Earnings Snapshots 11/6/2023

DDOG, RBLX, DIS, U

DataDog (DDOG) will announce results 11/7 before the open with the Street looking for $0.34 EPS and $524M in Revenues (+20.1%) with Q4 seen at $0.35 and $543M and FY24 at $1.64/$2.52B implying 22.8% EPS growth and 22.5% Revenue growth. Q4 is seen as marking the trough in Y/Y growth for revenues before reaccelerating throughout 2024. DDOG shares crashed as much as 20% last quarter and lower four of its last six reports, a six-quarter average max move of 12.1%. DDOG operates a leading monitoring and analytics platform for developers and IT teams which has become essential as more operations shift to the cloud. Datadog takes full advantage of key themes consisting of the ongoing cloud migration, acceleration of digital transformation even in a post-pandemic world and leveraging the powers of artificial intelligence (AI)/machine learning (ML) automation in IT operations. Datadog presented a healthy TAM forecast of 10.3% CAGR to $62 billion from 2021 to 2026E focusing only on the core observability while having an incremental opportunity in cloud security. DDOG has a market cap of $26.66B and trades 50.6X Earnings, 12.3X EV/Sales and 58.7X FCF, a best-in-class growth name with elevated valuation which puts it at risk of downside if it were to disappoint. Datadog is widely perceived to be a premium offering, which could drive the end-market to lower cost competitors, native hyperscaler offerings, and/or open-source alternatives, which could constrain revenue, RPO and billings growth; and NRR expansion. Analysts have an average target of $104 and short interest at 5.6% of the float has risen 29% Q/Q. BAML downgraded to Neutral recently with a $105 target as demand checks and scenario analysis suggest downside revenue risk. It sees upside as likely capped as conservative demand, competitive threats, and meaningful AI tailwinds likely come in 2H24, constraining the growth profile. Baird cut to Neutral last week on optimization headwinds across the industry and Wells Fargo also said the same. On the chart DDOG now sits below VWAP since its IPO but 77.50 is a key volume node of support, though if violated risks slipping back to $65. DDOG based last week but did not really participate in the market upside, a move back to $85 is first resistance followed by 88.50 and 92.50. DDOG options are pricing in a 10.25% earnings move with 30-day IV Skew at +3 comparing to the +3.1 52-week average. DDOG's historical put/call open interest ratio is at the 90th percentile while average IV30 crush is -19%. DDOG has large November $80 synthetic longs in open interest, 6500 November $75 short puts, 5000 November $90 short puts, 4950 December $70 short puts, 1000 June $85 short puts and 2500 January $70 short puts, a major indication of interest in buying DDOG at these levels.

Trade to Consider: Sell the **DDOG** December $75/$70 Put Spreads (Bull Put Spreads) for $1.30 Credit

Roblox (RBLX) will report earnings 11/8 before the open with the Street view at ($0.50) EPS and $830M in Revenues (+17.6%) with Q4 seen at ($0.50)/$1.06B and FY24 seen at ($1.82)/$3.88B implying 14.8% topline growth, a slowdown from 2023. RBLX shares fell as much as 23% last quarter but higher on earnings four of the prior five reports and a six-quarter average max move near 19%. RBLX operates a human co-experience platform or Roblox Platform, where users interact with each other to explore and develop, user-generated and 3D experiences. RBLX's platform includes content developed by individual creators and video game studios, as well as nonendemic businesses such as film/TV studios and musical artists which demonstrate the use case for non-gaming general entertainment that should broaden the appeal of the Roblox platform. RBLX looks best positioned to peers for long-term secular growth opportunities sit in the gaming landscape (open world, user/developer dynamics capturing Web 3 themes, shifting habits of the gaming user). RBLX has a $21.5B market cap and trades 43.8X FY24 estimated EBITDA and 6X EV/Sales. The beta test of the immersive ads offering continues to show positive early results, and the company plans to share more details on its business model and growth potential at the investor day on November 15th. RBLX also has an intriguing opportunity with AI tools. Analysts have an average target of $37 with short interest falling to 3.9% of the float. MKM sees an attractive setup heading into the 3Q earnings report, 3Q bookings should be in line with estimates and there could be some upside with adjusted EBITDA as operating leverage begins to appear. It sees the 11/15 Investor Meeting could offer multiple positive events including guidance metrics, a deep dive into the advertising opportunity, and clarification about margin expansion. MSCO says a premium is justified by RBLX's call options around TAM expansion and upside to monetization/payer conversion, immersive ads, e-commerce, etc. Truist upgraded to Buy recently seeing upside to profitability with new initiatives. Ray-Jay started at Strong Buy optimistic on international expansion and growing its user base to older users. On the chart RBLX has done an impressive job of recovering and nearly closed its open gap to $37.10. RBLX weekly MACD has moved to a buy signal as has weekly RSI. RBLX has key trend and VPOC resistance near $39.50. A breakout above can set in motion a wedge breakout with room back to AVWAP from its IPO at $53. On weakness, support levels in focus include $32, $31 and $30. RBLX options are pricing in a 12.4% earnings move and 30-day IV Skew at +2.8 compares to the +3.7 52-week average. RBLX put/call open interest is at the 1st percentile and average IV30 crush is -18.6%. RBLX has seen 27,000 November $42.50 low Delta calls bought, 24K January $37.5 calls bought, 19K Nov. $32.5 calls bought, 12K Jan. 35/40 call spreads bought while 4500 June $30 puts bought is one of the few bear positions.

Trade to Consider: Long the **RBLX** November/January $37.5 Call Calendars at $1.30 Debit

Disney (DIS) will report results 11/8 after the close with the Street consensus at $0.70 EPS and $21.35B in Revenues (+5.9%) with Q1 seen at $1.15/$24.14B and FY24 seen at $4.70/$93.46B implying 28.4% EPS growth and 5.1% revenue growth. DIS shares closed higher last quarter on results after being lower four of the previous five, a six-quarter average max move of 8.2%. Disney is the largest publicly-traded Media & Entertainment (M&E) company and global leader in producing high quality, branded, family entertainment. Key assets include its Theme Parks (six locations globally), the ABC TV Network, ESPN, FX, National Geographic and other Cable Networks, iconic Film Studios (i.e., Disney, LucasFilms, Marvel, Pixar, 20th Century Fox), Star India, Direct-To-Consumer (DTC) streaming platforms (Disney+/Star, Hulu and ESPN+) and Consumer Products. DIS has a market cap of $155.66B and trades 18.2X Earnings, 12.9X EBITDA, 1.8X Sales and 55X FCF. Disney announced at its Investor Summit a $60bn DPEP capital spending plan over the next decade. This is expected to be self-funded by the Parks business and aimed at both expanding capacity at its parks and resorts globally and investing in technology to help improve returns. Disney has the opportunity to nearly double its footprint at Disneyland over time and is currently only utilizing 30% of its land at Walt Disney World. It also has additional capacity to expand at its international parks. It believes its global TAM is ~700mm consumers, relative to the 100mm annual visitors it sees globally. Advertising is improving sequentially but not necessarily "rebounding" while theme park trends overall remain healthy. Analysts have an average target of $104 with short interest low at 1.1% of the float. BAML noted last week that Disney (DIS) is undergoing a broad strategic review of its asset mix given secular challenges driven by the decline of the Pay TV universe. Key among the several areas highlighted by CEO Bob Iger is the potential of bringing in strategic investors for ESPN (for a minority stake) to improve content and/or distribution and better capitalize a secularly challenged asset. BAML is at Buy saying DIS has a collection of best-in class assets (in content/IP/Theme Parks). Near term catalysts include: (1) additional updates on the strategic outlook for DIS and (2) continued robust theme park demand. On the chart, DIS shares are beaten up but have triggered a bullish weekly MACD signal off key long-term $78.70 support. DIS tested 1-year VPOC on highs last week and above $86.40 would measure to a move towards $93-$95. The $81 level should be supportive on weakness and then $79 a major support test. DIS options are pricing in a 5.8% earnings move and 30-day IV Skew at +1.8 compares to the 52-week average of +2.6. DIS put/call open interest ratio is at the 19th percentile and average IV30 crush is -27.3%. DIS last week saw some buys in March $100 and December $70 and $75 calls while Sep. 2024 $75 puts sold to open. DIS had a large opening sale of June $75 puts in April and June $85 short puts sold to open earlier this year as well while March $90 calls been targeted on the long side.

Trade to Consider: Long **DIS** December $85/$90 Call Spreads at $2 Debit

Unity (U) will release results 11/9 after the close with the Street expecting $0.17 EPS and $553.7M in Revenues (+71.5%) with Q4 seen at $0.18/$589.4M and FY24 seen at $1.11/$2.61B implying 267% EPS growth and 20% Revenue growth. U shares were muted last earnings report but closed higher six of the previous eight reports and a six-quarter average max move near 19.8%. Unity Software Inc. (Unity) provides a platform for content creators. The Company's platform provides real-time three-dimensional (RT3D) development tools and services for creating interactive, two-dimensional (2D), 3D, augmented and virtual reality experiences across all major platforms and device endpoints. Unity is coming off a solid quarter beating estimates but only gave inline conservative guidance and after the runup into the report saw profit taking. The mobile game in app spending market has seen a bounce back after 2022 and Unity's deal for IronSource should only help increase its breadth and scale into the mobile ad market. U has a market cap of $10.6B and trades 24.9X Earnings, 5.4X EV/Sales and FCF seen inflecting positively in FY24. Unity announced John Riccitiello will retire as President, Chief Executive Officer, Chairman and a member of the Board of Directors. The announced management change could serve to improve relations with the developer community following discontent related to recent Create pricing changes. The search for a new CEO could also put U in the crosshairs of a strategic buyer, in my view. U will face easier comps in 2H23 and improving monetization could ignite investor interest. Analysts have an average target of $42 with short interest down to 6.9% of the float, falling 12 % Q/Q. MSCO notes that in just the past six weeks, we have seen a major shift in the business model, strained relations with customers, and the departure of the longtime CEO. While the business model shift does create a medium and long term opportunity to increase monetization and potentially gain share in the ad business, we remain on the sidelines until certain key questions are answered...some of which may not be answerable until a permanent CEO is chosen at an uncertain future date. Piper recently cut to Neutral less confident on acceleration. Citi with an interesting note on 10/10 saying it would not be surprised if AppLovin (APP) made another attempt to buy Unity and has a $49 target on shares. On the chart U has been under pressure but put in a strong reversal candle last week and moved back inside monthly value. The $30.50 level is the first key upside resistance followed by the 200-MA at $33.70 and then $39. The $25 level is seen as major support. U options are pricing in a 12% earnings move and IV30 skew at +5.5 compares to the 52-week average of +2.7. U historical put/call open interest ratio is at the 19th percentile and average IV30 crush is -22.8%. U saw buyers in January 2026 $30 and $40 calls late last week while 2000 February $26 calls bought and Dec. $30 calls with 6500X bought last week. There was also 18,500 November $23 disaster puts bought. Large short put open interest sits at January $25 and November $31 and $30 strikes.

Trade to Consider: Long the **U** December $30/$35 Call Spreads for $1.15 Debit

Disclaimer:

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