



FEATURED OPTIONS RADAR REPORT



Bullish Bet on Small Cap Tied to Pop Culture and NFT Boom

Ticker/Price: FNKO (\$18.60)

Analysis:

Funko (FNKO) on 8/9 with an unusual large buy of 1500 February \$20 calls \$3.20 to \$3.50 in offer sweeps with shares pulling back the last few weeks. FNKO has a lot of open interest remaining in August \$17.50 and \$20 call strikes that could use a rally the next two weeks but otherwise lacks notable longer-dated open interest. FNKO shares are down 30% from the May highs yet are still +79.4% YTD and currently finding support at lower YTD value at \$17.80 while the rising 200-day moving average is down at \$16.20. FNKO needs to get back above \$20 to start working out of the pullback trend and ideally clear \$21.80 to get above the key volume node and declining 55-day moving average as well as VWAP off its highs. FNKO specializes in licensed pop culture products like miniature action figures and apparel with a focus on specialty retailers and a growing ecommerce/DTC channel. FNKO should see a boost from a return of film releases in 2H21 and also plans to expand into areas like Pop albums, comic books, and new figures. FNKO has gained a lot of attention lately with their entrance into NFTs with the strategic acquisition of a stake in TokenWave which will accelerate their entry into digital collectibles. NFTs could contribute as much as mid-single digit revenue growth in 2021 and accelerate in 2022. FNKO currently has a market cap of \$995M and trades just 14.2X Earnings, 1.4X Sales and 11X FCF with revenues seen rising 40% in 2021 versus easy comps and then normalizing to 7-10% annual growth for 2022/2023. It has positive financial trends with growing cash flows, declining debt while EBITDA margins are expected to recover from a trough 12.3% level in 2020 and were above 22% in 2016. FNKO sees ongoing tailwinds from the rise of pop culture and the explosion of “fandom”. FNKO has extensive licensing partnerships and global distribution across multiple channels. FNKO’s first Digital Pop! NFT collection with the Teenage Mutant Ninja Turtles featured 20,000 standard packs and 10,000 premium packs sold out in less than 15 minutes with more than 45,000 fans in the queue when a drop went live. FNKO recognizes potential challenges in 2H including accelerating trade headwinds that are causing parts delays and cost increases, as well as COVID related risks. Analysts have an average target of \$24 with short interest elevated at 17% of the float. BAML upgraded shares to Buy from Underperform in May with a \$30 target seeing a significant long-term opportunity beyond its core Pop! Into NFTs, games and toys. DA Davidson raised to Buy as well with a \$31 target seeing shares very compelling over the next year. Hedge Fund ownership jumped 16% in the latest quarter filings.

Hawk Vision:



Hawk’s Perspective: FNKO looks cheap on valuation and ample opportunity to exceed growth estimates and expand margins, want to see it clear out of this pullback trend, but a small cap with potential major NFT upside.

Confidence Ranking: \$\$