RealPage, Inc. (RP)

Baird Facts

Please refer to Appendix - Important Disclosures and Analyst Certification.

<table>
<thead>
<tr>
<th>Price ($) (5/20/20):</th>
<th>63.32</th>
</tr>
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<tbody>
<tr>
<td>52WK H-L ($) :</td>
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<tr>
<td>Market Cap (mil):</td>
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</tr>
<tr>
<td>Shares Out (mil):</td>
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<td>Float (mil):</td>
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<td>Avg. Daily Vol (mil):</td>
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<tr>
<td>Dividend ($) :</td>
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<td>Yield (%):</td>
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<tr>
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<tr>
<td>Suitability:</td>
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<td>Price Target ($) :</td>
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<tr>
<td>L-Term Rev. Gr Rate Est:</td>
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<tr>
<td>L-Term EPS Gr Rate Est:</td>
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<td>Debt/Cap:</td>
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<tr>
<td>Q1</td>
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<table>
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<tr>
<th>Headquartered</th>
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<tbody>
<tr>
<td>Richardson, TX</td>
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<table>
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<th>Management</th>
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<th>2020E</th>
<th>2021E</th>
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<td>Chief Executive Officer</td>
<td>Revenue (Mil)</td>
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<tr>
<td>% Growth</td>
<td></td>
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<tr>
<td>Chief Financial Officer</td>
<td>Operating Margin</td>
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<td>23.0</td>
<td>25.3</td>
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<td>Investor Relations</td>
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Company Description
RealPage, Inc., headquartered in Richardson, Texas, is a leading provider of software and data analytics to the real estate industry. The company’s on demand software platform addresses the entire life cycle of rental real estate through four distinct product families: property management, resident services, leasing and marketing, and asset optimization. RealPage was founded in 1998 and released its first on demand property management system for the multifamily rental market in 2001. Since then, the company has expanded its platform capabilities to include other functions that are essential to the management, operation, and financial decision making associated with properties in the multifamily, single family, senior living, student living, military housing, commercial, hospitality, and vacation rental markets.

Revenue Profile

Source: Baird estimates, Factset, Company reports

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Competition
RealPage competes with vendors providing accounting software; property management software; vertically integrated cloud computing services; and software-enabled point solutions targeting value-added services. Increased competition from any one area could impact pricing and/or market share. Competitors that compete against RealPage across several product solutions include Yardi, Entrata, MRI Software, AppFolio, and CoStar.

Quick Summary
- **Maintain Outperform rating.** RealPage delivered an in-line F1Q with March impacted by slower leasing velocity. FY20 revenue guidance reduced by 3-5%, our previously revised estimates are captured at the high end, and we believe reasonable given signs of recovery already being seen in impacted areas. Lowered EBITDA guidance assumes no reductions in S&M/R&D as RealPage capitalizes on virtual opportunity. Digital trends that were expected to take 5-10 years to play out have meaningfully accelerated in past two months, and we believe this can shift RealPage's organic growth profile higher in 2021+.
- **Maintain Outperform rating.** We continue to like RealPage stock. While a guidance update was widely expected, the stock performing well YTD and consensus estimates needing to move lower could create some short-term trading pressure (stock down 2-3% after hours). To the extent this develops, we believe it represents an attractive buying opportunity.
- **RealPage delivered an in-line F1Q report** with revenues (+18% YoY, +10% organic) and EBITDA (+10% YoY) matching expectations. The year started off strong but with slower leasing velocity during March impacting resident screening, contact center, and transactional spend.
- **Commentary on F1Q cash flow** was likely better than expected: FCF increased 14% YoY, management noted strong collection activity with the best DSO in three years.
- **Revenue outlook moves lower** with FY20 organic growth now guided to +5-9% versus earlier view of +10-12%. Prior to this update, we had gone to +8% and are maintaining that view given the color management provided on the call. In particular, the low-end assumption assumes little improvement from levels of activity experienced during the combined March/April timeframe, whereas RealPage real-time data already show an improvement in web traffic and executed new leases throughout April. The high-end assumption assumes a gradual improvement and customer willingness to engage on new projects.
- **Updated EBITDA outlook** reflects $3 million in incremental F2Q spending to establish temporary labor centers while investing in product/marketing; this incremental spend represents almost all of our F2Q estimate change. The FY20 EBITDA outlook of $290-300 million (+5% YoY) is below our previous $313 million estimate/$316 million consensus as RealPage intends to sustain S&M/R&D investments to capitalize on the opportunity for virtual leasing/living and electronic payments.
- **Structural uplift for digital solutions likely to benefit RealPage.** Part of the rationale for accelerating product development is the demand being observed for virtual capability: visit the property online, schedule a tour, walk the unit, see amenities with a live agent on video conference, and then lease online. Another area that we have likely undersized in our own work is the ramifications of #WFH, with apartment owners and operators utilizing portal tools to offer residents and tenants the best experience. RealPage saw a 75% increase in usage of its resident portal from March to May.

Investment Thesis
**Meaningful TAM as real estate pursues digital transformation.** The U.S. rental housing industry, including rent, utilities, and insurance, generates $560 billion in revenue annually; of this amount, only 1% is typically spent on technology investments. The emergence of vertical software companies like RealPage, with solutions exclusively focused on the real estate markets, tailored to the needs of professionals in the industry, and delivered over the internet in a recurring subscription model, is slowly starting to change the way property owners and managers operate.
- Based on a recent assessment, an incremental $3-4 billion in technology spending – amounting to 50 basis points of industry-wide revenues – has the potential to unlock $20-25 billion in incremental yields. This can be achieved by using real-time insights and accurate data to make better operating and financial decisions, while giving owners and managers the necessary tools to monetize properties beyond base rent (e.g., amenities, spaces, services, events).

**Attractive time to invest in RealPage as company enters the next chapter of growth opportunity.** RealPage underperformed the market by nearly 15% during 2019 as initiatives to reaccelerate organic growth are taking longer than planned. We believe items impacting growth are correctable and the company is making progress to resolve recent challenges. In our view, sustaining progress in 2020, while capitalizing on other areas of organic/inorganic growth, positions RealPage to have a “snap back” year of stock performance.

In particular, we see three areas of opportunity for RealPage to deliver improving growth with the potential to outperform current expectations for 2020 and beyond.
- **Resolving organic growth pressures.** Underperformance in organic growth ambitions during 2019 can be divided into three areas: 1) implementation delays associated with larger strategic deals; 2) new product launch delays; and 3) product integration delays associated with recent acquisitions, causing customers to postpone spending commitments until a final product is available. In each area, the company has demonstrated progress during 2019 which we believe can yield improved results during 2020.
- **Capitalizing on SMB opportunity with Buildium.** Buildium is a well-known SaaS platform in the SMB rental markets, with a platform distinguished by its intuitive user interface, fast onboarding and rapid self-provisioning of added services. We expect Buildium to greatly accelerate RealPage’s efforts in the 50 million-unit SMB category through market penetration (unit growth of 30%+ during 2019) and growing ARPU (which today is ~$30 versus RealPage average closer to $60).
- **Wielding the full strength of Asset Optimization.** RealPage can unlock significant value for customers by leveraging its data-centric Asset Optimization product family, harnessing insights from rental units and residents over the last 20 years to enable better operating, financial and investment decisions. This product family includes what we believe to be the industry’s most in-depth...
RealPage, Inc.
May 20, 2020

apartment data analytics solution (combining RealPage’s 13 million unit+ repository of real-time lease transaction data with MPF Research and Axiometrics market intelligence); the industry’s most-recognized revenue management systems (YieldStar and LRO); a widely deployed business intelligence platform for internal reporting, peer benchmarking, and financial forecasting; and fast emerging Asset and Investment Management (AIM) platform that provides real estate investors with tools to improve portfolio transparency, analysis and forecasting.

“Rule of 40” operating model drives strong financial results. The company has recently recalibrated expectations around a “Rule of 40” framework between organic growth and EBITDA margin, targeting 150-200bp of annual improvement in this metric. This change allows for RealPage to pursue growth opportunities that may require incremental investment, a change from previous and more rigid financial targets that assumed consistent annual margin expansion. Based on this updated approach, we expect EBITDA to increase at a 15%+ CAGR through 2022.

Taking a platform approach drives RPU expansion. Property owners and managers take a variety of approaches to real estate technology: vertically integrated cloud computing platforms (RealPage), value-added services paired with third-party ERP systems, and individual point solutions covering a specific feature. RealPage customers are increasingly opting to employ a platform approach that leverages the company’s integrated platform, with real-time insights across the major lifecycle categories.

After pause in 2020E, we expect profitability to continue march higher. Prior to the recent commitment to pursue and invest in organic growth opportunities, RealPage had demonstrated consistent margin expansion through efficient investment and productivity gains across all operating expense items. Notable areas of improvement have included product development (with optimization through centralized development efforts to increase engineering productivity) and sales & marketing (where sales rep productivity has improved over time).

■ Given the track record, we believe margin upside remains within the company’s grasp and likely returns after 2020, a year that is expected to be impacted by the Buildium acquisition (diluting EBITDA margin by approximately 150bp). Over time, we believe management’s original objective to achieve EBITDA margin in the low-30% range is still achievable.

Valuation. Our $75 price target is based on 25x our NTM FCF estimate, one year from now. This is equal to the median level of the one-year range (one-year trading range is 21-28x). We believe this is appropriate given RealPage’s growth guidance and opportunity for long-term benefits as more customers pursue digital solutions.

Key risks. Key risks include the following: 1) variability in quarterly financial results/guidance; 2) the ability to retain/win business; 3) real estate market fundamentals and the impact on customer spending decisions; 4) competition; 5) risks associated with managing and hosting cloud solutions for customers and managing payment processing; 6) seasonal characteristics of financial and stock performance; 7) the uncertainties created by COVID-19 and impacts this has on customer spending decisions.

Risks & Caveats

Quarterly results can be variable. Spending decisions by customers and prospects in the rental real estate market can be dynamic and impact RealPage’s ability to meet financial targets. As one example, periods of high occupancy and low turnover have driven “contentment” among industry participants with current solutions and impacted RealPage’s ability to grow key solutions that could be employed to the benefit of these customers. Additionally, as more RealPage customers have engaged with the company on strategic platform bookings across multiple product families, implementation and go-live timelines have extended which can influence the timing and magnitude of incremental revenue growth.

Ability to retain/win business. RealPage typically recognizes revenues ratably over time for a period of one or more years, with much of revenue in a given quarter represented by deferred revenue agreements entered during previous quarters. Consequently, a decline in new and/or renewal customers in any given quarter will not be fully reflected in revenues until future periods and could make the ability to reaccelerate revenues difficult. Favorably, on demand units managed by RealPage clients renewed at an average rate of 97% over the trailing four quarters (as of September 2019).

Risks associated with real estate market fundamentals. Economic trends that negatively affect the rental housing market may adversely affect RealPage customers and their decisions to invest in new technology. In particular, a downturn may impact: 1) the number of occupied sites and units on which RealPage can generate revenues; 2) pricing decisions by RealPage for its solutions in order to add/retain clients; 3) the decision by customers to pursue lower-priced solutions; 4) lower payment processing volumes and/or payment processing losses related to increased client insolvency.

Competition. RealPage competes with vendors providing accounting software; property management software; vertically integrated cloud computing services; and software-enabled point solutions targeting value-added services. Increased competition from any one area could impact pricing and/or market share. Competitors that compete against RealPage across several product solutions include Yardi, Entrata, MRI Software, AppFolio, and CoStar.

Risks associated with managing and hosting cloud solutions for customers and managing payment processing. RealPage hosts products and services primarily from data centers in Dallas, Texas, with additional locations in the U.S. and Europe. The company has several business continuity plans in place in order to limit/prevent unnecessary downtime that could impact customers’ ability to
operate. As part of its solutions, RealPage also utilizes third-party technologies that could be subject to failures or disruptions; third-party technology includes computer hardware, SaaS accounting systems, and payment processing functions.

**Seasonal characteristics of financial and stock performance.** RealPage is subject to some seasonality in financial performance that arises from conditions in the underlying rental markets it serves. This is typically tied to customer leasing cycles with warmer months (particularly Q2) fairing better than colder months (particularly Q4). Products that are correlated to leasing velocity and leasing volume can be impacted by this dynamic.

**Supplemental Information**
Our $75 price target is based on 25x our NTM FCF estimate, one year from now.
Appendix - Important Disclosures and Analyst Certification

Approved on 20 May 2020 17:23EDT/ Published on 20 May 2020 17:28EDT.

Rating and Price Target History for: RealPage, Inc. (RP) as of 05-19-2020

1 Robert W. Baird & Co. Incorporated makes a market in the securities of RP.

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May 20, 2020

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