

Owl Rock Capital (ORCC)

\$11.79 (As of 03/12/20)

Price Target (6-12 Months): **\$12.00**

Long Term: 6-12 Months

Zacks Recommendation:

Neutral

(Since: 08/19/19)

Prior Recommendation: NA

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: C

Summary

Owl Rock Capital's fourth-quarter 2019 earnings per share of 36 cents improved 100% year over year on higher net investment income. It has been witnessing a strong revenue momentum since 2015 owing to increasing interest income. It boasts a solid diversified portfolio of investments in middle-market companies, comprising numerous new investment commitments. Its profile reflects variety across 27 industries. The company has also been effectively reducing its debt level over the last few quarters. It flaunts a strong capital position, which should enable business investments. Its shares have underperformed its industry in a year's time. However, Owl Rock Capital has been witnessing an elevated expense level due to growth-related investments, which might weigh its margins.

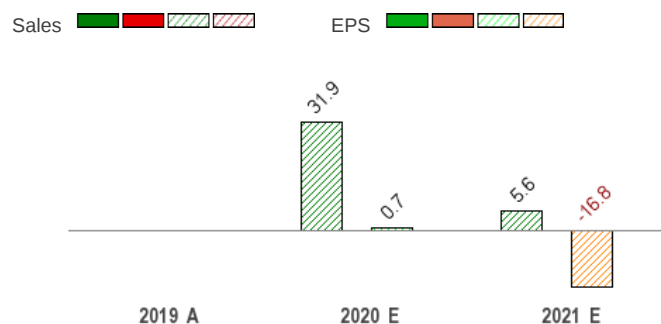
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.19 - \$11.58
20 Day Average Volume (sh)	1,028,245
Market Cap	\$4.7 B
YTD Price Change	-34.1%
Beta	NA
Dividend / Div Yld	\$1.24 / 10.5%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Top 43% (109 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.6%
Last Sales Surprise	-3.4%
EPS F1 Est- 4 week change	-1.5%
Expected Report Date	05/20/2020
Earnings ESP	-1.3%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	248 E	250 E	250 E	251 E	1,000 E
2020	216 E	235 E	246 E	249 E	947 E
2019		176 A	188 A	202 A	718 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.33 E	\$0.33 E	\$0.33 E	\$0.33 E	\$1.29 E
2020	\$0.39 E	\$0.41 E	\$0.43 E	\$0.32 E	\$1.55 E
2019		\$0.42 A	\$0.36 A	\$0.37 A	\$1.54 A

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	7.6
PEG F1	NA
P/S TTM	6.5

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 03/12/2020. The reports text is as of 03/13/2020.

Overview

Founded in 2015, Owl Rock Capital Corporation is a specialty finance company that lends funds to the U.S. middle market companies. Owl Rock Capital Partners and units are based in New York as a direct lending platform.

The company started investment activities from April 2016 onward and deals in senior secured or unsecured loans, subordinated loans or mezzanine loans and to a lesser extent, equity-related securities including warrants, preferred stock and similar forms of senior equity that may or may not be transferred to a portfolio company's common equity. The company ended 2019 with 98 portfolio companies, the average investment size in each portfolio company being \$89.8 million based on fair value.

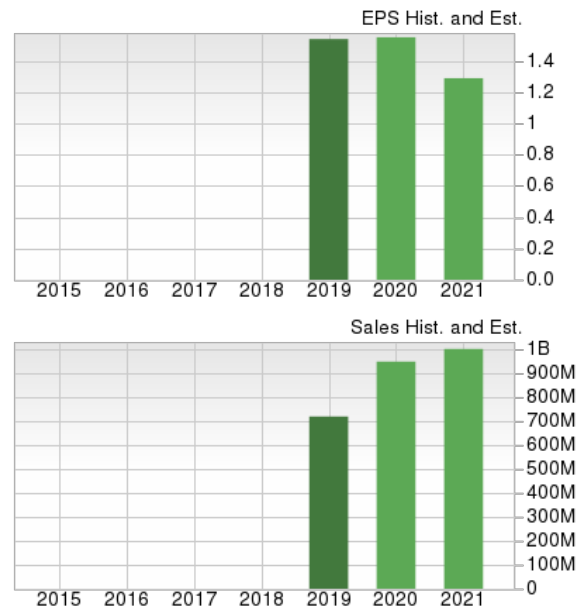
In July 2019, Owl Rock Capital Corporation, externally managed by Owl Rock Capital Advisors LLC, announced its plan to make a first public offering of 9,500,000 shares of its common stock. This Business Development Company started trading under the symbol "ORCC" on the New York Stock Exchange effective Jul 18, 2019.

The Owl Rock Lending LLC formed in 2016 provides loans to borrowers. It has headquarters in California. This is a wholly-owned subsidiary of the parent company.

Owl Rock Capital Advisors LLC, works as an investment adviser pursuant to an investment advisory agreement. This is an indirect subsidiary of Owl Rock Capital Partners LP ("Owl Rock Capital Partners"). It mainly aims at providing advisory and management services. It is also affiliated to Owl Rock Technology Advisors LLC and Owl Rock Capital Private Fund Advisors LLC.

Owl Rock Capital Corporation II is a company founded to be treated as a Business Development Company (BDC).

Owl Rock Technology Finance Corp. intends to invest at least 80% of the value of its assets in technology-rated companies. It offers its common stock to investors depending on exemptions from the registration requirements of the 1933 Act.



Reasons To Buy:

▲ **Growing Top Line:** The company has been witnessing strong revenue growth since its inception in 2015 on the back of higher interest income. In fact, its top line saw a 2016-2019 CAGR of 195%, which is impressive. The upside can be attributable to higher interest income. A steady rise in revenues, primarily from the company's rapidly-growing interest income and growth strategies, is likely to pave the way for long-term growth.

▲ **Increasing Investment Commitments:** The company also boasts a strong portfolio of investments in companies consisting of several new commitments. The uptick is evident from its new investment commitments' CAGR of 127.9% during the 2016-2018 period. Although the same declined 14.7% year over year in 2019, the company's commitment to new portfolio companies remains impressive. This metric basically reflects its commitments to a particular portfolio company. This upside, in turn, has a favorable effect on the company's net assets. This also reflects the company's strong portfolio.

The company ended 2019 with 98 portfolio companies, the average investment size in each portfolio company being \$89.8 million based on fair value, up 13.4% year over year. The company continues to seek opportunities in stable, large and recession-resistant businesses. Given the company's robust portfolio, the top line is continued to be favored.

▲ **Solid Capital Position:** The company has an impressive capital position. On the back of its solid balance sheet position, it recently announced a dividend to enhance shareholder value. Its dividend yield stands at 10.5%, much higher than its industry's average of 2.1%. Its dividend equates to an annualized dividend yield of 10.2% on book value. Moreover, its leverage ratio (total debt to equity) stands at 50.8%, much lower than its industry's average of 175%. It also came up with a 10b5-1 buyback program. The company's board approved six consecutive quarterly special dividends, which commenced in the third quarter of 2019 and will run through the fourth quarter of 2020. This reflects adequate financial flexibility.

▲ **Share Price Performance:** Shares of the company have underperformed its industry in a year's time. However, the stock is expected to bounce back on the back of its strong fundamentals, such as steady capital position and a strong portfolio.

Growing top line on the back of interest income and a steady investment portfolio are key positives for the company. Its strong capital position also impresses.

Reasons To Sell:

- ▼ **Low Return on Equity:** Its return on equity — a profitability measure — stands at 9.2%, much lower than the industry's average of 22.4%. This reflects the company's relative inefficiency in using shareholder's funds.
- ▼ **Escalating Expenses:** Owl Rock's expenses have been rising over the last few years. Its operating expenses escalated 116% and 104%, respectively, in 2018 and 2019, which is a persistent concern for us. The company is likely to witness increasing costs going forward due to its investments, which in turn, might put pressure on the company's margins.

Elevated expense level and a weak return on equity are major headwinds hounding the company.

Last Earnings Report

Owl Rock Capital Q4 Earnings Up Y/Y on High Investment

Owl Rock Capital Corporation's fourth-quarter 2019 earnings per share of 36 cents improved 100% year over year due to higher net investment income.

Quarter in Detail

In the quarter, total investment income was \$202.3 million, up 75.4% year over year. New investment commitments were nearly \$1 billion.

The company concluded the fourth quarter with investments in 98 portfolio companies.

Its interest expenses were \$35.4 million. For the quarter under review, total expenses were \$98.3 million.

As of Dec 31, 2019, the company had cash and restricted cash of \$317.2 million.

As of Dec 31, 2019, the company had net assets worth \$6 billion, up 83.1% from the level at the end of 2018. It ended the fourth quarter with debt of nearly \$3 billion, up 18.3% from the last year-end level.

Full Year Update

Total investment income of the company was \$718 million, up 84.6% from the 2018-end level. The upside can be attributed to a higher investment portfolio.

In 2019, new investment commitments decreased 14.7% year over year to \$4.4 billion.

The company's interest expenses of \$136.4 million surged 77.7% from the 2018-end level. For 2019, total operating expenses skyrocketed 104.3% to \$290.5 million due to higher interest expenses, management fees, performance-based incentive fees, professional fees, directors' fees, and other general and administrative costs.

Net cash used in operating activities for 2019 totaled \$2.5 billion, down 20.3% from the 2018-end level.

Quarter Ending	12/2019
Report Date	Feb 19, 2020
Sales Surprise	-3.36%
EPS Surprise	-2.63%
Quarterly EPS	0.37
Annual EPS (TTM)	NA

Recent News

Owl Rock Capital Prices Public Offering of \$500 Million 3.750% Notes — Jan 15, 2020

Owl Rock Capital announced the pricing of an underwritten public offering worth \$500 million in aggregate principal amount of 3.750% notes due 2025.

Owl Rock Capital Issues Notice to Shareholders Related to Share Buyback Plan — Jan 14, 2020

Owl Rock Capital recently addressed a notice to its stockholders wherein it stated that its board of directors has authorized a share repurchase program to acquire up to \$150 million in the aggregate of ORCC's outstanding common stock.

Owl Rock Capital Declares Minority Investment by Dyal Capital — Nov 11, 2019

Owl Rock Capital recently announced that it has sold a passive, non-voting minority stake to Dyal Capital Partners. However, terms of the deal were not disclosed.

Valuation

Owl Rock's shares are down 34.1% and 24% in the year-to-date period and over the trailing 12-month period, respectively. Stocks in the Zacks sub-industry and the Zacks Finance sector are down 23% and 21.6% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 21% and 15.4%, respectively.

The S&P 500 index is down 15% in the year-to-date period and 3.5% in the past year.

The stock is currently trading at 7.9 trailing 12-month price to earnings ratio, which compares to 8.7 for the Zacks sub-industry, 11.8 for the Zacks sector and 15.8 for the S&P 500 index.

The stock has traded as high as 12.15 and as low as 7.9, with a median of 10.4. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$12 price target reflects 8 price to earnings ratio.

The table below shows summary valuation data for ORCC

Valuation Multiples - ORCC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	7.86	8.68	11.79	15.84
	High	12.15	14.15	16.21	19.36
	Low	7.86	8.68	11.79	15.18
	Median	10.44	11.57	13.97	17.42
P/S F12M	Current	4.87	1.23	5.99	2.91
	High	9.6	1.92	6.65	3.44
	Low	4.87	1.06	5.39	2.55
	Median	7.05	1.4	6.04	3
P/B TTM	Current	0.77	1.5	2.21	3.69
	High	1.26	2.77	2.89	4.56
	Low	0.77	1.5	1.83	2.85
	Median	1.07	2.04	2.51	3.63

As of 03/12/2020

Industry Analysis Zacks Industry Rank: Top 43% (109 out of 253)



Top Peers

Equitable Holdings, Inc. (EQH)	Outperform
TCG BDC, Inc. (CGBD)	Neutral
Consumer Portfolio Services, Inc. (CPSS)	Neutral
FS KKR Capital Corp. (FSK)	Neutral
Fortress Transportation and Infrastructure Investors LLC (FTAI)	Neutral
Moodys Corporation (MCO)	Neutral
On Deck Capital, Inc. (ONDK)	Neutral
FEDNAT HOLDING CO (FNHC)	Underperform

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	ORCC Neutral	X Industry	S&P 500	CPSS Neutral	FNHC Underperform	FTAI Neutral
VGM Score	F	-	-	-	F	A
Market Cap	4.66 B	171.45 M	17.38 B	66.47 M	150.70 M	902.63 M
# of Analysts	6	3	13	1	1	4
Dividend Yield	10.52%	0.00%	2.51%	0.00%	3.39%	12.43%
Value Score	F	-	-	-	C	B
Cash/Price	0.05	0.26	0.05	1.73	0.69	0.17
EV/EBITDA	11.99	4.92	10.90	15.50	4.68	1.52
PEG Ratio	NA	0.99	1.54	NA	NA	NA
Price/Book (P/B)	0.77	0.76	2.35	0.33	0.64	0.67
Price/Cash Flow (P/CF)	9.57	6.83	9.60	2.68	78.11	3.72
P/E (F1)	7.75	9.99	13.98	NA	6.24	12.49
Price/Sales (P/S)	6.49	1.16	1.89	0.19	0.36	1.49
Earnings Yield	13.15%	9.60%	7.07%	NA%	16.04%	8.00%
Debt/Equity	0.51	0.47	0.70	10.46	0.40	0.03
Cash Flow (\$/share)	1.23	0.58	7.01	1.10	0.14	2.86
Growth Score	F	-	-	NA	F	A
Hist. EPS Growth (3-5 yrs)	NA%	11.32%	10.85%	-19.52%	-35.11%	2.68%
Proj. EPS Growth (F1/F0)	0.76%	9.49%	5.99%	NA	5,766.67%	51.79%
Curr. Cash Flow Growth	109.95%	-10.40%	6.15%	-12.73%	-90.29%	36.45%
Hist. Cash Flow Growth (3-5 yrs)	NA%	10.01%	8.52%	18.03%	7.25%	100.19%
Current Ratio	1.83	1.18	1.24	11.54	0.49	0.19
Debt/Capital	33.70%	35.74%	42.57%	91.27%	28.38%	2.69%
Net Margin	66.78%	14.18%	11.64%	3.05%	0.24%	36.35%
Return on Equity	9.20%	9.09%	16.74%	4.32%	-0.15%	4.27%
Sales/Assets	0.09	0.22	0.54	0.14	0.38	0.20
Proj. Sales Growth (F1/F0)	31.86%	4.13%	3.54%	-5.87%	20.78%	8.48%
Momentum Score	C	-	-	-	F	A
Daily Price Chg	-6.65%	-8.48%	-10.03%	-1.67%	-3.24%	-15.71%
1 Week Price Chg	-3.41%	-0.72%	-0.67%	-4.09%	-9.36%	-5.59%
4 Week Price Chg	-25.85%	-26.32%	-28.22%	-28.40%	-32.71%	-47.14%
12 Week Price Chg	-35.71%	-24.76%	-25.63%	-10.88%	-35.81%	-43.87%
52 Week Price Chg	NA%	-31.16%	-16.72%	-32.96%	-37.51%	-37.64%
20 Day Average Volume	1,028,245	58,714	3,061,271	17,121	66,749	760,896
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	NA	0.00%	0.00%
(F1) EPS Est 4 week change	-1.48%	0.00%	-0.32%	NA	-15.00%	12.21%
(F1) EPS Est 12 week change	-1.48%	-0.25%	-0.65%	NA	-15.00%	12.21%
(Q1) EPS Est Mthly Chg	-1.89%	0.00%	-0.62%	NA	-25.00%	90.00%

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	F
Momentum Score	C
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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