



# Gladstone Investment Corp. (GAIN)

Updated February 25<sup>th</sup>, 2025 by Jonathan Weber

## Key Metrics

<b>Current Price:</b>	\$14	<b>5 Year CAGR Estimate:</b>	5.2%	<b>Market Cap:</b>	\$500M
<b>Fair Value Price:</b>	\$11	<b>5 Year Growth Estimate:</b>	3.0%	<b>Ex-Dividend Date:</b>	03/22/25 <sup>1</sup>
<b>% Fair Value:</b>	123%	<b>5 Year Valuation Multiple Estimate:</b>	-4.0%	<b>Dividend Payment Date:</b>	03/30/25 <sup>2</sup>
<b>Dividend Yield:</b>	6.9%	<b>5 Year Price Target</b>	\$13	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	F	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	Hold

## Overview & Current Events

Gladstone Investment is a business development company (BDC) that focuses on US-based small- and medium-sized companies. Industries which Gladstone Investment targets include aerospace & defense, oil & gas, machinery, electronics, and media & communications. The company was founded in 2005 and is headquartered in McLean, VA.

Gladstone Investment reported its third quarter (Q3 2024 ended December 31) earnings results on February 13. The company generated total investment income - Gladstone Investment's revenue equivalent - of \$21.4 million during the quarter, which represents a decline of 7% compared to the prior year's quarter. This was a weaker performance compared to the previous quarter, when the growth rate was positive.

Gladstone Investment's adjusted net investment income-per-share totaled \$0.23 during the fiscal third quarter. That was up slightly from the previous quarter's level. Gladstone Investment's net asset value per share totaled \$13.30 on a per-share basis at the end of the quarter, which was up compared to the NAV-per-share that the company reported at the end of the previous quarter. Gladstone Investment Corp. has seen its net investment income-per-share decline in 2023, and slightly smaller profits are forecasted for the current year as well. The dividend coverage ratio will most likely be in the 100% range for the current year.

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>NIIPS</b>	\$0.73	\$0.75	\$0.68	\$0.74	\$0.77	\$0.90	\$0.69	\$1.00	\$1.10	\$0.99	<b>\$0.95</b>	<b>\$1.10</b>
<b>DPS</b>	\$0.71	\$0.73	\$0.75	\$0.75	\$0.82	\$0.84	\$0.84	\$0.90	\$0.96	\$0.96	<b>\$0.96</b>	<b>\$0.96</b>
<b>Shares<sup>3</sup></b>	26	30	30	33	33	33	33	33	34	34	<b>36</b>	<b>38</b>

Gladstone Investment's net investment income per share can be a bit lumpy. During the Great Recession, the company's profits declined substantially, but Gladstone Investment remained profitable. Over the last decade profits grew by around 3% annually, which is not a very high growth rate, but which is also not at all disappointing for a high-yielding investment such as BDC Gladstone Investment.

Gladstone Investment's business model is relatively straightforward. The company lends money to small- and mid-sized companies. Position sizes for debt investments usually range from \$5 million to \$30 million. The company also takes equity stakes in some of its portfolio companies. The companies Gladstone does business with usually cannot access debt or equity markets directly, as bond sales and public listings are not possible for them due to their small size. Gladstone makes its money via spreads between the interest rates the company pays on cash that it borrows, and the interest rates it receives on cash that it lends -- the same principle as with banks. Interest rates can result in some ups and downs in the company's net investment income. In some years, Gladstone Investment has suffered from above-average credit losses, which is why we believe that there is a significant likelihood of earnings being somewhat lumpy in the future, too. In the long run, we expect earnings-per-share growth in line with the historic average.

<sup>1</sup> Estimated date

<sup>2</sup> Estimated date

<sup>3</sup> 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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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
<b>P/NII</b>	10.5	10.2	11.9	12.8	15.3	8.9	17.8	16.1	12.1	14.3	<b>14.7</b>	<b>12.0</b>
<b>Avg. Yld.</b>	9.2%	10.1%	9.3%	7.9%	7.0%	10.5%	6.8%	5.6%	7.2%	6.8%	<b>6.9%</b>	<b>7.3%</b>

Gladstone Investment has been valued at a low-double-digit price to net investment income multiple throughout most of the last decade. Today, shares trade at close to 15x net profits, using our estimate for the current fiscal year. We believe that multiple contraction will be a bit of a headwind for the company's total returns, since we expect that the company's valuation will compress over the coming years.

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

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>Payout</b>	97.3%	103%	110%	101%	106%	93.3%	122%	90.0%	87.3%	97.0%	<b>101%</b>	<b>87.2%</b>

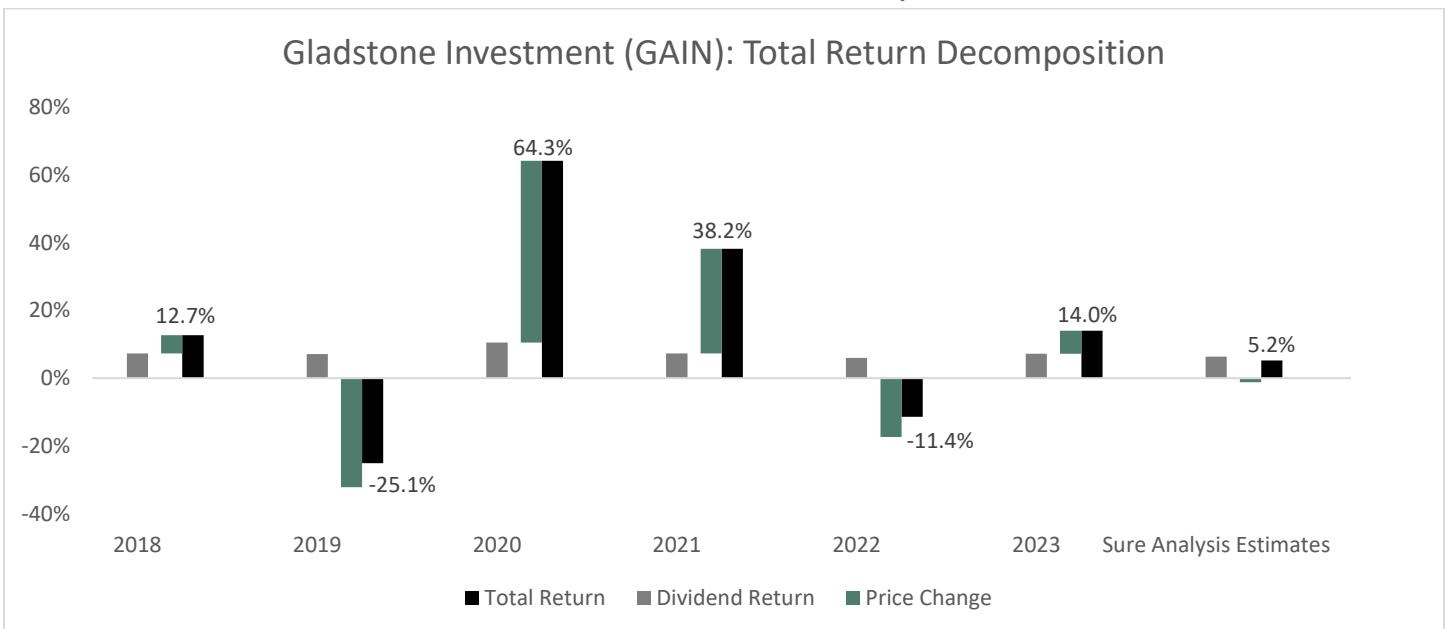
Gladstone Investment's dividend payout ratio, relative to its net investment income, has been close to or above 100% throughout parts of the last decade. The company sometimes is more profitable than the net investment income metric suggests, since Gladstone Investment can also generate gains from its equity investments, which are not reflected in the net investment income metric. The company nevertheless had to cut its dividend during the Great Recession, but a dividend cut was avoided during the pandemic.

Gladstone Investment's equity investment gains explain the company's long-term book value growth. Gladstone Investment's recession performance is not very compelling compared to less cyclical income stocks, but at least the company remained profitable during the last financial crisis, unlike many other financial corporations.

## Final Thoughts & Recommendation

Gladstone Investment is a business development company targeting small companies that do not have the ability to access debt and/or equity markets easily. This allows Gladstone to demand above-average interest rates. The company does not generate a lot of growth, but the high payout ratio allows for an above-average dividend yield. Right now, shares trade above fair value, which is why we rate Gladstone Investment a hold at current prices.

## Total Return Breakdown by Year



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## Income Statement Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Revenue	51	29	49	65	99	8	49	99	33	79
SG&A Exp.	3	4	4	4	6	6	6	6	7	6
D&A Exp.	50	25	45	61	82	(7)	42	102	36	85
Net Profit	98.7%	85.3%	90.6%	92.9%	82.2%	-90.4%	87.1%	103.2%	108.9%	107.9%
Net Margin	(98)	4	33	(30)	94	35	(30)	37	(5)	(70)
Free Cash Flow	51	29	49	65	99	8	49	99	33	79

## Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	484	503	515	611	635	576	644	740	766	938
Cash & Equivalents	5	4	3	4	2	3	2	14	3	2
Total Liabilities	210	224	214	257	228	207	261	295	326	445
Long-Term Debt	124	100	75	113	58	54	151	261	293	398
Shareholder's Equity	273	279	301	354	407	369	382	446	440	493
LTD/E Ratio	0.45	0.36	0.25	0.32	0.14	0.15	0.40	0.59	0.67	0.81

## Profitability & Per Share Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Return on Assets	12.3%	5.0%	8.8%	10.8%	13.1%	-1.2%	7.0%	14.8%	4.7%	10.0%
Return on Equity	20.3%	9.0%	15.4%	18.5%	21.4%	-1.9%	11.3%	24.7%	8.0%	18.3%
ROIC	14.7%	6.4%	11.9%	14.4%	17.5%	-1.6%	8.9%	16.5%	4.9%	10.5%
Shares Out.	26	30	30	33	33	33	33	33	34	34
Revenue/Share	1.91	0.96	1.63	2.02	3.02	0.24	1.47	2.99	0.98	2.29
FCF/Share	(3.66)	0.13	1.08	(0.92)	2.85	1.07	(0.90)	1.10	(0.14)	(2.03)

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

## Disclaimer

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