



## FEATURED OPTIONS RADAR REPORT



### Call Buyers Target Long-Term Upside in Emerging Pet Health Leader

**Ticker/Price:** ELAN (\$33.55)

#### Analysis:

**Elanco (ELAN)** buyers of 1,000 January 2023 \$35 calls for \$4.80 to \$5 today and volume now over 1,850 on the morning. ELAN has seen sellers in the Sept. \$29 puts recently and buyers of 2,250 October \$33 calls and 2,450 October \$32 calls. Shares gapped lower recently but big rebound and now pushing back above yearly value in a sign of strength.

There's a short-term gap back to \$35 but the broader setup is targeting \$37.50 and all-time highs with a breakout measuring to \$45. The \$15.5B company trades 26.65X earnings, 3.4X sales, and 26.5X cash. ELAN recently closed on their deal for Kindred and raised synergy targets given the pipeline additions and expanded R&D capabilities in biologics and monoclonal antibodies. The deal adds to their Bayer acquisition a year ago and further expands ELAN into more areas like atopic dermatitis as well as multiple emerging therapeutic areas within the industry like parasiticides, pain and osteoarthritis. They see a significant long-term opportunity given that 500M pets are unmedicalized and higher pet ownership rates and the significant ramp in spending on pet health seen over the last 3-5 years will continue. Analysts have an average target for shares of \$36.50 with a Street High \$42. JP Morgan recommending shares on 8/24 into weakness. The firm expects modest sales and more significant EBITDA growth for the company over the next two years followed by accelerating topline growth over time as Elanco's pipeline comes to fruition. ELAN announced an SEC subpoena in August over sales practices relating to channel inventories. JP Morgan thinks the investigation likely creates more headline risk than carries actual risk given historical precedent. Short interest is 1.75%. ELAN has seen a lot of insider buying this year including a \$315K buy on 8/13 from a director at \$31.30 and a \$500K buy from the CEO on 8/11 at \$29.70. Hedge fund ownership fell 10% last quarter. Eli Lilly a shareholder while Sachem Head, Aristotle Capital, and Starboard all top holders.

#### Hawk Vision:



**Hawk's Perspective:** ELAN has run a lot recently and these calls give a lot of time to work out of the broader weekly range to new highs, so one to keep on the radar for a better entry. The company is developing a strong portfolio of drugs in a massive, steadily growing market and should be a long-term winner

**Confidence Ranking:** \$\$