



## Automatic Data Calls Bought as Shares Consolidate

Ticker/Price: ADP (\$144.50)

### Analysis:

**Automatic Data (ADP)** with 625 June \$145 calls bought on 5/4 \$6.50 to \$6.75 for around \$450,000, a good sized trade in a name that sees little activity, though has 560 May \$140 calls remaining in OI. ADP shares traded in a narrow range most of April consolidating between \$135 and \$145 and looking to potentially break out into a low volume pocket that extends back to \$165. The \$63.3B human capital management company trades 24.3X Earnings, 4.3X Sales and 43X FCF with a 2.6% dividend yield and very strong balance sheet. ADP has been making a push towards technology with its innovation plan and the HCM market is estimates at \$150B globally growing 5-6% and is seeing many secular changes across key categories. ADP is growing a complete suite of HCM solutions and is a market leading provider of HRO solutions using its scale to expand. ADP has less exposure to small businesses than peers and 75% of the Fortune 500 utilize ADP solutions. ADP is a strong FCF story with expanding margins and ROIC above 20% each of the last three years. Analysts have an average target of \$156 on shares with short interest low at 1.3% of the float. On 4/24 Cowen lowered its target to \$158 from \$195 seeing it as a relative safe-haven but lacks near term catalysts, seeing the near-term pullback attractive to long-term investors. JP Morgan cut its target to \$159 from \$189 on 4/15 concerned with estimates. Pershing Square exited its stake in February while Polen Capital, Winslow Capital Cedar Rock, DSM Capital and FundSmith are all top concentrated owners.

### Hawk Vision:



**Hawk's Perspective:** ADP is a quality defensive name and has a nice easy reward/risk trade set-up in this range.

**Confidence Ranking:** \$\$