



# OptionsHawk

## Cars.com Bulls Position for Potential Sale of the Company

**Ticker/Price:** CARS (\$26.30)

### Analysis:

**Cars.com (CARS)** with 5,000 June \$30 calls bought today \$1.50 to \$1.55 as 3,000 of the March \$35 calls close and adjust out, recent sale talk with CDK noted as a potential buyer. CARS has seen 10,000 of the February \$25 puts sold to open and with weakness today back to \$26.50 shows limited downside. CARS also has more than 8,000 each of the March \$25 and \$30 calls in open interest and 3,000 of the \$22.50 puts sold to open. Shares have rallied sharply this year and now flagging in a range pulling back right to the 200 day MA today and prior breakout level. The \$1.9B company created a digital automotive marketplace for local car dealers to connect with consumers, and trades 30.4X Earnings, 2.9X Sales and 13.2X FCF. CARS is not a fast grower seeing just 4-5% annual revenue growth the next three years but coming into a strong operating leverage cycle with EPS seen reaching \$1.05/share in 2020 from \$0.64/share in 2018. Analysts have an average target of \$31 on shares and short interest is 21% of the float but declining to an all-time low in the latest report. Shareholder activist Starboard Value is pressuring Cars.com to find a buyer and Cars.com is planning to take final round bids this week. Benchmark recently noted a potential deal price in the high \$20's or low \$30's. DA Davidson noted on 1/16 improving traffic trends to Cars.com and a large \$30B auto ads market. Craig Hallum upgraded to Buy after news of strategic alternatives, a \$30 target but thinks a sale can fetch even higher. B. Riley has a \$34 target, seeing the strong FCF model attractive to Private Equity and LBO analysis seeing \$35/share or more. Hedge Fund ownership rose 3.85% in Q3 filings, Starboard a top holder added more.

### Hawk Vision:



**Trading Strategy:** CARS sets up nicely as an event-driven play, a potential strategy being to sell Feb. \$25 puts to buy Mar. \$25/\$30 call spreads at net \$1.65.

**Confidence Ranking:** \$\$