



Model N Bulls See Long-Term Upside as Subscription Transition Takes Hold

Ticker/Price: MODN (\$27.75)

Analysis:

Model N (MODN) trading more than 40X average volume today with buyers of more than 1,450 February \$28 calls up to \$3.40 and also seeing over 850 of the \$35 calls open as well. MODN has little notable open interest but did have 1,000 October \$29 calls open on 8-19 as well as some Sept. \$27 and \$28 calls. Shares have been very strong following earnings up to new highs and riding the 8-EMA over the last two weeks. MODN broke out of a long range in July above \$22 which targets \$32-\$35. The \$918M software company trades 15.7X cash and 6.36X EV/sales with sales growth of 9.14% and 11.24%. MODN is seeing growing profitability and expects to earn \$0.35/share in 2021, up from \$0.18 this year. MODN focuses on revenue management software for the life sciences industry including government pricing solutions for managed care. Their cloud-based system allows companies to more efficiently apply pricing, contracting, rebates, incentives, and other billing compliance options. MODN is coming off a strong quarter with subscription revenue up 3% and new customer acquisition rising Y/Y. They've added new management from Workday and Veeva to help them build out their subscription transition which will give them better visibility and recurring revenue. Analysts have an average target for shares of \$24 with 7 buy ratings and 1 hold. Needham upgrading to Buy on 8-7 citing strong execution and bookings growth. The firm has more confidence about the company's revenue growth re-acceleration coming from existing customers' transition to SaaS while new logo wins are a nice near-term driver. JMP with a \$29 PT and positive on the company's focus on the life sciences and technology verticals, its "sales engine" under the new leadership, and underpenetrated markets. Short interest is 1.9% and down from around 3.6% in December. Hedge Fund ownership fell 1.25% last quarter. Nuveen Asset Management, Martingale Asset Management, and G2 Investment notable holders.

Hawk Vision:



Hawk's Perspective: MODN is in an interesting software niche which sees little coverage but interesting story and long-term potential. Shares have run too far right now but given the timeframe, one to keep on the radar.

Confidence Ranking: \$\$