



## Call Buyers Hot for Medidata on M&A Potential

**Ticker/Price:** MDSO (\$91.50)

### Analysis:

**Medidata Solutions (MDSO)** IV steadily climbing today with over 1,925 June \$90 calls bought up to \$7.40 to open and follows 2,500 May \$95 calls and buyers in the October \$105 calls recently over 1,250X. In late April, Bloomberg reported that Dassault Systems was eyeing the company as they make a big push for US life sciences market share. Shares are consolidating below \$93/\$94 after gapping higher recently with the M&A talk and the 8- and 13-EMA supportive over the last three days. MDSO cleared a big almost two-year range above \$85 with a long-term target to \$105/\$115. That range also aligns with a potential 30-35% premium to 30-day VWAP. The \$5.66B company trades 42.5X earnings, 8.9X sales, and 23.5X cash with 15% to 20% EPS growth. They see 15-16% sales growth through FY21 and plenty of room for margin expansion back near recent highs. They're coming off a strong quarter with subscription revenue up 16% and launching Acorn AI their new data analytics business and big push forward for their enterprise strategy. Analysts have an average target for shares of \$85 with 6 buy ratings, 7 hold, and 1 sell. Short interest is 10.5% and down from around 14.5% in early 2018. Piper with a \$96 PT seeing better prescription backlog visibility while the new AI offering gives a lot of potential long-term upside. They also think the 21<sup>st</sup> Century Cures Act is driving demand for innovative solutions in clinical trials and should give positive tailwinds for their business. Sun Trust downgrading to Hold recently saying the 30% rally in shares has more than priced in their near-term outlook. They see \$85-\$100 range for a deal. Wells Fargo moving to Neutral on 4/23 but did note that given a moderately slowing organic growth rate and a lack of significant insider selling in 2018-2019 by the CEO and President, a takeover makes sense. Institutional ownership rose 26% last quarter.

### Hawk Vision:



**Trading Strategy:** MDSO activity is a safer approach to playing for a deal as much of the deal premium taken out from the early leaks of a deal likely. I could see a deal in the \$105-\$110 range, so a strategy like a June \$90/\$100/\$105 unbalanced call fly for \$3.50 has a nice reward/risk.

**Confidence Ranking:** \$\$