



Goldman Sachs BDC, Inc. (GSBD)

Updated November 25th, 2024 by Nikolaos Sismanis

Key Metrics

Current Price:	\$13.05	5 Year CAGR Estimate:	14.0%	Market Cap:	\$1.53 B
Fair Value Price:	\$16.13	5 Year Growth Estimate:	0.0%	Ex-Dividend Date:	12/31/2024
% Fair Value:	81%	5 Year Valuation Multiple Estimate:	3.3%	Dividend Payment Date:	01/27/2025
Dividend Yield:	13.8%	5 Year Price Target	\$16.13	Years Of Dividend Growth:	0
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 November 7th, 2024, GSBD announced its Q3 results for the period ending September 30th, 2024. For the three-month period, the company achieved a total investment income of \$110.4 million, compared to \$108.6 million in the previous quarter. The increase in total investment income was due to higher levels of new originations.

Net investment income (NII) rose from \$67.0 million in Q2 to \$69.7 million in Q3. On a per-share basis, NII came in at \$0.58, more or less stable compared to \$0.59 in the previous quarter.

As of September 30th, 2024, GSBD’s portfolio included 167 companies at a fair value of \$3.4 billion. The investment portfolio was comprised of 97.6% senior secured debt, including 96.3% in first lien investments. Its amortized yield at cost comes in at 11.8%. GSBD’s investments are well-diversified, with Software, Healthcare Providers & Services, and Financial Services accounting for 20.8%, 10.8%, and 9.3% of its total portfolio, respectively. Net asset value per share fell from \$13.67 to \$13.54 sequentially. We now expect FY2024 NII/share of \$2.15.

Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
NII	\$1.77	\$2.14	\$2.10	\$2.07	\$2.06	\$1.98	\$2.04	\$2.33	\$2.24	\$2.28	\$2.15	\$2.15
DPS	\$1.69	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80	\$1.80
Shares¹	29.7	34.8	36.3	38.6	40.2	40.3	53.9	101.6	102.3	108.3	116.9	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 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 roughly 1% of its portfolio each. Hence, no meaningful, extraordinary gains have occurred historically. We don’t expect the core dividend to grow in the medium-term, though sporadic special payouts

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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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	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/NII	---	8.6	10.2	10.8	10.4	9.9	7.5	8.2	7.3	5.4	6.1	7.5
Avg. Yld.	---	9.8%	8.4%	8.0%	8.4%	9.1%	11.7%	9.4%	11.0%	14.6%	13.8%	11.2%

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 slightly undervalued at their current levels. We have set our fair P/NII at 7.5, implying the possibility for a small valuation tailwind ahead.

Safety, Quality, Competitive Advantage, & Recession Resiliency

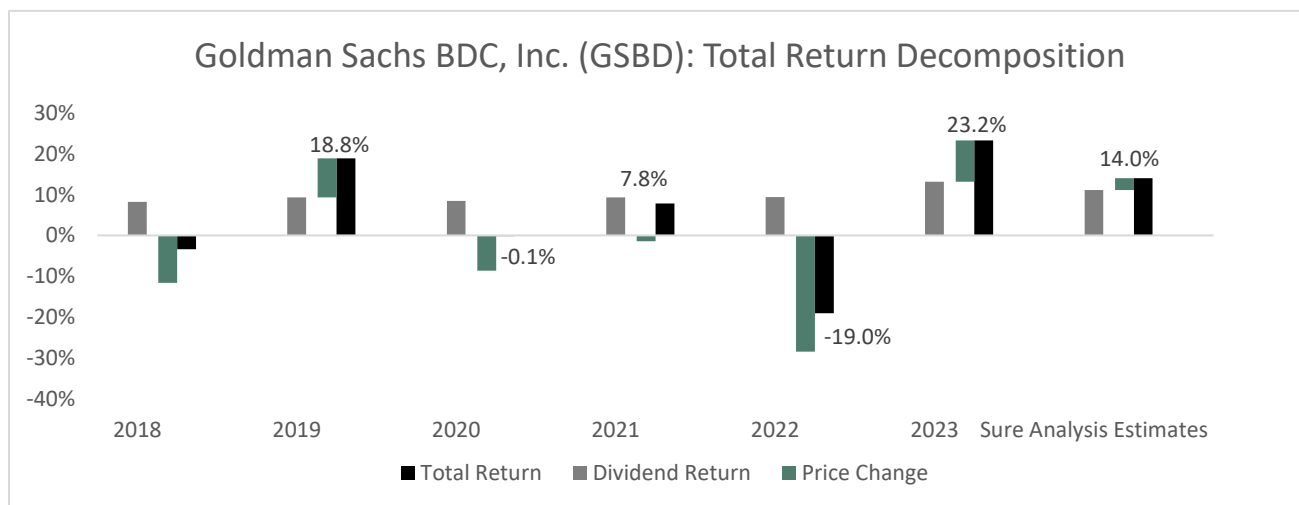
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	95%	84%	86%	87%	87%	91%	88%	77%	80%	79%	84%	84%

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, dividend coverage remains robust. We estimate annualized returns of around 14.0% going forward, powered by the stock's hefty dividend yield and the possibility of a valuation tailwind. We maintain our buy rating for Goldman Sachs BDC.

Total Return Breakdown by Year



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Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Revenue	41	53	48	56	62	43	147	170	57	208
SG&A Exp.	4	5	6	5	6	6	6	8	9	9
Net Profit	37	47	41	50	54	36	176	192	55	196
Net Margin	89.6%	88.7%	85.0%	88.3%	86.4%	83.5%	120%	113%	96.5%	94.2%
Free Cash Flow	(280)	(121)	(31)	(49)	(49)	(35)	166	(30)	27	301
Income Tax	0	1	1	2	2	2	1	2	5	5.5

Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Total Assets	967	1,133	1,191	1,299	1,397	1,475	3,312	3,551	3,591	3,523
Cash & Equivalents	9	23	5	12	6	9	32	34	40	52
Total Liabilities	393	444	525	573	687	799	1,697	1,937	2,089	1,921
Accounts Payable	36	17	18	20	21	20	56	61	60	63
Long-Term Debt	350	419	498	543	659	770	1,627	1,861	2,013	1,827
Shareholder's Equity	575	689	665	726	710	676	1,615	1,614	1,502	1,602
LTD/E Ratio	0.61	0.61	0.75	0.75	0.93	1.14	1.01	1.15	1.34	1.14

Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
Return on Assets	4.6%	4.4%	3.5%	4.0%	4.0%	2.5%	7.4%	5.6%	1.5%	5.5%
Return on Equity	6.2%	7.4%	6.0%	7.1%	7.5%	5.2%	15.4%	11.9%	3.5%	12.6%
ROIC	4.8%	4.6%	3.6%	4.1%	4.1%	2.6%	7.5%	5.7%	1.6%	5.6%
Shares Out.	29.7	34.8	36.3	38.6	40.2	40.3	53.9	101.69	102.3	108.3
Revenue/Share	1.39	1.51	1.32	1.45	1.55	1.07	2.72	1.67	0.55	1.92
FCF/Share	(9.40)	(3.49)	(0.86)	(1.28)	(1.23)	(0.87)	3.07	(0.29)	0.27	2.78

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

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