



## Put Sale in Elastic Shows Confidence Despite Premium Valuation

**Ticker/Price:** ESTC (\$82.25)

### Analysis:

**Elastic (ESTC)** with a bullish trade yesterday selling 1,250 May \$80 puts to open for \$4 with shares trading near that level, showing confidence over the next few weeks as we start to get earnings reports from the Software sector, though ESTC not slated to report until late May. ESTC shares are finding support near that \$80 level as a 50% retracement of its 2019 range, also retesting a December 2018 peak that is now support and forming a bull wedge during this move off the February highs with a move above \$85 key to breaking higher. The \$6.2B data analytics and storage company trades at a premium multiple of 15.8X FY20 EV/Sales with revenues growing 81% in 2018, 66% in 2019, and seen rising 37.5% in 2020. ESTC is coming off a strong quarter in late February beating estimates and raising its forecast citing growth across all geographies with adoption across its products. ESTC remains far from profitability but in the early stages of its growth as it wins new customers and expands into new markets. Analysts have an average target of \$98 on shares and short interest is high at 19% of the float. KeyBanc recently started coverage at Buy with a \$102 target seeing revenues quadrupling over the next five years in a \$45B TAM. It sees sustainable high growth as search-centric software vendors see expanding volumes of data in IoT, cloud, and AI. Capturing just a 5% share of its TAM puts ESTC on a path to \$2B in revenues after \$160M in 2018. ESTC also has a very impressive net expansion rate of 130%+. Monness Crespi & Hardt put a \$120 target on shares on 2-28 using 20X EV/Sales CY20 noting ESTC is playing in an open source software movement, leveraging a subscription model, pursuing a significant market opportunity and growing faster than any other company.

### Hawk Vision:



**Trading Strategy:** ESTC is a richly valued name but a super-fast grower in a massive available market, so a top name for growth investors to be owning and looks good versus this \$80 level.

**Confidence Ranking:** \$\$