

COMPANY UPATE/ ESTIMATE CHANGE
Key Metrics

GAIN - NASDAQ (as of 11/01/17)	\$10.26
Price Target	N/A
52-Week Range	\$7.16-\$10.56
Shares Outstanding (mm)	32.5
Market Cap. (\$mm)	\$334
3-Mo. Average Daily Volume (000)	145.8
Institutional Ownership	17.5%
Debt / Equity	60.0%
Return on Common Equity	13.6%
Net Asset Value per Share	\$10.10
Price/Net Asset Value per Share	1.02x
Dividend Yield	7.4%
Price/LTM Earnings	7.6x

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	\$0.19
2Q	\$0.17	\$0.17	\$0.18 A	\$0.17	\$0.19
3Q	\$0.17	\$0.17	\$0.18	\$0.17	\$0.19
4Q	\$0.17	\$0.17	\$0.18	\$0.17	\$0.19
Year	\$0.74	\$0.69	\$0.71	\$0.69	\$0.76
P/Nil	13.9x		14.5x		13.4x

Figures may not add up due to rounded.

Net Asset Value per Share

	2017A	Prior 2018E	Curr. 2018E	Prior 2019E	Curr. 2019E
1Q	\$9.84	\$9.88	\$9.88 A	\$9.80	\$10.06
2Q	\$9.65	\$9.86	\$10.10 A	\$9.78	\$10.06
3Q	\$9.82	\$9.84	\$10.08	\$9.76	\$10.05
4Q	\$9.97	\$9.82	\$10.07	\$9.73	\$10.05

Company Description: Headquartered in McLean, Virginia, Gladstone Investment Corporation operates as a business development company that makes debt and equity investments in lower middle market companies in connection with mergers & acquisitions, changes in control and recapitalizations.. In addition to paying regular monthly dividends, the company intends to distribute semi-annual supplemental dividends funded primarily through capital gains.

Gladstone Investment Corporation

GAIN -- NASDAQ – Neutral - 3

F2Q18 Review – Reaffirming Neutral Rating

- **Earnings Update:** F2Q18 net investment income was \$0.18 per share, which was \$0.01 ahead of our estimate and in line with the Street consensus.
- **Operating Highlights:** Total investment income decreased \$0.5 million linked-quarter (LQ) to \$13.1 million as a \$1.0 million decline in other income more than offset a \$0.5 million rise in interest income. We had projected total investment income of \$12.7 million.

Net investment income rose \$0.3 million to \$5.8 million LQ as the lower total investment income was partially offset by a \$0.8 million decrease in total expenses. We had modeled net investment income of \$5.6 million.

Net asset value (NAV) per share increased \$0.22 sequentially to \$10.10 as \$7.8 million in unrealized gains more than offset \$43K in realized losses.

The company invested \$1.2 million into existing portfolio companies during the quarter and \$28.3 million in a new portfolio company through a combination of secured first lien debt and preferred equity.

- **Estimates & Valuation:** We are increasing our FY 2018 and 2019 net investment income per share estimates to \$0.71 and \$0.76 from \$0.69 and \$0.69, respectively on higher projected revenues. As discussed on the following page, the company has implemented a policy of rewarding shareholders with supplemental dividends. We believe the attractive dividends being paid by the company have been a catalyst for the valuation gains realized by GAIN in recent months. We reaffirm our Neutral rating.

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

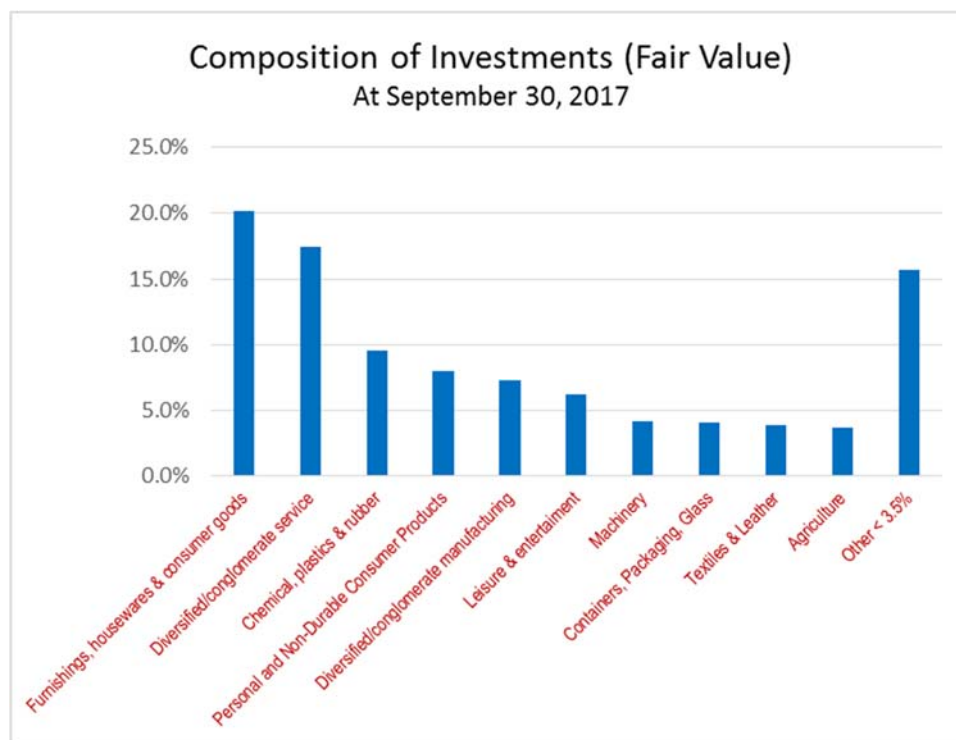
OTHER KEY TAKEAWAYS

- In addition to increasing F3Q18 quarterly common dividends by 1.6% to \$0.19, GAIN declared a \$0.06 supplemental dividend. The company expects to continue to pay semi-annual supplemental dividends that would primarily be funded through capital gains, but may also be made from undistributed net investment income.
- Other income consisted of \$1.8 million of dividend income and \$0.1 million in success fees.
- The decline in total expenses was attributable to a reduction in bad debt expense and higher credits from GAIN's adviser.
- Management reiterated 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.
- Certain loans to three portfolio companies were on nonaccrual status at quarter-end with an aggregate cost basis of \$25.2 million, which is unchanged from the prior quarter. Nonaccrual assets comprised 6.5% of debt investments at cost.
- Management is hopeful that at least one of these relationships will return to accrual status in the near term.
- GAIN invested \$28.3 million in Pioneer Square Brands, Inc. during the quarter. Pioneer Square Brands was formed by GAIN and the executive management team of Fairhaven Group, Inc. to acquire Fairhaven and Gum Drop Cases, LLC. Pioneer Square designs and markets mobile technology cases and bags that are produced for the K-12 education market.
- Borrowings from GAIN's line of credit rose \$22.7 million to \$56.7 million LQ.
- The debt-to-equity ratio increased six bps to 0.60X sequentially.
- The chart on page 3 provides information regarding the company's investment portfolio. Total net depreciation for the portfolio was (2.7%) at quarter-end, an improvement from (4.3%) at June 30, 2017. Hilliard Lyons does not project any changes in the valuation of the portfolio.

PORTFOLIO HOLDINGS

HOLDINGS @ September 30, 2017						
Company	Sector	Cost	Fair Value	Appreciation / (Depreciation)		Portfolio At Cost
		<u>\$000</u>	<u>\$000</u>	<u>\$000</u>	<u>%</u>	<u>%</u>
Control Investments						
1 Galaxy Tool Holding Corp.	Aeropace & Defense	21,512	12,118	(9,394)	(43.7)	4.0
Affiliate Investments						
2 Alloy Die Casting Corp	Diversified/Conglomerate Manufacturing	18,455	8,317	(10,138)	(54.9)	3.5
3 Brunswick Bowling Prod.	Furnishings, Housewares & Consumer Products	16,250	21,194	4,944	30.4	3.0
4 B+T Group Acquisition Inc.	Telecommunications	18,196	14,327	(3,869)	(21.3)	3.4
5 Cambridge Sound Mgmt.	Home & Office Furnishings	20,500	35,381	14,881	72.6	3.8
6 Channel Technologies	Diversified/Conglomerate Manufacturing	1,841	-	(1,841)	(100.0)	0.3
7 D.P.M.S, Inc.	Diversified/Conglomerate Manufacturing	8,796	6,354	(2,442)	(27.8)	1.6
8 Edge Adhesives Holdings	Diversified/Conglomerate Manufacturing	15,474	10,776	(4,698)	(30.4)	2.9
9 GI Plastek, Inc.	Chemicals, Plastics, Rubber	20,150	18,898	(1,252)	(6.2)	3.8
10 Head Country Food	Beverage, Food & Tobacco	13,050	14,167	1,117	8.6	2.4
11 JR Hobbs, Co. - Atlanta, LLC	Diversified/Conglomerate Services	26,920	28,901	1,981	7.4	5.0
12 Logo Sportswear, Inc.	Textiles and Leather	10,750	20,121	9,371	87.2	2.0
13 Meridian Rack & Pinion	Automobile	13,041	8,812	(4,229)	(32.4)	2.4
14 The Mountain Corporation	Personal and Non-Durable Consumer Products	26,500	13,257	(13,243)	(50.0)	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	26,437	4,487	20.4	4.1
17 Pioneer Square Brands, Inc.	Personal and Non-Durable Consumer Products	28,300	28,300	-	-	5.3
18 Precision Southeast Inc.	Diversified/Conglomerate Manufacturing	13,448	12,394	(1,054)	(7.8)	2.5
19 SOG Specialty K&T LLC	Leisure, Motion Picture, Entertainment	28,687	18,938	(9,749)	(34.0)	5.4
Non-control/Non-affiliate investments						
20 AquaVenture Holdings Limited	Utilities	1,375	1,127	(248)	(18.0)	0.3
21 B-Dry LLC	Personal, Food and Miscellaneous Services	14,649	3,980	(10,669)	(72.8)	2.7
22 Counsel Press, Inc.	Diversified/Conglomerate Services	30,495	28,946	(1,549)	(5.1)	5.7
23 Country Club Enterprises	Automobile	11,725	6,169	(5,556)	(47.4)	2.2
24 Diligent Delivery Systems	Cargo Transport	13,405	15,832	2,427	18.1	2.5
25 Drew Foam Company	Chemicals, Plastics, Rubber	13,351	30,922	17,571	131.6	2.5
26 Frontier Packaging Inc.	Containers, Packaging, Glass	11,025	21,015	9,990	90.6	2.1
27 Funko LLC	Personal and Non-Durable Consumer Products	167	159	(8)	(4.8)	0.0
28 Ginsey Home Solutions	Home & Office Furnishings	22,891	21,659	(1,232)	(5.4)	4.3
29 Jackrabbit Inc.	Farming & Agriculture	14,650	13,271	(1,379)	(9.4)	2.7
30 Nth Degree Inc	Diversified/Conglomerate Services	18,950	32,714	13,764	72.6	3.5
31 SBS Industries LLC	Machinery	22,951	21,681	(1,270)	(5.5)	4.3
32 Schylling, Inc.	Leisure, Motion Picture, Entertainment	17,081	13,081	(4,000)	(23.4)	3.2
33 Star Seed Inc.	Farming & Agriculture	6,500	5,978	(522)	(8.0)	1.2
34 Tread Corporation	Oil & Gas	7,737	4,948	(2,789)	(36.0)	1.4
Total Investments		534,372	520,174	(14,198)	(2.7)	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	12/31/18	3/31/19	FY 2017 A	FY 2018 E	FY 2019 E	
	1Q17A	2Q17A	3Q17A	4Q17A	1Q18A	2Q18A	3Q18E	4Q18E	FY 2016 A	FY 2017 A	FY 2018 E	FY 2019 E	YOY Change	YOY Change	YOY Change	
\$ Thousands, Except for Per Share Data																
Income Statement Analysis																
Investment Income:																
Total Interest Income	11,628	11,730	11,707	11,082	10,746	11,213	11,908	12,330	46,397	46,147	46,197	52,440	-0.5%	0.1%	13.5%	
Total Other Income	-2,765	14	1,667	1,282	-2,874	1,919	1,622	1,659	-4,558	5,728	8,074	6,922	25.7%	41.0%	-14.3%	
Total Investment Income	14,383	11,744	13,374	12,364	13,620	13,132	13,529	13,990	50,955	51,875	54,271	59,362	1.8%	4.6%	9.4%	
Expenses:																
Management Fee	2,509	2,489	2,441	2,486	2,516	2,554	2,668	2,730	9,925	9,925	10,468	11,396	0.0%	5.5%	8.9%	
Management Fee Credit	(837)	(1,114)	(535)	(1,020)	(648)	(926)	(934)	(956)	(3,126)	(3,506)	(3,363)	(3,988)	12.2%	-4.1%	18.6%	
Administration Fee	299	275	251	295	307	201	207	214	1,190	1,120	929	909	-5.9%	-17.0%	-2.2%	
Interest Expense	971	953	825	791	729	754	986	1,096	7,963	8,540	9,304	9,005	-14.8%	-0.1%	64.7%	
Dividends on Preferred Stock	2,065	2,115	2,251	2,252	2,251	2,251	2,251	2,251	7,963	8,683	9,004	9,005	0.0%	3.7%	0.0%	
Other	874	1,365	1,759	943	1,758	1,253	1,250	1,250	4,954	4,941	5,511	5,200	-0.3%	11.5%	-5.6%	
Total Expenses Before Incentive Fee	5,881	6,083	6,992	5,747	7,013	6,087	6,398	6,586	25,060	24,703	26,084	28,342	-1.4%	5.6%	8.7%	
Total Expenses	8,512	5,661	6,382	6,617	6,607	7,045	7,131	7,403	25,895	27,172	28,187	31,020	4.9%	3.7%	10.1%	
Incentive Fee	1,700	549	1,178	1,323	1,172	1,295	1,392	1,481	5,179	4,750	5,340	6,204	-8.3%	12.4%	16.2%	
Total Expenses	7,581	6,632	8,170	7,070	8,185	7,382	7,790	8,067	30,239	29,453	31,424	34,546	-2.6%	6.7%	9.9%	
Net Investment Income	6,812	5,112	5,204	5,294	5,435	5,750	5,739	5,923	20,716	22,422	22,847	24,816	8.2%	1.9%	8.6%	
Realized & Unrealized Gain (Loss):																
Total Net Realized Gain (Loss)	18,580	(193)	(3,137)	157	1,165	(43)	-	-	(4,599)	15,387	1,122	-	-434.6%	-92.7%	-100.0%	
Net Unrealized (Depreciation) / Appreciation	(638)	(5,021)	8,888	3,925	1,541	7,849	-	-	8,737	6,954	9,390	-	-20.4%	-100.0%	-100.0%	
Net Dec./Inc. in Net Assets from Operations	24,534	(102)	10,955	9,376	8,141	13,556	5,739	5,923	24,854	44,763	33,359	24,816	80.1%	-25.6%	-25.6%	
Balance Sheet																
Assets:																
Total Investments at Cost	522,363	522,375	498,955	525,169	508,818	534,372	546,872	559,372	518,125	525,169	558,372	599,372	1.4%	6.5%	7.2%	
Unrealized Gain/(Loss)	(31,382)	(36,403)	(27,515)	(23,590)	(22,048)	(13,838)	(13,838)	(13,838)	(30,460)	(23,590)	(13,838)	(13,838)	-22.6%	-41.3%	0.0%	
Total Investments at Fair Value	490,981	485,972	471,440	501,579	486,770	520,534	533,034	545,534	487,665	501,579	545,534	585,534	2.9%	8.8%	7.3%	
Cash & Cash Equivalents	5,233	5,097	3,993	2,868	6,100	2,433	5,000	5,000	4,481	2,868	5,000	5,000	-36.0%	74.3%	0.0%	
Other Assets	10,938	10,825	7,993	10,576	11,468	7,478	6,751	6,751	10,938	11,468	6,751	6,751	4.8%	-41.1%	0.0%	
Total Assets	507,039	499,062	486,009	515,915	500,348	529,718	544,765	557,285	503,075	515,915	557,285	597,285	2.6%	8.0%	7.2%	
Liabilities & Shareholders' Equity:																
Line of Credit at Fair Value (\$185 million)	79,600	63,500	43,700	69,700	34,000	56,700	72,371	85,290	95,000	69,700	85,290	126,040	-26.6%	22.4%	47.8%	
Mandatory Redeemable Preferred Stock	118,465	134,459	134,639	134,639	135,030	135,225	135,225	135,225	118,465	134,835	135,225	135,225	13.8%	0.3%	0.0%	
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	0.0%	0.0%	0.0%	
Total Borrowings	203,161	203,055	183,435	209,631	174,126	197,021	212,692	225,611	218,561	209,631	225,611	266,361	-4.1%	7.6%	18.1%	
Other Liabilities	5,998	3,905	5,192	4,482	4,987	4,149	4,149	4,149	8,677	4,482	4,149	4,149	-48.3%	-7.4%	0.0%	
Total Liabilities	209,159	206,960	188,627	214,113	179,113	201,170	216,841	229,760	227,238	214,113	229,760	237,552	-5.8%	7.3%	3.4%	
Shareholders' Equity (Net Assets)	297,880	292,102	297,382	301,802	321,235	328,548	327,944	327,525	279,022	301,802	327,525	270,510	8.2%	8.5%	-17.4%	
Total Liabilities & Shareholders' Equity	507,039	499,062	486,009	515,915	500,348	529,718	544,765	557,285	506,260	515,915	557,285	326,775	1.9%	8.0%	-41.4%	
Share & Per Share Data:																
Common Shares Outstanding (000)	30,271	30,271	30,271	30,271	32,526	32,526	32,526	32,526	30,271	30,271	32,526	32,526	0.0%	7.5%	0.0%	
Average Diluted Shares (000)	30,271	30,271	30,271	30,271	31,474	32,526	32,526	32,526	30,268	30,271	32,263	32,526	0.0%	6.6%	0.8%	
Net Investment Income Per Share	0.23	0.17	0.17	0.17	0.17	0.18	0.18	0.18	0.68	0.74	0.71	0.76	8.2%	-4.4%	7.8%	
Regular Dividends	0.19	0.19	0.19	0.19	0.19	0.19	0.20	0.20	0.75	0.75	0.77	0.79	0.0%	3.2%	1.6%	
Supplemental Dividends	-	-	-	-	0.06	-	0.06	-	-	-	0.12	0.12	NA	NA	0.0%	0.0%
Net Investment Income Payout Ratio	83%	111%	109%	107%	111%	109%	111%	107%	110%	101%	109%	103%	-7.6%	8.0%	-5.8%	
Earnings Per Share	0.81	(0.00)	0.36	0.31	0.26	0.42	0.18	0.18	0.82	1.48	1.03	0.76	80.1%	-30.1%	-26.2%	
Net Asset Value Per Share	9.84	9.65	9.82	9.87	9.88	10.10	10.08	10.07	9.24	9.97	10.07	10.05	7.9%	1.0%	-0.2%	
Performance Ratios:																
Interest Income / Avg. Investments at Cost	9.06%	9.11%	9.30%	8.78%	8.43%	8.72%	8.74%	9.04%	8.93%	8.73%	8.73%	9.09%	-20	0	36	
Interest Expense / Avg. Borrowings	1.84%	1.88%	1.71%	1.61%	1.52%	1.63%	1.87%	2.00%	1.90%	1.76%	1.76%	2.39%	-14	0	63	
Total Expenses / Investment Income	52.67%	56.47%	61.09%	57.18%	60.10%	56.21%	57.58%	57.66%	59.34%	57.90%	57.90%	58.20%	-144	0	29	
Total Expenses / Assets	5.98%	5.32%	6.72%	5.48%	6.54%	5.57%	5.72%	5.79%	6.01%	5.64%	5.64%	5.78%	-37	0	15	
Return on Assets	4.84%	-0.02%	2.25%	1.82%	1.63%	2.56%	1.05%	1.06%	4.94%	5.98%	5.98%	4.15%	105	0	-183	
Return on Common Equity	8.24%	-0.03%	3.68%	3.11%	2.53%	4.13%	1.75%	1.81%	8.91%	10.19%	10.19%	7.59%	128	0	-259	
Balance Sheet Ratios:																
Assets/Equity	1.70x	1.71x	1.63x	1.71x	1.56x	1.61x	1.66x	1.70x	1.80x	1.71x	1.56x	1.83x	-9	-15	27	
Total Debt to Equity	0.68x	0.70x	0.62x	0.69x	0.54x	0.60x	0.65x	0.68x	0.78x	0.69x	0.54x	0.82x	-9	-9	27	
Net Debt to Equity	0.66x	0.68x	0.60x	0.68x	0.52x	0.59x	0.63x	0.67x	0.77x	0.69x	0.52x	0.80x	-8	-16	28	

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-\$22.65), Gladstone Capital Corp. (GLAD-\$9.75), and Gladstone Land Corp. (LAND-\$13.10) 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.

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



Hilliard Lyons Recommended Issues			Investment Banking Provided in Past 12 Mo.	
Rating	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	39	32%	8%	92%
Hold/Neutral	74	60%	9%	91%
Sell	8	7%	0%	100%
Restriction	2	2%	100%	0%

As of 5 October 2017

Other Disclosures

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