



FEATURED OPTIONS RADAR REPORT



Size Call Buys Set Sights on Recent Activist Target

Ticker/Price: DLTR (\$147.75)

Dollar Tree (DLTR) buyers of 850 June \$145 calls early between \$10.95 and \$11 and volumes now over 3,425 on the day, sizable accumulation over \$3.5M. DLTR has some bullish ITM call open interest from October that remains holding while near-term flows have been quiet. On 11/17, a trader bought 3000 March \$130 puts for \$3M, tied to long stock. Shares are trading in a narrow range above its 8- and 21-EMA and starting to clear January's value high today. A breakout above \$149 targets a measured move to \$165-\$170 which also aligns with the range extension from the big four-year breakout from November. The \$31.8B company trades 18.8X earnings, 1.22X sales, and 45X cash. DLTR has long been a laggard to peer Dollar General (DG) in the space and has drawn the focus of activist Mantle Ridge recently who laid out a detailed plan to turn around the retailer. DLTR has sought to improve operations internally with new format stores, expanded SKUs, and new verticals like party products but they continue to lag DG with sales growth of 5% versus 11%+. The activist firm has a long history of bringing in new leadership to help steward turnarounds and part of their plan is to bring in former DG CEO Rick Drieling who once tried to buy Family Dollar for almost \$10B in 2014 and likely understands the operational side well enough to make quick and impactful changes. Analysts have an average target for shares of \$140 with a Street High \$175. Piper was out in mid-December noting that the company response to Mantle Ridge has fallen flat and likely won't resonate with frustrated investors. They think DLTR should considering adding some of the activist's nominations and be better positioned to address some key issues. Wells Fargo on 12/13 said that Mantle Ridge's changes would be huge wins for shareholders. They think a strategic review seems warranted, especially given the recent rush to break the \$1 price point after an activist came knocking and the historical value destruction at Family Dollar. Short interest is 2.65%. In June, a group of directors all adding stock around \$98-\$99 including one \$500K buy. Hedge fund ownership fell 3% but did see a 3M share buy from Nomura who has been a proxy for Mantle Ridge in the past, so likely representing part of their 15M+ share stake.

Hawk Vision:



Hawk's Perspective: DLTR has moved a bit already with these early calls but think it remains one of the more compelling event-driven situations given the significant valuation gap with its closest peer and a lot of room for improvement

Confidence Ranking: \$\$