TriplePoint Venture Growth BDC (TPVG)

Updated August 5th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$13.50	**5 Year CAGR Estimate:**	11.3%	**Market Cap:**	$449 M
Fair Value Price:	$14.40	**5 Year Growth Estimate:**	2.0%	**Ex-Dividend Date:**	09/14/2022
% Fair Value:	94%	**5 Year Valuation Multiple Estimate:**	1.3%	**Dividend Payment Date:**	09/30/2022
Dividend Yield:	10.7%	**5 Year Price Target**	$15.90	**Years Of Dividend Growth:**	0
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 (82.3%), warrants in 95 companies (5.7%), and equity in just 45 companies (5.9%). It is well-diversified amongst 20+ industries, with its highest exposure of 14.9% in e-commerce clothing & accessories. The majority of its funds are allocated in the tech sector. The $449 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 4th, 2022, TriplePoint released its Q2 results for the period ending June 30th, 2022. The company achieved a total investment income of $27.4 million during the quarter compared to $20.3 million in Q2-2021. The increase in total investment was primarily due to a greater weighted average principal amount outstanding on TriplePoint's income-bearing debt investment portfolio and increased prepayment activity.

The company's weighted average annualized portfolio yield during this period was 14.5%, compared to 13.9% last year. Further, the company funded $157.6 million in debt investments to 20 portfolio companies with a 13.6% weighted average annualized portfolio yield at origination during the quarter.

Net investment income (NII) per share was $0.41, compared to $0.30 in Q2-2021. This was due to the increase in net investment income between periods which was in turn driven primarily by greater investment and other income. Based on the company's current portfolio composition, we forecast a FY2022 NII/share of $1.55.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
NII/share	---	---	$1.30	$1.46	$1.42	$1.61	$1.71	$1.54	$1.57	$1.33	***$1.60***	***$1.77***
DPS	---	---	$1.28	$1.44	$1.44	$1.44	$1.44	$1.44	$1.44	$1.44	***$1.44***	***$1.44***
Shares[1]	---	---	9.9	15	16.2	16.3	20.5	24.8	30.6	30.9	***31.0***	***60.0***

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. The company's business model is subject to fluctuating results based on the various economic conditions that affect its refinancing rates.

Considering that the companies TriplePoint is investing in are carrying higher risks as well as the recent originations at a slightly higher yield, we believe that its debt yields will remain above 12%, though this figure should be expected to fluctuate. We estimate 2% growth in the company's NII/ share and stable distributions in the medium-term.

[1] Share count is in millions.

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Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/NII	---	---	11.9	8.42	7.7	8.5	7.6	11.0	7.0	12.4	***8.4***	***9.0***
Avg. Yld.	---	---	7.5%	9.8%	13.3%	10.9%	11.1%	9.4%	9.4%	8.7%	***10.7%***	***9.1%***

TriplePoint's valuation multiple has been similar to the rest of its BDC counterparts. The current multiple of 8.4 times our expected FY2022 net investment income likely undervalues the stock. Rising rates are likely to reduce investment activity, but also increase the company's investment spreads. NAV/share stood at $13.01 as of June 30th, 2022. While the stock is currently trading higher than that, a small premium is well-deserved considering TriplePoint's operating excellence over the years. Shares are currently trading at a rich yield of 10.7%, which should attract investor interest to the stock.

Safety, Quality, Competitive Advantage, & Recession Resiliency

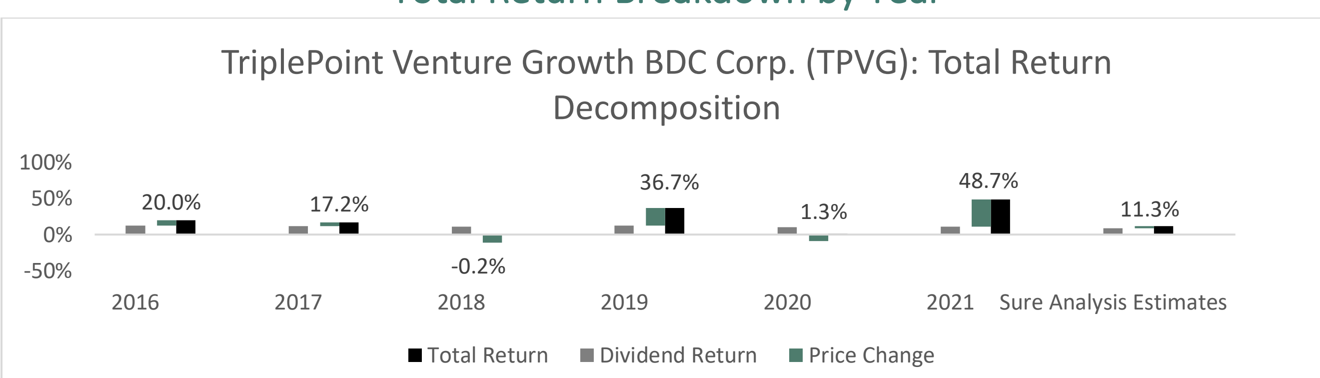
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	98%	99%	101%	89%	84%	94%	92%	108%	***90%***	***82%***

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 $0.46 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

TriplePoint has become a leading BDC despite its short public-market history. Management's competence is top-notch, having helped develop some of today's most iconic companies. We estimate that investors can enjoy annualized returns of 11.3% in the medium-term, driven by the stock's yield and our growth estimates. Shares earn a buy rating, though we suggest that investors are aware of the risks attached to BDCs.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	---	---	---	23	18	26	44	40	45	87
SG&A Exp.	---	---	---	4	4	4	5	6	7	6
Net Profit	---	---	---	16	11	19	37	32	35	77
Net Margin	---	---	---	68.9%	61.2%	73.8%	83.0%	79.0%	77.8%	88.5%
Free Cash Flow	---	---	---	0	(92)	25	(18)	(188)	61	(145)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	---	---	326	382	434	510	467	684	684	928
Cash & Equivalents	---	---	7	32	8	4	3	20	38	51
Total Liabilities	---	---	326	382	434	510	467	684	283	493
Accounts Payable	---	---	7	32	8	4	3	20	3	0
Long-Term Debt	---	---	---	71	168	139	96	336	261	468
Shareholder's Equity	---	---	145	232	216	235	335	333	400	434
LTD/E Ratio	---	---	---	0.31	0.78	0.59	0.29	1.01	0.65	1.08

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	---	---	---	---	2.7%	4.1%	7.5%	5.5%	5.2%	9.5%
Return on Equity	---	---	---	8.2%	5.0%	8.5%	12.8%	9.5%	9.6%	18.3%
ROIC	---	---	---	---	3.2%	5.1%	9.1%	5.8%	5.3%	9.8%
Shares Out.	---	---	9.9	15	16.2	16.3	20.5	24.8	30.6	30.9
Revenue/Share	---	---	---	1.50	1.12	1.60	2.15	1.62	1.47	2.82
FCF/Share	---	---	---	0.01	(5.69)	1.54	(0.87)	(7.55)	1.98	(4.68)

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