

# Mossberg's Investor Digest

## Best Idea Profile:

## MVC Capital, Inc. (NYSE:MVC)

### DESCRIPTION:

MVC Capital, Inc. is a business development company that provides long-term equity and debt investment capital to fund growth, acquisitions and recapitalizations of small and middle-market companies in a variety of industries primarily located in the U.S. Its largest portfolio investment is U.S. Gas & Electric, Inc. MVC typically serves as the lead investor for transactions, but also participates as a co-investor or with other private equity investors. It targets companies with revenues between \$10 and \$200 million and EBITDA of \$3 to \$25 million. MVC made 11 investments totaling \$11 million in fiscal 2012. In late 2006, The Tokarz Group Advisers LLC became the sole advisor and manager of the Company. MVC Capital was founded in 1999 and is based in Purchase, New York, with an additional office in Chicago.

### KEY INVESTMENT CONSIDERATIONS:

**Financial Success** – MVC has reported bottom line growth each year under its current management, and combined net realized and unrealized gains on investments of approximately \$187 million from the beginning of 2004 through fiscal 2012. NAV growth per share averaged 7% since fiscal 2004, including through the financial crisis. The Company's strong cash position and ability to further monetize its portfolio readies it to deploy into new investments. The company also has a large capital loss carry forward (from losses created under previous management) available to shelter eligible future gains.

**Proven Investment Strategy** – Management looks for investments in underperforming companies with opportunities to redirect resources and strategies. It targets companies with secure market niches and predictable profit margins. Greater than 90% of MVC's current investment portfolio at fiscal year end was comprised of investments where MVC was the lead or sole investor. Although energy represents more than a quarter of the portfolio, there is diversity among the remainder: less than 20% in specialty chemicals and close to 10% in medical devices and equipment, automotive retailing, and business and industrial services. Its largest investment, USG&E, has been recognized by *Inc. Magazine* as one of the "Fastest-Growing Private Companies in America" for four consecutive years.

**Long History of Strong Yield** – MVC paid at least a \$0.12 quarterly dividend for seven years and distributed more than \$85 million to shareholders under the current management.

**Proven Management Incited to Succeed** – The managers have an average of 15 years of experience and impressive track records of financial and operational successes. The Chairman is a buyout pioneer and former general manager of KKR for 17 years. Other managers' credentials include the creation of the second largest venture capital firm in the world, and cofounder of Merrill Lynch Venture Capital. They are incited to succeed with MVC's assets: the managers receive incentive fees for net realized capital gains and a 20% fee for exceeding net income target of 8.75%. Insider buying since the beginning of the year also indicates management's interest and expectation of success.

### VALUATION:

MVC stock is attractive based on its 4.4% dividend yield and below-book valuation alone. Net asset value as of October 31, 2012 was \$16.14. Add to that the potential for future growth in assets and profitability and shareholders have the opportunity to maximize their total return through capital appreciation and income. Interestingly, MVC's total return has consistently outpaced the S&P's total return.

#### MVC Capital, Inc. (NYSE:MVC)

Investment Data (as of 2/12/13)

<b>Recent Price</b>	<b>\$12.24</b>
52-Week Range	\$11.60 - \$13.39
Fiscal Year End	Oct
Dividend	\$0.54
Yield	4.40%
Shares Outstanding	23.9 M
Average Trading Volume (3 mos)	88k
Market Capitalization	\$292 M
Cash	\$36 M
Long-term Debt	\$50 M
Enterprise Value (EV)	\$306 M
Book Value	\$16.14
TTM Revenue	\$29.9 M
P/ Revenue	9.8x
TTM EPS	\$(0.90)
P/ EPS	NA
TTM EBITDA	NA
EV/ EBITDA	NA

We attempt to provide subscribers with reasoned opinions based on our analysis of publicly available information from sources believed to be reliable, but make no representations as to its accuracy or completeness. Best Idea profiles are not based upon individual needs of subscribers nor are they an offer to buy or sell securities. Additional disclosures can be found under the Disclosures portion of the Mossberg's Investor Digest website.