

## Wayfair is Growing Enemies Faster than Customers

### Wayfair vs Taxes, Supreme Court, and Potus

After witnessing the Facebook fallout the past week, Citron has to give complete kudos to Scott Galloway, professor at NYU, TED Speaker, and Chairman of Gartner owned L2. In a casual article in December when discussing the trends for 2018 he penned:

**Facebook stock peaks.** *“The Zuck becomes the unwitting poster child for the movement against big tech as a series of half measures in response the Russian interference...”*.

Boy was he right! And okay fine, that ship has sailed. But what about his other critical prediction that has yet to happen.

### “Wayfair Shares Crash in 2018”

<https://www.l2inc.com/daily-insights/no-mercy-no-malice/predictions-for-2018>

When Galloway says “crash”, he doesn’t mean return to \$45/share (prices just one year ago), but rather down to the price set by the professors who have done more detailed work on Wayfair than the entire sell side combined. **Their price target- \$10!**

[https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=3040422](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3040422)

It is no secret to Citron readers that we believe the Wayfair business model is a piece of unsustainable shit. We thought we would update our readers and explain why Wayfair’ model is getting worse by the day for but a few reasons:

- 1) Increased costs: Frictions are being added to Wayfair’s operating model making the aspirational dream of profitability that much more difficult
- 2) Intensified competition: Overstock may be equipped with increased cash, continues to have a bone to pick, and a noted intention to spend on customer acquisition; Amazon/Walmart others all heating up
- 3) Partnership woes: Facebook is an advertising partner of Facebook’s and the recent privacy issues will cost Wayfair in the near-term

### Unpaid taxes and Trump Don’t Mix

While the media was creating a frenzy of a possible showdown between Amazon and The White House, we suggest the POTUS look a real culprit in e-commerce – Wayfair.

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Two weeks ago the President signed a federal omnibus spending bill without a digital tax provision that would allow for states to impose sales tax collection obligations on vendors lacking an in-state physical presence.

<https://www.bna.com/sales-tax-group-n57982090380>

Yet, Wayfair is wasting the time of the US Supreme Court and abusing the system in South Dakota v Wayfair which will finally usher in a new tax code for the 21<sup>st</sup> century as obviously supported by President Trump and Jeff Bezos.

<http://thehill.com/opinion/judiciary/369157-the-next-tax-reform-internet-sales-tax>

So Wayfair loses money without paying taxes and they are DIRECT opponents of President Trump. After he got elected, they were one of the companies that immediately eliminated doing business and selling Trump branded furniture.

<http://www.businessinsider.com/companies-cut-ties-with-trump-2017-2>

So Wayfair went from selling this



To Selling This



<https://www.wayfair.com/keyword.php?keyword=donald+trump>

Ok, so that is just fun information, but now let's see what hurts them NOW regardless of the Supreme Court.

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Nothing can be funnier than *Reader's Digest* teaching Wayfair consumers how to scam Wayfair. That is how absolutely absurd their shipping policy is- they can't even afford to take returns.

<https://www.rd.com/culture/wayfair-perk-can-save-big-bucks/> - this is a major problem for Wayfair

## Prisoners Dilemma

Overstock.com has witnessed Wayfair's appreciation in share price over the past 3 years and insiders become insanely wealthy while the company continues to lose money because Wall Street is more concerned about top line than bottom line. On the recent Overstock conference call, Wayfair was mentioned 12 times.

If you cant beat em...join em. Sorry Wayfair.

Overstock specifically called out substantially lower customer acquisition cost than Wayfair, pricing that is 11% below Wayfair, etc. As the market has rewarded Wayfair for growth despite ever growing losses, Overstock has switched gears by noting its plan to replicate this strategy.

Wayfair is ALREADY feeling the impact.

Two 3<sup>rd</sup> party data firms that track Wayfair (we are not going to include their names but you hedge funders know who they are) estimate that W will miss estimates on its core business by 10-20% this quarter!!!!

## More Facebook Collateral Damage

Just like Shopify, Twitter and others. The Facebook privacy scandal may leave Wayfair as collateral damage. Facebook is changing daily to salvage credibility and least of their concerns in Wayfair.

*"Facebook is going to limit how much data it makes available to advertisers buying hyper-targeted ads on the social network...[and later] The thinking is that Facebook has less control over where and how these firms collect their data, which makes using it more of a risk."*

<https://www.recode.net/2018/3/28/17174098/facebook-data-advertising-targeting-change-experian-acxiom>

Not surprisingly, the data shows that the biggest drop off in revenue came in March, which is when Overstock began to step up marketing against them. Expect this trend to only get worse.

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## Conclusion

Wayfair's growth is already beginning to decelerate. What happens to their growth once they have to start paying sales tax in every state and have to compete for the 20 keywords that drive the furniture industry? And they lose a key partner!

Yes, Citron was early on the name, but we have beyond full conviction that this stock will see below \$30 in 2018 on its way much lower.