



Coupa Put Sales Willing to Own Shares on Pullback

Ticker/Price: COUP (\$123)

Analysis:

Coupa (COUP) with opening sales 3800 July \$115 puts down to \$1.45 in early action and volume up to 9000 on the morning down to \$1.35, traders showing a willingness to own a lot of stock on a modest pullback to near the 20 day moving average. COUP also has over 3000 and 2000 respectively of the January \$115 and \$125 calls in open interest, though both blocks traded as sales, potentially writing against a stock position. COUP shares broke out of a bull flag near \$99 and currently quite overbought. The \$7.85B Software Co. trades 21.5X EV/Sales as one of the higher valuation names, but also early stage penetration generating 39% revenue growth the last two years and expecting 33% this year. COUP presented at the Inspire Conference yesterday. COUP is a big cloud play on Business Service Management, and sees a path to \$1B in revenues with a \$56B TAM. It has 900 current customers with a target of 100,000 customers. COUP is seeing strong billings growth and expanding usage while operating margins have inflected positively to +5%. It has 11% FCF margins making it a top SaaS "Rule of 40" name. Analysts have an average target of \$117 with short interest high at 13% of the float and rising 53% Q/Q to a new record high. BAML started shares Buy with a \$120 target on 5-13, noting "Coupa is likely to continue gaining share of the \$15 billion spend management applications market, given a number of compelling advantages such as 1) leading cloud market position, 2) ease of deployment/use (3 to 9 month implementation cycles, vs 6 to 18 months, 3) large network of 4 million suppliers and 4) large data set with 1.08 trillion cumulative spend for optimization, and 4) breadth of offering, across procurement, invoicing, expense, sourcing, contract management, workforce procurement and analytics. Also, the recent launch of B2B payments offering significantly expands Coupa's addressable market to an estimated additional \$96 billion. Net revenue retention has grown toward the high end of the target range of 108% to 112% from 105% at the end of FY17 from cross selling. With the average customer still running only one of six power user applications, and more to be launched, we expect a long runway for cross selling. Finally, we believe that healthy customer economics (LTV/CAC ratio of 13x vs 4x industry average) is a leading indicator for margin expansion over time." OpCo raised its target to \$130 last week. Hedge Fund ownership was down modestly in Q1 filings, though Whale Rock holds as its 3rd largest position and added more.

Hawk Vision:



Trading Strategy: COUP quietly has one of the largest opportunities in SaaS, and despite the valuation is a name with major long-term upside, the \$115 level now a clear spot to be a buyer.

Confidence Ranking: \$\$