



Gladstone Capital (GLAD)

Updated May 21st, 2025, by Josh Arnold

Key Metrics

Current Price:	\$27	5 Year CAGR Estimate:	3.2%	Market Cap:	\$605 M
Fair Value Price:	\$21	5 Year Growth Estimate:	0.5%	Ex-Dividend Date:	06/20/25
% Fair Value:	129%	5 Year Valuation Multiple Estimate:	-4.9%	Dividend Payment Date:	06/30/25
Dividend Yield:	7.3%	5 Year Price Target	\$22	Years Of Dividend Growth:	2
Dividend Risk Score:	F	Sector:	Financials	Rating:	Hold

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 \$605 million and it pays distributions monthly, instead of quarterly.

Gladstone posted second quarter earnings on May 6th, 2025, and results were worse than expected on both the top and bottom lines. Net investment income came to 50 cents per share, which missed estimates by six cents. Total investment income was down 10% year-over-year to \$21.59 million, missing estimates by \$1.38 million. Revenue was off from a decline in prepayment fees, as well as the weighted average yield falling from 13.1% to 12.6% from the December quarter. The BDC saw a rise in the weighted average principal balance of interest-beating investments from \$642 million to \$683 million.

Total expenses were down fractionally, which helped reduce the damage from lower revenue and margins. The net increase in net assets resulting from operations was \$8.8 million, or 39 cents per share. This was off from \$27 million and \$1.21 per share, respectively, from the December quarter. This was driven primarily by a \$7.7 million net realized gain recognized during the quarter.

We now see \$2.00 in NII-per-share for this year, with downside risk to the company's earnings.

Growth on a Per-Share Basis

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025	2029
NII	\$1.68	\$1.68	\$1.68	\$1.70	\$1.68	\$1.62	\$1.58	\$1.88	\$2.20	\$2.11	\$2.00	\$2.05
DPS	\$1.68	\$1.68	\$1.68	\$1.68	\$1.68	\$1.56	\$1.56	\$1.56	\$1.92	\$1.98	\$1.98	\$2.03
Shares¹	10.55	11.6	12.75	13.55	14.65	16.5	17	17.55	21.8	22.3	24	30

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 \$2.00 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 just 0.5% 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 12.6%. 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, but lending spreads continue to contract.

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.

¹ 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.



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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	13.5	10.5
Avg. Yld.	10.0%	11.0%	8.8%	9.3%	9.2%	9.4%	7.8%	9.2%	10.0%	8.2%	7.3%	9.4%

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 13.5 times NII, the stock appears to be quite overvalued. We therefore see a sizable negative impact to total returns from the valuation. The valuation has improved, but is still very unattractive.

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%	99%	99%

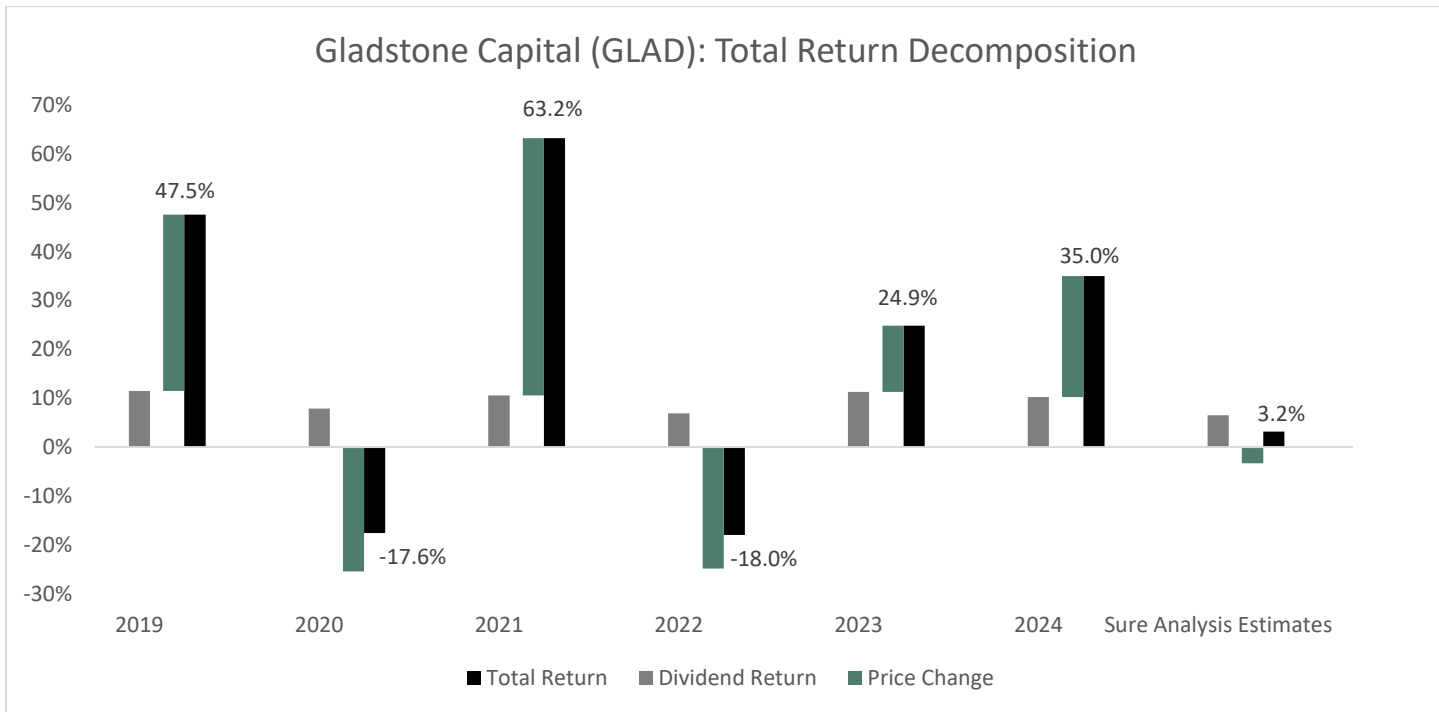
Gladstone doesn't have any competitive advantages as it operates in much the same way as any other BDC. It is also dependent upon funding costs and the spreads it can earn on its debt and equity investments. During recessions, Gladstone will likely struggle as repayments may become a problem for its 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 3.2% 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 4.9% headwind from the valuation, as well as 0.5% growth and the 7.3% dividend yield. The stock continues to earn a hold rating with slightly lower earnings estimates.

Total Return Breakdown by Year



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Income Statement Metrics

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

Balance Sheet Metrics

Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024
Total Assets	382	336	366	400	426	459	567	661	719	812
Cash & Equivalents	4	6	5	2	16	2	1	2	1	2
Accounts Receivable	6	2	2	3	3	3	2	3	6	---
Total Liabilities	191	134	146	162	177	225	248	345	311	334
Accounts Payable	1	1	1	1	1	2	2	3	4	4
Long-Term Debt	127	71	93	110	123	222	237	339	301	325
Shareholder's Equity	191	201	220	237	249	234	318	315	409	471
LTD/E Ratio	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
Return on Assets	2.5%	3.2%	4.9%	4.9%	4.8%	-0.4%	16.4%	3.2%	6.2%	12.4%
Return on Equity	4.3%	5.8%	8.2%	8.2%	8.2%	-0.8%	30.5%	6.3%	11.8%	21.3%
ROIC	3.0%	3.8%	5.9%	5.7%	5.5%	-0.5%	16.7%	3.3%	6.3%	12.5%
Shares Out.	21.1	23.2	25.5	27.1	29.3	33.0	34.0	34.4	37.3	21.8
Revenue/Share	1.00	1.07	1.19	1.16	1.14	0.27	2.85	0.94	1.57	4.52
FCF/Share	(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.

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