



FEATURED OPTIONS RADAR REPORT



After Transformative Year, Bull Spread Sees Further Upside for Small-Cap Retail Platform

Ticker/Price: CARG (\$39.85)

Analysis:

CarGuru (CARG) spread today sells 1,000 April \$42 calls for \$1.80 and buys 2,000 of the August \$42 calls for \$5.80, name that has seen upside call spreads lately including 2,000 of the March \$49/\$55. The March \$40 calls also have over 9,750 in open interest from size buys in mid-February. CARG jumped on 2/25 after earnings and broke out of a nearly 1-year range which is being back-tested this week at \$38. A move higher can target \$48-\$50 and the post-earnings spike. The \$4.57B company trades 19X earnings, 4.8X sales, and 14X cash. CARG is an online automotive marketplace with exposure to both Canada and the UK as well. CARG underwent a transformative year in 2021 as they shifted from being a listings business to a broader, transaction-enabled marketplace with better value for both buyers and dealer partners. They also bought CarOffer, launched their InstantMax Cash Offer, and expanded digital retail capabilities which is paying off earlier than expected with strong customer retention and growth. CARG is also continuing to show strength in their core listings business despite the ongoing headwinds in the auto industry and positioned well to continuing gaining market share as inventories loosen up and their dealer network grows in scale. Analysts have an average target for shares of \$49 with a Street High \$63. DA Davidson with a \$52 PT on 3/4 noting that strength in their Car Offer business can more than offset the softness in their core US marketplace business in the near-term. Truist with a \$58 PT as they think CARG should remain a beneficiary from the current environment with strong growth in its two new segments - Wholesale and Product - amid a growing dealer adoption for CarOffer and strong consumer traction for InstantMax Cash Offer. Raymond James likes the long-term story given its traffic leadership position, proven ROI for dealers, strong growth from CarOffer and digital retailing potential, and increasing profit outlook driven by CarOffer and marketing leverage. Hedge fund ownership rose 9.5% last quarter. Short interest is 9%.

Hawk Vision:



Hawk's Perspective: CARG pullback has given a nice risk/reward spot to lean against for a move higher and think their transformation story can continue to play out positively in 2022

Confidence Ranking: \$\$