



DropBox Bulls Active after Earnings Sell-Off

Ticker/Price: DBX (\$23.85)

Analysis:

DropBox (DBX) some aggressive buys of 1,170 July \$24 calls \$2.80 to \$3, shares basing after the earnings gap-down, and action moving to 1,400X in the opening 30 minutes. DBX also saw 3,000 March \$24 puts sold into weakness on 2/22 as well as 2,000 Jan. \$40 calls bought and has seen unusual accumulation of 35,000 Jan. \$60 calls. DBX does have 5,000 April \$26 puts bought on 1/2/19 in open interest. Shares sold off sharply in 2H18 to near \$18 from \$42. The weekly chart is now showing a bottoming pattern \$19/\$26 that measures up to \$33. The \$10.8B provider of online file storage and sharing trades 42.4X Earnings, 33.7X FCF and 4.7X FY20 EV/Sales. It is coming off a strong quarter and highlighted its acquisition of HelloSign. DBX has seen margins rise with 75% expected in 2019 from 53.8% in 2016, and posted 25.8% FCF margins in 2018. DropBox has over 500M users and 12.7M paying. It is targeting a \$50B TAM that includes network content, filing sharing and content collaboration. Analysts have an average target of \$33 on shares and short interest is now just 4% of the float, down 51.8% Q/Q. BAML upgraded to Buy on 2-22 noting the billings miss and margin guidance created controversy in the name but sees that stabilizing and also notes improving margins for 2020 with attractive valuation. Jefferies lowered its target to \$32 after the report seeing patient investors being rewarded and notes it is an attractive strategic asset. Hedge Fund ownership surged 52.2% in Q4 filings, an Salesforce.com (CRM) who reports next week, owns \$100M stake.

Hawk Vision:



Trading Strategy: DBX looks a lot more interesting here back at support and short interest no longer a red flag with valuation attractive. I would expect to see some more flows moving into the name.

Confidence Ranking: \$\$