



Bulls Position in Elanco for Bayer Animal Health Deal Approval

Ticker/Price: ELAN (\$31.13)

Analysis:

Elanco Animal Health (ELAN) has seen a recent surge in bullish positioning and shares have also showed some relative strength. In the February expiration we have seen positioning in the \$31 calls with 1750X bought, the \$32 calls with 4000X bought, and even the OTM \$35 calls with more than 10,000X bought. The February \$32 puts opened 2000X on 1/23 as well. April has also seen positioning with buyers in the \$29 and \$30 calls for 1,000X and 2,000X respectively and in July 2,800 of the \$33 calls bought on 1/23. ELAN will next report on 2-19 and has seen its 30 day IV Skew spend a lot of time inverted in 2020. On the chart shares broke out of a base above the \$29.35 level and shares starting to approach resistance of its channel down pattern since its debut when it was spun-off from Eli Lilly. On 1/23 the company priced a 23M secondary at \$32. The \$11.7B animal health company trades 26.85X Earnings, 20X EV/EBITDA and 3.8X Sales. ELAN is not expecting much revenue growth in FY20, less than 1%, while EPS seen rising 9.5% but after falling 10.2% in 2019. ELAN's market is a \$34B TAM growing at a 4% CAGR and sees omnichannel presence as a key differentiator as a new trend. ELAN is undergoing a restructuring program for cost savings and margin expansion while targeting growth categories with new products and acquisitions. ELAN announced a key deal last year to acquire Bayer Animal Health that expands its size and scale while increasing emerging market exposure. The deal is expected to close mid-2020. Analysts have an average target of \$34.50 and short interest is low at 3.6% of the float. ELAN insiders were actively buying stock in August. ELAN is likely to face some near-term headwinds from generic Rumensin competition and a slower rebound in swine market from the African swine fever impact. MSCO upgraded shares to Overweight in November with a \$32 target citing attractive valuation as livestock pressures fade and new product contributions rise ELAN can see accelerating core revenue growth. BAML upgraded shares to Buy with a \$34 target and sees anti-trust review and potential divestments as the next major catalysts. ELAN has recently made a number of smaller divestments and expects to continue near-term. Hedge Fund ownership fell 8.65% in Q4 filings, not major notable investors with Eli Lilly still owning a \$7.8B stake. Sirius Capital did add significant shares of ELAN in Q3 making it the top holding for the fund.

Hawk Vision:



Hawk's Perspective: ELAN is well positioned in a coveted Animal Health space with limited means of investing, and think this Bayer deal could pay off for a multi-year run in shares.

Confidence Ranking: \$\$