



**gilmartin**group

2023

# Perception Study Sample



# Agenda

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- I. Valuation and guidance
  - II. Competitive positioning and opportunity to take market share
  - III. Leadership team: capability and credibility, confidence in execution
  - IV. Strategic direction and future opportunities
  - V. Communications and Messaging
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# Methodology

Between August 21 and October 11, Gilmartin Group conducted a perception audit to gauge Wall Street sentiment on strategic positioning, communications, management engagement and valuation drivers.

**Gilmartin conducted extensive outreach to potential participants who met the following criteria:**

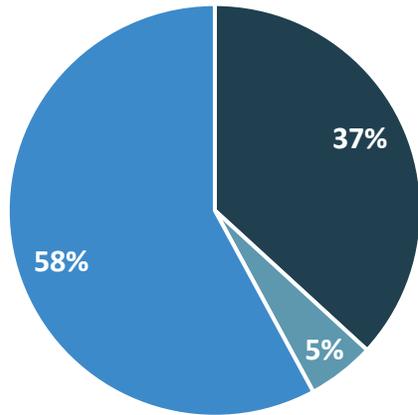
1. Current shareholders
2. Past shareholder (sold within past 18 months)
3. Investor that has met with the company management but not taken a position
4. Sell-side analyst covering the company
5. Sell-side analyst covering the sector/peer group but not company

The focus of this perception study centered around investor sentiment, therefore obtaining feedback from the investment community was prioritized over the sell-side analysts. The buy-side represented 71% of respondents versus 29% from the sell-side.

A balanced group of current, former and sector investors representing institutions of various sizes and styles participated in the audit. The breakdown of buy-side respondents is below.

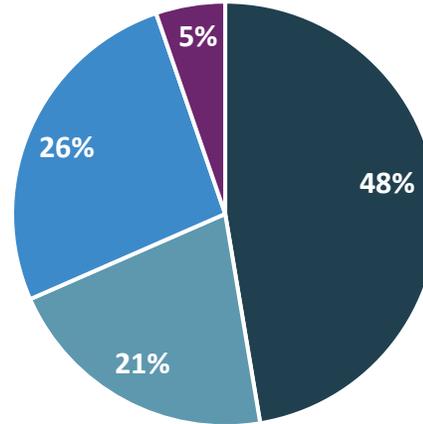
PERCEPTION STUDY  
**Methodology**

Company Ownership



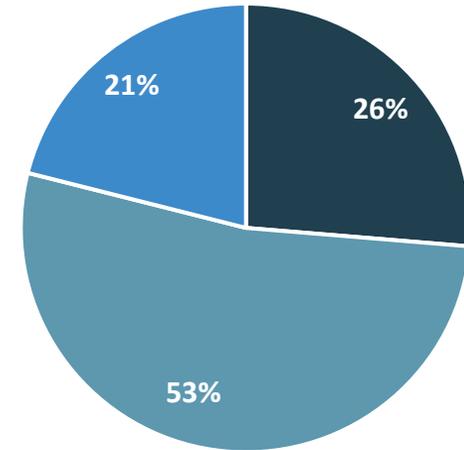
■ Holder ■ Prior Holder ■ Non-Holder

Style Profile



■ Hedge Fund ■ Value ■ Growth ■ GARP

AUM



■ Small (<\$1bn) ■ Med (\$1-5bn) ■ Large (>\$5bn)

# Respondent List

Buy-Side		
Investor	Asset Management Firm	New York, NY
Investor	Asset Management Firm	Boston, MA
Investor	Asset Management Firm	Los Angeles, CA
Investor	Asset Management Firm	Baltimore, MD
Investor	Asset Management Firm	Boston, MA
Investor	Asset Management Firm	New York, NY
Investor	Asset Management Firm	New York, NY
Investor	Asset Management Firm	Chicago, IL
Investor	Asset Management Firm	Boston, MA
Investor	Asset Management Firm	Baltimore, MD
Investor	Asset Management Firm	New York, NY
Investor	Asset Management Firm	Denver, CO
Investor	Asset Management Firm	New York, NY
Investor	Asset Management Firm	San Francisco, CA
Investor	Asset Management Firm	Austin, TX
Investor	Asset Management Firm	New York, NY
Investor	Asset Management Firm	Milwaukee, WI
Investor	Asset Management Firm	Boston, MA

Sell-Side		
Sell-Side Analyst	Brokerage Firm	New York, NY
Sell-Side Analyst	Brokerage Firm	Boston, MA
Sell-Side Analyst	Brokerage Firm	New York, NY
Sell-Side Analyst	Brokerage Firm	Chicago, IL
Sell-Side Analyst	Brokerage Firm	Boston, MA
Sell-Side Analyst	Brokerage Firm	New York, NY
Sell-Side Analyst	Brokerage Firm	New York, NY
Sell-Side Analyst	Brokerage Firm	San Francisco, CA
Sell-Side Analyst	Brokerage Firm	Boston, MA
Sell-Side Analyst	Brokerage Firm	Chicago, IL
Sell-Side Analyst	Brokerage Firm	New York, NY
Sell-Side Analyst	Brokerage Firm	Boston, MA

# Conclusions

The most pervasive sentiment is investor apathy and fatigue. As one participant summarized, “They have gone through the spectrum from ‘loved’ to ‘hated’ and now people have landed on ‘we don’t care’.”

## Several factors contribute to this sentiment:

- Timeline delays and missed guidance, driving a lack of confidence in future execution
- Unclear strategic vision and end-goal for the company
- Low confidence in opportunity to take market share
- Competitive landscape that includes companies with 1) deeper resources, 2) first mover advantage, 3) more robust platforms
- Skepticism on path to profitability and ability to meaningfully strengthen balance sheet without a capital raise
- Other investments in the sector are more dynamic with higher growth potential – competition for mindshare is fierce and investors have more compelling stocks (with larger TAMs and greater growth rates) on which to focus

## More specifically by participant profile:

- Large investors that have held positions long term consider their investment as “dead money” in their portfolio and have little interest in doing more work
- Smaller investors that have stepped up to purchase shares consider it a “low risk” investment, but do not see near-term catalysts to warrant an increase in their position
- Investors that have met with the company and passed largely due to concerns over potential for meaningful operational execution
- Covering analysts rarely proactively bring up the company to investors and are only occasionally asked about it; they feel little conviction to push the stock

# Conclusions

On the topic of key investment criteria and valuation, the largest priorities include the attractiveness of the market served, ability to capitalize on the opportunity with the company's technology and product portfolio, and confidence in management's ability to drive strategy and execution toward those ends. Specifically, priorities vary between revenue growth, gross margin improvement, and balance sheet stability. However, it is critical for one or more of these criteria to significantly exceed current Street expectations in order to move the needle on valuation.

The management team is considered very likeable and there is acknowledgement of the improvement in execution over the past several quarters, but credibility concerns linger and keep some investors away and others from ever returning to the stock.

Regarding strategic direction, in spite of widespread recognition of improvements in operational execution, there is concern that the commercial team lags and the company is better suited as part of a larger entity that can offer additional resources and more competitive muscle to leverage what many believe is a best-in-class solution. Most investors and analysts included comments regarding a potential strategic exit or internal business strategy review.



# Executive Summary



# Executive Summary

Analysts and investors were very generous with their time and thoughtful commentary. In total, we gathered feedback from 42 members of the investment community, which revealed widespread recognition of the company's market position, business model, and leadership team.

Even among non-covering analysts and investors that do not hold shares, there was awareness and acknowledgement of the company's initiatives and recent execution momentum. Importantly, investor commentary was relatively consistent throughout our interviews, which yielded several key themes with relatively consistent feedback.

# Valuation & Guidance

The majority of respondents in the survey **(67%) signaled that the company's valuation suffers from a general lack of interest in either buying or selling the stock.** There was meaningful commentary around the persistent impact of the delayed launch and subsequent quarters of missed guidance that have kept many investors away, despite recent improvements in execution and meeting expectations. Investor fatigue was a very common theme.

Respondents that have met with the company in the past year but decided not to step up to an investment most frequently noted that they don't see a near term catalyst **(31%)**, have low confidence the company can take market share away from the competition **(27%)**, or do not see the company as an exciting investment **(14%)**. Confidence that the company can take market share was often noted **(37%)** as a key criterion for investment with investors that have not taken a position or would consider increasing their share.

# Competitive Positioning & Opportunity to Take Market Share

Respondents were all relatively consistent in their praise of the technology, most commonly highlighting that it is better than the competition (52%). As noted above, there is a general concern that despite a large market opportunity, it will be a challenge to take share away from the competition, in part because investors do not see a compelling reason for customers to switch at this stage.

# Leadership Team

## Capability & Credibility | Confidence in Execution

A large percentage of respondent's commentary centered around the management team, particularly as it related to credibility, execution, and confidence. Many investors and nearly all the analysts highlighted the "likeable" factor of the leadership team and many highlighted their confidence in the team's ability to do their job but common themes of credibility emerged, largely due to the overhang of the past product launch delays and concern over execution ability resulting from a slower than expected ramp.

# Strategic Direction & Future Opportunities

Change is on everyone's mind and a frequent comment was that delivering status quo isn't enough. Commentary on this topic trended in two directions – either accelerate the pipeline and deliver additions to the menu faster or change direction and add an unexpected catalyst to drive growth. However, there was little support for a near-term capital raise to achieve change and general recognition that the company needs to improve gross margins and demonstrate meaningful traction in their core business first. A majority of respondents (61%), noted it would be a challenge to drive meaningful upside valuation as a stand-alone company, and preparing for a partnership or sale to a larger strategic entity was supported as a common theme.

# Communications & Messaging

The survey determined there was widespread recognition of management's improvement in the communications – both in the form of transparency and ability to put forth guidance that was achievable and meaningful. Nearly universally, a theme that the company needs to provide metrics and support that it is taking market share in a significant majority of the interviews as the most important messaging that needs to come through in future communications (72%). Similarly, many investors noted that they were only vaguely familiar with the company's competitive advantages but felt confident that the company's technology was indeed the best.



# Key Themes & Supporting Commentary



# Valuation & Guidance

## Highlights

- Existence of investor fatigue and apathy lingers from prior execution issues
- Recognition of stabilization in performance metrics, ability to meet milestones and growth expectations for revenue and placements
- General concern over inability to take market share from leader and stay ahead of increasing competitive landscape
- **Low conviction of the existence of valuation catalysts in the near-term:**
  - Revenue or placement upside to guidance
  - Acceleration of R&D to deliver GI or additions to the menu quicker
  - Clear path to profitability through improved gross margins will offer strategic options

# Representative Verbatims

## Apathy & Fatigue

*“They were late, and I waited patiently. And waited some more. They finally delivered the product but missed the market. I have hung in there, but I am just tired of the name. I am not a seller, but I also don’t plan to add or do any more work on it.”*

*“This stock lacks sexiness. Growth investors want to see accelerating growth...not steady. Momentum guys aren’t interested because there’s no spark and it’s not big enough for a GARP investor.”*

*“Is there a sustainable franchise that can grow and move forward? That has to be the main focus and if that’s not happening, I’m done being patient. In the last 5 years the stock has been a snooze.”*

*“They have essentially seen one full market cycle as a public company in the small cap world and something just isn’t working.”*

# Representative Verbatims

## Competition

*“To really break out of this valuation range, they must take market share, and really demonstrate execution. With the overhang of the late cycle, and risk of healthcare reimbursement, even if they are doing everything right, it won’t be enough to move the needle on valuation.”*

*“Whether you were involved before or not, everyone knows the story. There’s a discount factor because of the ass kicking in the market.”*

# Representative Verbatims

## Financial Performance

*“We [investors] need to see some significant growth over 1H. If they execute, it will be critical. If they don’t, there is a real problem.”*

*“They have done a good job recently of steady execution and people appreciate that, but that is already priced into the stock. If they want to see valuation improve, they need to exceed expectations, not just meet them.”*

*“I would love to buy more, but the constant erosion of value scares me. It always feels precarious. Just a step away from another miss.”*

# Representative Verbatims

## Guidance

*“As is true with all small caps, they need to do better than what they have stated. Meeting guidance will not do it.”*

*“The challenge for us has been a lack of ability to forecast. The path to profitability is still too vague.”*

*“Investors are not sold on the permanent sustainability of the company. Unless they beat expectations, or at least be at the high end of expectations, or they will be nowhere.”*

# Competitive Positioning & Opportunity to Take Market Share

## Highlights

- Consistent commentary that the product is the best on the market, adding significant value over competitive offerings
- Not confident that the incremental value of technology will outweigh switching costs to capture market share as a late entrant to market
- Commercial team is strong, but won't be enough to take share
- A lot of competition so need to demonstrate ability to both take share from incumbent and expand the market with new wins

## Representative Verbatims:

*"Our belief in the strength of the technology kept us shareholders for a while. Thought leaders said it was the best and their commercial organization seemed very strong. We were confident that once they got the product in the hands of the sales team, it would be an easy segue. That didn't materialize and we sold our position."*

*"I don't know why the platform took so long to come out, but they shouldn't have waited for it to be perfect. They were late and customers went elsewhere."*

*"It's a good product in good market; not a great product in a great market."*

*"The company ceded this market to the competition with all the development delays. How good can it realistically get if the market isn't huge and the incumbent is stronger, and it's an increasingly crowded space with other notable players entering the market. I just don't see enough potential upside to make an investment."*

# Leadership Team

## Capability & Credibility | Confidence in Execution

### Highlights

- Common theme in greater than 80% of the interviews was an overall lack of credibility, primarily stemming from the failure to execute on the timeline and launch
- Significant recognition of management's ability to turn around the story, but initial failure to execute remains raw among many investors
- Recognition that management is making strides towards rebuilding confidence in the investment community
- Many investors sense apathy that translates into "dead money" until a strategic change is made or an upside surprise is delivered

### Representative Verbatims:

*"As a small cap company, to have the sort of investor and analyst base they do is a testament to the strength and ability of the entire team."*

*"I've met with the management team many times and always walk away "liking" them, but we aren't investors because we haven't seen the execution materialize."*

*"I give them a ton of credit for turning things around and my confidence level is improving because of work they have done over past few quarters, but somehow it always feels like they are barely meeting guidance."*

*"The track record of this management team is a problem. There were so many delays and no one has made money on this stock. This team hasn't done what they were supposed to execute on in the first place, so I have little confidence they will be able to do so in the future."*

# Strategic Direction & Future Opportunities

## Highlights

- Change – speed or direction – will be required to garner additional investor interest
- Accelerating R&D is important
- No meaningful appetite for pursuing another capital raise in order to accelerate strategic options
- Many investors noted that a stand-alone path was likely not the most interesting or viable path; however, there is some concern that this is also what is keeping a lid on valuation

## Representative Verbatims:

*“Go bold...but don’t spend too much money.”*

*“For investors to notice, they need to make a bold acquisition. Right now, they are going 55 in the right lane. They will get there, but the ride isn’t interesting.”*

*“They need to have a continued level of R&D spend that provides new markets, but don’t accelerate that spend. I would be terrified if they accelerated investment and ruined the story for another year or two.”*

*“Something meaningful has to change for investors to get interested.”*

# Representative Verbatims

## Acquisition & Partnerships

*“Even if they believe they can meet their projections, it’s a company that should be sold. Cleaner option is to find a home.”*

*“As a stand-alone company, we don’t see a future. The technology is great and something that a larger company could take advantage of. Opportunity for increased automation, scaling manufacturing and further menu development would gain tremendous value.”*

*“It’s an orphan – nothing is going to change that except a significant strategic event.”*

# Communications & Messaging

## Highlights

- Proof of commercial traction and market share gains are most important to investors
- Competitive differentiators still do not stand out in the messaging
- Improvement opportunity in CEO presentation style towards more confidence backed by factual data and less promotion
- Deliver commentary on near and mid-term milestones and market share opportunities, less on generic big market and long-term goals
- Provide more clarity on addressable market – comments ranged from massive to uninspiringly small

## Representative Verbatims:

*“Commercial execution is the most important thing to me. I need to know that is happening – and I haven’t heard it in a way that gives me confidence.”*

*“Their conference calls need highlight competitive wins and market share dynamics.”*

*“What is their market, what is their specialty, and why can’t the competition do it? What is the niche they are playing in and what is the competitive environment? I left our meeting with more questions than when I started.”*

*“They have to grow bigger than where they are currently. What is their real addressable market – what are they replacing, so not expansion opportunity. How many have upgraded and how many more are out there. I need to understand what that addressable opportunity is and can’t seem to ever get the same answer twice.”*



# Investment Strengths & Weaknesses

# Investment Strengths & Weaknesses

## Investment Strengths

- Differentiated and “best-in-class” technology
- Large market opportunity with room for more than one company to be successful
- Strong commercial organization
- Growing installed base and a flexible system to scale
- Strong base of sell-side analysts that know the company well and have maintained support over time
- Improved execution over past 12-18 months, launching new products and meeting guidance goals.

## Investment Weaknesses

- More competition and entrants in the market; other companies trying to enter as a low-cost provider.
- Lack of confidence that there is still an opportunity to become the market leader or to take enough meaningful share of the available TAM to be compelling.
- Market is attractive but no reason not to invest in them.
- Many good investors that were early in the name were disappointed and will not reinvest under

# Investment Strengths & Weaknesses

Investment strengths centered around the technology (24%), the existing installed base and opportunity to expand (18%), and most commonly noted, a significant market with room to both take share and grow in new, greenfield opportunities (30%). Weaknesses universally focused on the delay of getting the platform to market that many (52%) believe can't be undone. Similarly, several investors that exited the stock in the aftermath of the delay noted they will not come back to the stock. As a result, management's credibility has been impacted, in some cases permanently, despite an often-noted theme that execution is on track and the team is doing a better job setting realistic goals.

## Investment Strengths

- Differentiated and “best-in-class” technology
- Large market opportunity with room for more than one company to be successful
- Strong commercial organization
- Growing installed base and a flexible system to scale
- Strong base of sell-side analysts that know the company well and have maintained support over time
- Improved execution over past 12-18 months, launching new products and meeting guidance goals.

## Investment Weaknesses

- More competition and entrants in the market; other companies trying to enter as a low-cost provider.
- Lack of confidence that there is still an opportunity to become the market leader or to take enough meaningful share of the available TAM to be compelling.
- Market is attractive but no reason not to invest in them.
- Many good investors that were early in the name were disappointed and will not reinvest under



# Questionnaire



# Questionnaire

## Participant Profile

### Sell-Side

- Covering Analyst
- Non-Covering Analyst Covering Peer/Peer Group

### Buy-Side

- Generalist/Healthcare /Sector Specialist
- SmallCap/Diversified
- Growth/GARP/Value/Alternative
- Hedge Fund/Mutual Fund/Pension/Other
- Analyst/Portfolio Manager

### Met With Management?

- Yes
- No

When? \_\_\_\_\_

### Institutional Ownership

- Large Shareholder
- Owner
- Don't own, but interested
- Don't own, not interested
- Prior owner
- Don't want to disclose

### How Well Do You Know the Company?

- Very Knowledgeable
- Knowledgeable
- Somewhat Knowledgeable
- Not at All

### Attended Presentation?

- Yes
- No

When? \_\_\_\_\_

### Primary Source of Information on the Company?

\_\_\_\_\_

# Questionnaire

## Key Questions

1. General perception – Strengths/Weaknesses? Opportunities/Challenges?
2. How do you value the company in the sector?
3. As you consider the market, what is your impression of the company's:
  - Competitive advantage
  - Timing in the market
  - Opportunity to capture market share
4. What has the company communicated as its business strategy and are they emphasizing the “right” components?
5. How can the company improve its transparency and/or guidance?
6. What criteria are most important to you in evaluating the company as an investment (i.e., revenue growth, gross margin, path to profitability, management and leadership team)?
7. Thoughts on valuation? How important are analysts estimates in making an investment decision?
8. Identify one or two action items you would recommend or emphasize to the Board.

# Questionnaire

## Survey Questions

### 1. General impression of the company on a scale of 1-5

(1 = Very negative to 5 = Very positive)

- Business/operations
- Product portfolio
- Positioning in the market
- Strategy
- Management – quality, credibility, ability

### 2. General strengths?

### 3. General weaknesses?

### 4. What are the biggest opportunities/potential for upside to stock?

### 5. What are the biggest challenges facing the company/concerns for future success?

### 6. Rank the company on the following metrics on a scale of 1-5

(1 = Very negative to 5 = Very positive)

- Revenue growth is solid & sustainable
- Business strategy is effective
- R&D strategy is on track; confidence in pipeline
- Balance sheet is strong
- Capable leadership team
- Proprietary and competitive position
- Undervalued stock relative to peer group

# Questionnaire

## Communications & Messaging

1. In one sentence, how would you describe the company's business strategy?
2. Is the company emphasizing the "right" components of the business?
3. In your view, what are the right components?
4. If the company's management team could clarify one thing for investors, what is it?
5. Is the market sizing and pipeline compelling?
6. How would you characterize the management team's style and effectiveness in communicating with Wall Street?
7. What improvements could be made in communication?

# Questionnaire

## Guidance & Metrics

### On a scale of 1-5

(1 = Very negative to 5 = Very positive)

- How confident are you in the company's ability to hit guidance?
- How confident are you in the company's ability to build a successful business?

## Management

### 1. What are the strengths and weaknesses of management?

### 2. Rank order your perception of management's ability on the following:

(1 = Not that important to 5 = Extremely important)

- |   |  |
|---|--|
| <input type="checkbox"/> Knowledge of business and market                   | <input type="checkbox"/> Transparency                                    |
| <input type="checkbox"/> Strategic vision                                   | <input type="checkbox"/> Understanding of what is important to investors |
| <input type="checkbox"/> Ability to execute and sustain successful business | <input type="checkbox"/> Accessibility                                   |
| <input type="checkbox"/> Credibility  | <input type="checkbox"/> Ability to drive commercial team and growth     |

### 3. Based on your rankings above, how would you characterize the management's ability to deliver on those priorities?

# Questionnaire

## Investment Criteria

When evaluating an investment decision in the company, rank order importance of:

(1 = Not that important to 5 = Extremely important)

- Revenue growth is solid and sustainable
- Business strategy is effective
- Solid product development strategy
- Balance sheet is strong
- Profitability or path to profitability
- Capable senior management
- Effective Board of Directors/Attention to ESG
- Undervalue stock relative to peers
- Ability to deliver on commitments, timeline, guidance
- Successful commercial execution and market share taker

## Valuation & Investment Criteria

1. In one sentence, what is your investment thesis on the company?
2. What do you think is the appropriate valuation methodology for the business?
3. How do you think the Street is currently valuing the company?
4. How important are the analysts estimates to you?
5. What is the number one reason you own/don't own the stock?
6. Do you believe management will be able to deliver significant increased shareholder value in the next 12-18 months?

# Questionnaire

For respondents that have not met with management or don't know the company well, skip to this section

## Investor Relations & Communication

**1. What has been the number one hurdle to you in owning the stock?**

**2. What performance characteristics does the company need to demonstrate to you to earn your investment (for buy-side) or your research coverage (for sell-side)?**

**3. How effective is the IR program (general thoughts)?**

- Timing
- Style
- Analyst interaction
- Guidance
- Leadership team profile

**4. Rank order effectiveness of the IR program**

(1 = Not that effective to 5 = Extremely effective)

- Access to senior management
- Breadth of knowledge base and visibility in the industry
- Level of disclosure
- Consistency of messaging
- Ability to answer questions at multiple levels of knowledge

**5. Is there any action item that you would like us to emphasize to the management team or recommend to the Board of Directors?**



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**Thank You**