



TriplePoint Venture Growth BDC (TPVG)

Updated August 4th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$11.17	5 Year CAGR Estimate:	15.5%	Market Cap:	\$395.4 M
Fair Value Price:	\$15.00	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	09/14/2023
% Fair Value:	74%	5 Year Valuation Multiple Estimate:	6.1%	Dividend Payment Date:	09/29/2023
Dividend Yield:	14.3%	5 Year Price Target	\$15.00	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

TriplePoint Venture Growth BDC Corp is a business development company specializing in providing capital and guiding companies during their private growth stage, before they eventually IPO to the public markets. TPVG offers debt financing to venture growth companies, proposing a less dilutive way to raise capital than raising additional equity while also helping with the businesses' acceleration and expansion. Its investment portfolio mainly consists of debt provision in 56 companies (91% of total portfolio's fair value), warrants in 123 companies (5%), and equity investments in 48 (5%) portfolio companies. It is well-diversified amongst 20+ industries, with its highest exposure of 17.6% in consumer products and services. The majority of its funds are allocated in the tech sector. The \$395.4 million company, based in Menlo Park, California, has helped finance some of the world's leading companies, including Facebook, Etsy, Fastly, Splunk, FarFetch, Square, Workday, and various other successful tech giants.

On August 2nd, 2023, the company posted its Q2 results for the period ending June 30th, 2023. For the quarter, the company achieved a total investment income of \$35.2 million compared to \$27.4 million in Q2-2021. The increase in total investment was primarily due to a greater weighted average principal amount outstanding on its income-bearing debt investment portfolio and higher investment yields, partially offset by reduced loan prepayment activity.

The company's weighted average annualized portfolio yield during the period came in at 14.7%. Further, the company kept expanding its portfolio in Q2 by funding \$30.6 million in debt investments to eight companies with a 16.4% weighted average annualized portfolio yield at origination.

Net investment income (NII) per share was a record \$0.53, compared to \$0.41 in Q2-2022. This was due to the increase in net investment income between periods which was, in turn, driven primarily by greater investment and higher investment margins. Based on the company's current portfolio composition, we forecast a FY2023 NII/share power of \$2.00.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
NII/share	---	\$1.30	\$1.46	\$1.42	\$1.61	\$1.71	\$1.54	\$1.57	\$1.33	\$1.94	\$2.00	\$2.00
DPS	---	\$1.28	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.55 ¹	\$1.60	\$1.60
Shares²	---	9.9	15	16.2	16.3	20.5	24.8	30.6	30.9	35.3	35.4	50.0

Note that we are using Net Investment Income (NII) and Distributions per share (DPS) instead of earnings-per-share and dividends, as this better reflects the underlying nature of TriplePoint. During the company's brief history in the public markets, management has achieved a solid net income per share record, substantially covering its distributions. Due TriplePoint investing in companies carrying higher risks as well as the recent originations taking place at a slightly higher yield, we believe that its debt yields will remain above 13%, though this figure should be expected to fluctuate. We don't forecast any growth in the company's NII/ share and distributions in the medium-term as we are starting off a high NII/share base, and changes in rates could drive results either way in the coming years.

¹ Includes special dividend of \$0.10.

² Share count is in millions.

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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/NII	---	11.9	8.42	7.7	8.5	7.6	11.0	7.0	12.4	7.0	5.6	7.5
Avg. Yld.	---	7.5%	9.8%	13.3%	10.9%	11.1%	9.4%	9.4%	8.7%	11.4%	14.3%	10.7%

TriplePoint's valuation appears to be implying a discount relative to the rest of its BDC peers. The current multiple of 5.6 times our expected FY2023 net investment income likely undervalues the stock considerably, whose fair P/NII we have lowered at a prudent 7.5X. Rising rates are likely to reduce investment activity but also increase the company's investment spreads. NAV/share stood at \$10.70 as of June 30th, 2023. While this may suggest that TriplePoint is trading above NAV, it's important to note that this is solely a result of higher interest rates temporarily altering the discount rates applied to the company's investments. Interestingly, shares are currently trading at a massive yield of 14.3%, which should attract investor interest to the stock, especially after last March's distribution hike.

Safety, Quality, Competitive Advantage, & Recession Resiliency

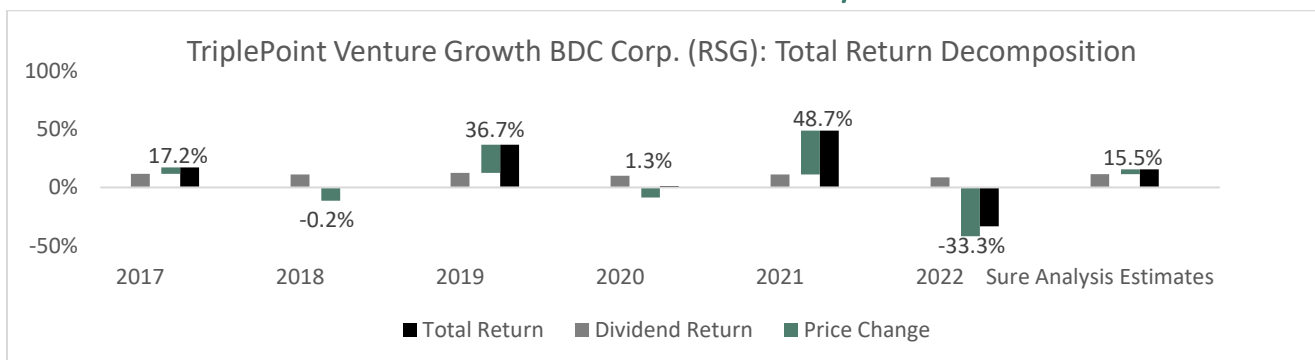
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	99%	101%	89%	84%	94%	92%	108%	80%	80%	80%

While the payout ratio may seem alarming, especially during periods such as FY2021 when the payout ratio exceeded 100%, distributions should remain covered by the company's increase in net assets. Also, the estimated undistributed taxable earnings from net investment income currently stand at \$0.90 per share. Hence, we don't expect a cut. That being said, due to their obligatory distribution requirements, there is little to no margin for capital maneuverings. Further, while management's proficiency has helped it negotiate sky-high yields during the current low-rate environment, increasing competition could squeeze this surplus, leaving no room for profit against its also sky-high financing through share issuances. As the company needs to pay out more distributions as it keeps issuing shares, a possible series of defaults by its borrowers can quickly trickle down to write-offs, distribution cuts, and overall massive capital losses, as seen with various BDCs throughout time. Thankfully this has not been the case lately, as tech companies, which account for the company's highest exposure, have been performing well. A potential recession could adversely impact its results, nonetheless.

Final Thoughts & Recommendation

Shares of TriplePoint have gained since our last report, but the stock is still attached to a massive dividend yield of 14.3%. We believe that distributions remain safe, and estimate that the stock can achieve annualized returns of 15.5% during the medium-term, driven by the hefty yield and the possibility of valuation tailwinds. Shares earn a buy rating, though we suggest that investors be aware of the risks attached to BDCs.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	---	---	23	18	26	44	40	45	87	(9.5)
SG&A Exp.	---	---	4	4	4	5	6	7	6	6.7
Net Profit	---	---	16	11	19	37	32	35	77	(20)
Net Margin	---	---	68.9%	61.2%	73.8%	83.0%	79.0%	77.8%	88.5%	(211%)
Free Cash Flow	---	---	0	(92)	25	(18)	(188)	61	(145)	(101)

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	---	326	382	434	510	467	684	684	928	1015
Cash & Equivalents	---	7	32	8	4	3	20	38	51	51.5
Total Liabilities	---	326	382	434	510	467	684	283	493	595
Accounts Payable	---	7	32	8	4	3	20	3	0	0
Long-Term Debt	---	---	71	168	139	96	336	261	468	567
Shareholder's Equity	---	145	232	216	235	335	333	400	434	420
LTD/E Ratio	---	---	0.31	0.78	0.59	0.29	1.01	0.65	1.08	1.35

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	---	---	---	2.7%	4.1%	7.5%	5.5%	5.2%	9.5%	(2.1%)
Return on Equity	---	---	8.2%	5.0%	8.5%	12.8%	9.5%	9.6%	18.3%	(4.7%)
ROIC	---	---	---	3.2%	5.1%	9.1%	5.8%	5.3%	9.8%	(2.1%)
Shares Out.	---	9.9	15	16.2	16.3	20.5	24.8	30.6	30.9	32.7
Revenue/Share	---	---	1.50	1.12	1.60	2.15	1.62	1.47	2.82	(0.29)
FCF/Share	---	---	0.01	(5.69)	1.54	(0.87)	(7.55)	1.98	(4.68)	(3.09)

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

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