



# MO Weekly Equity Note: 10-09-2021

## 1stDibs.com (DIBS): Creating The World’s Largest Luxury Design Marketplace

Last week we featured MADE.com, the first of our two cash-rich, broken-IPO online marketplaces. If you haven't read it, you can check it out [here](#).

This week, we're featuring [1stDibs.com](#) (DIBS). DIBS is the world's leading online marketplace for luxury design. The company operates a classic two-sided marketplace, providing increased product availability to buyers *and* increased product demand for sellers.

DIBS is a first-mover in its space and caters to a fast-growing, deep-pocketed user base. The company has barely scratched the surface in active buyers and **should generate over 6x its current GMV over the next decade.**

We believe the company should command a ~\$40/share price point based on a 10x multiple of our 2025E gross profits. **That’s roughly 185% higher than the current stock price.**

The company operates in a massive market at the precipice of rapid online shopping adoption. According to Bain & Co estimates, the personal luxury goods market is a ~\$210B market,

Additionally, DIBS's core market (high-quality design furniture and homewares, fine art, watches, and jewelry) boasts an estimated \$129B TAM.

As we mentioned last week, luxury design/home decor is in the *early innings of rapid online adoption*. As a percentage of total sales, those online jumped from 13% in 2019 to ~23% in 2020. By 2025, online should account for ~30%+ of all sales. That's nearly **\$40B in online sales up for grabs** assuming DIBS's 2020 TAM estimates.

Here's the rub... Not only does DIBS have to convince consumers to shop online for things like furniture and art. But, they must do so at **very high** average price points per item. For instance, the average order value (AOV) on DIBS is ~\$2,500. To compare, other online marketplaces like Etsy and FarFetch command ~\$30 and \$568 AOVs.



Despite these challenges, the **DIBS customer proposition is working**. The company's grown GMV at a 58% CAGR from \$13.8M in 2013 to \$342M in 2020. GMV growth was supported by a nearly 40% increase in Active Buyers since 2019, from 45K to 65K as of March 2021.

Sellers also see the value in the DIBS marketplace. As of March 2021, the company's 4,200 sellers have listed a cumulative \$10.9B in merchandise on the platform.

**The beauty of DIBS's two-sided marketplace lies in its natural flywheel effect.** DIBS has the best collection of luxury design sellers on its platform. Better sellers bring more buyers to the table. More buyers encourage new sellers to join the platform while existing sellers add new inventory to meet increased demand.

But convincing consumers to spend thousands of dollars for items they can't *physically* see or touch requires three things:

- **Trust in the marketplace to deliver the good(s) as promised**
- **Trust in the seller offering the good(s) on the marketplace**
- **An ability to recreate the vanity-driven, in-person shopping experience online**

Failure to meet one of the above requirements and the consumer loses trust in the platform, takes her money elsewhere (likely in-store), and the flywheel is gone.

**DIBS is the best-positioned company to meet the unique demands of luxury shoppers.** Over time, more consumers will trust the DIBS platform with unique, luxury design pieces. This will result in a twin-engine of revenue growth as more consumers buy more products and do more business online.

We believe the company has a chance to generate \$1.3B+ in GMV over the next ten years with \$430M in revenue.

We'll explore the following in today's write-up:

- DIBS History & First-Mover Advantage
- Unique Characteristics of Luxury Shoppers
- How DIBS Creates The Highest-Trusted Platform For Luxury Design
- Estimating Future Active Buyers and Intrinsic Value

## **DIBS: A 20 Year Journey From Classifieds To Marketplace**

Luxury real estate dealer Michael Bruno founded the company in 2000 to "bring the experience of the Paris Flea Market to the internet." Bruno saw the beautifully diverse luxury pieces at the real-life flea market and created a way to share his findings with his friends.

The website started as a **classifieds-type platform**. Think Craigslist meets Sotheby's. To kickstart demand, DIBS initially focused on the supply side of its classifieds website.

The more unique pieces listed on the website, the more attractive they would be for prospective buyers. By focusing on the supply side and ensuring the highest standards for its sellers, DIBS created one of the most trustworthy listings sites for luxury goods.

During these early years, sellers would "list" their pieces on the website and wait for contact from interested buyers. Once contacted, the buyer and seller would negotiate and close the deal *offline*. There was no incentive for buyers or sellers to interact on the platform beyond the initial connection. That changed in 2011.

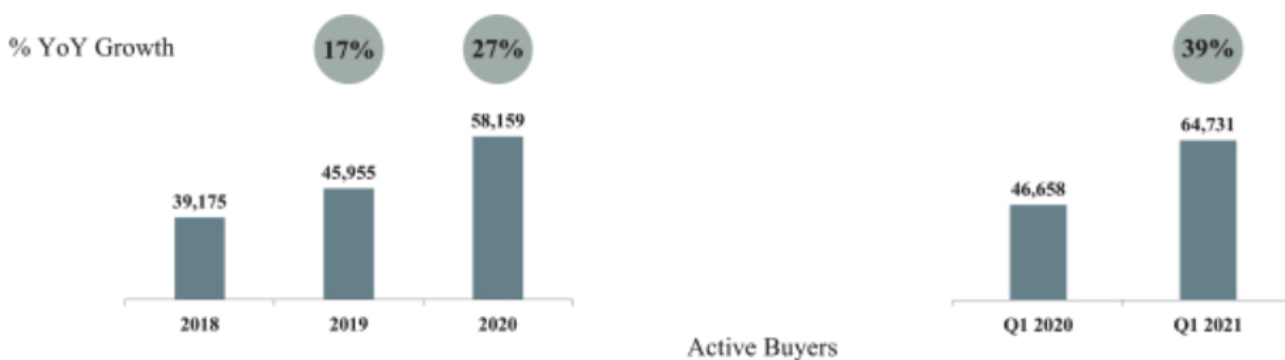
Venture Capital firm Benchmark invested in the company in 2011 and quickly named David Rosenblatt as CEO. Before joining DIBS, Rosenblatt served as CEO of DoubleClick, a digital advertising company that Google bought for \$3.1B in 2007.

In two years, **Rosenblatt transformed DIBS from a classifieds business to a fully integrated online marketplace for buyers and sellers**. Today, buyers and sellers negotiate, converse, and transact inside the DIBS platform.

The company's operated the online marketplace since 2013. But its first-mover advantage extends to its early days under Michael Bruno. In fact, Bruno's emphasis on the supply side created one of the most substantial first-mover advantages in the luxury design space.

## Luxury Shoppers: A Unique Catalyst For A Stronger Moat

DIBS caters to the luxury spender's \$2,500 average order value, nearly 30x higher than Amazon. This luxury shopper cohort has unique shopping characteristics that when examined reveal the power of a marketplace like DIBS. We must first understand the differences luxury shoppers experience when shopping online vs. in-person to understand this advantage.



## What Matters Most When Shopping Online vs. In-Person

Xia Liu wrote an excellent paper in the *International Journal of Retail & Distribution Management* on luxury shopping behavior in-store compared to online. Check it out [here](#) if you want to nerd out. The critical point of the paper is that **online and in-store luxury consumers are influenced by different motivational factors**. Let's unbox each element.

Online luxury buyers exhibit five motivational shopping factors:

- **Convenience**
- **Price**
- **Product Availability**
- **Online Shopping Attitude**
- **Online Trust**

In contrast, in-store luxury buyers care about:

- **Aesthetic appeal**
- **Store Trust**
- **Shopping Experience**
- **Customer Service**
- **Sense of Power**

Online luxury buyers prefer the convenience and ability to price shop compared to their in-store peers. Comparatively, in-store luxury shoppers enjoy the feeling of "being seen entering a luxury brand store" and the sense of power that comes with it.

Predictively, in-store shoppers also prefer to touch and feel the product before buying, placing a greater emphasis on "store trust" than an online platform. Finally, in-store shoppers value customer service. They want to feel catered to.

This is important because **the best luxury marketplace is the one that exhibits both online AND in-store shopping motivational factors**. And DIBS does *just that*.

## **How DIBS Creates The Best Environment For Luxury Shoppers**

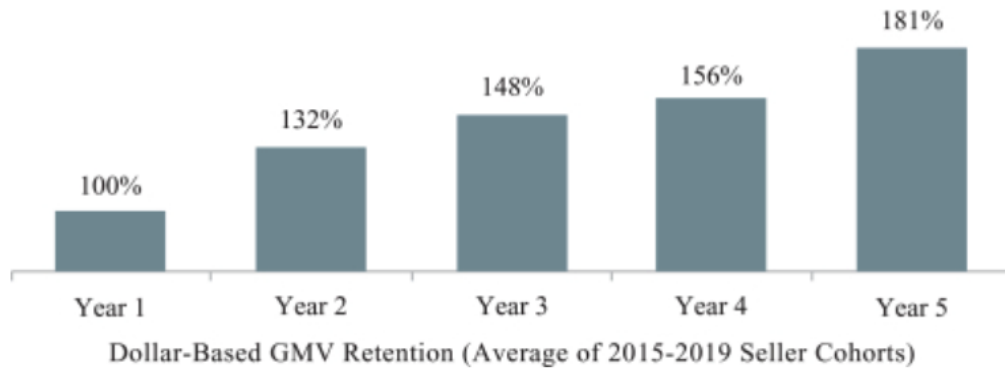
DIBS is the best online platform because it marries the convenience of shopping online with the appeal and power of visiting in-store luxury brands. First, the company is the oldest and largest fully digital luxury goods marketplace. Its size **ensures trust** in the platform while offering the **most comprehensive product assortment** possible.

Second, a wider assortment of products creates **greater convenience** for shoppers because they don't have to search multiple websites to find a piece. But it's not only about price convenience. DIBS allows buyers from *any* location to browse the world's most incredible offerings.

Let's focus on trust for a second. Yes, DIBS's sheer size embeds a certain level of confidence. But the company adds another layer of trust with its seller network. There are only 4,200 *highly vetted* sellers on the platform.

These Sellers must *apply* to list their items on the DIBS marketplace. Curating and vetting sellers provide an extra layer of trust and create a greater **sense of power** for buyers. Buyers aren't

browsing from Side-Hustle Harry's garage collection but from world-renowned professionals who care deeply about what they create.



Sense of Power also eliminates potential competitors like Amazon or Etsy. Luxury buyers want a sense of power when they shop online. **It's like shopping for the newest Louis Vuitton handbag in the middle of Wal-Mart.** It defeats half the purpose of buying the product.

Let's see how this competitive advantage translates to active buyers, GMV, and intrinsic value over time.

## What Could The Future Look Like For DIBS?

DIBS has 3.5M users (non-seller visitors and buyers/non-buyers) and 65K active buyers on its platform. In other words, less than 2% of DIBS's current user base buys items on the platform.

There are three main levers DIBS can pull for future growth:

- **Number of Active Buyers on the platform**
- **Average Order Value**
- **The average number of orders per active buyer**

The company can create significant value by increasing the percentage of active buyers from its existing customer base. This is exciting because DIBS can generate massive revenue growth **without trying to find *new* customers.**

Suppose the company increases its share of Active Buyers to total user base from <2% to ~5-7% over the next ten years. That gets us ~230K active buyers with an annual Active Buyer growth rate of 25bps. Of course, DIBS can expand its user base by offering a wider assortment of verticals on its marketplace.

For instance, DIBS started with vintage and antique furniture. Since then, the company's expanded into other categories, including new/custom furniture, jewelry, watches, and art. Most recently (September 2021), they've entered the [NFT space](#).

230K active buyers at a \$2,500 AOV with 2.2 purchases per year gets us **~\$1.27B in GMV by 2031**. Let's also assume that the company's take rate reduces over time from ~26% to 21%. A 21% take rate gets us **~\$266M in 2031 revenue**. DIBS also sports ~68% gross margins. Let's assume a slight contraction from 68% to 66%. That gets us **\$176M in Gross Profit by 2031**.

Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
User Base	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000	3,500,000
Active Buyers	58,159	64,750	73,500	91,000	108,500	126,000	143,500	161,000	178,500	196,000	213,500	231,000
% of Active Buyers	1.66%	1.85%	2.10%	2.60%	3.10%	3.60%	4.10%	4.60%	5.10%	5.60%	6.10%	6.60%
Average Order Value	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00	\$2,500.00
Average # of Orders	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2	2.2
GMV	\$319,874,500	\$356,125,000	\$404,250,000	\$500,500,000	\$596,750,000	\$693,000,000	\$789,250,000	\$885,500,000	\$981,750,000	\$1,078,000,000	\$1,174,250,000	\$1,270,500,000
Take Rate	25.60%	26.00%	25.50%	25.00%	24.50%	24.00%	23.50%	23.00%	22.50%	22.00%	21.50%	21.00%
Annual Revenue	\$81,900,000	\$92,592,500	\$103,083,750	\$125,125,000	\$146,203,750	\$166,320,000	\$185,473,750	\$203,665,000	\$220,893,750	\$237,160,000	\$252,463,750	\$266,805,000
Gross Profit	\$56,000,000	\$61,111,050	\$68,035,275	\$82,582,500	\$96,494,475	\$109,771,200	\$122,412,675	\$134,418,900	\$145,789,875	\$156,525,600	\$166,626,075	\$176,091,300
GP Margin	68.38%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%

Remember, the above assumption assumes **zero growth** in DIBS's user base, AOV, or purchase frequency.

Suppose *more* active buyers purchase higher-priced items at a greater frequency over the next decade. What would that do to GMV, revenues, and gross profits?

Let's assume the following:

- 2.5% average growth rate in user base
- \$3,000 AOV by 2031 (\$50 increase per year)
- 2.7 items per customer per year by 2031 (2.27% CAGR)

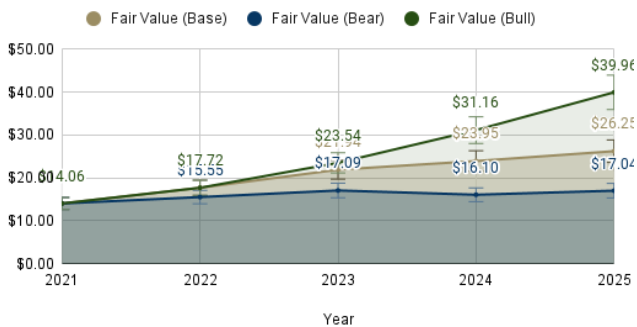
Under the above assumptions, we'd end 2031 with **4.4M total users and nearly 290K active buyers**. Next, we assume each buyer purchases 2.7 items per year at a \$3,000 AOV. **That gets us almost \$2.4B in GMV by 2031**. Assume a 21% take rate and 66% gross profit margin, and you get **\$490M in revenue and ~\$325M in gross profit by the end of the decade**.

Year	2020	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
User Base	3,500,000	3,500,000	3,622,500	3,731,175	3,843,110	3,958,404	4,037,572	4,118,323	4,200,690	4,263,700	4,327,655	4,392,570
% Growth			3.50%	3.00%	3.00%	3.00%	2.00%	2.00%	2.00%	1.50%	1.50%	1.50%
Active Buyers	58,159	64,750	76,073	97,011	119,136	142,503	165,540	189,443	214,235	238,767	263,987	289,910
% of Active Buyers	1.66%	1.85%	2.10%	2.60%	3.10%	3.60%	4.10%	4.60%	5.10%	5.60%	6.10%	6.60%
Average Order Value	\$2,500.00	\$2,500.00	\$2,550.00	\$2,600.00	\$2,650.00	\$2,700.00	\$2,750.00	\$2,800.00	\$2,850.00	\$2,900.00	\$2,950.00	\$3,000.00
Average # of Orders	2.2	2.2	2.25	2.3	2.35	2.4	2.45	2.5	2.55	2.6	2.65	2.7
GMV	\$319,874,500	\$356,125,000	\$436,465,969	\$580,123,089	\$741,922,042	\$923,416,382	\$1,115,328,693	\$1,326,100,026	\$1,556,954,066	\$1,800,304,631	\$2,063,718,194	\$2,348,268,026
Take Rate	25.60%	26.00%	25.50%	25.00%	24.50%	24.00%	23.50%	23.00%	22.50%	22.00%	21.50%	21.00%
Annual Revenue	\$81,900,000	\$92,592,500	\$111,298,822	\$145,030,772	\$181,770,900	\$221,619,932	\$262,102,243	\$305,003,006	\$350,314,665	\$396,067,019	\$443,699,412	\$493,136,285
Gross Profit	\$56,000,000	\$61,111,050	\$73,457,223	\$95,720,310	\$119,968,794	\$146,269,155	\$172,987,480	\$201,301,984	\$231,207,679	\$261,404,232	\$292,841,612	\$325,469,948
GP Margin	68.38%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%	66.00%

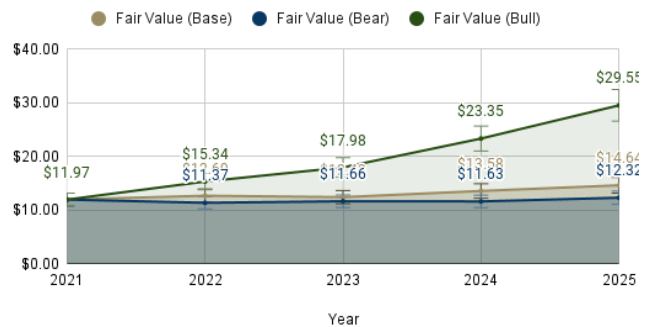
It's worth mentioning that these are **very rough** estimates. But they act as a guide for us to understand the three main levers DIBS possesses if they want to seriously expand GMV, revenues, and gross margin. Yet even in our optimistic scenario, DIBS's revenue accounts for less than 0.40% of its addressable market.

We also created a Macro Ops Range of Reasonable Outcomes (MOCRO) sheet to gauge potential intrinsic value estimates over the next five years. You can find it [here](#). You can also view our MOCRO Fair Value Cones below.

Fair Value Per Share (EV/GP)



Fair Value Per Share (EV/Sales)



Currently, the company sells for a \$529M market cap (~\$14/share). Subtract ~\$180M in net cash, and you get a \$353M Enterprise Value. In other words, **you can buy the business for 1.35x 2025E revenues, ~2.5x 2025E gross profit, and 0.40x 2025E GMV.**

DIBS is one of those "obvious" companies. Obvious because the business model makes sense, the addressable market is enormous, and there's a lack of direct competition. And fortunately for us, nobody seems to be talking about the business.

As of this writing, there's not a single detailed write-up on the company on SeekingAlpha or SumZero. A quick Twitter scan of "\$DIBS" also shows similar sentiment. We're hoping investors continue to ignore this terrific business as the price recovers from its post-IPO sell-off.

## Concluding Thoughts: DIBS Serves A Unique Shopper In A Massive Market

In a world where Amazon and Etsy captured the \$50 online transaction, DIBS stands ready to dominate the \$5,000 online transaction. DIBS is the best-positioned company to service the unique shopping motivations of luxury consumers.

The company creates an in-store-like luxury experience online through its \$2,500 AOV while meticulously curating its seller base. Sellers want to list on the DIBS platform because of its luxury appeal. Buyers want to shop on DIBS because they know they'll find unique, luxury pieces from the world's best curators, designers, and craftsmen.

DIBS has a clear path to over \$2B in GMV, \$400M+ in annual revenue, and \$300M+ in Gross Profit. And even in our bull case, DIBS revenue accounts for <0.40% of its TAM. There is a *massive* opportunity for DIBS to become a significantly larger business in ten years than it is today and a \$40 stock over the next five years.