



Goldman Sachs BDC, Inc. (GSBD)

Updated November 9th, 2022 by Nikolaos Sismanis

Key Metrics

Current Price:	\$15.83	5 Year CAGR Estimate:	10.8%	Market Cap:	\$1.63 B
Fair Value Price:	\$17.40	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	12/29/2022
% Fair Value:	91%	5 Year Valuation Multiple Estimate:	1.9%	Dividend Payment Date:	01/27/2022
Dividend Yield:	11.4%	5 Year Price Target	\$17.40	Years Of Dividend Growth:	N/A
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Buy

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 November 3rd, 2022, GSBD announced its Q3 results for the period ending September 30th, 2022. For the three-month period, the company achieved a total investment income of \$95.2 million, compared to \$77.5 million in the previous quarter. The increase in investment income was primarily driven by an increase in interest rates.

Net investment income (NII) also rose from \$49.6 million in Q2 to \$61.2 million as a result. Excluding purchase discount amortization per share of \$0.04 from the GSBD merger, adjusted NII per share came in at \$0.56, up from \$0.45 in Q2.

As of September 30th, GSBD’s portfolio comprised 133 companies with a fair value of around \$4.05 billion. The investment portfolio was comprised of 97.7% senior secured debt, including 91.7% in first lien investments, whose amortized yield at cost comes in at 10.4%. GSBD’s investments are well-diversified, with Software, Healthcare Providers, and Diversified Financial Services accounting for 15.3%, 11.4%, and 10.9% of its total portfolio, respectively. Net asset value per share declined 3.28% to \$15.02 from \$15.53 sequentially. We continue to expect FY2022 NII/share of \$2.00.

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	\$2.00	\$2.00
DPS	---	\$0.50	\$1.69	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80
Shares¹	---	23.8	29.7	34.8	36.3	38.6	40.2	40.3	53.9	101.6	102.4	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. Rising rates could be boost NII/share over the medium-term, though we continue to expect stable results ahead until GBDC proves it can sustain its borrowing costs low.

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 and common stocks accounting for 0.9% and nearly 0% of its portfolio, respectively. Hence, no meaningful, extraordinary gains have occurred historically. We don’t expect the core dividend to grow in the medium-term, though

¹ Share count is in millions.

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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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	7.9	8.7
Avg. Yld.	---	---	---	9.8%	8.4%	8.0%	8.4%	9.1%	11.7%	9.4%	11.4%	10.3%

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. 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 warrants a lower multiple. Nevertheless, we believe shares are relatively undervalued at their current levels. We retain our fair P/NII at 8.7, implying the possibility for a valuation tailwind ahead.

Safety, Quality, Competitive Advantage, & Recession Resiliency

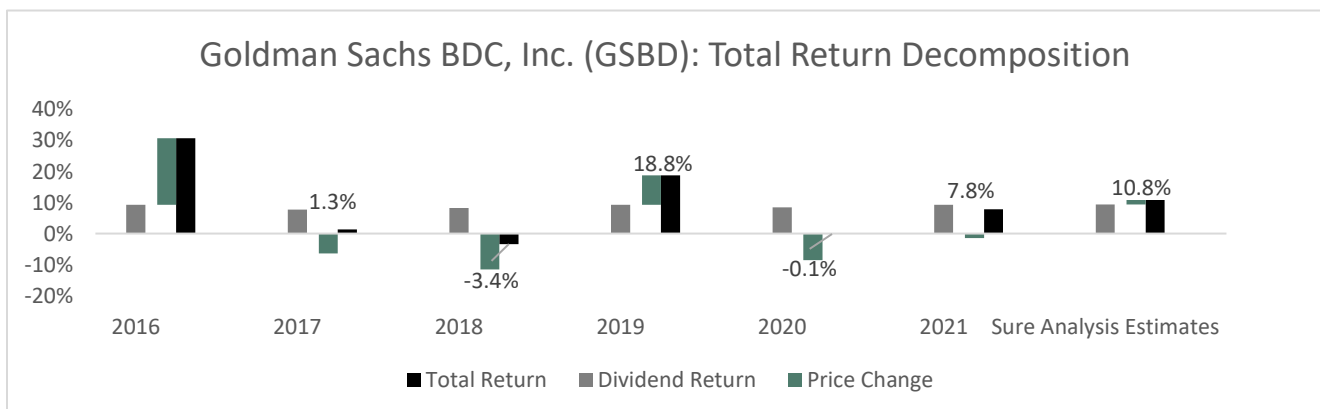
Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2027
Payout	---	---	95%	84%	86%	87%	87%	91%	88%	77%	90%	90%

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, which reflects the underlying risks mentioned earlier, the company is likely to fit income-oriented investors' portfolios. Few stocks yield this high with a relatively well-covered dividend. We estimate annualized returns of around 10.8% going forward, powered by the stock's hefty dividend yield and the possibility of a valuation tailwind. Goldman Sachs BDC is upgraded to a buy rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Revenue		22	41	53	48	56	62	43	147	170
SG&A Exp.		2	4	5	6	5	6	6	6	8
Net Profit		18	37	47	41	50	54	36	176	192
Net Margin		83.0%	89.6%	88.7%	85.0%	88.3%	86.4%	83.5%	120%	113%
Free Cash Flow		(539)	(280)	(121)	(31)	(49)	(49)	(35)	166	(30)
Income Tax		1	0	1	1	2	2	2	1	2

Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Total Assets		630	967	1,133	1,191	1,299	1,397	1,475	3,312	3,551
Cash & Equivalents		7	9	23	5	12	6	9	32	34
Total Liabilities		22	393	444	525	573	687	799	1,697	1,937
Accounts Payable		12	36	17	18	20	21	20	56	61
Long-Term Debt		-	350	419	498	543	659	770	1,627	1,861
Shareholder's Equity		608	575	689	665	726	710	676	1,615	1,614
LTD/E Ratio		-	0.61	0.61	0.75	0.75	0.93	1.14	1.01	1.15

Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
Return on Assets			4.6%	4.4%	3.5%	4.0%	4.0%	2.5%	7.4%	5.6%
Return on Equity		5.5%	6.2%	7.4%	6.0%	7.1%	7.5%	5.2%	15.4%	11.9%
ROIC			4.8%	4.6%	3.6%	4.1%	4.1%	2.6%	7.5%	5.7%
Shares Out.		23.8	29.7	34.8	36.3	38.6	40.2	40.3	53.9	101.69
Revenue/Share		0.73	1.39	1.51	1.32	1.45	1.55	1.07	2.72	1.67
FCF/Share		(18.1)	(9.40)	(3.49)	(0.86)	(1.28)	(1.23)	(0.87)	3.07	(0.29)

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

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