SN VALUATION
SN CAPITAL SN CONSULTING SN ENGLISH

Sung Nam
December 31, 2012

# MCG Capital Corp. (MCGC)

A business development co. which invests in deals by placing capital as a senior, subordinated, mezzanine, equity partner. The co. generates revenue from 1) dividends from portfolio co. 2) interest collected on outstanding debt, 3) capital gain from disposition of portfolio companies, 4) unrealized appreciation and depreciation of portfolio companies. All profits are distributed to the shareholders. Therefore, shareholder equity growth, or book value growth, is realized when the portfolio companies investment appreciate in value.

Corporate structure-wise, the co. creates special purpose entities as subsidiaries, which are bankruptcy remote and the earnings travel upstream to the holding co. Recent management shakeup after realizing large losses in the 2007 market. 85% in debt (66% senior, 18% subordinated (1.7% is unsecured)) and 15% in equity (12% pref., 3% common) in a $740MM portfolio. Debt portfolio averages 11.3% interest rate and conservatively, dividend yield is 6.5%. Interest expense of 15MM off a loan balance of $430 MM, or 3.5%. This data point is the most surprising since the rate is so cheap. It is a surprise how the co. could not be profitable, with cost of debt so low.

| | For the year ended | |
|---|---|---|
| *(dollars in thousands)* | **December 31, 2011** | **December 31, 2010** |
| Weighted-average borrowings | **$ 501,116** | $ 524,632 |
| Average LIBOR | **0.34%** | 0.35% |
| Average spread to LIBOR, excluding amortization of deferred debt issuance costs | **2.15** | 2.33 |
| Impact of amortization of deferred debt issuance costs | **0.59** | 0.50 |
| **Weighted-average cost of funds** | **3.08%** | 3.18% |

http://www.sec.gov/Archives/edgar/data/1141299/000119312512091212/d307182d10k.htm