



OptionsHawk Monthly Market Brief – November 2019

S&P 500 (SPX) Technicals

The S&P has broken out to new highs after spending a few months in a sideways range of 2825/3025, one that measures to an upside 3,225 target when completed. There is potential resistance as we run into a trend extension level off the January 2018/September 2018/July 2019 high while the 2019 channel up pattern shows room to expand higher with a 138.2% Fibonacci extension aligning with channel resistance near 3,105, and follows by a 161.8% extension level near 3,155. RSI on the weekly is breaking out of a downtrend while MACD is crossing back bullish, all signals in favor of a bullish breakout confirmation and continuation. Support levels include a retest of 3020/3025 zone, the 3000 level, and then 2965 and 2945.

Analysis:



Key Levels

	<u>Support</u>	<u>Resistance</u>
Level 1	3,000	3,060
Level 2	2,940	3,100
Level 3	2,877	3,160
Level 4	2,825	3,225

Fundamental Valuation Bands

	<u>2019</u> <u>EPS</u>	<u>Multiple</u>	<u>Value</u> <u>Level</u>	<u>2020</u> <u>EPS</u>	<u>Multiple</u>	<u>Value</u> <u>Level</u>
Bull	167	17.5	2922.5	180	17	3060
Neutral	163	16	2608	176	15.5	2728
Bear	160	14	2240	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)	17	Slight Overbought
NYSE Summation (NYSI)	706.85	Above 8 EMA - Bullish
NYSE A/D (Cumulative)	141,813	New Highs - Bullish
NYSE Cumulative TICK	132,213	Below 20 EMA - Bearish
NYSE TRIN 21 MA	1.024	Nearing Extreme for Top Signal
NAAIM	88.9	Overly Bullish
AII Sentiment	34% Bullish	Neutral
CBOE Equity Put/Call 50 MA	0.658	Bearish Rising Pattern
VIX:VXV Ratio	0.798	Extreme - Bearish

Catalyst Watch

<u>Date</u>	<u>Event</u>
11/11	China Single's Day
11/16-11/17	APEC Leaders' Meeting
12/11	FOMC Meeting
12/12	ECB Meeting
12/15	US/China Tariff Enforcement Date
12/19	BOJ Decision
1/21-1/24	Davos Economic Forum
1/23/20	ECB Meeting
1/29/20	FOMC Meeting

Bull & Bear Flow Monthly Leaderboard

<u>OPTIONSHAWK DATABASE AGGREGATE FLOW BIAS MONTH AHEAD</u>	
BULLISH	NOW, ADBE, ETSY, FIS, FLT, TTWO, MRTX, ZM, SAGE, BMY, PAGS, ATVI, MPC, EOG, ALXN, COHR, REAL, RVLV, WWE, IQV, DPZ, AWI, TER, MTCH, LEN, AKAM, MCK, CVNA
BEARISH	TEVA, W, ACN, UBER, CGC, FND, CMPR, SRPT, IRBT, SSTK, LL, LGND, MDB, NTAP, CAR, PINS, ATH, NWL, YETI, BGS, ABMD, SBH, EEFT, IIVI, RDFN, TUP, GDI, WORK, KEM, WH, FICO, CHRW

Hawk Vision – 4 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***

Salesforce (CRM) shares breaking out of a long 2019 downtrend with weekly RSI breaking out confirming strength and MACD crossing bullish. CRM has seen some large December \$145 and \$150 call buys into recent weakness and has a large synthetic long at November \$150 strike.



Goldman Sachs (GS) has a big level to clear at \$229 but above that can make a run back to \$250. Shares have been making lower highs and looking for a move higher as weekly RSI strengthens, a name that has seen a size buyer in January \$215 calls.



Splunk (SPLK) has formed a strong weekly base at channel support and starting to break out of the base with room to run back and try and clear a major \$140 resistance level. SPLK has seen buyers in Nov. 22nd (W) \$124 calls, November \$122 calls, and February \$120 calls.



Berkshire Hathaway (BRK.B) shares breaking out of a large weekly triangle pattern with RSI confirming and MACD gaining strength. BRK.B has seen June synthetic long positions open and has size calls sitting in January 2020 expiration.



Options Radar Highlights

10/2/19

TradeWeb Markets (TW) with a large trade on 10/1 that opened 3000 January 2020 \$40/\$35 bull risk reversals at a \$0.45 debit, willing to be long the stock at \$35 while owning upside exposure via calls. The trade becomes the only major notable position in open interest. TW shares range to \$50 from its IPO and since has given back nearly all of the gains, shares putting in a reversal hammer this week on YTD VPOC support. The \$8.6B operator of marketplaces trades 35X Earnings, 29.6X EV/EBITDA and yields 0.85%. TW forecasts call for 9% topline growth in FY20 that follows 14.8% in FY19 and double digit EPS growth. TW notes it has 2500+ client firms and 95% of the top 100 global asset managers use its platform with its focus on Rates, Credit, Equities and Money Markets. TW's FCF grew 27% in 2017 and 28% in 2018. It generates 55% of revenues from Rates, 20% from Credit, 5% from Money Market, and 6% of Equity. The company notes "Electronic trading continues to increase across the markets in which we operate as a result of market demand for greater transparency, higher execution quality, operational efficiency and lower costs, as well as regulatory changes. As market participants seek to trade across multiple asset classes, reduce their costs of trading and increase the effectiveness of their trading, including through the use of data and analytics, we believe the demand for our platforms and electronic trading solutions will continue to grow." "Trading volumes are influenced by, among other things, the amount of notional securities outstanding, new issuances, market volatility, regulation and economic factors such as growth and monetary policy. We believe we are well positioned to benefit from secular and cyclical trends impacting many of the markets in which we operate." Analysts have an average target of \$45.50 and short interest is muted at 2.5% of the float. BAML raised shares to Buy on 9-13 noting recent weakness due to rotations and the lock-up but volumes continue to outperform expectations and seeing the biggest margin gains relative to peers. It sees TW continuing to benefit from structural and cyclical industry drivers such as a shift to electronic trading and regulatory changes. Barclays upgraded shares to Overweight on 10/1 with a \$45 target.

10/10/19

Fate Therapeutics (FATE) pulled back the last few weeks and today seeing 2000 May \$15/\$25 call spreads bought \$2.23 to open as the only notable open interest in the name. FATE showed impressive relative strength through late July but has now pulled back to a 61.8% Fibonacci retracement of the 1 year range. The \$1B Biotech is in the early stages of making revenues and trades 6.3X cash. FATE priced 8.6M shares in September at \$17.50 so it should be well funded. FATE is developing a patient-derived CAR-T Cell Immunotherapy that is more cost effective. Analysts have an average target of \$25.70 and short interest has moved to a three year high at 15% of the float. Stifel started coverage at Buy with a \$27 target on 10-1 noting "Expectation that FT500 data later this year will validate the safety of the company's NK cell platform and that FT516 will show differentiated efficacy in acute myeloid leukemia. Assigning higher than consensus odds for the success of FT516, more cautious on the prospects of FT500 being able to generate compelling efficacy data in solid tumors." OpCo with a \$27 target and Outperform rating in July seeing it potentially disrupting the emerging field of cancer cell therapy. Cantor out with a \$32 target in July noting FATE is "pioneering a highly scalable" next-generation cell-therapy manufacturing process using induced pluripotent stem cells that could potentially be first in class and potential holy grail in cell therapy. Redmile Group has a 5.68% portfolio weighting in FATE.

10/15/19

Alibaba (BABA) IV rising this morning with buyers of 15,000 December \$175 calls up to \$9.65 and follows buyers of more than 11,000 December \$180 calls on 10-2 and buyers in the December \$170 calls yesterday for more than \$1M. BABA has sizable bullish open interest in the November \$165 and \$170 calls from buyers over

the last two weeks as well. Shares are consolidating in a multi-month range under \$182.50 with a breakout targeting \$215. Longer-term shares are forming a series of higher lows and lower highs in a bullish wedge from the 2018 highs which has significant upside to \$250+. The \$427B Chinese retail leader trades 19.8X earnings, 7.4X sales, and 13.8X cash with mid-20% EPS growth and sales up 29.1% and 25.5% the next two years. BABA held an analyst day on 9-24 and outlined ambitious plans for their 5-year outlook targeting 1B+ active users in China as well as \$1.4T in GMV. They also outlined initiatives to grow their Alipay business which currently has around 900M users. Analysts have an average target for shares of \$223. HSBC raising their TP to \$233 on 10-4 as BABA remains dominant in online retail and their analysis shows Tmall is more effective in new products launches, with higher profits for Alibaba versus Pinduoduo. Citi with a \$233 PT citing healthy core marketplace margins and a disciplined approach to new initiatives. Short interest is 0.7%. Hedge fund ownership rose 10% in Q2. Fisher Asset Management a top holder with 11.5M shares while Lone Pine, Tiger Global, Soroban, and Coatue all notable holders. Melvin Capital added as well as now their third largest. BABA will report earnings in early November, shares higher each of the last three. Singles Day will be 11/11. In 2018, they set record sales numbers with more than \$30.8B in sales.

10/23/19

Medicine Co (MDCO) an impressive performer this year with shares up nearly 200% and continues to see a lot of size bullish option positioning. On 10/22 a trade bought 2500 March \$65/\$85 call spreads to open at \$4.95 giving us a view of the upside potential seen in the name, and the December \$75 calls were bought 2,290X on 10/18 for over \$700K. MDCO also has significant call open interest in November \$60 and \$65 strikes with over 5000 in each and large January 2020 \$55 and \$60 call positioning with over 10,000 in each while the January \$70 calls were sold 10,000X in a ratio spread with the \$60 calls back on 9/25. On 9/9 the April \$60 calls opened 4000X for \$2.33M and remain in open interest. The \$4.45B Biotech is not currently generating any revenues of note and is purely a pipeline play expecting \$1B+ in revenues by FY23. Sarissa Capital has been raising its active stake to 5.62% and sees the key asset Inclisiran becoming a blockbuster, transforming care for millions of patients suffering from elevated low density lipoprotein cholesterol (LDL-C) -- a leading cause of cardiovascular disease, -- due to its unique ability to deliver substantial, durable LDL-C reductions via twice-a-year dosing. Analysts have an average target of \$67 on shares while short interest continues to climb, currently at 32% of the float. RBC was out in June noting it as a potential next big M&A target in Biotech. On 8-26 MDCO announced its ORION-11 study met primary and secondary endpoints and in September ORION-9 and ORION-10 also hit primary and secondary endpoints. On 10/10 Jefferies raised its target to \$50 but cut its rating to Hold seeing Inclisiran consensus estimates too aggressive and seeing shares fully valued. B. Riley raised its target to \$95 on 10/2 with heightened conviction in Inclisiran taking dominant market share in the anti-PCSK9 marketplace, mainly at the expense of Regeneron (REGN) Praluent. The firm sees worldwide peak sales of \$4-\$8B. RW Baird raised its target to \$110 back on 5/20. Citi cut to Neutral on 9/17 seeing limited catalysts over the next year to move shares higher. JPM has a \$49 target and sees the focus shifting to the commercial potential and possibility of a strategic appetite exists for the asset, a 2030 sales forecast for Inclisiran of \$2.1B. OpCo on 9/3 called MDCO an attractive M&A target. Hedge Fund ownership rose 7.6% in Q2 filings, Slate Path adding to a large position while Maverick Capital added more shares as well. MDCO will next report in early November where the focus will be on the Inclisiran commercial launch plan, IV Skew inverted bullishly for much of the last two months.

10/29/19

DuPont (DD) on 10/28 with a trade opening 2500 April 2020 \$70/\$62.5 bull risk reversals at a \$0.95 to \$1 debit and follows action on 10/24 with the November \$69.50 calls bought for 5000 contracts and January \$70 calls adding 1200X. The December \$67.5 calls have 4,815 in open interest from buys on 8/14 and 9/17. It does also have 2000 each of the December \$67.5 and \$60 puts in open interest from purchases. DD will report on

10/31 before the open and shares with a strong history closing higher six of its last eight reports with no closes lower of more than 0.75%. On 8/6 it was reported the company was weighing a sale of its nutrition and biosciences unit that is said to be worth at least \$20B and Bloomberg reporting Royal DSM could look at acquiring for \$25B. DD shares have put in a nice weekly base above the \$64 level and a weekly bullish RSI divergence been developing all of 2019 that can play out for a move back to resistance at \$75. The \$50.4B Company trades 15.65X Earnings, 11.6X EV/EBITDA and yields a 1.78% dividend. DD is forecasting 6.5% EBITDA growth in FY20 with 13.7% EPS growth. DD is creating a pure-play agricultural with 30% crop protection and 70% seeds. DD is targeting mid-to-high teens ROIC. Analysts have an average target just above \$80 and short interest low and declining at 0.8% of the float. Citi out in September with an \$82 target seeing management relentless on driving shareholder value through portfolio moves. Jefferies initiated shares Buy with an \$85 target on 9/10 citing better operating discipline making shares more resilient to macroeconomic softness seeing robust FCF driving 4.1% annual sales growth and 12% annual EPS growth for years to come. MSCO has an \$85 target as well and sees chemical consolidation becoming a theme with Celanese (CE) a potential target for DuPont. Hedge Fund ownership declines 20.7% in Q2 filings, though Edgepoint with a new 3.64% weighted stake and Maverick Capital added to its large position.

Trades of the Week

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

Earnings Recap

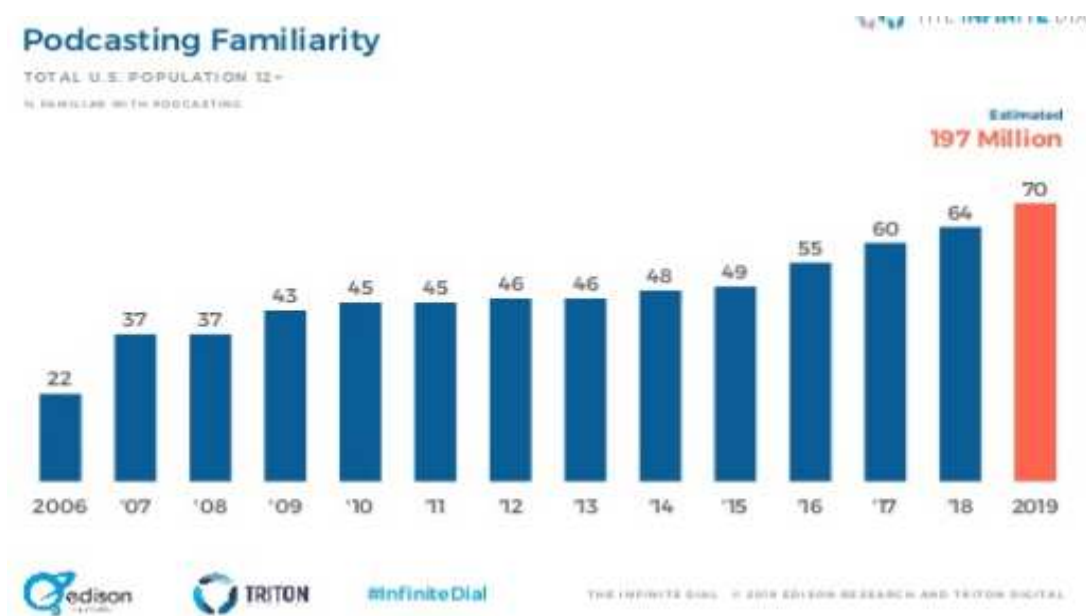
<u>Strong Beats</u>	<u>Bullish Themes</u>	<u>Weak Outlooks</u>	<u>Bearish Themes</u>
JPM, C, STT, MS, BAC, NTRS	Banks/Money Centers	NFLX, AMZN, TWTR, EBAY, GOOG, ETSY, W	Internet
AXP, PYPL, V, DFS, MA, GPN	Payments	GWV, VMI, SWK, PRLB	Industrial Equipment
BIIB, ALXN, BMRN, INCY, AMGN, VRTX	Biotech	FDX, JBHT, LSTR, ODFL, CHRW, AAWW	Trucking / Freight
ISRG, BSX, EW, ALGN, ILMN, RMD, MASI	Med-Tech	DOW, GRA, CE, EMN, HUN, ASIX	Chemicals
UNH, ANTM, CNC, ANTM, CI, MOH	Managed Care	CCK, SON, SLGN, PKG, OI, BLL	Packaging
LMT, GD, NOC, RTN, OSIS, LHX, MANT	Defense Spending	CAT, HRI, GGG, FTV, CR, AOS, AGCO, XYL	Industrial Equipment
TSM, LRCX, TER, MKSI, ENTG, KLAC, LITE	Semiconductor Equipment	MCD, YUM, EAT, SBUX, DIN	Casual Dining
OC, MHK, WY, ROCK, BLD, IBP, MLM	Building Materials	MNRO, ALV, GT, DORM, APTC, DLPH	Auto Parts
KBH, LEN, NVR, PHM, MTH, MHO	Homebuilders	SIX, HLT, LVS, MGM, PENN, LYV	Travel/Gaming
BP, HES, CLR, RDS.A, MUR, EQT	Oil & Gas E&P		
VLO, PSX, MPC, HFC, PBF	Refiners		

MSFT, NOW, PAYC, PCTY, AZPN, AYX, ZEN, AKAM	Software		
PFPT, FEYE, TENB, FTNT	Cyber-Security		
FCN, HURN, BAH	Consulting		
JNJ, LLY, AZN, MRK, GSK, SNY, BMJ	Pharma		
TMO, LH, ILMN, NEO, PRAH, QGEN, RGEN	Diagnostics		

Theme of the Month

Podcasts

The growth in podcasts has jumped significantly in 2019 and become a main focal point of many audio-driven companies looking to expand beyond traditional music streams. According to Edison Research/Triton Digital, more than half of Americans listened to a podcast in 2019 and nearly one-third listen to one every month, up from around 25% in 2018. This is the first time that figure is above 50% and the biggest jump in listener growth since the trend-monitoring company began tracking the genre in 2006. And there's significant potential with 93% of adults listening to radio every month. Podcasts tap into a big investment area we've touched on multiple times this year – youth. More than 40% of people that are between the ages of 12 and 24 listened to at least one podcast last month and the data actually gets stronger for younger cohorts (12-17 year-olds lead).



Podcast growth is due in large part to both the ubiquity of smartphone devices and tablets as well as the low upfront cost of audio gear and software necessary to put together. And with several platforms offering podcasts, the opportunity to get new and up-to-date titles is far easier than ever before. Podcast advertising has become big business. Wondery, one of the largest podcast publishers in the US, estimated the industry took in \$500M in 2018 while BAML estimates that number could be as high as \$1.3B today (assuming 4% of the global audio advertising marketplace). The firm thinks podcast advertising is set to become the fastest growing category within ad-supported audio at 28.5% CAGR through 2023 with potential to hit \$6B by 2029 as the number of people listening to podcasts expands.

Podcast advertising revenue is forecasted to exceed \$1B by 2021.

Podcast Advertising Revenue, 2015 - 2021 (in millions)



2018 self-reported advertising revenues represent the 22 companies surveyed, less than 100% of the podcast advertising market.
 *2019 - 2021 revenues are a forecast based upon self-reported estimates and projected market sizing.
 FY 2018 Podcast Ad Revenue Study, June 2019

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There are a number of companies exposed to podcasting from news and legacy media to platforms. Here are three ways to play it.

Spotify (SPOT) has increasingly turned its focus towards podcasts over the last year as it looks to build a vast library of original content and differentiate from peers like AAPL and AMZN. The company's big bet seems to be paying off with over 50% growth in listeners Q/Q in July and doubled since the start of the year. CEO and Founder Daniel Ek said earlier this year he expects podcasts and non-music listening will someday be 20% of all listening on the platform. SPOT made a splash earlier this year with the acquisition of Gimlet Media, a start-up podcast network. They also bought Anchor which is a suite of tools for creators to build, publish, and monetize their content. The company is also signing deals with talent to bring their shows to SPOT including a contract with comedian Amy Schumer and a deal with Higher Ground Productions, the media company of Barack and Michelle Obama. Ek has said the company has over \$500M to spend on more deals in the podcast space as he believes whole-heartedly that it will be a significant growth driver over time. In March they bought Parcast, another network.

RANK	PODCAST PUBLISHER	US UNIQUE MONTHLY AUDIENCE	GLOBAL DOWNLOADS & STREAMS	ACTIVE SHOWS
1	NPR	23,622,000	151,375,000	67
2	iHeartRadio	22,275,000	147,123,000	268
3	PRX	10,753,000	75,402,000	83
4	New York Times	10,046,000	65,150,000	10
5	Wondery	9,086,000	47,664,000	83

iHeartMedia (IHRT) is the second largest podcast publisher in the US. The company has 20,000 podcasts under its banner being both published and/or produced with 750 originals. The added new brands and scale with their Stuff Media acquisition in late 2018 and since the deal has launched four new podcasts that have hit the top 20 in the US (Stuff You Should Know, Ron Burgandy, Atlanta Monster, and The Breakfast Club). IHRT has a huge platform of users with which to market their podcasts and much like SPOT is looking to build out a library of original content to differentiate. They're also looking to move away from radio licensing as a centerpiece. The company estimates they have 250M listeners a month, 120M registered on their streaming service, and 1.7B downloads. They're leveraging this information well. In February, they launched a podcast recommendation engine which will help match listeners of music/radio to podcasts as well. For example, listeners of a specific morning show may be directed to podcasts from the show's talent. IHRT has proven to be a great early developer of new shows and BAML estimates that each new hit could

drive between \$5M and \$48M in incremental EBITDA (up to 9% upside in stock). And, given the company's expertise, they could generate 3-5 new hits by 2022.

Sirius XM (SIRI) has significant opportunity in podcasts after their \$3.5B deal for Pandora. In April, the company announced they would be making content from SIRI shows available on the Pandora platform as podcasts in categories like entertainment, talk, and comedy. The company sees podcasts as a perfect compliment to their XM platform as it allows for cross-promotion and opportunity to leverage the two to grow as well as drive advertising dollars and margins at Pandora. Most notably, SIRI has room to grow within the space given their existing scale and user base. They also have access to artists (Howard Stern content on the podcast-side would be a significant game-changer). However, CEO James Meyer spoke at the BAML conference in September and was more cautious on the approach. "I've been a part of overpaying for content earlier in my life. We're not going to overpay for some of this stuff, okay? Because I still believe it's really unclear how it's going to be monetized in a way -- there's more maturity in the market that needs to occur before I believe you're willing to pay a big sum to get some exclusive content. I looked at Gimlet. We've looked at all this thing. We think another company way overpaid for that stuff." SIRI will likely remain more in the testing/experimental mode for a while but big potential.

Legacy news and media companies have moved into the space as well. **NY Times (NYT)** has long been a leader in the news and editorial podcast genre. Their Daily Dose podcast started in 2017 and has set the standard for short-form news pieces. **NPR** is actually the largest overall podcast publisher worldwide. **PBS**, **Slate**, and **Buzzfeed** also have segments. **CBS News (CBS)**, **News Corp (NWSA)**, **NBC News (CMCSA)**, and **Fox News (FOXA)** have all moved into the daily shorts world as well. On the entertainment side, **Disney (DIS)** has a number of podcasts including ESPN and through their investment in Vice. **Viacom (VIAB)** has a small but growing podcast group with MTV.

M&A Deal of the Month

Sophos was a notable deal in October with a \$3.9B offer from Thomas Bravo, a notable private equity deal in the cyber-security space. In a statement the CEO stated "Sophos is actively driving the transition in next-generation cybersecurity solutions, leveraging advanced capabilities in cloud, machine learning, APIs, automation, managed threat response, and more. We continue to execute a highly-effective and differentiated strategy, and we see this offer as a compelling validation of Sophos, its position in the industry and its progress." The company has 400,000 customers in 150 countries, 47,000 channel partners and more than 100 million users. Thomas Bravos released a filing after the offer that was a 37% premium to the closing price and 32X FCF and 8.5X FY20 EV/Sales. Sophos expects to report 9 percent billings growth for the six months ended Sept. 30 after factoring out changes in foreign currency exchange rates, with the company seeing continued growth in end-user and network security. Thoma Bravo has been extremely active in the cybersecurity space recently, purchasing storage and security player Barracuda Networks for \$1.6 billion in February 2018; security information and event management vendor LogRhythm in July 2018; application and data protection vendor Imperva for \$2.1 billion in October 2018; and application security vendor Veracode for \$950 million in November 2018.

Cyber-Security remains a major growth theme for CIO spending surveys and we can take a look at some peers. Fire-Eye (FEYE) has a similar \$3.43B market cap and reportedly has hired Goldman Sachs to explore a sale and has seen a lot of call option activity. There are larger Tech players that are not pure-play cyber-security but seeing growth in those business segments, names like F-5 (FFIV), Juniper (JNPR), Akamai (AKAM), Splunk (SPLK), and Cisco (CSCO). There are also pure-play names like Palo Alto (PANW), Check Point (CHKP) and Fortinet (FTNT) with \$10B-\$22B market caps. Okta (OKTA) is an emerging rapid growth name with a \$12.6B market cap in the identity management space. A few of the smaller cap names worth a closer look include PFPT, ZS, SWI, CYBR, FEYE, QLYS, MIME, RPD, TENB, VRNS, SAIL and FSCT.

Tickers	Mkt. Cap	FY1 EV/Sales (x)	FY2 EV/Sales (x)	LTM EV/FCF	FY1 Gross Margin	LTM EBIT Margin	Rule of 40	Revenue [CAGR, FY-2 - FY2]
CYBR	3,764	7.6x	6.4x	24.2x	87.94%	19.81%	51.49	26%
FEYE	3,376	3.9x	3.6x	235.3x	72.73%	(2.57%)	1.64	8%
FSCT	1,400	3.6x	3.0x	(208.8x)	79.83%	(18.85%)	17.89	33%
MIME	2,467	5.6x	4.7x	51.0x	75.02%	2.63%	29.33	25%
PFPT	6,697	7.3x	6.0x	34.1x	78.55%	8.87%	43.28	38%
QLYS	3,120	8.4x	7.3x	23.3x	79.44%	28.05%	45.68	19%
RPD	2,365	7.2x	5.8x	(62.9x)	75.08%	(13.08%)	34.53	25%
SAIL	1,723	5.8x	5.0x	68.6x	79.53%	10.73%	22.81	37%
SWI	6,066			29.0x				33%
TENB	2,190	5.4x	4.4x	(131.4x)	83.67%			47%
VRNS	1,888	6.8x	6.3x	(201.6x)	87.61%	3.43%	0.33	28%
ZS	5,523	12.8x	10.0x	186.7x	80.79%	(16.55%)	24.18	59%
Average	3,381	6.8x	5.7x	4.0x	80.02%	2.25%	27.12	31%
Median	2,793	6.8x	5.8x	26.6x	79.53%	3.03%	26.76	30%

In looking for the attractive values I am looking for FCF positive companies with strong topline growth, impressive margins, and a valuation dislocation. **Cyber-Ark (CYBR)** and **Qualys (QLYS)** screen the best on profitability metrics with the former trading cheap with better growth, two names of focus.

SailPoint Tech (SAIL) is a smaller cap name of focus with a \$1.74B market cap trading 5.8X EV/Sales, FCF growth with 10.7% EBIT margins, and revenue growth seen accelerating back to 15%+ in FY20. SAIL secures digital identities seeing an expanding \$11B TAM with the digital transformation increasing the complexity for managing identities across the enterprise. It has a diverse and growing customer base with recurring revenues now at 53% of total and growing 41% Y/Y.

Small Cap of the Month

Stoneridge (SRI) is a \$911M maker of electric and electronic components for the automotive industries. It has a well-diversified product portfolio with a robust five-year backlog. It has seen strong revenue growth and margin expansion the last five years as it transformed its portfolio. It considers itself a vehicle technology company and highlights key megatrends for growth that offset lagging vehicle growth such as Safety/Security, Intelligence, Fuel Efficiency and Emissions. Smart Products have risen to more than 70% of its sales as it drives growth via increased vehicle content. Control Devices are 51% of sales, Electronics 40%, and PST Eletronica 9%. Its MirrorEye camera monitor system retrofit has been ramping and it also has an exciting growth opportunity with its telematics unit. The company is eyeing \$1B in revenues with 15.5% EBITDA margins by FY21.

SRI shares are trading 16X Earnings, 31.65X FCF and 10.6X EV/EBITDA which is fairly rich to peers and its historical norms but as one of the best niche growth stories in auto parts it is a name that deserves a premium valuation and worth owning longer-term in my view.

International Stock of the Month

Lovisa (LOV:AU) is a \$970M maker of fashionable on-trend jewelry and accessories in Australia. The company was established in 2019 and now has over 400 stores globally targeting 25-45 year old females. Lovisa forecasts are looking for 38% revenue growth in FY20 and 25% EPS growth. Shares are currently trading 35X Earnings and 4.6X EV/Sales with a 2.6% dividend yield. It is expanding geographically as well as via ecommerce and new product launches. Lovisa is a healthy growth story in Retail with a lot of room left for expansion and a clear vision from management.

Consolidated \$'000	FY2019	FY2018	Change
Sales	250,282	217,010	15.3%
Gross profit	201,409	173,637	16.0%
Gross Margin	80.5%	80.0%	0.5%
Operating expenses	139,087	115,437	20.5%
EBITDA	62,322	58,200	7.1%
EBIT	52,484	51,074	2.8%
Net profit after tax (NPAT)	37,043	35,954	3.0%
Basic Earnings per share	35.09c	34.24c	0.85c

4.1.1 Sales



IPO Watch

GFL International (GFL) is coming public as the fourth largest diversified environmental services company in North America. The offering expects to price 87.57M shares in the \$20-\$24 range. The company operates in Canada as well as 23 states in the US. Its diversified offerings include non-hazardous solid waste management, infrastructure & soil remediation and liquid waste management services. Its solid waste management business line includes the collection, transportation, transfer, recycling and disposal of non-hazardous solid waste for municipal, residential, and commercial and industrial customers. Its infrastructure & soil remediation business line provides remediation of contaminated soils as well as complementary services, including civil, demolition, excavation and shoring services. In its liquid waste management business line, it collects, transports, processes, recycles and/or disposes of a wide range of liquid wastes from commercial and industrial customers.

Solid Waste

77% of Pro Forma 2018 Revenue⁽¹⁾



- Provides municipal, residential, commercial and industrial collection, hauling, transfer and disposal services
- Serves over 4 million households under more than 650 municipal collection contracts, and over 135,000 commercial and industrial customers
- Facility network across nine provinces in Canada and 10 states in the United States includes:
 - 100+ collection operations
 - 60+ owned or managed transfer stations
 - 47 owned or managed landfills
 - 29 owned or managed MRFs

Infrastructure & Soil Remediation

15% of Pro Forma 2018 Revenue⁽¹⁾



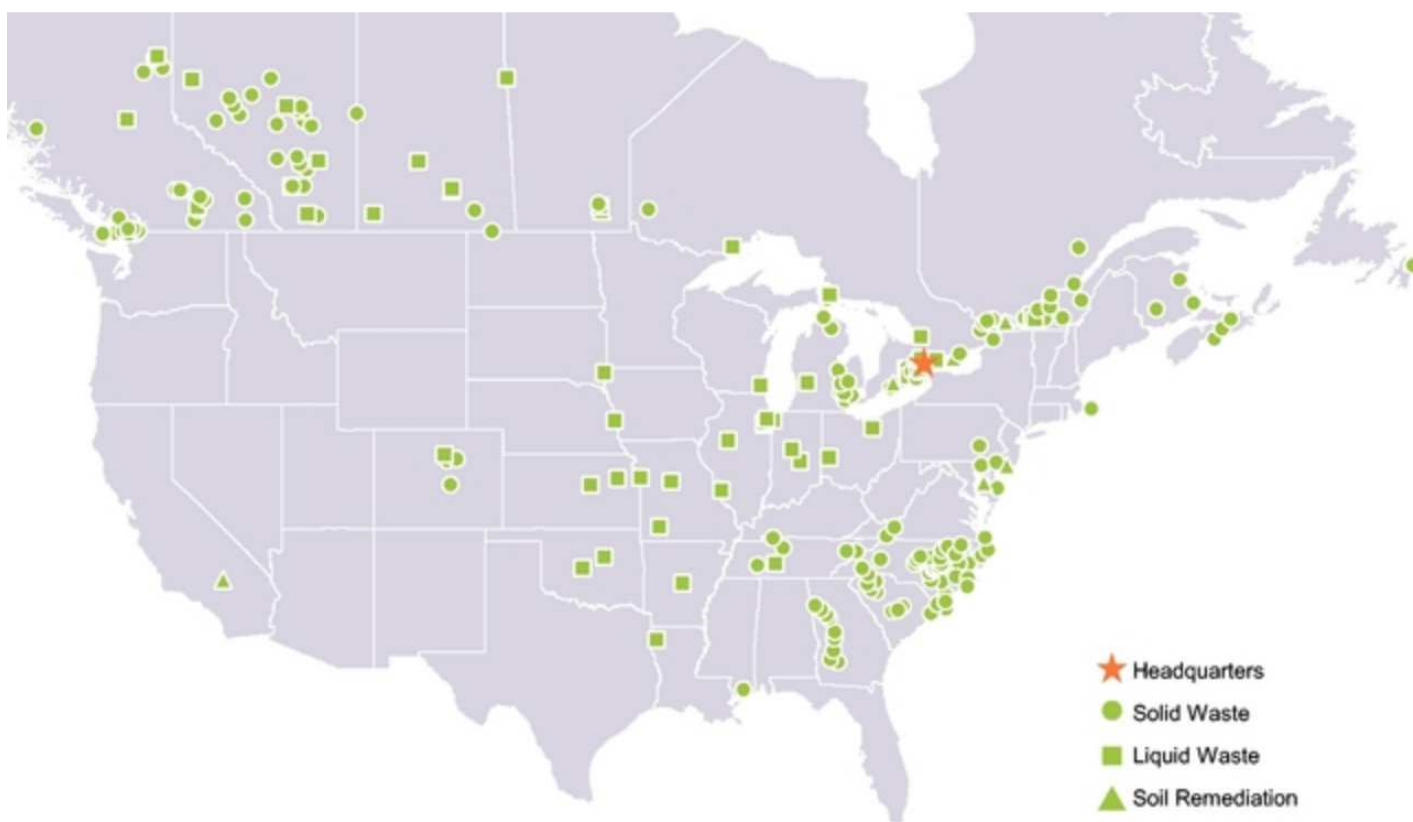
- Provides bioremediation services for soils contaminated by hydrocarbons and road salt
- Provides integrated infrastructure services, including civil, demolition, excavation and shoring
- Serves many major infrastructure customers in our markets
- Facility network includes nine soil remediation facilities in three Canadian provinces

Liquid Waste

9% of Pro Forma 2018 Revenue⁽¹⁾



- Provides waste water collection and processing, used motor oil ("UMO") collection, processing and resale, hydro vacuum services, waste packaging, lab packing and on-site industrial services
- Serves more than 13,000 customers
- Facility network includes more than 40 liquid waste processing or storage facilities across Canada and the Midwestern United States



Customers:

We have a large and diverse customer base. In our solid waste management business, we currently serve over 4 million households, including those covered by more than 650 municipal collection contracts, and over 135,000 commercial and industrial customers. Our infrastructure & soil remediation business is currently

concentrated in Southern Ontario and services many of the major Canadian infrastructure customers in that market. We are selectively expanding the geographic presence of our operations in this line of business, prioritizing other major metropolitan centres in Canada, such as the British Columbia and Québec markets, where we have complementary solid and liquid waste assets and where existing and new customers have sought our infrastructure & soil remediation services in support of their major complex projects. Our liquid waste management line of business currently serves over 13,000 customers. Our top 10 customers accounted for approximately 10% of Pro Forma 2018 revenue, and no single customer represented more than approximately 1.9% of Pro Forma 2018 revenue. The revenue generated from both our solid and liquid waste management operations is predictable and recurring in nature as a result of the stability of waste generation and the contractual nature of these business lines. In many of our markets, we are able to successfully adjust pricing to reflect increases in our operating costs such as labor, fuel, logistics and other environmental expenses to broadly ensure that we continue to secure appropriate returns on capital. We also see attractive opportunities to continue to expand our solid waste and infrastructure & soil remediation offerings in parts of Western Canada and the Midwestern United States, where we have an established asset and employee base servicing our liquid waste operations.



Industry:

We operate in the large and stable North American environmental services industry, which EBJ estimates totaled approximately US\$434 billion in 2018 based on annual revenue. Key characteristics of our industry include relative recession resistance, high visibility of waste volumes, a stringent regulatory framework, high capital intensity to achieve scale and significant fragmentation which, in turn, has led to strong consolidation activity. The North American environmental services industry has benefitted from an attractive macroeconomic and demographic backdrop. From 2012 to 2018, both Canada and the United States experienced strong nominal Gross Domestic Product ("GDP") Compound Annual Growth Rates ("CAGRs") of 3.3% and 4.0%, respectively, and population growth of 1.0% and 0.7%, respectively. In particular, population growth has driven strong increases in housing starts and infrastructure spending, which underpin growth across the solid waste, infrastructure & soil remediation, and liquid waste segments of the environmental services industry.

North American Environmental Services Industry

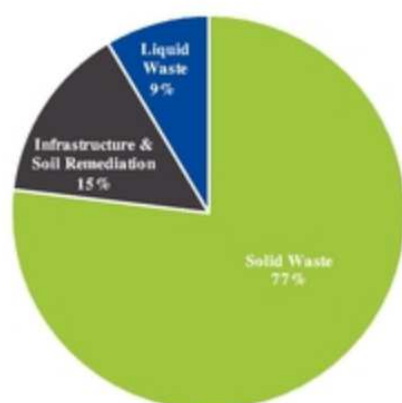
(US\$ billions)



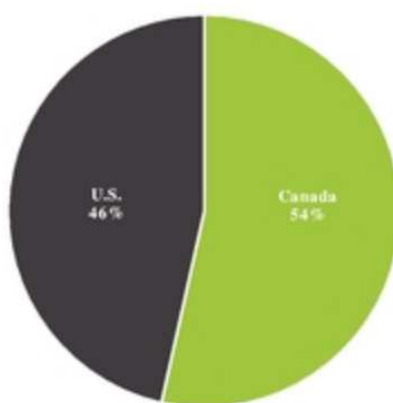
Financials:

Between Fiscal 2016 and Pro Forma 2018, we grew revenue from \$934 million to \$2,699 million. Over the same period, our net loss increased from \$(152) million to \$(611) million and our Adjusted EBITDA grew from \$201 million to \$659 million.

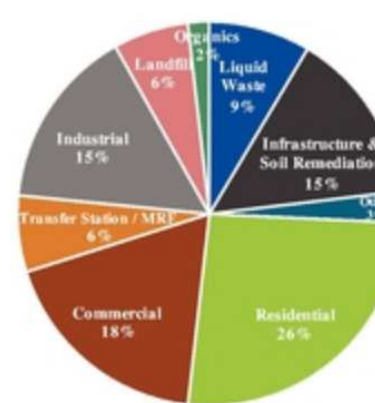
By Line of Business



By Geography



By Source



Acquisitions:

In addition to strong organic growth, we have completed over 100 acquisitions since 2007, generally at an average adjusted EBITDA multiple of 7.0x, excluding platform acquisitions. We focus on selectively acquiring premier independent regional operators, like Waste Industries, to create platforms to enter and expand into new markets across each of our business lines. We then seek to build scale by utilizing our broader infrastructure and platform acquisitions to make and effectively integrate smaller tuck-in acquisitions. We have a track record of sourcing and executing acquisitions of leading, high quality and complementary businesses by leveraging the relationships that our senior and regional leadership have built with potential vendors over time. We believe that this proven strategy minimizes integration risk and allows us to grow the top line revenue and profitability of acquired businesses under the GFL banner, while maintaining their same high service standards. This approach to acquisitions creates meaningful cost synergies by increasing route

density and collection volumes, and drives margin expansion by leveraging our scalable infrastructure and centralized administrative capabilities.

Valuation/Comps

GFL is expected to raise up to \$2.4B in its IPO at a market cap near \$8.8B, which would be 21.4X FY18 EBITDA. Its US peers trade 11-15X EBITDA on average. Once it comes public we will be able to better assess comps but Adjusted EBITDA margins look in-line with peers while growth potential may drive a premium valuation.

Insider Buying 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
10/25/2019	LLY	Lilly Eli & Co	Ricks David A	Pres, CEO	\$108.38	4,615	163,743	3%	\$500,174
10/25/2019	WSBC	Wesbanco Inc	Clossin Todd	Pres, CEO	\$36.46	7,500	63,912	13%	\$273,477
10/23/2019	JPM	Jpmorgan Chase & Co	Hobson Mellody L	Dir	\$124.65	16,000	117,741	16%	\$1,994,376
10/22/2019	THO	Thor Industries Inc	Martin Robert W	Chief Exec., Pres	\$58.82	10,000	220,175	5%	\$588,200
10/10/2019	WOW	Wideopenwest, Inc.	Crestview Partners III Gp, L.P.	Dir, 10%	\$5.82	175,348	31,276,252	1%	\$1,019,690
10/10/2019	SFIX	Stitch Fix, Inc.	Gurley J William	Dir, 10%	\$20.83	150,000	755,015	25%	\$3,124,249
10/7/2019	WOW	Wideopenwest, Inc.	Crestview Partners III Gp, L.P.	Dir, 10%	\$5.61	534,200	31,100,904	2%	\$2,999,314
10/7/2019	CNNE	Cannae Holdings, Inc.	Massey Richard N	Dir	\$27.53	10,000	213,899	5%	\$275,322
10/3/2019	WMS	Advanced Drainage Systems, Inc.	Jones Ross M	Dir	\$31.61	97,010	12,851,165	1%	\$3,066,346
10/4/2019	HRTX	Heron Therapeutics, Inc. /de/	Tang Kevin C	Dir	\$17.50	285,714	5,821,098	5%	\$4,999,995
10/1/2019	WMS	Advanced Drainage Systems, Inc.	Jones Ross M	Dir	\$31.85	229,873	12,754,155	2%	\$7,320,506
10/2/2019	LGF	Lions Gate Entertainment Corp /cn/	Rachesky Mark H Md	Dir, 10%	\$9.19	2,399,571	33,402,322	8%	\$22,052,057
9/30/2019	CHWY	Chewy, Inc.	Star James A	Dir	\$23.94	41,521	91,521	83%	\$993,860
9/27/2019	FDX	Fedex Corp	Martin R Brad	Dir	\$145.00	1,750	59,146	3%	\$253,750

Sector ETF Set-Up of the Month

Gaming ETF (BJK) with a clean weekly breakout of a long 2019 bottoming pattern with room to run another 10% back to \$44 before meeting any resistance. Top holdings in the ETF include Las Vegas Sands (LVS), Galaxy Entertainment, Aristocrat Leisure, Sands China, MGM (MGM), Wynn (WYNN), Vici Properties (VICI), Flutter Entertainment, and Gaming and Leisure Properties (GPLI). There are 42 holdings with 45% in the US. The group is likely to benefit in 2020 from facing easy year/year comps.



Monthly Educational and Insightful Links

[Fundsmith Equity Fund – Owner's Manual](#)

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.

The Author may or may not take positions in any of the names mentioned, and is not obligated to disclose positions, nor position sizes.

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