



Smith and Nephew Unusual Bullish Activity

Ticker/Price: SNN (\$38.50)

Analysis:

Smith & Nephew (SNN) spreads sell 2,000 April \$35 puts to buy the \$40/\$45 call spreads at a \$0.40 net debit and also later seeing 2,000 June \$40 calls open up to \$1.63. SNN was recently indicated by media reports to be considering a large M&A deal for Nuvasive (NUVA) for ~ \$3B, though itself has been the focus of acquisition rumors for years. On the chart shares have chopped in the \$35/\$39 zone for the past 18 months and a monthly close above \$39 would validate a breakout. The \$16.4B medical device company trades 17.8X Earnings and 3.35X Sales with a 1.46% dividend yield. SNN will present at the CSFB Healthcare Conference on 3-5. SNN has a low growth profile but sees the topline accelerating the next three years. It is seeing 8% growth in Emerging Markets and 3% growth in the US. Its main segments are Hips/Knees Reconstruction, Sports Medicine & Trauma, and Wound Management. Analysts have an average target of \$41 on shares and short interest minimal at 0.4% of the float. Piper, Jefferies, JPM and Canaccord have all came out seeing a deal for NUVA unlikely as SNN is targeting expanding into higher growth areas, not spine. MSCO had a bullish note in December raising shares to Overweight optimistic with the new CEO seeing potential to boost growth in knees/hips after years of stagnation. Hedge Fund ownership fell 26.4% in Q4 filings, Iridian with a new \$100M position.

Hawk Vision:



Trading Strategy: SNN looks on its way to a key monthly breakout though not an overly liquid options name, more of a stock own versus February lows.

Confidence Ranking: \$\$