



Sizable Positions Accumulate for Upside Move in Zayo

Ticker/Price: ZAYO (\$24.90)

Analysis:

Zayo Group (ZAYO) continues to draw bullish flow and today 2,500 June \$27.50/\$37.50 call spreads are bought to open for \$2.04, a near 4-to-1 reward/risk on a move higher. ZAYO open interest has focused on March with over 24,000 \$27.50 calls, 4,000 of the \$25 calls, and over 9,000 of the \$30 calls already bought. The \$27.50/\$37.50 call spread was bought 4,000X8,000 on 11/21, seeing similar upside to today's flow. ZAYO also has over 8,000 of the \$20 puts sold to open. Shares are down from 2018 highs near \$40 and back at key support from 2015/2016. ZAYO is back around the 50-EMA and cloud resistance at \$26 and has a high-volume target near \$30 on an initial move higher. The \$5.59B company trades 4X book, 15.8X cash, and 38X earnings. The company sees 20%+ EPS growth in both FY20 and FY21 with modest sales growth, 1-2%. ZAYO is largely an event-driven play although did announce a number of key EU contract wins in late 2018. ZAYO announced plans in November to split into two companies, one on fiber-driven infrastructure and the other a high-bandwidth enterprise service provider. Analysts have an average target for shares of \$36 with 14 buy ratings and 2 hold ratings. Cowen named Zayo one of their best ideas for 2019 and a special situation with meaningful upside driven by increased investor interest in the split-co and potential M&A. Cowen noted that recent reports of interest from Blackstone/Stonepeak make sense and a buyer could pay \$35/share and achieve mid-teens returns by leveraging up to 6.25X. Institutional ownership fell 7.5% last quarter. Zimmer Partners a buyer of 4M shares, now an 8M share holding for the firm. Carmignac Gestion, Balyasny, and Kensico all bought sizable positions as well. ZAYO had a \$1.5M insider buy in late 2017 around \$35, the largest open market buy in the last four years. Short interest is 7.3% and near multi-year highs.

Hawk Vision:



Trading Strategy: ZAYO is clearly an event-driven play at this point, and already rallied well off lows from the call accumulation. The upside spreads with the skew make a lot of sense on a reward/risk basis.

Confidence Ranking: \$\$