



FEATURED OPTIONS RADAR REPORT



Massive Call Position Sees Further Upside for Pharma Services Company

Ticker/Price: MCK (\$384)

Analysis:

McKesson (MCK) large trade on 1/20 bought 3000 May \$380 calls to open for nearly \$7M and follows an opening sale of 3000 February \$350 puts on 12/19 and an opening sale of 1000 February \$370 puts on 1/11 with the company set to report on 2/1. MCK was a top performer in 2021 and shares forming a consolidation triangle the last few weeks with \$385 key to breaking out of the weekly flag that measures to an upside target of \$410 with the rising 21-week EMA supportive since 2022. MCK is a diversified healthcare services leader dedicated to advancing health outcomes for patients everywhere. U.S. Pharmaceutical, Prescription Technology Solutions (“RxTS”), Medical-Surgical Solutions, and International are its four segments. The U.S. Pharmaceutical segment distributes branded, generic, specialty, biosimilar and over-the-counter pharmaceutical drugs, and other healthcare-related products. Specialty drugs (e.g., treatments for cancer, Hep C, rheumatoid arthritis) are becoming an increasingly large part of total pharmaceutical spend. Margins for the distributors hover in the low single-digit range; however, the industry in aggregate has experienced steady increases due in part to diversification into higher margin businesses as well as gains derived from enhanced purchasing platforms. Importantly, annual cash generation is robust, with relatively low capex and effectively zero R&D requirements, which allows for a high amount of flexibility to pursue shareholder-enhancing initiatives/M&A. Favorable trends include innovative therapies, shifting sites of care, aging population, value-based care, and digitization of healthcare. MCK has a market cap of \$54.5B and trades 14.55X Earnings, 11X EBITDA and 14.7X FCF with revenues seen growing 3-6% annually with EPS growth seen accelerating in 2024/2025. MCK recently spoke at the JPM Healthcare Conference highlighting the \$55B Oncology opportunity. MCK also highlighted exciting opportunities in Biopharma services. Analysts have an average target of \$425 with short interest low at 1.5% of the float. Baird recently raised its target to \$445 on utilization and pricing trends.

Hawk Vision:



Hawk's Perspective: MCK was a top pick into 2022 that did very well and although ABC screened more favorable for 2023 both offer attractive valuations with improving margins/growth.

Confidence Ranking: \$\$