



Bullish Slack Options on Remote Work Upside

Ticker/Price: WORK (\$25.30)

Analysis:

Slack (WORK) notable activity on 4/14 as 2300 October \$26 calls were bought at \$4.60 to \$4.70 in opening trades. WORK has also seen buyers in May \$25 and \$26 calls recently and has 3000 June \$25 short puts that opened 2/26 as well as more than 6500 June \$30 calls in open interest from buyers, a strong bullish bias overall in open interest across all expirations. WORK in 2020 has formed an inverse head and shoulders pattern in the \$15/\$30 zone that measures to \$45 on a breakout. Shares should have solid support in the \$21/\$23 zone making reward/risk favorable here. The \$14.2B software company that provides a communication platform for individuals and corporations trades rich on valuation at 17X FY20 EV/Sales and estimates calling for 35% topline growth in FY21 after 57% growth in FY20. WORK is also likely to benefit from the remote work move due to COVID-19. On 3/26 the CEO noted connected users rose 25% from March 10th to March 25th and also noted a surge in a number of other user metrics. Slack has shown impressive 136% Net Dollar Retention rates while large customers are now making of a growing percentage of revenues and it continues to compete well with Microsoft Teams. Slack has a growing user base as an emerging work network and nearing a positive inflection in operating cash flow with FCF margins improving. Analysts have an average target of \$25.75 on shares and short interest at 8.4% of the float has fallen 65% Q/Q. Cantor Fitzgerald started shares Overweight on 4/14 with a \$30 target noting activity on the platform has skyrocketed as people shift to working from home, the company and platform have a number of unique, positive attributes, including its ability to drive customer productivity and efficiency, applicability across all industries and business sizes, and a growing ecosystem to facilitate seamless integration. It sees increased market penetration and margin expansion in the future. DA Davidson raised its target to \$29 on 3/27 seeing the company uniquely positioned to benefit from dramatic growth of remote work. Hedge Fund ownership surged 104% in Q4 filings.

Hawk Vision:



Hawk's Perspective: WORK still feels underappreciated as a momentum play in the current environment, and although the valuation is a concern, I see it as a major Software leader for years to come as its platform is incredibly useful.

Confidence Ranking: \$\$