Earnings Snapshots 2/27/2023

TGT, CRM, SNOW, COST

Target (TGT) will report results 2/28 before the open with the Street expecting $1.40 EPS and $30.72B in Revenues (-0.9%) and Q1/FY24 seen at $2.14/$25.3B and $9.23/$111B implying FY24 growth of 2.4% for Revenues and 66.6% for EPS. TGT shares have closed lower five of its last six reports with a six-quarter average max move of 12.1%. TGT is a leading department store that offers everyday essentials and fashionable, differentiated merchandise at discounted prices. TGT generates approximately 1/3 of sales from its owned and exclusive brands. TGT has a market cap of $76.2B and trades 18X Earnings, 15X EBITDA and 0.7X Sales with a 2.6% yield. While some investors cite a very easy compare on margins given the issues the company faced last year with inventory and other cost items, other investors are concerned that estimating that the company could return to 5% margins in a tougher macro economic backdrop, with the possibility of market share loss, is too aggressive and poses risk to the stock. Analysts have an average target of $177.5 with short interest up 54.5% Q/Q to 2.4% of the float. Piper at Overweight and a $200 target sees a significant near-term opportunity for TGT to take share in Home alongside BBBY's increasing number of store closures and disorderly wind-down of the business. OpCo out positive 1/24 citing the potential for a strong multi-year profit recovery, driven by gross margin expansion, management cost actions, and share gains. The company is well positioned to continue capturing share, driven by digital efforts, store investments, merchandising success on the exclusive brand front, competitor liquidations over time, and partnerships with other brands/retailers. Evercore out negative last week expecting another EPS miss. BAML sees upside to its -2% comparable sales decline forecast given continued traffic growth as well as price increases in consumables categories, both of which should help offset declines in discretionary categories. On the chart, TGT recently dipped back to a 55/200 MA bull cross nearing that acted as support and a move back over 170 can target 178. TGT still has a large unfilled gap to 209.50 while $138/$190 the sideways zone since the gap move. TGT has multiple support levels on weakness at 160, 158 and 156. TGT options are pricing in an 8% earnings move with 30-day IV Skew steep at +7.2 versus the +4.7 52-week average. TGT put/call open interest ratio is at the 67th percentile and average IV30 crush is -19.8%. TGT has seen mixed positioning, the April $140 puts sold to open 10,000X and March $185 calls sold to open 10,000X.

Trade to Consider: Sell the **TGT** March $185/$180/$160/$155 Iron Condor for $2.65 Credit

Salesforce (CRM) will announce earnings 3/1 after the close with the Street looking for $1.37 EPS and $7.99B in Revenues (+9.1%) while Q1/FY24 seen at $1.33/$8.07B and $4.93/$34B implying FY24 growth of 10.2% for Revenues and 18.6% for EPS. CRM shares have closed lower the last two reports after being higher four of the previous five, a six-quarter average max move of 9.3%. CRM is a cloud leader and the company's robust and strategically built product portfolio, spanning sales, service, marketing, ecommerce, analytics, artificial intelligence, custom applications, integration and collaboration cover virtually all aspects of Digital Transformation. Salesforce, while not having used pricing as a growth lever, has the option should the company ever need it. While a series of sizeable acquisitions has slowed down the pace of operating margin expansion revenues and margins have the potential to double in the next 5-6 years, potentially quadrupling earnings in steady state. CRM has a market cap of $164B and trades 16.5X EBITDA, 5.4X EV/Sales and 29.5X FCF. Adding to value-creating initiatives already underway (buybacks, workforce/real-estate reductions), Salesforce has a rare combination of market leadership (30% share) in the largest category within the $620B software market. Analysts have an average target of $189.50 with short interest minimal at 1% of the float. Multiple activists have taken aim at CRM over the past few months including Elliott and Third Point. Citi opened a negative catalyst watch seeing a near-term pullback with margin upside priced in and growth could disappoint. BAML on 2/13 noting checks are fairly muted Q4 activity, not surprising given disruption from recent restructuring. Salesforce is on a path to generate solid, sustained annual 30%+ FCF growth driven by a return to high teens topline growth (outpacing front office apps industry growth of mid teens) and steady 100–300 bps annual margin expansion. Goldman expects top-line growth to re-accelerate and OM to exceed 30%. On the chart, CRM pulled back with Tech last week but held right on its 200-day near 160, while below can target the 66-day near 150. Overhead resistance of the 200-week EMA and VWAP off the highs both come in near $183 while VWAP off the low support near 147.50. CRM options are pricing in a 6.5% earnings move and 30-day IV Skew at +4.3 compares to the +5.4 52-week average. CRM's put/call open interest ratio is at the 71st percentile and average IV30 crush is -24.2%. CRM positioning as been strongly bullish, a recent seller of 10K January $140 puts, the March $170 synthetic long opened 6000X. CRM also with 15,000 March $150 short put sin open interest while March $190 short calls 20K. A 1/13 trade bought 10K January 170/210 call spreads while selling the $120 puts. There is a 10K block of Mar. 3rd (W) $157.5 calls bought in OI.

Trade to Consider: Long the **CRM** March $165/$175 Call Spreads at $3.50 Debit

Snowflake (SNOW) is set to report 3/1 after the close with the Street consensus at $0.04 EPS and $575.7M in Revenues (+50%) while Q1/FY24 seen at $0.06/$620.6M and $0.52/$3B implying FY24 growth of 45.9% on the top-line and 121.3% on the bottom-line. SNOW shares have closed higher the last two reports and seven of nine lifetime with an average six quarter max move of 15.1%. SNOW is an emerging leader in cloud-based data warehousing with a 10% market share and expanding client base with their platform agnostic approach. SNOW has outlined an opportunity to reach $10B in revenues by 2028 targeting 10% operating margins, a plan that shows management's confidence in continuing to grow at an elevated rate given their disruptive platform, large enterprise backlog and pricing power. SNOW expects to continue gaining share as digitization of workloads continues which should translate into new logo growth while new product announcements should help cross-sell and up-sell activity. SNOW has long-term opportunities in areas like unstructured data as well that remain in the very earliest stages of penetration and could help them reach that long-term goal more quickly. The verticalization of its salesforce will help Snowflake land higher-value accounts to execute against its goal to deliver 1,400 customers with ~$5.5M in spend. Snowflake's Unistore announcement is most encouraging as it will allow the company to capture workloads of modern applications in the much larger transactional database market. Snowflake is delivering key customer benefits, including improved speed and cost efficiency while supporting multiple workloads and enterprise-wide data governance and reliability. Snowflake is well positioned to capitalize on a generational shift of data and analytics to the cloud, with strong secular tailwinds including cloud adoption, big data, AI/ML, and secure data sharing. SNOW has a $49.2B market cap and trades 22.6X EV/Sales as a high valuation name and obscene valuation on profitability. Snowflake is now well-positioned to execute against its F24 product revenue target given the health of its leading indicators, including 66% cRPO growth in 3Q (deviating from 47% product revenue guide in F24) and record $1mn/G2K customer adds (3Q). Healthy booking trends, new logo acquisition, and use case expansion at existing customers will support incremental product revenues coming on-line in the next 2-3 Q's as these customers scale out consumption on Snowflake's Data Cloud. Analysts have an average target of $185.50 with short interest at 3.9% of the float. Wells Fargo started shares Overweight earlier this year noting Snowflake is built to better weather this storm given the company's mission-critical technology, strong expansion dynamics inherent to this model and impressively well-balanced financial profile. Citi raised its target to $225 last week on positive checks. On the chart, SNOW pulled back last week and hammered on its 55-day. A move under 145 can target lower value near 133.75. The $160 is key weekly resistance and above opens up a move to 185. SNOW options are pricing in an 8.65% earnings move with 30-day IV Skew at +5.9 comparing to the +7.1 52-week average. SNOW put/call open interest ratio is at the 37th percentile and average IV30 crush is -16.3%. SNOW recently with 7500 April $150 short puts opening also has large July 190 and 230 short calls in open interest.

Trade to Consider: Sell the **SNOW** April $140/$130 Put Spreads for $3.60 Credit (Bull Put Spreads)

Costco (COST) will announce earnings 3/2 after the close with the Street looking for \$3.21 EPS and Revenues of \$55.53B (+7%) with Q3/FY23 seen at \$3.36/\$55.44B and \$14.45/\$244.2B implying a 7.6% revenue growth year and 10% EPS growth. COST operates membership warehouses and e-commerce websites with core categories of Food, Non-Food and Fresh Food. It also has ancillary businesses like gasoline, pharmacy, optical, food court, hearing aids, and tire installation along with business centers and travel. COST has a market cap of \$218.8B and trades 30.7X Earnings, 19.8X EBITDA and 0.95X Sales. COST recently reported strong January comps and announced a \$4B buyback. COST is facing some headwinds from weaker gasoline profits. Worldwide traffic accelerated to +6.2% in January (vs. +4.6% in December, +3.4% in November, and +3.5% in October), while overall global ticket (ex-gas/FX) decelerated to an estimated +1.3% (vs. +2.8% in December, +2.2% in November, and +3.2% in October). Analysts have an average target of \$553 with short interest low at 1.1% of the float. Baird positive with a \$575 target noting COST is uniquely positioned to weather the increasingly choppy consumer spending backdrop given its entrenched value position and loyal membership base. On the chart, COST has been putting in lower highs since early last year and clearing \$530 key for trend inflection. On weakness, downside levels of now at \$480 and \$465. On upside, above \$505 opens up a move to \$520. There is a large volume pocket under \$445 back to \$390. COST options are pricing in a 2.7% earnings move and 30-day IV Skew at +5.3 compares to the +4.4 52-week average. COST put/call open interest ratio is at the 69th percentile and average IV30 crush is -15.6%. COST positioning has been light, over 3000 March 560 calls sold to open while 2500 January 220 short puts sit in open interest and 2000 June \$450 short puts. There has been some bear flow with 1500 June \$520 puts bought.

Trade to Consider: Long the **COST** March \$465 / June \$450 Put Diagonal Spread for \$7.50 Debit

Disclaimer:

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