

SMART YIELD INCOME FUND

Finding Efficient Frontiers



INVEST/STAY CONNECTED

INITIAL REPORT MAY 27, 2025

LAST UPDATED MAY 27, 2025

ARES CAPITAL CORPORATION

We continue our coverage of publicly traded loan portfolios by initiating coverage on the common shares of Ares Capital Corporation (ARCC). With an equity value of approximately \$15 billion, Ares is the largest Business Development Company (BDC). BDCs are investment companies established by the government that are generally not taxed but must meet certain requirements and distribute at least 90% of their taxable income to shareholders, similar to REITs. Their primary requirement is lending to or investing in "[middle market companies](#)" or smaller companies. BDC companies make loans and investments and pay the profits to their shareholders. BDCs offer one of the highest yields along with the professional management of the investment portfolio companies. At 8.74%, ARCC yields close to 100% over the ten year treasury and roughly 50% over the high yield index (HYG).

There are roughly 200,000 middle market companies in the U.S., most of them privately held, with a combined annual revenue exceeding \$10 trillion. Examples of ARCC portfolio companies include ADF Restaurant Group, LLC, an owner-operator of several hundred fast-food restaurants under the Pizza Hut, Taco Bell, and KFC brands, and Equinox Holdings, an operator of luxury, full-service fitness clubs.

As of the most recent reporting period, the Ares portfolio is valued at \$27.13 billion and is comprised of: 73% senior secured loans, 20% preferred and common equity investments and 7% in Ivy Hill Asset Management, L.P. On its most recent earnings call, ARCC management highlighted stable portfolio yields following the 2024 rate cuts, along with an average trailing twelve-month (TTM) EBITDA growth of 12% across portfolio companies.

BDCs are an excellent way to get meaningful income into portfolios. Ares Capital is considered a premium BDC that has a broadly diversified income-generating portfolio. We initiated coverage with a Hold rating due to the current 10% trading price premium to its net asset value (NAV). Also, ARCC has a higher than average Payment-in-Kind (PIK) ratio (interest and dividends are paid in securities). 10% of ARCC's interest and dividend income is collected via PIK Payment-in-Kind. Over the last five years ARCC has traded above and below its NAV. We recommend investors try to buy the shares in the \$20-21 range or a more reasonable 2-5% premium to NAV.

\$21.97 / Recommendation: Hold, target \$21.00

Company Stats & Estimates in \$ or MM

| | |
|-----------------------------------|--------------|
| Current Yield | 8.74% |
| Share Price | \$21.97 |
| Shares Outstanding | 689.0 |
| Total Assets | \$28,317 |
| Pfd. Par Value | \$0 |
| Equity Market Cap | \$15,137 |
| Dist. Income with PIK | \$1,504 |
| Dist. Income Less PIK | \$1,123 |
| Dist. EPS With PIK | \$2.18 |
| Dist. EPS Less PIK | \$1.63 |
| Projected Dividend / share | 1.92 |
| Book Value / Share | \$19.84 |
| Share Premium to Book Value | 11% |
| Div. coverage w PIK | 114% |
| Div. coverage less PIK | 84.91% |
| EBITDA (2025 Est.) | 2,331.50 |
| EV / EBITDA | 12.5 |
| Price to Dist. EPS less PIK | 13.5 |

[ARCC INVESTOR RELATIONS](#)

[FIRST QUARTER ARCC PRESENTATION](#)



TRTX monthly chart since 2020

SMART YIELD

INCOME FUND

BROXTON CAPITAL ADVISORS ARCC as of 3/31/2025

Wednesday, May 28, 2025

share price **\$21.97**

PROJECTIONS IN MM \$ fiscal yr 2025 2026 2027

| Income Statement | | | |
|-----------------------------|---------------|---------------|---------------|
| Interest Income | 3,140 | 3,265 | 3,330 |
| Interest Income Growth | 5% | 4% | 2% |
| Interest Expense | 772 | 788 | 803 |
| Net Investment Income | 2,367 | 2,477 | 2,527 |
| Total Other Expenses | 808 | 809 | 821 |
| Net realized and unrealized | 75 | 25 | 25 |
| Net Increase in Equity | 1,539 | 1,593 | 1,631 |
| Net Income / share | \$2.18 | \$2.33 | \$2.39 |
| Dist. Income with PIK | 1,504 | 1,608 | 1,646 |
| Dist. Income Less PIK | 1,123 | 1,243 | 1,271 |

| | | | |
|----------------------------|-------------|-------------|-------------|
| Dist. EPS With PIK | 2.18 | 2.33 | 2.39 |
| Dist. EPS Less PIK | 1.63 | 1.80 | 1.84 |
| Projected Dividend / share | 1.92 | 1.92 | 1.92 |
| EBITDA | 2,332 | 2,456 | 2,509 |

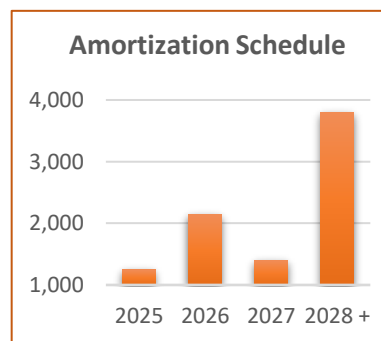
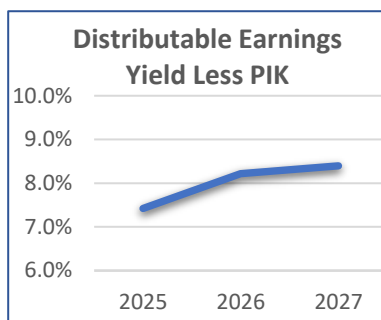
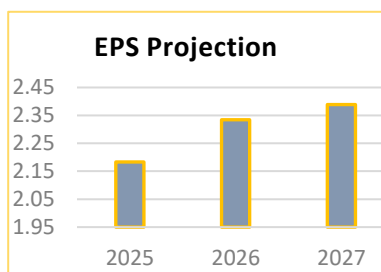
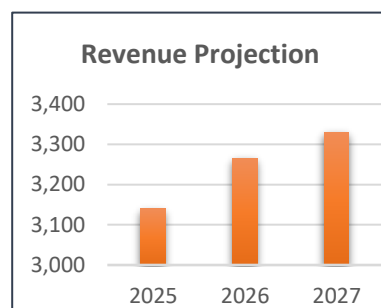
| Valuations | | | |
|------------------------------|--------------|--------------|--------------|
| PE ratio | 10.1 | 9.4 | 9.2 |
| Common Dividend Coverage % | 84.9% | 94.0% | 96.1% |
| Price to Dist. EPS less PIK | 13.5 | 12.2 | 11.9 |
| EV / EBITDA | 12.5 | 11.8 | 11.6 |
| Distributable Earnings Yield | 7.4% | 8.2% | 8.4% |
| Projected Dividend Yield | 8.74% | 8.74% | 8.74% |

| Capital Structure | |
|------------------------------|---------------|
| Total Borrowings | 13,922 |
| Pfd. Par Value | 0 |
| Shares Outstanding mm | 689 |
| Equity Market Cap | 15,137 |
| Enterprise Value (incl. PFD) | 29,059 |
| Total Assets | 28,317 |
| Total Liabilities | 14,645 |
| Total Liabilities + PFD | 14,645 |
| Non-Controlling Interests | 0 |

| | |
|-----------------------------|---------------|
| Common Share Equity | 13,672 |
| Book Value / Share | \$19.84 |
| Share Premium to Book Value | 10.72% |

| Liquidity | |
|-----------------------------|---------|
| Cash | 647 |
| Borrowing Availability est. | 5 B + |
| Total Asset / T Liab. Ratio | 193% |
| ARCC Total Leverage Ratio | 1.02 X% |
| Debt to Equity Ratio | 107% |

NOTES: Distributable income forecasts are shown with and without PIK Dividend and Interest. PIK, or Paid-in-Kind, is a financial mechanism where interest or dividends are paid in additional shares or debt, rather than cash. Amortization Schedule includes notes only (5.3 B)



Disclosures 02022025

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Broxton Capital Advisors 151 Calle San Francisco
San Juan PR, 00901 broxtoncapital.com
310-208-2191

Allen Cooke Portfolio Manager 310-208-2151
Cell 310-279-3338
allen@broxtoncapital.com

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