



TriplePoint Venture Growth BDC (TPVG)

Updated November 7th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$13.02	5 Year CAGR Estimate:	13.7%	Market Cap:	\$459.4 M
Fair Value Price:	\$15.75	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	12/14/2022
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.9%	Dividend Payment Date:	12/30/2022
Dividend Yield:	11.4%	5 Year Price Target	\$17.39	Years Of Dividend Growth:	1
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 59 companies (89%), warrants in 95 companies (10.9%), and a few equity investments. It is well-diversified amongst 20+ industries, with its highest exposure of 14.9% in consumer products and services. The majority of its funds are allocated in the tech sector. The \$459.4 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 October 28th, 2022, TriplePoint increased its base dividend by one cent to a quarterly rate of \$0.37.

On November 2nd, 2022, TriplePoint released its Q3 results for the period ending September 30th, 2022. The company achieved a total investment income of \$29.7 million during the quarter compared to \$21.2 million in Q3-2021. 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 higher investment yields. Specifically, the company's weighted average annualized portfolio yield during the period was 13.8%, compared to 12.3% last year. Further, the company funded \$101.7 million in debt investments to 14 portfolio companies with a 14.5% weighted average annualized portfolio yield at origination during the quarter. Net investment income (NII) per share was \$0.51, compared to \$0.32 in Q3-2021. 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 \$1.75.

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	\$1.75	\$1.93
DPS	---	---	\$1.28	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.48	\$1.48
Shares¹	---	---	9.9	15	16.2	16.3	20.5	24.8	30.6	30.9	33.3	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.

¹ Share count is in millions.

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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 relatively stable distributions in the medium-term.

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	7.4	9.0
Avg. Yld.	---	---	7.5%	9.8%	13.3%	10.9%	11.1%	9.4%	9.4%	8.7%	11.4%	8.5%

TriplePoint's valuation multiple has been similar to the rest of its BDC counterparts. The current multiple of 7.4 times our expected FY2022 net investment income likely undervalues the stock, whose fair P/NII we have set at 9X. Rising rates are likely to reduce investment activity, but also increase the company's investment spreads. NAV/share stood at \$12.69 as of September 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 with a rich yield of 11.4% attached, which should attract investor interest to the stock – especially after the most recent distribution hike.

Safety, Quality, Competitive Advantage, & Recession Resiliency

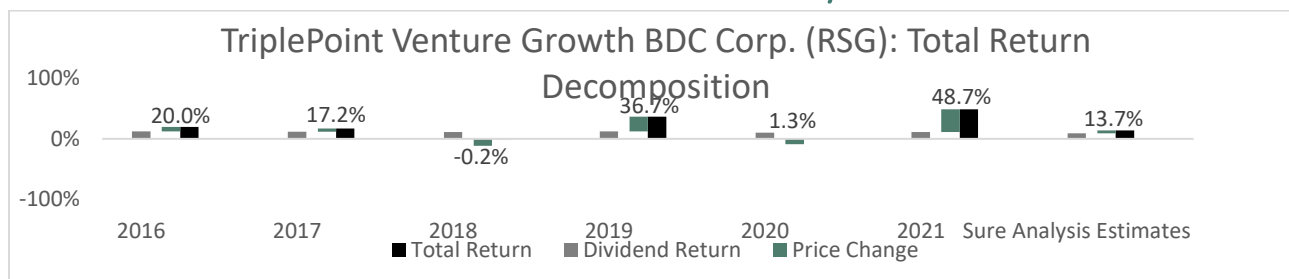
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	98%	99%	101%	89%	84%	94%	92%	108%	85%	77%

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 \$0.52 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 the stock can achieve annualized returns of 13.7% in the medium-term, driven by the hefty 11.4% yield, our growth estimates, and valuation tailwinds. 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.

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