



March 24, 2023

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

### March 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 of \$5 billion or less (as of joining the list), and a minimum average daily trading value of \$10 million.

In software, we reiterate our conviction in **Varonis**, **Guidewire** and **Coursera**. We add **Powerschool**, a vertical software vendor driving double-digit top-line growth and margin expansion in the less cyclical k-12 ed-tech end-market. We add **Pagerduty** whose cloud-based platform automates IT workflow while becoming more relevant in other areas of an organization such as customer service and HR. We think the result is durable growth and, now more than ever, margin expansion as we believe expanding FCF could be a key to unlocking value. We add third-party ad verification provider **DoubleVerify** who is well positioned to expand in a largely greenfield market, which we view as defensive against macro uncertainty due to its volume-based model with company-specific catalysts around CTV, Social, retail media and expanded performance metrics such as attention. In advertising technology, we recommend **Magnite**. In payments, we maintain conviction in **Shift4 Payments** and **Flywire**. For healthcare medical devices, tools & diagnostics, services and technology, **Axonics**, **Maravai**, **Surgery Partners**, **Evolent** and **R1 RCM** all remain high conviction ideas. In biopharma, **Intra-Cellular Therapies**, **Sarepta Therapeutics**, **Pacira Biosciences** and **Agios Pharmaceuticals** remain on the list. We are adding gene therapy leader **uniQure** as we like the setup given what we view as a relatively undemanding valuation with its Hemophilia-B treatment's recent approval offering downside protection and a Huntington's data catalyst in 2Q23 with the potential for material upside. We add **89Bio** whose lead pipeline drug has demonstrated robust liver and cardiometabolic benefits, and therefore is significantly de-risked, in both NASH and SHTG. We add **Fluence** to the list as an energy storage play driven by a large and growing TAM, benefiting from incentives provided by the Inflation Reduction Act. Among other sectors, auto services player **Driven Brands**, drone manufacturer **AeroVironment**, and insurance broker **Goosehead Insurance** all remain on the list. We remove **Ranger Oil** following the company's announced definitive agreement to combine with Baytex Energy Corp. 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 (6): 89Bio (ETNB), DoubleVerify (DV), Fluence Energy (FLNC), Pagerduty (PD), Powerschool (PWSC), uniQure (QURE)**  
**Deletions (5): Jamf (JAMF), Pubmatic (PUBM), Sweetgreen (SG), Sunnova (NOVA), Ranger Oil (ROCC)**

#### Exhibit 1 - RBC Capital Markets Small Cap Growth Idea List

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Market Cap (MM)	Closing Price 2023-03-23	Price Target	Implied All-in Return (%)
89Bio, Inc.	ETNB US	Brian Abrahams	Outperform *	USD	614	16.94	36	112.5
Intra-Cellular Therapies, Inc.	ITCI US	Brian Abrahams	Outperform	USD	4,635	45.89	71	54.7
Sarepta Therapeutics, Inc.	SRPT US	Brian Abrahams	Outperform	USD	14,494	128.38	200	55.8
Evolent Health, Inc.	EVH US	Sean Dodge	Outperform	USD	2,988	29.94	44	47.0
R1 RCM Inc.	RCM US	Sean Dodge	Outperform	USD	5,730	13.75	18	30.9
Goosehead Insurance Inc	GSHD US	Mark Dwelle	Outperform	USD	1,820	48.67	66	35.6
Pagerduty, Inc.	PD US	Matthew Hedberg	Outperform	USD	3,324	32.02	34	6.2
Powerschool Holdings, Inc.	PWSC US	Matthew Hedberg	Outperform	USD	3,828	18.79	29	54.3
Varonis Systems, Inc.	VRNS US	Matthew Hedberg	Outperform	USD	2,901	26.18	31	18.4
Surgery Partners, Inc.	SGRY US	Ben Hendrix	Outperform	USD	3,988	31.65	47	48.5
AeroVironment, Inc.	AVAV US	Ken Herbert	Outperform	USD	2,202	89.44	115	28.6
uniQure N.V.	QURE US	Luca Issi	Outperform *	USD	933	19.95	53	165.7
Coursera Inc	COUR US	Rishi Jaluria	Outperform	USD	1,560	10.60	18	69.8
Guidewire Software, Inc.	GWRE US	Rishi Jaluria	Outperform	USD	6,724	77.85	90	15.6
Maravai LifeSciences Holdings Inc	MRVI US	Conor McNamara	Outperform	USD	3,508	13.74	22	60.1
Flywire Corporation	FLYW US	Daniel R. Perlin	Outperform	USD	3,006	27.86	34	22.0
Shift4 Payments, Inc.	FOUR US	Daniel R. Perlin	Outperform	USD	5,854	68.63	80	16.6
Agios Pharmaceuticals, Inc.	AGIO US	Gregory Renza	Outperform	USD	1,334	21.98	40	82.0
Pacira Biosciences, Inc.	PCRX US	Gregory Renza	Outperform	USD	1,787	38.60	76	96.9
Driven Brands Holdings Inc	DRVN US	Steven Shemesh	Outperform	USD	4,685	28.08	40	42.5
Axonics, Inc.	AXNX US	Shagun Singh	Outperform	USD	2,611	55.30	85	53.7
DoubleVerify Holdings Inc	DV US	Matthew Swanson	Outperform	USD	4,982	28.88	34	17.7
Magnite, Inc.	MGNI US	Matthew Swanson	Outperform	USD	1,124	9.21	16	73.7
Fluence Energy, Inc.	FLNC US	Shelby Tucker	Outperform *	USD	2,955	16.07	26	61.8

\*Denotes Speculative Risk

Source: RBC Capital Markets estimates, Bloomberg

Priced as of market close on March 23, 2023, unless otherwise indicated.  
All values in USD unless otherwise noted.

## Table of Contents

<b>Investment Summaries – Technology and Payments</b> .....	<b>4</b>
Coursera, Inc. (NYSE: COUR) .....	5
DoubleVerify Holdings Inc (NYSE: DV).....	6
Flywire Corporation (NGS: FLYW) .....	7
Guidewire Software Inc (NYSE: GWRE) .....	8
Magnite, Inc. (NASDAQ: MGNI).....	9
Shift4 Payments, Inc. (NYSE: FOUR) .....	10
PagerDuty, Inc. (NYSE: PD) .....	11
PowerSchool Holdings, Inc. (NYSE: PWSC) .....	12
Varonis Systems, Inc. (NASDAQ:VRNS) .....	13
<b>Investment Summaries – Biopharma</b> .....	<b>14</b>
89Bio, Inc. (NASDAQ: ETNB).....	15
Agios Pharmaceuticals, Inc. (NASDAQ: AGIO) .....	16
Intra-Cellular Therapies, Inc. (NASDAQ: ITCI).....	17
Pacira Biosciences, Inc. (NASDAQ: PCRX) .....	18
Sarepta Therapeutics, Inc. (NASDAQ: SRPT) .....	19
uniQure N.V. (NASDAQ: QURE).....	20
<b>Investment Summaries – Healthcare Technology, Tools, Devices and Services</b> .....	<b>21</b>
Axonics, Inc. (NGS: AXNX) .....	22
Evolent Health, Inc. (NYSE: EVH) .....	23
Maravai LifeSciences Holdings Inc (NASDAQ: MRVI) .....	24
R1 RCM Inc. (NGS: RCM) .....	25
Surgery Partners, Inc. (NASDAQ: SGRY) .....	26
<b>Investment Summaries – Financials</b> .....	<b>27</b>
Goosehead Insurance Inc. (NASDAQ: GSHD) .....	28
<b>Investment Summaries – Industrials and Energy</b> .....	<b>29</b>
AeroVironment, Inc. (NASDAQ: AVAV) .....	30
Fluence Energy, Inc. (NASDAQ: FLNC).....	31
<b>Investment Summaries – Retail Services</b> .....	<b>32</b>
Driven Brands Holdings Inc. (NASDAQ: DRVN).....	33
<b>Contributing Authors</b> .....	<b>34</b>
<b>Required disclosures</b> .....	<b>35</b>

## Changes to the list

### Exhibit 2 - Recurring names

Company	Pricing Symbol	Analyst	Rating	Trading Currency	Closing Price 2023-03-23	Price Target	Added to the List
Intra-Cellular Therapies, Inc.	ITCI US	Brian Abrahams	Outperform	USD	45.89	71.00	2021-04-27
Sarepta Therapeutics, Inc.	SRPT US	Brian Abrahams	Outperform	USD	128.38	200.00	2021-04-27
Evolent Health, Inc.	EVH US	Sean Dodge	Outperform	USD	29.94	44.00	2022-08-30
R1 RCM Inc.	RCM US	Sean Dodge	Outperform	USD	13.75	18.00	2022-12-07
Goosehead Insurance Inc	GSHD US	Mark Dwelle	Outperform	USD	48.67	66.00	2021-02-03
Varonis Systems, Inc.	VRNS US	Matthew Hedberg	Outperform	USD	26.18	31.00	2022-03-01
Surgery Partners, Inc.	SGRY US	Ben Hendrix	Outperform	USD	31.65	47.00	2021-12-01
AeroVironment, Inc.	AVAV US	Ken Herbert	Outperform	USD	89.44	115.00	2022-06-01
Coursera Inc	COUR US	Rishi Jaluria	Outperform	USD	10.60	18.00	2022-03-01
Guidewire Software, Inc.	GWRE US	Rishi Jaluria	Outperform	USD	77.85	90.00	2022-12-07
Maravai LifeSciences Holdings Inc	MRVI US	Conor McNamara	Outperform	USD	13.74	22.00	2022-12-07
Flywire Corporation	FLYW US	Daniel R. Perlin	Outperform	USD	27.86	34.00	2021-08-27
Shift4 Payments, Inc.	FOUR US	Daniel R. Perlin	Outperform	USD	68.63	80.00	2021-12-01
Agios Pharmaceuticals, Inc.	AGIO US	Gregory Renza	Outperform	USD	21.98	40.00	2022-08-30
Pacira Biosciences, Inc.	PCRX US	Gregory Renza	Outperform	USD	38.60	76.00	2022-03-01
Driven Brands Holdings Inc	DRVN US	Steven Shemesh	Outperform	USD	28.08	40.00	2022-12-07
Axonics, Inc.	AXNX US	Shagun Singh	Outperform	USD	55.30	85.00	2022-12-07
Magnite, Inc.	MGNI US	Matthew Swanson	Outperform	USD	9.21	16.00	2022-06-01

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 2023-03-23	Price Target	Added to the List
89Bio, Inc.	ETNB US	Brian Abrahams	Outperform *	USD	11.76	27.00	2023-03-24
Pagerduty, Inc.	PD US	Matthew Hedberg	Outperform	USD	31.27	34.00	2023-03-24
Powerschool Holdings, Inc.	PWSC US	Matthew Hedberg	Outperform	USD	19.00	29.00	2023-03-24
uniQure N.V.	QURE US	Luca Issi	Outperform *	USD	19.30	53.00	2023-03-24
DoubleVerify Holdings Inc	DV US	Matthew Swanson	Outperform	USD	25.62	34.00	2023-03-24
Fluence Energy, Inc.	FLNC US	Shelby Tucker	Outperform *	USD	15.56	26.00	2023-03-24

\*Denotes Speculative Risk

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 2023-03-23	Price Target	Added to the list	Removed from the list
Sweetgreen, Inc.	SG US	Christopher Carril	Outperform	USD	6.68	10.00	2022-03-01	2023-03-24
Ranger Oil Corporation <sup>1</sup>	ROCC US	Scott Hanold	R	USD	37.37	R	2022-08-30	2023-03-24
Jamf Holding Corp.	JAMF US	Matthew Hedberg	Outperform	USD	19.48	25.00	2021-10-13	2023-03-24
Sunnova Energy International Inc	NOVA US	Elvira Scotto	Outperform	USD	13.23	31.00	2021-08-27	2023-03-24
Pubmatic, Inc.	PUBM US	Matthew Swanson	Outperform	USD	13.37	20.00	2021-08-27	2023-03-24

<sup>1</sup>We are removing Ranger Oil (ROCC) from the list following Baytex Energy's announced acquisition of the company. This security is restricted pursuant to RBC Capital Markets policy. RBC is an advisor to Baytex Energy on the transaction. R - Restricted

Source: RBC Capital Markets estimates, Bloomberg

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## Investment Summaries – Technology and Payments

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## Coursera, Inc. (NYSE: COUR)

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**Rating: Outperform**

**Price: \$10.60**

**Target: \$18**

**Implied All-in Return: 69.81%**

**Most recent company note: [link](#)**

### Investment summary

**We like shares of Coursera for four primary reasons: 1) We believe the multi-segmented approach (consumer, enterprise, higher ed) creates a powerful flywheel effect and a sustainable economic moat.** The consumer business, for example, creates brand awareness that has helped drive enterprise traction, while also serving as a funnel for the degree program (and lowering CAC as a result). **2) Our due diligence on Coursera has been positive.** We spoke to multiple Coursera customers as well as Coursera's industry and education partners; partners praised Coursera for its reach and openness to innovation vs. competitors and consumers praised Coursera for the breadth and depth of its content vs. competitors. **3) We believe the pandemic has created lasting tailwinds across all segments for Coursera, especially in higher education.** We believe education has been irreversibly changed and we see room for more degrees (graduate and undergraduate) to be fully online. **4) Rapid growth with room for margin expansion.** Coursera has grown revenue rapidly, with a 50%+ CAGR from 2017 through 2022. Importantly, we believe Coursera can grow sustainably for several years, with the shift to digital learning still in the very early innings. We also see room for meaningful margin expansion and Coursera to reach 25%+ FCF margins at scale, driven primarily by revenue mix-shift.

### Valuation

We calculate our base-case price target of \$18 by applying a 4x EV/revenue multiple to our CY23 estimate of \$603M. Our target multiple is a slight discount to Edtech peers, reflecting Coursera's uncertain path to profitability, but strong competitive positioning and growth profile in a large market opportunity. Our price target supports our Outperform rating.

### Risks to rating and price target

**Investment risks include:** 1) competition, including against 2U, Udemy, Udacity, edX, LinkedIn Learnings, and Pluralsight; 2) Coursera is unprofitable and we do not expect sustained profitability in the near term; 3) Coursera is a Public Benefit Corporation (PBC) and registered b-corp, which requires additional investor disclosures and attention from management; 4) pandemic-related tailwinds may not be sustainable and may cause growth to decelerate; and 5) international risk, with international representing more than half of the business and 80% of total learners.

## DoubleVerify Holdings Inc (NYSE: DV)

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**Rating: Outperform**

**Price: \$28.88**

**Target: \$34**

**Implied All-in Return: 17.73%**

**Most recent company note: [link](#)**

### Investment summary

**A large and growing opportunity:** According to Magna Global, in 2020, there was \$170B of global digital ad spend in markets where management believes DoubleVerify solutions apply. Within this broader market, management believes the TAM for DoubleVerify's core solutions was \$13B in 2020, which was less than 25% penetrated, leaving an attractive greenfield opportunity that could be \$20B by 2025. We expect growth to be driven primarily from digital ad spend, where DoubleVerify has low penetration rates including the mobile in-app, programmatic, social, and CTV sub-markets. In addition to greenfield deals, we believe a large portion of new business over the last several years has come from competitive displacements vs. its two largest competitors, IAS and Moat/Oracle.

**The DV Authentic Ad; the definitive currency of digital media quality:** The DV Authentic Ad is a proprietary metric that measures whether digital advertising is displayed in a fraud-free, brand-safe environment that is fully viewable and in the desired location. Aside from being a source of competitive differentiation, the DV Authentic Ad is a key component in the go-to-market motion demonstrating the ROI for customers trying to maximize marketing spend. This common accredited metric (since 2015) has become a digital currency across the advertising ecosystem utilized by brands, ad agencies, marketplaces, and publishers. As a cloud-based platform, DoubleVerify analyzed 5.5T media transactions in 2022; this provides it a significant data moat that is leveraged across the cloud-based platform.

**Attractive financial model:** We believe DoubleVerify is a unique company that combines good growth with strong profitability. While contracts are evergreen in nature with limited deferred revenue, the company has high visibility to revenue, with its top 75 customers having an average relationship of almost six years and its top 25 customers almost seven years. This has led to a strong gross retention rate of 95% overall and 100% for its top 75 customers since 2018. This has also led to net revenue retention rates.

### Valuation

We calculate our base-case price target of \$34 by applying a 10.1x multiple to our CY/23 revenue estimate. Our target multiple is a slight discount to rule of 40 peers, in our view warranted due to the potential for upside to estimates, better growth and profitability and resiliency to macro challenges. Our price target supports our Outperform rating.

### Risks to rating and price target

1) DoubleVerify has seen both headwinds and tailwinds resulting from the COVID-19 environment, which could impact the advertising industry and the company's performance. 2) DoubleVerify is a transactional model; contracts are "evergreen" without guaranteed minimums. 3) DoubleVerify is tied to the advertising vertical; any macroeconomic event that impacts the supply or demand of digital advertising could cause an adverse impact on its end markets that is disproportionate to other software markets.

## Flywire Corporation (NGS: FLYW)

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**Rating: Outperform**

**Price: \$27.86**

**Target: \$34**

**Implied All-in Return: 22.04%**

**Most recent company note: [link](#)**

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 peers and 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 optionality the company has as it expands into B2B payments.

### Valuation

Our price target of \$34 is based on an EV/revenue multiple of ~9x our CY23 revenue estimate of \$360M. This target is a premium to 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 and 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 controls a significant portion of FLYW's voting and economic rights.

## Guidewire Software Inc (NYSE: GWRE)

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**Rating: Outperform**

**Price: \$77.85**

**Target: \$90**

**Implied All-in Return: 15.61%**

**Most recent company note: [link](#)**

### Investment summary

Guidewire is a leading provider of mission-critical software solutions for 450+ P&C (property and casualty) insurance carrier brands.

**We like shares of Guidewire for four primary reasons: 1) Guidewire is the clear market leader**, with 2.8x the revenue base of the next closest competitor, Duck Creek. Owing to its head start in the cloud, our industry checks suggest Guidewire is still viewed as the market leader which is supported by third-party reports (Gartner<sup>1</sup>, Forrester, etc.). In addition, Guidewire's management has highlighted 60%+ competitive win rates (based on a DWP basis). **2) Attractive financial model exiting the cloud transition.** While Guidewire's cloud transition has been painful, in our view, we believe Guidewire will be a stronger company financially exiting the transition. We see room for industry-leading 30%+ FCF margins and a return to high-teens revenue growth (with the possibility of 20%+ growth, with strong execution). **3) Large market opportunity.** We estimate the market opportunity for Guidewire today is \$20B+, but importantly, P&C insurance is a defensive industry and one that is behind on the digital transformation journey, in our view, necessitating solutions like Guidewire. In addition, we see the opportunity for Guidewire to expand its TAM over time by moving out of core P&C insurance and into adjacent areas, including life insurance (noting that many large insurers have practices in both). **4) Blue chip customer base.** Supporting the company's market leadership position, Guidewire's blue chip customer base includes impressive logos like Metlife, Allianz, Zurich, and Nationwide.

### Valuation

We calculate our base-case price target of \$90 by applying a 7x EV/revenue multiple to our CY23 estimate of \$941M. Our target multiple is a modest premium to the Vertical peer group, reflecting Guidewire's market leadership, attractive and defensive vertical opportunity, and favorable financial model exiting the cloud transition. Our price target supports our Outperform rating. Our three-stage DCF analysis (which assumes Cloud reaches 90%+ of ARR; 70%+ win rates, gross margins 65%+ and FCF margins ~30%) also supports our price target.

### Risks to rating and price target

Investment risks include: 1) Guidewire's cloud transition may not be successful; 2) Guidewire operates in a competitive landscape, particularly against Duck Creek; 3) international risk, with non-US revenue accounting for 40% of total revenue; 4) customer concentration, with the ten largest customers accounting for 28% of revenue in FY21 (27% of ARR); and 5) high mix (25%) of low margin professional services.

<sup>1</sup> Gartner: Magic Quadrant for P&C Core Platforms, North America, 14 September 2021, Sham Gill and James Ingham

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## Magnite, Inc. (NASDAQ: MGNI)

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**Rating: Outperform**

**Price: \$9.21**

**Target: \$16**

**Implied All-in Return: 73.72%**

**Most recent company note: [link](#)**

### Investment summary

Magnite 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. Recently, the company has invested toward a full CTV technology stack including the acquisition of SpotX. In 2022, Magnite generated \$514.6M in revenue (+24%) while also delivering 35% adj-EBITDA margins. Looking forward, we believe the company's success will revolve around being able to successfully integrate CTV investments and expand market share within the fast-growing segment.

**Potential positive catalysts:** 1) Magnite is a leader in CTV for open-internet SSP players and has the opportunity to capture additional share in this rapidly growing TAM; 2) the company's expanded product portfolio around CTV could create additional cross-sell opportunities as well as accelerated spend from its publishers assisting in linear TV re-targeting; 3) Alternative Cookie Solutions (TTD's Unified ID 2.0, RAMP's ATS) create a superior targeting and measurement environment on the Open Internet relative to third-party cookies; 4) regulatory action is taken against Google that limits its ability to aggressively compete in the SSP space, leaving more room for Magnite to gain market share.

### Valuation

We calculate our price target of \$16 by applying a 5.1x multiple to our CY/23E revenue estimate or 17.2x EV/EBITDA. Our target multiple is a slight premium to lowered ad-tech peers, in our view warranted due to the potential for upside to estimates driven by strong CTV traction balanced by increased risk from the nascent stage of that same market. Our price target supports our Outperform rating.

### Risks to rating and price target

1) Magnite has seen both headwinds and tailwinds resulting from the COVID-19 environment, which could impact the advertising industry and the company's performance. 2) Magnite 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) Magnite 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) Magnite has created an advantage in CTV/OTT. Failure to manage and defend these emerging growth opportunities could lead to market share losses.

## Shift4 Payments, Inc. (NYSE: FOUR)

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**Rating: Outperform**

**Price: \$68.63**

**Target: \$80**

**Implied All-in Return: 16.57%**

**Most recent company note: [link](#)**

### Investment summary

We believe Shift4 offers investors several attractive and unique attributes within the payments industry. 1) 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. 2) 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. 3) 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. 4) The company has a demonstrated track record of providing client-focused innovation in the hospitality industry, which was illustrated 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 \$80 is 18x CY23 RBCe EV/EBITDA and in line with the peer group average, which we think is appropriate given FOUR's multiple growth vectors including new vertical conversions, gateway sunset, and international growth. 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.

## PagerDuty, Inc. (NYSE: PD)

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**Rating: Outperform**

**Price: \$32.02**

**Target: \$34**

**Implied All-in Return: 6.18%**

**Most recent company note: [link](#)**

### Investment summary

PagerDuty was founded in 2009 by three former Amazon developers who experienced first hand the challenges of providing on-call support for their applications. The inefficiencies of existing solutions and lack of formalized solutions negatively impacted their work/life balance. Although a majority of their revenue comes from on-call management, the platform has been extended with more than 300 ecosystem partners with deep integrations allowing customers to see faster time to value with complete visibility into virtually any software-enabled system or device. The integrations have allowed PagerDuty to see billions of digital signals per day with 10 years of operating history. Machine learning platforms are only as strong as their data set, which we view as a competitive differentiation combined with human response data to enable intelligent real-time responses for customers. Based on these capabilities, we believe the company has the opportunity to move into other areas of an organization beyond IT on-call management such as customer service, security, business operations, and industrial operations. Overall we like the company and opportunity.

**Potential catalysts:** 1) Acquiring new customers more quickly than expected; 2) up-selling its base with solutions beyond on-call management, which would show up as higher/maintained net-retention rate; 3) new solution introduction that expands the TAM; 4) leveraging both direct and indirect channel investments; and 5) additional global expansion.

### Valuation

To derive our \$34 price target, we apply a 7.4x EV/S multiple to CY/23E revenue, in line with 20–30% SaaS peers. Our price target and multiple reflect peer multiple compression while our price target supports our Outperform rating.

### Risks to rating and price target

1) Revenue growth is tied to net-retention rates and assumes growth in existing customers; 2) the company is +99% subscription, increasing the importance of managing renewals; 3) this is a rapidly growing and attractive market with an evolving competitive environment; 4) the company has a history of losses and may not achieve profitability in the near future; and 5) COVID-19 could impact company operations or customer demand.

## PowerSchool Holdings, Inc. (NYSE: PWSC)

Matthew Hedberg (Analyst)

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**Rating: Outperform**

**Price: \$18.79**

**Target: \$29**

**Implied All-in Return: 54.34%**

**Most recent company note: [link](#)**

### Investment summary

**We believe PowerSchool is well positioned as a leading provider of K-12 education technology solutions, due to the mission-critical nature of its solutions, large and greenfield market, upsell/cross-sell opportunity in its large existing customer base and increasing digitization in the education industry.**

Management estimates a global TAM of \$25B based on the current solution set. Within that TAM, we believe there is a significant greenfield portion of the market where the company can sell into customers with no existing incumbent, losing potential deals more often to “no decision” than a competitor. We believe PowerSchool is unique in the breadth and depth of its platform and its many integrations and has built a certain level of trust and credibility in a market which is slow to adopt unproven and untrusted products. However, once the customers adopt a solution, the relationship is typically sticky due to the mission-critical nature of the systems, making it harder to replace. COVID pandemic has accelerated the digitization of the education industry and the shift towards data-driven education, which we think should continue to benefit PowerSchool.

**Potential growth catalysts:** 1) Under ESSA, school districts are required to differentiate instruction on an individual student basis. PowerSchool's platform frees up more time for teachers to give students the individual attention they need. 2) Underpenetrated global K-12 market; COVID has accelerated the pace of digitization in the education vertical. 3) The acquisition of Hoonuit unlocks the power of data, allowing educators and administrators to evaluate all aspects of student achievement, which we view as a distinct competitive advantage. 4) Cross-sell opportunity within existing base of ~\$2.5B, per management estimate. 5) Symbiotic partnerships with best-in-class providers across the K-12 ecosystem. 6) M&A, which has historically contributed ~50% of the growth.

### Valuation

We calculate our base-case price target of \$29 by applying a 9.7x multiple to our CY/23 revenue estimate. Our price target and multiple reflect peer multiple expansion while our target multiple is a discount to vertical SaaS peers and a premium to 10-20% growth SaaS peers, in our view warranted due to the potential for upside to estimates, better profitability and a large and expanding TAM. Our price target supports our Outperform rating.

### Risks to rating and price target

- 1) Failure to manage renewals, given the North American penetration rate requires ongoing up- and cross-sell to support growth.
- 2) Change in budget priorities of state and local governments could impact the spending power of PowerSchool's customer base.
- 3) Failure to properly integrate acquired assets.

## Varonis Systems, Inc. (NASDAQ:VRNS)

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**Rating: Outperform**

**Price: \$26.18**

**Target: \$31**

**Implied All-in Return: 18.41%**

**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:** 1) Large market opportunity. 2) Post COVID beneficiary due to the increased risk of data governance in a work from anywhere environment. 3) Growth strategy = land + expand + retain. 4) Expanded salesforce. 5) Rapid innovation. 6) High barriers to entry. 7) International growth opportunity. 8) Long-term margin expansion. 9) A new SaaS opportunity

### Valuation

Our \$31 price target assumes that shares trade at 6.2x CY/23E EV/S, or roughly in line with increased peer multiples. Our price target and multiple reflect peer multiple expansion and are warranted in our view 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. We believe our 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

1) The economic environment remains volatile specifically for COVID-19 impact. 2) The potential for increased competition. 3) The SaaS mix-shift. 4) Revenue growth as the SaaS transition accelerates

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## Investment Summaries – Biopharma

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## 89Bio, Inc. (NASDAQ: ETNB)

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**Rating: Outperform, Speculative Risk**

**Price: \$16.94**

**Target: \$36**

**Implied All-in Return: 112.51%**

**Most recent company note: [link](#)**

### Investment Summary

89Bio's lead asset BIO89-100, a glycopegylated analog of FGF21, has demonstrated promising clinical data on lipid and metabolic biomarkers, driving good clinical promise in both NASH and a second indication, SHTG, which could enable a faster path to market. Though it will be several years before commercialization, we ultimately see potential for >\$1.6B in out-year revenues, including ~\$1.2B in NASH. Though somewhat balanced by class unknowns and inherent NASH development hurdles, we believe the promise for the asset could drive additional share appreciation as clinical programs continue to develop.

**Key positives:** (1) Competitive ph.II data on liver fat reductions and additional metabolic benefits in NASH; (2) SHTG represents an additional, and potentially faster, path-to-market for '100; (3) Q1W or Q2W dosing regimen could potentially allow for more convenient administration and subsequently strong uptake; and (4) launch of earlier NASH products may serve to better define NASH market before '100 reaches commercial stage.

**Key potential catalysts:** (1) Regulatory path updates in NASH (2023); (2) Initiation and topline data from ph.III SHTG study (1H23, 1H25).

### Valuation

Our \$36 price target blends DCF (using an 11.5% discount rate and a 2.5% terminal growth rate) and sales multiples (30x on 2031E adjusted EPS discounted at 11.5%) analyses. Our price target supports our Outperform, Speculative Risk rating. 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 a safety signal emerging for BIO89-100 that would be prohibitive to administration; failure to demonstrate efficacy in later-stage studies; failure to garner regulatory approval; poor market penetration due to competition or lack of demand; inability to fund operations as a small-cap company with no marketed commercial product; a smaller ultimate NASH commercial market opportunity than anticipated.

## Agios Pharmaceuticals, Inc. (NASDAQ: AGIO)

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**Rating: Outperform**

**Price: \$21.98**

**Target: \$40**

**Implied All-in Return: 81.98%**

**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.** We see AGIO's wholly owned pyruvate kinase deficiency (PKD) franchise as one of its most valuable assets but a controversial potential blockbuster. We believe Pyrukynd's broad label enables relatively easy prescribing (diagnosis & prescribing based on a blood test; no companion diagnostic required) and potentially adding tailwinds to the early launch, though we note the label's clause advocating discontinuation of treatment in patients not deriving a response at ~24wks potentially adding headwinds after several launch quarters. We see the approval of Pyrukynd in PKD read-through to potential of the agent in other hemolytic anemias such as sickle cell disease and thalassemia. We see the potential for peak global sales of ~\$1.6B in 2031 collectively in PKD, SCD, and thalassemia.

**Servier oncology sales are 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:** (1) Complete enrollment of thalassemia ph.III trials (mid-2023); (2) topline of ph.II portion of RISE UP study in 69 SCD pts and updates on dose selection (mid-2023); (3) enroll 50% of pediatric PKD trials (by YE'23); (4) topline of ph.III ENERGIZE trial in 171 pts with non-transfusion dependent thalassemia (1H2024).

### Valuation

Our base case is driven by a 90% probability of success for mitapivat in PKD with ~\$400M out-year global revenue potential, with a 35% probability of success in SCD with over \$1B out-year global sales potential, and 40% probability of success in thalassemia with over \$300M out-year global sales potential. Our \$40 price target is based on a blend of DCF (using a 10% discount rate and a 0.5% terminal growth rate) and probability-adjusted multiples (25x on 2030E adjusted EPS with a 10% discount) analyses. Our valuation supports an Outperform rating.

### Risks to rating and price target

Risks to our price target and rating include: 1) lack of treatment benefit of mitapivat in other hemolytic anemias such as sickle cell disease and thalassemia; and 2) delayed regulatory/launch timelines vs. our estimates.



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

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**Rating: Outperform**

**Price: \$45.89**

**Target: \$71**

**Implied All-in Return: 54.72%**

**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 and bipolar treatment. Following approval in both indications with what we view as a clean and potentially differentiated label—particularly regarding the safety profile—we model >\$450M in out-year WW revenues for Caplyta in schizophrenia and >\$700M in bipolar. With lumateperone’s commercial potential we believe shares are undervalued and have upside potential into launch in bipolar, and we see further optionality in both mixed features and major depression, along with pipeline opportunities such as 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 and BPD approval may reduce risk to path forward in MDD, given ability to file sNDA; and (5) blockbuster potential of a drug with broad applicability across psychiatric conditions.

**Potential catalysts:** (1) Study 403 readout for mixed features (March-'23); (2) Adjunctive MDD study readouts (2024).

### Valuation

Our \$71 price target blends DCF (using a 10% discount rate and 2.0% terminal growth rate) and probability-adjusted multiples (25x on 2026E adjusted EPS with a 10% discount) analyses. Our price target supports our Outperform rating.

### Risks to rating and price target

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

## Pacira Biosciences, Inc. (NASDAQ: PCRX)

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**Rating: Outperform**

**Price: \$38.6**

**Target: \$76**

**Implied All-in Return: 96.89%**

**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. We also expect the company to benefit from several thematic tailwinds including ongoing volume shift to the outpatient/ASC setting. More near-term, we will continue to monitor the broader recovery from macro factors including staffing and capacity, where we assume continued normalization throughout 2023.

**1) Near-term focus will remain on the impact of post-pandemic drags, though rebound under way.** EXPAREL utilization has outperformed the elective surgery market throughout the pandemic, which we expect to continue. We also expect to see benefit from the return of “warehoused” patients. **2) We expect growing EXPAREL revenues to drive meaningful margin expansion over time.** We expect gross margins to grow from high 70%'s to mid-80%'s with additional benefit from R&D and SG&A expenses that we expect to grow at a slower rate than sales. **3) FLXN acquisition complements PCRX's existing non-opioid portfolio and enriches the pipeline for long-term value generation and growth.** FLXN's commercial product ZILRETTA in osteoarthritis (OA) knee pain and label expansion potential in shoulder OA, as well as pipeline assets FX201 and FX301 in OA and acute pain, are complementary to PCRX's long-term approach and pain management toolbox, in our view.

**Potential near-term catalysts:** 1) Quarterly revenues (over 2023); 2) sNDA filing update for lower extremity nerve block expansion (1H23) and potential decision 2H23; 3) launch registration study for cardiac dysrhythmia (stellate ganglion block) in 2023; and 4) launch ph.I studies in lower back pain (Dexamethasone-pMVL) and chronic pain (Bupivacaine-pMVL 20 mg) in 2Q23 and 3Q23, respectively.

### Valuation

Our base case assumes an 80% probability of success for Exparel with ~\$1.3B out-year sales potential, a 50% probability of success for Iovera with more than \$50M out-year sales potential, a 70% probability of success for Zilretta with over \$200M out-year sales potential, and an 80% probability of success for other products with more than \$8M out-year sales potential collectively. Our \$76 price target is based on a blend of DCF (using a 12% discount rate and a 0.5% terminal growth rate) and probability-adjusted multiple (20x on 2027E adjusted EPS with a 12% discount) analyses. Our valuation assumptions are comparable to other biotech companies developing therapeutics at a similar stage. 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.

## Sarepta Therapeutics, Inc. (NASDAQ: SRPT)

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**Rating: Outperform**

**Price: \$128.38**

**Target: \$200**

**Implied All-in Return: 55.79%**

**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, Amondys and Vyondys's approval and launch, 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. launch of exon skippers, with quick uptake and high visibility for growth; 3) next-generation PPMO-based exon skippers in development.

**Key potential catalysts:** 1) FDA Adcomm on '9001 (2Q23); 2) Potential accelerated approval for '9001 (May 29, 2023); 3) Results of Study 301 (4Q23)

### Valuation

Our \$200 price target blends DCF (using a 10% discount rate and a 0% terminal growth rate) and probability-adjusted multiples (30x on 2028E adjusted EPS discounted at 10%) analyses. Our price target supports an Outperform rating.

### Risks to rating and price target

**Risks:** 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; and 4) poor performance in confirmatory study leading to market removal or increased patient discontinuations.

## uniQure N.V. (NASDAQ: QURE)

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**Rating: Outperform**

**Price: \$19.95**

**Target: \$53**

**Implied All-in Return: 165.66%**

**Most recent company note: [link](#)**

### Investment summary

We rate QURE Outperform, Speculative Risk given: we continue to like the set-up given an undemanding valuation (~\$600m EV), no near term capital need (runway into 2025 assuming near term milestones) and a unique profile with recently approved Hem-B protecting the downside (we continue to see a ~\$1b drug at peak) and potential for material upside into Huntington's (first look at functional data in 2Q23) and the rest of the pipeline (INDs for TLE and Fabry this year).

**Hemophilia B Has Potential for First/Best-In-Class** - In Hem-B, we like that QURE: 1) is first to market in US and EU (9-12 months ahead of PFE); 2) potentially best-in-class (37% FIX activity vs ~20% for PFE); 3) offers superior safety/convenience (no steroid prophylaxis); and 4) captures a broader market (ability to treat up to 95% of Hem-B patients with underlying NABs).

**CSL Deal Offers Floor Value** - Stock materially pulled back since out-licensing Hem-B to CSL as the M&A thesis has lost traction. However, we think the deal: 1) was struck on favorable economics; 2) pushes out dilution; and 3) could be a good floor value to the stock as the company pivots to CNS.

**HD Is High Risk/Reward, but We Like Data to Date** - Huntington's is high risk/reward, but we like clarity on genetic root cause, low regulatory bar and QURE's approach as: 1) potentially one-and-done; 2) MoA targeting disease causing exon 1; and 3) intraatrial is invasive but ensures delivery to the primary site of the pathology.

### Valuation

Our \$53 price target is based on a DCF analysis that assumes a 10% WACC (same for all stocks in our coverage), 0% terminal growth rate (with a 0-2% range applied to our coverage depending on the relative maturity of the platforms), 100% PoS for EtranaDez, 25% PoS for Huntington's disease, and 15% for the platform. Non-PoS adjusted platform value is determined by the sum of the terminal value of the individual programs. This price target supports our Outperform, Speculative Risk rating. We assign a Speculative Risk qualifier given unpredictability of future revenues and expenses 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: commercial launch delays (HEMGENIX), clinical program execution (AMT-130, SOD1, TLE), regulatory uncertainties, intellectual property risk, failure to demonstrate sustained efficacy in trials, potential emergence of a safety signal, competition (PFE, IONS, WVE) and long-term pricing pressure (HEMGENIX) in the space.

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## **Investment Summaries – Healthcare Technology, Tools, Devices and Services**

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## Axonics, Inc. (NGS: AXNX)

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**Rating: Outperform**

**Price: \$55.3**

**Target: \$85**

**Implied All-in Return: 53.71%**

**Most recent company note: [link](#)**

### Investment summary

**AXNX operates in the large, under-penetrated SNM end-market.** We estimate the \$790MM U.S. SNM market is poised to nearly double by 2027 with AXNX reaching +30% market share. Less than 1% of the eligible 6.8MM patients treated with SNM. Of the 40MM U.S. adults suffering from overactive bladder (OAB), 16MM are medically managed and +80% of patients prescribed medications discontinued use in 6M due to adverse effects, unmet treatment expectations, and cost. AXNX's technological edge should aid market expansion and share gains. **AXNX also operates in a large, under-penetrated SUI end-market.** The Feb-21 acquisition of Bulkamid allowed AXNX to add a new adjacency to address the needs of 29MM U.S. women suffering from SUI who are conservatively managed or opt for no treatment due to limitations of legacy bulking agents and reluctance to undergo a sling procedure. The market is under-penetrated with substantial opportunity for growth as just 40k annualized Bulkamid procedures are currently performed. **AXNX is maintaining technological edge in SNM and SUI.** AXNX's recharge-free F15 system launched in Apr'22 is long-lived (15-20 year battery life or 50% longer vs. competition) with a lower profile (20% smaller and 15% thinner vs. competition). Its fourth-gen R20 rechargeable system launched in Q1'23, and extends the time between recharges to just once every six months versus monthly. AXNX's Bulkamid is a differentiated urethral bulking agent (UBA) that is easy to use, offering durable relief for up to 7 years. **AXNX has a pathway to deliver continued strong top-line growth and profitability in 2025, we believe.** We project AXNX to deliver a 3- and 5-year revenue CAGR of 22% and 20%, respectively, driven by market growth and share capture. We further see a pathway to profitability. AXNX has no debt and is fully funded to breakeven.

### Valuation

Our \$85 price target is based on an EV/sales multiple of ~9x on 2024E sales. The valuation offers modest multiple expansion, but is still well below the historical average NTM EV/sales multiple of ~15x. It also offers a discount to the high-growth SMID cap peer group reflecting conservatism. We believe there is room for upside given AXNX's technological edge in the SNM market and potential to drive growth and share gains above currently projected levels. Our price target supports our Outperform rating.

### Risks to rating and price target

(1) AXNX's sole competitor is a much larger company (MDT) with greater resources and a first-mover advantage. (2) AXNX's marketing efforts may fail and be unable to drive penetration. (3) AXNX's future relies on success within the SNM space, which could attract new competition from players already operating in the neuromodulation space (e.g., ABT, BSX). (4) AXNX may not drive enough Bulkamid adoption to be meaningful to growth, especially given low ASPs. (5) AXNX is unprofitable, may not break even for years, and may need to raise additional capital in the future.

## Evolut Health, Inc. (NYSE: EVH)

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**Rating: Outperform**

**Price: \$29.94**

**Target: \$44**

**Implied All-in Return: 46.96%**

**Most recent company note: [link](#)**

### Investment summary

Evolut Health (EVH) supplies tech and tech-enabled services to both payers and providers that help transition their business models to one in which they are assuming a more integrated clinical and financial responsibility for their members/patients. Put more simply, its solutions help ease participation and optimize performance in value-based care programs. Why we like EVH and believe it deserves a premium relative valuation comes down to: (1) its significant and growing TAM and alignment with longer-term structural macro trends—aging and sicker US population and accelerating transition to VBC; (2) its heavy focus on specialty care spending, which helps differentiate it in an increasingly dense tech-enabled provider market; (3) its increasing breadth, which we believe helps increase its appeal to those payers and risk-bearing providers looking for platform (as opposed to point) solutions; (4) its significant cross- and up-selling opportunity, which we believe will be relatively easier to convert than solely pursuing new logos; and (5) the heightened conviction all of these combined give us into the company being able to execute on its longer-term mid-teens revenue growth and mid-teens EBITDA margin targets.

**Potential catalysts:** **1) Cross-Selling Specialty Care Solutions.** Any sort of progress update on the integration of or metrics quantifying the cross-selling of newly-acquired palliative and MSK solutions into the existing client base and vice versa. **2) Shifting More Tech & Services Specialty Care to Risk Models.** This has a dramatic impact on revenue growth and provides a much greater opportunity to generate EBITDA dollars. **3) Progress in Full Capitation Primary Care Contracts.** This could come in the form of demonstrated savings across the commercial lives EVH is managing in NC and/or contracting with additional partners for total cost of care management. **4) ACO Performance Results from CMS.** CMS should publish ACO results from the 2022 performance year in August. Improvement relative to 2021 and versus competitors would be an incremental positive, as would any detail indicating that EVH's specialty care solutions played a part in the savings/improvement.

### Valuation

Our \$44 price target is based on EVH trading 2.4x our '23 revenue estimate, which represents a slight discount to its historical average, but a premium to the 2.0x average of its tech-enabled provider peers given its strong commercial momentum. Also, our expectation EVH will sustain a 15%+ organic revenue CAGR over the next 3+ years and is on a path to mid-teens EBITDA margins within that timeframe we believe makes it a "Rule of 30" stock, which even at 2.4x '23E revenue would value it significantly below other Rule of 30 stocks. Our price target supports our Outperform rating.

### Risks to rating and price target

Risks to our rating and price target include high customer concentration, inability to generate meaningful savings in risk-based contracts, failure to cross-sell new solutions, increasing competition, and data privacy risk.

## Maravai LifeSciences Holdings Inc (NASDAQ: MRVI)

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**Rating: Outperform**

**Price: \$13.74**

**Target: \$22**

**Implied All-in Return: 60.12%**

**Most recent company note: [link](#)**

### Investment summary

We are Outperform on MRVI with a \$22 price target. We believe Maravai is a clear winner coming out of the pandemic, as its participation in Pfizer's COVID vaccine program provided financial and strategic benefits that make it a stronger company well after the 'COVID cliff'. In our view, its best-in-class product differentiation (CleanCap) ensures participation in current and future mRNA programs, while near-term benefits from COVID-related sales have helped strengthen the company's financials.

### Valuation

Our 12-month price target of \$22 uses the current EV / sales multiples of comparable companies in our coverage universe. The high growth innovator comps trade at 12.0x, and incumbent comps trade at 3.3x sales. Given the unknowns surrounding COVID-related demand in the future, we think it is appropriate to apply the innovator comp multiple to MRVI's non-COVID sales, and the incumbent multiple to COVID-related sales. We use our CY'24 sales estimates for COVID / non-COVID sales to get to \$22, which supports our Outperform rating.

### Risks to rating and price target

1) Over 50% of Maravai's sales are for one product and to two companies (Pfizer and BioNTech) for its COVID vaccine program. If sales to those customers were to decline it would have a negative impact on earnings relative to our estimates. 2) We are above consensus estimates in 2024, the year we use to derive our price target. If our estimates on the core business or COVID-related sales prove to be too high, our price target could come down. 3) Maravai sells products in an emerging area of medicine including mRNA and cell & gene therapy. If therapies and vaccines do not get approval; or if companies decide to stop developing therapies / vaccines in this area, it could hurt future earnings growth for MRVI. 4) Maravai competes with larger organizations, and if one of those organizations is able to take market share from Maravai, it would have a negative impact on earnings. 5) CleanCap, which accounts for more than 50% of company revenue, could be displaced in the market if an alternative option is found for the cap1 process in capping mRNA therapies and vaccines. 6) Any additional problems with the CEO transition plan could negatively impact the business. MRVI hired Trey Martin, III as CEO in October when Carl Hull announced his retirement. In mid-October Mr. Hull was re-instated amidst pending noncompetition litigation. This lawsuit was dropped on December 1st; and it is assumed he will assume the CEO role in July. 7) GTCR, the private equity company that co-founded Maravai, still owns a majority of the voting shares in MRVI. If GTCR decides to sell their stake; or make a decision that is not beneficial to all shareholders, it could pressure the stock price.



## R1 RCM Inc. (NGS: RCM)

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**Rating: Outperform**

**Price: \$13.75**

**Target: \$18**

**Implied All-in Return: 30.91%**

**Most recent company note:** [link](#)

### Investment summary

R1 RCM, Inc. helps both acute-care and ambulatory providers better manage their revenue cycles—its offerings range from software modules that clients can install and run themselves to full outsourcing. RCM outsourcers, like R1, leverage their own operational expertise and shared resources to drive efficiencies and economies of scale. Healthcare providers benefit by offloading these increasingly expensive, non-core functions, freeing up time to focus on delivering higher-quality patient care. Increasingly complex regulations and rising costs are driving increased demand for these services. Notably, findings from our recent survey of hospital executives show 32% of respondents said they are planning to outsource more of their RCM processes over the next 3 years.

Currently, the majority of R1's revenue comes from its largest customer, Ascension. The company has spent the last few years optimizing Ascension's RCM operations, and in the process, has enhanced its product offering and operational expertise—both helping pave the way for future expansion. Over the last four years, R1 has signed ~\$25B of non-Ascension NPR, more than doubling its base and increasingly demonstrating its ability to commercialize its offerings outside of its core client footprint.

**Potential catalysts: More contract/NPR Wins.** As R1 continues to add new clients and contracts, it both helps further diversify its base and provides additional proof-points it is able to commercialize its offerings beyond its core customers. Management did recently announce it is expanding its annual new NPR deployment capacity to \$9B, from \$5B previously, signaling its increasing confidence in both the LT demand environment as well as its relative competitiveness. **Improving EBITDA margin via tech investments.** Management generated approximately \$20M of EBITDA in 2020 from implementing robotic process automation to automate redundant tasks. The company continues to invest in RPA and other technologies and that contributed another incremental \$25M+ in 2022. Further demonstrating these solutions are working and generating savings could provide a lift to both margins and share price.

### Valuation

Compared to its HCIT and outsourced services peers, RCM: (1) features a more stable, defensive revenue and earnings stream; (2) should grow EBITDA/EPS at a rate nearly 2x the group average over the next 3 years; and (3) given the contracts/NPR it has recently signed, has better forward visibility on growth. However, the company laid out a string of near-term challenges and headwinds that will likely result in a drag on revenue/margins into '23, and at the very least, will add more volatility to earnings. Our \$18 price target is based on RCM trading at 12x our 2024 EBITDA estimate, which is in line with peers as the near-term risk largely offsets the benefits of a premium model. 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 significant customer concentration, prolonged impact from the COVID-19 pandemic, competition, product concentration, and a lingering negative reputation from prior lawsuits.

## Surgery Partners, Inc. (NASDAQ: SGRY)

Ben Hendrix (Analyst)

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**Rating: Outperform**

**Price: \$31.65**

**Target: \$47**

**Implied All-in Return: 48.5%**

**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 solid growth through the pandemic. 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 \$47 price target is based on a target enterprise multiple of ~19x our FY23E adjusted EBITDA-MI estimate. Our target multiple is within historical ranges, and given that SGRY is a pure-play ASC operator, our multiple reflects a significant premium versus SGRY's closest public peer. We believe a premium multiple is warranted by the demonstrated resilience of SGRY's business model through the pandemic, targeted growth strategy toward high acuity procedures, execution on M&A, and impressive track record with physician recruiting. Our price target supports our Outperform rating.

### Risks to rating and price target

1) Dependence on managed care and Medicare payment rates. 2) Integration risk. 3) Physician recruitment and retention. 4) Labor cost inflation. 5) Revenue concentration. 6) Balance sheet leverage

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## Investment Summaries – Financials

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## Goosehead Insurance Inc. (NASDAQ: GSHD)

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**Rating: Outperform**

**Price: \$48.67**

**Target: \$66**

**Implied All-in Return: 35.61%**

**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 sizable 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 +25% 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.

**Investment points: 1) 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. **2) 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. **3) 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. **4) 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 \$66 equates to roughly 77x our 2023 operating EPS estimate and is reached via our DCF model. The key assumptions of our DCF include a 12.5% discount rate and a terminal P/E multiple of 20x. Over the term of the DCF, we see a continued runway for growth as Goosehead expands operations and its market penetration. We see margins expanding as the company gains operating leverage. 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.

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## Investment Summaries – Industrials and Energy

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## AeroVironment, Inc. (NASDAQ: AVAV)

Ken Herbert (Analyst)

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**Rating: Outperform**

**Price: \$89.44**

**Target: \$115**

**Implied All-in Return: 28.58%**

**Most recent company note: [link](#)**

### Investment summary

AeroVironment (AVAV) provides exposure to the U.S. unmanned systems defense market. We believe this is a growing market both in the U.S and internationally as unmanned systems become increasingly important to all aspects of military affairs. AVAV is a leader in the small and medium unmanned aerial systems (UAS) markets and has recently entered the unmanned ground systems market. The company has benefited from the most recent increase in U.S. defense spending. There has been a surge in upgrade and re-capitalization efforts for unmanned aircraft. The company currently sells its small UAS systems to more than 50 international governments. As requirements have evolved, AVAV has established a leadership position in the tactical missile system (TMS) market. These loitering munitions offer advantages over traditional missiles in terms of strike precision and timing (including the ability to call off a strike). Recent acquisitions have pushed the company into the medium UAS (MUAS) market as well as the ground unmanned systems market. We believe investors appreciate the more aggressive use of the balance sheet, but the ultimate impacts of the acquisitions on top-line growth, margins, and returns are not yet proven. We believe investors are focused on the outlook for sales growth after the reset lower with the fiscal 2022 results. The company continued to face supply chain headwinds in 1Q23, but the outlook for defense spending appears to be inflecting positively as a result of Russia's invasion of Ukraine. Moreover, sentiment on defense stocks has improved, and AVAV appears well positioned to benefit from increased sales of its Switchblade loitering munition as well as its Jump-20 system. We believe we are in the early innings of what should be a strong positive inflection for the Switchblade product line, and improved prospects for its SUAS and MUAS product lines.

### Valuation

Our \$115 price target is based on the blend of a 28.5x EBITDA multiple and a 38x EPS multiple, applied to our FY24 estimates. Our price target calculation is weighted towards our EBITDA estimates. Our price target supports an Outperform rating, and we believe multiples at the mid-point of the range are appropriate considering the emerging visibility on near-term growth, due largely to continued supply chain delays, but partially offset by the upside potential from its TMS, Small UAS and MUAS offerings.

### Risks to rating and price target

Key risks to our investment thesis and price target objective include: 1) Top-line level of defense spending and funding for specific company programs. 2) Timing of the FY22 defense budget completion and impact of the Continuing Resolution. 3) Future defense spending priorities, specifically balance of funding for legacy programs and modernization efforts. 4) Timing and opportunity for foreign military sales and the international adoption of the company's TMS product line. 5) Successful integration of recent acquisitions. 6) Ongoing military evaluations of unmanned technologies and continued adoption of autonomous systems in the defense market. 7) Management of COVID-related risks to end-market demand and the potential for further supply chain and logistics disruptions. 8) Ability to hire and train the necessary human capital to achieve growth objectives. 9) Potential supply chain disruptions and extended lead-times, which could impact company, customer, or supplier delivery schedules. 10) Raw material costs and availability. 11) M&A pipeline and the company's ability to successfully execute and integrate subsequent acquisitions. 12) The company's ability to access capital and financial liquidity to support its growth objectives. 13) Pace of new company product and service introductions. 14) Interest rates and the ability to access capital to support acquisitions and other growth initiatives. 15) Success of the HAPS system development and the successful launch of services

## Fluence Energy, Inc. (NASDAQ: FLNC)

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**Rating: Outperform**

**Price: \$16.07**

**Target: \$26**

**Implied All-in Return: 61.79%**

**Most recent company note: [link](#)**

### Investment summary

While a rising interest rate environment and supply chain disruptions have significantly dampened valuations in 2022, we maintain our view that Fluence can capture long-term value from a large addressable market. The passage of the Inflation Reduction Act should act as a long-term catalyst. We believe Fluence's competitive advantage in an expansive distribution channel through its founders AES and Siemens remains true. We expect growth of the digital platform to gradually improve overall gross margins and shift the business profile towards more recurring revenues. We currently anticipate 2022-2027 revenue CAGR of 23%.

### Valuation

Our price target of \$26 is based on the average of DCF and SOTP methods. Our price target supports our Outperform, Speculative Risk rating. We apply a Speculative Risk qualifier in light of significant supply chain challenges.

Our DCF model assumes a 14.2% WACC and 5x terminal EBITDA multiple with 2-stage growth (30% 2026E-2031E and 7% 2032E-2042E) and terminal growth rate of 2%. We arrive at an equity value per share of \$26.

Our SOTP method carves out the digital segment (29%) of 2026E EBITDA and applies a 12x EV/EBITDA on the remaining "hardware" EBITDA of \$266M. Our multiple gives consideration to a rapidly growing energy storage market, hence a significant premium to the median multiple of our engineering and procurement peer group. We value the digital segment on a 2026E EV/Sales basis. We apply a 4.6x multiple to 2026E digital revenues of \$198M, in line with the median multiple of our SaaS peers with 30-40% revenue CAGR. We arrive at an equity value per share of \$25.

### Risks to rating and price target

1) Supply chain disruptions persist and pressure margins. 2) Significant increase in raw material prices reduces demand for energy storage. 3) Difficulty in contracting PPAs reduces demand for energy storage. 4) Long interconnection queues slow down energy storage deployment. 5) Lower attach rates in services and digital solutions due to higher competition. 6) Inability to contract sufficient production capacity.

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## Investment Summaries – Retail Services

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## Driven Brands Holdings Inc. (NASDAQ: DRVN)

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**Rating: Outperform**

**Price: \$28.08**

**Target: \$40**

**Implied All-in Return: 42.45%**

**Most recent company note: [link](#)**

### Investment summary

The automotive aftermarket services space is a ~\$350B industry, of which DRVN has exposure to ~\$104B today (maintenance ~\$57B, paint, collision & glass ~\$38B, and car wash \$9B). Interestingly enough, even as an industry leader across these segments, DRVN holds just 2% share of maintenance, 5% share of car wash, and 6% share of paint, collision & glass. This, of course, suggests that these industries are very fragmented and ripe for consolidation (DRVN management estimates that ~80% of its current competition is small chains and independents). We believe DRVN's size/scale and experience opening/acquiring units positions the company well to continue gaining share across the auto services space. We expect consistent +LDD revenue and EBITDA growth, which should put the company on track to meet/exceed its goal of hitting \$850M in adjusted EBITDA by year-end FY'26. We rate DRVN Outperform.

### Valuation

Our base case \$40 price target is based on applying a 14.0x EV/EBITDA multiple to our FY24 adj. EBITDA estimate of \$661M. This estimate assumes a +13.7% revenue CAGR from FY22 to FY24E and 25.3%/25.1% EBITDA margins in FY23E/FY24E. Our 14.0x target multiple represents a modest premium to auto services peers, which we believe is justified given the company's diversification and LT algo (calls for +LDD revenue and EBITDA growth annually). Our price target supports our Outperform rating.

### Risks to rating and price target

**1) More pronounced car wash weakness than initially anticipated:** Recent car wash results have been soft, with DRVN's car wash comparable-store sales growth down 2.7% in F2Q'22, down 9.0% in F3Q'22, and down 10.1% in F4Q'22. We think volume has been a drag on results as consumers cut back on discretionary spend. Further deterioration in volume could become a drag on overall company performance. **2) P/E sponsor overhang:** According to FactSet, Roark Capital Partners and its affiliates own ~102M shares of DRVN (~61% of the float). As has been the case with other recent IPOs from private equity, concentrated sponsor ownership could serve as an overhang on shares. We note that Roark recently executed a secondary offering of 7M shares at \$32.19. **3) Accelerated EV adoption:** With many of the largest automakers targeting an EV sales mix of 40%+ by 2030, we view increasing EV penetration as a substantial risk factor for the quick lube segment. That said, we believe DRVN has a long runway of revenue growth and FCF before this becomes an issue. **4) More strict lending requirements:** DRVN has a significant amount of debt on its books due to its acquisitive growth strategy. As of the end of 4Q (12/31), DRVN was ~4.5x levered, ahead of peers in the 3-4x range. While DRVN has no variable long-term debt exposure, we caution that rising rates could make it more difficult to fund future acquisitions.

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