



Fidus Investment Corporation (FDUS)

Updated May 3rd, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$20.03	5 Year CAGR Estimate:	6.8%	Market Cap:	\$629.5 M
Fair Value Price:	\$19.20	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	06/20/2024 ¹
% Fair Value:	104%	5 Year Valuation Multiple Estimate:	-0.8%	Dividend Payment Date:	06/28/2024
Dividend Yield:	8.6%	5 Year Price Target	\$19.20	Years Of Dividend Growth:	4
Dividend Risk Score:	F	Retirement Suitability Score:	C	Rating:	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 May 2nd, 2024, Fidus Investment Corp. reported its Q1 results for the period ending March 31st, 2024. For the quarter, the company achieved a total investment income of \$34.7 million, up 19.3% year-over-year.

The \$5.6 million increase in total investment income for the three months ended March 31, 2024, as compared to the same period in 2023 was primarily attributable to (i) a \$3.6 million increase in total interest income (which includes payment-in-kind interest income) resulting from an increase in average debt investment balances outstanding, partially offset by a decrease in weighted average yield on debt investment balances outstanding, (ii) a \$0.9 million increase in fee income resulting from an increase in amendment and origination fees, partially offset by a decrease in prepayment fees, and (iii) a \$1.1 million increase in interest on idle funds due to an increase in cash balances and the weighted average interest on cash balances outstanding.

For the quarter, adjusted NII/share, which excludes the capital gains incentive fee accrual, came in at \$0.59, down by one cent year-over-year.

The portfolio now consists of 87 companies with a weighted average debt yield of 14.0% against Fidus' own weighted average interest rate of around 4.6%, allowing for an industry-leading income spread. I.T. services, business services, and component manufacturing comprise its most significant industry mix, at 35.9%, 13.8%, and 7.4% of the fair value of its holdings, respectively. Fidus' NAV/share fell slightly, coming in at \$19.36 compared to \$19.37 in the previous quarter. Based on the company's current portfolio composition and performance trajectory, we forecast that Fidus will achieve a NII/share of close to \$2.40 this year.

The company declared a \$0.43 base dividend, in line with its previous one. We are using its annualized rate of \$1.72 in our estimates. However, the company also declared an incremental supplemental dividend of \$0.16/share for the quarter. Base, supplemental, and special dividends should exceed the base dividend alone, as was the case last year, with all three amounting to \$2.88.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
NII	\$1.62	\$1.64	\$1.45	\$1.44	\$1.43	\$1.31	\$1.62	\$1.03	\$1.90	\$2.47	\$2.40	\$2.40
DPS	\$1.72	\$1.60	\$1.60	\$1.60	\$1.60	\$1.60	\$1.33	\$1.60	\$1.83	\$2.88	\$1.72	\$1.72
Shares²	14.3	16.2	18.3	23.5	24.5	24.5	24.4	24.4	24.5	26.4	30.8	35.0

¹ Estimated dates based on past dividend dates.

² Share count is in millions.

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Fidus consistently maintains stable net investment income by sustaining a yield spread between its investment yield and debt costs. Despite occasional instances of dividends exceeding gains, resulting in reduced NAV/share YoY, overall NAV/share has grown from \$14.46 at IPO (2011) to \$19.36. In 2020, Fidus temporarily reduced its quarterly dividend from \$0.39 to \$0.30 before gradually restoring it to \$0.43 today, implying an annualized rate of \$1.72. Additionally, it pays supplemental and special dividends, totaling \$0.27 in 2021, \$0.56 in 2022, and \$1.22 in 2023. Although higher interest rates benefit the company, we anticipate no growth in NII/share due to potential mid-term headwinds from a high-income base.

Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	12.6	10.5	8.9	11.4	11.2	10.0	11.7	5.6	17.0	7.0	8.3	8.0
Avg. Yld.	10.8%	10.1%	10.9%	9.7%	9.9%	11.2%	10.5%	14.8%	9.0%	16.8%	8.6%	9.0%

Fidus' valuation has been in line with its industry peers, hovering in the high-single to low double-digits. We believe the stock is more or less fairly valued, based on its NII/share growth, excess distribution potential, and NAV/share retention. The dividend yield appears below-average at 8.6%, 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

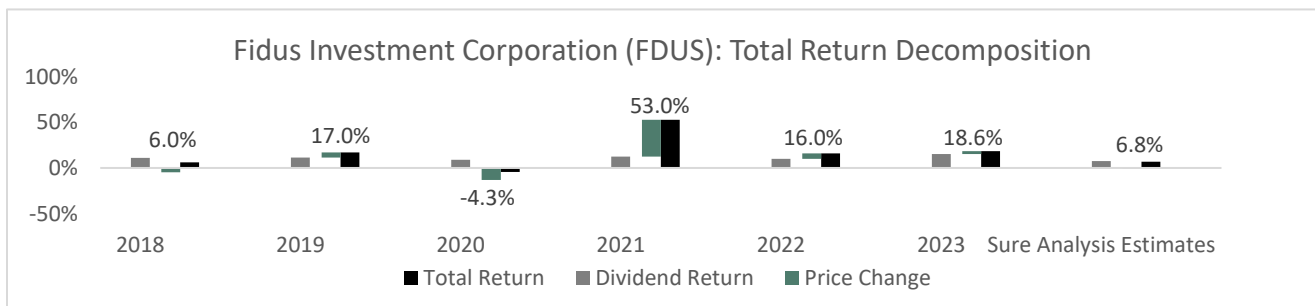
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	106%	98%	110%	111%	112%	122%	82%	155%	96%	117%	72%	72%

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 6.8% through 2029 to be primarily driven by the dividend, partially offset by a soft valuation headwind. This figure excludes special dividends, which Fidus has paid consistently. Hence, our total return estimate could be considerably higher in that context. The stock earns a hold rating.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	24.1	30.3	46.2	51.6	56.6	55.4	39.7	129.5	55	88
SG&A Exp.	4.2	3.9	4.0	4.1	4.3	4.4	5.2	4.5	5.4	6.3
Net Profit	19.5	26.0	41.6	44.0	49.5	48.5	31.2	116.1	35.8	77
Net Margin	80.9%	85.8%	90.0%	85.2%	87.4%	87.5%	78.7%	89.7%	65.1%	87.5%
Free Cash Flow	-71.3	-19.5	-33.6	-28.2	8.1	-68.7	56.0	167.9	(106)	(29)
Income Tax	0.4	0.4	0.6	2.4	1.5	0.6	1.4	2.6	12	2.7

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	435.6	480.7	586.7	646.3	693.9	789.4	875.7	897.2	936	1091
Cash & Equivalents	29.3	31.7	57.1	41.6	42.0	15.0	124.3	169.4	62	119
Total Liabilities	192.3	233.3	233.0	253.0	290.9	377.1	465.0	409.4	456	501
Accounts Payable	3.1	3.0	3.6	2.9	3.0	3.9	4.0	5.3	5.5	6.7
Long-Term Debt	183.5	224.1	219.4	237.8	271.5	354.6	443.3	366.0	410	467
Shareholder's Equity	243.3	247.4	353.8	393.3	403.0	412.3	410.8	487.8	480	589
LTD/E Ratio	0.8	0.9	0.6	0.6	0.7	0.9	1.1	0.8	0.85	0.79

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.9%	5.7%	7.8%	7.1%	7.4%	6.5%	3.8%	13.1%	3.9%	7.6%
Return on Equity	8.6%	10.6%	13.8%	11.8%	12.4%	11.9%	7.6%	25.8%	7.4%	14.4%
ROIC	5.0%	5.8%	8.0%	7.3%	7.6%	6.7%	3.9%	13.6%	4.1%	7.9%
Shares Out.	14.3	16.2	18.3	23.5	24.5	24.5	24.4	24.4	24.5	26.4
Revenue/Share	1.68	1.87	2.53	2.19	2.31	2.26	1.62	5.3	2.25	3.34
FCF/Share	-4.97	-1.20	-1.84	-1.20	0.33	-2.81	2.29	6.87	(4.31)	(1.12)

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

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