



Great Elm Capital (GECC)

Updated March 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$10.7	5 Year CAGR Estimate:	10.3%	Market Cap:	\$101 M
Fair Value Price:	\$11.2	5 Year Growth Estimate:	-0.2%	Ex-Dividend Date:	3/14/24
% Fair Value:	96%	5 Year Valuation Multiple Estimate:	0.9%	Dividend Payment Date:	3/29/24
Dividend Yield:	13.1%	5 Year Price Target	\$11	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 \$101 million.

On February 29th, 2024, Great Elm Capital Corp (GECC) reported its financial results for the fourth quarter. In February 2024, the Company successfully raised \$24 million in equity at Net Asset Value through a special purchase vehicle (SPV), with Great Elm Group (GEG) contributing \$6 million to the SPV. This funding boost coincided with the announcement of the fourth consecutive quarter of Net Investment Income (NII) exceeding the base dividend, with NII for the quarter ending December 31, 2023, at \$3.3 million or \$0.43 per share, compared to \$3.1 million or \$0.40 per share for the preceding quarter. Notably, the full-year 2023 NII of \$12.5 million, or \$1.65 per share, surpassed the total declared dividends of \$1.50 per share in 2023. Furthermore, the Company's net assets increased to \$98.7 million or \$12.99 per share by December 31, 2023, up from \$97.9 million or \$12.88 per share by September 30, 2023. GECC's asset coverage ratio improved to 169.0% as of December 31, 2023, compared to 168.4% on September 30, 2023, and 154.4% on December 31, 2022.

Additionally, the Company extended the maturity of its existing \$25 million revolving line of credit (the "Revolver") to May 2027 and reduced the rate for future borrowings by 50 basis points to SOFR plus 300 bps. The Company issued a special distribution of \$0.10 per common share in January 2024, reflecting its strong performance throughout 2023, and the Board of Directors approved a quarterly dividend of \$0.35 per share for the first quarter of 2024, translating to a 13.1% annualized yield based on the Company's closing market price on February 28, 2024, of \$10.66.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	---	---	---	\$1.52	\$1.44	\$1.07	\$0.54	\$3.02	\$1.67	\$1.65	\$1.69	\$1.35
BVPS	---	---	\$13.52	\$12.42	\$10.34	\$8.63	\$3.46	\$16.63	\$12.56	\$12.99	\$13.14	\$13.00
DPS	\$0.86	\$0.71	\$0.32	\$0.26	\$1.00	\$1.00	\$1.00	\$0.40	\$1.80	\$1.40	\$1.40	\$1.20
Shares¹	23.2	22.5	2.1	1.8	1.8	1.7	3.9	4.6	7.6	9.5	9.5	13

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. We believe that the company will have a hard time growing book value and earnings per share as its large dividend payout will combine with its leveraged business model to stress the company's balance sheet during challenging periods.

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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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/B	---	---	0.86	0.79	0.76	0.9	0.85	0.83	0.83	0.76	0.81	0.85
Avg. Yld.	---	---	2.8%	2.6%	12.7%	12.9%	34.0%	2.9%	17.3%	14.2%	13.1%	10.9%

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 0.85x book value is fair for this company. Given that shares currently trade at 0.81 times book value, we view shares as trading below fair value, leading to an expected tailwind to total returns moving forward.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	---	---	17%	69%	93%	185%	13%	108%	85%	83%	89%

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.

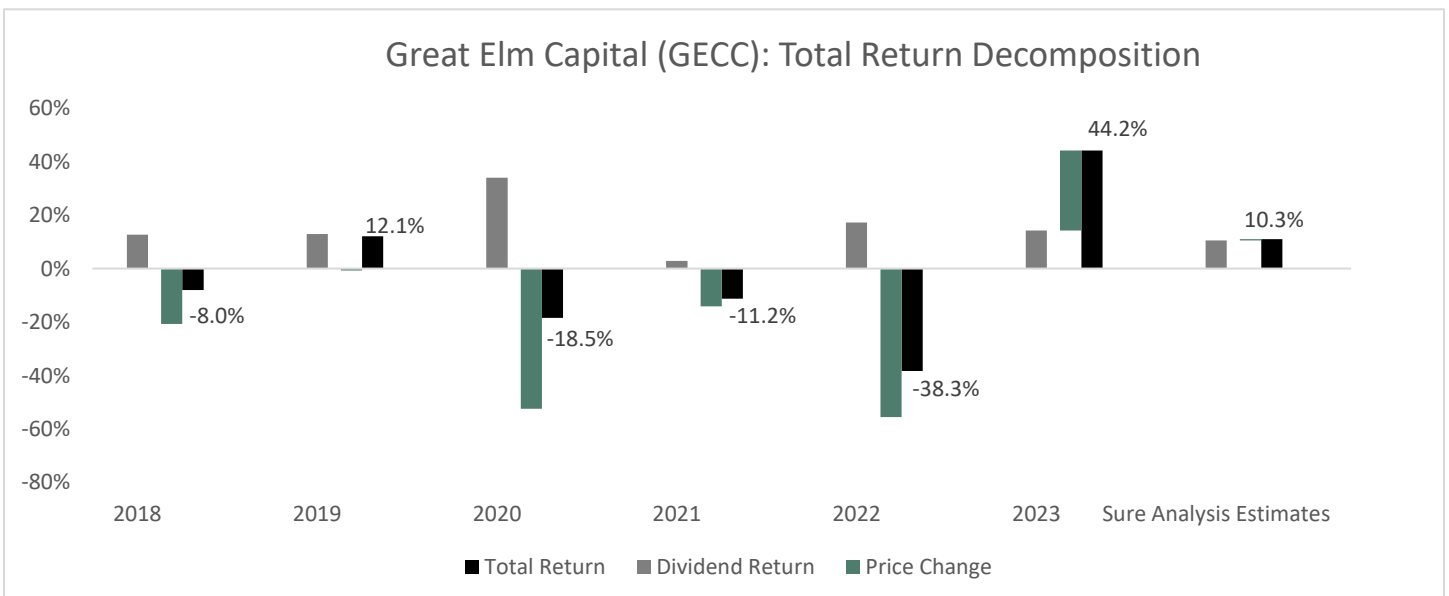
Great Elm Capital's balance sheet is also leveraged quite heavily, which leaves it exposed to rapid declines in book value like what was experienced a few years ago. As a result, even though it was not around for the Great Recession, we believe that it will not fare well in a protracted recession, making 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 are erratic and unpredictable. That said, the stock is trading at a discount to book value. With 10.3% expected annualized total returns over the next half-decade, the stock earns a speculative 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	(6)	(4)	(14)	1	(5)	(5)	(29)	(7)	(16)	30
SG&A Exp.	2	2	4	3	3	3	3	4	4	5
Net Profit	(8)	(5)	(18)	(3)	(9)	(8)	(32)	(10)	(16)	25
Net Margin	134.5%	116.9%	130.2%	-412%	168.3%	158.2%	110.7%	155.8%	96.9%	83.9%
Free Cash Flow	(21)	(31)	9	(24)	(30)	(24)	27	(58)	(42)	26

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	155	161	237	240	282	291	283	426	310	247
Cash & Equivalents	-	4	67	3	4	5	53	9	1	1
Total Liabilities	82	61	64	108	171	204	204	352	225	148
Accounts Payable	26	16	24	70	88	74	78	204	70	4
Long-Term Debt	29	33	35	31	76	120	116	142	153	140
Shareholder's Equity	73	100	173	132	110	87	80	75	85	99
LTD/E Ratio	0.40	0.33	0.20	0.24	0.69	1.38	1.45	1.90	1.81	1.42

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	-5.7%	-3.3%	-10.1%	-1.2%	-3.5%	-2.6%	-11.1%	-2.9%	-4.2%	9.1%
Return on Equity	-11.4%	-6.0%	-14.1%	-1.8%	-7.4%	-7.7%	-38.4%	-13.3%	-19.6%	27.6%
ROIC	-7.2%	-4.4%	-11.1%	-1.5%	-5.1%	-3.8%	-15.9%	-5.0%	-6.9%	10.6%
Shares Out.	23.2	22.5	2.1	1.8	1.8	1.7	3.9	4.6	7.6	9.5
Revenue/Share	(3.91)	(1.80)	(6.41)	0.34	(3.01)	(2.79)	(13.01)	(1.62)	(2.57)	3.97
FCF/Share	(14.25)	(12.73)	4.07	(12.50)	(17.16)	(14.33)	12.35	(14.36)	(6.68)	3.38

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

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