



FEATURED OPTIONS RADAR REPORT



Bull Bets in Recent IPO at the Heart of Cloud Adoption

Ticker/Price: DOCN (\$53)

Analysis:

Digital Ocean (DOCN) a recent IPO that is starting to attract some bullish options action this week ahead of earnings on 8-5, the August \$45 calls opened 1125X for \$700K and on 7/22 1000 of the \$50 calls bought in the \$5.50 to \$7.70 range. DOCN sold off into early May but has been strong since recently hitting highs before pulling back on 7-15 and bouncing at trend support and its rising 55-day moving average. DOCN may be starting a rising channel pattern and above a key volume node at \$56 can make a run to \$65. DigitalOcean is a leading cloud computing platform offering on-demand infrastructure and platform tools for developers, start-ups and small and medium-sized businesses, or SMBs. Its platform simplifies cloud computing, enabling customers to rapidly accelerate innovation and increase their productivity. DigitalOcean's cloud offering competes with both large cloud vendors such as AWS and Google Cloud, as well as smaller niche players including OVH, Vultr and Heroku. DOCN's pricing is consumption-based and billed monthly in arrears. According to IDC, the worldwide IaaS and PaaS markets for individuals and companies with less than 500 employees are estimated to be approximately \$44.4 billion in the aggregate in 2020. DOCN currently has a market cap of \$5.5B and trades 12.5X FY21 EV/Sales with revenues seen rising 28-30% annually the next five years. DOCN is seeing improving net dollar retention rates, reaching 107% last quarter, and also steady growth in ARPU. DOCN is already profitable and EBITDA/EPS seen ramping strongly the next few years. Its Droplet offering has accounted for the majority of the company's revenues but newer products are seeing stronger uptake such as Managed Databases, App Platform, and Managed Kubernetes. Analysts have an average target of \$55 and short interest around 3% of the float. Goldman started shares Buy in April with a \$101 target seeing shares cheap to peer average of 17X while growing faster. JPM started shares Overweight with a \$50 target in April as a differentiated platform and expectations for accelerated growth and expanding FCF and operating margins. Canaccord started at Buy seeing DOCN at the heart of key themes like cloud adoption, empowerment of the developer, and an increase in cloud-native start-ups.

Hawk Vision:



Hawk's Perspective: DOCN was profiled by us in May as a great opportunity into weakness and continue to see it as a really strongly positioned new Tech name, these calls should be rewarded come earnings.

Confidence Ranking: \$\$