



Arena Pharma with Size Calls Bought for Strength Continuing

Ticker/Price: ARNA (\$56)

Analysis:

Arena Pharma (ARNA) buyer of 2,875 July \$55 calls for \$4.85 and follows a seller of 1,500 October \$38 puts recently. The December \$50 calls still with 750 in OI from January buyers around \$7. Shares opened weak after a \$250M offering was priced at \$50 but have rebounded well and now back above all of its short-term moving averages again. ARNA pulled back right to the recent range breakout at \$52 as well as the rising 20-MA and May VPOC, exactly where bulls expected to defend the trend. Longer-term, ARNA has room up to \$64 from 2019 and then out of a big five-year base with a lot of room to run. The \$2.92B biotech trades 3.65X cash with limited debt. ARNA has a deep pipeline with treatments in irritable bowel, atopic dermatitis and alopecia areata all in late-stage trials while their treatment for pulmonary hypertension being developed with United Therapeutics (UTHR) is also in Phase 3 development. Their key drug is a treatment called estrasimod which is a once-daily S1P receptor which is used to treat immune-related inflammatory diseases. The company sees a lot of potential for the drug across multiple indications like ulcerative colitis, Crohn's and more. The drug will have Phase 3 data towards the end of 2021. Analysts have an average target for shares of \$70. Jefferies starting at Buy on 5-18 with a \$62 PT seeing peak revenues for estrasimod at more than \$7.5B in UC, Crohn's and beyond. CSFB positive on 5-21 after Galapagos's data in UC seeing ARNA's treatment as a best-in-class potential product in UC based on differentiated Ph2 efficacy, high receptor specificity/no titration requirement, and additional advantages owing to a more rapid onset/offset. BAML raising to Buy in March as they expect ARNA to be a big winner in the expanding UC market which should hit \$7B+ by 2027. Short interest is 8.4% and sitting around 10-year lows. Hedge fund ownership rose nearly 16% in Q1. Alkeon Capital, Holocene, and Great Point all buyers while Perceptive Advisors remains a top 10 holder.

Hawk Vision:



Hawk's Perspective: ARNA was a favorite Bio coming into this year offering value for its positioning in some key markets and continue to like it especially with this positioning.

Confidence Ranking: \$\$