

COMPANY UPDATE/ ESTIMATE CHANGE
Key Metrics

GAIN - NASDAQ (as of 08/01/17)	\$9.58
Price Target	N/A
52-Week Range	\$7.16-\$9.84
Shares Outstanding (mm)	32.5
Market Cap. (\$mm)	\$312
3-Mo. Average Daily Volume (000)	194.4
Institutional Ownership	21.0%
Debt / Equity	54.2%
Return on Common Equity	9.4%
Net Asset Value per Share	\$9.88
Price/Net Asset Value per Share	0.97x
Dividend Yield	8.0%
Price/LTM Earnings	10.3x

Net Investment Income Per Share FY 3/31

	2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	\$0.23	\$0.17	\$ 0.17 A	\$ 0.17	\$ 0.17
2Q	\$0.17	\$0.17	\$ 0.17	\$ 0.17	\$ 0.17
3Q	\$0.17	\$0.17	\$ 0.17	\$ 0.17	\$ 0.17
4Q	\$0.17	\$0.17	\$ 0.17	\$ 0.17	\$ 0.17
Year	\$0.74	\$0.69	\$0.69	\$0.69	\$0.69
P/NI	12.9x		13.9x		14.0x

Figures may not add up due to rounded.

Net Asset Value per Share

	2017A	Prior 2018E	2018E	Prior 2019E	Curr. 2019E
1Q	\$ 9.84	\$9.80	\$ 9.88 A	-	\$ 9.80
2Q	\$ 9.65	\$9.79	\$ 9.86	-	\$ 9.78
3Q	\$ 9.82	\$9.79	\$ 9.84	-	\$ 9.76
4Q	\$ 9.97	\$9.61	\$ 9.82	-	\$ 9.73

Company Description: Headquartered in McLean, Virginia, Gladstone Investment Corporation operates as a business development company which requires the company to pay out at least 90% of earnings to shareholders. GAIN invests in debt and equity securities of small- and medium-size companies, with each investment generally ranging from \$5 million to \$30 million.

Gladstone Investment Corporation

GAIN -- NASDAQ – Neutral - 3

F1Q18 Review – Reaffirming Neutral Rating

- **Earnings Update:** F1Q18 net investment income was \$0.17 per share, which was in line with our estimate and \$0.01 below the Street consensus.
- **Operating Highlights:** Total investment income increased \$1.3 million linked-quarter (LQ) to \$13.6 million as a \$1.6 million surge in other income more than offset a \$0.3 million dip in interest income. We had projected total investment income of \$12.8 million.

Net investment income rose \$0.1 million to \$5.4 million LQ as the rise in total investment income was partially offset by a \$1.1 million increase in total expenses.

Net asset value (NAV) per share decreased \$0.07 sequentially to \$9.88 as \$2.7 million of realized and unrealized gains were more than offset by the dilutive impact of a 2.3 million common stock offering that was priced below NAV. The offering generated net proceeds of \$21.2 million.

- The company invested \$2.1 million into existing portfolio companies during the quarter and made no new investments.
- **Estimates & Valuation:** Management noted that M&A valuations for lower middle market businesses remain rich and it will remain disciplined with regard to deal pricing. While we believe this approach is prudent, it will nevertheless constrain growth in investments and earnings. We are maintaining our FY 2018 and 2019 net investment income per share estimates at \$0.69 in both years. We reaffirm our Neutral rating.

Note Important Disclosures on pages 7-8
Note Analyst Certification on page 7

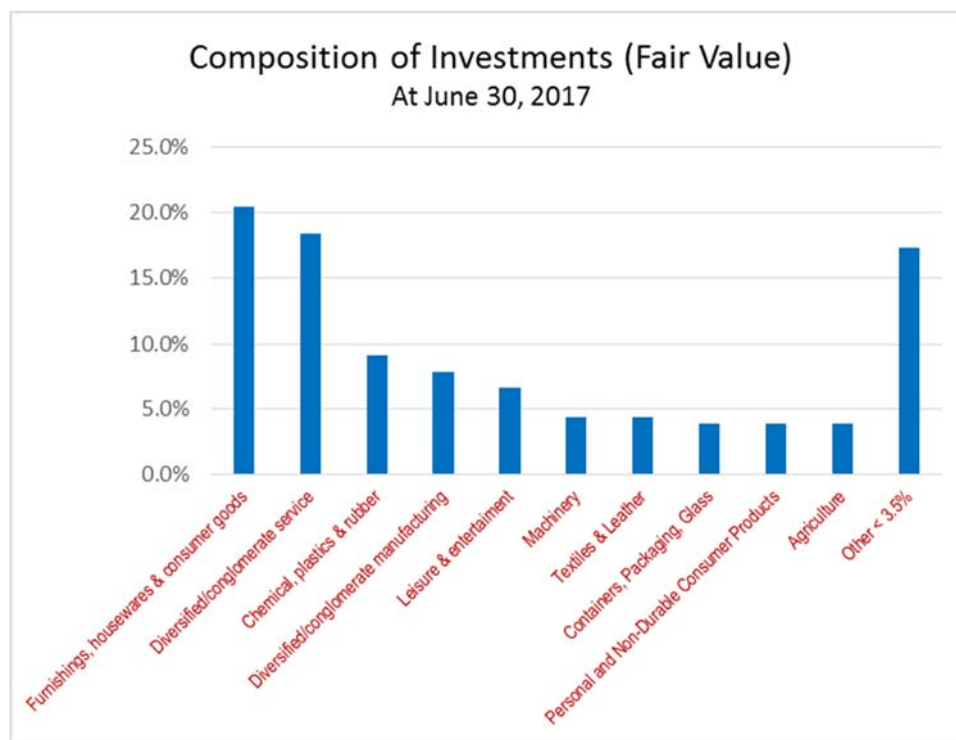
OTHER KEY TAKEAWAYS

- In addition to increasing the quarterly common dividend by 2.4% to \$0.192, GAIN paid a \$0.6 supplemental dividend in F1Q18. The company noted that it hopes to pay future supplemental dividends that would primarily be funded through capital gains.
- Other income consisted of \$2.0 million in success fees and \$0.5 million of dividend income.
- GAIN exited one investment during the quarter, resulting in full repayment of the company's \$13.6 million debt investment and realized a partial exit of another investment that produced \$2.0 million in cash proceeds representing a return of capital. Additionally, one of the company's portfolio companies merged with another portfolio company.
- Certain loans to three portfolio companies were on nonaccrual status at quarter-end with an aggregate cost basis of \$25.2 million, or 6.9% of the cost basis of all debt investments in the company's portfolio. This compares to \$15.6 million in nonaccruals at cost associated with two companies at March 31, 2017.
- Management noted it is hopeful that one of these three companies will be placed back on accrual status soon. We believe this company is Alloy Die Casting, which accounts for 49% of total nonaccruals.
- Borrowings from GAIN's line of credit decreased \$35.7 million to \$34.0 million LQ.
- The debt-to-equity ratio declined 15 bps to 0.54X sequentially.
- The chart on page 3 provides information regarding the company's investment portfolio. Total net depreciation for the portfolio was (4.3%) at quarter-end, an improvement from (4.5%) at March 31, 2017. Hilliard Lyons does not project any changes in the valuation of the portfolio.

PORTFOLIO HOLDINGS

HOLDINGS @ June 30, 2017						
Company	Sector	Cost	Fair Value	Appreciation / (Depreciation)		Portfolio At Cost
		\$000	\$000	\$000	%	%
Control Investments						
1 Galaxy Tool Holding Corp.	Aeropace & Defense	21,312	13,417	(7,895)	(37.0)	4.2
Affiliate Investments						
2 Alloy Die Casting Corp	Diversified/Conglomerate Manufacturing	18,455	9,315	(9,140)	(49.5)	3.6
3 Brunswick Bowling Prod.	Furnishings, Housewares & Consumer Products	16,250	18,889	2,639	16.2	3.2
4 B+T Group Acquisition Inc.	Telecommunications	18,196	17,204	(992)	(5.5)	3.6
5 Cambridge Sound Mgmt.	Home & Office Furnishings	20,500	33,233	12,733	62.1	4.0
6 Channel Technologies	Diversified/Conglomerate Manufacturing	1,841	-	(1,841)	(100.0)	0.4
7 D.P.M.S, Inc.	Diversified/Conglomerate Manufacturing	8,796	6,871	(1,925)	(21.9)	1.7
8 Edge Adhesives Holdings	Diversified/Conglomerate Manufacturing	15,474	10,659	(4,815)	(31.1)	3.0
9 GI Plastek, Inc.	Chemicals, Plastics, Rubber	20,150	18,904	(1,246)	(6.2)	4.0
10 Head Country Food	Beverage, Food & Tobacco	13,050	13,305	255	2.0	2.6
11 JR Hobbs, Co. - Atlanta, LLC	Diversified/Conglomerate Services	30,870	31,305	435	1.4	6.1
12 Logo Sportswear, Inc.	Textiles and Leather	10,750	21,237	10,487	97.6	2.1
13 Meridian Rack & Pinion	Automobile	13,041	9,634	(3,407)	(26.1)	2.6
14 The Mountain Corporation	Personal and Non-Durable Consumer Products	25,500	18,600	(6,900)	(27.1)	5.0
15 NDLI Inc.	Cargo Transport	3,600	-	(3,600)	(100.0)	0.7
16 Old World Christmas Inc.	Home & Office Furnishings, Housewares	21,950	26,830	4,880	22.2	4.3
17 Precision Southeast Inc.	Diversified/Conglomerate Manufacturing	13,448	11,245	(2,203)	(16.4)	2.6
18 SOG Specialty K&T LLC	Leisure, Motion Picture, Entertainment	28,687	18,938	(9,749)	(34.0)	5.6
Non-control/Non-affiliate investments						
19 AquaVenture Holdings Limited	Utilities	1,375	1,271	(104)	(7.6)	0.3
20 B-Dry LLC	Personal, Food and Miscellaneous Services	14,649	4,320	(10,329)	(70.5)	2.9
21 Counsel Press, Inc.	Diversified/Conglomerate Services	30,495	28,434	(2,061)	(6.8)	6.0
22 Country Club Enterprises	Automobile	11,725	6,037	(5,688)	(48.5)	2.3
23 Diligent Delivery Systems	Cargo Transport	13,401	16,106	2,705	20.2	2.6
24 Drew Foam Company	Chemicals, Plastics, Rubber	13,351	25,611	12,260	91.8	2.6
25 Frontier Packaging Inc.	Containers, Packaging, Glass	11,025	19,004	7,979	72.4	2.2
26 Funko LLC	Personal and Non-Durable Consumer Products	167	245	78	46.7	0.0
27 Ginsey Home Solutions	Home & Office Furnishings	22,891	20,291	(2,600)	(11.4)	4.5
28 Jackrabbit Inc.	Farming & Agriculture	14,650	13,163	(1,487)	(10.2)	2.9
29 Nth Degree Inc	Diversified/Conglomerate Services	18,950	29,560	10,610	56.0	3.7
30 SBS Industries LLC	Machinery	22,951	21,406	(1,545)	(6.7)	4.5
31 Schylling, Inc.	Leisure, Motion Picture, Entertainment	17,081	13,081	(4,000)	(23.4)	3.4
32 Star Seed Inc.	Farming & Agriculture	6,500	5,439	(1,061)	(16.3)	1.3
33 Tread Corporation	Oil & Gas	7,737	3,216	(4,521)	(58.4)	1.5
Total Investments		508,818	486,770	(22,048)	(4.3)	100.0

Source: Company, Hilliard Lyons



Source: Company, Hilliard Lyons

SUITABILITY

Our suitability rating on GAIN is 3 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

RISKS AND CONSIDERATIONS

Gladstone Investment Corporation is exposed to various risks including:

- **Economic Risk** – A widespread economic downturn could weaken the credit quality of GAIN's portfolio companies which could lead to higher than expected write downs and limit future growth opportunities in the small and medium sized companies GAIN invests in.
- **Interest Rate Risk** - A rise in interest rates could place stress on GAIN's portfolio companies and eventually affect their ability to pay. Additionally, as interest rates rise, GAIN's high dividend may lose appeal and lead to lower demand for the stock.
- **Investment Criteria Risk** - Failure to invest in securities that will support the dividend and future growth of GAIN could eventually lead to dividend cuts.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.

GLOSSARY

Regulated Investment Company (RIC): As regarded by the Internal Revenue Service. By following a few requirements, the most important of which is paying out at least 90% of taxable income (ordinary income plus short-term capital gains), the company does not pay federal income tax. This *avoids double taxation*. A typical company distributes common dividends out of net income (after-tax). Taxes are paid again by the shareholder upon receipt of a dividend. Sometimes a RIC will report income taxes paid. Any amount of taxable income greater than 90% but less than 98% not paid to shareholders is subject to a 4% excise tax and a 35% rate on any taxable income retained. There may be some instances where it is in the RIC's best interest to retain income in spite of paying the taxes.

Business Development Company (BDC): Structure provided in the Investment Company Act of 1940. Basic requirements: 1) Qualifying assets – 70% of total assets must be small private U.S. companies. 2) Asset coverage – assets must cover the company's borrowings by at least 200% or debt to equity cannot exceed 1. 3) Significant managerial assistance – BDCs must offer to provide guidance to its portfolio companies.

Non-Diversified Company: May have investments exceeding 5% of total assets or an equity interest in a company exceeding 10%.

	Gladstone Investment Corporation										GAIN-NEUTRAL		
	6/30/16	9/30/16	12/31/16	3/31/17	6/30/17	9/30/17	12/31/17	3/31/18	6/30/18	9/30/18	FY 2017 A	FY 2018 E	FY 2019 E
\$ Thousands, Except for Per Share Data													
Income Statement Analysis													
Investment Income:													
Total Interest Income	11,628	11,730	11,707	11,082	10,746	11,401	11,634	11,664	11,664	46,397	46,147	45,444	49,504
Total Other Income	2,765	14	1,667	1,282	2,874	1,333	1,361	1,394	1,394	4,558	5,728	6,962	5,838
Total Investment Income	14,393	11,744	13,374	12,364	13,620	12,734	12,995	13,058	13,058	50,955	51,875	52,407	55,341
Expenses:													
Management Fee	2,509	2,489	2,441	2,486	2,516	2,491	2,544	2,609	2,609	(3,126)	(3,506)	(3,223)	(3,827)
Management Fee Credit	(837)	(1,114)	(535)	(1,020)	(548)	(672)	(890)	(913)	(913)	9,925	9,925	10,160	10,935
Administration Fee	299	275	251	295	307	287	293	294	294	1,190	1,120	1,181	1,247
Interest Expense	971	953	825	791	729	698	607	639	639	4,154	3,540	3,173	5,225
Dividends on Preferred Stock	2,065	2,115	2,251	2,251	2,251	2,251	2,251	2,251	2,251	7,963	9,004	9,004	9,005
Other	874	1,365	1,759	943	1,758	1,250	1,250	1,250	1,250	4,954	4,941	5,100	5,100
Total Expenses Before Incentive Fee	5,881	6,083	6,992	5,747	7,013	6,105	6,254	6,430	6,430	25,060	24,703	25,803	27,684
Pre Incentive Fee Net Investment Income	8,512	5,661	6,382	6,617	6,607	6,629	6,740	6,628	6,628	25,895	27,172	26,604	27,657
Incentive Fee	(1,700)	(549)	(1,178)	(1,323)	(1,172)	(1,018)	(1,141)	(1,040)	(1,040)	(5,179)	(4,750)	(4,371)	(5,352)
Total Expenses	7,581	6,632	8,170	7,070	8,185	7,123	7,395	7,471	7,471	30,239	29,453	30,174	33,036
Net Investment Income	6,812	5,112	5,204	5,294	5,435	5,611	5,599	5,588	5,588	20,716	22,422	22,232	22,305
Realized & Unrealized Gain (Loss):													
Total Net Realized Gain (Loss)	18,560	(193)	(3,137)	157	1,165	-	-	-	-	(4,599)	15,387	1,165	-
Net Unrealized (Depreciation) / Appreciation	(838)	(5,021)	8,888	3,925	1,541	-	-	-	-	8,737	6,954	1,541	-
Net Dec./Inc. in Net Assets from Operations	24,534	(102)	10,955	9,376	8,141	5,611	5,599	5,588	5,588	24,854	44,763	24,938	22,305
Balance Sheet													
Assets:													
Total Investments at Cost	522,363	522,375	486,955	525,169	508,818	516,818	529,818	542,818	542,818	518,125	525,169	542,818	584,818
Unrealized Gain/(Loss)	(31,382)	(36,403)	(27,515)	(23,590)	(22,048)	(22,048)	(22,048)	(22,048)	(22,048)	(30,469)	(23,590)	(22,048)	(22,048)
Total Investments at Fair Value	490,981	485,972	471,440	501,579	486,770	494,770	507,770	520,770	520,770	487,656	501,579	520,770	562,770
Cash & Cash Equivalents	5,233	5,097	3,993	2,868	6,100	6,100	6,100	6,100	6,100	4,481	2,868	6,100	6,100
Other Assets	10,938	10,825	7,993	10,576	11,468	11,468	11,468	11,468	11,468	10,938	11,468	11,468	11,468
Total Assets	507,039	499,062	486,009	515,915	500,348	508,348	521,348	534,348	534,348	503,075	515,915	534,348	576,348
Liabilities & Shareholders' Equity:													
Line of Credit at Fair Value (\$185 million)	79,600	63,500	43,700	69,700	34,000	42,635	56,280	69,938	69,938	95,000	69,700	69,938	114,613
Mandatory Redeemable Preferred Stock	118,465	134,459	134,639	134,835	135,030	135,030	135,030	135,030	135,030	118,465	134,835	135,030	135,030
Other Secured Borrowings	5,096	5,096	5,096	5,096	5,096	5,096	5,096	5,096	5,096	5,096	5,096	5,096	5,096
Total Borrowings	203,161	203,055	183,435	209,631	174,126	182,761	196,406	210,064	210,064	218,561	209,631	210,064	254,739
Other Liabilities	5,998	3,905	5,192	4,482	4,987	4,987	4,987	4,987	4,987	8,677	4,482	4,987	4,987
Total Liabilities	209,159	206,960	188,627	214,113	179,113	187,748	201,393	215,051	215,051	227,238	214,113	215,051	223,720
Shareholders' Equity (Net Assets)	297,880	292,102	297,382	301,802	321,235	320,600	319,955	319,297	319,297	275,837	301,802	319,297	352,628
Total Liabilities & Shareholders' Equity	507,039	499,062	486,009	515,915	500,348	508,348	521,348	534,348	534,348	503,075	515,915	534,348	576,348
Share & Per Share Data:													
Common Shares Outstanding (000)	30,271	30,271	30,271	30,271	30,271	30,271	30,271	30,271	30,271	30,271	30,271	30,271	30,271
Average Diluted Shares (000)	30,271	30,271	30,271	30,271	31,474	32,526	32,526	32,526	32,526	30,268	30,271	32,263	32,526
Net Investment Income Per Share	0.23	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.17	0.68	0.74	0.69	0.69
Regular Dividends	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.75	0.75	0.77	0.77
Supplemental Dividends	-	-	-	-	0.06	-	0.06	-	-	-	-	0.12	-
Net Investment Income Payout Ratio	83%	111%	108%	107%	111%	111%	112%	112%	112%	110%	101%	111%	112%
Earnings Per Share	0.81	(0.00)	0.36	0.31	0.26	0.17	0.17	0.17	0.17	0.82	1.48	0.77	0.69
Net Asset Value Per Share	9.84	9.65	9.82	9.97	9.86	9.86	9.84	9.82	9.82	9.24	9.97	9.82	9.73
Performance Ratios:													
Interest Income / Avg. Investments at Cost	9.06%	9.11%	9.30%	8.78%	8.43%	8.82%	8.82%	8.82%	8.82%	8.93%	8.72%	8.72%	8.82%
Interest Expense / Avg. Borrowings	1.84%	1.88%	1.71%	1.61%	1.52%	1.56%	1.70%	1.85%	1.85%	1.90%	1.66%	1.66%	2.27%
Total Expenses / Investment Income	52.67%	56.47%	61.08%	57.19%	60.10%	55.94%	56.91%	57.21%	57.21%	59.34%	57.58%	57.58%	58.70%
Total Expenses / Assets	5.98%	5.32%	6.72%	5.49%	6.54%	5.61%	5.67%	5.59%	5.59%	6.01%	5.65%	5.65%	5.73%
Return on Assets	4.84%	-0.02%	2.25%	1.82%	1.63%	1.10%	1.07%	1.05%	1.05%	4.94%	4.67%	4.67%	3.87%
Return on Common Equity	8.24%	-0.03%	3.68%	3.11%	2.53%	1.75%	1.75%	1.75%	1.75%	8.91%	7.81%	7.81%	7.04%
Balance Sheet Ratios:													
Assets/Equity	1.70x	1.71x	1.63x	1.71x	1.56x	1.59x	1.63x	1.67x	1.67x	1.80x	1.71x	1.56x	1.82x
Total Debt to Equity	0.68x	0.70x	0.68x	0.69x	0.54x	0.57x	0.61x	0.66x	0.66x	0.78x	0.69x	0.54x	0.80x
Net Debt to Equity	0.66x	0.68x	0.60x	0.68x	0.52x	0.55x	0.59x	0.64x	0.64x	0.77x	0.69x	0.52x	0.79x

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Gladstone Commercial Corp. (GOOD-\$20.65), Gladstone Capital Corp. (GLAD-\$9.93), and Gladstone Land Corp. (LAND-\$12.05) share the same management and board as Gladstone Investment Corp.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of Gladstone Investment in the past 12 months.

Hilliard Lyons has received investment banking compensation from Gladstone Investment in the past 12 months.

Hilliard Lyons expects to receive investment banking compensation from Gladstone Investment in the coming 3 months.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	36	29%	14%	86%
Hold/Neutral	79	63%	5%	95%
Sell	10	8%	0%	100%

As of 7 July 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

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