

## Owl Rock Capital (ORCC)

**\$12.03** (As of 08/21/20)

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

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 08/19/19)

Prior Recommendation:

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:F

Value: D

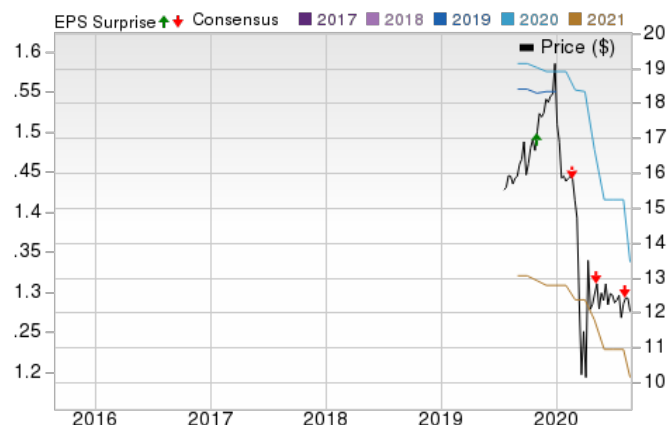
Growth: D

Momentum: C

### Summary

Owl Rock Capital's earnings per share of 34 cents missed the Zacks Consensus Estimate by 8.1%. The bottom line declined 19% year over year due to the COVID-19-led turmoil in the financial markets. It has been witnessing strong revenue momentum since 2015, driven by improved interest income and growth strategies. It concluded the second quarter with investments in 102 portfolio companies with an aggregate fair value of \$9.2 billion. It continues to seek opportunities in stable, large and recession-resistant businesses, which, in turn, will aid top-line. Its shares have underperformed its industry year-to-date. Nevertheless, it has been deploying capital to enhance shareholder value. However, it has been witnessing an elevated expense level, which is likely to escalate owing to its investments. Pressure on interest income is another concern.

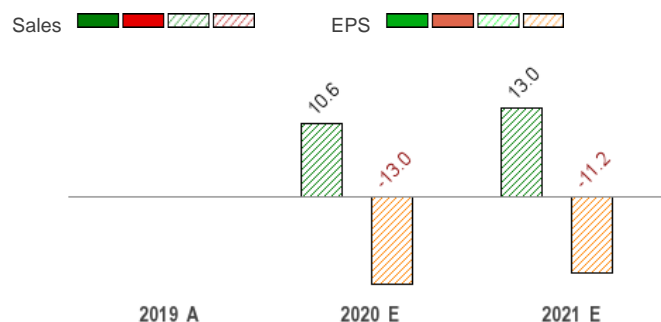
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$19.19 - \$8.09
20 Day Average Volume (sh)	1,085,199
Market Cap	\$4.6 B
YTD Price Change	-32.8%
Beta	NA
Dividend / Div Yld	\$1.24 / 10.3%
Industry	<a href="#">Financial - Miscellaneous Services</a>
Zacks Industry Rank	Bottom 19% (204 out of 252)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-8.1%
Last Sales Surprise	-5.3%
EPS F1 Est- 4 week change	-5.5%
Expected Report Date	NA
Earnings ESP	0.0%

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	210 E	220 E	229 E	237 E	897 E
2020	205 A	190 A	196 E	203 E	794 E
2019		176 A	188 A	202 A	718 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$0.29 E	\$0.30 E	\$0.32 E	\$0.32 E	\$1.19 E
2020	\$0.37 A	\$0.34 A	\$0.36 E	\$0.28 E	\$1.34 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	8.4
P/E F1	9.0
PEG F1	NA
P/S TTM	5.9

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/21/2020. The reports text is as of 08/24/2020.

## 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.

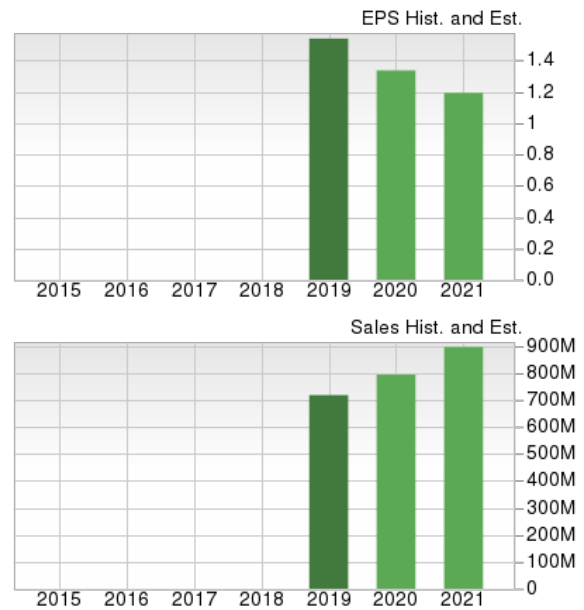
In July 2019, Owl Rock Capital Corporation, externally managed by Owl Rock Capital Advisors LLC, announced its plan to make a first public offering of 9,500,000 shares of its common stock. This Business Development Company started trading under the symbol "ORCC" on the New York Stock Exchange effective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



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## 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 \$394.9 million, up 20.6% 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.
- ▲ **Undervalued:** The company's valuation looks impressive. Its price to book value stands at 0.8X, lower than its industry average of 1.8X and the median of 1X.
- ▲ **Impressive Dividend Yield:** The company flaunts a strong capital position. On the back of its solid balance sheet, it recently announced a dividend for the second quarter. It declared six quarterly special dividends starting the third quarter of 2019. Its dividend yield stands at 10.3%, much higher than its industry's average of 1.8%.
- ▲ **Share Price Performance:** Shares of the company have underperformed its industry year to date. The stock is expected to bounce back on the back of its strong fundamentals, such as steady capital position and a strong portfolio.
- ▲ **Strong Capital Position:** Total debt of the company accounts for 38.5% (in line sequentially) of its capital, lower than the industry average of 61.2%. As of Jun 30, 2020, it had cash and restricted cash worth \$0.2 and a \$1.7-billion amount available under its credit facilities. The available cash and credit facility together is lower than its debt of \$3.5 billion. However, it added commitments to its senior security revolver of more than \$1.3 billion. Nevertheless, the company doesn't have any debt maturities until December 2022. Its financial flexibility impresses.

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.

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## Reasons To Sell:

- ▼ **Low Return on Equity:** Its return on equity — a profitability measure — stands at 9.7%, much lower than the industry's average of 18.1%. 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. In the first six months of 2020, operating expenses rose 81% year over year. 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.
- ▼ **Pressure on Interest Income:** Due to sharp decline in LIBOR in the recent months, the company is likely to witness pressure on interest income in its third quarter before it flattens out.
- ▼ **Pressure on Investment Commitments:** Although the company had a strong portfolio of investments in companies consisting of several new commitments, the metric has been declining since 2019. In the first six months of 2020, the same declined 64% year over year, which remains a huge concern for the company.

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

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## Last Earnings Report

### Owl Rock Capital's Q2 Earnings Miss, Decrease Y/Y

Owl Rock Capital's second-quarter 2020 earnings per share of 34 cents missed the Zacks Consensus Estimate by 8.1%. Moreover, the bottom line declined 19% year over year.

This downside was mainly due to the COVID-19-led turmoil in the financial markets.

#### Quarter in Detail

In the quarter, total investment income was \$190.2 million, up 8% year over year. This upside can be attributed to a strengthened investment portfolio. However, the same was partly offset by a decline in portfolio yield.

New investment commitments were \$342.7 million, down 53.1% year over year.

The company concluded the second quarter with investments in 102 portfolio companies with an aggregate fair value of \$9.2 billion.

Net operating expenses of \$101 million rose 79.2% year over year due to higher management fees, performance-based incentive fees and professional fees.

#### Dividend Update

The company declared a third-quarter dividend of 31 cents per share and had previously cleared a special dividend of 8 cents for its stockholders of record as of Sep 30, 2020. The amount will be paid out on or before Nov 13, 2020.

#### Financial Update

As of Jun 30, 2020, the company's interest expenses of \$39 million increased 6.3% year over year.

As of Jun 30, 2020, the company had cash and restricted cash of \$0.2 billion, an amount of \$3.5 billion in total principal value of debt outstanding and \$1.7 billion of undrawn capacity in credit facilities.

As of Jun 30, 2020, the company had total assets worth \$9.5 billion, up 3.2% from the level at 2019-end.

It ended the second quarter with \$3.5 billion debt, up 15% from the level at last-year end.

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Quarter Ending	06/2020
Report Date	Aug 04, 2020
Sales Surprise	-5.34%
EPS Surprise	-8.11%
Quarterly EPS	0.34
Annual EPS (TTM)	1.44

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## Recent News

### Owl Rock Capital Prices Public Offering of \$500 Million 4.250% Notes — Jul 16, 2020

Owl Rock Capital announced the pricing of an underwritten public offering worth \$500 million in aggregate principal amount of 4.250% notes due on Jan 15, 2026.

### 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.

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## Valuation

Owl Rock's shares are down 28.3% and 16.6% 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 12.4% and 16% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 9% and 5% respectively.

The S&P 500 index is up 7% in the year-to-date period and 21% in the past year.

The stock is currently trading at 9.67x forward 12-month earnings, which compares to 12.77x for the Zacks sub-industry, 16.4x for the Zacks sector and 22.85x 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 10.1x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$13 price target reflects 10.36x 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	9.67	12.77	16.4	22.85
	High	12.15	14.14	16.4	22.85
	Low	5.53	8.7	11.6	15.25
	Median	10.1	11.6	14.26	17.58
P/S F12M	Current	5.38	1.44	6.22	3.71
	High	9.6	1.77	6.66	3.71
	Low	3.4	1.02	4.96	2.53
	Median	6.3	1.34	6.06	3.05
P/B TTM	Current	0.82	1.75	2.45	4.56
	High	1.26	2.77	2.91	4.56
	Low	0.54	1.12	1.71	2.83
	Median	1.03	1.97	2.52	3.75

As of 08/21/2020

## Industry Analysis Zacks Industry Rank: Bottom 19% (204 out of 252)



## Top Peers

Company (Ticker)	Rec	Rank
Equitable Holdings, Inc. (EQH)	Outperform	2
TCG BDC, Inc. (CGBD)	Neutral	2
Consumer Portfolio Services, Inc. (CPSS)	Neutral	3
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	5

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)	4	-	-	3	5	3
VGM Score	F	-	-	A	A	C
Market Cap	4.63 B	200.23 M	23.62 B	72.20 M	124.42 M	1.42 B
# of Analysts	6	3	14	1	1	3
Dividend Yield	10.31%	0.00%	1.65%	0.00%	3.96%	7.96%
Value Score	D	-	-	A	A	C
Cash/Price	0.04	0.46	0.07	1.96	1.20	0.07
EV/EBITDA	12.90	3.93	13.29	15.55	4.26	3.02
PEG Ratio	NA	3.20	3.03	NA	NA	NA
Price/Book (P/B)	0.83	0.99	3.11	0.58	0.56	1.14
Price/Cash Flow (P/CF)	9.76	8.30	12.69	4.34	66.88	5.81
P/E (F1)	9.08	17.16	21.51	2.41	NA	191.42
Price/Sales (P/S)	5.89	1.58	2.43	0.23	0.27	2.68
Earnings Yield	11.14%	5.23%	4.46%	41.51%	-18.17%	0.54%
Debt/Equity	0.63	0.40	0.76	16.86	0.44	0.05
Cash Flow (\$/share)	1.23	0.62	6.93	0.73	0.14	2.86
Growth Score	D	-	-	B	C	D
Hist. EPS Growth (3-5 yrs)	NA%	10.78%	10.44%	-28.57%	-36.78%	40.81%
Proj. EPS Growth (F1/F0)	-13.20%	-16.97%	-5.53%	500.00%	-5,400.00%	-84.52%
Curr. Cash Flow Growth	109.95%	5.71%	5.20%	-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	0.56	1.51	1.33	21.67	0.53	0.10
Debt/Capital	38.49%	30.85%	44.50%	94.40%	30.79%	4.75%
Net Margin	31.82%	7.18%	10.13%	5.05%	-4.71%	35.47%
Return on Equity	9.72%	7.39%	14.67%	4.19%	-11.59%	2.13%
Sales/Assets	0.09	0.20	0.51	0.13	0.39	0.17
Proj. Sales Growth (F1/F0)	10.56%	0.00%	-1.54%	-19.65%	9.88%	-28.81%
Momentum Score	C	-	-	B	A	A
Daily Price Chg	0.25%	0.00%	-0.15%	-0.93%	-4.52%	-0.96%
1 Week Price Chg	-0.08%	0.00%	1.09%	-0.15%	0.71%	2.19%
4 Week Price Chg	-0.33%	0.41%	1.64%	0.32%	-2.89%	10.60%
12 Week Price Chg	-4.37%	7.90%	6.72%	21.37%	-25.88%	49.19%
52 Week Price Chg	-24.53%	-10.60%	1.00%	-13.59%	-33.58%	8.79%
20 Day Average Volume	1,085,199	147,913	1,873,576	21,908	43,636	381,303
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-5.54%	3.25%	1.79%	4.76%	-73.68%	338.23%
(F1) EPS Est 12 week change	-5.54%	7.94%	3.35%	4.76%	-210.00%	678.57%
(Q1) EPS Est Mthly Chg	-10.00%	1.37%	0.42%	33.33%	-250.00%	111.11%

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## 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.

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### 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	<b>D</b>
Growth Score	<b>D</b>
Momentum Score	<b>C</b>
VGM Score	<b>F</b>

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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