Earnings Snapshots 7/17/2022

IBM, NFLX, TSLA, SNAP

IBM (IBM) will report results 7/18 after the close with the Street expecting $2.27 EPS and $15.19B in Revenues (-19%) while Q3/FY22 seen at $2.39/$14.27B and $9.61/$60.9B. IBM shares have closed higher four of the last five reports with a six-quarter average max move near 7.5%. IBM could see some softness across PC/Servers but the demand environment for consulting and software remains elevated. IBM has benefited for consecutive quarters from demand strength in Software and Consulting, especially in Red Hat, Business Transformation consulting and Technology consulting. Last quarter, the company raised its full year constant currency top-line guidance, driven by improving sales productivity, increasing renewal rates and durability of recurring revenue growth, alongside ongoing strength in consulting. IBM has been optimizing its portfolio via acquisitions, notable the Red Hat deal that positioned it well in the cloud and saw 21% growth last quarter. The consulting business could be further pressured by a competitive and inflationary labor market which will impact profitability. The strong USD will also be a major headwind for the multinational while the hardware demand environment for spending is also likely to slow. IBM is taking the proper steps to align its portfolio with the strategic priorities of hybrid cloud, AI/automation, security, and quantum. IBM views quantum as critical technology as we move into the back-half of the decade, with many applications across physics, chemistry, materials sciences, finance, optimization, and machine learning. The quantum space is gaining worldwide traction and investment. IBM currently trades 13.5X Earnings, 2.15X Sales and yields a 4.72% dividend with revenues seen rising 6.2% in 2022 with 21% EPS growth. Analysts have an average target of $145 with short interest low at 2.4% of the float. MSCO upgraded to Overweight with a $150 target in April and expects solid Q2 numbers with an eye on margins. Its views IBM as an attractive late cycle play less at risk of significant downward estimate revisions given its 1) 50%+ recurring revenue mix, and 2) exposure to secularly growing areas of IT spend, with 75% software & services mix. IBM has one of the healthier charts in Tech with a large weekly cup and handle forming and above $142 would imply a measured move target of $175 with shares also clearing a near decade-long downtrend. The $133 and $127 levels are ones to watch as support on weakness. IBM options are pricing in a 4.85% earnings with 30-day IV Skew at +1.2 comparing to the 52-week average of +2.2 and shifted more bullish since +5.5% in late June. IBM's largest OI is at the August $150 with over 20,000 with a mix of buyers/sellers while on 7/8 the September $140 puts were bought 3500X. IBM's average IV30 crush is -24% and historical put/call open interest ratio is at the 19th percentile.

Trade to Consider: Long the **IBM** August $140/$150/$155 Unbalanced Call Fly at $2.85 Debit

Netflix (NFLX) will announce results 7/19 after the close with the Street consensus at $2.95 EPS and $8.04B in Revenues (+9.5%) while Q3/FY22 seen at $2.76/$8.08B and $10.80/$32.3B. Consensus calls for -1.9M paid sub additions (vs guidance of -2.0M). NFLX shares have closed lower on earnings the last five reports and nine of the last 10 with a six-quarter average max move of 16.5%. NFLX is the leader in streaming and has been exploring a lower-priced, ad-supported tier for their streaming service. NFLX now has a $77.5B market cap with shares -68% YTD and trades just 16X Earnings and 2.55X Sales with revenues seen rising 8-10% annually the next few years as growth normalizes into a new era while EPS seen lower Y/Y in 2022 before returning to growth in 2023. Over the past few quarters, Netflix has sustained stock underperformance because of subscriber net addition misses and weaker forward guidance and projections for flattish operating margins thru YE 2023. Netflix remains mired in a period of post-pandemic growth normalization while also seeing increased industry wide competition. Many of the current operating headwinds prompted Netflix management (on the last earnings call) to announce a crackdown on password sharing (100m homes consuming content for free) and build toward the introduction of an advertising supported tier (similar to some AVOD competitors). Based on Sensor Tower data, app downloads both globally and domestically continued to decline on a YoY basis after a decline in Q1, though US app download trends showed a modest recovery through the quarter given Netflix's release of Stranger Things in late May. NFLX could see approximately $267M of FX headwinds to revenues in 2Q. Analysts have an average target of $290 and short interest remains low at 2.8% of the float. BAML thinks 3Q sell-side targets may be too high and guidance could come in below Street estimates of +2.2M adds. Commentary for the balance of the year will likely be driven by lingering impact of Stranger Things (S4) vs. ongoing churn issues and content costs. Churn data looks worrisome, with overall Worldwide cancelation traffic to Netflix coming in at 2.55% in 2Q22, at its highest level since 1Q20, (compared to 1.37% in 1Q22 and 1.64% in 2Q21). MSCO is at Neutral seeing risk to consensus estimates as rising macro headwinds drive consumers to pare back their streaming spending. Offsetting these risks, however, is compelling valuation and a pivot to advertising monetization that should benefit the business long term. They have a $300 bull case should net adds reaccelerate AND its advertising and password sharing monetization show signs of traction in the next 12 months. On the chart NFLX has been trying to base for a few weeks with weekly MACD crossing bullish though real chart support seen way down near $125 retesting an early 2017 range breakout. A loss of $163 support would cause a nasty leg lower while above $207 could get shares on the way back to $240. NFLX options are pricing in a 13% move on earnings and 30-day IV Skew at +7.1 is high compared to a +3.9 52-week average but down modestly from recent +9 highs. NFLX average IV30 crush is -18.5% and put/call open interest ratio is at the 21st percentile. NFLX with a buyer 1000 Sep. $190 calls last week for $2M and has some large July 22nd (W) $200 and $205 call OI from buyers. On 4/20 the Jan. 2024 $400 calls bought 5000X for $7M. The August $155 puts sold to open 2000X on 6/28.

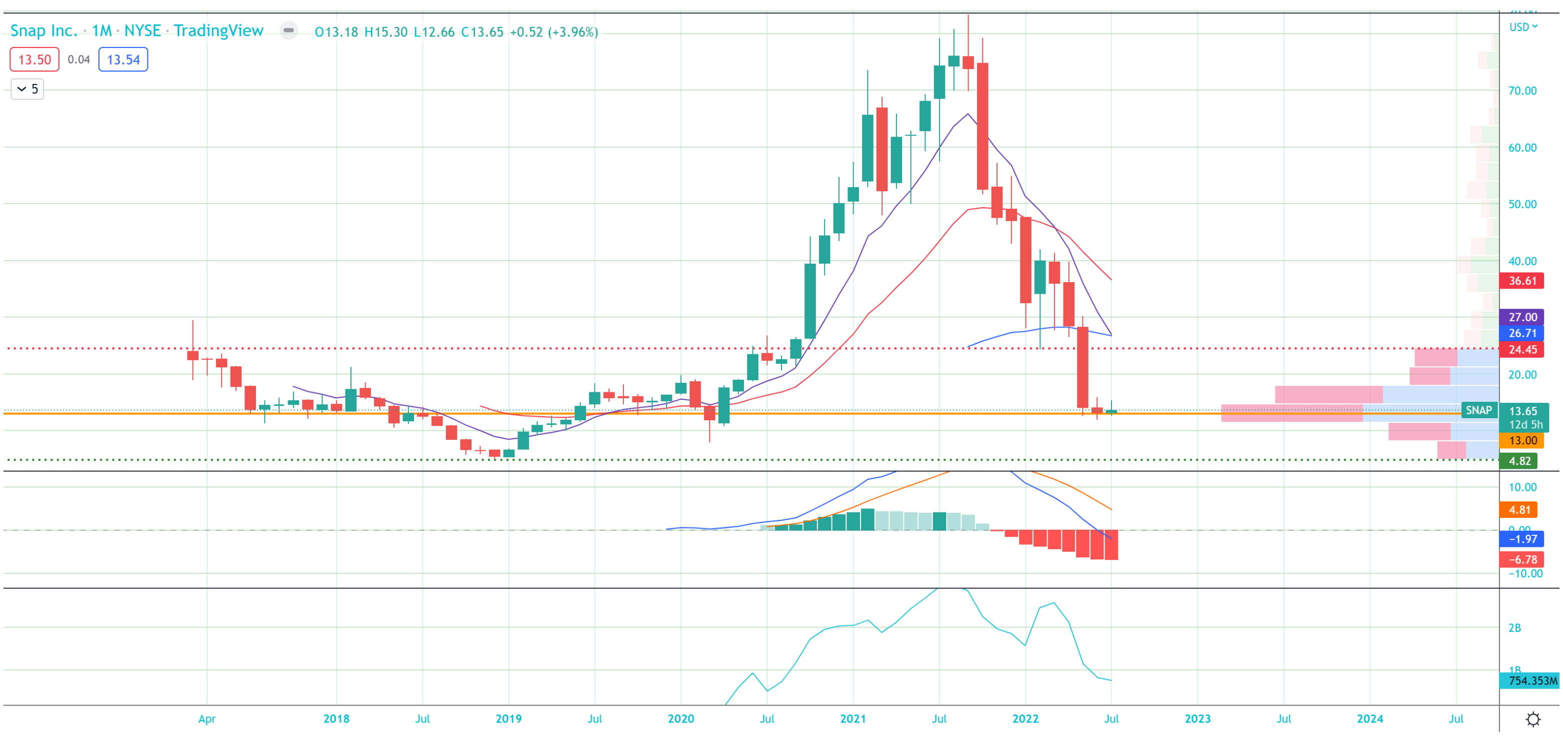
Trade to Consider: Long the **NFLX** July 22nd (W) $200/$220 Call Spreads at $5 Debit

Tesla (TSLA) will release earnings 7/20 after the close with the Street estimating EPS of $1.86 with $17.28B in Revenues (+44.5%) and Q3/FY22 seen at $3.11/$22.59B and $11.93/$85.25B. TSLA shares closed higher two of its last three reports after being lower five of the prior six, a six-quarter average max move of 7.3%. TSLA is coming off another record quarter for revenues, vehicle deliveries and operating profit as operating margins hit 19%. TSLA only crossed 1 million units in the past 12 months and aspires to head to 20 million units a year, still early in its journey as an EV leader. The importance of Optimus will become apparent in the coming years as it estimates that business will be worth more than the car business and FSD. Tesla reported preliminary 2Q22 vehicle deliveries of about 255k (down 18% Q/Q and up 27% Y/Y), and production of about 259k vehicles. The extended impact to the Shanghai factory from COVID controls was a material headwind and consensus estimates were revised lower during the quarter. Tesla stated that June 2022 was the highest production month in the company's history. Key focus areas of the call will include (i) progress with 4680 battery cells; (ii) outlook for semi/component supply; (iii) demand trends/backlog; (iv) auto gross margins given multiple price increases this year but also cost inflation (including for several key raw materials for EV batteries), and new factories ramping; and (v) FSD. TSLA has a market cap of $720B and trades 45X Earnings, 11.6X Sales and 52X FCF with revenues seen rising 58% this year and 37% in 2023 along with 69% and 41% EBITDA growth respectively. Analysts have an average target of $885 with short interest low at 3% of the float. Goldman rates shares Buy with a $1000 target with results showing its model and price-cost leadership. MSCO has a $1200 target at Overweight expecting TSLA to leverage its cost leadership in EVs to aggressively expand its user base and over time generate a higher % of revenue from recurring/high-margin software & services. It sees TSLA services EBITDA to account for 17% of total EBITDA by 2030 & 36% by 2040. Includes: FSD, infotainment, upgrades, charging, maintenance, telematics, etc. On the chart TSLA has been basing at the 50% retracement level of $645 and a narrow multi-week range forming, above $755 should spark a move to $800 while $670 and $630 seen as key supports, below the latter could set up for a move to VWAP off 2020 lows near $530 and the overall picture showing a broken uptrend with a potential large weekly bear flag forming. TSLA options are pricing in a 3.7% earnings move with 30-day IV Skew at +9.9 comparing to the +7.3 52-week average but lower from recent peak of 14.9. TSLA's average IV30 crush is -13.8% and put/call open interest ratio at just the 2nd percentile. TSLA sees a lot of daily flows but in the last two weeks skewed bullish with buyers of August $860 calls, August $880 calls and August $890 calls while July 29th (W) $765 calls were rolled to in size on Friday.

Trade to Consider: Long the **TSLA** August $750/$830 Call Spreads at a $25 Debit

Snap (SNAP) will report earnings 7/21 after the close with the Street view at ($0.01) EPS and $1.14B in Revenues (+16.6%) and Q3/FY22 seen at $0.04/$1.27B and $0.19/$5.09B. SNAP shares have closed higher six of the last seven reports with an average max move over 24%. SNAP hosted an Analyst Day last February that outlined its longer-term vision with multiple avenues of monetization via maps, games, and viral videos. SNAP has also positioned itself as a leader in Augmented Reality (AR) with 200M people engaging daily. SNAP Stories has become the largest revenue driver for the company. The Snapchat Generation makes up 40% of global consumers and already yields $1 trillion in purchasing power. Consensus expects SNAP generating a '21-'26 revenue CAGR of ~41% (driven by a mixture of user growth, ad price inflation, and product innovation in its core advertising business) and a 2026 GAAP EBITDA margin of 40% (compared to (13)% in 2021) as the company scales its revenue base on its fixed cost base while also remaining focused on investing against key long-term growth initiatives. Snap is an emerging growth leader in terms of digital advertising – the company has exposure to the ~$862bn 2026 TAM for global (ex-China) digital advertising, of which it currently has a low-single-digit percentage market share. SNAP now has a market cap of $21.6B and trades 20X estimated FY23 EBITDA and 3.1X EV/Sales with revenues seen rising 23.6% this year and accelerating to 33.8% growth next year while profitability seen taking a hit in 2022 before returning to growth in 2023. There has been a lot of concern of a weakening advertising environment and industry channel checks point to an increasingly volatile advertising environment with marked differences in terms of geographic, ad product and industry vertical behavior. The digital ad landscape remained in a broadly inflationary environment in Q2 and, while some platforms/channels have seen some modest deceleration in CPM/CPC growth from extremely high levels in 2H21 & Q1'22, overall pricing growth remains strong across digital channels. Analysts have an average target of $28 with short interest steady at 5% of the float. Loop Capital out positive recently seeing potential for 10x returns over the next 10-yrs though cites the bear case for fading advertiser support, limited monetization potential and TikTok competition. BAML ad checks suggested a slowdown in May across some important Snap verticals such as eCommerce, financials, and crypto, and recent cautionary commentary from Meta & Alphabet suggest June didn't improve. Snap's smaller size, unusually difficult comps, and vertical concentration may be near-term headwinds, but monetization opportunity continues to grow. They remain constructive on Snap given solid product execution, stable user growth, and unchanged long-term ARPU expansion opportunity considering valuation now below pre-pandemic levels. On the chart, SNAP has been basing above a key VPOC near $11.75 and above $15 has near-term upside to $17.50 or higher. A loss of $12.50 can set-up for a move towards $8 2020 lows. SNAP options are pricing in a 16.5% earnings move with 30-day IV Skew dropping sharply on Friday to +5.1 versus +10 the day prior and still above the +3.7 52-week average. SNAP average IV30 crush is -25.5% and put/call open interest ratio at the 32nd percentile. SNAP last week with large opening sales in January 2024 $10 and $8 puts as well as January 2023 $12 puts. SNAP has 10K July 22nd (W) $15 calls form buyers on 7/6 and on 6/21 the January $15/$10 bull risk reversals opened more than 10,000X.

Trade to Consider: Long the **SNAP** September $15 Calls at $1.50 Debit



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