



TriplePoint Venture Growth BDC (TPVG)

Updated March 6th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$12.81	5 Year CAGR Estimate:	13.6%	Market Cap:	\$453.9 M
Fair Value Price:	\$16.20	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	03/14/2023
% Fair Value:	79%	5 Year Valuation Multiple Estimate:	4.8%	Dividend Payment Date:	03/31/2023
Dividend Yield:	12.5%	5 Year Price Target	\$16.20	Years Of Dividend Growth:	2
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 57 companies (90%), warrants in 107 companies (10%), and equity investments in 48 portfolio companies. It is well-diversified amongst 20+ industries, with its highest exposure of 17.6% in consumer products and services. The majority of its funds are allocated in the tech sector. The \$453.9 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 March 1st, 2023, TriplePoint announced an 8% increase to its common distribution to a quarterly rate of \$0.40.

On the same day, the company posted its Q4-2022 and full-year results for the period ending December 31st, 2022. For the quarter, the company achieved a total investment income of \$34.9 million compared to \$25.9 million in Q4-2021. 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 14.7%, compared to 13.7% last year. Further, the company funded \$416.6 million in debt investments to 40 portfolio companies with a 14.2% weighted average annualized portfolio yield at origination over the past year. Net investment income (NII) per share was a record \$0.58, compared to \$0.42 in Q4-2021. This was due to the increase in net investment income between periods which was, in turn, driven primarily by greater investment and higher investment margins. Based on the company's current portfolio composition, we forecast a FY2023 NII/share power of \$1.80.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
NII/share	---	\$1.30	\$1.46	\$1.42	\$1.61	\$1.71	\$1.54	\$1.57	\$1.33	\$1.94	\$1.80	\$1.80
DPS	---	\$1.28	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.55 ¹	\$1.60	\$1.60
Shares²	---	9.9	15	16.2	16.3	20.5	24.8	30.6	30.9	35.3	35.3	50.0

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. Due TriplePoint investing in companies carrying higher risks as well as the recent originations taking place at a slightly higher yield, we believe that its debt yields will remain above 12%, though this figure should be expected to fluctuate. We don't forecast any growth in the company's NII/ share and distributions in the medium-term as we are starting off a high NII/share base, and changes in rates could drive results either way in the coming years.

¹ Includes special dividend of \$0.10.

² Share count is 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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Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/NII	---	11.9	8.42	7.7	8.5	7.6	11.0	7.0	12.4	7.0	7.1	9.0
Avg. Yld.	---	7.5%	9.8%	13.3%	10.9%	11.1%	9.4%	9.4%	8.7%	11.4%	12.5%	9.9%

TriplePoint's valuation appears to be implying a discount relative to the rest of its BDC peers. The current multiple of 7.1 times our expected FY2023 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 \$11.88 as of December 31st, 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 12.5%, which should attract investor interest to the stock, especially after the most recent distribution hike.

Safety, Quality, Competitive Advantage, & Recession Resiliency

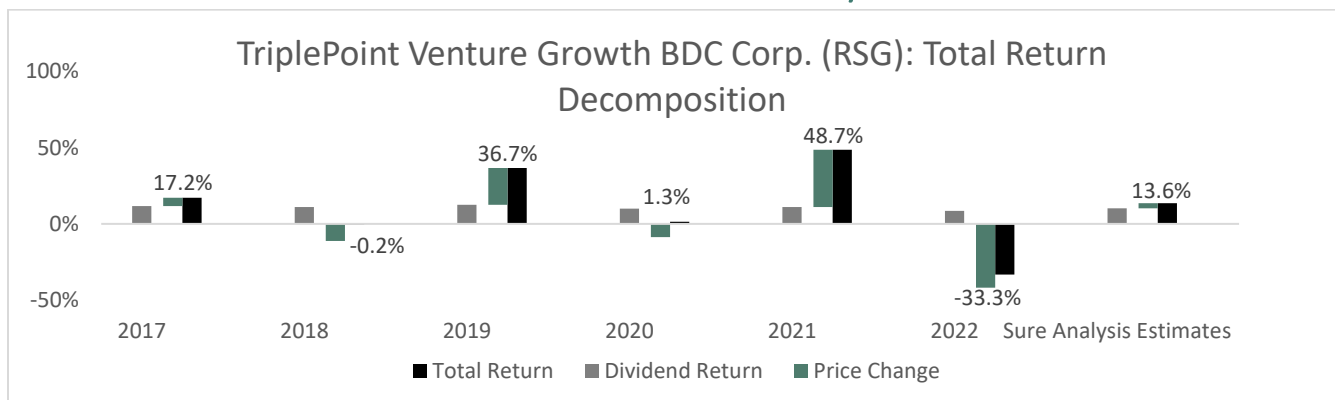
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	---	---	99%	101%	89%	84%	94%	92%	108%	80%	89%	89%

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 \$0.64 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 13.6% in the medium-term, driven by the hefty 12.5% yield and the possibility of 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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