



SLR Investment Corp. (SLRC)

Updated March 10th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$15.65	5 Year CAGR Estimate:	8.0%	Market Cap:	\$853.8 M
Fair Value Price:	\$15.30	5 Year Growth Estimate:	-0.5%	Ex-Dividend Date:	03/14/24
% Fair Value:	102%	5 Year Valuation Multiple Estimate:	-0.5%	Dividend Payment Date:	03/28/24
Dividend Yield:	10.5%	5 Year Price Target	\$14.92	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 December 31st, 2023, SLR Investment’s portfolio consisted of 150 companies with exposures of 23.6% in senior secured loans, 31.6% in asset-based senior secured loans, 32.4% in equipment senior secured financings, and 11.6% 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 February 27th, 2024, SLR Investment Corp. reported its Q4 and full-year results for the period ending December 31st, 2023. For the quarter, total investment income totaled \$59.8 million, up 0.3% sequentially. The negligible increase was mainly due to slightly lower management fees and administrative expenses, partially offset by higher net performance-based incentive fees.

On a per-share basis, net investment income grew by one cent to \$0.44. For the year, NII/share increased to \$1.69, up from \$1.48 in fiscal 2022. We now forecast NII/share of \$1.70 for fiscal 2024.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
NAV/shr	\$22.05	\$20.79	\$21.74	\$21.81	\$21.75	\$21.44	\$20.16	\$19.93	\$18.33	\$18.09	\$18.09	\$17.64
NII/shr	\$1.56	\$1.52	\$1.68	\$1.62	\$1.77	\$1.71	\$1.40	\$1.41	\$1.48	\$1.69	\$1.70	\$1.66
DPS	\$1.60	\$1.60	\$1.60	\$1.60	\$1.64	\$1.64	\$1.64	\$1.64	\$1.64	\$1.64	\$1.64	\$1.60
Shares¹	42.5	42.5	42.2	42.3	42.3	42.3	42.3	42.3	51.7	54.6	54.6	80.0

With 65.3% 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.

Furthermore, historical patterns reveal that distributions have consistently surpassed the underlying NII generation, leading to a decline in the company's NAV/share over recent years. Although the current rise in interest rates has resulted in a more or less stable NII/share, covering the dividend, we maintain a cautious outlook. We have set our NAV/share, NII/share, and DPS CAGR estimates to -0.5% each through 2029, to account for the possibility of a falling NAV over medium-term, which could in turn lead to slightly weaker NII, and, in theory, dividends.

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.



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Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/NII	13.1	11.5	11.9	13.1	11.9	12	11.4	10.6	10.3	8.0	9.2	9.0
Avg. P/NAV	0.93	0.84	0.92	0.97	0.97	0.96	0.79	0.75	0.83	0.75	0.87	N/A
Avg. Yld.	7.8%	9.2%	8.0%	7.5%	7.8%	8.0%	10.3%	10.9%	10.8%	12.1%	10.5%	10.7%

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 an 13% 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 more or less fairly valued. On May 9th, 2023, the board of directors approved a \$50 million share buyback program to address the NAV discount. Still, virtually no buybacks occurred in 2023, and only \$3 million worth of stock was repurchased in 2022 through a similar program.

Safety, Quality, Competitive Advantage, & Recession Resiliency

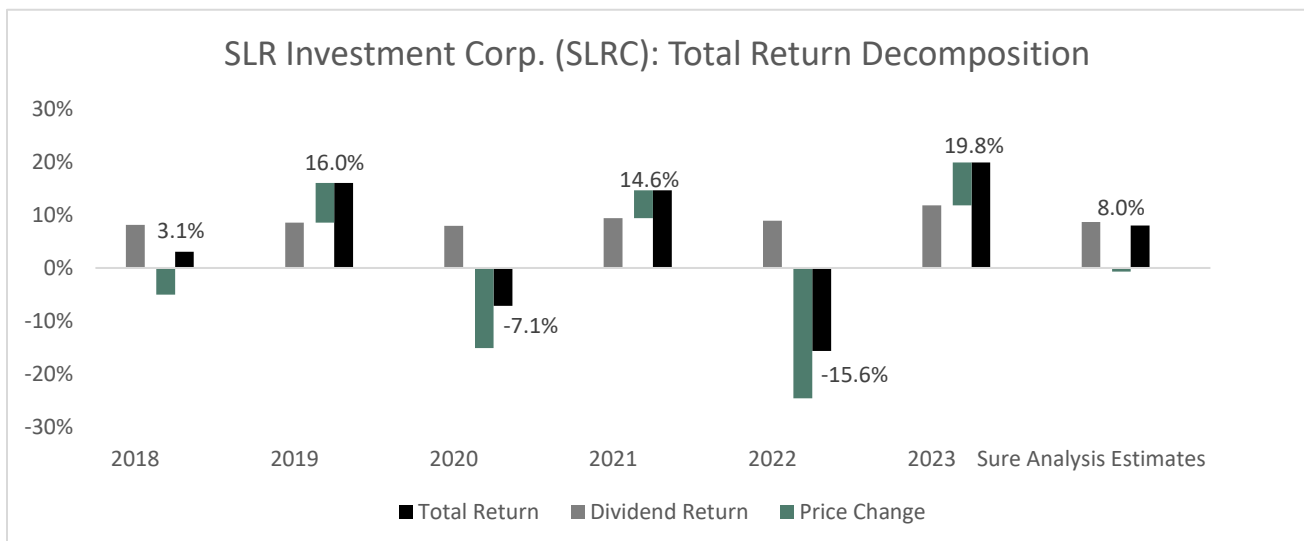
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	103%	105%	95%	99%	93%	96%	117%	116%	111%	97%	96%	96%

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. Its focus on asset-based senior secured loans and equipment financing, sets it apart 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 estimate annualized returns of 8.0% over the medium-term, as soft valuation tailwinds and dividend returns could be offset by small declines in NII and DPS. Shares earn a hold rating. But, again, investors should not blindly trust the dividend.

Total Return Breakdown by Year



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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.

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