

## MAIN's 6.8% Yield: Consistent Dividends, Lower Middle-Market Investments

If you're looking for an attractive way to generate stable income and an interesting way to participate in the lower middle-market, then Houston based BDC Main Street Capital (MAIN) is worth considering. It delivers a consistently growing dividend per share, under average debt to equity and above average ROE and ROA, and it has significant opportunities for continued NAV growth per share.

### Overview: Main Street Capital Corporation (MAIN)

Main Street Capital Corporation ("MAIN") is an internally managed business development company primarily focused on providing customized debt and equity financing to lower middle market ("LMM") companies and debt capital to middle market companies. Portfolio investments are typically made to support management buyouts, recapitalizations, growth financings, refinancings and acquisitions of companies that operate in a variety of industry sectors. The company's principal investment objective is to maximize portfolio total return by generating current income from debt investments and capital appreciation from equity and equity-related investments.

Target LMM companies have annual revenues between \$10 million and \$150 million, EBITDA between \$3 million and \$20 million with investments ranging in size from \$5 million to \$50 million. Middle market investments are made in businesses with annual revenues between \$150 million and \$1.5 billion, and investments range in size from \$3 million to \$20 million. Private loan portfolio investments are primarily debt securities in privately held companies which have been originated through strategic relationships with other investment funds on a collaborative basis.

MAIN has identified a few investment criteria that it uses to evaluate prospective portfolio companies. These include investing in companies with – a proven management team who have a meaningful equity stake; established companies with positive cash flow; defensible competitive advantages; exit alternatives.

### Portfolio Characteristics:

As of Q2 2019, MAIN is invested in 182 companies, with the portfolio carrying at a total fair value of \$2.5 billion which comprises of 48% LMM investments, 21% middle-market investments, 24% private loan investments and 7% of other investments. A few key points regarding the portfolio are as follows:

- Average investment size is \$12 million

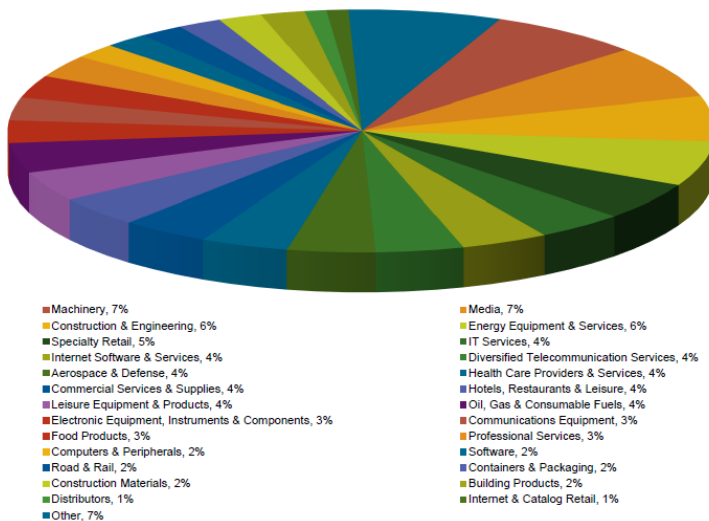
#### Key Takeaways:

- Attractive dividend yield.
- Unmatched NAV growth per share
- Very Low Non-accruals (1.5% of total portfolio fair value)
- Attractive portfolio strategy

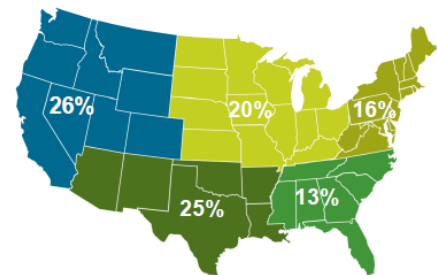
- Largest individual company represents 2.6% of the total portfolio fair value, with most investments representing less than 1%
- Seven non-accrual investments, which represent only 1.5% of the total portfolio fair value
- The weighted average yield of the portfolio currently stands at 10.7%

As seen in the below charts<sup>1</sup>, MAIN's portfolio is well diversified across industries and geographies which safeguards the company against potential risks of default associated with the operational and financial crisis being faced by an industry or state.

**Total Portfolio by Industry (as a Percentage of Cost) (1)**



**Invested Capital by Geography (2)**



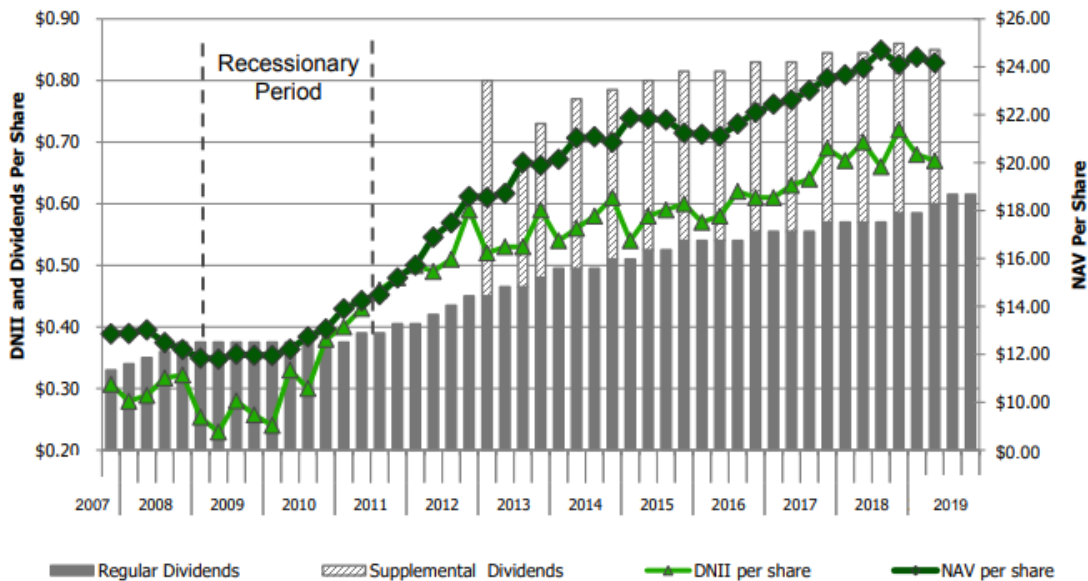
## Attractive Lower Middel Market Opportunities:

As per US Census data, there are 175,000 domestic LMM businesses which represent a large and critical portion of the US economy. The sector is underserved from a capital perspective with few players to address its growing needs. The asset class has inherent pricing inefficiencies with typical entry enterprise value multiples ranging between 4.5x – 6.5x EBITDA and leverage multiples between 2.0x – 4.0x. MAIN provides customized financing solutions to LMM businesses, adopting a partnership based relationship with management teams and acting as a “one-stop” shop for their financing needs.

MAIN's LMM investment portfolio comprises of 69 portfolio companies, representing \$1.2 billion in fair value. It consists of a diversified mix of secured (67% of LMM portfolio at cost) and lower cost basis equity investments (33% of LMM portfolio at cost). The company targets high yields from secured debt investments in LMM companies (11.4% weighted - average cash coupon as of Q2 2019) and dividend income and periodic gains from equity investments.

<sup>1</sup> [MAIN Q2 2019 Investor Presentation](#)

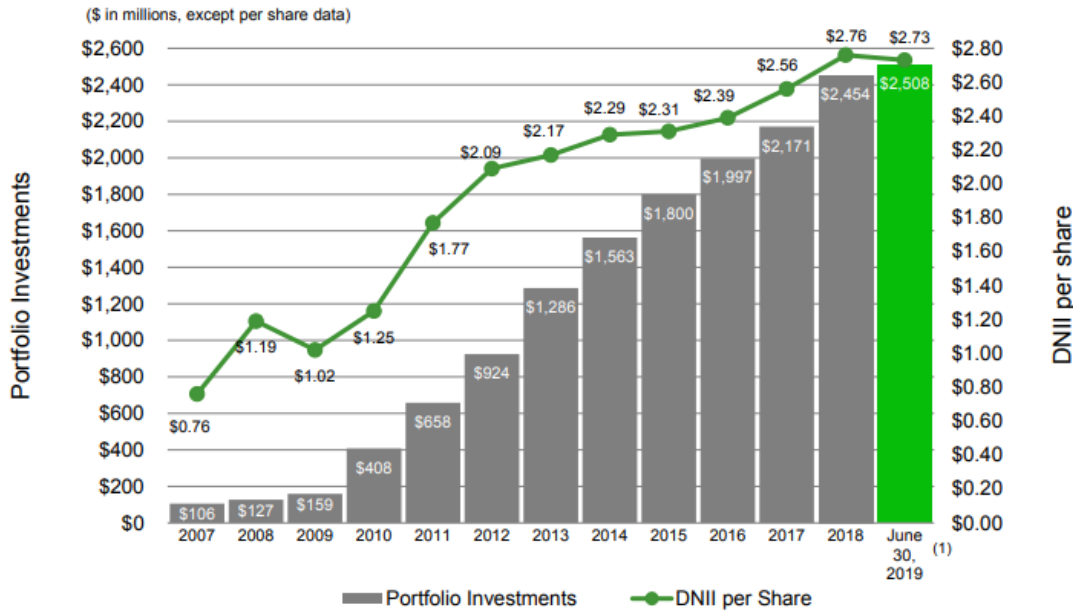
MAIN's focus on LMM equity investments is a key differentiating factor between the company and its competitors. MAIN has a 41% equity stake on average in 99% of its LMM portfolio companies. This allows MAIN an opportunity to benefit from fair value appreciation, capital gains and cash dividend income (57% of LMM portfolio companies currently pay cash dividends). As of Q2 2019, the company also had \$217.4 million in unrealized capital appreciation which is a proxy for future dividend growth without the need for additional capital. The fair value of the LMM portfolio currently stands at 122% of cost, with the equity component fair value equalling 177% of cost, and a majority of the portfolio has deleveraged while attaining equity appreciation.



## Outstanding Track Record Since IPO:

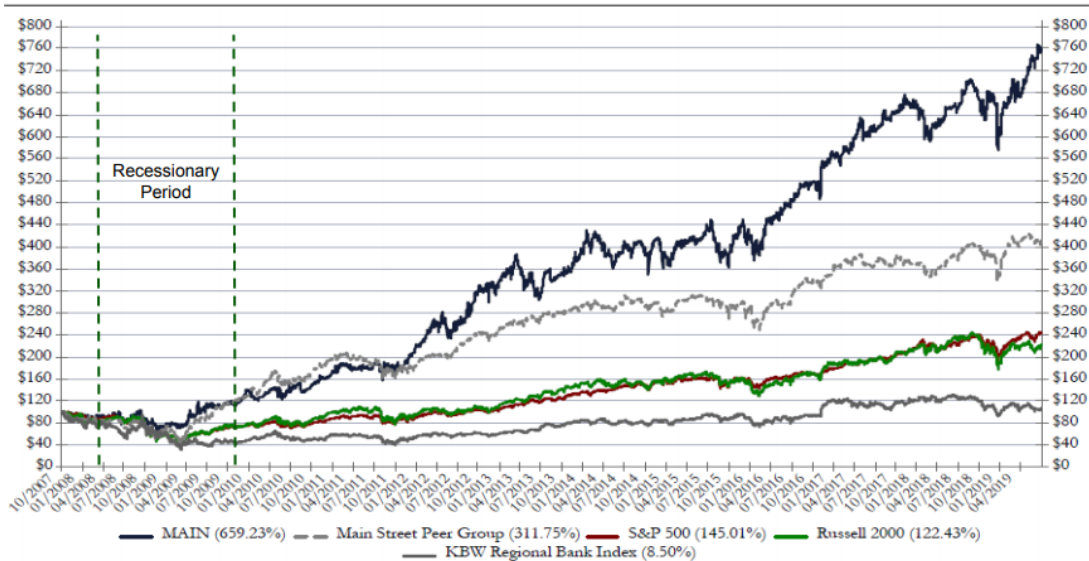
MAIN's focus on equity investments in LMM provides opportunity for significant NAV per share growth which its debt-focused peers have not been able to match through cycles. The company's NAV per share has grown from \$12.85 in December 2007 to \$24.17 as of Q2 2019, recording a growth of 88% at a C.A.G.R. of 5.6%<sup>2</sup>.

<sup>2</sup> [MAIN Q2 2019 Investor Presentation](#)



The LMM equity component of investment strategy provides opportunity for meaningful realized gains, which are more tax efficient and without a cap on the upside. The company's efficient operating structure provides operating leverage to grow distributable net investment income, and dividends paid, as investment portfolio and total investment income grow. Since 2007, MAIN has accretively grown portfolio investments by 238% on a per share basis and distributable net investment income by 259%<sup>3</sup>.

### MAIN Total Return Performance Since IPO



<sup>3</sup> MAIN Q2 2019 Investor Presentation

Ability to grow NAV per share provides the opportunity for stock price appreciation to enhance total shareholder returns. Since its IPO in 2007, the company has seen an overall growth of 659.23% as opposed to Main Street Peer Group, S&P500, Russel 2000 and KBW Regional Bank Index, which saw growths of 311.75%, 145.01%, 122.43% and 8.50% respectively<sup>4</sup>.

## **Metiulous Debt and Expense Management:**

Main Street's capital structure has an average amount of debt relative to peers, however it's low term debt is relatively low cost. Also, the capital structure is designed to match the expected duration and fixed/floating rate nature of its investment portfolio assets. This also allows for investment in assets with long-term holding periods/illiquid position and greater yields and overall returns, while also providing downside protection and liquidity through economic cycles.

Although MAIN currently has somewhat higher than normal debt figures, most of its debt has 5-7 year maturity periods. Moreover, MAIN has significant equity and assets, putting it in a comfortable position to pay off its debt at their maturities.

MAIN also shows significantly lower expenses when compared to its peers. This is mainly driven by MAIN's internally managed operating structure which provides significant operating leverage. Along with an alignment of interest among the management team and shareholders. The operating structure results in highly favourable effects, such as, the ratio of total operating expenses to average total assets is ~1.3%, and this has significant positive impact on Net investment income.

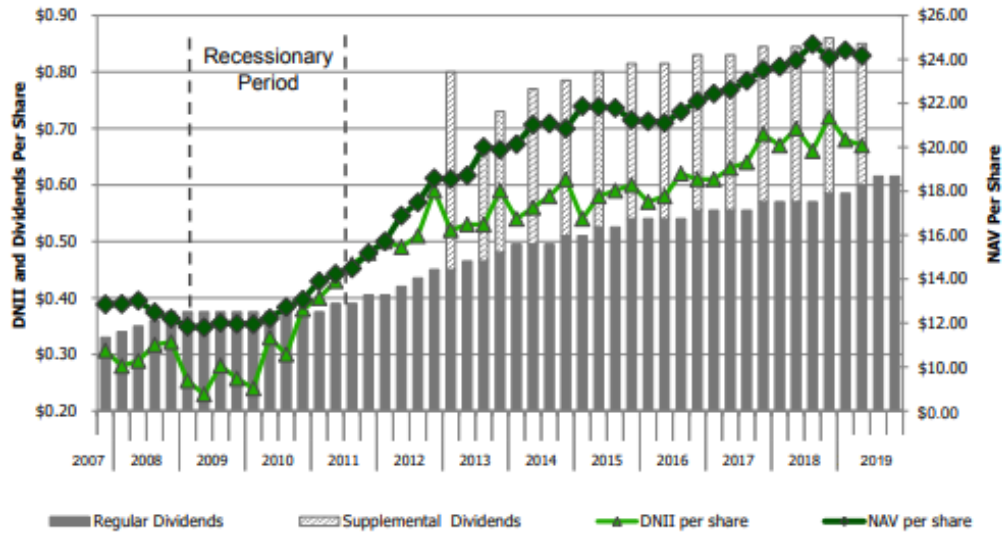
## **Dividend Coverage, Safety, Stability:**

MAIN has consistently delivered a stable dividend, without ever having to decrease its monthly dividend payment to shareholders. Moreover, it has also consistently provided supplemental semi-annual dividends since July 2013 due to realized gains from the LMM equity component of its investment strategy. MAIN is currently in the process of transitioning their semi-annual supplemental dividends into monthly dividends, thus investors can expect to receive higher monthly dividends in the near future.

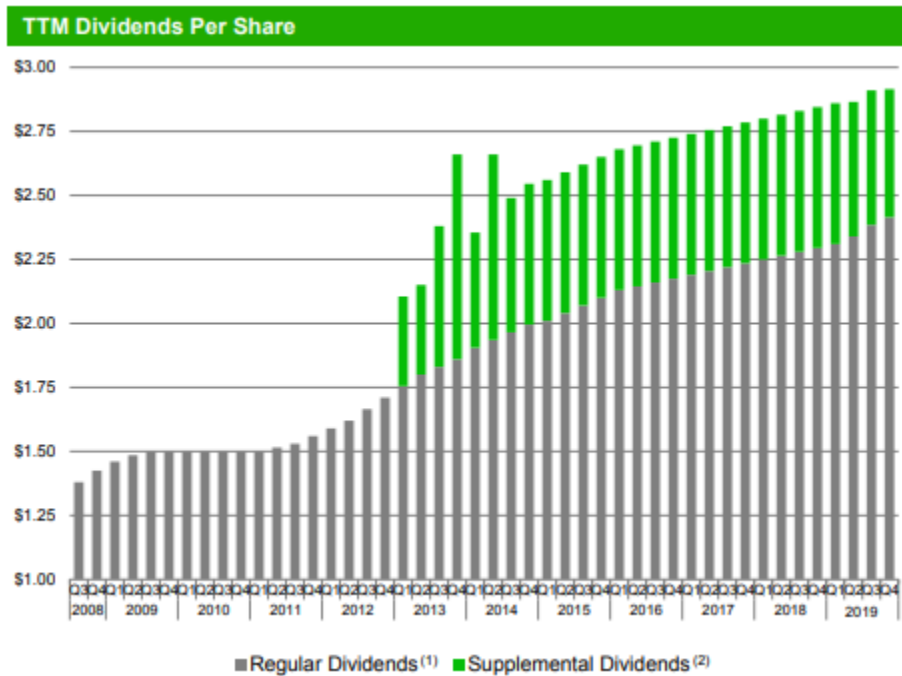
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<sup>4</sup> [MAIN Q2 2019 Investor Presentation](#)

Net Investment Income (Current vs Historical)



MAIN has had a 86% increase in monthly dividends from \$0.33 per share paid in Q4 2007 to declared dividends of \$0.615 per share for Q4 2019.<sup>5</sup>



<sup>5</sup> [MAIN Q2 2019 Investor Presentation](#)

## Risks



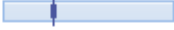
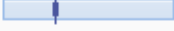
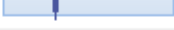
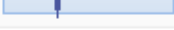
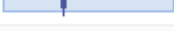
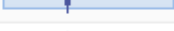
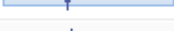
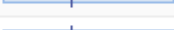
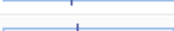


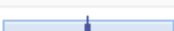






MAIN is not without risks. For example, it has a higher price-to-book valuation than practically all of its peers. This can be concerning until you recognize that MAIN also has a higher quality book of investments and investment strategy versus its peers.

*In USD millions, except for per share values*








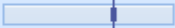



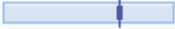


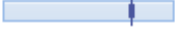
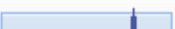

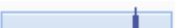

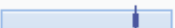

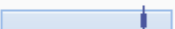

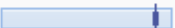




Ticker	Market Cap	Div Yield Annual	Price/NAV	ROE	ROA	Debt/Equity	Div Per Share Quarterly	Div Per Share Annual
SLRC	811.0	8.5%	0.9x	7.3%	4.0%	0.5x	\$0.41	\$1.64
BCSF	863.4	2.4%	0.9x	3.5%	1.9%	0.6x	\$0.41	\$0.41
NMFC	957.4	10.8%	1.0x	7.1%	3.3%	1.4x	\$0.34	\$1.36
AINV	1,042.8	7.9%	0.8x	5.3%	3.0%	0.9x	\$0.45	\$1.20
HTGC	1,066.3	11.2%	1.1x	8.5%	4.2%	1.0x	\$0.32	\$1.24
GBDC	1,128.1	6.8%	1.2x	8.5%	4.6%	0.9x	\$0.32	\$1.28
TSLX	1,183.3	8.6%	1.1x	11.7%	6.9%	0.6x	\$0.39	\$1.56
PSEC	2,397.4	11.0%	0.7x	4.3%	2.5%	0.7x	\$0.18	\$0.72
FSK	2,753.1	14.7%	0.7x	17.6%	9.6%	0.8x	\$0.19	\$0.76
ARCC	6,637.1	9.9%	0.9x	11.9%	6.8%	0.7x	\$0.40	\$1.54
<b>Min</b>	811.0	2.4%	0.7x	3.5%	1.9%	0.5x	\$0.18	\$0.41
<b>Mean</b>	1,884.0	9.2%	0.9x	8.6%	4.7%	0.8x	\$0.34	\$1.17
<b>Median</b>	1,097.2	9.3%	0.9x	7.9%	4.1%	0.8x	\$0.37	\$1.26
<b>Max</b>	6,637.1	14.7%	1.2x	17.6%	9.6%	1.4x	\$0.45	\$1.64
<b>MAIN</b>	2,071.4	6.8%	1.4x	11.8%	6.9%	0.7x	\$0.62	\$2.31

Based on the above table<sup>6</sup>, MAIN has the highest Price to NAV amongst its entire comparable set. Also worth noting, the high valuation can be further justified by its average Debt to Equity Ratio, above average ROE and ROA, minimal non-accrual investments (1.5% of their portfolio) and significant equity investments (33% of their entire portfolio) with potential to further grow.

<sup>6</sup> Factset

Ticker	Company	Dividend Yield	▲ 5-Year Price / Book Range	Price / Book	Market Cap (\$M)
BCSF	Bain Capital Specialty	8.9%	0.9  1.2	0.9	\$955
MRCC	Monroe Capital	13.9%	0.7  1.4	0.8	\$206
FSK	FS KKR Capital	13.4%	0.6  1.7	0.7	\$2,979
CGBD	TCG BDC	10.3%	0.7  1.5	0.8	\$871
RAND	Rand Capital	0.0%	0.4  0.9	0.5	\$16
PFLT	PennantPark Floating Rate	10.0%	0.7  1.6	0.9	\$449
WHF	WhiteHorse Finance	10.8%	0.7  1.2	0.9	\$269
BKCC	BlackRock Capital Inv	10.8%	0.7  1.0	0.8	\$356
MCC	Medley Capital	7.8%	0.4  1.1	0.6	\$140
OFS	OFS Capital	12.2%	0.7  1.3	0.9	\$149
BBDC	Barings BDC	5.6%	0.6  1.9	0.9	\$503
TCPC	BlackRock TCP Capital	10.7%	0.8  1.3	1.0	\$788
GARS	Garrison Capital	13.2%	0.5  1.0	0.7	\$112
HCAP	Harvest Capital Credit	9.7%	0.7  1.1	0.8	\$63
CMFN	CM Finance	13.9%	0.5  1.0	0.6	\$98
FDUS	Fidus Inv	10.4%	0.7  1.3	0.9	\$367
PTMN	Portman Ridge Finance	10.1%	0.4  1.1	0.6	\$90
HTGC	Hercules Capital	9.8%	0.9  1.6	1.2	\$1,401
TCRD	THL Credit	12.6%	0.6  1.1	0.8	\$212
PSEC	Prospect Capital	11.2%	0.5  1.0	0.7	\$2,390



PNNT	Pennant Park Investment	11.4%	0.5		0.7	\$422
GSBD	Goldman Sachs BDC	9.1%	0.9		1.2	\$800
SUNS	Solar Senior Capital	8.3%	0.8		1.1	\$277
GAIN	Gladstone Investment	7.1%	0.7		0.9	\$384
SSSS	Sutter Rock Capital	-	0.4		0.6	\$128
GBDC	Golub Capital BDC	6.8%	1.0		1.2	\$1,153
ABDC	Alcentra Capital	8.1%	0.5		0.8	\$115
ARCC	Ares Capital	8.5%	0.7		1.1	\$8,035
CPTA	Capitala Finance	13.3%	0.5		0.8	\$123
OCSL	Oaktree Specialty Lending	7.4%	0.5		0.8	\$726
MVC	MVC Capital	6.9%	0.5		0.7	\$157
SCM	Stellus Capital Investment	10.3%	0.6		0.9	\$252
NEWT	Newtek Business Services	10.1%	0.8		1.5	\$440
SLRC	Solar Capital	8.0%	0.7		0.9	\$866
NMFC	New Mountain Finance	10.1%	0.8		1.1	\$1,085
MFIN	Medallion Financial	4.1%	0.1		0.5	\$119
AINV	Apollo Investment	11.0%	0.5		0.9	\$1,112
TS LX	TPG Specialty Lending	7.5%	1.0		1.3	\$1,394
OCSI	Oaktree Strategic Income	7.5%	0.6		0.9	\$242
HRZN	Horizon Technology Finance	10.1%	0.6		1.0	\$164
TPVG	TriplePoint Venture Growth ...	8.9%	0.6		1.1	\$410
OXSQ	Oxford Square Capital	13.1%	0.5		1.0	\$298
CSWC	Capital Southwest	7.5%	0.7		1.1	\$371
SAR	Saratoga Investment	8.7%	0.6		1.2	\$198
GLAD	Gladstone Capital	9.0%	0.6		1.2	\$279
OHA I	OHA Investment	6.2%	0.3		0.7	\$26
MAIN	Main Street Capital	5.6%	1.2		1.8	\$2,795
ORCC	Owl Rock Capital	7.8%	1.0		1.1	\$6,131

## Conclusion:

Main Street Capital is an attractive internally managed BDC. It invests primarily in Lower Middle Market Companies and has a highly diversified and very high quality portfolio. Its dividend is safe and growing, and its debt plus equity strategy has allowed higher returns for investors and

provides further justification for its price-to-book ratio. Over the long-term, we expect MAIN to continue to outperform most of its peers while continuing to pay high quality growing dividends.