



Bears See Redfin Struggles Continuing

Ticker/Price: RDFN (\$18.18)

Analysis:

Redfin (RDFN) saw buyers yesterday add to the November \$18 puts and now over 7,000 at the strike after 5,000 bought last week, 8-8. RDFN has seen buyers in the November \$17 puts over 2950X as well as January \$16 puts since 8-2. Shares gapped higher on earnings recently but giving back all of the move and back under the 8-MA. RDFN is forming a bearish wedge since May and a move under \$17.25 has potential to re-test 52-week lows around \$14. The \$1.63B company trades 2.85X sales and 5.9X cash and not near profitability. RDFN sees revenue growth slowing into a 25% to 27% range the next two years. Margins have been under a multi-year contraction cycle down from around 30.5% to 20.9%. RDFN has attempted to set itself apart from the peers in the space like Zillow and Realty through their disruptive pricing model with lower commissions for customers and hands-off approach between the agent and customer. RGLY's revenue-per-transaction has remained basically flat over the last four years (down 2% last quarter) while homebuyer success rate is expected to decline again 2019. RGLY has had issues in the past with agent churn, especially in the higher ranks, which likely will compound problems in converting customers who visit into buyers. They've rolled out their iBuyer business which may become a significant long-term winner (Sun Trust sees a potential \$1.8T TAM) but near-term investment may continue to weigh on margins. RDFN faces significant competition from peers like Zillow, Compass, and Realty, the latter who recently partnered with Amazon. Analysts have an average target for shares of \$22.50 with 8 buy and 10 hold ratings. Compass Point upgrading to Buy on 8-2 with a \$23.50 PT. The firm thinks the market share story is on track while increased awareness of the brand will help them expand over time. Craig-Hallum starting at Hold in late July with a \$20 PT. They think RDFN should be a structural winner over time as it expands into additional markets but the pace of share gains has decelerated and should keep a lid on shares. Short interest is 16.3% although down from around 26% in early 2019. Hedge Fund ownership fell 7.9%. Jackson Square Partners, Tiger Global and Immersion Capital notable holders. In February, the CEO bought \$500K in stock at \$19.56.

Hawk Vision:



Hawk's Perspective: RDFN is a persistent bearish flow name and fundamentals remain weak with high short interest, so a top name on the short side.

Confidence Ranking: \$\$