



Prospect Capital Corporation (PSEC)

Updated September 4th, 2025, by Josh Arnold

Key Metrics

Current Price:	\$2.89	5 Year CAGR Estimate:	11.1%	Market Cap:	\$1.3 B
Fair Value Price:	\$3.60	5 Year Growth Estimate:	-5.0%	Ex-Dividend Date:	09/26/25
% Fair Value:	80%	5 Year Valuation Multiple Estimate:	4.5%	Dividend Payment Date:	10/22/25
Dividend Yield:	18.7%	5 Year Price Target	\$2.79	Years Of Dividend Growth:	0
Dividend Risk Score:	F	Sector:	Financials	Rating:	Sell

Overview & Current Events

Prospect Capital Corporation is a business development company, or BDC. It provides private debt and private equity to middle-market companies in the U.S. The company focuses on direct lending to owner-operated companies, as well as sponsor-backed transactions. Prospect invests primarily in first and second lien senior loans and mezzanine debt, with occasional equity investments. The company went public in 2004 and currently has a market capitalization of \$1.3 billion. Prospect produces about \$650 million in annual revenue.

We note that Prospect has had to file amended 1099 tax forms at times in the past, causing additional work for those that own shares when filing taxes for dividends received from the company.

Prospect posted fourth quarter and full-year results on August 26th, 2025, and results were weak once again as the company continues to struggle. Net interest income for the quarter was 17 cents per share. NII was down from 25 cents from the same period a year ago. Total revenue plummeted 21% year-over-year to \$167 million.

Total originations were \$271 million, up from \$196 million in the prior quarter. Total repayments and sales were \$445 million, up from just \$192 million in Q3. Net originations, then, fell from \$4 million in Q3 to -\$175 million in the final quarter of the year, shrinking the company's portfolio to \$6.67 billion. That's down from \$7.72 billion a year ago.

Annualized current yield for all investments rose to 9.6% from 9.2% in Q3, but lower from 9.8% a year ago. Nonaccrual loans were 0.3% of total assets from 0.6% in Q3. NAV was \$6.56 per share, down from \$7.25 in Q3 and \$8.74 in last year's Q4.

We now see 45 cents in NII-per-share for 2026, a further, steep deterioration in the company's earnings prospects.

Growth on a Per-Share Basis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
NII	\$1.04	\$0.85	\$0.79	\$0.79	\$0.72	\$0.75	\$0.75	\$0.89	\$1.02	\$0.77	\$0.45	\$0.35
DPS	\$1.00	\$1.00	\$0.77	\$0.72	\$0.72	\$0.72	\$0.72	\$0.72	\$0.72	\$0.54	\$0.54	\$0.36
Shares¹	357	360	364	367	374	389	392	402	425	456	470	550

Growth has been tough to come by for Prospect in the past decade. The company weathered the financial crisis quite well – 2010 results excluded – but since 2012, net investment income has struggled. Part of this is due to Prospect's prodigious share count, which is much higher today than it was a decade ago. While it is typical for a BDC to issue shares to fund acquisitions, Prospect's dilution has been excessive at times. Given this history of dilution and weak net investment income performance, we expect -5% annual growth on a per-share basis.

Prospect has had additional trouble growing net investment income because its balance sheet has slowly grown smaller over time. The company's total assets are just under \$7 billion today, after having given back prior gains in recent quarters.

The company's dividend has also shrunk over time as this year's payout of \$0.54 is well under half the value of the dividend from before the financial crisis. Shrinking net investment income has taken its toll on the company's ability to

¹ Share count in millions

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finance the dividend. We see the dividend potentially declining further as NII doesn't cover the payout today. Prospect has funded deficits in its NII in the past, and we are still cautious on its ability to fund the dividend at current levels given the convergence of NII and the dividend payment, even after the late-2024 cut.

Valuation Analysis

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	Now	2031
Avg. P/NII	9.9	8.7	8.0	8.2	8.2	8.5	9.3	7.0	5.4	4.1	6.4	8.0
Avg. Yld.	11.8%	11.3%	10.6%	12.1%	12.1%	11.3%	10.3%	11.6%	13.0%	18.3%	18.7%	12.8%

Prospect's price to net investment income has averaged ~8 in the past decade. We see fair value there given that the company's growth outlook has deteriorated with higher rates. We see a tailwind to total annual returns from the valuation potentially drifting higher.

The company's current dividend yield is 18.7%, which is somewhat higher than its historical average. We forecast the yield declining to 12.8%, which would result from a potentially lower dividend payout over time.

Safety, Quality, Competitive Advantage, & Recession Resiliency

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2026	2031
Payout	96%	118%	97%	85%	100%	96%	90%	81%	71%	70%	120%	102%

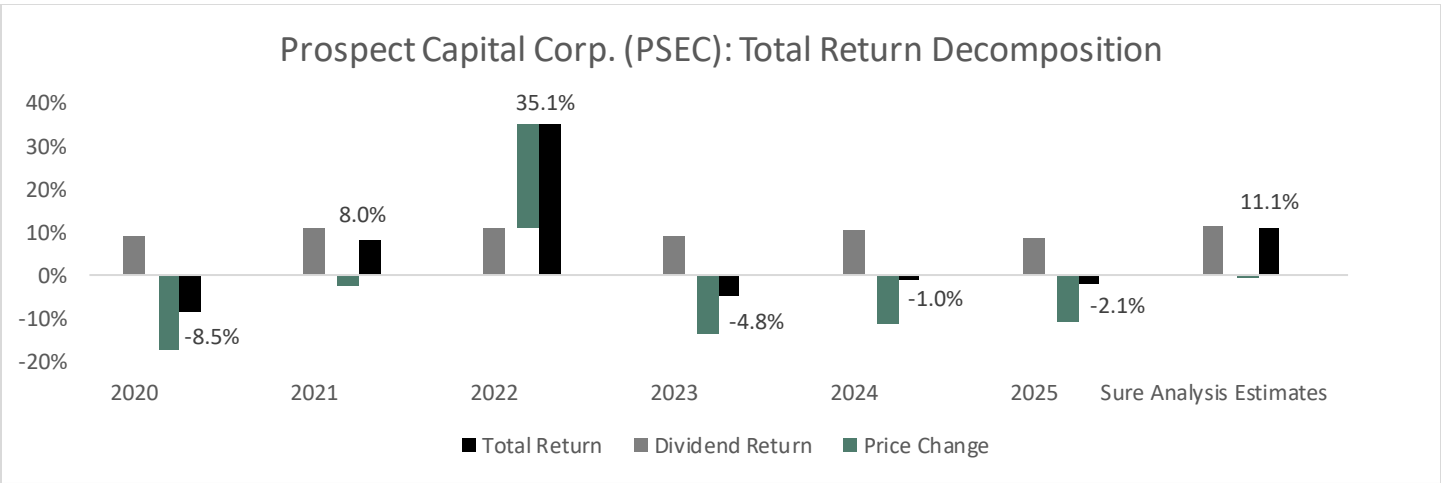
One of the issues with business development companies is that competitive advantages are very difficult to come by, and Prospect is certainly no exception. Scale is the name of the game for BDCs and with a stagnant balance sheet, Prospect has lost some of its relative scale over time. Prospect's assets are on the decline once more, producing yet another headwind for earnings and the dividend.

The company's payout ratio was over 100% for several years in the past decade and is once again for 2026. We believe it may be some time before the payout is covered by earnings again, and we believe the newly reduced dividend may also be at risk in the coming years.

Final Thoughts & Recommendation

Prospect Capital offers investors a huge yield, but it is not without its risks. The valuation is decent, particularly considering the company's unfavorable growth outlook. The yield is strong as well. We are forecasting 11.1% in total returns in the coming years, consisting of the 18.7% yield, -5% growth, and a tailwind from the valuation. We are reiterating the stock at a sell rating despite the large total return prospects given significant weakness in its earnings, and risk of a dividend cut.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Revenue	137	284	326	199	37	1,008	635	(50)	321	201
SG&A Exp.	32	32	26	34	33	30	30	41	44	---
Net Profit	103	253	300	144	-16	964	583	(102)	263	(470)
Net Margin	75.3%	89.2%	92.0%	81.1%	-43.7%	95.7%	91.8%	-167%	81.9%	-234%
Free Cash Flow	862	376	369	224	429	31	(795)	(221)	280	179

Balance Sheet Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Total Assets	6,236	6,173	5,839	5,800	5,300	6,303	7,663	7,862	7,857	6,805
Cash & Equivalents	318	318	84	107	45	64	35	91	82	1,449
Total Liabilities	2,800	2,818	2,432	2,494	2,244	2,358	3,544	4,129	4,145	2,186
Accounts Payable	71	69	56	56	51	51	50	54	47	---
Long-Term Debt	2,667	2,642	2,312	2,383	2,138	2,233	2,737	2,585	2,434	2,088
Shareholder's Equity	3,436	3,355	3,407	3,306	3,056	3,808	4,119	3,733	3,712	2,989
LTD/E Ratio	0.78	0.79	0.68	0.72	0.70	0.57	0.66	0.69	0.66	0.45

Profitability & Per Share Metrics

Year	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Return on Assets	1.6%	4.1%	5.0%	2.5%	-0.3%	16.6%	8.3%	-1.3%	3.3%	-6.4%
Return on Equity	2.9%	7.4%	8.9%	4.3%	-0.5%	28.1%	14.7%	-2.6%	7.1%	-9.5%
ROIC	1.6%	4.2%	5.1%	2.5%	-0.3%	17.0%	8.9%	-1.5%	4.2%	-6.5%
Shares Out.	357	360	364	367	374	389	434	399	625	440
Revenue/Share	0.39	0.79	0.90	0.54	0.10	2.61	1.46	(0.13)	0.51	0.46
FCF/Share	2.42	1.05	1.02	0.61	1.17	0.08	(1.83)	(0.55)	0.45	0.41

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

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