



# TriplePoint Venture Growth BDC (TPVG)

Updated May 3<sup>rd</sup>, 2024 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$9.31	<b>5 Year CAGR Estimate:</b>	16.4%	<b>Market Cap:</b>	\$352.4 M
<b>Fair Value Price:</b>	\$11.90	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	06/14/2024
<b>% Fair Value:</b>	78%	<b>5 Year Valuation Multiple Estimate:</b>	5.0%	<b>Dividend Payment Date:</b>	06/28/2023
<b>Dividend Yield:</b>	17.2%	<b>5 Year Price Target</b>	\$11.90	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 49 companies (90% of total portfolio's fair value), and \$71.9 million (10%) of warrants and equity investments with 105 companies. It is well-diversified amongst 20+ industries, with its highest exposure of 17.5 % in consumer products and services. The majority of its funds are allocated in the tech sector. The \$352.4 million BDC, based in Menlo Park, California, has helped finance some of the world's leading companies, including Facebook, Etsy, Fastly, Splunk, Square, Workday, Crowdstrike, and various other successful tech giants.

On May 1<sup>st</sup>, 2024, the company posted its Q1 results for the period ending March 31<sup>st</sup>, 2024. For the quarter, total investment income of \$29.3 million compared to \$33.6 million in Q1-2023. The decrease in total investment was primarily due to a lower weighted average principal amount outstanding on the BDC's income-bearing debt investment portfolio. Specifically, the number of portfolio companies fell from 59 last year to 49.

Nonetheless, the company's weighted average annualized portfolio yield came in at an impressive 15.4% for the quarter, up from 14.7% in the prior-year period. Also, during Q1, the company funded \$13.5 million in debt investments to three portfolio companies with a 14.3% weighted average annualized yield at origination.

Net investment income (NII) per share was \$0.41, compared to \$0.53 in Q1-2023. The decrease in net investment income between periods was driven primarily by lower total investment income and other income and an increase in general and administrative expenses. Based on the company's current portfolio composition, we forecast a FY2024 NII/share power of \$1.70.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>NII/share</b>	\$1.30	\$1.46	\$1.42	\$1.61	\$1.71	\$1.54	\$1.57	\$1.33	\$1.94	\$2.07	<b>\$1.70</b>	<b>\$1.70</b>
<b>DPS</b>	\$1.28	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.44	\$1.55	\$1.60	<b>\$1.60</b>	<b>\$1.60</b>
<b>Shares<sup>1</sup></b>	9.9	15	16.2	16.3	20.5	24.8	30.6	30.9	35.3	37.6	<b>37.8</b>	<b>50.0</b>

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 14%, 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.

<sup>1</sup> 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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/NII	11.9	8.42	7.7	8.5	7.6	11.0	7.0	12.4	7.0	5.0	5.5	7.0
Avg. Yld.	7.5%	9.8%	13.3%	10.9%	11.1%	9.4%	9.4%	8.7%	11.4%	15.6%	17.2%	13.4%

TriplePoint's valuation appears to be implying a discount relative to the rest of its BDC peers. The current multiple of 5.5 times our expected FY2024 net investment income likely undervalues the stock considerably, whose fair P/NII we have lowered to a prudent 7.0X. Rising rates have hampered investment activity, but also increased the company's investment spreads. NAV/share stood at \$9.02 as of March 31<sup>st</sup>, 2024. While this may imply that the BDC is overvalued relative to its NAV, it's crucial to note that NAV has declined lately mostly as a result of higher interest rates temporarily altering the discount rates applied to the company's investments. A pull-to-part effect over the medium-term could normalize NAV. Interestingly, shares are currently trading at a massive yield of 17.2%, which should magnetize investor interest.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

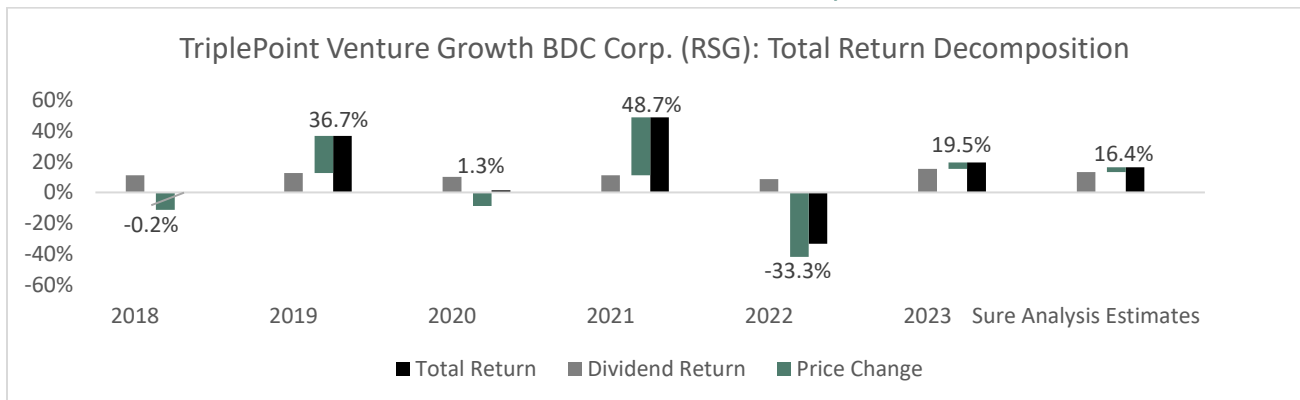
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	---	99%	101%	89%	84%	94%	92%	108%	80%	77%	94%	94%

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 \$1.12 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. Still, while management's proficiency has helped it negotiate sky-high yields even during the low-rates environment a few years ago, future competition could squeeze this surplus. Another risk at this is that the company's sky-high dividend yield makes it almost prohibitive to issue shares to fund investments. Given that the company's outflows would surge in such a scenario, the company portfolio size may shrink moving forward. We saw this occur in 2023. Finally, a potential recession could adversely impact the company's results.

## Final Thoughts & Recommendation

Shares of TriplePoint currently come attached to a massive dividend yield of 17.2%. We assess that payouts remain safe, and estimate that the stock can achieve annualized returns of 16.4% during the medium-term. This is to be driven by the hefty yield and the possibility of valuation tailwinds. Shares earn a buy rating, though we suggest that investors be aware of the risks attached to BDCs.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	---	23	18	26	44	40	45	87	(9.5)	(27)
SG&A Exp.	---	4	4	4	5	6	7	6	6.7	9
Net Profit	---	16	11	19	37	32	35	77	(20)	(40)
Net Margin	---	68.9%	61.2%	73.8%	83.0%	79.0%	77.8%	88.5%	(211%)	(148%)
Free Cash Flow	---	0	(92)	25	(18)	(188)	61	(145)	(101)	106

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	326	382	434	510	467	684	684	928	1015	979
Cash & Equivalents	7	32	8	4	3	20	38	51	51.5	153
Total Liabilities	326	382	434	510	467	684	283	493	595	634
Accounts Payable	7	32	8	4	3	20	3	0	0	0
Long-Term Debt	---	71	168	139	96	336	261	468	567	608
Shareholder's Equity	145	232	216	235	335	333	400	434	420	346
LTD/E Ratio	---	0.31	0.78	0.59	0.29	1.01	0.65	1.08	1.35	1.76

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	---	---	2.7%	4.1%	7.5%	5.5%	5.2%	9.5%	(2.1%)	(4.0%)
Return on Equity	---	8.2%	5.0%	8.5%	12.8%	9.5%	9.6%	18.3%	(4.7%)	(10.4%)
ROIC	---	---	3.2%	5.1%	9.1%	5.8%	5.3%	9.8%	(2.1%)	(4.1%)
Shares Out.	9.9	15	16.2	16.3	20.5	24.8	30.6	30.9	32.7	35.7
Revenue/Share	---	1.50	1.12	1.60	2.15	1.62	1.47	2.82	(0.29)	2.97
FCF/Share	---	0.01	(5.69)	1.54	(0.87)	(7.55)	1.98	(4.68)	(3.09)	

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

## Disclaimer

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