



Hercules Capital Inc. (HTGC)

Updated May 11th, 2024 by Samuel Smith

Key Metrics

Current Price:	\$19.9	5 Year CAGR Estimate:	2.4%	Market Cap:	\$3.2 B
Fair Value Price:	\$14.4	5 Year Growth Estimate:	-0.7%	Ex-Dividend Date:	8/13/24 ¹
% Fair Value:	138%	5 Year Valuation Multiple Estimate:	-6.3%	Dividend Payment Date:	8/21/24 ²
Dividend Yield:	9.6%	5 Year Price Target	\$14	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Hercules Capital markets itself as the largest specialty finance company in the United States. The company focuses on providing senior secured venture growth loans to high-growth, innovative VC-backed companies in the sectors of technology, life sciences, and renewable energy. Since Hercules Capital's inception in December of 2003, the company has committed billions of dollars to scores of companies. Headquartered in Palo Alto, California, Hercules Capital trades on the New York Stock Exchange with a market capitalization of \$3.2 billion. Hercules Capital owns primarily debt securities as well as some equity securities and warrants.

Hercules Capital (HTGC) reported record-breaking performance in the first quarter of 2024, with total gross debt and equity commitments reaching \$956.0 million, marking an impressive 81.7% increase year-over-year. The company also achieved record total gross fundings of \$605.2 million, reflecting a substantial 27.1% increase compared to the same period in the previous year. Total investment income for Q1 2024 amounted to \$121.6 million, showcasing a notable 15.7% year-over-year increase. Net investment income (NII) for the quarter stood at \$79.2 million, or \$0.50 per share, representing a significant 20.9% year-over-year growth.

Moreover, the NII provided 125% coverage of the base cash distribution. Hercules Capital maintained conservative balance sheet management, with net GAAP leverage at 91.0% and net regulatory leverage at 81.7%. The company also reported an undistributed earnings spillover of \$142.7 million, or \$0.88 per ending shares outstanding. Additionally, Hercules Capital disclosed approximately \$4.5 billion of assets under management, indicating a robust 14.7% year-over-year increase.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
EPS	\$1.10	\$0.59	\$0.91	\$0.97	\$0.83	\$0.80	\$1.39	\$1.29	\$1.48	\$2.09	\$2.03	\$2.00
BVPS	\$10.18	\$9.94	\$9.90	\$9.96	\$9.90	\$10.55	\$11.26	\$11.45	\$10.45	\$10.88	\$11.98	\$11.57
DPS	\$1.22	\$1.22	\$1.23	\$1.23	\$1.24	\$1.24	\$1.38	\$1.55	\$2.04	\$1.90	\$1.92	\$1.58
Shares³	64.7	72.6	82.8	85.0	96.1	110.4	114.7	118.7	135.5	156.5	162.2	160

Hercules Capital's earnings-per-share have been remarkably volatile over the last decade. Accordingly, we believe it is more meaningful to assess the company's growth in net worth, which we measure using book value per common share (BVPS in the table above). As you can see, the company's net worth has been volatile. Because of this, we are taking a very conservative approach and assuming that Hercules Capital's book value per share will slightly decrease for the foreseeable future.

¹ Estimated

² Estimated

³ 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	1.3	1.5	1.3	1.3	1.4	1.3	1.3	1.2	1.6	1.4	1.7	1.2
Avg. Yld.	9.2%	8.2%	9.6%	9.5%	8.9%	9.0%	9.4%	11.3%	12.2%	12.5%	9.6%	11.4%

Given Hercules Capital's volatile earnings-per-share history, we believe that measuring the security's valuation using the price-to-book ratio is a much more reasonable approach than the traditional price-to-earnings ratio. As the table above indicates, Hercules Capital's average price-to-book ratio has fluctuated between 1.2 and 1.6 over the last decade. Hercules Capital's current price-to-book ratio is 1.7 and the company's current dividend yield is 9.6%. The company's long-term average price-to-book ratio suggests that the company is overvalued at current prices, and we therefore expect the price-to-book value to revert to 1.2 over a 5-year holding period.

Safety, Quality, Competitive Advantage, & Recession Resiliency

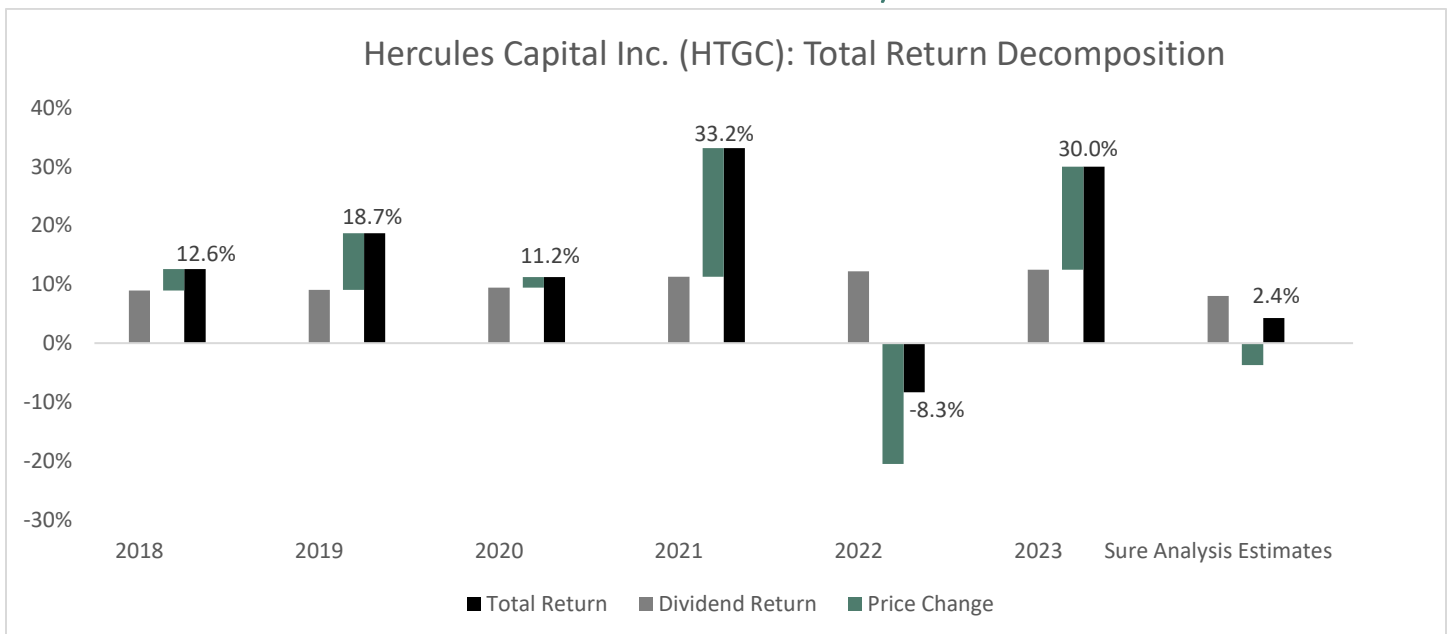
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	111%	207%	135%	127%	149%	155%	99%	120%	138%	91%	95%	79%

Hercules Capital's business model of lending to early-stage, high-growth companies is far from the most recession-resistant operation in our investment universe. With that said, we are modestly encouraged by the firm's prudent capital structure as it has one of the lower debt to equity ratios in the sector and has a history of allocating capital effectively. While we expect it to take a hit in a severe recession and almost certainly will be forced to cut its dividend, we still expect it to avoid the steep equity losses suffered by many of its peers.

Final Thoughts & Recommendation

Hercules Capital has a solid track record compared to other business development companies and offers investors decent total return potential at current prices due to the 9.6% dividend yield currently being offered. That said, there is not much margin for error should the heavily leveraged business model encounter any challenges. As a result, we rate the stock a Hold.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	115	96	111	136	136	244	298	255	185	426
SG&A Exp.	10	17	16	16	15	19	19	16	17	19
Net Profit	71	43	69	79	76	174	227	174	102	337
Net Margin	61.9%	44.8%	61.7%	58.3%	56.2%	71.3%	76.3%	68.3%	55.3%	79.1%
Free Cash Flow	(27)	(115)	(139)	(19)	(249)	(241)	208	129	(425)	67

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	1,299	1,324	1,464	1,655	1,945	2,462	2,624	2,600	3,029	3,417
Cash & Equivalents	227	95	13	91	34	64	198	133	16	99
Total Liabilities	640	607	676	814	990	1,329	1,332	1,291	1,627	1,614
Long-Term Debt	626	590	655	787	964	1,299	1,296	1,244	1,580	1,560
Shareholder's Equity	659	717	788	841	955	1,133	1,292	1,309	1,401	1,803
LTD/E Ratio	0.95	0.82	0.83	0.94	1.01	1.15	1.00	0.95	1.13	0.87

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	5.6%	3.3%	4.9%	5.1%	4.2%	7.9%	8.9%	6.7%	3.6%	10.5%
Return on Equity	10.9%	6.2%	9.1%	9.7%	8.5%	16.6%	18.7%	13.4%	7.5%	21.1%
ROIC	5.7%	3.3%	5.0%	5.1%	4.3%	8.0%	9.1%	6.8%	3.7%	10.6%
Shares Out.	64.7	72.6	82.8	85.0	96.1	110.4	114.7	118.7	135.5	156.5
Revenue/Share	1.82	1.37	1.51	1.64	1.49	2.40	2.65	2.20	1.46	2.94
FCF/Share	(0.42)	(1.64)	(1.88)	(0.23)	(2.74)	(2.38)	1.85	1.11	(3.35)	0.47

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

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