

# Sonos (SONO) – The Sound of the “Stay at Home” Economy

## The Recent Explosive Data Trends Say It All

### \$30 Target in 2020

Last week, homebuilder sentiment posted the [biggest monthly surge ever](#) as home is the new sanctuary. Anyone who buys a home or is looking to upgrade their home must ask themselves one question,

“What do I do for sound?”

The answer is easier than Wayfair’s meteoric rise to \$200 – **Sonos**.

Sitting at the intersection of stay at home, streaming wars, and the connected home, Sonos has quickly emerged as the leader of sound in the connected home. Yet, it has an enterprise value of just \$1 billion today, which is much smaller than many of the SPAC’s and stocks du jour of retail traders.

Through a suite of products that are flying off the shelves (see below), Sonos is beating AMZN, GOOGL, and AAPL at their own game by dominating the connected home speaker category.

The Sonos mega growth story is happening NOW in real time with Sonos set to report a blowout quarter. **Just as the world went into quarantine and home became the new focus, Sonos introduced three new products that are sold out EVERYWHERE.**

### Sonos – The Apple of Home Audio

Sonos is not a commodity business. Saying that Sonos just sells speakers shows a lack of understanding of the software platform behind the product. With attention to design and quality, Sonos has created a sticky platform. Consider this – existing households represent 37% of new product registrations with the average home carrying 2.9 Sonos products.

This means that every new Sonos customer acquired will continue to buy new products over the coming years as they are hooked in the ecosystem... very reminiscent of Apple.

This is why despite competition from GOOGL, AMZN and AAPL, Sonos has generated 18 consecutive years of revenue growth.

From when you open the box, the similarities between Sonos and Apple are uncanny. The strength of the Sonos brand is best exhibited by Sonos' gross margins, which are 400bps higher than Apple. Both Sonos and Apple have strong high margin DTC offerings. In the case of Sonos, their DTC business is run by [Matthew Siegel](#) who was previously in charge of Nike's online business.

Long before home as sanctuary was being discussed, investors and analysts were discussing Apple acquiring Sonos. As noted by TechCrunch:

*"From an outsider perspective, it's hard to find two companies that seem more philosophically aligned than Sonos and Apple when it comes to product design and business model."*

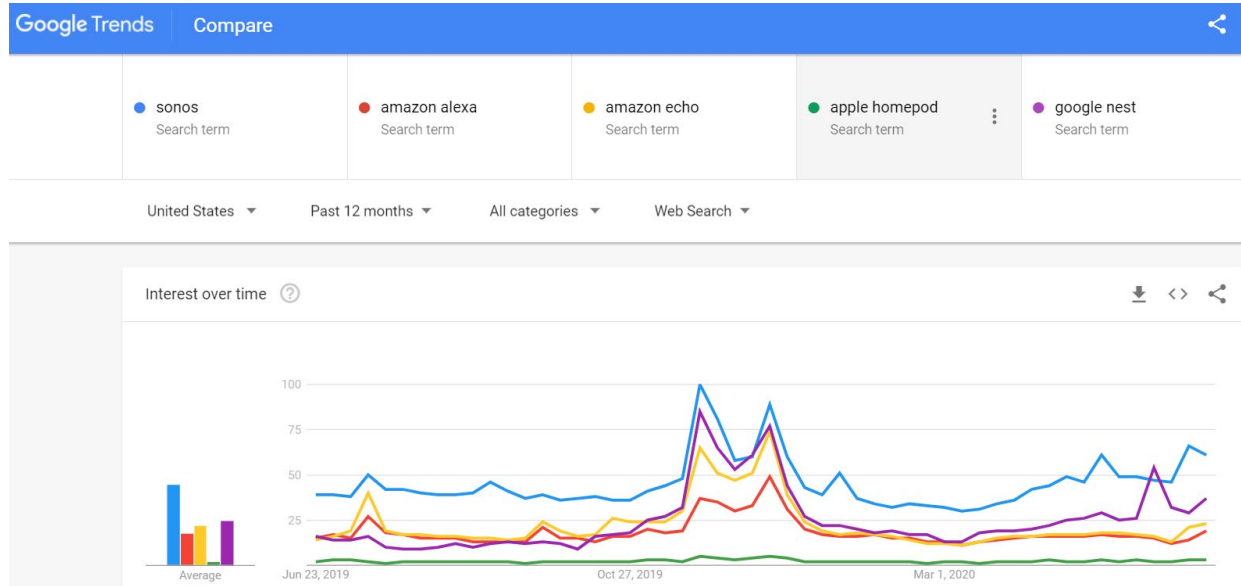
<https://techcrunch.com/2019/09/26/the-time-is-right-for-apple-to-buy-sonos/>

<https://www.marketwatch.com/story/sonos-could-be-a-smart-acquisition-for-apple-jp-morgan-says-2019-02-04>

Apple has long been speculated as an eventual acquirer of Sonos by multiple firms and the recent trajectory of Sonos' business would make this a better time than ever.

## **Beating the Big Boys at Their Own Game**

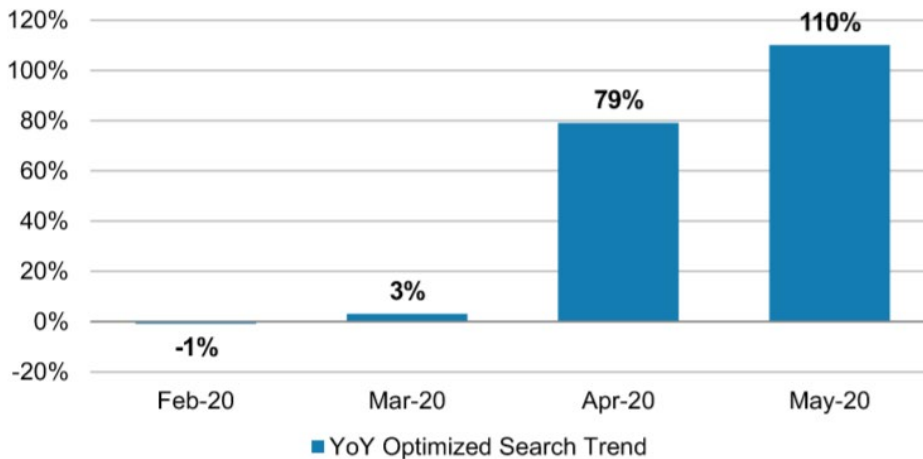
In the "stay at home" world, their positioning is only getting stronger. Just look at the recent Google trends of Sonos vs. AMZN, AAPL, and GOOGL.



Google search trends for Sonos are up 110% YoY in May 2020 vs. up 79% YoY in April and up 3% YoY in March.

**Exhibit 68:** UPDATED: Sonos Google search trends were up 110% Y/Y in the month of May 2020, a strong acceleration from +79% Y/Y in April 2020 and +3% Y/Y in March 2020.

**SONO: Y/Y Google Search Trends by Month**



Source: AlphaWise, Morgan Stanley Research; Google


Any reader of this report can verify this for themselves.

Sonos sells 7 key products:

- One SL
- One
- Move


- Five
- Sub
- Beam
- Arc

Currently, 4 of the 7 products are sold out on [www.sonos.com](http://www.sonos.com) and backordered until July 7 to July 17. They are also sold out on Amazon and Best Buy.




**Move**  
Black  
\$399  
**Added to your cart!**

Quantity 1  
*Ships from July 7, 2020*

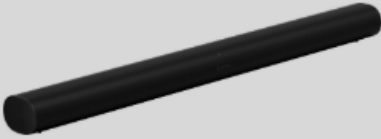


**Five**  
Black  
\$499 **New**  
**Added to your cart!**

Quantity 1  
*Ships from July 10, 2020*



**Sub**  
Black  
\$699 **New**  
**Added to your cart!**  
Quantity 1  
*Ships from July 17, 2020*



**Arc**  
Black  
\$799 **New**  
**Added to your cart!**  
Quantity 1  
*Ships from July 10, 2020*

Sonos Arc - The Premium Smart soundbar for TV, Movies, Music, Gaming, and More - Black

★★★★★ ∨ 14

\$799<sup>00</sup>

FREE Delivery for Prime members  
Temporarily out of stock.



Best Seller



Sonos Move - Battery-powered Smart Speaker, Wi-Fi and Bluetooth with Alexa built-in - Black

★★★★★ ∨ 759

\$399<sup>00</sup>

Amazon Certified: Alexa Built-in

FREE Delivery for Prime members  
Temporarily out of stock.



Sonos Amp - The Versatile Amplifier for Powering All Your Entertainment - Black (AMPG1US1BLK)

★★★★★ (230)

\$649<sup>00</sup>

Or \$129.80/month for 5 months (no fees or interest)

FREE Delivery for Prime members  
Temporarily out of stock.



Sonos Port - The Versatile Streaming Component for Your Stereo or Receiver

★★★★★ (14)

\$449<sup>00</sup>

FREE Delivery for Prime members  
Temporarily out of stock.

More Buying Choices  
\$426.55 (2 used & new offers)



Sonos Five - The high-Fidelity Speaker for Superior Sound - Black

\$499<sup>00</sup>

FREE Delivery for Prime members  
Temporarily out of stock.



Sonos - Arc Soundbar with Dolby Atmos, Google Assistant and Amazon Alexa - Black

Model: ARCG1US1BLK SKU: 6411132

Color: Black



★★★★★ (20)

Getting more soon

Price Match Guarantee

\$799.99

Add to Cart



Voice assistant built in

Sonos - Move Smart Portable Wi-Fi and Bluetooth Speaker with Alexa and Google Assistant - Black

Model: MOVE1US1BLK SKU: 6361922

★★★★★ (530)

Getting more soon

Price Match Guarantee

\$399.99

Add to Cart



Sonos - Sub (Gen 3) Wireless Subwoofer - Black

Model: SONOS SUB (GEN3) US (BLACK) SKU: 6411140

Color: Black



★★★★★ (2)

Getting more soon

Price Match Guarantee

\$699.99

Add to Cart

Our channel checks indicate that this is a widespread demand issue and has nothing to do with supply chain disruption.

So, if Sonos, Amazon, and Best Buy were not enough proof, we now show you the strength across four different proprietary credit card data providers that indicate a blowout quarter for Sonos.

One proprietary credit card data source shows unusual strength in Sonos customer spending with growth accelerating to over 700% YoY in the latest calendar week.

\*Due to very limited distribution by this data provider, we cannot publicly disclose this source but will gladly provide it to any investor that would like to subscribe to the data.

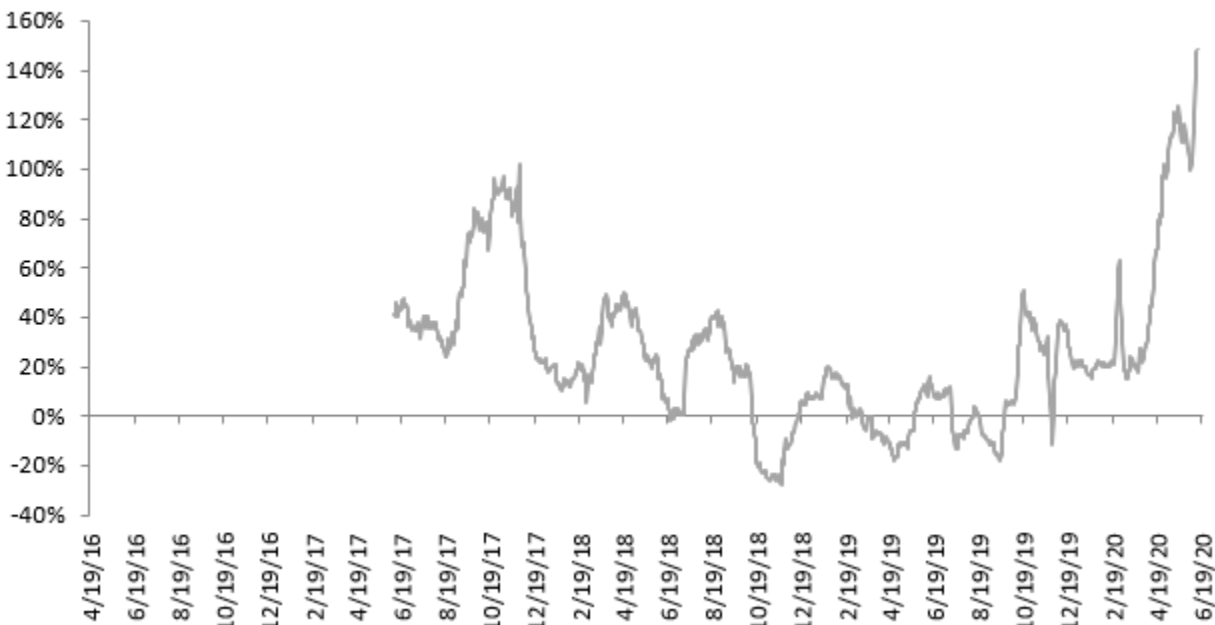


Based on three additional proprietary credit card data sources (i.e., Second Measure, Earnest, M Science), we are also seeing a material positive inflection in

customer spend at Sonos ahead of consensus expectations for this quarter. The blowout quarter we are about to see has been validated on all available data sets.

Second Measure

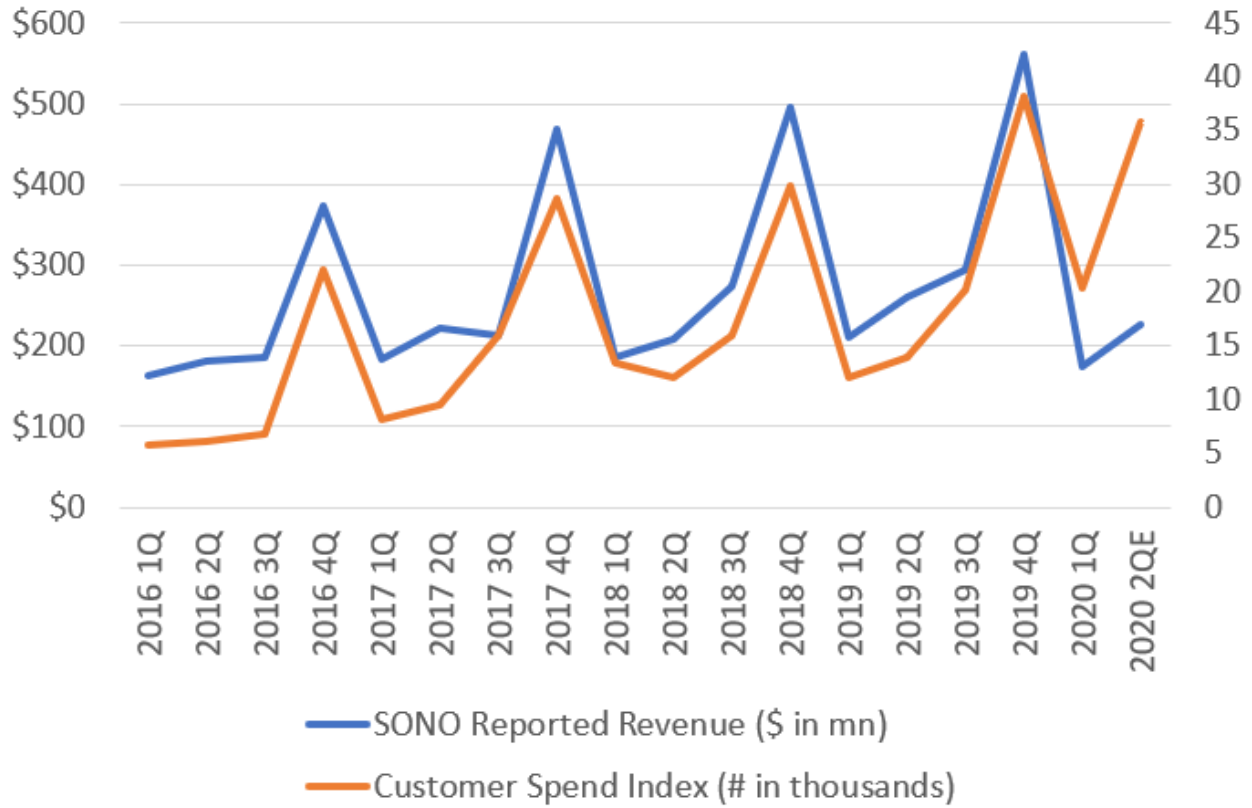
**SONO Sales 91 day trailing average YoY %**



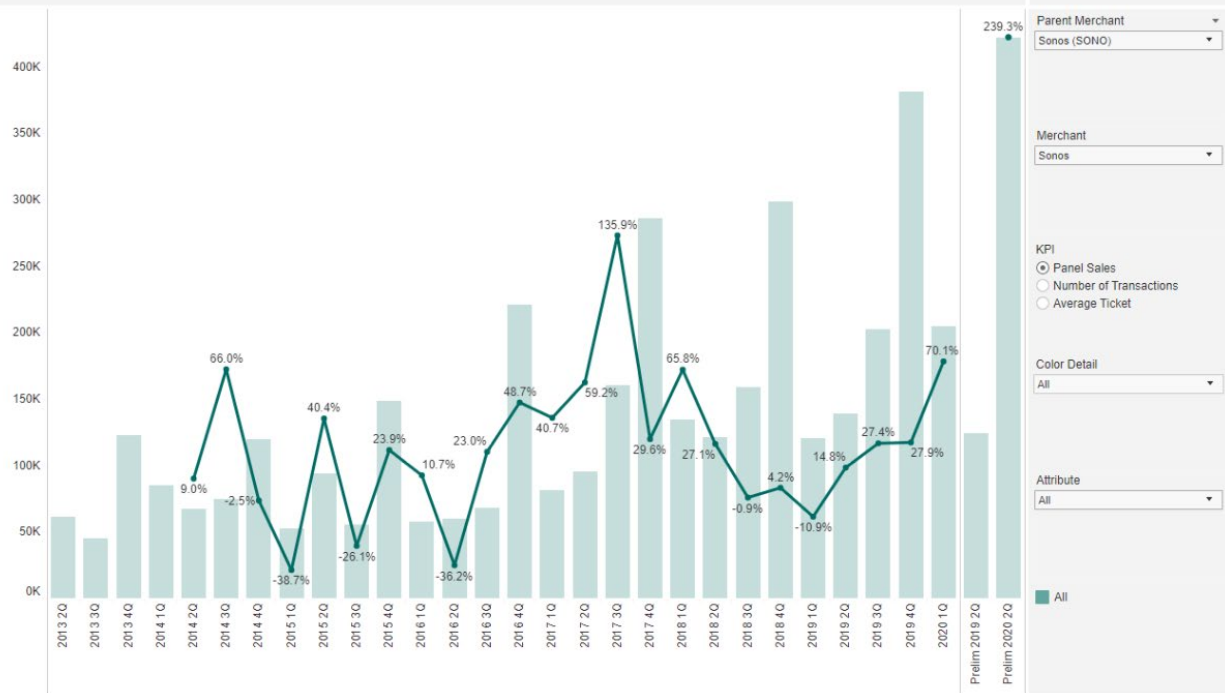
Earnest



### SONO - Customer Spend Index Analysis

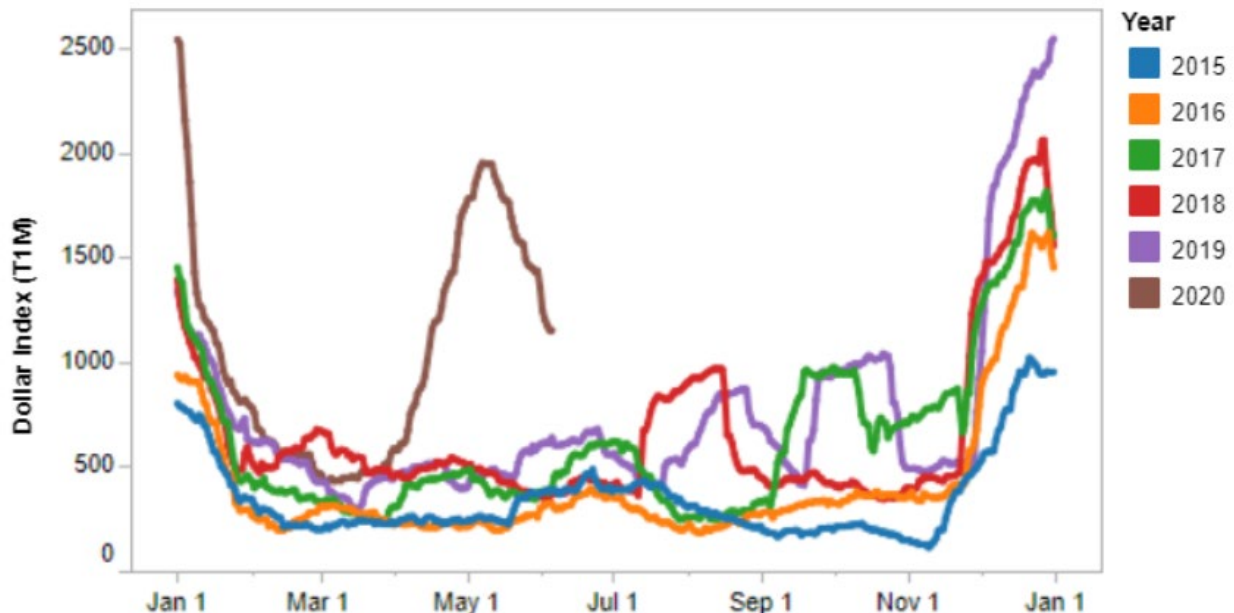


Sonos (SONO) (All) - Panel Sales (YoY)



### M Science

## Y/Y Stacked



We then called Sonos customer service in search of an explanation of this unusual strength and were told the following:

- “It’s only ever like this around the holidays”
- “This is really unusual. Usually it’s like this around Black Friday and the week leading up to Christmas”
- “We are getting orders in quicker than we are getting inventory. Again, this is pretty unusual. I’ve never seen this happen before but right now we are completely sold out. Units purchased today should ship out July 17”
- “I think we underestimated how many orders we would get in. Right now, we’re catching up on those and trying to get in as much inventory as possible”
- “The Arc, Five, and Sub are all backordered at the moment because the quality of those are so great people have been looking forward to them for a while”

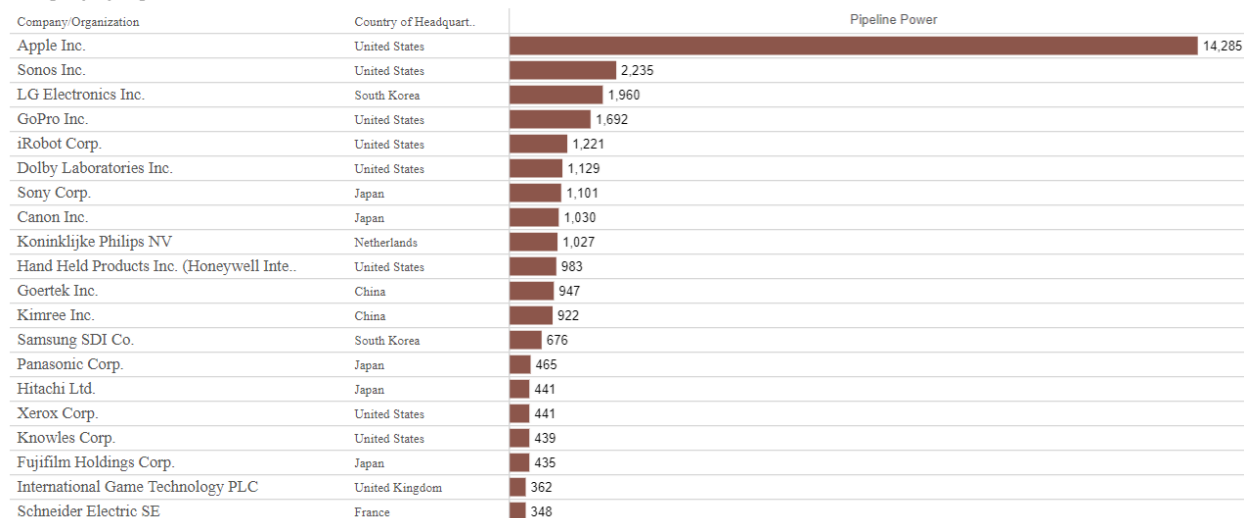
What cannot be understated is that every new house on the Sonos platform turns into a customer for life as the ecosystem has proven its stickiness... But the story gets much better. Sonos should face little challenge keeping the flywheel moving as they are protected by a **Valuable Patent Portfolio**.

With a robust patent library of over one thousand issued patents, Sonos states in its 10-K:

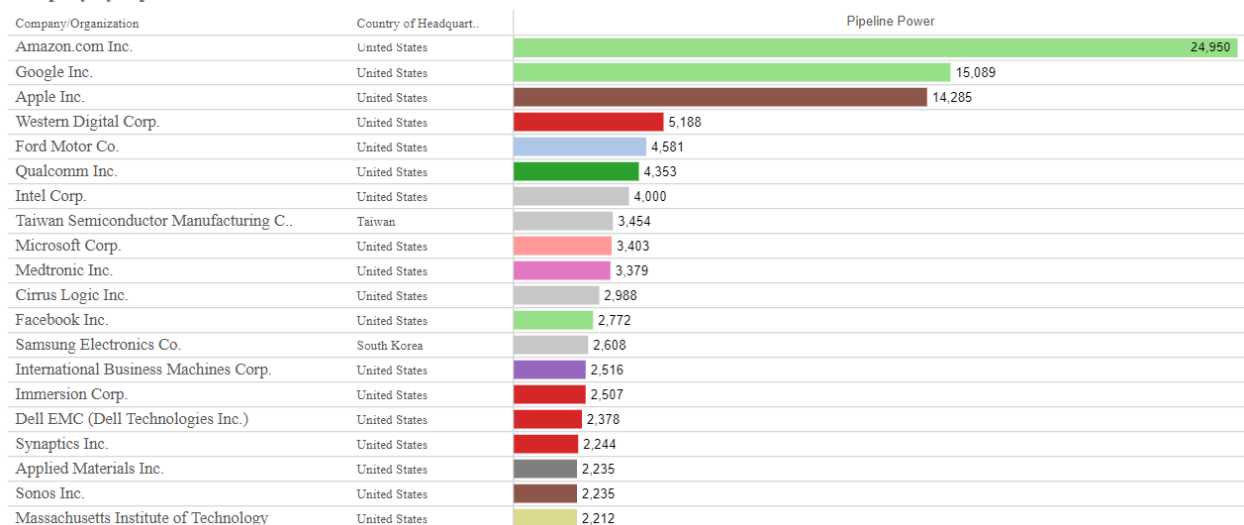
*“We believe our patents comprise the foundational intellectual property for wireless multi-room audio technology.”*

According to [IEEE](#), Sonos has the 2<sup>nd</sup> most powerful patent portfolio in consumer electronics only behind AAPL. The strength of Sonos’ IP puts the company ahead of even MIT when looking across all industries.

**Company by Pipeline Power**



**Company by Pipeline Power**



In January this year, Sonos sued GOOGL for infringing on five Sonos patents that allow smart speakers to wirelessly play music across different rooms. Sonos has stated that GOOGL is misusing Sonos’ patents on “more than a dozen different infringing products, including, for example, the Google Home Mini, Google Home,

Google Home Max, and Pixel phones, tablets, and laptops.” Sonos previously sued Denon for patent infringement as well and won.

<https://www.cnbc.com/2020/02/06/Sonos-ceo-patrick-spence-on-suing-google-over-patent-infringement.html>

This could result in GOOGL paying licensing fees to Sonos, which would make Sonos an even more attractive acquisition target.

## Best in Class Product

Like Peloton and Tesla, Sonos products are widely considered best in class with a brand that is worthy of much higher valuation multiples.

Here are some of the reviews of the recently released Arc sound bar:

*“At \$799.00, the Arc is an investment for your living room rather than just a casual purchase, but it's one that's geared towards providing entertainment value for many years to come.”* – Business Insider

*“I spent most of this review praising the Arc. Sonos is known for having an Apple-like attention to detail when it comes to the user experience, and that hasn't changed here.”* – Wired

*“Sonos is one of the companies at the forefront of the smart home industry. For nearly 20 years, their easily integrated products have solidified their spot as a staple of home automation.”* – Medium

<https://www.businessinsider.com/sonos-arc-soundbar-review>

<https://www.wired.com/review/sonos-arc-soundbar/>

[https://medium.com/@cody\\_75148/creating-a-fully-automated-home-with-a-sonos-system-blog-648ff91b58b3](https://medium.com/@cody_75148/creating-a-fully-automated-home-with-a-sonos-system-blog-648ff91b58b3)

<https://www.cnet.com/reviews/Sonos-arc-review/>

<https://www.theverge.com/21279703/Sonos-arc-review-dolby-atmos-soundbar-price-specs-features>

<https://www.engadget.com/Sonos-arc-review-dolby-atmos-soundbar-010039560.html>

<https://www.cnn.com/2020/06/04/cnn-underscored/Sonos-arc-review/index.html>

## Valuation

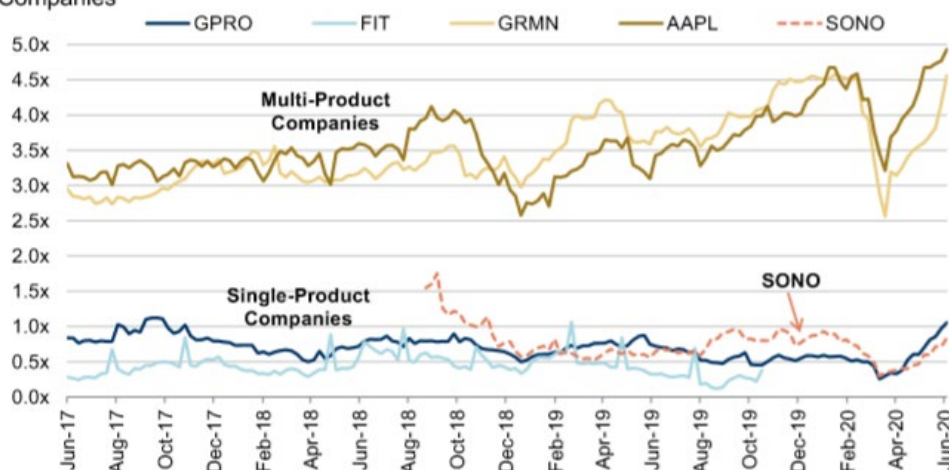
While Sonos has consistent revenue growth and profitability similar to multi-product companies like AAPL and GRMN, the company is trading in-line with much weaker and more volatile single-product companies like GPRO and FIT.

The disconnect becomes greater when we understand the number of new users on the ecosystem in the past 90 days. We are presenting numbers here that we believe to be overly conservative.

Citron gives credit to the Morgan Stanley analyst for recognizing the potential in Sonos' stock.

**Exhibit 3:** SONO currently trades at a discount to GPRO, a single product focused company, and at an even greater discount to multi-product consumer electronics companies AAPL and GRMN, despite a growth and profitability profile that is more similar to AAPL and GRMN.

Consumer Electronics EV/Sales: Single Product vs. Multi-Product Companies



Source: Thomson Reuters, Morgan Stanley Research

How can a company whose products are sold out across the board be given the same multiple as out of favor hardware companies? FIT and GPRO are single product companies that are not growing and not beneficiaries of recent trends.

There is zero reason Sonos' multiple shouldn't re-rate from <1x sales to more in-line with multi-product company peer GRMN at >4x.



## Acquisition Target

Sonos trades at just a \$1 billion enterprise value despite being the undisputed leader of smart home audio and having the 2<sup>nd</sup> most powerful patent portfolio in consumer electronics. As a result, Sonos has an extensive list of potential acquirers including:

- Google
- Apple
- Amazon
- Netflix
- Spotify
- Samsung
- Sony

The most obvious potential acquirer is Apple. Consider this. On the same day that Sonos publicly sued Google and accused Amazon of stealing its proprietary technology, Apple began to sell Sonos' speakers in its Apple Stores.

We believe that Sonos will trade materially higher before ultimately being acquired. Sonos is highly mispriced today trading at an LTM EV/Sales multiple of <1x in-line with GPRO.

The average takeout multiple for smart home technology companies has been 6x while Sonos peers trade at an average multiple of 3-4x.

**Assuming Sonos should trade at 3x sales, this implies a stock price of \$38. At 6x sales, this implies a stock price of \$74.**

(\$ in mn)

	<u>Takeout Price</u>	<u>LTM Sales</u>	<u>EV/Sales</u>	<u>Acquirer</u>
Nest	\$3,200	\$250	12.8x	GOOGL
Ring	\$1,100	\$415	2.7x	AMZN
Beats	\$3,000	\$1,200	2.5x	AAPL
<b>Average</b>			<b>6.0x</b>	

(\$ in mn)

	<u>Enterprise Value</u>	<u>LTM Sales</u>	<u>EV/Sales</u>
Apple	\$1,412,551	\$267,981	5.3x
Garmin	\$15,287	\$3,848	4.0x
Logitech	\$9,660	\$2,976	3.2x
iRobot	\$2,094	\$1,169	1.8x
<b>Average</b>			<b>3.6x</b>

(\$ in mn)

LTM Sales	\$1,292	\$1,292	\$1,292	\$1,292	\$1,292
EV/Sales	2.0x	3.0x	4.0x	5.0x	6.0x
Enterprise Value	\$2,583	\$3,875	\$5,166	\$6,458	\$7,749
Debt	\$102	\$102	\$102	\$102	\$102
Cash	\$408	\$408	\$408	\$408	\$408
Market Cap	\$2,889	\$4,181	\$5,472	\$6,764	\$8,055
Shares Outstanding	109	109	109	109	109

<b>Stock Price</b>	<b>\$27</b>	<b>\$38</b>	<b>\$50</b>	<b>\$62</b>	<b>\$74</b>
<b>Current Price</b>	<b>\$13</b>	<b>\$13</b>	<b>\$13</b>	<b>\$13</b>	<b>\$13</b>
<b>% Upside</b>	<b>104%</b>	<b>195%</b>	<b>286%</b>	<b>377%</b>	<b>468%</b>

## Conclusion

While it seems too obvious, if you just found a good innovative product and bought the stock your returns would no doubt have been outstanding. Anyone who has a Sonos system will know exactly what we are writing about.

\*Note – Citron does not put much weight on the recent KKR sale given they have no board seat and therefore have no visibility into near-term trends or whether Sonos is in a sale process. In addition, Sonos was an 8-year investment for KKR and KKR is not in the business of playing the stock market.

The emphasis on home spending is real and we cannot ignore the dollars consumers are spending in improving their living environments... this will be music to our ears when Sonos hits \$30 a share in 2020.





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