



Paychex Call Buying and IV Surge on the Open

Ticker/Price: PAYX (\$84)

Analysis:

Paychex (PAYX), a rate sensitive name, seeing 2600 July \$85 calls bought \$0.65 to \$0.80 early as Financials lead higher. Call volume is now approaching 5000X in the opening 15 minutes up to \$1.05 with IV30 sharply higher by 17.5%. PAYX has previously seen bullish positioning in September, December and January OTM calls. The \$30B human resources, retirement and insurance services Co. for small and medium sized businesses trades 25.35X Earnings, 8X Sales, and yields a 2.93% dividend. Forecasts call for 10% revenue growth and 8.7% EPS growth this year. The company has seen strength in their PEO business and announced a \$1.2B deal for Oasis in November which will boost their scale to more than 1.4M worksite employees. PAYX has had issues with margin contraction recently but reduced investment spending last quarter has driven improvement and is expected to continue this year. Analysts have an average target of \$81 on shares and short interest low at 3.6% of the float. PAYX reported weaker than expected numbers on 6/26 and guided FY20 below the Street. BAML cut shares to Underperform on valuation on 6/26 with an \$82 target noting shares have benefited from investor rotation related to falling 10-year yields. Most of the Street is at Hold or Sell ratings. Hedge Fund ownership fell 24% in Q1 filings, Select Equity the only notable concentrated holder as its 10th largest position.

Hawk Vision:



Trading Strategy: PAYX has long been a steady winner and seems this earnings dip is being bought, while the sharp IV rise indicates we could see some news here near-term.

Confidence Ranking: \$\$