



Large Bullish Trade Sees Sonos Recovering

Ticker/Price: SONO (\$9.75)

Analysis:

Sonos (SONO) with 10,000 January \$12.50 calls bought this morning up to \$1.45, aggressive buy, and still has 2700 July \$10 calls in OI from buyers in March while 1000 January \$10 short puts also in OI and seeing value at these levels. SONO shares are trading in a bull flag under \$10.50 and coiled just above YTD VPOC with a move higher into the gap targeting \$12.50 and the 200-EMA. The \$1.05B company trades 44.5X earnings, 0.8X sales, and 21X FCF with little-to-no debt. SONO is coming off a strong quarter and likely benefiting from the Shelter-in-Place policies as drive-time share is being usurped and they noted listening hours up 48% Y/Y in April. Early Q3 trends have been strong as they expect both their major US and European distributors to replenish inventories now that restrictions are being lifted. SONO continued to gain share in both US and UK households while their DTC efforts are paying huge dividends up 32% in Q2 overall and up 400% in April, the first month of Q3, despite less promotional efforts. SONO has always been product-driven and three big launches expected in 2020 including more voice-automation, a premium smart soundbar, and more. In April the company announced a new radio venture offering an ad-support, streaming service exclusively through their platform which connects over 60,000 radio stations and original programming. Analysts have an average target for shares of \$15.50. Raymond James positive on their radio venture noting that it could drive multiples significantly higher. The firm thinks any sign of success for Sonos Radio is essentially a free option on a high-growth, high-margin profit stream. Short interest is 3.2%, down from around 9.7% in February. Hedge fund ownership fell 8% in Q1.

Hawk Vision:



Hawk's Perspective: SONO valuation looks attractive down here and think this base is a nice one to trade against for a name that has strong future potential.

Confidence Ranking: \$\$