



Main Street Capital Corporation (MAIN)

Updated February 26th, 2020 by Quinn Mohammed

Key Metrics

Current Price:	\$36.5	5 Year CAGR Estimate:	5.5%	Market Cap:	\$2.4B
Fair Value Price:	\$31.8	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	03/26/2021
% Fair Value:	115%	5 Year Valuation Multiple Estimate:	-2.7%	Payment Date:	04/15/2021
Dividend Yield:	6.7%	5 Year Price Target	\$35	Years of Dividend Growth:	5
Dividend Risk Score:	F	Retirement Suitability Score:	D	Last Dividend Increase:	1.9%

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 4Q2020, Main Street had an interest in 70 lower middle market companies, 42 middle market companies and 63 private loan investments. The company has a market capitalization of \$2.4 billion and generated \$138 million in net investment income last year.

On February 26th, Main Street Capital released fourth quarter results. Net investment income of \$39.6 million was a 1% increase compared to \$39.2 million a year ago. The corporation generated net investment income per share of \$0.59, down 5% from last year's income of \$0.62. Distributable net investment income per share totaled \$0.63, down 5% from \$0.66 in the fourth quarter of 2020.

For the full fiscal 2020, MAIN generated \$2.10 per share in net investment income, which was down 16% from \$2.50 in 2019. Distributable net investment income of \$2.26 was down 15% from \$2.66 in the year prior.

Main Street's net asset value decreased from last year. From \$23.91 net asset value per share at the end of 2019, MAIN dropped to \$22.35 at the end of 2020. The corporation declared monthly dividends of \$0.205, representing an annual dividend of \$2.46 per share.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
NIIPS	\$1.69	\$2.01	\$2.06	\$2.20	\$2.18	\$2.23	\$2.39	\$2.60	\$2.50	\$2.10	\$2.19	\$2.42
DPS	\$1.56	\$1.71	\$2.66	\$2.55	\$2.65	\$2.73	\$2.79	\$2.85	\$2.91	\$2.46	\$2.46	\$2.59
Shares¹	22.9	29.5	37	44	49	52	57	60	63.0	68.0	68.0	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 2011 through 2020, Main Street was able to grow net investment income by an average compound rate of 2.4% per year, despite the pandemic weighing on 2020 results. From 2010 to 2019, NIIPS grew 8.9% per year. This even though the company pays out basically all 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 \$0.205 or \$2.46 on an annual basis, along with supplemental dividends in June and December (skipped in 2020 due to COVID-19). The supplemental dividend was last lowered from \$0.25 to \$0.24, while the company keeps its trend of increasing the regular monthly dividend by \$0.005 every few quarters, 2020 withstanding. The supplemental dividends have been a result of generating realized gains from Main Street's equity investments. Starting in 2019, Main Street began gradually reducing its supplemental dividend and

¹ In millions

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absorbing 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. Regarding 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	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/E	12.6	15.2	15.9	13.3	13.3	16.5	16.6	13.3	16.4	17.4	16.7	14.5
Avg. Yld.	7.5%	6.4%	8.1%	6.9%	7.3%	7.4%	7.0%	6.7%	6.8%	7.6%	6.7%	7.4%

Over the past decade shares of Main Street have traded at an average P/E ratio of 15.1 times earnings. Given the current crisis, we estimate fair value of 14.5 times earnings, and see an annual decline of the valuation by 2.7%. We believe the yield will remain in the 6% to 8% range and the payout ratio is in dangerous dividend reduction territory.

Safety, Quality, Competitive Advantage, & Recession Resiliency

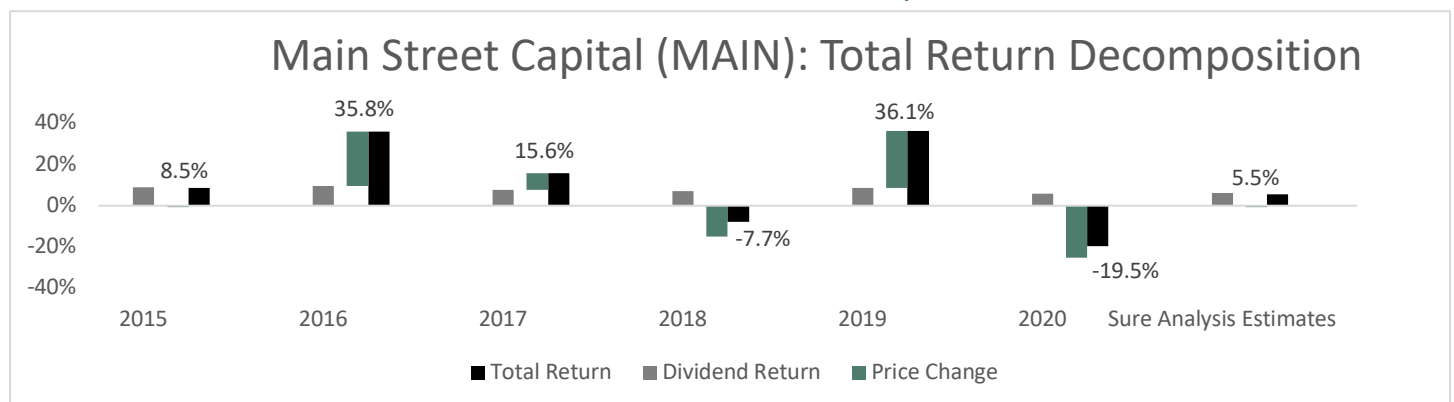
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	92%	85%	129%	116%	122%	122%	117%	110%	116%	117%	112%	107%

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 has come under pressure during the ongoing COVID-19 crisis, though investment income has held up overall.

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. We estimate total returns of 5.5% moving forward, consisting primarily of the dividend. We rate shares as a hold at the current price, noting the gloomy economic outlook and a likely dividend reduction if the crisis persists.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue	66	91	116	141	165	178	206	233	173	58
SG&A Exp.	13	16	18	24	30	34	40	21	13	13
Operating Profit	53	75	99	117	135	144	165	200		
Operating Margin	79.7%	82.8%	84.9%	83.2%	81.9%	80.9%	80.4%	85.8%		
Net Profit	63	104	97	101	104	139	171	168	130	29
Net Margin	95.1%	115%	83.1%	71.6%	63.5%	77.9%	82.9%	72.1%	74.8%	50.4%
Free Cash Flow	-183	-136	-241	-191	-131	-43	73	N/A	-34	-54
Income Tax	6	11	0	6	-9	-1	24	6	1	-14

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets	738	1036	1360	1694	1879	2072	2265	2553	2712	2769
Cash & Equivalents	43	64	35	60	20	24	52	54	55	32
Accounts Receivable	N/A	N/A	N/A	23	10	2	2	N/A		
Total Liabilities	327	393	568	754	808	871	885	1077	1175	1255
Accounts Payable	2	5	11	11	12	14	20	18	45	43
Long-Term Debt	309	343	515	707	780	840	797	996	1114	1209
Shareholder's Equity	406	643	793	940	1071	1201	1380	1476	1536	1515
D/E Ratio	0.76	0.53	0.65	0.75	0.73	0.70	0.58	0.67	0.73	0.80

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets	10.6%	11.8%	8.1%	6.6%	5.8%	7.0%	7.9%	7.0%	4.9%	1.1%
Return on Equity	19.3%	19.9%	13.5%	11.6%	10.4%	12.2%	13.2%	11.8%	8.6%	1.9%
ROIC	10.8%	12.2%	8.4%	6.8%	6.0%	7.1%	8.1%	7.2%	5.1%	1.1%
Shares Out.	22.9	29.5	36.6	43.5	49.1	52.0	56.7	60.2	63	68
Revenue/Share	2.90	3.06	3.18	3.23	3.35	3.43	3.63	3.88	2.75	0.89
FCF/Share	-8.02	-4.59	-6.57	-4.39	-2.68	-0.82	1.29	N/A	-0.53	-0.82

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

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