



Goldman Sachs BDC, Inc. (GSBD)

Updated March 9th, 2023 by Nikolaos Sismanis

Key Metrics

Current Price:	\$14.99	5 Year CAGR Estimate:	12.5%	Market Cap:	\$1.64 B
Fair Value Price:	\$18.06	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	03/30/2023
% Fair Value:	83%	5 Year Valuation Multiple Estimate:	3.8%	Dividend Payment Date:	04/27/2023
Dividend Yield:	12.0%	5 Year Price Target	\$18.06	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 \$350 million in annual total investment income and is based in New York, New York.

On February 23rd, 2023, GSBD announced its Q4-2022 and full-year results for the period ending December 31st, 2022. For the three-month period, the company achieved a total investment income of \$106.5 million, compared to \$95.2 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 \$61.2 million in Q3 to \$67.6 million as a result. On a per-share basis, NII came in at \$0.66, up from \$0.60 in Q3.

As of December 31st, GSBD’s portfolio comprised 134 companies with a fair value of around \$3.50 billion. The investment portfolio was comprised of 94.3% senior secured debt, including 89.3% in first lien investments. The portfolio’s amortized yield at cost comes in at 11.7%. GSBD’s investments are well-diversified, with Software, Diversified Financial Services, and Healthcare Providers accounting for 14.7%, 11.3%, and 11.2% of its total portfolio, respectively. Net asset value per share declined 2.72% to \$14.61 from \$15.02 sequentially. We now expect FY202e NII/share of \$2.15.

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
NII	\$0.67	\$1.77	\$2.14	\$2.10	\$2.07	\$2.06	\$1.98	\$2.04	\$2.33	\$2.24	\$2.15	\$2.15
DPS	\$0.50	\$1.69	\$1.80	\$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	102.2	102.3	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 boost NII/share over the medium-term, though we continue to expect stable results ahead until GBDC proves it can sustain its cxcxcx 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 about 6% and less than 1% 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	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/NII	---	---	8.6	10.2	10.8	10.4	9.9	7.5	8.2	7.3	7.0	8.4
Avg. Yld.	---	---	9.8%	8.4%	8.0%	8.4%	9.1%	11.7%	9.4%	11.0%	12.0%	10.0%

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. 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 have set our fair P/NII at 8.4, implying the possibility for a valuation tailwind ahead.

Safety, Quality, Competitive Advantage, & Recession Resiliency

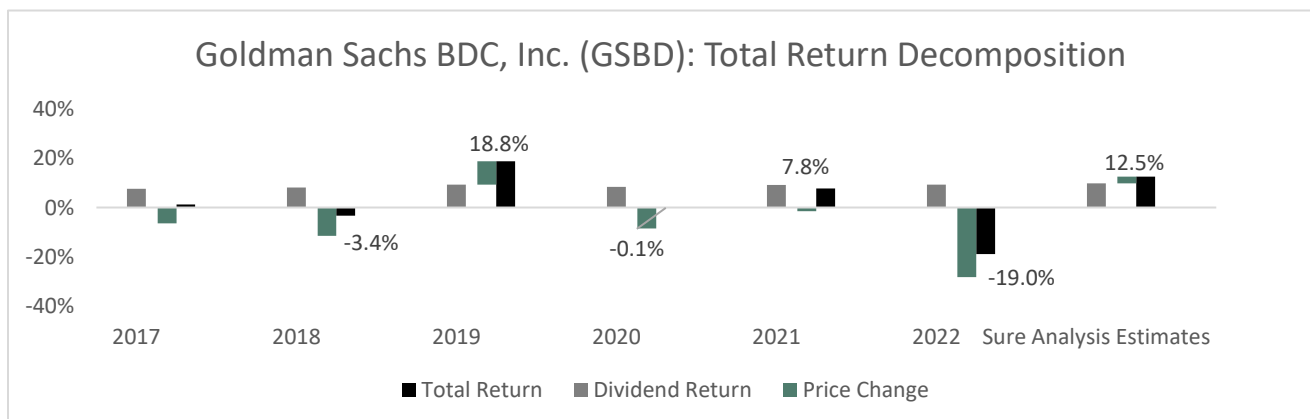
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	75%	95%	84%	86%	87%	87%	91%	88%	77%	80%	84%	84%

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 over time, displaying its portfolio's resiliency. Additionally, the merger with Goldman Sachs Middle Market Lending Corp in 2022 has elevated 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 eight 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 12.5% going forward, powered by the stock's hefty dividend yield and the possibility of a valuation tailwind. We maintain a buy rating for Goldman Sachs BDC.

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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