



Bulls Target Splunk into Weakness as Transition Story Continues

Ticker/Price: SPLK (\$112)

Analysis:

Splunk (SPLK) bullish flow on 6/3 into earnings weakness with 1000 January \$120/\$85 bull risk reversals opening, 1000X July \$105 puts sold to open, and 1000 July 9th (W) \$100 puts sold to open. Earlier this week the July \$125 calls and August \$125 calls were bought to open. SPLK has some large, longer-dated positions in open interest including a \$3M buy in the Jan. 2023 \$145 calls and \$3.3M in January \$120 puts sold to open. SPLK shares have been cut in half since October and now back at significant support level stretching back to early 2018. A rebound targets March and April VPOC around \$135 while the next major area of resistance is up at \$160. The \$18.3B company trades 9.85X cash and 7.2X EV/sales with mid-20% growth in FY23 and 29% growth in FY23. SPLK disappointed on operating margins and ARR growth but for the first time had more than half of their cloud-based ARR using workload-based pricing. SPLK is likely set up for a messy year as their cloud model transition continues but positioning themselves well for long-term growth with a recent set of strategic deals to expand their platform. They continue to have an industry-leading portfolio of IT, security and observability products and cloud services as well to capture the massive market opportunity. Analysts have an average target for shares of \$188 with a Street High \$300. Piper with a \$175 PT and encouraged by underlying cloud adoption metrics and continued unification and expansion of capabilities of the underlying platform. Barclays positive on the 2H which should start to get more interesting as larger enterprise accounts come up for renewal and cash flows start to snap back. Hedge fund ownership fell 17% in Q1.

Hawk Vision:



Hawk's Perspective: SPLK is obviously an ugly chart but back at a reasonable valuation as their cloud transition plays out and given their strong product and massive market opportunity, I wouldn't be surprised if it pops up on M&A radars

Confidence Ranking: \$\$