Wayfair Would Have Had to Pull Its IPO in 2019

Recent Earnings Debacle Have Citron Lowering PT to $45

In a new market environment where investors have little appetite for structurally money losing businesses without a clear path to profitability, Citron believes that Wayfair would not be able to complete an IPO in 2019.

After eight years operating as a public company, Wayfair has never been further from profitability as its most recent quarterly earnings release reflects the Company's largest quarterly loss while revenue growth is decelerating.

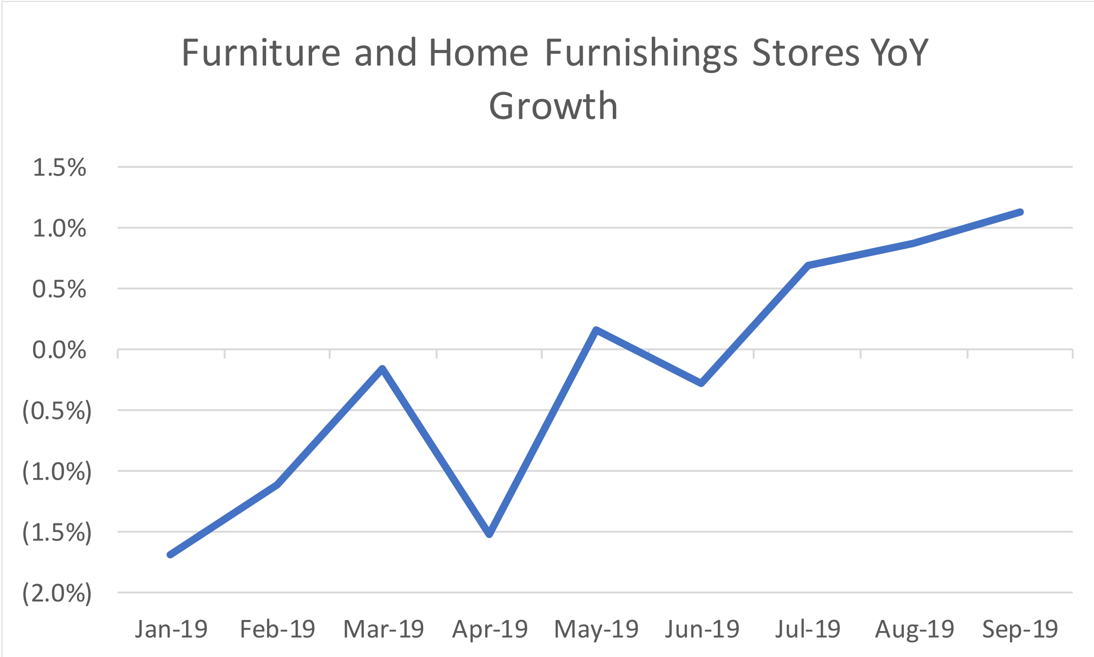
*In business for 17 years and $W loses $654 million in the first 3 quarters of 2019. (How is this a $8 billion company?)

One quarter after the resignation of its COO and CTO, Wayfair reported another bad quarter, this time blaming it on tariffs. Why not?... if things go bad just blame it on Trump.

"We are pleased to report Q3 Direct Retail net revenue growth of $607 million up 36 percent year over year. This period of strong growth took place, despite some short-term tariff related volatility." – Niraj Shah, CEO, co-founder and co-chairman, Wayfair
https://investor.wayfair.com/news/news-details/2019/Wayfair-Announces-Third-Quarter-2019-Results/default.aspx

Yet this is a complete lie as shown by a combination of data points.

Looking at the US Census Bureau monthly retail trade data shows that the furniture and home furnishings industry has seen a significant **acceleration** in growth this year.
https://www.census.gov/retail/index.html



As an ecommerce business, Wayfair should be seeing an even greater acceleration relative to the industry average and its brick & mortar peers. However, in reality Wayfair is seeing a meaningful deceleration in growth.

Why??? Citron called it – You have been "Bezosed"

Citron may have been early but, as we told CNBC in 2017, we always knew that Amazon would be the downfall of Wayfair:

Short-seller getting burned by Wayfair says he's not worried because Bezos is 'working for me'

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https://www.cnbc.com/2017/05/10/short-seller-getting-burned-by-wayfair-says-hes-not-worried-because-bezos-is-working-for-me.html

Over the past 3 months Amazon has aggressively stepped up its Google spend for Home Goods making Wayfair's bad business only worse.

https://www.dropbox.com/s/pnypauhckytie2u/MERKLE_DMR_Q2_2019.pdf?dl=0

To further poke at Wayfair, in the past five months Amazon has launched a series on furniture commercials that highlight free delivery and are far more entertaining and compelling than anything put out by the Wayfair team.
https://www.youtube.com/watch?v=CvSr_XjfCWo
https://www.youtube.com/watch?v=wY3O3eeNVqI

Here is a new thought – If Wayfair were to have the same enterprise value as RH, the stock would immediately be trading at $46…. and this ain't no RH.

A Tale of Two Companies

Every Citron reader knows we have been long-time critics of Wayfair and fans of RH, which we first recommended buying at $30 in 2016 and reiterated at the beginning of this year that RH was "*The most compelling story in retail*".

RH is currently trading at $180 post Berkshire Hathaway investment with an enterprise value of $5.3 billion.

Though Citron was admittedly early in shorting Wayfair, our conviction in our bear thesis has only strengthened with time. We reiterated our negative view on the stock ahead of Wayfair's Q3'19 earnings when the stock fell almost 20% on the disappointing report as Citron believed new market realities would force investors to scrutinize the company's elusive promise of profitability.

https://citronresearch.com/it-doesnt-matter-until-it-matters/

As RH has been growing its store base and expanding margins while becoming a part of the fabric of American's furniture market, Wayfair has been losing more money than ever and moving in the complete opposite direction. Consider:

- Revenue growth is accelerating at RH vs. decelerating at Wayfair
- Profit margin differential between RH and Wayfair is widening with gross margin of 41% at RH vs. 24% at Wayfair and adjusted EBITDA margin of 18% at RH vs. negative 5% at Wayfair
- FCF is positive and growing at RH vs. Wayfair is losing more money than ever

Not to mention the most obvious disparity between the two companies – RH CEO Gary Friedman has not sold a single share in the past five years while Wayfair Co-Founders Niraj Shah and Steve Conine have sold over $1.5 billion of stock.

Furthermore, RH's CEO has bought $7 million of stock in the open market while the Wayfair Co-Founders have not bought a single share.

Even if Citron generously assumes that Wayfair should trade at the same enterprise value as RH, Wayfair would be valued at $46.

Wayfair Enterprise Value	$5,300	<---In-line with RH
Debt	$2,336	
Minority Interest	$0	
Cash	$1,301	
Market Cap	$4,266	
Shares Outstanding	93	
Wayfair Price Target	**$46**	

What About the Professors?

Citron has not been the only vocal critic of Wayfair. Two years ago, two professors from Emory and Wharton who sold their customer analytics platform to Nike wrote a critical piece on Wayfair noting that the fair value for the stock was $10 based on their forward projections for EBITDA growth.

https://www.linkedin.com/pulse/customer-based-valuation-analysis-overstock-wayfair-daniel-mccarthy/

The $10 share price estimate assumed that Wayfair was going to achieve 9% adjusted EBITDA margins within the next few years… It is a few years later and consensus adjusted EBITDA margins are at negative 4%-5%. Even their $10 price target is looking generous.

THE FINAL WORD ON WAYFAIR

The model is dead, management cashed out, and the shareholders are left with a money losing company that will never turn the corner. Wayfair's most valuable asset has become its retained tax losses.

Cautious Investing to All

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