



OptionsHawk



Pure Storage Calls Accumulate as Growth Story is Early Innings

Ticker/Price: PSTG (\$17.29)

Analysis:

Pure Storage (PSTG) call open interest rose overnight as October \$17.50 calls added another 3000 yesterday bringing open interest up above 7,700 after initial activity on 9/9. PSTG also has 2,442 January \$17.5 calls in open interest mainly from a buyer on 9/5. PSTG shares got hit 25% in May on its earnings report and hit a low in August before jumping more than 15% on its latest earnings report. The low in August aligned perfectly with a falling weekly wedge pattern and shares now looking at resistance near \$19.50-\$20 for a potential trend inflection breakout. PSTG does not have any expecting near-term events, earnings in mid-November and a Wells Fargo Conference in early December, so the October options positioning is unusual. The \$4.5B storage platform company trades 42X Earnings, 55X FCF and 3X Sales. PSTG posted 38.6% and 32.7% topline growth the last two years and sees 23.2% growth this year while a strong EPS growth cycle nears with \$0.65/share EPS seen for FY22 from \$0.23/share in FY20. In the latest quarter it beat estimates on EPS but lowered FY20 revenue guidance while starting a \$150M buyback, and the CFO departed. PSTG is growing much faster than peers and has consistently taken market share. It feels it is positioned well in a \$50B market opportunity and is winning in the cloud while expanding a subscription-centric business model. It announced a bunch of new products at Pure/Accelerate 2019. Analysts have an average target of \$20.70 and short interest at 8.8% of the float has risen 32% Q/Q to a new three year high. Maxim upgraded to Buy on 8-22 with a \$20 target citing recent record gross margins and improved sales productivity while the reduced guidance likely proves conservative as NAND pricing stabilizes. It sees flash array moving to 60% of the storage market from the current 30%. William Blair out recently calling PSTG a tremendously underappreciated growth story after management articulated its modern data experience vision and rolled out an expanded product portfolio. SIG raised shares to Positive with a \$25 target on 9-9 noting the all-flash array opportunity is in the early innings and sees a lot of disk/hybrid systems being displaced, also noting 5G fueled growth can add an additional layer of demand. Hedge Fund ownership fell 4.7% in Q2 filings, Eminence Capital adding to a large position.

Hawk Vision:



Hawk's Perspective: PSTG is growing strong and has secular tailwinds while also seeing margin expansion and a new product cycle, so I like the story and see it as a very attractive M&A target.

Confidence Ranking: \$\$