



Finding Efficient Frontiers



INVEST/STAY CONNECTED

INITIAL REPORT December 28, 2022

LAST UPDATED December 28, 2022

Owl Rock Capital Corp.

Owl Rock Capital Corporation (NYSE: ORCC) is a \$13 billion leveraged bond fund comprised of “middle market” loans that is trading at a 21% discount to its’ NAV. The company is one of the “funds” managed by the \$132 billion asset manager Blue Owl. ORCC is similar to other financial institutions, such as banks, but focuses on one area of lending: middle market loans (MMLs). MMLs are a segment of the U.S. corporate loan market utilized by companies that are generally too small for the bank loan or bond market and too large for other types of financing. The typical borrower profile for ORCC had an average annual revenue of \$632 million and EBITDA of \$136 million. Notable borrowers, in the ORCC portfolio, include Conair, the hair dryer company, Sarah Lee Frozen Bakery and Nutraceutical the vitamin company. MML portfolios have certain favorable characteristics. The loans are generally senior secured and pay interest at a floating rate that is based on interest indexes such as LIBOR. So, if interest rates rise, the loans pay more interest, and in general this flows through to the shareholders*. Since the loans are mostly senior secured they have good recovery rates in the case of defaults.

For this type of portfolio, we look at different default scenarios in order to gauge risk. If we project a 30% default rate in the portfolio and a 55% recovery we estimate an NAV decrease to 10.87. This default scenario would be 2.5-3 X higher than the 2008 financial crisis, so we believe this is a worst case scenario. And 10.87 compares favorably to the current \$11.86 share price and \$14.85 book value. ORCC reports an annual loss on defaults of .11% since inception.

Since inception the shares have traded higher and lower to the NAV or book value per share and historically this has resulted in the shares returning closer to NAV. So, we believe that the current 20% discount to NAV will contract over time.

ORCC reported 37 cents of net investment income in the third quarter, an increase of 20% from the previous quarter and management expects income to increase to 39 cents in the fourth quarter. Our buy recommendation and price target of \$13.50 is based on a more reasonable 10% discount to NAV, the stability of middle market loans and the good operating history of the fund.

*Please see disclosures on pg. 2

Recommendation: Buy, Price Target 13.50

Current ORCC Portfolio as of 9/30/2022

Portfolio Companies	180
Avg investment / company	\$71.3 mm
First Lien Debt	72%
Second Lien Debt	14%
Unsecured Debt & Funds	4%
Preferred & Common Equity	6%
Floating Rate Debt	99%
Weighted Avg. Yield	10 %
Avg Fair Value of Debt	97%
Total Investments	\$12.65 B
Cash	\$.45 B

ORCC Debt Principal In millions

Bank Debt	\$983
CLOs	\$2,212
Notes	\$4,175
Total	\$7,370

Share Metrics

Market Price	\$11.78
Book Value	\$14.85
Discount to NAV	20.7%
Dividend 2022	\$1.27
Current Yield	10.78%

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BROXTON CAPITAL ADVISORS ORCC Inc. as of 9/30/2022

Thursday, December 29, 2022

share price \$11.78

PROJECTIONS IN MM fiscal yr 2023 2024 2025

Income Statement

Total Investment Income 1,164 1,246 1,333

Interest expense 287 307 329

Management fee 192 202 329

Performance based incentive fees 116 128 141

Net Investment Income 537 577 619

Net Investment Income / share 1.36 1.47 1.57

Revenue growth 14% 7% 7%

EBITDA 725 782 846

Cash Flow 432 469 511

Valuations

Cash Flow Yield Vs. Equity 9.3% 10.1% 11.0%

EV/EBITDA 16.6 15.4 14.2

share price to NI ratio 8.6 8.0 7.5

Enterprise Value 12,009

Net Total Debt 7,370

Equity Market Cap 4,639 4,639 4,639

Debt Ratios

EBITDA/Interest Coverage ratio 2.5 2.5 2.6

Debt/EBITDA 10.2 9.4 8.7

Liquidity

Cash 450

Borrowing Availability est. 2,100

Total Assets 13,413

Total Liabilities 7,565

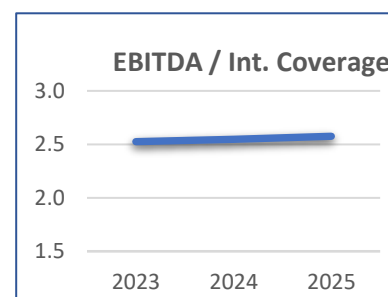
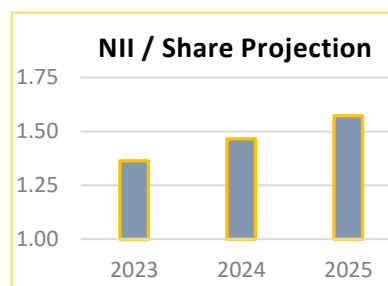
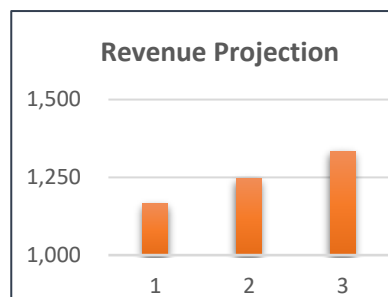
Ratio 177%

Debt

Borrowings 7,370

NOTES:

*For the purpose of this report, we only look at the Net Investment Income after taxes and do not project periodic net gains or losses in the investment portfolio which will cause GAAP EPS to be significantly different than net investment income
* This is a simplified explanation! due to the funds own financing costs rising.
To the right: debt maturities 2027 or later: \$5,941mm



Disclosures

Previous reports are available upon request. Smart Yield Fund targets a mix of different security classes that contain the risk of loss. Investors should carefully consider the Fund's investment objectives and risk factors before investing. Investing involves risk, including possible loss of principal. Investors should consider the loss of principle and targeted returns are not guaranteed. Individual investors in Smart Yield are generally required to be accredited investors. Smart Yield is a fund operated through individual accounts creating the composite. Smart Yield Fund is a new product with an inception date of September 30, 2020, and as such does not have historical data. Asset Mix Projections on page 2 and 6, Smart Yield Portfolio Metrics on page 5 are estimated or targets of the fund. Asset class mix and targets may change based on the direction of the managers. Portfolio allocation projected annual return and beta assumption for each asset class on pages 7-10 are estimated. Beta for the fund and each asset class is estimated versus the S&P 500. The average beta for the entire fund is projected to be .32. Beta is a measure of the fund's volatility in relation to S&P 500 Index. This index has a beta of 1.0. The fund targets a total gross return before fees and expenses of 9.24%. The fund projects a blended return based on income securities and capital gains. Smart Yield attempts to continuously improve the value of investment portfolios by investing in corporate bonds, convertible bonds, other types of bonds (investment grade and sub-investment grade, [which may also have limited liquidity]), dividend paying equities, non-dividend paying equities, ETFs, including leveraged ETFs, and other securities. Fixed income risks include interest-rate and credit risk. Typically, when interest rates rise, there is a corresponding decline in bond values. Credit risk refers to the possibility that the bond issuer will not be able to make principal and interest payments. All securities types mentioned in this brochure have the risk of loss. Long term strategies purchase securities which are underpriced according to our appraisal methodologies. Broxton uses regression analysis to obtain an average appraisal value for an individual company and places a priority on the securities of companies with improving financial performance and or additional catalysts that provide for increases in earnings and valuation. We use financial modeling, technical analysis, proprietary and third-party research. Smart Yield does not have any capitalization (market size), sector or industry allocation mandates. Asset class allocation percentages may be changed without notice. Broxton deploys technical analysis and momentum as indicators of movement for shorter term strategies, that may not involve deep fundamental analysis. Shorting (selling and then buying) of securities can be used for hedging and as a long term or short-term strategy. We exit positions in accordance with our discipline, this includes when valuation targets are clearly exceeded, or financial performance falls below our projections. Since Smart Yield returns will be calculated using a composite of accounts, the average account will not match the composite return and the return could be higher or lower. Broxton offers Smart Yield for other investment managers. Any commentary is solely the opinion of the Broxton Capital Advisors. It refers to securities we hold in our portfolio and sometimes ones we are considering but does not represent a complete list of positions held at Broxton Capital Advisors. A complete list covering the last twelve months will be furnished upon request. Price targets are mentioned for information purposes only. Nothing contained herein constitutes a recommendation to purchase or sell securities at any designated price or time. Targeted performance does not guarantee future results. 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Also, from time-to-time we may also discuss and display, charts, graphs, formulas which are not intended to be used by themselves to determine which securities to buy or sell, or when to buy or sell them. Such charts and graphs offer limited information and should not be used on their own to make investment decisions.

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