From: "Ens, Amanda" <[redacted]>
To: "jeffrey E." <jeevacation@gmail.com>, "[redacted]" <[redacted]>
Subject: Buy FB puts before earnings
Date: Thu, 13 Apr 2017 13:23:40 +0000
Attachments: 1Q_Internet.pdf
Inline-Images: image003.jpg

We generally view single stock implied vol as underpricing earnings this season. FB in particular screens cheap.

Our research's 1Q internet preview includes sentiment rankings, with FB ranked #1 out of 25 internet stocks with highest positive sentiment, driven by its lowest short interest as % of float, 2nd highest yoy revenue growth expectations, and 21% YTD stock performance.

FB reports May 3rd, and we view 5May2017 puts as priced attractively low, given FB's extremely high positive sentiment/long positioning and high rev expectations going into Q1 #'s. The 5May2017 ATM put costs 2.8% vs an avg 6% realized daily move over the past 6 earnings. Additionally, 5May2017 expiration captures the April 18th-19th F8 developer conference, an event that has historically been a catalyst for the stock.

Buy FB 5May2017 ATM put for 2.8% premium

FB vol screens as cheap across the curve; happy to price longer dates as well.

Report link

Sentiment Ranking Update

We are updating our sentiment ranking index on 25 stocks in our Internet coverage universe (as of 4/4/17). We have aggregated six different indicators we think are relevant to gauge sentiment and have generated an overall "sentiment" score for each company. This sentiment analysis is intended to be informative and should not be used to form an investment opinion; for example our model does not factor in valuation or management quality. Of our company coverage universe, we have excluded four game publisher companies as well as two recent IPO's from this analysis as data may not be comparable.

Table 6: 1Q16 change in sentiment ranking

Ticker	Rank	Pre 4Q Δ	Score	Pre4Q Δ
FB	1	+3	4	+4
WIX	2	-1	4	+2
TREE	3	-1	8	-1
AMZN	4	+5	8	+4
NFLX	5	-2	9	-1
GOOGL	6	NA	9	+1
PCLN	7	+1	9	+2
CRCM	8	+9	11	+3
EXPE	9	+5	12	+2
IAC	10	+5	12	+2
RATE	11	-4	13	-2
EBAY	12	+4	13	+1
ONDK	13	+5	14	+1
ZG	14	-9	14	-5
YHOO	15	+6	14	+3
GPRO	16	+8	14	+5

YELP	17	-7	16	-4
W	18	-5	16	-3
P	19	NA	16	NA
GRUB	20	-9	16	-4
MTCH	21	+1	17	+1
QUOT	22	-10	17	-4
FIT	23	+2	19	+1
TRIP	24	-1	20	-2
TWTR	25	-5	21	-5

Source: BofA Merrill Lynch Global Research, Bloomberg, as of 4/4/2017

Investor sentiment categories

We assembled data that measures investor sentiment across six categories. These metrics include latest short interest (as a % of float), change in short interest as a % of float over the last 90 days, current stock performance over the last 90 days, current average sell side ratings, forward year EPS estimate revisions over last 90 days, and expected FY17 revenue growth. While there are no perfect indicators of average investor sentiment, we believe these metrics provide a helpful framework of investor sentiment in our sector. In our analysis, Facebook, WIX, and LendingTree had the highest sentiment in 1Q, while Fitbit, Trip and Twitter had the lowest sentiment. Care.com had the most improved ranking, moving up 9 points to 8th, while Quotient had the biggest decline moving down 10 spots in our ranking to 22nd.

Methodology

Our methodology consisted of: 1) gathering financial data across six categories that we believe are relevant to measuring investor sentiment, 2) ranking companies on each attribute using a scale of 1 to 29, with 1 highest and 29 the lowest, and 3) ranking the companies based on the avg. score of the six metrics.

Highest sentiment: FB, WIX, and TREE; Lowest: FIT, TRIP, and TWTR

Based on our sentiment ranking index, Facebook, Wix, and LendingTree have top investor sentiment pre 1Q earnings. Facebook moved into first place from fourth due to the lowest short interest as % of float, second highest FY17 revenue growth, sixth highest sell side FY16 EPS estimate revisions, and third best stock performance in the last 90 days. Wix came in second place with top stock performance in the last 90 days, top expected FY17 revenue growth and second best sell-side FY16 EPS estimate revision, despite ranking ninth for current sell side ranking and seventh for short interest ratio. LendingTree placed third with best current sell side ranking and best change in short interest ratio.

Fitbit had third worst investor sentiment with the worst stock performance in the last 90 days, the worst expected FY17 revenue growth and the second largest change in short interest in the period. TripAdvisor, had the second lowest sentiment with the third worst sell side ranking and fifth worst sell side EPS estimate revision. Twitter, our lowest sentiment stock pre 1Q earnings, had second to worst sell side ranking and expected FY17 revenue growth, along with third to worst sell side estimate revisions and was below average in all of our categories.

Score Ranking vs. Investment Rating

Our sentiment analysis is independent of our investment rating system, and our investment rating may or may not factor in positive or negative sentiment. This scorecard analysis includes only data currently up to the last 90 days, and our investment rating opinion takes into consideration potential stock price fluctuations, attractiveness for investment relative to other stocks within our Coverage Cluster, business model quality, and valuation. Please see our Fundamental Equity Rating Opinion Key at the end of the report for more details.

Table 7: Combined Metric List

Company	Short Interest % float	Δ short interest % of float	Performance 90 days	Sell Side Ranking	EPS Estimate Revisions	Expected FY17 Rev. Growth
FB	1%	0%	21%	4.7	4%	37%
WIX	2%	-1%	67%	4.4	62%	43%
TREE	23%	-20%	21%	5.0	-6%	34%
AMZN	1%	0%	20%	4.8	-10%	21%
NFLX	6%	-1%	14%	4.1	15%	27%
GOOGL	1%	0%	6%	4.7	0%	19%
PCLN	3%	0%	20%	4.6	0%	16%
CRCM	3%	0%	42%	3.5	28%	6%
EXPE	8%	-2%	11%	4.6	-12%	14%
IAC	1%	0%	12%	4.4	-5%	-1%

RATE	2%	0%	-13%	4.2	2%	16%
EBAY	2%	0%	14%	3.6	-3%	5%
ONDK	12%	3%	1%	3.3	34%	30%
ZG	11%	-2%	-9%	3.9	-26%	24%
YHOO	6%	1%	19%	3.8	0%	2%
GPRO	36%	-3%	-4%	2.3	74%	7%
YELP	10%	0%	-14%	3.7	-2%	25%
W	38%	2%	17%	3.9	-22%	25%
P	30%	2%	-7%	3.9	2%	17%
GRUB	18%	7%	-11%	4.1	-5%	31%
MTCH	27%	5%	-4%	4.2	1%	8%
QUOT	8%	0%	-13%	4.8	-56%	5%
FIT	26%	-4%	-29%	3.1	NA	-27%
TRIP	16%	5%	-12%	2.9	-21%	11%
TWTR	11%	3%	-11%	2.5	-55%	-7%

Source: BofA Merrill Lynch Global Research, Bloomberg, as of 4/4/2017

Table 8: Combined metric rankings

Company	Short Interest % float	Δ short interest % of float	Performance 90 days	Sell Side Ranking	EPS Estimate Revisions	Expected FY17 Rev. Growth	Average
FB	1	8	3	4	6	2	4
WIX	7	6	1	9	2	1	4
TREE	20	1	4	1	17	3	8
AMZN	4	9	5	2	18	10	8
NFLX	10	7	10	13	5	6	9
GOOGL	2	12	13	5	12	11	9
PCLN	8	11	6	7	10	14	9
CRCM	9	14	2	20	4	19	11
EXPE	12	5	12	6	19	15	12
IAC	3	10	11	8	16	23	12
RATE	6	15	23	10	8	13	13
EBAY	5	13	9	19	14	20	13
ONDK	17	21	14	21	3	5	14
ZG	15	4	18	14	22	9	14
YHOO	11	18	7	17	11	22	14
GPRO	24	3	15	25	1	18	14
YELP	14	16	24	18	13	8	16
W	25	19	8	15	21	7	16
P	23	20	17	16	7	12	16
GRUB	19	25	20	12	15	4	16
MTCH	22	24	16	11	9	17	17
QUOT	13	17	22	3	24	21	17
FIT	21	2	25	22	N/A	25	19
TRIP	18	23	21	23	20	16	20
TWTR	16	22	19	24	23	24	21

Source: BofA Merrill Lynch Global Research, Bloomberg, as of 4/4/2017

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