



Splunk Calls Accumulate into Post-Earnings Pullback

Ticker/Price: SPLK (\$121.50)

Analysis:

Splunk (SPLK) working out of a base this morning and 1,180 July 26th (W) \$127 calls bought for \$3.70 to open which follows buyers of the \$125 calls yesterday and recent August \$140 calls bought. SPLK shares recently dropped on earnings under the 200 MA before basing above its weekly cloud and rising 89 week EMA, now working out of a weekly base and looking to target a potential big breakout move above \$140. The \$17.9B Software Company trades 7.6X EV/Sales and coming off 37.7% revenue growth last year with 25.5% growth seen this year. SPLK is pursuing a \$62B TAM and transitioning to a cloud model with 25% expected to be cloud in FY20, up from 5% in FY15, enhancing its fundamental profile. It continues to add new customers, increase large orders, and grow ASPs. Analysts have an average target of \$150 on shares and short interest is 4.5% of the float. Mizuho started shares Buy with a \$150 target in March noting a significantly differentiated value proposition and well positioned for high growth. Argus raised its target to \$156 after last quarter's report noting the rapidly expanding big data analytics market and sees it as a potential acquisition target. Guggenheim recently lowered its target after cash flow and billings were weighed down by a ratable mix shift, increasing contract duration and shrinking invoicing duration. Barclays saw the weakness post-earnings as a long-term opportunity noting the impressive 30%+ billings growth for a \$2B revenue company. Hedge Fund ownership fell 13.25% in Q1 filings, Symmetry Peak Mgmt. disclosing a call position.

Hawk Vision:



Trading Strategy: SPLK has rebounded and would wait for it to settle a bit but see the long-term opportunity strong as the cloud transition takes hold, also a potential M&A target.

Confidence Ranking: \$\$