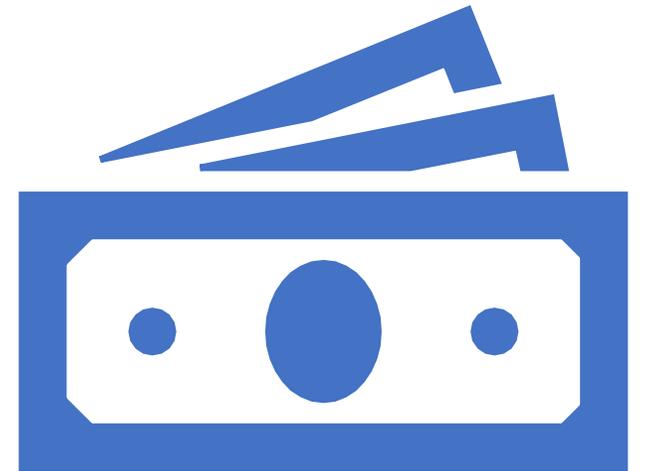


Business Development Companies

OLLI Investment Forum

David Toms

March 24, 2021





Agenda

WHAT IS A BDC?

BDC MARKET OVERVIEW

HOW TO EVALUATE A BDC

EVALUATE HERCULES CAPITAL CORP

CONCLUSIONS: GET YOUR DRIP ON

What is a BDC?

Wikipedia Definition:

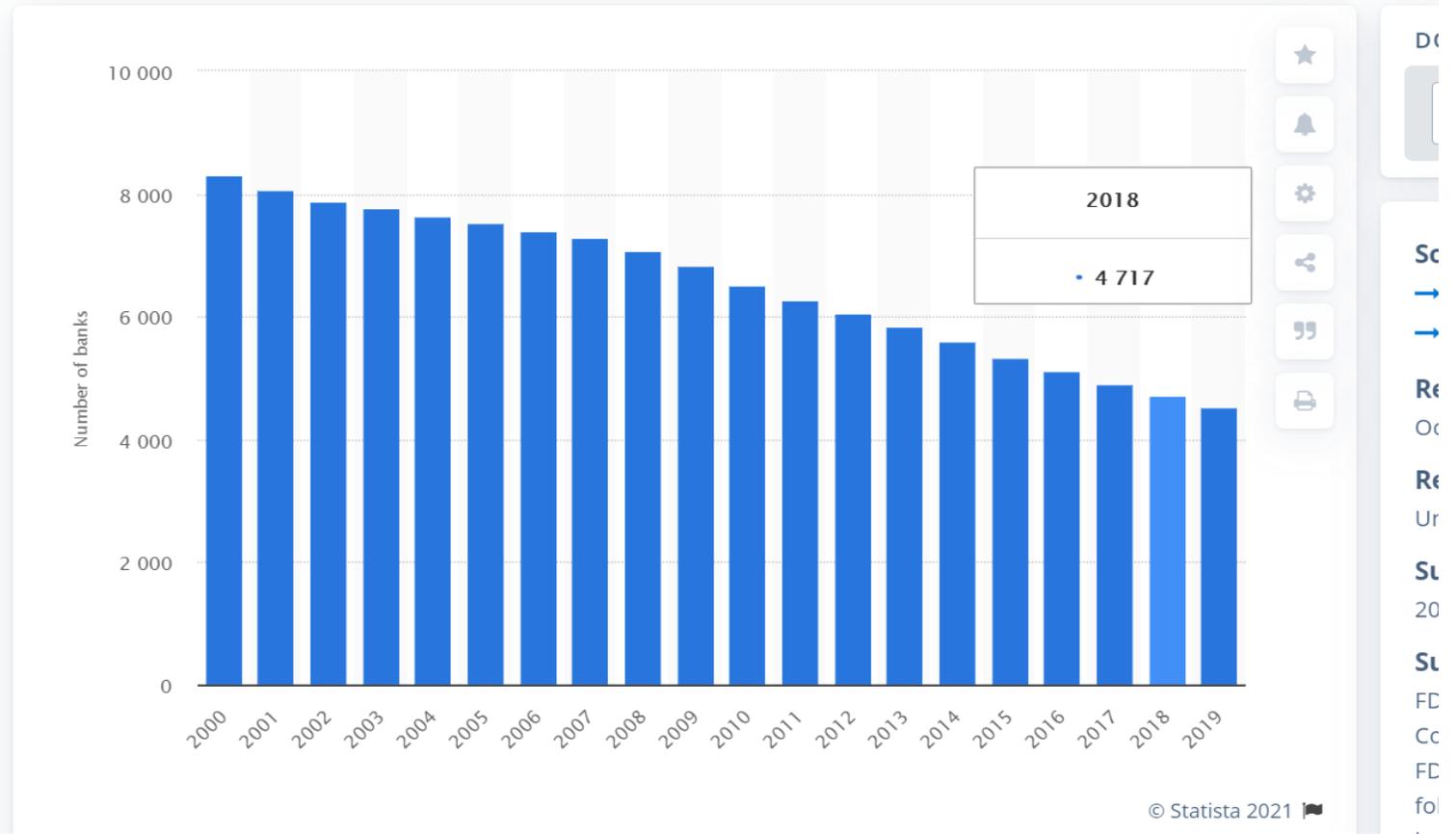
- Established in accordance with the Investment Company Act of 1980; Amended in March 2018
- A company that makes loans to small and mid-size businesses
- Regulated by the SEC as Registered Investment Companies (RIC)
- **PAY NO TAXES** as long as they distribute 90% of earnings
- Similar to a REIT, but assets are loans to companies
- Private Equity or Venture Capital for retail investors
- Most BDCs are publicly traded – some are not

Primary reason for investing:

- Long term investment, high dividends with diversification
- Can result in high returns in a buy and hold portfolio, with a Dividend Reinvestment Program (DRIP)
- Behavior similar to owning a bond

BDCs are filling a gap

Number of FDIC-insured commercial banks in the United States



Source: FDIC

Types of BDCs

Market Specialized or Diversified

- Specialized BDCs might invest defensively - Health care
- Diversified BDCs are just that
- International or US-only?

Internally managed or Externally managed

- Internally managed BDCs work for shareholders
- Externally managed BDCs work for the managers
 - Can result in conflicts of interest
 - BUT external managers may own a large stake

Hybrids

- Equity stakes in clients or warrants
- Own property and collect rent rather than loans
- Management services

Typical BDC Capitalization

Assets

- First Lien secured loans
 - 75% of portfolio is very good
- Second Lien secured loans
- Senior secured loans
- Mezzanine Loans
- Warrants
- Equity Stakes
- Board seats
- Partnerships and JVs
- Venture Debt
- SBA Facilities
 - Government guarantees

Liabilities

- Loans from money center banks
 - Revolving credit facilities
- Preferred stocks and dividends
- Common Stocks and dividends
- Notes
- Convertible Notes
- Bonds
- SBA facilities
 - Hedges



Keep an eye on:
Are the loans and notes laddered properly?
Any large loans maturing in near future?

BDC Market Landscape

There are approximately 50 BDCs registered with the SEC

Return is different than yield

Circled BDCs are ones that I own

Current BDC Dividend Yields

(as of December 29, 2020)

	Price/NAV	Yield
FSK	0.68	14.5%
PTMN	0.60	14.0%
OXSQ	0.78	14.0%
PSEC	0.67	12.9%
CGBD	0.72	12.7%
AINV	0.69	12.6%
MRCC	0.74	12.5%
ORCC	0.89	12.0%
CSWC	1.12	11.9%
TPVG	1.00	11.6%
TSLX	1.23	11.1%
PFLT	0.84	11.0%
TCPC	0.88	10.7%
FCRD	0.60	10.7%
NMFC	0.93	10.6%
PNNT	0.58	10.5%
FDUS	0.70	9.9%
HTGC	1.39	9.7%
HRZN	0.86	9.6%
ARCC	1.01	9.6%
SLRC	0.86	9.5%
GSBD	1.25	9.3%
BKCC	0.62	9.2%
GAIN	0.94	9.2%
GLAD	1.10	8.8%
SUNS	0.89	8.5%
GBDC	0.97	8.3%
OCSI	0.85	8.0%
MAIN	1.46	7.8%
Average	0.91	10.7%

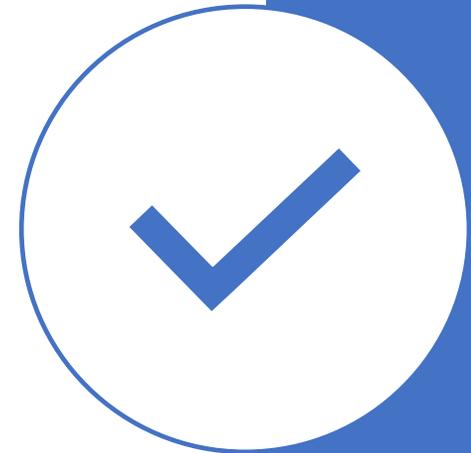
Includes Special Dividends Paid in 2020

Includes special/supplemental dividends paid in 2020.

Sources: SEC Filings & www.BDCBuzz.com

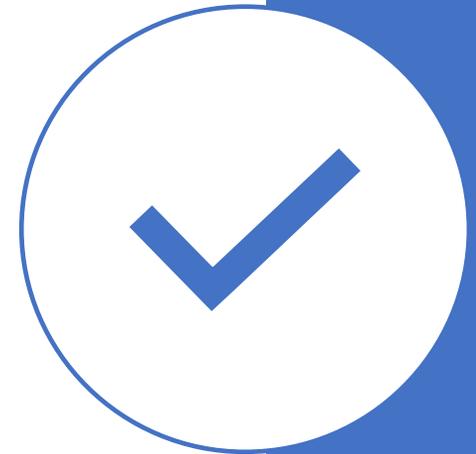
How to Evaluate a BDC

- What is the quality of the loan portfolio?
 - Read SEC reports for quality assessments
 - Default ratio < 1% is good
 - During pandemic, 3-4% was typical, but this has diminished
- Is the dividend sustainable?
 - What is the dividend history? Increasing dividend is excellent
 - Are Net Asset Value, Revenue, Net Investment Income increasing?
- Does the BDC focus on particular business sector(s)?
- Is the BDC externally managed? Or internally?
 - How is management incentivized; AUM or Dividend growth?
- Institutional and Insider holdings?



How to Evaluate a BDC, cont'd

- S&P Investment grade rating?
- What are the qualifications of the managers?
- Who are the major investors / holders?
- Analyst opinions?
- Short interest?
- What is the BDCs sensitivity to economic cycles?
- Do they have a Small Business Administration guarantee / license?
- Read the Blogs on Seeking Alpha
 - Scott Kennedy, BDC Buzz, High Yield Investor (HYI),
- Simply Safe Dividends provides excellent, in-depth analyses



My BDC Portfolio

Ares Capital (ARCC)

- Largest of all BDCs
- Market Cap \$8.8B; Yield 8.8%
- Externally managed

Main Street Capital (MAIN)

- Wall St darling
- Market Cap \$2.6B; Yield 6.5%
- Internally managed

Solar Senior Investment (SUNS)

- Market Cap \$244M; Yield 7.9%
- Externally managed

Hercules Capital Corp (HTGC)

- Market Cap \$1.8B; Yield 8.1%
- Internally managed

Evaluation of Hercules Capital, Inc (HTGC)

HERCULES CAPITAL

Structure	Internally Managed Business Development Company (BDC)
IPO Date	June 9, 2005
Investment Options	HTGC (NYSE) - Common Stock Institutional Notes PAR \$1000.00 <ul style="list-style-type: none">• 4.625% Notes due 2022• 4.77% Notes due 2024• 4.28% Notes due 2025• 4.31% Notes due 2025• 4.50% Notes due 2026 Retail Notes (Baby Bonds) PAR \$25.00 <ul style="list-style-type: none">• HCXY (NYSE) 6.25% Notes due 2033• HCXZ (NYSE) 5.25% Notes due 2025 Convertible Notes <ul style="list-style-type: none">• 4.375% Notes due 2022 Securitization Notes <ul style="list-style-type: none">• 4.605% Asset-backed Notes due 2027• 4.703% Asset-backed Notes due 2028
Annualized Dividend Yield⁽¹⁾	8.9% as of December 31, 2020
Distributions Declared	\$0.32 per share for Q4 2020 \$0.05 per share supplemental for Q4 2020
Price to NAV	1.39x - February 19, 2021 ~1.1x to ~1.5x historical range

(1) Annualized based on the \$0.32 distribution declared for Q4 2020 and a closing stock price of \$14.42 as of December 31, 2020

Evaluation of Hercules Capital, Inc (HTGC)

HERCULES CAPITAL

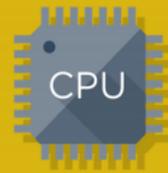
Structure	Internally Managed Business Development Company (BDC)
IPO Date	June 9, 2005
Investment Options	HTGC (NYSE) - Common Stock Institutional Notes PAR \$1000.00 <ul style="list-style-type: none">• 4.625% Notes due 2022• 4.77% Notes due 2024• 4.28% Notes due 2025• 4.31% Notes due 2025• 4.50% Notes due 2026 Retail Notes (Baby Bonds) PAR \$25.00 <ul style="list-style-type: none">• HCXY (NYSE) 6.25% Notes due 2033• HCXZ (NYSE) 5.25% Notes due 2025 Convertible Notes <ul style="list-style-type: none">• 4.375% Notes due 2022 Securitization Notes <ul style="list-style-type: none">• 4.605% Asset-backed Notes due 2027• 4.703% Asset-backed Notes due 2028
Annualized Dividend Yield⁽¹⁾	8.9% as of December 31, 2020
Distributions Declared	\$0.32 per share for Q4 2020 \$0.05 per share supplemental for Q4 2020
Price to NAV	1.39x - February 19, 2021 ~1.1x to ~1.5x historical range

(1) Annualized based on the \$0.32 distribution declared for Q4 2020 and a closing stock price of \$14.42 as of December 31, 2020

Investment Specialties

WE ARE AT CENTER STAGE OF THE INNOVATION ECONOMY

HERCULES HAS DOMAIN EXPERTISE IN FIVE SPECIALIZED LENDING GROUPS
“WE ARE NOT GENERALISTS”



Technology



Life
Sciences



SaaS
Financing



Sustainable
and Renewable
Technology



Special
Situations

We Invest at the Expansion “Venture Growth” and Established Stage

\$11.1 billion in total debt commitments to over 520 companies since inception

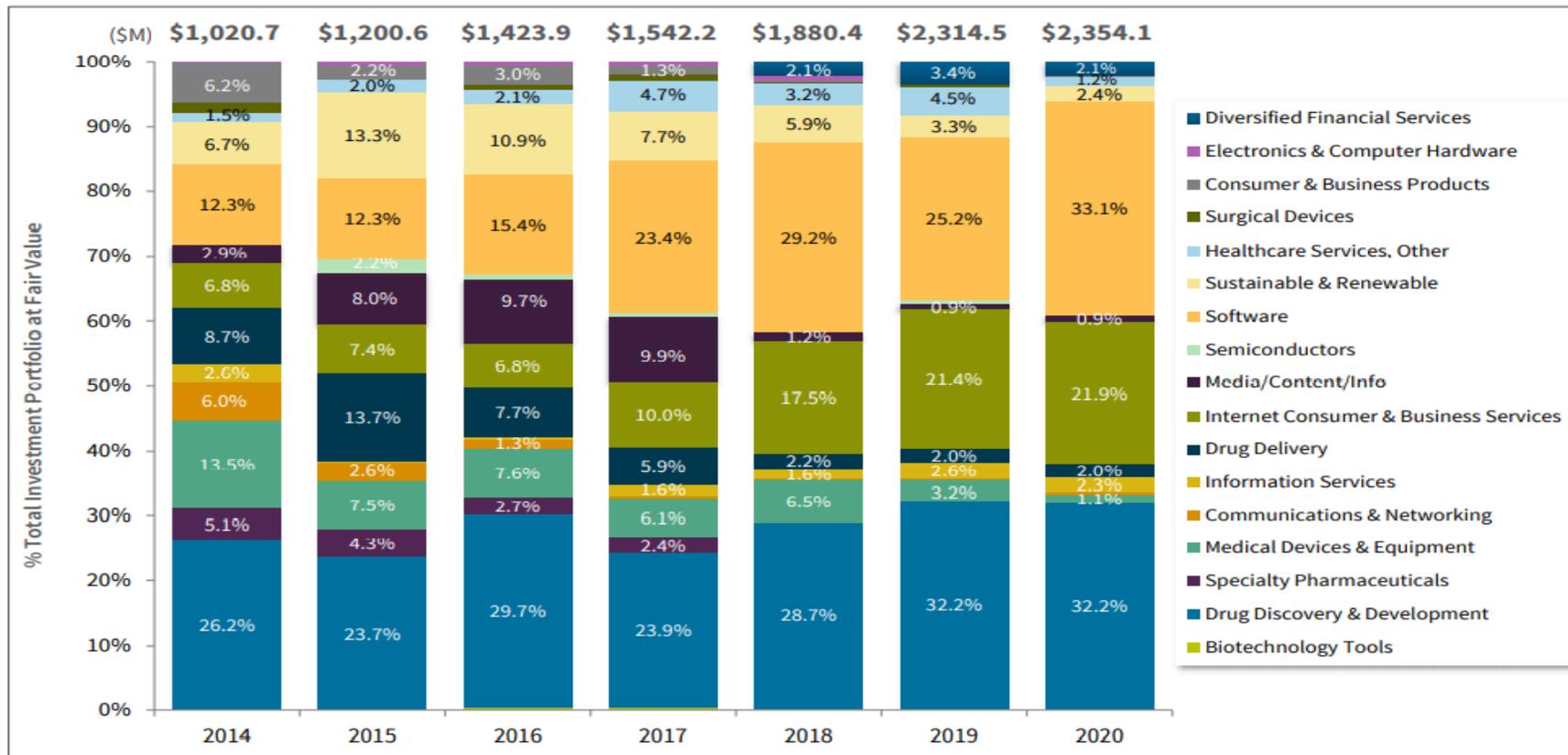
Offices in key venture capital markets: CA | MA | NY | DC | IL | CT

Over 1000 different VC & PE firms, financial investors

Over 190 portfolio companies completed/announced an IPO or M&A event since inception

Portfolio Rebalancing

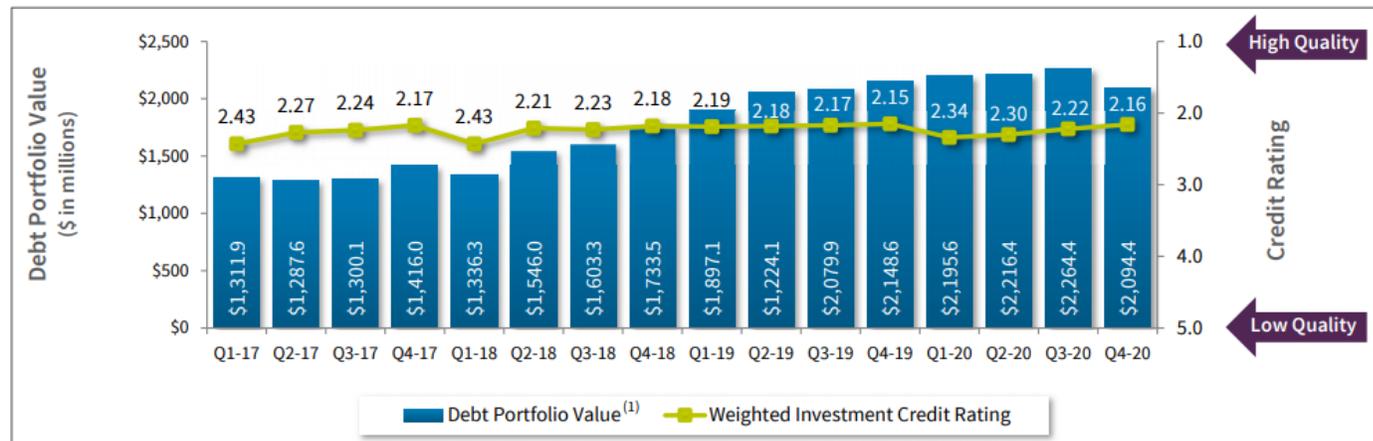
A BROADLY DIVERSIFIED PORTFOLIO RE-BALANCED ACCORDING TO OUR ASSESSMENT OF ONGOING MARKET CONDITIONS MITIGATES RISK



Portfolio Quality Improving

CONSISTENT AND DISCIPLINED UNDERWRITING STANDARDS

Disciplined credit underwriting standards deliver consistent long-term results



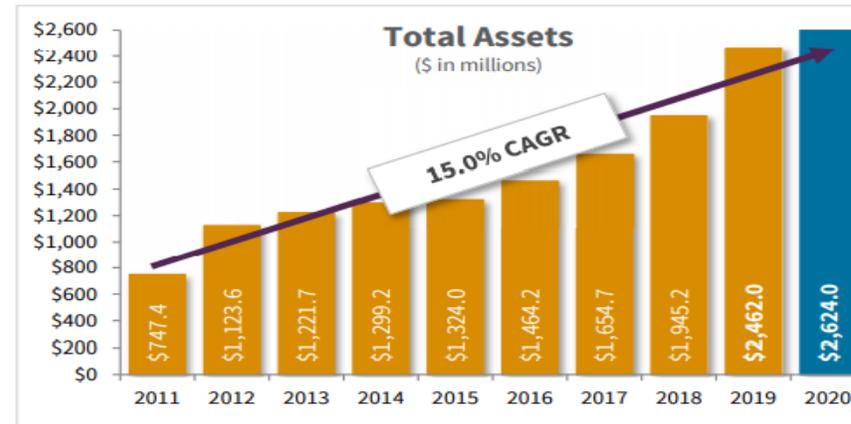
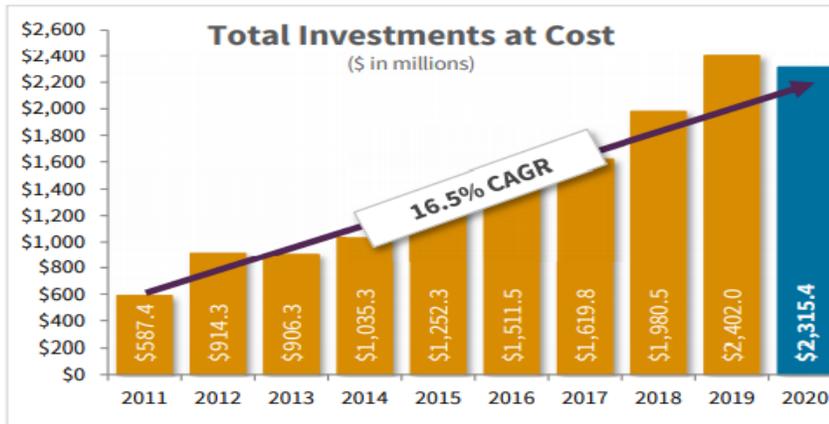
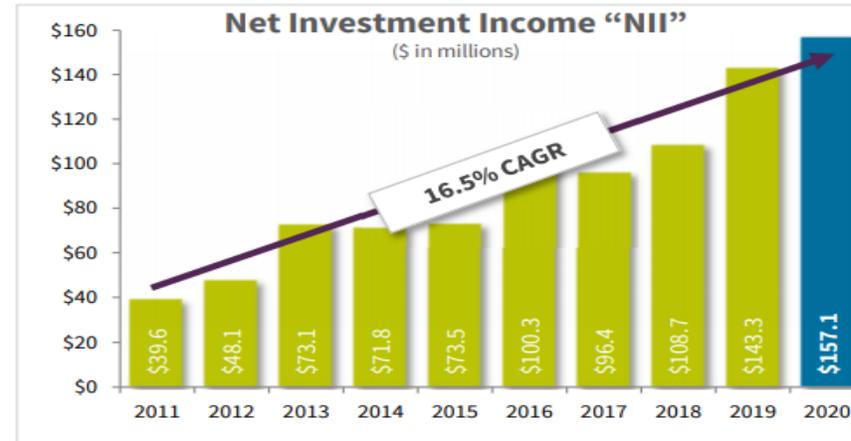
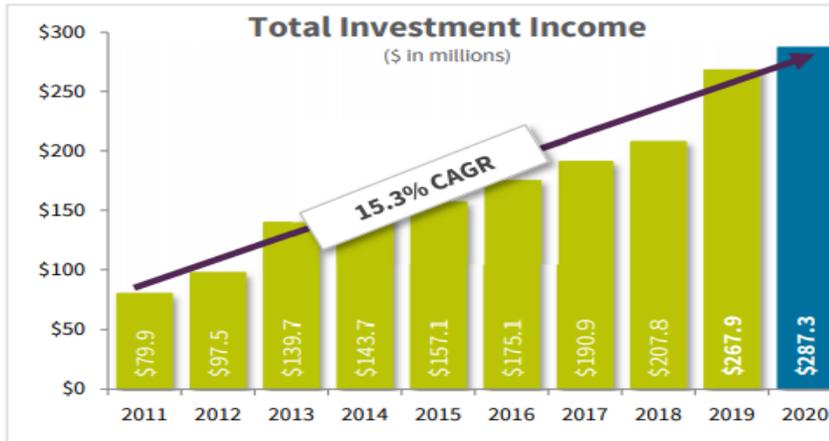
Credit Grading at Fair Value, Q4 2020 - Q4 2019 (\$ in millions)

	Q4 2020		Q3 2020		Q2 2020		Q1 2020		Q4 2019	
Grade 1 - High	\$ 411.0	19.6%	\$ 406.5	17.9%	\$ 443.6	20.1%	\$ 390.4	17.7%	\$ 387.3	18.0%
Grade 2	\$ 1,027.9	49.1%	\$ 1,053.1	46.5%	\$ 877.9	39.6%	\$ 818.1	37.3%	\$ 1,180.5	55.0%
Grade 3	\$ 621.3	29.7%	\$ 772.3	34.1%	\$ 849.7	38.3%	\$ 917.2	41.8%	\$ 509.9	23.7%
Grade 4	\$ 25.3	1.2%	\$ 26.7	1.2%	\$ 25.0	1.1%	\$ 54.3	2.5%	\$ 69.0	3.2%
Grade 5 - Low	\$ 8.9	0.4%	\$ 5.9	0.3%	\$ 20.1	0.9%	\$ 15.5	0.7%	\$ 1.8	0.1%
Weighted Avg.	2.16		2.22		2.30		2.34		2.15	

(1) Debt only; based on fair value

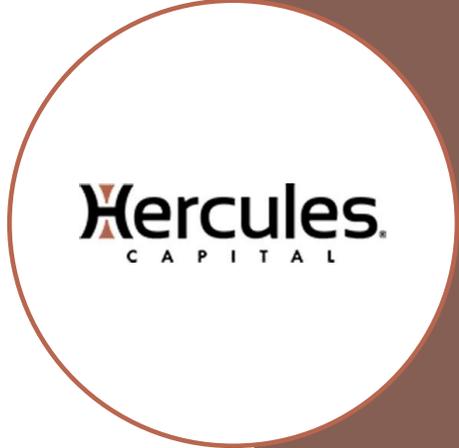
Portfolio Performance

HERCULES KEY PERFORMANCE HIGHLIGHTS



Ownership Stakes

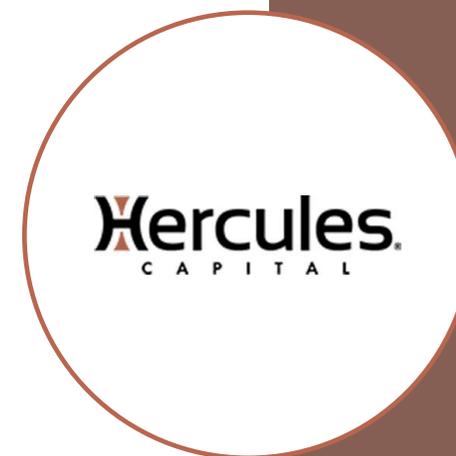
- Institutions own 31% of the stock
- Insiders own 2.8% = \$52M - that's a LOT!
- Large stakes:
 - T Rowe Price: \$72M
 - JP Morgan: \$21M
 - Van Eck: \$35M

The logo for Hercules Capital is centered within a white circle that has a thin brown border. The circle is positioned on the right side of the slide, overlapping a vertical brown bar that runs from the top to the bottom of the page. The logo itself consists of the word "Hercules" in a bold, black, sans-serif font, with a stylized red and black "H" at the beginning. Below "Hercules" is the word "CAPITAL" in a smaller, black, all-caps, sans-serif font.

Hercules
CAPITAL

Dividends by Calendar Quarter of Ex-Dividend Date

Year	Quarter	Announcement Date	Ex-Dividend Date	Record Date	Pay Date	Dividend Amount (\$)	Dividend Type
2021	Q1	02/22/2021	03/05/2021	03/08/2021	03/15/2021	0.32	Regular
	Q1	02/22/2021	03/05/2021	03/08/2021	03/15/2021	0.05	Special
2020	Q4	10/27/2020	11/06/2020	11/09/2020	11/16/2020	0.32	Regular
	Q4	10/27/2020	11/06/2020	11/09/2020	11/16/2020	0.02	Special
	Q3	07/29/2020	08/07/2020	08/10/2020	08/17/2020	0.32	Regular
	Q2	05/01/2020	05/13/2020	05/14/2020	05/21/2020	0.32	Regular
	Q1	02/19/2020	02/28/2020	03/02/2020	03/09/2020	0.08	Special
	Q1	02/19/2020	02/28/2020	03/02/2020	03/09/2020	0.32	Regular
2019	Q4	10/29/2019	11/07/2019	11/11/2019	11/18/2019	0.03	Special
	Q4	10/29/2019	11/07/2019	11/11/2019	11/18/2019	0.32	Regular
	Q3	08/01/2019	08/09/2019	08/12/2019	08/19/2019	0.32	Regular
	Q3	08/02/2019	08/09/2019	08/12/2019	08/19/2019	0.02	Special
	Q2	05/02/2019	05/10/2019	05/13/2019	05/20/2019	0.01	Special
	Q2	05/02/2019	05/10/2019	05/13/2019	05/20/2019	0.32	Regular
	Q1	02/21/2019	03/01/2019	03/04/2019	03/11/2019	0.31	Regular
2018	Q4	11/01/2018	11/08/2018	11/12/2018	11/19/2018	0.31	Regular



Source: Fidelity

1-Year Stock Performance

Hercules Capital, Inc. (HTGC)

NYSE - Nasdaq Real Time Price. Currency in USD

★ In watchlist

👤 Visitors trend 2W ↓ 10W ↑ 9M ↑

15.82 +0.19 (+1.22%)

At close: March 19 4:00PM EDT

[Summary](#)
[Company Outlook](#)
[Chart](#)
[Conversations](#)
[Statistics](#)
[Historical Data](#)
[Profile](#)
[Financials](#)
[Analysis](#)
[Options](#)

Previous Close	15.63	Market Cap	1.826B
Open	15.62	Beta (5Y Monthly)	1.54
Bid	15.60 x 1200	PE Ratio (TTM)	7.87
Ask	15.87 x 2200	EPS (TTM)	2.01
Day's Range	15.44 - 16.02	Earnings Date	May 03, 2021 - May 07, 2021
52 Week Range	6.27 - 16.64	Forward Dividend & Yield	1.28 (8.09%)
Volume	1,081,534	Ex-Dividend Date	Mar 05, 2021
Avg. Volume	711,754	1y Target Est	16.70

Fair Value ⓘ

XX.XX

74% Est. Return

[View details](#)

Undervalued



Related Research ⓘ

LTC: Raising target price to \$46.00

O: Raising target price to \$51.00

[View more](#)

1D 5D 1M 6M YTD 1Y 5Y Max 📈 Full screen



Chart Events ⓘ

Bearish pattern detected

Price Crosses Moving Average

[View all chart patterns](#)

Performance Outlook

Short Term 2W - 6W	Mid Term 6W - 9M	Long Term 9M+
↓	↓	↑

Source: Yahoo

Total Return vs S&P 500 Total Return

1M

6M

1Y

5Y

10Y

MAX



+ Add Comparison

● HTGC

148.12%

Total return

● SP500TR

110.59%

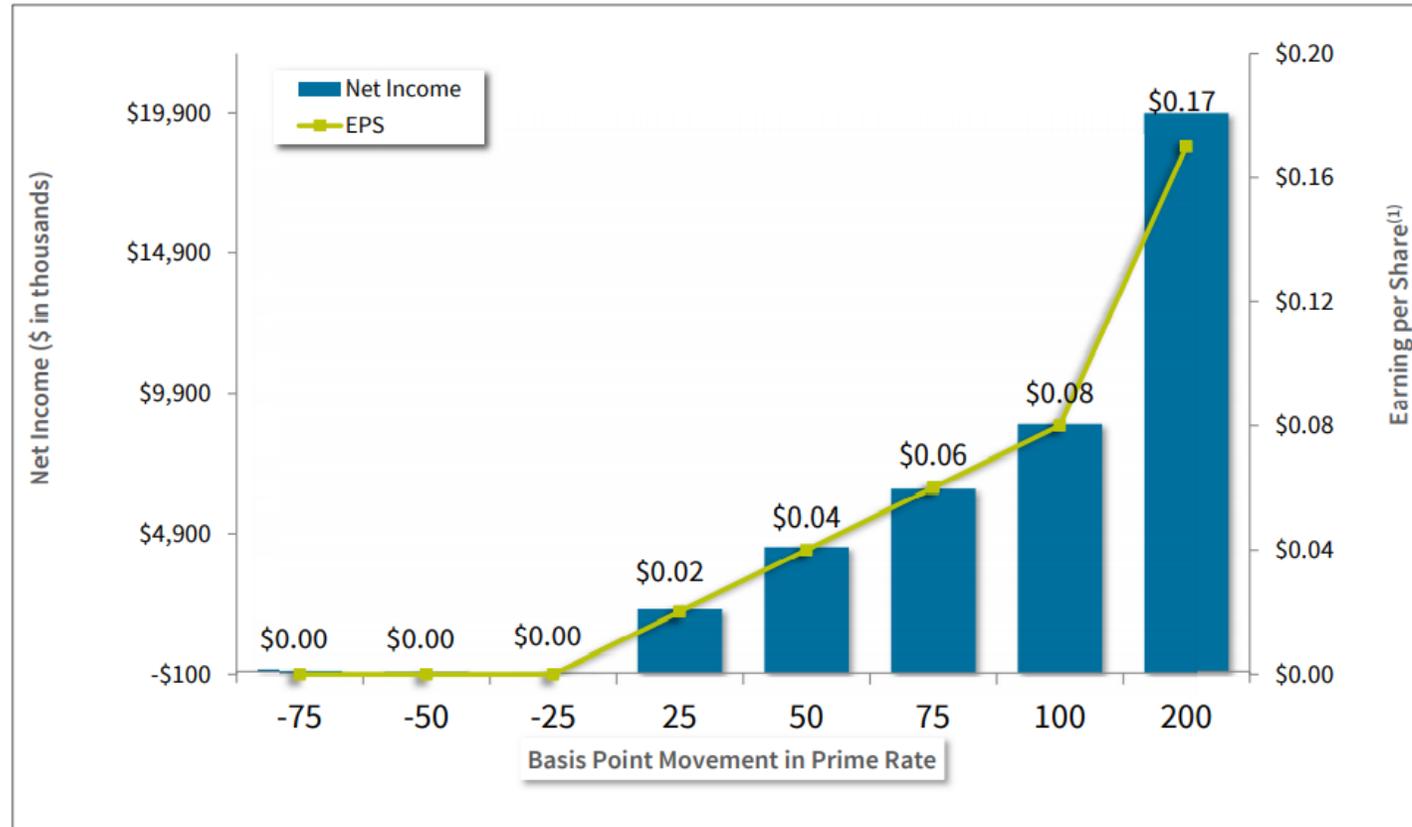
Total return



Source: Seeking Alpha

Interest Rate Sensitivity

INTEREST RATES & ASSET SENSITIVITY



(1) EPS calculated on basic weighted shares outstanding of 113.9 million and a static debt investment portfolio as of December 31, 2020. Estimates are also subject to change due to impact from potential participation in the Company's equity ATM program and future equity offerings.

Conclusion
Get your DRIP on!

What are BDCs ?

- Provide loans to small and middle market companies
- Are regulated by the SEC
- Required to distribute 90% of earnings as dividends
- Pay no Federal taxes

Who invests in BDC's?

- Long term investors looking for dividends, willing to accept a higher level of volatility and risk in exchange for higher yield

How to assess BDC investment opportunity?

- Portfolio quality and dividend sustainability are most important
- MUST include DRIP for maximum benefit

Is this a good time to invest in BDCs?

- ✓ Portfolio quality and yields are rising
- ✓ Tracking the bond market
- ✓ Averaging 10.7% annual dividends, paid quarterly or monthly
- ✓ BDCs benefit from rising interest rates, happening now

Sources

Seeking Alpha Blogs

- BDC Buzz <https://seekingalpha.com/article/4411773-how-i-built-tax-free-portfolio-15-annualized-returns>
- Scott Kennedy
- Colorado Wealth Management
- High Yield Investor

Fidelity

Morningstar

Simply Safe Dividends

BDCInvestor.com