



# Gladstone Capital (GLAD)

Updated February 20<sup>th</sup>, 2025, by Josh Arnold

## Key Metrics

<b>Current Price:</b>	\$29	<b>5 Year CAGR Estimate:</b>	2.2%	<b>Market Cap:</b>	\$653 M
<b>Fair Value Price:</b>	\$21	<b>5 Year Growth Estimate:</b>	1.0%	<b>Ex-Dividend Date:</b>	03/19/25
<b>% Fair Value:</b>	137%	<b>5 Year Valuation Multiple Estimate:</b>	-6.2%	<b>Dividend Payment Date:</b>	03/31/25
<b>Dividend Yield:</b>	6.8%	<b>5 Year Price Target</b>	\$22	<b>Years Of Dividend Growth:</b>	2
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Sell

## Overview & Current Events

Gladstone Capital is a business development company, or BDC, that primarily invests in small and medium businesses. These investments are made via a variety of equity (10% of portfolio) and debt instruments (90% of portfolio), generally with very high yields. Loan size is typically in the \$7 million to \$30 million range and has terms up to seven years. The BDC's stated purpose is to generate income it can distribute to its shareholders. The company trades with a market capitalization of \$653 million and it pays distributions monthly, instead of quarterly.

Gladstone posted first quarter earnings on February 12<sup>th</sup>, 2025, and results were weaker than expected. Earnings-per-share came to 50 cents, well short of the estimate for 65 cents. Total investment income, which is akin to revenue, was down \$1.8 million, or 7.4%, year-over-year. Compared to the September quarter, total investment income fell by \$2.1 million.

The net increase in net assets resulting from operations was \$27 million, or \$1.21 per share. This was lower than the \$31.8 million, or \$1.46 per share, gain in the September quarter.

Gladstone noted \$152 million in new fundings for the quarter, including six new portfolio companies. Exits and prepayments were \$165 million, so net new funding was -\$13 million. Total debt investments rose by \$45 million during the quarter.

NAV ended the quarter at \$21.51 per share, up from \$21.18 a quarter ago. Management noted they expect "elevated" levels of portfolio exits and repayments to last for one to two more quarters. They're focused on redeployment of those funds if/when that occurs.

We have slightly reduced our estimate of earnings for this year to \$2.01 from \$2.05 previously.

## Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2029
<b>NII</b>	\$1.68	\$1.68	\$1.68	\$1.70	\$1.68	\$1.62	\$1.58	\$1.88	\$2.20	\$2.11	<b>\$2.01</b>	<b>\$2.11</b>
<b>DPS</b>	\$1.68	\$1.68	\$1.68	\$1.68	\$1.68	\$1.56	\$1.56	\$1.56	\$1.92	\$1.98	<b>\$1.98</b>	<b>\$2.08</b>
<b>Shares<sup>1</sup></b>	10.55	11.6	12.75	13.55	14.65	16.5	17	17.55	21.8	22.3	<b>24</b>	<b>30</b>

Gladstone reports net investment income per share, or NII, instead of earnings-per-share, which is consistent with other BDCs. On that measure, the company's results have been lackluster in terms of growth over the past decade. Our estimate of \$2.01 for this year is roughly in line with recent historical NII. Gladstone's share issuances have funded higher NII in dollar terms but haven't earned enough above its cost of capital to move the needle on NII-per-share. We're currently looking for 1% annual NII-per-share growth from here.

The yields on the company's portfolio influence its ability to earn income and therefore, cover its expenses and pay distributions to shareholders. Over time, the company's portfolio yield has drifted higher to 14%. Despite the cost of funding rising as well, Gladstone has managed to increase its yield spreads. Gladstone's portfolio continues to grow in dollar terms, and the higher spreads on a larger portfolio is leading to earnings growth.

<sup>1</sup> Share count 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.



# Gladstone Capital (GLAD)

Updated February 20<sup>th</sup>, 2025, by Josh Arnold

Gladstone’s dividend had been at \$0.07 monthly, or \$0.84 annually, for many years. However, the current payout is up to \$1.98 annually after another raise in July 2023.

## Valuation Analysis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	Now	2030
Avg. P/NII	10.0	9.1	11.4	10.7	10.8	10.2	12.7	9.0	8.8	11.4	<b>14.4</b>	<b>10.5</b>
Avg. Yld.	10.0%	11.0%	8.8%	9.3%	9.2%	9.4%	7.8%	9.2%	10.0%	8.2%	<b>6.8%</b>	<b>9.4%</b>

Gladstone has traded at a price-to-NII ratio very near 10.5 in the past decade, which is where we assess fair value. At 14.4 times NII, the stock appears to be extremely overvalued. We therefore see a sizable negative impact to total returns from the valuation. This is the highest valuation we’ve ever recorded for GLAD.

The yield is lower than it has been for most of the past decade; Gladstone’s average yield in the past decade has been close to 10%, and we see the yield with the potential to move higher in the coming years, as the stock could see a big valuation headwind.

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

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2030
Payout	100%	100%	100%	99%	100%	96%	99%	83%	87%	94%	<b>99%</b>	<b>99%</b>

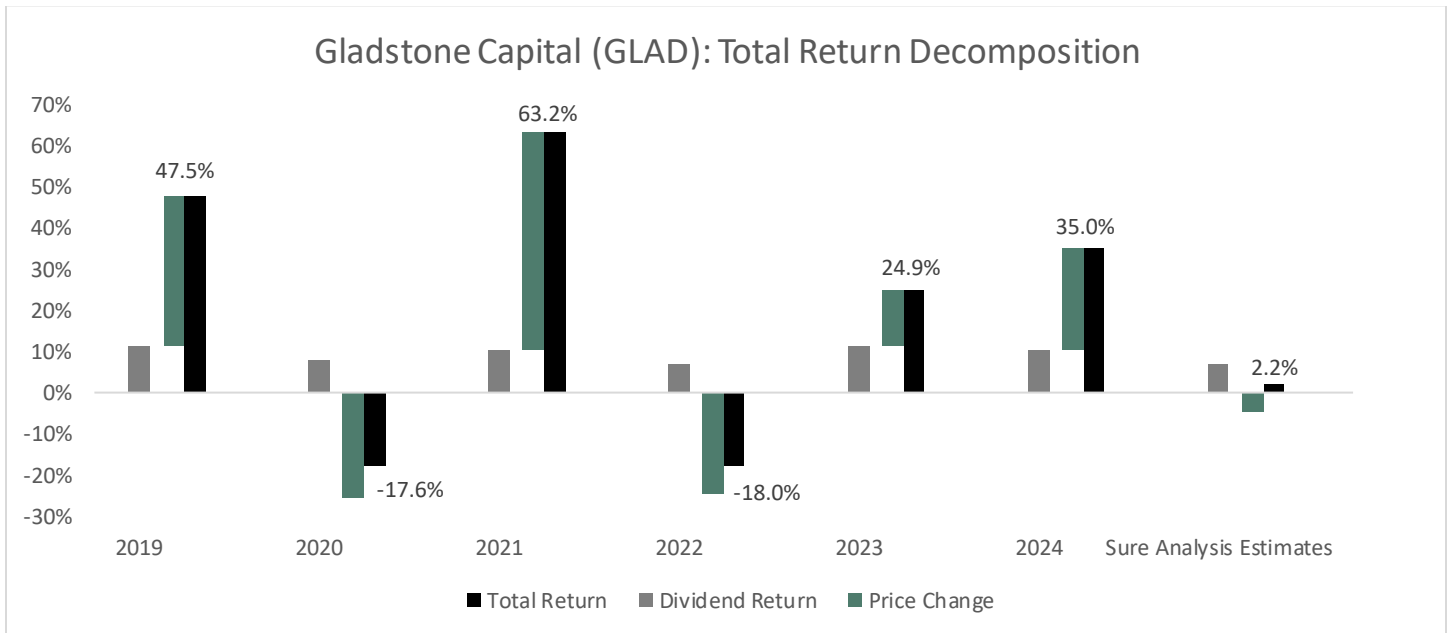
Gladstone doesn’t have any competitive advantages as it operates in much the same way as any other BDC. It is also dependent upon funding costs and the spreads it can earn on its debt and equity investments. During recessions, Gladstone will likely struggle as repayments may become a problem for its debt investments.

Gladstone cut its distribution for this reason in Q2 2020, and with earnings estimates coming down, the payout ratio is just under 100% again, making us cautious. The most recent increase is seen as a vote of confidence from management.

## Final Thoughts & Recommendation

We forecast 2.2% total annual returns in the coming years. The stock is overvalued, in our view. However, the dividend payout ratio is back under 100%. We see a 6.2% headwind from the valuation, as well as 1% growth and the 6.8% dividend yield. The stock continues to earn a hold rating as we enter fiscal 2025 with slightly lower earnings estimates.

## Total Return Breakdown by Year



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.



# Gladstone Capital (GLAD)

Updated February 20<sup>th</sup>, 2025, by Josh Arnold

## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Revenue</b>	21	25	30	31	33	8	95	32	59	99
<b>SG&amp;A Exp.</b>	6	7	7	8	8	8	8	10	3	14
<b>Net Profit</b>	8	11	17	19	20	(2)	84	20	43	95
<b>Net Margin</b>	40.4%	46.0%	56.8%	59.5%	59.4%	-22.3%	89.0%	62.5%	72.8%	96.1%
<b>Free Cash Flow</b>	(74)	60	(13)	(18)	9	(46)	(14)	(76)	(11)	3

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Total Assets</b>	382	336	366	400	426	459	567	661	719	812
<b>Cash &amp; Equivalents</b>	4	6	5	2	16	2	1	2	1	2
<b>Accounts Receivable</b>	6	2	2	3	3	3	2	3	6	---
<b>Total Liabilities</b>	191	134	146	162	177	225	248	345	311	334
<b>Accounts Payable</b>	1	1	1	1	1	2	2	3	4	4
<b>Long-Term Debt</b>	127	71	93	110	123	222	237	339	301	325
<b>Shareholder's Equity</b>	191	201	220	237	249	234	318	315	409	471
<b>LTD/E Ratio</b>	0.66	0.35	0.42	0.46	0.49	0.95	0.74	1.08	0.74	0.68

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
<b>Return on Assets</b>	2.5%	3.2%	4.9%	4.9%	4.8%	-0.4%	16.4%	3.2%	6.2%	12.4%
<b>Return on Equity</b>	4.3%	5.8%	8.2%	8.2%	8.2%	-0.8%	30.5%	6.3%	11.8%	21.3%
<b>ROIC</b>	3.0%	3.8%	5.9%	5.7%	5.5%	-0.5%	16.7%	3.3%	6.3%	12.5%
<b>Shares Out.</b>	21.1	23.2	25.5	27.1	29.3	33.0	34.0	34.4	37.3	21.8
<b>Revenue/Share</b>	1.00	1.07	1.19	1.16	1.14	0.27	2.85	0.94	1.57	4.52
<b>FCF/Share</b>	(3.54)	2.59	(0.51)	(0.66)	0.32	(1.48)	(0.42)	(2.22)	(0.29)	0.15

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

---

### Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.