



Large Call Buy Sees Opportunity in Elastic Weakness

Ticker/Price: ESTC (\$62.75)

Analysis:

Elastic NV (ESTC) moving higher as 1500 February \$60 calls are bought \$6.20 to \$6.30 to open with shares down sharply over the past week since reporting. ESTC also saw 2000 July \$45 puts sold to open on 12/5 into weakness as well as small buys in longer dated calls though 1000 each of the December \$75 and \$70 puts bought in late November and early December remain in open interest. ESTC shares are not far from its post-IPO lows and have sold off sharply in Q4 as investors rotated out of high multiple software stocks. The \$4.85B Company is focused on data visualization and analytics and valuation now down to a more reasonable 11.4X EV/Sales with revenues rising 70% in 2019 and expected at 53% growth in 2020 and 36% growth in 2021 while profitability remains far off and FCF margins not likely to inflect positively until 2022. ESTC recently posted a 130% net expansion rate and customer count for ACV over \$100K was 525 compared to 475 in the prior quarter. Analysts have an average target of \$97.75 on shares and short interest continues to creep higher to 10% of the float. KeyBank sees revenues quadrupling over the next five years in a \$45B TAM. It sees sustainable high growth as search-centric software vendors see expanding volumes of data in IoT, cloud, and AI. Capturing just a 5% share of its TAM puts ESTC on a path to \$2B in revenues after \$160M in 2018. ESTC will present on 12-12 at the Barclays Tech Conference. On 11-18 Canaccord upgraded shares to Buy with a \$90 target seeing +30% FCF margins at scale several years in the future. RBC lowered its target to \$103 after earnings noting the billings miss due to slipping Federal deals but saw plenty of positives in competitive wins. Piper calls weakness a buying opportunity and Barclays also defended shares noting shares will be volatile near-term until investors become comfortable with management's explanations for the billings miss. Hedge Fund ownership surged 74% in Q3 filings.

Hawk Vision:



Hawk's Perspective: ESTC is an impressive growth name and valuation now becoming more fair, though price-action compared to peers is concerning. I prefer to see a more constructive chart pattern form with some near-term moving averages turning higher first.

Confidence Ranking: \$\$