



## Splunk Draws Bullish Positioning

Ticker/Price: SPLK (\$123)

### Analysis:

**Splunk (SPLK)** on 11/1 with 1,770 of the November 22nd (W) \$124 calls bought to open \$3.98 with some November \$122 calls bought back on 10/25 adjusting. SPLK also saw some buying in November 8<sup>th</sup> (W) call strikes and previously with the November \$120 puts sold to open 2000X. It does not have a ton of open interest but February \$120 calls have attracted buyers since August with nearly 1000 in open interest now and will next report earnings in late November. SPLK shares have formed a nice multi-week base at trend support of a rising channel pattern as well as its 89 week moving average and retest of the base breakout that started 2019. Shares have room to push back up to key \$140 resistance and look to break to new highs. The \$18.15B software provider for data analytics trades 51.7X Earnings, 7.7X EV/Sales and operating with 15%+ FCF margins. SPLK expects 20%+ topline growth this year and next with around 25% EPS growth each year. SPLK has seen its cloud business growth and a move to subscriptions improving its fundamentals with 50% of bookings still on Term and 25% at Perpetual as of FY20. It is seeing more large orders, upsell opportunities, and higher ASP drive growth while operating margins strengthen. It was a standout in Piper's security spending survey. Bloomberg reported in September that Cisco (CSCO) previously approached DataDog (DDOG), a competitor trading 30X EV/Sales for a potential acquisition. Analysts have an average target of \$150 and short interest at 5.4% of the float has risen modestly over the past quarter. JP Morgan upgraded shares on 9-17 to Overweight with a \$130 target seeing a rebound in 2H bookings growth and a favorable model transition providing attractive entry for shares at current valuation. It notes a potential for multiple expansion and cites a strong CIO survey for Splunk spending intentions. SunTrust started shares at Buy on 10/2 with a \$160 target and Jefferies at Buy on 10/8 with a \$157 target. On 10/23 Mizuho noted Splunk demand trends sounded strong at a user conference and sees the company positioned to grow at a high rate though sees some near-term concerns over operating cash flow, it has a \$155 target on shares. Hedge Fund ownership fell 18.3% in Q2 filings with Sands Capital selling a lot of stock.

### Hawk Vision:



**Hawk's Perspective:** SPLK is a favorite value for growth name in Software where the group is seeing multiple compression. It has fantastic growth and a great product and think it may eventually attract M&A interest.

**Confidence Ranking:** \$\$