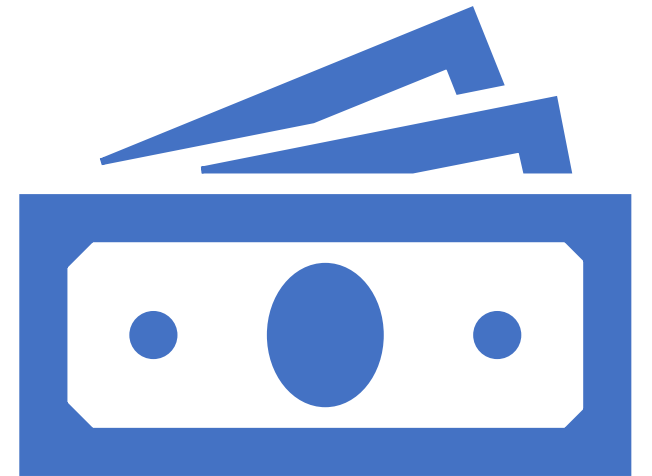


Business Development Companies (BDC) and Real Estate Investment Trusts (REIT)

OLLI Investment Forum

David Toms

June 25, 2024



Agenda

- What is a Business Development Company (BDC)?
 - How to evaluate a BDC
 - What to expect
 - Deep dive into Hercules Capital (HTGC) and Capital Southwest (CSWC)
- What is a Real Estate Investment Trust (REIT)?
 - How to evaluate
 - What to expect
 - Deep dive into Realty Income (O) and Digital Realty Trust (DLR)

Disclaimer: I am not a professional financial advisor, therefore not responsible for any decisions you might make. Do your own due diligence, and make your own decisions

Let's begin

- BDCs and REITs exhibit behaviors of both stocks and bonds
- BDC assets are loans to small and medium businesses
- REIT assets are real estate properties OR mortgages
- Both BDCs and REITs are required to distribute 90% of earnings as dividends
 - Eliminates double taxation
 - BDC dividends are variable: Base plus Supplemental
- Internally managed BDCs and REITs are superior to externally owned
- Capital rotation is beginning
 - Moving away from BDCs and into REITs
 - Anticipating Fed interest rate cuts
 - BDCs do better in rising interest rate environments
 - REITs do better with declining rates

What is a BDC?

Wikipedia Definition:

- Established by Congress with the Investment Company Act of 1980; Amended in March 2018
- **A company that makes loans to small and mid-size businesses, and may also take equity positions, offer management services and others**
- Companies use loans to finance expansion, acquisition, LBO, etc
- 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 primary assets are loans to small and medium size companies
- **Private Equity or Venture Capital for retail investors**
- Most BDCs are publicly traded – some are not

Primary reason for investing:

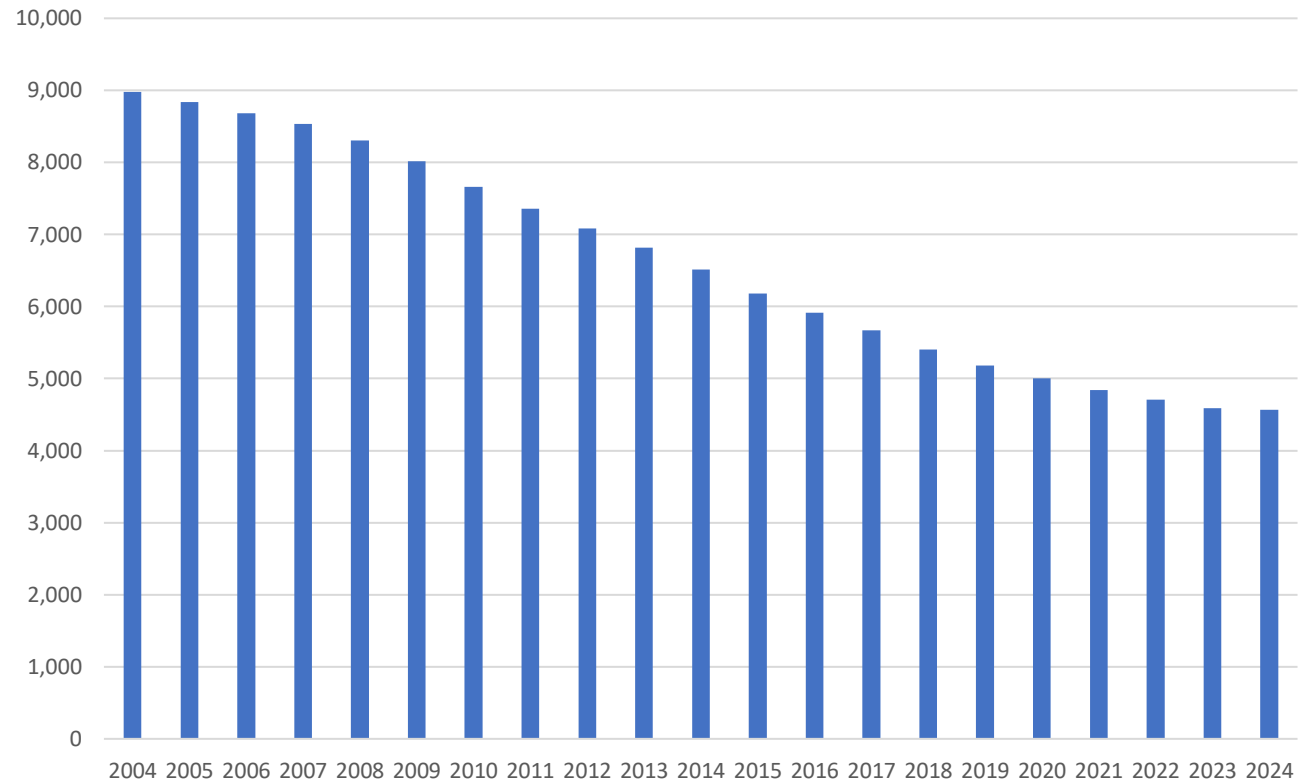
- Long term, alternative investment, high dividends with diversification
- Can result in good returns in a buy and hold portfolio, with a Dividend Reinvestment Program (DRIP)
- **Investing is primarily for dividends, but capital gains can accrue if purchased at low points**
- **Behave bond-like, except dividends are variable and there's no end date**
- Most BDCs issue a fixed dividend with a variable supplemental dividend
- Most pay quarterly, a few monthly

BDCs are filling a gap

Large Commercial Banks Are Biased Against Small/Medium Companies

Plus: Regional Banks are failing

FDIC Chartered Banks



• Source: FDIC

Types of BDCs

Market Specialized or Diversified

- Specialized BDCs might invest defensively - Health care or Technology
- 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
- Warrants
- Own real estate property and collect rent
- Management services
- Board seats

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
- Baby Bonds
- Hedges



BDCs borrow at fixed rates;
Lend out at floating rates
Rising interest rates are good for BDCs! Usually.

Price to NAV: Guide To Quality

✓	#1	<u>HTGC</u>	1.70x
✓	#2	<u>MAIN</u>	1.68x
✓	#3	<u>CSWC</u>	1.54x
	#4	<u>OXSQ</u>	1.29x
	#5	<u>TSLX</u>	1.28x
	#6	<u>HRZN</u>	1.22x
✓	#7	<u>BXSL</u>	1.17x
	#8	<u>TRIN</u>	1.16x
	#9	<u>GLAD</u>	1.13x
	#10	<u>MSDL</u>	1.12x

BDC Market Landscape

There are approximately 60 BDCs registered with the SEC

New BDCs: Blackstone, Carlyle, Bain

Checked BDCs are ones that I own

How to Evaluate a BDC

- Is the BDC externally managed? Or internally?
 - External: A company owns the BDC
- Is the stock selling at a premium to NAV?
 - Is Net Asset Value increasing?
- What is the Net Investment Income (NII) record?
- What types of businesses do they loan to?
Diversified or not?
- What is the quality of the loan portfolio?
 - Quarterly reports to investors
 - Read SEC reports for quality assessments
 - Default ratio < 1% is good
- Is the dividend sustainable?
 - What is the dividend history?

How to Evaluate a BDC, cont'd

- S&P Investment grade rating? BBB or better
- What are the qualifications of the managers?
- Analyst opinions?
- Short interest?
- Do they have a Small Business Administration guarantee / license?
- Check SEC 10Q/10K quarterly reports – very insightful
 - Quarterly transcripts of shareholder meetings
- Read the Blogs on Seeking Alpha
 - Scott Kennedy, BDC Buzz, High Yield Investor (HYI), Brad Thomas
- Simply Safe Dividends provides excellent, in-depth analyses

Deep Dive: Hercules Capital (HTGC)

Hercules Capital, Inc. (HTGC)

NYSE - NYSE Delayed Price. Currency in USD

★ Following

👥 Visitors trend 2W ↓ 10W ↑ 9M ↑

19.82 +0.02 (+0.10%) **19.88** +0.06 (+0.30%)

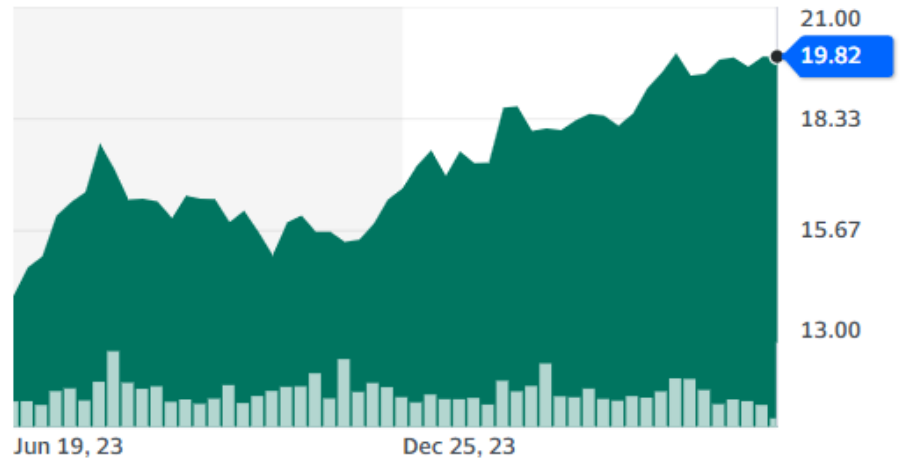
At close: June 21 04:00PM EDT

After hours: Jun 21, 06:57PM EDT

Summary Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holders Sustainabil

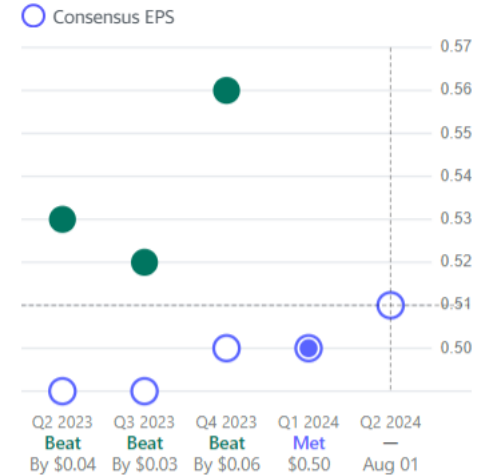
Previous Close	19.80	Market Cap	3.214B
Open	19.84	Beta (5Y Monthly)	1.32
Bid	19.75 x 1800	PE Ratio (TTM)	9.01
Ask	19.89 x 1300	EPS (TTM)	2.20
Day's Range	19.71 - 19.85	Earnings Date	Aug 01, 2024 - Aug 05, 2024
52 Week Range	14.11 - 20.01	Forward Dividend & Yield	1.92 (9.69%)
Volume	811,141	Ex-Dividend Date	May 13, 2024
Avg. Volume	870,853	1y Target Est	19.75

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



Trade prices are not sourced from all markets

Earnings >



Financials >



Hercules Stock Price Performance

Average total return, 2019-2023: 22% per year

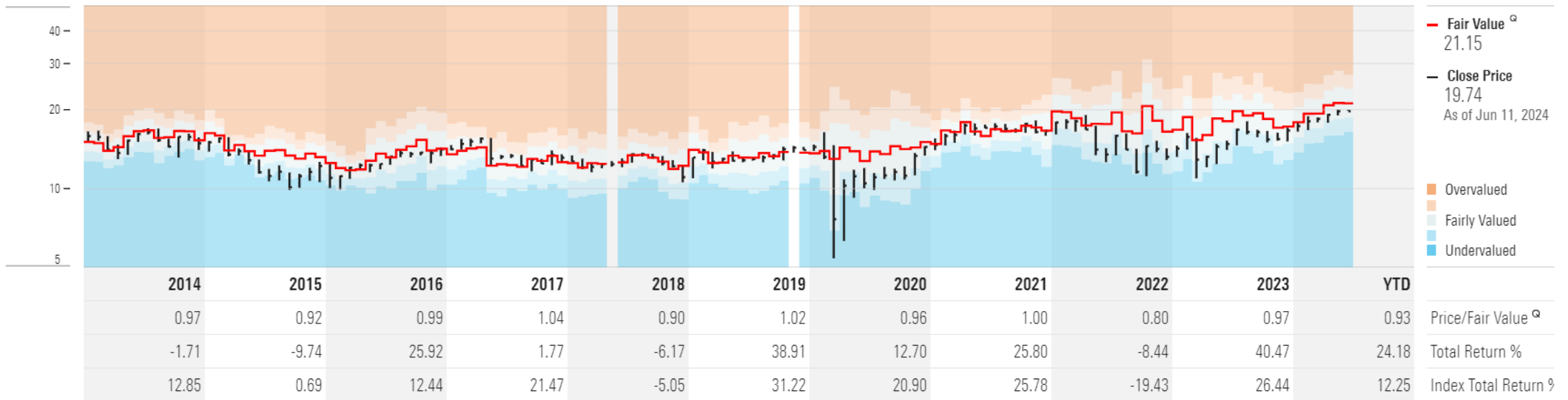


Hercules Capital Inc HTGC ★★★★★^Q

Summary Analysis Price vs. Fair Value Sustainability Trailing Returns Key Metrics Financials Valuation Dividends Ownership Executive Profile

Price vs. Fair Value ⓘ

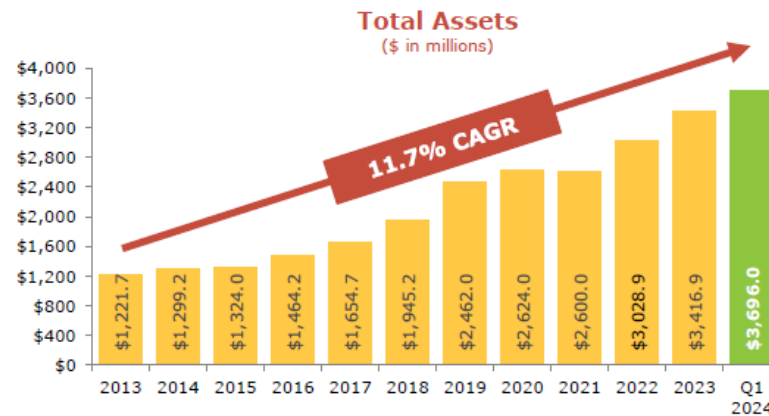
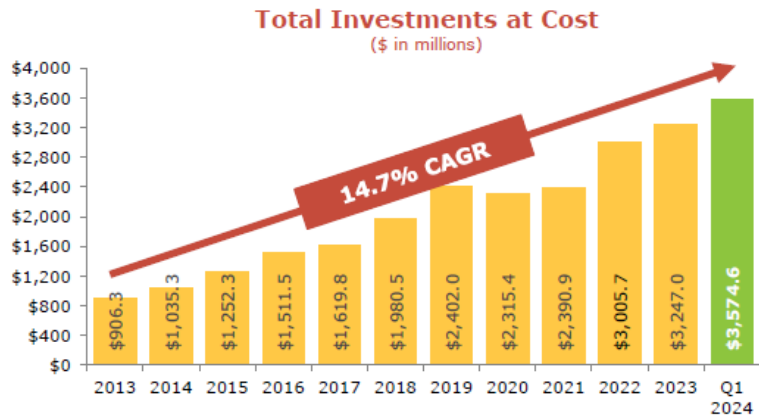
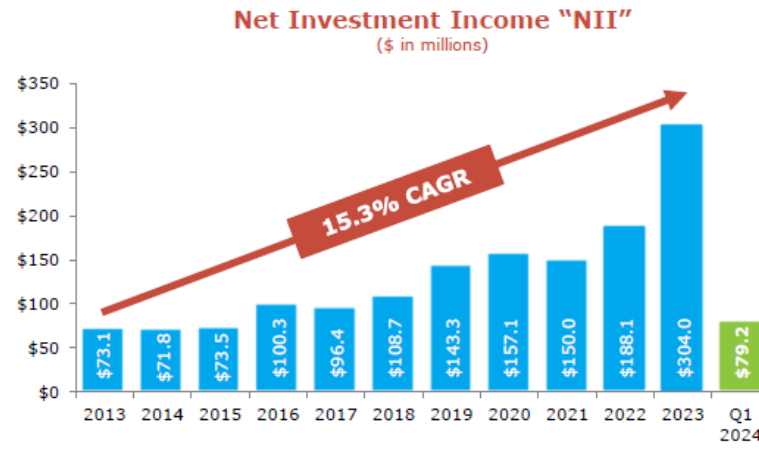
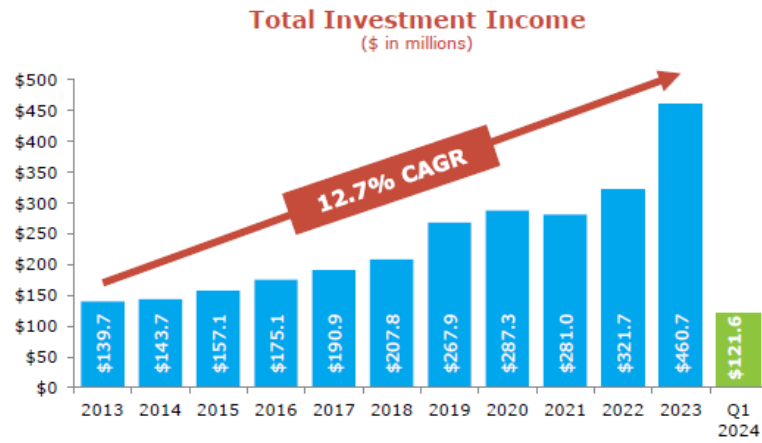
Advanced Basic **Logarithmic** Linear



USD | As of Jun 11, 2024 | Index: Morningstar US Market TR USD

Deep Dive: Hercules Capital (HTGC)

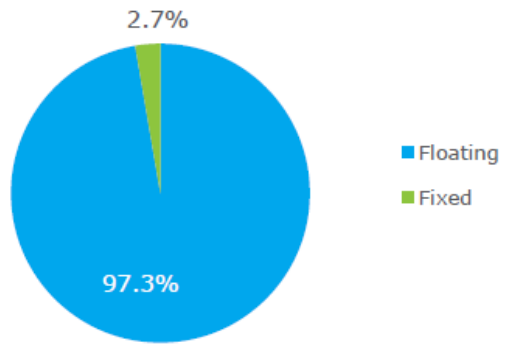
Hercules Key Performance Highlights



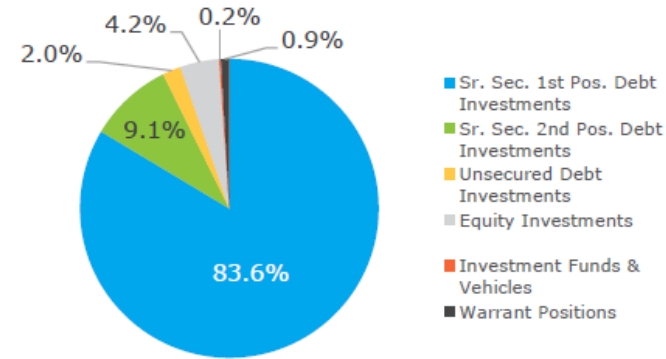
Source: 2024 Q1 Quarterly Report
Dated May 2, 2024

Hercules' Investment Portfolio, Q1, 2024

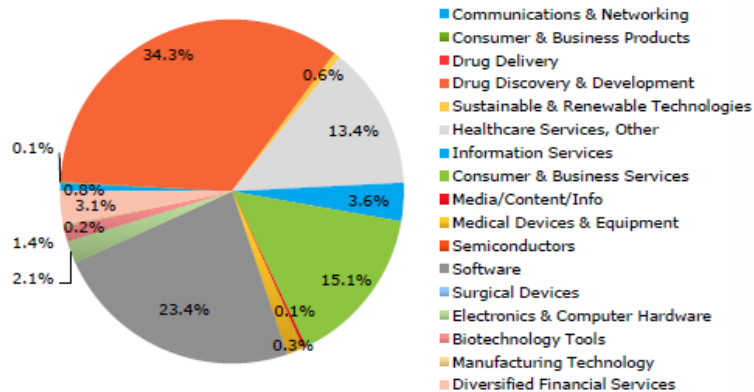
Floating vs. Fixed Rate



Investment Type Breakout

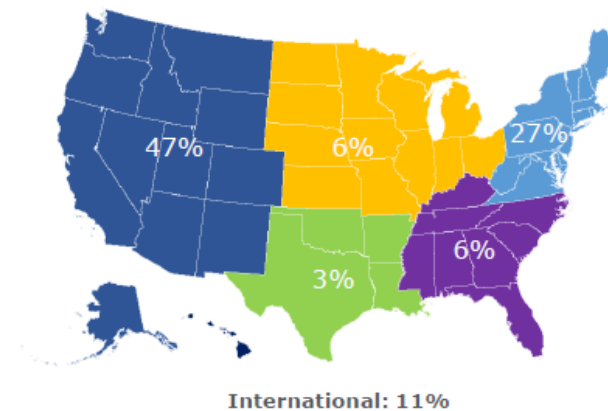


Industry Breakout



Percentage of Portfolio Companies by Region

(Portfolio Companies as of December 31, 2023)



Source: 2024 Q1 Quarterly Report Dated May 2, 2024

Hercules Dividends

Morningstar Investing Center

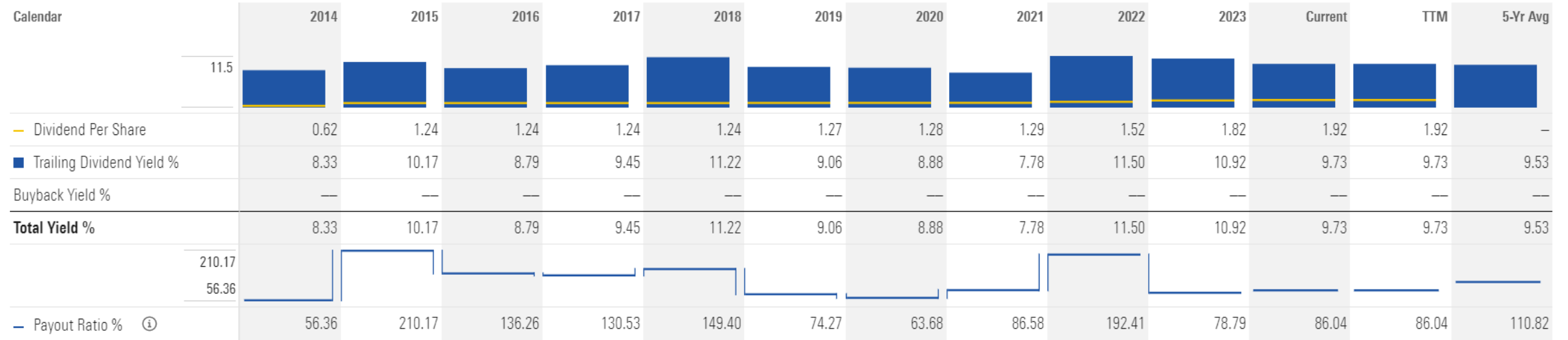
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Hercules Capital Inc HTGC ★★☆☆^Q

Summary Analysis Price vs. Fair Value Sustainability Trailing Returns Key Metrics Financials Valuation Dividends Ownership Executive Profile

Dividends & Splits

Dividends Splits



Ex-Dividend Date	Declaration Date	Record Date	Payable Date	Dividend Type	Amount
▼ 2024					
May 13, 2024	Apr 30, 2024	May 14, 2024	May 21, 2024	Cash Dividend	0.4800



Deep Dive: Capital Southwest (CSWC)

Capital Southwest Corporation (CSWC)

NasdaqGS - NasdaqGS Real Time Price. Currency in USD

★ Following

👤 Visitors trend 2W ↑ 10W ↑ 9M ↑

24.97 -0.31 (-1.23%) **25.28** +0.31 (+1.24%)

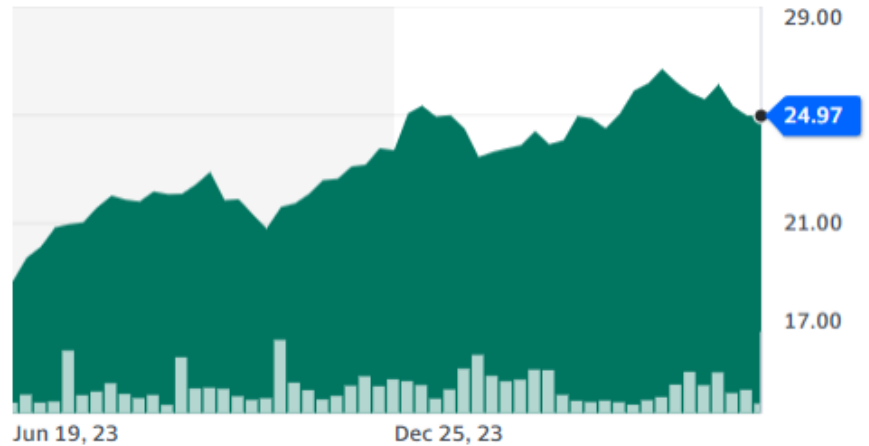
At close: June 21 04:00PM EDT

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Summary Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holders Sustainability

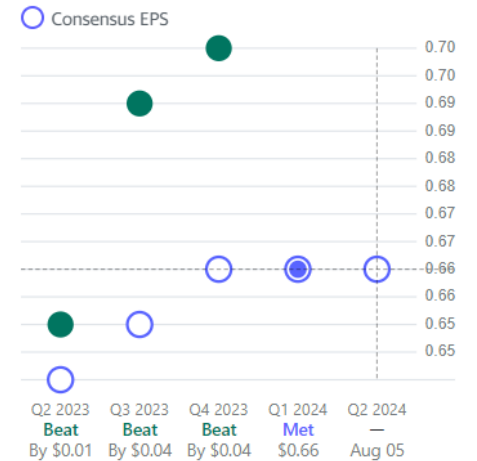
Previous Close	25.28	Market Cap	1.145B
Open	25.23	Beta (5Y Monthly)	1.25
Bid	24.94 x 100	PE Ratio (TTM)	12.18
Ask	24.98 x 100	EPS (TTM)	2.05
Day's Range	24.74 - 25.23	Earnings Date	Aug 05, 2024 - Aug 09, 2024
52 Week Range	18.90 - 27.22	Forward Dividend & Yield	2.52 (10.10%)
Volume	835,852	Ex-Dividend Date	Jun 14, 2024
Avg. Volume	288,962	1y Target Est	25.64

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



Trade prices are not sourced from all markets

Earnings >



Financials >



Capital Southwest (CSWC)

Morningstar Investing Center

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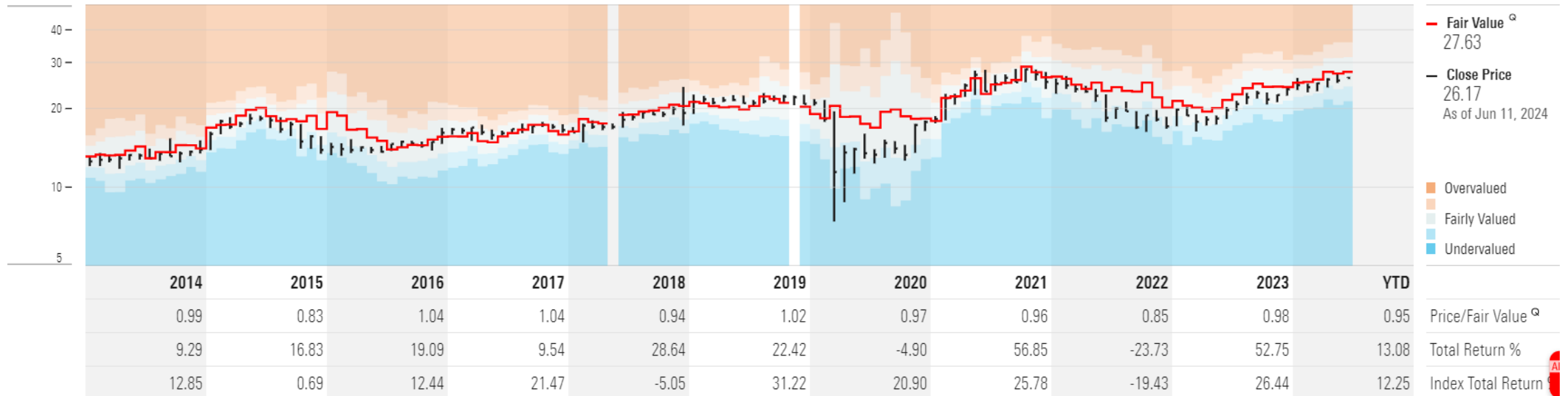
Capital Southwest Corp CSWC ★★★^Q

Summary Analysis Price vs. Fair Value Sustainability Trailing Returns Key Metrics Financials Valuation Dividends Ownership Executive Profile

[Click here for more on how to use these ratings.](#)

Price vs. Fair Value ⓘ

Advanced Basic **Logarithmic** Linear



USD | As of Jun 11, 2024 | Index: Morningstar US Market TR USD

Capital Southwest Dividends

Morningstar Investing Center

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Capital Southwest Corp CSWC ★★★^Q

Summary Analysis Price vs. Fair Value Sustainability Trailing Returns Key Metrics Financials Valuation Dividends Ownership Executive Profile

Dividends & Splits

Dividends Splits



Calendar	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Current	TTM	5-Yr Avg
Dividend Per Share	0.20	0.10	0.38	0.88	1.27	1.57	1.64	1.76	2.03	2.42	2.52	2.52	-
Trailing Dividend Yield %	0.53	0.72	2.35	5.32	6.61	7.54	9.24	6.96	11.87	10.21	9.44	9.44	8.75
Buyback Yield %	-	-	-	-	0.18	-	-	-	-	-	-	-	-
Total Yield %	0.53	0.72	2.35	5.32	6.79	7.54	9.24	6.96	11.87	10.21	9.44	9.44	8.75
Payout Ratio %	-	6.58	27.21	46.72	55.48	207.03	207.59	115.79	148.18	103.42	120.49	120.49	124.86

Ex-Dividend Date	Declaration Date	Record Date	Payable Date	Dividend Type	Amount
Upcoming Dividends					
Jun 14, 2024 *	May 14, 2024	Jun 14, 2024 *	Jun 28, 2024 *	Cash Dividend	0.6300



Capital Southwest (CSWC)

CSWC Company Overview

CSWC is a middle-market lending firm focused on supporting the acquisition and growth of middle-market companies across the capital structure

- CSWC was formed in 1961, and elected to be regulated as a BDC in 1988
- Publicly-traded on Nasdaq: Common Stock ("CSWC") and 7.75% Notes due 2028 ("CSWCZ")
- Internally Managed BDC with RIC tax treatment for U.S. federal income tax purposes
- 27 employees based in Dallas, Texas
- Total Balance Sheet Assets of \$1.6 B as of March 31, 2024
- Operate Capital Southwest SBIC I, LP, a wholly-owned subsidiary
- Maintain investment grade issuer ratings of Baa3 from Moody's and BBB- from Fitch

Source:
CSWC Quarterly
Report

Investment Strategy

Lower Middle Market Credit Strategy

CSWC leads financing transactions, primarily backing private equity firms that generally fit the following parameters

- Flexible financing solutions to fund growth, changes of control, or other corporate events
- Investments are diverse among industries, geographic regions, and end markets
- Companies with EBITDA between \$3 MM and \$25 MM
- Typical leverage of 2.5x – 4.5x Debt to EBITDA through CSWC debt position and Loan-to-Value of 25% - 50%
- Commitment size up to \$50 MM with hold sizes generally \$5 MM to \$35 MM
- Both sponsored and non-sponsored deals
- Floating rate first lien debt securities
- Frequently make equity co-investments alongside CSWC debt

Source:
CSWC Quarterly
Report

New Business

Q4 2024 Originations

\$157.5 MM in total new committed investments to six new portfolio companies at five existing portfolio companies

- \$130.6 MM funded at close

Portfolio Originations		Q4 2024				
Name	Industry	Type	Total Debt Funded at Close (\$000s)	Total Equity Funded at Close (\$000s)	Unfunded Commitments at Close (\$000s)	Debt Yield to Maturity
Revo Brands, Inc.	Consumer Products & Retail	First Lien	\$33,500	\$—	\$7,000	13.2%
Tru Fragrance & Beauty LLC	Consumer Products & Retail	First Lien / Equity	\$30,603	\$1,000	\$3,900	12.0%
TMT BHC Buyer, Inc.	Consumer Services	First Lien / Equity	\$10,000	\$500	\$10,000	11.7%
Winter Services Operations, LLC	Business Services	First Lien	\$13,333	\$—	\$2,222	13.7%
BP Loenbro Holdings Inc.	Industrial Services	First Lien	\$9,798	\$—	\$2,202	12.0%
Island Pump and Tank, LLC	Environmental Services	First Lien / Equity	\$11,000	\$16	\$—	12.7%
One Group, LLC	Restaurants	First Lien	\$9,972	\$—	\$545	12.7%
Command Group Acquisition, LLC	Healthcare Products	First Lien / Equity	\$6,000	\$1,250	\$—	13.7%
Guardian Fleet Services, Inc. ⁽¹⁾	Transportation & Logistics	First Lien / Equity	\$2,500	\$—	\$—	13.0%
Zenfolio Inc.	Business Services	First Lien	\$1,000	\$—	\$1,000	14.7%
Damotech Inc.	Industrial Products	Equity	\$—	\$127	\$—	N/A
Total / Wtd. Avg			\$127,706	\$2,893	\$26,869	12.7%

(1) CSWC received new warrants as part of the add-on transaction

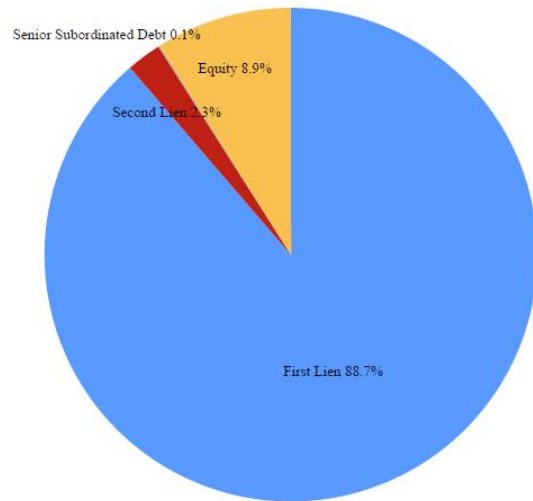
Source:
CSWC Quarterly
Report

Portfolio Diversification

CSWC Portfolio Mix as of March 31, 2024 at Fair Value

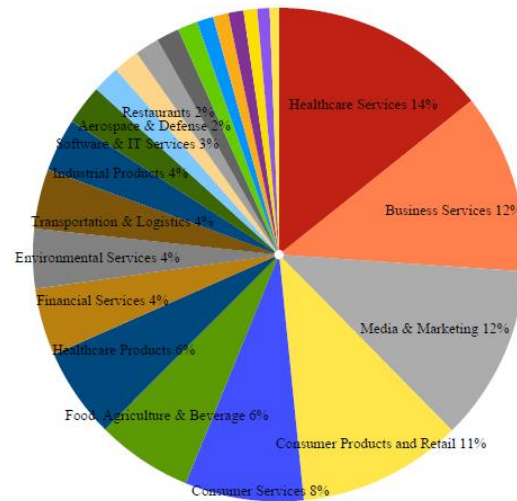
Current Investment Portfolio of \$1.5 B continues to be heavily weighted towards first lien investments and diverse across industries

Current Investment Portfolio (By Type)

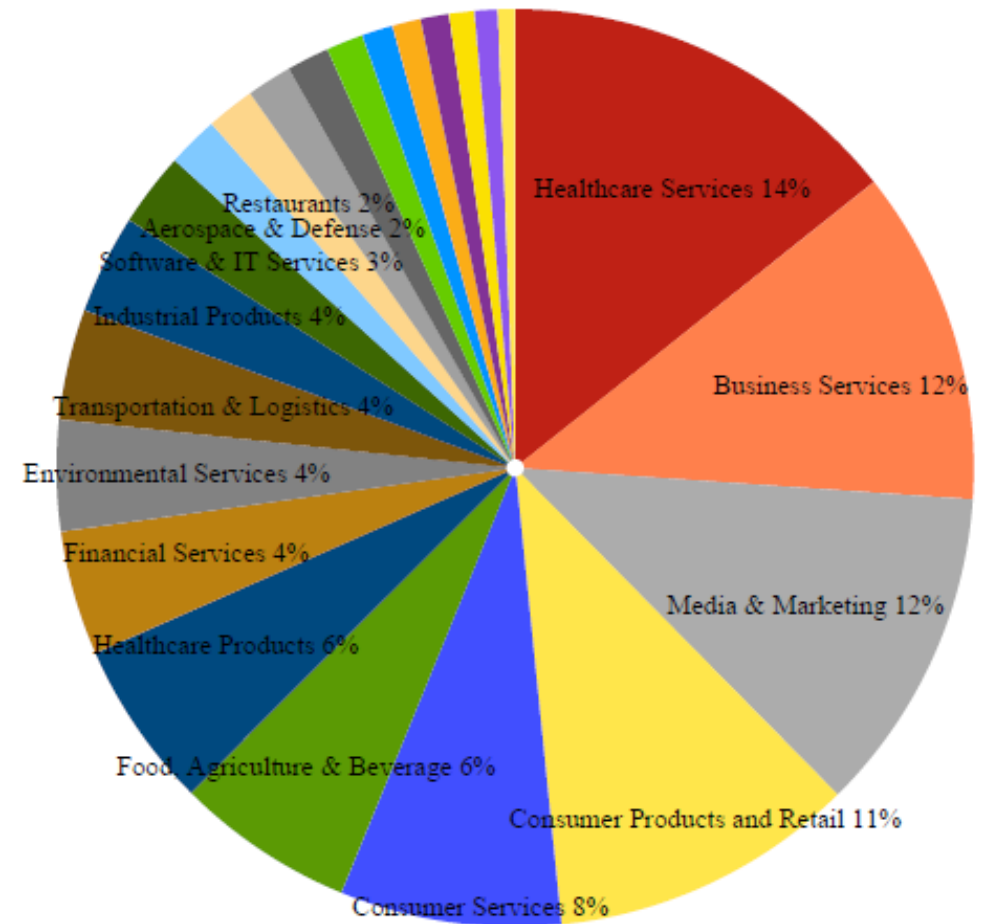


Note: Equity represents equity co-investments across 65 portfolio companies

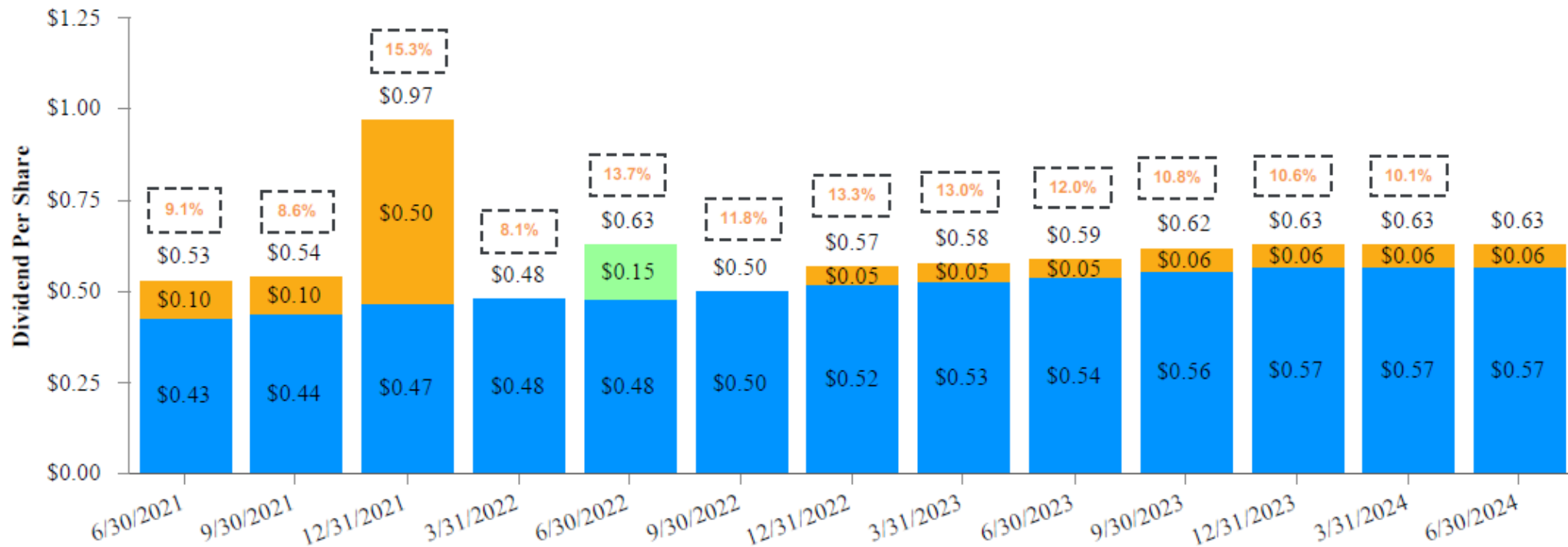
Current Investment Portfolio (By Industry)



Current Investment Portfolio (By Industry)



Consistent and Increasing Dividends



Source:

CSWC Quarterly
Report

Blue: base dividend Gold: supplemental dividend
Green: special div

BDC Summary

- BDCs loan to small and medium sized businesses, plus other investments such as equity, warrants, etc
- They are filling a gap in the lending economy
- BDCs behave like bonds and stocks simultaneously
- High yields are available
- Internally managed BDCs are superior
- Net asset value and Net Investment Income are keys to value
- BDCs stock prices are fairly valued right now
 - Capital rotation in progress
 - From ChatGPT: “ In 2024, there has been a notable rotation out of publicly traded Business Development Companies (BDCs) and into Real Estate Investment Trusts (REITs). This shift is largely due to the stabilizing interest rate environment and the attractive valuations of REITs following a challenging period for the sector.”

What Is A Real Estate Investment Trust?

- A company that owns and receives rent from real estate properties or their mortgages
- Created in 1960 and regulated by the SEC in the US
- **REITs pay no taxes as long as they distribute 90% of earnings as dividends; eliminates double taxation**
- Many are private or non-traded (900). Some (225) are traded on US public exchanges.
- Presently, publicly traded REITs are undervalued owing to high FED interest rates
- Two major types of REITs:
 - Equity REITs own the properties and receive rent
 - Mortgage REITs own the paper for properties and receive mortgage payments
- Many different types of properties are held by REITs:
 - Offices,
 - Apartment buildings,
 - Warehouses,
 - Retail centers,
 - Medical facilities,
 - Data centers,
 - Telecommunications towers,
 - Infrastructure and hotels
 - Timber
 - Casinos

How To Evaluate A Real Estate Investment Trust

- **Qualitative Factors:**

- **Property Type and Market:** The type of property (residential, commercial, healthcare, etc.) and the specific market where the properties are located influence factors like vacancy rates, rental income growth potential, and overall risk.
- **Management Experience:** A REIT's management team's experience and track record in property selection, acquisitions, and tenant relations are crucial for its success.
- **Geographic Diversity:** REITs with a diversified portfolios across geographic regions tend to be less risky.

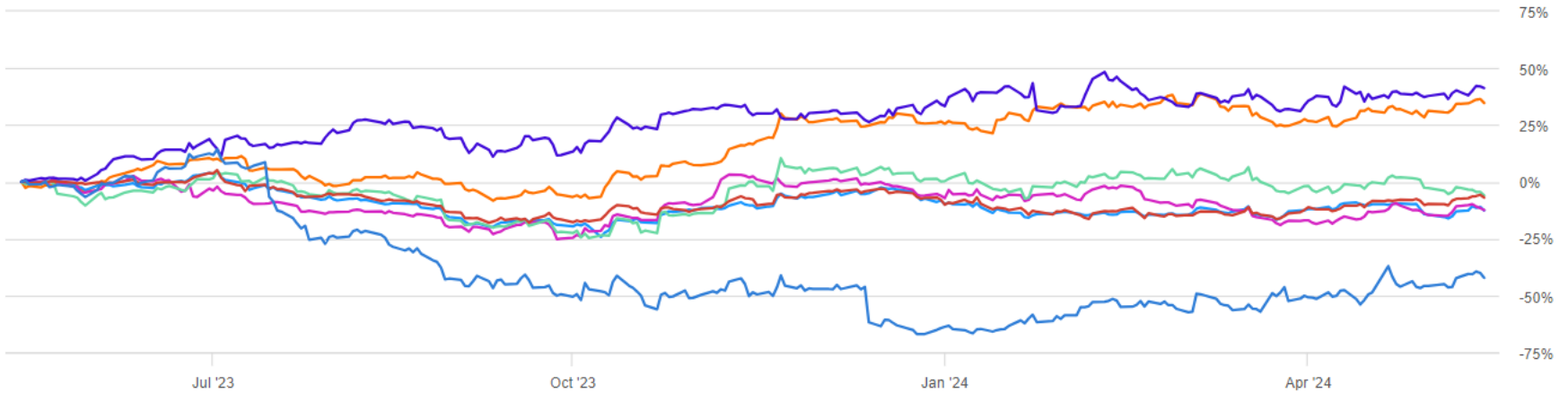
- **Financial Metrics:**

- **Funds from Operations (FFO) and Adjusted Funds from Operations (AFFO):** These are the primary metrics used to assess a REIT's profitability because traditional earnings metrics like EPS (earnings per share) don't accurately reflect cash flow for REITs.
- **Price-to-FFO (P/FFO or AFFO) Ratio:** This ratio compares the REIT's stock price to its FFO per share. A lower P/FFO ratio suggests the REIT might be undervalued compared to its peers.
- **Dividend Yield:** REITs are required to distribute at least 90% of their taxable income as dividends.
- **Debt-to-EBITDA Ratio:** This metric measures a REIT's financial leverage by comparing its total debt to its earnings before interest, taxes, depreciation, and amortization.
- **Cap Rate:** This metric shows the rate of return on a property investment. Typically 7%.
- **Payout Ratio:** What is paid out in dividends vs. what's earned.
- **Occupancy Rates:** Should be about 98%

Compare 7 REIT Share Prices

Build a data-driven portfolio for capital appreciation. [Start now »](#)

SPG Price Return	34.69%	O Price Return	-12.59%	CCI Price Return	-12.44%	ARE Price Return	-5.99%	ADC Price Return	-6.93%	DLR Price Return	41.24%	MPW Price Return
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YoY Performance:

(O) Realty Income
Down 9%

(DLR) Digital Realty
Up 46%

(MPW) Medical
Properties Trust
Down 42%

Ratings

	SPG	O	CCI	ARE	ADC	DLR	MPW
Quant Rating	HOLD	STRONG BUY	SELL	BUY	BUY	HOLD	SELL
SA Analysts Rating	HOLD	BUY	BUY	BUY	BUY	HOLD	HOLD
Wall St. Analysts Rating	BUY	BUY	HOLD	STRONG BUY	BUY	BUY	HOLD

Source: Seeking Alpha

Deep Dive: Realty Income Trust (O)

Realty Income Corporation (O)

NYSE - NYSE Delayed Price. Currency in USD

☆ Follow

Visitors trend 2W ↑ 10W ↑ 9M ↑

53.15 +0.14 (+0.26%) **53.20** +0.05 (+0.09%)

At close: June 21 04:00PM EDT

After hours: Jun 21, 07:59PM EDT

Dividend O announced a cash dividend of 0.263 with an ex-date of Jul. 1, 2024

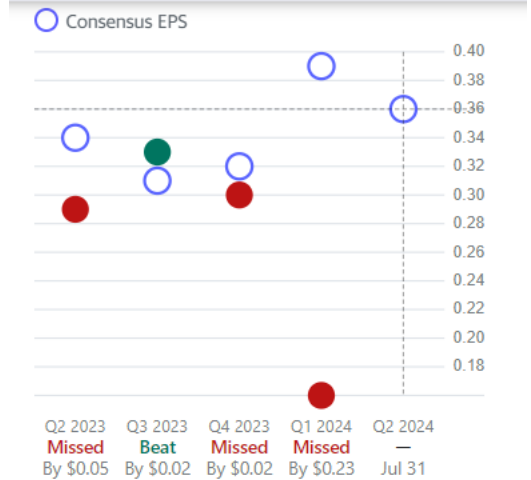
Summary Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holders Sustainability

Previous Close	53.01	Market Cap	46.282B
Open	53.01	Beta (5Y Monthly)	0.95
Bid	53.13 x 800	PE Ratio (TTM)	49.21
Ask	53.20 x 1200	EPS (TTM)	1.08
Day's Range	52.78 - 53.22	Earnings Date	Jul 31, 2024 - Aug 05, 2024
52 Week Range	45.04 - 64.18	Forward Dividend & Yield	3.16 (5.94%)
Volume	16,190,509	Ex-Dividend Date	Jul 01, 2024
Avg. Volume	5,635,004	1y Target Est	60.04

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

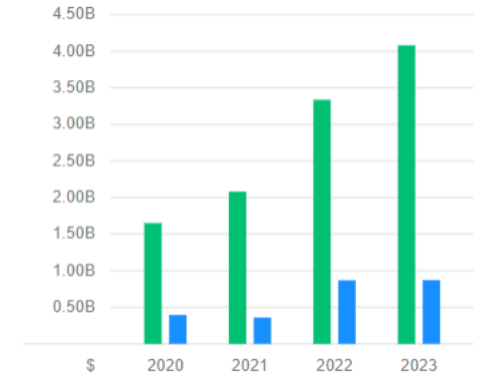


Trade prices are not sourced from all markets



Financials >

Annual Quarterly Revenue Earnings



Realty Income Stock Prices

Morningstar Investing Center

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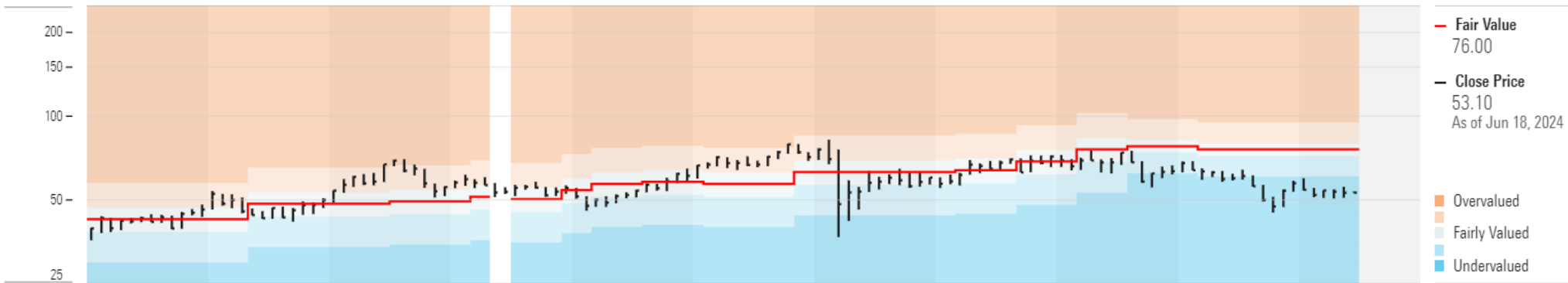
Realty Income Corp 0 ★★★★★

Summary Analysis Price vs. Fair Value Sustainability Trailing Returns Key Metrics Financials Valuation Dividends Ownership Executive Profile

Show Full Analysis

Price vs. Fair Value

Advanced Basic **Logarithmic** Linear



Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	YTD
Price/Fair Value	1.08	1.03	1.13	1.02	1.05	1.13	0.96	1.04	0.81	0.76	0.70
Total Return %	33.68	12.99	15.98	3.61	14.80	21.11	-11.76	22.30	-7.25	-4.65	-5.28
Index Total Return %	20.83	12.30	3.55	-17.86	19.85	-10.12	-32.66	-3.48	12.18	-31.09	-19.70

USD | As of Jun 18, 2024 | Index: Morningstar US Market TR USD



Dividend Performance

Morningstar Investing Center

Search Quotes and Site

Realty Income Corp 0 ★★★★★

Summary Analysis Price vs. Fair Value Sustainability Trailing Returns Key Metrics Financials Valuation Dividends Ownership Executive Profile

Dividends & Splits

Dividends Splits

Calendar	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Current	TTM	5-Yr Avg
Dividend Per Share	2.19	2.28	2.40	2.54	2.64	2.72	2.80	2.85	2.97	3.06	3.16	3.16	-
Trailing Dividend Yield %	4.60	4.41	4.18	4.45	4.19	3.69	4.51	3.97	4.68	5.33	5.90	5.90	4.45
Buyback Yield %	-	-	-	-	0.00	-	-	-	-	-	-	-	-
Total Yield %	4.60	4.41	4.18	4.45	4.19	3.69	4.51	3.97	4.68	5.33	5.90	5.90	4.46
Payout Ratio %	215.58	209.72	212.65	230.64	209.44	196.88	245.70	327.01	209.08	242.78	284.35	284.35	255.61

Ex-Dividend Date Declaration Date Record Date Payable Date Dividend Type Amount

Upcoming Dividends



Feedback

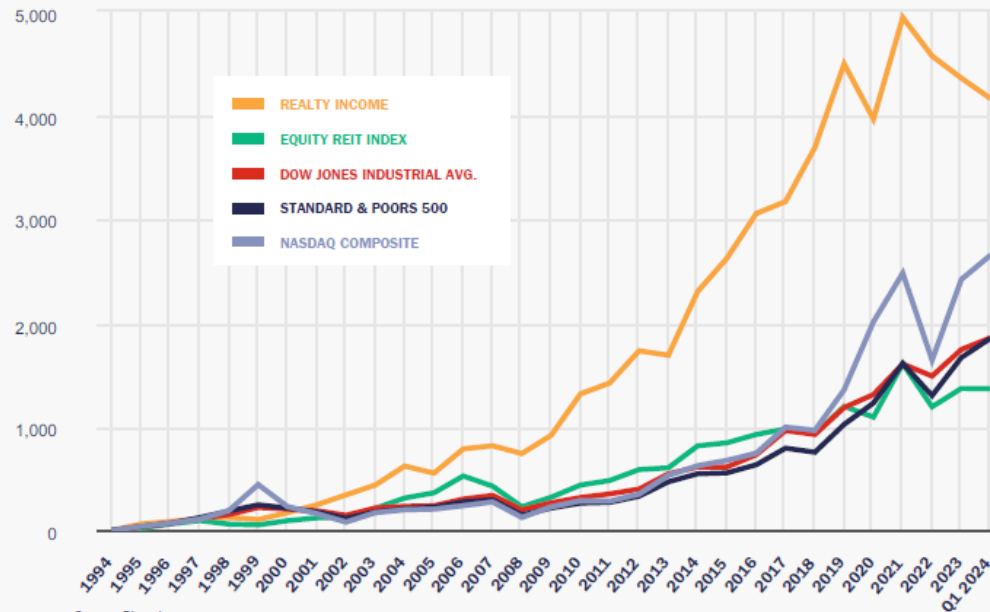
Realty Income is dividend and shareholder aligned

- Proud of their dividend track record – Aristocrat!
 - Never cut their dividend
- Monthly dividend payer
- A3/A- investment grades by Moody's/S&P
- 55-year operating history, including 30 years publicly traded
- Owns 15,450 properties, primarily free-standing retail and industrial
- Flexible net lease model implies tenant responsibilities for maintenance, taxes, utilities, insurance, upgrades, etc.
- Significant international investments mostly in UK and EU
- Strong ESG and DEI commitments

Deep Dive: Realty Income Corporation (O)



DIVIDEND REINVESTMENT CAN POTENTIALLY ENHANCE INVESTMENT RETURNS
Comparison of \$100 Invested in Realty Income in 1994 vs Major Stock Indices



Source: Bloomberg

COMPANY HIGHLIGHTS

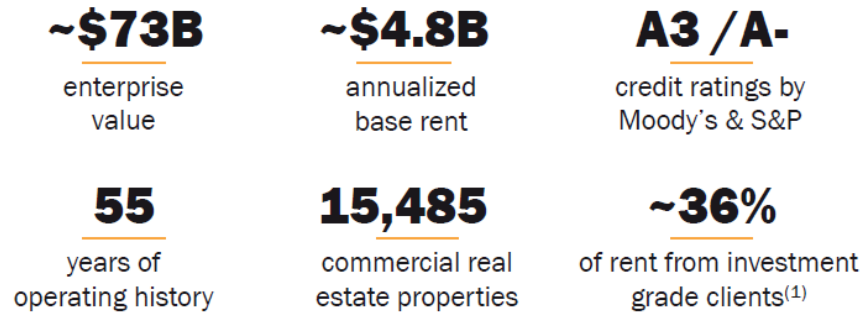
- Focus on **paying monthly** rather than quarterly dividends
- Track record of regularly increasing the dividend
- Long-term real estate leases **provide dependable revenue** from which we pay dividends
- Conservative capital structure
- 30 years trading on the New York Stock Exchange
- **Diversified sources of lease revenue:** client, industry, geography and property type
 - **1,552** clients
 - **89** industries
 - **50** U.S. states, the U.K., and six other countries in Europe
- Asset growth from **630** properties in **1994** to over **15,450** properties
- Member of **S&P 500 index**
- Member of **S&P High Yield Dividend Aristocrats® index**
- Member of **S&P 500 Dividend Aristocrats® index**

Source:
Realty Income
Q4 report

Large and Growing Portfolio

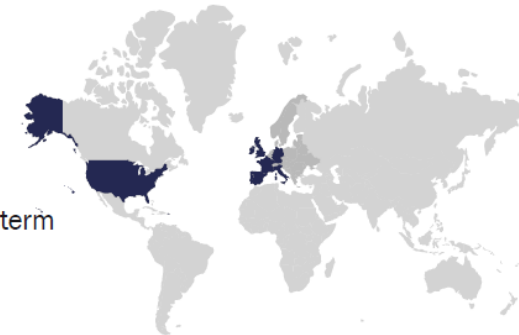
Realty Income is the Global Leader in a Fragmented Net Lease Sector

SIZE, SCALE AND QUALITY

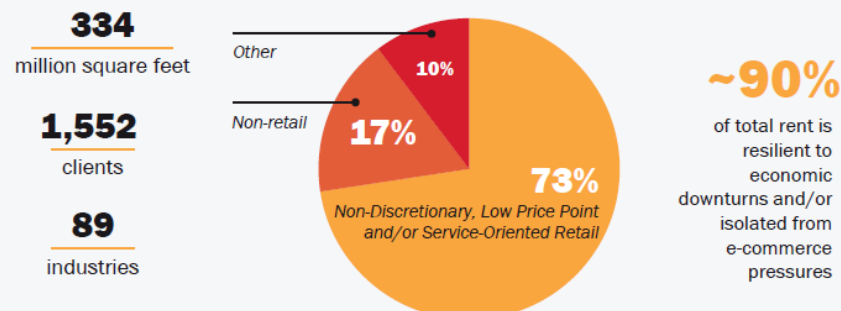


GROWING INTERNATIONAL PRESENCE

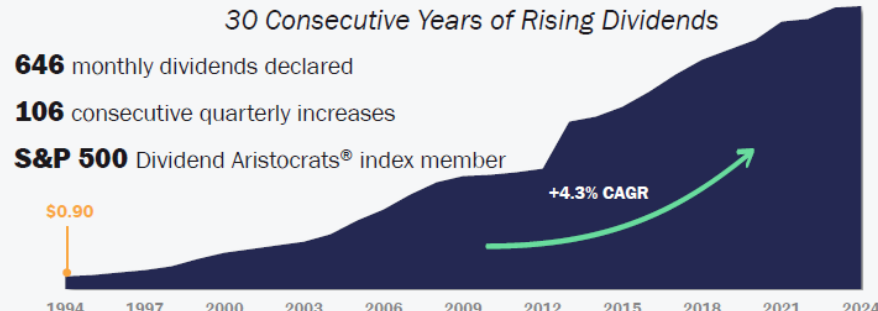
6th largest global REIT⁽²⁾
\$10.4B European Portfolio
459 assets
 ~**9.4** years remaining lease term
42 industries



DIVERSIFIED REAL ESTATE PORTFOLIO



STRONG DIVIDEND TRACK RECORD⁽³⁾

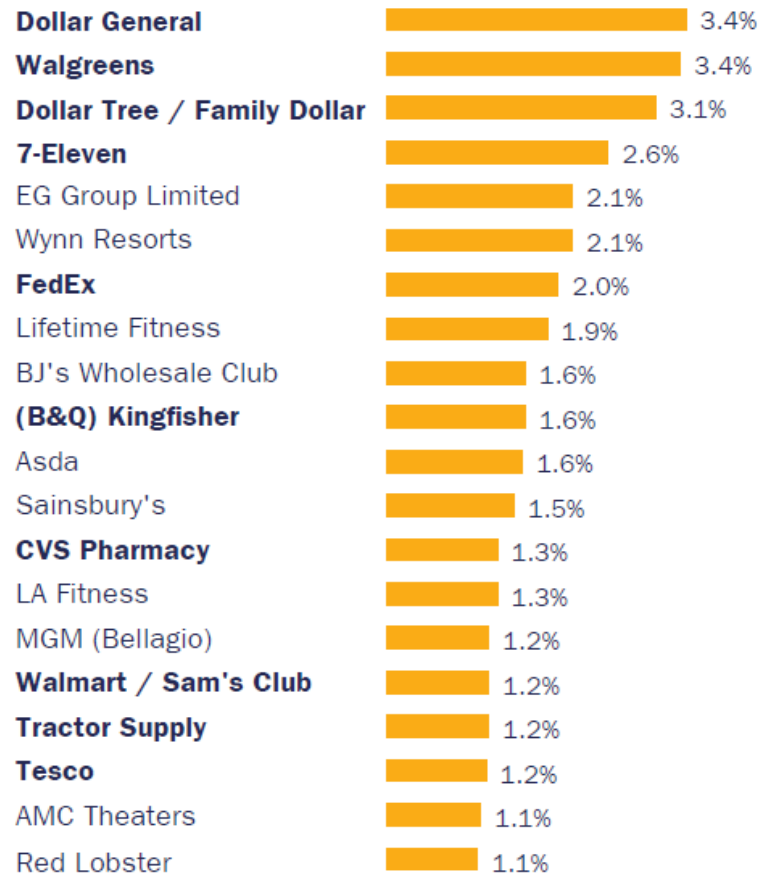


⁽¹⁾ Clients and clients that are subsidiaries or affiliates of companies with a credit rating of Baa3/BBB- or higher from one of the three major rating agencies (Moody's/S&P/Fitch).
⁽²⁾ As measured by equity market capitalization of FTSE EPRA Nareit Global REITs TR Index Constituents. As of 04/23/2024.
⁽³⁾ As of April 2024 dividend declaration.

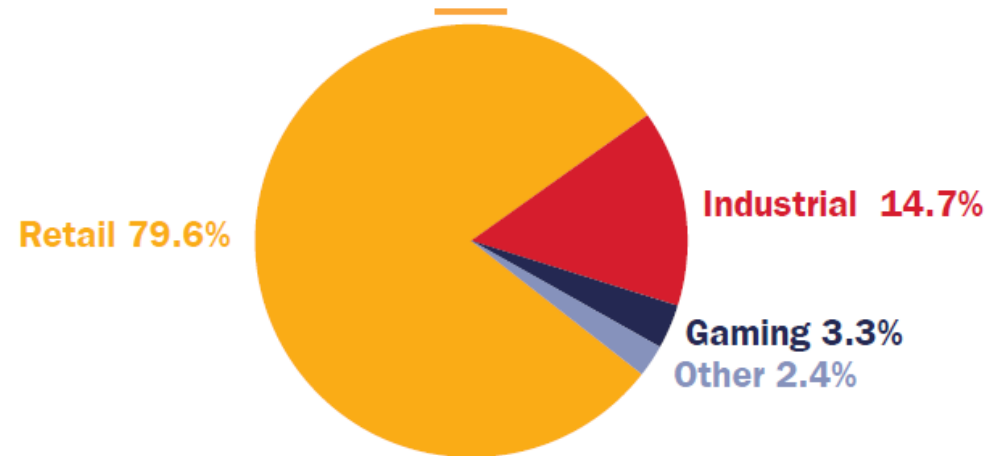
Source:
Realty Income
Q4 report

Property Types, Diversification

TOP 20 CLIENT DIVERSIFICATION ⁽¹⁾



PROPERTY DIVERSIFICATION ⁽²⁾



TOP 10 INDUSTRIES ⁽³⁾



Realty Income Valuation

Metric	Grade	Current Value	Target Value	% Change
EV / EBIT (TTM)	C-	38.27	32.44	17.96%
Price / Sales (TTM)	D-	8.93	4.38	103.73%
Price / Book (TTM)	B	1.19	1.50	-20.87%
Price / Cash Flow (TTM)	C-	15.44	12.36	24.99%
Price / Rental Revenue (TTM)	D-	10.95	5.39	103.21%
Dividend Yield (TTM)	B	5.78%	4.55%	27.00%
Total Debt/Equity (TTM)	B+	66.07%	98.22%	-32.73%
4 Year Average Dividend Yield	B-	4.69%	4.32%	8.68%
Dividend Yield (FWD)	B	5.91%	4.71%	25.39%
Dividend Yield (FY2)	B	6.06%	4.89%	23.85%
Net Long Debt/Assets (TTM)	B	35.24%	41.65%	-15.39%
P / AFFO (TTM)	B-	13.13	13.58	-3.29%
P / AFFO (FWD)	B	12.78	14.80	-13.66%
P / FFO (TTM)	C	13.40	12.73	5.24%
P / FFO (FWD)	C+	12.62	12.75	-1.06%
Total Debt/Capital (TTM)	B+	39.79%	50.12%	-20.62%

*Grades are relative to the [Real Estate](#) sector

**NM signifies a non meaningful value. A dash signifies the data is not available.

Factor Grades ?

	Now	3M ago	6M ago
Valuation	C+	B-	C+
Growth	A+	A+	A+
Profitability	A	A	A+
Momentum	C+	D+	D+
Revisions	C+	C	B-

Quant Ranking ?

Sector	Real Estate
Industry	Retail REITs
Ranked in Sector	18 out of 176
Ranked in Industry	5 out of 23

[REITs Quant Ratings Beat The Market »](#)

Dividend Grades ?

	Now	3M ago	6M ago
Safety	C	C+	B-
Growth	B	B-	B+
Yield	B-	B	B-
Consistency	A+	A+	A+

Ratings Summary ?

SA Analysts	BUY	3.91
Wall Street	BUY	3.70
Quant	STRONG BUY	4.50

Source:
Seeking Alpha

Deep Dive: Digital Realty Trust (DLR)

Digital Realty Trust, Inc. (DLR)

NYSE - NYSE Delayed Price. Currency in USD

★ Following

👤 Visitors trend 2W ↓ 10W ↑ 9M ↑

148.35 +0.46 (+0.31%) **146.40** -1.95 (-1.31%)

At close: June 21 04:00PM EDT

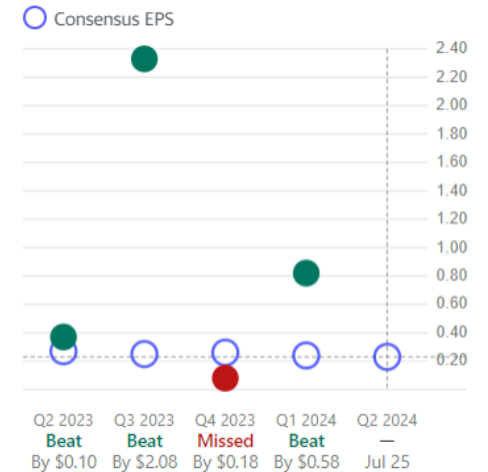
After hours: Jun 21, 07:54PM EDT

Summary Chart Conversations Statistics Historical Data Profile Financials Analysis Options Holders Sustainability

Previous Close	147.89	Market Cap	49.117B
Open	148.23	Beta (5Y Monthly)	0.58
Bid	148.25 x 1000	PE Ratio (TTM)	40.98
Ask	147.63 x 800	EPS (TTM)	3.62
Day's Range	145.91 - 148.50	Earnings Date	Jul 25, 2024 - Jul 29, 2024
52 Week Range	103.81 - 154.18	Forward Dividend & Yield	4.88 (3.29%)
Volume	3,580,217	Ex-Dividend Date	Jun 14, 2024
Avg. Volume	1,862,548	1y Target Est	148.69



Earnings >



Financials >



Digital Realty Trust business model

- DLR provides everything except servers, racks and applications
 - Building
 - Cooling
 - Electrical power
 - Internet connections
 - Installation and software support
- Capacity (revenue) is measure in Megawatts
 - Typical server farm rated at 800 MW
- Revenue stream is strongly affected by the AI race
- Constrained only by electrical grid limitations

DLR Stock Performance

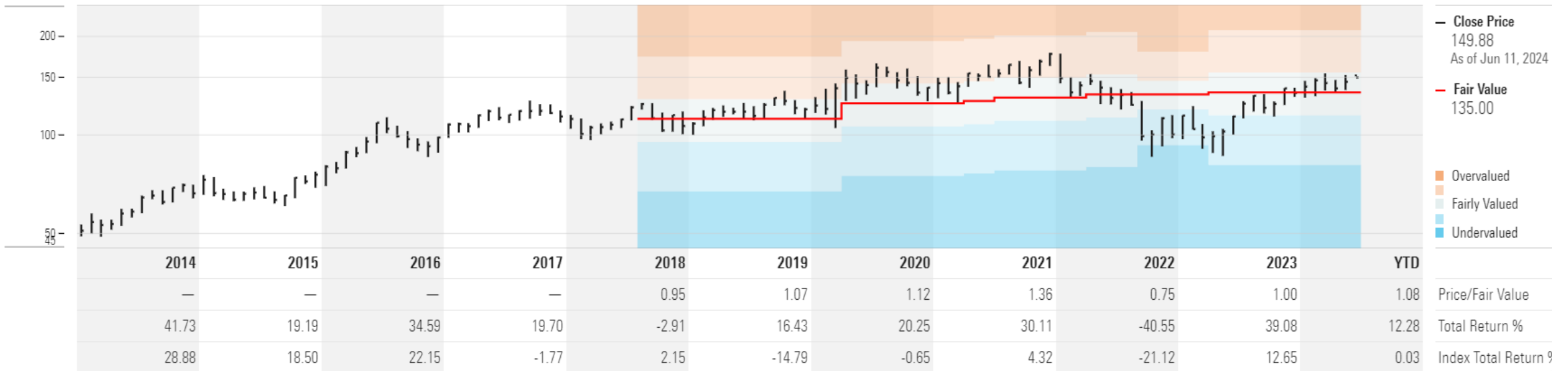
Morningstar Investing Center

Digital Realty Trust Inc DLR ★★★

- Summary
- Analysis
- Price vs. Fair Value
- Sustainability
- Trailing Returns
- Key Metrics
- Financials
- Valuation
- Dividends
- Ownership
- Executive
- Profile

Price vs. Fair Value ⓘ

- Advanced
- Basic
- Logarithmic
- Linear



USD | As of Jun 11, 2024 | Index: Morningstar US Market TR USD

DLR Dividend Record

Morningstar Investing Center

Search Quotes and Site



Digital Realty Trust Inc DLR ★★★

Summary Analysis Price vs. Fair Value Sustainability Trailing Returns Key Metrics Financials Valuation Dividends Ownership Executive Profile

Dividends & Splits

Dividends Splits

Calendar	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Current	TTM	5-Yr Avg
Dividend Per Share	3.32	3.40	3.52	3.72	4.04	4.32	4.48	4.64	4.88	4.88	4.88	4.88	-
Trailing Dividend Yield %	5.01	4.50	3.58	3.27	3.79	3.61	3.21	2.62	4.87	3.63	3.26	3.26	3.46
Buyback Yield %	0.00	-	-	-	0.01	-	-	-	-	-	-	-	-
Total Yield %	5.01	4.50	3.58	3.27	3.80	3.61	3.21	2.62	4.87	3.63	3.26	3.26	3.46
Payout Ratio %	335.35	217.95	160.00	375.76	333.88	183.83	448.00	78.11	439.64	162.67	135.93	135.93	225.67

Ex-Dividend Date	Declaration Date	Record Date	Payable Date	Dividend Type	Amount
Upcoming Dividends					
Jun 14, 2024 *	May 08, 2024	Jun 14, 2024 *	Jun 28, 2024 *	Cash Dividend	1.2200



DLR business overview

A Global Data Center and Connectivity Platform Supporting our Customers' Critical IT Architecture

5,000 Customers ⁽¹⁾ 221,000+ Cross connects ⁽¹⁾ 50+ Metros ⁽¹⁾ 300+ Data Centers ⁽¹⁾

EQUITY & ENTERPRISE VALUE

\$46 Bn

EQUITY MARKET CAPITALIZATION ⁽²⁾

\$64 Bn

ENTERPRISE VALUE ⁽³⁾

TOP PUBLICLY TRADED U.S. REIT

7th

LARGEST PUBLICLY TRADED U.S. REIT ⁽⁴⁾

2016

ADDED TO THE S&P 500 INDEX

INVESTMENT GRADE RATINGS ⁽⁵⁾

FitchRatings
BBB

MOODY'S
Baa2

S&P Global
BBB



Source: DLR Q4 report

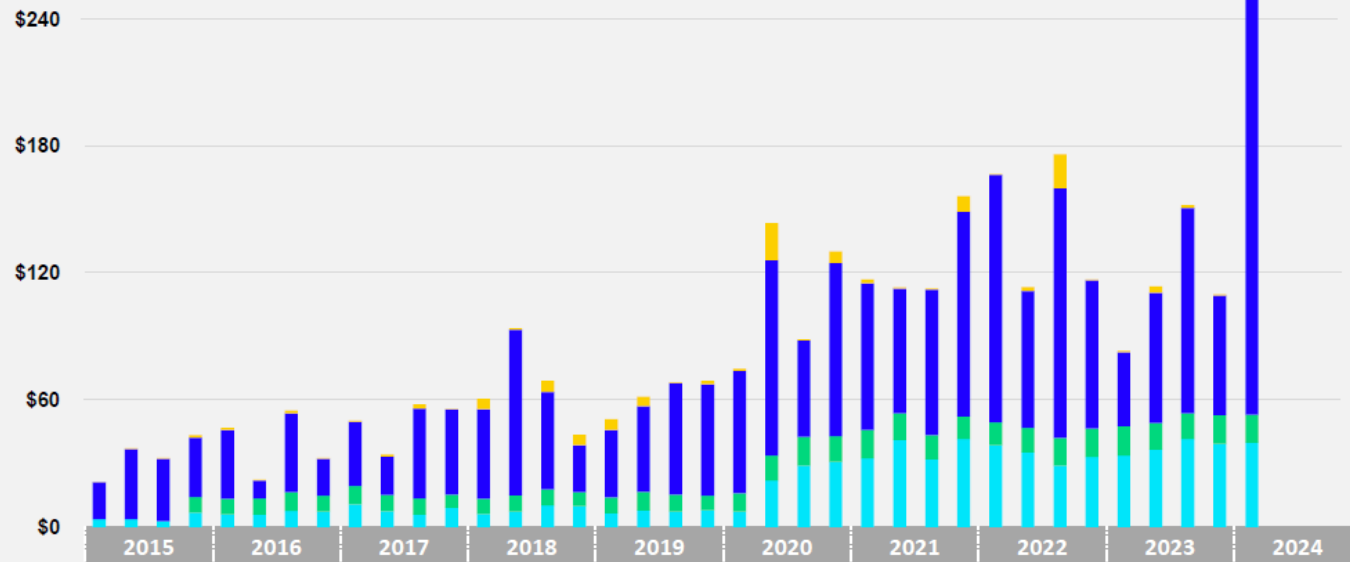
AI demand driving revenue

AI Spurs Demand for Large Capacity Blocks

Strong and Steady Leasing for 0-1MW + IX

- Record Quarter of \$252M Bookings
- Record High >1 MW average leasing rate

HISTORICAL BOOKINGS
ANNUALIZED GAAP BASE RENT
\$ in millions



1Q24 BOOKINGS



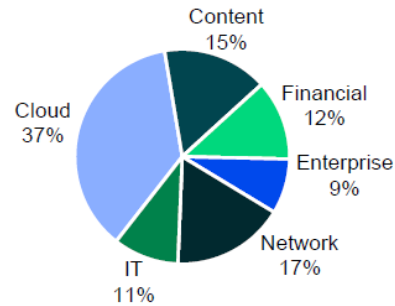
Source: DLR Q4 report

DLR Customer Base

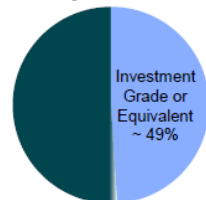
High-Quality, Diversified Customer Base

- Top customers have a presence in 42 different locations, on average

Customer Type (% by ARR) ⁽¹⁾



High-Quality Customer Base ⁽²⁾



5,000 Global Customers



TOP 20 CUSTOMERS

Customer Rank	Locations	% of ARR ⁽¹⁾	Customer Rank	Locations	% of ARR ⁽¹⁾
1. Fortune 50 Software Company	71	11.6%	11. Meta	48	1.6%
2. Social Content Platform	25	5.7%	12. Fortune 500 SaaS Provider	12	1.5%
3. ORACLE	38	4.5%	13. LUMEN	123	1.2%
4. Global Cloud Provider	61	4.1%	14. AT&T	11	1.1%
5. IBM	37	3.4%	15. COMCAST	43	1.1%
6. EQUINIX	15	2.4%	16. JPMORGAN CHASE & CO.	16	1.0%
7. LinkedIn	7	2.1%	17. rackspace	24	1.0%
8. Fortune 25 Investment Grade-Rated Company	29	2.0%	18. CENTERSQUARE ⁽³⁾	9	0.9%
9. Fortune 25 Tech Company	53	1.7%	19. verizon	89	0.9%
10. Social Media Platform	8	1.6%	20. zayo	115	0.9%
TOTAL ANNUALIZED RECURRING REVENUE					50.3%

Note: As of March 31, 2024. Represents consolidated portfolio plus our managed portfolio of unconsolidated joint ventures based on our ownership percentage. Our direct customers may be the entities named in this table above or their subsidiaries or affiliates.

¹⁾ Calculation based on annualized recurring revenue – the monthly contractual base rent (defined as cash base rent before abatements), and Interconnection revenue under existing leases as of March 31, 2024, multiplied by 12.

²⁾ Based on the credit ratings of Digital Realty's top 100 customers as of March 31, 2024 against annualized recurring total revenue of \$1.3 billion. Credit ratings from S&P, Moody's and Fitch reflect credit ratings of customer's parent entity. There can be no assurance that a customer's parent entity will satisfy the customer's lease or other obligations upon such customer's default.

³⁾ In April 2024, Cyttera announced a combination with Evoque and the combined company is named Centersquare.

Source:
DLR Q4
report

DLR Projections

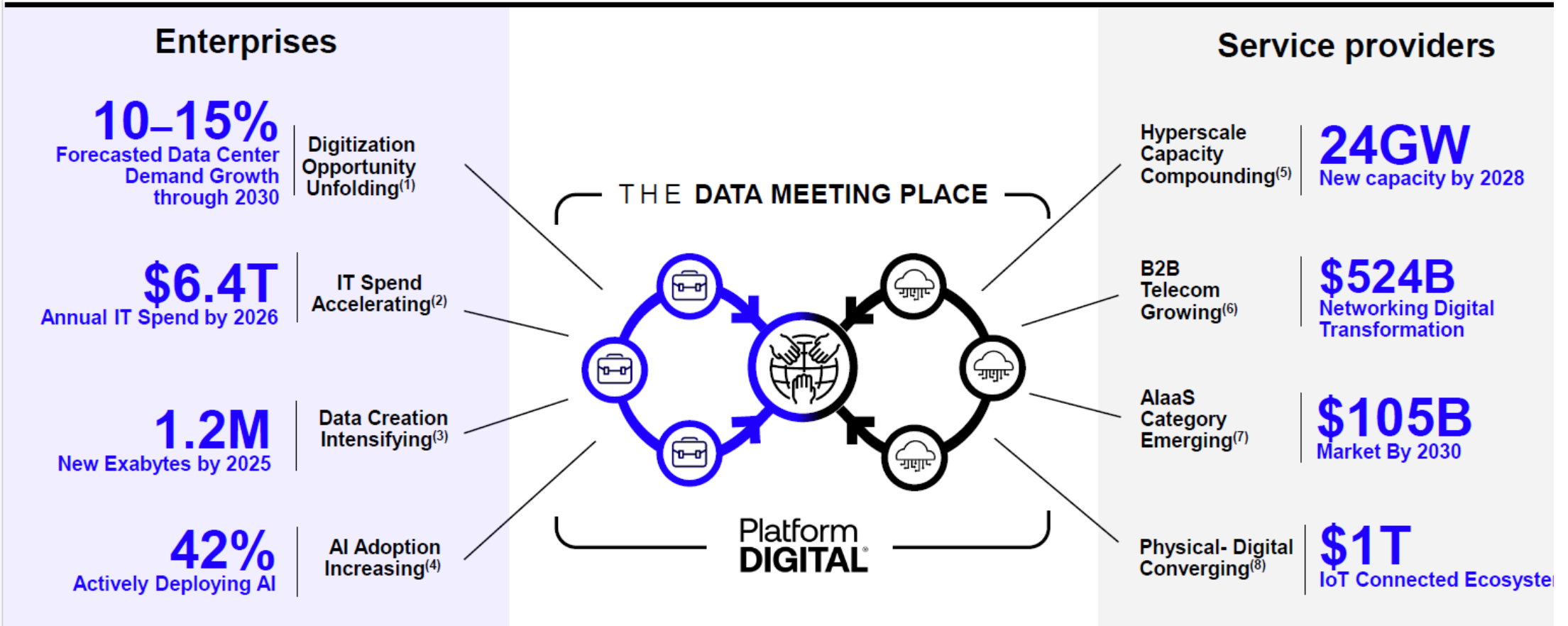
2024 Financial Guidance

	Actual 2023 ⁽¹⁾	Full Year 2024
Total Revenue	\$5,477	\$5,550 – \$5,650
Adjusted EBITDA	\$2,750	\$2,800 – \$2,900
Rental Rates on Renewals Leases (<i>Cash</i>)	6.8%	4.0% – 6.0%
Year-End Portfolio Occupancy	81.7%	+100 – 200 bps
Same-Capital Cash NOI Growth	7.5%	2.0% – 3.0%
Core FFO per Share	\$6.59	\$6.60 – \$6.75

Global Demand Projections

Strong Demand for Data Center Capacity

PlatformDIGITAL® Well Positioned



Notes:

Source:
DLR Q4
report

Power Grid Constraints

Northern Virginia Update

Power Transmission Issues Constrain Capacity in Ashburn

Digital Dulles



80 MW
Available For Lease

Manassas⁽¹⁾



192 MW
Available For Lease

Total in NoVA

272 MW
Total Available For Lease

632 MW
White Space IT Load
In-Place ⁽²⁾

500+
Acres of land holdings that
will support the build-out of
another 1,000+ MW

1) Manassas is shown at 100% share. The site is held in joint venture with Blackstone in which Digital Realty maintains a 20% interest.
2) As of March 31, 2024 and represents 438 MW in our consolidated portfolio and 194 MW in our unconsolidated portfolio.

Source:
DLR Q4
report

DLR Summary – Not shareholder or dividend aligned!

- **Rapid rising demand with capacity constraints means rapid price increases**
- Sparse mention of shareholders!
- Dividend payouts mostly ignored
 - Stingy dividend but increases likely
 - Dividends are an annoying inconvenience for them
 - Why are they a REIT?
- Rapid growth, strong backlog
- AI-focused growth
- JV with Blackstone to produce 10 data centers worth \$7B
- Constrained by power grid infrastructure
- Some financial engineering evident – investor presentations are somewhat misleading
- Buy this stock for price appreciation, not for dividends
 - Wait for the dips

Bonus: Medical Properties Trust (MPW) – Turnaround? (Is this a Gamestop-like Play?)

Morningstar Investing Center

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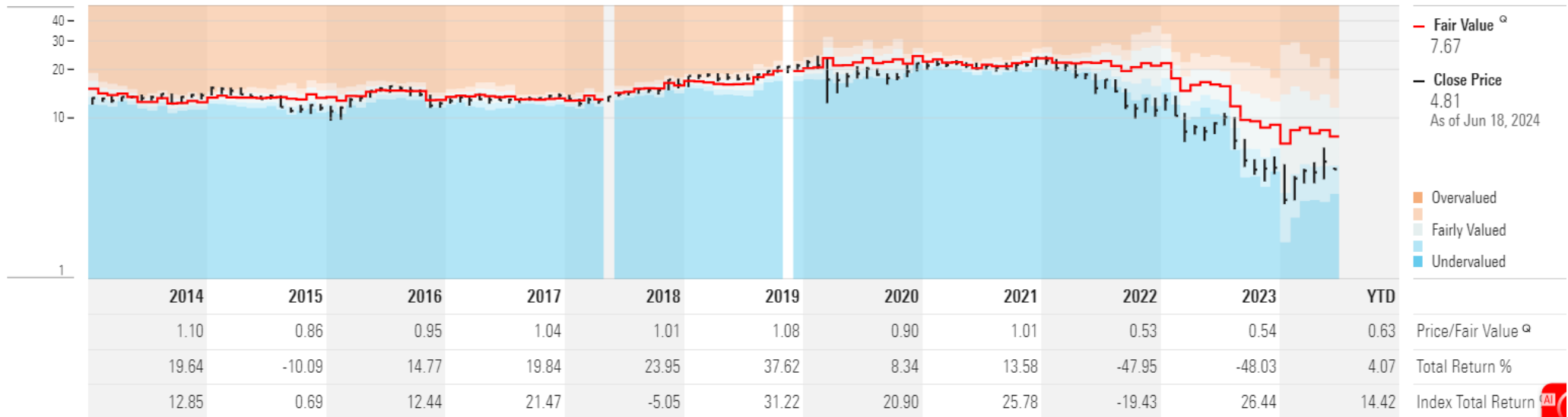
Medical Properties Trust Inc MPW ★★★^Q

Summary Analysis Price vs. Fair Value Sustainability Trailing Returns Key Metrics Financials Valuation Dividends Ownership Executive Profile

[Click here for more on how to use these ratings.](#)

Price vs. Fair Value ⓘ

Advanced Basic **Logarithmic** Linear



USD | As of Jun 18, 2024 | Index: Morningstar US Market TR USD



Final Thoughts

- REITs and BDCs are intended to be held for long periods
 - Should be combined with a DRIP to maximize benefit
- There's a rotation in progress out of cash (\$6T) and BDCs, into REITs and other investments
- Fed cutting interest rates will change the economy and markets profoundly
- Be ready for the changes
- Good luck to all!

Warren Buffet: [It's good to learn from your mistakes.](#)
[It's better to learn from other people's mistakes.](#)

Sources for further research:

Seeking Alpha Blogs

- Brad Thomas (The REIT God)
- BDC Buzz
- Scott Kennedy
- Colorado Wealth Management
- High Yield Investor

Fidelity, Schwab, Vanguard

Morningstar

Simply Safe Dividends

BDCInvestor.com

SEC reports