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Top 10 Reasons Why Zillow Cracks $40 Within a Year

TrueCar and Bankrate Tell Us how Wall Street Values Lead Generation Businesses

Citron Research has been skeptical of Zillow (NASDAQ:Z) for some time now. We first reported on the company in 2012, with frequent updates. Three years later, with no real profits to show and endless amounts of insider selling, plus round after round of lowered guidance, Citron believes that this sucker is finally ready to break, as the company has run out of tricks and finally has to show profits.

The only question is how low will it go?

Citron suggests that $40 is a fair starting point. That would afford Zillow a market cap of $2.5 billion and have it trade at a generous 4x 2015 revenue. Instead of going through a long boring report, and in honor of the retirement of David Letterman, Citron will present the:

Top 10 Reasons Why Zillow is Going To Trade Below $40 In The Next Year

1. Zillow is a lead generation company for real estate agents and mortgage brokers … nothing more.

So it will ultimately trade like a lead generation company. Look at TrueCar (TRUE), which now trades at 2.5x revenue or Bankrate (RATE) which trades at 2x revenue. There are fixed multiples for these types of companies and Zillow should be grateful for the $40 target -- which is still more than 4 X its 2015 revenues.

2. In what Citron believes is the "jump-the-shark" moment … the CEO wants investors to view the company in decades.

In this week's press release outlining a preferred stock split, CEO Rascoff states, "Our Board, management, and the shareholders who have chosen to invest in Zillow, view the company in terms of decades, not quarters or years."

Citron wonders: "Why not in centuries or millennia??"

3. Despite wanting investors to wait for decades, the CEO is dumping

Over the past 12 months Rascoff himself has sold $13.7 million worth of stock. Guess his patience doesn't run for decades.

In fact, in the most recent proxy, Mr. Rascoff owns **zero** shares of Z stock – all his ownership is represented by unexercised options. Every exercise has resulted in immediate sale of the underlying stock.

4. The CFO has left the building.

Chad Cohen has been with Zillow for 9 years … but just as they are supposed to "dominate" real estate … he leaves. ????

5. The company is net losing customers.

In a recent web scraping (go sue us) Trulia agents were down around 7% in the quarter on Zillow was only up around 2% Combined agent count was down 2-3K from the last time the company reported … Let's see if Zillow states this metric on their next call.

6. Zillow can never be acquired at its current share price -- as validated by the recent Yelp "No Sale".

Somehow bulls have decided that they might not want to wait decades and have floated the rumor of a possible takeout. Despite having a higher quality business than Zillow, and with larger TAM – Yelp could not find a buyer.

Internet Giants Do Not Want To Operate Boiler Rooms -- Plain and Simple. Yelp's current market cap is $2.4 billion - that would put Zillow at $40.

7. It Ain't Getting Any Better!

Zillow has been unable to make a real profit in one of the largest real estate booms in history -- with less competition than it faces now. Besides promises, management has never discussed HOW the business will improve in the future. After all – how many times can you cold call the same pool of real estate agents?

8. Analysts have lost credibility on this name.

For years analysts have consistently lowered guidance and raised price targets on Zillow. In the latest 12 months analysts have finally raised estimates as the company has lowered. The sell side has lost all credibility on this name and Wall Street knows it.

Case-in-point: It should be noted that the analyst team at Goldman who has a buy on Zillow is the same group that put a $22 target on TRUE in May of this year.

9. Competition is only getting stronger.

Unlike Yelp, which completely dominates the online review space, Zillow is facing stiff competition from the many VC backed firms that are helping realtors connect with customers. Just go to any real estate conference – Realtors know that Zillow is **sooo 1.0.** Not to mention -- Murdoch!

10. Inventory Inventory Inventory

Zillow has been forced to cut deals with national real estate brand operators for "listing protection". These have cut deeply into the amount of inventory (ad space on listings) available to sell. Needless to say, a good part of their quality inventory is unavailable for sale, which lowers ROI on what is left. This trend is self-perpetuating. Less inventory = less leads. Blocked Inventory = lower quality leads.

$40 a share equals $2.5 billion, which is still a lot of money.

For those of you who live in VC/Internet world and think that $2.5 billion is "chump change" we remind you that $40 a share would make Zillow worth the price of the Seattle Seahwaks + Seattle Mariners with enough money left over to help bring back the Supersonics.

All this for a company who has never generated any real net income.

Conclusion

Zillow spends a ton of money on consumer advertising because Wall Street has indulged it in the hype-driven story that it was going to reshape Real Estate.

But the true nature of its business becomes more clear every day, along with the actual business relationship between real estate agents and their listings.

Cautious Investing to All.