Wayfair: Citron is listening to the smartest guys in the room
First stop back to $100

Since first writing on Wayfair, Citron has acknowledged the breadth of the *moviepass economy* (click the link), and we've refrained from commenting further on Wayfair, as the market continues to reward top line growth … at all costs.

BUT

We also understand how quickly stories can change. Last year, a team of data scientists and Wharton professors ran a study that included 2500 simulations only to find that Wayfair is running a terminal business

The team has updated their research one year later. A lot has changed.

Before we dive in, Citron would like to congratulate the professors on the sale of their analytics company to Nike, a company that understands the importance of data in customer retention: Nike Data Analytics.

The team's new report, authored by professors Daniel McCarthy and Val Rastorguev, can be found here: Theta Equity Partners Wayfair Update

Professor McCarthy and Rastorguev compared their findings today to when they first published. Their conclusion is pretty astonishing:

> ***We estimate that the unit economics of newly acquired customers have actually gotten worse – from a $10 average loss per customer we estimated back in 2017, to $19 per customer in Q2 2018.***
>
> ***What is interesting about the situation at Wayfair is that the complete opposite is true: every single profit-related measure has come in worse than we had anticipated, both in terms of absolute dollar amount and as a percentage of sales.***
>
> ***In sum, when we look at where Wayfair's underlying financials are now relative to where we thought we would be, the situation at Wayfair has actually been worse than we had predicted.***

Citron will now add some thoughts to the professor's work:

1. Wayfair is not Amazon. In fact, Wayfair is the anti Amazon.

AMZN's consensus 2018 adj. EPS estimate and stock price have moved in lock-step. The same cannot be said about W.

The gap between W's stock price and consensus 2018 adj. EPS estimate is confounding. The below chart could well be a case study for business schools when trying to understanding the stock market in 2018.

Let's compare this to Amazon.

Since the beginning of 2016, W's stock is up as much as AMZN's, though W has repeatedly missed profit estimates and AMZN has repeatedly delivered.

Since 12/31/15, W consensus 2018 adj. EPS estimate has gone from $1.19 to ($3.60), while AMZN's has gone from $19.61 to $26.75.

2. Checks Point to Revenue Miss

3rd party data with >90% correlation that was published last week implies that W is on track to miss revenue estimates this quarter … with the stock being at all-time highs. (Sorry we cannot reprint this data for copyright reasons, but if you contact Citron, we will tell you where to get consumer credit subscriptions).

3. More insider selling at Wayfair than either AAPL or AMZN

In 2018, insiders have sold $121 million at W vs. $76 million at AAPL and $71 million at AMZN.

4. Let's comp to William Sonoma and Restoration Hardware

Last quarter both WSM and RH did over 55% of their sales online, proving the importance of the multichannel retailing.

Market Cap:
$6B, WSM delivered $131M in EBIDTA
$3B, RH delivered $78 mil in EBIDTA

Wayfair $12B, delivered **($35M)** in EBIDTA

God bless the "Moviepass" economy

Conclusion

With short interest at a 52-week low, Citron cannot blame those who have covered, but every day is a new day, and with new information at hand, Citron is putting on a new short position at current prices.

Plus, we should mention, Amazon is starting to get really aggressive in furniture: http://www.furnituretoday.com/article/556375-amazon-home-group-grows-16-first-half-2018/

Right at the time Wayfair is opening new stores - albeit the first is to liquidate returns (always been a problem).

Regardless of what the stock market does over the next 52 weeks, investors will be forced to reconcile Wayfair's deteriorating unit economics and lofty valuation.

Cautious Investing to All.