



FEATURED OPTIONS RADAR REPORT



Option Bulls and Insiders See Value in Media Combination with DTC Upside

Ticker/Price: WBD (\$17.20)

Analysis:

Warner Brothers Discovery (WBD) has seen some large positioning since the merger and spin-off from AT&T with over 50,000 January \$20 calls in open interest, 19,000 January \$22.50 calls and 12,000 July \$20 calls. WBD has an ugly chart with shares reaching lows last week and trying to bottom near \$17 with room back to \$22.50 on a rally. WBD is a global entertainment company that provides content across multiple distribution platforms and includes top brands like Discovery, HGTV, Food Network, TLC, Animal Planet, Investigation Discovery, Travel Channel, Science, and MotorTrend. The combination with Warner Media brings in key assets like HBO and Warner Brothers. WBD launched Discovery+ in 2021 as a streaming platform and partnered with Verizon. WBD has a \$39.5B market cap and trades just 9X Earnings, 5.7X EBITDA and 15.9X FCF but is saddled with debt. WBD forecasts see FY23 revenue growth of 10.5% and EBITDA growth of 25.5%. WBD has already been attracting insider purchases since late April with the CEO, CFO and Directors buying more than \$4.5M in stock in the \$18.25 to \$19.95 range. The lack of forward visibility combined with 4.5X to 5X leverage has the multiple depressed but with solid execution WBD could prove to be a very attractive own at these levels. WBD expects to exceed \$3B in synergies and deleverage to under 3X by FY23. WBD laid out four strategic priorities and defining attributes for the new company: 1) world class IP, 2) ubiquitous distribution, 3) a balanced monetization model that drives diversified revenue streams, and 4) durable FCF generation. Consensus expectations are that WBD can meet or exceed the 2023E adjusted EBITDA and FCF targets of \$14B and \$8B, respectively, first presented to the market in May 2021 at the announcement of the transaction. Analysts have an average target of \$35 with short interest negligible. Cowen upgraded to Outperform last week with a \$24 target positive on the content library competing with larger peers and management's strategy to not try and win a spending war. WBD's revenue still tilts strongly towards basic cable networks at nearly half of the company total with subscriber losses and advertising pressure to continue.

Hawk Vision:



Hawk's Perspective: WBD has a potential 15-20% FCF yield here with is insane though also has plenty of challenges and the high leverage is not great for the weakening economy. The Jan. \$20 calls for \$2 feel underpriced and can likely hit \$5.

Confidence Ranking: \$\$