)**
    - Guidance for Tenants and Landlords Under Directive 031 – FAQs
    - Orientación para inquilinos y propietarios según la Directiva 031 – Preguntas frecuentes
- **Declaration of Emergency Directive 030 (Updated 8/14/2020)**
    - COVID-19 County Tracker **(Updated 8/13/2020)**
- Road to Recovery: Moving to a New Normal **(Updated 8/3/2020)**
- **Declaration of Emergency Directive 029 (Updated 7/31/2020)**
- **Declaration of Emergency Directive 028 (Updated 7/28/2020)**
- **Declaration of Emergency Directive 027 (Updated 7/10/2020)**
    - Guidance on Directive 027: Elevated Disease Transmission Criteria
    - Nevada's County COVID-19 Elevated Disease Transmission Tracker
    - Food Establishments **(Updated 7/17/2020)**
    - Bar Update **(Updated 9/17/2020)**
    - Bar Guidance **(Updated 9/17/2020)**
- **Declaration of Emergency Directive 026 (Updated 6/29/2020)**
- **Directive 025 – Gradual Lift of Evictions Moratorium (Updated 06-25-2020)**
    - Guidance for Tenants under Directive 025 – FAQs
    - Guidance for Landlords and Tenants – General FAQs
    - Guidance for Landlords under Directive 025 – FAQs
    - Lease Addendum and Promissory Note for Rental Arrearages Due to COVID-19
    - Guidance for Commercial Properties under Directive 025 – FAQs
    - Directive 025 Reference Chart
- **Declaration of Emergency Directive 024 (Updated 6/24/2020)**
    - Guidance on Directive 024: Face Coverings **(Updated 6/24/2020)**
    - Fact Sheet: What does the science say about face coverings?

        - Hoja de hechos: ¿Qué es lo que dice la ciencia sobre las cubiertas faciales?
    - 'No Shirt. No Shoes. No Mask. No Service.' printable sign
        - 'No Shirt. No Shoes. No Mask. No Service.' flier for Nevada businesses. – white-only background – English and Spanish
        - 'No Shirt. No Shoes. No Mask. No Service.' flier for Nevada businesses. – white-only background – English only
        - 'No Shirt. No Shoes. No Mask. No Service.' flier for Nevada businesses. – white-only background – Spanish
    - Guidance on Directive 024: Face Coverings **(Updated 4/23/2020)**
- **Declaration of Emergency Directive 023 (Updated 6/10/2020)**
    - Organized Youth Sports Practice Only **(Updated 8/11/2020)**
    - Baseball and Softball Practice Only **(Updated 8/11/2020)**
    - Soccer Practice Only **(Updated 8/11/2020)**
- Nevada COVID-19 Disease Outbreak Management Strategy and Concept of Operations **(Updated 6/22/2020)**
- **Directive 019 – Dept. of Employment, Training and Rehabilitation Allowed to Hire Non-Merit Staff to Assist with Unemployment Claims (Updated 5/11/2020)**
    - Guidance on Grocery Store Personnel – from Nevada Health Response **(Updated 4/14/2020)**
    - Guidance on Protecting Grocery Store Personnel – from Nevada Dept. of Health and Human Services **(Updated 4/8/2020)**
- **Professional Medical Licensing – Declaration of Emergency Directive 011 (Updated 4/1/2020)**
    - Directive 011 guidance **(Updated 1/15/2021)**
- **Legal Actions and Business License Expiration – Declaration of Emergency Directive 009 (Updated 4/2/2020)**
- **Declaration of Emergency Directive 008 (Updated 3/29/2020)**
    - Eviction Relief for Nevadans **(Updated 4/07/2020)**
    - Governor Sisolak Guidance: Directive 008 – Evictions **(Updated 3/29/2020)**

    - Gobernador Sisolak Directiva 008 – Desalojos de Viviendas **(Updated 3/29/2020)**
  - Mortgage assistance during COVID-19 outbreak **(Updated 4/20/2020)**
  - Governor Sisolak, Attorney General Ford, State Treasurer Conine announced housing stability measures amid COVID-19 public health crisis **(Updated 3/29/2020)**
- **Declaration of Emergency Directive 003 (Updated 3/20/2020)**
  - Governor Sisolak Guidance: Directive 003 – Essential & Non-Essential Businesses **(Updated 4/16/2020)**
  - All Guidance Issued on Directives 003 and 013 – Essential and Non-Essential Businesses **(Updated 4/16/2020)**
  - Governor Sisolak Guidance: Directive 003 – Essential Status Clarification for Funeral Homes **(Updated 4/6/2020)**
  - Gobernador Sisolak Directiva 003 – Las Empresas Esenciales **(Updated 3/27/2020)**
  - Declaration of Emergency Directive 003- Beer, Wine, and Liquor Stores **(Updated 3/22/2020)**
  - Essential/Non-Essential Business Emergency Regulations **(Updated 3/20/2020)**
  - Child Care is 'Essential Business' in Nevada
- **Closure of Casinos, Gaming – Declaration of Emergency Directive 002 (Updated 3/18/2020)**
- Nevada State Board of Pharmacy Prescription Medications during COVID-19
- Nevada State Board of Pharmacy COVID-19 Information

COVID-19 Prevention Information

Subscribe to Updates

Public Records Requests

Downloadable Graphics & Signage