



Horizon Technology Finance Corp. (HRZN)

Updated May 26th, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	\$7.47	5 Year CAGR Estimate:	16.2%	Market Cap:	\$301.5 M
Fair Value Price:	\$9.24	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	05/16/2025
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	4.3%	Dividend Payment Date:	06/13/2025
Dividend Yield:	17.7%	5 Year Price Target	\$9.24	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Sector:	Financials	Rating:	Sell

Overview & Current Events

Horizon Technology Finance Corp. is a BDC (Business Development Company) seeking to provide venture capital to small and medium-sized companies, mainly in the life sciences, technology, healthcare-IT sectors, and sustainability, which account for around 42%, 33%, 15%, and 10% of its portfolio, respectively. The company has been able to generate attractive risk-adjusted returns through directly originated senior secured loans and additional capital appreciation through warrants, featuring a last-twelve-month portfolio yield of 15.4%. The company has topped the typical industry average IRR of around 10% from its loan coupons by engaging in commitment fees, guidance fees, and potential equity rights, maximizing its total yield. Horizon Technology has gross investment income of around \$60 million annually and is based in Farmington, Connecticut.

On April 29th, 2025, Horizon announced its Q1 results for the period ending March 31st, 2025. For the quarter, total investment income fell 6.2% year-over-year to \$24.5 million, primarily due to lower interest income on investments from the debt investment portfolio. More specifically, the company's dollar-weighted annualized yield on average debt investments in Q1 of 2025 and Q1 of 2024 was 15.0% and 15.6%, respectively.

Net investment income per share (IIS) fell to \$0.27, down from \$0.38 compared to Q1-2024. Net asset value (NAV) per share landed at \$7.57, down from \$9.64 year-over-year and \$8.43 sequentially. After paying its monthly distributions, Horizon's undistributed spillover income as of the end of the quarter was \$1.00 per share, indicating a considerable cash cushion. Management assured investors of the dividend's stability by declaring three forward monthly dividends at a rate of \$0.11

Our assumptions for FY2025's IIS/share stand at \$1.32. The company paid special dividends of \$0.05 in each of the past two years. The base DPS run rate stands at \$1.32.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
IIS¹	\$1.25	\$1.48	\$1.07	\$1.20	\$1.52	\$1.18	\$1.41	\$1.46	\$1.98	\$1.32	\$1.32	\$1.32
DPS	\$1.38	\$1.38	\$1.20	\$1.20	\$1.20	\$1.25	\$1.25	\$1.28	\$1.32	\$1.32	\$1.32	\$1.32
Shares²	11.2	11.5	11.5	11.5	13.5	17.5	20.0	24.7	31.0	36.1	40.2	50.0

Horizon's investment results have been quite stable over the years, despite many of its peers in the sector suffering due to the oversupply of cheap financing. Lower market rates caused BDCs to keep refinancing their loan assets at gradually lower rates up until recently, damaging their investment results. However, Horizon's niche operations that require more unusual expertise in industries like biotech have maintained their higher ROIs amid a lack of cheap loans for such risky sectors, including early-stage tech companies. As its successful due diligence record has made possible, the company has maintained quite stable dividends, paid out monthly, providing smooth capital returns to its investors. Horizon's sectors of interest are likely to remain quite high-risk and capital-hungry. That said, we expect a stable IIS/share through 2030,

¹ Investment Income per share

² 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.



Horizon Technology Finance Corp. (HRZN)

Updated May 26th, 2025 by Nikolaos Sismanis

as we are starting off a high base, and the direction of rates several years ahead is uncertain. While there's a chance DPS will grow further, we chose to remain prudent and see no DPS growth from Horizon's base rate of \$1.32 through 2030.

Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/E	8.4	7.1	9.7	9.4	9.9	9.3	11.3	9.3	5.6	8.8	5.7	7.0
Avg. Yld.	13.8%	11.8%	10.9%	11.4%	10.2%	10.2%	7.8%	9.4%	12.5%	11.8%	17.7%	14.3%

Horizon's yield is one of the highest amongst its peers, as its shares are currently trading at a discount compared to the industry. This is quite odd, in our opinion, considering the company's resilient reinvestment yield, which has averaged above 16%, notably higher from its industry peers. As industries like biotech and tech startups are usually free cash flow negative during their early stages, we expect financing in the sector to continue being expensive. We have set our fair P/E at 7.0, which is below the stock's historical average to account for a higher cost of equity lately. The stock is trading below its book value of \$7.57 as of Q1.

Safety, Quality, Competitive Advantage, & Recession Resiliency

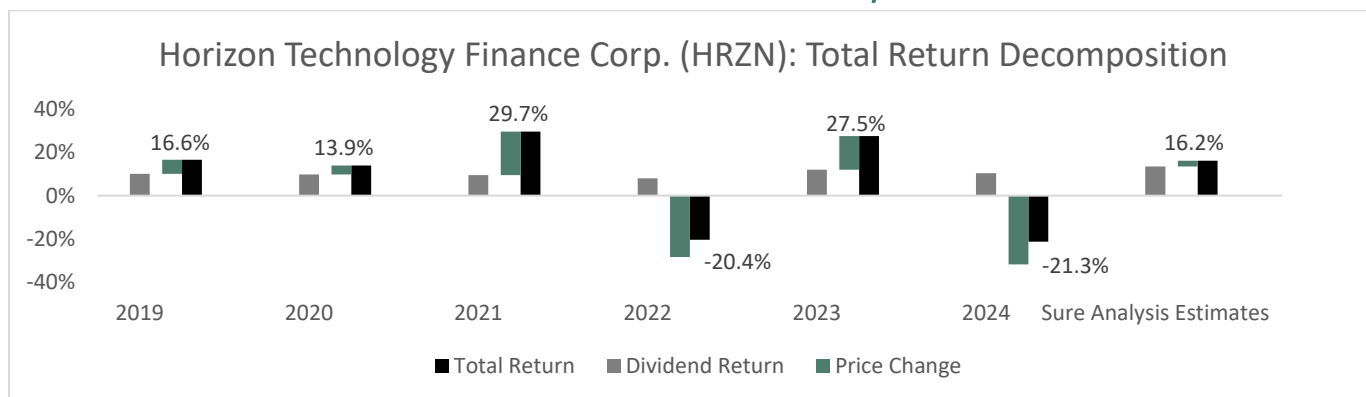
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	110%	93%	112%	100%	79%	106%	89%	88%	69%	104%	100%	100%

Horizon's dividend has remained well-covered over the past few years, including during the COVID-19 pandemic. As a result, we estimate that a dividend cut is unlikely based on its ongoing performance. Its competitive advantage lies in its team's expertise to identify the most promising companies in risky sectors, which requires professional knowledge and experience beyond finance. So far, this perk has stood solid, as the company's results have outperformed the rest of its peers, many of which were forced to cut their dividends due to increased market pressure. Horizon's stable results over the years are also visible in its stock price, which is typically less volatile than its BDC peers. With \$77.5 million in cash and \$229.0 million of credit facility capacity available, investors and creditors alike are confident in the company's future. Additionally, the company has a net debt to equity ratio of 1.29, slightly above Horizon's targeted leverage range of 1.20. The asset coverage ratio for borrowed amounts was about 165%, still at healthy levels.

Final Thoughts & Recommendation

Horizon should be able to keep leveraging its niche expertise in tech and life sciences, demanding a higher return on its investments, which should continue to result in very high investment yields. We view Horizon as one of the highest-quality BDCs amongst its competitors. Stemming from the potential for a valuation tailwind and the 17.7% yield, we forecast annualized returns of 16.2% through 2030. However, we rate shares a sell at current prices due to the lack of consistent dividend increases. We are also somewhat wary about Horizon's dividend coverage.

Total Return Breakdown by Year



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.



Horizon Technology Finance Corp. (HRZN)

Updated May 26th, 2025 by Nikolaos Sismanis

Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	-1.76	12.40	14.90	21.30	14.78	10.33	33.27	26.64	-9.9	1.7
SG&A Exp.	3.24	2.87	3.04	3.41	3.45	3.75	4.69	4.78	5.7	5.8
Net Profit	-4.91	9.59	13.01	19.50	11.00	6.36	27.78	21.15	-17.2	-5.6
Net Margin	279.3%	77.3%	87.3%	91.5%	74.4%	61.6%	83.5%	79.4%	-174%	-329%
Free Cash Flow	52.31	-14.84	-12.06	-51.41	-4.02	-25.28	-75.99	-246.3	-5.3	3.9
Income Tax	-0.09	0.03	0.03	0.24	0.34	0.22	0.40	0.72	1.5	1.5

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	239.25	234.15	266.75	344.00	197.81	407.16	513.95	766.83	802.4	821.8
Cash & Equivalents	37.14	6.59	12.59	6.47	1.30	19.50	38.05	20.61	46.6	70.3
Total Liabilities	100.06	99.07	132.49	159.95	67.93	194.56	268.62	448.38	478.4	486
Accounts Payable	3.45	3.46	3.46	4.67	0.00	5.79	6.37	9.16	11	13.2
Long-Term Debt	95.60	94.08	126.85	152.05	64.57	185.8	257.61	434.08	462	468
Total Equity	139.19	135.08	134.26	184.06	129.88	212.60	245.34	318.45	324	336
LTD/E Ratio	0.69	0.70	0.94	0.83	0.50	0.87	1.05	1.36	1.43	1.39

Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	-1.9%	4.1%	5.2%	6.4%	6.8%	1.7%	6.0%	3.3%	-2.2%	-0.7%
Return on Equity	-3.3%	7.0%	9.7%	12.3%	11.6%	3.2%	12.1%	7.5%	-5.4%	-1.7%
ROIC	-1.9%	4.1%	5.3%	6.5%	6.9%	1.7%	6.2%	3.4%	-2.2%	-0.7%
Shares Out.	11.54	11.52	11.53	13.48	7.61	17.53	20.03	24.73	30.96	36.1
Revenue/Share	-0.15	1.08	1.29	1.58	1.94	0.59	1.66	1.08	-0.32	0.05
FCF/Share	4.53	-1.29	-1.05	-3.81	-0.53	-1.44	-3.79	-9.96	-0.17	0.11

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.