



FEATURED OPTIONS RADAR REPORT



Call Buyer Sees Opportunity in Heron Set-Back

Ticker/Price: HRTX (\$15.40)

Analysis:

Heron Therapeutics (HRTX) unusual late day buy of 3500 August \$16 calls for \$1.20, a name lacking any notable open interest after July expiration, and been a relative laggard with shares -36% YTD. HRTX traded below \$10 in March and above \$21 in June before gapping lower in late June after a CRL for their post-op pain treatment. The CRL stated that the FDA is unable to approve the NDA in its present form based on the need for additional non-clinical information. Based on the complete review of the NDA, the FDA did not identify any clinical safety or efficacy issues or CMC issues. The treatment has significant opportunity as a new pain management option for patients and significantly reduce the need for opioids. The company notes that there is a total patient pool of around 500k in the US that become addicted to opioids post-surgery and a significant \$13B in healthcare costs annually associated with addiction from post-op pain management. HRTX shares in March moved back to key support from 2017 as well, the \$1.4B Biotech now trading around 10X FY19 sales with ample cash and a debt-free balance sheet. **PCRX** is a competitor that rallied since the CRL for HRTX as it is competition free for at least another 6-12 months. Leerink lowered its target to \$19 on 6/30 seeing HTX-011 as superior to PCRX's Exparel, but disappointed with the delayed approval. Northland noted it was a minor set-back and has a \$35 target on HRTX confident in approval. Evercore also said to buy HRTX on weakness expecting a FDA meeting within 30 days and can resubmit quickly with a two month review with potential approval by year-end. HRTX short interest remains elevated at 21.5% of the float and Q1 filings showed hedge fund ownership down 12%, Baker Brothers with a small position.

Hawk Vision:



Hawk's Perspective: HRTX clearly has value if this approval eventually happens, though the high short interest is a concern here, so a speculative name at best.

Confidence Ranking: \$\$