Goldman Sachs BDC, Inc. (GSBD)

Updated April 16th, 2021 by Nikolaos Sismanis

Key Metrics

Current Price:	$19.5	**5 Year CAGR Estimate:**	8.0%	**Market Cap:**	$1.97B
Fair Value Price:	$19.5	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	06/29/2021
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.1%	**Dividend Payment Date:**	07/15/2021
Dividend Yield:	9.3%	**5 Year Price Target**	$19.5	**Years Of Dividend Growth:**	N/A
Dividend Risk Score:	F	**Retirement Suitability Score:**	C	**Last Dividend Increase:**	N/A

Overview & Current Events

Goldman Sachs BDC is a closed-end management investment company that has elected to be regulated as a BDC (Business Development Company). In 2020, the company merged with Goldman Sachs Middle Market Lending Corp. Post-merger GSBD provides specialty finance lending to U.S.-based middle-market companies, which generate EBITDA in the range of $5-$200 million annually, primarily through "unitranche" first-lien loans. The company will usually make investments that have a maturity between three and ten years and in size between $10 million and $75 million. Its investment advisor is Goldman Sachs' very own Asset Management Team, "GSAM". Goldman Sachs BDC generates around $172 million in annual total investment income and is based in New York, New York.

On February 25th, 2021, GSBD announced its Q4 results for the quarter ended December 31st, 2020. For the three-month period, the company achieved a total investment income of $78.9 million, compared to $31.5 million in the previous quarter, driven by the additional interest-bearing investments acquired as part of the merger. Net investment income (NII) also expanded from $18.2 million in Q3 to $45.2 million as a result. Due to the additional share issuance amid the merger's completion, adjusted NNI/share grew by 6.6% to $0.59, with the company unlocking some cost efficiencies from early on.

As of December 31st, GSBD's portfolio comprised 123 companies, with a fair value of around $3.2 billion. Around 78% and 14% of its portfolio are allocated in first lien and second lien securities, respectively, whose amortized yield at cost comes in at 8.4%. GSBD's investments are also well-diversified, with Healthcare Technology, Software, and Interactive Media accounting for 10.5%, 10.1%, and 8.4% of its total portfolio.

Growth on a Per-Share Basis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
NII	---	---	$0.67	$1.77	$2.14	$2.10	$2.07	$2.06	$1.98	$2.04	***$2.05***	***$2.05***
DPS	---	---	$0.50	$1.69	$1.80	$1.80	$1.80	$1.80	$1.80	$1.80	***$1.80***	***$1.80***
Shares[1]	---	---	23.8	29.7	34.8	36.3	38.6	40.2	40.3	53.9	***55.0***	***80.0***

Since 2015, when GSBD went public, the company has been producing very stable results. While its portfolio yield may be inferior to industry peers, who often enjoy yields in the low double-digits, the company has maintained a robust investment spread. The recent merger should reduce borrowing costs, and being a larger firm, GSBD should enjoy higher-quality deal flow amid its scale and reputation. Without the best evidence to support a sustainably higher NII/share, however, we retain stable performance levels in our forecast in order to be prudent.

In terms of its dividend, GSBD's distributions have been very consistent, in line with its investment income performance. Unlike many of its industry peers, the company does not have significant exposure in equity investments, with preferred and common stocks accounting for 1.5% and 2.0% of its portfolio. Hence, no meaningful, extraordinary gains, and consequently, special dividends have occurred historically. Investors should continue to expect shares issuance over time as GSBD utilizes both equity and debt to grow its investment portfolio.

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[1] Share count is in millions.

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Valuation Analysis

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	Now	2026
Avg. P/NII	---	---	---	---	8.6	10.2	10.8	10.4	9.9	7.5	***9.5***	***9.5***
Avg. Yld.	---	---	---	---	9.8%	8.4%	8.0%	8.4%	9.1%	11.7%	***9.3%***	***9.3%***

Since the company's IPO, the stock has retained a valuation in line with its industry peers in the high-single to low-double digits. With the recent merger's total results remaining relatively unknown so far, and the company's slightly below-average yield on its investments, we expect the stock to retain a P/NII ratio below 10. Investors should keep in mind that the company's relatively higher yield to its industry peers should translate to more expensive financing going forward. The lack of equity investments which usually tend to yield higher returns, also contributes to a lower multiple.

Safety, Quality, Competitive Advantage, & Recession Resiliency

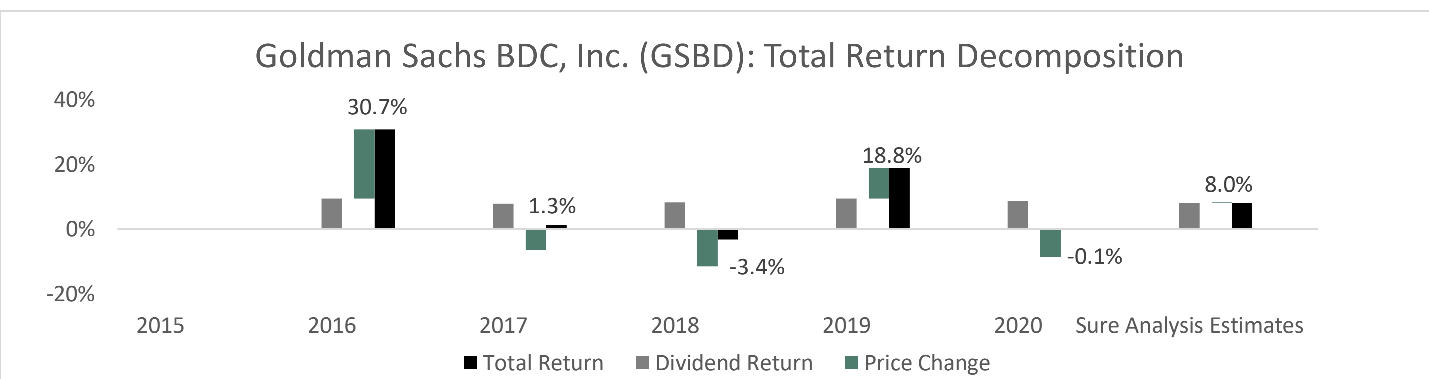
Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2026
Payout	---	---	75%	95%	84%	86%	87%	87%	91%	88%	***88%***	***88%***

Goldman Sachs BDC's dividend could be considered relatively safe, considering that the company has maintained its current $1.80 rate for years, adequately covered by its net investment income generation. On the one hand, its performance has remained consistent for years, displaying its portfolio's resiliency. Additionally, the recent merger should increase the company's ability to strike better deals and hopefully lower its financing costs. This could be considered a competitive advantage in an industry (BDCs) in which competitive advantages are rare. On the other hand, the merger remains very recent, which means we cannot exclude the possibility the transition may not be as smooth as shown in Q4. Further, the company's higher cost of equity and lack of non-debt investments are likely to drag the potential for extraordinary returns going forward. The company has not been tested under a prolonged recession due to its IPO taking place only six years ago. However, the company displayed robust results during the ongoing pandemic, while being backed by Goldman Sachs itself could be potentially proven life-saving if such a recession was to occur.

Final Thoughts & Recommendation

Overall, Goldman Sachs BDC is a robust company, backed by the namesake asset management itself. Post-merger, the company will hopefully be able to negotiate deals on better terms, leveraging its reputation into higher investment yields. While its yield is on the higher-end amongst its peers due to the reasons mentioned earlier, which reflects the underlying risks, the stock may fit income-oriented investors' portfolios. Few companies yield that much with a relatively well-covered dividend. We forecast annualized returns of around 8% going forward, assuming no significant merger efficiencies until data becomes clearer over the next couple of quarters. Shares earn a hold rating.

Total Return Breakdown by Year



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Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.

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Income Statement Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Revenue			22	41	53	48	56	62	43	147
SG&A Exp.			2	4	5	6	5	6	6	6
Net Profit			18	37	47	41	50	54	36	176
Net Margin			83.0%	89.6%	88.7%	85.0%	88.3%	86.4%	83.5%	120%
Free Cash Flow			(539)	(280)	(121)	(31)	(49)	(49)	(35)	166
Income Tax			1	0	1	1	2	2	2	1

Balance Sheet Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Total Assets			630	967	1,133	1,191	1,299	1,397	1,475	3,312
Cash & Equivalents			7	9	23	5	12	6	9	32
Total Liabilities			22	393	444	525	573	687	799	1,697
Accounts Payable			12	36	17	18	20	21	20	56
Long-Term Debt			-	350	419	498	543	659	770	1,627
Shareholder's Equity			608	575	689	665	726	710	676	1,615
D/E Ratio			-	0.61	0.61	0.75	0.75	0.93	1.14	1.01

Profitability & Per Share Metrics

Year	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020
Return on Assets				4.6%	4.4%	3.5%	4.0%	4.0%	2.5%	7.4%
Return on Equity			5.5%	6.2%	7.4%	6.0%	7.1%	7.5%	5.2%	15.4%
ROIC				4.8%	4.6%	3.6%	4.1%	4.1%	2.6%	7.5%
Shares Out.			23.8	29.7	34.8	36.3	38.6	40.2	40.3	53.9
Revenue/Share			0.73	1.39	1.51	1.32	1.45	1.55	1.07	2.72
FCF/Share			(18.1)	(9.40)	(3.49)	(0.86)	(1.28)	(1.23)	(0.87)	3.07

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.