

## TriplePoint's 9.7% Yield: Disruptive Growth, Increasingly Attractive Price

If you are looking for a differentiated source of high income, TriplePoint Venture Growth is a BDC that is worth considering. Not only does it provide a differentiated source of high income compared to traditional high income sectors and industries, but it trades at significant discount to its net asset value, especially after Monday's broad marketwide sell-off.

Said differently, if you like to generate stable income from your investments and are looking for an interesting way to participate in the venture-capital business, but with reduced risk, then this California based BDC is worth considering. TriplePoint provides you with great ROE and ROA as well as exposure to companies with attractive credit ratings through its portfolio. For perspective, the fund has provided loans to venture-backed companies such as Facebook, Square, YouTube, and Workday, and in some cases owns shares through the exercise of warrants.

### Key Takeaways:

- High dividend yield of 9.7%
- Venture Growth Stage focused BDC
- Diversified portfolio within high growth industries
- Consistent dividend per share of 0.36 per quarter since Q4, 2014
- 99% of portfolio companies are stable and generating cashflows.

## Overview: TriplePoint Venture Growth (TPVG)

TriplePoint Venture Growth (TPVG) is an externally managed, closed-end, non-diversified management investment company regulated as a business development company under the Investment Company Act of 1940, as amended, or the "1940 Act." TPVG was formed with the aim to expand the venture growth stage business segment of the company's sponsor, TriplePoint Capital LLC (TPC), as part of its investment platform. It was meant to be the primary vehicle through which TPC would focus its venture growth stage business.

## Business Development Companies<sup>1</sup>:

A business development company (BDC) is an SEC-registered investment company that invests primarily in private U.S.-based businesses. They are closed-end investment companies that invest in companies that are smaller in size and/or don't have alternative ways of obtaining financing, such as through a bank or by issuing bonds. The main aim of investing in these companies is to gain income as well as capital appreciation. BDCs are generally popular among income-seeking investors because of their high dividend yields. This form of company was created by Congress in 1980 through amendments to the Investment Company Act of 1940.

Although the regulation for BDCs was passed in 1980, the creation of these companies did not come until the late 1990s and early 2000s. Furthermore, they did not begin to gain popularity until Apollo Investment Corporation raised \$930 million in three months in 2004. This ignited a

<sup>1</sup> <https://www.fool.com/knowledge-center/what-is-a-bdc.aspx>

stream of BDC IPOs over the years following. Even so, the BDC industry remains relatively small when compared to mutual funds, REITs, and other investments. Total BDC assets in the traded and nontraded industry are estimated to be nearly \$45 billion.

BDCs are required to distribute at least 90% of taxable income as dividends to investors, and the company itself pays little or no corporate income tax. This is effectively a "pass-through" tax structure wherein they don't pay corporate income tax on profits before they distribute them to shareholders. The result is above-average dividend yields.

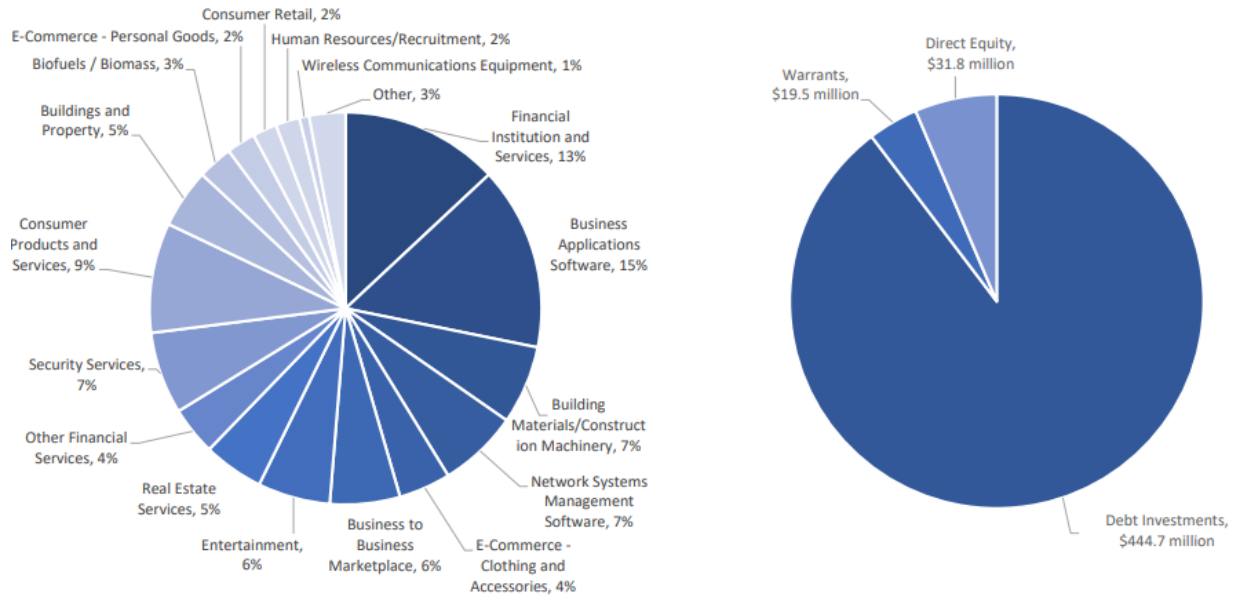
BDCs often hold debt securities as well as stock (private or public) in their investment portfolios and are often compared to venture capital funds, but instead of only being open to accredited investors, they are available to all investors.

### **TPVGs Steadfast Investment Strategy:**

TPVG lends capital to venture capital backed companies which are at the venture growth stage i.e. the target companies are backed by a select group of leading venture capital investors. Its main focus is on technology, life sciences, and other high-growth industries. It mainly supplies short term financing to companies (3-4 years) and targets companies which have a target loan-to-enterprise value of under 25% at the time of underwriting. It also ensures that the obligors have low total leverage profiles. Generally all of TPVG's portfolio companies, have already received several rounds of venture capital, are preparing for a liquidity event, like an IPO or an M&A within the coming 1-3 years and are making at least \$20 million in revenues.

It provides highly-customized, senior secured "growth capital" loans and has targeted returns of 10% - 18% on debt investments from interest and fees. It also has an additional upside through equity "kickers" in the form of warrants.

The following chart<sup>2</sup> summarizes the fund's holdings across various industries:



As seen in the chart above, the company has consciously diversified its portfolio across various industries. No single industry accounts for more than 15% of its portfolio. This helps protect the company against potential risks of default associated with the operational and financial challenges faced in any particular industry or industries.

### Year-to-Date Highlights:

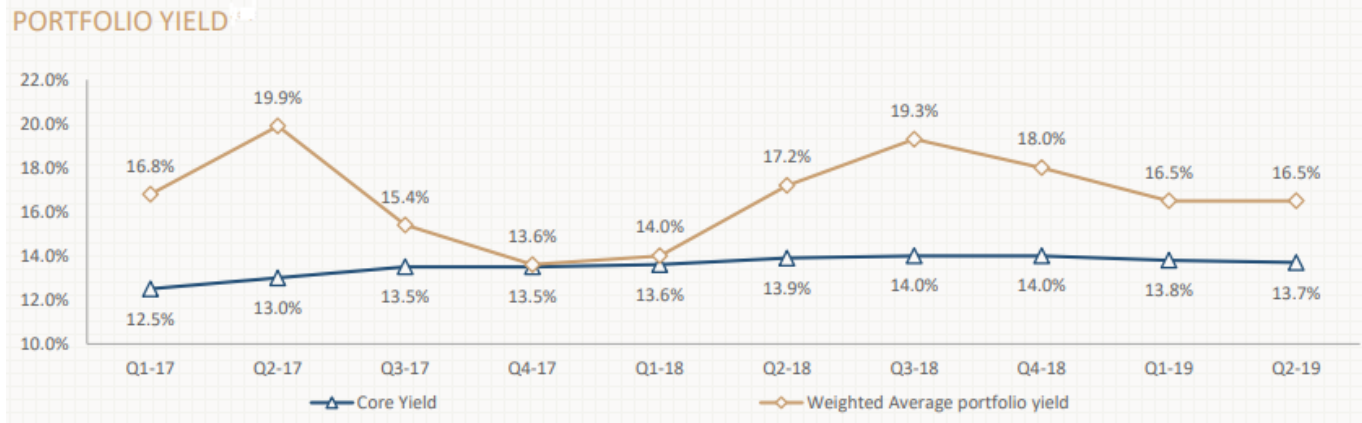
TPVG has earned an investment income of \$20 million, or \$0.81 and generated a net increase in net assets of \$34.9 million, or \$1.41 per share, and increased net asset value by \$0.69 per share from December 31, 2018.

Two of TPVG portfolio companies- CrowdStrike, Inc. and Medallia have completed IPOs of \$612 million and \$326 million respectively during the current fiscal year, reinstating TPVG's business model of investing in companies in the venture stage and then looking for exits via IPO or M&A.

The Weighted Average portfolio yield of TPVG as shown in the table below<sup>3</sup> has remained unchanged at 16.5% through Q1-2019 and Q2-2019, and has not slumped below 13.6% in the previous 10 quarters. This indicates a high portfolio yield for the company.

<sup>2</sup> [http://s22.q4cdn.com/245062847/files/doc\\_financials/2019/Q2/TPVG-Q2-2019-Investor-Presentation-final.pdf](http://s22.q4cdn.com/245062847/files/doc_financials/2019/Q2/TPVG-Q2-2019-Investor-Presentation-final.pdf)

<sup>3</sup> [http://s22.q4cdn.com/245062847/files/doc\\_financials/2019/Q2/TPVG-Q2-2019-Investor-Presentation-final.pdf](http://s22.q4cdn.com/245062847/files/doc_financials/2019/Q2/TPVG-Q2-2019-Investor-Presentation-final.pdf)



## Portfolio Companies' Strong Credit Ratings:

Amongst all of the Company's debt investments, only 1% of the investments have a credit performance of Red and 5.3% of have a credit performance of Orange. TPVG defines red rating as those of "Serious concern/trouble due to pending or actual default or equivalent", and orange as "Needs close attention due to performance materially below expectations". Thus, excluding these investments ~94% of the Company's debt investments are secure and have a minimal of being written off and to continue providing a stable cash flow.

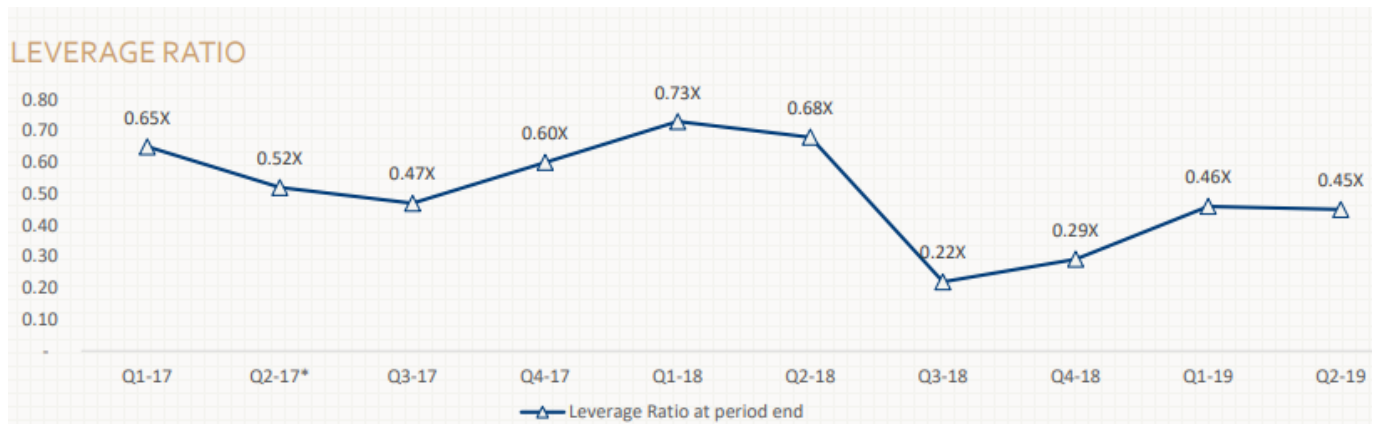
Even in a challenging situation where all 6.3% of these investments would need to be written off, investors still receive sizeable income from the balance ~94% of the investments due to TPVG's high yields on its portfolio as seen below.

CREDIT RATINGS			
CATEGORY	FAIR VALUE	% OF DEBT INVESTMENT	# OF PORTFOLIO COMPANIES
Clear (1)	\$80,010	18.0%	4
White (2)	\$302,832	68.1%	18
Yellow (3)	\$33,879	7.6%	3
Orange (4)	\$23,687	5.3%	2
Red (5)	\$4,305	1.0%	2
	<b>\$444,713</b>	<b>100.0%</b>	<b>29</b>

Weighted average investment ranking as of June 30, 2019: 2.03

## Low Leverage and Solid Dividend Payout:

TPVGs latest leverage ratio at the end of Q2-2019 is 0.45x, as seen in the chart below<sup>4</sup>, while the permitted leverage ratios for a BDC is 2 times. This gives the company enough cushion to borrow additional debt as needed if they wish to expand their portfolio, raise the dividend payout, or in case of a downturn even maintain the dividend payout



TPVG has delivered dividend coverage and returns to their shareholders since its IPO in 2014, without needing to use excess leverage, change market strategies or investment discipline.<sup>5</sup>

The distributions declared by TPVG as shown in the table below<sup>6</sup> have been stable at \$0.36 per share for every quarter since Q4-2014.

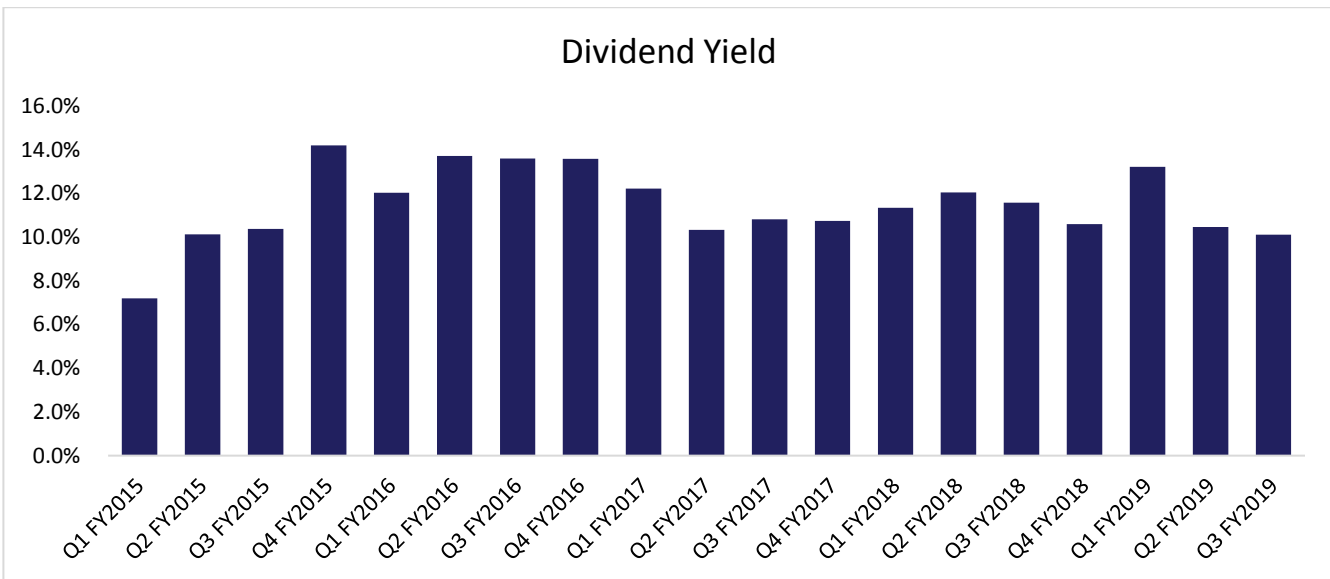
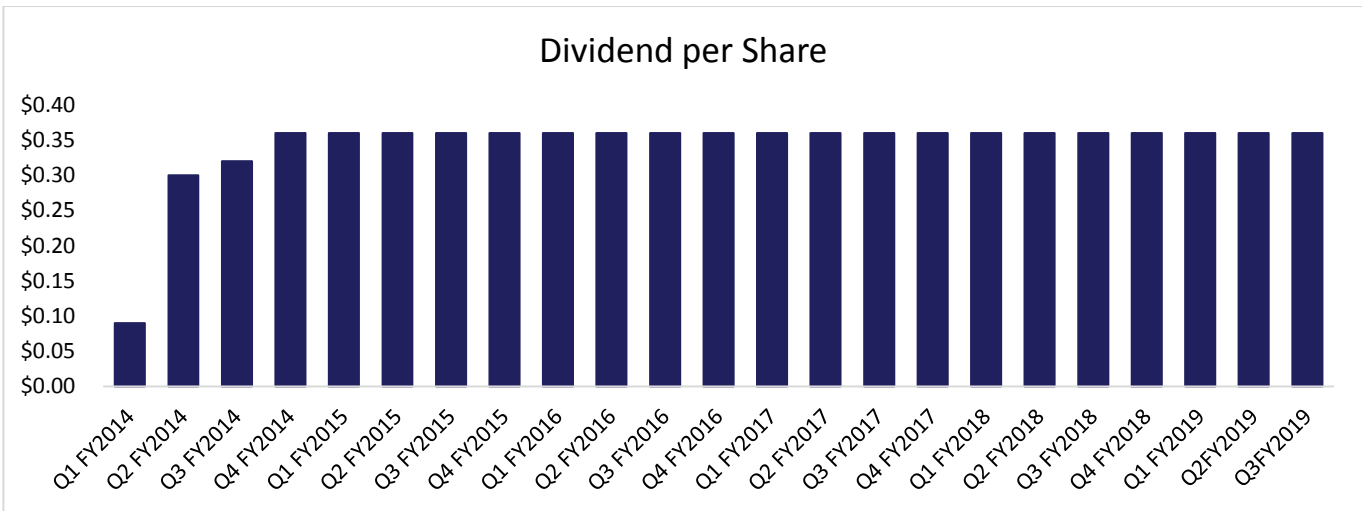
The dividend yield has fluctuated between 7%-14% in the same period due to share price movements, as seen from the Dividend Yield table below<sup>7</sup>. The constant distribution of \$0.36 per share however should give investors' confidence in achieving a steady inflow of income from owning the stock, which is also backed by rising NII covering their payouts; and the lack of dividend increase is offset by the better capital allocation by TPVG as seen in their portfolio yield.

<sup>4</sup> [http://s22.q4cdn.com/245062847/files/doc\\_financials/2019/Q2/TPVG-Q2-2019-Investor-Presentation-final.pdf](http://s22.q4cdn.com/245062847/files/doc_financials/2019/Q2/TPVG-Q2-2019-Investor-Presentation-final.pdf)

<sup>5</sup> <https://seekingalpha.com/article/4279883-triplepoint-venture-growth-tpvg-ceo-jim-labe-q2-2019-results-earnings-call-transcript?part=single>

<sup>6</sup> <http://investor.tpv.com/home/default.aspx#section=stock>

<sup>7</sup> Factset



## Attractive Valuation:

Since its inception in 2013, TPVG has had the foresight and understanding to invest in many tech and tech-adjacent companies having a tremendous growth record. The Company's business model of investing in Venture Growth stage tech companies has provided a passage for Silicon Valley outsiders to invest in attractive disruptive startups- ones with strong growth potential, solid business models and lower risk.

Based on the peer comparables table below<sup>8</sup>, TPVG has the lowest Debt/Equity ratio amongst its peers. Moreover, TPVG has one of the highest ROE and ROA. These high return metrics help

<sup>8</sup> FactSet

justify the 12% premium to NAV at which the Company is currently trading and makes it an attractive stock to own.

*In USD millions, except for per share values*

	Market Cap	Dividend Yield	P/NAV	ROE	ROA	Debt/Equity	Dividend per share	Dividend per share (Annual)
SAR	200.5	8.6%	1.0x	11.4%	4.5%	1.53x	\$0.54	\$2.06
TCRD	211.2	14.5%	0.7x	(3.3%)	(1.8%)	0.73x	\$0.21	\$1.08
MRCC	231.2	12.4%	0.9x	2.2%	1.1%	1.21x	\$0.35	\$1.40
OCSI	243.1	7.5%	0.8x	7.0%	3.5%	0.93x	\$0.16	\$0.63
SUNS	266.5	8.5%	1.0x	5.2%	2.8%	0.65x	\$0.35	\$1.41
SCM	272.8	9.4%	1.0x	11.8%	5.6%	1.30x	\$0.34	\$1.36
GLAD	277.4	8.9%	1.2x	8.2%	4.9%	0.68x	\$0.21	\$0.84
WHF	285.6	10.2%	0.9x	19.0%	11.5%	0.56x	\$0.36	\$1.42
OXSQ	313.5	12.2%	1.0x	(2.6%)	(2.0%)	0.47x	\$0.20	\$0.80
CSWC	368.4	7.0%	1.1x	10.4%	6.8%	0.66x	\$0.38	\$1.37
GAIN	372.5	7.2%	0.9x	21.4%	13.1%	0.46x	\$0.20	\$0.81
BKCC	383.4	12.9%	0.8x	(1.7%)	(1.2%)	0.38x	\$0.18	\$0.72
FDUS	395.1	9.7%	1.0x	12.4%	7.4%	0.67x	\$0.39	\$1.56
NEWT	405.8	8.7%	1.4x	12.6%	6.1%	1.15x	\$0.40	\$1.80
PNNT	440.5	11.0%	0.7x	7.5%	4.0%	0.80x	\$0.18	\$0.72
PFLT	452.9	9.8%	0.9x	6.7%	3.7%	0.87x	\$0.29	\$1.14
BBDC	492.6	3.9%	0.8x	(19.0%)	(9.6%)	1.01x	\$0.13	\$0.43
<b>Min</b>	200.5	3.9%	0.7x	(19.0%)	(9.6%)	0.38x	\$0.13	\$0.43
<b>Mean</b>	330.2	9.5%	1.0x	6.4%	3.5%	0.83x	\$0.29	\$1.15
<b>Median</b>	313.5	9.4%	0.9x	7.5%	4.0%	0.73x	\$0.29	\$1.14
<b>Max</b>	492.6	14.5%	1.4x	21.4%	13.1%	1.53x	\$0.54	\$2.06
<b>TPVG</b>	<b>380.0</b>	<b>9.4%</b>	<b>1.1x</b>	<b>12.8%</b>	<b>7.5%</b>	<b>0.35x</b>	<b>\$0.36</b>	<b>\$1.44</b>

## Risks:

As mentioned earlier, TPVG invests mainly in small and mid-scale venture growth stage private companies, which are still in the early stages of their growth. Investing in smaller companies may be perceived as risky since the companies have not fully matured and stabilized yet and may default. However, since the companies are backed by Venture Capitalists and are looking to become public in the near future, the risk associated with smaller companies is reduced.

Another point of concern to the investors could be the recent increase in the red and orange credit marked portfolio which while at only 1% and 5%, it has increased from 0% and 3% from a year back. As ~94% of their investments are still reasonably safe there is no immediate cause for concern however as TPVG continues to increase its portfolio, investors should also keep an eye out for their credit ratings to make sure they are maintaining the quality of the portfolio as well.

Interest-rate fluctuations can also affect BDCs – While BDC's may benefit from rising rates with higher floating rates on their assets, a rising interest rate environment increases default risk on loans. With a BDC's investments generally being in the smaller private space, these will be more susceptible to defaults on loans during a downturn.

In the table given below<sup>9</sup>, we see TPVG's expectation of its change in NII with respect to changing Interest Rates

Change in Interest Rates (in thousands)	Increase (decrease) in interest income	(Increase) decrease in interest expense	Net increase (decrease) in net investment income
Up 300 basis points	\$ 9,151	\$ (2,609 )	\$ 6,542
Up 200 basis points	\$ 5,940	\$ (1,739 )	\$ 4,201
Up 100 basis points	\$ 2,729	\$ (870 )	\$ 1,859
Up 50 basis points	\$ 1,124	\$ (435 )	\$ 689
Down 25 basis points	\$ (1,284)	\$ 217	\$ (1,067)

## Conclusion:

TPVG is not without risks, but it's high income and low valuation make it worth considering (it trades near par with NAV, and the shares are priced considerably lower than peers), especially in light of the fact that the income has been fairly stable and is well covered by NII. Also, if you are an income-focused investor, TPVG is not a traditional "high-income" investment category considering it invests in early stage growth companies (these companies are not known for spitting off extra cash, however they are easily covering their high interest debts—which are being paid to TPVG, among others), and for this reason it can be a valuable diversifying source of high income in your portfolio. If you are looking for steady high income payments, and the potential for some capital appreciation too (especially after Monday's market wide sell-off) TPVG is worth considering.

<sup>9</sup> <http://d18rn0p25nwr6d.cloudfront.net/CIK-0001580345/b49bddff-2f5b-4f52-987c-f4ffd8919b9f.pdf>