



FEATURED OPTIONS RADAR REPORT



2U Upside Calls Accumulate for 2H Strength

Ticker/Price: TWOU (\$37.5)

Analysis:

2U (TWOU) traded 1,425 December \$50 calls on 8/12, a spot where 3,300 have been bought to open since 8/5. TWOU does not have a lot of other large open interest, the January \$40 calls have 1000X in OI and January \$60 calls more than 1600X. TWOU shares have rallied sharply since March lows and pulling back the last two weeks to retest the late June breakout level and largest volume node of support which aligns with the 38.2% retracement near \$36.25. It priced a 6.8M share secondary offering at \$45.50 last week. TWOU focuses on building and supporting online education programs through their cloud-based tech and has partners like Yale University, so its services likely in high demand into this Fall with a number of universities going online. It sees ample runway for growth in the global higher education market where online penetration is low. TWOU currently has 73 University partners and over 215,000 students with more than 2000 courses. TWOU currently has a market cap of \$2.47B and shares are trading 3.7X EV/Sales with revenues rising near a 40% CAGR the last four years and seen jumping another 29% in 2020, though profitability has long been an issue. TWOU has been an activist situation since last Fall when Sachem Head disclosed a 2% stake. The firm believe TWOU would be an attractive target for a number of companies in the space given the breadth of their education consulting programs across both bachelors and masters degree programs. Private equity would also be an ideal landing spot as their balance sheet and underlying business remain strong. Sachem Head recently was successful with another deal in the space with Instructure. Analysts have an average target of \$50 and short interest remains elevated at 19% of the float. Jefferies started coverage in July at Buy with a \$50 target noting “2U is in a compelling position to help universities go online, positive on the company's 20%+ growth in 2020 and believes digital higher education is in early innings. 2U's services-led model and unprofitability are holding the shares back, but stronger execution and a shift to software can drive multiple expansion.” CSFB upgraded to Outperform with a \$48 target on 7/31 as the company continues to show signs of solid execution and prudent expense management while benefiting from the secular shift to distance learning. It also notes that “commentary on Graduate Programs was encouraging with (1) a meaningful uptick in student demand/enrollments; (2) robust top of funnel suggesting reduced stigma associated with online education; and (3) better-than expected undergraduate demand, a new endeavor with a much larger TAM than graduate programs. We anticipate these trends to drive accelerating growth in 2H20 and FY21, evidencing a full recovery from 2019's execution issues.” Hedge Fund ownership jumped 15% in Q1 filings with Ark Investments a notable top holder.

Hawk Vision:



Hawk's Perspective: TWOU is positioned for a great opportunity if it can improve execution, or potential be acquired. I would like to see it retake the 55 MA after trading poorly since the offering.

Confidence Ranking: \$\$