



FEATURED OPTIONS RADAR REPORT



Bulls Take Notice of New-Relic Cheap Valuation Amidst Model Transition

Ticker/Price: NEWR (\$59.85)

Analysis:

New Relic (NEWR) has always been one of the least favored software names but seeing activity this week that makes it worth taking a fresh look. On 2/22 the December \$85 calls opened 2,650X for \$1.166M and on 2/25 the January \$75 calls opened 3900X for \$2.85M, these follow a 7/30 buy of 2000 March \$65 calls for \$2.857M that are very underwater but still alive in open interest. NEWR shares have pulled back near multi-month trend support, just below VWAP off the March lows, a 50% retracement of the one-year range, and just above key volume profile support. New Relic is a strategic observability platform that companies use to build, develop, and operate their digital businesses. New Relic One offers prebuilt dashboards and visualizations as well as the ability to search across data types, create customized dashboards and build applications that can be shared and customized by other users. NEWR competes with AppDynamics, Dynatrace (DT), Splunk (SPLK), Elastic (ESTC), Datadog (DDOG) and others. NEWR's market cap is now just \$3.93B with shares trading 5X FY21 EV/Sales, very cheap to peers as its growth has been weaker due to competitive products but after generating 25% revenue growth in 2020, and expecting 10% in 2021 with a quarter remaining, it still forecasts to be a consistent 8-15% topline growth name. This past quarter was NEWR's first with the New Relic One platform utilizing a consumption model. Dollar-based net expansion improved sequentially in the third fiscal quarter due to strong growth in ARR and ongoing success reducing customer churn due to our customer success programs. In December NEWR acquired Pixie Labs, a next generation observability solution specifically for Kubernetes environments. NEWR also saw its most success ever in Q3 with regards to AWS. Analysts have an average target of \$71 and short interest elevated at 8.9% of the float. Ray-Jay cut shares to Perform on 2/5 seeing smaller annual commitments from customers in the new model with lost ARR, though NEWR is set to stop reporting this metric. UBS cut to Neutral noting the revenue recovery remains 2-3 quarters away though valuation is undemanding. OpCo is worried about the many unknowns on the model transition. Eminence Capital added to a large position last quarter, Matrix Capital has a large stake, and Champlain added to its position.

Hawk Vision:



Hawk's Perspective: NEWR is a model transition which we often see re-rates higher and its valuation is quite cheap. I like many of its competitors more and the outcome of the model transition is not a certain positive, but it has some strategic appeal at these levels.

Confidence Ranking: \$\$