



## Bullish Flows Accumulate in Chewy Ahead of Q2 Earnings

**Ticker/Price:** CHWY (\$71.50)

### Analysis:

**Chewy (CHWY)** continuing to see bullish flows into the recent pullback with buyers today of 1,750 June 4<sup>th</sup> (W) \$70 calls for \$4.00 to \$4.50 and follows size put sales last week in the January 2023 \$70 and \$65 strikes. The June \$75 calls also saw buyers on 5/11 while the October \$85 calls also seeing buyer flow in late April. CHWY pulled back to VWAP from the March lows and starting to turn higher this week with the 50- and 200-day above around \$78. A move higher has room back to \$85 and then \$105. The \$28.26B company trades 245X earnings, 4X sales, and 50X cash. CHWY is coming off another strong quarter with customer activations up 40% and retention improving by over 200 bps and the company is now on pace to top pre-IPO estimates for profitability by almost two years. They remain the dominant online platform for pet care and expanding their moat with new products and services like their Connect with a Vet launched in 2020. CHWY also launched another health initiative last year, Compounding, and sees 2021 as a big opportunity to build up the services side as customer awareness expands. They also expect to continue building scale in 2021 with expanded fulfillment capabilities in both Q2 and Q3 while automation will be a tailwind to 2H margins. Long-term, CHWY sees a lot of opportunity to grow with the US pet market set to grow 20% through 2024 to \$120B. Online remains in the middle-innings of growth as well with just 53% of all sales expected on the channel by 2025, up from 7% in 2015. Analysts have an average target for shares of \$92.50 with a Street High \$133. Guggenheim starting at Buy in early May noting that despite being the largest pureplay pet e-tailer in the U.S., Chewy only participates in about 70% of the combined pet products and services market and has significant room for expansion. Evercore starting at Outperform in April, a high-quality platform play on the \$200B pet market. Short interest is 3.25%. Hedge fund ownership fell 1.2% in Q1.

### Hawk Vision:



**Hawk's Perspective:** CHWY fits the profile of high-valuation names that have been out-of-favor and need to see more constructive action back above its 200-day again to get interested but overall a bright long-term future and I think they've made some smart moves to position well to dominate the growing pet services market

**Confidence Ranking:** \$\$