



# Fidus Investment Corporation (FDUS)

Updated March 12<sup>nd</sup>, 2023 by Nikolaos Sismanis

## Key Metrics

<b>Current Price:</b>	\$19.10	<b>5 Year CAGR Estimate:</b>	8.8%	<b>Market Cap:</b>	\$474.7 M
<b>Fair Value Price:</b>	\$21.00	<b>5 Year Growth Estimate:</b>	0.0%	<b>Ex-Dividend Date:</b>	03/21/2023
<b>% Fair Value:</b>	91%	<b>5 Year Valuation Multiple Estimate:</b>	1.9%	<b>Dividend Payment Date:</b>	03/29/2023
<b>Dividend Yield:</b>	8.5%	<b>5 Year Price Target</b>	\$21.00	<b>Years Of Dividend Growth:</b>	3
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## Overview & Current Events

Fidus Investment Corporation is an externally managed business development company (BDC), aiming to provide customized debt and equity financing solutions to lower middle-market companies. Its investment criteria comprise cash-flow-positive businesses generating predictable revenues in the range of \$10-\$150 million annually and at defensible and/or leading positions in their respective markets. Fidus Investments generates around \$95 million annually in total investment income and is based in Evanston, Illinois.

On February 21<sup>st</sup>, Fidus Investment Corp. raised its base quarterly dividend by 13.9% to \$0.41.

On March 2<sup>nd</sup>, 2023, Fidus Investment Corp. reported its Q4-2022 and full-year results for the period ending December 31<sup>st</sup>, 2022. For the quarter, the company achieved a total investment income of \$27.5 million, which was a 14% increase year-over-year. The \$3.4 million increase was attributable to (i) a \$5.5 million increase in total interest income resulting from an increase in average debt investment balances outstanding and an increase in the weighted average yield on debt investment balances outstanding, (ii) a \$1.1 million decrease in dividend income due to decreased levels of distributions received from equity investments, and (iii) a \$1.6 million decrease in fee income resulting from a decrease in amendment, and origination fees, partially offset by an increase in prepayment fees.

Adjusted NII/share, which excludes the capital gains incentive fee accrual, rose from \$0.49 to \$0.51 as a result of lower total expenses. Fidus continued to grow its portfolio during the quarter, investing \$65.9 million in four new companies. The portfolio now consists of 76 companies with a weighted average debt yield of 13.8% against Fidus' own weighted average interest rate of around 4.0%, allowing for an industry-leading income spread.

I.T. services, business services, and component manufacturing comprise its most significant industry exposures, at 35.3%, 12.2%, and 6.2% of its total holdings, respectively. Fidus' NAV/share rose slightly, coming in at \$19.43 compared to \$19.41 in the previous quarter. Based on the company's current portfolio composition and performance trajectory, we forecast that Fidus will achieve an adjusted NII/share close to \$2.10 this year.

## Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
<b>NII</b>	\$1.43	\$1.62	\$1.64	\$1.45	\$1.44	\$1.43	\$1.31	\$1.62	\$1.03	\$1.90	<b>\$2.10</b>	<b>\$2.10</b>
<b>DPS</b>	\$1.94	\$1.72	\$1.60	\$1.60	\$1.60	\$1.60	\$1.60	\$1.33	\$1.60	\$2.00	<b>\$1.62</b>	<b>\$1.62</b>
<b>Shares<sup>1</sup></b>	13.5	14.3	16.2	18.3	23.5	24.5	24.5	24.4	24.4	24.5	<b>24.5</b>	<b>25.0</b>

Fidus has generated very stable net investment income levels over the past decade due to achieving a consistent yield spread between its investment yield and cost of debt. The company has often paid special dividends amid extra equity gains, though at times, dividends have exceeded total gains, sometimes resulting in a reduced NAV/share YoY. Nonetheless, over time equity gains not reflected in the company's net investment income as reported have helped grow the NAV/share. It has increased from \$14.46 in Fidus' IPO back in 2011 to \$19.43 as of its latest quarter. The company cut its dividend in 2020 from a quarterly base rate of \$0.39, temporarily to \$0.30 before gradually lifting it back

<sup>1</sup> Share count is in millions.

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up again to \$0.41 currently. This implies an annualized dividend rate of \$1.62, which we have implemented in our calculations. However, the company occasionally pays supplemental and special dividends. Such dividends amounted to \$0.27 per share in 2021 and \$0.56 in 2022. Thus far in 2023 (as of Q1), the company has declared \$0.25 in supplemental and special dividends. Rising rates are benefiting the company, but we expect no growth in NII/share ahead to account for potential mid-term headwinds from an already high-income base.

## Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	10.9	12.6	10.5	8.9	11.4	11.2	10.0	11.7	5.6	17.0	9.1	10.0
Avg. Yld.	8.7%	10.8%	10.1%	10.9%	9.7%	9.9%	11.2%	10.5%	14.8%	9.0%	8.5%	7.7%

Fidus' valuation has been in line with its industry peers, hovering in the high-single to low double-digits. We believe the stock is currently undervalued, given its excellent NII/share growth, excess distribution potential, and NAV/share retention. The dividend yield appears below-average at 8.5%, but it will certainly be much higher in the end, as our current and future estimates exclude special dividends.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

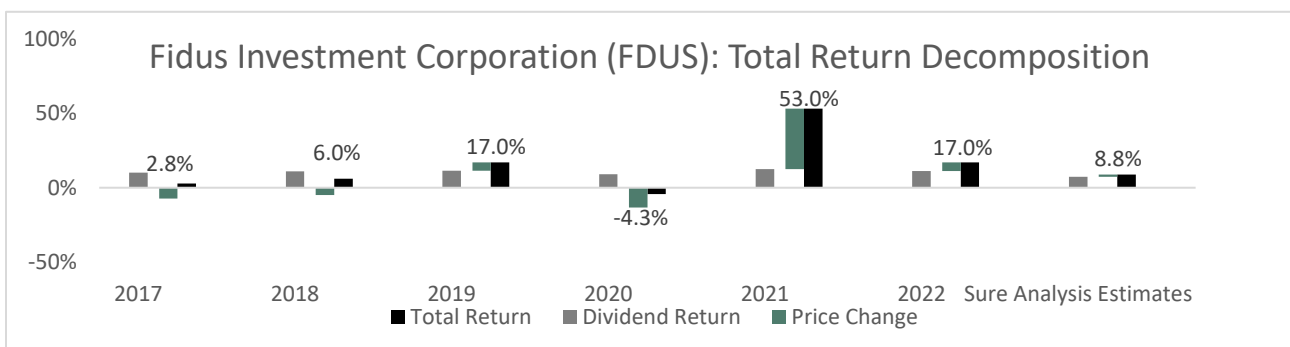
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	136%	106%	98%	110%	111%	112%	122%	82%	155%	105%	77%	77%

Fidus' dividend could be considered rather reliable, with the company generally maintaining high levels of payouts. While management temporarily slashed it during 2020 to be prudent, it has gradually grown it higher than its pre-COVID-19 levels. That being said, a prolonged recession could result in weaker results, in which case if Fidus over distributes again, it could easily lead to NAV/share losses. The company's portfolio is well-diversified, with exposure in defensive industries as well as technology, which is likely to generate above-average investment yields. Its first and second Lien debt structures should prioritize repayments in a potential bankruptcy in one of its investments. Still, the company has not been tested under a prolonged recession. Fidus does not hold any significant competitive advantage other than its ability to retain low financing costs, a major quality in its industry.

## Final Thoughts & Recommendation

Overall, Fidus Investment Corp. has performed relatively well since its IPO, having paid out hefty dividends while growing its NAV/share at the same time. We expect annualized returns of 8.8% through 2028 to be driven by the dividend and the possibility of a valuation tailwind. This figure excludes Fidus' special dividends, which the company has consistently paid, including declaring some with respect to Q1-2023. Hence, total returns are likely to be more substantial in that context. The stock earns a hold rating.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Revenue</b>	22.1	31.1	24.1	30.3	46.2	51.6	56.6	55.4	39.7	129.5
<b>SG&amp;A Exp.</b>	2.7	3.1	4.2	3.9	4.0	4.1	4.3	4.4	5.2	4.5
<b>Net Profit</b>	19.4	27.2	19.5	26.0	41.6	44.0	49.5	48.5	31.2	116.1
<b>Net Margin</b>	87.9%	87.6%	80.9%	85.8%	90.0%	85.2%	87.4%	87.5%	78.7%	89.7%
<b>Free Cash Flow</b>	-49.5	-2.1	-71.3	-19.5	-33.6	-28.2	8.1	-68.7	56.0	167.9
<b>Income Tax</b>	0.0	0.7	0.4	0.4	0.6	2.4	1.5	0.6	1.4	2.6

## Balance Sheet Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Total Assets</b>	333.8	367.3	435.6	480.7	586.7	646.3	693.9	789.4	875.7	897.2
<b>Cash &amp; Equivalents</b>	52.0	53.4	29.3	31.7	57.1	41.6	42.0	15.0	124.3	169.4
<b>Total Liabilities</b>	150.8	156.1	192.3	233.3	233.0	253.0	290.9	377.1	465.0	409.4
<b>Accounts Payable</b>	2.6	2.5	3.1	3.0	3.6	2.9	3.0	3.9	4.0	5.3
<b>Long-Term Debt</b>	144.5	144.5	183.5	224.1	219.4	237.8	271.5	354.6	443.3	366.0
<b>Shareholder's Equity</b>	183.1	211.1	243.3	247.4	353.8	393.3	403.0	412.3	410.8	487.8
<b>LTD/E Ratio</b>	0.8	0.7	0.8	0.9	0.6	0.6	0.7	0.9	1.1	0.8

## Profitability & Per Share Metrics

Year	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021
<b>Return on Assets</b>	6.7%	7.8%	4.9%	5.7%	7.8%	7.1%	7.4%	6.5%	3.8%	13.1%
<b>Return on Equity</b>	12.0%	13.8%	8.6%	10.6%	13.8%	11.8%	12.4%	11.9%	7.6%	25.8%
<b>ROIC</b>	6.8%	8.0%	5.0%	5.8%	8.0%	7.3%	7.6%	6.7%	3.9%	13.6%
<b>Shares Out.</b>	10.2	13.5	14.3	16.2	18.3	23.5	24.5	24.5	24.4	24.4
<b>Revenue/Share</b>	2.17	2.30	1.68	1.87	2.53	2.19	2.31	2.26	1.62	5.3
<b>FCF/Share</b>	-4.86	-0.15	-4.97	-1.20	-1.84	-1.20	0.33	-2.81	2.29	6.87

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

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