

**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

Form 10-Q

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

For the quarterly period ended March 31, 2020

OR

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

For the transition period from to

Commission File Number: 001-36666

Wayfair Inc.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

4 Copley Place

(Address of principal executive offices)

Boston MA

(617) 532-6100

(Registrant's telephone number, including area code)

36-4791999

(I.R.S. Employer
Identification Number)

02116

(Zip Code)

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

| Title of each class | Trading symbol(s) | Name of each exchange on which registered |
|---|-------------------|---|
| Class A Common Stock, \$0.001 par value per share | W | The New York Stock Exchange |

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

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

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

| | | | |
|-------------------------|-------------------------------------|---------------------------|--------------------------|
| Large Accelerated Filer | <input checked="" type="checkbox"/> | Accelerated filer | <input type="checkbox"/> |
| Non-accelerated filer | <input type="checkbox"/> | Smaller reporting company | <input type="checkbox"/> |
| | | Emerging growth company | <input type="checkbox"/> |

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

| Class | Outstanding at April 28, 2020 |
|---|-------------------------------|
| Class A Common Stock, \$0.001 par value per share | 67,677,564 |
| Class B Common Stock, \$0.001 par value per share | 26,957,041 |

WAYFAIR INC.
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For the Quarterly Period Ended March 31, 2020

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PART I
FINANCIAL INFORMATION

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Quarterly Report on Form 10-Q contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), and Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act"). All statements other than statements of historical fact contained in this Quarterly Report on Form 10-Q, including statements regarding our investment plans and anticipated returns on those investments, our future customer growth, our future results of operations and financial position, available liquidity and access to financing sources, our business strategy, plans and objectives of management for future operations, consumer activity and behaviors, developments in our technology and systems and anticipated results of those developments and the impact of the recent novel coronavirus (COVID-19) pandemic and our response to it, are forward-looking statements. In some cases, you can identify forward-looking statements by terms such as "may," "will," "should," "expects," "plans," "anticipates," "could," "intends," "target," "projects," "contemplates," "believes," "estimates," "predicts," "potential" or "continue" or the negative of these terms or other similar expressions.

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

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

- our ability to acquire new customers and sustain and/or manage our growth;
- our ability to increase our net revenue per active customer;
- our ability to build and maintain strong brands;
- our ability to manage our global growth and expansion;
- our ability to compete successfully;
- the rate of growth of the Internet and e-commerce;
- economic factors, such as interest rates, the housing market, currency exchange fluctuations and changes in customer spending;
- disruptions or inefficiencies in our supply chain or logistics network, including any impact of the COVID-19 outbreak on our suppliers and third party carriers and delivery agents;
- potential impacts of the COVID-19 outbreak on our business, financial condition, and results of operations;
- world events, natural disasters, public health emergencies (such as the COVID-19 outbreak), civil disturbances, and terrorist attacks; and
- developments in, and the outcome of, legal and regulatory proceedings and investigations to which we are a party or are subject, and the liabilities, obligations and expenses, if any, that we may incur in connection therewith.

A further list and description of risks, uncertainties and other factors that could cause or contribute to differences in our future results include the cautionary statements herein and in our other filings with the Securities and Exchange Commission, including those set forth under Part II, Item 1A, *Risk Factors* of this Quarterly Report on Form 10-Q and under Part I, Item 1A, *Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2019. We qualify all of our forward-looking statements by these cautionary statements.

WAYFAIR INC.
CONSOLIDATED AND CONDENSED BALANCE SHEETS
(Unaudited)

| | March 31, 2020 | December 31, 2019 |
|---|---|----------------------|
| | (in thousands, except share and per share data) | |
| Assets: | | |
| Current assets | | |
| Cash and cash equivalents | \$ 624,481 | \$ 582,753 |
| Short-term investments | 266,497 | 404,252 |
| Accounts receivable, net of allowance for credit losses of \$31,884 and \$22,774 at March 31, 2020 and December 31, 2019, respectively | 110,259 | 99,720 |
| Inventories | 56,574 | 61,692 |
| Prepaid expenses and other current assets | 220,400 | 228,721 |
| Total current assets | 1,278,211 | 1,377,138 |
| Operating lease right-of-use assets | 780,118 | 763,400 |
| Property and equipment, net | 661,216 | 624,544 |
| Goodwill and intangible assets, net | 18,408 | 18,809 |
| Long-term investments | — | 155,690 |
| Other noncurrent assets | 13,468 | 13,467 |
| Total assets | \$ 2,751,421 | \$ 2,953,048 |
| Liabilities and Stockholders' Deficit: | | |
| Current liabilities | | |
| Accounts payable | \$ 838,300 | \$ 908,097 |
| Accrued expenses | 255,347 | 298,918 |
| Unearned revenue | 164,122 | 167,641 |
| Other current liabilities | 236,158 | 236,863 |
| Total current liabilities | 1,493,927 | 1,611,519 |
| Long-term debt | 1,577,069 | 1,456,195 |
| Operating lease liabilities | 838,906 | 822,602 |
| Other liabilities | 12,920 | 6,940 |
| Total liabilities | 3,922,822 | 3,897,256 |
| Commitments and contingencies (Note 8) | | |
| Convertible preferred stock, \$0.001 par value per share: 10,000,000 shares authorized and none issued at March 31, 2020 and December 31, 2019 | — | — |
| Stockholders' deficit: | | |
| Class A common stock, par value \$0.001 per share, 500,000,000 shares authorized, 67,405,521 and 66,642,611 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively | 67 | 67 |
| Class B common stock, par value \$0.001 per share, 164,000,000 shares authorized, 26,957,041 and 26,957,815 shares issued and outstanding at March 31, 2020 and December 31, 2019, respectively | 27 | 27 |
| Additional paid-in capital | 1,184,674 | 1,122,548 |
| Accumulated deficit | (2,356,811) | (2,065,423) |
| Accumulated other comprehensive income (loss) | 642 | (1,427) |
| Total stockholders' deficit | (1,171,401) | (944,208) |
| Total liabilities and stockholders' deficit | \$ 2,751,421 | \$ 2,953,048 |

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

WAYFAIR INC.
CONSOLIDATED AND CONDENSED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three months ended March 31, | |
|--|---------------------------------------|--------------|
| | 2020 | 2019 |
| | (in thousands, except per share data) | |
| Net revenue | \$ 2,330,063 | \$ 1,944,829 |
| Cost of goods sold | 1,750,940 | 1,474,373 |
| Gross profit | 579,123 | 470,456 |
| Operating expenses: | | |
| Customer service and merchant fees | 89,463 | 76,473 |
| Advertising | 275,760 | 243,969 |
| Selling, operations, technology, general and administrative | 475,968 | 343,648 |
| Total operating expenses | 841,191 | 664,090 |
| Loss from operations | (262,068) | (193,634) |
| Interest (expense), net | (22,218) | (9,238) |
| Other (expense) income, net | (246) | 3,078 |
| Loss before income taxes | (284,532) | (199,794) |
| Provision for income taxes, net | 1,333 | 595 |
| Net loss | \$ (285,865) | \$ (200,389) |
| Net loss per share, basic and diluted | \$ (3.04) | \$ (2.20) |
| Weighted average number of common stock outstanding used in computing per share amounts, basic and diluted | 94,089 | 91,104 |

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

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

| | Three months ended March 31, | |
|--|-------------------------------------|---------------------|
| | 2020 | 2019 |
| | (in thousands) | |
| Net loss | \$ (285,865) | \$ (200,389) |
| Other comprehensive loss: | | |
| Foreign currency translation adjustments | 1,291 | 844 |
| Net unrealized gain (loss) on available-for-sale investments | 778 | (48) |
| Comprehensive loss | <u>\$ (283,796)</u> | <u>\$ (199,593)</u> |

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

WAYFAIR INC.
CONSOLIDATED AND CONDENSED STATEMENTS OF STOCKHOLDERS' DEFICIT
(Unaudited)

| | Three Months Ended | | | | | |
|---|-------------------------------------|--------|----------------------------------|------------------------|--|-----------------------------------|
| | Class A and Class B Common Stock | | Additional Paid-In Capital | Accumulated Deficit | Accumulated Other Comprehensive (Loss) Income | Total Stockholders' Deficit |
| | Shares | Amount | | | | |
| | (in thousands) | | | | | |
| Balance at December 31, 2018 | 90,748 | \$ 91 | \$ 753,657 | \$ (1,082,689) | \$ (1,780) | \$ (330,721) |
| Net loss | — | — | — | (200,389) | — | (200,389) |
| Other comprehensive income | — | — | — | — | 796 | 796 |
| Exercise of options to purchase common stock | 21 | — | 67 | — | — | 67 |
| Issuance of common stock upon vesting of RSUs | 633 | 1 | — | — | — | 1 |
| Shares withheld related to net settlement of RSUs | (1) | — | (165) | — | — | (165) |
| Equity-based compensation expense | — | — | 49,414 | — | — | 49,414 |
| Adoption of ASU No. 2016-02 | — | — | — | 1,850 | — | 1,850 |
| Balance at March 31, 2019 | 91,401 | \$ 92 | \$ 802,973 | \$ (1,281,228) | \$ (984) | \$ (479,147) |
| Balance at December 31, 2019 | 93,600 | \$ 94 | \$ 1,122,548 | \$ (2,065,423) | \$ (1,427) | \$ (944,208) |
| Net loss | — | — | — | (285,865) | — | (285,865) |
| Other comprehensive income | — | — | — | — | 2,069 | 2,069 |
| Exercise of options to purchase common stock | 7 | — | 125 | — | — | 125 |
| Issuance of common stock upon vesting of RSUs | 756 | — | — | — | — | — |
| Equity-based compensation expense | — | — | 62,001 | — | — | 62,001 |
| Adoption of ASU No. 2016-13 | — | — | — | (5,523) | — | (5,523) |
| Balance at March 31, 2020 | 94,363 | \$ 94 | \$ 1,184,674 | \$ (2,356,811) | \$ 642 | \$ (1,171,401) |

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

CONSOLIDATED AND CONDENSED STATEMENTS OF CASH FLOWS
(Unaudited)

| | Three months ended March 31, | |
|---|------------------------------|-------------------|
| | 2020 | 2019 |
| (in thousands) | | |
| Cash flows from operating activities: | | |
| Net loss | \$ (285,865) | \$ (200,389) |
| Adjustments to reconcile net loss to net cash used in operating activities | | |
| Depreciation and amortization | 66,843 | 39,583 |
| Equity-based compensation | 59,449 | 47,060 |
| Amortization of discount and issuance costs on convertible notes | 19,527 | 12,456 |
| Other non-cash adjustments | (633) | (1,374) |
| Changes in operating assets and liabilities: | | |
| Accounts receivable, net | (16,216) | (11,570) |
| Inventories | 5,023 | 2,427 |
| Prepaid expenses and other current assets | 7,802 | (10,535) |
| Accounts payable and accrued expenses | (114,623) | 46,631 |
| Unearned revenue and other liabilities | 2,379 | (4,933) |
| Other assets | 24 | (704) |
| Net cash used in operating activities | <u>(256,290)</u> | <u>(81,348)</u> |
| Cash flows from investing activities: | | |
| Sale and maturities of short- and long-term investments | 294,810 | 37,936 |
| Purchase of property and equipment | (59,964) | (60,626) |
| Site and software development costs | (38,369) | (24,843) |
| Other investing activities, net | (124) | 2,838 |
| Net cash provided by (used in) investing activities | <u>196,353</u> | <u>(44,695)</u> |
| Cash flows from financing activities: | | |
| Proceeds from borrowings | 100,000 | — |
| Taxes paid related to net share settlement of equity awards | — | (165) |
| Deferred financing costs | — | (791) |
| Net proceeds from exercise of stock options | 125 | 67 |
| Net cash provided by (used in) financing activities | <u>100,125</u> | <u>(889)</u> |
| Effect of exchange rate changes on cash and cash equivalents | 1,540 | (169) |
| Net increase (decrease) in cash and cash equivalents | 41,728 | (127,101) |
| Cash and cash equivalents: | | |
| Beginning of period | 582,753 | 849,461 |
| End of period | <u>\$ 624,481</u> | <u>\$ 722,360</u> |
| Supplemental cash flow information: | | |
| Cash paid for interest on long-term debt | \$ 5,447 | \$ 809 |
| Purchase of property and equipment included in accounts payable and accrued expenses and in other liabilities | \$ 45,495 | \$ 3,143 |

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

**Notes to Consolidated and Condensed Financial Statements
(Unaudited)**

1. Description of Business

Wayfair Inc. (the "Company") is one of the world's largest online destinations for the home. Through its e-commerce business model, the Company offers visually inspired browsing, compelling merchandising, easy product discovery and attractive prices for over eighteen million products from over 12,000 suppliers.

2. Summary of Significant Accounting Policies

Basis of Presentation

The accompanying unaudited Consolidated and Condensed Financial Statements contained in this Quarterly Report on Form 10-Q are those of the Company and have been prepared in accordance with generally accepted accounting principles in the United States ("GAAP") and applicable rules and regulations of the U.S. Securities and Exchange Commission ("SEC") regarding interim financial reporting. Certain information and note disclosures normally included in the audited financial statements prepared in accordance with GAAP have been condensed or omitted pursuant to such rules and regulations. As such, the information included in this Quarterly Report on Form 10-Q should be read in conjunction with the audited consolidated financial statements and accompanying notes included in our Annual Report on Form 10-K for the year ended December 31, 2019.

The Consolidated and Condensed Balance Sheet as of December 31, 2019 included herein was derived from the audited financial statements as of that date, but does not include all disclosures including notes required by GAAP.

The unaudited accompanying Consolidated and Condensed Financial Statements have been prepared on the same basis as the audited consolidated financial statements and, in the opinion of management, reflect all adjustments, consisting of normal recurring adjustments, that are necessary to present fairly the results of the interim periods presented. Interim results are not necessarily indicative of the results for the full year ended December 31, 2020 or future periods.

Principles of Consolidation

The accompanying unaudited Consolidated and Condensed Financial Statements of Wayfair Inc. include its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated.

Use of Estimates

The preparation of the Consolidated and Condensed Financial Statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, and disclosure of contingent assets and liabilities, at the date of the financial statements and the reported amounts of net revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Company considers events or transactions that have occurred after the balance sheet date of March 31, 2020, but prior to the filing of the financial statements with the SEC, to provide additional evidence relative to certain estimates or to identify matters that require additional recognition or disclosure. Subsequent events have been evaluated through the filing of these financial statements. Refer to Note 17, *Subsequent Events*, for additional detail.

Credit Impairment

The Company adopted ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326), Measurement of Credit Losses on Financial Instruments ("ASU 2016-13") on January 1, 2020 using the modified retrospective transition method. This ASU revises how entities account for credit losses for most financial assets and certain other instruments that are not measured at fair value through net income. As of January 1, 2020, the adoption of ASU 2016-13 resulted in a \$5.5 million cumulative adjustment to accumulated deficit on our Consolidated and Condensed Balance Sheet. Refer to Note 4, *Credit Losses*, for additional detail.

The Company believes that other than the implementation of ASU 2016-13, there have been no significant changes during the three months ended March 31, 2020 to the items disclosed in Note 2, *Summary of Significant Accounting Policies*, included in Part II, Item 8, *Financial Statements and Supplementary Data*, of the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

3. Investments and Fair Value Measurements

Investments

As of March 31, 2020 and December 31, 2019, the Company's investments consisted of corporate bonds and other government obligations priced at fair value. These investments were classified as available-for-sale and their estimated fair values were \$266.5 million and \$559.9 million, respectively.

To the extent the amortized cost basis of the available-for-sale debt securities exceeds the fair value, management assesses the debt securities for credit loss, however management considers the risk of credit loss to be minimized by the Company's policy of investing in financial instruments issued by highly-rated financial institutions. When assessing the risk of credit loss, management considers factors such as the severity and the reason of the decline in value (i.e., any changes to the rating of the security by a rating agency or other adverse conditions specifically related to the security) and management's intended holding period and time horizon for selling. During the three months ended March 31, 2020 and 2019, the Company did not recognize any credit losses related to its available-for-sale debt securities. Further, as of March 31, 2020 and December 31, 2019, the Company did not record an allowance for credit losses related to its available-for-sale debt securities. During the three months ended March 31, 2020, the Company collected \$161.3 million of proceeds from the sale of long-term investments and recognized a realized gain of \$0.8 million. The Company did not recognize any realized gains or losses during the three months ended March 31, 2019.

The following tables present details of the Company's investments as of March 31, 2020 and December 31, 2019:

| | March 31, 2020 | | | |
|-----------------------|-------------------|------------------------------|-------------------------------|-------------------------|
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | (in thousands) | | | |
| Short-term: | | | | |
| Investment securities | \$ 265,719 | \$ 992 | \$ (214) | \$ 266,497 |
| Total | <u>\$ 265,719</u> | <u>\$ 992</u> | <u>\$ (214)</u> | <u>\$ 266,497</u> |
| | December 31, 2019 | | | |
| | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses | Estimated Fair Value |
| | (in thousands) | | | |
| Short-term: | | | | |
| Investment securities | \$ 404,294 | \$ 20 | \$ (62) | \$ 404,252 |
| Long-term: | | | | |
| Investment securities | 155,616 | 92 | (18) | 155,690 |
| Total | <u>\$ 559,910</u> | <u>\$ 112</u> | <u>\$ (80)</u> | <u>\$ 559,942</u> |

Fair Value Measurements

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

- Level 1—Unadjusted quoted prices in active markets for identical assets or liabilities
- Level 2—Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active, or inputs other than quoted prices that are observable or can be corroborated by observable market data for substantially the full-term of the asset or liability
- Level 3—Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the asset or liability

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This hierarchy requires the Company to use observable market data, when available, and to minimize the use of unobservable inputs when determining fair value. The Company measures its cash equivalents and short-term and long-term investments at fair value. The Company classifies its cash equivalents and certificates of deposits within Level 1 because the Company values these investments using quoted market prices. The fair value of the Company's Level 1 financial assets is based on quoted market prices of the identical underlying security. The Company classifies short-term and long-term investments within Level 2 because unadjusted quoted prices for identical or similar assets in markets are not active. The Company does not have any assets or liabilities classified as Level 3 financial assets.

The following tables set forth the fair value of the Company's financial assets measured at fair value on a recurring basis as of March 31, 2020 and December 31, 2019 based on the three-tier value hierarchy:

| | March 31, 2020 | | | |
|-----------------------------------|----------------|------------|---------|------------|
| | Level 1 | Level 2 | Level 3 | Total |
| (in thousands) | | | | |
| Cash and cash equivalents: | | | | |
| Cash | \$ 85,816 | \$ — | \$ — | \$ 85,816 |
| Cash equivalents | \$ 538,665 | \$ — | \$ — | \$ 538,665 |
| Total cash and cash equivalents | \$ 624,481 | \$ — | \$ — | \$ 624,481 |
| Short-term investments: | | | | |
| Investment securities | — | 266,497 | — | 266,497 |
| Other non-current assets: | | | | |
| Certificate of deposit | 5,200 | — | — | 5,200 |
| Total | \$ 629,681 | \$ 266,497 | \$ — | \$ 896,178 |

| | December 31, 2019 | | | |
|-----------------------------------|-------------------|------------|---------|--------------|
| | Level 1 | Level 2 | Level 3 | Total |
| (in thousands) | | | | |
| Cash and cash equivalents: | | | | |
| Cash | \$ 308,521 | \$ — | \$ — | \$ 308,521 |
| Cash equivalents | \$ 274,232 | \$ — | \$ — | \$ 274,232 |
| Total cash and cash equivalents | \$ 582,753 | \$ — | \$ — | \$ 582,753 |
| Short-term investments: | | | | |
| Investment securities | — | 404,252 | — | 404,252 |
| Other non-current assets: | | | | |
| Certificate of deposit | 5,076 | — | — | 5,076 |
| Long-term investments: | | | | |
| Investment securities | — | 155,690 | — | 155,690 |
| Total | \$ 587,829 | \$ 559,942 | \$ — | \$ 1,147,771 |

4. Credit Losses

Accounts receivable are stated net of credit losses, which are recorded based on historical losses as well as management's expectation of future collections. Uncollectible amounts are written off against the allowance after all collection efforts have been exhausted. The Company's exposure to credit loss is minimized through fraud assessments performed prior to customer checkout and the Company's policy of monitoring the creditworthiness of its customers to which it grants credit terms in the normal course of business. Further, management notes credit risk is mitigated as approximately 99% of the net revenue recognized for the three months ended March 31, 2020 was collected in advance of recognition.

As of March 31, 2020, the Company reported \$110.3 million of accounts receivable, net of allowance for credit losses of \$31.9 million. Other than the adjustment related to the adoption of ASU 2016-13, as discussed in Note 2, *Summary of Significant Accounting Policies*, changes in the allowance for credit losses were not material for the three months ended March 31, 2020.

5. Intangible Assets and Goodwill

As of March 31, 2020 and December 31, 2019, the Company had \$18.0 million and \$18.4 million of intangible assets, respectively. Amortization expense related to intangible assets was \$0.4 million and \$0.1 million for the three months ended March 31, 2020 and 2019, respectively.

Goodwill was \$0.4 million as of March 31, 2020 and December 31, 2019.

6. Property and Equipment, net

The following table summarizes property and equipment, net as of March 31, 2020 and December 31, 2019:

| | March 31, 2020 | December 31, 2019 |
|--|-------------------|----------------------|
| (in thousands) | | |
| Furniture and computer equipment | \$ 533,192 | \$ 509,120 |
| Site and software development costs | 332,722 | 297,252 |
| Leasehold improvements | 277,355 | 228,514 |
| Construction in progress | 27,063 | 45,503 |
| | 1,170,332 | 1,080,389 |
| Less accumulated depreciation and amortization | (509,116) | (455,845) |
| Property and equipment, net | \$ 661,216 | \$ 624,544 |

Property and equipment depreciation and amortization expense was \$66.4 million and \$39.4 million for the three months ended March 31, 2020 and 2019, respectively.

7. Leases

The Company has lease arrangements for warehouse, fulfillment center, office, and data center spaces. These leases expire at various dates through 2036. Operating lease expense was \$36.1 million and \$25.6 million in the three months ended March 31, 2020 and 2019, respectively.

The following table presents supplemental cash flow information related to leases:

| | Three months ended March 31, 2020 | Three months ended March 31, 2019 |
|--|--------------------------------------|--------------------------------------|
| (in thousands) | | |
| Cash payments included in operating cash flows from lease arrangements | \$ 34,082 | \$ 24,323 |
| Right-of-use assets obtained in exchange for lease obligations | \$ 44,946 | \$ 44,764 |

The following table presents supplemental balance sheet information related to leases:

| | March 31, 2020 | December 31, 2019 |
|---------------------------------------|----------------|-------------------|
| (in thousands) | | |
| Additional lease information | | |
| Weighted average remaining lease term | 9.5 years | 10 years |
| Weighted average discount rate | 6.7% | 6.7% |

The following table presents future minimum lease payments under non-cancellable leases as of March 31, 2020:

| | Amount |
|--|-----------------------|
| | (in thousands) |
| 2020 (excluding the three months ended March 31, 2020) | \$ 111,475 |
| 2021 | 156,596 |
| 2022 | 148,709 |
| 2023 | 144,040 |
| 2024 | 141,591 |
| Thereafter | 563,150 |
| Total future minimum lease payments | 1,265,561 |
| Less: Imputed interest | (331,528) |
| Total | \$ 934,033 |

The following table presents total operating leases as of March 31, 2020 and December 31, 2019:

| | March 31, 2020 | December 31, 2019 |
|--------------------------------|---------------------------|------------------------------|
| | (in thousands) | |
| Balance sheet line item | | |
| Other current liabilities | \$ 95,127 | \$ 91,104 |
| Operating lease liabilities | 838,906 | 822,602 |
| Total operating leases | \$ 934,033 | \$ 913,706 |

As of March 31, 2020, the Company has entered into \$290.6 million of additional operating leases, primarily related to build-to-suit warehouse leases that have not yet commenced. As the Company does not control the underlying assets during the construction period, the Company is not considered the owner of the construction projects for accounting purposes. These operating leases will commence between 2020 and 2021 with lease terms of 2 to 15 years.

8. Commitments and Contingencies

Letters of Credit

The Company has issued letters of credit, primarily as security for certain lease agreements, for approximately \$51.7 million and \$46.7 million, as of March 31, 2020 and December 31, 2019, respectively.

Legal Matters

On January 10, 2019 and January 16, 2019, putative securities class action complaints were filed against the Company and three of its officers in the U.S. District Court for the District of Massachusetts. The two complaints allege violations of Sections 10(b) and 20(a) of the Securities Exchange Act of 1934, as amended, relating to certain prior disclosures of the Company. Each plaintiff seeks to represent a class of shareholders who purchased or acquired stock of the Company between August 2, 2018 and October 31, 2018 and seeks damages and other relief based on allegations that the defendants' conduct affected the value of such stock. The Company intends to defend these lawsuits vigorously. On August 30, 2019 the Company filed a motion to dismiss the complaint with prejudice. Telephonic oral arguments on the motion were held on April 29, 2020. At this time, based on available information regarding this litigation, the Company is unable to reasonably assess the ultimate outcome of these cases or determine an estimate, or a range of estimates, of potential losses.

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

9. Equity-Based Compensation

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

8,603,066 shares of Class A common stock were initially available for issuance under awards granted pursuant to the 2014 Plan. The 2014 Plan also contains an evergreen provision whereby the shares available for future grant are increased on the first day of each calendar year beginning January 1, 2016 and ending on and including January 1, 2024. As of January 1, 2020, 5,111,305 shares of Class A common stock were available for future grant under the 2014 Plan. Shares or RSUs forfeited, withheld for minimum statutory tax obligations, and unexercised stock option lapses from the 2010 and 2014 Plans are available for future grant under the 2014 Plan.

The following table presents activity relating to stock options for the three months ended March 31, 2020:

| | Shares | Weighted-Average Exercise Price | Weighted-Average Remaining Contractual Term (Years) |
|---|---------|------------------------------------|---|
| Outstanding at December 31, 2019 | 43,606 | \$ 3.00 | 1.5 |
| Options exercised | (6,510) | \$ 3.01 | |
| Outstanding and exercisable at March 31, 2020 | 37,096 | \$ 3.00 | 1.2 |

Intrinsic value of stock options exercised was \$0.4 million and \$3.1 million for the three months ended March 31, 2020 and 2019, respectively. Aggregate intrinsic value of stock options outstanding and currently exercisable is \$1.9 million as of March 31, 2020. All stock options were fully vested at March 31, 2020.

The following table presents activity relating to RSUs for the three months ended March 31, 2020:

| | Shares | Weighted- Average Grant Date Fair Value |
|----------------------------------|-----------|---|
| Outstanding at December 31, 2019 | 8,112,736 | \$ 95.69 |
| RSUs granted | 472,442 | \$ 82.33 |
| RSUs vested | (755,899) | \$ 92.05 |
| RSUs forfeited/canceled | (674,884) | \$ 100.79 |
| Outstanding as of March 31, 2020 | 7,154,395 | \$ 94.92 |

The intrinsic value of RSUs vested was \$61.5 million and \$81.0 million for the three months ended March 31, 2020 and 2019, respectively. Aggregate intrinsic value of RSUs unvested is \$382.3 million as of March 31, 2020. Unrecognized equity-based compensation expense related to outstanding RSUs is \$615.1 million with a weighted average remaining vesting term of 1.3 years at March 31, 2020.

10. Unearned Revenue

The Company has three types of contractual liabilities: (i) cash collections from its customers prior to delivery of products purchased, which are initially recorded in unearned revenue, and are recognized as net revenue when the products are delivered, (ii) unredeemed gift cards and site and store credits, which are initially recorded in unearned revenue, and are recognized in the period they are redeemed, and (iii) membership rewards redeemable for future purchases, which are earned by customers on purchases made with the Company's Wayfair branded, private label credit card, and are initially recorded in other current liabilities, and are recognized as net revenue when redeemed. The portion of gift cards and site and store credits not expected to be redeemed ("breakage") are recognized as net revenue based on historical redemption patterns, which is substantially within twenty-four months from the date of issuance, to the extent there is no requirement for remitting balances to governmental agencies.

Contractual liabilities included in unearned revenue and other current liabilities in the Consolidated and Condensed Balance Sheet were \$164.1 million and \$4.3 million at March 31, 2020 and \$167.6 million and \$4.6 million at December 31, 2019, respectively. During the three months ended March 31, 2020, the Company recognized \$128.4 million and \$1.4 million of net revenue that was included in unearned revenue and other current liabilities, respectively, at December 31, 2019.

Net revenue from contracts with customers is disaggregated by geographic region because this manner of disaggregation best depicts how the nature, amount, timing, and uncertainty of net revenue and cash flows are affected by economic factors. Refer to Note 11, *Segment and Geographic Information*, for additional detail.

11. Segment and Geographic Information

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

The Company's operating and reportable segments are the U.S. and International. These segments reflect the way the CODM allocates resources and evaluates financial performance, which is based upon each segment's Adjusted EBITDA. Adjusted EBITDA is defined as loss before depreciation and amortization, equity-based compensation and related taxes, interest (expense), net, other (expense) income, net, provision for income taxes, net, non-recurring items, and other items not indicative of our ongoing operating performance. These charges are excluded from evaluation of segment performance because it facilitates reportable segment performance comparisons on a period-to-period basis as these costs may vary independent of business performance.

The Company allocates certain operating expenses to the operating and reportable segments, including customer service and merchant fees and selling, operations, technology, general and administrative based on the usage and relative contribution provided to the segments. It excludes from the allocations certain operating expense lines, including depreciation and amortization, equity-based compensation and related taxes, interest (expense), net, other (expense) income, net, and provision for income taxes, net. There are no net revenue transactions between the Company's reportable segments.

U.S.

The U.S. segment primarily consists of amounts earned through product sales through the Company's family of sites in the U.S. and through websites operated by third parties in the U.S. The U.S. net revenue for the three months ended March 31, 2019 includes \$13.6 million of net revenue previously classified as other net revenue.

International

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

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

The following tables present net revenues and Adjusted EBITDA attributable to the Company's reportable segments for the periods presented:

| | Three months ended March 31, | |
|---|------------------------------|---------------------|
| | 2020 | 2019 |
| | (in thousands) | |
| U.S. net revenue | \$ 1,974,983 | \$ 1,657,698 |
| International net revenue | 355,080 | 287,131 |
| Total net revenue | <u>\$ 2,330,063</u> | <u>\$ 1,944,829</u> |
| | | |
| | Three months ended March 31, | |
| | 2020 | 2019 |
| | (in thousands) | |
| Adjusted EBITDA: | | |
| U.S. | \$ (45,095) | \$ (27,782) |
| International | (82,182) | (74,436) |
| Total reportable segments Adjusted EBITDA | (127,277) | (102,218) |
| Less: reconciling items (1) | (158,588) | (98,171) |
| Net loss | <u>\$ (285,865)</u> | <u>\$ (200,389)</u> |

(1) The following adjustments are made to reconcile total reportable segments Adjusted EBITDA to consolidated net loss:

| | Three months ended March 31, | |
|---|------------------------------|------------------|
| | 2020 | 2019 |
| | (in thousands) | |
| Depreciation and amortization | \$ 66,843 | \$ 39,583 |
| Equity-based compensation and related taxes | 63,992 | 51,833 |
| Interest expense, net | 22,218 | 9,238 |
| Other expense (income), net | 246 | (3,078) |
| Provision for income taxes, net | 1,333 | 595 |
| Other (1) | 3,956 | — |
| Total reconciling items | <u>\$ 158,588</u> | <u>\$ 98,171</u> |

(1) The Company recorded \$4.0 million in the three months ended March 31, 2020 in selling, operations, technology, general and administrative expenses in the Consolidated and Condensed Statements of Operations related to severance costs associated with February 2020 workforce reductions.

12. Income Taxes

The provision for income taxes, net was \$1.3 million and \$0.6 million for the three months ended March 31, 2020 and 2019, respectively. The provision for income taxes, net recorded in the three months ended March 31, 2020 and 2019 is primarily related to income earned in certain foreign jurisdictions and U.S. state income taxes.

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

The Company had no material unrecognized tax benefits as of March 31, 2020 and December 31, 2019. The Company's policy is to recognize interest and penalties related to unrecognized tax benefits as a component of the provision for income taxes, net.

13. Stockholders' Deficit

Preferred Stock

The Company authorized 10,000,000 shares of undesignated preferred stock, \$0.001 par value per share, for future issuance. As of March 31, 2020, the Company had no shares of undesignated preferred stock issued or outstanding.

Common Stock

The Company authorized 500,000,000 shares of Class A common stock, \$0.001 par value per share, and 164,000,000 shares of Class B common stock, \$0.001 par value per share, of which 67,405,521 and 66,642,611 shares of Class A common stock and 26,957,041 and 26,957,815 shares of Class B common stock were outstanding as of March 31, 2020 and December 31, 2019, respectively. The rights of the holders of Class A common stock and Class B common stock are identical, except with respect to voting and conversion rights. Each share of Class A common stock is entitled to one vote per share and each share of Class B common stock is entitled to ten votes per share. Each share of Class B common stock may be converted into one share of Class A common stock at the option of its holder and will be automatically converted into one share of Class A common stock upon transfer thereof, subject to certain exceptions. In addition, upon the date on which the outstanding shares of Class B common stock represent less than 10% of the aggregate number of shares of the then outstanding Class A common stock and Class B common stock, or in the event of the affirmative vote or written consent of holders of at least 66 2/3% of the outstanding shares of Class B common stock, all outstanding shares of Class B common stock shall convert automatically into Class A common stock. Subject to preferences that may apply to any shares of preferred stock outstanding at the time, the holders of common stock are entitled to receive dividends out of funds legally available if the Board, in its discretion, determines to issue dividends and then only at the times and in the amounts that the Board may determine. Since the Company's initial public offering through March 31, 2020, 55,082,493 shares of Class B common stock were converted to Class A common stock.

14. Credit Agreement

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

- A secured revolving credit facility under which the Borrower may borrow up to \$165 million, subject to certain sublimits, with a final maturity date of February 21, 2022 (the "Revolver").
- The Borrower also has the right, subject to certain customary conditions, to increase the Revolver by \$50 million.
- The Revolver has the following sublimits:
 - a \$100 million letter of credit sublimit; and
 - a \$15 million swing line sublimit.

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

The proceeds of the Revolver may be used to finance working capital, to refinance certain existing indebtedness and to provide funds for permitted acquisitions, repurchases of equity interests and other general corporate purposes.

Borrowings under the Revolver will bear interest through maturity at a variable rate based upon, at the Borrower's option, either the Eurodollar rate or the base rate (which is the highest of (x) Citibank's prime rate, (y) one-half of 1.00% in excess of the federal funds effective rate, and (z) 1.00% in excess of the one-month Eurodollar rate), plus, in each case an applicable margin. As of the Closing Date, the applicable margin for Eurodollar rate loans was 1.75% per annum and the applicable margin for base rate loans was 0.75% per annum. The applicable margin is subject to specified changes depending on the Liquidity (as defined in the Amended Credit Agreement) of the Company.

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

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

In the three months ended March 31, 2020, the Company borrowed \$100 million under the Revolver. This amount was outstanding as of March 31, 2020 and is included in long-term debt on the Consolidated and Condensed Balance Sheet. The Company did not borrow any amounts under its credit agreement during the year ended December 31, 2019.

15. Convertible Debt

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

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

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

On August 19, 2019, the Company issued \$948.75 million aggregate principal amount of 1.00% Convertible Senior Notes due 2026 (the "2019 Notes" and together with the 2017 Notes and 2018 Notes, the "Notes"), which includes the exercise in full of a \$123.75 million option granted to the initial purchasers, to certain financial institutions as the initial purchasers of the 2019 Notes (the "2019 Initial Purchasers"). On August 14, 2019, in connection with the pricing of the 2019 Notes, the Company entered into privately negotiated capped call transactions (the "2019 Base Capped Call Transactions") with certain of the 2019 Initial Purchasers or their affiliates and another financial institution (the "2019 Option Counterparties") and, in connection with the exercise in full of the 2019 Initial Purchasers' option to purchase such additional 2019 Notes, on August 16, 2019, entered into additional capped call transactions (such additional capped call transactions, the "2019 Additional Capped Call Transactions" and, together with the 2019 Base Capped Call Transactions, the "2019 Capped Call Transactions") with the 2019 Option Counterparties. Collectively, the 2019 Capped Call Transactions cover, initially, the number of shares of the Company's

Class A common stock underlying the 2019 Notes, subject to anti-dilution adjustments substantially similar to those applicable to the 2019 Notes.

The net proceeds from the sale of the 2017 Notes, 2018 Notes, and 2019 Notes were approximately \$420.4 million, \$562.0 million, and \$935.1 million, respectively, after deducting the initial purchasers' discounts and the offering expenses payable by the Company. The Company used approximately \$44.2 million, \$93.4 million and \$145.7 million, respectively, of the net proceeds from the 2017 Notes, 2018 Notes, and 2019 Notes to pay the cost of the 2017 Capped Call Transactions, the 2018 Capped Call Transactions, and the 2019 Capped Call Transactions, respectively. The Company intends to use the remainder of the net proceeds from the Notes for working capital and general corporate purposes. The Company may also use a portion of the net proceeds to finance acquisitions, strategic transactions, investments or the repayment, purchase or exchange of indebtedness (including its existing convertible notes).

The Notes are general unsecured obligations of the Company. The Notes rank senior in right of payment to any of the Company's future indebtedness that is expressly subordinated in right of payment to the Notes; rank equal in right of payment to the Company's existing and future unsecured indebtedness that is not so subordinated; are effectively subordinated in right of payment to any of the Company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and are structurally subordinated to all existing and future indebtedness and liabilities of the Company's subsidiaries, including Wayfair LLC's guaranty of our 2.50% Accreting Convertible Senior Notes due 2025.

In accounting for the issuance of the Notes, the Company separated the Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component, representing the conversion option, which does not meet the criteria for separate accounting as a derivative as it is indexed to the Company's own stock, was determined by deducting the fair value of the liability component from the par value of the Notes. The difference between the principal amount of the Notes and the liability component represents the debt discount, which is recorded as a direct deduction from the related debt liability in the Consolidated and Condensed Balance Sheet and amortized to interest expense using the effective interest method over the term of the Notes. The effective interest rate of the 2017 Notes, 2018 Notes, and 2019 Notes is 6.0%, 8.1%, and 6.4%, respectively. The equity component of the 2017 Notes, 2018 Notes, and 2019 Notes of approximately \$95.8 million, \$181.5 million, and \$280.3 million, respectively, is included in additional paid-in capital in the Consolidated and Condensed Balance Sheet and is not remeasured as long as it continues to meet the conditions for equity classification. The Company allocated transaction costs related to the Notes using the same proportions as the proceeds from the Notes. Transaction costs attributable to the liability component were recorded as a direct deduction from the related debt liability in the Consolidated and Condensed Balance Sheet and amortized to interest expense over the term of the Notes, and transaction costs attributable to the equity component were netted with the equity component in shareholders' deficit.

The following table presents the outstanding principal amount and carrying value of the Notes as of the date presented:

| | March 31, 2020 | | | December 31, 2019 | | |
|---------------------------|----------------|------------|------------|-------------------|------------|------------|
| | 2017 Notes | 2018 Notes | 2019 Notes | 2017 Notes | 2018 Notes | 2019 Notes |
| | (in thousands) | | | | | |
| Principal amounts: | | | | | | |
| Principal | \$ 431,250 | \$ 575,000 | \$ 948,750 | \$ 431,250 | \$ 575,000 | \$ 948,750 |
| Unamortized debt discount | (54,618) | (154,388) | (268,925) | (59,830) | (161,275) | (277,700) |
| Net carrying amount | \$ 376,632 | \$ 420,612 | \$ 679,825 | \$ 371,420 | \$ 413,725 | \$ 671,050 |

The following tables present total interest expense recognized related to the Notes:

| | Three Months Ended March 31, | | | | |
|--|-------------------------------------|-------------------|-------------------|-------------------|-------------------|
| | 2020 | | | 2019 | |
| | 2017 Notes | 2018 Notes | 2019 Notes | 2017 Notes | 2018 Notes |
| | (in thousands) | | | | |
| Contractual interest expense | \$ 404 | \$ 1,617 | \$ 2,319 | \$ 404 | \$ 1,617 |
| Interest cost related to amortization of the debt discount | \$ 5,212 | \$ 6,887 | \$ 8,775 | \$ 4,909 | \$ 6,344 |
| Total interest expense | \$ 5,616 | \$ 8,504 | \$ 11,094 | \$ 5,313 | \$ 7,961 |

The estimated fair value of the 2017 Notes, the 2018 Notes, and the 2019 Notes was \$332.5 million, \$401.8 million, and \$538.4 million, respectively, as of March 31, 2020. The estimated fair value of the Notes was determined through consideration of quoted market prices. The fair value is classified as Level 2, as defined in Note 3, *Investments and Fair Value Measurements*. The if-converted value of the 2017 Notes, 2018 Notes and 2019 Notes, respectively, did not exceed the respective principal value as of March 31, 2020.

2017 Notes

The 2017 Notes were issued pursuant to an indenture, dated September 15, 2017 (the "2017 Indenture"), between the Company and U.S. Bank National Association, as trustee. The Company pays interest on the 2017 Notes semiannually in arrears at a rate of 0.375% per annum on March 1 and September 1 of each year. The 2017 Notes are convertible based upon an initial conversion rate of 9.61 shares of the Company's Class A common stock per \$1,000 principal amount of 2017 Notes (equivalent to a conversion price of approximately \$104.06 per share of the Company's Class A common stock). The conversion rate will be subject to adjustment upon the occurrence of certain specified events, including certain distributions and dividends to all or substantially all of the holders of the Company's Class A common stock, but will not be adjusted for accrued and unpaid interest. The Company will settle any conversions of the 2017 Notes in cash, shares of the Company's Class A common stock or a combination thereof, with the form of consideration determined at the Company's election.

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

The 2017 Notes are not convertible during the second quarter of 2020 and none of the 2017 Notes have been converted to date.

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

Upon the occurrence of a fundamental change (as defined in the 2017 Indenture), holders may require the Company to repurchase all or a portion of their 2017 Notes for cash at a price equal to 100% of the principal amount of the 2017 Notes to be repurchased plus any accrued but unpaid interest to, but excluding, the fundamental change repurchase date.

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

2018 Notes

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

The 2018 Notes will mature on November 1, 2024, unless earlier purchased, redeemed or converted. Prior to August 1, 2024, holders may convert all or a portion of their 2018 Notes only under the following circumstances: (1) during any calendar quarter (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period (the "2018 Notes measurement period") in which the trading price per \$1,000 principal amount of 2018 Notes for each trading day of the 2018 Notes measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day; (3) with respect to any 2018 Notes called for redemption by the Company, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On and after August 1, 2024 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2018 Notes at any time, regardless of the foregoing circumstances. Holders of 2018 Notes who convert their 2018 Notes in connection with a make-whole fundamental change or a notice of redemption (each as defined in the 2018 Indenture) may be entitled to a premium in the form of an increase in the conversion rate of the 2018 Notes.

The 2018 Notes are not convertible during the second quarter of 2020 and none of the 2018 Notes have been converted to date.

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

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

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

2019 Notes

The 2019 Notes were issued pursuant to an indenture, dated August 19, 2019 (the "2019 Indenture"), between the Company and U.S. Bank National Association, as trustee. The Company will pay interest on the 2019 Notes semiannually in arrears at a rate of 1.00% per annum on February 15 and August 15 of each year commencing on February 15, 2020. The 2019 Notes are convertible based upon an initial conversion rate of 6.7349 shares of the Company's Class A common stock per \$1,000 principal amount of 2019 Notes (equivalent to a conversion price of approximately \$148.48 per share of the Company's Class A common stock). The conversion rate will be subject to adjustment upon the occurrence of certain specified events,

including certain distributions and dividends to all or substantially all of the holders of the Company's Class A common stock, but will not be adjusted for accrued and unpaid interest. The Company will settle any conversions of the 2019 Notes in cash, shares of the Company's Class A common stock or a combination thereof, with the form of consideration determined at the Company's election.

The 2019 Notes will mature on August 15, 2026, unless earlier purchased, redeemed or converted. Prior to May 15, 2026, holders may convert all or a portion of their 2019 Notes only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on December 31, 2019 (and only during such calendar quarter), if the last reported sale price of the Company's Class A common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period (the "2019 Notes measurement period") in which the trading price per \$1,000 principal amount of 2019 Notes for each trading day of the 2019 Notes measurement period was less than 98% of the product of the last reported sale price of the Company's Class A common stock and the conversion rate on each such trading day; (3) with respect to any 2019 Notes called for redemption by the Company, at any time prior to the close of business on the second scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On and after May 15, 2026 until the close of business on the second scheduled trading day immediately preceding the maturity date, holders may convert their 2019 Notes at any time, regardless of the foregoing circumstances. Holders of 2019 Notes who convert their 2019 Notes in connection with a make-whole fundamental change or a notice of redemption (each as defined in the 2019 Indenture) may be entitled to a premium in the form of an increase in the conversion rate of the 2019 Notes.

The 2019 Notes are not convertible during the second quarter of 2020 and none of the 2019 Notes have been converted to date.

The Company may not redeem the 2019 Notes prior to August 20, 2023. On or after August 20, 2023, the Company may redeem for cash all or part of the 2019 Notes if the last reported sale price of the Company's Class A common stock equals or exceeds 130% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including at least one of the five trading days immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading days ending on, and including the trading day immediately preceding the date on which the Company provides notice of the redemption. The redemption price will be 100% of the principal amount of the 2019 Notes to be redeemed, plus accrued and unpaid interest, if any.

Upon the occurrence of a fundamental change (as defined in the 2019 Indenture), holders may require the Company to repurchase all or a portion of their 2019 Notes for cash at a price equal to 100% of the principal amount of the 2019 Notes to be repurchased plus any accrued but unpaid interest to, but excluding, the fundamental change repurchase date.

The 2019 Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the 2019 Notes then outstanding may declare the entire principal amount of all the 2019 Notes plus accrued interest, if any, to be immediately due and payable.

Capped Call Transactions

The Restated 2017 Capped Call Transactions, 2018 Capped Call Transactions, and 2019 Capped Call Transactions (collectively, the "Capped Call Transactions") are expected generally to reduce the potential dilution and/or offset the cash payments the Company is required to make in excess of the principal amount of the Notes upon conversion of the Notes in the event that the market price per share of the Company's Class A common stock is greater than the strike price of the Capped Call Transactions (which initially corresponds to the initial conversion price of the Notes and is subject to certain adjustments under the terms of the Capped Call Transactions), with such reduction and/or offset subject to a cap based on the cap price of the Capped Call Transactions. The Restated 2017 Capped Call Transactions have an initial cap price of \$154.16 per share of the Company's Class A common stock, which represents a premium of 100% over the last reported sale price of the Company's Class A common stock on September 11, 2017, which is the date the 2017 Notes priced, and is subject to certain adjustments under the terms of the Restated 2017 Capped Call Transactions. The 2018 Capped Call Transactions have an initial cap price of \$219.63 per share of the Company's Class A common stock, which represents a premium of 150% over the last reported sale price of the Company's Class A common stock on November 14, 2018, which is the day the 2018 Notes priced, and is subject to certain adjustments under the terms of the 2018 Capped Call Transactions. The 2019 Capped Call Transactions have an initial cap price of \$280.15 per share of the Company's Class A common stock, which represents a premium of 150% over the last reported sale price of the Company's Class A common stock on August 14, 2019, which is the day the 2019 Notes priced, and is subject to certain adjustments under the terms of the 2019 Capped Call Transactions. Collectively, the Capped Call

Transactions cover, initially, the number of shares of the Company's Class A common stock underlying the Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Notes.

The Capped Call Transactions are separate transactions, in each case, entered into by the Company with the 2017 Option Counterparties, the 2018 Option Counterparties, and 2019 Option Counterparties, and are not part of the terms of the Notes and will not affect any holder's rights under the Notes. Holders of the Notes will not have any rights with respect to the Capped Call Transactions. The Capped Call Transactions do not meet the criteria for separate accounting as a derivative as they are indexed to the Company's stock. The premiums paid for the Capped Call Transactions have been included as a net reduction to additional paid-in capital within shareholders' deficit.

16. Net Loss per Share

Basic and diluted net loss per share is presented using the two-class method required for participating securities: Class A and Class B common stock. The rights of the holders of Class A and Class B common stock are identical, except with respect to voting and conversion. For more information on the rights of Class A and Class B common stockholders, see Note 13, *Stockholders' Deficit*.

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

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

The following table presents the calculation of basic and diluted net loss per share:

| | Three months ended March 31, | |
|--|--|--------------|
| | 2020 | 2019 |
| | (in thousands, except per share data) | |
| Net loss | \$ (285,865) | \$ (200,389) |
| Weighted average common shares used for basic and diluted net loss per share computation | 94,089 | 91,104 |
| Net loss per common share: | | |
| Basic and Diluted | \$ (3.04) | \$ (2.20) |

Dilutive common stock equivalents, representing potentially dilutive common stock options, restricted stock and RSUs, of 7.2 million and 8.0 million for the three months ended March 31, 2020 and 2019, respectively, were excluded from diluted earnings per share calculations for these periods because of their anti-dilutive effect. Furthermore, the shares of Class A common stock that would be issuable if the Company elects to settle the Notes in shares were excluded from the diluted earnings per share calculation (using the if-converted method) for the three-month period ended March 31, 2020 because their effect would have been anti-dilutive.

The Company may settle the conversions of the Notes in cash, shares of the Company's Class A common stock or any combination thereof at its election. For the 2017 Notes, the number of shares of the Company's Class A common stock issuable at the conversion price of \$104.06 per share is expected to be 4.1 million shares, for the 2018 Notes, the number of shares of the Company's Class A common stock issuable at the conversion price of \$116.40 is expected to be 4.9 million shares, and for the 2019 Notes, the number of shares of the Company's Class A common stock issuable at the conversion price of \$148.48 is expected to be 6.4 million shares. However, the Capped Call Transactions are expected generally to reduce the potential dilution of the Company's Class A common stock upon any conversion of Notes and/or offset the cash payments the Company is required to make in excess of the principal amount of the Notes. Under the Restated 2017 Capped Call Transactions, the number of shares of Class A common stock issuable at the conversion price of \$154.16 is expected to be 2.8 million shares. Under the 2018 Capped Call Transactions, the number of shares of Class A common stock issuable at the conversion price of \$219.63 is expected to be 2.6 million shares. Under the 2019 Capped Call Transactions, the number of shares of Class A common stock issuable at the conversion price of \$280.15 is expected to be 3.4 million shares. For more information on the Notes and the Capped Call Transactions, see Note 15, *Convertible Debt*.

17. Subsequent Events

On April 8, 2020, the Company issued \$535.0 million in aggregate original principal amount of 2.50% Accreting Convertible Senior Notes due 2025 (the "2020 Notes") to GHEP VII Aggregator, L.P. ("Great Hill"), CBEP Investments, LLC ("Charlesbank") and The Spruce House Partnership LLC. No cash interest will be payable on the 2020 Notes. Instead, the 2020 Notes will accrue interest at a rate of 2.50% per annum which will accrete to the principal amount on April 1 and October 1 of each year, beginning on October 1, 2020. The 2020 Notes are convertible based upon an initial conversion price of \$72.50 per share of the Company's Class A common stock. The Company will settle any conversion of the 2020 Notes with shares of the Company's Class A common stock. The 2020 Notes are fully and unconditionally guaranteed on a senior unsecured basis by Wayfair LLC, the Company's wholly-owned subsidiary. Proceeds from the 2020 Notes will be used for working capital and general corporate purposes.

As the 2020 Notes were issued subsequent to March 31, 2020, the impact to financial reporting will be effective in the second quarter of 2020. The issuance of the 2020 Notes constitutes a related party transaction because Michael Kumin is a director of the Company and a Managing Partner at Great Hill Partners, LP, the Manager of the ultimate general partner of Great Hill.

In addition, on April 23, 2020 the Company repaid the outstanding \$100 million borrowing on the Revolver.

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

The following discussion of our financial condition and results of operations should be read in conjunction with the Consolidated and Condensed Financial Statements and the notes thereto included elsewhere in this Quarterly Report on Form 10-Q and our audited Consolidated Financial Statements and related notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2019. This discussion contains forward-looking statements that involve risks and uncertainties. As a result of many factors, such as those included in Part I, Item 1, *Special Note Regarding Forward Looking Statements*, and in Part II, Item 1A, *Risk Factors*, of this Quarterly Report on Form 10-Q and in Part I, Item 1A, *Risk Factors* in our Annual Report on Form 10-K for the year ended December 31, 2019, 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 in the United States of America ("GAAP"), as well as certain non-GAAP financial measures such as Adjusted EBITDA, Free Cash Flow, and Net Revenue Constant Currency Growth. Generally, a non-GAAP financial measure is a numerical measure of financial performance, financial position or cash flows that excludes (or includes) amounts that are included in (or excluded from) the most directly comparable measure calculated and presented in accordance with GAAP. Management believes the use of these non-GAAP measures on a consolidated and reportable segment basis assists investors in understanding the ongoing operating performance of our business by presenting comparable financial results between periods. For more information on these non-GAAP financial measures, including reconciliations to the most directly comparable GAAP financial measures, see "Non-GAAP Financial Measures" below.

Unless the context requires otherwise, references in this Quarterly Report on Form 10-Q to "Wayfair," "the company," "we," "us," "our," and similar terms include Wayfair Inc. and its subsidiaries, unless the context indicates otherwise.

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 eighteen million products from over 12,000 suppliers. Because of the large market opportunity we see in front of us, we are currently investing across our business, including investments to expand our international business, to build our proprietary logistics network and to continue developing various product categories.

Our operating and reportable segments are the U.S. and International. The following table presents net revenue attributable to our reportable segments for the periods presented:

| | Three months ended March 31, | |
|---------------------------|------------------------------|--------------|
| | 2020 | 2019 |
| | (in thousands) | |
| U.S. net revenue | \$ 1,974,983 | \$ 1,657,698 |
| International net revenue | 355,080 | 287,131 |
| Total net revenue | \$ 2,330,063 | \$ 1,944,829 |

For more information on our segments, see Note 11, *Segment and Geographic Information*, included in Part I, Item 1, *Unaudited Consolidated and Condensed Financial Statements*, of this Quarterly Report on Form 10-Q.

COVID-19 Outbreak

We are closely monitoring the impact of the COVID-19 outbreak on our business, results of operations and financial results. The full extent of the positive or negative impact of the COVID-19 outbreak on our business will depend on certain developments including the length of time that the outbreak continues, the impact on consumer activity and behaviors and the effect on our customers, employees, suppliers, partners, and stockholders, all of which are uncertain and cannot be predicted. See Part II, Item 1A, *Risk Factors* for additional details. In the first quarter of 2020, we took a number of precautionary measures designed to protect the health, safety and financial security of our employees, including suspending all non-essential travel, transitioning a large portion of our employees to working-from-home, providing emergency paid time off and targeted hourly pay increases, developing no contact delivery methods and implementing social distancing and enhanced cleaning measures in our facilities.

In an effort to slow the COVID-19 outbreak, authorities across the world have implemented various measures, including travel bans, stay-at-home orders and shutdowns of certain businesses. We anticipate that these actions and the global health crisis caused by the COVID-19 outbreak will negatively impact global economic activity. While the COVID-19 outbreak has not had a material adverse impact on our operations to date and we believe the long-term opportunity that we see for shopping for the home online remains unchanged, it is difficult to predict all of the positive or negative impacts the COVID-19 outbreak will have on our business.

In the short term we have generally seen increased sales and order activity and lower advertising costs in the market since the COVID-19 outbreak. In order to keep up with the increased orders, we are in the process of hiring additional frontline workers. However, much is unknown and accordingly the situation remains dynamic and subject to rapid and possibly material change. We will continue to actively monitor the situation and may take further actions that alter our business operations as may be required by federal, state, local or foreign authorities, or that we determine are in the best interests of our customers, employees, suppliers, partners, stockholders and communities.

Key Financial and Operating Metrics

We measure our business using financial and operating metrics, as well as non-GAAP financial measures. Our Free Cash Flow non-GAAP financial measure is measured on a consolidated basis, while our Adjusted EBITDA non-GAAP financial measure is measured on a consolidated and reportable segment basis. See Note 11, *Segment and Geographic Information*, included in Part I, Item 1, *Unaudited Consolidated and Condensed Financial Statements*, of this Quarterly Report on Form 10-Q for additional information regarding our reportable segments. All other key financial and operating metrics are derived and reported from our consolidated Direct Retail net revenue, which includes sales generated primarily through our family of 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.

We use the following metrics to assess the near and longer-term performance of our overall business:

| | Three months ended March 31, | |
|---|--|--------------|
| | 2020 | 2019 |
| | (in thousands, except LTM Net Revenue per Active Customer and Average Order Value) | |
| Direct Retail Financial and Operating Metrics: | | |
| Direct Retail Net Revenue (1) | \$ 2,322,582 | \$ 1,931,181 |
| Active Customers | 21,108 | 16,408 |
| LTM Net Revenue per Active Customer | \$ 449 | \$ 442 |
| Orders Delivered | 9,876 | 8,163 |
| Average Order Value | \$ 235 | \$ 237 |
| Non-GAAP Financial Measures: | | |
| Adjusted EBITDA | \$ (127,277) | \$ (102,218) |
| Free Cash Flow | \$ (354,623) | \$ (166,817) |

(1) Direct Retail net revenue is calculated by taking consolidated net revenue and excluding U.S. net revenue derived from the websites operated by our retail partners and our media solutions business, which accounted for \$7.5 million and \$13.6 million of net revenue for the three months ended March 31, 2020 and 2019, respectively.

Non-GAAP Financial Measures**Adjusted EBITDA**

To provide investors with additional information regarding our financial results, we have disclosed here and elsewhere in this Quarterly Report on Form 10-Q Adjusted EBITDA, a non-GAAP financial measure that we calculate as loss before depreciation and amortization, equity-based compensation and related taxes, interest (expense), net, other (expense) income, net, provision for income taxes, net, non-recurring items, and other items not indicative of our ongoing operating performance. We have provided a reconciliation below of Adjusted EBITDA to net loss, the most directly comparable GAAP financial measure.

We have included Adjusted EBITDA in this Quarterly Report on Form 10-Q because it is a key measure used by our management and the Board 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 as these costs may vary independent of business performance. 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 the Board.

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 interest expenses associated with our borrowings;
- Adjusted EBITDA does not include other items not indicative of our ongoing operating performance, 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.

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

| | Three months ended March 31, | |
|---|------------------------------|---------------------|
| | 2020 | 2019 |
| (in thousands) | | |
| Reconciliation of Adjusted EBITDA | | |
| Net loss | \$ (285,865) | \$ (200,389) |
| Depreciation and amortization | 66,843 | 39,583 |
| Equity-based compensation and related taxes | 63,992 | 51,833 |
| Interest expense, net | 22,218 | 9,238 |
| Other expense (income), net | 246 | (3,078) |
| Provision for income taxes, net | 1,333 | 595 |
| Other (1) | 3,956 | — |
| Adjusted EBITDA | <u>\$ (127,277)</u> | <u>\$ (102,218)</u> |

(1) The Company recorded \$4.0 million in the three months ended March 31, 2020 in selling, operations, technology, general and administrative expenses in the Consolidated and Condensed Statements of Operations related to severance costs associated with February 2020 workforce reductions.

Free Cash Flow

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

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

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

The following table presents a reconciliation of net cash used in operating activities to Free Cash Flow for each of the periods indicated:

| | Three months ended March 31, | |
|---------------------------------------|------------------------------|---------------------|
| | 2020 | 2019 |
| | (in thousands) | |
| Net cash used in operating activities | \$ (256,290) | \$ (81,348) |
| Purchase of property and equipment | (59,964) | (60,626) |
| Site and software development costs | (38,369) | (24,843) |
| Free Cash Flow | <u>\$ (354,623)</u> | <u>\$ (166,817)</u> |

Net Revenue Constant Currency Growth

To provide investors with additional information regarding our financial results, we have disclosed in this Quarterly Report on Form 10-Q Net Revenue Constant Currency Growth, a non-GAAP financial measure that we calculate by translating the current period local currency net revenue by the currency exchange rates used to translate our financial statements in the comparable prior-year period.

Net Revenue Constant Currency Growth is included in this Quarterly Report on Form 10-Q because it is an important indicator of our operating results. Accordingly, we believe that Net Revenue Constant Currency Growth provides useful information to investors and others in understanding and evaluating trends in our operating results in the same manner as our management.

Net Revenue Constant Currency Growth 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. For example, Net Revenue Constant Currency Growth rates, by their nature, exclude the impact of foreign exchange, which may have a material impact on net revenue.

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 II, Item 1A, *Risk Factors*, of this Quarterly Report on Form 10-Q and Part I, Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the year ended December 31, 2019.

Components of Our Results of Operations

Net Revenue

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

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

Cost of Goods Sold

Cost of goods sold consists of:

Product costs: Product costs include the purchase price of products sold, expenses capitalized into Wayfair inventory, which include direct and indirect labor costs, rent, and depreciation expenses, and inbound shipping and handling costs for Wayfair inventory. These costs are partially offset by product rebates earned from suppliers upon shipment of goods and certain fees incurred for other media and merchandising services Wayfair provides to its suppliers to promote products for sale on our sites.

Shipping and Fulfillment costs: Shipping costs include outbound shipping costs. Fulfillment costs include costs incurred to operate and staff our fulfillment centers and provide other inbound supply chain services, such as ocean freight and drayage. Costs to operate and staff our CastleGate and WDN networks include rent and depreciation expenses associated with various facilities, costs to receive, inspect, pick, package and prepare customer orders for delivery, and direct and indirect labor costs including payroll, payroll-related benefits, and equity-based compensation. These costs are partially offset by fees incurred for warehousing, fulfillment and other inbound supply chain services Wayfair provides to its suppliers.

Cost of goods sold is sensitive to many factors, including quarter-to-quarter variability in product mix, pricing strategies, changes in wholesale, shipping and fulfillment costs, and fees earned for supplier services rendered.

Customer Service and Merchant Fees

Customer service and merchant fees consist of labor-related costs, including payroll, payroll-related benefits, and 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 net revenue and are expected to remain relatively consistent as a percentage of net revenue. We expect customer service and merchant fees expenses to remain relatively stable as a percentage of net revenue.

Advertising

Advertising consists of direct response performance marketing costs, such as display advertising, paid search advertising, social media advertising, search engine optimization, comparison shopping engine advertising, television advertising, direct mail, catalog and print advertising. We should benefit from deriving a larger base of our net revenue from repeat customers, as we believe the cost of marketing to a repeat customer is less than the cost to acquire a new customer. We expect our absolute marketing dollar spend to continue to grow as our business scales, though advertising costs as a percentage of net revenue will continue to be impacted by factors such as the mix of new and repeat customers, as well as brand, channel, and geographic mix.

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), net

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

Results of Consolidated Operations**Comparison of the three months ended March 31, 2020 and 2019****Net revenue**

| | Three months ended March 31, | | % Change |
|---------------------------|------------------------------|--------------|----------|
| | 2020 | 2019 | |
| | (in thousands) | | |
| U.S. net revenue | \$ 1,974,983 | \$ 1,657,698 | 19.1% |
| International net revenue | 355,080 | 287,131 | 23.7% |
| Net revenue | \$ 2,330,063 | \$ 1,944,829 | 19.8% |

In the three months ended March 31, 2020, net revenue increased by \$385.2 million, or 19.8%, compared to the same period in 2019, primarily due to growth in our customer base, with the number of active customers increasing by 28.6% as of March 31, 2020 compared to March 31, 2019. Additionally, active customers on average spent more in the three months ended March 31, 2020, with LTM net revenue per active customer increasing 1.6% as of March 31, 2020 compared to March 31, 2019. Our U.S. net revenue increased 19.1%, while our International net revenue increased 23.7%. International Net Revenue Constant Currency Growth was 25.5%.

Cost of goods sold

| | Three months ended March 31, | | % Change |
|--------------------|------------------------------|--------------|----------|
| | 2020 | 2019 | |
| | (in thousands) | | |
| Cost of goods sold | \$ 1,750,940 | \$ 1,474,373 | 18.8% |

In the three months ended March 31, 2020, cost of goods sold increased by \$276.6 million, or 18.8%, compared to the same period in 2019. The increase in cost of goods sold is primarily driven by an increase in the number of orders delivered, partially offset by efficiencies gained in shipping costs from our logistics network.

Operating expenses

| | Three months ended March 31, | | % Change |
|---|------------------------------|------------|----------|
| | 2020 | 2019 | |
| | (in thousands) | | |
| Customer service and merchant fees (1) | \$ 89,463 | \$ 76,473 | 17.0% |
| Advertising | 275,760 | 243,969 | 13.0% |
| Selling, operations, technology, general and administrative (1) | 475,968 | 343,648 | 38.5% |
| Total operating expenses | \$ 841,191 | \$ 664,090 | 26.7% |
| <i>As a percentage of net revenue:</i> | | | |
| Customer service and merchant fees (1) | 3.8% | 3.9% | |
| Advertising | 11.8% | 12.5% | |
| Selling, operations, technology, general and administrative (1) | 20.4% | 17.7% | |
| | 36.0% | 34.1% | |

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

| | Three months ended March 31, | |
|---|------------------------------|-----------|
| | 2020 | 2019 |
| | (in thousands) | |
| Customer service and merchant fees | \$ 2,118 | \$ 1,976 |
| Selling, operations, technology, general and administrative | \$ 60,146 | \$ 48,865 |

Our equity-based compensation and related taxes included in customer service and merchant fees and selling, operations, technology, general and administrative expenses increased by \$11.4 million in the three months ended March 31, 2020 compared to the same period in 2019, as a result of RSUs awarded in 2019 and the three months ended March 31, 2020.

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

| | Three months ended March 31, | |
|---|------------------------------|-------|
| | 2020 | 2019 |
| Customer service and merchant fees | 3.7% | 3.8% |
| Selling, operations, technology, general and administrative | 17.8% | 15.2% |

Excluding the impact of equity-based compensation and related taxes, customer service and merchant fees increased by \$12.8 million in the three months ended March 31, 2020 compared to the same period in 2019, primarily due to the increase in net revenue during the three months ended March 31, 2020.

Our advertising expenses increased by \$31.8 million in the three months ended March 31, 2020 compared to the same period in 2019, primarily as a result of an increase in online advertising. Advertising decreased as a percentage of net revenue in the three months ended March 31, 2020 compared to the same period in 2019. The decrease was primarily attributable to increased leverage from our growing base of repeat customers, partially offset by increased investment to generate future customer growth.

Excluding the impact of equity-based compensation and related taxes, selling, operations, technology, general and administrative expenses increased by \$121.0 million in the three months ended March 31, 2020 compared to the same period in 2019, primarily due to the increase in net revenue and the associated growth in our operations. The increase in selling, operations, technology, general and administrative was primarily attributable to personnel costs, rent, information technology, and depreciation and amortization.

Interest (expense), net

| | Three months ended March 31, | | % Change |
|-------------------------|------------------------------|------------|----------|
| | 2020 | 2019 | |
| | (in thousands) | | |
| Interest (expense), net | \$ (22,218) | \$ (9,238) | 140.5% |

Our interest (expense), net increased by \$13.0 million in the three months ended March 31, 2020 compared to the same period in 2019, primarily attributable to the our convertible notes and other borrowings.

Liquidity and Capital Resources**Sources of Liquidity**

| | March 31, 2020 | December 31, 2019 |
|---------------------------|----------------|-------------------|
| | (in thousands) | |
| Cash and cash equivalents | \$ 624,481 | \$ 582,753 |
| Short-term investments | \$ 266,497 | \$ 404,252 |
| Accounts receivable, net | \$ 110,259 | \$ 99,720 |
| Long-term investments | \$ — | \$ 155,690 |
| Working capital | \$ (215,716) | \$ (234,381) |

Historical Cash Flows

| | Three months ended March 31, | |
|---|------------------------------|--------------|
| | 2020 | 2019 |
| | (in thousands) | |
| Net loss | \$ (285,865) | \$ (200,389) |
| Net cash used in operating activities | \$ (256,290) | \$ (81,348) |
| Net cash provided by (used in) investing activities | \$ 196,353 | \$ (44,695) |
| Net cash provided by (used in) financing activities | \$ 100,125 | \$ (889) |

At March 31, 2020, our principal source of liquidity was cash and cash equivalents and short-term investments totaling \$891.0 million, which includes a \$100 million borrowing under our revolving credit facility. Additionally, as discussed in Note 17, *Subsequent Events*, included in Part I, Item 1, *Unaudited Consolidated and Condensed Financial Statements*, of this Quarterly Report on Form 10-Q, on April 8, 2020 the Company issued \$535.0 million aggregate original principal amount of 2.50% Accreting Convertible Senior Notes due 2025 (the "2020 Notes"). Further, on April 23, 2020 the Company repaid the outstanding \$100 million borrowing on our revolving credit facility. We believe that our existing cash and cash equivalents and investments, together with these incremental transactions, cash generated from operations, and the borrowing availability under our revolving credit facility, will be sufficient to meet our anticipated cash needs for at least the foreseeable future. However, our liquidity assumptions may prove to be incorrect, and we could exhaust our available financial resources sooner than we currently expect. In addition, we may elect to raise additional funds at any time through equity, equity-linked or debt financing arrangements.

Capital Expenditures were 4.4% of net revenue for the year ended December 31, 2019 and related primarily to our ongoing investments in our technology infrastructure and equipment purchases and improvements for leased warehouses within our expanding logistics network. Capital Expenditures were 4.2% of net revenue for the quarter ended March 31, 2020. On an absolute dollar basis, we expect Capital Expenditures for the three months ending June 30, 2020 to be materially consistent with Capital Expenditures for the three months ended March 31, 2020 as we continue to build out our technology infrastructure and logistics network.

Our future capital requirements and the adequacy of available funds will depend on many factors, including those described herein and in our other filings with the SEC, including those set forth in Part II, Item 1A, *Risk Factors*, of this

Quarterly Report on Form 10-Q and Part I, Item 1A, *Risk Factors*, in our Annual Report on Form 10-K for the year ended December 31, 2019. In addition, the recent COVID-19 outbreak has caused disruption in the capital markets. It could make financing more difficult and/or expensive and we may not be able to secure additional financing to meet our operating requirements on acceptable terms, or at all. If we raise additional funds through the issuance of equity, equity-linked or debt financing arrangements, those securities and instruments may have rights, preferences or privileges senior to the rights of our common stock, and our stockholders may experience dilution. We will continue to monitor our liquidity during this time of historic disruption and volatility in the global capital markets due to the COVID-19 outbreak.

Operating Activities

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

Cash used in operating activities in the three months ended March 31, 2020 was \$256.3 million and was driven primarily by a net loss of \$285.9 million, cash used in operating assets and liabilities of \$115.6 million and other non-cash items of \$0.6 million, partially offset by the net impact of certain non-cash items including equity-based compensation of \$59.5 million, depreciation and amortization expense of \$66.8 million, and amortization of discount and issuance costs related to our convertible notes of \$19.5 million.

Cash used in operating activities in the three months ended March 31, 2019 was \$81.3 million and was driven primarily by a net loss of \$200.4 million and other non-cash items of \$1.4 million, partially offset by cash provided by operating assets and liabilities of \$21.3 million, the net impact of certain non-cash items including depreciation and amortization expense of \$39.6 million, equity-based compensation of \$47.1 million, and amortization of discount and issuance costs related to our convertible notes of \$12.5 million.

Investing Activities

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

Cash provided by investing activities in the three months ended March 31, 2020 was \$196.4 million and was primarily driven by sale and maturities of short- and long-term investments of \$294.8 million, partially offset by purchases of property and equipment of \$60.0 million and site and software development costs of \$38.3 million and other investing activities of \$0.1 million.

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

Financing Activities

Cash provided by financing activities in the three months ended March 31, 2020 was \$100.1 million and was primarily due to a \$100.0 million borrowing under our revolving credit facility and \$0.1 million of net proceeds from the exercise of stock options.

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

Stock Repurchase Program

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

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

Credit Agreement and Convertible Notes

As disclosed in Note 14, *Credit Agreement* included in Part I, Item 1, *Unaudited Consolidated and Condensed Financial Statements*, of this Quarterly Report on Form 10-Q, in the three months ended March 31, 2020 we borrowed \$100 million under our revolving credit facility. This amount remained outstanding as of March 31, 2020.

As disclosed in Note 15, *Convertible Debt*, included in Part I, Item 1, *Unaudited Consolidated and Condensed Financial Statements*, of this Quarterly Report on Form 10-Q, the conditional conversion features of the Notes were not triggered during the first quarter of 2020 and the Notes are therefore not convertible in the second quarter of 2020 pursuant to the applicable last reported sales price conditions. The Notes were also not convertible during the first quarter of 2020.

Whether the 2017 Notes, the 2018 Notes, or the 2019 Notes will be convertible in future quarters will depend on the satisfaction of the applicable last reported sales price condition or another conversion condition in the future. If one or more holders elect to convert their 2017 Notes, 2018 Notes, or 2019 Notes at a time when any such notes are convertible, unless we elect to satisfy our conversion obligation by delivering solely shares of our Class A common stock (other than paying cash in lieu of delivering any fractional share), we would be required to settle a portion or all of our conversion obligation through the payment of cash, which could adversely affect our liquidity.

For information regarding our credit agreement and convertible notes, see Note 14, *Credit Agreement*, and Note 15, *Convertible Debt*, included in Part I, Item 1, *Unaudited Consolidated and Condensed Financial Statements*, of this Quarterly Report on Form 10-Q.

As disclosed in Note 17, *Subsequent Events*, included in Part I, Item 1, *Unaudited Consolidated and Condensed Financial Statements*, of this Quarterly Report on Form 10-Q, on April 8, 2020, the Company issued \$535.0 million in aggregate original principal amount of 2.50% Accreting Convertible Senior Notes due 2025 (the "2020 Notes") to GHEP VII Aggregator, L.P., CBEP Investments, LLC and The Spruce House Partnership LLC (collectively, the "Purchasers").

The 2020 Notes were issued pursuant to an indenture, dated April 8, 2020 (the "2020 Indenture"), between the Company, Wayfair LLC, as Guarantor (the "Guarantor") and U.S. Bank National Association, as trustee (the "Trustee"). The 2020 Notes are fully and unconditionally guaranteed on a senior unsecured basis by the Guarantor. The net proceeds from the sale of the 2020 Notes were approximately \$528.4 million, after deducting estimated offering expenses payable by the Company.

No cash interest will be payable on the 2020 Notes. Instead, the 2020 Notes will accrue interest at a rate of 2.50% per annum which will accrete to the principal amount on April 1 and October 1 of each year, beginning on October 1, 2020.

The 2020 Notes are convertible based upon an initial conversion price of \$72.50 per share of the Company's Class A common stock. The Company will settle any conversion of 2020 Notes with a number of shares of the Company's Class A common stock per \$1,000 original principal amount of 2020 Notes equal to the accreted principal amount of such original principal amount of 2020 Notes divided by the conversion price. The conversion price is subject to adjustment upon the occurrence of certain specified events, including certain distributions and dividends to all or substantially all of the holders of the Company's Class A common stock, but will not be adjusted for accrued and unpaid interest. Holders of the 2020 Notes who convert in connection with a make-whole fundamental change (as defined in the 2020 Indenture) may be entitled to a premium in the form of additional shares of the Company's Class A common stock.

The 2020 Notes will mature on April 1, 2025, unless earlier purchased, redeemed or converted. Holders may convert all or a portion of their 2020 Notes at any time prior to the second business immediately day preceding the maturity date. The Company may not redeem the 2020 Notes prior to May 9, 2023. On or after May 9, 2023, the Company may redeem for cash all or part of the 2020 Notes if the last reported sale price of the Company's Class A common stock equals or exceeds 276% of the conversion price then in effect for at least 20 trading days (whether or not consecutive), including at least one of the five trading days immediately preceding the date on which the Company provides notice of redemption, during any 30 consecutive trading days ending on, and including the trading day immediately preceding the date on which the Company provides notice of the redemption. The redemption price will be 100% of the accreted principal amount of the Notes to be redeemed, including accrued interest, if any, to, but excluding, the redemption date.

Upon the occurrence of a fundamental change (as defined in the 2020 Indenture), holders may require the Company to repurchase all or a portion of their 2020 Notes for cash at a price equal to 100% of the accreted principal amount of the 2020 Notes to be repurchased (which accreted principal amount upon repurchase will include interest, if any, accrued to, but excluding, the fundamental change repurchase date).

The 2020 Indenture contains customary terms and covenants, including that upon certain events of default occurring and continuing, either the Trustee or the holders of not less than 25% in aggregate principal amount of the 2020 Notes then

outstanding may declare the entire principal amount of all the 2020 Notes plus accrued interest, if any, to be immediately due and payable.

The 2020 Notes and the related guarantee are the Company's and the Guarantor's respective general senior unsecured obligations, ranking equally with all of the Company's and the Guarantor's existing and future senior indebtedness; effectively subordinated to all of the Company's and the Guarantor's secured indebtedness, including borrowings under the Company's and the Guarantor's senior secured revolving credit facility, to the extent of the value of the collateral securing such indebtedness; and structurally subordinated to all existing and future indebtedness and other liabilities of the Company's and the Guarantor's subsidiaries, including Wayfair LLC's guaranty of our 2.50% Accreting Convertible Senior Notes due 2025.

Off-Balance Sheet Arrangements

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

Contractual Obligations

As disclosed in Note 14, *Credit Agreement*, included in Part I, Item 1, *Unaudited Consolidated and Condensed Financial Statements*, of this Quarterly Report on Form 10-Q, we borrowed \$100 million under our revolving credit facility. Other than the borrowing, there have been no material changes to our contractual obligations and estimates as compared to the contractual obligations described in *Contractual Obligations* included in Part II, Item 7, *Management's Discussion and Analysis of Financial Condition and Results of Operations*, of the Company's Annual Report on Form 10-K for the year ended December 31, 2019.

Critical Accounting Policies

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

There have been no material changes to our critical accounting policies and estimates as compared to the critical accounting policies and estimates described in Note 2, *Summary of Significant Accounting Policies*, included in Part II, Item 8, *Financial Statements and Supplementary Data*, of the Company's Annual Report on Form 10-K for the year ended December 31, 2019, except as disclosed in Note 2, *Summary of Significant Accounting Policies - Credit Impairment*, included in Part I, Item 1, *Unaudited Consolidated and Condensed Financial Statements*, of this Quarterly Report on Form 10-Q.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Sensitivity

Cash and cash equivalents and short- and long-term investments were held primarily in cash deposits, certificates of deposit, money market funds, and corporate debt. The fair value of our cash, cash equivalents and short- and long-term investments will fluctuate with movements of interest rates, increasing in periods of declining rates of interest and declining in periods of increasing rates of interest.

Our 2017 Notes, which were issued in September 2017, carry a fixed interest rate of 0.375% per year, our 2018 Notes, which were issued in November 2018, carry a fixed interest rate of 1.125% per year, and our 2019 Notes, which were issued in August 2019, carry a fixed interest rate of 1.00% per year. Since the Notes bear interest at a fixed rate, we have no direct financial statement risk associated with changes in interest rates.

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

Foreign Currency Risk

Most of our sales are denominated in U.S. dollars, and therefore, our total net revenue is not currently subject to significant foreign currency risk. However, as our international business has grown, fluctuations in foreign currency exchange rates have started to have a greater impact. Our operating expenses are denominated in the currencies of the countries in which our operations are located or in which net revenue is generated, and as a result we face exposure to adverse movements in foreign currency exchange rates, particularly changes in the British Pound, Euro, and Canadian Dollar, as the financial results of our international operations are translated from local currency, or functional currency, into U.S. dollars upon consolidation. Fluctuations in foreign currency exchange rates may cause us to recognize transaction gains and losses in our Consolidated and Condensed Statements of Operations. To date, foreign currency transaction gains and losses have not been material to our financial statements, and we have not engaged in any foreign currency hedging transactions, but we may do so in the future. The effect of foreign currency exchange on our business historically has varied from quarter to quarter and may continue to do so, potentially materially. In addition, volatile market conditions arising from the COVID-19 pandemic may result in changes in exchange rates, and in particular a weakening of foreign currencies relative to the U.S. dollar may negatively affect our net revenue as expressed in U.S. dollars.

Inflation

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

ITEM 4. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

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

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting identified in connection with the evaluation required by Rule 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q, that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting. We have not experienced any material impact to our internal controls over financial reporting despite the fact that most of our employees are working remotely due to the COVID-19 outbreak. We are continually monitoring and assessing the COVID-19 situation and our internal controls to minimize any impact on their design and operating effectiveness.

PART II
OTHER INFORMATION

Item 1. Legal Proceedings

For information regarding our legal proceedings, see Note 8, *Commitments and Contingencies - Legal Matters*, included in Part I, Item 1, *Unaudited Consolidated and Condensed Financial Statements*, of this Quarterly Report on Form 10-Q, which is incorporated into this item by reference.

Item 1A. Risk Factors

Except as set forth below, as of the date of this report, there are no material changes from the risk factors previously disclosed in Part I, Item 1A, Risk Factors, of our Annual Report on Form 10-K for the year ended December 31, 2019.

The recent global outbreak and spread of the novel coronavirus (“COVID-19”), and any future outbreak or other public health emergency, could materially affect our operations, liquidity, financial performance and results of operations.

In March 2020, the World Health Organization declared the COVID-19 outbreak to be a global pandemic. In response to this declaration and the rapid spread of COVID-19 globally, authorities across the U.S. and the globe have implemented varying degrees of restriction on social and commercial activity to promote social distancing in an effort to slow the spread of the illness, such as travel bans, stay-at-home orders and shutdowns of certain businesses. These measures have impacted and may continue to impact all or portions of our workforce, operations, suppliers and customers and demand for our products and services. For example, the COVID-19 outbreak has disrupted the global supply chain, including many of our suppliers, as factory closures and reduced manufacturing output impacted inventory levels, potentially exacerbated by surging demand in certain categories such as home office. In the short term, however, we have also generally seen increased sales and order activity and lower advertising costs in the market since the COVID-19 outbreak.

The virus also impacted our workforce, moving a large portion of our employees to working-from-home and adding administrative complexity to our everyday human resources and employee technology functions. Disruption caused by business responses to the COVID-19 outbreak, including working-from-home arrangements, may create increased vulnerability to cybersecurity incidents, including breaches of information systems security, which could damage our reputation and commercial relationships, disrupt operations, increase costs and/or decrease net revenues, and expose us to claims from customers, suppliers, financial institutions, regulators, payment card associations, employees and others, any of which could have a material adverse effect on our financial condition and results of operations.

The spread of COVID-19, and any future pandemic, epidemic or similar outbreak, may disrupt our third-party business partners’ ability to meet their obligations to us, which may negatively affect our operations. These third parties include our suppliers and logistics providers, such as FedEx, UPS, DHL, the U.S. Postal Service and other third-party delivery agents, as their workers may be prohibited or otherwise unable to report to work and transporting products within regions or countries may be limited due to extended holidays, factory closures, port closures and increased border controls and closures, among other things.

Further, our efforts to mitigate the impact of COVID-19 through social distancing measures, enhanced cleaning measures and the increased use of personal protective equipment at our warehouses and sites, as well as other steps taken to protect the health, safety and financial security of our employees, may result in other negative impacts on our operations, including increased costs, reduced efficiency levels or labor disputes resulting in a strike or other work stoppage or interruption.

In recent weeks, the COVID-19 outbreak has also significantly increased economic uncertainty and has led to disruption and volatility in the global capital markets, which could increase the cost of and accessibility to capital. If we need to access the capital markets, there can be no assurance that financing may be available on attractive terms, if at all. The COVID-19 outbreak has caused a significant economic slowdown, which could be of an unknown duration, and could lead to increased unemployment, reduced discretionary consumer spending and a corresponding reduction in demand for our products, and could result in a material adverse effect on our business, financial performance and results of operations.

The ultimate magnitude of the impact of COVID-19, including the extent of its impact on our business and financial performance, will depend on numerous evolving factors that we may not be able to accurately predict, including: the length of time that the outbreak continues; its effect on our suppliers, logistics providers and the demand for our products; the effect of governmental regulations imposed in response to the outbreak; the effect on our customers, their communities and customer demand and ability to pay for our products and services, which may be affected by prolonged high unemployment, increased consumer debt levels, changes in net worth due to market conditions, and other factors that impact consumer confidence;

disruptions or restrictions on our employees' ability to work and travel, as well as uncertainty regarding all of the foregoing. We cannot at this time predict the full impact of the COVID-19 outbreak, but it could have a larger material adverse effect on our business, liquidity, financial performance and results of operations beyond what is discussed within this report. We will continue to actively monitor the COVID-19 situation and may take further actions that alter our business operations as may be required by federal, state, local or foreign authorities, or that we determine are in the best interests of our customers, employees, suppliers, partners, stockholders and communities. We cannot predict with any certainty whether and to what degree the disruption caused by the COVID-19 outbreak and reactions thereto will continue, and expect to face difficulty in accurately predicting our internal financial forecasts.

As noted above, however, in the short term we have generally seen increased sales and order activity since the COVID-19 outbreak. These results, as well as those of other metrics such as net revenues, gross margins and other financial and operating data, may not be indicative of results for future periods. Some of the increased demand is likely due to customers being required or encouraged to stay at home, school closures and employers requiring employees to work remotely. Some is also likely attributable to the timing of tax refunds and COVID-related stimulus payments. Such increased demand may increase beyond manageable levels, may fluctuate significantly, or may not continue, including the possibility that demand may decrease from historical levels. Much is unknown, including the duration and severity of the COVID-19 pandemic, the amount of time it will take for normal economic activity to resume, and future government actions that may be taken, and accordingly the situation remains dynamic and subject to rapid and possibly material change, including but not limited to changes that may materially affect the operations of our suppliers, logistics providers and customers, which ultimately could result in material adverse effects on our business, financial performance and results of operations.

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

Recent Sales of Unregistered Securities

During the three months ended March 31, 2020, we issued 101 shares of Class B common stock upon the vesting of outstanding restricted stock units, net of shares withheld to satisfy statutory minimum tax withholding obligations. The issuance of these securities was pursuant to written compensatory plans or arrangements with our employees, consultants, advisors and directors in reliance on the exemption provided by Rule 701 promulgated under the Securities Act, relative to transactions by an issuer not involving any public offering, to the extent an exemption from registration was required.

Recent Purchases of Equity Securities

During the three months ended March 31, 2020, we did not repurchase any shares of our common stock.

Item 6. Exhibits.

| Exhibit Number | Exhibit Description | Filed Herewith | Incorporated by Reference | | | |
|----------------|---|----------------|---------------------------|----------|-------------|----------------|
| | | | Form | File No. | Filing Date | Exhibit Number |
| 10.1 | Eleventh Amendment to Copley Lease, dated as of March 11, 2020, by and between Copley Place Associates, LLC and Wayfair LLC. | X | | | | |
| 31.1 | Certification of Chief Executive Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X | | | | |
| 31.2 | Certification of Chief Financial Officer pursuant to Rule 13a-14(a) of the Securities Exchange Act of 1934, as amended, as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. | X | | | | |
| 32.1# | Certification of Chief Executive Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | X | | | | |
| 32.2# | Certification of Chief Financial Officer pursuant to 18 U.S.C. §1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. | X | | | | |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document | | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Document | X | | | | |
| 101.CAL | XBRL Taxonomy Calculation Linkbase Document | X | | | | |
| 101.DEF | XBRL Taxonomy Definition Linkbase Document | X | | | | |
| 101.LAB | XBRL Taxonomy Labels Linkbase Document | X | | | | |
| 101.PRE | XBRL Taxonomy Presentation Linkbase Document | X | | | | |
| 104 | Cover Page Interactive Data File (formatted as inline XBRL with applicable taxonomy extension information contained in Exhibits 101.*) | X | | | | |

+ Indicates a management contract or compensatory plan

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

SIGNATURES

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

WAYFAIR INC.

Date: May 5, 2020

By: /s/ NIRAJ SHAH

Niraj Shah

Chief Executive Officer and President

(Principal Executive Officer)

Date: May 5, 2020

By: /s/ MICHAEL FLEISHER

Michael Fleisher

Chief Financial Officer

(Principal Financial and Accounting Officer)

ELEVENTH AMENDMENT TO LEASE

THIS ELEVENTH AMENDMENT TO LEASE (“**Eleventh Amendment**”) is made and entered into as of the 11th day of March, 2020 by and between COPLEY PLACE ASSOCIATES, LLC, a Delaware limited liability company (the “**Landlord**”), and WAYFAIR LLC, a Delaware limited liability company (the “**Tenant**”).

Reference is made to the following:

A. That certain lease (“**Original Lease**”) dated as of April 18, 2013, by and between Landlord, and Tenant as amended by a First Amendment to Lease (“**First Amendment**”) dated as of February 11, 2014, and a Second Amendment to Lease (“**Second Amendment**”) dated as of October 24, 2014, and a Third Amendment to Lease dated as of October 8, 2015 (“**Third Amendment**”), and a Fourth Amendment to Lease dated as of February 3, 2016 (“**Fourth Amendment**”), and a letter agreement dated as of July 28, 2016 (the “**Letter Agreement**”), and a Fifth Amendment to Lease dated as of July 29, 2016 (“**Fifth Amendment**”), and a Sixth Amendment to Lease dated as of February 22, 2017 (“**Sixth Amendment**”) and a Seventh Amendment to Lease dated as of August 14, 2017 (“**Seventh Amendment**”), and an Eighth Amendment to Lease dated as of November 14, 2017 (“**Eighth Amendment**”), and a Ninth Amendment to Lease dated as of November 13, 2018 (“**Ninth Amendment**”), and a Tenth Amendment to Lease dated as of October 10, 2019 (“**Tenth Amendment**”) (the Original Lease as amended by the First Amendment, the Second Amendment, the Fourth Amendment, the Letter Agreement, the Fifth Amendment, the Sixth Amendment, the Seventh Amendment, the Eighth Amendment, the Ninth Amendment and the Tenth Amendment is referred to herein as the “**Lease**”) relating to space in the Office Section of the Building containing **881,660** rentable square feet, known as Copley Place, in Boston, Suffolk County, Massachusetts, consisting of approximately **745,035** rentable square feet of space on the First, Second, Third, Fourth, Fifth, Sixth and Seventh Floors of Four Copley Place and on the First, Second, Third, Fourth, Fifth and Sixth Floors of Three Copley Place and on the First, Third, Fifth, Sixth and Seventh Floors of One Copley Place and on the Third, Fourth, Fifth, Sixth and Seventh Floors of Two Copley Place (collectively, the “**Current Premises**”); and

B. Landlord has available or will have available for lease additional space in the Building; and

C. Tenant has agreed to lease from Landlord such additional space in the Building on the terms and conditions set forth below; and

D. Each capitalized term used in this Eleventh Amendment without definition or reference to a specific amendment to the Original Lease shall have the meaning ascribed to such term in the Original Lease.

NOW, THEREFORE, in consideration of the mutual covenants and agreements hereinafter set forth and other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Landlord and Tenant hereby agree to amend the Lease and otherwise agree as follows:

1. Increase in Premises Demised under the Lease. The Current Premises shall be increased by the addition thereto of the space (the “**Amendment 11 Expansion Space**”) described on **Exhibit A** attached hereto as of the Add to Premises Date set forth in **Exhibit A** hereto. The Amendment 11 Expansion Space, which contains approximately **24,147** rentable square feet, are shown on plans attached hereto as **Exhibit B**.

2. Base Rent. Base Rent for the Amendment 11 Expansion Space, and the date as of which Base Rent for the Amendment 11 Expansion Space commences, shall be as set forth on **Exhibit C** attached hereto and made a part hereof.

3. Proportionate Shares.

(a) Section 1.12 of the Lease is amended to read in its entirety:

| | |
|------------------------|--|
| 1.12 Operating Expense | As to the Premises other than the Fifth Expansion Spaces, the Calendar Year 2014. |
| Base Year: | As to the Fifth Expansion Spaces, the Calendar Year 2016. |
| | As to Amendment 5 Expansion Spaces, Amendment 6 Expansion Spaces and Amendment 8 Expansion Spaces, the Calendar Year 2018. |
| | As to the Amendment 10 Expansion Space, the Calendar Year 2021. |
| | As to the Amendment 11 Expansion Space, the Calendar Year 2026. |

(b) Section 1.14 of the Lease is amended to read in its entirety:

| | |
|---------------------|---|
| 1.14 Tax Base Year: | As to the Premises other than the Fifth Expansion Spaces, the Calendar Year 2014. |
| | As to the Fifth Expansion Spaces, the tax fiscal year July 1, 2016 to June 30, 2017. |
| | As to Amendment 5 Expansion Spaces, the tax fiscal year July 1, 2017 to June 30, 2018. |
| | As to Amendment 6 Expansion Spaces and Amendment 8 Expansion Spaces, the tax fiscal year July 1, 2018 to June 30, 2019. |
| | As to the Amendment 10 Expansion Space, the tax fiscal year July 1, 2020 to June 30, 2021. |
| | As to the Amendment 11 Expansion Space, the tax fiscal year July 1, 2026 to June 30, 2027. |

(c) Section 1.16 of the Lease is amended to read in its entirety:

| | |
|--|--|
| <p>1.16 Tenant's Proportionate</p> <p>Tax Share:</p> | <p>33.25 % for the Premises (computed on the basis of 95% occupancy) consisting of 278,534 rentable square feet, exclusive of the Fifth Expansion Spaces.</p> <p>11.22% for the Fifth Expansion Spaces (computed on the basis of 95% occupancy).</p> <p>19.52% for the Amendment 5 Expansion Spaces (computed on the basis of 95% occupancy).</p> <p>13.22% for the Amendment 6 Expansion Spaces (computed on the basis of 95% occupancy).</p> <p>8.13% for the Amendment 8 Expansion Spaces (computed on the basis of 95% occupancy).</p> <p>2.59% for the Amendment 10 Expansion Space (computed on the basis of 95% occupancy).</p> <p>2.88% for the Amendment 11 Expansion Space (computed on the basis of 95% occupancy).</p> |
|--|--|

(d) Section 1.17 of the Lease is amended to read in its entirety:

| | |
|--|--|
| <p>1.17 Tenant's Proportionate</p> <p>Expense Share:</p> | <p>33.25% for the Premises (computed on the basis of 95% occupancy) consisting of 278,534 rentable square feet, exclusive of the Fifth Expansion Spaces.</p> <p>11.22% for the Fifth Expansion Spaces Premises (computed on the basis of 95% occupancy).</p> <p>19.52% for the Amendment 5 Expansion Spaces (computed on the basis of 95% occupancy).</p> <p>13.22% for the Amendment 6 Expansion Spaces (computed on the basis of 95% occupancy).</p> <p>8.13% for the Amendment 8 Expansion Spaces (computed on the basis of 95% occupancy).</p> <p>2.59% for the Amendment 10 Expansion Space (computed on the basis of 95% occupancy).</p> <p>2.88% for the Amendment 11 Expansion Space (computed on the basis of 95% occupancy).</p> |
|--|--|

4. Condition of Amendment 11 Expansion Space.

- (a) The Amendment 11 Expansion Space shall be delivered to Tenant as of January 1, 2026, in as-is, where-is condition with no work of any sort to be performed by Landlord in connection with Tenant's initial occupancy of the Amendment 11 Expansion Space. Landlord shall have no responsibility for any condition or
-

construction within the Amendment 11 Expansion Space or for any condition above the finished ceilings except with regard to utilities and conduits serving premises other than the Premises, except that the foregoing shall not relieve Landlord from its obligations to deliver the Premises with all base Building systems operational at the Premises and to repair and maintain the Building components described in Section 8.02 of the Original Lease (as the same may be amended from time to time) in accordance with and subject to said Section 8.02 of the Original Lease (as the same may be amended from time to time). Subject to the foregoing, the obligations of Landlord under Exhibit B-2 of the Original Lease shall not be applicable to the Amendment 11 Expansion Space nor shall Tenant have any right to any Allowance with respect to the Amendment 11 Expansion Space under Article 38 of the Original Lease. Tenant shall be responsible for any demolition of the Amendment 11 Expansion Space and for any construction therein required to prepare the Amendment 11 Expansion Space for Tenant's occupancy, for installation of telecommunications, business equipment and furniture (all of which shall be subject to the terms and conditions of the Lease regarding Alterations as if the Amendment 11 Expansion Space was a part of the Premises) and for all costs in connection therewith including without limitation, electricity used incident to such demolition and construction therein. Without limiting the generality of the foregoing, all work necessary to prepare the Amendment 11 Expansion Space for Tenant's occupancy shall be performed at Tenant's sole cost and expense, in accordance with the applicable provisions of the Lease. Furthermore, if any alterations or modifications to the Building are required under applicable Legal Requirements by reason of the density of Tenant's usage if in excess of ordinary office-related use or the Alterations made by Tenant to the Amendment 11 Expansion Space which are not ordinary office leasehold improvements, the cost of such Building modifications (including, without limitation, to bathrooms) shall be paid by Tenant.

- (b) Solely for the purpose of determining Tenant's obligations with respect to restoration of the Premises at the end of the Term, all Alterations existing in the Amendment 11 Expansion Space on the Add to Premises Date set forth in **Exhibit A** hereto and/or made by Tenant after such date to prepare the Amendment 11 Expansion Space for Tenant's occupancy shall be deemed "Initial Alterations"; accordingly, Tenant shall not be required to remove or restore any of such Alterations (or Alterations that were comparable replacements thereof) whether or not the same are Specialty Alterations. Tenant shall not be required to pay Landlord for the use of elevators and hoists during the making of initial Alterations to the Amendment 11 Expansion Space.

5. Letter of Credit. Tenant agrees, on or before January 1, 2026 to increase the Letter of Credit Amount to **\$8,084,716.20**. Section 1.21 of the Lease (as previously amended) is hereby amended accordingly.

6. Fifth Amendment Right of First Offer. Tenant hereby acknowledges that the terms and conditions of its right of first offer under Section 9 of the Fifth Amendment shall not apply to the leasing of the Amendment 11 Expansion Space contemplated under this Eleventh Amendment; provided, however, that Tenant's rights under said Section 9 of the Fifth Amendment shall remain in full force and effect with respect to all of the other space described therein.

7. Brokerage. Tenant represents that Tenant has dealt with (and only with) CBRE as broker in connection with this Eleventh Amendment, and that insofar as Tenant knows, no other broker negotiated

this Eleventh Amendment or is entitled to any commission in connection therewith. Tenant agrees to indemnify, defend and hold harmless Landlord its employees and agents from and against any claims made by any broker or finder other than the broker described above for a commission or fee in connection with this Eleventh Amendment or any sublease hereunder (but nothing herein shall be construed as permitting any such sublease) provided that Landlord has not in fact retained such broker or finder. Landlord agrees to indemnify, defend and hold harmless Tenant, its employees and agents from and against any claims made by any broker or finder named above or any other broker claiming to have earned a commission or fee in connection with this Eleventh Amendment, provided Tenant has not in fact retained such broker or finder. In addition, Landlord shall pay the fees of CBRE with respect to this Eleventh Amendment in accordance with a separate agreement with such broker.

8. Amendment to Lease; Early Effectuation of Add to Premises Date. As of the date of this Eleventh Amendment, Tenant has entered into a sublease for the Amendment 11 Expansion Space pursuant to that certain Sublease Agreement dated as of even date herewith, by and between Tenant, as subtenant, and AIR WORLDWIDE CORPORATION, a Delaware corporation (“**Sublandlord**”) (the “**Sublease**”). The Sublease, which required Landlord’s consent, was consented to by Landlord in that certain Consent to Sublease dated as of as of even date herewith, by and between Landlord, Tenant, as subtenant, and Sublandlord (the “**Consent**”). Pursuant to the Consent, Landlord has the following rights in the event of an Uncured Tenant Default (as defined in the Consent): the right to (a) terminate the Sublease, (b) elect to receive and collect, directly from Tenant, as subtenant, all sublease rent and any other sums owing and to be owed under the Sublease, or (c) elect to succeed to Sublandlord’s interest in the Sublease and cause Tenant, as subtenant, to attorn to Landlord. The parties agree that, in the event of an Uncured Tenant Default and provided (i) the Lease is still in full force and effect, and (ii) Tenant is not in monetary default or material non-monetary default under the Lease which has continued beyond applicable notice and cure periods, if Landlord elects to exercise its right to terminate the Sublease then, prior to or simultaneously with doing so, Landlord and Tenant shall enter into an amendment to the Lease whereby the Add to Premises Date shall be amended to reflect that such date shall be the date immediately following the termination date of the Sublease.

9. Miscellaneous.

- (a) This Eleventh Amendment sets forth the entire agreement between the parties with respect to the matters set forth herein. There have been no additional oral or written representations or agreements.
- (b) Except as herein modified or amended, the provisions, conditions and terms of the Lease shall remain unchanged and in full force and effect.
- (c) In the case of any inconsistency between the provisions of the Lease and this Eleventh Amendment, the provisions of this Eleventh Amendment shall govern and control.
- (d) Submission of this Eleventh Amendment by Landlord is not an offer to enter into this Eleventh Amendment, but rather is a solicitation for such an offer by Tenant. Neither party shall be bound by this Eleventh Amendment until such party has executed and delivered the same to the other party.

[Signatures appear on the next succeeding page]

IN WITNESS WHEREOF, Landlord and Tenant have caused this document to be executed under seal as of the date first above written.

LANDLORD:

COPLEY PLACE ASSOCIATES, LLC,
a Delaware limited liability company

By: SPG COPLEY ASSOCIATES, LLC,
a Delaware limited liability company,
its managing member

By: /s/ John Rulli
Name: John Rulli
Title: President of Malls – Chief Administrative Officer

TENANT:

WAYFAIR LLC,
a Delaware limited liability company

By: /s/ Enrique Colbert
Name: Enrique Colbert
Title: General Counsel , and not individually
hereunto duly authorized

Exhibit A
Amendment 11 Expansion Space

| TOWER | FLOOR | RENTABLE SQUARE FOOTAGE | ADD TO PREMISES DATE |
|--------------|--------------|------------------------------------|-----------------------------|
| One | 5 | 24,147 | January 1, 2026 |

Exhibit B
Floor Plans of Amendment 11 Expansion Space

Exhibit C
Base Rent for Amendment 11 Expansion Space

| Period | Annual Base Rent Per Rentable Square Foot | Annual Base Rent | Monthly Installment of Annual Base Rent (proportionately for any partial month) |
|--|---|---|---|
| January 1, 2026 through May 31, 2026 | \$49.00 | \$493,001.25 (Partial Year – 5 months) | \$98,600.25 |
| June 1, 2026 through May 31, 2027 | \$50.00 | \$1,207,350.00 | \$100,612.50 |
| June 1, 2027 through December 31, 2027 | \$51.00 | \$718,373.25 (Partial Year – 7 months) | \$102,624.75 |

CERTIFICATION OF CHIEF EXECUTIVE OFFICER

I, Niraj Shah, certify that:

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

Date: May 5, 2020

/s/ NIRAJ SHAH

Niraj Shah

President and Chief Executive Officer

CERTIFICATION OF CHIEF FINANCIAL OFFICER

I, Michael Fleisher, certify that:

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

Date: May 5, 2020

/s/ MICHAEL FLEISHER

Michael Fleisher

Chief Financial Officer

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

In connection with the Quarterly Report on Form 10-Q of Wayfair Inc. (the "Company") for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Niraj Shah, Chief Executive Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, to my knowledge, that:

- 1) the Report which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2020

/s/ NIRAJ SHAH

Niraj Shah

President and Chief Executive Officer

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

In connection with the Quarterly Report on Form 10-Q of Wayfair Inc. (the "Company") for the quarter ended March 31, 2020, as filed with the Securities and Exchange Commission on the date hereof (the "Report"), I, Michael Fleisher, Chief Financial Officer of the Company, certify, pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350, to my knowledge, that:

- 1) the Report which this statement accompanies fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended; and
- 2) the information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: May 5, 2020

/s/ MICHAEL FLEISHER

Michael Fleisher

Chief Financial Officer