One Small Cap Story: Vericel

Transcript of a video recorded on August 23, 2019

ROBERT F. BEHAN, CFA
President and Head of Global Distribution

BRANDON M. NELSON, CFA
Senior Portfolio Manager
Calamos Timpani Small Cap Growth Fund (CTSIX)

Behan: **Small caps have an incredible number of securities and very many of these have really exciting growth prospects in front of them. Can you talk to us about perhaps a security that gives an example of the space that you invest in?**

Nelson: There's a company in our portfolio called Vericel, which is a healthcare company that makes cartilage repair tissue. They'll take a biopsy of the cartilage from a patient's knee—they've got an FDA product for the knee specifically—and they'll take that biopsy and they'll grow that cartilage further and then reinsert it back into the knee surgically. It's a repair-and-recovery type situation, and that procedure is much more beneficial to the patient, as there's less pain involved and there's more function to the knee.

That sounds great as a patient. The reason we like it as a small cap investment is that we look for sustainability of growth and we look for underestimated growth. Those two things are really important to any investment we make. Vericel is in somewhat of an early-stage situation where they've only called on about 900 of the 3,000 sports medicine doctors that are out there. So, they've got a lot of runway to further penetrate the sports medicine surgeon's world, and they're starting to tap into the orthopedic surgeon world, which is another 1,500 to 2,000 surgeons.

There's a lot of runway for them to have these surgeons get trained on their product (the product's called MACI and M-A-C-I is the acronym), so there's likely to be a sustained growth profile for that reason. They're also improving the conversion rate from the time a patient takes that original biopsy to the conversion to actually getting a surgery to have that cartilage reinserted back into the patient. That metric is improving and it's also resulting in increased growth for the company.

So, that's the sustainable growth portion of the thought process, and then there's the underestimated growth portion of how we think and how we look at an investment.

Vericel scores really well there. They have a track record of meeting and exceeding analyst expectations, and as I look forward into what the expectations are for MACI for the next several quarters, they're projecting a pretty sizable deceleration in the growth rate. We're not sure it's actually going to play out that way. We think they're most likely going to be able to sustain that growth at the current levels that we're seeing.

We're excited about it. It checks our boxes. It's a little below the radar screen. It's about $750 million in market cap, but I think it's a good example of the kind of stock we look for.

Behan: **Sounds like a perfect company for you. Can you tell us about the process for adding a security or company like that to your portfolio?**

Nelson: So, we first found this one at a conference. So, myself and the rest of our team attend research conferences regularly. And this was a sort of routine conference we were attending—a growth conference. We liked what we heard at the initial conference presentation and further pursued it. We talked to management, had them in our office a few weeks later, and that led to a much higher level of conviction and a deeper understanding of the investment. That's when we took the position.

It was "in-the-trenches" research, we'll call it, where we're meeting with companies and understanding their businesses and trying to get our arms around the investment. And that's very typical of what we'll do, not just with Vericel, but with any stock we're looking at.

Video recorded 8/23/19.

CALAMOS®
INVESTMENTS

Calamos Financial Services LLC, Distributor
2020 Calamos Court | Naperville, IL 60563-2787
800.582.6959 | www.calamos.com | caminfo@calamos.com

801721 0919