Goldman Sachs BDC, Inc. (GSBD)

Updated February 25th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	$19.98	**5 Year CAGR Estimate:**	7.7%	**Market Cap:**	$2.01 B
Fair Value Price:	$19.95	**5 Year Growth Estimate:**	0.0%	**Ex-Dividend Date:**	03/31/2022
% Fair Value:	100%	**5 Year Valuation Multiple Estimate:**	0.0%	**Dividend Payment Date:**	04/27/2022
Dividend Yield:	9.0%	**5 Year Price Target**	$19.95	**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 over $300 million in annual total investment income and is based in New York, New York.

On February 24th, 2022, GSBD announced its Q4 results for the period ending December 31st, 2021. For the three-month period, the company achieved a total investment income of $83.8 million, compared to $96.7 million in the previous quarter. The decrease in total investment income was primarily driven by a decrease in accelerated accretion related to repayments.

Net investment income (NII) also slipped from $64.3 million in Q3 to $57.3 million as a result. Excluding purchase discount amortization per share of $0.08 from the GSBD merger, adjusted NII per share came in at $0.48, remaining stable sequentially.

As of December 31st, GSBD's portfolio comprised 121 companies with a fair value of around $3.92 billion. The investment portfolio was comprised of 97.5% senior secured debt, including 89.4% in first lien investments, whose amortized yield at cost comes in at 7.9%. GSBD's investments are well-diversified, with Software, Healthcare Technology, and Healthcare Providers accounting for 13.5%, 11.0%, and 10.3% of its total portfolio, respectively. Net asset value per share during Q4 decreased 20.4% to $15.86 from $15.92 sequentially. We expect FY2022 NII/share of $2.10.

Growth on a Per-Share Basis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
NII	---	$0.67	$1.77	$2.14	$2.10	$2.07	$2.06	$1.98	$2.04	$2.33	***$2.10***	***$2.10***
DPS	---	$0.50	$1.69	$1.80	$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	101.6	***101.6***	***150.0***

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 dividends 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

[1] Share count is in millions.

and common stocks accounting for 2% of its portfolio each. Hence, no meaningful, extraordinary gains have occurred historically. We don't expect the core dividend to grow in the medium-term, though sporadic special payouts are likely. Investors should continue to expect shares issuance over time as GSBD utilizes both equity and debt to grow its investment portfolio.

Valuation Analysis

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	Now	2027
Avg. P/NII	---	---	---	8.6	10.2	10.8	10.4	9.9	7.5	8.2	***9.5***	***9.5***
Avg. Yld.	---	---	---	9.8%	8.4%	8.0%	8.4%	9.1%	11.7%	9.4%	***9.0%***	***9.0%***

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. 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

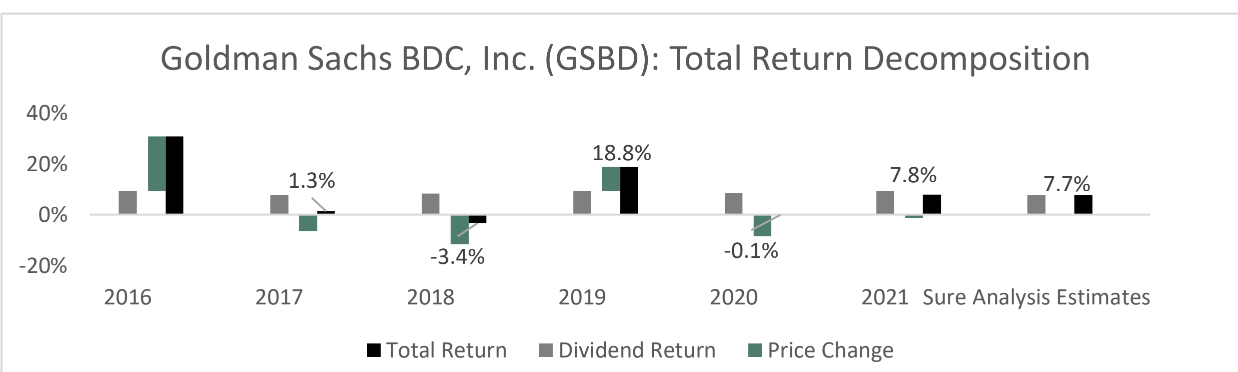
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	95%	84%	86%	87%	87%	91%	88%	77%	***86%***	***86%***

Goldman Sachs BDC's dividend could be considered relatively safe, since the company has maintained its current $1.80 rate for years, adequately covered by its net investment income generation. 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. That being said, the company has not been tested under a prolonged recession due to its IPO taking place only seven 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 were to occur.

Final Thoughts & Recommendation

Overall, Goldman Sachs BDC is a quality company backed by the namesake asset management itself. While the stock's yield is on the higher-end amongst its peers due to the reasons mentioned earlier, which reflects the underlying risks, the company is likely to fit income-oriented investors' portfolios. Few stocks yield that much with a relatively well-covered dividend. We estimate annualized returns of around 7.7% going forward, entirely powered by the stock's dividend yield. 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
LTD/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.