



Zillow Calls Accumulate into Weakness

Ticker/Price: Z (\$29.40)

Analysis:

Zillow (Z) buyer of 2,500 November \$30 calls this morning for \$2.30 and follows buyers last week of 2,000 November \$35 calls and the January \$35 calls bought 1200X in late August. Z has a lot of longer-dated bullish open interest including 10,000 January 2021 \$65 and 20,000 January 2021 \$70 calls, although underwater from early-year buys. Shares are down around 40% from their July highs and forming a narrow base back around last year's lows at \$30. A move over the 20-day MA has upside VPOC targets around \$32.50 and then \$36 where a low-volume gap back to \$45+ starts. The \$4.18B company trades 3.4X EV/sales and 4X cash with expectations for 75% and then 56% revenue growth the next two years. Shares slid last quarter after losses ramped higher as they invest more in their home flipping business. Zillow expects to continue to see near-term headwinds as they build out geographic scale and invest into the new venture but they see a significant long-term revenue potential of \$20B. Analysts have an average target for shares of \$41.25. Benchmark positive in August with a \$55 PT. The firm still sees a significant runway for Homes that more than offsets the near-term Flex disruption. Keybank started at Overweight in July with a \$66 PT. They think the company's dominance in traffic should allow it to remain the leading marketplace for connecting home buyers/sellers with agents, while their data edge gives them a significant competitive advantage over peers. Short interest for the C-class shares is elevated at 20%. Hedge fund ownership rose 70% in Q2. Slate Path Capital adding 1.665M shares while Matrix Capital, and Contour Asset Management adding to their positions. Zillow had some sizable insider buys in May from director Jay Hoag who adding \$87.5M in stock at \$41.20 to \$42 through his fund TCV.

Hawk Vision:



Hawk's Perspective: Z has a product I love but their venture into home flipping could be a tough one and the high short interest is also concerning. I can't get involved in it here.

Confidence Ranking: \$\$