



Unusual Call Buys in Zuora as Attempts to Bottom

Ticker/Price: ZUO (\$15.50)

Analysis:

Zuora (ZUO) buyers of more than 3,000 January \$16 calls this morning up to \$1.85 to open and name which already has 3,800 of the \$17.50 calls and 2700 of the \$15 calls in OI from buyers. Shares have been basing in a narrow range under \$16.50 since June with a gap above back to \$20. ZUO traded as high as \$35 in June 2018 after debuting but has been under pressure since and near a downtrend breakout. The \$1.72B company trades 9.58X cash and 5.87X EV/sales with 18.5% and 19.3% revenue growth forecast. ZUO expects to reach profitability by FY23. ZUO is a cloud-based software company which helps businesses launch and manage subscription-model businesses. In June they outlined a path to \$1B in revenue by doubling their total customer base, adding more high-dollar deals, and growing dollar-based retention above 112%. Their customers over \$100K ACV continues to grow, up to 87% of total ACV in Q1. They see opportunity as they continue to expand beyond just tech companies and into more verticals like media/telecom, business services, manufacturing, and transportation. Analysts have an average target for shares of \$20 with 4 buy ratings, 1 hold, and 1 sell. Jefferies positive on 8-29 with a Buy rating and \$29 PT. The firm thinks despite some near-term headwinds, Zuora will grow subscription at 25%-plus for the foreseeable future as it captures the migration of businesses to the subscription economy. Needham positive as well seeing the results as a good first step towards long-term recovery as its revamped sales efforts have stabilized bookings and improved visibility into 2H opportunities. Short interest is 6.8% and rising from around 2% in early 2019. Hedge fund ownership fell 17.5% in Q2. Alkeon Capital, Abdiel Advisors, Gagnon and PDT all notable holders.

Hawk Vision:



Hawk's Perspective: ZUO is a beaten down growth name now trading at very attractive valuation levels given the growth potential, and though like to focus on best of breed names beating numbers, there is some allure here for a long-term bottom forming.

Confidence Ranking: \$\$