

Equity Research

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Financials

GSV Capital Corp

Prospects for Big Year for IPOs Giving GSVC a 'Lyft'; Fair Value of Top Five Holdings Exceeds Market Cap

After Lyft (Private) on Friday filed its prospectus ahead of an initial public offering expected to occur later this month, shares of GSV Capital continued the upward momentum that began when reports emerged earlier last week that the car-hailing app's IPO was imminent. Lyft represented 6.9% of GSVC's portfolio of investments in late-stage venture capital-backed companies as of September 30, and management noted during the company's 3Q18 conference call in November that it had the investment marked below the more than \$15.1bn valuation that reportedly would be applied in the offering.

GSVC **\$6.40**

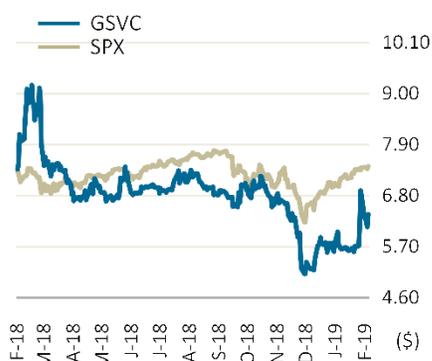
12 month target \$11.50

BUY

52 week range \$5.12 - \$9.18

Market Cap (m) \$185

Price Performance



Source: IDC

- ▶ GSVC's stock has historically performed well in the face of an improving market for IPOs. Its shares rallied nicely after Facebook (FB, Buy, \$275 PT, Analyst: Rich Greenfield), then one of its portfolio companies, in February 2012 filed for its IPO, such that they traded at a 50% premium to net asset value (NAV) prior to that public offering. GSVC shares rallied again after then-holding Twitter (TWTR, Buy, \$30 PT, Analyst: Rich Greenfield) filed for its IPO in September 2013.
- ▶ With that said, GSVC shares are trading nowhere near a premium to its last-reported NAV of \$10.58 per share. As of Friday's close the stock was trading below 61% of its NAV as of September 30. Even more indicative of how inexpensive GSVC is at this point is that while the combined fair value of its top five investments as of September 30 – Spotify (19.6% of the total portfolio), Palantir (16.1%), Dropbox (10.8%), Coursera (9.5%) and StormWind (6.9%) – was \$136.7m, the company's market cap is \$127.7mm.
- ▶ **We are reiterating our Buy recommendation on GSVC and price target of \$11.50** based on 1.1x the company's net asset value (NAV) as of September 30.
- ▶ **Valuation:** Our price target of \$11.50 for GSVC is based on 1.1x the company's net asset value (NAV) as of September 30.

Estimates

	1Q17 A	2Q17 A	3Q17 A	4Q17 A	FY17 A	1Q18 A	2Q18 A	3Q18 A	4Q18 E	FY18 E	FY19 E
Net Income	4	6	10	(2)	18	7	9	0	9	26	32
Diluted EPS (Adj.)	0.17	0.22	0.36	(0.12)	0.80	0.28	0.31	0.02	0.46	1.07	1.54

Source: BTIG Estimates and Company Documents (\$ in millions, except per share amount)

- ▶ While GSVC's shares have recovered somewhat after selling off sharply in the broad market downdraft in November and December we believe they remain very inexpensive, particularly in light of what is shaping up to be a big year for IPOs.
- ▶ Indeed, Lyft's filing signaled the beginning of what is expected to be a slew of IPOs by high-profile technology companies in 2019 and 2020. While a stampede of tech companies to the public market this year had been widely anticipated, its onset was delayed by the 35-day government shutdown and equity market volatility. With the market having recovered nicely, the stage appears to be set for multiple prominent public filings.
- ▶ At the center of one of those anticipated IPOs is Palantir, GSVC's second-largest holding, which according to media reports could be valued as high as \$41bn. Management during GSVC's 3Q18 call noted that the level at which the company's investment in Palantir was marked in its books implied a valuation of just \$13bn. If Palantir's IPO were to price at the reported valuation, that would contribute approximately \$3 of accretion to GSVC's NAV based on the number of shares it holds, which would represent a 28% jump from its NAV as of September 30.
- ▶ Also providing support to GSVC's valuation is the company's share repurchase program. The company's board of directors in November added \$5mm to its buyback authorization, bringing its availability to \$5.8mm. GSVC as of September 30 had retired 11% of its shares since launching the program in August 2017.
- ▶ GSVC is scheduled to release its 4Q18 report on Tuesday, March 12. We estimate that the company will report 4Q18 GAAP earnings per share of \$0.46 versus the consensus estimate – comprised of only two Street estimates including our own – of \$0.17.

Income Statement

GSVC Operating Model	Dec-15	Dec-16	Mar-17	Jun-17	Sep-17	Dec-17	Dec-17	Mar-18	Jun-18	Sep-18	Dec-18	Dec-18	Mar-19	Jun-19	Sep-19	Dec-19	Dec-19
\$ millions	2015A	2016A	1Q17A	2Q17A	3Q17A	4Q17A	2017A	1Q18A	2Q18A	3Q18A	4Q18E	2018E	1Q19E	2Q19E	3Q19E	4Q19E	2019E
<u>Non-controlled/non-affiliate investments:</u>																	
Interest income	0.030	0.262	0.008	0.008	-0.021	-0.002	-0.006	0.002	0.009	0.164	0.164	0.339	0.164	0.164	0.164	0.164	0.657
Dividend income	0.047	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Other income	0.000	0.213	0.000	0.073	0.000	0.000	0.073	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
<u>Non-controlled/affiliate investments:</u>																	
Interest income	0.214	0.459	0.096	0.097	-0.048	-0.085	0.059	0.234	0.222	0.066	0.066	0.587	0.066	0.066	0.066	0.066	0.263
<u>Controlled investments:</u>																	
Interest income	0.000	0.102	0.059	0.067	0.070	0.053	0.250	0.014	0.011	0.016	0.016	0.057	0.016	0.016	0.016	0.016	0.065
Dividend income	0.000	0.000	0.175	0.125	0.175	0.000	0.475	0.000	0.350	0.000	0.000	0.350	0.000	0.000	0.000	0.000	0.000
Total investment income	0.291	1.036	0.338	0.371	0.175	-0.033	0.851	0.249	0.592	0.246	0.246	1.334	0.246	0.246	0.246	0.246	0.985
Management fees	8.045	6.896	1.455	1.359	1.397	1.455	5.666	1.324	1.286	1.345	0.942	4.897	0.975	0.992	1.028	1.064	4.059
Incentive fees	8.170	-15.188	1.717	2.431	3.334	-0.331	7.152	1.471	2.588	0.805	-0.937	3.927	1.685	1.393	1.442	1.494	6.014
Costs incurred under Administration Agreement	2.681	2.545	0.531	0.449	0.472	0.422	1.875	0.424	0.397	0.356	0.400	1.577	0.450	0.450	0.450	0.450	1.800
Directors' fees	0.374	0.345	0.083	0.073	0.086	0.086	0.328	0.086	0.086	0.086	0.086	0.345	0.086	0.086	0.086	0.086	0.345
Professional fees	1.358	1.967	0.262	0.703	0.354	0.750	2.069	0.340	0.327	0.552	0.400	1.619	0.438	0.438	0.438	0.438	1.750
Interest expense	4.961	4.731	1.127	1.155	1.208	1.207	4.697	1.140	1.474	1.312	0.475	4.400	0.475	0.475	0.475	0.475	1.900
Income tax expense	0.881	0.000	0.001	0.046	0.005	0.002	0.053	0.122	0.026	-0.006	0.000	0.142	0.000	0.000	0.000	0.000	0.000
Other expenses	0.509	0.703	0.153	0.208	0.119	0.121	0.600	0.489	0.160	0.108	0.150	0.907	0.150	0.150	0.150	0.150	0.600
Gain on fair value adjustment of embedded derivative	-0.001	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total operating expenses	26.978	2.000	5.329	6.423	6.976	3.712	22.440	5.397	6.344	4.557	1.516	17.813	4.259	3.984	4.068	4.157	16.468
Management fee waiver	0.000	0.000	-0.182	-0.170	-0.175	-0.182	-0.708	-0.155	-0.335	-0.402	0.000	-0.892	0.000	0.000	0.000	0.000	0.000
Incentive fee waiver	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-5.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Provision for taxes on investment loss	-21.969	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Total operating expenses - net of waivers	48.948	2.000	5.147	6.254	6.801	3.530	21.732	0.242	6.009	4.155	1.516	11.921	4.259	3.984	4.068	4.157	16.468
Net investment income (loss)	-48.657	-0.963	-4.808	-5.883	-6.626	-3.563	-20.880	0.007	-5.417	-3.908	-1.269	-10.587	-4.012	-3.738	-3.822	-3.910	-15.483
Non-controlled/non-affiliated investment gains	64.315	-2.634	-22.786	0.004	1.034	25.738	3.989	-0.776	3.363	-10.120	0.000	-7.532	0.000	0.000	0.000	0.000	0.000
Non-controlled/affiliate investment gains	-10.171	0.000	0.000	0.000	0.000	-3.075	-3.075	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000	0.000
Controlled investment gains	0.000	0.000	-1.903	-0.675	0.000	2.579	0.000	-0.001	0.000	0.000	0.000	-0.001	0.000	0.000	0.000	0.000	0.000
Net realized gains (losses) on Investments	54.144	-2.634	-24.689	-0.671	1.034	25.241	0.914	-0.777	3.363	-10.120	0.000	-7.533	0.000	0.000	0.000	0.000	0.000
Realized loss on partial repurchase of 5.25% Convertible Senior Notes Due 2018	0.000	0.000	0.000	0.000	0.000	0.000	0.000	-0.398	0.000	0.000	0.000	-0.398	0.000	0.000	0.000	0.000	0.000
Non-controlled/non-affiliated investments - fair value changes	-14.181	-54.745	30.161	15.403	20.367	-19.973	45.958	9.855	10.555	16.246							
Non-controlled/affiliate investments - fair value changes	1.386	-13.571	1.427	-1.688	-9.822	-6.002	-16.085	-7.676	-0.953	-2.350							
Controlled investment gains - fair value changes	-0.627	-4.897	1.693	-0.963	5.092	-0.919	4.902	5.955	0.270	0.247							
Net change in unrealized appreciation (depreciation) of investments	-13.422	-73.214	33.280	12.753	15.637	-26.894	34.776	8.133	9.873	14.143	10.670	42.820	11.140	11.538	11.950	12.377	47.005
Benefit (provision) for taxes	16.401	2.117	0.000	0.000	0.000	2.757	2.757	0.000	1.011	0.214	0.000	1.225	0.000	0.000	0.000	0.000	0.000
Net increase in assets resulting in operations	8.466	-74.695	3.783	6.198	10.044	-2.459	17.566	7.364	8.830	0.330	9.401	25.925	7.128	7.800	8.128	8.466	31.522
EPS - Basic	\$0.44	-\$3.37	\$0.17	\$0.28	\$0.46	-\$0.12	\$0.80	\$0.35	\$0.42	\$0.02	\$0.46	\$1.25	\$0.35	\$0.38	\$0.40	\$0.41	\$1.54
EPS - Diluted	\$0.44	-\$3.37	\$0.17	\$0.22	\$0.36	-\$0.12	\$0.80	\$0.28	\$0.31	\$0.02	\$0.46	\$1.07	\$0.35	\$0.38	\$0.40	\$0.41	\$1.54
Common shares outstanding	19.32794	22.181	22.181	22.181	22.00057	21.33538	21.92449	21.15066	20.96885	20.46263	20.48309	20.76631	20.50357	20.52408	20.5446	20.56514	20.53435
Diluted shares outstanding	19.32794	22.181	22.181	27.93282	27.75239	21.33538	21.92449	26.71366	28.86667	20.46263	20.48309	24.13151	20.50357	20.52408	20.5446	20.56514	20.53435
Net assets at end of period	268.011	192.129	195.912	202.110	209.380	204.763	204.763	210.488	217.149	213.403	222.804	222.804	230.762	239.000	247.533	256.370	256.370
Net asset value per share - end of period	12.08	8.66	8.83	9.11	9.44	9.64	9.64	9.99	10.46	10.58	10.88	10.88	11.25	11.64	12.05	12.47	12.47
Shares outstanding at end of period	22.18	22.18	22.18	22.18	22.18	21.25	21.25	21.07	20.75	20.17	20.48	20.48	20.50	20.52	20.54	20.57	20.57

Source: BTIG Estimates and Company Documents

BTIG Covered Companies Mentioned in this Report

GSV CAPITAL CORP (GSVC, Buy, \$11.50 PT; Current Price: \$6.40; Analyst: Mark.Palmer)

Appendix: Analyst Certification and Other Important Disclosures

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I, Giuliano Bologna, hereby certify that the views about the companies and securities discussed in this report are accurately expressed and that I have not received and will not receive direct or indirect compensation in exchange for expressing specific recommendations or views in this report.

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GSV Capital Corp (GSVC, Buy, \$11.50 PT)

Valuation: Our price target of \$11.50 for GSVC is based on 1.1x the company's net asset value (NAV) as of September 30.

Risks: The primary risks to our valuation include: key man risk, illiquidity of investments, potential for investment losses in the portfolio, concentration risk, inability for GSVC to raise capital or refinance debt obligations, loss of business development company status, dependence on key relationships, macroeconomic risk and dilution risk from potential capital raises.

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