Earnings Snapshots 2/26/2024

LOW, CRM, SNOW, ZS

Lowe's (LOW) will report earnings 2/27 before the open with the Street looking for $1.68 EPS and $18.45B in Revenues while Q1/FY25 seen at $3.43/$21.65B and $12.75/$85.4B implying a 2% decline in EPS and 1% decline in revenues in 2025. HD recently reported weaker numbers but the stock reacted favorable. LOW shares have closed higher seven of its last 10 reports with a six-quarter average max move of 4.65%. LOW is a leading home improvement retailer in the US with exposure to both DIY and professional services through construction, repair and remodeling, and leisure buying. Home price appreciation, age of housing stock and disposable personal income are often cited by management as key growth drivers for the company but LOW also has been a transformation story and has plenty of idiosyncratic upside from things like its Pro initiative, seen as a fragmented $450B market opportunity. Market expectations are for an initial 2024 guide below the Street based on lingering DIY discretionary weakness and SG&A deleverage. LOW has a market cap of $133.75B and trades 18.35X Earnings, 12X EBITDA and 24.8X FCF, undemanding valuation. The market expects a comp miss vs. consensus at -7%. LOW margins should continue to benefit from PPI initiatives, product mix, and lower transportation costs. Spending at home improvement retailers declined (6.3%) y/y in F4Q24 (Nov-Jan), in-line with (6.2%) y/y declines in F3Q24, per BAC aggregated credit and debit card data. LOW faces difficult expense comparisons in 2024 driven by one-time legal settlement benefits realized in 1H23 and likely higher incentive compensation vs. lower-than-target levels in 2H23. Analysts have an average target of $232.50 with short interest down 26% Q/Q to 1.2% of the float. BAML notes traffic has faced continued pressure from softer demand in DIY discretionary projects, which has fully offset positive comp transactions in Pro. LOW's initiatives in Pro should drive continued share gains and growth in this category (~25% of LOW sales), but a recovery in DIY demand trends would represent a larger sales & productivity unlock. LOW still offers attractive shareholder return, due to its combination of 1) opportunity for market share gains in Pro, 2) margin growth from process/merchandising/supply chain improvements (LOW's Total Home strategy & PPI), 3) share repurchase capacity, and 4) dividend growth. JPM upgraded to Overweight on 2/7 noting LOW's largest category of Appliances is further along in the deflation process. On the chart, LOW shares in a sideways pattern the past year put in a strong week last week with RSI monthly moving into a buy signal and MACD nearing a bull trigger. The recent low held right at VWAP off the 2020 lows. Clearing $235 leaves limited resistance until $260 while $225 and $220 support levels on weakness followed by the rising 200MA at $214. LOW options are pricing in a 3.2% earnings move with 30-day IV Skew at +1.2 compared to the +3 52-week average. LOW put/call open interest is at the 86th percentile and average IV30 crush is -17.9%. LOW has minimal open interest of note, the January $250 calls bought 1000X on 12/18 remain in OI while April $200 short puts 800X.

Trade to Consider: Sell the **LOW** March $235/$245 Call Spreads for $3.25 Credit (Bear Call Spread)

Salesforce (CRM) will announce results 2/28 after the close with the Street expecting $2.26 EPS and $9.22B in Revenues (+10%) while Q1/FY25 seen at $2.20/$9.15B and $9.57/$38.6B implying 2025 revenue growth of 10.9% with 16.7% EPS growth. CRM shares have closed higher three of its last four reports with a six-quarter average max move of 9.85%. CRM is a cloud leader and the company's robust and strategically built product portfolio, spanning sales, service, marketing, ecommerce, analytics, artificial intelligence, custom applications, integration and collaboration cover virtually all aspects of Digital Transformation. While a series of sizeable acquisitions has slowed down the pace of operating margin expansion revenues and margins have the potential to double in the next 5-6 years, potentially quadrupling earnings in a steady state. CRM has a market cap of $283B and trades 30.5X Earnings, 8.35X Sales and 32.2X FCF. Better execution, price increases, and attractive bundling options underlie a path to acceleration of revenues which is needed for CRM to re-rate higher. CRM is targeting a $370B TAM for 2027 at a 14% CAGR. CRM saw share losses for the first time in its history in 2023 on the back of executional challenges and declining sales productivity. CRM has restructured and is now set for acceleration while also seeing AI benefits. Deal activity suggests that the spending backdrop has improved, though sales cycles remain challenging, with added executive approval required. Several key trends stand out, including 1) stable, healthy Sales and Service Cloud deal activity, 2) balanced results across the major verticals, with some uptick in the financials vertical and 3) growing interest/pipeline in Data Cloud. Analysts have an average target of $295 and short interest up 18.8% Q/Q but low at 1% of the float. Stifel notes that checks with four partners pointed towards strength in Data Cloud, Industry Clouds, and early Einstein adoptions. OpCo's research mosaic points to mixed business trends for Salesforce but also support for durable margin improvement and EPS growth compounding story. Jefferies was out positive on checks and cited easy comps for CRM. Baird out positive 1/23 citing 1) our belief that front office spend will be better than expected, benefiting Salesforce, 2) achievable/beatable top-line consensus, and 3) modest valuation. MSCO upgraded to Overweight on 12/21 citing low investor expectations vs potential top-line upside drivers in price increases, product bundling and Data Cloud adoption. On the chart, CRM shares worked out of consolidation but failed to close strong last week and are a bit extended on the weekly timeframe with an RSI at 72.5. The $279 level is key support and below would target $262 as an optimal bounce spot. The upside levels put the highs from 2021 near $312 in focus followed by $356 and $383 Fibonacci extension levels. CRM options are pricing in a 6.7% earnings move and 30-day IV Skew at +0.9 compares to the +2.4 52-week average. CRM put/call open interest ratio is at the 60th percentile and average IV30 crush is -29.75%. CRM has seen significant bull positioning as highlighted in our recent write-up with March $290/$160 bull risk reversals, short September $210 puts, April $310 call buys and a massive buy of 5500 June 2025 $400 calls.

Trade to Consider: Long **CRM** March 1st (W) / April $310 Calendar Call Spreads for $4.50 Debit

Snowflake (SNOW) will release earnings 2/28 after the close with the Street consensus at $0.18 EPS and $759M in Revenues (+28.9%) while Q1/FY25 seen at $0.21/$806M and $1.14/$3.64B implying 41.3% EPS growth and 30.2% Revenue growth in 2025. SNOW shares closed higher last quarter on results after being sharply lower the previous three reports, a six-quarter average max move of 13.8%. SNOW can work to $175 on a move through $163. SNOW is an emerging leader in cloud-based data warehousing with a 10% market share and expanding client base with their platform agnostic approach. SNOW has outlined an opportunity to reach $10B in revenues by 2028 targeting 10% operating margins, a plan that shows management's confidence in continuing to grow at an elevated rate given their disruptive platform, large enterprise backlog and pricing power. SNOW expects to continue gaining share as digitization of workloads continues, which should translate into new logo growth while new product announcements should help cross-sell and up-sell activity. SNOW has long-term opportunities in areas like unstructured data as well that remain in the very earliest stages of penetration and could help them reach that long-term goal more quickly. Snowflake's Unistore announcement is most encouraging as it will allow the company to capture workloads of modern applications in the much larger transactional database market. Snowflake is delivering key customer benefits, including improved speed and cost efficiency while supporting multiple workloads and enterprise-wide data governance and reliability. Snowflake is well positioned to capitalize on a generational shift of data and analytics to the cloud, with strong secular tailwinds including cloud adoption, big data, AI/ML, and secure data sharing. SNOW revenues skew towards Enterprise with 60%+. SNOW has a $75B market cap and trades at premium valuation of 21/.8X EV/Sales and 110X FCF. SimilarWeb data suggests an improving, though still volatile consumption environment. Analysts have an average target of $228 with short interest steady at 3.8% of the float. Cleveland Research upgraded shares to Buy last week citing strong Q4 trends and acceleration potential for FY25. BAML notes Snowflake is well positioned to continued capturing outsized share of the $132 billion data management market given: 1) first mover in the cloud, 2) public cloud interoperability, and 3) best in class scalability. Evercore with a $250 target expects modest upside this quarter. On the chart, SNOW is in a clear uptrend and broke out of a long weekly basing pattern back in January. SNOW has a 50% retracement target up at $258.25 untouched. On weakness, key support levels are at $215, $207 and $195. SNOW options are pricing in a 7.75% earnings move and 30-day IV Skew at 0 compares to the +2.2 52-week average. SNOW put/call open interest ratio is at the 2nd percentile and average IV30 crush is -24.4%. SNOW has seen 10,000 May $230 short calls open from 2/5 and 2/6 trades, a massive buyer of 10,000 April $180 calls and January $170 sells its in open interest as well as size March $230 call buys.

Trade to Consider: Sell the **SNOW** March $260/$250/$205/$195 Iron Condors for $4.15 Credit

Zscaler (ZS) will announce earnings 2/29 after the close with the Street view at $0.58 EPS and $506.7M in Revenues (+30.7%) and Q3/FY24 seen at $0.58/$530.5M and $2.49/$2.1B implying 39% EPS growth and 29.9% Revenue growth. ZS shares have closed lower three of the last five reports with a six-quarter average max move of 11.3% and peer PANW recently hit hard citing spending fatigue in cyber-security. The Zscaler Zero Trust Exchange platform represents a fundamental shift in the architectural design and approach to networking and security. The SASE market remains in the early innings of a LT structural shift away from traditional perimeter based network security and ZS enjoys a 20%+ share. Gartner forecasts calling for a ~30% CAGR over the next 3 years to reach ~ $16B in spend, the opportunity for sustained growth over the coming years from the core ZIA + ZPA proposition remains significant. ZS has a market cap of $35B and trades 77X Earnings, 16X EV/Sales and 75X FCF. The Street is modeling 25% billings growth for 2Q24. Partner discussions point to a few potential sources of upside including year-end budget flush, strong federal cycle, and accelerating SASE adoption. Management's guidance baked in precautionary conservative factors including worsening macro and sales disruption as a result of a new CRO, which might prove better than expected given the strong SASE tailwinds. SASE competition continues to evolve, with new products from security and CDN vendors. Zscaler announced the abrupt resignation of COO Dali Rajic recently which MSCO flags as concerning for sales disruption risk. Analysts have an average target of $257 with short interest steady and 3.6% of the float. UBS raised its target to $300 from $220 last week on partner conversations despite a volatile Q2 set-up. On the chart, ZS snapped back strong last week after the PANW sympathy sell-off moving back inside a narrow trading range. This gives clear $210 and $202 key support levels while potential to test 1-year VPOC at $190 ion a disappointing report. Above $242 shares would clear monthly value and its 21MA with room back to $260 highs. ZS options are pricing in an 8.25% earnings move with 30-day IV Skew at +0.7 compared to the 52-week average of +2.7. ZS put/call open interest ratio is at the 40th percentile and average IV30 crush is -27.6%. ZS flows are of smaller contract size but all the top trades lean bullish with plenty of call buys and put sales outside of a June $200 put buyer 1/11 1500X.

Trade to Consider: Long **ZS** March/June $200 Put Calendar Spread at $7.50 Debit

Disclaimer:

These trade ideas are to be self-managed as there will be no follow-up, and each user must take full responsibility of the trade, and only take action on trades that fit his/her risk profile and are comfortable trading.

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