



Walgreen Calls Hot as Implied Volatility Jumps

Ticker/Price: WBA (\$59.90)

Analysis:

Walgreen (WBA) lots of bullish call buys today including 2500 January \$62.5 calls with shares breaking out of a multi-month basing pattern and above its 200 MA. WBA is also seeing buyers active in December \$60 and \$62.5 calls today with IV30 rising sharply up 15%. The recent weekly base breakout measures to a target up to \$63. WBA was in the news this morning announcing a new billing solution for **DexCom (DXCM)** G6 systems. The \$48.9B Pharmacy retailer has been a laggard for a while now and trades 9.3X Earnings and 21.7X FCF with a 3.2% dividend yield. At 8.3X EV/EBITDA it is a value name that could attract interest with investors moving out of high multiple names. WBA expects just 2-3% top-line growth the next two years and next report sin early January 2020 and shares reacting favorably to its 10-28 report with modest growth and EPS above estimates while it raised its annual savings target for its Transformational Cost Management Program. Analysts have an average target of \$57 and short interest at 3.7% of the float is rising to a multi-year high. On 10-30 Pivotal lowered its target to \$55 noting core operating income remains under pressure. JP Morgan cut to Neutral on 10-23 citing growth taking longer to realize and sees the stock as a show-me story in 2020. Deutsche Bank started shares at Sell in September with a \$53 target seeing pressure to the stand-alone pharmacy business from competition that will yield negative earnings revisions. Hedge Fund ownership rose 11% in Q2 filings. Walgreen's owns a \$4.5B stake in **AmerisourceBergen (ABC)** and formerly been talks it could acquire the rest of the company, a potential catalyst the options market is positioning.

Hawk Vision:



Hawk's Perspective: WBA has already made a major two day move and would prefer a retest of the 200 day MA before looking at any sort of entry, an intriguing turnaround story with potential upside catalysts.

Confidence Ranking: \$\$