

Owl Rock Capital (ORCC)

\$15.90 (As of 02/14/20)

Price Target (6-12 Months): **\$17.00**

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

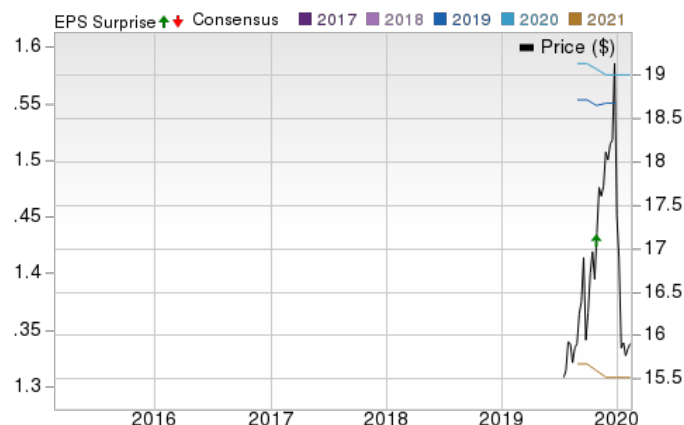
Growth: F

Momentum: B

Summary

Owl Rock Capital 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 now consists of 96 portfolio companies 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. A Zacks Rank #3 and an Earnings ESP of 0.00% leave us inconclusive of its surprise as it is set to report its fourth-quarter earnings on Feb 19.

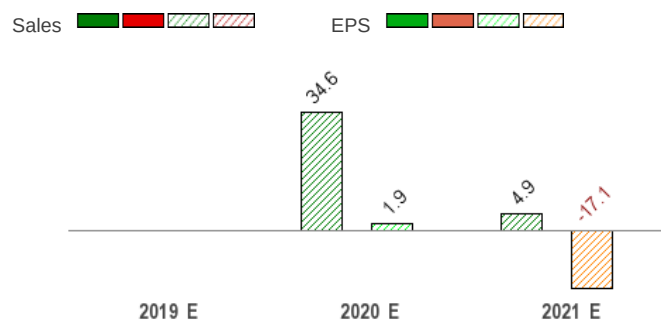
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$19.19 - \$15.02
20 Day Average Volume (sh)	753,743
Market Cap	\$6.2 B
YTD Price Change	-11.1%
Beta	NA
Dividend / Div Yld	\$1.24 / 7.8%
Industry	Financial - Miscellaneous Services
Zacks Industry Rank	Bottom 31% (175 out of 255)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	0.0%
Last Sales Surprise	3.5%
EPS F1 Est- 4 week change	0.0%
Expected Report Date	02/19/2020
Earnings ESP	0.0%

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	256 E	259 E	262 E	264 E	1,024 E
2020	226 E	243 E	253 E	255 E	976 E
2019		176 A	188 A	209 E	725 E

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.32 E	\$0.33 E	\$0.34 E	\$0.34 E	\$1.31 E
2020	\$0.40 E	\$0.42 E	\$0.44 E	\$0.33 E	\$1.58 E
2019		\$0.42 A	\$0.36 A	\$0.38 E	\$1.55 E

*Quarterly figures may not add up to annual.

P/E TTM	NA
P/E F1	10.1
PEG F1	NA
P/S TTM	9.6

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 02/14/2020. The reports text is as of 02/17/2020.

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. As of Jun 30, 2019, Owl Rock Capital Partners and its subsidiaries had around \$13 billion of assets under management.

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. It ended 2018 with investments in 73 companies across 26 industries.

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.

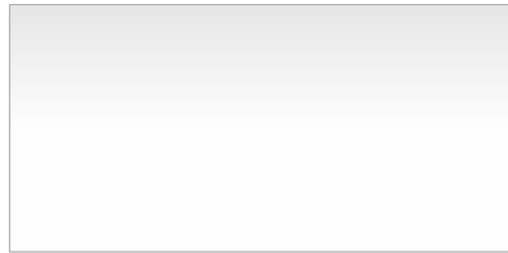
The Owl Rock Lending LLC formed in 2016 provides loans to borrowers. It has headquarters in California. This is a wholly-owned subsidiary of the parent company.

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.

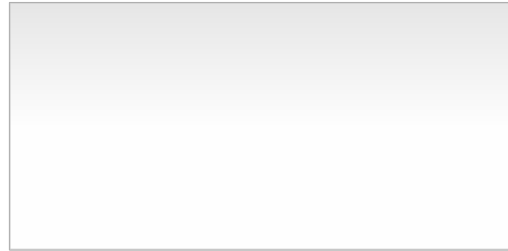
Owl Rock Capital Corporation II is a company founded to be treated as a Business Development Company (BDC). It ended 2018 with gross proceeds of around \$449 million.

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.

EPS Hist. and Est.



Sales Hist. and Est.



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 total revenues saw a 2016-2018 CAGR of 267.4%, which is impressive. In the first nine months of 2019, the investment income skyrocketed 101% year over year on the back of 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 2016-2018 new investment commitments CAGR of 127.9%. It made new investment commitments in 21, 25 and 44 new portfolio companies in 2016, 2017 and 2018, respectively. 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 2018 with 73 portfolio companies, the average investment size in each portfolio company being around \$79.2 million based on fair value. It exited the third quarter of 2019 with a portfolio size of \$8.3 billion. 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 7.8%, much higher than its industry's average of 1.5%. It recently cleared a special dividend of 4 cents per share, second of the company's previously announced six special dividends. Moreover, its leverage ratio (total debt to equity) stands at 41.5%, much lower than its industry's average of 175%. It also came up with a 10b5-1 buyback program. 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 22.3%. This reflects the company's relative inefficiency in using shareholder's funds.
- ▼ **Escalating Expenses:** Owl Rock's expenses have been rising from the last few years. Its operating expenses escalated 239% and 116%, respectively, in 2017 and 2018. Although the same decreased 13% in the first nine months of 2019, escalating expenses are 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's Q3 Earnings Fall Y/Y on Cost Woes

Owl Rock Capital's third-quarter 2019 earnings per share of 31 cents declined 29.5% year over year due to rise in expenses, which outpaced growth in net investment income.

Net investment income of the company jumped 92.6% year over year to \$137.9 million on the back of higher investment portfolio.

Results in Detail

In the quarter, new investment commitments decreased 10.1% year over year to \$1.5 billion.

The company concluded the third quarter with investments in 96 portfolio companies across 27 industries.

The company's interest expenses shot up 37.6% year over year to \$29.4 million.

For the quarter under review, total operating expenses skyrocketed 111.3% to \$81.6 million due to higher interest expense, management fees, performance-based incentive fees plus other general and administrative costs.

Capital Position

As of Sep 30, 2019, the company has cash and restricted cash of \$197.6 million, up 30.2% year over year. It ended the third quarter with debt of \$2.4 billion, down 4.2% from the last year-end level.

As of Sep 30, 2019, the company had total assets of \$8.6 billion, up 44% from the level at 2018 end.

Net cash used in operating activities for the first nine months of 2019 totaled \$2.1 billion, up 2.8% year over year.

As of Sep 30, 2019, member's equity stands at \$183.9 million.

Quarter Ending **09/2019**

Report Date	Oct 30, 2019
Sales Surprise	3.48%
EPS Surprise	0.00%
Quarterly EPS	0.36
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 up 2.5% over the trailing 12-month period. Over the past year, the Zacks sub-industry and sector are up 12.2% and 9.3%, respectively.

The S&P 500 index is up 21% over the past year.

The stock is currently trading at 10.31X trailing 12-month price to earnings ratio, which compares to 12.15X for the Zacks sub-industry, 15.03X for the Zacks sector and 19.36X for the S&P 500 index.

The stock has traded as high as 12.15X and as low as 9.9X, with a median of 10.72X. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$17 price target reflects 11.03X 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	10.31	12.15	15.03	19.36
	High	12.15	14.15	16.21	19.36
	Low	9.9	8.7	12	15.18
	Median	10.72	11.66	14.15	17.47
P/S F12M	Current	6.3	1.12	6.55	3.58
	High	9.6	1.92	6.65	3.58
	Low	6.22	1.06	5.39	2.55
	Median	7.11	1.41	6.04	3
P/B TTM	Current	1.04	2.1	2.86	4.36
	High	1.26	2.77	2.89	4.42
	Low	1.03	1.58	1.83	2.85
	Median	1.1	2.04	2.51	3.61

As of 02/14/2020

Industry Analysis Zacks Industry Rank: Bottom 31% (175 out of 255)



Top Peers

Equitable Holdings, Inc. (EQH)	Outperform
TCG BDC, Inc. (CGBD)	Neutral
Consumer Portfolio Services, Inc. (CPSS)	Neutral
FEDNAT HOLDING CO (FNHC)	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

Industry Comparison Industry: Financial - Miscellaneous Services				Industry Peers		
	ORCC Neutral	X Industry	S&P 500	CPSS Neutral	FNHC Neutral	FTAI Neutral
VGM Score	F	-	-	C	D	A
Market Cap	6.19 B	257.15 M	24.61 B	89.67 M	237.98 M	1.75 B
# of Analysts	6	3	13	2	1	4
Dividend Yield	7.80%	0.00%	1.78%	0.00%	2.26%	6.40%
Value Score	F	-	-	A	B	C
Cash/Price	0.03	0.26	0.04	1.68	0.51	0.09
EV/EBITDA	27.58	5.54	14.06	15.68	7.87	7.75
PEG Ratio	NA	1.86	2.09	NA	NA	NA
Price/Book (P/B)	1.04	1.22	3.29	0.44	0.89	1.58
Price/Cash Flow (P/CF)	NA	9.70	13.65	3.62	9.70	9.61
P/E (F1)	10.06	13.33	19.21	9.05	7.95	27.22
Price/Sales (P/S)	9.63	1.64	2.70	0.26	0.59	3.00
Earnings Yield	9.94%	7.45%	5.19%	11.06%	12.58%	3.69%
Debt/Equity	0.42	0.42	0.71	10.46	0.41	0.04
Cash Flow (\$/share)	NA	0.55	6.92	1.10	1.64	2.15
Growth Score	F	-	-	D	F	A
Hist. EPS Growth (3-5 yrs)	NA%	11.32%	10.85%	-19.52%	-33.97%	-6.54%
Proj. EPS Growth (F1/F0)	1.61%	7.61%	7.17%	41.94%	60.00%	47.09%
Curr. Cash Flow Growth	153.66%	8.09%	8.56%	-12.73%	60.22%	62.00%
Hist. Cash Flow Growth (3-5 yrs)	NA%	9.91%	8.36%	18.03%	7.25%	43.40%
Current Ratio	1.30	1.26	1.23	11.54	0.50	0.12
Debt/Capital	29.33%	34.62%	42.91%	91.27%	29.32%	3.75%
Net Margin	65.71%	13.92%	11.81%	3.05%	-0.35%	6.97%
Return on Equity	9.20%	9.20%	16.86%	4.32%	0.91%	3.62%
Sales/Assets	0.09	0.22	0.54	0.14	0.40	0.20
Proj. Sales Growth (F1/F0)	34.63%	5.03%	3.85%	-5.87%	15.30%	18.71%
Momentum Score	B	-	-	D	C	B
Daily Price Chg	0.00%	0.00%	0.06%	-3.40%	0.89%	2.64%
1 Week Price Chg	0.51%	1.02%	2.47%	4.31%	2.12%	2.87%
4 Week Price Chg	-0.69%	0.00%	0.59%	15.70%	-3.64%	7.96%
12 Week Price Chg	-9.76%	3.32%	6.98%	15.70%	9.96%	22.66%
52 Week Price Chg	NA%	-2.40%	16.62%	-3.16%	-14.65%	37.93%
20 Day Average Volume	753,743	49,891	2,020,569	16,379	49,891	264,954
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	0.00%	0.00%	-0.05%	0.00%	0.00%	0.00%
(F1) EPS Est 12 week change	0.00%	-0.14%	-0.17%	0.00%	0.00%	16.54%
(Q1) EPS Est Mthly Chg	0.00%	0.00%	-0.24%	0.00%	0.00%	0.00%

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	B
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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