



Main Street Capital Corporation (MAIN)

Updated March 1st, 2019 by Eli Inkrot

Key Metrics

| | | | | | |
|-----------------------------|------|--------------------------------------------|-------|---------------------------------|-------|
| Current Price: | \$39 | 5 Year CAGR Estimate: | 12.2% | Volatility Percentile: | 3.1% |
| Fair Value Price: | \$41 | 5 Year Growth Estimate: | 4.0% | Momentum Percentile: | 70.4% |
| % Fair Value: | 96% | 5 Year Valuation Multiple Estimate: | 0.8% | Growth Percentile: | 22.8% |
| Dividend Yield: | 7.4% | 5 Year Price Target | \$49 | Valuation Percentile: | 62.5% |
| Dividend Risk Score: | D | Retirement Suitability Score: | B | Total Return Percentile: | 71.2% |

Overview & Current Events

Headquartered in Houston, TX, Main Street Capital Corporation is a Business Development Company (BDC) that provides long-term debt and equity capital to lower middle market companies and debt capital to middle market companies. Main Street defines lower middle market companies as generally having annual revenues between \$10 million and \$150 million. The company's investments typically support management buyouts, recapitalizations, growth financings, refinancing and acquisitions. As of the end of 2018, Main Street had an interest in 69 lower middle market companies, 56 middle market companies and 59 private loan investments. The \$2.3 billion market cap company generated \$157 million in net investment income last year.

On February 28th, 2019 Main Street released Q4 and full year 2018 results for the period ending December 31st, 2018. For the quarter the company reported net investment income of \$42.1 million (\$0.69 per share), representing a 12% increase compared to Q4 2017. Distributable net investment income totaled \$44.4 million (\$0.72 per share), representing an 11% increase compared to the prior period. For the year Main Street reported net investment income of \$156.6 million (\$2.60 per share), which was a 16% increase compared to 2017. Distributable net investment income equaled \$165.8 million (\$2.76 per share), which was a 14% year-over-year increase.

Main Street's net asset value at yearend totaled \$24.09 per share, a 2.4% increase compared to 2017. The company also declared monthly dividends of \$0.20 per share, a 2.6% increase, or \$0.60 total for the second quarter of 2019.

Growth on a Per-Share Basis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|---------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|---------------|---------------|
| NIIPS | \$0.92 | \$1.16 | \$1.69 | \$2.01 | \$2.06 | \$2.20 | \$2.18 | \$2.23 | \$2.39 | \$2.60 | \$2.70 | \$3.28 |
| DPS | \$1.50 | \$1.50 | \$1.56 | \$1.71 | \$2.66 | \$2.55 | \$2.65 | \$2.73 | \$2.79 | \$2.85 | \$2.90 | \$3.28 |
| Shares | 10.0 | 16.3 | 22.9 | 29.5 | 36.6 | 43.5 | 49.1 | 52.0 | 56.7 | 60.2 | 64.0 | 85.0 |

NIIPS stands for Net Investment Income Per Share. Main Street's calculation of distributable net investment income excludes the impact of share-based compensation. We believe this is a real expense, and thus have elected to use net investment income instead.

Main Street has put together a solid record in the past decade. From 2008 through 2018, Main Street was able to grow net investment income by an average compound rate of 8.5% per year. This despite the fact that the company pays out basically all of its income in the form of dividends and needs to issue shares in order to fund growth.

Speaking of which, both aspects are worth describing in a bit more detail. Main Street's dividend policy is somewhat different from your typical firm. The company pays a monthly dividend, currently sitting at \$0.20 or \$2.40 on an annual basis, along with supplemental dividends in June and December. The supplemental dividends have been fixed at \$0.275 each (\$0.55 total) since 2014, while the monthly dividend has tended to increase by \$0.005 every few quarters. The supplemental dividends have been a result of generating realized gains from Main Street's equity investments. Starting in 2019, Main Street plans to gradually reduce its supplemental dividend and absorb it into the regular monthly dividend. Importantly, as a result of the BDC structure, dividends are classified as both ordinary and qualified dividends along with realized gains.

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.



Main Street Capital Corporation (MAIN)

Updated March 1st, 2019 by Eli Inkrot

With regard to the share count, you can see this growing significantly over time. In order to avoid corporate income tax, Main Street must distribute at least 90% of their taxable income, leaving little wiggle room to fund growth. While this strategy has worked extremely well since the last recession, we do caution that this method of funding becomes substantially less attractive (and more expensive) in lesser times. As such, we have tempered our growth expectations.

Valuation Analysis

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | Now | 2024 |
|-----------|------|------|------|------|------|------|------|------|------|------|------|------|
| Avg. P/E | 17.5 | 15.7 | 12.6 | 15.2 | 15.9 | 13.3 | 13.3 | 16.5 | 16.6 | 13.3 | 14.4 | 15.0 |
| Avg. Yld. | 9.3% | 8.2% | 7.5% | 6.4% | 8.1% | 6.9% | 7.3% | 7.4% | 7.0% | 6.7% | 7.4% | 6.7% |

Over the past decade shares of Main Street have traded at an average P/E ratio of 15 times earnings. We believe this is a more or less fair multiple for the security, implying a 6.7% starting yield with the company paying out 100% of earnings.

Safety, Quality, Competitive Advantage, & Recession Resiliency

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 | 2019 | 2024 |
|--------|------|------|------|------|------|------|------|------|------|------|------|------|
| Payout | 163% | 129% | 92% | 85% | 129% | 116% | 122% | 122% | 117% | 110% | 107% | 100% |

Main Street's competitive advantage lies in its portfolio of small company interests, allowing for equity and debt exposure that would be difficult to replicate, along with the company's management. In the last decade the company has performed well, acting like a fund for small companies and passing along the income and gains to investors.

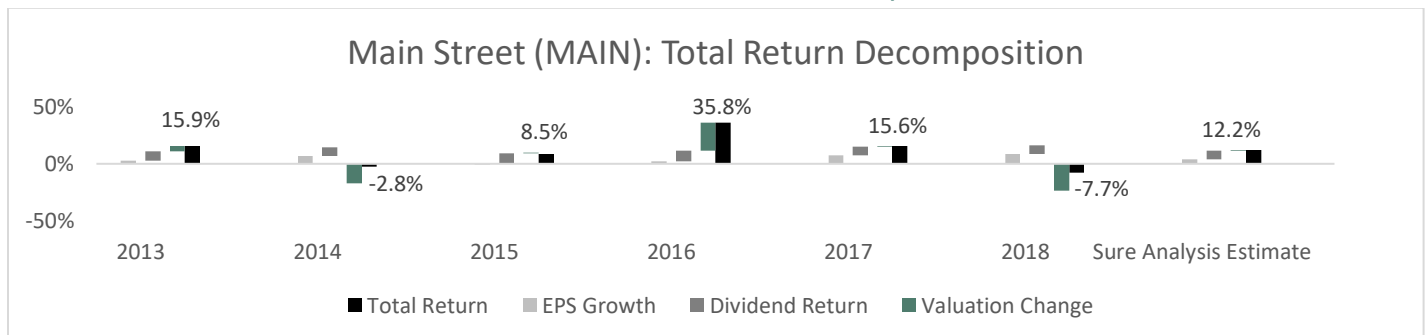
The payout ratio detailed above is notable for two reasons. From an income standpoint, it highlights the BDC's pass through status, requiring the company to pay a substantial dividend. From a safety standpoint, it shows that there is not much room for lesser performance. Indeed, given the idea of continued equity issuance to fund investments, growth could come under serious pressure during the next recession.

As of the most report Main Street held \$54 million in cash and \$2.55 billion in assets (96% of which were investments) against \$1.08 billion in total liabilities (representing an asset-to-liabilities multiple of 2.37x). Up until 2018, BDC's were required to maintain an asset to debt coverage ratio (slightly less onerous than asset-to-liabilities) of at least 2.0x. That mark has since been reduced to 1.5x, offering both the potential to reach for higher growth and increased risk.

Final Thoughts & Recommendation

Main Street has put together a solid record in the last decade. The company's model is unusual for common equity, but typical of a pass through entity – paying out all of earnings and funding growth by issuing shares. This leads to two distinct items: an above average dividend yield and an ever-increasing share count. While we are cautious in our growth assumptions as a result, the security is still offering a solid yield at a reasonable valuation. We rate shares as a buy at the current price, *noting a dividend reduction is likely in the event of a severe recession.*

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



Main Street Capital Corporation (MAIN)

Updated March 1st, 2019 by Eli Inkrot

Income Statement Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------|-------|--------|-------|-------|-------|-------|-------|-------|-------|-------|
| Revenue | 16 | 37 | 66 | 91 | 116 | 141 | 165 | 178 | 206 | 233 |
| SG&A Exp. | 3 | 8 | 13 | 16 | 18 | 24 | 30 | 34 | 40 | 21 |
| Operating Profit | 13 | 28 | 53 | 75 | 99 | 117 | 135 | 144 | 165 | 200 |
| Operating Margin | 81.3% | 77.6% | 79.7% | 82.8% | 84.9% | 83.2% | 81.9% | 80.9% | 80.4% | 85.8% |
| Net Profit | 12 | 39 | 63 | 104 | 97 | 101 | 104 | 139 | 171 | 168 |
| Net Margin | 74.7% | 106.1% | 95.1% | 115% | 83.1% | 71.6% | 63.5% | 77.9% | 82.9% | 72.1% |
| Free Cash Flow | 8 | 17 | -183 | -136 | -241 | -191 | -131 | -43 | 73 | N/A |
| Income Tax | -2 | 1 | 6 | 11 | 0 | 6 | -9 | -1 | 24 | 6 |

Balance Sheet Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|----------------------|------|------|------|------|------|------|------|------|------|------|
| Total Assets | 196 | 449 | 738 | 1036 | 1360 | 1694 | 1879 | 2072 | 2265 | 2553 |
| Cash & Equivalents | 31 | 22 | 43 | 64 | 35 | 60 | 20 | 24 | 52 | 54 |
| Accounts Receivable | N/A | N/A | N/A | N/A | N/A | 23 | 10 | 2 | 2 | N/A |
| Total Liabilities | 67 | 199 | 327 | 393 | 568 | 754 | 808 | 871 | 885 | 1077 |
| Accounts Payable | 1 | 1 | 2 | 5 | 11 | 11 | 12 | 14 | 20 | 18 |
| Long-Term Debt | 65 | 195 | 309 | 343 | 515 | 707 | 780 | 840 | 797 | 996 |
| Shareholder's Equity | 130 | 246 | 406 | 643 | 793 | 940 | 1071 | 1201 | 1380 | 1476 |
| D/E Ratio | 0.50 | 0.79 | 0.76 | 0.53 | 0.65 | 0.75 | 0.73 | 0.70 | 0.58 | 0.67 |

Profitability & Per Share Metrics

| Year | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 | 2017 | 2018 |
|------------------|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|
| Return on Assets | 6.5% | 12.0% | 10.6% | 11.8% | 8.1% | 6.6% | 5.8% | 7.0% | 7.9% | 7.0% |
| Return on Equity | 9.9% | 20.7% | 19.3% | 19.9% | 13.5% | 11.6% | 10.4% | 12.2% | 13.2% | 11.8% |
| ROIC | 6.6% | 12.1% | 10.8% | 12.2% | 8.4% | 6.8% | 6.0% | 7.1% | 8.1% | 7.2% |
| Shares Out. | 10.0 | 16.3 | 22.9 | 29.5 | 36.6 | 43.5 | 49.1 | 52.0 | 56.7 | 60.2 |
| Revenue/Share | 1.59 | 2.24 | 2.90 | 3.06 | 3.18 | 3.23 | 3.35 | 3.43 | 3.63 | 3.88 |
| FCF/Share | 0.80 | 1.02 | -8.02 | -4.59 | -6.57 | -4.39 | -2.68 | -0.82 | 1.29 | N/A |

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.