



DropBox Calls Accumulate as Shares Start to Show Relative Strength

Ticker/Price: DBX (\$25.87)

Analysis:

Dropbox (DBX) has seen a lot of bullish flow recently as it nears a big weekly breakout and on Friday 1,500 August \$24 calls bought while the August \$28 calls bought over 18,000X on 7-10. Earlier in the week, the August \$27 calls bought 11,000X. DBX has some sizable July calls ITM which could also roll this week while bullish open interest sits in the October and January calls as well. Shares have formed a series of higher lows since December and nearing a base breakout on the weekly above \$26 which measures to a high-volume node from 2018 at \$31. The \$10.45B company trades 7X sales, 11.4X cash and 7.16X EV/sales. DBX is seeing 35% EPS growth and 14-15% sales growth with strong margins. DBX is executing well on growing their paid base of users while ARPU continues to grow. They're adding new products like DropBox Business, Paper, Showcase, and Smart Sync as well to build more cross-sell opportunities and increase conversion of registered users to paid. They see potential \$50B market in file collaboration, content collaboration, and productivity. Analysts have an average target for shares of \$32.50. Deutsche Bank positive on 6-3 after the company raised prices. The firm believes the 20% price lift on a "popular product" improves Dropbox's average revenue per user outlook as it rolls into Dropbox financials through mid-2020. BAML upgrading to Buy earlier this year seeing ARPU improving suggesting Dropbox is executing on its up-sell strategy, and paying users showed stabilization. Short interest is 1.9%. Hedge Fund ownership rose 6%. Hunt Lane Capital, Spark Investment, and Polar Capital all notable holders.

Hawk Vision:



Hawk's Perspective: DBX is seeing clear accumulation in shares and call options, the recent flag breakout level an ideal spot to be involved.

Confidence Ranking: \$\$