



FEATURED OPTIONS RADAR REPORT



Large Call Buy in Animal Health Co. Transforming for a Digital World

Ticker/Price: WOOF (\$21.50)

Analysis:

Petco Health (WOOF) with a large buy of 3000 December \$22.50 calls on 8/31 at \$2 for a \$600K trade and follows a recent size buy of 4000 December \$22.50 puts that was tied to long stock. WOOF shares put in a nice reversal hammer into mid-July weakness and recently broke out of a base and are now consolidation. Shares are nearing a post-IPO downtrend inflection and VWAP from the IPO is up at \$24. WOOF is a complete pet health and wellness company that has transformed the business from a successful traditional retailer to a disruptive, fully-integrated, digital-focused provider of pet health and wellness offerings. Its data-driven digital footprint, consisting of an entirely redesigned e-commerce site and personalized mobile app, delivers an exceptional customer experience and serves as a hub for pet parents to manage their pets' health, wellness, and merchandise needs, while enabling them to shop wherever, whenever, and however they want. The U.S. pet care industry is a large, attractive growth market experiencing a significant acceleration in response to multiple secular themes. The industry serves more than 72 million households with pets and represents a total addressable market of \$97 billion in 2020. WOOF currently has a market cap of \$6.3B and trades 24.4X Earnings, 1.4X EV/Sales and 58X FCF with revenues seen rising 15.7% in 2022 and EBITDA +15% as well before normalizing to 5-8% annual growth. The company's growth algorithm calls for MSD to HSD growth in the top-line, led by a combination of strong industry growth and scaling initiatives that include i) a premier product offering by expanding its owned and exclusive brand portfolio; ii) leveraging its digital capabilities; and iii) a shift to services with an accelerated pace of veterinary hospitals build out in its stores. Petco is leaning heavily into i) premiumization of its consumables (\$39bn TAM) and supplies assortment (\$20bn TAM), including a focus on owned & exclusive brands; ii) services (grooming, training); and iii) buildout of its veterinary offering. These aspects, coupled with its digital initiatives could likely result in market share gains for the company. Petco also is partnered with DoorDash for same-day delivery. Analysts have an average target of \$28 with short interest elevated at near 25% of the float. BAML upgraded to Buy in March with a \$28 target noting WOOF as well positioned to continue to benefit from industry-demand tailwinds, recovery in services as markets reopen, and longer-term growth across the chain's services, online, and in-store merchandise offerings as new customers become multi-channel shoppers. CSFB upgraded to Outperform on 8/20 seeing a healthy industry backdrop and a differentiated offering. Healthcor Mgmt. holds WOOF as its 4th largest position.

Hawk Vision:



Hawk's Perspective: WOOF has a nice little consolidation here to watch for an upside break, the animal health industry a great spot to be and valuation is fairly attractive. It could be a surprising winner after a rough few months following the IPO.

Confidence Ranking: \$\$