



# CFA Institute

## **CFA Institute Research Challenge**

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**Team Name: Babson College**

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# RAPID7 Inc.

Valuation Summary	
Price Per Share Using Revenue	
CompCo (80% weight)	\$177.00
Revenue Exit Multiple (20% weight)	\$229.00
EV/Rev Multiple	14.10x
Revenue/Share	\$7.53
Target Price	\$188.00
Current Price	\$89.78
Upside	109.40%

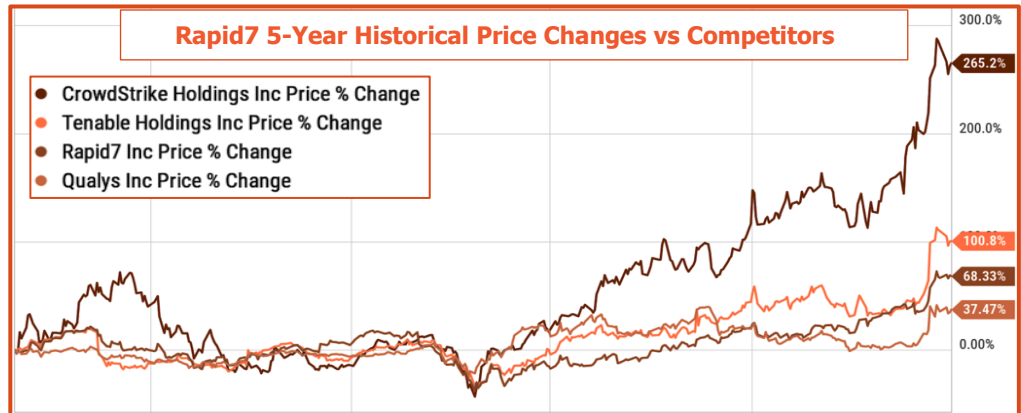
**Valuation Date:** 1/4/2021     **Recommendation:** BUY     **Stock Exchange:** NASDAQ  
**Current Price:** \$89.78     **Target Price:** \$188.00     **Sector:** IT  
**Ticker:** RPD     **Upside (%):** ~109%     **Industry:** Cybersecurity

## RECOMMENDATION

We issue a BUY recommendation with a target price of \$188.00 derived from using EV/Revenue multiples for Rapid7.

## INVESTMENT SUMMARY HIGHLIGHTS

1. Heightened cybercrime activity, up 600%, has stimulated demand for RPD's products, which are a tenth of the cost of an average data breach.
2. RPD's best-in-class product suite will allow the company to take market share and grow revenue at twice the rate of the total addressable market.
3. Rapid7's product bundling strategy, promotion of its new DivvyCloud offering, and its "one agent" model, will facilitate the cross selling and upselling of products.



## VALUATION SUMMARY

Rapid7's current stock price of \$89.78 is materially undervalued compared to its peers on a multiple basis, which divides its Enterprise Value to Revenue ratio by its Revenue Growth Rate, using a 1 year forward estimate. RPD has the lowest multiple by almost three times at 29.3x versus Tenable Holdings (TENB) at 75.1x. We also note that Qualys Inc (QLYS) is at 108.7x and CrowdStrike Holdings (CRWD) is the highest at 167.3x. For RPD to trade in-line with TENB on a growth adjusted basis, their revenue multiple would have to be ~36.1x, suggesting a price of \$333. In addition, RPD has a higher revenue/share than both CRWD and TENB, lagging only behind QLYS, but on track to outpace them shortly.

Rapid7's competitive advantages, outlined in our investment summary, translate to above consensus growth, making our financial outlook for the company more optimistic than that of consensus. We are projecting 2021 sales of \$577.4 million versus the Street average of \$484 million, exceeding consensus by 19.2%. This is driven by RPD's revenue growing at twice the Total Addressable Market (TAM) rate. Our view is guided by primary research gathered from customers of Rapid7 and cybersecurity professionals, which suggests significant market share gains.

RPD is set to be cash flow neutral in 2021, and turn cash flow positive in 2022. Furthermore, we see lower operating risk due to Rapid7's superior governance practices. Our price target is possibly understated as a result of weighting the CompCo by 80% and the Discounted Cash Flow by 20%, creating attractive upside potential for the stock price.

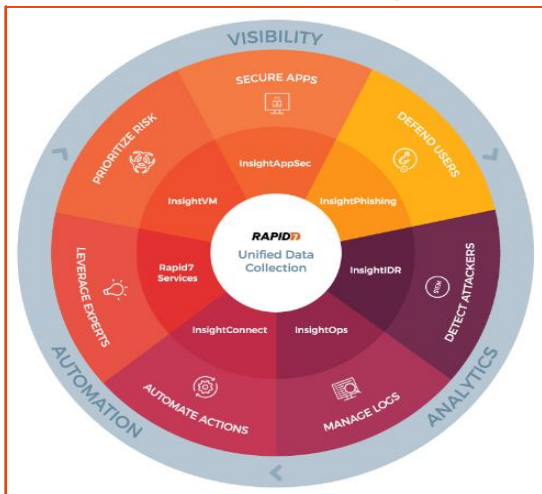
Company Profile	
Market Cap	3.92B
Enterprise Value	4.34B

Industry Metrics: ARR Revenue Growth Rates	
<b>Rapid7 (RPD):</b>	29.00%
<b>CrowdStrike (CRWD):</b>	87.00%
<b>Tenable (TENB):</b>	22.00%
<b>Qualys (QLYS):</b>	13.00%
<b>TAM CAGR (5 yr.):</b>	14.70%

Company Name	EV/Rev/Growth
<b>Rapid7</b>	29.33x
<b>Crowdstrike</b>	167.30x
<b>Tenable</b>	75.11x
<b>Qualys</b>	108.65x

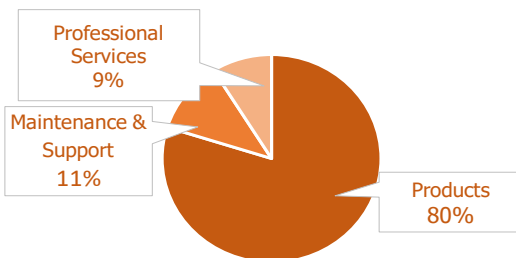


## RPD Product Offerings



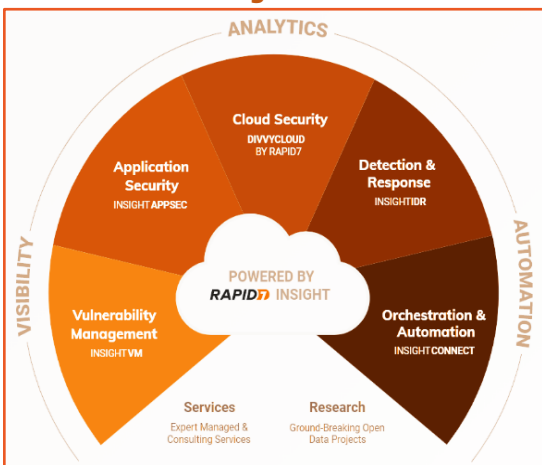
Source: RPD Investor Relations

## Revenue Breakdown



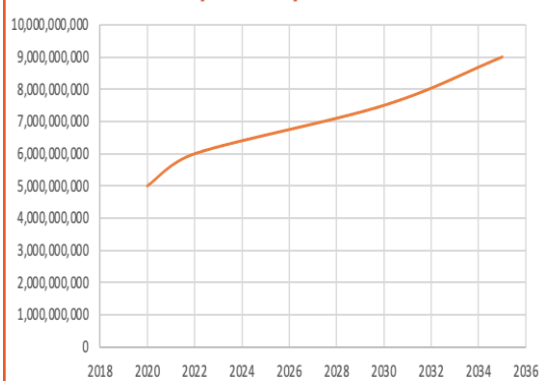
Source: Made by team, RPD Investor Relations

## RPD Insight Platform



Source: RPD Investor Relations

## Demand for Cybersecurity: Total Internet Users



Source: Made by team, Cybercrime Magazine

## BUSINESS DESCRIPTION

### Company Overview

Rapid7, Inc. (RPD) provides security data and analytics software solutions [1]. The company offers services to collect, contextualize, and analyze security data to reduce threat exposure and detect compromises in real-time. Rapid7 went public in 2015, raising \$107 million in its initial public offering. Rapid7 focuses on providing its technology to organizations who are resource constrained.

### Business Model

Rapid7 generates revenue from product services on a subscription basis, maintenance and support, and professional services. In 2019, product services accounted for 80% of revenue, with maintenance and support generating 11%, and professional services supplying 9%. Recurring revenue in 2020 accounted for 91% (year-over-year increase of 3%) of total revenue. Recurring revenue is defined as revenue from term software licenses, content subscriptions, managed services, cloud-based subscriptions, and maintenance and support. Rapid7's renewal rate in September 2020 was 103%.

Customers in the finance industry represented the largest share of revenue at 15% in 2019. Large enterprise customers, which are defined as having annual revenue greater than \$1Bn or more than 2,500 employees, comprised 52% of Rapid7's revenue, with the rest coming from middle-market and small organizations. Rapid7 serves 48% of the Fortune 100 companies.

## PRODUCT OFFERINGS

The company's cloud-based Insight Platform provides customers with a wide view of systems and threats. Rapid7 uses a new model that employs analytics to reduce and manage risks across a system, instead of a front-loaded 'block-and-protect' style. RPD offers products under 4 main pillars of its Insight Platform: Vulnerability Risk Management (VRM), Incident Detection and Response (IDR), Application Security, Security Orchestration and Automation Response (see Appendix F). Rapid7 offers these products through a variety of delivery models:

- Cloud-based subscriptions: software capabilities through cloud access and on a Software-as-a-Service (SaaS) basis. InsightIDR, InsightVM, InsightAppSec and InsightConnect products are offered as cloud-based subscriptions, generally with a one-year term.
- Managed services: operated by Rapid7 on behalf of customers. Managed Vulnerability Management, Managed Application Security, Managed Detection and Response products are offered on a managed service basis, generally pursuant to one-year agreements.
- Licensed software: include both term and perpetual licenses, and the simultaneous sale of maintenance and support, which provides customers with ongoing bug fixes and repairs. Nexpose, Metasploit, AppSpider and DivvyCloud products are offered through term or perpetual software licenses.

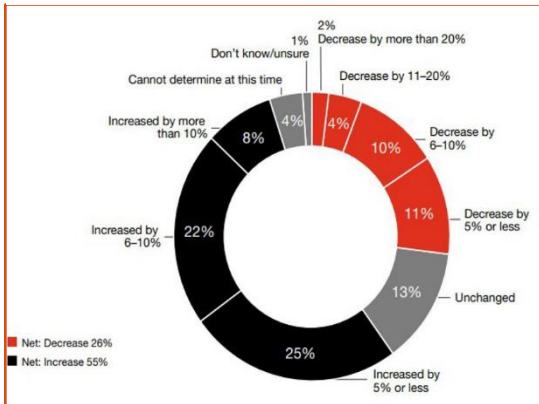
## INDUSTRY OVERVIEW AND COMPETITIVE POSITIONING

The growing total addressable market (TAM) for cybersecurity firms is being propelled by the rise of internet usage globally. Total internet users are expected to reach 6 billion people in 2022, and over 7.5 billion by 2030 [2]. Cloud-based security programs are apt for meeting increases in demand for cybersecurity, because they perform dynamic threat detection with live analysis. This has the effect of shortening the window of time in which an attack can go unnoticed. In contrast, traditional cybersecurity systems perform network analysis at scheduled intervals, which allow for attacks to go undetected for longer periods of time. RPD offers a fully integrated solutions suite that is cloud-based, and aimed at helping resource constrained customers achieve the highest level of cybersecurity.

In August 2020, a survey conducted by Cybersecurity Insiders revealed a shocking lack of confidence by IT professionals in their own cybersecurity capabilities [3]. Since in-house capabilities are often limited and provide insufficient protection, there is a need for third-party cybersecurity companies. A survey conducted by PricewaterhouseCoopers in 2020 found that 55% of enterprise executives plan to increase their cybersecurity budgets in 2021.



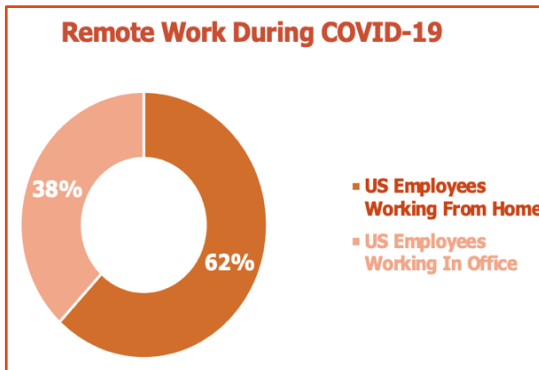
## Cumulative Increase in Cyber Budgets by 55% in 2021.



Source: PWC Global Digital Trust Insight

Data Breach Severity	Data Breach Costs
Low	\$2.81 million
Medium	\$5.97 million
High	\$8.64 million
Very High	\$10.32 million
Average	\$3.86 million

Source: Made by team, IBM Security



Source: Made by team, PWC Impact Assessment



Source: Rapid7's (NICER) 2020

[4]. Employees are spending more time outside of the office with the 'Work from Home' (WFH) trend, which has created accelerated digitization across the board, and subsequently made cybersecurity a structural corporate spending priority [5].

Cybersecurity providers will continue to grow in importance post-2020, as 87% of enterprises plan to accelerate their movement to the Cloud, and 13% of on-premise workloads are set to move online by 2025. The global cloud security market is currently estimated to be approximately \$34.5 billion in size, and is projected to grow to around \$68.5 billion by 2025 [6]. This would imply a 14.7% CAGR over the period. As such, Rapid7 has auspicious opportunities in both the private and public sector to sell its vast suite of cloud software protection solutions.

The cost of a single data breach exceeds the price of ten years of absolute coverage from all of Rapid7's cybersecurity offerings. In this way, investment in cybersecurity can be thought of as a form of insurance. Data breaches are costly and have the spillover effect of causing reputational damage for a company for years. The average cost of a data breach in 2020 was reported to be \$3.86 million, with the U.S. reporting high severity data breach costs of \$8.64 million [7]. Companies would avoid the significant financial burden of addressing one of these data breaches by implementing Rapid7's entire product suite at ~\$400,000 a year including DivvyCloud. As such, RPD offers an attractive value proposition for companies looking to take advantage of the cloud-based security offerings that RPD's suite provides, while hedging for data breach costs.

RPD's product suite has a more favorable price compared to its competitors. CrowdStrike Holdings, which is a comparable company, offers its most extensive cybersecurity coverage, Falcon Complete, at approximately \$23/month per endpoint [8]. For an average mid-sized company with 25,000 endpoints, the annual cost of obtaining CrowdStrike's cybersecurity coverage is \$575,000. On an annual basis, a customer would save anywhere between \$175,000 (with Rapid7's DivvyCloud) to \$375,000 (without Rapid7's DivvyCloud) per year by choosing RPD's offerings.

### INVESTMENT SUMMARY

**Thesis Point #1: RPD is set to capitalize on the increase in cybercrime brought about by mass-digitization during COVID-19, and capture higher than consensus customer growth rates.**

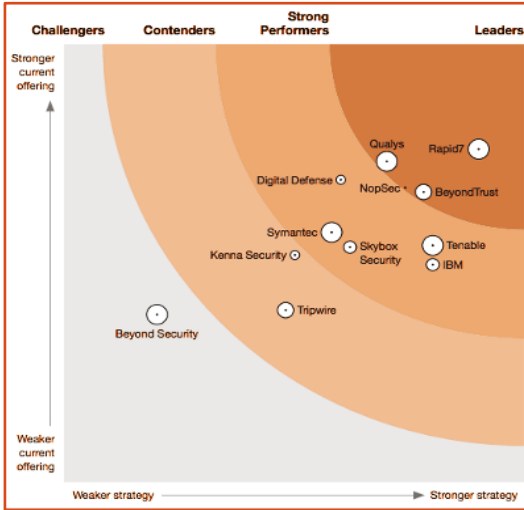
The COVID-19 pandemic brought about a drastic increase in cybercrime, which according to the U.N. disarmament chief, has risen by 600% [9]. This large uptick in the occurrence of cyber-attacks during the 'Work from Home' setting, coupled with the fact that businesses are facing financial distress, highlights the unequivocal need for companies to invest in the utmost protection against cybersecurity threats to avoid additional financial and non-financial costs.

We differ from market expectations of Rapid7's future success because of our more optimistic view that Rapid7 will continue to capture new customers at an impressive rate—even after the pandemic. While consensus shows generally flat customer growth rates at 8% over the projection period, we predict 12% customer growth for 2021, and 10% for 2022. The large uptick in cybercrime, coming just as companies begin to recover from the pandemic, is forcing customers to address their vulnerable systems and seek out Rapid7's best-in-class product suite.

On average, only 5% of company folders are properly protected against cybercrime, which means that the majority of companies, at some point throughout their operations, will suffer a significant cyber-attack. Based on primary research, we found overwhelming evidence that Rapid7 delivers the most innovative and effective product suite, through its development of automation tools, a "one agent" model, and the way in which they have manufactured products to work "better together". Given our customer growth rate assumptions, Rapid7 is set to capture approximately 364 more customers than consensus estimates, as a result of its strong reputation and proven track record for delivering a product suite that is reliable, trustworthy, and effective in handling complex cyber threats.

Additionally, there have been a number of high-profile data breaches in 2020 that illuminate the need for advanced protection. A notable example is the hacking of the Department of

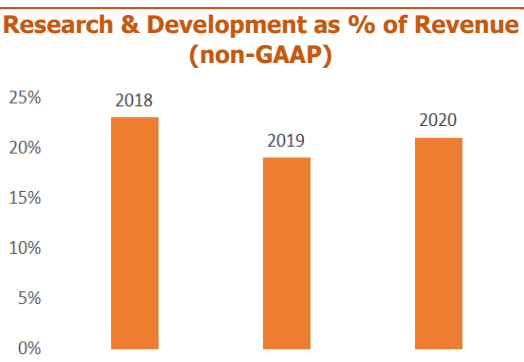
## RPD Leads Gartner Magic Quadrant for SIEM (2020)



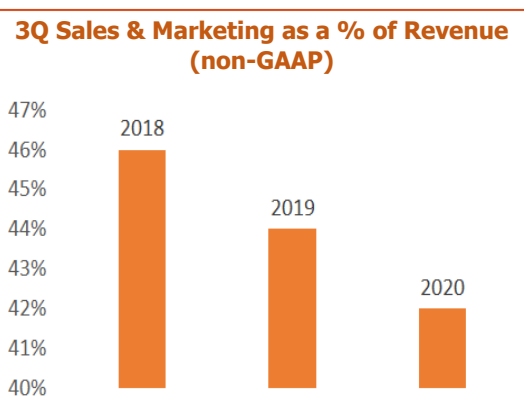
Source: Gartner (February 2020)



Source: RPD Investor Relations



Source: Made by team, RPD Company filings



Source: Made by team, Company filings

Homeland Security, as well as the U.S Treasury and Commerce branch of the Federal government. Each of these attacks and security vulnerabilities within the US government serve as market opportunities for Rapid7 to grow its TAM. FireEye and SolarWinds, the cybersecurity platforms used by the US government, were compromised by cybercriminals in December 2020, which comparatively increases Rapid7's credibility in the cybersecurity space. Since Rapid7's competitors have suffered catastrophic breaches, large U.S. government bodies will be seeking new cybersecurity companies with whom to contract. This competitive advantage will enhance Rapid7's customer growth rates during the projection period and beat the market's lower expectations. The transition away from legacy security providers used by the U.S government will open up TAM for RPD, as its cloud based programs beat competition on ease of use and efficiency.

### Thesis Point #2: RPD is set to capture the growing total addressable market (TAM) by pursuing an aggressive growth strategy.

The integrated suite design employed by Rapid7, serves to onboard all of its customers' security needs in one offering, in the least labor-intensive manner. RPD's short term strategy is to focus on revenue growth, as opposed to earnings, by aggressively pursuing the TAM; this is achieved by focusing on Research and Development (R&D), as well as Sales and Marketing (S&M).

Rapid7 has continuously established its product superiority and has won multiple awards for its product suite. The InsightIDR platform was recognized as a *Gartner Peer Insights Customer Choice Product* in 2020 for security information and risk management solutions. Similarly, Rapid7's InsightVM product was recognized as a *Gartner Peer Insights Product* for two years in a row, based on customer feedback and product effectiveness in the vulnerability risk management solutions category. This makes Rapid7 best positioned to capture customers compared to peer companies, as its track record of product innovation and continuous investment into R&D will fuel future product innovation.

RPD offers free unlimited cloud storage in relation to security data for its customers, a feature that is not replicated by other competitors. The free storage offered by RPD is a material advantage raised by customers during our primary research interviews and is a value-add to RPD's product suite.

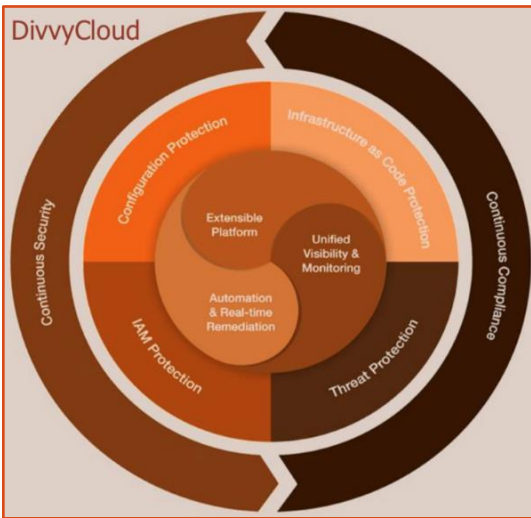
In the long term, Rapid7 possesses a cost structure that is scalable, magnifying operating leverage. As a customer adopts RPD's product suite, and is absorbed into RPD's cybersecurity ecosystem, Rapid7's revenue streams will become recurring and stable. Customers benefit from synergies between RPD's products, allowing Rapid7 to scale its integrated suite offering and favorably impact gross margin in the long term. Management alluded to expectations of RPD surpassing the *Rule of 40*, which suggests material margin expansion as there is expectation for future growth. The *Rule of 40* has gained momentum as a high-level gauge of performance for software businesses in recent years. It is the principle that a software company's combined growth rate and profit margin should exceed 40% (Appendix G) [10].

Rapid7 has demonstrated an attractive revenue CAGR of 28.69% in the last five years. We believe that Rapid7 will sustain its top-line growth at a CAGR of 28.3% over the next five years, doubling the 14.7% growth rate of the total addressable market in the same period. Our analysis of independent reviews and primary research establishes Rapid7's expertise in cloud native threat detection and supports this claim [11].

We project Selling, General and Administrative expenses (SG&A) to divert from revenue growth, and proceed at a slower pace relative to top-line expansion. This diversion provides the operational efficiencies needed to scale EBITDA upwards as a percentage of revenue, as well as overshoot the *Rule of 40* target to deliver greater alpha in the future.

### Thesis Point #3: Primary research supports RPD's ability to capitalize on DivvyCloud, and the opportunity to upsell and cross-sell through its one agent model.

Rapid7's strategy to bundle products, promote DivvyCloud, evolve artificial intelligence (AI) and machine learning (ML) processes, and employ its "one agent" model, will all result in higher annual recurring revenue (ARR) per customer over the next 5 years. According to one of our interviewees, "Rapid7 is the first to bring the one agent model". Agents are typically the most difficult element when onboarding a new product. RPD's "one agent" model means



Source: RPD Investor Relations

## DivvyCloud Features



Source: RPD Investor Relations

that the single agent works concurrently with every product in a security suite, thus saving security teams hassle, time, and money.

We highlight two key insights regarding RPD’s ability to upsell and cross-sell its products from a Royal Bank of Canada (RBC) analyst conference held in November of 2020: RPD raised its midpoint ARR guidance by \$8 million for the end of 2020, attributable to higher-than-expected adoption of DivvyCloud; Lee Weiner, RPD’s Chief Product Officer, mentioned Rapid7 becoming more creative and economically efficient with product bundling [12]. Weiner stated that RPD was already working on rolling out packages between products and that customers prefer these because they function “better together”.

RPD is also working on ways for customer budget teams to consolidate two budgets into one project. This implies that RPD is no longer strictly targeting the security budget, but is instead holistically integrating its products with its customers' strategy and aligning the right product with the right budget. Additionally, 80% of RPD’s ARR is attributable to customers with over \$100 million in revenue. Both Jeff Kalowski, RPD’s Chief Financial Officer, and Weiner, believe that DivvyCloud will extensively penetrate this segment of larger customers. With accelerated Cloud adoption, we expect to see quicker middle-market acceptance of Cloud offerings.

Rapid7 reports that its potential ARR per customer is \$200,000 excluding DivvyCloud. As DivvyCloud is rolled out to more customers, RPD will experience accelerated growth in revenue. Since RPD has only owned DivvyCloud for one quarter of performance, the market is underestimating the potential acceleration in ARR growth that is going to occur with the inclusion of DivvyCloud to RPD’s product suite. Every 100 customers on DivvyCloud provide an additional \$20 million in revenue. Over the past three years, RPD has proven that they can grow ARR per customer at ~\$7,000 per year. We project ARR per customer to accelerate over the projection period, reflecting the expected increases that will be associated with bundling RPD’s built-in automation tools. ARR per customer is expected to grow to ~\$86,000 by 2025—double what it is today.

After speaking with ten current RPD customers and industry professionals, we found that Rapid7 is considered to be the best platform, both on-premise and in the Cloud; this view is held by most industry professionals, particularly because of RPD’s best-in-class developments in automation. RPD’s DivvyCloud and its machine learning are considered leaders in the industry and will continue to spark customers to use more RPD products.

## PRIMARY RESEARCH

Our team conducted extensive primary research, with the aim of understanding the differentiating elements of Rapid7’s products and services. We interviewed customers of Rapid7 and customers of key competitors, as well as cybersecurity professionals. We took measures to gain a holistic understanding of Rapid7’s customer experience by gathering data from the Northeast US (where Rapid7 is based) and from the Southwest of the US.

The titles of the senior technology executives we interviewed include a Deputy Chief Information Security Officer, Information Security Officer, Security Consultant, and Vulnerability Analyst. These security professionals spanned multiple sectors including Technology, Security Consulting, Healthcare, and the State Government. Collectively, we engaged in over ten hours of interview time, and our interviewees had more than 100+ years of industry experience.

These interviews solidified our hypothesis that Rapid7’s product suite and services are superior, presenting a competitive advantage in customer retention and acquisition. Another differentiating feature of Rapid7’s offerings is unlimited cloud storage, which provides substantial flexibility in cloud services at no extra cost. One customer highlighted, “Rapid7 is better than both Qualys and Tenable in the cloud” with “the difference [being] on the backend—the R&D team for Rapid7 is so much better”. Rapid7 has a best of breed vulnerability management tool, with its prioritization of threats through Metasploit. One customer noted, “Metasploit allows us to test our vulnerabilities and find patches before we are actually attacked”. Rapid7 permits customers to easily visualize attacks to its network which makes its products substantially easier to use; one customer remarked, “Rapid7 is way better at its reporting abilities”.

### INSIGHTVM BY THE NUMBERS



More accurate data decreases false positive alerts by 22%



Better reporting and actionable insights decreases investigation efforts by 33%



Patching automation decreases manual efforts by 60%



Scanning and reporting activities reduces labor input by 40-50%

Source: RPD Investor Relations



## Summary of Benefits: Insight VM



Source: RPD Investor Relations

## Rankings

Inclusion in Bloomberg  
Gender Equality Index – 2019 & 2020

ATD BEST for  
Talent Development Excellence – 2019

Boston Globe  
Top Places to Work – 2019

TMCnet  
Tech Culture Award – 2019

Parity Pledge Member, since 2018

Source: Made by team, RPD Investor Relations

## Culture & Core Values

Bring You  
Be an Advocate  
Challenge Convention  
Impact Together  
Never Done

Source: Made by team, RPD Investor Relations

We were eager to get a better sense of Rapid7's salesforce and customer service team, as they will be driving RPD's sales largely through cross selling and upselling efforts. When existing clients were asked about purchasing additional Rapid7 products, one client stated, "I definitely think we would". Moreover, DivvyCloud allows RPD to better serve clients in the cloud. One client stated, "after evaluating three alternatives, we plan to use DivvyCloud in the future. Rapid7's salesforce encourages the adoption of additional products without ever forcing or pressuring us". When describing Rapid7's sales representatives, interviewees referred to them as "problem solvers"; one client stated, "Rapid7 did it right! We had the smoothest two eight-hour implementations for the most far-reaching product we have; if it [RPD's products] interacts with a lot of different departments, it will be spread out on a cost basis and makes you think you're getting a discount!" This client feedback illustrates Rapid7's superior customer service and success in driving revenue growth through cross selling and upselling of products.

## ENVIRONMENTAL, SOCIAL, AND GOVERNANCE (ESG)

**Summary and Conclusion:** Our ESG analysis is based on material from the Sustainability Accounting Standards Board (SASB) which offers a body of work to identify critical components of ESG that affect financial performance [13]. Using data from the website [materiality.sasb.org](http://materiality.sasb.org), we isolated factors in "E," "S," and "G" that most influence the financial performance of a company similar to RPD as determined by SASB. In "E", the biggest factor is energy management, in "S", customer privacy and data security are most impactful, and in "G", financial performance is correlated to employee engagement, diversity, and inclusion. As a result of this work, we made a 20-basis point downward adjustment to our weighted average cost of capital (WACC), which is justified by RPD's superior efforts in the area of governance [14]. See Appendix H for a summarized ESG analysis using the SPICE method.

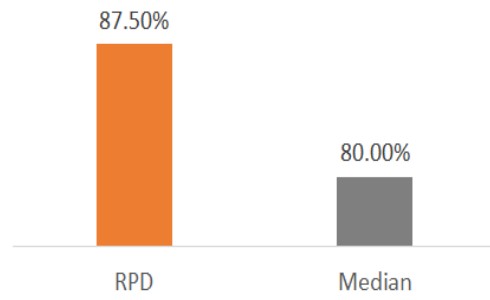
**Environmental** – According to SASB, energy management is most likely to affect the long-term success of a Software-as-a-Service (SaaS) based company. Given its size, RPD has limited resources to dedicate to environmental reporting, compared to larger S&P 500 companies. Yet, RPD claims to have a sustainability committee in place that monitors greenhouse gas (GHG) emissions [15]. However, we were unable to find credible reports from RPD regarding its GHG targets as well as when it plans to become carbon neutral. Also, we could not find any sustainability goals or committees among any of RPD's competitors, including Qualys Inc. (QLYS), Tenable Holdings Inc. (TENB), and CrowdStrike Holdings Inc. (CRWD). Therefore, we conclude that RPD, though not a model for energy management, is at least taking more steps than its peers to remain environmentally friendly. Since we are unable to find any meaningful environmental disclosures by RPD, such as targets, we are unable to take a position on whether RPD has made real progress that would improve its financial position in the future. As a result, we have decided not to make any WACC adjustments to RPD due to environmental practices.

**Social** – Customer privacy and data security are the most important social factors. As an IT security company, Rapid7 takes customer privacy very seriously. RPD has a page on its website dedicated to its privacy policy, and there are no indications that RPD has ever breached a customers' right to privacy [16]. Ineffective data security would be an embarrassment—and potentially a financial liability—to any company, especially RPD which is in the business of protecting customers. From what we have found, RPD and its competitors (QLYS, TENB and CRWD) have relatively similar data security records, with no related lawsuits or charges of privacy infringement. Our analysis of important financial indicators relating to RPD's "social" aspect has led us to make no changes to our WACC or expected valuation.

**Governance** – SASB identified employee engagement, diversity, and inclusion as the most important governance factors influencing long term financial success. RPD has above average governance in the industry, and was recently included in Bloomberg's Gender Equality Index for its impressive number of women in the workplace. The latest tracked numbers show that ~30% of those in management roles at RPD are women. Moreover, Rapid7's CEO, Corey E. Thomas, is one of the few African American CEO's in the US, and more specifically, in the technology industry. This is monumental because representation of people of color in leadership positions is low—for context, less than one percent of companies in the *Fortune 500* have African American CEO's.

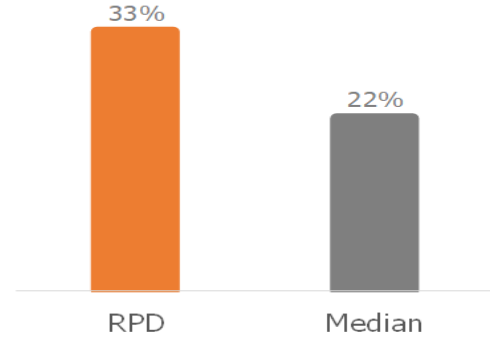


## % of Independent Directors



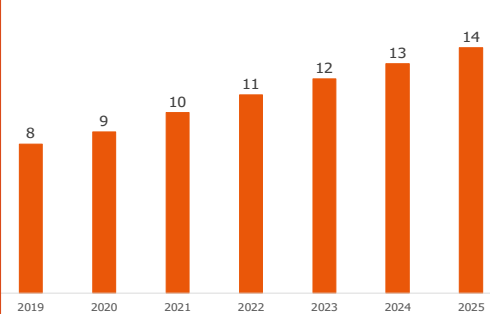
Source: Made by team, RPD Investor Relations

## % of Women on Board



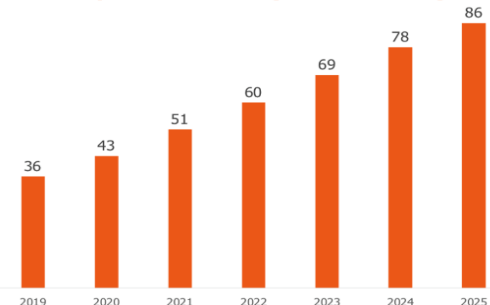
Source: Made by team, RPD Investor Relations

## Number of Customers (in thousands)



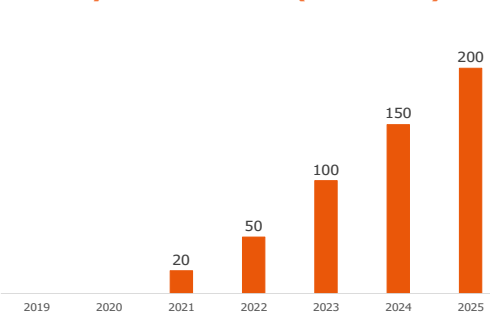
Source: Made by team, Company filings

## ARR per Customer (in thousands)



Source: Made by team, Company filings

## DivvyCloud Revenue (in millions)



Source: Made by team, Company filings

Rapid7's CEO is a testament to a company culture that rewards and recognizes diversity, which likely translates to all forms of diversity beyond just race. In addition to this, seven out of eight board members at RPD are independent. This implies strength in RPD's governance, with the only criticism being that RPD's CEO is also the Chairman of the Board.

RPD and all of its competitors trade on the NASDAQ Marketplace, which recently declared that all companies must have at least one female on its board of directors and one person from an underrepresented group [17]. RPD already has 33% of its board as female and 33% of the board from underrepresented groups, out of nine total board members. By comparison, QLYS has ~43% of its board represented by females, with zero percent from underrepresented groups, from a total of only seven board seats. TENB, with a ten-member board, has 20% female representation on the board with 10% of members from an underrepresented group. Lastly, CRWD (nine-member board) has ~22% female members on the board and ~11% of board members from an underrepresented group. CRWD is also considered better than its peers according to Bloomberg's *ESG Index*. As a result of RPD's exemplary position on diversity in management, we are reducing our WACC by 20 basis points. Our rationale behind this decision is that with superior governance, RPD is likely to avoid lawsuits and other regulatory issues, as well as continue to receive positive commentary in the press for its advances in diversity and inclusion.

In addition to our analysis guided by SASB factors, we considered MSCI scores. MSCI has been identified as a trustworthy source regarding ESG scores and is the best platform for comparing companies within the same industry. MSCI gives RPD an "A" rating, while QLYS has a "BBB", TENB has a "BB", and CRWD has a "B" rating. RPD received its "A" rating as a result of its above average performance on governance, data privacy and security, human capital development, and employee engagement (which is a material factor noted by SASB as well). RPD ranks as 'below average' on its environmental score; however, RPD has been continuously improving on its environment score. RPD has also improved its score twice in the past five years going from "BB" in 2016 to an "A" in 2020. This is a result of better reporting and continued emphasis on improving in ESG.

## FINANCIAL ANALYSIS

### Customer Growth

We estimate customer growth to be at 12% in 2021, 10% in 2022, 8% in 2023 and then to remain constant at 7% through 2025. This brings us from 9,100 customers in 2020 to ~13,900 (representing an increase of 52.74%) customers in 2025. We expect Rapid7's customer growth to benefit from the increase in demand for cybersecurity and movement towards the cloud.

### Annual Recurring Revenue (ARR) per Customer

In our base case, we project that ARR per customer will increase from \$42,700 to ~\$86,000, which represents an increase of 101.41%. RPD's future ARR per customer is driven by the company's bundling strategy; RPD's ecosystem creates synergies when multiple products are used concurrently. When our projected 2025 ARR number of \$86,000 is multiplied by 12,800 customers, this results in terminal year (2025) revenue of ~\$1.1 billion for Product and Professional Services, which is 2.75 times today's total revenue of just under \$400 million.

### Maintenance and Support

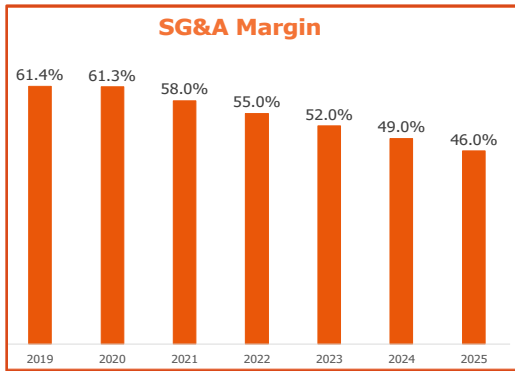
We project Maintenance and Support to continue decreasing as a percentage of total company revenue, going from 7.1% to 5%. This is in-line with consensus estimates for RPD. Despite the decrease in percentages, actual revenue still increases by 150% from \$26 million in 2020 to ~\$65 million in 2025.

### DivvyCloud

We believe that DivvyCloud will experience rapid revenue growth over the projection period: in 2021, its first full year of marketing, we estimate 100 customers on DivvyCloud at a price of \$200,000 per customer, resulting in an additional \$20 million in revenue. We expect 250 customers in 2022, and project an additional 250 customers in each of the following years. This will result in 1,000 customers on DivvyCloud by 2025, which is only ~8.2% of the total projected customer base, but drives an additional \$200 million in revenue.



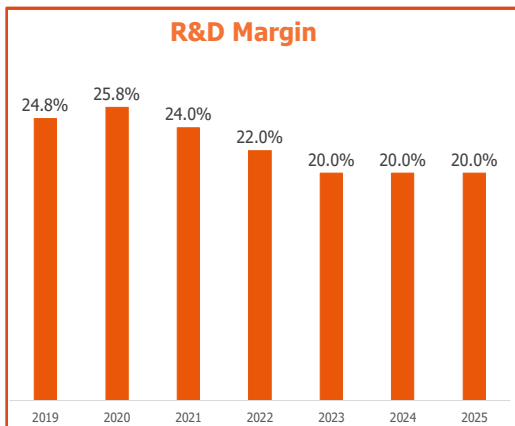




Source: Made by team, Company filings

## SG&A

Rapid7's close competitor QLYS, has focused on profitability and has decreased its SG&A as a percentage of revenue from ~46% to ~33% from 2015 to 2019. QLYS managed this reduction by better leveraging its existing salesforce and achieving operating scale. RPD and QLYS have very similar business models; however, RPD is pursuing an aggressive sales strategy to gain market share. We have projected that RPD can experience a similar 15% decrease in its SG&A margin from 61% in 2021 to 46% in 2025, as it approaches operating scale and better leverages its salesforce. Hence, at the end of our projection period, RPD has higher SG&A as a percentage of revenue compared to QLYS.



Source: Made by team, Company filings

## R&D

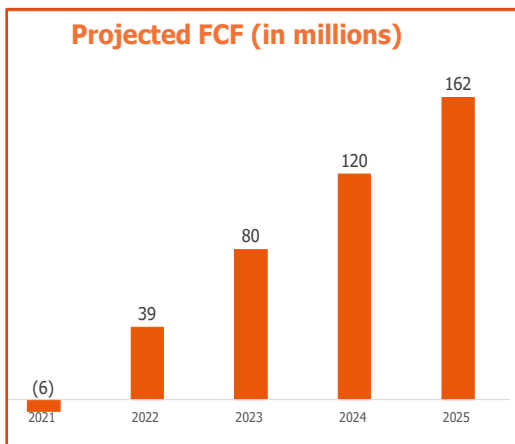
Using QLYS as a guide for our projection period, we see that QLYS invests around 20% of its revenue in R&D. We have projected that RPD will reach and maintain this 20% level in 2023. This is a decrease of about six percentage points from RPD's current R&D spending as a percentage of revenue, but still represents significant growth on a dollar basis, which we believe is necessary for continued success in a space that is constantly changing.

## Unearned Revenue

We expect unearned revenue to remain around 60% of revenue moving forward for RPD. This is consistent with Rapid7's prior two-year revenue performance and we expect this to persist in the future.

## Balance Sheet Items: Cash

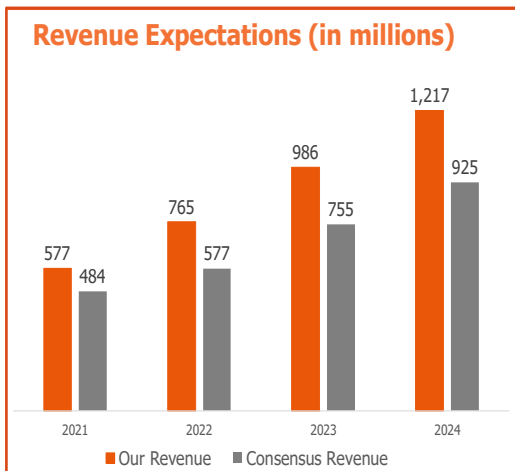
RPD's upfront payment model generates cash at the beginning of its yearlong service period, providing RPD with sufficient cash on hand, despite not having positive free cash flow until 2022. As a result, RPD's current debt load is sufficient during our projection period, without the need for additional debt financing. This is the result of unearned revenue. In fact, we project that by 2023, RPD could begin a debt paydown.



Source: Made by team, Company filings

## VALUATION

Our target price of \$188 is derived by weighting our Comparable Company analysis at 80% and our DCF at 20% (see Appendix I for sensitivity analysis). The DCF calculation is based on an exit multiple analysis for determining RPD's terminal value rather than using a perpetuity growth rate analysis. These methods are appropriate for a company with good comparable companies that is continuing to invest in the growth of the business. A perpetuity-based DCF projects low levels of free cash flow over the forecast period. However, we believe that Rapid7 will create substantial value by investing heavily in its product suite and services. This sacrifice in short-term free cash flow (FCF) will solidify Rapid7 as a dominant player in the marketplace and enable the company to generate long-term FCF. Therefore, we believe a perpetuity-based DCF would unfairly penalize RPD's intrinsic value.



Source: Made by team, Company filings

## Intrinsic DCF Valuation: Revenue Exit Multiple (20% of Valuation calculation)

We chose to use the Revenue Exit Multiple method, where the 2025 revenue number is multiplied by RPD's current EV/Revenue multiple of ~14.1x. We then discounted this back to present day using our 8% WACC (see Appendix I for sensitivity analysis). We also subtracted the negative cash flows associated with the projection period. This resulted in a valuation of ~\$229.

## Comparable Company Analysis (80% of Valuation calculation)

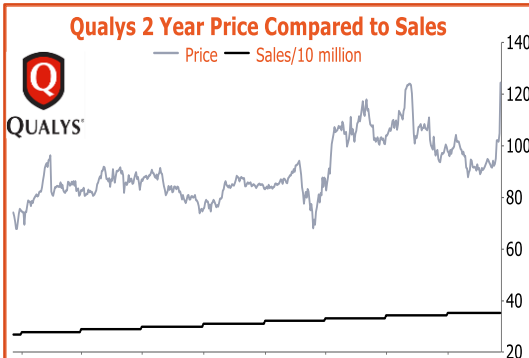
We focused on the EV/Revenue multiple when comparing Rapid7's peer companies in the cybersecurity industry. Rapid7's comparable companies are Qualys Inc. (QLYS), Tenable Holdings Inc. (TENB), and CrowdStrike Holdings Inc. (CRWD). Of the companies, CRWD has superior endpoint protection and QLYS is the only company with positive GAAP EBIT or EBITDA.

## Comparable Companies

Company Name	Market Value	EV	Sales	EBIT	EBITDA	EV/Rev	EV/EBIT	EV/EBITDA	EV/Rev/Growth	Revenue Growth Rate
Rapid7	5,676.8	5,499.5	390.0	-63.6	-42.7	14.10x	-	-	29.33x	48.10%
Qualys	5,106.5	4,787.7	352.8	92.4	124.1	13.57x	35.98x	27.76x	108.65x	12.49%
Tenable Holdings	6,214.6	5,945.5	419.2	-58.9	-48.7	14.18x	-	-	75.11x	18.88%
CrowdStrike Holdings A	50,636.8	49,578.2	761.6	-105.7	-65.0	65.10x	-	-	167.30x	38.91%



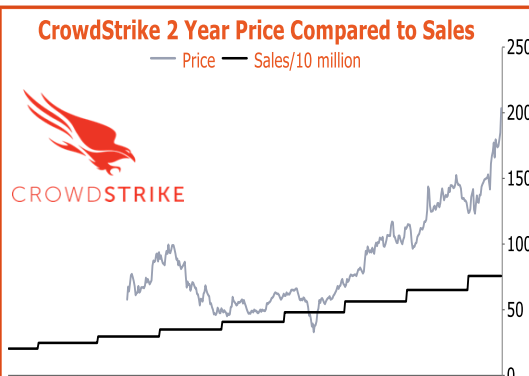
Source: Made by team, FactSet



Source: Made by team, FactSet



Source: Made by team, FactSet



Source: Made by team, FactSet

All of Rapid7's key comparable companies are trading strictly on revenue, and we expect this trend to persist in the cybersecurity industry. RPD has a much higher ARR growth percentage than both Tenable and Qualys: with RPD at 29%, TENB at 22%, and QLYS at 13%.

To identify whether or not RPD's stock price was considered "cheap" compared to its peers, we decided to use an EV/Rev/Growth multiple. We used a forward looking multiple based on where the peer group trades currently with their expected revenue growth rates. We used our own expected growth rate for RPD and compared revenue growth rates of peers using FactSet estimates. RPD has the lowest multiple by almost three times at 29.3x versus TENB, the next lowest, at 75.1x. We also note that QLYS is at 108.7x and CRWD is the highest at 167.3x. This indicated that RPD is grossly undervalued compared to its peers.

For RPD to trade in-line with TENB on a growth adjusted basis, its revenue multiple would have to be ~36.1x making RPD's stock price over \$333. After careful analysis we have determined the 55th percentile to be an accurate representation for forward looking EV/Revenues. The 55th percentile was determined by assessing the premium that RPD has on their ARR growth rate in comparison to TENB and QLYS, while also taking into account the profitability issues that are present in our 2021 projection. In Q3 2020, RPD had a higher ARR growth rate than TENB by 31.8%, and is projected to have a higher growth rate than QLYS by 123.1% in 2021; we expect this gap to widen, represented by our revenue growth rate column in our comparable companies snapshot above; however, we do not project free cash flow until 2022.

Through our research, we have identified ARR growth and profitability to be key drivers of the company's EV/Rev multiple. Looking across our peer group, Qualys has the lowest multiple because it has the lowest ARR growth rate; however, they are close to RPD and TENB due to their strong profitability. CrowdStrike recently reached profitability in the quarter and also has the highest ARR growth rate, which has resulted in the company receiving a multiple over 65 times compared to RPD's of 14 times.

The 55th percentile yields an EV/Revenue ratio of 19.3x. RPD currently trades below TENB on an EV/Revenue basis and it is expected that this trend will not persist due to RPD's above peer and above consensus forward looking revenue growth rate. We use the next twelve-month revenue to calculate our stock price using comparable company analysis. Taking the 19.3x multiple, and our 2021 projected revenue, we arrive at a valuation of ~\$177. Applying an 80% weight to the \$177 target derived from the comparable company analysis and a 20% weight to the \$229 target derived from the DCF calculation (using a revenue exit multiple analysis) yields an overall target price of \$188.

### INVESTMENT RISKS

**A. RPD's reputation, brand, and demand for products will suffer if they fail to detect vulnerabilities for clients or if they experience data breaches.**

Given that the security environment is changing constantly, and the ability to detect all threats instantly is very challenging, it is possible that RPD will not always be in a position to provide unfettered maximum security to each of its more than 9,100 clients who span 140 countries. There is also a risk that in attempting to identify cyber threats for clients, RPD falsely detects cybercrime that is not there.





Source: RPD Investor Relations

<b>Three Months Ended September 30</b>		
<b>Year</b>	<b>2020</b>	<b>2019</b>
<b>Subscription revenue</b>	<b>\$78,721</b>	<b>\$57,885</b>
<b>Subscription as a % of Total Revenue</b>	<b>74.9%</b>	<b>69.9%</b>
<b>Total Revenue</b>	<b>\$105,075</b>	<b>\$83,155</b>

Source: Made by team, RPD Investor Relations

<b>Nine Months Ended September 30</b>		
<b>Year</b>	<b>2020</b>	<b>2019</b>
<b>Subscription revenue</b>	<b>\$220,142</b>	<b>\$157,163</b>
<b>Subscription as a % of Total Revenue</b>	<b>73.79%</b>	<b>66.79%</b>
<b>Total Revenue</b>	<b>\$298,327</b>	<b>\$235,299</b>

Source: Made by team, RPD Investor Relations

This has the potential to occur through RPD's Metasploit product, which relies on information from third parties to detect cyber threats. If any of this information provided to the Metasploit platform is not precise, RPD will likely experience false identifications of cybercrime for its clients, which will harm client trust in its product suite. Any failure to protect customer security has the potential to result in poor market acceptance of Rapid7's product suite, lead to a diminished reputation, and create fewer opportunities to attract new clients.

**B. Failure to constantly update and improve their product suite, will result in outdated and vulnerable software that can be easily breached.**

Cybersecurity management requires RPD to update and improve its product suite to be ahead of any cyber-criminal; as such, the need for consistent and error-free updates cannot be overstated. Failure to upgrade clients to the newest security technology will leave RPD vulnerable to risks. In order to provide clients with the most up-to-date and advanced versions of their products, RPD will need to deliver updates in a timely manner, or else they will run the risk of creating security vulnerabilities for key customers. Any compromises in software capability, errors that arise as a result of a lack of testing, or breaches experienced by clients, will result in Rapid7 incurring unwanted costs and liability claims. Rapid7's need to continuously innovate is evident through its higher-than-peer investment in research and development.

**C. RPD's revenue growth is highly dependent upon renewed client subscriptions and cross and upsell capabilities.**

Subscriptions during this past three-month period have increased by 5%, compared to subscriptions from September to December last year; they now comprise 74.9% of total revenue. Overreliance on subscriptions is a risk, as it represents a lack of diversity in revenue streams, making Rapid7 more susceptible to revenue loss should any of the aforementioned risks occur and they lose customer retention. Also, subscriptions might be renewed on less favorable terms for Rapid7, as companies reduce spending because of the financial hit from COVID-19. Additionally, Rapid7's future success depends upon its ability to cross-sell and upsell additional product offerings to new and existing customers. This would allow Rapid7 to mitigate the risk of losing and diversifying its revenue streams among existing customers.

**D. If RPD is unable to sustain its revenue growth rate, the company may not achieve GAAP profitability in the future.**

Rapid7 has expanded and it continues to deploy significant capital in order to grow market share and its customer base. RPD's strategy of expansion has lengthened the time it will take to reach profitability, placing more pressure on management to grow top-line numbers. If Rapid7 does not achieve double digit top-line growth and does not generate a net profit within the next few years, its ability to raise future financing will be jeopardized. Since 2015, Rapid7's revenue growth has nearly tripled; however, in order for RPD to maintain this high level of growth, it will need to continue expanding its customer base, innovate error-free premium security products, develop new cloud-based solutions, expand its business internationally, and remain a leader in its space.

## END NOTES

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## APPENDIX

### Appendix A: Income Statement

Model For Rapid7 as of Sep 30 20, \$Thousands							
	Historical	Current	Forecast	Forecast	Forecast	Forecast	Forecast
	Sep 30 19	Sep 30 20	Sep 30 21	Sep 30 22	Sep 30 23	Sep 30 24	Sep 30 25
Revenue	304,069	389,975	577,484	765,448	986,186	1,217,291	1,457,321
Costs of Goods Sold	(85,070)	(113,185)	(144,371)	(191,362)	(246,547)	(304,323)	(364,330)
Gross profit	218,999	276,790	433,113	574,086	739,640	912,968	1,092,991
SG&A	(186,798)	(239,020)	(334,940)	(420,996)	(512,817)	(596,473)	(670,368)
R&D	(75,473)	(100,550)	(138,596)	(127,046)	(115,497)	(115,497)	(115,497)
EBIT	(43,272)	(62,780)	(40,424)	26,043	111,326	200,999	307,127
Net Interest Expense	(6,700)	(17,600)	(18,666)	(18,666)	(9,333)	--	--
Other expense	(2,200)	(2,700)	--	--	--	--	--
EBT	(52,172)	(83,080)	(59,090)	7,377	101,993	200,999	307,127
Income taxes	(308)	(1,134)	14,772	(1,844)	(25,498)	(50,250)	(76,782)
Net Income	(52,480)	(84,214)	(44,317)	5,533	76,495	150,749	230,345
Beginning RE			(588,400)	(632,717)	(627,184)	(550,690)	(399,940)
Net income			(44,317)	5,533	76,495	150,749	230,345
Dividends			--	--	--	--	--
Ending RE		(588,400)	(632,717)	(627,184)	(550,690)	(399,940)	(169,595)
Fully Diluted Shares Outstanding		62,416	62,416	62,416	62,416	62,416	62,416
EPS		(0.84)	(0.71)	0.09	1.23	2.42	3.69
					ROIC	29.8%	29.0%

### Appendix B: Statement of Cash Flows

Model For Rapid7 as of Sep 30 20, \$Thousands							
	Historical	Current	Forecast	Forecast	Forecast	Forecast	Forecast
	Sep 30 19	Sep 30 20	Sep 30 21	Sep 30 22	Sep 30 23	Sep 30 24	Sep 30 25
Cash flow from operating activities (CFO)							
Net income	(52,500)	(84,300)	(44,317)	5,533	76,495	150,749	230,345
D&A	25,647	35,849	51,974	65,063	78,895	91,297	102,012
Stock Based Comp	36,084	58,095	58,095	58,095	58,095	58,095	58,095
AR	(10,100)	(12,400)	(40,119)	(37,673)	(44,242)	(46,320)	(48,109)
Accounts Payable	4,242	882	2,285	3,684	4,326	4,529	4,704
Unearned Rev	13,059	20,354	114,930	112,778	132,443	138,663	144,018
Other Chg. CFO	(13,758)	(6,281)	(50,619)	(55,848)	(64,953)	(67,148)	(68,852)
Total CFO	2,690	12,129	92,229	151,632	241,059	329,865	422,214
Cash flow from investing activities (CFI)							
CAPEX	(31,500)	(9,500)	(36,959)	(48,989)	(63,116)	(77,907)	(93,269)
Acquisitions	(29,100)	(125,800)	--	--	--	--	--
Other CFI	33,853	44,943	--	--	--	--	--
Total CFI	(26,700)	(90,400)	(36,959)	(48,989)	(63,116)	(77,907)	(93,269)
Cash flow from financing activities (CFF)							
Issuance (repurchase) of common stock	9,738	7,596	--	--	--	--	--
Issuance (repayment) of debt	6,471	230,000	--	--	--	--	--
Issuance (repayment) of debt	--	--	--	--	(373,318)	--	--
Other CFF	(7,500)	(35,000)	--	--	--	--	--
Total CFF	8,711	202,569	--	--	(373,318)	--	--
FX adjustment	(900)	477	--	--	--	--	--
Change in cash	(16,200)	124,784	55,270	102,644	(195,375)	251,958	328,946
Beginning cash balance	262,940	246,740	320,618	375,888	478,532	283,157	535,115
Change in cash	(16,200)	124,784	55,270	102,644	(195,375)	251,958	328,946
Ending cash balance	246,740	320,618	375,888	478,532	283,157	535,115	864,061

## Appendix C: Balance Sheet

Model For Rapid7 as of Sep 30 20, \$Thousands							
	Historical	Current	Forecast	Forecast	Forecast	Forecast	Forecast
	Sep 30 19	Sep 30 20	Sep 30 21	Sep 30 22	Sep 30 23	Sep 30 24	Sep 30 25
<b>Assets</b>							
Cash and cash equivalents	246,740	320,618	375,888	478,532	283,157	535,115	864,061
AR	62,922	75,625	115,744	153,417	197,659	243,979	292,088
Other Current Assets	30,232	37,790	49,754	64,376	80,914	97,374	113,580
Total current assets	339,894	434,033	541,386	696,325	561,730	876,469	1,269,729
PP&E (net) & Intangibles (net)	112,736	120,102	105,087	89,013	73,234	59,844	51,100
LT Investments	10,997	10,813	10,813	10,813	10,813	10,813	10,813
Goodwill	97,866	213,727	213,727	213,727	213,727	213,727	213,727
Other long-term assets	65,049	88,090	126,993	168,328	216,870	267,691	320,476
Total assets	626,542	866,765	998,006	1,178,205	1,076,374	1,428,544	1,865,845
<b>Liabilities</b>							
AP	6,549	9,033	11,318	15,002	19,328	23,858	28,562
Accrued Expenses	33,174	48,035	48,035	48,035	48,035	48,035	48,035
Current Portion of Leases	6,460	9,568	9,568	9,568	9,568	9,568	9,568
Unearned Revenue Current	200,314	231,560	346,490	459,269	591,712	730,375	874,393
Other Current Liabilities	285	85	334	442	570	703	842
Total current liabilities	246,782	298,281	415,745	532,316	669,212	812,538	961,400
Long-term debt	182,471	373,318	373,318	373,318	--	--	--
Long-term Leases	73,266	77,863	77,863	77,863	77,863	77,863	77,863
Unearned Revenue Non-Current	36,620	30,632	30,632	30,632	30,632	30,632	30,632
Other Non-Current Liabilities	1,280	1,370	1,370	1,370	1,370	1,370	1,370
Total liabilities	540,419	781,464	898,928	1,015,499	779,077	922,403	1,071,265
<b>Stockholders' Equity</b>							
Common Stock	493	518	518	518	518	518	518
APIC	594,226	677,983	736,078	794,173	852,268	910,363	968,458
Retained earnings	(504,100)	(588,400)	(632,717)	(627,184)	(550,690)	(399,940)	(169,595)
Treasury Stock	(4,800)	(4,800)	(4,800)	(4,800)	(4,800)	(4,800)	(4,800)
Other	304	--	--	--	--	--	--
Total equity	86,123	85,301	99,079	162,707	297,296	506,141	794,581
Total liabilities and equity	626,542	866,765	998,006	1,178,205	1,076,374	1,428,544	1,865,845
Check	--	--	--	--	--	--	--

## Appendix D: Inputs

<b>Key Line Items</b>							
<b>Income Statement</b>							
Revenue	304,069	389,975	577,484	765,448	986,186	1,217,291	1,457,321
COGS	(85,070)	(113,185)	(144,371)	(191,362)	(246,547)	(304,323)	(364,330)
SG&A	(186,798)	(239,020)	(334,940)	(420,996)	(512,817)	(596,473)	(670,368)
R&D	(75,473)	(100,550)	(138,596)	(168,398)	(197,237)	(243,458)	(291,464)
Taxes	(308)	(1,134)	14,772	(1,844)	(25,498)	(50,250)	(76,782)
Interest	(6,700)	(17,600)	478	478	478	478	478
<b>Cash Flow Statement</b>							
CAPEX	(31,500)	(9,500)	(36,959)	(48,989)	(63,116)	(77,907)	(93,269)
Stock Based Compensation	36,084	58,095	58,095	58,095	58,095	58,095	58,095
D&A	25,647	35,849	51,974	65,063	78,895	91,297	102,012
Dividends	--	--	--	--	--	--	--
<b>Balance Sheet</b>							
Accounts Receivable	62,922	75,625	115,744	153,417	197,659	243,979	292,088
Inventory	30,232	37,790	49,754	64,376	80,914	97,374	113,580
Other Assets	65,049	88,090	126,993	168,328	216,870	267,691	320,476
Accounts Payable	6,549	9,033	11,318	15,002	19,328	23,858	28,562
Unearned Revenue Current	200,314	231,560	346,490	459,269	591,712	730,375	874,393
Other Liabilities	285	85	334	442	570	703	842

## Appendix E: Drivers

Key Drivers							
	Jun 30 19	Jun 30 20	Jun 30 21	Jun 30 22	Jun 30 23	Jun 30 24	Jun 30 25
Revenue YOY Growth %		28.3%	48.1%	32.5%	28.8%	23.4%	19.7%
COGS as a % of Revenue	(28.0%)	(29.0%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)	(25.0%)
SG&A as a % of Revenue	(61.4%)	(61.3%)	(58.0%)	(55.0%)	(52.0%)	(49.0%)	(46.0%)
R&D as a % of Revenue	(24.8%)	(25.8%)	(24.0%)	(22.0%)	(20.0%)	(20.0%)	(20.0%)
CAPEX as a % of Revenue	(10.4%)	(2.4%)	6.4%	6.4%	6.4%	6.4%	6.4%
Stock Based Compensation Increase		22011	0	0	0	0	0
D&A as a % of Revenue	8.4%	9.2%	9.0%	8.5%	8.0%	7.5%	7.0%
Accounts Receivable Turnover	75.5	70.8	73.2	73.2	73.2	73.2	73.2
Inventory Turnover	129.7	121.9	125.8	122.8	119.8	116.8	113.8
Accounts Payable Turnover	28.1	29.1	28.6	28.6	28.6	28.6	28.6
Unearned Revenue Current Growth Rate	65.9%	59.4%	60.0%	60.0%	60.0%	60.0%	60.0%
Other Assets as a % of Revenue	21.4%	22.6%	22.0%	22.0%	22.0%	22.0%	22.0%
Other Liabilities as a % of Revenue	0.1%	0.0%	0.1%	0.1%	0.1%	0.1%	0.1%

## Appendix F: Product Offerings

### Vulnerability Risk Management (VRM)

Industry-leading VRM solutions provide clarity into risk across traditional and modern IT environments. With built-in risk prioritization, IT-integrated remediation projects, tracking of goals and service level agreements, and pre-built automation workflows, the solutions are designed to enumerate risk and accelerate risk mitigation.

### Incident Detection and Response (IDR)

IDR solutions are designed to enable organizations to rapidly detect and respond to cybersecurity incidents and breaches across physical, virtual and cloud assets. Equipped with user behavior analytics (UBA), attacker behavior analytics (ABA), end-point detection and response (EDR) and deception technology, RPD's Security Information and Event Management (SIEM) solution is designed to provide comprehensive network visibility and accelerate threat investigation and response.

### Application Security

The Application Security offerings provide dynamic application security testing. In addition, they offer run-time application security monitoring and protection solutions that are designed to continuously analyze web applications for security vulnerabilities throughout a customer's software development life cycle.

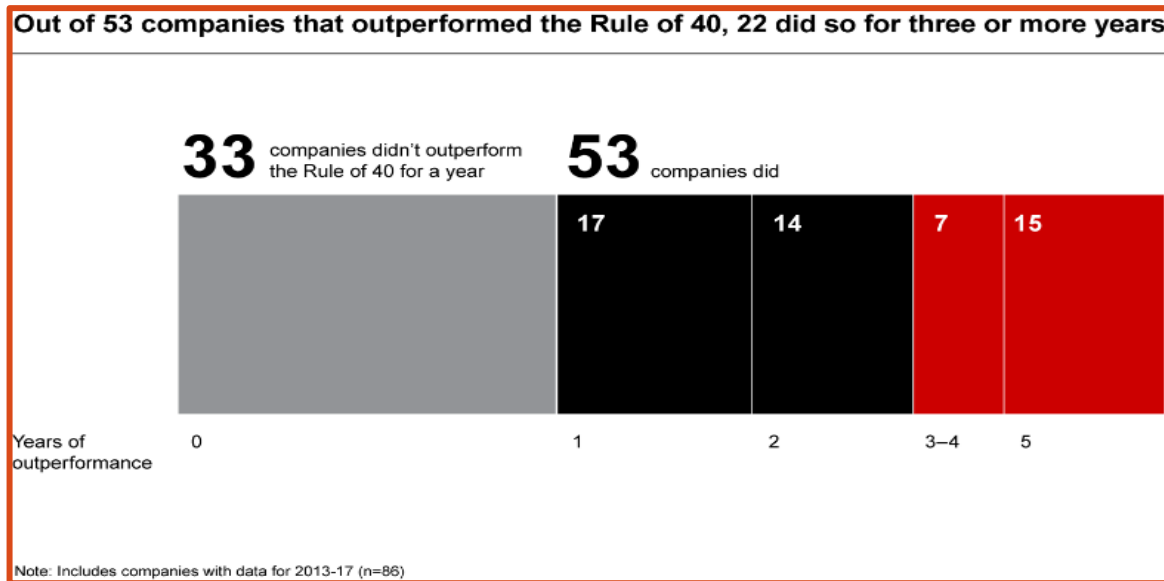
### Security Orchestration and Automation Response

Rapid7's Security Orchestration and Automation Response (SOAR) solutions allow security teams to connect disparate solutions within their cybersecurity, IT, and development operations. SOAR enables security teams allows them to build automated workflows without requiring code, which eliminates repetitive, labor-intensive tasks, resulting in measurable time and cost savings.

## Appendix G: Rule of 40

Venture capital investors initially came up with the Rule of 40 as a way to quickly assess the performance of small, fast-growing companies. For larger companies, beating the Rule of 40 in a single year is not exceptional. Consistently strong performance against the Rule of 40, however, is difficult to maintain. Bain & Company researched the performance of 124 publicly traded software companies to identify those that outperformed the Rule of 40 over three years and five years. We found that 40% of companies outperformed the Rule of 40 in a single year (2017). But of 86 companies researched from 2013 to 2017, just 25% outperformed the Rule of 40 for three or more years, and only 16% outperformed for all five years, adjusted for mergers and acquisitions [7].

### Rule of 40 Company Outperformance [7]



### Appendix H: ESG & SPICE Score Table

We generated a SPICE Score of "A", and RPD's strong ESG standards reduce their risk profile, which in turn reduces the cost of capital.

Category	Pros	Cons
<b>S - Suppliers, society, and state</b>	Good volunteer programs, integrated in their communities; paying employees well.	Undisclosed supplier relationships.
<b>P - People</b>	Dedicated to diversity and inclusion; good perks for employees including parental leave; very engaged with employees.	Ability to promote more women to senior leadership positions.
<b>I - Investors</b>	Good voting rights for shareholders.	Insider selling; unprofitable on a GAAP basis.
<b>C - Clients</b>	Improving benefits for clients; bundling opportunities; Metasploit community to continuously improve safety.	Risks created by a potential breach.
<b>E - Environment</b>	Sustainability team; composting and recycling efforts in their offices; sustainable materials used when building new offices.	A publicly stated timeframe for reaching carbon neutrality.



## Appendix I: Sensitivity Analyses

An attractive upside exists in every scenario of the sensitivity tables.

		WACC				
		9.0%	8.5%	8.0%	7.5%	7.0%
Rev Exit Multiple	12.1x	\$188.6	\$193.0	\$197.5	\$202.1	\$206.9
	13.1x	\$203.8	\$208.5	\$213.4	\$218.3	\$223.5
	14.1x	\$218.9	\$224.0	\$229.2	\$234.6	\$240.1
	15.1x	\$234.1	\$239.5	\$245.1	\$250.8	\$256.7
	16.1x	\$249.2	\$255.0	\$261.0	\$267.1	\$273.4

		CompCo Weight				
		90.0%	85.0%	80.0%	75.0%	70.0%
Rev. Exit Weight	10.0%	\$182.7				
	15.0%		\$185.3			
	20.0%			\$187.8		
	25.0%				\$190.4	
	30.0%					\$193.0