



Risk Reversal Sees Favorable Risk/Reward in Avanos on Growth, Margins, M&A

Ticker/Price: AVNS (\$49)

Analysis:

Avanos Medical (AVNS) with 1,200 March \$50/\$45 bull risk reversals opening into earnings 2-26 and does have 1,000 April \$60 calls in open interest from a buyer 11/26 and also 300 each of the March \$45 and \$50 calls. AVNS shares ran to \$73 in 2018 from \$25 in 2016 and sold off back to a 61./8% retracement and retest of its 2017 range breakout before forming the current weekly base, and a move above \$50 targets a run to \$60 near-term. The \$2.3B Med-Tech name focuses on eliminating pain and speeding recovery for respiratory and digestive health as well as interventional pain management. Shares trade 36.35X Earnings, 3.4X Sales and a healthy balance sheet with revenue growth forecasted at 6%/year. AVNS operates in the Chronic Care and Pain Management markets, a \$10B addressable market with 7 market-leading products. Expanded coverage of COOLIEF, Acute Pain adoption and International growth are seen as upside drivers. It is undergoing a cost transformation with expectations to expand margins. Analysts have an average target of \$55 on shares and short interest is 4.9% of the float, rising 41% Q/Q. Barclays was out negative on 1-4 with concerns for the outlook of the ON-Q Pump. In August Raymond James upgraded to Outperform with a \$75 target expecting organic growth and margin expansion as well as seeing a key M&A deal in 2H19. Hedge Fund ownership fell 48.6% in Q4 filings, Select Equity and Polar Capital exiting.

Hawk Vision:



Trading Strategy: AVNS earnings are coming up in a week, so not looking to jump in with short interest trends a small red flag, but an intriguing med-tech name to keep an eye on.

Confidence Ranking: \$\$