

INVESTOR UPDATE  
Q2 2018



Capitala

Property of Capitala Group

# 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 June 30, 2018, 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 CPTA?

Affiliation with Capitala Group	<ul style="list-style-type: none"><li>▪ Recently announced \$1.0 billion Capitala Specialty Lending Corp.</li><li>▪ Manages \$2.7 billion of capital among permanent capital vehicles, closed-end funds, and discretionary managed accounts</li><li>▪ 20 year track record of providing capital for the lower middle market</li></ul>
Investment Strategy	<ul style="list-style-type: none"><li>▪ Focus on seasoned, smaller and lower middle-market companies in underserved capital markets / industries with a history of generating revenue and positive cash flow</li><li>▪ \$10 - \$200 million in annual revenue and \$4.5 - \$30 million in TTM EBITDA</li></ul>
Direct Origination Capabilities	<ul style="list-style-type: none"><li>▪ Six origination offices allow for comprehensive geographical coverage</li><li>▪ Direct origination from proprietary corporate relationships, private equity sponsors and sell-side intermediaries</li></ul>
Vested & Aligned Management Team	<ul style="list-style-type: none"><li>▪ Management team owns 8.7% of the common stock and has made meaningful purchases in the open market since the IPO</li><li>▪ Management team rolled over \$10.0 million of invested capital into Company shares at IPO</li></ul>
Attractive Capital Structure	<ul style="list-style-type: none"><li>▪ Capitala Finance's unique, primarily fixed-rate liabilities combined with a growing mix of floating rate investments provide an attractive capital structure in a rising rate environment</li><li>▪ Revolving credit facility provides attractively priced, short-term capital with an accordion feature that can grow with the borrowing base</li></ul>
NAV Upside	<ul style="list-style-type: none"><li>▪ Primarily current cash income with additional return from origination and structuring fees</li><li>▪ Potential upside through equity participation</li></ul>

# INVESTMENT STRATEGY

## PROVEN UNDERWRITING CAPABILITY

- Investment Committee has been with Capitala for over 15 years
- In-house operating executives provide unique perspective on credit risks
- Capitala maintains strict underwriting standards, which have resulted in conservative underlying leverage statistics

### Investment Criteria

- ✓ Established companies with a track record of consistent cash flow
- ✓ Appropriate capital structures with reasonable leverage and minimal / no subordination
- ✓ Defensible market positions with high barriers to entry
- ✓ Well diversified across customer and supplier bases
- ✓ Experienced and committed sponsors and management teams with industry expertise

**Result: Weighted average debt yield of 11.4%<sup>(1)(2)</sup>**

### Characteristics to Avoid

- ✗ Over levered and/or under-equitized transactions
- ✗ Deeply subordinated positions behind heavily amortizing senior debt with minimal intercreditor protections
- ✗ Commodity-reliant businesses with minimal pricing control and significant volatility
- ✗ Overly concentrated businesses with reliance on any set of customers, suppliers or sources of funding
- ✗ Heavily capital intensive business without a verifiable plan of organic deleveraging

**Result: Historical CPTA leverage at entry of 3.4x<sup>(3)</sup>**

(1) Weighted average yield shown as of June 30, 2018.

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

(3) CPTA Leverage is calculated as total debt minus cash, and excludes all debt which is subordinate to Capitala Finance's investment.

*Capitala has a differentiated investment philosophy which has driven attractive historical returns*

## Proven Sourcing Strategy

- National business development presence via six field offices; focus on target-rich, yet underserved & disintermediated markets
- Focus on both sponsored (58%) and unsponsored (42%) transactions, including independent sponsors and broadly syndicated deals
  - Sponsor relationship strategy focuses on niche, specialized managers, creating more attractive & proprietary deal flow – over 1,000 opportunities reviewed annually
- Results in more directly-originated deals & non-competitive situations, yielding better structure & pricing

## Disciplined Portfolio Construction & Active Management Approach

- Capitala will continue to focus on first lien opportunities given current market environment; flexible approach to find best risk-adjusted yields with equity upside
  - 11 out of the last 12 CPTA investments are first lien (85% of invested capital over the 12 deals)
- Disciplined underwriting and conservative capital structures employed over multiple cycles (3.4x historical total leverage at entry)<sup>(1)</sup>
- Active portfolio management approach with deep experience in complex situations

## Large & Cohesive Team with Strong Alignment

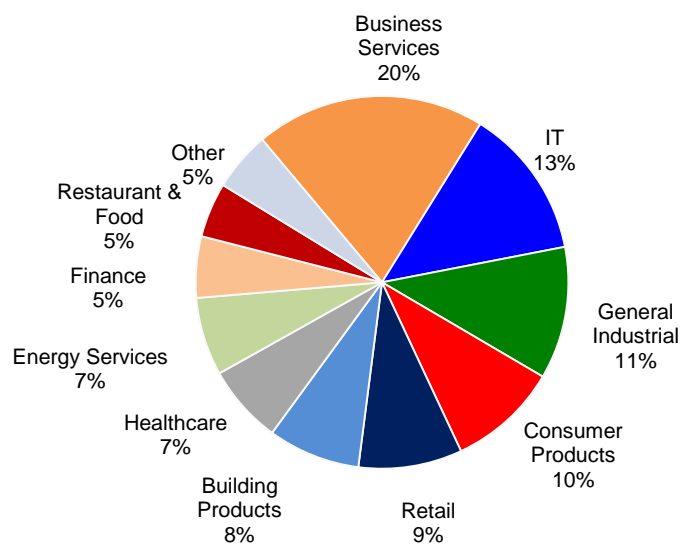
- Core senior team has been together since 2003
  - Responsible for 99% of capital invested since inception
- 25 investment professionals across six offices
- Capitala team has invested over \$25MM in hard dollars into Capitala managed funds

(1) CPTA Leverage is calculated as total debt minus cash, and excludes all debt which is subordinate to Capitala Finance's investment.

# DIVERSE, RISK ADJUSTED PORTFOLIO

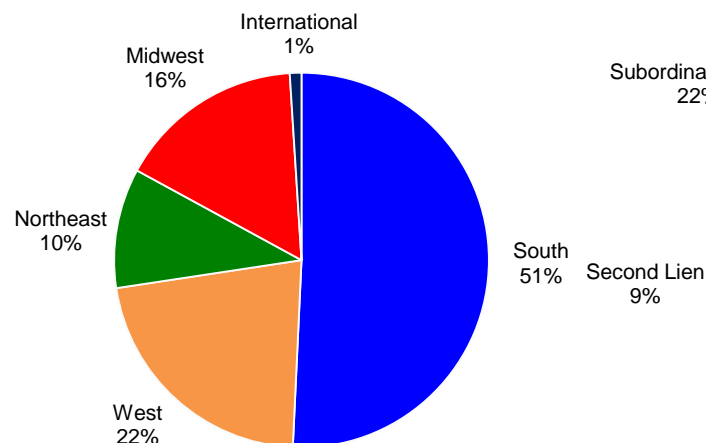
- Diversified ~\$483 million portfolio (excluding cash) across 43 companies, with 51% First Lien Debt, 7% Second Lien Debt, 17% Subordinated Debt and 26% Equity

**PORTFOLIO BY INDUSTRY (1)**



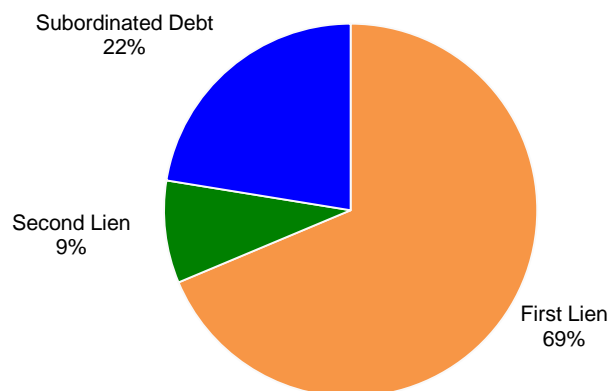
~\$483 million

**PORTFOLIO BY GEOGRAPHY**



~\$483 million

**DEBT PORTFOLIO BY ASSET TYPE**



~\$358 million

Note: Portfolio statistics as of June 30, 2018.

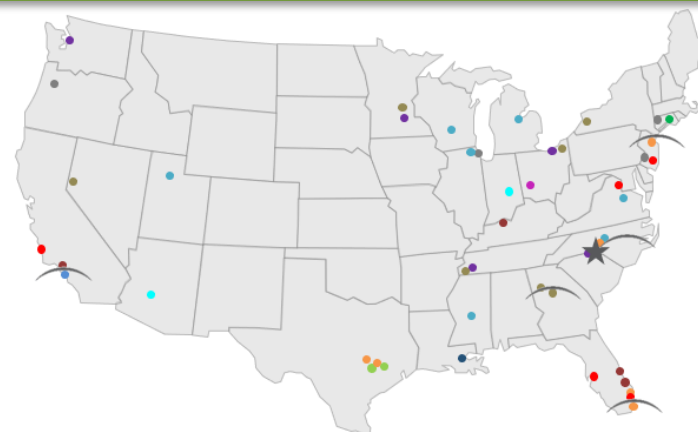
(1) Other includes Industrial Equipment Rental (3%), Conglomerate (2%) and Recreation, Leisure and Entertainment (0%).

# UNIQUE HUB AND SPOKE ORIGINATION PLATFORM

- Unique regionally focused business development offices provide access to superior risk adjusted investment opportunities
- Demonstrated growth and consistently robust quarterly deployments, with over \$755 million deployed since IPO

## Expanding Business Development Footprint Yields Diverse Deal Flow

- ★ Corporate Headquarters
- Regional Office
- Business Services (20%)
- Information Technology (13%)
- General Industrial (11%)
- Consumer Products (10%)
- Retail (9%)
- Building Products (8%)
- Healthcare (7%)
- Energy Services (7%)
- Restaurant & Food (5%)
- Finance (5%)
- Industrial Equipment Rental (3%)
- Conglomerate (2%)
- Recreation, Leisure and Entertainment (0%)



## Deployment Summary<sup>(1)</sup>

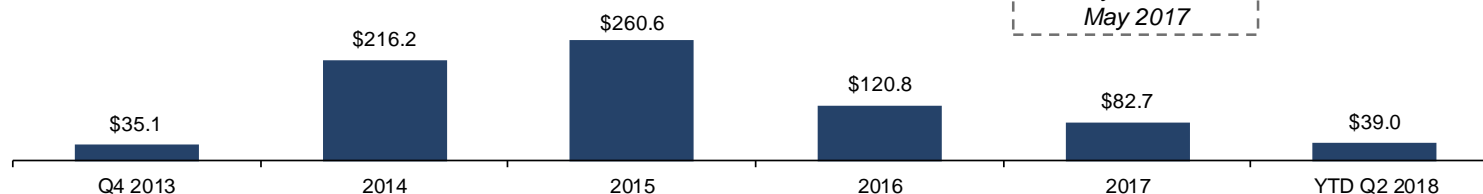
(\$ in millions)

Issued \$113.4MM of baby bonds in June 2014

Closed on senior secured revolving credit facility October 2014

Issued \$64.1MM of common shares in April 2015

Issued \$127.1MM in two note offerings and paid off \$113.4MM of baby bonds in May 2017



	Q4 2013	2014	2015	2016	2017	YTD Q2 2018
# of Deployments <sup>(2)</sup>	7	38	38	23	31	15
\$ of Deployments (New Issuer)	\$21.0	\$175.5	\$217.7	\$112.6	\$60.8	\$25.2
\$ of Deployments (Add-on)	\$14.1	\$40.7	\$43.0	\$8.2	\$21.9	\$13.8
Average Yield Deployed Capital <sup>(3)</sup>	13.3%	11.8%	12.3%	13.2%	11.0%	10.3%

(1) Dollar amounts of deployments shown net of OID.  
 (2) Represents number of unique deployments by security type (not by portfolio company).  
 (3) Represents weighted average yield of yielding investments only, based on fair value.

# RECENT INVESTMENTS

Recent Deal Summary						
Company	Closing Date	Description	Debt Security	Debt Amount <sup>(1)</sup>	Yield	Equity Co-Invest Amount <sup>(1)</sup>
Installs, LLC	Jun 2018	Business Services	First Lien	\$5.8MM	L+7.0%	\$0.0MM
MC Sign Lessor Corp.	Mar 2018	Business Services	First Lien	\$3.9MM	L+7.0%	\$0.0MM
US Bath Group, LLC	Jan 2018	Building Products	First Lien	\$15.0MM	L+9.0%	\$0.5MM
Spectra Services, LLC	Dec 2017	Business Services	First Lien	\$7.4MM	10.0% / 4.0% PIK	\$1.3MM
Alternative Biomedical Solutions, LLC	Dec 2017	Healthcare	First Lien <sup>(2)</sup>	\$13.0MM	11.7%	\$0.8MM
3Bridge Solutions, LLC	Dec 2017	Business Services	First Lien	\$11.3MM	L+9.0%	\$1.0MM
CIS Secure Computing, Inc.	Sep 2017	IT	First Lien	\$7.0MM	L+8.5% / 1.0% PIK	\$1.0MM
Currency Capital, LLC	Jan 2017	IT	First Lien	\$16.0MM	L+11.0%	\$2.0MM
Xirgo Technologies, LLC	Dec 2016	IT	Subordinated	\$15.8MM	11.5%	\$0.4MM
BigMouth, LLC	Nov 2016	Consumer	First Lien <sup>(2)</sup>	\$10.3MM	12.5%	\$0.4MM
Vintage Stock, Inc.	Nov 2016	Retail	First Lien	\$22.5MM	L+12.5% / 3.0% PIK	\$0.0MM
Sur La Table, Inc.	Nov 2016	Retail	First Lien	\$15.0MM	12.0%	\$0.0MM
Summary						
Lien Type			Amount		Percent of Total	
First Lien			\$127.3MM		84.7%	
Subordinated			\$15.8MM		10.5%	
Equity			\$7.3MM		4.9%	

(1) Amounts as of closing.

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



# INVESTMENT STRATEGY

## DEDICATED PORTFOLIO MONITORING

### Summary

- Dedicated portfolio management team provides continuing focus on loan performance
- Senior professionals with significant industry experience
  - In-house operators instrumental in identifying and fixing potential problems
  - Help maximize recovery in event of loan default
- “Cradle to the grave” approach
  - Lead origination professional responsibility from investment to realization

### Portfolio Monitoring Case Studies

#### PORTRAIT INNOVATIONS®

- Initiated voluntary chapter 11 proceeding to right-size retail footprint and capital structure
- Developed plan of reorganization and provided DIP financing to support proceedings
- Gained control of the business; shed over 70 unprofitable leases improving financial performance



- Worked with other stakeholders to effect an out-of-court restructuring
- Lending group bought out revolver and equitized a portion of the term loan and took ~86% of the common equity
- Post-restructuring EBITDA climbed from \$23.6MM in FY 2016 to \$77.5MM in FY 2017

# VESTED AND SHAREHOLDER ALIGNED MANAGEMENT TEAM

## Management ownership and payment of fees for IPO

- Management team owns 8.7% of the common stock and has made meaningful purchases in the open market since the IPO
- Management team rolled over \$10.0 million of invested capital into Company shares at IPO

## Fee waivers / investment positioning during economic downturn

- The Company's external manager has voluntarily waived \$3.7 million of incentive fees since Q4 2015
- External manager waived management fees on uninvested IPO proceeds at Capitala Finance level for the first year post-IPO (expired September 30, 2014)

## Distributions

- Paid monthly
- Paid \$0.50 special distribution in 2015
- No return of capital in the tax year ended August 31, 2017

## Stock repurchase program

- Repurchased 4.6% of shares outstanding in 2015

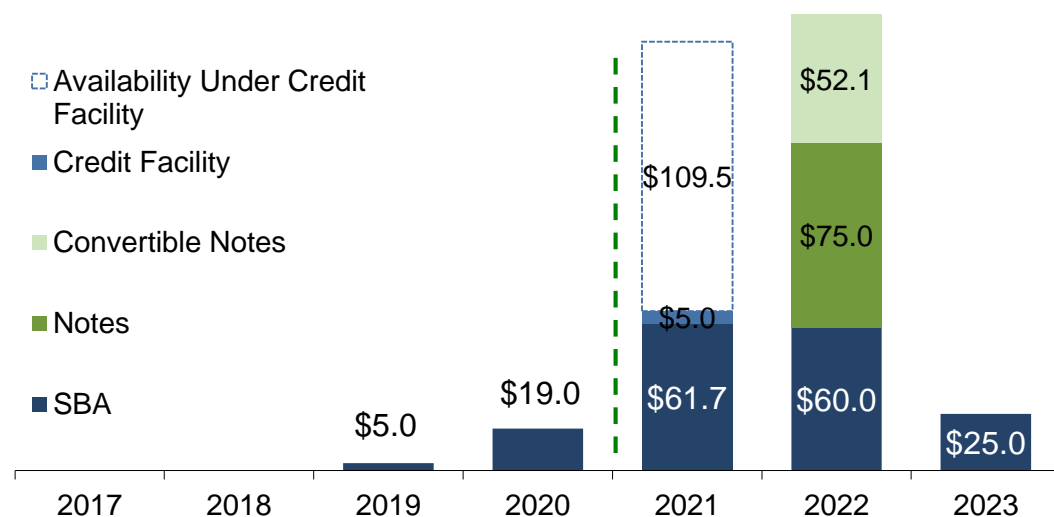
# UNIQUE, DIVERSIFIED CAPITAL STRUCTURE

- Stable liquidity and capital structure provided by SBA debentures and corporate notes with long-term maturities and fixed rates
  - Capitala Group principals have received four SBIC licenses, with a 10+ year track record
- Revolving credit facility provides attractively priced, shorter-term capital with an accordion feature that can grow with the borrowing base

## Current Funding Overview

Facility	Interest Rate	Maturity	Amount Drawn (6/30/18)
\$114.5 million Credit Facility	L+300 floating	June 2021	\$5.0 million
SBA Debentures	3.29% fixed	2019 – 2023	\$170.7 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)



92% of existing notes and debentures mature after 2020

- \$170.7 million of 10-year term SBA guaranteed debentures
- \$127.1 convertible and fixed rate notes due in 2022
- Credit Facility amended and extended until 2021



Obligors for SBA debentures are 2 SBIC licensee subsidiaries; issuer is not an SBIC obligor

Note: As of June 30, 2018.

# UNIQUE, DIVERSIFIED CAPITAL STRUCTURE

- Capitala Finance’s unique, primarily fixed-rate liabilities combined with a growing mix of floating rate investments provide an attractive capital structure with limited downside risk to raising interest rates
- As June 30, 2018, Capitala Finance had limited financing exposure to interest rate changes
  - 98.3% of funded liabilities are fixed rate and not subject to interest rate movements
  - 47.6% of total debt investments are floating rate and will benefit from increasing interest rates

## 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	\$4,874	\$(150)	\$4,724	\$0.30
+200 bps	\$3,252	\$(100)	\$3,152	\$0.20
+100 bps	\$1,626	\$(50)	\$1,576	\$0.10
-100 bps	\$(1,603)	\$50	\$(1,553)	(\$0.10)
-200 bps	\$(2,052)	\$100	\$(1,952)	(\$0.12)
-300 bps	\$(2,052)	\$105	\$(1,947)	(\$0.12)

Note: Assumes no change in portfolio investments or revolving credit facility borrowings as of June 30, 2018.

Note: Per share amount calculated based upon actual shares outstanding at June 30, 2018.

# NAV UPSIDE POTENTIAL

## EQUITY PORTFOLIO OVERVIEW

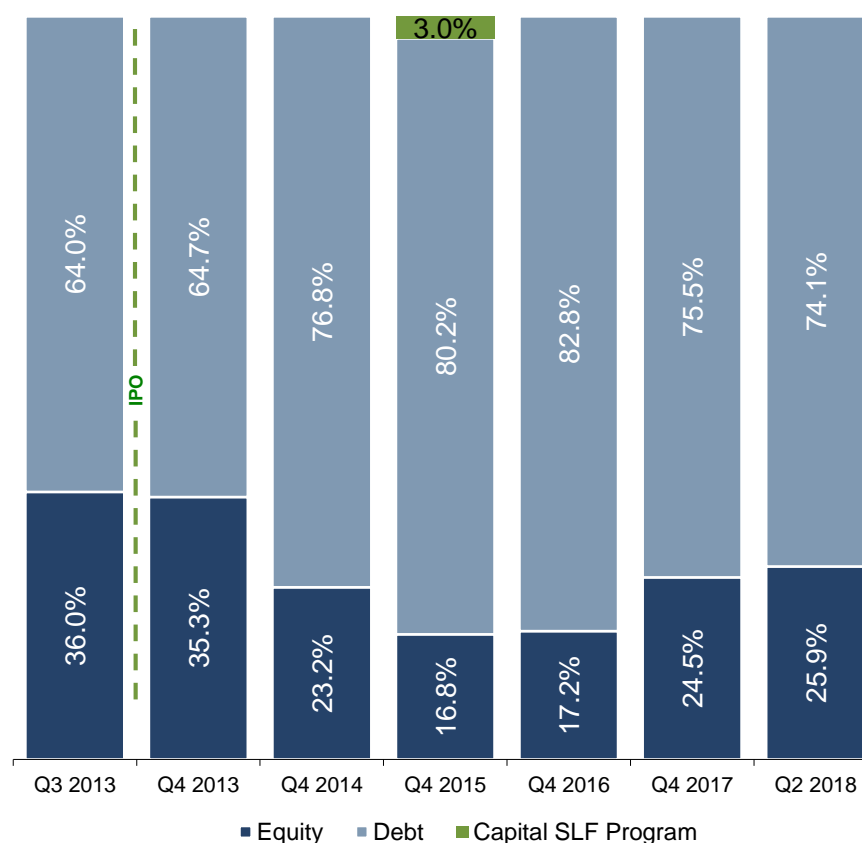
- 31 active equity investments comprising \$57.9 million of invested capital with an estimated fair value of \$125.3 million, representing 25.9% of total investments at fair value
- Capitala Finance continues to deliver on its stated strategy of rotating out of legacy equity positions, and to seek attractive equity investment opportunities

(\$ in thousands)

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

Company	\$ Cost Basis	\$ Fair Value	% of Investments at Fair Value
Eastport Holdings, LLC*	\$4,733	\$26,449	5.5%
Nth Degree, Inc.*	3,086	13,188	2.7%
Western Windows Systems, LLC*	3,000	12,769	2.6%
US Well Services, LLC*	6,701	11,927	2.5%
Sierra Hamilton Holdings Corporation*	6,958	8,909	1.8%
City Gear, LLC	1,269	8,676	1.8%
Navis Holdings, Inc	1,001	6,309	1.3%
LJS Partners, LLC	896	6,245	1.3%
B&W Quality Growers*	-	5,673	1.2%
GA Communications, Inc.	3,038	4,792	1.0%
CableOrganizer Acquisition, LLC	3,748	2,354	0.5%
Portrait Studio, LLC*	2,450	2,092	0.4%
US Bath Group, LLC*	500	2,047	0.4%
Currency Capital, LLC*	2,000	1,818	0.4%
Burke America Parts Group, LLC*	5	1,759	0.4%
MMI Holdings, LLC	1,426	1,757	0.4%
Micro Precision, LLC	1,629	1,629	0.3%
CIS Secure Computing, Inc.*	1,000	1,596	0.3%
Cedar Ultimate Parent, LLC*	958	1,130	0.2%
3 Bridge Solutions, LLC*	1,019	1,046	0.2%
Xirgo Technologies, LLC*	600	838	0.2%
Taylor Precision Products, Inc.*	758	758	0.2%
BigMouth, LLC*	396	681	0.1%
Corporate Visions, Inc.	1,575	645	0.1%
Alternative Biomedical Solutions, LLC*	800	128	0.0%
Source Capital Penray, LLC	-	101	0.0%
AAE Acquisition, LLC	17	-	0.0%
Burgaflex Holdings, LLC*	1,804	-	0.0%
J&J Produce, Inc.	818	-	0.0%
Kelle's Transport Service, LLC*	-	-	0.0%
On-Site Fuel Services, Inc.	5,676	-	0.0%
<b>Total</b>	<b>\$57,862</b>	<b>\$125,316</b>	<b>25.9%</b>

### Demonstrated Rotation Out of Equity Positions



### Equity Cost Basis

20.1%	20.3%	14.2%	9.5%	8.9%	11.9%	13.5%
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Note: \* represents equity investments made since IPO.

(1) Current equity position details as of June 30, 2018.

# NAV UPSIDE POTENTIAL

## DEMONSTRATED TRACK RECORD OF EQUITY REALIZATIONS

- Capitala Finance continues to generate meaningful internal rates of return (IRR) and realized gains through the monetization of equity investments

				 <b>Mobile Technologies Inc.</b> <small>EMPOWERING THE USE OF MOBILE DEVICES</small>
Investment Overview	<ul style="list-style-type: none"> <li>On December 22, 2017, Capitala Finance exited its investment in Brunswick Bowling Products, Inc. and received \$6.2 million for its equity</li> <li>Repaid at par \$7.2 million for senior notes in January 2018</li> <li>Received \$6.2 million for equity investment, netting a realized gain of approximately \$2.5 million</li> </ul>	<ul style="list-style-type: none"> <li>Total investment of \$2.0 million for Class A Preferred and Common Stock in July 2012</li> <li>Consideration of \$6.5 million in cash received upon exit</li> <li>\$4.5 million realized gain</li> </ul>	<ul style="list-style-type: none"> <li>On January 3, 2017, Capitala Finance exited its investment in Medical Depot, Inc. and received \$21.0 million for its equity and senior subordinated debt investments</li> <li>Repaid at par \$14.7 million for subordinated notes</li> <li>Received \$6.3 million for equity investment, netting a realized gain of approximately \$5.0 million</li> </ul>	<ul style="list-style-type: none"> <li>On August 5, 2016, Capitala Finance sold its common equity investment in MTI for cash proceeds of \$10.6 million</li> <li>\$8.6 million realized gain on initial \$2.0 million investment</li> <li>In addition, Capitala Finance was repaid at par, \$8.0 million, in respect of its senior subordinated note</li> </ul>
Total Gross IRR	<ul style="list-style-type: none"> <li>Entered investment in May 2015</li> <li><b><u>Total Gross IRR of 33%</u></b></li> </ul>	<ul style="list-style-type: none"> <li>Entered Investment in July 2012</li> <li><b><u>Total Gross IRR of 29%</u></b></li> </ul>	<ul style="list-style-type: none"> <li>Entered Investment in October 2011</li> <li><b><u>Total Gross IRR of 31%</u></b></li> </ul>	<ul style="list-style-type: none"> <li>Entered Investment in August 2013</li> <li><b><u>Total Gross IRR of 77%</u></b></li> </ul>
Total MOIC	<ul style="list-style-type: none"> <li><b><u>Total cash-on-cash return of 2.1x</u></b></li> </ul>	<ul style="list-style-type: none"> <li><b><u>Total cash-on-cash return of 3.3x</u></b></li> </ul>	<ul style="list-style-type: none"> <li><b><u>Total cash-on-cash return of 4.7x</u></b></li> </ul>	<ul style="list-style-type: none"> <li><b><u>Total cash-on-cash return of 5.3x</u></b></li> </ul>

**Capitala Finance Has Demonstrated an Ability to Successfully Rotate Out of Legacy Equity Positions and Provide Meaningful Realized Gains to Shareholders**

## Senior Management

**Joe Alala, III**  
*Chairman & CEO,*  
*Capitala Finance Corp.*

**Jack McGlinn**  
*COO & Treasurer,*  
*Capitala Finance Corp.*

**Steve Arnall**  
*Chief Financial Officer,*  
*Capitala Finance Corp.*

**Peter Sherman**  
*Chief Risk Officer,*  
*Investment Advisor*

## Research Coverage

**Janney**  
Mitchel Penn, CFA

**Jefferies**  
John Hecht

**Keefe, Bruyette & Woods**  
Ryan Lynch, CPA

**Ladenburg Thalmann**  
Chris Nolan

**Oppenheimer**  
Chris Kotowski

**JMP Securities**  
Christopher York

## Fiscal Year End

December 31

## Independent Auditor

Ernst & Young LLP

## Corporate Counsel

Eversheds Sutherland LLP

## Securities Listings

Nasdaq: CPTA (common stock)

Nasdaq: CPTAL (notes)

Nasdaq: CPTAG (convertible notes)

## Transfer Agent

American Stock Transfer and Trust

## Corporate Headquarters & Website

4201 Congress St, Suite 360  
Charlotte, NC 28209

704-376-5502

[www.CapitalaGroup.com](http://www.CapitalaGroup.com)

# CAPITALA FINANCE CORP.

## PUBLIC ISSUER OVERVIEW



<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 – \$8.65 Nasdaq: CPTAL – \$25.11 Nasdaq: CPTAG – \$25.00
<b>Shares / Market Cap<sup>(1)</sup>:</b>	16.0 million / \$138.4 million
<b>Portfolio Fair Value<sup>(2)</sup>:</b>	\$483.3 million (excluding cash); \$527.9 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>	11.4%
<b>Annualized Distribution:</b>	11.6% implied annual distribution yield <sup>(4)</sup>
<b>Management Ownership<sup>(1)</sup>:</b>	Approximately \$12.0 million (8.7%)
<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 August 3, 2018. Total shares outstanding as of June 30, 2018.

(2) As of June 30, 2018.

(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 August 3, 2018 closing price of \$8.65 / share.

(5) Please reference most recent Form 10-Q filed on August 7, 2018 for additional detail related to incentive fee.



# ORGANIZATIONAL STRUCTURE



- Office footprint has grown over time: Charlotte, NC (1998), Raleigh, NC (2002), Fort Lauderdale, FL (2013), Atlanta, GA (2013), Los Angeles, CA (2014), New York (2018)
- Capitala Group has added six professionals in the past 18 months
- Current team is one of the largest in the industry in the lower middle market
- Core team responsible for 99% of capital invested since inception

Joe B. Alala, III	M. Hunt Broyhill	Jack McGlinn	Peter Sherman	Steve Arnall
<ul style="list-style-type: none"> <li>Founder</li> <li>Chairman &amp; CEO</li> <li>SBIA Board of Governors</li> <li>Wake Forest JD/MBA, Princeton AB</li> </ul>	<ul style="list-style-type: none"> <li>Partner &amp; Director</li> <li>Broyhill Asset Mgmt.</li> <li>Wake Forest BA</li> </ul>	<ul style="list-style-type: none"> <li>COO &amp; Director</li> <li>Triangle Biomedical</li> <li>Price Waterhouse</li> <li>UNC Chapel Hill MBA, Notre Dame BA</li> </ul>	<ul style="list-style-type: none"> <li>CRO</li> <li>Sherman Capital, Brevet Capital, EY, BofA</li> <li>Wharton MBA, University of New Orleans BBA</li> </ul>	<ul style="list-style-type: none"> <li>CFO</li> <li>Bank of America, Park Sterling Bank, The Scottish Bank</li> <li>James Madison BA</li> <li>CPA</li> </ul>

Sourcing & Business Development		Underwriting		Portfolio	Finance & Operations
<b>Randall Fontes</b> <ul style="list-style-type: none"> <li>Director - Business Dev.</li> <li>Atalaya Capital, SPP, KPMG</li> <li>Duke University MBA, Tulane University BA</li> </ul>	<b>Adam Richeson</b> <ul style="list-style-type: none"> <li>Director - Business Dev.</li> <li>Various operational &amp; mgmt. roles</li> <li>Wake Forest MBA, Ohio State University BA</li> </ul>	<b>Chris Norton</b> <ul style="list-style-type: none"> <li>Director - Head of Underwriting</li> <li>First Union</li> <li>UVA MBA/BS</li> </ul>	<b>Eric Althofer</b> <ul style="list-style-type: none"> <li>Director - Underwriting</li> <li>Jefferies, Deloitte Consulting</li> <li>Univ. of Michigan MBA, Washington Univ. BA</li> </ul>	<b>Michael Marr</b> <ul style="list-style-type: none"> <li>Director - Portfolio Monitoring</li> <li>Helms, Mullis &amp; Wicker</li> <li>Emory ML Taxation, Campbell JD, UNC Chapel Hill BSBA</li> </ul>	<b>Richard Wheelahan</b> <ul style="list-style-type: none"> <li>CCO, Director &amp; GC</li> <li>Mayer Brown LLP</li> <li>UNC Chapel Hill JD, Appalachian State BA</li> </ul>
<b>Kelly Stotler</b> <ul style="list-style-type: none"> <li>Director - Business Dev.</li> <li>Czech Asset Management, H.I.G. Whitehorse, GE Capital</li> <li>UF BA, UF BBA</li> </ul>	<b>Casey Swercheck</b> <ul style="list-style-type: none"> <li>Director - Capital Strategies</li> <li>Hamilton Lane, Wilshire</li> <li>University of Pittsburgh BS</li> </ul>	<b>Jack Vander Leeuw</b> <ul style="list-style-type: none"> <li>VP - Underwriting</li> <li>Neustar, Gladstone, BB&amp;T</li> <li>Georgetown University BSBA</li> </ul>	<b>Danny Speake</b> <ul style="list-style-type: none"> <li>VP - Underwriting</li> <li>SunTrust Robinson Humphrey</li> <li>Sewanee BA</li> </ul>	<b>Davis Hutchens</b> <ul style="list-style-type: none"> <li>Director - Portfolio Monitoring</li> <li>MSP LLC</li> <li>UNCC MBA, Duke University BA</li> </ul>	<b>Lynne Girts</b> <ul style="list-style-type: none"> <li>CAO</li> <li>Beck, Lindsey and Frame</li> <li>University of Southern Mississippi BS</li> </ul>
<b>Christian MacCarron</b> <ul style="list-style-type: none"> <li>VP - Business Dev.</li> <li>Platinum Equity, Windjammer Capital, Merrill Lynch</li> <li>UCLA BA</li> </ul>	<b>Joe Gaskins</b> <ul style="list-style-type: none"> <li>Associate - Business Dev.</li> <li>DHG Corporate Finance</li> <li>7 Mile Advisors</li> <li>UVA BS</li> </ul>	<b>Peter McArthur</b> <ul style="list-style-type: none"> <li>Associate - Underwriting</li> <li>Regions Securities</li> <li>UNC Chapel Hill BSBA</li> </ul>	<b>Alex Pruitt</b> <ul style="list-style-type: none"> <li>Analyst - Underwriting</li> <li>Wofford College BA</li> </ul>	<b>Kevin Roberts</b> <ul style="list-style-type: none"> <li>Associate - Portfolio Monitoring</li> <li>WEDGE Capital Management, EY</li> <li>Boston College BS</li> </ul>	<b>Kevin Koonts</b> <ul style="list-style-type: none"> <li>VP - Controller</li> <li>Dixon Hughes Goodman</li> <li>UNC Masters of Accounting</li> <li>UNC BSBA</li> </ul>
				<b>Jack Linker</b> <ul style="list-style-type: none"> <li>Analyst - Portfolio Monitoring</li> <li>Tobin &amp; Company</li> <li>High Point BSBA</li> </ul>	<b>Katina Jakubowski</b> <ul style="list-style-type: none"> <li>Marketing &amp; PR</li> <li>Frontier Capital</li> <li>Carolina Panthers</li> <li>Campbell University BA</li> </ul>

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***Financial & Corporate Data***

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# SUMMARY FINANCIAL PERFORMANCE



## Statements of Operations

(\$ in thousands, except per share data)

Three Months Ended:

	6/30/18 (unaudited)	3/31/18 (unaudited)	12/31/17 (unaudited)	9/30/17 (unaudited)	6/30/17 (unaudited)	3/31/17 (unaudited)	12/31/16 (unaudited)	9/30/16 (unaudited)	6/30/16 (unaudited)	3/31/16 (unaudited)
<b>Investment Income</b>										
Interest, PIK, and fees	\$11,752	\$12,503	\$11,463	\$11,641	\$12,203	\$14,325	\$16,137	\$16,733	\$16,370	\$16,168
Dividends	113	54	111	580	54	477	365	574	574	1,279
Other income	17	15	25	91	105	13	12	50	47	2
<b>Total investment income</b>	<b>11,882</b>	<b>12,572</b>	<b>11,599</b>	<b>12,312</b>	<b>12,362</b>	<b>14,815</b>	<b>16,514</b>	<b>17,357</b>	<b>16,991</b>	<b>17,449</b>
<b>Expenses</b>										
Interest and financing expense	4,331	4,364	4,100	4,585	5,488	4,653	4,722	4,938	5,029	5,023
Loss on extinguishment of debt	-	-	-	-	2,732	-	-	-	-	-
Management fees, net of waivers	2,314	2,303	2,344	2,417	2,505	2,514	2,539	2,619	2,702	2,728
Incentive fees, net of waivers	-	244	-	-	-	350	1,687	1,470	902	1,109
Other expenses	1,006	1,223	937	900	934	1,107	819	889	927	1,168
<b>Total expenses</b>	<b>7,651</b>	<b>8,134</b>	<b>7,381</b>	<b>7,902</b>	<b>11,659</b>	<b>8,624</b>	<b>9,767</b>	<b>9,916</b>	<b>9,560</b>	<b>10,028</b>
<b>Net Investment Income</b>	<b>4,231</b>	<b>4,438</b>	<b>4,218</b>	<b>4,410</b>	<b>703</b>	<b>6,191</b>	<b>6,747</b>	<b>7,441</b>	<b>7,431</b>	<b>7,421</b>
Realized gain (loss) from investments	(22,622)	(3,855)	(23,439)	(10,283)	4,687	4,846	2,132	(17,030)	(5,605)	(2,262)
Unrealized appreciation (depreciation)	21,994	(392)	17,261	2,780	(10,915)	(6,156)	(782)	7,576	5,431	(9,348)
Tax benefit (provision)	1,345	(50)	1,371	(2,660)	-	-	-	-	-	-
<b>Net gain (loss) on investments, net of taxes</b>	<b>717</b>	<b>(4,297)</b>	<b>(4,807)</b>	<b>(10,163)</b>	<b>(6,228)</b>	<b>(1,310)</b>	<b>1,350</b>	<b>(9,454)</b>	<b>(174)</b>	<b>(11,610)</b>
<b>Net increase (decrease) in assets resulting from operations</b>	<b>\$4,948</b>	<b>\$141</b>	<b>(\$589)</b>	<b>(\$5,753)</b>	<b>(\$5,525)</b>	<b>\$4,881</b>	<b>\$8,097</b>	<b>(\$2,013)</b>	<b>\$7,257</b>	<b>(\$4,189)</b>
<b>Net investment income per share</b>	<b>\$0.26</b>	<b>\$0.28</b>	<b>\$0.26</b>	<b>\$0.28</b>	<b>\$0.04</b>	<b>\$0.39</b>	<b>\$0.43</b>	<b>\$0.47</b>	<b>\$0.47</b>	<b>\$0.47</b>
<b>Net realized gains/(losses) per share</b>	<b>(\$1.42)</b>	<b>(\$0.24)</b>	<b>(\$1.47)</b>	<b>(\$0.65)</b>	<b>\$0.29</b>	<b>\$0.31</b>	<b>\$0.13</b>	<b>(\$1.08)</b>	<b>(\$0.36)</b>	<b>(\$0.14)</b>
<b>Net increase (decrease) in assets resulting from operations per share</b>	<b>\$0.31</b>	<b>\$0.01</b>	<b>(\$0.04)</b>	<b>(\$0.36)</b>	<b>(\$0.35)</b>	<b>\$0.31</b>	<b>\$0.51</b>	<b>(\$0.13)</b>	<b>\$0.46</b>	<b>(\$0.27)</b>
<b>Distributions declared during quarter</b>	<b>\$0.25</b>	<b>\$0.25</b>	<b>\$0.25</b>	<b>\$0.39</b>	<b>\$0.39</b>	<b>\$0.39</b>	<b>\$0.39</b>	<b>\$0.47</b>	<b>\$0.47</b>	<b>\$0.47</b>

# SUMMARY FINANCIAL PERFORMANCE



## Statements of Assets & Liabilities

(\$ in thousands)

	6/30/18 (unaudited)	3/31/18 (unaudited)	12/31/17 (audited)	9/30/17 (unaudited)	6/30/17 (unaudited)	3/31/17 (unaudited)	12/31/16 (audited)	9/30/16 (unaudited)	6/30/16 (unaudited)	3/31/16 (unaudited)
Investments at fair value	\$483,261	\$503,722	\$499,939	\$471,106	\$486,975	\$532,478	\$541,639	\$503,780	\$595,117	\$599,741
Cash and cash equivalents	40,826	25,720	31,221	52,307	76,867	40,564	36,281	60,584	20,108	14,346
Other assets	3,770	3,422	3,435	4,811	3,974	7,635	6,495	5,636	5,420	7,258
<b>Total assets</b>	<b>\$527,857</b>	<b>\$532,864</b>	<b>\$534,595</b>	<b>\$528,224</b>	<b>\$567,816</b>	<b>\$580,677</b>	<b>\$584,415</b>	<b>\$570,000</b>	<b>\$620,645</b>	<b>\$621,345</b>
SBA debentures	\$168,705	\$168,554	\$168,400	\$168,246	\$168,092	\$167,940	\$167,789	\$167,640	\$178,982	\$178,822
2021 Notes	-	-	-	-	-	110,558	110,413	110,270	110,129	109,991
2022 Notes	72,755	72,629	72,504	72,382	72,261	-	-	-	-	-
2022 Convertible Notes	50,665	50,584	50,505	50,430	50,363	-	-	-	-	-
Credit Facility	3,922	10,814	7,707	(1,096)	28,563	43,479	43,241	37,073	67,831	71,591
Other liabilities	12,493	12,079	13,592	11,955	10,537	9,221	12,390	6,640	6,161	3,522
<b>Total liabilities</b>	<b>308,540</b>	<b>314,660</b>	<b>312,708</b>	<b>301,917</b>	<b>329,816</b>	<b>331,198</b>	<b>333,833</b>	<b>321,623</b>	<b>363,103</b>	<b>363,926</b>
<b>Net assets</b>	<b>219,317</b>	<b>218,204</b>	<b>221,887</b>	<b>226,307</b>	<b>238,000</b>	<b>249,479</b>	<b>250,582</b>	<b>248,377</b>	<b>257,542</b>	<b>257,419</b>
<b>Total liabilities and net assets</b>	<b>\$527,857</b>	<b>\$532,864</b>	<b>\$534,595</b>	<b>\$528,224</b>	<b>\$567,816</b>	<b>\$580,677</b>	<b>\$584,415</b>	<b>\$570,000</b>	<b>\$620,645</b>	<b>\$621,345</b>
Number of portfolio investments	43	46	47	46	46	51	53	51	54	56
Leverage ratio-actual	1.38x	1.42x	1.38x	1.32x	1.38x	1.32x	1.31x	1.30x	1.42x	1.43x
Leverage ratio - regulatory	0.60x	0.64x	0.61x	0.56x	0.66x	0.63x	0.63x	0.61x	0.71x	0.72x
Average risk rating	1.95	1.91	1.91	1.94	2.01	1.99	1.96	1.89	1.81	1.84
Non-accrual loans at fair value	\$25,779	\$20,179	\$24,981	\$26,770	\$50,665	\$18,741	\$17,374	\$9,547	\$8,989	\$12,745

# Capitala Finance Corp.

Common stock: Nasdaq:CPTA

Notes: Nasdaq:CPTAL

Convertible Notes: Nasdaq:CPTAG

Q2 2018