# MO Weekly Equity Note: 09-11-2021

## Thoughts on Westwing (WEW) Competitive Positioning

The more I learn about WEW, the more excited I get about its potential to become a long-term compounder. As a refresher, you can read our original write-up here.

We're extremely bullish on the company because we believe COVID created a permanent transformation in the way consumers shop for home decor and furniture (from offline to online). If that's true, WEW is the *best-positioned* company to capture that J-Curve adoption rate growth at incrementally higher margins thanks to own-brand product sales.

WEW will generate over EUR 500M in sales this year at roughly 50% GM and 8% EBIT margins. Over the next five years, we believe WEW can generate over EUR 1B in annual revenue at roughly 8-10% EBIT margins, which should value the business at *least* at EUR 2B market cap. **That's a roughly 140% return or a 28% 5YR IRR.**

This weekend I want to talk about their competitive positioning and why WEW is poised to win the own-brand game.

Specifically, I want to highlight WEW's unique culture, why its own-brand products should do better than expected, and what separates the company from its competition.

## How Westwing (WEW) Competes & Why They're Different

WEW's differentiation remains unclear to most outside investors despite strong operating results and sharp-looking investor presentations. For example, whenever I ask others about the stock, the immediate response is, "Hmm, so it's like a Wayfair basically?"

In some ways, yes. Both companies sell furniture and home decor items. But that's where the similarities end.

WEW plays a totally different game.

Think of Wayfair as the online Walmart Super-Store for all things home decor and furniture. The company offers over 22 million products. They maintain relationships with 13,000+ North American suppliers and another 3,000+ European suppliers.

To get to 22M+ products, Wayfair encourages its suppliers to list as many products as possible on Wayfair's marketplace platform. Moreover, it's the suppliers that post the pictures of the furniture on Wayfair's platform.

Westwing takes the exact opposite approach. One focused on careful curation. They *handpick* from a smaller assortment of higher-priced, higher-end products. Additionally, Westwing boasts the best in-house curation team in the industry.

A former Wayfair director explained the shopping experience difference like this (emphasis mine):

> *“Whereas Westwing, you would have people handpicking the individual products going through the catalog and saying,* ***"Okay, here are the 5 products we want to list. And these other 100 products, you can keep for yourself."*** *And* ***Wayfair would say, "Yes, bring the 105 product online, whatever other material you have, bring them all."*** *So this is a bit more polished,* ***handpicked and fine-tuned on the Westwing side****, and that's number one.”*

The beauty of this curation is that it results in a significantly better customer experience compared to competitors like Wayfair. Customers find joy in the shopping experience itself.

For example, Westwing’s products arrive in beautiful mint green packaging (you can watch an unboxing video here) as all products run through WEW’s warehouses and custom packaging.

These subtle but critical differences all WEW to produce much higher margins than competitors, including Wayfair, OTTO, and home24.

### WEW’s Differentiation Gives Them Better Own-Brand Probability

WEW needs to increase the revenue share of its own-brand products to expand EBITDA margins over the next few years. Fortunately, the company has the best chance of any home decor & furniture e-commerce player to *actually* do that.

If we could distill WEW’s own-brand advantage into three key points, its these:

- Good product knowledge (thanks to curation)
- Amazing merchandizing (control of brand and shopping experience)
- WEW controls most of its supply chain

Together, these three attributes create the potential for a highly successful, highly scalable own-brand segment.

## Concluding Thoughts: WEW On Pace For $500M+ Revenues

WEW should generate over EUR 500M in revenue this year at ~50% gross margins and ~8% EBITDA margins.

 

For whatever reason, EUR 500M seems to be the “critical threshold” of revenue needed to reach economies of scale. Here’s a former Wayfair director’s thoughts on WEW why that may be (emphasis mine):

> *“Now they are getting nice economies of scale at EUR 500 million. We always said at Wayfair,* ***you need at least EUR 500 million to really make the economies of scale muscle to flex and to work because of the comparatively high initial marketing costs and customer acquisition costs.***
>
> ***But if you get to EUR 500 million, with that good repeat rate and then marketing cost and customer acquisition costs are a little bit diminishing*** *compared to the total size of the business or just scaling down. Now is the time for them to use that,* ***reinvest maybe a little bit into pricing and reinvest a little bit of these gained margins into price competitiveness.****”*

As WEW crosses the EUR 500M revenue level later this year, they’ll begin to reap these benefits of scale, further kicking their flywheel up in gear.

Unbelievably enough, the company still trades at ~1.25x current sales and just 21x current EBITDA with over 20% expected top-line revenue growth over the next few years. The chart looks strong and poised for a breakout, at which point we’d increase our position size substantially.

 