

Owl Rock Capital (ORCC)

\$12.71 (As of 05/12/20)

Price Target (6-12 Months): **\$13.00**

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: F

Summary

Owl Rock Capital's first-quarter 2020 earnings per share of 37 cents missed the Zacks Consensus Estimate of 38 cents by 2.6% and fell 9.8% year over year due to the turmoil in financial markets triggered by the COVID-19 pandemic. It has been witnessing a strong revenue momentum since 2015. It boasts a solid diversified portfolio of investments in middle-market companies, comprising numerous new investment commitments. Its profile reflects variety across 27 industries. It continues to seek opportunities in stable, large and recession-resistant businesses, which, in turn, will aid top-line. It has been deploying capital to enhance shareholder value. Its shares have outperformed its industry in a year's time. However, it has been witnessing an elevated expense level, which might weigh on its margins. Its weak balance sheet bothers too.

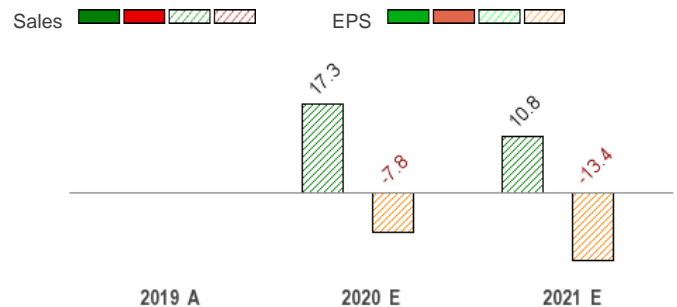
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.19 - \$8.09
20 Day Average Volume (sh)	1,411,948
Market Cap	\$4.9 B
YTD Price Change	-29.0%
Beta	NA
Dividend / Div Yld	\$1.24 / 9.8%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Bottom 41% (149 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-2.6%
Last Sales Surprise	-1.9%
EPS F1 Est- 4 week change	-8.4%
Expected Report Date	08/04/2020
Earnings ESP	0.0%
P/E TTM	8.4
P/E F1	9.0
PEG F1	NA
P/S TTM	6.3

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	225 E	231 E	236 E	240 E	933 E
2020	205 A	201 E	215 E	220 E	842 E
2019		176 A	188 A	202 A	718 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.31 E	\$0.32 E	\$0.32 E	\$0.33 E	\$1.23 E
2020	\$0.37 A	\$0.37 E	\$0.40 E	\$0.31 E	\$1.42 E
2019		\$0.42 A	\$0.36 A	\$0.37 A	\$1.54 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 05/12/2020. The reports text is as of 05/13/2020.

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.

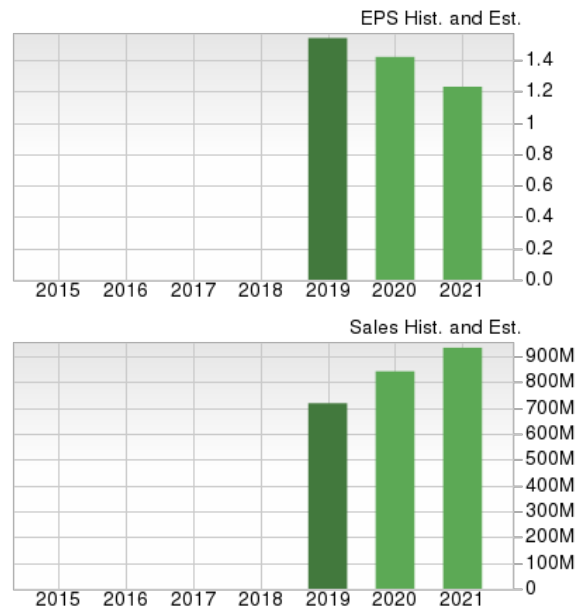
In July 2019, Owl Rock Capital Corporation, externally managed by Owl Rock Capital Advisors LLC, announced its plan to make a first public offering of 9,500,000 shares of its common stock. This Business Development Company started trading under the symbol "ORCC" on the New York Stock Exchange effective 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. In fact, its top line saw a 2016-2019 CAGR of 195%, which is impressive. In the quarter, total investment income was \$205 million, up 35.2% year over year. 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% and 19.9% year over year in 2019 and the first three months of 2020, respectively, 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 concluded the first quarter with investments in 101 portfolio companies across 27 industries. It added seven new portfolio companies in the period. It 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.
- ▲ **Undervalued:** The company's valuation looks impressive. Its price to book value stands at 0.9X, lower than its industry average of 1.4X and median of 1.1X.
- ▲ **Impressive Dividend Yield:** The company flaunts an impressive capital position. On the back of its solid balance sheet, it recently announced a dividend for the second quarter. Its dividend yield stands at 9.8%, much higher than its industry's average of 2.3%.
- ▲ **Share Price Performance:** Shares of the company have underperformed its industry in a year's time. 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 9.5%, much lower than the industry's average of 22.2%. This reflects the company's relative inefficiency in utilizing its shareholders' 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. Net operating expenses of \$56 million rose 4.8% year over year due to higher management fees, performance-based incentive fees, professional fees, directors' fees, and other general and administrative costs. 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.
- ▼ **Weak Capital Position:** Total debt of the company accounts for 65.6% (compared with 33.7% as of Dec 31, 2019) of its capital, higher than the industry average of 64%. Its times interest earned now stands at 5.1X (compared with 4.7X sequentially), lower than its industry's average of 5.9X. As of Mar 31, 2020, it had cash and restricted cash worth \$382.9 million and a \$1.6-billion amount available under its credit facilities. However, the available cash and credit facility together is lower than its debt of \$3.6 billion. Although the company doesn't have any debt maturities until December 2022, its lack of financial flexibility is a concern.

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

Last Earnings Report

Owl Rock Capital's Q1 Earnings Miss, Decline Y/Y

Owl Rock Capital's first-quarter 2020 earnings per share of 37 cents missed the Zacks Consensus Estimate of 38 cents by 2.6%. Moreover, the bottom line declined 9.8% year over year.

This downside was mainly due to the turmoil in financial markets triggered by the COVID-19 pandemic.

Quarter Ending **03/2020**

Report Date	May 05, 2020
Sales Surprise	-1.88%
EPS Surprise	-2.63%
Quarterly EPS	0.37
Annual EPS (TTM)	1.52

Quarter in Detail

In the quarter, total investment income was \$204.7 million, up 35.2% year over year. This upside can be attributable to strengthened investment portfolio.

New investment commitments were nearly \$731 million, down 19.9% year over year.

The company concluded the first quarter with investments in 101 portfolio companies across 27 industries.

Net operating expenses of \$56 million rose 4.8% year over year due to higher management fees, performance-based incentive fees, professional fees, directors' fees, and other general and administrative costs.

Share Repurchase Update

In the first quarter, the company's agent Goldman, Sachs & Co. bought back shares worth \$48 million under the 10b5-1 Plan.

Financial Update

As of Mar 31, 2020, the company's interest expenses of \$34 million dipped 2.2% year over year.

As of Mar 31, 2020, the company had cash and restricted cash of \$0.4 billion, an amount of \$3.7 billion in total principal value of debt outstanding and \$1.6 billion of undrawn capacity in credit facilities.

As of Mar 31, 2020, the company had total assets worth \$9.4 billion, up 2.3% from the level at 2019 end.

It ended the first quarter with debt of nearly \$3.6 billion, up 19.8% from the level at last-year end.

Net cash used in operating activities for the first quarter of 2020 totaled \$0.3 billion, down 60.3% from the level at 2019 end.

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 29% and 18.1% 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 25.5% and 26% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 27% and 20% respectively.

The S&P 500 index is down 9% in the year-to-date period and up 3% in the past year.

The stock is currently trading at 9.31x forward 12-month earnings, which compares to 11.72x for the Zacks sub-industry, 14.8x for the Zacks sector and 21.13x for the S&P 500 index.

The stock has traded as high as 12.15x and as low as 5.53x, with a median of 10.24x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 9.56x forward 12-month earnings.

The table below shows summary valuation data for ORCC

Valuation Multiples - ORCC					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	9.31	11.72	14.8	21.13
	High	12.15	14.15	16.2	21.13
	Low	5.53	8.7	11.58	15.18
	Median	10.24	11.6	13.95	17.45
P/S F12M	Current	5.58	1.02	5.81	3.24
	High	9.6	1.91	6.7	3.44
	Low	3.4	1.02	5	2.54
	Median	6.9	1.4	6.04	3
P/B TTM	Current	0.9	1.35	2.03	3.77
	High	1.26	2.77	2.89	4.56
	Low	0.54	1.07	1.71	2.85
	Median	1.07	1.99	2.52	3.65

As of 05/12/2020

Industry Analysis Zacks Industry Rank: Bottom 41% (149 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
TCG BDC Inc (CGBD)	Neutral	3
Consumer Portfolio Services Inc (CPSS)	Neutral	3
Equitable Holdings Inc (EQH)	Neutral	4
FS KKR Capital Corp (FSK)	Neutral	3
Fortress Transportation and Infrastructure Investors LLC (FTAI)	Neutral	3
Moody's Corporation (MCO)	Neutral	3
On Deck Capital Inc (ONDK)	Neutral	3
FEDNAT HOLDING CO (FNHC)	Underperform	4

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	ORCC	X Industry	S&P 500	CPSS	FNHC	FTAI
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Underperform	Neutral
Zacks Rank (Short Term)	3	-	-	3	4	3
VGM Score	F	-	-	A	A	F
Market Cap	4.88 B	171.47 M	19.25 B	55.46 M	153.69 M	811.99 M
# of Analysts	6	3	14	1	1	4
Dividend Yield	9.76%	0.00%	2.21%	0.00%	3.20%	13.84%
Value Score	F	-	-	A	B	D
Cash/Price	0.08	0.50	0.06	2.26	0.75	0.14
EV/EBITDA	13.22	5.04	11.70	15.76	9.30	1.64
PEG Ratio	NA	2.14	2.61	NA	NA	NA
Price/Book (P/B)	0.90	0.82	2.61	0.46	0.67	0.62
Price/Cash Flow (P/CF)	10.31	6.18	10.36	3.33	82.79	3.34
P/E (F1)	8.82	11.89	19.13	3.75	8.33	NA
Price/Sales (P/S)	6.32	1.19	1.96	0.17	0.36	1.36
Earnings Yield	11.17%	7.46%	5.00%	26.64%	12.01%	-3.25%
Debt/Equity	0.66	0.49	0.75	17.68	0.41	0.05
Cash Flow (\$/share)	1.23	0.60	7.01	0.73	0.14	2.86
Growth Score	F	-	-	B	A	F
Hist. EPS Growth (3-5 yrs)	NA%	11.02%	10.82%	-27.11%	-35.61%	22.60%
Proj. EPS Growth (F1/F0)	-7.79%	-13.40%	-10.31%	195.45%	4,600.00%	-155.80%
Curr. Cash Flow Growth	109.95%	5.45%	5.83%	-33.55%	-90.29%	36.45%
Hist. Cash Flow Growth (3-5 yrs)	NA%	13.16%	8.52%	-5.30%	-45.30%	100.19%
Current Ratio	1.56	1.20	1.27	11.88	0.53	0.12
Debt/Capital	39.78%	34.62%	44.25%	94.65%	29.18%	4.55%
Net Margin	9.20%	9.20%	10.59%	4.40%	1.63%	37.66%
Return on Equity	9.50%	8.36%	16.33%	3.11%	2.66%	4.54%
Sales/Assets	0.09	0.22	0.55	0.13	0.39	0.19
Proj. Sales Growth (F1/F0)	17.21%	0.00%	-2.53%	-16.72%	19.58%	-28.90%
Momentum Score	F	-	-	A	F	D
Daily Price Chg	0.47%	-1.21%	-2.55%	-12.86%	-3.60%	-6.10%
1 Week Price Chg	2.23%	0.50%	3.23%	-5.15%	1.78%	-4.89%
4 Week Price Chg	0.24%	0.33%	-0.84%	53.46%	-9.14%	-0.31%
12 Week Price Chg	-19.66%	-26.68%	-21.82%	-38.49%	-28.95%	-55.19%
52 Week Price Chg	NA%	-33.15%	-10.27%	-33.15%	-24.97%	-40.41%
20 Day Average Volume	1,411,948	77,104	2,520,117	65,622	59,099	805,336
(F1) EPS Est 1 week change	-2.41%	0.00%	0.00%	0.00%	-10.00%	0.00%
(F1) EPS Est 4 week change	-8.39%	-14.88%	-6.29%	-30.11%	-20.59%	-103.97%
(F1) EPS Est 12 week change	-9.84%	-23.04%	-16.21%	47.73%	-32.50%	-103.08%
(Q1) EPS Est Mthly Chg	-10.30%	-10.87%	-12.28%	59.38%	-28.57%	-390.39%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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	F
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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