



Horizon Technology Finance Corp. (HRZN)

Updated August 12th, 2025 by Nikolaos Sismanis

Key Metrics

Current Price:	\$7.21	5 Year CAGR Estimate:	13.4%	Market Cap:	\$307.8 M
Fair Value Price:	\$7.84	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	06/18/2025
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date:	09/06/2025
Dividend Yield:	18.3%	5 Year Price Target	\$7.84	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-quarter portfolio yield of 15.8%. 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 August 7th, 2025, Horizon announced its Q2 results for the period ending June 30th, 2025. For the quarter, total investment income fell 4.5% 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 Q2 of 2025 and Q2 of 2024 was 15.8% and 15.9%, respectively.

Net investment income per share (IIS) fell to \$0.28, down from \$0.36 compared to Q2-2024. Net asset value (NAV) per share landed at \$6.75, down from \$9.12 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 \$0.94 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 \$1.12. 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	\$1.12	\$1.12
DPS	\$1.38	\$1.38	\$1.20	\$1.20	\$1.20	\$1.25	\$1.25	\$1.28	\$1.32	\$1.32	\$1.32	\$1.02
Shares²	11.2	11.5	11.5	11.5	13.5	17.5	20.0	24.7	31.0	36.1	41.2	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, as the direction of rates several years ahead is uncertain. Further, we have embedded a negative 5% growth rate per

¹ Investment Income per share

² Share count is in millions.

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year in our distribution estimates, to price in the possibility of a distribution cut given the lack of short-term payout coverage.

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	6.4	7.0
Avg. Yld.	13.8%	11.8%	10.9%	11.4%	10.2%	10.2%	7.8%	9.4%	12.5%	11.8%	18.3%	13.0%

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 above its book value of \$6.75 as of Q2.

Safety, Quality, Competitive Advantage, & Recession Resiliency

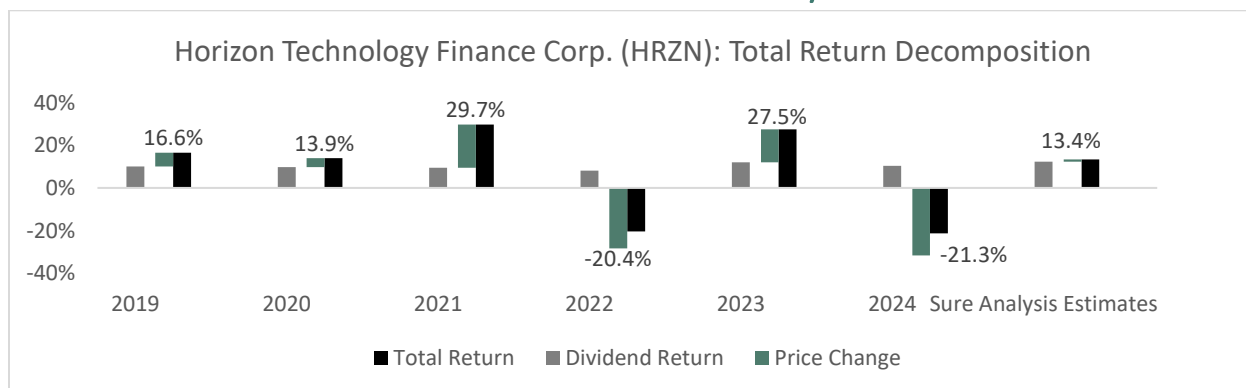
Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	110%	93%	112%	100%	79%	106%	89%	88%	69%	104%	118%	91%

Horizon's dividend remained well-covered in recent years, including during the COVID-19 pandemic. Still, we estimate that a dividend cut is not unlikely based on its ongoing performance. Regardless, the BDC's 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 \$81.2 million in cash and \$326.0 million of credit facility capacity available, the company's liquidity remains robust. Additionally, the company has a net debt to equity ratio of 1.22, slightly above Horizon's targeted leverage range of 1.20. The asset coverage ratio for borrowed amounts was about 166%, 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 18.3% yield, we forecast annualized returns of 13.4% through 2030. However, we rate shares a sell at current prices due to the lack of consistent dividend increases. Also, we think that a distribution cut is possible, which would erode the return outlook.

Total Return Breakdown by Year



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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.

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