

# INVESTOR UPDATE

Q4 2019



  
**Capitala**

# DISCLAIMER AND SAFE HARBOR FOR FORWARD-LOOKING STATEMENTS



These materials and any presentation of which they form a part are neither an offer to sell, nor a solicitation of an offer to purchase, an interest in Capitala Finance Corp. (“Capitala Finance” or the “Company”).

These materials and the presentations of which they are a part, and the summaries contained herein, do not purport to be complete and no obligation to update or otherwise revise such information is being assumed. Nothing shall be relied upon as a promise or representation as to the future performance of the Company. Such information is qualified in its entirety by reference to the more detailed discussions contained elsewhere in the Company’s public filings with the Securities and Exchange Commission.

There is no guarantee that any of the estimates, targets or projections illustrated in these materials and any presentation of which they form a part will be achieved. Any references herein to any of the Company’s past or present investments or its past or present performance, have been provided for illustrative purposes only. It should not be assumed that these investments were or will be profitable or that any future investments by the Company will be profitable or will equal the performance of these investments.

The information contained herein has been derived from financial statements and other documents provided by the portfolio companies and/or the third party manager of such portfolio companies unless otherwise stated. Past performance is not indicative of future results. In addition, there can be no assurance that unrealized investments will be realized at the expected multiples shown as actual realized returns will depend on, among other factors, future operating results of each of the Company’s current portfolio companies, the value of the assets and economic conditions at the time of disposition, any related transaction costs, and the timing and manner of sale, all of which may differ from the assumptions on which the Company’s expected returns are based. In many instances, the Company will not determine the timing or manner of sale of the Company’s portfolio companies.

The Company has determined its estimated net asset value in good faith based on information believed by the Company to be reliable as of December 31, 2019, but there can be no assurance that such estimated net asset value accurately reflects the fair value of the Company.

Statements included herein may constitute “forward-looking statements,” which relate to future events or our future performance or financial condition. Words such as “believe”, “intend”, “expect”, “project”, “anticipate” and “future” or similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance, condition or results and involve a number of risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including those described from time to time in the Company’s filings with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.

# WHY INVEST IN CAPITALA FINANCE CORP?

- Part of Capitala Group, a \$3.0 billion SEC-registered asset management firm headquartered in Charlotte, NC, investing debt and equity capital in the lower middle market (“LMM”) <sup>(1)</sup>
- Strategic partnership with Mitsui & Co. provides global reach and capabilities <sup>(2)</sup>
- Cash dividend yield of 13.7% based on current monthly payments of \$0.08333 <sup>(3)</sup>
- Focus on underserved lower middle market
- Direct origination capabilities across 7 offices <sup>(4)</sup>
- Vested and aligned management, currently owning 8.3% of CPTA shares outstanding
- Unique capital structure, positioned to benefit from rising rates
- NAV upside through equity/warrant appreciation

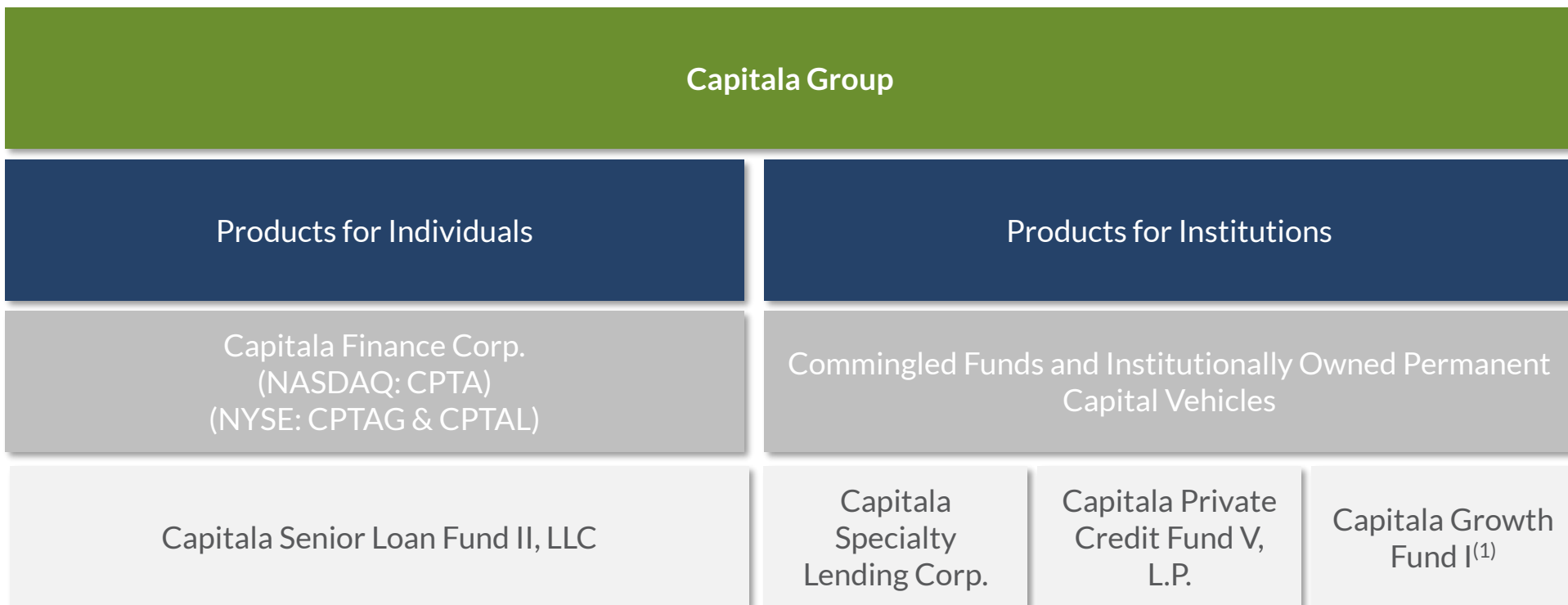


(1) Reflects cumulative deployed capital since inception plus available liquidity and committed capital as of December 31, 2019.

(2) See press release dated October 28, 2019 for additional detail.

(3) Based on February 28, 2020 closing stock price.

(4) Includes New York office, which is Mitsui USA headquarters.

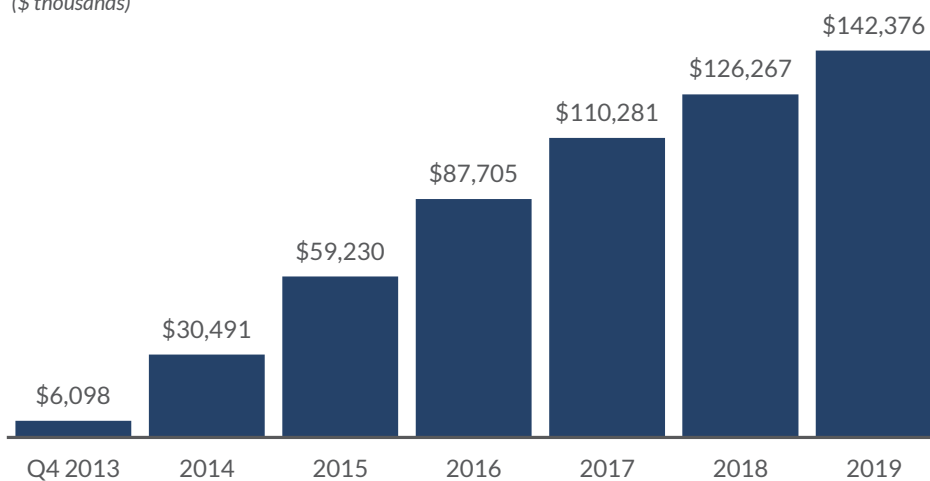


(1) CapitalSouth SBIC Fund IV, L.P.

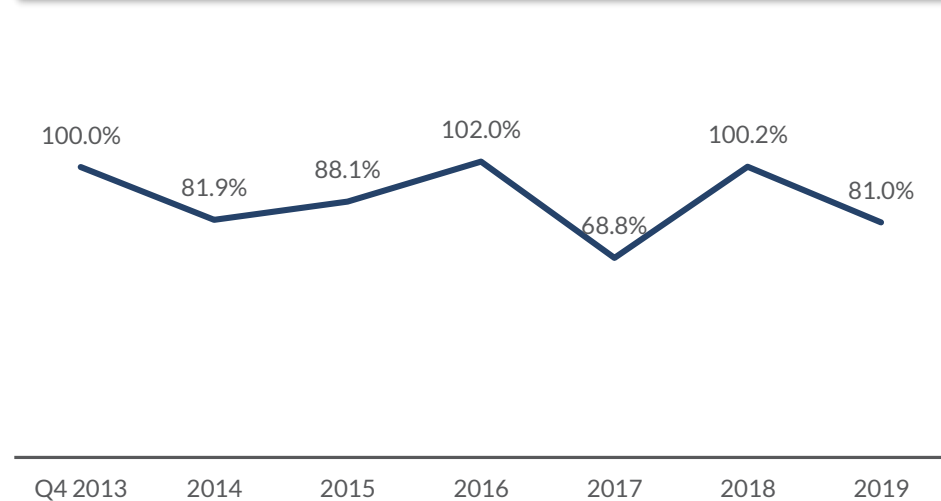
- Paid Monthly
- Paid \$0.50 Special Distribution in 2015
- \$142.4MM of regular distributions paid since 2013 vs. \$125.0MM of Net Investment Income

## Cumulative Regular Distributions Paid

(\$ thousands)



## CPTA Historical Regular Distribution Coverage <sup>(1)</sup>



(1) Distribution coverage calculated by dividing Net Investment Income by Regular Distributions Paid.

## > Capitala Group provides flexible financing for lower middle market companies

### OBJECTIVE

---

- Provide first lien and unitranche debt financing, with corresponding equity/warrant co-investments

### INVESTMENT SIZE

---

- Up to \$75.0MM
- Capitala and affiliates targeted hold size of up to \$40.0MM, acting as required lender

### INVESTMENT FOCUS

---

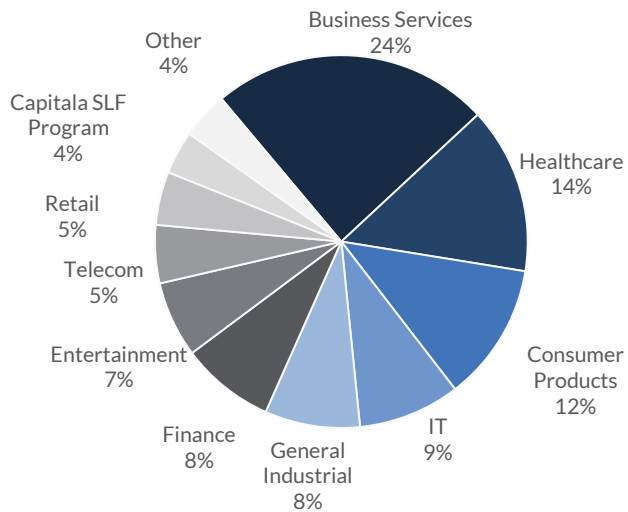
- Lower middle market companies with EBITDA of \$4.5MM to \$30.0MM
- Diverse industry sectors including business services, general industrial, government, healthcare, software and specialty finance
- Typical transactions include providing financing for leveraged buyouts, acquisitions, recapitalizations, growth opportunities and bridge loans
- Directly originated transactions rather than broadly syndicated financings
- We have developed long-term relationships with lower middle-market companies, management teams, financial sponsors, lending institutions and intermediaries

### GEOGRAPHY

---

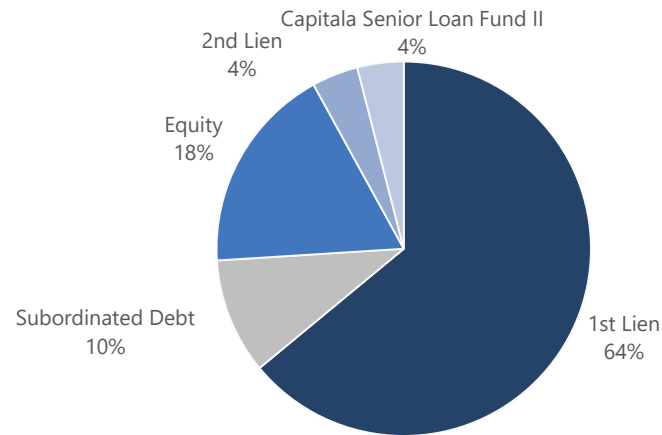
- United States and Canada

## PORTFOLIO BY INDUSTRY<sup>(1)</sup>



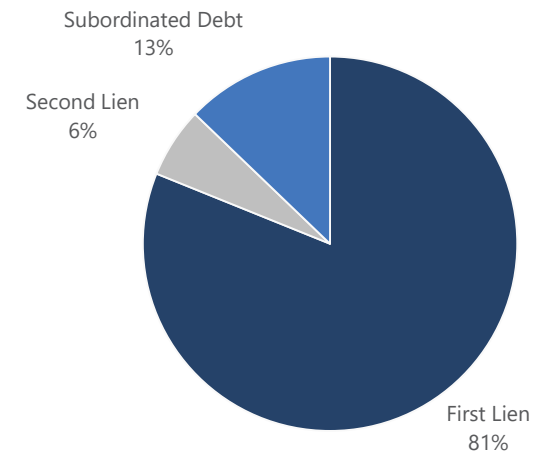
~\$363 million

## TOTAL PORTFOLIO BY ASSET TYPE



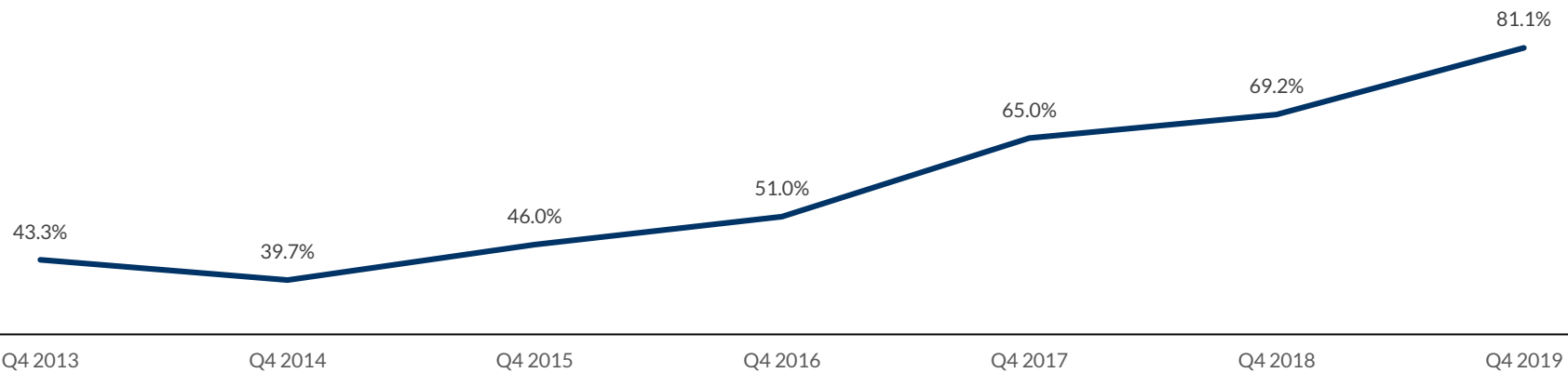
~\$363 million

## DEBT PORTFOLIO BY ASSET TYPE



~\$285 million

## FIRST LIEN DEBT AS A PERCENTAGE OF TOTAL DEBT PORTFOLIO



Note: Portfolio statistics represent fair value as of December 31, 2019.  
 (1) Other includes Energy Services (2%) and Restaurant & Food (2%).

Recent Deal Summary						
Company	Closing Date	Description	Debt Security	Debt Amount <sup>(1)</sup>	Yield	Equity Co-Invest Amount <sup>(1)</sup>
J5 Infrastructure Partners, LLC	Dec 2019	Telecom	First Lien	\$7.0MM	L+6.5%	N/A
Rapid Fire Protection, Inc.	Nov 2019	Security Systems Services	First Lien	\$6.6MM	9.2% <sup>(2)(3)</sup>	\$0.5MM
Chief Fire Intermediate, Inc.	Nov 2019	Security Systems Services	First Lien	\$8.1MM	L+7.0%	\$0.9MM
HUMC Opco, LLC	Aug 2019	Healthcare	First Lien	\$5.0MM	9.0%	N/A
Jurassic Quest Holdings, LLC	May 2019	Entertainment	First Lien	\$10.6MM	L+7.5%	\$0.4MM
Seitel, Inc.	Mar 2019	Data Services	First Lien	\$5.0MM	L+8.3%	N/A
RAM Payment, LLC	Jan 2019	Finance	First Lien	\$9.2MM	11.2% <sup>(2)(3)</sup>	\$0.9MM
Capitala Senior Loan Fund II, LLC	Dec 2018	N/A	N/A	N/A	N/A	\$13.6MM
Freedom Electronics, LLC	Dec 2018	IT	First Lien	\$6.3MM	9.1% <sup>(2)(3)</sup>	\$0.2MM
Chicken Soup for the Soul Holdings, LLC	Dec 2018	Entertainment	First Lien	\$13.0MM	L+8.5%	N/A
U.S. BioTek Laboratories LLC	Dec 2018	Healthcare	First Lien	\$7.0MM	9.3% <sup>(2)(3)</sup>	\$0.5MM

Summary		
Lien Type	Amount	Percent of Total
First Lien	\$67.4MM	80.2%
Subordinated	N/A	0.0%
Equity	\$3.0MM	3.6%
Capitala Senior Loan Fund II, LLC	\$13.6MM	16.2%

\* Denotes investment repaid at par.

(1) Amounts as of closing.

(2) Represents a last-out position in a unitranche term loan.

(3) Represents the blended yield for total investments at entry.



- Management team owns 8.3% of the common stock and has made meaningful purchases in the open market since the IPO
  - Management currently owns 1,350,655 shares with a market value of \$9.8 million <sup>(1)</sup>
  
- The Company's external manager has voluntarily waived \$4.0 million of incentive fees since Q4 2015
  - \$0.3 million in 2019
  
- Cash dividend yield of 13.7% <sup>(1)</sup> based on current monthly payments of \$0.08333

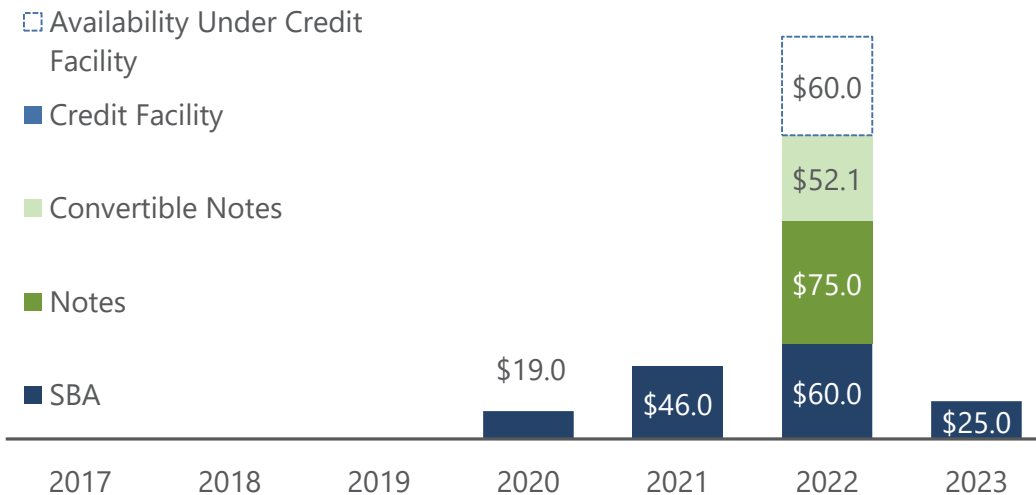
Note: As of December 31, 2019.

(1) Based on the closing price as of February 28, 2020.

## CURRENT FUNDING OVERVIEW

Facility	Interest Rate	Maturity	Amount Drawn (12/31/19)
▪ \$60.0 million Credit Facility	L+300 floating	April 2022	\$0.0 million
▪ SBA Debentures	3.25% fixed	2020 – 2023	\$150.0 million
▪ Convertible Notes Payable	5.75% fixed	May 2022	\$52.1 million
▪ Notes Payable	6.00% fixed	May 2022	\$75.0 million

## NOTES MATURITY PROFILE (\$ in millions)



93% of existing notes and debentures mature after 2020

- \$131.0 million of SBA guaranteed debentures
- \$127.1 convertible and fixed rate notes due in 2022
- Credit Facility amended and extended until 2022



Obligor for SBA debentures is an SBIC licensee subsidiary; issuer is not an SBIC obligor

	% Fixed Rate	% Variable Rate
Investment Portfolio	37%	63%
Funded Debt	100%	0%

## INTEREST RATE SENSITIVITY

(\$ thousands, except per share data)

Basis Point Change	Change in Interest Income	Change in Interest Expense	Increase / (Decrease) in Net Investment Income	Increase / (Decrease) in Net Investment Income per Share
+300 bps	\$5,444	\$0	\$5,444	\$0.34
+200 bps	\$3,611	\$0	\$3,611	\$0.22
+100 bps	\$1,777	\$0	\$1,777	\$0.11
-100 bps	(\$1,050)	\$0	(\$1,050)	(\$0.06)
-200 bps	(\$1,187)	\$0	(\$1,187)	(\$0.07)
-300 bps	(\$1,187)	\$0	(\$1,187)	(\$0.07)

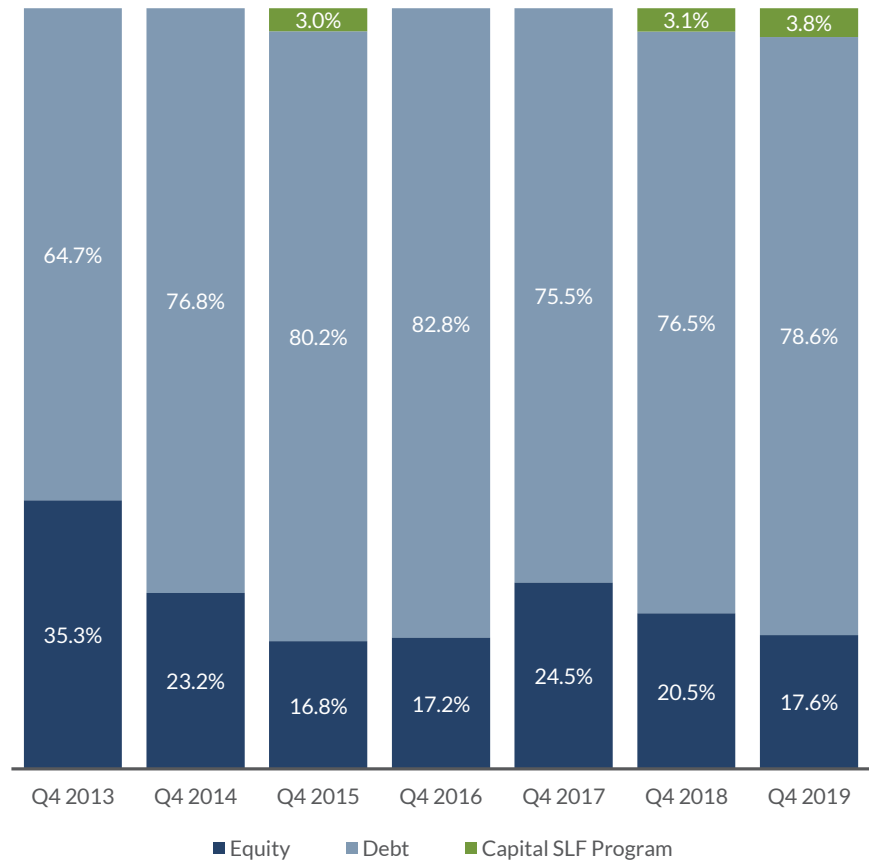
Note: Assumes no change in portfolio investments or revolving credit facility borrowings as of December 31, 2019.  
 Note: Per share amount calculated based upon actual shares outstanding at December 31, 2019.

(\$ in thousands)

## Current Equity Investments<sup>(1)</sup>

Company	\$ Cost Basis	\$ Fair Value	% of Investments at Fair Value
Eastport Holdings, LLC	\$3,263	\$17,822	4.9%
Nth Degree, Inc.	6,088	6,088	1.7%
Vology, Inc.	5,215	5,215	1.4%
Sierra Hamilton Holdings Corporation	6,958	5,160	1.4%
GA Communications, Inc.	3,479	4,262	1.2%
City Gear, LLC	-	3,326	0.9%
Currency Capital, LLC	2,000	2,504	0.7%
Burke America Parts Group, LLC	5	2,489	0.7%
US Well Services, Inc.	7,471	2,273	0.6%
MMI Holdings, LLC	1,572	1,904	0.5%
CIS Secure Computing, Inc.	1,000	1,890	0.5%
LJS Partners, LLC	1,516	1,881	0.5%
RAM Payment, LLC	928	1,725	0.5%
Navis Holdings, Inc	1,000	1,464	0.4%
Xirgo Technologies, LLC	600	917	0.3%
Chief Fire Intermediate, Inc.	913	913	0.3%
MicroHoldco, LLC	838	838	0.2%
Taylor Precision Products, Inc.	758	758	0.2%
Burgaflex Holdings, LLC	1,865	635	0.2%
Rapid Fire Protection, Inc.	500	500	0.1%
3 Bridge Solutions, LLC	1,100	499	0.1%
Corporate Visions, Inc.	1,575	329	0.1%
U.S. BioTek Laboratories, LLC	541	204	0.1%
Freedom Electronics, LLC	182	160	0.0%
Jurassic Quest Holdings, LLC	388	85	0.0%
Alternative Biomedical Solutions, LLC	800	-	0.0%
<b>Total</b>	<b>\$50,556</b>	<b>\$63,841</b>	<b>17.6%</b>

## Demonstrated Rotation Out of Equity Positions



### Equity Cost Basis

15.2%	12.7%	9.0%	8.3%	11.1%	11.6%	14.3%
-------	-------	------	------	-------	-------	-------

(1) Current equity position details as of December 31, 2019.

## Statements of Operations

(\$ in thousands, except per share data)

	Three Months Ended:							
	12/31/19 (unaudited)	9/30/19 (unaudited)	6/30/19 (unaudited)	3/31/19 (unaudited)	12/31/18 (unaudited)	9/30/18 (unaudited)	6/30/18 (unaudited)	3/31/18 (unaudited)
<b>Investment Income</b>								
Interest, PIK, and fees	\$9,177	\$8,906	\$11,128	\$11,327	\$11,063	\$11,430	\$11,752	\$12,503
Dividends	409	1,159	425	1,306	176	54	113	54
Other income	48	61	37	51	69	46	17	15
<b>Total investment income</b>	<b>9,634</b>	<b>10,126</b>	<b>11,590</b>	<b>12,684</b>	<b>11,308</b>	<b>11,530</b>	<b>11,882</b>	<b>12,572</b>
<b>Expenses</b>								
Interest and financing expense	4,371	4,110	4,228	4,413	4,269	4,320	4,331	4,364
Management fees	1,904	1,925	2,020	2,118	2,178	2,254	2,314	2,303
Incentive fees, net of waivers	-	-	175	1,034	-	-	-	244
Other expenses	1,457	1,107	1,145	984	1,360	1,105	1,006	1,223
<b>Total expenses</b>	<b>7,732</b>	<b>7,142</b>	<b>7,568</b>	<b>8,549</b>	<b>7,807</b>	<b>7,679</b>	<b>7,651</b>	<b>8,134</b>
<b>Net Investment Income</b>	<b>1,902</b>	<b>2,984</b>	<b>4,022</b>	<b>4,135</b>	<b>3,501</b>	<b>3,851</b>	<b>4,231</b>	<b>4,438</b>
Net realized gain (loss) on investments	1,156	12	(15,077)	(5,847)	(14,626)	6,298	(22,622)	(3,855)
Net unrealized appreciation (depreciation) on investments	(3,127)	(1,279)	(17,395)	1,495	1,193	(21,955)	21,994	(392)
Tax benefit (provision)	-	-	(694)	66	731	(110)	1,345	(50)
<b>Net gain (loss) on investments, net of taxes</b>	<b>(1,971)</b>	<b>(1,267)</b>	<b>(33,166)</b>	<b>(4,286)</b>	<b>(12,702)</b>	<b>(15,767)</b>	<b>717</b>	<b>(4,297)</b>
<b>Net increase (decrease) in assets resulting from operations</b>	<b>(\$69)</b>	<b>\$1,717</b>	<b>(\$29,144)</b>	<b>(\$151)</b>	<b>(\$9,201)</b>	<b>(\$11,916)</b>	<b>\$4,948</b>	<b>\$141</b>
<b>Net investment income per share</b>	<b>\$0.12</b>	<b>\$0.18</b>	<b>\$0.25</b>	<b>\$0.26</b>	<b>\$0.22</b>	<b>\$0.24</b>	<b>\$0.26</b>	<b>\$0.28</b>
<b>Net realized gain (loss) per share</b>	<b>\$0.07</b>	<b>\$0.00</b>	<b>(\$0.94)</b>	<b>(\$0.36)</b>	<b>(\$0.91)</b>	<b>\$0.39</b>	<b>(\$1.42)</b>	<b>(\$0.24)</b>
<b>Net increase (decrease) in assets resulting from operations per share</b>	<b>(\$0.00)</b>	<b>\$0.11</b>	<b>(\$1.81)</b>	<b>(\$0.01)</b>	<b>(\$0.57)</b>	<b>(\$0.74)</b>	<b>\$0.31</b>	<b>\$0.01</b>
<b>Distributions declared during quarter</b>	<b>\$0.25</b>	<b>\$0.25</b>	<b>\$0.25</b>	<b>\$0.25</b>	<b>\$0.25</b>	<b>\$0.25</b>	<b>\$0.25</b>	<b>\$0.25</b>

## Statements of Assets & Liabilities

(\$ in thousands)

	12/31/19 (audited)	9/30/19 (unaudited)	6/30/19 (unaudited)	3/31/19 (unaudited)	12/31/18 (audited)	9/30/18 (unaudited)	6/30/18 (unaudited)	3/31/18 (unaudited)
Investments at fair value	\$362,532	\$371,351	\$391,059	\$455,390	\$448,927	\$439,421	\$483,261	\$503,722
Cash and cash equivalents	62,321	62,776	43,474	28,470	39,295	50,456	40,826	25,720
Other assets	2,484	1,803	2,774	4,618	4,943	4,323	3,770	3,422
<b>Total assets</b>	<b>\$427,337</b>	<b>\$435,930</b>	<b>\$437,307</b>	<b>\$488,478</b>	<b>\$493,165</b>	<b>\$494,200</b>	<b>\$527,857</b>	<b>\$532,864</b>
SBA debentures	\$148,994	\$148,871	\$148,736	\$148,596	\$164,012	\$163,858	\$168,705	\$168,554
2022 Notes	73,553	73,415	73,279	73,145	73,013	72,883	72,755	72,629
2022 Convertible Notes	51,172	51,085	50,998	50,913	50,829	50,746	50,665	50,584
Credit Facility	(1,165)	(727)	4,172	24,051	9,017	(1,021)	3,922	10,814
Other liabilities	6,670	11,405	6,259	5,039	5,650	4,138	12,493	12,079
<b>Total liabilities</b>	<b>279,224</b>	<b>284,049</b>	<b>283,444</b>	<b>301,744</b>	<b>302,521</b>	<b>290,604</b>	<b>308,540</b>	<b>314,660</b>
<b>Net assets</b>	<b>148,113</b>	<b>151,881</b>	<b>153,863</b>	<b>186,734</b>	<b>190,644</b>	<b>203,596</b>	<b>219,317</b>	<b>218,204</b>
<b>Total liabilities and net assets</b>	<b>\$427,337</b>	<b>\$435,930</b>	<b>\$437,307</b>	<b>\$488,478</b>	<b>\$493,165</b>	<b>\$494,200</b>	<b>\$527,857</b>	<b>\$532,864</b>
Number of portfolio companies	43	40	41	43	44	42	43	46
Leverage ratio-actual	1.87x	1.82x	1.83x	1.62x	1.59x	1.44x	1.38x	1.42x
Leverage ratio - regulatory	0.86x	0.84x	0.86x	0.81x	0.72x	0.62x	0.60x	0.64x
Average risk rating	1.92	1.85	1.84	1.82	1.82	1.83	1.95	1.91
Non-accrual loans at fair value	-	\$15,797	\$8,723	\$6,520	\$9,362	\$12,686	\$25,779	\$20,179

<b>Senior Management</b>		<b>Fiscal Year End</b>
<b>Joseph B. Alala, III</b> <i>Chairman &amp; Chief Executive Officer</i>	<b>Peter Sherman</b> <i>Chief Risk Officer- Investment Advisor</i>	December 31
<b>Steve Arnall</b> <i>Chief Financial Officer &amp; Chief Operating Officer</i>	<b>Kevin Koonts</b> <i>Chief Accounting Officer &amp; Chief Compliance Officer</i>	<b>Independent Auditor</b>
		Ernst & Young LLP
		<b>Corporate Counsel</b>
		Eversheds Sutherland LLP
<b>Board of Directors</b>		<b>Securities Listings</b>
<b>Joseph B. Alala, III</b>	<b>R. Charles Moyer*</b>	Nasdaq: CPTA (common stock)
<b>M. Hunt Broyhill</b>	<b>H. Paul Chapman*</b>	Nasdaq: CPTAL (notes)
	<b>Larry W. Carroll*</b>	Nasdaq: CPTAG (convertible notes)
		<b>Transfer Agent</b>
		American Stock Transfer and Trust
<b>Research Coverage</b>		<b>Corporate Headquarters &amp; Website</b>
<b>Janney</b> Mitchel Penn, CFA	<b>Jefferies</b> John Hecht	4201 Congress St, Suite 360 Charlotte, NC 28209
<b>Keefe, Bruyette &amp; Woods</b> Ryan Lynch, CPA	<b>JMP Securities</b> Christopher York	704-376-5502 www.CapitalaGroup.com
	<b>Ladenburg Thalmann</b> Chris Nolan	

\* Represents independent directors.

<b>Exchange-Traded Issuances:</b>	Common Stock – Nasdaq: CPTA Notes – Nasdaq: CPTAL Convertible Notes – Nasdaq: CPTAG
<b>External Manager:</b>	Capitala Investment Advisors, LLC
<b>Current Price / Share<sup>(1)</sup>:</b>	Nasdaq: CPTA – \$7.29 Nasdaq: CPTAL – \$24.75 Nasdaq: CPTAG – \$24.66
<b>Shares / Market Cap<sup>(1)</sup>:</b>	16.1 million / \$117.9 million
<b>Portfolio Fair Value<sup>(2)</sup>:</b>	\$362.5 million (excluding cash); \$427.3 million gross asset value
<b>Investment Strategy:</b>	To directly originate debt and selective equity investments in middle market companies
<b>Weighted Average Portfolio Debt Investment Yield<sup>(2)(3)</sup>:</b>	11.5%
<b>Annualized Distribution:</b>	13.7% implied annual distribution yield <sup>(4)</sup>
<b>Management Ownership<sup>(1)</sup>:</b>	Approximately \$9.8 million (8.3%)
<b>Management Fee:</b>	Base fee of 1.75% of gross assets
<b>Incentive Fee<sup>(5)</sup>:</b>	(1) 20% of pre-incentive fee net investment income above an 8% hurdle and (2) 20% of cumulative capital gains

(1) Based on the closing price as of February 28, 2020. Total shares outstanding as of December 31, 2019.

(2) As of December 31, 2019.

(3) Represents weighted average investment yield on debt investments only, based on fair value.

(4) Calculated as annualized monthly distributions of \$0.0833 / share divided by February 28, 2020 closing price of \$7.29 / share.

(5) Please reference most recent Form 10K to be filed on or about March 2, 2020 for additional detail related to incentive fee.



# Capitala Finance Corp.

Common stock: Nasdaq:CPTA

Notes: Nasdaq:CPTAL

Convertible Notes: Nasdaq:CPTAG

Q4 2019