



SLR Investment Corp. (SLRC)

Updated August 16th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$15.27	5 Year CAGR Estimate:	7.4%	Market Cap:	\$830.3 M
Fair Value Price:	\$15.87	5 Year Growth Estimate:	-2.2%	Ex-Dividend Date:	08/17/23
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.8%	Dividend Payment Date:	08/30/23
Dividend Yield:	10.7%	5 Year Price Target	\$14.19	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

SLR Investment Corp. is a closed-end, externally managed, non-diversified management investment company that has elected to be regulated as a business development company (“BDC”). The company invests primarily in leveraged middle-market companies with annual revenues typically between \$50 million and \$1 billion. They do so in the form of senior secured loans, financing leases, and to a lesser extent, unsecured loans and equity securities. SLR’s investments generally range between \$5 million and \$100 million each.

As of June 30th, 2023, SLR Investment’s portfolio consisted of 156 companies with exposures of 33.7% in senior secured loans, 27.8% in asset-based senior secured loans, 22.9% in equipment senior secured financings, and 15.9% in life science senior secured loans. SLR Investment Corp. generates around \$180 million in total investment income annually and is based in New York, New York.

On August 8th, 2023, SLR Investment Corp. reported its Q2 results for the period ending June 30th, 2023. For the quarter, total investment income totaled \$56.3 million, 31.5% higher year-over-year. The increase was primarily due to a larger portfolio as well as an increase in rates. Expenses totaled \$33.8 million, 42% higher compared to last year. The stronger increase in expenses was primarily due to SLR’s interest expenses growing by just about 71%. Thus, net investment income grew by a softer 11.8% to \$22.7 million. On a per-share basis, net investment income grew by five cents to \$0.42 (up about 14% year-over-year), due to the additional shares utilized to fund the company’s investments. We continue to forecast NII/share to land close to \$1.60 for fiscal 2023.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
NAV/shr	\$22.50	\$22.05	\$20.79	\$21.74	\$21.81	\$21.75	\$21.44	\$20.16	\$19.93	\$18.33	\$17.98	\$16.09
NII/shr	\$1.91	\$1.56	\$1.52	\$1.68	\$1.62	\$1.77	\$1.71	\$1.40	\$1.43	\$1.48	\$1.67	\$1.49
DPS	\$2.00	\$1.60	\$1.60	\$1.60	\$1.60	\$1.64	\$1.64	\$1.64	\$1.64	\$1.64	\$1.64	\$1.47
Shares¹	44.2	42.5	42.5	42.2	42.3	42.3	42.3	42.3	42.3	52.4	54.6	80.0

With nearly 65.7% of SLR Investment Corp’s income-producing investment portfolio attached to floating rates, the company’s net investment income had been under pressure over the past few years. On the one hand, with interest rates on the rise, the company’s bottom line should benefit. Further, with the base annual management fee down from 1.75% to 1.5% following the recent merger with SUNS, net margins should rise. However, going back to our coverage of SUNS prior to the merger, we believe that the company’s investment portfolio appeared rather weak. Thus, it’s uncertain whether SLR’s net investment income will actually benefit from the merger. In addition, the company revised the distribution policy post-merger, now making monthly distributions instead of quarterly. However, distributions have historically, and especially lately, exceeded the underlying NII generation. This has resulted in the company’s NAV/share declining over the past few years. A lower NAV leads to lower NII (smaller asset base), and so on. Thus, we believe that unless the recent merger and rising rates boost results, the company’s NII/share DPS will eventually decline in the

¹ Share count 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.



SLR Investment Corp. (SLRC)

Updated August 16th, 2023 by Nikolaos Sismanis

coming years. While DPS may not decline annually, we have set our NAV/share, NII/share, and DPS CAGR estimates at a negative 2.2% each over the medium-term, reflecting the ongoing NAV deterioration rate.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/NII	12	13.1	11.5	11.9	13.1	11.9	12.0	11.4	10.6	10.3	9.1	9.5
Avg. P/NAV	1.02	0.93	0.84	0.92	0.97	0.97	0.96	0.79	0.94	0.83	0.85	N/A
Avg. Yld.	8.7%	7.8%	9.2%	8.0%	7.5%	7.8%	8.0%	10.3%	10.9%	10.8%	10.7%	10.3%

Since SLR's distributions started exceeding the underlying NII generation, shares have been trading at a discount to NAV as investors are already pricing in NAV's continuous deterioration. Shares are currently trading at a 15% discount to NAV. Thus, the yield has climbed to notable levels as investors demand a higher return for the underlying risks attached. At its current price levels, we believe the stock is rather undervalued. On May 9th, 2023, the BoD approved a \$50 million share buyback program to address the discount to NAV. Still, only \$3 million worth of buybacks have taken place so far.

Safety, Quality, Competitive Advantage, & Recession Resiliency

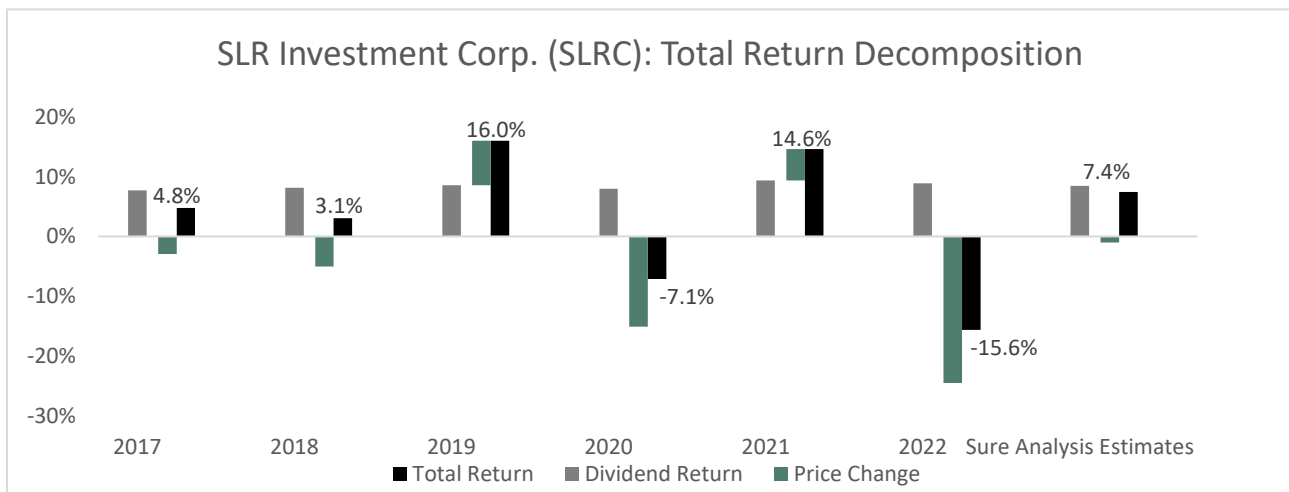
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	105%	103%	105%	95%	99%	93%	96%	117%	116%	---	98%	98%

While SLR may continue to deteriorate its NAV to sustain the current distribution rate, we don't believe that this is a viable strategy over the long run. A sudden cut may occur, similar to 2013. It's worth noting that SLR's portfolio primarily consists of loans associated with equipment financings, corporate leases, and other asset-based lendings. Therefore, a potential recession that could reduce demand for such equipment amid reduced corporate CAPEX could further impact SLR's results. SLR maintains an investment grade rating from both Moody's (Baa3) and Fitch's (BBB-), nonetheless.

Final Thoughts & Recommendation

SLR Investment Corp is a unique BDC, with its focus on asset-based senior secured loans and equipment financing, distinguishing it from its more traditional peers. While the recent merger and rising rates could benefit the company, we believe that the ongoing NAV deterioration will persist at the current distribution rate. We forecast annualized returns of 7.4% over the medium-term, as soft valuation tailwinds and dividend returns from the high yield could be offset by declines in NII and DPS. Shares earn a hold rating. But, again, investors should not blindly trust the dividend.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

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.



SLR Investment Corp. (SLRC)

Updated August 16th, 2023 by Nikolaos Sismanis

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	86	57	21	117	82	76	66	24	70	28
SG&A Exp.	10	9	8	10	9	9	8	8	10	12
Net Profit	75	48	14	107	70	67	56	15	60	18
Net Margin	87.7%	84.7%	68.2%	91.2%	85.8%	87.7%	84.4%	65.5%	85.7%	64.3%
Free Cash Flow	799	157	(498)	148	(243)	191	188	(61)	(135)	91

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1,708	1,686	1,617	1,651	1,642	1,683	1,950	1,936	2,011	2,538
Cash & Equivalents	585	635	278	312	151	207	436	389	323	428
Total Liabilities	713	750	735	732	720	764	1,044	1,084	1,169	1,538
Accounts Payable	474	511	19	329	165	273	441	401	342	433
Long-Term Debt	225	225	430	387	539	474	587	671	812	1,086
Shareholder's Equity	996	937	883	919	922	919	906	852	842	1000
LTD/E Ratio	0.23	0.24	0.49	0.42	0.59	0.52	0.65	0.79	0.96	1.09

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	4.8%	2.9%	0.9%	6.5%	4.3%	4.0%	3.1%	0.8%	3.0%	0.8%
Return on Equity	8.0%	5.0%	1.5%	11.9%	7.7%	7.3%	6.1%	1.8%	7.0%	2.0%
ROIC	5.8%	4.1%	1.1%	8.2%	5.1%	4.7%	3.9%	1.0%	3.7%	1.0%
Shares Out.	44.2	42.5	42.5	42.2	42.3	42.3	42.3	42.3	42.3	51.7
Revenue/Share	1.93	1.33	0.49	2.77	1.94	1.80	1.57	0.56	1.65	0.55
FCF/Share	17.92	3.65	(11.7)	3.51	(5.76)	4.52	4.44	(1.45)	(3.20)	1.76

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

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.