



Size Bullish Calls Bought in Cloudflare on CDN Demand

Ticker/Price: NET (\$29.40)

Analysis:

Cloudflare (NET) November \$32 calls were hot early on 6/3 with buyers at \$4.90 to open and traded 2600X on the day, November IV rising. NET still has 3500 June \$30 calls sitting in open interest from buyer flow, and has seen 1000 December \$17.50 calls and 2800 December \$25 calls with buys, but a name that does not see as much action in options as many high growth peers. NET shares have a strong momentum pattern since bottoming in March and consolidating under the \$30 level the last few weeks with breakout potential. The \$8.8B company is a next generation CDN that uses solid-state drives (SSDs) in their CDN which makes for faster load times between different internet exchange points (IXPs). The company estimates that using this newer tech can improve speeds by 30%, lower read errors, use less power and doesn't suffer from fragmentation of files. NET also notes that SSDs tend to fail gradually over time rather than in one, catastrophic moment, which allows them to continually update and maintain their network and reduce downtime. NET has a global network, much like others, and uses an API-first methodology which makes them much more customizable than others. NET allows customers to automate much more of their workflows and control over how content is cached and purged. Shares currently trade 22X EV/Sales with revenues rising 42.8% in 2018 and 49% in 2019 and seen growing 35% this year. NET posted results on 5/7 and beat estimates though guidance was a bit underwhelming considering the expected demand surge from work-from-home. NET has seen a 68% CAGR in large customers (>\$100K/year) and has plenty of room for growth with just 13% of Fortune 1000 as paying customers. It estimates a \$47B TAM for 2022 and is disrupting peers. It is seeing rapid customer growth with high gross margins while operating margins at -16% seen at 20%+ long-term. Analysts have an average target of \$26 with short interest at 8.7% of the float, rising 23% Q/Q. Needham raised its target to \$32 on 5/8 citing a doubling of in-bound organic leads. Hedge Fund ownership jumped 24% in Q1 filings, Whale Rock notably with a new position.

Hawk Vision:



Hawk's Perspective: NET is richly valued but I like its position in a great space for growth and think it is another long-term Tech winner.

Confidence Ranking: \$\$