



FEATURED OPTIONS RADAR REPORT



Unity Bulls Position for Rebound after Valuation Compression

Ticker/Price: U (\$89.85)

Analysis:

Unity (U) significant activity on 5/18 with more than 2000 August \$100 calls bought for over \$1.1M and June \$100 and \$105 calls also seeing recent accumulation. Back on 5/6 the June \$110 calls bought 12,500X to open. U has also seen plenty of longer-dated put sales in the \$80-\$95 strike range. U shares ran hard after its September 2020 debut and hit highs above \$170 before being cut in half and recently putting in a weekly reversal near the \$75 level. U remains in a downtrend but the falling wedge developing on the daily is showing signs of a bullish RSI divergence. Unity is a leading 'pick and shovel' play on gaming growth through their licensed game engine which is used to develop games, 3D content and other apps. Unity has a dominant market position with more than 50% of PC, mobile, and console games developed on the Unity platform and entering a multi-year period of strong visibility and growth with the new console launches late in 2020. Unity and its engine for creating real-time content is driving a structural shift in the way that video games are created. Unity is still in the very early days of extending its platform into non-gaming verticals, adding more option value for long-term growth. Beyond gaming, Unity is seeing rapid adoption in the architecture and automotive verticals and to a lesser degree in film. Unity does well relative to the host of competitors because of its heavy ongoing investment in R&D as well as the strength of its partnerships with a variety of gaming platforms. U's market cap is currently \$23B and valuation at 18X FY22 EV/Sales is down sharply but remains quite elevated, though a hyper-growth name that has delivered 40%+ revenue growth each of the last two years and seen delivering 25-30% annual growth the next three years. U is also aiming to be free cash flow positive by the end of 2023. U operates with high grow margins but wants to keep investing in growth as it balances a profitability push. Analysts have an average target of \$120 and short interest is 8.9% of the float. On 5-12 Goldman reiterated a Buy and a lowered \$121 target, encouraged to see the strong execution and improved outlook in spite of IDFA headwinds. OpCo raised to Outperform with a \$103 target last week as a compounding growth story for many years ahead. DA Davidson lowered its target to \$150 noting multiple compression but an attractive entry point. Stifel raised shares to Buy with a \$125 target after the quarter with the IDFA storm passing and sees projects accelerating to support its high multiple with use-cases expanding. ARK Investment, D1 Capital, and Altimeter notable concentrated holders.

Hawk Vision:



Hawk's Perspective: U remains a favorite growth story, just a tough environment for high multiple stocks, but think in the end the future remains bright. For the short-term looking for some sustained price momentum above its 8-MA.

Confidence Ranking: \$\$