



COMPANY UPDATE/ ESTIMATE CHANGE

Key Metrics

GAIN - NASDAQ (as of 02/06/18)	\$9.40
Price Target	N/A
52-Week Range	\$8.45-\$11.50
Shares Outstanding (mm)	32.5
Market Cap. (\$mm)	\$306
3-Mo. Average Daily Volume (000)	229.4
Institutional Ownership	18.0%
Debt / Equity	70.4%
Return on Common Equity	15.2%
Net Asset Value per Share	\$10.37
Price/Net Asset Value per Share	0.91x
Dividend Yield (excludes supplemental dividends)	8.3%
Price/LTM Earnings	6.2x

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	\$0.19	\$0.20
2Q	\$0.17	\$0.18	\$0.18 A	\$0.19	\$0.20
3Q	\$0.17	\$0.18	\$0.23 A	\$0.19	\$0.20
4Q	\$0.17	\$0.18	\$0.19	\$0.19	\$0.20
Year	\$0.74	\$0.71	\$0.77	\$0.76	\$0.81
P/NI	12.7x		12.2x		11.7x

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	\$10.06	\$10.37
2Q	\$9.65	\$10.10	\$10.10 A	\$10.06	\$10.38
3Q	\$9.82	\$10.08	\$10.37 A	\$10.05	\$10.40
4Q	\$9.97	\$10.07	\$10.37	\$10.05	\$10.40

Company Description: 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

Solid F3Q18 Results – Reaffirming Neutral Rating

- **Earnings Update:** F3Q18 net investment income was \$0.23 per share, which was \$0.05 ahead of our estimate and in line with the Street consensus. Interest recoveries of \$1.4 million on a debt investment that came off nonaccrual status accounted for approximately \$0.04 of the beat.

- **Operating Highlights:** Total investment income surged \$3.1 million linked-quarter (LQ) to \$16.2 million. Interest income accounted for \$2.4 million of the increase, including the aforementioned \$1.4 million in interest recoveries. In addition, other income increased \$0.7 million to \$2.6 million. We had projected total investment income of \$13.5 million.

Net investment income rose 31.0% to \$7.5 million LQ as a \$3.1 million increase in total investment income was partially offset by a \$2.6 million rise in total expenses. We had modeled net investment income of \$5.7 million.

Net asset value (NAV) per share increased \$0.27 sequentially to \$10.37 as \$0.53 in EPS exceeded dividends of \$0.26.

The company invested \$8.4 million into existing portfolio companies during the quarter and \$31.1 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 \$0.77 and \$0.81 from \$0.71 and \$0.76, respectively, on higher projected revenues. We reaffirm our Neutral rating.

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

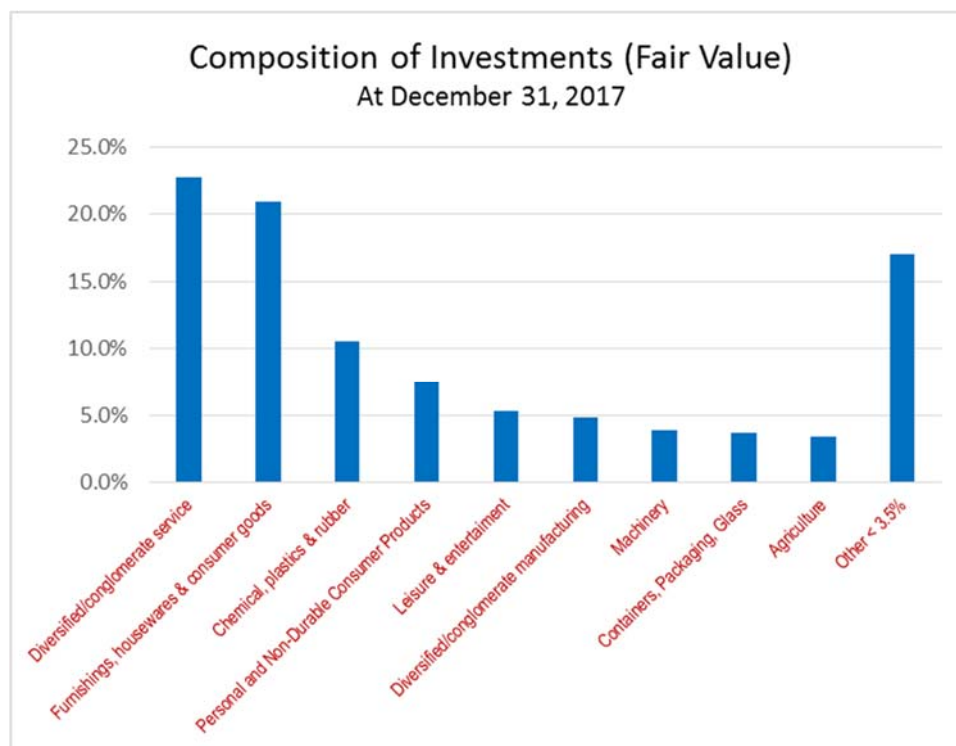
OTHER KEY TAKEAWAYS

- Certain loans to two portfolio companies were on nonaccrual status at quarter-end with an aggregate cost basis of \$15.6 million, or 3.7% of debt investments at cost. This compares to three portfolio companies on nonaccrual with a cost basis of \$25.2 million, or 6.5% of debt investments at cost, in F2Q18.
- Precision Southeast was removed from nonaccrual status in November 2017 upon merging with GI Plastek. As a result of this event, GAIN realized \$1.4 million of interest recoveries, which helped to boost the yield on interest bearing investments to 14.2% in F3Q18 from 12.8% in the prior quarter.
- Interest income also benefitted from a sequential rise in average interest bearing investments of 8.6%.
- The increase in other income was attributable to higher success fees.
- GLAD realized net realized and unrealized gains of \$9.6 million versus \$7.8 million in F2Q18 and \$5.8 million in the year-ago quarter. The F3Q18 gains were predominately attributable to improved valuations in certain preferred stock investments stemming largely from improved fundamentals in the underlying portfolio companies.
- Borrowings from GAIN's line of credit rose \$40.2 million to \$96.9 million LQ.
- The debt-to-equity ratio increased to 0.70X from 0.60X in F2Q18.
- GAIN invested \$31.1 million in ImageWorks Display and Marketing Group, Inc. during the quarter. ImageWorks is a point-of-purchase display provider based in Winston-Salem, NC.
- Subsequent to quarter-end, GAIN invested \$14.5 million in an existing portfolio company, Schylling, Inc., through a secured first lien debt investment. It also invested \$11.0 million in another existing portfolio company, Nth Degree, Inc., through a secured first lien debt investment.
- GAIN clearly had a good quarter with solid investment production and improvements in credit quality. However, we believe the strong results are fully reflected in the stock's advance in intraday trading of ~12%. Hence, the rationale for our Neutral rating.
- The chart on page 3 provides information regarding the company's investment portfolio. Total net depreciation for the portfolio was (0.8%) at quarter-end, an improvement from (2.7%) at September 30, 2017. Hilliard Lyons does not project any changes in the valuation of the portfolio.

PORTFOLIO HOLDINGS

HOLDINGS @ December 31, 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	10,861	(10,651)	(49.5)	3.8
Affiliate Investments						
2 Alloy Die Casting Corp	Diversified/Conglomerate Manufacturing	18,455	8,517	(9,938)	(53.8)	3.2
3 Brunswick Bowling Prod.	Furnishings, Housewares & Consumer Products	23,167	26,912	3,745	16.2	4.1
4 B+T Group Acquisition Inc.	Telecommunications	18,196	14,000	(4,196)	(23.1)	3.2
5 Cambridge Sound Mgmt.	Home & Office Furnishings	20,500	39,977	19,477	95.0	3.6
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	7,172	(1,624)	(18.5)	1.5
8 Edge Adhesives Holdings	Diversified/Conglomerate Manufacturing	15,474	11,499	(3,975)	(25.7)	2.7
9 Head Country Food	Beverage, Food & Tobacco	13,050	12,960	(90)	(0.7)	2.3
10 ImageWorks Display & Manu.	Diversified/Conglomerate Services	29,125	29,125	-	-	5.1
11 JR Hobbs, Co. - Atlanta, LLC	Diversified/Conglomerate Services	26,920	32,710	5,790	21.5	4.7
12 Logo Sportswear, Inc.	Textiles and Leather	10,750	19,083	8,333	77.5	1.9
13 Meridian Rack & Pinion	Automobile	13,041	8,104	(4,937)	(37.9)	2.3
14 The Mountain Corporation	Personal and Non-Durable Consumer Products	28,000	13,428	(14,572)	(52.0)	4.9
15 NDLI Inc.	Cargo Transport	3,600	-	(3,600)	(100.0)	0.6
16 Old World Christmas Inc.	Home & Office Furnishings, Housewares	21,950	26,733	4,783	21.8	3.8
17 Pioneer Square Brands, Inc.	Personal and Non-Durable Consumer Products	28,300	29,032	732	2.6	5.0
18 PSI Molded Plastics, Inc.	Chemicals, Plastics, and Rubber	33,598	31,332	(2,266)	(6.7)	5.9
19 SOG Specialty K&T LLC	Leisure, Motion Picture, Entertainment	28,687	17,303	(11,384)	(39.7)	5.0
Non-control/Non-affiliate investments						
20 AquaVenture Holdings Limited	Utilities	189	227	38	20.1	0.0
21 B-Dry LLC	Personal, Food and Miscellaneous Services	14,649	3,908	(10,741)	(73.3)	2.6
22 Counsel Press, Inc.	Diversified/Conglomerate Services	30,495	29,416	(1,079)	(3.5)	5.3
23 Country Club Enterprises	Automobile	11,725	6,122	(5,603)	(47.8)	2.1
24 Diligent Delivery Systems	Cargo Transport	13,411	15,832	2,421	18.1	2.3
25 Drew Foam Company	Chemicals, Plastics, Rubber	13,351	28,239	14,888	111.5	2.3
26 Frontier Packaging Inc.	Containers, Packaging, Glass	11,025	21,144	10,119	91.8	1.9
27 Funko LLC	Personal and Non-Durable Consumer Products	167	157	(10)	(6.0)	0.0
28 Ginsey Home Solutions	Home & Office Furnishings	22,891	25,013	2,122	9.3	4.0
29 Jackrabbit Inc.	Farming & Agriculture	14,650	12,581	(2,069)	(14.1)	2.6
30 Nth Degree Inc	Diversified/Conglomerate Services	18,950	37,721	18,771	99.1	3.3
31 SBS Industries LLC	Machinery	22,950	21,799	(1,151)	(5.0)	4.0
32 Schylling, Inc.	Leisure, Motion Picture, Entertainment	17,081	13,081	(4,000)	(23.4)	3.0
33 Star Seed Inc.	Farming & Agriculture	6,500	7,000	500	7.7	1.1
34 Tread Corporation	Oil & Gas	7,737	5,391	(2,346)	(30.3)	1.4
Total Investments		570,733	566,379	(4,354)	(0.8)	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	3/31/17	3/31/18	FY 2017 A	FY 2018 E	FY 2019 E
	1017A	2017A	3017A	4Q17A	1Q18A	2Q18A	3Q18A	4Q18E	FY 2016 A	FY 2017 A	FY 2018 E	FY 2019 E	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	13,588	12,818	46,397	46,147	48,365	56,877	-0.5%
Total Other Income	2,765	14	1,667	1,282	2,874	1,919	2,596	2,092	4,558	5,728	9,481	9,157	25.7%
Total Investment Income	14,393	11,744	13,374	12,364	13,620	13,132	16,184	14,910	50,955	51,875	57,846	66,033	1.8%
Expenses:													
Management Fee	2,509	2,489	2,441	2,486	2,516	2,554	2,769	2,966	9,925	9,925	10,805	12,968	0.0%
Management Fee Credit	(837)	(1,114)	(535)	(1,020)	(548)	(926)	(1,066)	(1,038)	(3,126)	(3,506)	(3,578)	(4,539)	12.2%
Administration Fee	299	275	251	295	307	201	261	283	1,190	1,120	1,052	1,255	-5.9%
Interest Expense	971	953	825	791	729	754	1,035	1,450	4,154	3,540	4,008	8,707	-14.8%
Dividends on Preferred Stock	2,065	2,115	2,251	2,251	2,251	2,251	2,251	2,251	7,963	8,683	9,004	9,005	9.0%
Other	874	1,365	1,759	943	1,758	1,253	581	1,250	4,954	4,941	4,842	5,200	-0.3%
Total Expenses Before Incentive Fee	5,881	6,083	6,992	5,747	7,013	6,087	5,831	7,202	25,060	24,703	26,133	32,595	-1.4%
Pie Incentive Fee Net Investment Income	8,512	5,661	6,382	6,617	6,607	7,045	10,353	7,707	25,895	27,172	31,712	33,438	4.9%
Incentive Fee	1,700	549	1,178	1,323	1,172	1,295	2,822	1,541	5,179	4,750	6,830	6,688	-8.3%
Total Expenses	7,581	6,632	8,170	7,070	8,185	7,382	8,653	8,744	30,238	29,453	32,964	39,283	-2.6%
Net Investment Income	6,812	5,112	5,204	5,294	5,435	5,750	7,531	6,166	20,716	22,422	24,882	26,750	8.2%
Realized & Unrealized Gain (Loss):													
Total Net Realized Gain/(Loss)	18,560	(193)	(3,137)	157	1,165	(43)	25	-	(4,599)	15,387	1,147	-	-434.6%
Net Unrealized (Depreciation) / Appreciation	(838)	(5,021)	8,888	3,925	1,541	7,849	9,588	-	8,737	6,954	18,978	-	-20.4%
Net Dec./Inc. in Net Assets from Operations	24,554	(102)	10,955	9,376	8,141	13,550	17,144	6,166	24,854	44,763	45,007	26,750	80.1%
Balance Sheet													
Assets:													
Total Investments at Cost	522,363	522,375	498,955	525,169	508,818	534,372	570,733	601,233	518,125	525,169	601,233	681,233	1.4%
Unrealized Gain/(Loss)	(31,382)	(36,403)	(27,515)	(23,590)	(22,048)	(13,838)	(4,354)	(4,354)	(30,469)	(23,590)	(4,354)	(4,354)	-22.6%
Total Investments at Fair Value	490,981	485,972	471,440	501,579	486,770	520,534	566,379	596,879	487,656	501,579	596,879	676,879	2.9%
Cash & Cash Equivalents	5,233	5,097	3,993	2,868	6,100	2,433	2,733	3,500	4,481	2,868	3,500	3,500	-36.0%
Other Assets	10,938	10,825	7,993	10,576	11,468	11,468	7,478	6,751	10,938	11,468	11,503	11,503	4.8%
Total Assets	507,039	499,062	486,009	515,915	500,348	529,710	580,615	611,882	503,075	515,915	611,882	691,882	2.6%
Liabilities & Shareholders' Equity:													
Line of Credit at Fair Value (\$185 million)	79,600	63,500	43,700	69,700	34,000	56,700	96,858	128,302	95,000	69,700	128,302	188,912	-26.6%
Mandatory Redeemable Preferred Stock	118,465	134,459	134,639	134,835	135,420	135,225	135,420	135,420	118,465	134,835	135,420	135,420	13.8%
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%
Total Borrowings	203,161	203,055	183,435	209,631	174,126	197,021	237,374	268,878	218,561	209,631	268,878	329,428	-4.1%
Other Liabilities	5,998	3,905	5,192	4,482	4,987	4,149	5,844	5,844	8,677	4,482	5,844	5,844	-48.3%
Total Liabilities	209,159	206,960	188,627	214,113	179,113	201,170	243,218	274,662	227,238	214,113	274,662	294,623	-5.8%
Shareholders' Equity (Net Assets)	297,880	292,102	297,382	301,802	321,235	328,548	337,397	337,220	279,022	301,802	337,220	335,272	8.2%
Total Liabilities & Shareholders' Equity	507,039	499,062	486,009	515,915	500,348	529,710	580,615	611,882	506,260	515,915	611,882	691,882	1.9%
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	0.0%
Average Diluted Shares (000)	30,271	30,271	30,271	30,271	30,271	30,271	30,271	30,271	30,268	30,271	30,263	33,182	0.0%
Net Investment Income Per Share	0.23	0.17	0.19	0.17	0.17	0.18	0.23	0.19	0.68	0.74	0.77	0.81	8.2%
Regular Dividends	0.19	0.19	0.19	0.19	0.19	0.19	0.20	0.20	0.75	0.75	0.75	0.79	0.0%
Supplemental Dividends	-	-	-	-	-	-	0.06	-	-	-	0.12	0.12	NA
Net Investment Income Payout Ratio	83%	111%	109%	107%	111%	109%	84%	103%	110%	101%	100%	98%	-7.6%
Earnings Per Share	0.81	(0.00)	0.36	0.31	0.26	0.42	0.53	0.19	0.82	1.48	1.39	0.81	80.1%
Net Asset Value Per Share	9.84	9.65	9.82	9.97	9.88	10.10	10.37	10.37	9.24	9.97	10.37	10.40	7.9%
Performance Ratios:													
Interest Income / Avg. Investments at Cost	9.06%	9.11%	9.30%	8.78%	8.43%	8.72%	9.97%	8.87%	8.93%	9.00%	9.00%	8.87%	0.0%
Interest Expense / Avg. Borrowings	1.84%	1.88%	1.71%	1.61%	1.52%	1.63%	1.91%	2.36%	1.90%	1.89%	1.89%	2.89%	6.6%
Total Expenses / Investment Income	52.67%	61.09%	57.18%	60.10%	56.21%	53.47%	56.65%	56.65%	59.34%	56.99%	56.99%	59.49%	-236
Total Expenses / Assets	5.98%	5.32%	6.72%	5.48%	5.67%	5.96%	5.72%	5.68%	6.01%	5.39%	5.68%	5.68%	0.29
Return on Assets	4.84%	-0.02%	2.25%	1.82%	1.63%	2.56%	2.95%	1.01%	4.94%	7.36%	7.36%	3.87%	242
Return on Common Equity	8.24%	-0.03%	3.68%	3.11%	2.53%	4.13%	5.08%	1.83%	8.91%	13.35%	13.35%	7.50%	444
Balance Sheet Ratios													
Assets/Equity	1.70x	1.71x	1.63x	1.71x	1.56x	1.61x	1.72x	1.81x	1.80x	1.71x	1.81x	1.94x	13
Total Debt to Equity	0.68x	0.70x	0.62x	0.68x	0.54x	0.60x	0.70x	0.80x	0.78x	0.69x	0.80x	0.92x	13

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-\$17.85), Gladstone Capital Corp. (GLAD-\$8.41), and Gladstone Land Corp. (LAND-\$11.98) 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.

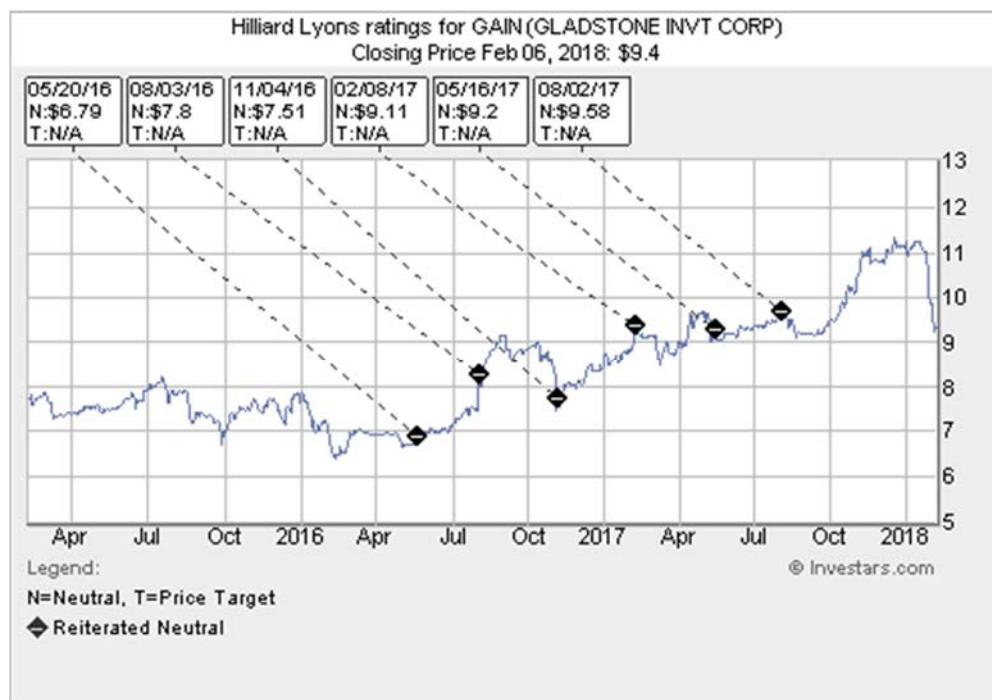
Suitability Ratings

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



Rating	Hilliard Lyons Recommended Issues		Investment Banking Provided in Past 12 Mo.	
	# of Stocks Covered	% of Stocks Covered	Banking	No Banking
Buy	31	28%	10%	90%
Hold/Neutral	75	67%	9%	91%
Sell	6	5%	0%	100%

As of 8 January 2018

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.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

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