EQUITY RESEARCH

RBC Capital Markets

December 1, 2021

RBC Capital Markets U.S. Small Cap Growth Idea List

December Update

RBC Capital Markets US Research is updating its Small Cap Growth Idea list. This is a quarterly list of our highest conviction Small Cap Growth recommendations. The list is an opportunity to highlight companies that have either an attractive normalized growth story or strong durable growth characteristics. We feature companies with market capitalizations below $5 billion (as of joining the list), and a minimum average daily trading value of $10 million.

Our updated list includes software names **JAMF Holdings, Rapid7, PING Identity Holding** as well as ad-tech name **PubMatic**. We add auto software name **Cerence** to the list, seeing an attractive entry point for this long-term beneficiary from vehicle connectivity, the shift to a more SaaS-like business model and potential upside to FY24 targets. We maintain **CarGurus** on our list following an August upgrade, as their CarOffer business demonstrates momentum and better positions the company to take advantage of secular online car retailing trends. In Payments, we reiterate our conviction in **Flywire**, while also adding **Shift4 Payments** to the list, a company that is tapped into the large and secularly growing US payments market, with an internal mix shift opportunity to convert its existing gateway-only clients to End-to-End (E2E) processing clients. In healthcare technology, **OptimizeRx** remains a high conviction idea, as do biopharma names **Global Blood Therapeutics, Intra-Cellular Therapies, Sarepta Therapeutics** and **Arena Pharmaceuticals.** Within healthcare, we add **Surgery Partners** to the list given impressive secular growth driven by the strong preference from payors, physicians, and patients for the company's outpatient surgery model, that also benefits on a relative basis from COVID-19 recovery and labor shortage themes. In industrials, we add aerospace & defense name, **Kratos Defense & Security Solutions** following our October initiation, a company that it is specifically well-positioned to benefit from increased spending on innovation and new technology by the DoD, as the company is in a leadership position in unmanned, space, hypersonics, and other growing markets. In energy, **Matador Resources** and **Sunnova Energy International** remain on the list. Within financials, insurance names **Goosehead Insurance** and **Kinsale Capital Group** remain on the list. Please see the body of this note for additional details on each name's investment thesis and as always, we encourage you to reach out to the team with any questions.

Additions (4): Cerence Inc.; Kratos Defense & Security Solutions, Inc.; Shift4 Payments, Inc.; Surgery Partners, Inc.

Deletions (1): Tabula Rasa HealthCare, Inc.

Exhibit 1 - RBC Capital Markets Small Cap Growth Idea List

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price (11/30/2021)	Market Cap (MM)	Price Target	Dividend Yield (%)	Implied All-in Return (%)
Intra-Cellular Therapies, Inc.	ITCI US	Brian Abrahams	Outperform	USD	40.48	3,607	50.00	0.00	23.5
Sarepta Therapeutics, Inc.	SRPT US	Brian Abrahams	Outperform	USD	80.81	6,303	145.00	0.00	79.4
OptimizeRx Corporation	OPRX US	Sean Dodge	Outperform	USD	65.00	1,183	100.00	0.00	53.9
Goosehead Insurance Inc	GSHD US	Mark Dwelle	Outperform	USD	131.32	4,767	175.00	0.00	33.3
Kinsale Capital Group, Inc.	KNSL US	Mark Dwelle	Outperform	USD	208.00	4,805	220.00	0.21	6.0
CarGurus, Inc.	CARG US	Brad Erickson	Outperform	USD	37.50	4,516	48.00	0.00	28.0
Matador Resources Company	MTDR US	Scott Hanold	Outperform	USD	39.27	4,594	52.00	0.51	32.9
Jamf Holding Corp.	JAMF US	Matthew Hedberg	Outperform	USD	32.23	4,216	53.00	0.00	64.4
Ping Identity Holding Corp.	PING US	Matthew Hedberg	Outperform	USD	23.81	1,941	40.00	0.00	68.0
Rapid7, Inc.	RPD US	Matthew Hedberg	Outperform	USD	124.06	7,667	157.00	0.00	26.6
Kratos Defense & Security Solutions, Ir	KTOS US	Ken Herbert	Outperform	USD	19.71	2,517	28.00	0.00	42.1
Arena Pharmaceuticals, Inc.	ARNA US	Kennen MacKay	Outperform	USD	54.49	3,328	76.00	0.00	39.5
Surgery Partners, Inc.	SGRY US	Frank Morgan	Outperform	USD	44.36	3,660	70.00	0.00	57.8
Flywire Corporation	FLYW US	Daniel R. Perlin	Outperform	USD	40.64	4,816	51.00	0.00	25.5
Shift4 Payments, Inc.	FOUR US	Daniel R. Perlin	Outperform	USD	52.02	4,427	110.00	0.00	111.5
Global Blood Therapeutics, Inc.	GBT US	Gregory Renza	Outperform	USD	28.26	1,761	64.00	0.00	126.5
Sunnova Energy International Inc	NOVA US	Elvira Scotto	Outperform	USD	36.97	4,150	61.00	0.00	65.0
Cerence Inc	CRNC US	Joseph Spak	Outperform	USD	75.18	3,340	95.00	0.00	26.4
Pubmatic, Inc.	PUBM US	Matthew Swanson	Outperform	USD	39.37	2,220	56.00	0.00	42.2

Source: RBC Capital Markets estimates, Bloomberg

For Required Conflicts Disclosures, please see page 26.

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Changes to the list

Recurring names

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price 11/30/2021	Price Target	Added to the List
Intra-Cellular Therapies, Inc.	ITCI US	Brian Abrahams	Outperform	USD	40.48	50.00	04/27/2021
Sarepta Therapeutics, Inc.	SRPT US	Brian Abrahams	Outperform	USD	80.81	145.00	04/27/2021
OptimizeRx Corporation	OPRX US	Sean Dodge	Outperform	USD	65.00	100.00	04/27/2021
Tabula Rasa HealthCare, Inc.	TRHC US	Sean Dodge	Outperform	USD	11.37	23.00	07/08/2021
Goosehead Insurance Inc	GSHD US	Mark Dwelle	Outperform	USD	131.32	175.00	02/03/2021
Kinsale Capital Group, Inc.	KNSL US	Mark Dwelle	Outperform	USD	208.00	220.00	04/27/2021
CarGurus, Inc.	CARG US	Brad Erickson	Outperform	USD	37.50	48.00	08/27/2021
Matador Resources Company	MTDR US	Scott Hanold	Outperform	USD	39.27	52.00	04/27/2021
Jamf Holding Corp.	JAMF US	Matthew Hedberg	Outperform	USD	32.23	53.00	10/13/2021
Rapid7, Inc.	RPD US	Matthew Hedberg	Outperform	USD	124.06	157.00	02/03/2021
Ping Identity Holding Corp.	PING US	Matthew Hedberg	Outperform	USD	23.81	40.00	08/27/2021
Arena Pharmaceuticals, Inc.	ARNA US	Kennen MacKay	Outperform	USD	54.49	76.00	08/27/2021
Flywire Corporation	FLYW US	Daniel R. Perlin	Outperform	USD	40.64	51.00	08/27/2021
Global Blood Therapeutics, Inc.	GBT US	Gregory Renza	Outperform	USD	28.26	64.00	02/03/2021
Sunnova Energy International Inc	NOVA US	Elvira Scotto	Outperform	USD	36.97	61.00	08/27/2021
Pubmatic, Inc.	PUBM US	Matthew Swanson	Outperform	USD	39.37	56.00	08/27/2021

Source: RBC Capital Markets estimates, Bloomberg

Additions to the U.S. Small Cap Growth Idea List

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price 11/30/2021	Price Target	Added to the List
Kratos Defense & Security Solutions, Inc.	KTOS US	Ken Herbert	Outperform	USD	19.71	28.00	12/01/2021
Surgery Partners, Inc.	SGRY US	Frank Morgan	Outperform	USD	44.36	70.00	14/01/2021
Shift4 Payments, Inc.	FOUR US	Daniel R. Perlin	Outperform	USD	52.02	110.00	12/01/2021
Cerence Inc	CRNC US	Joseph Spak	Outperform	USD	75.18	95.00	13/01/2021

Source: RBC Capital Markets estimates, Bloomberg

Deletions from the U.S. Small Cap Growth Idea List

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price 11/30/2021	Price Target	Added to the list	Removed from the list
Tabula Rasa HealthCare, Inc.	TRHC US	Sean Dodge	Outperform	USD	11.37	23.00	07/08/2020	12/01/2021

Note: *Denotes Speculative Risk
Source: RBC Capital Markets estimates, Bloomberg

Investment Summaries – Technology and Payments

CarGurus, Inc. (NASDAQ: CARG)

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Rating: Outperform

Closing Price: $37.50

Price Target: $48.00

Implied All-in Return: 28.0%

Most recent company note: link

Investment summary

CARG is the largest car shopping site in the U.S. by traffic and leverages a differentiated, freemium-based approach to offer the most inventory of any shopping site. We are bullish on the stock on the back of bringing together CarOffer's two-sided marketplace technology and CarGuru's industry-leading audience to move down the funnel and extract greater economics from retail and wholesale car sales in the U.S.

Valuation

The stock trades a discount relative to the peer group. That said, early success with the recently acquired CarOffer business coupled with its Max Cash Offer platform shows a promising downfunnel opportunity, which we believe can drive the next leg of growth for CARG, provide synergies to the core lead-gen business, and direct multiple expansion. To that end, we use a 21.8x EV/'22E EBITDA multiple (up from 18.6x reflecting faster evolution of our down-funnel bull thesis) to derive our $48 price target, which supports our Outperform rating.

Risks to rating and price target

Pandemic relapses causing disruption to the used car market, such as lack of liquidity in asset-backed markets and/or inventory constraints; new car supply constraints leading to lower used car inventory; lack of traction within the wholesale market; lower industry gross profits/vehicle leading to lower advertising spend/vehicle; rising interest rates, inflation, and/or a macroeconomic downturn.

Cerence Inc (NGS: CRNC)

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Rating: Outperform

Closing Price: $75.18

Price Target: $95.00

Implied All-in Return: 26.4%

Most recent company note: link

Investment summary

Well positioned in connectivity within automotive. Voice-powered assistants are increasingly important for a more intelligent, connected and safer driving experience. Post COVID-19, voice may be of greater importance vs. touch, especially in a shared situation. **Customer-friendly model.** Voice important to OEM differentiation while balancing in-car experience to big tech. CRNC allows customers to design brand experience and maintain control of data generated. **On track for FY24 plan.** Revenues target now $700mm. Gross Margins now 76% and EBITDA at $260mm. We see potential upside to FY24 targets

Valuation

Our $95 price target equally weights a 10x EV/S multiple and a 25.0x EV/EBITDA multiple on our CY22 estimates. Our 10x EV/S multiple is ~in line with past 6-month NTM EV/S multiple. This is roughly a 25% discount (unchanged) to the vertical software peer group we track but that discount is in line with the past 6-month average. Our 25x EV/EBITDA multiple is 1.25x EBITDA CAGR growth through 2025, but we believe warranted given some potential upside opportunities. Our price target supports an Outperform rating.

Risks to rating and price target

Any of the following factors could impede achievement of our price target and rating: (1) The auto industry is highly cyclical, and a stronger/weaker than expected macro environment could boost/limit earnings. (2) Increased competition could weigh on profitability. (3) Adverse currency swings can negatively impact earnings. (4) Pricing pressure from customers could stifle profitability. (5) New technologies and/or new competitors pressure profitability and/or share, while slower than expected technological innovation and customer uptake could impact profitability and/or share gains. (6) Slower than expected penetration of AI-enabled or connected vehicles globally.

Flywire Corporation (NASDAQ: FLYW)

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Rating: Outperform

Closing Price: $40.64

Price Target: $51.00

Implied All-in Return: 25.5%

Most recent company note: link

Investment summary

We believe Flywire is uniquely positioned to solve various payment friction points embedded in its key verticals, which include education, healthcare, and travel. Growth in the company's end markets, high retention rates, market share gains, new products and expansion into additional verticals should support 30%+ revenue CAGR over the next three years. While the company is currently investing in the business to support this revenue growth, we believe it will turn adjusted EBITDA positive in FY23 and long-term adjusted EBITDA margins could approach 25%+ with the revenue CAGR remaining ~30%. We believe FLYW's success will be underpinned by several attributes, which in our opinion include 1) its focus on large and unique addressable markets, 2) Flywire Advantage, its technology platform, setting itself apart from the peers resulting in high retention rates and new client wins, 3) the competitive moat provided by FLYW's proprietary global payment network (over a decade to build) and vertical-specific software, and 4) the potential call option the company has as it expands into B2B payments.

Valuation

Our price target of $51 is based on an EV/revenue multiple of 25x our CY22 revenue estimate of $223M. This target is in line with the company's peers and reflective of the company's anticipated 30%+ long-term revenue growth CAGR and achieving consistent EBITDA profitability in FY23. The implied upside supports our Outperform rating.

Risks to rating and price target

We believe there are three broad risk categories: 1) macro-economic risks; 2) regulatory & compliance risks; and 3) competitive risks including pricing and technological changes. In terms of specific risks, we note that since inception, Flywire has incurred net losses from operations and despite significant revenue growth in recent periods, it is uncertain whether the company will obtain high enough volumes to sustain / increase growth or achieve / maintain profitability in the future. The company's key verticals, furthermore, are highly competitive and regulated while evolving rapidly. Finally, a group of major shareholders control a significant portion of FLYW's voting and economic rights.

Jamf Holding Corp. (NASDAQ: JAMF)

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Rating: Outperform
Closing Price: $32.23
Price Target: $53.00
Implied All-in Return: 64.4%
Most recent company note: link

Investment summary

We see Jamf's primary mission as being to help organizations succeed with Apple. As the standard in Apple enterprise management, we think Jamf is in a strong position to leverage the growing preference for Apple in the enterprise. In addition to a TAM that is likely to expand more quickly than previously expected in a post-COVID world, the company's financial profile is unique given rapid growth and high profitability. **Apple innovation has transformed the technology landscape.** What started off as a consumer revolution to Apple devices has steadily made its way to the enterprise. As such, there has been a substantial share shift in operating system usage since 2009, with iOS representing 32% of Internet traffic in the US and macOS 12%, for a total of 43%, which is significantly higher than Windows at 31%. To put that into perspective, in 2009 Windows-based devices drove 88% of Internet traffic vs. iOS at 1% and macOS at 10%. Jamf currently manages over 17 million Apple Devices for over 40,000 customers in over 100 countries. **Expanding the TAM.** The company has provided a bottom-up estimate of $10.3 billion TAM in 2019, growing at a CAGR of 17.8% to $23.4 billion by 2024.

Valuation

Our $53 price target is based on shares trading at 13x our CY/23 EV/S estimate. This is a slight discount to similar growing SaaS peers, which we believe is warranted due to their PE overhang and exposure to Apple. We think if ARR growth were to stay at +30%, in-line with our current CY/21 estimate, one could argue for additional multiple expansion. Our price target supports an Outperform rating.

Risks to rating and price target

(1) The impact on Jamf's operations and financial condition from COVID-19. (2) Changes in Jamf's continued relationship with Apple including the adverse impact of changes in features and functionality by Apple on Jamf's engineering focus or product development efforts. (3) Jamf derives a substantial portion of its revenue from one product; as of CY/19, sales of Jamf Pro accounted for ~78% of total revenue.

Ping Identity Holding Corp. (NYSE: PING)

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Rating: Outperform
Closing Price: $23.81
Price Target: $40.00
Implied All-in Return: 68.0%
Most recent company note: link

Investment summary

Ping has extensive history as a pioneer and thought leader within the Identity industry. From its beginning with single sign-on (SSO) to the addition of multi-factor authentication (MFA) to API security and more, we believe Ping is well suited to manage and secure identities of some of the largest and most complex hybrid-cloud global organizations. Enterprises are undergoing digital transformations while concurrently becoming more distributed, which dissolves the traditional network perimeter. As a result, we believe enterprises require Intelligent Identity solutions that proactively ensure the right user has authorized access to resources at the appropriate time.

Valuation

We calculate our base-case price target of $40 by applying 8.0x EV/ARR CY/23 multiple to our CY/23E ARR estimate of $407.6M. This multiple is a slight discount to 10-20% growing peers. Additionally, our target is 8.4x EV/S on our CY/23E revenue estimate of $387.7M. Our price target and multiple, in our view, are warranted due to an attractive end market and strong historical execution with some elevated risk from a re-accelerating model. Our price target supports an Outperform rating.

Risks to rating and price target

(1) Operates in a market with competition from larger legacy competitors and newer entrants that could lead to potential pricing pressure. (2) Failure to retain existing customers could be a detriment to growth. (3) Needs strong execution to capitalize on R&D and S&M investments. (4) The risk of extended deal cycles as a result of expanded product offerings. (5) COVID-19 could impact company operations or customer demand.

Pubmatic, Inc. (NASDAQ: PUBM)

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Rating: Outperform

Closing Price: $39.37

Price Target: $56.00

Implied All-in Return: 42.2%

Most recent company note: link

Investment summary

PubMatic is one of the largest independent sell-side advertising platforms (SSP) offering buyers and sellers of digital advertising a single partner for transacting globally across a variety of channels, formats, and auction types. In 2020, PubMatic generated $149M in Revenue (+31% Y/Y), driven primarily by growth in the company's faster-growing CTV/OTT, Mobile and Video segments. PubMatic processed 46.9T Ad Impressions in 2020 (+69%) at an average CPM of $3.6 (-30%). PubMatic has a multi-year track record of generating positive EBITDA and delivered 34% EBITDA margins in 2020.

Valuation

We calculate our base-case price target of $56 by applying an 8.9x multiple to our CY/23E revenue estimate on an improving strategic outlook. Our target multiple is a premium to ad-tech peers at 7.4x CY/23E EV/S, in our view, warranted due to the potential for upside to estimates, better profitability and slightly higher growth in its updated outlook. Our price target supports our Outperform rating.

Risks to rating and price target

(1) PubMatic has seen both headwinds and tailwinds resulting from the COVID-19 environment, which could impact the advertising industry and the company's performance. (2) PubMatic is a transactional model; revenue is based on the number of transactions and could lead to more revenue variability based on company specific and macro challenges. (3) PubMatic is tied to the advertising vertical; any macroeconomic event that impacts the supply or demand of digital advertising could cause an adverse impact on their end markets disproportionately to other software markets. (4) PubMatic has created an advantage in CTV/OTT as well as mobile and video channels. Failure to manage and defend these emerging growth opportunities could lead to market share losses.

Rapid7 Inc. (NASDAQ: RPD)

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Rating: Outperform

Closing Price: $124.06

Price Target: $157.00

Implied All-in Return: 26.6%

Most recent company note: link

Investment summary

Rapid7 is a cyber-security vendor with a unique data- and analytics-driven approach to DevSecOps. Its value proposition is to utilize massive amounts of data collected from the network and endpoints to drive automation and productivity to help customers proactively prevent security breaches. ARR growth is the key metric, and management expects it to remain at or above 20% through 2022. **We are confident about the opportunity in the core-VM market,** which is currently over half of the business, with above market growth rates, consistent competitive win rates and minimal pricing pressure while longer-term success in IDR, AppSec and Connect should drive a unique position in the DevSecOps market. **The company has multiple product drivers over multiple years that should help sustain durable growth and measured operating margin expansion.** Currently, base growth is via VM with IDR providing higher levels of growth that longer term should be buoyed by AppSec and Connect. The company is looking for ARR to grow at 20%+ through 2022 with 200–300 bps of annual margin expansion expected with ARR growth in the low- to mid-20% range, 100–200 bps of annual margin expansion with ARR growth in the mid- to high-20% range, and 30%.

Valuation

We calculate our price target of $157 using a 13x CY/23E EV/S multiple with our increased multiple reflecting higher estimates and recent peer group multiple expansion. The multiple is a slight discount with security peers, which we believe is reasonable with an above-average growth rate but less profitability. Our price target supports an Outperform rating.

Risks to rating and price target

Risks to our price target and rating could include changes in the macro environment including COVID-19 that could continue on longer than expected, moderating IT spending, limited operating history, or should acceptance of the company’s products change.

Shift4 Payments, Inc. (NYSE: FOUR)

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Rating: Outperform
Closing Price: $52.02
Price Target: $110.00
Implied All-in Return: 111.5%
Most recent company note: link

Investment summary

We believe Shift4 offers investors several attractive and unique attributes within the payments industry. **The company is tapped into the large and secularly growing payments market in the US**, which when combined with its ISV and hospitality focus, provide a backdrop of growth that we forecast to be in the high-single to low-double-digit organic range. **The company has an embedded internal mix shift opportunity to convert its existing gateway-only clients to End-to-End (E2E) processing clients**, which drives a 4x-6x uplift to gross profit. **Shift4 utilizes a partner-centric distribution model whereby roughly 100% of its sales are generated through its +7K software partner network**, which is unique in the industry. The benefits to this distribution model are designed to leverage the domain expertise & local relationships that its software partners have already established, while reducing its own customer acquisition costs as the sales & support functions are largely borne by its channel partners. **The company has a demonstrated track record of providing client-focused innovation in the hospitality industry**, which was illustrated recently during the COVID-19 pandemic, as Shift4 quickly pivoted with its clients to provide solutions that enabled SMBs to quickly adapt to an omni-channel and cashless environment.

Valuation

Our price target of $110 is 38x our CY22 EV/EBITDA estimate or a premium to the peer group average, which we think is appropriate given FOUR's faster growth rate as it converts merchants to its end-to-end processing platform. Our price target supports our Outperform rating.

Risks to rating and price target

We believe there are three broad risk categories: 1) the highly focused nature of FOUR's business model on the hospitality industry creates concentration risk were the economic environment to suffer another shock from COVID-19; 2) the company's exposure to SMBs can create variability in its financial results, given the possible churn related to COVID-19; and 3) the company carries a fair amount of leverage, as defined by net-debt-to-TTM EBITDA, which can reduce financial flexibility.

Investment Summaries – Biopharma

Arena Pharmaceuticals, Inc. (NASDAQ: ARNA)

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Rating: Outperform
Closing Price: $54.49
Price Target: $76.00
Implied All-in Return: 39.5%
Most recent company note: link

Investment summary

We rate ARNA shares Outperform based on etrasimod's potentially best-in-class clinical-stage profile and the company's cash position after the outlicense of ralinepag, which marks a promising transition away from its prior profile as an obesity play.

Etrasimod presents a compelling opportunity in the ulcerative colitis (UC) market, where a significant unmet need exists for patients who are refractory to or relapsed on biologic therapy. Sphingosine-1-phosphate (S1P) receptor modulators, including ozanimod (CELG), and Janus kinase (JAK) inhibitors, including Xeljanz (PFE), are the leading, emergent classes of drugs to fill this unmet need in UC. Based on ph2 data seen thus far, we view etrasimod as, at worst, competitive with other therapies in the post-biologic setting. Should etrasimod establish results in a ph3 trial similar to those seen in ph2 among a heavily pre-treated patient population, we would view this drug's prospects as potentially best-in-class and see it becoming a primary therapy of choice for moderate-to-severe UC patients. **ARNA out-licensed global rights to its other late-stage asset, ralinepag, to United Therapeutics (UTHR) at the end of 2018.** We see this deal validating ARNA's small molecule medicinal chemistry under BD scrutiny from an industry leader, and countering bearish concern that ARNA's potentially blockbuster assets have been passed over amidst BD activity in the space (i.e., JnJ's $30B Actelion acquisition in the PAH space and CELG's $7B acquisition of competitive S1P inhibitor ozanimod). The $800M upfront payment provided ARNA with the financial and operational flexibility to focus on the larger market opportunities for its GI franchise.

Valuation

Our base case DCF-derived valuation is based on the PoS-adjusted NPV of etrasimod sales in ulcerative colitis (75% PoS), Crohn's disease (15% PoS), atopic dermatitis (10% PoS), and ralinepag royalties in pulmonary arterial hypertension (75% PoS). Under our assumptions, etrasimod contributes $63/sh, ralinepag royalties contribute $2/sh, and cash contributes $11/sh to our $76 YE:21 price target. We utilize an 8.5% discount rate, in line with other clinical-stage biotechnology companies. These assumptions support our $76 price target and Outperform rating.

Risks to rating and price target

Clinical development, regulatory, and commercial development risks for etrasimod and ralinepag.

Global Blood Therapeutics, Inc. (NASDAQ: GBT)

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Rating: Outperform
Closing Price: $28.26
Price Target: $64.00
Implied All-in Return: 126.5%
Most recent company note: link

Investment summary

We believe Oxbryta, GBT's first-in-class FDA-approved sickle hemoglobin (HbS) polymerization inhibitor, could address the unmet need of sickle cell disease patients without suitable donors for hematopoietic stem cell transplant. We see Oxbryta's potential to become SOC in SCD from favorable long-term efficacy and safety profile and enthusiasm from HCP, coupled with the potential label expansion into pediatric population aged 4+ and in ex-U.S. regions which could also contribute to share appreciation potential. **We expect to see continued market uptake for the Oxbryta launch, while COVID-19 headwinds are real though temporary.** We continue to see the value of Oxbryta in the long term with peak global sales potential of over $1.7B in age 12+ in the late 2020s with potential additional sales opportunities from label expansion – though we look to the progress on the clinical and regulatory fronts, as well as receptivity of the company's marketing efforts. **Development efforts of P-selectin antibody inclacumab, next-gen HbS polymerization inhibitor GBT021601 and HbF-inducing gene therapy could contribute to upside potential.** The pipeline assets complement Oxbryta in SCD management, add to the revenue of GBT, as well as contribute to the long-term life-cycle management and pipeline diversity of the company, in our view. **Key positives:** (1) Valid scientific and biological rationale demonstrated from favorable efficacy and safety profiles; (2) Strong enthusiasm from physicians around the clinical profile of Oxbryta with potential as SOC; (3) Continued marketing efforts could drive increased market uptake despite temporary COVID-19 headwinds; (4) Pipeline assets could generate additional revenue comp; (5) Experienced management team and investor base with proven track record in drug development.

Valuation

Our base case is driven by a 90% probability of success for Oxbryta in age 12+ with ~$1.7B global peak sales potential and 60% probability of success for Oxbryta in age 4-11 with ~$300M global peak sales potential. With a 5% probability of success, inclacumab could generate over $300M WW out-year revenues. Our $64 price target is based on a blend of DCF (using 10% discount rate and 0.5% terminal growth rate) and probability-adjusted multiples (20x on 2025E adjusted EPS with a 10% discount) analyses. Our valuation supports an Outperform rating.

Risks to rating and price target

(1) Post-marketing studies fail to demonstrate long-term efficacy and safety; (2) Low market penetration despite efforts to drive market uptake; (3) Increasing competition from chronic or gene therapies for SCD in development; (4) Early pipeline programs pose uncertainty to clinical success and longer-term platform potential; (5) COVID-19 disruption on regulatory, clinical, and commercial fronts.

Intra-Cellular Therapies, Inc. (NASDAQ: ITCI)

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Rating: Outperform

Closing Price: $40.48

Price Target: $50.00

Implied All-in Return: 23.5%

Most recent company note: link

Investment summary

Based on unique pharmacology enabling broad activity across a spectrum of brain receptors, a clean safety profile, and positive physician feedback that supports use in schizophrenia, we believe Caplyta could be a highly differentiated schizophrenia treatment. Following approval in schizophrenia and with what we view as a clean and potentially differentiated label—particularly regarding the safety profile—we model >$600M in out-year WW revenues for Caplyta in schizophrenia. With lumateperone's commercial potential in schizophrenia and positive data in bipolar depression, we believe shares are undervalued and have upside potential into commercial updates in schizophrenia, regulatory updates in bipolar depression, and further '214 PD readouts. **Key positives:** (1) Recent approval in schizophrenia, following mixed ph.III efficacy data; (2) Lumateperone may be uniquely useful against the negative and cognitive schizophrenia symptoms, due to distinct pharmacological properties that enable activity across a number of brain receptors; (3) positive recent BPD data in adjunctive setting; (4) schizophrenia approval may reduce risk to path forward in BPD, given ability to file sNDA; and (5) blockbuster potential of a drug with broad applicability across psychiatric conditions.

Valuation

Our $50 price target blends DCF (using a 10% discount rate and 2% terminal growth rate) and probability-adjusted multiples (25x on 2025E adjusted EPS with a 10% discount) analyses. Our price target supports an Outperform rating.

Risks to rating and price target

(1) If Caplyta fails to differentiate itself in an increasingly crowded generics space, opportunity in schizophrenia may be more limited. (2) ITCI needs to continue to build commercial infrastructure prior to launch, which carries inherent risk for a smaller company. (3) Failure to receive regulatory approval in BPD may limit commercial opportunity. (4) ITI-214 is relatively early-stage with limited data—clinical failure of this compound would reduce revenue potential post-lumateperone patent expiry. (5) Potential COVID-19 impacts on clinical trial conduct and Caplyta launch.

Sarepta Therapeutics, Inc. (NASDAQ: SRPT)

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Rating: Outperform

Closing Price: $80.81

Price Target: $145.00

Implied All-in Return: 79.4%

Most recent company note: link

Investment summary

We believe the key value driver for shares going forward will be progress toward the multibillion-dollar opportunity we see for Sarepta's two most advanced muscular dystrophy gene therapy programs. Based on the robust expression, biomarker and safety data for both programs to date—along with highly encouraging functional gains—we believe SRPT could have the best-in-class therapy for both Duchenne and limb girdle muscular dystrophy. Underpinning the significant promise of its gene therapy pipeline are approved drugs (Exondys 51, Vyondys 53, and Amondys 45) addressing a subgroup of DMD patients, and a strong balance sheet bolstered by what we view as a highly validating ex-U.S. microdystrophin DMD gene therapy commercialization deal with Roche. Given Exondys's strong launch, Vyondys's recent approval, positive initial PPMO data, and our increasing optimism around microdystrophin and limb girdle muscular dystrophy gene therapy programs, we believe shares are currently undervalued. **Key positives:** (1) potentially transformative clinical-stage gene therapy programs represent a substantial opportunity; (2) strong U.S. Exondys 51 launch, with quick uptake and high visibility for growth; and (3) regulatory success with Vyondys 53 accelerated approval.

Valuation

Our $145 price target blends DCF (using a 10.5% discount rate and a 3.0% terminal growth rate) and probability-adjusted multiples (30x on 2025E adjusted EPS discounted at 10.5%) analyses. Our price target supports an Outperform rating.

Risks to rating and price target

(1) clinical, manufacturing, or regulatory setbacks in DMD or LGMD gene therapy programs; (2) slower-than-anticipated growth or other commercial setbacks for Exondys 51, Vyondys 53, and Amondys 45; (3) failure to successfully develop and gain regulatory approval for follow-on exon-skipping drugs, including PPMOs; (4) poor performance in confirmatory study leading to market removal or increased patient discontinuations.

Investment Summaries – Healthcare Technology and Services

OptimizeRx Corp (NASDAQ: OPRX)

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Rating: Outperform
Closing Price: $65.00
Price Target: $100.00
Implied All-in Return: 53.9%
Most recent company note: link

Investment summary

OPRX is a leading digital communications solutions platform helping life sciences companies to optimize the growing proportion of marketing spend being directed through digital channels. We expect revenue to grow at a 30%+ CAGR over the next 3+ years, driven by a combination of: (1) strong macro tailwinds—an increasing proportion of the $20B+ spent annually by pharma companies on S&M is being diverted to digital channels; (2) deepening integration of OPRX into its clients' commercial planning processes; (3) ongoing transition to more Enterprise-type engagements, which both acts as a multiplier on revenue and increases client "stickiness"; (4) cross-selling into its existing client base—adding both new brands and indications; and (5) signing new clients. Further, a majority of OPRX's revenue is driven by solutions that use a combination of algorithms and EHR integrations to intelligently deliver relevant content to docs at the point of care, meaning that they are very scalable. Consequently, we expect the incremental margins on revenue growth to be very high (i.e., 50%+), helping to drive EBITDA margins to 30%+ at maturity.

Valuation

Our $100 price target is based on a trading comparable analysis of OPRX vs. its HCIT and Technology peers. OPRX exhibits all of the "tech"-like attributes we look for in digital health companies: big/under-penetrated TAM, steep revenue growth trajectory, and a scalable model. Its Healthcare peers currently trade at an average of 12x '22E revenue while its Technology peers trade closer to 20x (ranging from 7x to 30x). OPRX shares currently trade at 17x our '22 revenue estimate and our $100 price target is based on a 20x multiple—as the company's mix of the more recurring/sticky Enterprise deals continues to grow, we expect it to trade closer to the Tech group. Our valuation work and price target support our Outperform rating.

Risks to rating and price target

Risks to our rating and price target include the loss of provider network exclusivity, direct and indirect competition for pharmaceutical marketing dollars, significant customer concentration, and client brands losing exclusivity/facing competition from generics.

Surgery Partners, Inc. (NGS: SGRY)

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Rating: Outperform
Closing Price: $44.36
Price Target: $70.00
Implied All-in Return: 57.8%
Most recent company note: link

Investment summary

SGRY is one of the largest ASC platforms in the country, representing an attractive value proposition for the U.S. healthcare system, as the low-cost care delivery alternative that will likely become increasingly important for patients and payors. Management has been implementing specific strategies to accelerate SS growth, with a focus on supporting and expanding services in surgical facilities in its existing markets. These initiatives appear to be gaining traction, yielding improved SS volume growth, strong pricing improvements, and margin expansion. The benefits from these efforts, along with focused recruitment in targeted high-acuity specialties such as musculoskeletal and cardiology procedures, helped to deliver growth in FY20 despite the pandemic and should drive stronger growth in FY21 and beyond. As a result, management is confident in achieving sustainable, double-digit EBITDA growth annually over the long term. Additionally, forthcoming Medicare rule changes would allow SGRY to perform additional high-acuity procedures in its ASCs, significantly expanding the addressable market, and through continued investments in OR capacity and physician recruitment, we believe the company is well positioned to capitalize on these opportunities, supporting the long-term earnings growth trajectory.

Valuation

Our $70 price target is based on an enterprise multiple of ~22x our FY22E adjusted EBITDA-MI. We base our valuation multiple on 2022 earnings, as we believe next year will reflect more of a steady-state operating environment. Our target multiple is consistent with historical ranges, and given that SGRY is a pure-play ASC operator, our multiple reflects a premium versus its closest public peer. Our price target supports our Outperform rating.

Risks to rating and price target

(1) Dependence on managed care and Medicare payment rates, including Medicare lab fees. (2) Integration risk. (3) Physician recruitment and retention. (4) Labor cost inflation. (5) Revenue concentration. (6) Balance sheet leverage. (7) Tax receivable agreement.

Investment Summaries – Energy

Matador Resources Company (NYSE: MTDR)

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Rating: Outperform

Closing Price: $39.27

Price Target: $52.00

Implied All-in Return: 32.9%

Most recent company note: link

Investment summary

We believe MTDR shares will outperform peers over the next 12 months. Management has built a large Permian Basin position of 125,000 net acres. The position contains over a decade of identified drilling locations. Additionally, the company is advantaged with in-basin Permian gathering, transportation, and processing through a 51% ownership stake in San Mateo Midstream, LLC joint venture. **MTDR is the operator on the majority of its core acreage development** and the company has a track record of exceeding investors' operational and financial expectations and we believe that trend should continue. **Management and insider ownership is high relative to peers.** The management team insider ownership of MTDR is nearly 6.5%, which is more than 3x its peers. **Current ESG efforts include reducing air emissions and water usage**, increasing corporate diversity, BoD independence, and high insider ownership. **MTDR is differentiated from its SMid-cap peers by the high concentration in the respective core development areas**, including the federal acreage in the Stateline area. **At our mid-cycle oil price scenario ($55/bbl, WTI)**, economic growth rates could average 5-10% over a several year period, above the SMid cap peer group. **MTDR ownership in San Mateo Midstream is accretive for the upstream business through its low-cost structure and access to key sales points.** Third-party revenues provide another avenue for cash flow. San Mateo should generate FCF moving forward. **MTDR holds over 11,000 net royalty acres** (including 6,900 net mineral acres) in the Permian that could provide value in monetization or a strategic development.

Valuation

Our $52/share price target is derived from a combination of evaluating forward EBITDA multiples, relative FCF levels, and our Net Asset Value (NAV). Our price target, NAV upside opportunity, and cash flow outlook support our Outperform rating. MTDR has a large core Permian position that contains more than a decade of drilling inventory and owns a controlling position in a value accretive midstream entity. Our target reflects: (1) a price target that is a premium to our $20/share NAV, a premium to the 25% SMid cap peer average premium due to relative operational execution, acreage quality, and the midstream advantage. Our NAV is a risked assessment of 3P reserves using the long-term RBC commodity price outlook of $55/bbl (WTI), $60/bbl (Brent), and $3.00/Mcf (HH). (2) a ~5x multiple on our 2022E EBITDA estimate, a premium to the 4x peer average, warranted given the depth of its inventory, midstream ownership, and higher growth rates.

Risks to rating and price target

(1) Well results and operational execution below expectations would have an adverse effect on the stock performance. (2) Regulatory changes on federal lands could adversely impact MTDR's development opportunities and economics. (3) Weaker-than-expected commodity prices could cause the stock to perform below our expectations and impede achievement of our price target objective.

Sunnova Energy International Inc. (NYSE: NOVA)

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Rating: Outperform
Closing Price: $36.97
Price Target: $61.00
Implied All-in Return: 65.0%
Most recent company note: link

Investment summary

NOVA is a leading provider of residential rooftop solar services in the United States. We estimate NOVA has ~4-5% market share of the US residential rooftop solar market, but a higher share of the market's growth. NOVA operates under the dealer model, whereby its dealers originate leads and complete the installation of solar systems. NOVA offers customers leases, PPAs and loans, which NOVA retains on its balance sheet. Rooftop solar penetration in the United States is ~4% according to Wood Mackenzie, providing a significant growth opportunity. The recent extension of the investment tax credit for rooftop solar panels should help drive growth over the next several years.

Valuation

We derive our price target of $61 for NOVA using a sum-of-the-parts analysis. We view NOVA's value having two components: (1) current net earning assets (which represents the value to equity holders already in NOVA's balance sheet); (2) equity value of future customers, which reflects what we believe is the value to equity holders from NOVA's future growth. We derive equity value of future customers using a discounted cash flow analysis, based on a 5% discount rate, 4% cost of debt, and 9% cost of equity. We forecast growth decelerates from 43% (in 2022) to 5% through 2035, and use a 4% terminal growth rate. Our $61 price target supports our Outperform rating.

Risks to rating and price target

(1) While the federal government has extended the commercial investment tax credit, potential changes in state regulations could impact the growth of rooftop solar. Specifically, changes to net metering policies could affect the value proposition of rooftop solar relative to traditional utilities given the potential lengthening of a homeowner's payback period as net metering allows homeowners with rooftop solar to sell back power into the grid (thus lowering the homeowner's electricity bill). (2) Rising interest rates increase the cost of debt and consequently the cost of capital, which in turn could drive returns lower. That said, historically utilities have passed on the cost of rising rates to consumers. If that holds true, then NOVA should be able to increase its rates while still maintaining a competitive rate vs utilities. (3) NOVA is dependent on debt and tax equity to finance its growth. If the cost of financing increases or financing is not available at optimal terms, then NOVA's returns could deteriorate. Specifically, NOVA has used low-cost tax equity structures to finance its business and inability to use these structures in the future could slow growth. (4) NOVA's growth potential could stall or returns could decline if its product suppliers were to encounter supply chain issues that either slowed production (shortage of solar modules or batteries) or increased costs. In addition, tariffs on solar modules and inverters have led to lower cost declines than in the past.

Investment Summaries – Financials

Goosehead Insurance Inc. (NASDAQ: GSHD)

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Rating: Outperform

Closing Price: $131.32

Price Target: $175.00

Implied All-in Return: 33.3%

Most recent company note: link

Investment summary

Goosehead is an innovative player in the personal lines brokerage industry. Its fully integrated sales and service platform is a sizeable competitive advantage relative to other independent agents and captive agents and gives the company a cost and efficiency edge that is likely to prove sustainable for some time. Equally, its innovative Corporate/Franchise model enables the company to significantly leverage its technology edge and is a coiled economic spring for revenue and earnings growth. We see a long runway of growth ahead and expect that under normalized conditions the company can sustain revenue growth of +30% for the next three to five years with corresponding earnings growth from leverage and platform expansion. Our Outperform rating reflects its attractive high-cash-flow business model and the long-term growth characteristics of the business model. **Technology edge:** The company's IT platform has three main advantages that competitors cannot easily match, in our view: an integrated sales and service platform, proprietary data, and advanced analytics to drive superior lead generation. **Franchise model:** The company's franchise model allows growth with minimal investment. The company earns 20% of commissions on new and 50% on recurring business for providing technology and service support to its agents. **High cash flow and recurring revenue visibility:** About 85–90% of customers renew and a service culture drives high retention. Homeowners insurance is a required purchase and premiums are usually escrowed, which improves retention even during difficult economic conditions. **Direct-to-consumer:** While direct-to-consumer sales comprise only about 18% of personal lines sales, they are a growing proportion and represent a long-term headwind for all types of agents. The company's technology approach is designed to address this potential long-term challenge.

Valuation

Our price target of $175 is based on 120x our 2023 EPS estimate. Our target multiple considers the company's strong expected growth rates over the next three to five years, rising EBITDA growth as a result of business leverage implicit in the company's franchise model and its capital-light operating model. We view the multiple as consistent with multiples for other high-growth, high-cash-flow companies, but at a premium to traditional broker peers. Our price target and implied return support our Outperform rating.

Risks to rating and price target

The insurance brokerage industry presents a range of unique business risks, many of which could impact our investment rating, the most foreseeable of which include the following: key man risk, information security risk, and regulatory risk in the various states in which the company operates. The company is also exposed to certain economic and recession risks, particularly related to the US housing market and any changes in competition or pricing of industry commissions. A more comprehensive list of potential risk exposures is included in the company's 10-K and other recent filings.

Kinsale Capital Group Inc (NASDAQ: KNSL)

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Rating: Outperform
Closing Price: $208.00
Price Target: $220.00
Implied All-in Return: 6.0%
Most recent company note: link

Investment summary

Kinsale is the rare P&C insurer with the ability to achieve strong premium growth while at the same time delivering above-average underwriting margins. The company's technology platform is a key differentiator against all but its largest peers, which positions Kinsale to better serve its distribution partners and in turn drives its opportunity to profitably increase market share within focused customer segments while still maintaining a low expense ratio. Focusing on hard-to-place risks in the E&S market, Kinsale has a long runway available for future growth. We expect the company to continue to achieve strong premium growth near term while generating mid-80s (or better) combined ratios and steady reserving. Management's experience in building specialty insurance organizations is a unique feature that gives us confidence that Kinsale can execute its business strategy. Our Outperform rating is premised on four main points: **A platform for growth:** We believe Kinsale can achieve a normalized double-digit organic growth rate through a continued focus on hard-to-place risk and a willingness to offer terms on risks requiring more extensive underwriting. **Demonstrated underwriting skill:** Management has demonstrated the ability to underwrite profitably with combined ratios in the mid-80s (or better). We expect this will continue over the near term. **Technology supporting a low expense ratio:** Kinsale's expense ratio is several points better than peers, reflecting lower acquisition costs and a technology-aided expense structure. We anticipate this advantage will persist as the company continues to expand its distribution. **The economy and growth**: Kinsale's ability to drive strong premium growth will depend in part on the economy and how it impacts its small business customers. Near term we see the economy as a tailwind.

Valuation

Our $220 price target is based on approximately 6.3x estimated full-year 2022 book value per share. While this multiple is above many specialty peers, we believe it is supported by a superior combined ratio performance and promising long-term growth potential. Our price target considers Kinsale's operating ROE, premium growth rate and above-average combined ratio, all of which are better than peers. We also consider the company's comparatively shorter operating history. Our price target is consistent with our Outperform rating.

Risks to rating and price target

The main risks to our rating would include industry-wide pricing deterioration, large or unusual catastrophe losses in Kinsale's property business, and adverse development in ongoing business interruption litigation surrounding COVID-19. Like most P&C companies, reserves are always a risk and subject to estimation error. Kinsale also has a significant equity portfolio, and could see book value fluctuate alongside broader equity markets.

Investment Summaries – Industrials

Kratos Defense & Security Solutions Inc (NGS: KTOS)

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Rating: Outperform

Closing Price: $19.71

Price Target: $28.00

Implied All-in Return: 42.1%

Most recent company note: link

Investment summary

We believe KTOS is very well positioned to benefit from the increased focus on unmanned capabilities at the DoD. The company is active in several markets, but it is the Unmanned segment that is most important for investor sentiment, and we believe is the primary source of upside in 2022-2023E. We believe the company has a very strong organic growth outlook, with several opportunities for programs to become material to the potential upside. **The company is focused on capturing its share of the emerging budget for high-performance, low-cost, unmanned systems.** The company is facing a growing competitive threat from larger defense primes, but we are confident the company's low-cost and time-to-market advantage will continue to see support from the DoD. **We do not expect M&A to be a focus for the company.** Management has indicated that bolt-on transactions are possible in select markets, but the focus will remain on organic growth. **We believe the most important potential catalysts for the stock are contract awards and broader sentiment on the defense budget.** KTOS faces investor concern on its 2022 growth outlook, but we expect strong 4Q21 bookings and the passage of the FY22 DoD budget to support confidence in the 2022 upside.

Valuation

Our $28 price target is based on a 28x multiple applied to our 2023 EBITDA estimate. Over the past five years the stock has traded at an average 38x multiple on the NTM EBITDA basis. We believe the company is positioned to take advantage of increased demand for high-performance unmanned systems, and it has several potential contract awards in the next six to 12 months that could be potential catalysts. Our target price supports our Outperform rating.

Risks to rating and price target

(1) Incremental delays to tactical drone or other development programs. (2) The successful execution of test flight programs or other development milestones. (3) Incremental pressure on overall defense spending, or spending for specific programs of importance to KTOS. (4) An extended continuing resolution (CR) associated with the beginning of the U.S. Government fiscal year 2022. (5) A shift in defense spending priorities away from important growth areas for KTOS, including unmanned systems, space, and hypersonics. (6) Greater-than-expected investment spending to support organic growth opportunities. (7) Additional COVID-related delays associated with defense program travel or testing, such as a potentially reduced activity level at aircraft flight test ranges. (8) The ability to hire the necessary staff, or to procure the necessary security clearances, to deliver on the expected production levels. (9) Broader investor pessimism on the outlook for defense stocks.

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HOLD [Sector Perform]	**562**	**39.75**	**172**	**30.60**
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