



Great Elm Capital (GECC)

Updated May 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$10.3	5 Year CAGR Estimate:	11.1%	Market Cap:	\$97 M
Fair Value Price:	\$11.2	5 Year Growth Estimate:	-0.2%	Ex-Dividend Date:	6/14/24
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.6%	Dividend Payment Date:	6/28/24
Dividend Yield:	13.6%	5 Year Price Target	\$11	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

Overview & Current Events

Great Elm Capital Corporation is a business development company that specializes in loan and mezzanine, middle market investments. It seeks to create long-term shareholder value by building its business across three verticals: Operating Companies, Investment Management, and Real Estate. The company favors investing in media, healthcare, telecommunication services, communications equipment, commercial services and supplies. The company has a market capitalization of approximately \$97 million.

Great Elm Capital Corp. (GECC) reported its first quarter 2024 financial results, demonstrating continued growth and financial performance. The company's total investment income for the quarter, which ended on March 31, 2024, amounted to \$8.9 million, translating to \$1.03 per share. However, GECC also reported net realized and unrealized losses of approximately \$3.7 million, or \$0.42 per share during this period.

Investment activities were robust, with GECC deploying approximately \$64.2 million into 29 investments at a weighted average current yield of 12.5%. The company also monetized, either partially or fully, 33 investments totaling about \$28.9 million at a weighted average current yield of 11.4%. These financial maneuvers highlight GECC's active management of its portfolio to optimize returns.

On the liquidity front, cash and money market securities totaled approximately \$8.7 million as of the end of the quarter. The company's total debt stood at \$148.1 million, which included various notes and no outstanding borrowings under its revolving credit facility following a recent repayment.

GECC maintained its quarterly cash distribution, declaring \$0.35 per share for the second quarter of 2024, which represents a 13.6% annualized dividend yield based on the closing market price as of May 1, 2024. This continued distribution underscores the company's commitment to delivering value to its shareholders.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	---	---	\$1.52	\$1.44	\$1.07	\$0.54	\$3.02	\$1.67	\$1.65	\$1.69	\$1.35
BVPS	---	---	\$13.52	\$12.42	\$10.34	\$8.63	\$3.46	\$16.63	\$12.56	\$12.99	\$13.14	\$13.00
DPS	\$0.86	\$0.71	\$0.32	\$0.26	\$1.00	\$1.00	\$1.00	\$0.40	\$1.80	\$1.40	\$1.40	\$1.20
Shares¹	23.2	22.5	2.1	1.8	1.8	1.7	3.9	4.6	7.6	9.5	9.5	13

Great Elm Capital has had a very mixed record of earnings performance over the course of its existence. Furthermore, it has seen book value be very volatile since going public in 2016. We believe that the company will have a hard time growing book value and earnings per share as its large dividend payout will combine with its leveraged business model to stress the company's balance sheet during challenging periods.

¹ In millions

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/B	---	---	0.86	0.79	0.76	0.9	0.85	0.83	0.83	0.76	0.78	0.85
Avg. Yld.	---	---	2.8%	2.6%	12.7%	12.9%	34.0%	2.9%	17.3%	14.2%	13.6%	10.9%

The share price is currently undervalued based on the price-to-book value multiple, which we believe is the best single metric for valuing this security. Based on its history and our appraisal of management and the company's outlook, we believe paying 0.85x book value is fair for this company. Given that shares currently trade at 0.78 times book value, we view shares as trading below fair value, leading to an expected tailwind to total returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	17%	69%	93%	185%	13%	108%	85%	83%	89%

The company lacks any competitive advantage given its small size and diversified exposure. Furthermore, their extremely erratic earnings and book value support this view that the business is not stable.

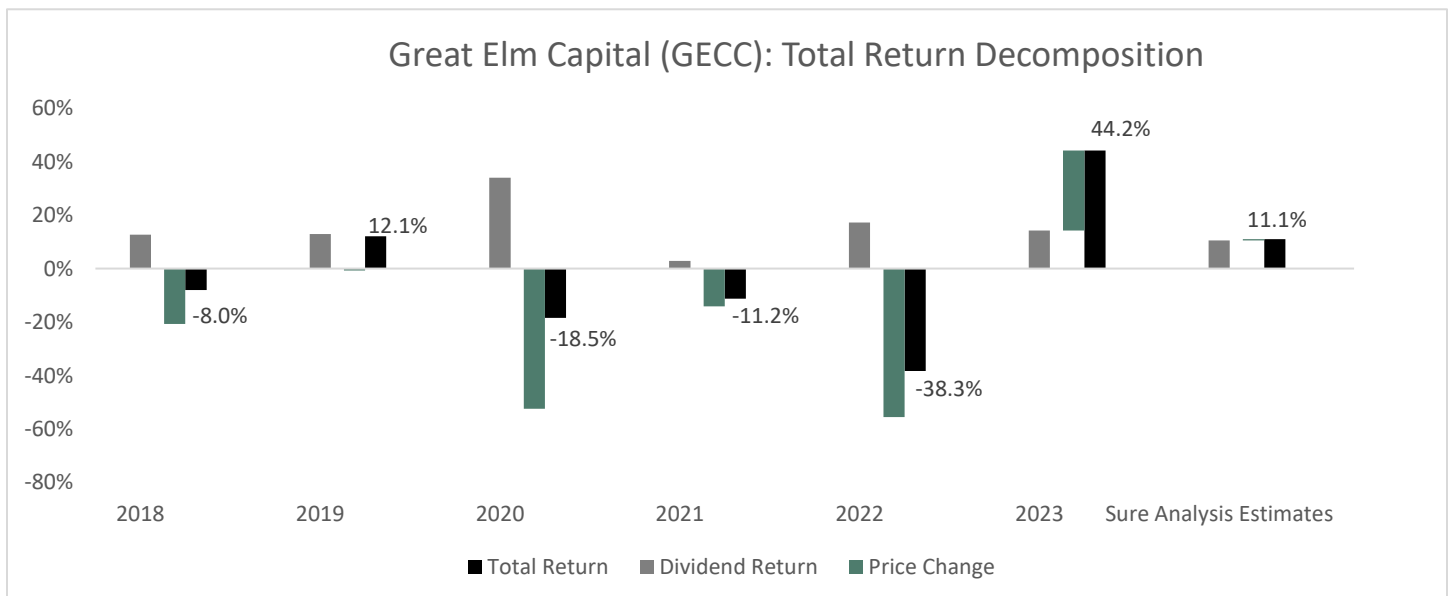
Great Elm Capital's balance sheet is also leveraged quite heavily, which leaves it exposed to rapid declines in book value like what was experienced a few years ago. As a result, even though it was not around for the Great Recession, we believe that it will not fare well in a protracted recession, making it a high-risk stock.

Finally, its payout ratio is quite elevated. Combined with the erratic earnings and book value, we view the dividend as risky.

Final Thoughts & Recommendation

Great Elm Capital is not for the faint of heart. The dividend is at significant risk as indicated by the bloated yield and payout ratio. The earnings and book value history are erratic and unpredictable. That said, the stock is trading at a discount to book value. With 11.1% expected annualized total returns over the next half-decade, the stock earns a speculative Buy rating for very aggressive investors, but conservative income growth investors should steer clear.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	(6)	(4)	(14)	1	(5)	(5)	(29)	(7)	(16)	30
SG&A Exp.	2	2	4	3	3	3	3	4	4	5
Net Profit	(8)	(5)	(18)	(3)	(9)	(8)	(32)	(10)	(16)	25
Net Margin	134.5%	116.9%	130.2%	-412%	168.3%	158.2%	110.7%	155.8%	96.9%	83.9%
Free Cash Flow	(21)	(31)	9	(24)	(30)	(24)	27	(58)	(42)	26

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	155	161	237	240	282	291	283	426	310	247
Cash & Equivalents	-	4	67	3	4	5	53	9	1	1
Total Liabilities	82	61	64	108	171	204	204	352	225	148
Accounts Payable	26	16	24	70	88	74	78	204	70	4
Long-Term Debt	29	33	35	31	76	120	116	142	153	140
Shareholder's Equity	73	100	173	132	110	87	80	75	85	99
LTD/E Ratio	0.40	0.33	0.20	0.24	0.69	1.38	1.45	1.90	1.81	1.42

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-5.7%	-3.3%	-10.1%	-1.2%	-3.5%	-2.6%	-11.1%	-2.9%	-4.2%	9.1%
Return on Equity	-11.4%	-6.0%	-14.1%	-1.8%	-7.4%	-7.7%	-38.4%	-13.3%	-19.6%	27.6%
ROIC	-7.2%	-4.4%	-11.1%	-1.5%	-5.1%	-3.8%	-15.9%	-5.0%	-6.9%	10.6%
Shares Out.	23.2	22.5	2.1	1.8	1.8	1.7	3.9	4.6	7.6	9.5
Revenue/Share	(3.91)	(1.80)	(6.41)	0.34	(3.01)	(2.79)	(13.01)	(1.62)	(2.57)	3.97
FCF/Share	(14.25)	(12.73)	4.07	(12.50)	(17.16)	(14.33)	12.35	(14.36)	(6.68)	3.38

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

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