



Golub Capital BDC, Inc. (GBDC)

Updated February 9th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$13.91	5 Year CAGR Estimate:	9.3%	Market Cap:	\$2.37 B
Fair Value Price:	\$15.12	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	03/03/23
% Fair Value:	92%	5 Year Valuation Multiple Estimate:	1.7%	Dividend Payment Date:	03/29/23
Dividend Yield:	9.5%	5 Year Price Target	\$15.12	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

Golub Capital is an externally managed, closed-end investment company that has chosen to be regulated as a Business Development Company (BDC). Golub aims to generate interest income and capital appreciation by investing primarily in one-stop and other senior secured loans of U.S. middle-market companies. The company's investment criteria require its potential investments to generate annual EBITDA of less than \$100 million, have a sustainable leading position in their respective markets, and scalable revenues and operating cash flows. Golub was formed in 2009, generates nearly \$388 million in total investment income (NII) per year, and is based in Chicago, Illinois.

On February 8th, 2023 Golub Capital reported its fiscal Q1 2023 results for the quarter ended December 31st. Note that the company's fiscal year ends September 30th. This applies to the figures shown in our tables.

As a result of a larger investment portfolio and higher interest rates, the company achieved a total investment income of \$136.9 million, up 14.4% quarter-over-quarter. Net investment income grew 18.3% to \$63.9 million, as lower increase in expenses led to an expansion in investment margins. On a per-share basis, net investment income also rose from \$0.32 to \$0.36. On an adjusted basis, which excludes amortization of purchase premium per share, EPS grew from \$0.33 to \$0.37.

As of December 31st, 2022, Golub's portfolio consisted of 332 investments, 85.4% of which were allocated in one-stop debt, 9.0% in senior secured debt, 5.0% in equities, and 0.6% in junior debt. Diversification by weight seems adequate, with the top 10 investments accounting for around 15% of the total portfolio. Software, healthcare services, and specialty retail make up the majority of Golub's industry exposure, with these three accounting for 27%, 8%, and 6% of the portfolio, respectively. For fiscal 2023, we expect NII/share of \$1.44.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
NII	\$1.29	\$1.26	\$1.20	\$1.25	\$1.23	\$1.27	\$1.36	\$0.94	\$0.99	\$1.15	\$1.44	\$1.44
DPS	\$1.28	\$1.28	\$1.28	\$1.28	\$1.53	\$1.36	\$1.40	\$1.37	\$1.16	\$1.20	\$1.32	\$1.32
Shares¹	34.5	45.3	49.0	51.9	59.8	60.1	72.4	167.2	170.0	170.9	170.9	250.0

Golub's net investment income has remained quite stable over the years, only temporarily suffering as a result of higher expenses. The company currently pays an annualized base dividend of \$1.32. However, over the years, its equity investments have delivered additional gains which are not recorded as net investment income.

The company has been using these additional proceeds to pay special dividends, resulting in higher annual DPS, as shown in the table. This is not always the case, however. For example, in Q1-2023, the company netted a \$0.21 per share in realized/unrealized loss amid the shaky capital markets environment during this period.

Regarding future profitability, it's hard to estimate accurately. On the one hand, the company's investment income yield was on a declining trend amid declining global rates. It was 8.1% in Q3-2020 and had fallen to 7.3% by Q2-2022. On the

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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other hand, with interest on the rise, investment income yield has now skyrocketed to 10.5%. Accordingly, the net investment spread currently stands at 6.1%, up from 4.5% last year.

Since it's impossible to speculate on how these private investments will perform under various changes in interest rates, and thus, we don't speculate on higher or lower earnings-per-share moving forward. The company did not announce any special dividends during FY2021 and FY2022 and has not announced any fiscal year-to-date as well.

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	13.3	12.9	14.2	13.6	14.3	13.0	12.6	15.0	15.8	12.4	9.7	10.5
Avg. Yld.	7.5%	7.9%	7.5%	7.5%	8.7%	8.2%	8.2%	9.7%	7.3%	8.4%	9.5%	8.7%

Golub's well-diversified portfolio, higher tech-oriented exposure, and frequent additional gains resulting in special dividends have historically attracted a slight valuation premium compared to its industry peers. The current valuation multiple of 9.7X appears lower than usual, which is strange given improved profitability lately. We expect a valuation expansion moving forward, as NAV/share stands at \$14.71, which is notably lower compared to the stock price. The yield has always been hefty, as per Golub's BDC nature. Excluding any special dividends, shares are yielding 9.5%.

Safety, Quality, Competitive Advantage, & Recession Resiliency

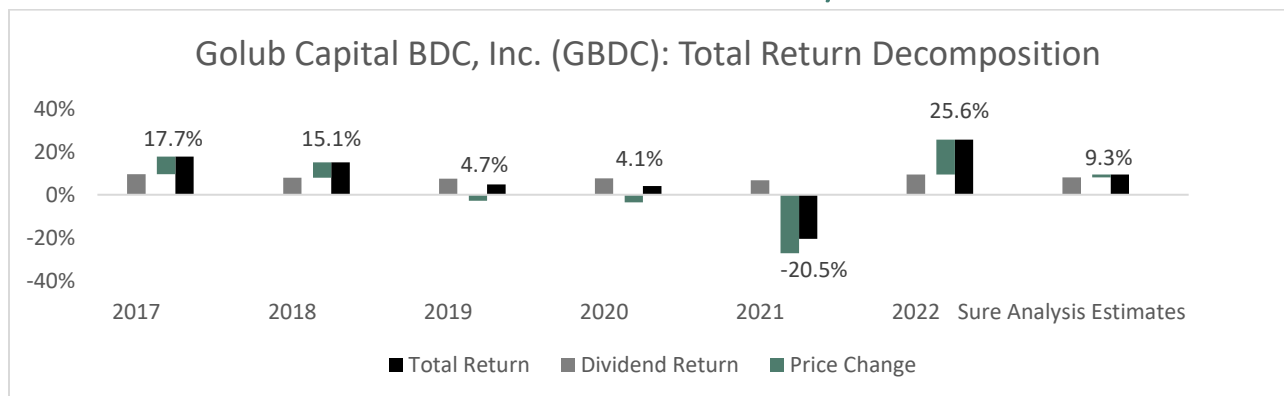
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	99%	102%	107%	102%	124%	107%	103%	146%	117%	104%	92%	92%

With improved earnings following rising interest rates, we believe that at the minimum, Golub's \$1.32 base dividend remains relatively well-covered. Because most of the company's investments are in one-stop debt and secured notes, its assets should prove resilient during a potential recession, though due to its formation post the 2007 to 2009 period, we lack better historical indication. Golub performed somewhat alright during the pandemic, nonetheless. Being an investment company, Golub does not possess any material competitive advantage other than its management's expertise, which seems to be delivering results in line with the industry.

Final Thoughts & Recommendation

Overall, Golub is a well-diversified investment company, with an industry-leading investment spread of above 6%. Assuming a valuation tailwind in the medium-term, we expect annualized returns of 9.3%, primarily powered by the dividend. However, it's quite possible that Golub delivers higher returns based on how its private equity investments perform. It's worth noting that insiders own nearly 13.6% of the \$2.37 billion company, suggesting aligned interest with shareholders. Shares earn a hold rating at current prices.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	51.9	71.0	76.7	75.1	87.6	87.6	-12.7	66.8	349.5	172.6
SG&A Exp.	5.4	5.6	5.9	5.5	5.3	5.7	5.9	12.0	12.6	12.5
Net Profit	46.5	65.4	70.8	69.2	82.3	82.0	-18.6	54.9	340.3	153.4
Net Margin	89.7%	92.1%	92.3%	92.2%	93.9%	93.5%	N/A	82.1%	97.4%	88.9%
Free Cash Flow	-297.6	-255.6	-103.3	-56.1	62.2	-8.5	-118.5	187.7	-306.1	-416.5

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	1091.7	1443.4	1633.4	1756.5	1754.2	1835.6	4394.9	4444.3	5165	5681
Cash & Equivalents	16.3	5.1	5.5	10.9	4.0	5.9	6.5	24.6	175.6	124.1
Total Liabilities	433.4	710.6	822.6	877.7	796.2	866.7	2172.0	2048.1	2582	3137
Accounts Payable	6.9	4.6	4.8	5.3	6.1	6.2	39.4	11.9	18.6	26.7
Long-Term Debt	420.9	697.5	806.0	859.5	776.8	842.7	2119.5	2017.8	2551	3076
Shareholder's Equity	658.2	732.7	810.9	878.8	957.9	968.9	2222.9	2396.2	2583	2544
LTD/E Ratio	0.6	1.0	1.0	1.0	0.8	0.9	1.0	0.8	0.99	1.21

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	5.1%	5.2%	4.6%	4.1%	4.7%	4.6%	-0.6%	1.2%	7.1%	2.8%
Return on Equity	9.0%	9.4%	9.2%	8.2%	9.0%	8.5%	-1.2%	2.4%	13.7%	6.0%
ROIC	5.2%	5.2%	4.6%	4.1%	4.7%	4.6%	-0.6%	1.3%	7.1%	2.9%
Shares Out.	36.4	47.8	51.7	54.8	60.0	61.7	65.5	148.9	168	170.7
Revenue/Share	1.43	1.49	1.48	1.37	1.46	1.42	-0.19	0.45	2.08	1.01
FCF/Share	-8.19	-5.35	-2.00	-1.02	1.04	-0.14	-1.81	1.26	-1.82	-2.44

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

Disclaimer

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