

Edgar Filing: Wayfair Inc. - Form 10-K

Wayfair Inc.  
Form 10-K  
February 26, 2018  
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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended December 31, 2017

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-36666

Wayfair Inc.  
(Exact name of registrant as specified in its charter)  
Delaware 36-4791999  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification Number)  
4 Copley Place, 7th Floor, Boston, MA 02116  
(Address of principal executive offices) (Zip Code)  
(617) 532-6100  
(Registrant's telephone number, including area code)

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

Title of each class	Name of each exchange on which registered
Class A Common Stock, \$0.001 par value	The New York Stock Exchange

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

None.

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.  
Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

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 and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).  
Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting 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

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(Do not check if a  
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

The aggregate market value of the voting and non-voting common equity held by non-affiliates as of June 30, 2017 computed by reference to the closing sale price of \$76.88 per share as reported on the New York Stock Exchange on that date was \$2.9 billion.

Class	Outstanding at February 16, 2018
Class A Common Stock, \$0.001 par value per share	57,762,425
Class B Common Stock, \$0.001 par value per share	30,741,306

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DOCUMENTS INCORPORATED BY REFERENCE

Certain sections of the registrant's definitive Proxy Statement for the 2018 Annual Meeting of Stockholders to be filed with the Securities and Exchange Commission pursuant to Rule 14A not later than 120 days after end of this fiscal year covered by this Form 10-K are incorporated by reference into Part III of this Form 10-K.

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 For the Fiscal Year Ended December 31, 2017

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**SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS**

This Annual Report on Form 10-K contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact contained in this Annual Report on Form 10-K, including statements regarding our future results of operations and financial position, business strategy and plans and objectives of management for future operations, are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions.

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

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

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

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

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PART I

Item 1. Business

Overview

Wayfair is one of the world's largest online destinations for the home. Through our e-commerce business model, we offer customers visually inspired browsing, compelling merchandising, easy product discovery and attractive prices for over ten million products from over 10,000 suppliers.

We are focused on bringing our customers an experience that is at the forefront of shopping for the home online. Our primary target customer is a 35- to 65-year-old woman with an annual household income of \$50,000 to \$250,000, who we believe is underserved by traditional brick and mortar and other retailers of home goods. Because each of our customers has a different taste, style, purchasing goal, and budget when shopping for her home, we have built one of the largest online selections of furniture, décor, decorative accents, housewares, seasonal decor, and other home goods. We are able to offer this vast selection of products because we hold minimal inventory. We specialize in the home category and this has enabled us to build a shopping experience and logistics infrastructure that is tailored to the unique characteristics of our market.

The delivery experience and overall customer service we offer our shoppers are central to our business. The majority of our products are shipped to customers directly from our suppliers with an increasing proportion flowing through our own logistics network. We have invested considerably in our logistics network and increasingly leverage these capabilities to improve the experience for both customers and suppliers. This network is comprised of CastleGate and the Wayfair Delivery Network ("WDN"). Our CastleGate facilities enable suppliers to forward-position their inventory in our warehouses, allowing us to offer faster delivery. Through WDN, we can directly manage large parcel deliveries via consolidation centers, cross docks and last mile delivery facilities, which, alongside CastleGate, enables us to speed up deliveries, reduce damage and decrease our reliance on third parties. We believe these investments in logistics capabilities result in an enhanced experience for our customers and suppliers. We also believe providing superior customer service is key to delighting our customers. Our customer service locations are staffed with approximately 2,000 highly-trained sales and service employees located in the United States ("U.S.") and Europe. Our co-founders are lifetime tech innovators who have worked together in the commercial Internet sector since 1995. As engineers themselves, they have created a company culture deeply rooted in technology and data. Their significant equity ownership in Wayfair has informed their leadership and allowed them to take a long-term view when building our company.

The U.S. is currently our largest market, and we continue to scale our international business in Canada, the United Kingdom, and Germany by building our supplier networks, logistics infrastructure and brand presence in those countries.

Segments

Our operating and reportable segments are U.S. and International. See Note 11 to the Consolidated Financial Statements, Segment and Geographic Information, included in Part II, Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. Net revenue of the U.S. segment represented 88% of consolidated net revenue for the year ended December 31, 2017.

Our Industry

The home goods market is large and characterized by specific consumer trends, structural challenges and market dynamics that are shaping the future of our industry.

Addressable Market Size and Growth

We believe the annual U.S. market for home goods is approximately \$275 billion, of which approximately 10% is sold online. According to data released by the U.S. Census Bureau, there are approximately 67 million households in the U.S. with annual incomes between \$50,000 and \$250,000. Moreover, we believe there are approximately 70 million millennials (which we define as individuals currently between the ages of 22 to 35) in the U.S., many of whom are accustomed to purchasing goods online. As millennials age, start new families and move into new homes, we expect online sales of home goods to increase. In addition, we believe the online home goods market will further grow as older generations of consumers become increasingly comfortable purchasing online. With our presence in Canada and western Europe, we believe we have more than doubled the size of our total addressable market.



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### Why Home is Different

Home is shopped differently than other retail verticals. Homes are personal expressions of self and identity, which is why many consumers seek uniqueness, crave originality and enjoy the feeling created by home design, furniture and décor. Consumers shopping for home goods often cannot articulate exactly what they are looking for and they rarely know the names of the manufacturer brands they like, as the category is largely unbranded. We believe search-based websites have difficulty serving customers shopping for home products in this more emotional, visual and inspirational manner.

When shopping for the home, consumers desire uniqueness, which requires vast selection. In the market for home goods, consumers with different tastes, styles, purchasing goals and budgets require a broad selection of products and choices. Brick and mortar home goods retailers must balance scale of selection with the challenges of high inventory carrying costs and limited showroom and storage space. To browse a vast selection of products across highly-fragmented brick and mortar retailers, consumers must shop multiple stores. We believe the lack of an easy-to-browse, one-stop shopping experience with massive selection has led to dissatisfaction with brick and mortar home goods shopping.

Logistics, fulfillment and customer service for home goods products are challenging given the variety of categories and price points and the mix of heavy and bulky items. Home goods often have a low dollar value to weight ratio compared to other categories of retail, therefore requiring a logistics network that is optimized for items with those characteristics. Many consumers also seek first-rate customer service so they are not burdened with managing delivery, shipping and return logistics on their own. However, we believe big box retailers that serve the mass market for home goods are often unable or unwilling to provide this level of service.

### Our Solution - Key Benefits for Our Customers

We offer broad selection and choice. We have one of the largest online selections of furniture, décor, decorative accents, housewares, seasonal décor and other home goods with over ten million products from over 10,000 suppliers. We have built a portfolio of over 70 house brands, which offer a curated brand experience, making it easier for customers to discover styles, products and price points that appeal to them.

Convenience and value are central to our offering. We are a one-stop shop for consumers in the home goods category, with pricing designed to be on par with big box retailers and a merchandising experience designed to be on par with specialty retailers. For items shipped from our CastleGate warehouses, we are able to deliver many products to a majority of the U.S. population in 2 days or less.

We give customers inspirational content and an engaging shopping experience. To inspire customers, we produce beautiful imagery and highly-tailored editorial content both in house and through third parties. We use personalization to create a more engaging consumer experience, and we allow customers to create looks they love with tools such as our Idea Boards. More than half of the traffic coming to Wayfair.com is from mobile devices and our investment in mobile allows us to deliver value, convenience and inspiration to consumers anytime and anywhere. Our mobile app also offers customers a powerful way to shop for their home from their home using our "View in Room 3D" augmented reality tool.

Superior customer service is a core part of the experience we offer shoppers. Our customer service organization has approximately 2,000 employees who help consumers navigate our sites, answer questions and complete orders. This team helps us build trust with consumers, build our brand awareness, enhance our reputation and drive sales.

### Our Solution - Key Benefits for Our Suppliers

We give suppliers cost-effective access to our large customer base. We sell products from over 10,000 suppliers, many of which are small, family-run operations without well-known product brands and without easy retail access to a large customer base. We provide our suppliers with access to our customer base of 11.0 million active customers, enabling them to increase their sales and access the growing e-commerce market.

Suppliers can leverage our technological expertise to drive sales. Our technology platform is designed to allow suppliers to easily provide us with their full product selection. We offer our suppliers a view of our demand and inventory needs via powerful data and analytics. Through our technology platform, we believe many of our suppliers have increased their sales, which has strengthened their loyalty to us.



Our logistics infrastructure allows us to ship directly to our customers from our suppliers or from our CastleGate warehouses. This fulfillment network is a key component of our custom-built and seamlessly integrated technology and operational platform.

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### Sites and Brands

Each of our customers has a different taste, style, purchasing goal and budget when shopping for her home. To help her find the right products for her home, we offer five distinct sites, each with a unique brand identity that offers a tailored shopping experience and rich product selection to a different target audience.

Wayfair: an online destination for all things home

Joss & Main: where beautiful furniture and finds meet irresistible savings

AllModern: your home for affordable modern design

Birch Lane: a collection of classic furnishings and timeless home décor

Perigold: unparalleled access to the finest home décor and furnishing

Wayfair represents a significant majority of our revenue and is the only one of our sites that also operates internationally, operating as Wayfair.ca in Canada, Wayfair.co.uk in the United Kingdom and Wayfair.de in Germany.

On our sites, we also feature certain products under our house brands, such as Three Posts™ and Mercury Row™. Through these house brands, we help our customers navigate our sites to find items quickly that match her particular style and price point.

"Direct Retail" sales include net revenue generated through the five distinct sites described above. In addition to Direct Retail, we also generate "Other" net revenue through two sources, namely Retail Partners and Wayfair Media Solutions. Retail Partners net revenue is generated from sites operated by third parties. These relationships allow consumers to purchase Wayfair products through the retail partners' websites. We made the strategic decision starting in 2014 to deemphasize this part of our business. Wayfair Media Solutions is a smaller portion of our net revenue that is generated through third-party advertisers that pay for advertisements placed on our sites. Wayfair helps manufacturers, retailers and other advertisers market to our large consumer audience.

### Technology

We have custom-built our proprietary technology and operational platform to deliver the best experience for both our customers and suppliers. Our success has been built on a culture of data-driven decision-making, operational discipline and an unwavering focus on the customer. We believe that control of our technology systems and the ability to update them often is a competitive advantage.

Our team of over 1,300 engineers and data scientists has built a full set of technology solutions specific to the home goods market. Our storefront consists of a large set of tools and systems with which our customers directly interact, that are specifically tuned for shopping the home goods category by mixing lifestyle imagery with easy-to-use navigation tools and personalization features designed to increase customer conversion. We have designed operations software to deliver the reliable and consistent experience consumers desire, with proprietary software enhancing our performance in areas such as integration with our suppliers, our warehouse and logistics network and our customer service centers. Much of our advertising technology was internally developed, including campaign management and bidding algorithms for online advertising. This allows us to leverage our internal data and target customers efficiently across various channels. We also partner selectively with marketing partners where we find solutions that meet our marketing objectives and deliver strong return on investment.

Much of the underlying infrastructure for storefront, operations and advertising technology is common across all of our sites and countries. Our systems are managed in geographically distributed, highly secure data centers that are engineered for high availability. These systems are monitored 24x7 by our network operations center for performance and security.

### Marketing

Our marketing efforts bring new and repeat customers to our sites and help us acquire their email addresses through various paid and non-paid advertising methods. Our paid advertising efforts consist primarily of online channels, including search engine marketing, display advertising, and paid social media, and to a lesser extent direct mail and television advertisements. Our non-paid advertising efforts include search engine optimization, non-paid social media, mobile "push" notifications and email. Upon acquiring a customer or a potential customer's email address, we seek to increase their engagement with our sites and drive repeat purchases. This effort to increase engagement and repeat purchasing is driven by all of our marketing tools, including email marketing efforts and customer retargeting. We rigorously manage our paid marketing efforts towards the goal that each new spending initiative is cost-effective with

a measurable return on investment within a short period of time.

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### Logistics

Our logistics network was built specifically for the home category, where items can be bulky, heavy and prone to damage. Historically, our primary method of fulfillment was a drop-ship network where integration into our suppliers' back-end technology infrastructure allowed us to process an order and send it directly to a supplier's warehouse. We would then arrange for shipment from the loading dock of the supplier's warehouse to the customer's home.

Depending on the size of the package, the delivery would be made either through carriers such as FedEx, UPS, the U.S. Postal Service or third party line haul trucking companies and third party last mile home delivery agents. An increasing proportion of customer orders are being shipped from our CastleGate warehouses and delivered through our WDN, which includes consolidation centers, cross docks, and last mile delivery facilities. We believe that our proprietary logistics network will help drive incremental sales by delighting our customers with faster delivery times and a better home delivery experience. Over time we believe this network will also lower our costs per order by reducing damage rates and leveraging economies of scale in transportation.

### Customer Service

Our customer service team consists of approximately 2,000 Wayfair sales and service consultants and employees located across the U.S. and Europe who are available to help our customers with sales and service via phone, email or online chat. Because we view superior customer service as one of our key values, our sales and service employees receive extensive training as well as competitive compensation and benefit packages. The team consists of generalists as well as specialists who have deeper expertise and training in select areas of our catalog, such as lighting, flooring and upholstery.

### Our Growth Strategy

Our goal is to further improve our leadership in the home goods market by pursuing the following key strategies:

- continue building our brands by delighting our customers;
- acquire new customers and increase repeat purchases from existing customers;
- invest in technology to further improve our customer and supplier experiences;
- grow certain categories where we under index the broader home goods market today, such as home improvement (e.g. plumbing, lighting and flooring), housewares, seasonal decor and decorative accents;
- increase delivery speed and lower damage rates through the continued build-out of our proprietary logistics network;
- continue to expand internationally; and
  - opportunistically pursue strategic acquisitions.

### Competition

The market for online home goods and furniture is highly competitive, fragmented and rapidly changing. While we are primarily focused on the mass market, we compete across all segments of the home goods market. Our competition includes furniture stores, big box retailers, department stores, specialty retailers and online retailers and marketplaces in the U.S., Canada, the United Kingdom and Germany, including:

- Furniture Stores: Ashley Furniture, Bob's Discount Furniture, Havertys, Raymour & Flanigan, Rooms To Go;
- Big Box Retailers: Bed Bath & Beyond, Home Depot, IKEA, Lowe's, Target and Walmart;
- Department Stores: JCPenney and Macy's;
- Specialty Retailers: Crate and Barrel, Ethan Allen, TJX, At Home, Williams Sonoma, Restoration Hardware, Arhaus, Horchow, Room & Board, Mitchell Gold + Bob Williams;
- Online Retailers and Marketplaces: Amazon, Houzz and eBay; and
- International: Leon's, Canadian Tire, John Lewis, Argos, Otto and Home24, in addition to several of the companies listed above who also compete with us internationally.

We believe that the primary competitive factors in the mass market are vast selection, visually inspiring browsing, compelling merchandising, ease of product discovery, price, convenience, reliability, speed of fulfillment and customer service. We believe our technological and operational expertise allows us to provide our customers with a vast selection of goods,



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attractive price points, reliable and timely fulfillment, plus superior customer service, and that the combination of these capabilities is what provides us with a sustainable competitive advantage.

### Employees

As of December 31, 2017, we had 7,751 full-time equivalent employees. Additionally, we rely on independent contractors and temporary personnel to supplement our workforce, primarily in our logistics network. None of our employees are represented by a labor union or covered by a collective bargaining agreement. We consider our relationship with our employees to be good.

### Seasonality

Our business is affected by seasonality, which historically has resulted in higher sales volume during our fourth quarter, which ends December 31.

### Intellectual Property

Our intellectual property, including any trademarks, service marks, copyrights, domain names, patents, trade dress, trade secrets and proprietary technologies, is an important part of our business. To protect our intellectual property, we rely on a combination of laws and regulations, as well as contractual restrictions. We pursue the registration of our trademarks, including "Wayfair" and certain variations thereon, copyrights and domain names in the U.S. and certain foreign locations. We also rely on the protection of laws regarding unregistered copyrights for our proprietary software and certain other content we create. We will continue to evaluate the merits of applying for copyright registrations in the future. We have an issued patent regarding our proprietary technology and we are evaluating additional patent applications. We expect to consider filing patent applications for future technology inventions. We also rely on trade secret laws to protect our proprietary technology and other intellectual property. To further protect our intellectual property, we enter into confidentiality and assignment of invention assignment agreements with employees and certain contractors and confidentiality agreements with other third parties, such as suppliers.

### Company Information

We began operating as Smart Tech Toys, Inc., a Massachusetts corporation, in May 2002 and changed our name to CSN Stores, Inc. in February 2003. From 2002 through 2011, the Company was bootstrapped by our co-founders and operated as hundreds of niche websites, such as bedroomfurniture.com and allbarstools.com. In March 2008, we formed, and contributed all of the assets and liabilities of CSN Stores, Inc. to a subsidiary, CSN Stores LLC, and we continued operating our business through this Delaware limited liability company. In late 2011, we made the strategic decision to close and permanently redirect over 240 of our niche websites into Wayfair.com. As part of that shift, we changed the name of CSN Stores, Inc. to SK Retail, Inc. and changed our name from CSN Stores LLC to Wayfair LLC. In connection with our initial public offering, we completed a corporate reorganization, as a result of which Wayfair Inc. was formed to be a holding company with no material assets other than 100% of the equity interests in Wayfair LLC and SK Retail, Inc.

Our executive offices are located at 4 Copley Place, 7th Floor, Boston, MA 02116, and our telephone number is (617) 532-6100. Our corporate website address is [www.wayfair.com](http://www.wayfair.com). The information contained in, or accessible through, our website does not constitute part of this Annual Report on Form 10-K.

### Available Information

We encourage investors to use our investor relations website, [investor.wayfair.com](http://investor.wayfair.com), to find information about us. We promptly make available on this website, free of charge, the reports that we file or furnish with the Securities and Exchange Commission ("SEC"), and corporate governance information (including our Code of Business Conduct and Ethics). We file annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy and information statements and amendments to reports filed or furnished pursuant to Sections 13(a), 14 and 15(d) of the Exchange Act. All material we file with the SEC is publicly available at the SEC's Public Reference Room at 100 F Street NE, Washington, DC 20549. You may obtain information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330. In addition, the SEC maintains a website at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements and other information regarding Wayfair and other issuers that file electronically with the SEC. Our website and the information contained therein or connected thereto are not a part of, or incorporated into, this Annual Report on Form 10-K. Further, our references to website URLs are intended to be inactive textual references only.



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Item 1A. Risk Factors

Our operations and financial results are subject to various risks and uncertainties, including those described below. We caution you that the following important factors, among others, could cause our actual results to differ materially from those expressed in forward-looking statements made by us or on our behalf in filings with the SEC, press releases, communications with investors and oral statements. Any or all of our forward-looking statements in this Annual Report on Form 10-K and in any other public statements we make may turn out to be wrong. They can be affected by inaccurate assumptions we might make or by known or unknown risks and uncertainties. Many factors mentioned in the discussion below will be important in determining future results. Consequently, no forward-looking statement can be guaranteed. Actual future results may differ materially from those anticipated in forward-looking statements. We undertake no obligation to update any forward-looking statements, whether as a result of new information, future events or otherwise. You are advised, however, to consult any further disclosure we make in our reports filed with the SEC.

Risks Related to Our Business and Industry

Our recent growth rates may not be sustainable or indicative of our future growth.

Our historical growth rates may not be sustainable or indicative of future growth. We believe that our continued revenue growth will depend upon, among other factors, our ability to:

- build our brands and launch new brands;
- acquire more customers and retain existing customers;
- develop new features to enhance the consumer experience on our sites, mobile-optimized sites and mobile applications;
- increase the frequency with which new and repeat customers purchase products on our sites through merchandising, data, analytics and technology;
- add new suppliers and deepen our relationships with our existing suppliers;
- grow certain categories where we under index the broader home goods market today, such as home improvement, housewares, seasonal decor and decorative accents;
- enhance the systems our consumers use to interact with our sites and invest in our infrastructure platform;
- expand internationally; and
- opportunistically pursue strategic acquisitions.

We cannot assure you we will be able to achieve any of the foregoing. Our customer base may not continue to grow or may decline as a result of increased competition and the maturation of our business. Failure to continue our revenue growth rates could have a material adverse effect on our financial condition and results of operations. You should not rely on our historical rate of revenue growth as an indication of our future performance.

If we fail to manage our growth effectively, our business, financial condition and operating results could be harmed. To manage our growth effectively, we must continue to implement our operational plans and strategies, improve and expand our infrastructure of people and information systems and expand, train and manage our employee base. We have rapidly increased employee headcount since our inception to support the growth in our business. To support continued growth, we must effectively integrate, develop and motivate a large number of new employees. We face significant competition for personnel, particularly in the Boston, Massachusetts area where our headquarters are located. Failure to manage our hiring needs effectively or successfully integrate our new hires may have a material adverse effect on our business, financial condition and operating results.

Additionally, the growth of our business places significant demands on our management and other employees. For example, we typically launch hundreds of promotional events across thousands of products each month on our sites via emails, "push" notifications and personalized displays. These events require us to produce updates of our sites and emails to our customers on a daily basis with different products, photos and text. The growth of our business may require significant additional resources to meet these daily requirements, which may not scale in a cost-effective manner or may negatively affect the quality of our sites and customer experience. We are also required to manage relationships with a growing number of suppliers, customers and other third parties. Our information technology systems and our internal controls and procedures may not be adequate to support future





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growth of our supplier and employee base. If we are unable to manage the growth of our organization effectively, our business, financial condition and operating results may be materially adversely affected.

If we fail to acquire new customers or retain existing customers, or fail to do so in a cost-effective manner, we may not be able to achieve profitability.

Our success depends on our ability to acquire and retain customers in a cost-effective manner. In order to expand our customer base, we must appeal to and acquire customers who have historically used other means of commerce to purchase home goods and may prefer alternatives to our offerings, such as traditional brick and mortar retailers, the websites of our competitors or our suppliers' own websites. We have made significant investments related to customer acquisition and expect to continue to spend significant amounts to acquire additional customers. Our paid advertising efforts consist primarily of online channels, including search engine marketing, display advertising, and paid social media, and to a lesser extent direct mail and television advertisements. These efforts are expensive and may not result in the cost-effective acquisition of customers. We cannot assure you that the net profit from new customers we acquire will ultimately exceed the cost of acquiring those customers. If we fail to deliver a quality shopping experience, or if consumers do not perceive the products we offer to be of high value and quality, we may not be able to acquire new customers. If we are unable to acquire new customers who purchase products in numbers sufficient to grow our business, we may not be able to generate the scale necessary to drive beneficial network effects with our suppliers, our net revenue may decrease, and our business, financial condition and operating results may be materially adversely affected.

We believe that many of our new customers originate from word-of-mouth and other non-paid referrals from existing customers. Therefore, we must ensure that our existing customers remain loyal to us in order to continue receiving those referrals. If our efforts to satisfy our existing customers are not successful, we may not be able to acquire new customers in sufficient numbers to continue to grow our business, or we may be required to incur significantly higher marketing expenses in order to acquire new customers.

We also utilize non-paid advertising. Our non-paid advertising efforts include search engine optimization, non-paid social media, mobile "push" notifications and email. We obtain a significant amount of traffic via search engines and, therefore, rely on search engines such as Google, Bing and Yahoo!. Search engines frequently update and change the logic that determines the placement and display of results of a user's search, such that the purchased or algorithmic placement of links to our sites can be negatively affected. Moreover, a search engine could, for competitive or other purposes, alter its search algorithms or results, causing our sites to place lower in search query results. A major search engine could change its algorithms in a manner that negatively affects our paid or non-paid search ranking, and competitive dynamics could impact the effectiveness of search engine marketing or search engine optimization. We also obtain a significant amount of traffic via social networking websites or other channels used by our current and prospective customers. As e-commerce and social networking continue to rapidly evolve, we must continue to establish relationships with these channels and may be unable to develop or maintain these relationships on acceptable terms. If we are unable to cost-effectively drive traffic to our sites, our ability to acquire new customers and our financial condition would suffer.

Our success depends in part on our ability to increase our net revenue per active customer. If our efforts to increase customer loyalty and repeat purchasing as well as maintain high levels of customer engagement are not successful, our growth prospects and revenue will be materially adversely affected.

Our ability to grow our business depends on our ability to retain our existing customer base and generate increased revenue and repeat purchases from this customer base, and maintain high levels of customer engagement. To do this, we must continue to provide our customers and potential customers with a unified, convenient, efficient and differentiated shopping experience by:

- providing imagery, tools and technology that attract customers who historically would have bought elsewhere;
- maintaining a high-quality and diverse portfolio of products;
- delivering products on time and without damage; and
- maintaining and further developing our mobile platforms.

If we fail to increase net revenue per active customer, generate repeat purchases or maintain high levels of customer engagement, our growth prospects, operating results and financial condition could be materially adversely affected.



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Our business depends on our ability to build and maintain strong brands. We may not be able to maintain and enhance our brands if we receive unfavorable customer complaints, negative publicity or otherwise fail to live up to consumers' expectations, which could materially adversely affect our business, results of operations and growth prospects. Maintaining and enhancing our brands is critical to expanding our base of customers and suppliers. However, a significant portion of our customers' brand experience depends on third parties outside of our control, including suppliers and logistics providers such as FedEx, UPS, the U.S. Postal Service and other third-party delivery agents. If these third parties do not meet our or our customers' expectations, our brands may suffer irreparable damage. In addition, maintaining and enhancing these brands may require us to make substantial investments, and these investments may not be successful. If we fail to promote and maintain our brands, or if we incur excessive expenses in this effort, our business, operating results and financial condition may be materially adversely affected. We anticipate that, as our market becomes increasingly competitive, maintaining and enhancing our brands may become increasingly difficult and expensive. Maintaining and enhancing our brands will depend largely on our ability to provide high quality products to our customers and a reliable, trustworthy and profitable sales channel to our suppliers, which we may not be able to do successfully.

Customer complaints or negative publicity about our sites, products, delivery times, customer data handling and security practices or customer support, especially on blogs, social media websites and our sites, could rapidly and severely diminish consumer use of our sites and consumer and supplier confidence in us and result in harm to our brands.

Our efforts to expand our business into new brands, products, services, technologies, and geographic regions will subject us to additional business, legal, financial, and competitive risks and may not be successful.

Our business success depends to some extent on our ability to expand our customer offerings by launching new brands and services and by expanding our existing offerings into new geographies. For example, in 2017 we launched Perigold, and a number of new house brands, and in 2016 we launched Wayfair.ca in Canada as well as Wayfair Registry, our wedding registry service. Launching new brands and services or expanding internationally requires significant upfront investments, including investments in marketing, information technology, and additional personnel. Expanding our brands internationally is particularly challenging because it requires us to gain country-specific knowledge about consumers, regional competitors and local laws, construct catalogs specific to the country, build local logistics capabilities and customize portions of our technology for local markets. We may not be able to generate satisfactory revenue from these efforts to offset these costs. Any lack of market acceptance of our efforts to launch new brands and services or to expand our existing offerings could have a material adverse effect on our business, prospects, financial condition and results of operations. Further, as we continue to expand our fulfillment capability or add new businesses with different requirements, our logistics networks become increasingly complex and operating them becomes more challenging. There can be no assurance that we will be able to operate our networks effectively.

We have also entered and may continue to enter into new markets in which we have limited or no experience, which may not be successful or appealing to our customers. These activities may present new and difficult technological and logistical challenges, and resulting service disruptions, failures or other quality issues may cause customer dissatisfaction and harm our reputation and brand. Further, our current and potential competitors in new market segments may have greater brand recognition, financial resources, longer operating histories and larger customer bases than we do in these areas. As a result, we may not be successful enough in these newer areas to recoup our investments in them. If this occurs, our business, financial condition and operating results may be materially adversely affected.

Expansion of our international operations will require management attention and resources, involves additional risks, and may be unsuccessful, which could harm our future business development and existing domestic operations. We believe international expansion represents a significant growth opportunity for us. Today, we deliver products to customers in a number of countries, and plan to expand into other international markets in order to grow our business, which will require significant management attention and resources. For example, we have made and will continue to make significant investments in information technology, logistics, supplier relationships, merchandising and marketing in the foreign jurisdictions in which we operate or plan to operate. We have limited experience in selling

our products to conform to different local cultures, standards and regulations, and the products we offer may not appeal to customers in the same manner, if at all, in other geographies. We may have to compete with local companies which understand the local market better than we do and/or may have greater brand recognition than we do. In addition, to deliver satisfactory performance for customers in international locations, it may be necessary to locate physical facilities, such as consolidation centers and warehouses, in foreign markets, and we may have to invest in these facilities before we can determine whether or not our foreign operations are successful. We have limited experience establishing such facilities internationally and therefore may decide not to continue with the expansion of international operations. We may not be successful in expanding into additional international markets or in generating net revenue

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from foreign operations. Furthermore, different privacy, censorship, liability, intellectual property and other laws and regulations in foreign countries may cause our business, financial condition and operating results to be materially adversely affected.

Our future results could be materially adversely affected by a number of factors inherent in international operations, including:

- localization of our product offerings, including translation into foreign languages and adaptation for local practices, standards and regulations;
- the need to vary our practices in ways with which we have limited or no experience or which are less profitable or carry more risk to us;
- unexpected changes in regulatory requirements, taxes, trade laws, tariffs, export quotas, custom duties or other trade restrictions;
- differing labor regulations where labor laws may be more advantageous to employees as compared to the U.S.;
- more stringent regulations relating to data privacy and security, including the use of commercial and personal information, particularly in the European Union;
- changes in a specific country's or region's political or economic conditions;
- the rising cost of labor in the foreign countries in which our suppliers operate, resulting in increases in our costs of doing business internationally;
- challenges inherent in efficiently managing an increased number of employees over large geographic distances, including the need to implement appropriate systems, policies, benefits and compliance programs and maintain our corporate culture across geographies;
- risks resulting from changes in currency exchange rates;
- limitations on our ability to reinvest earnings from operations in one country to fund the capital needs of our operations in other countries;
- different or lesser intellectual property protection;
- exposure to liabilities under anti-corruption and anti-money laundering laws, including the U.S. Foreign Corrupt Practices Act and similar laws and regulations in other jurisdictions;
- import/export controls; and
- logistics and sourcing.

Operating internationally requires significant management attention and financial resources. We cannot be certain that the investment and additional resources required to establish and expand our international operations will produce desired levels of net revenue or profitability. If we invest substantial time and resources to establish and expand our international operations and are unable to do so successfully and in a timely manner, our business, financial condition and operating results may be materially adversely affected.

We have a history of losses and expect to have operating losses and negative cash flow as we continue to expand our business.

We have a history of losses, and we accumulated \$306.2 million in common members' deficit as Wayfair LLC and an additional \$583.3 million loss as Wayfair Inc. through December 31, 2017. Because the market for purchasing home goods online is rapidly evolving and has not yet reached widespread adoption, it is difficult for us to predict our future operating results. As a result, our losses may be larger than anticipated, and we may never achieve profitability. Also, we expect our operating expenses to increase over the next several years as we expand internationally, grow our proprietary logistics network, hire more employees and continue to develop new brands, features and services. Furthermore, if our future growth and operating performance fail to meet investor or analyst expectations, or if we have future negative cash flow or losses resulting from our investment in acquiring new customers, our financial condition and stock price could be materially adversely affected.

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System interruptions that impair customer access to our sites or other performance failures in our technology infrastructure or that of our critical technology partners could damage our business, reputation and brand and substantially harm our business and results of operations.

The satisfactory performance, reliability and availability of our sites, transaction processing systems and technology infrastructure are critical to our reputation and our ability to acquire and retain customers, as well as maintain adequate customer service levels.

For example, if one of our data centers fails or suffers an interruption or degradation of services, we could lose customer data and miss order fulfillment deadlines, which could harm our business. Our systems and operations are also vulnerable to damage or interruption from fire, flood, power loss, telecommunications failure, terrorist attacks, cyber-attacks, data loss, acts of war, break-ins, earthquake and similar events. In the event of a data center failure, the failover to a back-up could take substantial time, during which time our sites could be completely shut down. Further, our back-up services may not effectively process spikes in demand, may process transactions more slowly and may not support all of our sites' functionality.

We use complex proprietary software in our technology infrastructure, which we seek to continually update and improve. We may not always be successful in executing these upgrades and improvements, and the operation of our systems may be subject to failure. In particular, we have in the past and may in the future experience slowdowns or interruptions in some or all of our sites when we are updating them, and new technologies or infrastructures may not be fully integrated with existing systems on a timely basis, or at all. Additionally, if we expand our use of third-party services, including cloud-based services, our technology infrastructure may be subject to increased risk of slowdown or interruption as a result of integration with such services and/or failures by such third-parties, which are out of our control. Our net revenue depends on the number of visitors who shop on our sites and the volume of orders we can handle. Unavailability of our sites or reduced order fulfillment performance would reduce the volume of goods sold and could also materially adversely affect consumer perception of our brand.

We may experience periodic system interruptions from time to time. In addition, continued growth in our transaction volume, as well as surges in online traffic and orders associated with promotional activities or seasonal trends in our business, place additional demands on our technology platform and could cause or exacerbate slowdowns or interruptions. If there is a substantial increase in the volume of traffic on our sites or the number of orders placed by customers, we will be required to further expand and upgrade our technology, transaction processing systems and network infrastructure. There can be no assurance that we will be able to accurately project the rate or timing of increases, if any, in the use of our sites or expand and upgrade our systems and infrastructure to accommodate such increases on a timely basis. In order to remain competitive, we must continue to enhance and improve the responsiveness, functionality and features of our sites, which is particularly challenging given the rapid rate at which new technologies, customer preferences and expectations and industry standards and practices are evolving in the e-commerce industry. Accordingly, we redesign and enhance various functions on our sites on a regular basis, and we may experience instability and performance issues as a result of these changes.

Any slowdown or failure of our sites and the underlying technology infrastructure could harm our business, reputation and our ability to acquire, retain and serve our customers, which could materially adversely affect our results of operations. Our disaster recovery plan may be inadequate, and our business interruption insurance may not be sufficient to compensate us for the losses that could occur.

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Our business is highly competitive. Competition presents an ongoing threat to the success of our business.

Our business is rapidly evolving and intensely competitive, and we have many competitors in different industries. Our competition includes furniture stores, big box retailers, department stores, specialty retailers, and online retailers and marketplaces in the U.S., Canada, the United Kingdom and Germany, including:

• **Furniture Stores:** Ashley Furniture, Bob's Discount Furniture, Havertys, Raymour & Flanagan, Rooms To Go;

• **Big Box Retailers:** Bed Bath & Beyond, Home Depot, IKEA, Lowe's, Target and Walmart;

• **Department Stores:** JCPenney and Macy's;

• **Specialty Retailers:** Crate and Barrel, Ethan Allen, TJX, At Home, Williams Sonoma, Restoration Hardware, Arhaus, Horchow, Room & Board, Mitchell Gold + Bob Williams;

• **Online Retailers and Online Marketplaces:** Amazon, Houzz and eBay; and

• **International:** Leon's, Canadian Tire, John Lewis, WorldStores, Otto and Home24, in addition to several of the companies listed above who also compete with us internationally.

We expect competition in e-commerce generally to continue to increase. We believe that our ability to compete successfully depends upon many factors both within and beyond our control, including:

- the size and composition of our customer base;
- the number of suppliers and products we feature on our sites;
- our selling and marketing efforts;
- the quality, price and reliability of products we offer;
- the convenience of the shopping experience that we provide;
- our ability to distribute our products and manage our operations; and
- our reputation and brand strength.

Many of our current competitors have, and potential competitors may have, longer operating histories, greater brand recognition, larger fulfillment infrastructures, greater technical capabilities, faster and less costly shipping, significantly greater financial, marketing and other resources and larger customer bases than we do. These factors may allow our competitors to derive greater net revenue and profits from their existing customer base, acquire customers at lower costs or respond more quickly than we can to new or emerging technologies and changes in consumer habits.

These competitors may engage in more extensive research and development efforts, undertake more far-reaching marketing campaigns and adopt more aggressive pricing policies, which may allow them to build larger customer bases or generate net revenue from their customer bases more effectively than we do.



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Purchasers of home goods may not choose to shop online, which would prevent us from growing our business. The online market for home goods in the U.S. is less developed than the online market for apparel, consumer electronics and other consumer products in the U.S. and, we believe, only accounts for a small portion of the market as a whole. If the online market for home goods does not gain acceptance, our business may suffer. Our success will depend, in part, on our ability to attract consumers who have historically purchased home goods through traditional retailers. Furthermore, we may have to incur significantly higher and more sustained advertising and promotional expenditures in order to attract additional online consumers to our sites and convert them into purchasing customers. Specific factors that could impact consumers' willingness to purchase home goods from us include:

- concerns about buying products, and in particular larger products, without a physical storefront, face-to-face interaction with sales personnel and the ability to physically examine products;
- delivery time associated with online orders;
- actual or perceived lack of security of online transactions and concerns regarding the privacy of personal information;
- delayed shipments or shipments of incorrect or damaged products;
- inconvenience associated with returning or exchanging items purchased online; and
- usability, functionality and features of our sites.

If the shopping experience we provide does not appeal to consumers or meet the expectations of existing customers, we may not acquire new customers at rates consistent with historical periods, and existing customers' buying patterns and levels may be less than historical rates.

We may be subject to product liability claims if people or property are harmed by the products we sell. Some of the products we sell may expose us to product liability claims and litigation (including class actions) or regulatory action relating to safety, personal injury, death or environmental or property damage. Some of our agreements with members of our supply chain may not indemnify us from product liability for a particular product, and some members of our supply chain may not have sufficient resources or insurance to satisfy their indemnity and defense obligations. Although we maintain liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all.

Risks associated with the suppliers from whom our products are sourced could materially adversely affect our financial performance as well as our reputation and brand.

We depend on our ability to provide our customers with a wide range of products from qualified suppliers in a timely and efficient manner. Political and economic instability, the financial stability of suppliers, suppliers' ability to meet our standards, labor problems experienced by suppliers, the availability of raw materials, merchandise quality issues, currency exchange rates, transport availability and cost, transport security, inflation, and other factors relating to our suppliers are beyond our control.

Our agreements with most of our suppliers do not provide for the long-term availability of merchandise or the continuation of particular pricing practices, nor do they usually restrict such suppliers from selling products to other buyers. There can be no assurance that our current suppliers will continue to seek to sell us products on current terms or that we will be able to establish new or otherwise extend current supply relationships to ensure product acquisitions in a timely and efficient manner and on acceptable commercial terms. Our ability to develop and maintain relationships with reputable suppliers and offer high quality merchandise to our customers is critical to our success. If we are unable to develop and maintain relationships with suppliers that would allow us to offer a sufficient amount and variety of quality merchandise on acceptable commercial terms, our ability to satisfy our customers' needs, and therefore our long-term growth prospects, would be materially adversely affected.

Further, we rely largely on our suppliers' representations of product quality, safety and compliance with applicable laws and standards. If our suppliers or other vendors violate applicable laws, regulations or our supplier code of conduct, or implement practices regarded as unethical, unsafe, or hazardous to the environment, it could damage our reputation and negatively affect our operating results. Further, concerns regarding the safety and quality of products provided by our suppliers could cause our customers to avoid purchasing those products from us, or avoid purchasing products from us altogether, even if the basis for the concern is outside of our control. As such, any issue, or perceived

issue, regarding the quality and safety of any items we sell, regardless of the cause, could adversely affect our brand, reputation, operations and financial results.

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We also are unable to predict whether any of the countries in which our suppliers' products are currently manufactured or may be manufactured in the future will be subject to trade restrictions imposed by the U.S. or foreign governments or the likelihood, type or effect of any such restrictions. Any event causing a disruption or delay of imports from suppliers with international manufacturing operations, including the imposition of additional import restrictions, restrictions on the transfer of funds or increased tariffs or quotas, could increase the cost or reduce the supply of merchandise available to our customers and materially adversely affect our financial performance as well as our reputation and brand. Furthermore, some or all of our suppliers' foreign operations may be adversely affected by political and financial instability, resulting in the disruption of trade from exporting countries, restrictions on the transfer of funds or other trade disruptions.

In addition, our business with foreign suppliers, particularly with respect to our international sites, may be affected by changes in the value of the U.S. dollar relative to other foreign currencies. For example, any movement by any other foreign currency against the U.S. dollar may result in higher costs to us for those goods. Declines in foreign currencies and currency exchange rates might negatively affect the profitability and business prospects of one or more of our foreign suppliers. This, in turn, might cause such foreign suppliers to demand higher prices for merchandise in their effort to offset any lost profits associated with any currency devaluation, delay merchandise shipments, or discontinue selling to us altogether, any of which could ultimately reduce our sales or increase our costs.

We may be unable to source new suppliers or strengthen our relationships with current suppliers.

We have relationships with over 10,000 suppliers. Our agreements with suppliers are generally terminable at will by either party upon short notice. If we do not maintain our existing relationships or build new relationships with suppliers on acceptable commercial terms, we may not be able to maintain a broad selection of merchandise, and our business and prospects would suffer severely.

In order to attract quality suppliers to our platform, we must:

- demonstrate our ability to help our suppliers increase their sales;
- offer suppliers a high quality, cost-effective fulfillment process; and
- continue to provide suppliers with a dynamic and real-time view of our demand and inventory needs.

If we are unable to provide our suppliers with a compelling return on investment and an ability to increase their sales, we may be unable to maintain and/or expand our supplier network, which would negatively impact our business.

We depend on our suppliers to perform certain services regarding the products that we offer.

As part of offering our suppliers' products for sale on our sites, these suppliers are often responsible for conducting a number of traditional retail operations with respect to their respective products, including maintaining inventory and preparing merchandise for shipment to our customers. In these instances, we may be unable to ensure that these suppliers will continue to perform these services to our or our customers' satisfaction in a manner that provides our customer with a unified brand experience or on commercially reasonable terms. If our customers become dissatisfied with the services provided by our suppliers, our business, reputation and brands could suffer.

We depend on our relationships with third parties, and changes in our relationships with these parties could adversely impact our revenue and profits.

Because we rely on FedEx, UPS and the U.S. Postal Service to deliver most of the small parcel products we offer on our sites, we are subject to shipping delays or disruptions caused by inclement weather, natural disasters, labor activism, health epidemics or bioterrorism. In addition, because we rely on national, regional and local transportation companies for the delivery of some of our other products, we are also subject to risks of breakage or other damage during delivery by any of these third parties. We also use and rely on other services from third parties, such as our telecommunications services, and those services may be subject to outages and interruptions that are not within our control. For example, failures by our telecommunications providers have in the past and may in the future interrupt our ability to provide phone support to our customers. If products are not delivered in a timely fashion or are damaged during the delivery process, or if we are not able to provide adequate customer support, our customers could become dissatisfied and cease buying products through our sites, which would adversely affect our operating results.

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We also have relationships with third-party retail partners that allow consumers to purchase products offered by us through their websites and mobile applications. Because our agreements with our retail partners are generally terminable at will, we may be unable to maintain these relationships, and our results of operations could fluctuate significantly from period to period depending on the performance of our retail partners and their willingness to continue to offer and/or promote our products. Our agreements with our retail partners may also restrict our ability to market certain products, and not all of our suppliers may permit us to market through all of our retail partners' websites. Because some of our retail partners are competitors or potential competitors in the home goods market, some or all of our retail partners may in the future determine they no longer wish to do business with us or may decide to take other actions that could harm our business. We may also determine that we no longer want to do business with them. Because we do business with a small number of retail partners, if any one of our contracts with our retailer partners were to terminate, our revenue from our retail partners may decline and our relationships with our suppliers may be adversely affected.

If our internal control over financial reporting or our disclosure controls and procedures are not effective, we may not be able to accurately report our financial results, prevent fraud or file our periodic reports in a timely manner, which may cause investors to lose confidence in our reported financial information and may lead to a decline in our stock price.

The Sarbanes-Oxley Act of 2002 requires that we maintain effective internal control over financial reporting and disclosure controls and procedures. In particular, we must perform system and process evaluation, document our controls and perform testing of our key control over financial reporting to allow management and our independent public accounting firm to report on the effectiveness of our internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act. Our testing, or the subsequent testing by our independent public accounting firm, may reveal deficiencies in our internal control over financial reporting that are deemed to be material weaknesses. If we are not able to comply with the requirements of Section 404 in a timely manner, or if we or our accounting firm identify deficiencies in our internal control over financial reporting that are deemed to be material weaknesses, the market price of our stock would likely decline and we could be subject to lawsuits, sanctions or investigations by regulatory authorities, including SEC enforcement actions, and we could be required to restate our financial results, any of which would require additional financial and management resources.

We continue to invest in more robust technology and in more resources in order to manage those reporting requirements. Implementing the appropriate changes to our internal controls may distract our officers and employees, result in substantial costs and require significant time to complete. Any difficulties or delays in implementing these controls could impact our ability to timely report our financial results. For these reasons, we may encounter difficulties in the timely and accurate reporting of our financial results, which would impact our ability to provide our investors with information in a timely manner. As a result, our investors could lose confidence in our reported financial information, and our stock price could decline.

In addition, any such changes do not guarantee that we will be effective in maintaining the adequacy of our internal controls, and any failure to maintain that adequacy could prevent us from accurately reporting our financial results.

We may be unable to accurately forecast net revenue and appropriately plan our expenses in the future.

Net revenue and operating results are difficult to forecast because they generally depend on the volume, timing, and type of orders we receive, all of which are uncertain. We base our expense levels and investment plans on our estimates of total net revenue and gross margins. We cannot be sure the same growth rates, trends, and other key performance metrics are meaningful predictors of future growth. If our assumptions prove to be wrong, we may spend more than we anticipate acquiring and retaining customers or may generate less net revenue per active customer than anticipated, any of which could have a negative impact on our business and results of operations.

Our business is also affected by general economic and business conditions in the U.S., and we anticipate that it will be increasingly affected by conditions in international markets. In addition, we experience seasonal trends in our business, and our mix of product offerings is highly variable from day-to-day and quarter-to-quarter. This variability makes it difficult to predict sales and could result in significant fluctuations in our net revenue from period-to-period. A significant portion of our expenses is fixed, and as a result, we may be unable to adjust our spending in a timely manner to compensate for any unexpected shortfall in net revenue. Any failure to accurately predict net revenue or

gross margins could cause our operating results to be lower than expected, which could materially adversely affect our financial condition and stock price.

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Our ability to raise capital in the future may be limited, and our failure to raise capital when needed could prevent us from growing.

In the future, we could be required to or may decide to raise capital through public or private financing or other arrangements. Such financing may not be available on acceptable terms, or at all, and our failure to raise capital when needed or desired could harm our business. We may sell Class A common stock, convertible securities and other equity securities in one or more transactions at prices and in a manner as we may determine from time to time. If we sell any such securities in subsequent transactions, holders of our Class A common stock, including holders of any Class A common stock issued upon conversion of our convertible notes, may be materially diluted. New investors in such subsequent transactions could gain rights, preferences and privileges senior to those of holders of our Class A common stock. Debt financing, if available, may involve restrictive covenants and could reduce our operational flexibility or profitability. If we cannot raise funds on acceptable terms, we may not be able to grow our business or respond to competitive pressures.

Our business may be adversely affected if we are unable to provide our customers a cost-effective shopping platform that is able to respond and adapt to rapid changes in technology.

The number of people who access the Internet through devices other than personal computers, including mobile phones, smartphones, handheld computers such as notebooks and tablets, video game consoles, and television set-top devices, has increased dramatically in the past few years. We continually upgrade existing technologies and business applications to keep pace with these rapidly changing and continuously evolving technologies, and we may be required to implement new technologies or business applications in the future. The implementation of these upgrades and changes requires significant investments and as new devices and platforms are released, it is difficult to predict the problems we may encounter in developing applications for these alternative devices and platforms. Additionally, we may need to devote significant resources to the support and maintenance of such applications once created. Our results of operations may be affected by the timing, effectiveness and costs associated with the successful implementation of any upgrades or changes to our systems and infrastructure to accommodate such alternative devices and platforms. Further, in the event that it is more difficult or less compelling for our customers to buy products from us on their mobile or other devices, or if our customers choose not to buy products from us on such devices or to use mobile or other products that do not offer access to our sites, our customer growth could be harmed and our business, financial condition and operating results may be materially adversely affected.

Significant merchandise returns could harm our business.

We allow our customers to return products, subject to our return policy. If merchandise returns are significant, our business, prospects, financial condition and results of operations could be harmed. Further, we modify our policies relating to returns from time to time, which may result in customer dissatisfaction or an increase in the number of product returns. Many of our products are large and require special handling and delivery. From time to time our products are damaged in transit, which can increase return rates and harm our brand.

Uncertainties in global economic conditions and their impact on consumer spending patterns, particularly in the home goods segment, could adversely impact our operating results.

Consumers may view a substantial portion of the products we offer as discretionary items rather than necessities. As a result, our results of operations are sensitive to changes in macro-economic conditions that impact consumer spending, including discretionary spending. Some of the factors adversely affecting consumer spending include levels of unemployment, consumer debt levels, changes in net worth based on market changes and uncertainty, home foreclosures and changes in home values, fluctuating interest rates, credit availability, government actions, fluctuating fuel and other energy costs, fluctuating commodity prices and general uncertainty regarding the overall future economic environment. Adverse economic changes in any of the regions in which we sell our products could reduce consumer confidence and could negatively affect net revenue and have a material adverse effect on our operating results.

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Our business relies heavily on email and other messaging services, and any restrictions on the sending of emails or messages or an inability to timely deliver such communications could materially adversely affect our net revenue and business.

Our business is highly dependent upon email and other messaging services for promoting our sites and products. Daily promotions offered through emails and other messages sent by us, or on our behalf by our vendors, generate a significant portion of our revenue. We provide daily emails and "push" communications to customers and other visitors informing them of what is available for purchase on our sites that day, and we believe these messages are an important part of our customer experience and help generate a substantial portion of our net revenue. If we are unable to successfully deliver emails or other messages to our subscribers, or if subscribers decline to open our emails or other messages, our net revenue and profitability would be materially adversely affected. Changes in how webmail applications organize and prioritize email may reduce the number of subscribers opening our emails. For example, in 2013 Google Inc.'s Gmail service began offering a feature that organizes incoming emails into categories (for example, primary, social and promotions). Such categorization or similar inbox organizational features may result in our emails being delivered in a less prominent location in a subscriber's inbox or viewed as "spam" by our subscribers and may reduce the likelihood of that subscriber opening our emails. Actions by third parties to block, impose restrictions on or charge for the delivery of emails or other messages could also adversely impact our business. From time to time, Internet service providers or other third parties may block bulk email transmissions or otherwise experience technical difficulties that result in our inability to successfully deliver emails or other messages to third parties. Changes in the laws or regulations that limit our ability to send such communications or impose additional requirements upon us in connection with sending such communications would also materially adversely impact our business. Our use of email and other messaging services to send communications about our sites or other matters may also result in legal claims against us, which may cause us increased expenses, and if successful might result in fines and orders with costly reporting and compliance obligations or might limit or prohibit our ability to send emails or other messages. We also rely on social networking messaging services to send communications and to encourage customers to send communications. Changes to the terms of these social networking services to limit promotional communications, any restrictions that would limit our ability or our customers' ability to send communications through their services, disruptions or downtime experienced by these social networking services or decline in the use of or engagement with social networking services by customers and potential customers could materially adversely affect our business, financial condition and operating results.

We are subject to risks related to online payment methods.

We accept payments using a variety of methods, including credit card, debit card, PayPal, credit accounts (including promotional financing) and gift cards. As we offer new payment options to consumers, we may be subject to additional regulations, compliance requirements and fraud. For certain payment methods, including credit and debit cards, we pay interchange and other fees, which may increase over time and raise our operating costs and lower profitability. We also offer co-branded credit card programs, which could adversely affect our operating results if terminated. We are also subject to payment card association operating rules and certification requirements, including the Payment Card Industry Data Security Standard and rules governing electronic funds transfers, which could change or be reinterpreted to make it difficult or impossible for us to comply. As our business changes, we may also be subject to different rules under existing standards, which may require new assessments that involve costs above what we currently pay for compliance. If we fail to comply with the rules or requirements of any provider of a payment method we accept, if the volume of fraud in our transactions limits or terminates our rights to use payment methods we currently accept, or if a data breach occurs relating to our payment systems, we may, among other things, be subject to fines or higher transaction fees and may lose, or face restrictions placed upon, our ability to accept credit card and debit card payments from consumers or to facilitate other types of online payments. If any of these events were to occur, our business, financial condition and operating results could be materially adversely affected.

We occasionally receive orders placed with fraudulent credit card data. We may suffer losses as a result of orders placed with fraudulent credit card data even if the associated financial institution approved payment of the orders. Under current credit card practices, we may be liable for fraudulent credit card transactions. If we are unable to detect or control credit card fraud, our liability for these transactions could harm our business, financial condition and results

of operations.

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Government regulation of the Internet and e-commerce is evolving, and unfavorable changes or failure by us to comply with these regulations could substantially harm our business and results of operations.

We are subject to general business regulations and laws as well as regulations and laws specifically governing the Internet and e-commerce. Existing and future regulations and laws could impede the growth of the Internet, e-commerce or mobile commerce. These regulations and laws may involve taxes, tariffs, privacy and data security, anti-spam, content protection, electronic contracts and communications, consumer protection, Internet neutrality and gift cards. It is not clear how existing laws governing issues such as property ownership, sales and other taxes and consumer privacy apply to the Internet as the vast majority of these laws were adopted prior to the advent of the Internet and do not contemplate or address the unique issues raised by the Internet or e-commerce. It is possible that general business regulations and laws, or those specifically governing the Internet or e-commerce, may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another and may conflict with other rules or our practices. We cannot be sure that our practices have complied, comply or will comply fully with all such laws and regulations. Any failure, or perceived failure, by us to comply with any of these laws or regulations could result in damage to our reputation, a loss in business and proceedings or actions against us by governmental entities or others. Any such proceeding or action could hurt our reputation, force us to spend significant amounts in defense of these proceedings, distract our management, increase our costs of doing business, decrease the use of our sites by consumers and suppliers and may result in the imposition of monetary liability. We may also be contractually liable to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any such laws or regulations. In addition, it is possible that governments of one or more countries may seek to censor content available on our sites or may even attempt to completely block access to our sites. Adverse legal or regulatory developments could substantially harm our business. In particular, in the event that we are restricted, in whole or in part, from operating in one or more countries, our ability to retain or increase our customer base may be adversely affected, and we may not be able to maintain or grow our net revenue and expand our business as anticipated. Further, as we enter into new market segments or geographical areas and expand the products and services we offer, we may be subject to additional laws and regulatory requirements or prohibited from conducting our business, or certain aspects of it, in certain jurisdictions. We will incur additional costs complying with these additional obligations and any failure or perceived failure to comply would adversely affect our business and reputation.

Failure to comply with federal, state and international laws and regulations relating to privacy, data protection and consumer protection, or the expansion of current or the enactment of new laws or regulations relating to privacy, data protection and consumer protection, could adversely affect our business and our financial condition.

A variety of federal, state and international laws and regulations govern the collection, use, retention, sharing, export and security of personal information. Laws and regulations relating to privacy, data protection and consumer protection are evolving and subject to potentially differing interpretations. These requirements may be interpreted and applied in a manner that is inconsistent from one jurisdiction to another or may conflict with other rules or our practices. As a result, our practices may not comply, or may not comply in the future with all such laws, regulations, requirements and obligations. Any failure, or perceived failure, by us to comply with our posted privacy policies or with any federal, state or international privacy or consumer protection- related laws, regulations, industry self-regulatory principles, industry standards or codes of conduct, regulatory guidance, orders to which we may be subject or other legal obligations relating to privacy or consumer protection could adversely affect our reputation, brand and business, and may result in claims, proceedings or actions against us by governmental entities or others or other liabilities or require us to change our operations and/or cease using certain data sets. Any such claim, proceeding or action could hurt our reputation, brand and business, force us to incur significant expenses in defense of such proceedings, distract our management, increase our costs of doing business, result in a loss of customers and suppliers and may result in the imposition of monetary penalties. We may also be contractually required to indemnify and hold harmless third parties from the costs or consequences of non-compliance with any laws, regulations or other legal obligations relating to privacy or consumer protection or any inadvertent or unauthorized use or disclosure of data that we store or handle as part of operating our business.



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Federal, state and international governmental authorities continue to evaluate the privacy implications inherent in the use of proprietary or third-party "cookies" and other methods of online tracking for behavioral advertising and other purposes. U.S. and foreign governments have enacted, have considered or are considering legislation or regulations that could significantly restrict the ability of companies and individuals to engage in these activities, such as by regulating the level of consumer notice and consent required before a company can employ cookies or other electronic tracking tools or the use of data gathered with such tools. Additionally, some providers of consumer devices and web browsers have implemented, or announced plans to implement, means to make it easier for Internet users to prevent the placement of cookies or to block other tracking technologies, which could if widely adopted significantly reduce the effectiveness of such practices and technologies. The regulation of the use of cookies and other current online tracking and advertising practices or a loss in our ability to make effective use of services that employ such technologies could increase our costs of operations and limit our ability to acquire new customers on cost-effective terms and consequently, materially adversely affect our business, financial condition and operating results.

Foreign data protection, privacy and other laws and regulations are often more restrictive than those in the U.S. The European Union, for example, traditionally has imposed stricter obligations under its laws and regulations relating to privacy, data protection and consumer protection than the U.S. In May 2018 the European Union's new regulation governing data practices and privacy called the General Data Protection Regulation ("GDPR") becomes effective and will replace the data protection laws of the individual member states. The law requires companies to meet new, more stringent requirements regarding the handling of personal data of individuals in the EU. Engineering efforts to build new capabilities to facilitate compliance with GDPR may entail substantial expense and the diversion of engineering resources from other projects. The law also increases the penalties for non-compliance, which may result in monetary penalties of up to 20 million Euros or 4% of a company's worldwide turnover, whichever is higher. GDPR and other similar regulations require companies to give specific types of notice and in some cases seek consent from consumers and other data subjects before collecting or using their data for certain purposes, including some marketing activities. Outside of the European Union, there are many countries with data protection laws, and new countries are adopting data protection legislation with increasing frequency. Many of these laws may require consent from consumers for the use of data for various purposes, including marketing, which may reduce our ability to market our products. There is no harmonized approach to these laws and regulations globally. Consequently, we increase our risk of non-compliance with applicable foreign data protection laws and regulations as we continue our international expansion. We may need to change and limit the way we use personal information in operating our business and may have difficulty maintaining a single operating model that is compliant. Compliance with such laws and regulations will result in additional costs and may necessitate changes to our business practices and divergent operating models, which may adversely affect our business and financial condition.

In addition, various federal, state and foreign legislative and regulatory bodies, or self-regulatory organizations, may expand current laws or regulations, enact new laws or regulations or issue revised rules or guidance regarding privacy, data protection and consumer protection. Any such changes may force us to incur substantial costs or require us to change our business practices. This could compromise our ability to pursue our growth strategy effectively and may adversely affect our ability to acquire customers or otherwise harm our business, financial condition and operating results.

Our failure or the failure of third-party service providers to protect our sites, networks and systems against security breaches, or otherwise to protect our confidential information, could damage our reputation and brand and substantially harm our business and operating results.

We collect, maintain, transmit and store data about our customers, employees, contractors, suppliers, vendors and others, including credit card information and personally identifiable information, as well as other confidential and proprietary information. We also employ third-party service providers that store, process and transmit certain proprietary, personal and confidential information on our behalf. We rely on encryption and authentication technology licensed from third parties in an effort to securely transmit, encrypt, anonymize or pseudonymize certain confidential and sensitive information, including credit card numbers. Advances in computer capabilities, new technological discoveries or other developments may result in the whole or partial failure of this technology to protect transaction and personal data or other confidential and sensitive information from being breached or compromised. Our security

measures, and those of our third-party service providers, may not detect or prevent all attempts to hack our systems, denial-of-service attacks, viruses, malicious software, break-ins, phishing attacks, social engineering, security breaches or other attacks and similar disruptions that may jeopardize the security of information stored in or transmitted by our sites, networks and systems or that we or our third-party service providers otherwise maintain, including payment card systems and human resources management platforms. We and our service providers may not anticipate or prevent all types of attacks until after they have already been launched, and techniques used to obtain unauthorized access to or sabotage systems change frequently and may not be known until launched against us or our third-party service providers. In addition, security breaches can also occur as a result of non-technical issues, including intentional or inadvertent breaches by our employees or by persons with whom we have commercial relationships.

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Breaches of our security measures or those of our third-party service providers or cyber security incidents could result in unauthorized access to our sites, networks and systems; unauthorized access to and misappropriation of personal information, including consumers' and employees' personally identifiable information, or other confidential or proprietary information of ourselves or third parties; limited or terminated access to certain payment methods or fines or higher transaction fees to use such methods; viruses, worms, spyware or other malware being served from our sites, networks or systems; deletion or modification of content or the display of unauthorized content on our sites; interruption, disruption or malfunction of operations; costs relating to breach remediation, deployment or training of additional personnel and protection technologies, responses to governmental investigations and media inquiries and coverage; engagement of third party experts and consultants; litigation, regulatory action and other potential liabilities. If any of these breaches of security occur, our reputation and brand could be damaged, our business may suffer, we could be required to expend significant capital and other resources to alleviate problems caused by such breaches and we could be exposed to a risk of loss, litigation or regulatory action and possible liability. In addition, any party who is able to illicitly obtain a customer's password could access that customer's transaction data or personal information. Any compromise or breach of our security measures, or those of our third-party service providers, could violate applicable privacy, data security and other laws, and cause significant legal and financial exposure, adverse publicity and a loss of confidence in our security measures, which could have a material adverse effect on our business, financial condition and operating results. Although we maintain privacy, data breach and network security liability insurance, we cannot be certain that our coverage will be adequate for liabilities actually incurred or that insurance will continue to be available to us on economically reasonable terms, or at all. We may need to devote significant resources to protect against security breaches or to address problems caused by breaches, diverting resources from the growth and expansion of our business.

Changes in tax treatment of companies engaged in e-commerce may adversely affect the commercial use of our sites and our financial results.

Due to the global nature of the Internet, it is possible that various states or foreign countries might attempt to impose additional or new regulation on our business or levy additional or new sales, income or other taxes relating to our activities. Tax authorities at the international, federal, state and local levels are currently reviewing the appropriate treatment of companies engaged in e-commerce. New or revised international, federal, state or local tax regulations or court decisions may subject us or our customers to additional sales, income and other taxes. For example, Congress is considering various approaches to legislation that would require companies engaged in e-commerce to collect sales tax taxes on Internet revenue and a growing number of U.S. states and certain foreign jurisdictions have adopted or are considering proposals to impose obligations on remote sellers and online marketplaces to collect taxes on their behalf. Additionally, we are a defendant in a legal proceeding (South Dakota v. Wayfair Inc., 17-494) where South Dakota has asked the U.S. Supreme Court to reverse its longstanding precedent holding that remote sellers are not required to collect state and local sales taxes. We cannot predict the effect of these and other attempts to impose sales, income or other taxes on e-commerce. New or revised taxes and, in particular, sales taxes, VAT and similar taxes would likely increase the cost of doing business online and decrease the attractiveness of selling products over the Internet. New taxes could also create significant increases in internal costs necessary to capture data and collect and remit taxes. Any of these events could have a material adverse effect on our business, financial condition and operating results.

Taxing authorities may successfully assert that we should have collected or in the future should collect sales and use, commercial activity, VAT or similar taxes, and we could be subject to liability with respect to past or future sales, which could adversely affect our operating results.

We do not collect and remit sales and use, commercial activity, VAT or similar taxes in all jurisdictions in which we have sales, based on our belief that such taxes are not applicable or legally required. Several states and other taxing jurisdictions have presented or threatened us with assessments, alleging that we are required to collect and remit such taxes there. Other states, including South Dakota in our legal proceeding currently before the U.S. Supreme Court (South Dakota v. Wayfair Inc., 17-494), have requested that courts validate new laws that reverse existing constitutional precedent. While we do not believe that we are subject to such taxes and intend to vigorously defend our position in these cases, we cannot be sure of the outcome of our discussions and/or appeals with these states or cases that are pending in the courts. In the event of an adverse outcome, we could face assessments for additional time

periods since the last assessments we received, plus any additional interest and penalties. We also expect additional jurisdictions may make similar assessments or pass similar new laws in the future, and any of the jurisdictions where we have sales may apply more rigorous enforcement efforts or take more aggressive positions in the future that could result in greater tax liability allegations. In addition, in the future we may also decide to engage in activities, such as owning or leasing property, that would require us to pay sales and use, commercial activity, VAT or similar taxes in new jurisdictions. Such tax assessments, penalties and interest or future requirements may materially adversely affect our business, financial condition and operating results.

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Our business could suffer if we are unsuccessful in making, integrating and maintaining acquisitions and investments. As part of our business strategy, we may acquire other companies or businesses. However, we may not be able to find suitable acquisition candidates, and we may not be able to complete acquisitions on favorable terms, if at all.

Acquisitions involve numerous risks, any of which could harm our business, including: difficulties in integrating the technologies, operations, existing contracts and personnel of an acquired company; difficulties in supporting and transitioning customers and suppliers, if any, of an acquired company; diversion of financial and management resources from existing operations or alternative acquisition opportunities; failure to realize the anticipated benefits or synergies of a transaction; failure to identify all of the problems, liabilities or other shortcomings or challenges of an acquired company or technology, including issues related to intellectual property, regulatory compliance practices, revenue recognition or other accounting practices or employee or customer issues; risks of entering new markets in which we have limited or no experience; potential loss of key employees, customers and suppliers from either our current business or an acquired company's business; inability to generate sufficient net revenue to offset acquisition costs; additional costs or equity dilution associated with funding the acquisition; and possible write-offs or impairment charges relating to acquired businesses.

In addition, our investments in properties may not be fully realized. We continually review our operations and facilities in an effort to reduce costs and increase efficiencies. For strategic or other operational reasons, we may decide to consolidate or co-locate certain aspects of our business operations or dispose of one or more of our properties. If we decide to fully or partially vacate a leased property, we may incur significant cost, including facility closing costs, employee separation and retention expenses, lease termination fees, rent expense in excess of sublease income and impairment of leasehold improvements and accelerated depreciation of assets. Any of these events may materially adversely affect our business, financial condition and operating results.

We rely on the performance of members of management and highly skilled personnel, and if we are unable to attract, develop, motivate and retain well-qualified employees, our business could be harmed.

We believe our success has depended, and continues to depend, on the efforts and talents of Niraj Shah, one of our co-founders, co-chairman of the board of directors and our Chief Executive Officer, Steven Conine, one of our co-founders and co-chairman of the board of directors, and the other members of our senior management team. Our future success depends on our continuing ability to attract, develop, motivate and retain highly qualified and skilled employees, particularly mid-level managers, engineers and merchandising and technology personnel. The market for such positions in the Boston area and other cities in which we operate is competitive. Qualified individuals are in high demand, and we may incur significant costs to attract them. In addition, the loss of any of our senior management or key employees or our inability to recruit and develop mid-level managers could materially adversely affect our ability to execute our business plan, and we may not be able to find adequate replacements. All of our officers and other U.S. employees are at-will employees, meaning that they may terminate their employment relationship with us at any time, and their knowledge of our business and industry would be extremely difficult to replace. If we do not succeed in attracting well-qualified employees or retaining and motivating existing employees, our business, financial condition and operating results may be materially adversely affected.

We may not be able to adequately protect our intellectual property rights.

We regard our customer lists, trademarks, domain names, copyrights, patents, trade dress, trade secrets, proprietary technology and similar intellectual property as critical to our success, and we rely on trademark, copyright and patent law, trade secret protection, agreements and other methods with our employees and others to protect our proprietary rights. We might not be able to obtain broad protection in the U.S. or internationally for all of our intellectual property, and we might not be able to obtain effective intellectual property protection in every country in which we sell products or perform services. For example, we are the registrant of marks for our brands in numerous jurisdictions and of the Internet domain name for the websites of Wayfair.com, Wayfair.co.uk, Wayfair.de and our other sites, as well as various related domain names. However, we have not registered our marks or domain names in all major international jurisdictions and may not be able to register or use such domain names in all of the countries in which we currently or intend to conduct business. Further, we might not be able to prevent third parties from registering, using or retaining domain names that interfere with our consumer communications or infringe or otherwise decrease the value of our marks, domain names and other proprietary rights.





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The protection of our intellectual property rights may require the expenditure of significant financial, managerial and operational resources. We may initiate claims or litigation against others for infringement, misappropriation or violation of our intellectual property rights or proprietary rights or to establish the validity of such rights. Any litigation, whether or not it is resolved in our favor, could result in significant expense to us and divert the efforts of our technical and management personnel, which may materially adversely affect our business, financial condition and operating results. Moreover, the steps we take to protect our intellectual property may not adequately protect our rights or prevent third parties from infringing or misappropriating our proprietary rights, and we may not be able to broadly enforce all of our trademarks or patents. Any of our patents, marks or other intellectual property rights may be challenged by others or invalidated through administrative process or litigation. Our patent and trademark applications may never be granted. Additionally, the process of obtaining intellectual property protections is expensive and time-consuming, and we may not be able to pursue all necessary or desirable actions at a reasonable cost or in a timely manner. Even if issued, there can be no assurance that these protections will adequately safeguard our intellectual property, as the legal standards relating to the validity, enforceability and scope of protection of patent and other intellectual property rights are uncertain. We also cannot be certain that others will not independently develop or otherwise acquire equivalent or superior technology or intellectual property rights. We may also be exposed to claims from third parties claiming infringement of their intellectual property rights, or demanding the release or license of open source software or derivative works that we developed using such software (which could include our proprietary code) or otherwise seeking to enforce the terms of the applicable open source license. These claims could result in litigation and could require us to purchase a costly license, publicly release the affected portions of our source code, be limited in or cease using the implicated software unless and until we can re-engineer such software to avoid infringement or change the use of the implicated open source software.

We have been, and may again be, accused of infringing intellectual property rights of third parties.

The e-commerce industry is characterized by vigorous protection and pursuit of intellectual property rights, which has resulted in protracted and expensive litigation for many companies. We are subject to claims and litigation by third parties that we infringe their intellectual property rights, and we expect additional claims and litigation with respect to infringement to occur in the future. The costs of supporting such litigation and disputes are considerable, and there can be no assurances that favorable outcomes will be obtained. As our business expands and the number of competitors in our market increases and overlaps occur, we expect that infringement claims may increase in number and significance. Any claims or proceedings against us, whether meritorious or not, could be time-consuming, result in considerable litigation costs, require significant amounts of management time or result in the diversion of significant operational resources, any of which could materially adversely affect our business, financial condition and operating results.

Legal claims regarding intellectual property rights are subject to inherent uncertainties due to the oftentimes complex issues involved, and we cannot be certain that we will be successful in defending ourselves against such claims. In addition, some of our larger competitors have extensive portfolios of issued patents. Many potential litigants, including patent holding companies, have the ability to dedicate substantially greater resources to enforce their intellectual property rights and to defend claims that may be brought against them. Furthermore, a successful claimant could secure a judgment that requires us to pay substantial damages or prevents us from conducting our business as we have historically done or may desire to do in the future. We might also be required to seek a license and pay royalties for the use of such intellectual property, which may not be available on commercially acceptable terms, or at all. Alternatively, we may be required to develop non-infringing technology or intellectual property, which could require significant effort and expense and may ultimately not be successful.

We have received in the past, and we may receive in the future, communications alleging that certain items posted on or sold through our sites violate third-party copyrights, designs, marks and trade names or other intellectual property rights or other proprietary rights. Brand and content owners and other proprietary rights owners have actively asserted their purported rights against online companies, including Wayfair. In addition to litigation from rights owners, we may be subject to regulatory, civil or criminal proceedings and penalties if governmental authorities believe we have aided and abetted in the sale of counterfeit or infringing products.

Such claims, whether or not meritorious, may result in the expenditure of significant financial, managerial and operational resources, injunctions against us or the payment of damages by us. We may need to obtain licenses from

third parties who allege that we have violated their rights, but such licenses may not be available on terms acceptable to us, or at all. These risks have been amplified by the increase in third parties whose sole or primary business is to assert such claims.

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Our outstanding indebtedness, or additional indebtedness that we may incur, could adversely affect our financial condition.

In September 2017, we issued unsecured 0.375% Convertible Senior Notes in an aggregate principal amount of \$431.25 million (the "Notes"), pursuant to which we will pay interest semiannually in arrears at a rate of 0.375% per annum commencing in 2018. The Notes will mature on September 1, 2022 unless earlier purchased, redeemed or converted, at which time, we will settle any conversions of the Notes in cash, shares of the Company's Class A common stock or a combination thereof, at our election. Under certain circumstances, the holders of the Notes may require us to repay all or a portion of the principal and interest outstanding under the Notes in cash prior to the maturity date, which could have an adverse effect on our financial results.

In February 2017, we entered into a three-year senior secured revolving credit facility (the "Revolver") under which we may borrow up to \$100 million to fund working capital and general corporate purposes. If we draw down on this facility, our interest expense and principal repayment requirements will increase, which could have an adverse effect on our financial results and our ability to make payments on the Notes. Further, the agreements governing the Revolver contain numerous requirements, including affirmative, negative and financial covenants. Our failure to comply with any of these covenants or to meet any payment obligations under the Revolver could result in an event of default which, if not cured or waived, would result in any amounts outstanding, including any accrued interest and unpaid fees, becoming immediately due and payable. We might not have sufficient working capital or liquidity to satisfy any repayment obligations in the event of an acceleration of those obligations.

Our business may not be able to generate sufficient cash flow from operations, and we can give no assurance that future borrowings will be available to us in amounts sufficient to enable us to pay our indebtedness as such indebtedness matures, including the Notes, and to fund our other liquidity needs. If this occurs, we will need to refinance all or a portion of our indebtedness on or before maturity, and there can be no assurance that we will be able to refinance any of our indebtedness on commercially reasonable terms, or at all. We may need to adopt one or more alternatives, such as reducing or delaying planned expenses and capital expenditures, selling assets, restructuring debt, or obtaining additional equity or debt financing. These alternative strategies may not be affected on satisfactory terms, if at all. Our ability to refinance our indebtedness or obtain additional financing, or to do so on commercially reasonable terms, will depend on, among other things, our financial condition at the time, restrictions in agreements governing our indebtedness, and other factors, including the condition of the financial markets and the markets in which we compete.

If we do not generate sufficient cash flow from operations, and additional borrowings, refinancings or proceeds from asset sales are not available to us, we may not have sufficient cash to enable us to meet all of our obligations, including our obligations under the Notes.

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We cannot guarantee that our stock repurchase program will be fully consummated or that it will enhance long-term shareholder value. Stock repurchases could also increase the volatility of the trading price of our stock and could diminish our cash reserves.

In February 2018, our board of directors authorized a stock repurchase program of up to \$200 million of our Class A common stock that does not have an expiration date. Although our board of directors has authorized this stock repurchase program, the program does not obligate us to repurchase any specific dollar amount or to acquire any specific number of shares. We cannot guarantee that the program will be fully consummated or that it will enhance long-term stockholder value. The program could affect the trading price of our Class A common stock and increase volatility, and any announcement of a termination of this program may result in a decrease in the trading price of our Class A common stock. In addition, this program could diminish our cash reserves.

**Risks Related to Ownership of our Class A Common Stock**

The dual class structure of our common stock has the effect of concentrating voting control with our co-founders, which will limit your ability to influence corporate matters.

Our Class B common stock has ten votes per share, and our Class A common stock, which is the stock that is publicly traded, has one vote per share. Following our initial public offering (the "IPO"), our Class B common stock was held primarily by our co-founders, other executive officers, directors and their affiliates. Due to optional conversions of Class B common stock into Class A common stock following the IPO, our Class B common stock is currently held primarily by our co-founders and their affiliates. As of December 31, 2017, our co-founders and their affiliates owned shares representing approximately 35.7% of the economic interest and 84.4% of the voting power of our outstanding capital stock. This concentrated control limits your ability to influence corporate matters for the foreseeable future.

For example, these stockholders are able to control elections of directors, amendments of our certificate of incorporation or bylaws, increases to the number of shares available for issuance under our equity incentive plans or adoption of new equity incentive plans and approval of any merger or sale of assets for the foreseeable future. This control may materially adversely affect the market price of our Class A common stock. Additionally, holders of our Class B common stock may cause us to make strategic decisions or pursue acquisitions that could involve risks to you or may not be aligned with your interests. The holders of our Class B common stock are also entitled to a separate vote in the event we seek to amend our certificate of incorporation to increase or decrease the par value of a class of our common stock or in a manner that alters or changes the powers, preferences or special rights of the Class B common stock in a manner that affects its holders adversely.

Future transfers by holders of Class B common stock will generally result in those shares converting on a 1:1 basis to Class A common stock, which will have the effect, over time, of increasing the relative voting power of those holders of Class B common stock who retain their shares in the long-term, which may include our executive officers.

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Our stock price may be volatile or may decline regardless of our operating performance.

The market price of our Class A common stock may fluctuate significantly in response to numerous factors, many of which are beyond our control, including the risks described elsewhere in this Part I, Item 1A, Risk Factors, of this Annual Report on Form 10-K, as well as:

- actual or anticipated fluctuations in our results of operations;
- the financial projections we may provide to the public, any changes in these projections or our failure to meet these projections;
- failure of securities analysts to initiate or maintain coverage of our company, changes in financial estimates or ratings by any securities analysts who follow our company or our failure to meet these estimates or the expectations of investors;
- announcements by us or our competitors of significant technical innovations, acquisitions, strategic partnerships, joint ventures, operating results or capital commitments;
- changes in operating performance and stock market valuations of other technology or retail companies generally, or those in our industry in particular;
- price and volume fluctuations in the overall stock market, including as a result of trends in the economy as a whole;
- changes in interest rates;
- changes in our board of directors or management;
- sales of large blocks of our Class A common stock, including sales by our executive officers, directors and significant stockholders;
- lawsuits threatened or filed against us;
- changes in laws or regulations applicable to our business;
- changes in our capital structure, such as future issuances of debt or equity securities;
- short sales, hedging and other derivative transactions involving our capital stock;
- general economic conditions in the U.S. and abroad; and
- other events or factors, including those resulting from war, incidents of terrorism or responses to these events.

In addition, stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many technology companies, including e-commerce companies. Stock prices of many technology companies, including e-commerce companies, have fluctuated in a manner unrelated or disproportionate to the operating performance of those companies. Volatility in our stock price could adversely affect our business and financing opportunities and expose us to litigation. Securities litigation can subject us to substantial costs, divert resources and the attention of management from our business and materially adversely affect our business, financial condition and operating results.

Short selling could increase the volatility of our stock price.

We believe our Class A common stock has been the subject of significant short selling efforts by certain market participants. Short sales are transactions in which a market participant sells a security that it does not own. To complete the transaction, the market participant must borrow the security to make delivery to the buyer. The market participant is then obligated to replace the security borrowed by purchasing the security at the market price at the time of required replacement. If the price at the time of replacement is lower than the price at which the security was originally sold by the market participant, then the market participant will realize a gain on the transaction. Thus, it is in the market participant's interest for the market price of the underlying security to decline as much as possible during the period prior to the time of replacement. Short selling may negatively affect the value of our stock to the detriment of our stockholders.

In addition, market participants with disclosed short positions in our stock have published, and may in the future continue to publish, negative information regarding us that we believe is inaccurate and misleading. We believe that the publication of this negative information may in the future lead to downward pressure on the price of our stock.

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Substantial sales of shares of our Class A common stock could cause the market price of our Class A common stock to decline.

Sales of a substantial number of shares of our Class A common stock in the public market, or the perception that these sales might occur, could depress the market price of our Class A common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that such sales may have on the prevailing market price of our Class A common stock.

If securities or industry analysts do not publish research or reports about our business, or publish negative reports about our business, our share price and trading volume could decline.

The trading market for our Class A common stock depends in part on the research and reports that securities or industry analysts publish about us or our business, our market and our competitors. We do not have any control over these analysts. If one or more of the analysts who cover us downgrade our shares or change their opinion of our shares, our share price would likely decline. If one or more of these analysts cease coverage of our company or fail to regularly publish reports on us, we could lose visibility in the financial markets, which could cause our share price or trading volume to decline.

Our management has broad discretion over our existing cash resources and might not use such funds in ways that increase the value of your investment.

Our management generally has broad discretion over the use of our cash resources, and you will be relying on the judgment of our management regarding the application of these resources. Our management might not apply these resources in ways that increase the value of your investment.

Although we do not rely on "controlled company" exemptions from certain corporate governance requirements under the New York Stock Exchange, or NYSE, rules, if we use these exemptions in the future, you will not have the same protections afforded to stockholders of companies that are subject to such requirements.

Our co-founders control a majority of the voting power of our outstanding common stock. As a result, we qualify as a "controlled company" within the meaning of the corporate governance standards of the NYSE. Under these rules, a listed company of which more than 50% of the voting power is held by an individual, group or another company is a "controlled company" and may elect not to comply with certain corporate governance requirements, including:

- the requirement that a majority of the board of directors consist of independent directors as defined under the listing rules of the NYSE;
- the requirement that we have a nominating and corporate governance committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities;
- the requirement that we have a compensation committee that is composed entirely of independent directors with a written charter addressing the committee's purpose and responsibilities; and
- the requirement for an annual performance evaluation of the nominating and corporate governance and compensation committees.

To the extent we still qualify, we may choose to take advantage of any of these exemptions in the future. As a result, in the future, we may not have a majority of independent directors and we may not have independent director oversight of decisions regarding executive compensation and director nominations.

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Anti-takeover provisions in our charter documents and under Delaware law could make an acquisition of our company more difficult, limit attempts by our stockholders to replace or remove our current management and limit the market price of our Class A common stock.

Provisions in our certificate of incorporation and bylaws may have the effect of delaying or preventing a change of control or changes in our management. Our certificate of incorporation and bylaws include provisions that:

- permit the board of directors to establish the number of directors and fill any vacancies and newly created directorships;

- when the outstanding shares of our Class B common stock represent less than 10% of the then outstanding shares of Class A common stock and Class B common stock, provide that our board of directors will be classified into three classes with staggered, three year terms and that directors may only be removed for cause;

- require super-majority voting to amend some provisions in our certificate of incorporation and bylaws;

- authorize the issuance of "blank check" preferred stock that our board of directors could use to implement a stockholder rights plan;

- eliminate the ability of our stockholders to call special meetings of stockholders;

- when the outstanding shares of our Class B common stock represent less than 10% of the then outstanding shares of Class A common stock and Class B common stock, prohibit stockholder action by written consent, which requires all stockholder actions to be taken at a meeting of our stockholders;

- provide that the board of directors is expressly authorized to make, alter or repeal our bylaws;

- restrict the forum for certain litigation against us to Delaware;

- reflect the dual class structure of our common stock, as discussed above; and

- establish advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at annual stockholder meetings.

These provisions may frustrate or prevent any attempts by our stockholders to replace or remove our current management by making it more difficult for stockholders to replace members of our board of directors, which is responsible for appointing the members of our management. In addition, because we are incorporated in Delaware, we are governed by the provisions of Section 203 of the Delaware General Corporation Law, which generally prohibits a Delaware corporation from engaging in any of a broad range of business combinations with any holder of at least 15% of our capital stock for a period of three years following the date on which the stockholder became a 15% stockholder.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate headquarters are in Boston, where we occupy approximately 506 thousand square feet of office space pursuant to a lease that expires in December 2027. We lease additional office space in London and Berlin for our international operations. We occupy a total of approximately 8 million additional square feet of fulfillment center space in various locations in the U.S., Canada, Germany and the United Kingdom. We also lease office space in five U.S. locations, one location in Ireland and one location in Germany for our customer service centers.

Item 3. Legal Proceedings

For information regarding our legal proceedings, see Note 7 to the Consolidated Financial Statements, Commitments and Contingencies, included in Part II, Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, which is incorporated into this item by reference.

Item 4. Mine Safety Disclosures

Not applicable.

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## PART II

## Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

## Certain Information Regarding the Trading of Our Common Stock

Our Class A common stock is traded on the New York Stock Exchange ("NYSE") under the symbol "W". The following table sets forth for the indicated periods the high and low per share sale prices of our Class A common stock, as reported by the NYSE.

	Sales Price	
	High	Low
2016		
First Quarter	\$47.68	\$28.85
Second Quarter	\$44.53	\$34.10
Third Quarter	\$49.34	\$35.82
Fourth Quarter	\$39.79	\$27.60
2017		
First Quarter	\$43.49	\$34.30
Second Quarter	\$78.21	\$39.96
Third Quarter	\$84.19	\$65.30
Fourth Quarter	\$83.79	\$55.33

## Holders of Our Common Stock

As of February 16, 2018, there were 24 holders of record of shares of our Class A common stock and 372 holders of record of shares of our Class B common stock. The actual number of stockholders is greater than this numbers of record holders, and includes stockholders who are beneficial owners, whose shares are held of record by banks, brokers, and other financial institutions.

## Dividends

We do not expect to pay any dividends on our Class A common stock or Class B common stock in the foreseeable future. Any future determination to pay dividends will be at the sole discretion of our board of directors, subject to applicable laws. Our board of directors may take into account general and economic conditions, our financial condition and operating results, our available cash and current and anticipated cash needs, our capital requirements, contractual, legal, tax and regulatory restrictions, and implications on the payment of dividends by us to our stockholders or by our subsidiaries to us and such other factors as our board of directors may deem relevant.

## Securities Authorized for Issuance Under Equity Compensation Plans

Information regarding our equity compensation plans and securities authorized for issuance thereunder is set forth under Part III, Item 12, Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters, of this Annual Report on Form 10-K.

## Recent Sales of Unregistered Securities

During the three months ended December 31, 2017, we issued 165,104 shares of Class B common stock upon the vesting of outstanding restricted stock units, net of shares withheld to satisfy statutory minimum tax withholding obligations. The issuance of these securities was pursuant to written compensatory plans or arrangements with our employees, consultants, advisors and directors in reliance on the exemption provided by Rule 701 promulgated under the Securities Act, relative to transactions by an issuer not involving any public offering, to the extent an exemption from registration was required.

On September 15, 2017, we issued \$431.25 million aggregate principal amount of 0.375% Convertible Senior Notes due 2022 (the "Notes"), which includes the exercise in full of the \$56.25 million over-allotment option, to Citigroup Global Markets Inc. and Goldman Sachs & Co. LLC as the initial purchasers of the Notes (the "Initial Purchasers"). Our offering of the Notes to



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the Initial Purchasers was made in reliance on the exemption from registration provided by Section 4(a)(2) of the Securities Act. We relied on this exemption from registration based in part on representations made by the Initial Purchasers, including that the Initial Purchasers would only offer, sell or deliver the Notes to persons inside the United States whom they reasonably believe to be qualified institutional buyers within the meaning of Rule 144A under the Securities Act.

For more information regarding our Notes, see Note 14, Convertible Debt, included in Part II, Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K, which is incorporated into this item by reference.

Issuer Purchases of Equity Securities

None.

Item 6. Selected Consolidated Financial Data

You should read the following selected consolidated financial data below in conjunction with Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and the related notes included in Part II, Item 8, Financial Statements and Supplementary Data of this Annual Report on Form 10-K.

The following consolidated statements of operations data for the fiscal years ended December 31, 2017, 2016, and 2015 and the consolidated balance sheet data as of December 31, 2017 and 2016 are derived from our audited consolidated financial statements included in this Annual Report on Form 10-K. The following consolidated balance sheet data as of December 31, 2015, 2014, and 2013 and the consolidated statements of operations data for the fiscal year ended December 31, 2014 and 2013 is derived from our audited consolidated financial statements that are not included in this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected in the future.

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	Year Ended December 31,				
	2017	2016	2015	2014	2013
	(in thousands, except per share data)				
Consolidated Statements of Operations:					
Net revenue	\$4,720,895	\$3,380,360	\$2,249,885	\$1,318,951	\$915,843
Cost of goods sold (1)	3,602,072	2,572,549	1,709,161	1,007,853	691,602
Gross profit	1,118,823	807,811	540,724	311,098	224,241
Operating expenses:					
Customer service and merchant fees (1)	169,516	127,883	81,230	55,804	35,500
Advertising	549,959	409,125	278,224	191,284	108,469
Selling, operations, technology, general and administrative (1) (2)	634,801	467,020	262,620	211,794	96,291
Total operating expenses	1,354,276	1,004,028	622,074	458,882	240,260
Loss from operations	(235,453 )	(196,217 )	(81,350 )	(147,784 )	(16,019 )
Interest (expense) income, net	(9,433 )	694	1,284	350	245
Other (expense) income, net	758	1,756	2,718	(489 )	294
Loss before income taxes	(244,128 )	(193,767 )	(77,348 )	(147,923 )	(15,480 )
Provision for income taxes	486	608	95	175	46
Net loss	(244,614 )	(194,375 )	(77,443 )	(148,098 )	(15,526 )
Accretion of convertible redeemable preferred units	—	—	—	(2,071 )	(25,388 )
Net loss attributable to common stockholders	\$(244,614 )	\$(194,375 )	\$(77,443 )	\$(150,169 )	\$(40,914 )
Net loss per share, basic and diluted	\$(2.81 )	\$(2.29 )	\$(0.92 )	\$(2.97 )	\$(0.99 )
Weighted average number of common stock outstanding used in computing per share amounts, basic and diluted	86,983	84,977	83,726	50,642	41,332

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

	Year Ended December 31,				
	2017	2016	2015	2014	2013
Cost of goods sold	\$1,091	\$474	\$280	\$369	\$ —
Customer service and merchant fees	2,636	2,108	1,007	2,265	—
Selling, operations, technology, general and administrative	68,899	49,371	31,688	60,610	—
	\$72,626	\$51,953	\$32,975	\$63,244	\$ —

Prior period expenses recorded as "Merchandising, marketing and sales" and "Operations, technology, general and (2) administrative" have been combined into "Selling, operations, technology, general and administrative" on the consolidated statements of operations to conform with current period presentation.

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	December 31,				
	2017	2016	2015	2014	2013
	(in thousands)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents and short-term and long-term investments	\$641,553	\$379,550	\$465,954	\$415,859	\$115,308
Working capital	\$77,065	\$(80,129)	\$95,297	\$254,276	\$18,118
Total assets	\$1,213,403	\$761,683	\$694,581	\$555,523	\$196,300
Deferred revenue	\$94,116	\$65,892	\$50,884	\$26,784	\$13,397
Convertible redeemable preferred units	\$—	\$—	\$—	\$—	\$241,186
Total stockholders' (deficit) equity	\$(48,329)	\$79,384	\$242,545	\$305,539	\$(191,178)

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

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

Overview

We are one of the world's largest online destinations for the home. Through our e-commerce business model, we offer visually inspired browsing, compelling merchandising, easy product discovery and attractive prices for over ten million products from over 10,000 suppliers.

We believe an increasing portion of the dollars spent on home goods will be spent online and that there is an opportunity for acquiring more market share. We plan to grow our net revenue by acquiring new customers as well as stimulating repeat purchases from our existing customers. Through increasing brand awareness and paid and unpaid advertising, we attract new and repeat customers to our sites. We then seek to convert that visitor traffic to sales through engaging visual imagery and merchandising, daily sales promotions, and easy-to-use navigation tools and personalization features that enable better product discovery. We carefully track and monitor the results of our advertising campaigns so that we can ensure that appropriate return targets are being met.

Because of the large market opportunity we see in front of us, we are currently investing in several areas across our business. Over the last few years, we have invested in expanding our international business in Canada, the United Kingdom and Germany by building our international infrastructure, developing deeper country-specific knowledge, growing our international supplier networks and establishing our brand presence in select countries. Accordingly, our consolidated net loss of \$244.6 million in the year ended December 31, 2017 is primarily driven by our international expansion.

We have also invested considerably in our proprietary logistics network over the last few years, including our CastleGate warehouses and our Wayfair Delivery Network, which includes consolidation centers, cross docks and last mile delivery facilities. We believe that our proprietary logistics network will help drive incremental sales by delighting our customers with faster delivery times and a better home delivery experience. Over time we believe this network will also lower our costs per order by reducing damage rates and leveraging economies of scale in transportation. We are also currently investing in new categories, such as home improvement (e.g. plumbing, lighting and flooring), housewares, seasonal decor and decorative accents, so that we can add more of those products to our sites and capture a higher share of our customers' spend on home goods.

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

	Year Ended December 31,		
	2017	2016	2015
U.S. Direct Retail	\$4,075,405	\$2,993,365	\$1,945,411
U.S. Other	77,652	117,132	190,081
U.S. segment net revenue	4,153,057	3,110,497	2,135,492
International Direct Retail	567,838	265,544	94,827
International Other	—	4,319	19,566
International segment net revenue (1)	567,838	269,863	114,393
Total net revenue	\$4,720,895	\$3,380,360	\$2,249,885

(1) In the year ended December 31, 2015, International segment net revenue included \$5.4 million from our Australian business, which we sold in July 2015.

For more information on our segments, see Note 11 to the Consolidated Financial Statements, Segment and Geographic Information, included in Part II, Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K.

#### Full Year 2017 Financial Highlights

◆ Direct Retail net revenue increased \$1.4 billion to \$4.6 billion, up 42.5% year over year

◆ Total net revenue increased \$1.3 billion to \$4.7 billion, up 39.7% year over year

- GAAP net loss was \$244.6 million

◆ Adjusted EBITDA was \$(67.0) million or (1.4)% of total net revenue

U.S. Adjusted EBITDA was \$35.9 million

International Adjusted EBITDA was \$(102.9) million

◆ Non-GAAP free cash flow was \$(113.2) million

The consolidated financial statements and other disclosures contained in this Annual Report on Form 10-K are those of Wayfair Inc.

#### Key Financial and Operating Metrics

We measure our business using both financial and operating metrics. Our free cash flow metric is measured on a consolidated basis. Our net revenue and Adjusted EBITDA metrics are measured on a consolidated and segment basis. See Note 11 to the Consolidated Financial Statements, Segment and Geographic Information, included in Part II, Item 8, Financial Statements and Supplementary Data, of this Annual Report on Form 10-K. All other key financial and operating metrics are derived and reported from our Direct Retail sales, which includes sales generated primarily through our five distinct sites. These metrics do not include net revenue derived from the websites operated by our retail partners and our media solutions business. We do not have access to certain customer level information on net revenue derived through our retail partners and therefore cannot measure or disclose it.

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We use the following metrics to assess the near-term and longer-term performance of our overall business (in thousands, except LTM Net Revenue per Active Customer and Average Order Value):

	Year Ended December 31,		
	2017	2016	2015
<b>Consolidated Financial Metrics</b>			
Net Revenue	\$4,720,895	\$3,380,360	\$2,249,885
Adjusted EBITDA	\$(67,033 )	\$(88,692 )	\$(15,929 )
Free cash flow	\$(113,245 )	\$(65,272 )	\$72,937
<b>Direct Retail Financial and Operating Metrics</b>			
Direct Retail Net Revenue	\$4,643,243	\$3,258,909	\$2,040,238
Active Customers	10,990	8,250	5,360
LTM Net Revenue per Active Customer	\$422	\$395	\$381
Orders Delivered	19,411	14,064	9,170
Average Order Value	\$239	\$232	\$222
<b>Non-GAAP Financial Measures</b>			
<b>Adjusted EBITDA</b>			

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

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

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

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

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

Adjusted EBITDA does not reflect changes in our working capital;

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

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

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

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

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

	Year Ended December 31,		
	2017	2016	2015
Reconciliation of Adjusted EBITDA			
Net loss	\$(244,614)	\$(194,375)	\$(77,443)
Depreciation and amortization (1)	87,020	55,572	32,446
Equity based compensation and related taxes	72,626	51,953	32,975
Interest (income), net	9,433	(694)	(1,284)
Other (income) expense, net	(758)	(1,756)	(2,718)
Provision for income taxes	486	608	95
Other (1)	8,774	—	—
Adjusted EBITDA	\$(67,033)	\$(88,692)	\$(15,929)

(1) We recorded \$9.6 million of one-time charges in the year ended December 31, 2017 in "Selling, operations, technology, general and administrative" in the consolidated statements of operations related to a warehouse we vacated in July 2017. Of the \$9.6 million charges, \$8.8 million was included in "Other" and related primarily to the excess of our estimated future remaining lease commitments through 2023 over our expected sublease income over the same period, and \$0.8 million was included in "Depreciation and amortization" related to accelerated depreciation of leasehold improvements in the warehouse.

## Free Cash Flow

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

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

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

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

	Year Ended December 31,		
	2017	2016	2015
Net cash provided by operating activities	\$33,634	\$62,814	\$135,121
Purchase of property and equipment	(100,451)	(96,707)	(44,648)
Site and software development costs	(46,428)	(31,379)	(17,536)
Free cash flow	\$(113,245)	\$(65,272)	\$72,937

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### Key Operating Metrics (Direct Retail)

#### Active Customers

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

#### LTM Net Revenue Per Active Customer

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

#### Orders Delivered

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

#### Average Order Value

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

#### Factors Affecting our Performance

We believe that our performance and future success depend on a number of factors that present significant opportunities for us but also pose risks and challenges, including those discussed in Part I, Item 1A, Risk Factors.

#### Components of Our Results of Operations

##### Net Revenue

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

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

##### Cost of Goods Sold

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

We earn rebates on our incentive programs with our suppliers. These rebates are earned upon shipment of goods. Amounts due from suppliers as a result of these rebate programs are included as a receivable and are reflected as a reduction of cost of





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goods sold on the consolidated statements of operations. We also perform logistics services for suppliers through our CastleGate and Wayfair Delivery Network solutions, which are earned upon completion of preparing customer orders for shipment and are reflected as a reduction of cost of goods sold on the consolidated statements of operations. We expect cost of goods sold expenses to remain relatively stable as a percentage of net revenue but some fluctuations are expected due to the wide variety of products we sell.

**Customer Service and Merchant Fees**

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

**Advertising**

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

**Selling, operations, technology, general and administrative**

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

**Interest (Expense) Income, Net**

Interest (expense) income, net, in 2017, consists primarily of interest expense in connection with our Notes, which is payable at the rate of 0.375% semi-annually on March 1 and September 1 of each year, commencing on March 1, 2018, and, in 2016 and 2017, the lease financing obligation, partially offset by interest earned on cash, cash equivalents and short-term and long-term investments held by us, in 2017, 2016, and 2015.

**Other (Expense) Income, Net**

Other (expense) income, net consists primarily of foreign currency (losses) gains, and in 2015, a \$3.0 million gain related to the sale of our Australian operations.

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## Results of Consolidated Operations (in thousands)

	Year Ended December 31,		
	2017	2016	2015
	(in thousands, except per share data)		
Consolidated Statements of Operations:			
Net revenue	\$4,720,895	\$3,380,360	\$2,249,885
Cost of goods sold (1)	3,602,072	2,572,549	1,709,161
Gross profit	1,118,823	807,811	540,724
Operating expenses:			
Customer service and merchant fees (1)	169,516	127,883	81,230
Advertising	549,959	409,125	278,224
Selling, operations, technology, general and administrative (1) (2)	634,801	467,020	262,620
Total operating expenses	1,354,276	1,004,028	622,074
Loss from operations	(235,453 )	(196,217 )	(81,350 )
Interest (expense) income, net	(9,433 )	694	1,284
Other income, net	758	1,756	2,718
Loss before income taxes	(244,128 )	(193,767 )	(77,348 )
Provision for income taxes	486	608	95
Net loss	\$(244,614 )	\$(194,375 )	\$(77,443 )
Net loss per share, basic and diluted	\$(2.81 )	\$(2.29 )	\$(0.92 )
Weighted average number of common stock outstanding used in computing per share amounts, basic and diluted	86,983	84,977	83,726

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

	Year Ended December 31,		
	2017	2016	2015
Cost of goods sold	\$1,091	\$474	\$280
Customer service and merchant fees	2,636	2,108	1,007
Selling, operations, technology, general and administrative	68,899	49,371	31,688
	\$72,626	\$51,953	\$32,975

Prior period expenses recorded as "Merchandising, marketing and sales" and "Operations, technology, general and (2) administrative" have been combined into "Selling, operations, technology, general and administrative" on the consolidated statements of operations to conform with current period presentation.

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## Comparison of the year ended December 31, 2017 and 2016

## Net revenue

	Year Ended December 31,		% Change
	2017	2016	
Direct Retail	\$4,643,243	\$3,258,909	42.5 %
Other	77,652	121,451	(36.1)%
Net revenue	\$4,720,895	\$3,380,360	39.7 %

In 2017, net revenue increased by \$1.3 billion, or 39.7% compared to 2016, primarily as a result of an increase in Direct Retail net revenue as our U.S. and International businesses continued to scale. In 2017, Direct Retail net revenue increased by \$1.4 billion, or 42.5% compared to 2016, primarily due to growth in our customer base, with the number of active customers increasing by 33.2% as of December 31, 2017 compared to December 31, 2016.

Additionally, active customers on average spent more in 2017 than the prior year, with LTM net revenue per active customer increasing 6.8% as of December 31, 2017 compared to December 31, 2016. The decrease in Other revenue in 2017 compared to 2016 was primarily due to decreased sales through our retail partners, as we continue to focus more on our Direct Retail business.

## Cost of goods sold

	Year Ended December 31,		% Change
	2017	2016	
Cost of goods sold	\$3,602,072	\$2,572,549	40.0 %
As a percentage of net revenue	76.3	% 76.1	%

In 2017, cost of goods sold increased by \$1.0 billion, or 40.0%, compared to 2016. Of the increase in cost of goods sold, \$0.8 billion was due to the increase in products sold to our larger customer base. In addition, shipping and fulfillment costs increased \$0.2 billion as a result of the increase in products delivered during the period. Cost of goods sold as a percentage of net revenue increased in the year ended December 31, 2017 compared to the year ended December 31, 2016 primarily as a result of changes in the mix of the products sold.

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## Operating Expenses

	Year Ended December 31,		
	2017	2016	% Change
Customer service and merchant fees (1)	\$ 169,516	\$ 127,883	32.6 %
Advertising	549,959	409,125	34.4 %
Selling, operations, technology, general and administrative (1)	634,801	467,020	35.9 %
Total operating expenses	\$ 1,354,276	\$ 1,004,028	34.9 %
As a percentage of net revenue			
Customer service and merchant fees (1)	3.6	% 3.8	%
Advertising	11.6	% 12.1	%
Selling, operations, technology, general and administrative (1)	13.5	% 13.8	%
	28.7	% 29.7	%

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

	Year Ended December 31,	
	2017	2016
Customer service and merchant fees	\$ 2,636	\$ 2,108
Selling, operations, technology, general and administrative	\$ 68,899	\$ 49,371

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

	Year Ended December 31,	
	2017	2016
Customer service and merchant fees	3.5 %	3.7 %
Selling, operations, technology, general and administrative	12.0 %	12.4 %

Excluding the impact of equity based compensation and related taxes, customer service costs and merchant processing fees increased by \$41.1 million in 2017 compared to 2016, primarily due to the increase in net revenue during 2017.

Our advertising expenses increased by \$140.8 million in 2017 compared to 2016, primarily as a result of an increase in online and television advertising. Advertising decreased as a percentage of net revenue in 2017 compared to 2016, primarily due to increased leverage from our growing base of repeat customers, and television advertising expense not increasing at the same rate as revenue growth in the U.S., partially offset by advertising investments in Europe and Canada.

Excluding the impact of equity based compensation and related taxes, selling, operations, technology, general and administrative expense increased by \$148.3 million in 2017 compared to 2016. As our revenue continues to grow, we have invested in headcount in both operations and technology to continue to deliver a great experience for our customers. The increase in selling, operations, technology, general and administrative expense was primarily attributable to personnel costs, rent, information technology, and depreciation and amortization.

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## Comparison of the year ended December 31, 2016 and 2015

## Net revenue

	Year Ended December 31,		
	2016	2015	% Change
Direct Retail	\$3,258,909	\$2,040,238	59.7 %
Other	121,451	209,647	(42.1)%
Net revenue	\$3,380,360	\$2,249,885	50.2 %

In 2016, net revenue increased by \$1.1 billion, or 50.2% compared to 2015, primarily as a result of an increase in Direct Retail net revenue. In 2016, Direct Retail net revenue increased by \$1.2 billion, or 59.7% compared to 2015, primarily due to sales to a larger customer base, as the number of active customers increased 53.9% as of December 31, 2016 compared to December 31, 2015. Additionally, LTM net revenue per active customer increased 3.7% as of December 31, 2016 compared to December 31, 2015. The decrease in Other revenue in 2016 compared to 2015 was primarily due to decreased sales through our retail partners, as we continue to focus more on our Direct Retail business over time.

## Cost of goods sold

	Year Ended December 31,		
	2016	2015	% Change
Cost of goods sold	\$2,572,549	\$1,709,161	50.5 %
As a percentage of net revenue	76.1	% 76.0	%

In 2016, cost of goods sold increased by \$863.4 million, or 50.5%, compared to 2015. Of the increase in cost of goods sold, \$690.8 million was due to the increase in products sold to our larger customer base. In addition, shipping and fulfillment costs increased \$172.6 million as a result of the increase in products sold during the period. Cost of goods sold as a percentage of net revenue increased in the year ended December 31, 2016 compared to the year ended December 31, 2015 primarily as a result of changes in the mix of the products sold.

## Operating Expenses

	Year Ended December 31,		
	2016	2015	% Change
Customer service and merchant fees (1)	\$127,883	\$81,230	57.4 %
Advertising	409,125	278,224	47.0 %
Selling, operations, technology, general and administrative (1)	467,020	262,620	77.8 %
Total operating expenses	\$1,004,028	\$622,074	61.4 %
As a percentage of net revenue			
Customer service and merchant fees (1)	3.8	% 3.6	%
Advertising	12.1	% 12.4	%
Selling, operations, technology, general and administrative (1)	13.8	% 11.6	%
	29.7	% 27.6	%

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

	Year Ended December 31,	
	2016	2015
Customer service and merchant fees	\$2,108	\$1,007
Selling, operations, technology, general and administrative	\$49,371	\$31,688



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

	Year Ended	
	December 31,	
	2016	2015
Customer service and merchant fees	3.7 %	3.6 %
Selling, operations, technology, general and administrative	12.4 %	10.3 %

Excluding the impact of equity based compensation and related taxes, customer service costs and merchant processing fees increased by \$45.6 million in 2016 compared to 2015, primarily due to the increase in net revenue during 2016.

Our advertising expenses increased by \$130.9 million in 2016 compared to 2015, primarily as a result of an increase in online and television advertising. Advertising decreased as a percentage of net revenue in 2016 compared to 2015, primarily due to increased leverage from our growing base of repeat customers, and television advertising expense not increasing at the same rate as revenue growth in the U.S., partially offset by advertising investments in Europe and Canada.

Excluding the impact of equity based compensation and related taxes, selling, operations, technology, general and administrative expense increased by \$186.7 million in 2016 compared to 2015. As our revenue continues to grow, we have invested in headcount in both operations and technology to continue to deliver a great experience for our customers. The increase in selling, operations, technology, general and administrative expense was primarily attributable to personnel costs, rent, information technology, and depreciation and amortization.

#### Unaudited Quarterly Results of Operations and Other Financial and Operations Data

The following tables set forth selected unaudited quarterly results of operations and other financial and operations data for the eight quarters ended December 31, 2017. The information for each of these quarters has been prepared on the same basis as the audited consolidated financial statements included elsewhere in this Annual Report on Form 10-K and in the opinion of management, reflects all adjustments, consisting of only normal recurring adjustments, necessary for the fair statement of our consolidated results of operations for these periods. This data should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report on Form 10-K. Historical results are not necessarily indicative of the results to be expected in the future.



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## Consolidated Statements of Operations:

	Three months ended							
	March 31, 2016	June 30, 2016	September 30, 2016	December 31, 2016	March 31, 2017	June 30, 2017	September 30, 2017	December 31, 2017
	(in thousands, except per share data)							
Net revenue	\$747,348	\$786,928	\$861,525	\$984,559	\$960,825	\$1,122,856	\$1,198,198	\$1,439,016
Cost of goods sold (1)	568,292	598,414	659,864	745,979	723,942	853,390	917,889	1,106,851
Gross profit	179,056	188,514	201,661	238,580	236,883	269,466	280,309	332,165
Operating expenses:								
Customer service and merchant fees (1)	27,350	30,064	33,872	36,597	35,058	39,125	42,949	52,384
Advertising	97,677	94,426	101,333	115,689	118,265	124,241	141,714	165,739
Selling, operations, technology, general and administrative (1) (2)	96,138	112,754	128,076	130,052	139,766	143,652	169,603	181,780
Total operating expenses	221,165	237,244	263,281	282,338	293,089	307,018	354,266	399,903
Loss from operations	(42,109 )	(48,730 )	(61,620 )	(43,758 )	(56,206 )	(37,552 )	(73,957 )	(67,738 )
Interest income (expense), net	552	531	(292 )	(97 )	(299 )	(1,550 )	(2,008 )	(5,576 )
Other income (expense), net	669	246	889	(48 )	176	451	(227 )	358
Loss before income taxes	(40,888 )	(47,953 )	(61,023 )	(43,903 )	(56,329 )	(38,651 )	(76,192 )	(72,956 )
Provision for (benefit from) income taxes	317	321	(83 )	53	210	224	237	(185 )
Net loss	\$(41,205 )	\$(48,274 )	\$(60,940 )	\$(43,956 )	\$(56,539 )	\$(38,875 )	\$(76,429 )	\$(72,771 )
Net loss per share, basic and diluted	\$(0.49 )	\$(0.57 )	\$(0.72 )	\$(0.51 )	\$(0.66 )	\$(0.45 )	\$(0.88 )	\$(0.83 )
Weighted average number of common stock outstanding used in computing per share amounts, basic and diluted	84,445	84,786	85,105	85,567	86,036	86,714	87,283	87,893

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

Cost of goods sold	\$58	\$87	\$212	\$117	\$145	\$205	\$282	\$ 459
Customer service and merchant fees	333	528	627	620	644	586	636	770
Selling, operations, technology, general and administrative	10,271	10,680	14,469	13,951	14,169	15,192	18,680	20,858
	\$10,662	\$11,295	\$15,308	\$14,688	\$14,958	\$15,983	\$19,598	\$