



Great Elm Capital (GECC)

Updated November 22nd, 2022 by Samuel Smith

Key Metrics

Current Price:	\$10.2	5 Year CAGR Estimate:	14.3%	Market Cap:	\$77.7 M
Fair Value Price:	\$12.4	5 Year Growth Estimate:	-0.4%	Ex-Dividend Date:	12/14/22
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date:	12/30/22
Dividend Yield:	17.6%	5 Year Price Target	\$12	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 \$77.7 million.

Great Elm Capital Corporation released its third quarter results on November 3rd, 2022. Q3 GAAP EPS of \$0.18 missed analyst consensus estimates by \$0.05. Revenue of \$6.03M (-18.2% Y/Y) missed analyst consensus estimates by \$0.27M. Net investment income for the quarter was \$1.1M, or \$0.14 per share. NAV per share was \$12.56 as of September 30, 2022, as compared to \$12.84 as of June 30, 2022, and \$22.17 as of September 30, 2021. GECC's asset coverage ratio was approximately 165.5% as of September 30, 2022, as compared to 166.9% as of June 30, 2022, and 163.8% as of September 30, 2021.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
BVPS	---	---	---	---	\$13.52	\$12.42	\$10.34	\$8.63	\$3.46	\$16.63	\$12.35	\$12.13
EPS	---	---	---	---	---	\$1.52	\$1.44	\$1.07	\$0.54	\$3.02	\$1.81	\$1.25
DPS	\$0.92	\$0.92	\$0.86	\$0.71	\$0.32	\$0.26	\$1.00	\$1.00	\$1.00	\$0.40	\$1.80	\$1.40
Shares¹	1.1	1.2	1.4	2.5	2.1	1.9	1.8	1.7	2.2	4.1	7.6	13.0

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.

While we do believe that they will continue to grow earnings and book value per share, we believe that the long-term trend in book value per share growth will be slow as their large dividend payout will combine with their leveraged business model to stress the company's balance sheet during challenging periods.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/B	---	---	---	---	0.86	0.79	0.76	0.90	0.85	0.83	0.83	1.0
Avg. Yld.	---	---	---	---	2.8%	2.6%	12.7%	12.9%	34.0%	2.9%	17.6%	11.5%

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 1x book value is fair for this company. Given that shares currently trade at 0.83 times book value, we view shares as trading below fair value, leading to an expected tailwind to total returns moving forward.

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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Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	---	---	---	17%	69%	93%	185%	13%	99%	112%

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.

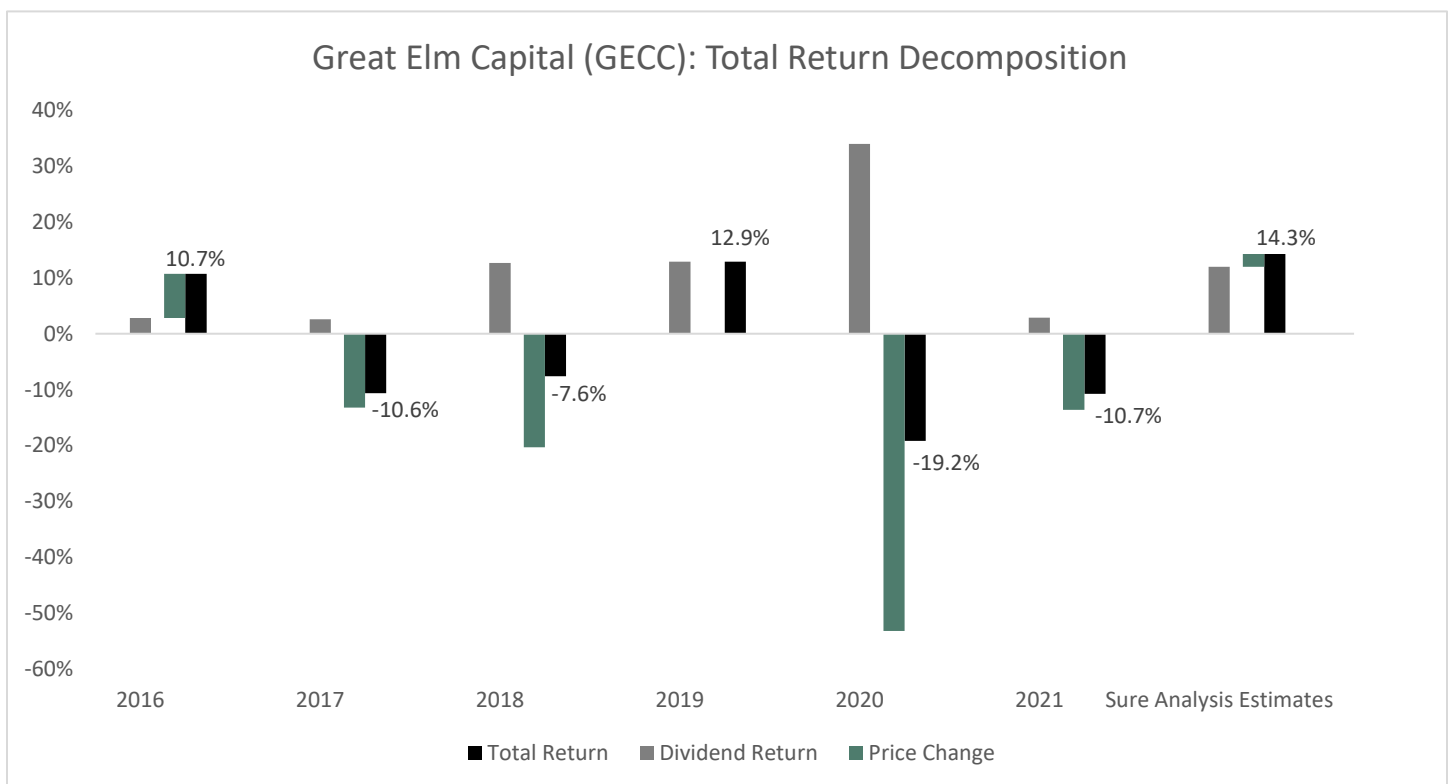
Great Elm Capital's balance sheet is also leveraged quite heavily, which leaves it exposed to rapid declines in book value like what was experienced a few years ago. As a result, even though it was not around for the Great Recession, we believe that it will not fare well in a protracted recession, making 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 is erratic and unpredictable. That said, the stock is trading at a discount to book value. With 14.3% expected annualized total returns over the next half decade, the stock earns a 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	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue	4	6	(6)	(4)	(14)	1	(5)	(5)	(29)	(7)
SG&A Exp.	2	2	1	2	4	3	3	2	2	3
Net Profit	3	4	(8)	(5)	(18)	(3)	(9)	(8)	(32)	(10)
Net Margin	60.9%	65.1%	134.5%	116.9%	130.2%	-412%	168.3%	158.2%	110.7%	155.8%
Free Cash Flow	(13)	(10)	(21)	(31)	9	(24)	(30)	(24)	27	(58)

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets	99	113	155	161	237	240	282	291	283	426
Cash & Equivalents	1	18	-	4	67	3	4	5	53	9
Total Liabilities	46	52	82	61	64	108	171	204	204	352
Accounts Payable	1	1	26	16	24	70	88	74	78	204
Long-Term Debt	22	50	29	33	35	31	76	120	116	142
Shareholder's Equity	53	61	73	100	173	132	110	87	80	75
LTD/E Ratio	0.41	0.83	0.40	0.33	0.20	0.24	0.69	1.38	1.45	1.90

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets	2.9%	3.6%	-5.7%	-3.3%	-10.1%	-1.2%	-3.5%	-2.6%	-11.1%	-2.9%
Return on Equity	4.9%	6.7%	-11.4%	-6.0%	-14.1%	-1.8%	-7.4%	-7.7%	-38.4%	-13.3%
ROIC	4.0%	4.1%	-7.2%	-4.4%	-11.1%	-1.5%	-5.1%	-3.8%	-15.9%	-5.0%
Shares Out.	1.1	1.2	1.4	2.5	2.1	1.9	1.8	1.7	2.2	4.1
Revenue/Share	4.09	4.99	(3.91)	(1.80)	(6.41)	0.34	(3.01)	(2.79)	(13.02)	(1.62)
FCF/Share	(12.35)	(8.86)	(14.25)	(12.73)	4.07	(12.50)	(17.16)	(14.33)	12.35	(14.36)

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

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