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A third BDC issues public equity this year, but issuance remains at 16-year low

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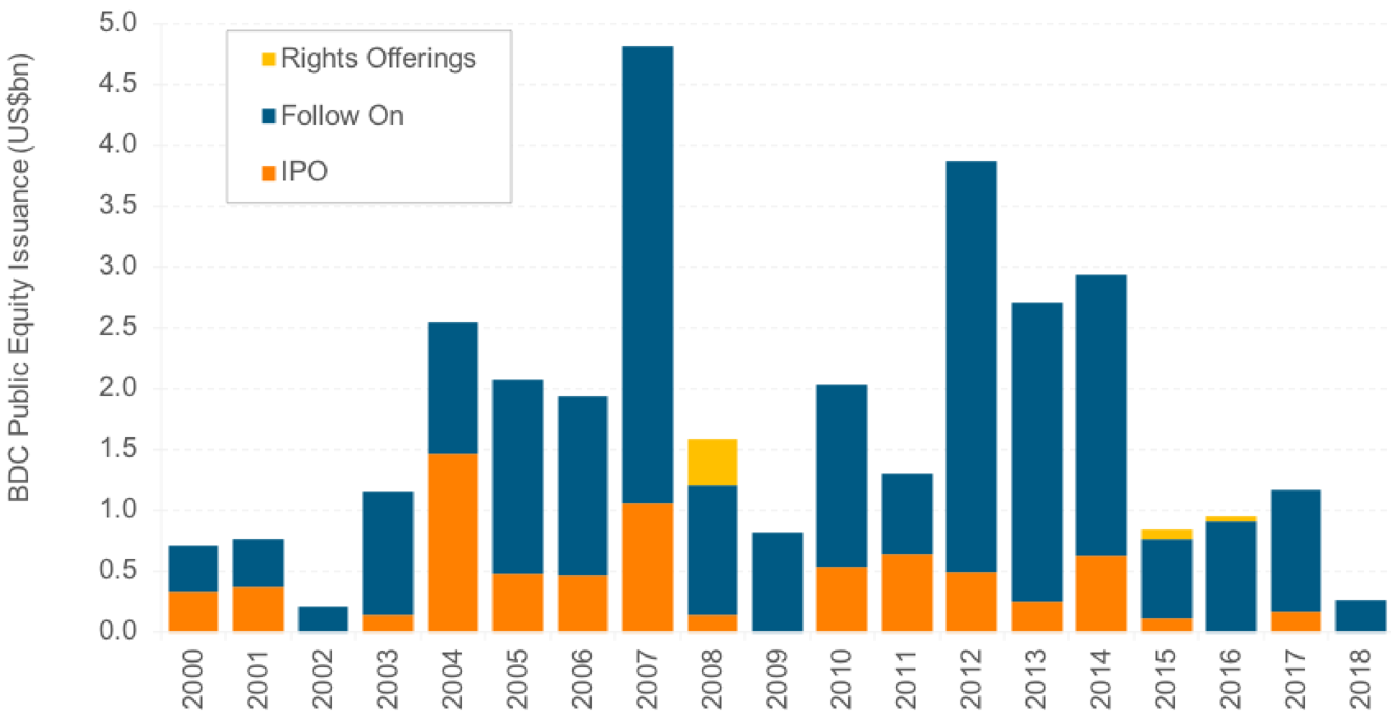

Source: *Thomson Reuters LPC, Wells Fargo Securities LLC*

TriplePoint Venture Growth BDC, a venture capital BDC, announced it is tapping the public markets to raise follow-on equity making it only the third public BDC to raise new equity this year. The BDC which is trading at around 1.03 times net asset value is raising close to US$90m bringing year to date BDC equity issuance to US$265m. 2018 is shaping up to be the lowest equity issuance level in 16 years (since 2002). TPG Specialty Lending (1.22x NAV) and Hercules Capital (1.33x NAV) were the only other two BDCs to raise follow on equity earlier this year. Last year, BDCs raised a total of US$1.17bn in public equity proceeds. The average share price to NAV is currently at 0.93x with only about a third of the BDCs trading at net asset value or higher. This has made raising equity a challenging feat. However, that does not mean BDCs are shut out from raising capital. BDCs' big regulatory win permits them to increase their debt to equity ratio from 1:1 up to 2:1. While market participants had major concerns regarding this increase in leverage, it seems the market has come around as many BDCs have received the go ahead from banks, rating agencies and shareholders to tap incremental leverage. Solar Capital received board approval to reduce its asset coverage ratio which will allow it to operate at a new debt to equity ratio of 0.9x to 1.25x effective August 2019. Goldman Sachs BDC highlighted on its earning call that it won shareholder approval to up its leverage with the intent of not going beyond 1.5x from around 0.75x currently. Many of the BDCs that intend to increase leverage have also announced revised fee structures which results in lower management fees on assets levered beyond the 1.0x debt to equity threshold.

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