



Call Buyer in Elastic Looks for Momentum Breakout

Ticker/Price: ESTC (\$80.70)

Analysis:

Elastic NV (ESTC) IV jumped 7/9 into the close with buyers of the August \$85 calls up to \$2.60 with open interest at 1,202 today as 675 added, the same calls bought to open on 6/20 in a name with very little open interest. ESTC shares debuted in Q4 2018, a tough period, but held up well above the \$60 level and made a run to above \$100 in early 2019, now shares basing above \$74.50 right at a 61.8% Fibonacci retracement. Shares have formed a falling wedge pattern on the weekly with MACD improving and RSI breaking back above the 50 level and nearing a move out of a downtrend, shares needing to clear \$83 for a bullish wedge breakout. The \$5.9B Software Co. provides Elastic Stack, a product for real-time search, analytics, and data ingestion. Shares trade 15X EV/Sales which is actually far below many peers and after 70% revenue growth in 2019 sees 47% and 34% growth the next two years with profitability still years away. FCF inflection would be a big positive for shares. Analysts have an average target of \$102 and short interest continues to climb to new highs, now 17% of the float. KeyBank started coverage at Buy with a \$102 target seeing revenues quadrupling over the next five years in a \$45B TAM. It sees sustainable high growth as search-centric software vendors see expanding volumes of data in IoT, cloud, and AI. Capturing just a 5% share of its TAM puts ESTC on a path to \$2B in revenues after \$160M in 2018. ESTC also has a very impressive net expansion rate of 130%+. Monness Crespi & Hardt put a \$125 target on shares using 20X EV/Sales CY20 noting ESTC is playing in an open source software movement, leveraging a subscription model, pursuing a significant market opportunity and growing faster than any other company. BAML raised its target to \$135 back on 6/6, citing a "solid" quarter with revenues coming in ahead of the Street, with operating margin also beating estimates. BAML notes Elastic is uniquely positioned to become one of the few small software franchises that can scale to \$1B in revenues over the next 4-5 years. Hedge Fund ownership rose 6.6% in Q1 filings, a number of large concentrated holders of the name.

Hawk Vision:



Trading Strategy: ESTC can get explosive and have an alert set at \$83, the rising and high short float the one concern here but one of the better growth stories.

Confidence Ranking: \$\$