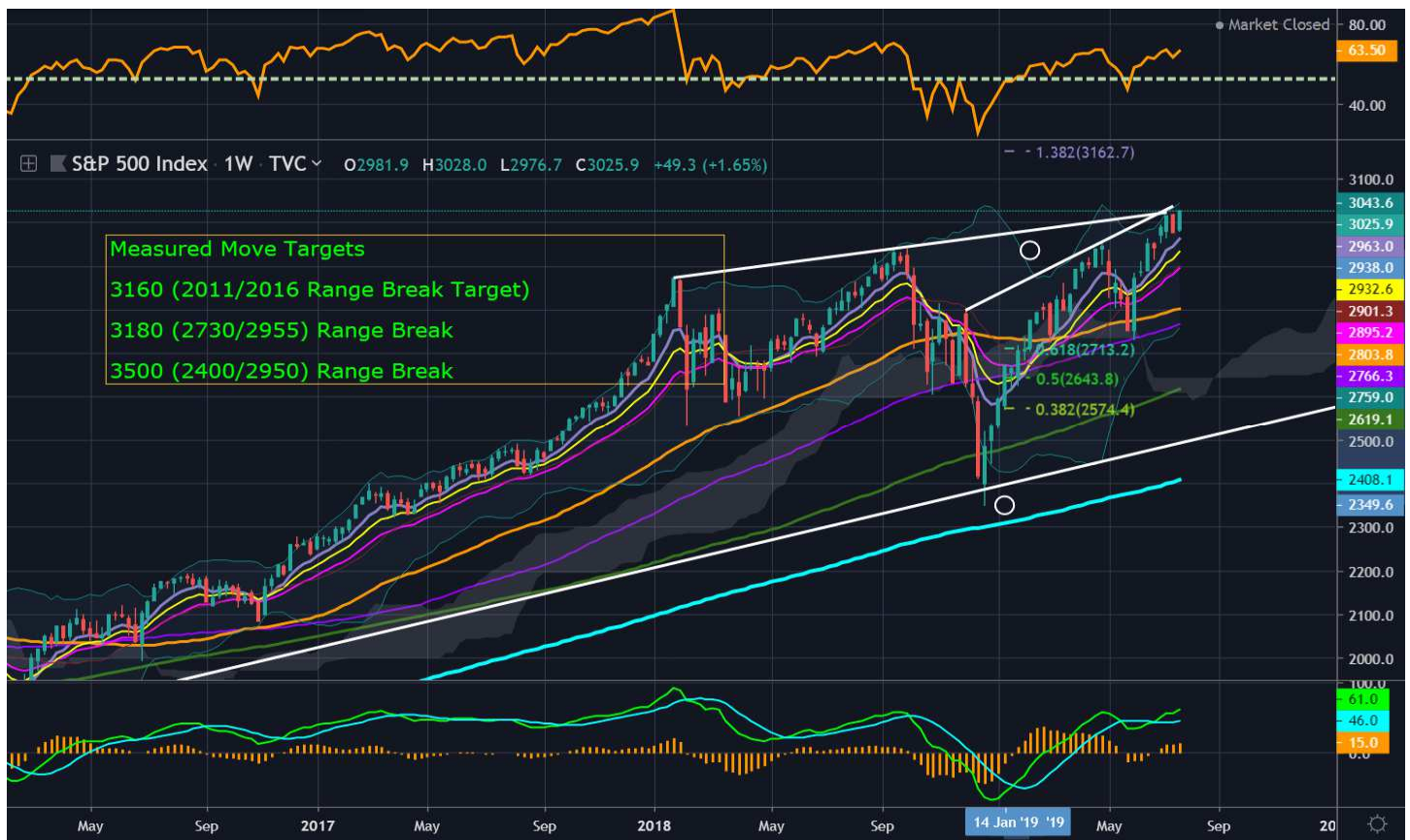




OptionsHawk Monthly Market Brief – August 2019

S&P 500 (SPX) Technicals

Analysis: The S&P broke out in July to record highs and consolidating the past two weeks with key trend extension resistance and the weekly Bollinger Band limiting near-term upside. A measured move target of 3,160 from the 2016 breakout remains in play and aligns with a 138.2% Fibonacci extension of the 2018 range. Other notable upside targets include 3,180/3,300/3,500. On the monthly MACD has cross bullish, and tends to be a strong indication for a trend move higher. Looking at a shorter time-frame the rising 8 and 21 day moving averages have been supportive since the June breakout, a bearish cross of those would be a sign of a likely move back to the 50 day MA near 2,910.



Key Levels

	Support	Resistance
Level 1	2,975	3,020
Level 2	2,960	3,080
Level 3	2,900	3,160
Level 4	2,835	3,180

Fundamental Valuation Bands

	<u>2019</u>		<u>Value</u>	<u>2020</u>		<u>Value</u>
	<u>EPS</u>	<u>Multiple</u>	<u>Level</u>	<u>EPS</u>	<u>Multiple</u>	<u>Level</u>
Bull	170	17.5	2975	180	17	3060
Neutral	167	16	2672	176	15.5	2728
Bear	163	14	2282	170	14	2380

Market Health/Sentiment Check

<u>Indicator</u>	<u>Level</u>	<u>Implications</u>
Short Term Moving Average Slopes	Rising	Bullish
Long Term Moving Average Slopes	Rising	Bullish
8/21 Week EMA Crossover	Above	Bullish
NYSE McClellan Oscillator (NYMO)	2.3	Neutral
NYSE Summation (NYSI)	740	At 8 EMA - Neutral
NYSE A/D (Cumulative)	140,738	New Highs - Bullish
NYSE Cumulative TICK	17,795	Off Highs - Neutral
NYSE TRIN 21 MA	1.06	Neutral
NAAIM	95.75	Overly Bullish
AII Sentiment	31.7% Bull	Below Historical
Investors Intelligence Survey	54.2% Bull	Overly Bullish
CBOE Equity Put/Call 50 MA	0.638	Bullish
VIX:VXV Ratio	0.828	Complacent

Macro Catalyst Watch and Review

Macro Data & Indicators

We saw Macro data start to show some “green shoots” late in the month with that 2H strength the market is depending on seeing some validation. Q2 GDP came in above expectations and June Durable Goods Orders also beat estimates. We also had a strong Philly Fed reading, rebounding from the prior month and Retail Sales came in ahead of estimates. Industrial Production remained weak, leading indicators missed, and European PMIs continued to be very weak.

Central Banks

Central Banks have turned more accommodative to try and offset weakness from the US/China trade tensions that are impacting global growth. In the US, the Fed is likely to cut rates 2-3 times in 2019, the BOJ upcoming announcement is likely to be dovish, and the ECB is exploring more stimulus while China continues to increase stimulating policies.

Bonds & Credit

Bonds spent the month consolidating, moving off the highs but remaining in an uptrend and seeing major inflows. Global yields remain depressed and inversion continues to signal a recession in the next 12-18 months.

Catalyst Watch

<u>Date</u>	<u>Event</u>
8/2	US Jobs Report
8/21	FOMC Minutes
8/22	Flash PMIs for Aug.
8/22	Fed Jackson Hole Conf.
8/24-8/26	G7 Leaders' Summit
8/30	US PCE
9/9	US Congress Returns
9/12	ECB Meeting
9/12-9/13	Democratic Debate
9/18	FOMC Meeting
9/19	BOJ Decision
10/24	ECB Meeting
10/30	FOMC Meeting

Bull & Bear Flow Monthly Leaderboard

<u>OPTIONSHAWK DATABASE AGGREGATE FLOW BIAS MONTH AHEAD</u>	
BULLISH	NOW, EXEL, SCHW, FB, CL, MDB, MDR, KNX, MCHP, CCI, UNP, Z, ENPH, ETSY, YNDX, CVNA, CAR, MTCH, TMUS, AMBA, BOOT, CROX, COUP, COP, CF, TEAM, ON, AKAM, SPOT
BEARISH	ZBRA, W, AMGN, QRTEA, ANF, LEG, LL, ABBV, ORLY, MED, YETI, BHF, DCPH, RL, RDFN, CHRW, KEM, OFDL, NTAP

Hawk Vision – 5 Technical Set-Ups in Quality Fundamental Stocks (Hawk 350 Universe) with Options Flow

*** We highlight these kind of set-ups daily in the OptionsHawk Trading Hub***

Planet Fitness (PLNT) shares forming a large weekly bull pennant as RSI has cooled in recent weeks during the consolidation but remained healthy while MACD is showing improvement. PLNT has notable August \$80/\$85 call spreads in open interest for 4000X with earnings 8-6, a solid strategy.



JP Morgan (JPM) forming a massive monthly bull flag with monthly MACD nearing a bullish crossover for the first time since the big 2016 breakout. JPM has seen size accumulation in September \$105 calls and size buys last week of January 2021 \$120 calls while 5000 June 2020 \$100 puts were sold to open.



TransDigm (TDG) shares setting up bullish on the daily with a bull flag and expecting a strong breakout higher with the trends seen in peer quarterly reports for after-market Aero.



Keysight Tech (KEYS) setting up under recent highs and looking for a clean break higher, a favorite play for the 5G cycle and recently with size buys of 2000 September \$92.5 calls.



CMS Energy (CMS) a Utility and good way to diversify a growth portfolio, setting up with a bullish consolidation under new highs while unusual 6500 September \$60 calls remain sitting in OI.



Options Radar Highlights

7/2: Etsy (ETSY) with buyers of 3,000 August \$60 calls this morning up to \$5.60, sizable buy in the name which is flagging not far from new highs. ETSY has seen recent buyers in the September \$55 calls and January 2021 \$50 and \$55 calls while the November \$60 puts sold to open for \$550k last week. ETSY does have 2,000 September \$65 puts in OI as well from 5-15. Shares are consolidating in a weekly bull flag under \$70/\$72 with breakout potential up to \$90. MACD has pulled back just below zero on the daily and turning higher with a bull cross likely with some momentum. Shares have been in a strong bull trend since early 2018. The \$7.58B company trades 57X earnings, 11.6X sales, and 12X cash with 35% EPS growth expected in 2020. ETSY sees 22.7% and 21.3% revenue growth over the next two years with margins continue to expand. ETSY fell on earnings last quarter but topping \$1B in GMS and a lot of room to grow new buyers vs existing. ETSY is also starting to see early tailwinds from broader marketing channels in Q2. Analysts have an average target for shares of \$70. Needham starting coverage this week at Buy with a \$75 target with considerable low-hanging fruit from new operational initiatives. The firm thinks ETSY has the right mix right now to capture new buyers, generate higher sales among existing buyers, and improve take rate from sellers. Roth positive on 6-21 seeing the company still in the early innings of a long-term cycle. They think Cloud migration, personalization, and search and discover will be the next big catalysts. Short interest is 7.6%, down slightly 8.8% in March but overall up from early 2018 when it was around 2.5%. Hedge Fund ownership rose 0.65%. Gilder Gagnon and Howe a top holder.

7/9: Six Flags Entertainment (SIX) has seen some unusual call buying recently with July \$50 calls opening 1500X on 6/28 and 1800 August \$45 calls ITM now in open interest from buys on 6/26. SIX also had 300 January \$52.5/\$45 bull risk reversals open back on 4/11. SIX has also seen insider buying this year with two Directors in March between \$49.46-\$50.77 per share for around \$1M in stock. On the chart shares have been trending lower since peaking in 2018 and a recent low to start 2019 was right at a 61.8% Fibonacci of the 2014-2018 range, and now needs to clear \$54 to move out of a falling wedge pattern and weekly RSI already starting to break out of a downtrend. The \$4.35B Company trades 17.4X Earnings, 12.4X EV/EBITDA and yields a large 6.27% dividend. SIX expects 4-5% revenue growth the next two years and 6-7% EBITDA growth annually. It will next report earnings on 7-24. SIX continues to expand in North America and Internationally with industry-leading EBITDA margins. Its five strategic growth initiatives include membership & season pass penetration, improving ticket yields, in-park initiatives, expansion in N.A. and International licensing. Analysts have an average target of \$59 and short interest is 7.1% of the float but near a multi-year low. Wells Fargo upgraded shares to Outperform this morning with a \$56 target citing concerns on Q2 weather, China trade, and dividend sustainability are fairly discounted at current valuation. It sees upside with improving July/August weather and improved understanding of tax related cash flow items supporting the dividend and buybacks beyond 2020. Wedbush upgraded in June to Outperform with a \$62 target citing easy weather comps, improved spending with the new Membership 2.0 program, and positive news flow with the International business. SIX has a re-approval process proceeding for its Chongqing, China development. KeyBanc upgraded to Overweight on 7/1 with a \$62 target citing its First Look data supporting above-consensus attendance trends and rock bottom sentiment in the name. Hedge Fund ownership rose 7.15% in Q1 filings, though no notable concentrated holders.

7/19: Lyft (LYFT) buyer of 2000 January \$65 calls \$8.80 offer, a spot where 4,000 were bought a week ago for \$2.95M and LYFT has seen a bullish bias including the 10,000 October \$62.5 calls that opened on 4/16. LYFT will next report on 8/7 and shares finishing the week breaking out of consolidation with room to run back to \$75 near-term. The \$19.3B ride-sharing Co. is trading 7.2X EV/Sales with revenues seen rising 54% this year. LYFT is purely a US play currently and has ambitions to expand to autonomous vehicle and internationally. LYFT has been showing impressive market share gains and stated 2019 is the peak year for its spending, but the main drawback is it is a clear #2 brand to Uber. However, it is a massive and growing market with a shift away from car ownership moving to Transportation-as-a-Service (TaaS) for the new on-demand economy. Consumers spent \$1.2 Trillion on transportation in 2017, the 2nd largest household expenditure. Ridesharing currently accounts for less than 3% of total vehicle miles traveled. In a 2016 survey, 57% of U.S. respondents who used sharing services said that well-priced and convenient offerings could cause them to give up ownership altogether. Investors will be focusing on company-specific metrics like Active Riders and Revenue per Active Rider. Analysts have an average target of \$72 on shares. Jefferies recently with a \$90 target citing improvements to profit margins and per-ride metrics with potential to out-execute **UBER** due to a higher focus and gain share in the duopoly.

7/23: Alnylam (ALNY) late yesterday with a trade opening 3500 December \$90 calls for \$4.50 as September calls adjusted though open interest today still showing over 4,500 September \$80 calls remaining. A 12/17/18 buyer of 600 January \$80 calls also remains in OI, a \$1.1M trade. On the chart ALNY shares have been pulling back since peaking in March of 2018, though in somewhat orderly fashion. Shares are now forming a weekly base in the \$62/\$65 zone, retesting a monthly base breakout from June 2017 and key VPOC, so an important level to hold above \$66 now with a downward channel pattern. In March the company announced that givosiran met primary and majority of secondary endpoints in a study and on 7-16 announced a collaboration with 23andMe. The \$8.55B Biotech trades 6.85X cash and sees sales ramping this year 182% followed by 100% growth in FY20 and longer term estimates forecast over \$2.2B in sales by FY23. ALNY is involved with RNAi Therapeutics as a new class of innovative medicines with transformational potential. Onpattro is the first approved RNAi Therapeutic targeting ATTR Amyloidosis and coming off a strong launch in Q1. ALNY is partnered with Medicine Co (MDCO) on Inclisiran with Phase 3 results due in 2019, partnered with Sanofi (SNY) with Fitusiran with Phase 3 results due in 2019, and also partnered with Regeneron (REGN) on a few programs. Analysts have an average target of \$120 and short interest at 5.4% of the float is near a three year low. ALNY will next report on 8/1. Cantor Fitzgerald was out positive on 6/11 with a \$138 target citing attractive entry on concerns with the Onpattro launch and competitor Vyndamax, but sees Givosiran seeing significant uptake in its early 2020 launch. Piper has a \$142 target and more confident after its survey showed strength for Onpattro over Ionis (IONS) Tegsedi. Maverick Capital has a large \$300M position in ALNY it added to in Q1 as its 4th largest position and Gilder Gagnon Hower with a 0.98% weighted position.

Trades of the Week

Posted Weekly at OptionsHawk.com <https://www.optionshawk.com/trade-of-the-week/>

Earnings Recap

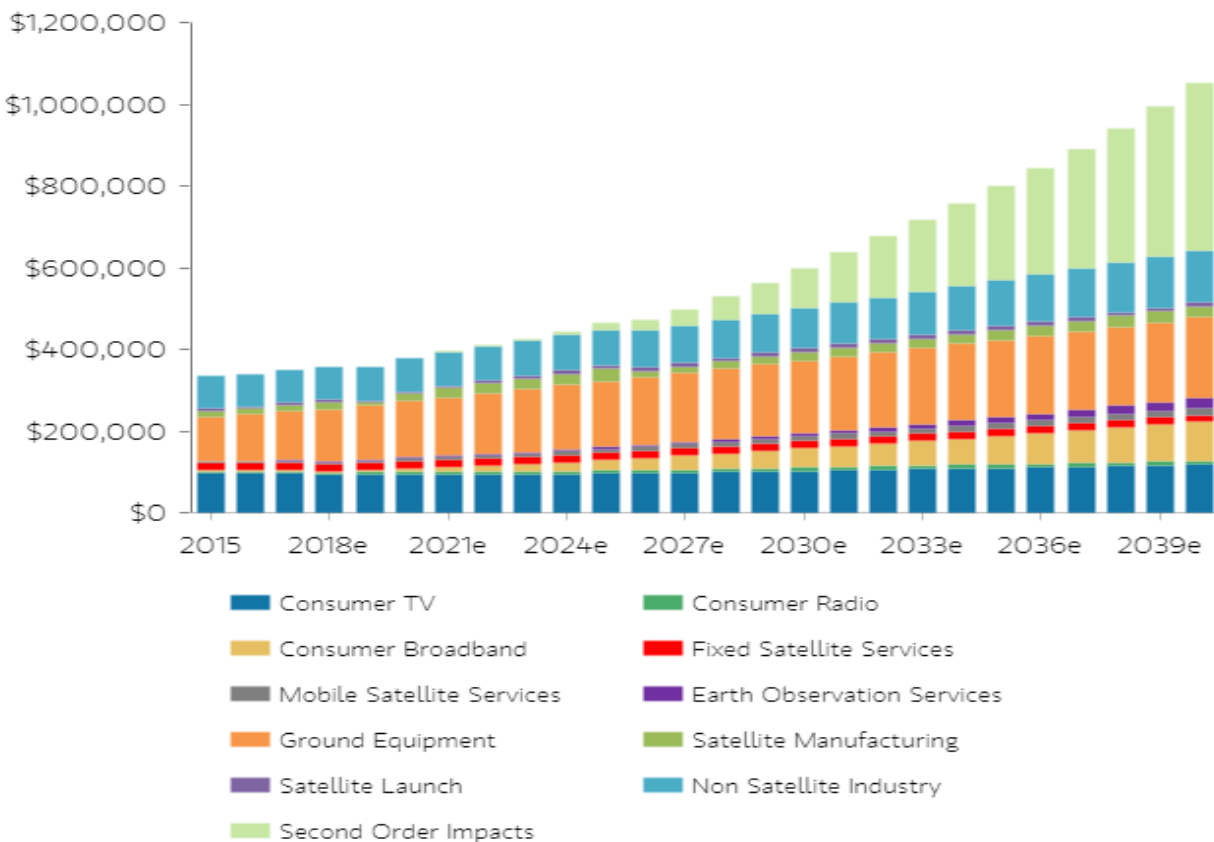
Strong Beats	Bullish Themes	Weak Outlooks	Bearish Themes
STZ, DEO, SAM, KO, PEP	Beverages	ARW, LFUS, TEL, APH	Electronic Components
UAL, DAL, JBLU	Airliners	LEA, ALV, BWA, THRM, VC, GT	Auto Production
JPM, GS, MS, BAC, C	Big Banks	FAST, HDS, MSC, GWW	Industrial Distributors
ASML, TSM, CDNS	Semi-Equipment	FDX, JBHT, PCAR, LSTR, KNX	Trucking and Logistics
COF, AXP, V, DFS	Credit Cards	X, NUE, MT	Steel Production
UTX, RTN, HON, LMT, HXL, BA	Aerospace & Defense	PKG, CCK, SON	Packaging
AN, KMX, LAD, SAH, GPI	Auto Dealerships	ASH, GRA, WLK, PPG, APD, DOW, CE, EMN	Chemicals
BIIB, ALXN, SGEN, NVS, ABBV, AZN	Biotech & Pharma	URI, FELE, ALLE, ROP, ITW	Industrial Equipment
MSFT, CRM, NOW, TEAM	Software Leaders		
JEF, EVR, LAZ, TROW, BX, KKR, FII	Asset Managers		
CMG, SBUX, MCD	Casual Dining		
RMD, ISRG, ABT, EW, NVCR	Med-Tech		
LULU, DECK, SKX, VFC, COLM	Apparel & Footwear		
PLD, SLG, HIW, SUI, KRC, VTR	REITS		
CSGP, FDS, INFO, TRU, BCO, EFX	Financial Services		

Theme of the Month

Space

Space has taken a renewed focus in July with the 50th anniversary of Apollo 11, tourism company Virgin Galactic's reverse merger with Social Capital Hedosophia, and Elon Musk's SpaceX successfully launching a Mars prototype rocket for the first time. From an investment perspective, the final frontier has a lot of potential as well. The space economy has potential to accelerate significantly over the next decade as costs fall and advances in technology across communications, defense, and consumer services drive adoption. Morgan Stanley estimates that revenue generated by the global space industry may increase to more than \$1 trillion by 2040 up from \$350B currently. The firm noted in a 7-2 note that the development of reusable rockets may provide a significant turning point over the next 12-18 months.

The Global Space Economy (\$t)

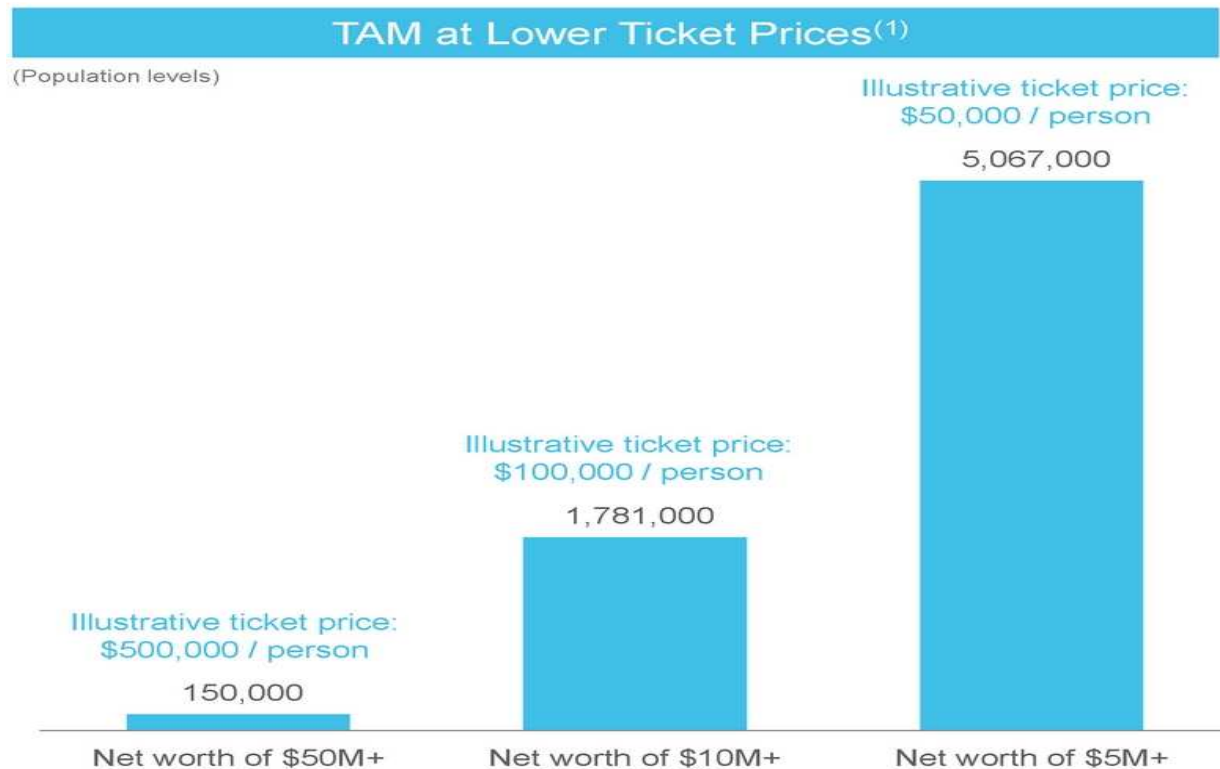


Satellite technology is the most obvious way to invest in space currently with significant opportunities in Internet access.

Iridium (IRDM) is a \$3.4B provider of communications services through their satellite network. The company launched their NEXT fleet in November 2018 and in February had transitioned all legacy business onto the new system. The new network has 75 satellites in orbit. IRDM is the only company that is exclusively focused on L-band mobile satellite service. The company has a partnership with Amazon (AMZN) to use satellites for AWS and IoT applications. Garmin (GRMN) is their largest consumer customer. **Intel-Sat (I)** is another notable satellite company which competes with IRDM. The \$3.08B company has a global network in orbit while they're also an investor in One Web a constellation of 650 satellites used for consumer broadband. They had a successful launch of their first satellites into orbit in May.

Finally, **Amazon (AMZN)** has a small 'moon shot' business which is focused on satellite internet. The development called Project Kuiper is focusing on launching over 3,000 small satellites to create a global high-speed internet network. The company has not laid out a timeline. The move would expand internet access to over 4B people who are not connected currently. Morgan Stanley thinks Kuiper could be as much as a \$100B opportunity as a play on consumer broadband.

Virgin Galactic is the newest company hitting the public markets thanks to a reverse merger with **Social Capital Hedosophia (IPOA)**. Virgin announced the deal on 7-9 and IPOA will take a 49% stake in the merged company. Virgin will use the \$800M raised to boost commercial operations and they expect to be profitable by 2021. Virgin is developing commercial spacecraft for space tourism and sub-orbital launches for science missions. The company expects to enter a big period of growth over the next five years with service starting in early 2020, although they've missed a number of deadlines in the past. For FY20, they think its possible for 16 flights with more than 60 passengers total. By 2023 they expect to have five aircraft in operation with a goal for 270 flights with more than 1,500 customers. Ticket sales will be the primary source of revenue but they expect to also move into services.



Private investment has also increased over the last two years. **SpaceX** is Elon Musk's maker of advanced rockets and spacecraft. The company is unique in that it doesn't have government funding sources but is instead financed privately. The company is privately valued at \$33B and successfully launched 60 Starlink satellites into orbit over the last three months. They raised \$1B so far this year. SpaceX is a transportation services company with projects as far-reaching as taking resupply missions to the International Space Station and developing a feasible pathway towards colonizing Mars. SpaceX started in 2008 as NASA began pulling back on launching low Earth orbit rockets. The company now does work for NASA including a \$1.6B cargo supply agreement. They have \$5B in outstanding contracts from others as well. SpaceX competes with **Boeing (BA)** who is building an aircraft to fly ISS crews. **Orbital**, now owned by **Northrop Grumman (NOC)**, also does cargo runs for NASA. Privately-held United Launch Alliance, a partnership of **Lockheed (LMT)** and **BA**, is competing for defense business. Finally, **Virgin Galactic**, **Vulcan Aerospace**, and **Blue Origin** are all far away from serious competition but well-financed and emerging businesses.

Finally, there are a number of ETFs that give a more broad-based way of investing in space. The most specific is **Procure's Space ETF (UFO)** which focuses on pure-play companies where the majority of revenues are from space. This designation excludes names like BA which have a sizable space-based business. The top holdings by weight are IRDM, VSAT, TRMB, SIRI, DISH, GRMN, and SATS.

Industry Snapshot of the Month

Auto Dealerships

Components: CPRT, KMX, AN, CVNA, CARG, PAG, LAD, ABG, GPI, CARS, SAH, CRMT, PAG

International & Private Components: Hendrick Automotive, Van Tuyl Group, Stallupi Auto Group, Larry Miller Dealerships, Ken Garff Automotive

TOP 10 DEALERSHIP GROUPS

Ranked by 2018 new-vehicle retail sales

	2018 total new retail vehicles	2018 rank
AutoNation Inc.*	310,839	1
Penske Automotive Group Inc.*‡	236,000	2
Lithia Motors Inc.*	184,601	3
Group 1 Automotive Inc.*‡	170,517	4
Sonic Automotive Inc.*	122,717	5
Hendrick Automotive Group	111,845	6
Asbury Automotive Group Inc.*	105,275	7
Larry H. Miller Dealerships	68,548	8
Ken Garff Automotive Group	63,606	9
Staluppi Auto Group	59,132	10

*Publicly held ‡Figures include data for dealerships outside the U.S.

Source: Automotive News Data Center

The Auto Dealerships group has been seeing strong moves from the leading public players with strong results posted out of AN, LAD, GPI, SAH, and ABG. The dealer business tends to be cyclical, since its fortunes are tied to auto industry production levels, gasoline prices, the financial health of the consumer, and the state of the domestic economy. Same Store Sales is an important metric for the group, that's because it measures growth at existing showrooms and stores, rather than from newly opened units. Comp trends also provide meaningful insight to future earnings, since most auto-related companies, particularly dealer groups, which operate on slim margins, maintain relatively high fixed-expense bases. Weakness in the new vehicle cycle has caused the companies to think creatively and diversify with collision centers, branded parts, partnerships and expand online. The group has a lot of moving parts with new vehicle sales, used vehicle sales, maintenance and parts. The group also is most properly valued in a unique way, utilizing a "Blue Sky" approach. Blue Sky is the intrinsic value of an automobile dealership, over and above the value of its tangible assets. It is sometimes equated to the goodwill of a car dealership. Blue sky inherently refers to the "intangible" assets of the dealership, which can include such things as location, assembled workforce, and the OEM agreement. The valuation of automobile dealerships can be more complex than other valuations due to their unique financial statements, varying cost structures and profitability of departments, different terminology, and hybrid valuation methods. It is a highly fragmented market with a long runway for value accretive M&A. In evaluating the health of companies we will look at Debt/EBITDA and Inventory Ratios, while on valuation focus on P/E and EV/Revenues as an overly simplistic, but effective "apples to apples" view.

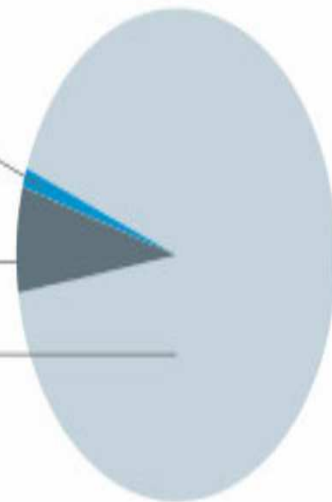
AutoNation last quarter continued a focus on new vehicle margins with gross profits per vehicle rising 10% and also reduced its inventory. M&A is another focus of the group with Lithia (LAD) noting this past quarter "The acquisition market continues to be robust as we have purchased over \$320 million in annual revenue so far this year, expanding our national reach to 82%." In terms of digital presence we can look to the comments from Group 1 Auto (GPI) "Turning to our online digital efforts. We feel confident that we are providing a robust omnichannel experience for our customers. Our goal is to do business when and how our customers want to do business with us online or off-line. We have launched AcceleRide, our online digital retailing initiative in 98 of our U.S. dealerships. Our selling rates continued to increase in the quarter, nearly 1,000

customers who started the AcceleRide process bought a car from one of our dealerships, nearly double the number from the first quarter. Our trends in digital traffic also continued on a positive track. Leads increased 41%, organic traffic increased 29% and website visits increased 22%.” Sonic (SAH) had an interesting note in its latest call: “While we remain very bullish on the new vehicle franchise business and we plan to grow that business both organically and opportunistically through acquisitions, it's especially important to highlight that we believe we can achieve this EchoPark growth without having to pay the huge blue sky or goodwill multiples in today's market for traditional new vehicle franchises. It's also very important to note that the cost to open even a large EchoPark location is drastically less expensive than the cost of a traditional new vehicle franchise and real estate.”

FRANCHISED DEALER MARKET SHARE

Source: NADA DATA 2018 Midyear Report, Automotive News Top 150 Dealership Groups 2017

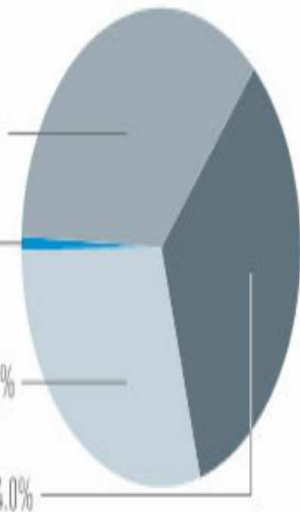
Lithia 1.0%
Other Top 10 Dealers 7.0%
All Others 92.0%



USED MARKET SHARE

Source: NADA 2018 Used Car Industry Report

Franchised New Car Dealers 36.1%
Lithia 0.5%
Private Parties 29.4%
Used Car Dealers 34.0%



SECTOR LEVERAGE

As of March 31, 2019

LAD

ABG

AN

GPI

PAG

SAH

2.1x

2.9x

3.2x

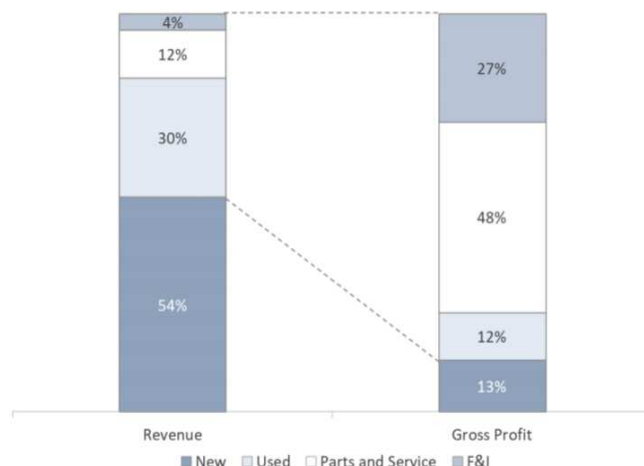
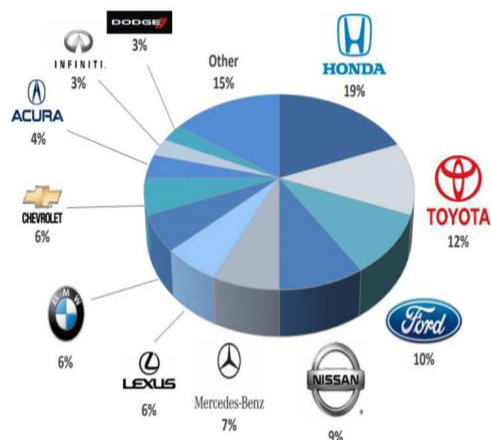
3.2x

3.3x

2.8x

Tickers	Company Name	Mkt. Cap	EV/EBIT DA	EV/Sale s	FY2 P/E	EPS %	FY1 Revenue YoY (%)	FY1 Gross Margin (%)	NIM	3 Year ROIC	FY2017 Net Debt/EBITDA (x)	FY0 Inventory Turnover	FY0 Days Inventory Outstanding
ABG	ASBURY AUTOMOTIVE GROUP INC	1,736.64	10.1x	0.5x	9.89x	6.46%	4%	16.21%	2.48%	11.63	5.3x	6.1x	67.5
AN	AUTONATION, INC.	4,355.77	8.4x	0.4x	10.93x	-0.68%	-2%	16.50%	1.88%	10.03	4.7x	5.1x	74.0
GPI	GROUP 1 AUTOMOTIVE INC	1,605.89	10.3x	0.4x	8.68x	13.01%	-1%	15.15%	1.49%	6.41	6.4x	5.5x	68.2
KMX	CARMAX INC	15,096.49	12.1x	0.9x	16.05x	10.19%	8%	14.08%	4.64%	4.81	1.3x	6.4x	58.6
LAD	LITHIA MOTORS INC	3,127.98	13.5x	0.5x	11.39x	11.64%	5%	15.34%	2.06%	11.41	5.6x	4.5x	86.0
PAG	PENSKE AUTOMOTIVE GROUP, INC.	3,912.44	7.7x	0.3x	8.31x	2.06%	0%	15.08%	2.00%	7.42	4.7x	4.9x	76.1
SAH	SONIC AUTOMOTIVE INC	1,176.55	10.9x	0.4x	13.18x	19.88%	1%	14.71%	0.77%	5.46	7.9x	5.6x	65.6
Average		4,430.25	10.5x	0.5x	11.20x	8.94%	2%	15.30%	2.19%	8.17	5.1x	5.4x	70.8

Asbury Automotive (ABG) screens most attractive when weigh valuation, growth, margins, and efficiency ratios. The \$1.74B Co. trades 9.65X Earnings, 10X EV/EBITDA with Debt/EBITDA at 5.1X in-line with industry averages, superior 16.2% margins, and the 2nd best Inventory metrics behind CarMax (KMX), which trades at a premium valuation. It has a Southern focus with 54% of sales in Florida and Georgia. It has seen strong omni-channel initiatives and less sensitive to SAAR.



For comparisons sake, it makes sense to separate out the online disruptors CVNA, CARS and CARG into their own category and CPRT/CRMT which are unique as well. I have previously covered these in-depth for the Market Outlook report with CarVana (CVNA) always being the preferred name. Copart (CPRT) is a unique auction play that always screens as a high quality own as well.

M&A Deal of the Month

Acacia Communications (ACIA) shares jumped 40% following a buyout from **Cisco (CSCO)** agreeing at \$70/share in cash, a 46% premium. Cisco management noted "“With the explosion of bandwidth in the multi-cloud era, optical interconnect technologies are becoming increasingly strategic. The acquisition of Acacia will allow us to build on the strength of our switching, routing and optical networking portfolio to address our customers' most demanding requirements.” The deal for Acacia is the third one in the space after a November M&A deal saw **II-VI (IIVI)** agree to purchase **Finisar (FNSR)** for \$3.2B which also came in at a 40% premium. Another fairly related deal came in March with **Nvidia (NVDA)** acquiring **Mellanox (MLNX)** for \$6.9B. We could also look back to the **Renesas** deal for **Integrated Devices (IDTI)** back in September for \$6.7B. In March 2018 Lumentum (LITE) bought **Oclaro (OCLR)** for \$1.8B.

Utilizing **Sentio's** Document Search function I did a search for “Optical Interconnect” which resulted in two names showing up often outside of ACIA/IDTI. One name worth looking at in this space is **Inphi (IPHI)**, a \$2.83B Semiconductor addressing bandwidth bottlenecks in networks. IPHI is currently trading 8.1X EV/Sales which is well above the EV/Sales rates that ACIA/MLNX were acquired. IPHI did recently see an unusual buyer of 550 January \$70 OTM calls. **Max Linear (MXL)** is the other name, a \$1.8B market cap and trading 5.7X EV/Sales.

I then did a search for “Optical Networking” where it returned two names that have both seen notable call accumulation, **Lumentum (LITE)** and **Macom (MTSI)**. Lumentum as a \$4.54B market cap and is trading just 3X EV/Sales with strong growth rates. Macom is trading 3.6X EV/Sales with less attractive growth rates though its gross margins at 43% compare to LITE's at 34.6%. MTSI has 3,550 November \$15 and 2,150 November \$17.50 calls in open interest from unusual buys. LITE has over 2,000 August \$60 calls, 1450 September \$60 calls, and 1650 September \$62.50 calls in open interest. LITE also has 1300 January \$75 longer dated calls that were bought in OI.

Additionally, **ADVA** is an interesting German company, a leading provider of open networking solutions for the delivery of cloud and mobile services. It recently reported a solid quarter noting “Overall, our order intake

was very good, and we are entering the third quarter with well-filled order books. We see promising projects and activities in all regions and among all customer groups.”

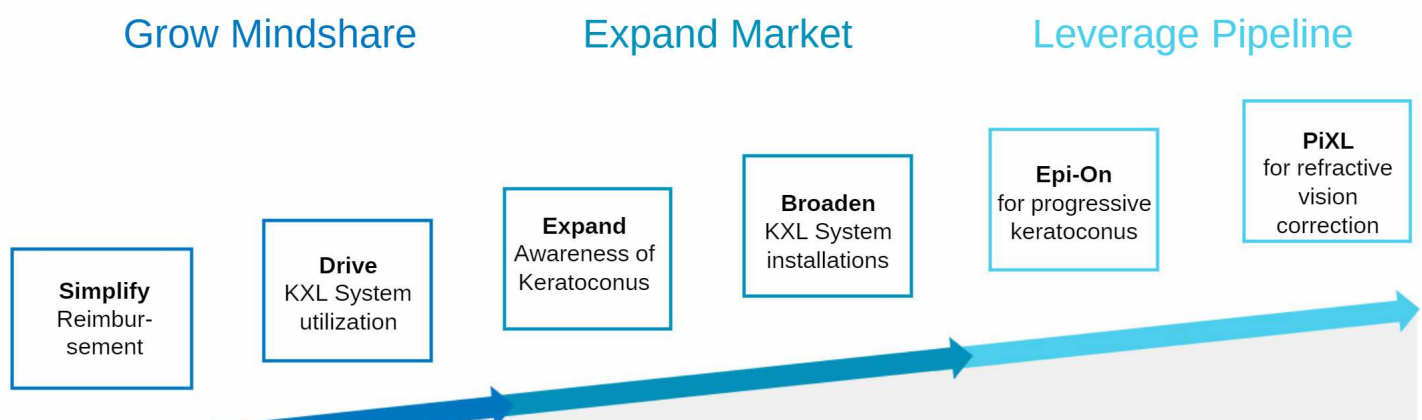
Small Cap of the Month

UFP Technologies (UFPT) is a small cap of interest, market cap of \$313M and designs foams, plastics, composites and other materials for a variety of industries. UFPT shares have climbed 40% YTD. The Company’s single-use and single-patient devices and components are used in a wide range of medical devices, disposable wound care products, infection prevention, minimally invasive surgery, wearables, orthopedic soft goods, and orthopedic implant packaging. The Company is diversified by also providing highly engineered products and components to customers in the automotive, aerospace and defense, consumer, electronics and industrial markets. Typical applications of its products include military uniform and gear components, automotive interior trim, athletic padding, environmentally friendly protective packaging, air filtration, abrasive nail files, and protective cases and inserts. The vast majority of the Company’s assets are located within the United States. FlexShield®, FirmaLite®, Winepacks®, BioShell®, T-Tubes®, Tri-Covers®, Erasables®, Design Nail®, Pro-Sticks®, and Mambo® are U.S. registered trademarks.

For UFP Technologies, 2018 was a strong year on all fronts. It increased revenues by 29%, operating income by 68% and earnings per share by 53%. It made its largest ever acquisition in early 2018 of Dielectrics for \$77M, expanding its presence in medical technology. Sales to the medical market now account for approximately 60% of revenues. On a market basis, sales to customers in the medical, aerospace and defense and consumer markets grew 57.3%, 14.0% and 17.2%, respectively, while sales to customers in the automotive market declined 13.4%. UFPT faces tough comps Y/Y due to the deal in 2018 but sees around 6% revenue growth the next two years with 15-25% EPS growth. It trades as a value name at 15.5X Earnings, 14.55X FCF and 1.6X Sales.

IPO Watch

Avedro (AVDR) came public earlier this year and currently with a \$327M market cap, an ophthalmic focused medical device company treating disorders and conditions primarily related to corneal weakness. It sees itself transforming the treatment of sight disorders with the US Keratoconus market estimated at a \$3B market opportunity and with pipeline expansion sees a \$23B opportunity. It is estimated 1 of every 545 people in the US have keratoconus and 1 of those 5 will need a corneal transplant. Steph Curry is a notable person that suffered from this condition. AVDR’s KXL System is the first and only FDA-approved minimally invasive treatment. Reimbursement is in place with all national and most regional payers covering the Corneal Cross-linking Solution.



AVDR shares are trading 10X EV/Sales which is fairly attractive in med-tech for a high growth name. Forecasts call for 40% revenue growth this year and 35% next year with profitability seen in FY23, and it posted 35% and 37% revenue growth the last two years.

U.S. Vision Correction Opportunity

\$15B

Presbyopia

>50 million people

Gradual loss of the eyes' ability to focus on nearby objects

Affects everyone after the age of 40

\$8B

Low Myopia

~13.5 million people

Mild nearsightedness

Largest segment of low myopia patients is under 45 years of age who have refractive conditions

\$180M

Post Cataract IOLs

~600,000 eyes annually

Poor vision following cataract procedure

Target population is the ~50% of post-cataract patients who do not achieve their target distance vision without glasses

Insider Activity Monthly Recap

For Detailed Write-Ups Visit <https://www.optionshawk.com/options-trader/insider-trading-spotlight/>

Trade Date	Ticker	Company	Insider Name	Insider Title	Price	Qty	Owned	ΔOwn	Value
7/23/2019	CCI	Crown Castle International Corp	Martin J Landis	Dir	\$127.33	16,300	152,617	12%	\$2,075,461
7/22/2019	URI	United Rentals, Inc.	Roof Donald C	Dir	\$118.27	5,000	23,684	27%	\$591,362
7/19/2019	AVRO	Avrobio, Inc.	Booth Bruce	Dir	\$18.50	810,811	5,567,289	17%	\$15,000,004
7/18/2019	BK	Bank of New York Mellon Corp	Daley William M	Vice COB	\$44.93	11,350	11,350	New	\$509,921
7/17/2019	KALV	Kalvista Pharmaceuticals, Inc.	Cha Albert	Dir	\$17.79	61,280	1,420,429	5%	\$1,090,296
7/11/2019	GIII	G III Apparel Group Ltd /de/	Goldfarb Morris	CEO, 10%	\$26.47	40,000	3,923,074	1%	\$1,058,800
7/2/2019	CAMP	Calamp Corp.	Wolfe Larry J	Dir	\$11.32	50,000	171,275	41%	\$566,250
7/10/2019	SBGI	Sinclair Broadcast Group Inc	Smith David D	Exec COB, 10%	\$55.10	395,000	6,006,072	7%	\$21,764,500
7/3/2019	CUK	Carnival Plc	Weisenburger Randall J	Dir	\$46.50	20,000	122,934	19%	\$930,000
7/3/2019	CCL	Carnival Corp	Weisenburger Randall J	Dir	\$46.50	20,000	122,934	19%	\$930,000
7/1/2019	CHNG	Change Healthcare Inc.	Eliasson Fredrik J	EVP, CFO	\$13.00	30,000	30,000	New	\$390,000
6/28/2019	CAG	Conagra Brands Inc.	Omtvedt Craig P	Dir	\$26.73	25,000	35,027	249%	\$668,250
6/28/2019	WOR	Worthington Industries Inc	Blystone John B	Dir	\$39.88	25,000	189,370	15%	\$997,068
7/2/2019	GEF	Greif Inc	Watson Peter G	Pres, CEO	\$32.71	15,000	144,411	12%	\$490,650

Sector ETF Set-Up of the Month

Industrials (XLI) are in focus with the group nearing a major multi-year technical breakout. On the fundamental side we have seen some weak Industrial numbers 1H19 but expectations for improving conditions in 2H19 and a trade deal with China would be an important boost. Earnings in the group have been mixed with Aerospace/Defense notably strong and comprising 27.5% of XLI while Machinery/Equipment fairly weak comprising 23.1% of XLI. The top 10 holdings in XLI are Boeing (BA), Honeywell (HON), Union Pacific (UNP), United Tech (UTX), 3M (MMM), GE (GE), Lockheed Martin (LMT), UPS (UPS), Caterpillar (CAT), and Northrop Grumman (NOC). It trades on average 22.2X Earnings and 4.55X Book with 69 holdings. On the chart, the monthly nears major resistance breakout w/ RSI out of downtrend and bull MACD cross nearing.



Monthly Educational and Insightful Links

“The Earnings Mirage” - <https://osam.com/pdfs/research/The-Earnings-Mirage-Whitepaper-2019.pdf>

“Nordea Summer View” - <https://e-markets.nordea.com/api/research/attachment/89430>

Disclaimer:

Not Investment Advice or Recommendation

Any descriptions "to buy", "to sell", "long", "short" or any other trade related terminology should not be seen as a recommendation.

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