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Capital Markets

RBC Capital Markets, LLC

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

February 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 volume of $10 million.

Our updated list includes four software names: **SailPoint, JAMF Holdings, Varonis,** and **Rapid7**. Our list of software companies illustrates opportunities across identity, security, and device management. **Rackspace Technology** is an end-to-end multicloud technology services provider that advises on, designs, builds, operates and optimizes its customers' cloud environments. In Payments, **Shift4** provides exposure to the secularly growing payments market in the US and an embedded internal mix shift opportunity to convert its existing gateway-only clients to End-to-End (E2E) processing clients. In Consumer, we highlight **American Eagle Outfitters** considering current Aerie momentum (high 20s growth in 4Q). **SelectQuote** is an attractive play on the aging U.S. demographic and growing penetration of Medicare Advantage, but without any medical underwriting exposure. **Tabula Rasa** is on the list for its growth in IT solutions aimed at reducing the financial and medical burdens of adverse drug events. We add **Goosehead Insurance** to the list, an innovative player in personal lines brokerage with a tech edge and attractive franchise model supporting long runway for high revenue/earnings growth. In biotech, **Agios Pharmaceuticals** is highlighted for its revenue ramp and pipeline in oncology. We add **Global Blood Therapeutics** to the list given our confidence in stronger growth momentum from Oxbryta in 2021, which serves unmet needs of sickle cell disease. **Dicerna** is on the list for its de-risked RNAi technology and differentiated pipeline. We also see **Pacira Biosciences** as well positioned to drive continued growth from its flagship product and several market expansion opportunities. In real estate, we like **STAG Industrial's** single tenant industrial approach in secondary markets across the United States.

Additions (6): American Eagle Outfitters, Inc. (AEO), Dicerna Pharmaceuticals, Inc. (DRNA), Global Blood Therapeutics, Inc. (GBT), Goosehead Insurance Inc. (GSHD), Rapid7, Inc. (RPD), Selectquote Inc. (SLQT)

Deletions (3): Cerence Inc. (CRNC), eHealth, Inc. (EHTH), Canada Goose Holdings Inc. (GOOS)

Exhibit 1: RBC Capital Markets Small Cap Growth Idea List

Company	Pricing Symbol	Analyst	Rating		Trading Currency	Closing Price (02/02/2021)	Market Cap (MM)	Price Target	Dividend Yield (%)	Implied All-in Return (%)
Agios Pharmaceuticals, Inc.	AGIO US	Kennen MacKay	Outperform		USD	50.70	3,478	59.00	0.0	16.4
American Eagle Outfitters, Inc.	AEO US	Kate Fitzsimons	Outperform		USD	23.14	4,267	30.00	0.0	29.7
Dicerna Pharmaceuticals, Inc.	DRNA US	Luca Issi	Outperform	*	USD	24.50	1,813	35.00	0.0	42.9
Global Blood Therapeutics, Inc.	GBT US	Gregory Renza	Outperform		USD	49.53	3,026	75.00	0.0	51.4
Goosehead Insurance Inc	GSHD US	Mark Dwelle	Outperform		USD	143.35	5,204	155.00	0.0	8.1
Jamf Holding Corp.	JAMF US	Matthew Hedberg	Outperform		USD	37.63	4,606	45.00	0.0	19.6
Pacira Biosciences, Inc.	PCRX US	Randall Stanicky	Outperform		USD	69.61	2,965	78.00	0.0	12.1
Rackspace Technology Inc	RXT US	Daniel R. Perlin	Outperform		USD	20.86	4,018	29.00	0.0	39.0
Rapid7, Inc.	RPD US	Matthew Hedberg	Outperform		USD	91.34	5,024	105.00	0.0	15.0
SailPoint Technologies Holdings, Inc.	SAIL US	Matthew Hedberg	Outperform		USD	58.99	5,398	68.00	0.0	15.3
SelectQuote Inc	SLQT US	Frank Morgan	Outperform		USD	22.25	3,620	33.00	0.0	48.3
Shift4 Payments, Inc.	FOUR US	Daniel R. Perlin	Outperform		USD	71.30	5,847	86.00	0.0	20.6
STAG Industrial, Inc.	STAG US	Michael Carroll	Outperform		USD	31.21	4,794	36.00	4.6	20.0
Tabula Rasa HealthCare, Inc.	TRHC US	Sean Dodge	Outperform		USD	51.93	1,163	70.00	0.0	34.8
Varonis Systems, Inc.	VRNS US	Matthew Hedberg	Outperform		USD	188.81	6,136	200.00	0.0	5.9

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

Priced as of market close on February 2, 2021, unless otherwise indicated.
All values in USD unless otherwise noted.

For Required Conflicts Disclosures, please see page 21.

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Changes to the list

Recurring names

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price (02/02/2021)	Price Target	Added to the List
Agios Pharmaceuticals, Inc.	AGIO US	Kennen MacKay	Outperform	USD	50.70	59.00	04/08/2020
Jamf Holding Corp.	JAMF US	Matthew Hedberg	Outperform	USD	37.63	45.00	10/13/2020
Pacira Biosciences, Inc.	PCRX US	Randall Stanicky	Outperform	USD	69.61	78.00	04/08/2020
Rackspace Technology Inc	RXT US	Daniel R. Perlin	Outperform	USD	20.86	29.00	10/13/2020
SailPoint Technologies Holdings, Inc.	SAIL US	Matthew Hedberg	Outperform	USD	58.99	68.00	04/08/2020
Shift4 Payments, Inc.	FOUR US	Daniel R. Perlin	Outperform	USD	71.30	86.00	07/08/2020
STAG Industrial, Inc.	STAG US	Michael Carroll	Outperform	USD	31.21	36.00	04/08/2020
Tabula Rasa HealthCare, Inc.	TRHC US	Sean Dodge	Outperform	USD	51.93	70.00	07/08/2020
Varonis Systems, Inc.	VRNS US	Matthew Hedberg	Outperform	USD	188.81	200.00	07/08/2020

Source: RBC Capital Markets estimates

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

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price (02/02/2021)	Price Target	Added to the List
American Eagle Outfitters, Inc.	AEO US	Kate Fitzsimons	Outperform	USD	23.14	30.00	02/03/2021
Dicerna Pharmaceuticals, Inc.	DRNA US	Luca Issi	Outperform *	USD	24.50	35.00	02/03/2021
Global Blood Therapeutics, Inc.	GBT US	Gregory Renza	Outperform	USD	49.53	75.00	02/03/2021
Goosehead Insurance Inc	GSHD US	Mark Dwelle	Outperform	USD	143.35	155.00	02/03/2021
Rapid7, Inc.	RPD US	Matthew Hedberg	Outperform	USD	91.34	105.00	02/03/2021
SelectQuote Inc	SLQT US	Frank Morgan	Outperform	USD	22.25	33.00	02/03/2021

*Denotes Speculative Risk
Source: RBC Capital Markets estimates

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

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price (02/02/2021)	Price Target	Added to the list	Removed from the list
Cerence Inc	CRNC US	Joseph Spak	Sector Perform	USD	117.94	88.00	07/08/2020	02/03/2021
eHealth, Inc.	EHTH US	Frank Morgan	Sector Perform	USD	49.67	47.00	04/08/2020	02/03/2021
Canada Goose Holdings Inc.	GOOS CN	Kate Fitzsimons	Outperform	CAD	44.74	47.00	04/08/2020	02/03/2021

j2 Global, Inc. (NASDAQ: JCOM), PROS Holdings, Inc. (NYSE: PROS), Stitch Fix, Inc. (NASDAQ: SFIX) were removed from the RBC Capital Markets U.S. Small Cap Growth Idea List as the primary analysts are no longer employed by RBC Capital Markets
Source: RBC Capital Markets estimates

Investment Summaries

Agios Pharmaceuticals, Inc. (NASDAQ: AGIO)

Kennen MacKay (Analyst)
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Rating: Outperform
Closing Price: $50.70
Price Target: $59.00
Implied All-in Return: 16.4%
Most recent company note: link

Investment summary

AGIO's wholly-owned pyruvate kinase deficiency (PKD) franchise is one of its most valuable assets but a controversial potential blockbuster. PKD is a rare, severe hemolytic anemia with no available therapies. Mitapivat (AG-348) remains controversial given its known aromatase inhibition (could lead to hormonal imbalances), but we note hormones largely remained within the normal range in the ph2 study. The ph3 responses to mitapivat could be superior to ph2 response rates as the ph3 study excludes patients with 2 non-missense mutations in PKD. The positive topline readout of the ph3 ACTIVATE study in less severe PKD patients is a significant win, with 40% response rates (RR) comfortably beating 30% RR expectations, and bodes well for the ACTIVATE-T study (Q1:21 readout) in severe PKD patients requiring regular blood transfusions. We see the potential for derisking of mitapivat in other hemolytic anemias such as sickle cell disease and thalassemia. We see the potential for peak global PKD sales of $880M in 2030.

Servier oncology sales is a net positive for AGIO as it streamlines into a more focused rare disease company. AGIO announced a $2B oncology deal ($1.8B upfront cash + $200M vorasidenib milestone payment) with French-based pharma company Servier in an effort to focus on genetically defined diseases led by mitapivat development in pyruvate kinase disease (PKD) while maintaining partial upside, in the form of royalty payments, from US commercialization of Tibsovo (5%) and vorasidenib (15%).

Key upcoming potential catalysts: (i) topline results from ph3 ACTIVATE-T study of mitapivat in Q1:21; (ii) Servier transaction closure by Q2:21 (iii) finalize pivotal development for mitapivat in SCD by H1:21 and initiate pivotal plan in FY:21; (iv) regulatory submission of mitapivat in PKD in H2:21 and approval in FY:22.

Valuation

Our base case DCF-derived valuation of $59 is based on the PoS adjusted NPV of Idhifa sales estimates in rrAML (100% PoS in US / 65% PoS in EU) and 1L AML (65% PoS in US/EU), Tibsovo and vorasidenib royalties (5% and 15% US sales respectively), mitapivat (AG-348) in PKD (90% PoS in NTD PKD and 70% in TD PKD), and cash ($30/sh). We utilize an 8.5% discount rate, in line with other SMid-cap biotechnology companies. This PT supports our Outperform rating.

Risks to rating and price target

We see limited risks to currently marketed Tibsovo and Idhifa in AML from the COVID-19 pandemic given the severity/acute nature of AML disease. However we see clinical risk to the ph3 ACTIVATE and ACTIVATE-T studies which could see delays to planned readouts vs. guidance of YE:20, and enrollment delays in 1L AML studies of Tibsovo. Additional risks to our price target and rating include 1) lower market penetration of Tibsovo and Idhifa in rr AML; 2) negative readout from 1L AML studies of Idhifa and Tibsovo; 3) lack of treatment benefit of mitapivat in other hemolytic anemias such as sickle cell disease and thalassemia; 4) delayed regulatory / launch timelines vs. our estimates.

American Eagle Outfitters, Inc. (NYSE: AEO)

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Rating: Outperform

Closing Price: $23.14

Price Target: $30.00

Implied All-in Return: 29.7%

Most recent company note: link

Investment summary

Our Outperform rating on shares of AEO is based on our view that growth driver Aerie continues to have runway ahead on the road to management's $2B 2023 target and beyond (recall PINK peaked at $3B+ in sales), while profitability concerns are also shored up given real self help on the core AE brand. At its recent investor day, AEO laid out a path to its FY23 $5.5B sales/10% EBIT margin goals (netting to ~$2.20 in EPS power), driven by: 1) growing Aerie to $2B (from $1B today) while maintaining AE sales at $3.5B (flat to 2019); while also 2) improving the profitability of the core AE brand through self help efforts including product improvements, SKU count reductions, tight inventory management, and ~200-225 store closures. As shown in our SOTP, even conservative assumptions on profitability recapture/sales levels at AE and growth at Aerie suggest upside from current levels.

Looking out, we expect Aerie's momentum is unlikely to fade - with its emphasis on body positivity, wellness, and social awareness likely to resonate even further on the other side of the pandemic. This is on top of its casual/comfy positioning and >40% digital exposure making it even better positioned in our view, with longer term digital penetration target now in excess of 50%. At AE, we sense that product execution issues are improving - now with SKU counts more focused and with product efforts overseen by Chief Creative Officer and Aerie President Jenn Foyle and aided by recent merchandise/marketing hires. Store footprint work should aid in improving profitability LT. With 2021 capex estimated at $250-$275MM and solid liquidity at over $1.2B, we see cash positioning as more than sufficient in the near term, and cash could come back to shareholders through dividends starting in 2021.

Potential catalysts

- Mall traffic picks up ahead of plans.
- 4Q20 earnings results
- Continued Men's & Top's improvement.
- The road to recovery owing to positive store performance, digital gains, conversion gains, AUR gains, improving product execution and inventory management.
- Gross margin upside from inventory management, markdown recovery, and IMU benefits.

Valuation

Our $30 price target applies 19x to our 2022E EPS of $1.60 (or 22x our 2021E EPS of $1.37). 19x is above the company's 3y historical average of 12x, but is supported by our SOTP. Our price target supports our Outperform rating.

Risks to rating and price target

In addition to sector-wide risks owing to exogenous factors, such as the effects of COVID-19 on macro trends, the competitive environment, and weather, there is risk that we have underestimated: 1) company-wide comparable sales and traffic trends; 2) gross margin recapture erosion and ultimately recapture prospects; and 3) the degree of SG&A deleverage in 2020 and beyond.

Dicerna Pharmaceuticals Inc. (NASDAQ: DRNA)

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Rating: Outperform, Speculative Risk

Closing Price: $24.50

Price Target: $35.00

Implied All-in Return: 42.9%

Most recent company note: link

Investment summary

De-risked technology, differentiated pipeline and undemanding valuation - We believe current stock price substantially underappreciates: 1) a de-risked technology (RNAi has been shown safe/effective in multiple indications and ALNY charting a path to a top 5 Biotech company serves as a nice tailwind), 2) a differentiated pipeline (potential for best in class for PH/HBV and an overlooked opportunity in A1AT), and 3) an undemanding valuation at a 10x discount vs ALNY.

Potential best-in-class for primary hyperoxaluria - We view nedosiran as best-in-class given: 1) broader commercial opportunity (DRNA can tackle all PH subtypes, ALNY only PH1), 2) superior dosing (fixed-monthly vs ALNY's weight-based loading/maintenance), and 3) directionally superior efficacy (more patients achieved a more stringent definition of near normalization vs ALNY). Pivotal data is expected in mid-2021 and we like risk/reward given data seen to date and a $500m+ revenue opportunity.

Differentiated profile and $500m peak royalty opportunity for HBV - We think HBV program (partnered with Roche) has a differentiated profile given sAg reductions on par with ARWR/JNJ but a longer duration of effect. While path to approval remains a key topic of debate, we believe RNAi will ultimately be the backbone of therapy that cures HBV (only therapy to date to substantially knock down sAg) and see $500m peak royalty opportunity for DRNA. We think program was partnered on favorable economics and like that DRNA may opt back in post Phase II for enhanced royalties.

DRNA could be the runner-up for A1AT, an indication that unlocked $4b value/$1b partnership for ARWR - DRNA is moving forward with their internally developed asset belcesiran and we believe the program is being overlooked by the Street as DRNA can be the runner-up for an indication that: 1) unlocked $4b in value for ARWR upon POC in just 4 patients, 2) allowed ARWR to partner the asset for $1b+ with TAK and 3) is a large indication (~50k in the US) where we think RNAi and correctors (VRTX) can co-exist.

Key Upcoming Catalysts - 1) Pivotal data for PH (mid-21), 2) disclosure of novel first-in-class target for a large indication (mid-21), 3) NDA filing for PH (3Q21) and 4) further updates on HBV and A1AT.

Valuation

Our base case DCF-derived valuation of $35 is based on PoS adjusted NPV of of PH1 (85% PoS, ~$350m peak sales), PH2 (85% PoS, ~300m peak sales), PH3 (65% PoS, ~$150m peak sales), HBV (25% PoS, ~$500m peak royalties from Roche) and A1AT (20% PoS, ~$1b peak sales). We utilize a 10% discount rate (same for all stocks in our coverage and in line with SMid-cap Biotech) and 0% terminal growth rate (with a 0-2% range applied to our coverage depending on the relative maturity of the platform). This PT supports our Outperform rating and we assign a Speculative Risk qualifier given unpredictability of future revenues and expenses, non-revenue generating status, and stock price volatility that could result in substantial upside/downside swings not anticipated in our valuation.

Risks to rating and price target

Risks include clinical program execution (HBV, PH1, A1AT), regulatory uncertainties, intellectual property risk, failure to demonstrate sustained efficacy in trials, potential emergence of a safety signal, competition (lumasiran, ARO-HBV), and long-term pricing pressure in the space. The ongoing COVID-19 pandemic may disrupt or delay clinical, commercial and regulatory execution.

Global Blood Therapeutics, Inc. (NASDAQ: GBT)

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Rating: Outperform
Closing Price: $49.53
Price Target: $75.00
Implied All-in Return: 51.4%
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 $1.6B 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, a 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.

Key risks: (1) Post-marketing studies fail to demonstrate long-term efficacy and safety superiority; (2) Future market penetration remains low despite efforts to drive market uptake; (3) Increasing competition from other companies developing chronic or potentially curative therapies for SCD; (4) Early pipeline programs pose uncertainty to clinical success and longer-term platform potential; (5) COVID-19 disruption to regulatory process, clinical execution, as well as commercial launch.

Key potential catalysts: (1) Initiate inclacumab pivotal study (1H2021); (2) MAA submission in SCD patients aged 12+ (mid-2021); (3) NDA submission to FDA in SCD patients aged 4-11 (mid-2021); (4) Initiate ph.I trial of GBT021601 in SCD patients (1H2021).

Valuation

Our $75 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

Risks include regulatory risk, commercial development risk, pricing pressure, clinical program execution, intellectual property risk, failure to demonstrate sustained efficacy in trials, potential emergence of a safety signal, competition risk, and risk of potential disruptions of COVID-19.

Goosehead Insurance Inc. (NASDAQ: GSHD)

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Rating: Outperform

Closing Price: $143.35

Price Target: $155.00

Implied All-in Return: 8.1%

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 them a cost and efficiency edge which is likely to prove sustainable for some time. Equally, its innovative Corporate/Franchise model allows the company the opportunity 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 under normalized conditions the company can sustain revenue growth of 25-30% for the next three to five years with even higher growth rates for earnings and EBITDA as operating leverage and the benefit of its franchise model earns in. Our Outperform rating reflects its attractive high cash flow business model and the long-term growth characteristics of the business model.

Investment points

Technology edge: The company's IT platform has three main advantages competitors cannot easily match, in our view – an integrated sales and service platform, proprietary data and advanced analytics to drive superior lead generation. The system was built from the ground up to support high service levels and high sales productivity.

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 franchise 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. The business already delivers EBITDA margins near 30% and we expect this to climb as more scale is achieved.

Valuation

Our price target of $155 is based on approximately 110x 2022E earnings (73x 2022E EBITDA). We believe our price target and implied return are consistent with our Outperform rating. Our 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 the company's capital light operating model. We view the multiple as consistent with multiples for other high growth, high cash flow companies, but a premium multiple to traditional broker peers.

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.

Jamf Holding Corp. (NASDAQs: JAMF)

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Rating: Outperform

Closing Price: $37.63

Price Target: $45.00

Implied All-in Return: 19.6%

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.

Potential growth catalysts:

- A growing acceptance of Mac and iOS in the enterprise (see IBM example).
- Growing preference for BYOD.
- Consumerization of IT.
- Shifting demographics in the workforce to Millennials.
- COVID changes everything as enterprises and employees re-think the value/importance of WFH.
- The launch of additional Apple products or ability to monetize the Apple Watch.
- Vertical specific tailwinds in education from e-learning and healthcare from telehealth.

Valuation

Our $45 price target is based on shares trading at 17.5x CY/21E EV/S and 14.5x CY/22E EV/S. This is a slight premium to similar growing SaaS peers on both CY/21E and CY/22E, which we think is warranted due to a unique investment opportunity, potential conservatism to our published estimates, and ESG characteristics. Revenue growth for Jamf in 2019 was 39%. If growth in 2020 were to stay at +30% vs. our current estimate of 29%, one could argue for additional multiple expansion based on peers. 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, a change to Jamf's relationship with Apple, changes in renewal rates, or should acceptance of the company's products change relative to new entrants and established competitors.

Pacira Biosciences, Inc. (NASDAQ: PCRX)

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Rating: Outperform
Closing Price: $69.61
Price Target: $78.00
Implied All-in Return: 12.1%
Most recent company note: link

Investment summary

We think PCRX is well positioned to drive continued growth from its flagship product, EXPAREL, with several expansion opportunities that can maintain momentum. As it starts to transition away from its partnership with DPS, we will be watching for any disruption to its ortho franchise. More near-term, we expect impact on volume from COVID-19, which for now we assume normalizes in 2021. Our thesis is focused on the following points:

(1) Near-term focus will remain on the impact of COVID-19, though rebound is under way. We expect the largest impact to have been in 2Q20, with continued recovery beyond, and also note that EXPAREL is used in essential surgeries (e.g., C-section). As we look to 2021 and beyond, we expect some modest impact from recession and specifically higher unemployment impacting insurance coverage and thus elective procedures.

(2) 2021 termination of DPS agreement will remove royalty and accelerate operating margin inflection. Pacira's reps had been focused on soft tissue, nerve block, and oral/maxillofacial opportunities; however, despite a short-term increase in spend as it builds out its own sales force, we expect this transition to ultimately help drive faster operating leverage. The iovera acquisition is early in its "relaunch", but the company sees an attractive growth trajectory and a synergistic offering.

(3) There is an opportunity for it to grow through business development, in which it has a stated interest. PCRX is well capitalized and management has noted that there is interest in deals, and given the sharp sell-off in the market there could be potential for opportunistic deals to further augment the pipeline.

Potential catalysts: (1) Phase 3 lower extremity nerve block trial (STRIDE) read-out by 1Q2021; (2) Pediatric label expansion for EXPAREL (PDUFA 3/22/2021); (3) further Phase IV trials including in spine (FUSION)/hip fracture; and (4) updates around competitive entry from HRTX's HTX-011 following second CRL and re-filing in November 2020.

Valuation

Our $78 price target is based equally on our discounted cash flow (DCF) analysis and discounted P/E. Our DCF yields $64 per share and reflects explicit forecasts through 2028E with a 9% WACC and a -2% terminal growth rate beyond. Our P/E gets us to $92 per share on our 2023E EPS forecast. The implied return to our price target supports an Outperform rating.

Risks to rating and price target

Key potential downside risks to our price target and rating arise from: (1) pricing risk, which is a key concern that may impede adoption and greater utilization of the product; (2) regulatory/bundling risk from CMS bundled payments in orthopedic procedures; (3) competitive risk; (4) data risk from Ph IV read-outs, or pipeline products in development; and (5) deeper recessionary risk from COVID-19 impacting elective surgery volumes.

Rackspace Technology Inc. (NASDAQ: RXT)

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Rating: Outperform
Closing Price: $20.86
Price Target: $29.00
Implied All-in Return: 39.0%
Most recent company note: link

Investment summary

Our positive thesis on RXT shares is rooted in a belief that current valuation only gives credit to where the company is today in its transition, but does not underwrite the positive mix shifts that are occurring in the underlying business.

Our thesis is predicated on three key points: 1) the strategic shift to multicloud managed services drives improving growth and ultimately better margins long-term; 2) its business is tethered to a large addressable growth market, which should support its growth agenda; and 3) the positive mix shift dynamics in its financial model should support a higher valuation as the company continues to effectuate its strategic shift.

Although the strategic shift has largely been structurally consummated, we believe the financial model, which has two layers of mix shift, has several years before hitting a cross-over point, whereby both revenues and margins can expand concurrently. Nevertheless, we believe as the financial model transition continues to produce results, as illustrated by the early proof-points in bookings and sales growth, we believe the stock can re-rate higher to fit a superior growth model.

Valuation

Our price target of $29 is ~11x our FY22 EV/EBITDA estimate. Our target multiple represents a discount to peers, as we believe RXT is in the early stages of its transition to multicloud managed services, and as additional proof-points emerge over the next several quarters, we believe the multiple can begin to converge closer to peers. Our price target supports our Outperform rating.

Risks to rating and price target

We believe there are three broad risk categories: (1) the strategic mix shift to multicloud managed services vs. its legacy OpenStack business is crucial to achieving the company's growth forecasts and any such disruption/delay could materially impact revenues and adjusted EBITDA; (2) the inability to move upstream to larger enterprise clients from its historically focused SMB portfolio could cause estimates to adjust lower; and (3) the company carries a fair amount of leverage, as defined by net-debt-to-TTM EBITDA, which can reduce financial flexibility.

Rapid7 Inc. (NASDAQ: RPD)

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Rating: Outperform
Closing Price: $91.34
Price Target: $105.00
Implied All-in Return: 15.0%
Most recent company note: link

Investment summary

High-level investment thesis

Rapid7 is a cyber-security vendor with a unique data- and analytics-driven approach to SecOps. 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 <100 bps of annual margin expansion with ARR growth >30%.

Potential catalysts: 1) Acceleration of new customer additions; 2) increasing dollar renewal rates; 3) increased focus on leveraging data analytics with a growing security-risk landscape (i.e., differentiating Rapid7 from other VM vendors); 4) additional channel investments and international expansion; and 5) potential from IDR, AppSec and Connect.

Potential take-out candidate: While we do not have any knowledge of a transaction, given the strategic nature of its solutions, we believe Rapid7 could be one of the more attractive acquisition candidates in security and could be a nice fit for a larger security or IT infrastructure vendor.

Where we could be wrong: 1) Increased competition in a highly fragmented market; 2) security stocks could go out of favor; 3) the company is running near break-even; 4) a decline in renewal rates could adversely affect growth; and 5) COVID-19 could impact company operations or customer demand.

Valuation

We calculate our base-case price target of $105 using an 11.3x CY/22E EV/S multiple. This is in line 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.

SailPoint Technologies Holdings, Inc. (NYSE: SAIL)

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Rating: Outperform

Closing Price: $58.99

Price Target: $68.00

Implied All-in Return: 15.3%

Most recent company note: link

Investment summary

Large and growing market opportunity that is underpenetrated: We believe the company targets $10B in TAM. Its biggest opportunity is the $8.8B Identity and Access Management (IAM) market, growing at an estimated 11% through 2020, where it is a market leader competing with CA, IBM, and Oracle which still control the majority of the market share but next-gen solutions like Predictive Identity could accelerate share shift. The other is the $1.2B Data Access Management (DAG) market, growing at an estimated 20% rate. Of the ~80K target customers, ~65K are located in countries where SailPoint has customers today and, as a result, we believe it remains penetrated at only ~1% of potential customers as international continues to be an opportunity. We believe SailPoint is well positioned for the fastest expanding areas of its TAM; with its mix-shift toward SaaS and Predictive Identity Platform, they could benefit from trends toward more remote workers, a dissolving network perimeter, increasing endpoints and the complexity of hybrid environments. Additionally, in a world post COVID-19 that likely moves towards SaaS at a quicker pace, we believe SailPoint could be in a good position to help CIOs with an increasing governance risk for app usage and access.

Increasing regulatory pressures: New and evolving regulations and compliance standards for cyber security, data protection, privacy, and internal IT controls are often created in response to the tide of cyber attacks and will likely increasingly impact organizations. Existing regulatory standards require that organizations implement internal controls for user access to applications and data. In addition, data breaches are driving a new wave of regulation similar to GDPR, with stricter enforcement and higher penalties, such as the California Consumer Privacy Act.

Valuation

Our base-case price target of $68 assumes shares trade at 14x CY/22E EV/S, which to us is a fair multiple for the company's revenue growth rate and is essentially in line with security peers and below the range for faster growing security peers. Our price target supports an Outperform rating.

Risks to rating and price target

Risks to our price target and rating could include 1) a large portion of revenue is still license-based, which can have more volatility than SaaS-based models; 2) as they transition to more SaaS revenue, execution will be key; 3) larger and more diverse legacy vendors such as IBM, CA, or ORCL, or smaller-adjacent peers such as OKTA, VRNS, and CYBR could slow sales cycles; 4) the potential for increased macro pressure particularly on the license-based on-premise portion of the business in a weakening macro environment potentially impacted by, among other things, COVID-19.

SelectQuote Inc. (NYSE: SLQT)

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Rating: Outperform

Closing Price: $22.25

Price Target: $33.00

Implied All-in Return: 48.3%

Most recent company note: link

Investment summary

We view SelectQuote as an attractive play on the aging U.S. demographic and growing penetration of Medicare Advantage, but without any medical underwriting exposure. We also view the stock as one of the few ways to gain exposure to the healthcare sector with little to no impact from COVID-19. With focus on the growing Medicare-eligible population, which statistics show is particularly susceptible to severe COVID-related illness, we would expect the pandemic to only heighten the urgency for seniors to find the right plan for their unique health needs. Furthermore, the pandemic has actually strengthened SLQT's competitive position against one its traditional competitors, the field agent segment, wherein agents sell MA insurance face-to-face, typically in the home of the beneficiary. With the COVID pandemic, the elderly are less likely to allow visitors into their home to consider buying an MA plan and are more likely to accept telephonic sales instead. With no exposure to the employer market, we see SelectQuote as largely immune to widespread unemployment. In fact, the softer job market may actually provide a tailwind for the company's agent recruiting effort in support of future growth.

With approximately 10,000 seniors per day aging into the Medicare program, and Medicare Advantage penetration expected to eventually reach ~50% from ~33% currently, the company's addressable market is set for continued growth, which is further bolstered by rapid changes in plan design and increasing complexity, which make plan comparison tools and expert guidance more valuable to prospective buyers of MA plans.

With a formidable technology platform backing its sales force of skilled agents, SelectQuote uses data and analytics to continuously maximize value from its customer leads while continuously improving the productivity of its agents. We believe this virtuous cycle of efficiency gain accounts for SelectQuote's superior margin profile versus that of its largest public peer.

SelectQuote operates in arguably the most attractive part of the insurance value chain, focused only on distribution and retention. In addition to upfront commissions, sales result in recurring cash flow streams from carrier partners as customers renew their health plans. Furthermore, SelectQuote bears no underwriting or balance sheet risk associated with the customer's plan, as all typical insurance-related loss risk remains with the carrier.

Valuation

Our price target of $33 per share is based on an enterprise multiple of approximately 20x our CY21E adj EBITDA. Our enterprise multiple represents a premium to our target for peer EHTH given SLQT's established member retention capabilities, as well as superior unit economics. As a secondary valuation method, our PT is equivalent to an approximate 5.5x EV multiple on CY21E revenue. Our price target supports our Outperform rating.

Risks to rating and price target

- Growing competition in the DTC insurance distribution segment
- Dependence on a limited number of carrier partners
- Potential for competition with carrier partners
- Potential for LTV weakness on increased customer churn
- Cash flow risk as the company invests in rapid growth
- Frequent market confusion concerning ASC 606 accounting

Shift4 Payments, Inc. (NYSE: FOUR)

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Rating: Outperform

Closing Price: $71.30

Price Target: $86.00

Implied All-in Return: 20.6%

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 $86 is 33x 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.

STAG Industrial, Inc. (NYSE: STAG)

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Rating: Outperform

Closing Price: $31.21

Price Target: $36.00

Implied All-in Return: 20.0%

Most recent company note: link

Investment summary

STAG Industrial (STAG) has a differentiated strategy in the industrial REIT sector investing in both primary and secondary markets. The team has built a national portfolio that should deliver more stable results relative to traditional industrial REIT peers given supply is generally less of an issue. We believe the company is well positioned to navigate through this uncertainty with its solid balance sheet, and should be able capitalize on the industry's strong secular tailwinds.

Potential catalysts/drivers for STAG shares

- **The unique portfolio should support stable organic growth.** The company generates 85.7% of rents from tenants that earn over $100 million of revenues and 61.0% of rents from tenants that earn over $1.0 billion of revenues. We believe these larger tenants are better positioned today to manage through the uncertain environment and continue to pay their respective rent.
- **Balance sheet is well positioned.** We estimate the company's pro forma net debt-to-EBITDA ratio is near ~5.0x today given the recent acquisition activity and forward settlements, but is near ~4.3x if you include the settlement of the remaining outstanding forward equity commitments. We note that with the forward settlements included, the ratio is well below the long-term target range of 4.75-6.0x.
- **Investment opportunities should drive meaningful growth once markets stabilize.** Management has completed ~$469 million of acquisitions YTD and currently has another $256.5 million under agreement or non-binding LOIs. We expect the company to remain active acquiring new assets and our current estimates assume the company completes $700 million of acquisitions annually in 2021 and 2022.

Valuation

Price Target Justification: Our 12-month price target for STAG is $36/share, which reflects a ~10% premium to our YE21 NAV estimate of $32.70/share. We believe this premium is warranted in part due to the strong balance sheet and larger tenant focus that should help the company better navigate the current uncertainty. Additionally, we believe the stock has a few near-term catalysts such as re-accelerating acquisition activity and advancing leasing prospects at available space. The total return implied by our price target supports our Outperform rating.

Net Asset Value: We estimate STAG's in-place NAV at $31.27/share assuming a 5.9% cap rate. Additionally, we expect management to create additional value partially by completing external investments, driving our YE21 estimate (looking at the forward 12 months) to $32.70/share from our YE20 estimate (looking at the forward 12 months) of $31.52/share.

Risks to rating and price target

The greatest risks to our estimates, recommendation, and price target center around general economic and company-specific trends. General economic risks include, but are not limited to, domestic and global trade, business and consumer spending, real inventory levels, employment, GDP, supply-chain configurations, and new supply. For instance, a slowdown in domestic and global trade or a rapid increase in new supply across STAG's geographic footprint could reduce industrial demand, tenant retention, and pricing power. Company-specific risks including leasing trends, investments, tenant credit and access to favorably priced capital could also impact our estimates. Tenant credit concerns appear minimal today, however these could become more material over time given the uncertainty around COVID-19. Additional risks, including interest rate fluctuations, political changes, war, environmental/zoning changes, weather, and key personnel changes are outlined in the company's filings with the Securities and Exchange Commission.

Tabula Rasa HealthCare Inc. (NASDAQ: TRHC)

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Rating: Outperform

Closing Price: $51.93

Price Target: $70.00

Implied All-in Return: 34.8%

Most recent company note: link

Investment summary

Tabula Rasa's (TRHC) solutions aim to reduce the financial and medical burdens associated with adverse drug events, which are costly to treat and, worse, are now a leading cause of death. The company is a leader in the PACE market, which consists primarily of elderly patients taking 5+ medications per week (i.e., at high risk for ADEs). Our confidence that TRHC can continue to grow 20%+ in this market is based on: (1) the extent to which it has established itself as a trusted partner—90% of existing PACE orgs use a TRHC solution; (2) strengthening regulatory support for the program—namely the intro of 2.0; and (3) the significant white space that remains for cross-selling alone—fully penetrating just existing PACE clients would nearly double its current revenue base.

Beyond PACE, TRHC is building solutions to push further into the payer and pharmacy markets. With its unique combination of science (namely its MRM matrix) and engagement capabilities (via its call centers and growing footprint of pharmacies), TRHC believes it is well positioned to help these "payviders" and pharmacists save money and develop new lines of revenue by improving the health of their patients.

Although the pandemic is causing some near-term challenges, we believe it will ultimately be a net tailwind and TRHC will return to its pre-COVID organic revenue growth rate of 20%+.

Potential catalysts

Leveraging success in the CMS EMTM pilot. TRHC's early success demonstrates both the effectiveness and competitive superiority of its approach. Management is working to convert (i.e., upsell) its 350+ MTM clients (acquired via Sinfonia) to a more EMTM-like model. Traction here would instill confidence in TRHC's ability to penetrate the $6B payer market.

Opportunities in PACE 2.0. The 2.0 initiative increases PACE eligibility and is expected to drive member enrollment from ~52k up to 200k by '28. Newly eligible members will join existing PACE orgs first (of which TRHC is 85% penetrated), leading the initial wave of growth. By '24, the NPA expects newly added orgs/capacity to further accelerate enrollment.

Peer-reviewed articles. Potential customers often want to see scientific validation of the effectiveness of TRHC's proprietary risk matrix, which is at the core of its solutions. To address this, management plans to publish a number of peer-reviewed articles. Credibility here would likely positively impact sales.

Valuation

Our $70 price target is based on the blended 5x EV/'21E sales multiple we derive from our sum-of-the-parts analysis. Our SOP values the CareVention medication fulfillment business at 2.5x NTM sales and the rest of TRHC's software/engagement capabilities at 7.5x—the latter representing a slight discount to similarly growing and profitable digital health peers given TRHC's recent execution hiccups. Our valuation work and price target support our Outperform rating.

Risks to rating and price target

Risks to our Outperform rating and price target include dependence on government programs, customer concentration, competition, prolonged impact from the COVID-19 pandemic and reliance on a single drug vendor for fulfillment services.

Varonis Systems, Inc. (NASDAQ: VRNS)

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Rating: Outperform

Closing Price: $188.81

Price Target: $200.00

Implied All-in Return: 5.9%

Most recent company note: link

Investment summary

Founded in 2004, Varonis provides a software platform that assists customers in automating unstructured data protection and management, particularly for human-generated data. The core technology behind the products is its proprietary Metadata Framework, which collects and aggregates metadata (or data about data) from human-generated content including emails, documents, spreadsheets, etc. The company's family of five products leverages Metadata Framework for applications focused on security, compliance, access, storage, collaboration, etc.

We believe the company is in the early stages of penetrating a $47 billion market that includes fragmented competition. Through a land, expand, and retain strategy, we believe Varonis has the opportunity to generate strong financial growth for several years while continuing to innovate new technologies that leverage its Metadata Framework. In addition, we believe the company is an attractive acquisition target for larger vendors seeking exposure to innovative big data solutions.

Key points

- Large market opportunity
- Classic platform play
- Growth strategy = land + expand + retain
- Expanded salesforce
- Rapid innovation
- Establishing Metadata Framework as the industry standard
- High barriers to entry
- International growth opportunity
- Long-term margin expansion

Valuation

Our $200 price target assumes shares trade at 16.6x our CY/22 EV/sales estimate (slight premium to peer multiples). In our view, our price target and multiple are warranted by the increased pace of the transition, a near-term headwind to revenue though we expect long-term value of additional subscription revenue, offset by the potential for near-term model volatility due to COVID-19. We believe our Outperform rating and price target are justified by the large and expanding end market, growing customer base, execution improvement, and success of the land-and-expand model. Our price target and implied return support our Outperform rating.

Risks to rating and price target

Risks to our rating and price target could include changes in the macro environment, moderating IT spending, limited operating history, the model transition or should acceptance of the company's products change.

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