



Main Street Capital Corporation (MAIN)

Updated February 25th, 2022 by Quinn Mohammed

Key Metrics

Current Price:	\$43	5 Year CAGR Estimate:	7.4%	Market Cap:	\$3.0 B
Fair Value Price:	\$43	5 Year Growth Estimate:	2.5%	Ex-Dividend Date:	03/01/2022
% Fair Value:	101%	5 Year Valuation Multiple Estimate:	-0.2%	Payment Date:	03/15/2022
Dividend Yield:	6.0%	5 Year Price Target	\$48	Years of Dividend Growth:	6
Dividend Risk Score:	F	Retirement Suitability Score:	C	Last Dividend Increase:	2.4%

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. At the end of 2021, Main Street had an interest in 73 lower middle market companies (valued at \$1.72 billion), 36 middle market companies (\$395 million) and 75 private loan investments (\$1.14 billion). The company has a market capitalization of \$3.0 billion and generated \$138 million in net investment income in 2020.

On February 24th, Main Street Capital released fourth quarter and full year results. Net investment income of \$182.7 million for 2021 was a 32% increase compared to \$137.9 million in 2020. The corporation generated net investment income per share of \$2.65, up 26% from last year's income of \$2.10 per share. Distributable net investment income per share totaled \$2.81, up 24% from \$2.26 in 2020.

Main Street's net asset value per share increased compared to the end of 2020, from \$22.35 to \$24.72, a 13% increase. The corporation declared monthly dividends of \$0.215, which is 4.9% higher than in the prior year.

As of the end of third quarter 2021, the corporation had aggregate liquidity of \$568 million, consisting of \$33 million in cash and cash equivalents, and \$535 million of unused capacity under the revolving credit facility.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
NIIPS	\$2.01	\$2.06	\$2.20	\$2.18	\$2.23	\$2.39	\$2.60	\$2.50	\$2.10	\$2.65	\$2.75	\$3.11
DPS	\$1.71	\$2.66	\$2.55	\$2.65	\$2.73	\$2.79	\$2.85	\$2.91	\$2.46	\$2.48	\$2.58	\$2.71
Shares¹	29.5	37	44	49	52	57	60	63.0	66.0	70.0	72.0	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 2012 through 2022, Main Street was able to grow net investment income by an average compound rate of 3.1% per year, despite the ongoing pandemic. From 2016 to 2021, NIIPS grew 3.5% 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 \$0.215 or \$2.58 on an annual basis, along with supplemental dividends twice a year (skipped in 2020 due to COVID-19). The upcoming supplemental dividend amounts to \$0.075 per share to be paid in March, while the company keeps its trend of increasing the regular monthly dividend slightly every year. 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 absorbing it into the regular monthly dividend. Importantly, as a result of the BDC structure, dividends are classified as both ordinary and qualified

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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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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/E	15.2	15.9	13.3	13.3	16.5	16.6	13.3	16.4	17.4	15.3	15.7	15.5
Avg. Yld.	6.4%	8.1%	6.9%	7.3%	7.4%	7.0%	6.7%	6.8%	7.6%	6.1%	6.0%	5.6%

Over the past decade shares of Main Street have traded at an average P/E ratio of 15.3 times earnings. Given the current environment and Main's recent performance, we estimate fair value of 15.5 times earnings, and see an annual decline of the valuation by 0.2% annually.

Safety, Quality, Competitive Advantage, & Recession Resiliency

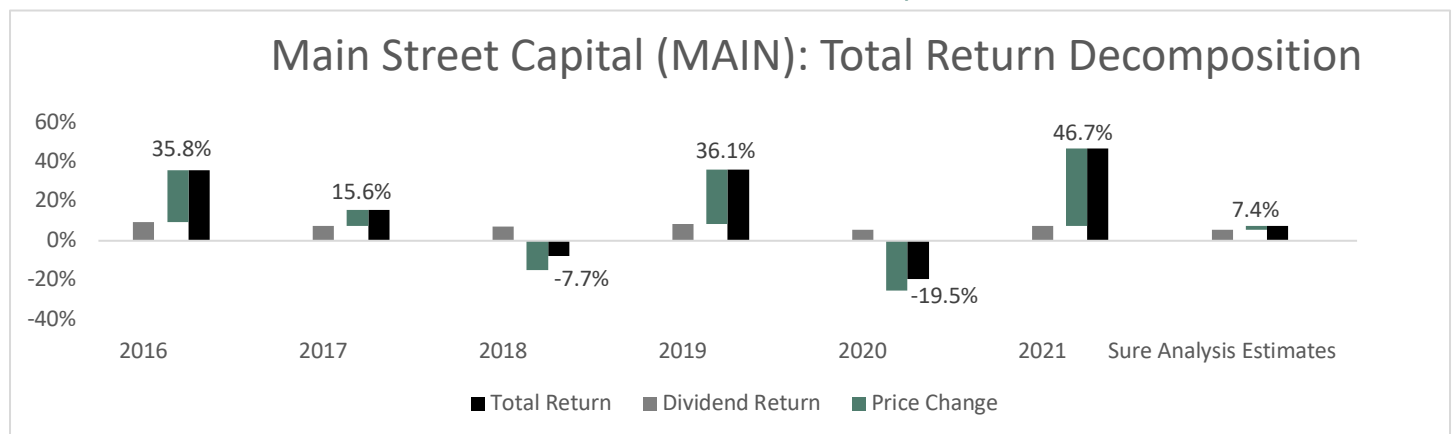
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	85%	129%	116%	122%	122%	117%	110%	116%	117%	93%	94%	87%

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 annualized total returns of 7.4% moving forward, consisting primarily of the dividend. We rate shares as a Hold at the current price, noting that shares are fully valued, and a dividend reduction may occur if the crisis persists.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	125	110	142	126	173	234	216	174	58	421
SG&A Exp.	2	5	7	9	9	12	12	13	13	12
Net Profit	104	97	101	104	139	171	168	130	29	331
Net Margin	83.6%	88.0%	71.1%	82.6%	80.5%	72.8%	77.9%	74.3%	50.3%	78.5%
Free Cash Flow	-136	-241	-191	-131	-43	73	-109	-34	-54	-515
Income Tax	11	0	6	-9	-1	24	6	1	-14	33

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	3,690	2,769	2,712	2,553	2,265	2,072	1,879	1,694	1,360	1,036
Cash & Equivalents	33	32	55	54	52	24	20	60	35	64
Total Liabilities	1,901	1,255	1,175	1,077	885	871	808	754	568	393
Accounts Payable	76	43	45	64	77	31	28	38	47	38
Long-Term Debt	1,796	1,209	1,114	996	797	840	780	707	515	343
Shareholder's Equity	1,789	1,515	1,536	1,476	1,380	1,201	1,071	940	793	643
LTD/E Ratio	1.00	0.80	0.73	0.67	0.58	0.70	0.73	0.75	0.65	0.53

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	10.2%	1.1%	4.9%	7.0%	7.9%	7.0%	5.8%	6.6%	8.1%	11.8%
Return on Equity	20.0%	1.9%	8.6%	11.8%	13.2%	12.2%	10.4%	11.6%	13.5%	19.9%
ROIC	10.5%	1.1%	5.1%	7.2%	8.1%	7.1%	6.0%	6.8%	8.4%	12.2%
Shares Out.	29.5	37	44	49	52	57	60	63.0	66.0	70.0
Revenue/Share	6.11	0.89	2.77	3.59	4.13	3.32	2.58	3.25	3.01	4.23
FCF/Share	-7.47	-0.82	-0.54	-1.81	1.29	-0.82	-2.68	-4.39	-6.57	-4.59

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

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