

## Palmer Square Capital BDC

## Differentiated liquid credit strategy but lower ROEs; Initiate at Neutral

Initiating Coverage: NEUTRAL | PO: 16.50 USD | Price: 16.28 USD

## Unique, liquid credit but valuation fair; Initiate at Neutral

Initiating coverage of Palmer Square Capital BDC (PSBD) with a Neutral rating and \$16.50 price objective (PO), implying a total return of roughly 12%. PSBD is a BDC that primarily invests in corporate debt securities across private companies in the US through broadly-syndicated loans (BSLs) and large cap direct lending. It is externally managed by an affiliate of Palmer Square Capital Management, a mid-sized (\$29B of AUM) credit manager. We think PSBD's unique strategy of investing in a diversified portfolio of liquid, traded non-investment grade senior secured loans to large corporate issuers paired with certain opportunistic investments can generate attractive risk adjusted returns due to asset selection, low fees, moderate leverage, & attractive funding costs. That said, we think risk/reward is balanced at the current valuation.

## Credit should outperform; elevated NAV/share volatility

Credit has been outstanding since its inception (0 non-accruals vs. the peer average of 2.6%). Given the complex market environment, we think PSBD's credit performance should outperform peers since the underlying portfolio companies are larger (more diversified revenue, more sophisticated governance, etc.) vs. the typical peer. That said, lower credit risk is offset by a lower portfolio yield and lower profitability. Additionally, PSBD will experience more NAV/share volatility since investment valuation is based on direct and/or indirect market prices (peer portfolios are generally "mark-to-model").

## 10-11% Core ROEs in 24/25; ~10.5% dividend yield in 24

We forecast 2024E and 2025E core EPS of \$1.88 and \$1.72, receptively. Our EPS outlook implies a core ROE of 11.2% in 2024E and 10.2% in 2025E; declining YoY profitability is largely due to lower future base rates based on the forward curve. Our 2024E and 2025E dividend per share forecast is \$1.73 and \$1.68.

## Risk/reward balanced; modest multiple expansion possible

PSBD is fairly valued at ~0.96x NAV/share, slightly below the peer average of ~1.0x. Industry valuation currently reflects relatively healthy fundamentals, although credit concerns and general macro uncertainty are beginning to weigh on investor sentiment. Our \$16.50 PO is based on a ~0.97x multiple to NAV/share, which in our opinion, is achievable as PSBD demonstrates relatively stable margins and continued growth. However, there is potential for the shares to re-rate modestly above the peer average over time as PSBD grows the portfolio and generates consistent risk-adjusted returns.

Estimates (Dec) (US\$)	2021A	2022A	2023E	2024E	2025E
EPS	1.47	1.78	2.23	1.88	1.72
GAAP EPS	1.23	(3.22)	3.91	1.88	1.72
EPS Change (YoY)	11.4%	21.1%	25.3%	-15.7%	-8.5%
DPS	1.37	1.89	2.08	1.73	1.68
Valuation (Dec)					
P/E	11.1x	9.1x	7.3x	8.7x	9.5x
GAAP P/E	13.2x	NM	4.2x	8.7x	9.5x
Dividend Yield	8.4%	11.6%	12.8%	10.6%	10.3%

12 February 2024

## Equity

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## Stock Data

Price	16.28 USD
Price Objective	16.50 USD
Date Established	12-Feb-2024
Investment Opinion	C-2-8
52-Week Range	15.57 USD -16.75 USD
Mrkt Val / Shares Out (mn)	434 USD / 26.7
Free Float	90.3%
Average Daily Value	NA
BofA Ticker / Exchange	PSBD / NYS
Bloomberg / Reuters	PSBD US / PSBD.N
ROE (2023E)	13.9%

BDC: Business Development  
Company

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Timestamp: 12 February 2024 06:00AM EST

# iQprofile<sup>SM</sup> Palmer Square Capital BDC

## Income Statement Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Income	31	51	67	81	78
% change	49.9%	64.3%	30.9%	21.8%	-4.7%
Net Fee Income	NA	NA	NA	NA	NA
Securities Gains / (Losses)	NA	NA	NA	NA	NA
Total Operating Income	31	51	67	81	78
Operating Expenses	(8)	(10)	(10)	(21)	(21)
% change	36.5%	21.0%	-2.8%	120.2%	0.6%
Provisions Expense	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Operating Pre-Tax Income	19	(74)	100	60	56
Operating Net Income to Comm S/Hold.	19	(74)	100	60	56
GAAP Net Income	19	(74)	100	60	56

## Balance Sheet Data (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Assets	827	1,114	1,089	1,285	1,377
Average Interest Earning Assets	NA	NA	NA	NA	NA
Total Gross Customer Loans	0	0	0	0	0
% change	NA	NA	NA	NA	NA
Total Customer Deposits	NA	NA	NA	NA	NA
% change	NA	NA	NA	NA	NA
Tangible Equity	NA	NA	NA	NA	NA
Common Shareholders' Equity	300	405	420	537	552

## Key Metrics (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Net Interest Margin	NA	NA	NA	NA	NA
Effective Tax Rate	NM	NM	NM	NM	NM
Loan / Deposit Ratio	NA	NA	NA	NA	NA
Tangible Common Equity / Assets	0%	0%	0%	0%	0%
ROA	NA	NA	NA	NA	NA
ROE	NA	11.7%	13.9%	12.5%	10.3%
RoTE	NA	NA	NA	NA	NA
Dividend Payout Ratio	111.9%	NA	53.3%	91.6%	97.9%
Efficiency Ratio (Cost / Income Ratio)	26.5%	19.5%	14.5%	26.2%	27.6%

## Quality of Earnings (Dec)

(US\$ Millions)	2021A	2022A	2023E	2024E	2025E
Total Non-Interest Inc / Operating Inc	0%	0%	0%	0%	0%
NPLs plus Foreclosed Real Estate / Loans	NA	NA	NA	NA	NA
Loan Loss Reserves / NPLs	NA	NA	NA	NA	NA
Loan Loss Reserves / Total Loans	NA	NA	NA	NA	NA

## Company Sector

Financial Services-Consumer/Commercial

## Company Description

PSBD began investing in 2020 and is a specialty finance company, regulated as a BDC under the Investment Company Act of 1940, as amended, which invests in debt. PSBD's investment objective is to maximize total return through current income and capital appreciation. The company primarily invests in the liquid broadly-syndicated loan market.

## Investment Rationale

We rate PSBD Neutral. We believe it has a differentiated strategy which can generate solid risk-adjusted returns due to: (1) liquid portfolio focus, (2) larger average portfolio company size, (3) best-in-class fee structure creates greater shareholder alignment. That said, PSBD has limited operating history and it has not operated through a full economic cycle. We view valuation as fair given shares trade about in-line with peers, and we see limited catalysts for the shares to re-rate higher.

## Stock Data

Average Daily Volume NA

## Quarterly Earnings Estimates

	2022	2023
Q1	0.38A	0.55A
Q2	0.42A	0.56A
Q3	0.45A	0.57A
Q4	0.54A	0.55E

## Initiating at Neutral with \$16.50 PO

We are initiating coverage of Palmer Square Capital BDC (“PSBD” or “the Company”) with a Neutral rating and a \$16.50 price objective (PO), implying total upside of ~12%, including a roughly 10.5% dividend yield based on our 2024 dividend outlook and the current share price. PSBD is a business development company (BDC) that primarily invests in corporate debt securities across private companies in the US through broadly-syndicated loans (BSLs) and large cap direct lending. The company is externally managed by a subsidiary of Palmer Square Capital Management.

Palmer Square Capital Management is a fixed income / credit focused firm with over \$29 billion of investments. Its areas of focus are opportunistic credit, CLO debt strategies, income/short duration strategies, and structured credit issuance strategies. Palmer Square Capital Management was founded in 2009 and is based outside of Kansas City, MO.

PSBD’s focus on investing in non-investment grade, broadly-syndicated loans to large corporate issuers paired with certain opportunistic investments is a differentiated investment strategy, in our view. In general, BDC peers typically focus on directly originate illiquid private credit (i.e. senior direct lending) to middle market borrowers. Given PSBD’s focus on larger borrowers (greater revenue sources, stronger margins, greater corporate governance, etc.), PSBD’s portfolio has lower credit volatility relative to BDC peers, in our view, which is offset by a lower portfolio yield (weighted average yield of debt and income producing securities at cost for PSBD is ~9.7% vs. peer average of ~12.6%).

Still, we think PSBD can generate an attractive risk-adjusted return due to low fees, moderate leverage, rigorous asset selection, and attractive funding costs. Notably, PSBD’s management fees are meaningfully lower than the typical peer. The base management fee is roughly 0.75% of gross assets (median BDC peer fee is 1.5%) and the incentive fee is 12.5% over a 6.0% hurdle rate (median BDC peer fee is 17.5% over 7.0% hurdle). PSBD’s target leverage is ~1.5x, compared to the current BDC peer average of 1.1x. Additionally, we note that PSBD’s portfolio yield is ~11.3% based on fair value due to opportunistic investment purchases and funding costs are attractive given the liquid nature of the underlying collateral.

We forecast 2024E and 2025E core EPS of \$1.88 and \$1.72, respectively. We estimate 2023E core EPS is \$2.23; we estimate pre-IPO incentive fee waivers benefited 2023 core EPS by roughly \$0.28. Management fees normalized post-IPO. Our EPS outlook implies a core ROE of 11.2% in 2024E and 10.2% in 2025E; declining YoY profitability is largely due to lower future base rates based on the forward curve. Our 2024E and 2025E dividend per share forecast is \$1.73, and \$1.68. In the BofA model, the total dividend is made up of two components: (1) a core dividend of \$0.40/share per quarter; and (2) quarterly variable supplemental dividends. We estimate PSBD will pay supplemental dividends totaling \$0.13 per share in 2024E and \$0.08 in 2025E.



# Valuation

We believe PSBD is appropriately valued at ~0.95x 4Q23 NAV/share of \$17.04, generating a core dividend yield of ~10.5% based on current price. BDC peers currently trade roughly in-line with the long-term average of ~1.0x and the dividend yield is currently 11% (Exhibit 1). That said, there is dispersion from the mean. Higher quality BDCs that have delivered strong economic returns for shareholders the past few years are trading at a premium of ~1.1x NAV and a roughly 10.5% yield, while lower quality peers that have underperformed due to credit stress and other idiosyncratic risks are trading closer to 0.85x NAV, or a roughly 12.0% yield.

Our \$16.50 PO is based on an approximate 0.97x multiple to NAV/share. While PSBD has demonstrated the ability to manage a defensive portfolio (0 non-accruals last 4 years) and generated strong financial performance in 2023, execution risk, likely elevated NAV/share volatility given the complex market environment, and expectations of below peer profitability in 2024 suggest the risk/reward is balanced. Additionally, PSBD will likely need to raise additional capital to increase scale over time, which should limit valuation in the near term, in our view. We believe our \$16.50 PO is achievable as PSBD delivers stable returns, grows the portfolio, and successfully manages credit through the current uncertain macro backdrop. However, there is potential for the shares to re-rate modestly above the peer average of ~1.0x over time as PSBD grows the portfolio and generates consistent risk-adjusted returns.

## Exhibit 1: BDC comp sheet

Industry current trades around long-term P/BV avg of ~1.0x; PSBD about in-line

	Tick. Sym.	S&P Rating	Total Assets (\$M)	Market Cap. (\$M)	Stock Price 2/11/24	BV Current	P/BV Current	Div. Yield	'23e Earn. Yield	Core '23e ROE	Core '24e ROE	52 Week High	52 Week Low	Debt/ equity	
Ares Capital Corp	ARCC	BBB-	\$23,800	\$11,687	\$20.07	\$19.25	1.04x	9.6%	11.8%	12.0%	13.7%	\$20.65	\$16.95	1.07x	
FS KKR Capital Corp	FSK	NR	\$15,384	\$5,604	\$20.01	\$24.89	0.80x	13.9%	15.5%	12.4%	12.0%	\$20.99	\$16.89	1.15x	
Blue Owl Capital Corp	OBDC	BBB-	\$13,462	\$5,745	\$14.74	\$15.40	0.96x	10.5%	13.1%	12.5%	12.0%	\$15.27	\$11.57	1.18x	
Blackstone Secured Lending Fund	BXSL	BBB-	\$9,802	\$5,200	\$28.39	\$26.54	1.07x	10.3%	13.4%	14.2%	13.0%	\$29.11	\$23.61	1.08x	
Prospect Capital Corp	PSEC	BBB-	\$7,781	\$2,240	\$5.41	\$8.92	0.61x	13.3%	19.0%	10.3%	8.4%	\$7.70	\$5.03	0.67x	
Main Street Capital Corp	MAIN	BBB-	\$4,468	\$3,728	\$44.52	\$28.33	1.57x	8.3%	9.2%	14.3%	13.3%	\$46.04	\$35.88	0.82x	
Golub Capital BDC Inc	GBDC	BBB-	\$5,700	\$2,618	\$15.35	\$15.03	1.02x	11.1%	12.1%	12.3%	12.6%	\$15.70	\$12.23	1.20x	
Hercules Capital Inc	HTGC	NR	\$3,336	\$2,613	\$17.29	\$10.93	1.58x	9.5%	11.8%	18.5%	17.2%	\$17.92	\$10.77	0.99x	
Sixth Street Specialty Lending Inc	TSIX	BBB-	\$3,174	\$1,876	\$21.43	\$16.97	1.26x	9.4%	10.7%	13.5%	13.2%	\$22.35	\$16.77	1.09x	
Oaktree Specialty Lending Corp	OCSL	NR	\$3,266	\$1,558	\$19.73	\$19.14	1.03x	11.3%	12.3%	12.5%	12.0%	\$21.64	\$17.64	1.07x	
New Mountain Finance Corp	NMFC	NR	\$3,280	\$1,288	\$12.70	\$13.06	0.97x	10.4%	11.8%	11.5%	11.3%	\$13.13	\$11.12	1.41x	
Bain Capital Specialty Finance	BCSF	NR	\$2,566	\$966	\$14.97	\$17.54	0.85x	10.7%	14.2%	12.0%	11.1%	\$16.80	\$11.06	1.21x	
MidCap Financial Investment Corp	MFIC	NR	\$2,455	\$897	\$13.75	\$15.28	0.90x	11.1%	12.7%	11.5%	11.0%	\$14.22	\$10.39	1.44x	
Goldman Sachs BDC Inc	GSBD	NR	\$3,558	\$1,636	\$14.93	\$14.61	1.02x	12.1%	15.0%	15.4%	14.8%	\$16.52	\$12.75	1.17x	
BlackRock TCP Capital Corp	TCPC	NR	\$1,719	\$639	\$11.07	\$12.72	0.87x	13.6%	16.9%	14.8%	13.8%	\$12.69	\$9.32	1.32x	
SLR Investment Corp	SLRC	NR	\$2,539	\$810	\$14.84	\$18.06	0.82x	11.1%	10.6%	8.7%	9.5%	\$16.09	\$13.48	1.21x	
Carlyle Secured Lending Inc	CGBD	NR	\$1,957	\$754	\$14.84	\$16.86	0.88x	11.9%	13.8%	11.9%	11.0%	\$15.86	\$13.01	1.11x	
Barings BDC Inc	BBDC	NR	\$2,742	\$941	\$8.83	\$11.25	0.78x	11.6%	13.4%	10.5%	10.5%	\$9.47	\$6.96	1.27x	
Crescent Capital BDC Inc	CCAP	NR	\$1,624	\$597	\$16.12	\$19.70	0.82x	10.7%	13.9%	11.3%	10.9%	\$18.00	\$13.11	1.17x	
PennantPark Investment Corp	PNNT	NR	\$1,267	\$439	\$6.73	\$7.65	0.88x	12.5%	16.2%	14.1%	12.0%	\$7.27	\$4.70	1.39x	
BlackRock Capital Investment	BKCC	NR	\$618	\$269	\$3.71	\$4.38		10.8%	13.3%	11.3%	10.4%	\$4.03	\$3.03	0.87x	
					Average		0.99x	11.1%	13.4%	12.6%	12.1%				1.14x
Cliffwater BDC Index - Total Return	CWBDC				\$4,314	\$4,283	1.01x	10.7%	NA	12.8%		\$4,459	\$3,387		
Palmer Square Capital BDC Inc	PSBD	NR	\$1,125	\$530	\$16.28	\$17.04	0.96x	10.6%				\$16.75	\$15.57	1.42x	

NR = Not Rated

Source: Bloomberg, S&P Capital IQ Pro, BofA Global Research

Shaded BDCs are internally managed

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# Investment Positives and Risks

## Investment positives

### Large market opportunity

PSBD invests largely in the broadly syndicated loan (BSL) market, which provides them with large, diverse opportunities. The BSL market is roughly \$1.5T and spans company size and industry. This provides PSBD the flexibility to make more tactical decisions around what types of investments they want to be making at a given point in time.

### Palmer Square Capital Management affiliation

Palmer Square Capital Management has significant experience (21 years of average experience, over \$29B in assets managed) and expertise within fixed income / credit markets, which PSBD seeks to capitalize on for their liquid loan strategy. Additionally, Palmer Square Capital Management has deep relationships with financial sponsors which provides access to join on newly originated “club deals”.

### Liquid, senior secured first lien-focused portfolio limits risk

The investment strategy is to invest in variable rate investments at the upper end of the capital structure which trade in the broadly-syndicated loan market. This conservative portfolio construction limits portfolio sensitivity to the capital and credit markets. To date, the portfolio has had no non-accrual investments.

### Low fees enhance returns by roughly 150bp vs. peer median

PSBD has the lowest fee structure among public BDCs. The base management fee is 1.75% of net assets (roughly 0.75% of gross assets vs. the median BDC peer of 1.5%). The incentive fee is 12.5% over a 6.0% hurdle rate (median BDC peer fee is 17.5% over 7.0% hurdle). We estimate lower fees lift profitability (ROE) by roughly 150bp.

### Granular portfolio should benefit credit metrics

The PSBD portfolio is highly diversified by industry and borrower. The top 10 investments total only 11% of the overall portfolio, which should benefit overall credit metrics. We note that the top 10 investments for many high performing BDC peers is elevated at roughly 15% to 30%.

### Greater investment transparency

Since the PSBD portfolio is principally invested in non-investment grade, broadly-syndicated loans to large corporate issuers, investment value transparency is high and is based on direct and/or indirect market prices. Therefore, investors should have greater confidence in NAV/share for PSBD. Investment valuation for peers is less transparent, in our view, and is generally based on a “mark-to-model” framework. Therefore, investors may have less confidence in NAV/share during periods of elevated credit market volatility. Still, we note that greater investment transparency should cause elevated NAV/share volatility for PSBD shareholders.

## Investment risks

### Economic risk

The middle market remains partially driven by the broader economy and financial market performance, increasing performance volatility and risk to NAV/share. In a recession, middle market companies are more likely to default on their loans and PSBD’s earnings growth trajectory is likely to be challenged.

### Execution risk

Performance depends on its success in sourcing attractive investments, efficiently financing those investments and managing risk effectively. Substandard investment selection, poor portfolio management and financial instability could undermine portfolio and stock performance.



### Capital markets risk

The success of BDCs is generally dependent on the ability to recycle capital at acceptable yields given statutory restrictions on leverage and capital retention. Disruptions in the capital markets or equity value deterioration could limit assets under management (AUM) growth and/or force de-levering.

### Conflicts of interest with the external structure

The external fee structure can incentivize indiscriminate platform growth. Additionally, if the primary drivers of value creation, largely margins and leverage, are relatively static or declining, the benefits of the capital raise only accrue to the external manager, while EPS and NAV/share are relatively unchanged.

### Access to club deals reliant on relationships with sponsors

The majority of PSBD's portfolio comes from the liquid BSL market. However, PSBD also participates in club deals periodically. Gaining access to these deals is predicated on existing relationships with sponsors who are looking for capital. If PSBD were to have a deterioration in sponsor relationships, access to club deals may shrink.

## Company description

Palmer Square Capital BDC is an externally managed business development company (BDC) that invests in corporate debt securities across private companies in the US through broadly-syndicated loans (BSLs) and direct lending. PSBD's investment objective is to maximize total return through current income and capital appreciation. PSBD's external manager is Palmer Square Capital Management, a fixed income / credit investment firm that was founded in 2009 by Chris Long.

### Exhibit 2: PSBD is externally managed by Palmer Square Capital Management

Manager has solid credit history and culture of quality credit



Note: Data as of 9/30/2023. <sup>1</sup>Source: Leveraged Commentary & Data (LCD) and Palmer Square. The data includes all deals and managers in the CLO market except for Middle Market deals.

**Source:** Company reports



**Exhibit 3: PSBD sits within Palmer Management's Opportunistic strategy**

Palmer Square Capital Management invests in a diverse set of credit

Strategy	Products	AUM
Opportunistic	<b>Palmer Square Capital BDC Inc.</b> Income/Capital Appreciation, Bank Loans	\$3.2bn
	<b>Opportunistic Credit</b> Income/Capital Appreciation, Relative Value Credit	
	<b>Multi-Asset Credit</b> Income/Capital Appreciation, Multi-Asset Credit	
Income / Short Duration	<b>Income Plus</b> Income, Low Duration, Multi-Asset Credit	\$3.3bn
	<b>Ultra-Short Duration IG</b> Income, Low Duration, Multi-Asset Credit	
Private Credit / Structured Credit	<b>Guilford Capital Credit</b> Long Term Capital Appreciation, CLO Equity	\$21.2bn
	<b>Senior Loan</b> Income, CLO Warehouse Vehicles	
	<b>Private Credit</b> Income, Direct Lending	
	<b>Static CLO</b> Total Return, Serial Issuance, Shorter Life, Higher Quality	
	<b>Managed CLO</b> Total Return, Opportunistic Issuance, Long Volatility	

Source: Company reports

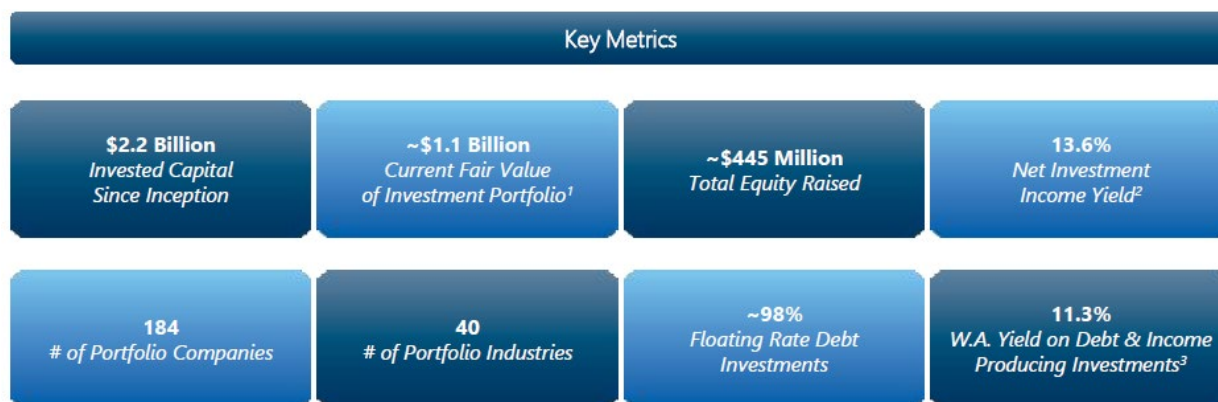
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Palmer Square Capital BDC completed its initial public offering (IPO) in January 2024. The company issued 5.45 million shares of its common stock at \$16.45 per share (approximately 0.97x 4Q23 NAV/share of \$17.04) for gross proceeds of roughly \$90 million. Pre-IPO shareholders are subject to a lock-up schedule. 180 days after the IPO, one-third of such shares unlock; on day 270 an additional one-third unlock; on day 360 the remaining one-third are unlocked.

Since inception, PSBD has invested \$2.2B of capital and today the portfolio has a fair value of \$1.1B. As of 3Q23, the portfolio is 98% floating rate loans and is well diversified, with over 180 portfolio companies across 40 industries. The portfolio is focused on recurring revenue businesses and tends to skew away from cyclical.

**Exhibit 4: PSBD portfolio metrics**

Diversified portfolio that is almost entirely floating rate debt



Source: Company reports

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PSBD sources investments principally from the broadly-syndicated loan market and to a limited extent, its relationship with private equity sponsors. Notably, portfolio marks are based on direct and/or indirect market prices (i.e., PSBD could sell its portfolio at the marks) vs other BDCs where marks are based on a “mark-to-model” framework (i.e. it would be challenging to sell the portfolio at the current mark during periods of elevated credit market volatility).

#### Exhibit 5: PSBD's portfolio is differentiated due to its liquidity

Sponsor relationships and PSBD's credit philosophy are positives for shareholders



Source: Company reports

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#### Exhibit 6: Example of PSBD borrower attributes & PSBD portfolio

PSBD has strong credit history with a floating rate portfolio



Source: Company reports

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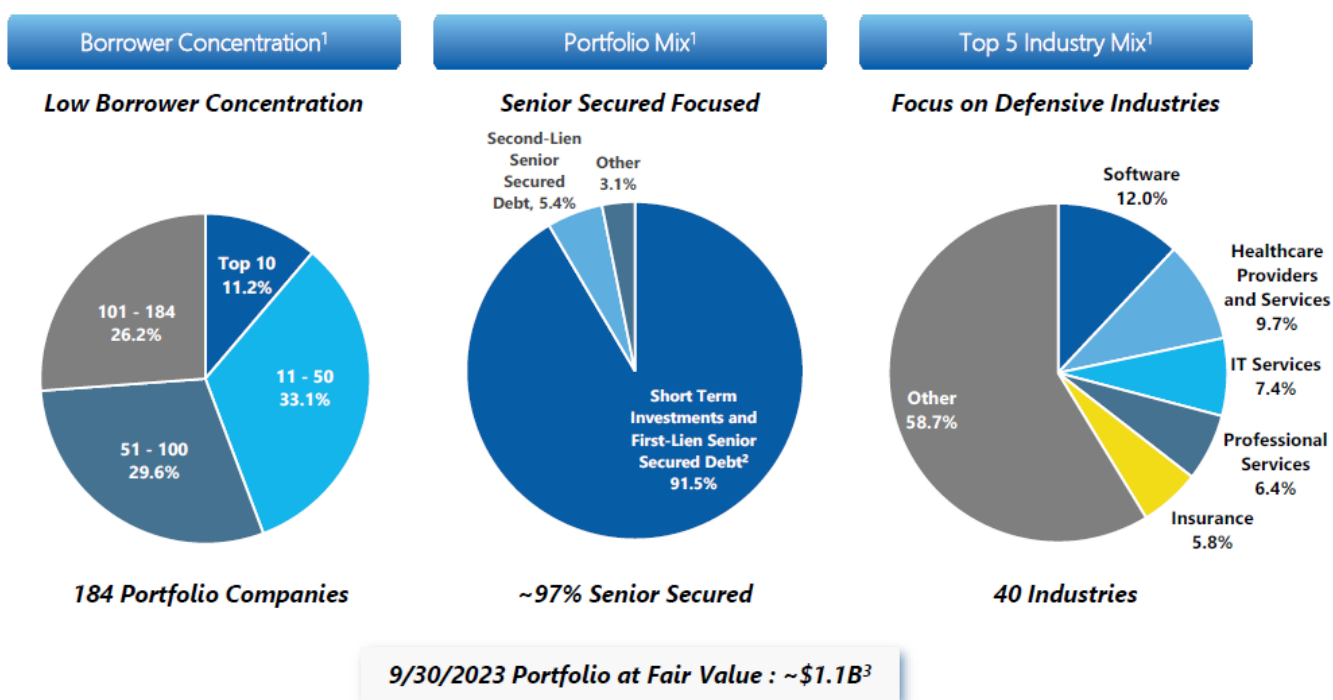
## Asset allocation

The portfolio is highly diversified by borrower, industry sector, and sponsor relationships. As of 3Q23, the \$1.1 billion portfolio consisted of 184 portfolio companies across 40 industries. The portfolio is 100% floating and 92% first lien senior secured. While PSBD has the flexibility to invest across the capital structure, PSBD is principally focused on liquid loans to larger companies with strong fundamentals in positions that are senior in the capital structure, including through the large cap direct lending market.

PSBD believes that a portfolio of liquid bank loans paired with certain opportunistic investments generates attractive and stable risk adjusted returns and supports attractive financing rates. PSBD believes that its liquid credit strategy is well-positioned to benefit from differences in yields between the risk-free rate and other fixed income alternatives. Additionally, a more liquid portfolio allows PSBD to deploy capital quickly and potentially generate excess returns during periods of elevated credit market volatility or dislocation.

### Exhibit 7: PSBD portfolio attributes

Diversified by industry, low concentration, and first lien senior secured focus



Source: Company reports

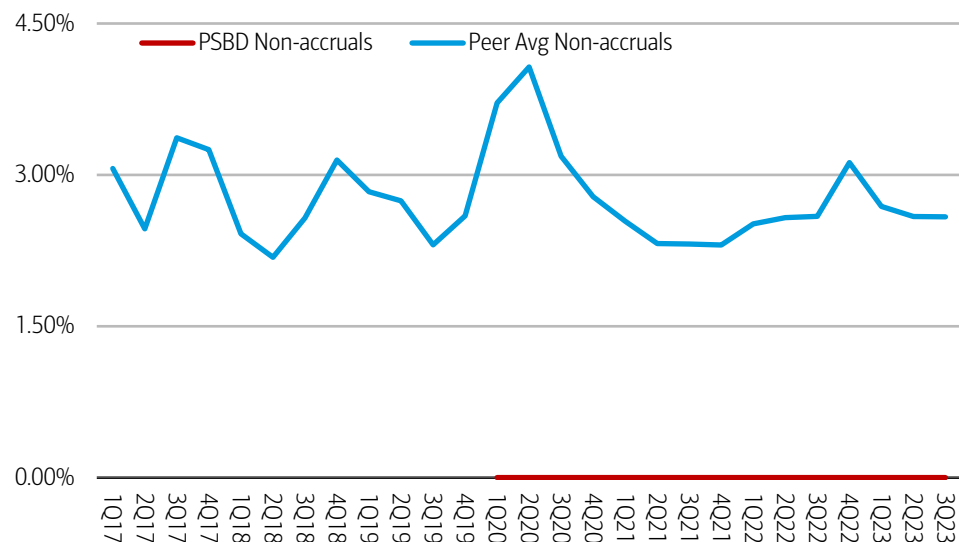
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## Credit and non-accruals

PSBD's credit has outperformed peers and there have been no non-accrual investments since inception. Average non-accrual investments for peers are currently 2.6% and peaked at 4.3% during 2Q20 the past 5 years. PSBD benefits from its liquid portfolio as it is able to sell loans if they think it has become overvalued or is at higher risk. That said, Palmer Square Capital Management does have a team with workout and distressed credit background, if PSBD were to hold or acquire distressed debt in the future.

### Exhibit 8: PSBD has had 0 non-accruals since inception

Peer average at 2.6%



Source: Company reports, BofA Global Research

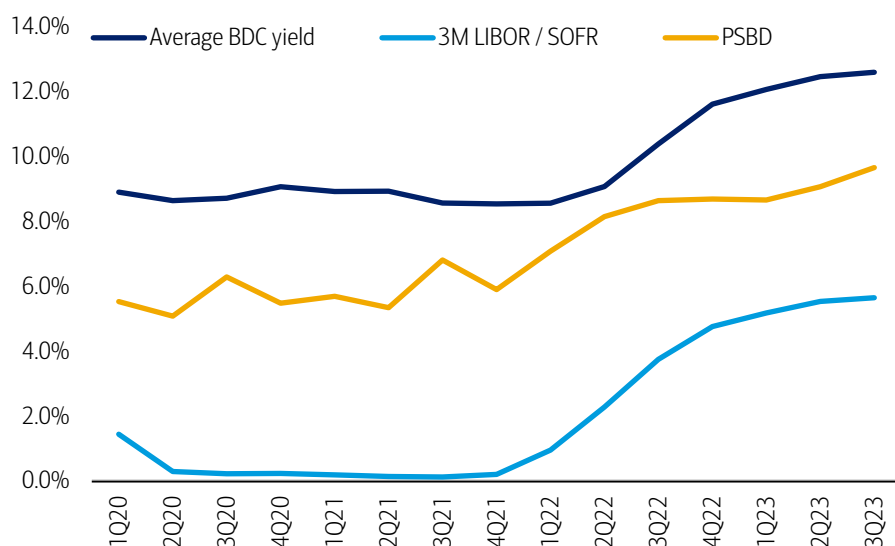
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Importantly, because PSBD has a more liquid strategy, loan spreads are lower than illiquid lenders. The weighted average yield of debt and income producing securities at cost for PSBD is ~9.7% vs. peer average of ~12.6%.

That said, we think PSBD can generate an attractive risk-adjusted return due to low fees, moderate leverage, rigorous asset selection, and attractive funding costs. Notably, PSBD's management fees are meaningfully lower than the typical peer. The base management fee is 0.75% of gross assets (median BDC peer fee is 1.5%) and the incentive fee is 12.5% (median BDC peer fee is 17.5%). PSBD's target leverage is ~1.5x, compared to the current BDC peer average of 1.1x. Additionally, we note that PSBD's portfolio yield is ~11.3% based on fair value due to opportunistic investment purchases and funding costs are attractive given the liquid nature of the underlying collateral.

#### Exhibit 9: PSBD portfolio yield is lower than peers

PSBD's liquid strategy means lower yield



Source: Company reports, BofA Global Research

BofA GLOBAL RESEARCH

## Earnings Outlook

We forecast 2023E, 2024E, and 2025E core earnings per share of \$2.23, \$1.88, and \$1.72, respectively. Notably, we estimate pre-IPO incentive fee waivers benefited 2023 core EPS by roughly \$0.28. PSBD's fee structure (1.75% base management fee on total net assets; 12.5% incentive fee; 6% hurdle) normalized following the completion of the IPO in January 2024.

Our 2024E and 2025E dividend per share forecast is \$1.73 and \$1.68. In the BofA model, the total dividend is made up of two components: (1) a core dividend of \$0.40/share per quarter; and (2) a quarterly variable supplemental dividend (50% of the excess of quarterly core EPS above the quarterly dividend, subject to NAV stability. We estimate supplemental dividends will total \$0.13/share in 2024 and \$0.08/share in 2025.

Our earnings outlook implies a core ROE of 11.2% in 2024 and 10.2% in 2025. The YoY decline in profitability is largely related to is a lower portfolio yield based on the forward rate curve (plus normalizing credit spreads), partially offset by lower funding costs.

### Exhibit 10: PSBD summary model

Core EPS forecast for 2023-2025E is \$2.23/\$1.88/\$1.72, respectively

	2022A	2023E	BofA forecast	
			2024E	2025E
Total revenue	74,500	111,380	138,853	129,019
Total interest expense	23,452	44,545	57,423	51,408
Total other expense	9,967	9,684	21,322	21,452
Core net income	41,081	57,151	60,108	56,160
<b>Core EPS</b>	<b>\$1.78</b>	<b>\$2.23</b>	<b>\$1.88</b>	<b>\$1.72</b>
Core dividend	1.81	2.08	1.60	1.60
Supplemental/Special dividend/share	=	=	<u>0.13</u>	<u>0.08</u>
<b>Dividend per share</b>	<b>1.81</b>	<b>\$2.08</b>	<b>\$1.73</b>	<b>\$1.68</b>
Dividend payout ratio	102%	94%	92%	98%
<b>Book value per share</b>	<b>\$16.80</b>	<b>\$16.80</b>	<b>\$16.91</b>	<b>\$16.95</b>
Total capital raise	29,183	\$39,325	100,000	-
Net portfolio growth - millions	\$455	88	260	-
Total investments (FV) - millions	\$1,017	1,105	1,365	1,365
<b>Core ROE</b>	<b>10.1%</b>	<b>13.6%</b>	<b>11.2%</b>	<b>10.2%</b>
<b>Average leverage</b>	<b>1.61x</b>	<b>1.49x</b>	<b>1.38x</b>	<b>1.49x</b>

Source: Company reports, BofA Global Research estimates

BofA GLOBAL RESEARCH

## Earnings most sensitive to asset yields and leverage

Asset yields and leverage are two of the more important drivers of earnings since operating expense is largely variable due to the advisory fee structure and funding costs should be relatively stable. Below is an EPS/ROE sensitivity table based on various portfolio yield and leverage scenarios. Our base case for 2024 assumes an average portfolio yield and leverage of 10.9% and 1.38x, respectively, driving our EPS estimate of \$1.88. Our base case for 2025 assumes an average portfolio yield and leverage of 9.45% and 1.49x, respectively, driving our EPS estimate of \$1.72. The primary variance between our 2024 and 2025 earnings forecast is a lower portfolio yield based on the forward rate curve.

### Exhibit 11: Our 2024 EPS est assumes 10.9% portfolio yield with 1.38x leverage

Asset yield and average leverage – 2024 EPS sensitivity

		Average Portfolio Yield 2024						
Avg Leverage 2024		10.00%	10.50%	10.75%	10.91%	11.00%	11.25%	11.50%
	1.25x	\$1.54	\$1.71	\$1.79	\$1.84	\$1.87	\$1.96	\$2.04
	1.30x	\$1.55	\$1.72	\$1.81	\$1.86	\$1.89	\$1.97	\$2.06
	1.35x	\$1.56	\$1.73	\$1.82	\$1.87	\$1.91	\$1.99	\$2.08
	1.38x	\$1.57	\$1.74	\$1.83	\$1.88	\$1.91	\$2.00	\$2.09
	1.40x	\$1.57	\$1.75	\$1.83	\$1.89	\$1.92	\$2.01	\$2.10
	1.45x	\$1.58	\$1.76	\$1.85	\$1.90	\$1.94	\$2.03	\$2.12
	1.50x	\$1.59	\$1.77	\$1.86	\$1.92	\$1.95	\$2.04	\$2.14

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

### Exhibit 12: Our 2024 forecast implies ROE of 11.2%

Asset yield and average leverage – 2024 ROE sensitivity

		Average Portfolio Yield 2024						
Avg Leverage 2024		10.00%	10.50%	10.75%	10.91%	11.00%	11.25%	11.50%
	1.25x	9.2%	10.1%	10.6%	11.0%	11.1%	11.6%	12.1%
	1.30x	9.2%	10.2%	10.7%	11.0%	11.2%	11.7%	12.2%
	1.35x	9.3%	10.3%	10.8%	11.1%	11.3%	11.8%	12.3%
	1.38x	9.3%	10.3%	10.9%	11.2%	11.4%	11.9%	12.4%
	1.40x	9.3%	10.4%	10.9%	11.2%	11.4%	11.9%	12.5%
	1.45x	9.4%	10.4%	11.0%	11.3%	11.5%	12.0%	12.6%
	1.50x	9.4%	10.5%	11.1%	11.4%	11.6%	12.1%	12.7%

Source: BofA Global Research estimates

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### Exhibit 13: Our 2025 EPS est assumes 9.5% portfolio yield with 1.49x leverage

Asset yield and average leverage – 2025 EPS sensitivity

		Average Portfolio Yield 2025						
Avg Leverage 2025		8.75%	9.00%	9.25%	9.45%	9.75%	10.00%	10.25%
	1.35x	\$1.43	\$1.52	\$1.60	\$1.67	\$1.78	\$1.86	\$1.95
	1.40x	\$1.44	\$1.53	\$1.62	\$1.69	\$1.79	\$1.88	\$1.97
	1.45x	\$1.45	\$1.54	\$1.63	\$1.71	\$1.81	\$1.90	\$1.99
	1.49x	\$1.46	\$1.55	\$1.65	\$1.72	\$1.83	\$1.92	\$2.01
	1.55x	\$1.48	\$1.57	\$1.67	\$1.74	\$1.85	\$1.95	\$2.04
	1.60x	\$1.49	\$1.59	\$1.68	\$1.76	\$1.87	\$1.97	\$2.06
	1.65x	\$1.50	\$1.60	\$1.70	\$1.77	\$1.89	\$1.99	\$2.09

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

**Exhibit 14: Our 2025 forecast implies ROE of 10.2%**

Asset yield and average leverage – 2025 ROE sensitivity

**Average Portfolio Yield 2025**

Avg Leverage 2025		8.75%	9.00%	9.25%	9.45%	9.75%	10.00%	10.25%
	1.35x	8.5%	9.0%	9.5%	9.9%	10.5%	11.0%	11.5%
	1.40x	8.5%	9.0%	9.6%	10.0%	10.6%	11.1%	11.6%
	1.45x	8.6%	9.1%	9.7%	10.1%	10.7%	11.3%	11.8%
	1.49x	8.6%	9.2%	9.7%	<b>10.2%</b>	10.8%	11.4%	11.9%
	1.55x	8.7%	9.3%	9.8%	10.3%	10.9%	11.5%	12.1%
	1.60x	8.8%	9.4%	9.9%	10.4%	11.1%	11.6%	12.2%
	1.65x	8.9%	9.4%	10.0%	10.5%	11.2%	11.8%	12.3%

Source: BofA Global Research estimates

BofA GLOBAL RESEARCH

**Exhibit 15: 2024 Unit economics**

BofAe 2024 unit economics

<b>All in yield</b>	<b>10.9%</b>
Cost of funds	7.8%
Average debt-to-equity	1.38x
Net levered return on equity	15.2%
Mgmt fee	1.8%
OpEx	<u>0.6%</u>
	2.4%
Levered rtn before incentive fee	12.8%
Incentive fee	1.6%
<b>ROE</b>	<b>11.2%</b>
EPS	\$1.88

Source: BofA Global Research estimates

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**Exhibit 16: 2025 Unit economics**

BofAe 2025 unit economics

<b>All in yield</b>	<b>9.5%</b>
Cost of funds	6.3%
Average debt-to-equity	1.49x
Net levered return on equity	14.1%
Mgmt fee	1.9%
OpEx	<u>0.6%</u>
	2.4%
Levered rtn before incentive fee	11.6%
Incentive fee	1.5%
<b>ROE</b>	<b>10.2%</b>
EPS	\$1.72

Source: BofA Global Research estimates

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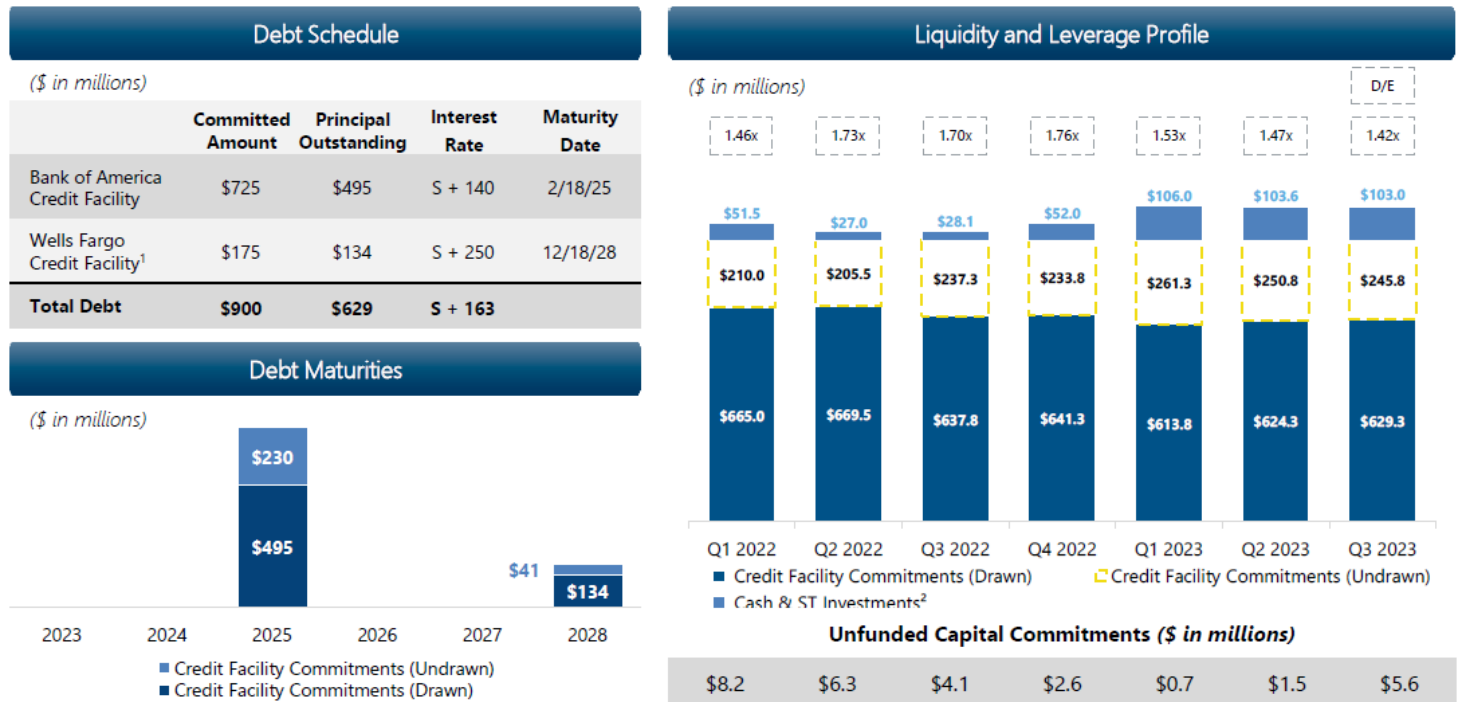
**Funding strategy**

PSBD uses various credit facilities to fund the portfolio and manage liquidity. This strategy provides flexibility to closely match the duration of assets and liabilities, minimizing liquidity and rollover risk. We think PSBD's financing terms are attractive (i.e. non-mark to market, favorable spreads, etc.) and there is significant capacity for portfolio growth.



**Exhibit 17: PSBD currently utilizes credit facilities for leverage**

PSBD debt schedule and liquidity profile



Source: Company reports

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**\$20 million buyback authorization to support the shares**

The company is authorized to repurchase shares of common stock through an open market repurchase program for up to \$20 million (~4% of market cap). Additionally, up to \$5 million will be purchased on behalf of the external advisor (Palmer Square Capital Management LLC) within one year of the IPO (expires January 2025)

## Investor-friendly fee structure

Management fees for BDCs, which are typically 1.5% of assets under management and 17.5% performance related (Exhibit 18), are an increasingly contentious issue with investors, with many investors demanding a decrease. In general, the AUM fee can incentivize indiscriminate platform growth and other suboptimal capital allocation decisions that conflict with shareholders, which can limit valuation. Additionally, if the primary drivers of value creation, largely margins and leverage, are relatively static or declining, the benefits of capital issuance only accrue to the external manager, while EPS and NAV/share are relatively unchanged. This is important since BDC valuation gravitates around NAV/share and the dividend yield.

### Exhibit 18: PSBD has one of the lowest fee structures in the industry

Large BDC fee structures

Name	Ticker	Total Assets (\$M)	IPO/ Listing YR	Base Fee	Incentive Fee			Other	
				Pct of AUM	NOI Incentive Fee	Hurdle Rate	Capital Gains	Total Return Hurdle?	Fee Concessions Notes
Ares Capital Corp.	ARCC	\$22,920	2004	1.50%	20%	7.0%	20%	No	1
Prospect Capital Corp.	PSEC	\$7,854	2004	2.00%	20%	7.0%	20%	No	
** MidCap Finl Invt Corp	MFIC	\$2,455	2004	0.75%	20%	7.0%	20%	Y - 3 Year	
Barings BDC Inc.	BBDC	\$2,742	2007	1.25%	20%	8.0%	20%	Y - 3 Year	
PennantPark Investment Corp.	PNNT	\$1,157	2007	1.50%	17.5%	7.0%	17.5%	No	1
Oaktree Specialty Lending Corp	OCSL	\$3,266	2008	1.50%	17.5%	6.0%	17.5%	No	1
* Golub Capital BDC Inc.	GBDC	\$5,700	2010	1.00%	15%	8.0%	15%	Y - Cumulative	
SLR Investment Corp.	SLRC	\$2,539	2010	1.50%	20%	7.0%	20%	No	1
New Mountain Finance Corp.	NMFC	\$3,280	2011	1.25%	20%	8.0%	20%	No	
* BlackRock TCP Capital Corp.	TCPC	\$1,719	2012	1.25%	17.5%	7.0%	17.5%	Y - Cumulative	1
Sixth St Spclty Lending Inc.	TSIX	\$3,174	2014	1.50%	17.5%	6.0%	17.5%	No	1
FS KKR Capital Corp	FSK	\$15,384	2014	1.50%	17.5%	7.5%	17.5%	No	1
Goldman Sachs BDC Inc.	GSBD	\$3,558	2015	1.00%	20%	7.0%	20%	Y - 3 Year	
Carlyle Secured Lending Inc.	CGBD	\$1,957	2017	1.50%	17.5%	6.0%	17.5%	No	1
Bain Capital Specialty Finance	BCSF	\$2,566	2018	1.50%	17.5%	6.0%	17.5%	Y - 3 Year	1
Blue Owl Capital Corp.	OBDC	\$13,462	2019	1.50%	17.5%	6.0%	17.5%	No	1
Crescent Capital BDC Inc.	CCAP	\$1,624	2020	1.25%	17.5%	7.0%	17.5%	No	
Blackstone Secured Lending Fun	BXSL	\$9,802	2021	1.00%	17.5%	6.0%	17.5%	Y - 3 Year	
<b>Median</b>				<b>1.50%</b>	<b>17.5%</b>	<b>7.0%</b>	<b>17.5%</b>		
** <b>Palmer Square Capital BDC</b>	<b>PSBD</b>	<b>\$1,125</b>	<b>2024</b>	<b>0.75%</b>	<b>12.5%</b>	<b>6.0%</b>	<b>12.5%</b>	<b>Y - 3 Year</b>	

\* pro forma for pending merger

\*\* base mgmt fee is 1.75% of net assets or -0.75% of gross assets

Source: Company reports, BofA Global Research

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The base management fee for PSBD is 1.75% of average net assets (or approximately 75bp of average gross assets). The incentive fee is 12.5% of core income after achieving a 6% hurdle rate. The base management fee is meaningfully below the median peer of 1.50%, which is positive for investors. That said, the hurdle rate is also lower, which offsets risk to the external manager. We note that PSBD implemented a total return hurdle with a three-year lookback, to avoid compensating the advisor when there are realized investment losses that erode NAV/share. In our view, a total return hurdle provides significant investor comfort given the imbedded conflicts within the externally managed BDC structure.

# Management team

## Experienced team that is aligned with shareholders

We believe Palmer Square senior executives and investment professionals bring significant experience investing in private credit. The Palmer Square team has over 20 years of investment experience that spans over multiple credit and economic cycles. Previously, the management team held senior-level positions at other global financial firms.

### **Christopher Long, Chief Executive Officer of Palmer Square Capital BDC**

Chris Long has served as CEO Palmer Square Capital BDC since inception in 2019 and CEO of Investment Advisor PSCM since 2009. Prior to founding PSCM, he served in key investment roles at Prairie Capital and Sandell Asset Management as well as roles at Morgan Stanley and JPMorgan Chase & Co.

### **Angie Long, Chief Investment Officer of Palmer Square Capital BDC**

Angie Long was appointed Chief Investment Officer of Palmer Square Capital BDC in 2019 and also serves as Chief Investment Officer of PSCM. Angie Long has key responsibilities for all investment-related activities at PSCM. Angie Long has been with PSCM since 2011; prior to joining PSCM, she held many senior roles at JPMorgan.

### **Matthew Bloomfield, President of Palmer Square Capital BDC**

Matthew Bloomfield was appointed as President in 2022; he is also the Portfolio Manager for PSCM's US CLO management platform and serves on the US and European CLO investment committees as well as a member of PSBD's Investment Committee. Prior to joining PSCM in 2015, he served in various roles at Golub Capital and Giuliani Capital Advisors

### **Jeffrey Fox, Chief Financial Officer of Palmer Square Capital BDC**

Jeffrey Fox has served as CFO of Palmer Square Capital BDC and CFO of Investment Advisor PSCM since 2019 and President of PSCM since 2020. Has been with PSCM since 2013; prior to joining PSCM he worked for Sandler O'Neill, Société Générale and JPMorgan.



## Price objective basis & risk

### Palmer Square Capital BDC (PSBD)

Our \$16.50 PO is based on a roughly 0.97x multiple to current NAV/share, which we think is achievable as PSBD maintains stable margins and continued portfolio growth.

Downside risks to achieving our price objective are 1) material weakening in credit markets, 2) a deteriorating macroeconomic environment, 3) disruptions in the capital markets, and 4) weaker than expected investment performance.

## Analyst Certification

I, Derek Hewett, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

### North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
<b>BUY</b>				
	Ares Capital Corporation	ARCC	ARCC US	Derek Hewett
	Ares Commercial Real Estate Corporation	ACRE	ACRE US	Derek Hewett
	Bank of Montreal	BMO	BMO US	Ebrahim H. Poonawala
	Bank of Montreal	YBMO	BMO CN	Ebrahim H. Poonawala
	Barings BDC Inc	BBDC	BBDC US	Derek Hewett
	Blackstone Mortgage Trust Inc	BXMT	BXMT US	Derek Hewett
	Blue Owl Capital Corporation	OBDC	OBDC US	Derek Hewett
	Carlyle Secured Lending Inc	CGBD	CGBD US	Derek Hewett
	Citigroup Inc.	C	C US	Ebrahim H. Poonawala
	Compass Diversified Holdings	CODI	CODI US	Derek Hewett
	Crescent Capital BDC	CCAP	CCAP US	Derek Hewett
	Cullen/Frost Bankers Inc	CFR	CFR US	Ebrahim H. Poonawala
	East West Bancorp, Incorporated	EWBC	EWBC US	Ebrahim H. Poonawala
	Fifth Third Bank	FITB	FITB US	Ebrahim H. Poonawala
	First Bancorp Puerto Rico	FBP	FBP US	Brandon Berman
	First Horizon Corporation	FHN	FHN US	Ebrahim H. Poonawala
	FNB Corporation of Pennsylvania	FNB	FNB US	Brandon Berman
	Goldman Sachs	GS	GS US	Ebrahim H. Poonawala
	JPMorgan Chase & Co.	JPM	JPM US	Ebrahim H. Poonawala
	KeyCorp	KEY	KEY US	Ebrahim H. Poonawala
	M&T Bank	MTB	MTB US	Ebrahim H. Poonawala
	Morgan Stanley	MS	MS US	Ebrahim H. Poonawala
	New Mountain Finance Corporation	NMFC	NMFC US	Derek Hewett
	Northern Trust Corporation	NTRS	NTRS US	Ebrahim H. Poonawala
	Royal Bank of Canada	RY	RY US	Ebrahim H. Poonawala
	Royal Bank of Canada	YRY	RY CN	Ebrahim H. Poonawala
	Safehold, Inc	SAFE	SAFE US	Derek Hewett
	Sixth Street Specialty Lending, Inc	TSLX	TSLX US	Derek Hewett
	Starwood Property Trust	STWD	STWD US	Derek Hewett
	Synovus Financial Corp.	SNV	SNV US	Ebrahim H. Poonawala
	The Bank of New York Mellon Corporation	BK	BK US	Ebrahim H. Poonawala
	Truist Financial	TFC	TFC US	Ebrahim H. Poonawala
	U.S. Bancorp	USB	USB US	Ebrahim H. Poonawala
	Webster Financial Corp.	WBS	WBS US	Brandon Berman
	Wells Fargo & Company	WFC	WFC US	Ebrahim H. Poonawala
	Western Alliance Bancorp	WAL	WAL US	Ebrahim H. Poonawala
<b>NEUTRAL</b>				
	AGNC Investment Corp	AGNC	AGNC US	Derek Hewett
	Ally Financial	ALLY	ALLY US	Brandon Berman
	Annaly Capital Management	NLY	NLY US	Derek Hewett
	Apollo Commercial Real Estate Finance	ARI	ARI US	Derek Hewett
	Associated Banc-Corp	ASB	ASB US	Brandon Berman
	Bain Capital Specialty Finance, Inc.	BCSF	BCSF US	Derek Hewett

## North America - Banks Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
	Bank of Nova Scotia	YBNS	BNS CN	Ebrahim H. Poonawala
	Bank of Nova Scotia	BNS	BNS US	Ebrahim H. Poonawala
	Blackstone Secured Lending Fund	BXSL	BXSL US	Derek Hewett
	BrightSpire Capital Inc.	BRSP	BRSP US	Derek Hewett
	Canadian Imperial Bank of Commerce	CM	CM US	Ebrahim H. Poonawala
	Canadian Imperial Bank of Commerce	YCM	CM CN	Ebrahim H. Poonawala
	Citizens Financial Group	CFG	CFG US	Ebrahim H. Poonawala
	Comerica Incorporated	CMA	CMA US	Brandon Berman
	Commerce Bancshares Inc.	CBSH	CBSH US	Brandon Berman
	Goldman Sachs BDC, Inc.	GSBD	GSBD US	Derek Hewett
	Golub Capital BDC, Inc.	GBDC	GBDC US	Derek Hewett
	Huntington Bancshares Inc.	HBAN	HBAN US	Ebrahim H. Poonawala
	Ladder Capital Corp	LADR	LADR US	Derek Hewett
	New York Community Bancorp	NYCB	NYCB US	Ebrahim H. Poonawala
	Palmer Square Capital BDC	PSBD	PSBD US	Derek Hewett
	PennyMac Mortgage Investment Trust	PMT	PMT US	Derek Hewett
	Popular Inc	BPOP	BPOP US	Brandon Berman
	Regions Financial	RF	RF US	Ebrahim H. Poonawala
	The PNC Financial Services Group, Inc.	PNC	PNC US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	TD	TD US	Ebrahim H. Poonawala
	Toronto-Dominion Bank	YTD	TD CN	Ebrahim H. Poonawala
	TPG RE Finance Trust, Inc.	TRTX	TRTX US	Derek Hewett

## UNDERPERFORM

	Bank of Hawaii Corp.	BOH	BOH US	Brandon Berman
	First Hawaiian Inc.	FHB	FHB US	Brandon Berman
	Guild Holdings Company	GHLD	GHLD US	Derek Hewett
	Invesco Mortgage Capital, Inc.	IVR	IVR US	Derek Hewett
	loanDepot Inc	LDI	LDI US	Derek Hewett
	MidCap Financial Investment Co	MFIC	MFIC US	Derek Hewett
	Prosperity Bancshares Inc	PB	PB US	Ebrahim H. Poonawala
	State Street Corporation	STT	STT US	Ebrahim H. Poonawala
	Texas Capital Bancshares Inc.	TCBI	TCBI US	Brandon Berman
	Zions Bancorp	ZION	ZION US	Brandon Berman

iQmethod<sup>SM</sup> Measures Definitions

## Business Performance

Return On Capital Employed

## Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

## Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill  
Amortization  
Shareholders' Equity  
Sales  
N/A  
N/A

Return On Equity  
Operating Margin  
Earnings Growth  
Free Cash Flow

Net Income  
Operating Profit  
Expected 5 Year CAGR From Latest Actual  
Cash Flow From Operations – Total Capex

## Quality of Earnings

Cash Realization Ratio  
Asset Replacement Ratio  
Tax Rate  
Net Debt-To-Equity Ratio  
Interest Cover

## Numerator

Cash Flow From Operations  
Capex  
Tax Charge  
Net Debt = Total Debt – Cash & Equivalents  
EBIT

## Denominator

Net Income  
Depreciation  
Pre-Tax Income  
Total Equity  
Interest Expense

## Valuation Toolkit

Price / Earnings Ratio  
Price / Book Value  
Dividend Yield  
Free Cash Flow Yield  
Enterprise Value / Sales

## Numerator

Current Share Price  
Current Share Price  
Annualised Declared Cash Dividend  
Cash Flow From Operations – Total Capex  
EV = Current Share Price × Current Shares + Minority Equity + Net Debt +  
Other LT Liabilities  
Enterprise Value

## Denominator

Diluted Earnings Per Share (Basis As Specified)  
Shareholders' Equity / Current Basic Shares  
Current Share Price  
Market Cap = Current Share Price × Current Basic Shares  
Sales

EV / EBITDA

Basic EBIT + Depreciation + Amortization

iQmethod<sup>SM</sup> is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and validations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

iQdatabase<sup>®</sup> is our real-time global research database that is sourced directly from our equity analysts' earnings models and includes forecasted as well as historical data for income statements, balance sheets, and cash flow statements for companies covered by BofA Global Research.

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# Disclosures

## Important Disclosures

### Equity Investment Rating Distribution: Financial Services Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	156	53.79%	Buy	94	60.26%
Hold	72	24.83%	Hold	48	66.67%
Sell	62	21.38%	Sell	35	56.45%

### Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships <sup>R1</sup>	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

<sup>R1</sup> Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster <sup>R2</sup>
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

<sup>R2</sup> Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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