

# Business Development Companies

## 1st Quarter 2014 Stock Performance and Valuation Summary

Stock price performance and related measures for 28 publicly traded BDCs are summarized in the adjacent table. Amid mixed returns for the major equity indices and a modest downward shift in the yield curve during the quarter, BDC share prices were generally under pressure during the first quarter. As a result, median dividend yields for the group of BDCs increased to 8.8% from 8.7% the prior quarter, and the median price/book ratio shed over three percentage points, slipping to 98.3% (compared to 101.4% at December 31, 2013).

The bold line in the adjacent table divides the overall group into two sections, consisting of companies with share price appreciation above or below the median, respectively. At the level of individual tickers, there were no reported dividend changes to push market results meaningfully one way or the other. Likely the primary catalysts for BDC shares during the quarter were the announcements, in late February and early March, that BDCs would be excluded from indexes published by the S&P and Russell. Analysts estimate that approximately 8% of BDC shares are held by index funds, so if index changes are implemented (there is some potential that Russell will leave the BDCs in if the SEC tweaks rules currently in effect), the sell-off could be substantial. The market seems to have anticipated such selling pressure during the quarter.

We will address reported full-year results for 2013 in a subsequent whitepaper. For the balance of 2014, BDC financial performance will be driven by pricing on new originations and credit performance of existing assets. The expanding balance sheets of the BDCs suggest that companies in the lower middle market are probably feeling less “underserved” every day. Whether, and how, the increasing competition for loans affects pricing and credit quality remains to be seen. While many BDCs have been positioning assets and liabilities in anticipation of increasing rates, it is harder to manage around prior underwriting decisions. As the current credit cycle eventually turns, the underwriting proof will be in the charge-off pudding.

	Ticker	Price for 12/31/13	Price for 3/31/14	% Change	NAV per Share	Indicated Dividend Rate	Prior Dividend Rate	% Change	Price to NAV	Indicated Dividend Yield	
	Full Circle Capital Corp	FULL	\$7.04	\$7.78	10.5%	\$7.09	\$0.80	\$0.80	0.0%	109.7%	10.3%
	Gladstone Capital Corp	GLAD	\$9.57	\$10.08	5.3%	\$10.10	\$0.84	\$0.84	0.0%	99.8%	8.3%
	KCAP Financial Inc	KCAP	\$8.07	\$8.41	4.2%	\$7.51	\$1.00	\$1.00	0.0%	112.0%	11.9%
	Gladstone Investment Corp	GAIN	\$8.06	\$8.27	2.6%	\$8.49	\$0.72	\$0.72	0.0%	97.4%	8.7%
	Fifth Street Finance Corp	FSC	\$9.25	\$9.46	2.3%	\$9.85	\$1.00	\$1.00	0.0%	96.0%	10.6%
	American Capital Ltd	ACAS	\$15.64	\$15.80	1.0%	\$18.97	\$0.00	\$0.00	nm	83.3%	0.0%
	PennantPark Floating Rate Capital Ltd	PFLT	\$13.73	\$13.82	0.7%	\$14.24	\$1.08	\$1.08	0.0%	97.1%	7.8%
	Main Street Capital Corp	MAIN	\$32.69	\$32.86	0.5%	\$19.89	\$1.98	\$1.98	0.0%	165.2%	6.0%
	MVC Capital Inc	MVC	\$13.50	\$13.55	0.4%	\$17.36	\$0.54	\$0.54	0.0%	78.1%	4.0%
	Ares Capital Corp	ARCC	\$17.77	\$17.62	-0.8%	\$16.46	\$1.52	\$1.52	0.0%	107.0%	8.6%
	BlackRock Kelso Capital Corp	BKCC	\$9.33	\$9.17	-1.7%	\$9.54	\$1.04	\$1.04	0.0%	96.1%	11.3%
	Medley Capital Corp	MCC	\$13.85	\$13.61	-1.7%	\$12.68	\$1.48	\$1.48	0.0%	107.3%	10.9%
	Saratoga Investment Corp	SAR	\$15.65	\$15.34	-2.0%	\$20.67	\$0.00	\$0.00	nm	74.2%	0.0%
	Apollo Investment Corp	AINV	\$8.48	\$8.31	-2.0%	\$8.57	\$0.80	\$0.80	0.0%	97.0%	9.6%
	Solar Capital Ltd	SLRC	\$22.55	\$21.78	-3.4%	\$22.50	\$1.60	\$1.60	0.0%	96.8%	7.3%
	Prospect Capital Corp	PSEC	\$11.22	\$10.80	-3.7%	\$10.73	\$1.33	\$1.33	0.1%	100.7%	12.3%
	PennantPark Investment Corp	PNNT	\$11.60	\$11.05	-4.7%	\$10.80	\$1.12	\$1.12	0.0%	102.3%	10.1%
	TICC Capital Corp	TICC	\$10.34	\$9.78	-5.4%	\$9.85	\$1.16	\$1.16	0.0%	99.3%	11.9%
	Solar Senior Capital Ltd	SUNS	\$18.22	\$17.11	-6.1%	\$18.04	\$1.41	\$1.41	0.0%	94.8%	8.2%
	Triangle Capital Corp	TCAP	\$27.65	\$25.89	-6.4%	\$16.10	\$2.16	\$2.16	0.0%	160.8%	8.3%
	Golub Capital BDC Inc	GBDC	\$19.11	\$17.84	-6.6%	\$15.23	\$1.28	\$1.28	0.0%	117.1%	7.2%
	NGP Capital Resources Co	NGPC	\$7.47	\$6.76	-9.5%	\$9.20	\$0.64	\$0.64	0.0%	73.5%	9.5%
	Fidus Investment Corp	FDUS	\$21.74	\$19.31	-11.2%	\$15.35	\$1.52	\$1.52	0.0%	125.8%	7.9%
	Horizon Technology Finance Corp	HRZN	\$14.21	\$12.51	-12.0%	\$14.14	\$1.38	\$1.38	0.0%	88.5%	11.0%
	MCG Capital Corp	MCGC	\$4.40	\$3.79	-13.9%	\$4.74	\$0.50	\$0.50	0.0%	80.0%	13.2%
	Hercules Technology Growth Capital Inc	HTGC	\$16.40	\$14.07	-14.2%	\$10.51	\$1.24	\$1.24	0.0%	133.9%	8.8%
	GSV Capital Corp	GSVC	\$12.09	\$10.14	-16.1%	\$14.91	\$0.00	\$0.00	nm	68.0%	0.0%
	THL Credit Inc	TCRD	\$16.49	\$13.80	-16.3%	\$13.36	\$1.36	\$1.36	0.0%	103.3%	9.9%
	<b>MEDIAN (Top Half of Group)</b>				<b>0.6%</b>					<b>97.2%</b>	<b>8.7%</b>
	<b>MEDIAN (Bottom Half of Group)</b>				<b>-8.1%</b>					<b>100.0%</b>	<b>9.1%</b>
	<b>OVERALL MEDIAN</b>				<b>-2.7%</b>					<b>98.3%</b>	<b>8.8%</b>

# Valuation Services for BDCs & Other Investment Funds

Business development companies are an important and growing source of funding for middle market companies. Along with private equity and other investment funds, BDCs provide billions of dollars of investment capital to private companies in every segment of the economy.

For over thirty years, Mercer Capital has met the valuation needs of the same middle market companies to which BDCs and other funds provide capital. We offer the following services for BDCs and other investment funds:

- Ongoing fair value measurement and review for portfolio investments
- Fair value measurement process consulting
- Solvency and fairness opinions
- Regulatory review and litigation support
- Purchase price allocation for portfolio companies
- Goodwill impairment testing for portfolio companies
- Equity compensation fair value measurement for portfolio companies
- Buy-sell agreement consulting and valuation dispute resolution

Mercer Capital's senior valuation professionals bring broad and deep experience to the range of valuation needs faced by BDCs and other investment funds.

For more information about Mercer Capital, visit [www.mercercapital.com](http://www.mercercapital.com).

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