



FEATURED OPTIONS RADAR REPORT



Bulls Defend High Growth Networking Software Stock

Ticker/Price: NET (\$58)

Analysis:

Cloudflare (NET) seeing some large bull trades this week with 2000 January 2024 \$50 puts sold to open for \$3.3M premium and 1000 November \$80 calls bought for \$725K which follows an opening seller of 10,000 June \$40 puts last week for \$1.6M premium. NET does have plenty of other mixed flows but a clear recent shift. The former high-flier momentum stock is -55% YTD and more than 70% off November highs. NET shares are trying to hold near \$50 while \$40 is a much larger support level and retest of a 2020 flag breakout. NET is a leader in the edge computing / CDN theme which has seen growth ramp quickly over the last year as more importance is put on digital services and infrastructure. NET has a superior product to peers given their low read-error rates, faster processing and flexibility. They have plenty of opportunity to win share in the \$47B TAM with tailwinds from 5G, IoT, and remote work. NET now has a market cap of \$16B and remains rich on valuation at 19X EV/Sales and 16X FY23 gross profits. NET is still one of the best growth stocks around with revenues seen growing around a 40% CAGR the next three years. EBIT margins are in the early stages of turning positive and FCF margins seen inflecting in 2023. NET is coming off another quarter of record customer additions and dollar based net expansion rate increased to 127%. NET recently hosted an Investor Day outlining a \$135B market opportunity and solid traction across the newer solution categories. With R2 now in open beta Cloudflare refreshed it's TAM to include object storage, which is expected to contribute \$35B by 2024. Management hinted at new products on the horizon, including on the database side with iterations beyond the newly announced D1. Analysts have an average target of \$115 and short interest is 4.7% of the float.

Hawk Vision:



Hawk's Perspective: NET is an incredible growth story but it still carries on of the highest valuation multiples around and decelerating billings growth can easily contract it further. The put sales are a good signal but in the current environment it is difficult to create a bull case at this valuation.

Confidence Ranking: \$\$