



FEATURED OPTIONS RADAR REPORT



Bulls Position for Upside After Media Merger as Focus Shifts to DTC Strategy, Synergies

Ticker/Price: DISCA (\$24.55)

Analysis:

Discovery (DISCA) into morning lows seeing June \$22.5/\$17.5 bull risk reversals trade 1190X and follows the May \$22.50 puts sold to open 9000X yesterday. DISCA has seen a lot of flows recently with size in the May \$25/\$30 call spread 8000X, the June \$30 calls 6000X, the June \$27.50 calls 16,000X, and the April \$25 calls with over 24,000X. Shares are down to the monthly value low today at \$24.50 and looking to make a higher low versus the March drop with a larger weekly descending wedge in play. A breakout above \$26.25 can set up for a nice run back to \$28.25 and then longer-term upside to \$33.50. The \$13B company trades 7.8X earnings, 1.1X sales, and 5.4X FCF. DISCA is nearing the close of their deal to acquire Warner Media from AT&T, a move that will put a number of highly visible, unique brands under one banner. The company laid out plans earlier this year to invest in DTC and sees the business reaching profitability by 2025 led by Discovery+. DISCA also reportedly is looking at merging the business with HBO Max which would give their platform more uniformity as they look at ways to boost retention. The merger between the two will have significant synergies as they combine operations across studio and linear, too. In November, top shareholder John Malone told analyst he sees the number topping \$3B to \$4B annually as the company executes on cross-promotional strategies, scaling internationally, and advertising-based offerings. Analysts have an average target for shares of \$42 with a Street High \$59. CSFB has a \$52 PT for shares noting that the combination of Discovery and WarnerMedia forecasts shows a strong SOTP between Streaming, Linear Networks and Studio segments as their strategy comes more into focus post-merger. BAML upgrading to Buy in January noting that the merger with WarnerMedia has the potential to create a global media powerhouse driven by creative and content leadership with potential for significant revenue and cost synergies. Short interest is 9.5%. In May 2021, the CFO bought \$725K in stock at \$29. Hedge fund ownership rose 13% last quarter. Laurion Capital a buyer of 4M shares while Brahman Capital has a 3.5M share position.

Hawk Vision:



Hawk's Perspective: DISCA is in a weak trend and obviously more of an event-driven play here with their deal set to close soon which should clear the way for the focus to turn more towards the future and strategy to maximize value around their core brands

Confidence Ranking: \$\$