Datadog Bulls Accumulate OTM Calls on Massive Growth Opportunity

Ticker/Price: DDOG ($78)

Analysis:

Datadog (DDOG) with more bullish positioning on 6/10 as the November $105 call open interest rose to 4,950 from 2000 while 1000 August $100 calls were bought $2.70 offer to open as well. DDOG has also recently seen January $105 calls accumulate 3000X in open interest from buyers and upside July $105 calls with over 6000 bought on 6/8. DDOG currently has over 90,000 calls in open interest versus 31,000 puts. On the chart DDOG has shown major relative strength since clearing the February highs and this week pushing higher out of a bullish consolidation flag. The $23.8B software company provides cloud monitoring applications which provides analytics across a company's servers, databases, tools, and services. The dashboard offers a view of alerts and visualizations as well as full-text search for events and discussion tools. DDOG integrates with a number of other cloud packages out of the box so enterprise IT teams can work without interruption. They cover AWS, Azure, OpenShift, and OpenStack. They see a massive opportunity to provide insight into cloud infrastructure. They estimate the TAM right now is $35B while Gartner sees the IT Operations Management market a $37B opportunity by 2023. This is largely due to a drive for companies to allocate more of their IT budget toward cloud. DDOG differentiates from peers: 1) they are built for modern cloud environments including multi-cloud or hybrid environments. This helps opens them up to wider vendor acceptance; 2) their data platform is fully integrated with metrics, traces, and logs which allows for better correlation analysis. They also utilize machine learning for quicker and better results; 3) they're scalable with more than 10T events a data under observation. DDOG sees growth drivers going forward from further market penetration, new production adoption by existing base, and expanding Internationally. Their main competitors are SignalFX, acquired by Splunk (SPLK) recently, and Dynatrace (DT) which debuted earlier this year. DDOG is targeting a major opportunity driven by key secular tailwinds with a unified observability platform. DDOG charges per usage and per volume so price charged is commensurate with the size of the customers' infrastructure which can vary over time. DDOG commented recently at the JP Morgan Tech Conference its big new product is security which is a large opportunity to add to its suite. DDOG trades at a premium valuation of 30X FY21 EV/Sales and has been a rapidly growing company with revenues rising 96.6% in 2018 and 83.2% in 2019 with 2020 seen at 55% topline growth. Gross margins have been in the 75-78% range and Adjusted EBIT margins seen inflecting positive this year while R&D as a % of Sales is very high above 30%. In 2019 ~65% of DDOG's new customers started with two or more products, compared with ~25% in 2018. For existing customers, ~60% are using two or more products, up from ~25% in 2018. Most significantly, ~25% of customers are now utilize DDOG's three pillars of observability (infrastructure, APM, logs), up from ~5% in 2018. DDOG saw a spike in activity in March from companies looking to accommodate their increasingly digital/remote businesses. DDOG ASP's are growing quickly with large enterprises above $200,000/year and mid-market $165,000 and this continues to increase as customers move more work to the cloud. Analysts have an average target at $63 and short interest is just 4.6% of the float. Needham and Barclays recently raised targets to $70 and JP Morgan to $65. Barclays commented that DDOG is a great way to capture the multi-year cloud migration opportunity. Bloomberg reported last year that Cisco attempted to buy DDOG at $7B but was rebuffed. Hedge Fund ownership surged 63.5% in Q1 filings, notably Whale Rock and Coatue adding to positions.

Hawk Vision:

Hawk's Perspective: DDOG falls into the elite growth category and though valuation is high the opportunity is vast and it is a best-in-class type name to own on dips.

Confidence Ranking: $$