



Small Stocks, Big Potential: Three Names Investors May Not Know, But Should

Laird Bieger, Portfolio Manager of Baron Discovery Fund, talks about three earlier stage small cap companies with the potential for breakout growth.

Across the market, in almost any industry, innovation is at a premium. The companies that are developing new technologies, tools and processes will capture more available growth than their competitors. As we look at market themes like the evolution of health care, consumer spending, and education we find many exciting and innovative companies that are virtually unknown to most investors.

Teladoc, Inc.

In today's internet-enabled world, consumers expect convenience from almost every service provider they use. Think of mobile boarding passes at the airport, or online chat with customer service from a retailer, or hailing an Uber on your iPhone. None of these require in-person, face-to-face contact. That type of convenience is permeating every corner of the economy. We see Teladoc as the leading company in bringing that innovative mindset to the medical care industry.

Teladoc is the first and largest provider of "telehealth," remote, on-demand medical care via telephone or videoconference. Expanding the availability of convenient, cost-efficient medical care in a way that benefits patients and maximizes doctors' efficiency is a secular growth story that is in the early innings, with a potential market the company estimates at \$30 billion. Revenue growth north of 30% for several years is a reasonable expectation as the company adds customers, increases utilization, and pursues additional specialized services such as dermatology.

2U, Inc.

When you hear the words "online college degree" there are probably a few names you think of, and the odds are Harvard, Georgetown, and USC aren't among them. But just as the internet has become table stakes in industries like retail, it is quickly becoming a must-have feature in higher education. The aforementioned schools and many more are partnering with software

firm 2U for high-quality online education content in a variety of ways such as standalone live classes, pre-prepared presentations, or collateral materials for in-person lectures.

The company's software also has solutions for marketing and admissions, faculty support, and job search help for students. We think 2U can grow its revenue at a 30% compound annual growth rate for the next few years.

Wingstop Inc.

The restaurant business is fraught with challenges. The rising popularity of fast-casual chains has been accompanied by a flood of new entrants, many of which have entered the public markets in recent years. The winners in the space that become durable household names will be those that have great unit economics behind sustainable revenue growth. We think Wingstop is unmatched in this regard. With less than a \$400,000 investment needed to open a location and 40% returns by year two for franchisees, we believe the company can expand its global footprint from approximately 1000 restaurants today to over 5000 in time. We also believe that the company is set up to benefit from consumer desire for convenience via delivery services such as Grubhub and Uber Eats. Mobile ordering already represents greater than 21% of total sales and is growing rapidly.

In our view, perhaps the best thing about these secular growth stories is that their success is independent of the macro concerns that can whipsaw markets, like geopolitics or the latest remarks on interest rates from the Federal Reserve. Even if the economy slows or slips into a recession, we believe the developing end markets for Teladoc, 2U, and Wingstop are in such early stages that their runway for growth should remain clear.

Investors should consider the investment objectives, risks, and charges and expenses of the investment carefully before investing. The prospectus and summary prospectus contain this and other information about the Funds. You may obtain them from its distributor, Baron Capital, Inc., by calling 1-800-99BARON or visiting www.BaronFunds.com. Please read them carefully before investing.

Portfolio holdings as a percentage of net assets as of September 30, 2017 for securities mentioned are as follows: **Teladoc, Inc.** – Baron Small Cap Fund (1.0%), Baron Discovery Fund (2.8%); **2U, Inc.** – Baron Growth Fund (1.7%), Baron Small Cap Fund (2.8%), Baron Opportunity Fund (0.9%), Baron Discovery Fund 1.1%; **Wingstop Inc.** – Baron Small Cap Fund (0.7%), Baron Discovery Fund (2.1%).

Portfolio holdings may change over time.

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