

# INVESTOR UPDATE

Q3 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 September 30, 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”)
- Strategic partnership with Mitsui & Co. provides global reach and capabilities <sup>(1)</sup>
- Cash dividend yield of 12.1% based on current monthly payments of \$0.8333 <sup>(2)</sup>
- Focus on underserved lower middle market
- Direct origination capabilities across 5 offices
- Vested and aligned management, currently owning 8.5% of CPTA shares outstanding
- Unique capital structure, positioned to benefit from rising rates
- NAV upside through equity/warrant appreciation

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

(2) Based on November 1, 2019 closing stock price.



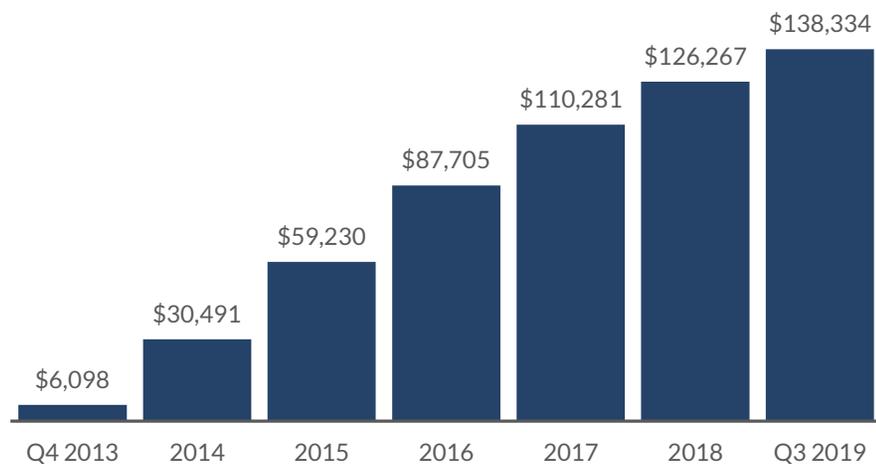


(1) CapitalSouth SBIC Fund IV, L.P.

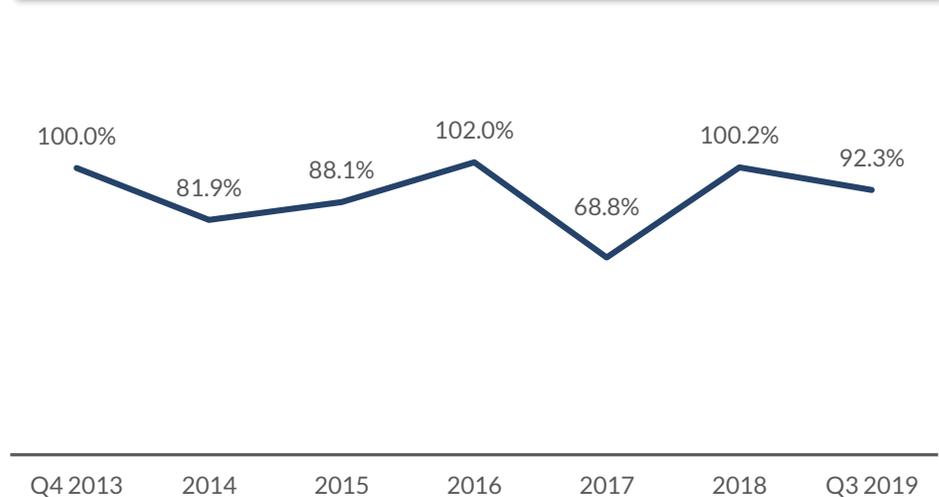
- Paid Monthly
- No Return of Capital Since IPO
- \$1.6MM of Spillover Income at September 30, 2019
- Paid \$0.50 Special Distribution in 2015
- \$138.3MM of regular distributions paid since 2013 vs. \$123.1MM of Net Investment Income

## 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

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

### INVESTMENT SIZE

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

### INVESTMENT FOCUS

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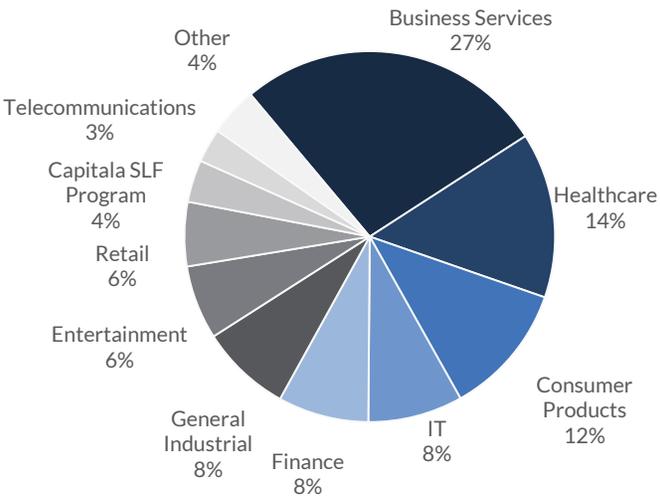
- Lower middle market companies with EBITDA of \$4.5MM to \$30.0MM
- Diverse industry sectors including business services, general industrial, government, healthcare, software and specialty finance
- Typical transactions include providing financing for leveraged buyouts, acquisitions, recapitalizations, 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, financials sponsors, lending institutions and intermediaries

### GEOGRAPHY

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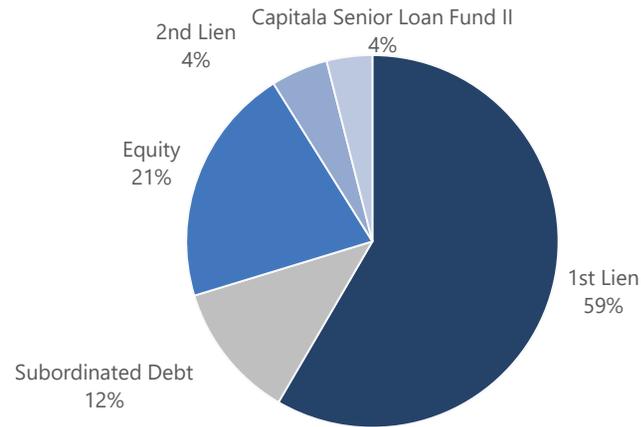
- United States and Canada

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



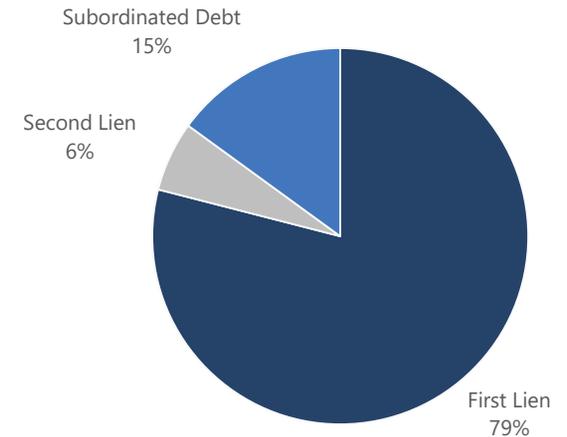
~\$371 million

## TOTAL PORTFOLIO BY ASSET TYPE



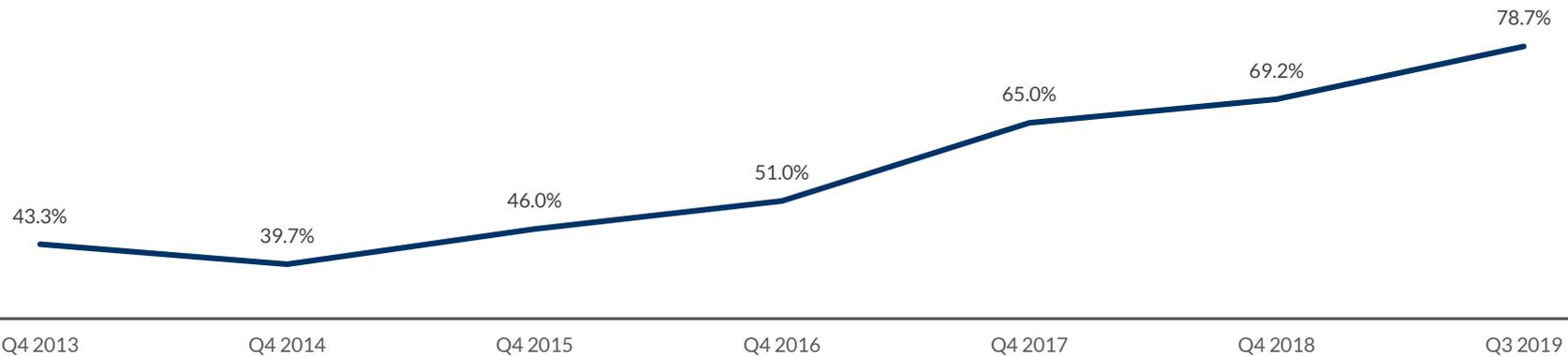
~\$371 million

## DEBT PORTFOLIO BY ASSET TYPE



~\$280 million

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



Note: Portfolio statistics as of September 30, 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>
HUMC Opco, LLC	Aug 2019	Healthcare	First Lien	\$5.0MM	9.0%	\$0.0MM
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%	\$0.0MM
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	\$0.0MM	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%	\$0.0MM
U.S. BioTek Laboratories LLC	Dec 2018	Healthcare	First Lien	\$7.0MM	9.3% <sup>(2)(3)</sup>	\$0.5MM
Sequoia Healthcare Management, LLC	Aug 2018	Healthcare	First Lien	\$14.0MM <sup>(4)</sup>	L+8.5%	\$0.0MM
Sunset Digital Holdings, LLC	Aug 2018	Telecommunications	First Lien	\$13.0MM	L+7.3%	\$0.0MM
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
Summary						
Lien Type				Amount	Percent of Total	
First Lien				\$108.4MM	87.1%	
Subordinated				\$0.0MM	0.0%	
Equity				\$2.5MM	2.0%	
Capitala Senior Loan Fund II, LLC				\$13.6MM	10.9%	

\* 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.

(4) Includes \$5.6MM add-on investment alongside refinanced term loan.

- Management team owns 8.5% of the common stock and has made meaningful purchases in the open market since the IPO
  - Management currently owns 1,369,324 shares with a market value of \$11.3 million <sup>(1)</sup>
  
- The Company's external manager has voluntarily waived \$4.0 million of incentive fees since Q4 2015
  - \$0.3 million for Q2 2019
  
- Cash dividend yield of 12.1% <sup>(1)</sup> based on current monthly payments of \$0.8333
  
- No return of capital since IPO
  - \$1.6MM of Spillover Income at September 30, 2019

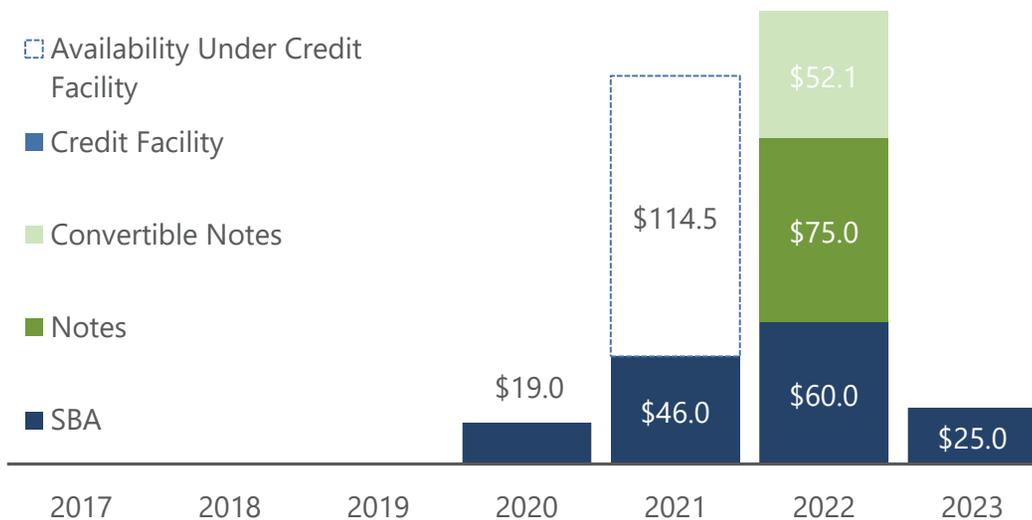
Note: As of September 30, 2019.

(1) Based on the closing price as of November 1, 2019.

## CURRENT FUNDING OVERVIEW

Facility	Interest Rate	Maturity	Amount Drawn (9/30/19)
▪ \$114.5 million Credit Facility	L+300 floating	June 2021	\$0.0 million
▪ SBA Debentures	3.25% fixed	2019 – 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

- \$150.0 million of SBA guaranteed debentures
- \$127.1 convertible and fixed rate notes due in 2022
- Credit Facility amended and extended until 2021



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

	% Fixed Rate	% Variable Rate
Investment Portfolio	39%	61%
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	\$4,931	\$0	\$4,931	\$0.31
+200 bps	\$3,287	\$0	\$3,287	\$0.20
+100 bps	\$1,644	\$0	\$1,644	\$0.10
-100 bps	(\$1,305)	\$0	(\$1,305)	(\$0.08)
-200 bps	(\$1,568)	\$0	(\$1,568)	(\$0.10)
-300 bps	(\$1,568)	\$0	(\$1,568)	(\$0.10)

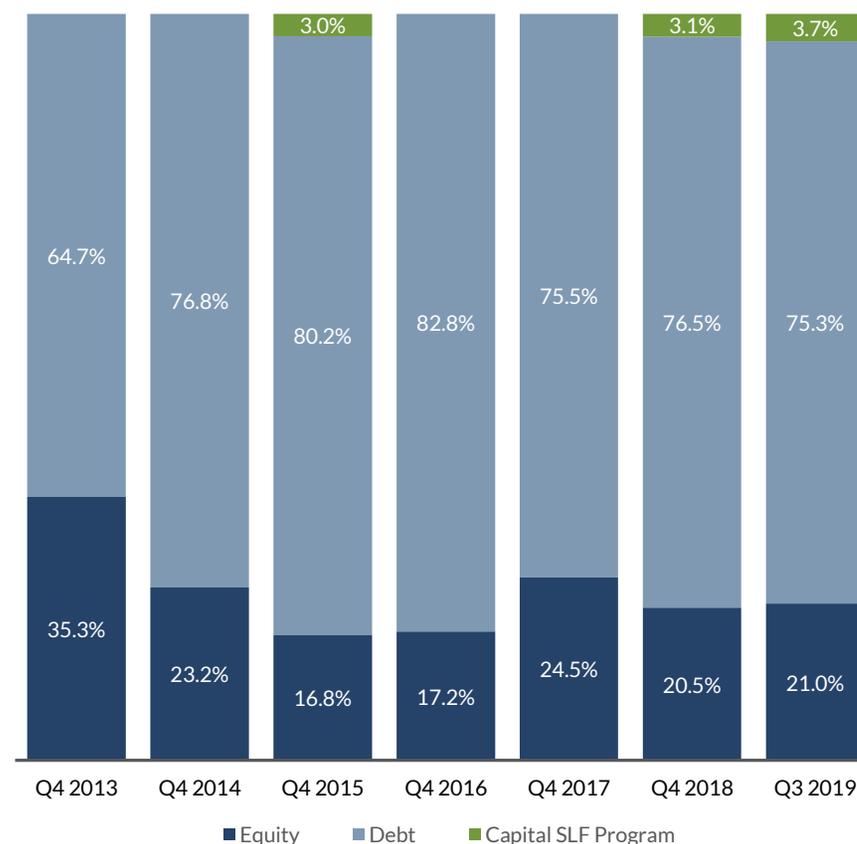
Note: Assumes no change in portfolio investments or revolving credit facility borrowings as of September 30, 2019.  
 Note: Per share amount calculated based upon actual shares outstanding at September 30, 2019.

(\$ in thousands)

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

Company	\$ Cost Basis	\$ Fair Value	% of Investments at Fair Value
Nth Degree, Inc.	\$3,492	\$28,102	7.6%
Eastport Holdings, LLC	3,263	16,781	4.5%
Sierra Hamilton Holdings Corporation	6,958	5,494	1.5%
GA Communications, Inc.	3,401	4,333	1.2%
City Gear, LLC	-	3,184	0.9%
USWell Services, Inc.	7,471	2,633	0.7%
Burke America Parts Group, LLC	5	2,497	0.7%
Currency Capital, LLC	2,000	2,364	0.6%
LJS Partners, LLC	1,268	2,044	0.6%
MMI Holdings, LLC	1,547	1,894	0.5%
CIS Secure Computing, Inc.	1,000	1,534	0.4%
RAM Payment, LLC	911	1,507	0.4%
Navis Holdings, Inc	1,000	1,385	0.4%
MicroHoldco, LLC	838	838	0.2%
Taylor Precision Products, Inc.	758	758	0.2%
3 Bridge Solutions, LLC	1,100	725	0.2%
Xirgo Technologies, LLC	600	619	0.2%
Jurassic Quest Holdings, LLC	388	331	0.1%
Corporate Visions, Inc.	1,575	270	0.1%
U.S. BioTek Laboratories, LLC	541	266	0.1%
Freedom Electronics, LLC	181	172	0.0%
BigMouth, LLC	411	163	0.0%
Burgaflex Holdings, LLC	1,865	41	0.0%
Alternative Biomedical Solutions, LLC	800	-	0.0%
CableOrganizer Acquisition, LLC	9,121	-	0.0%
Portrait Studio, LLC	2,450	-	0.0%
<b>Total</b>	<b>\$52,945</b>	<b>\$77,935</b>	<b>21.0%</b>

### Demonstrated Rotation Out of Equity Positions



### Equity Cost Basis

15.2%	12.7%	9.0%	8.3%	11.1%	11.6%	14.7%
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(1) Current equity position details as of September 30, 2019.

## Statements of Operations

(\$ in thousands, except per share data)

	Three Months Ended:							
	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)	12/31/17 (unaudited)
<b>Investment Income</b>								
Interest, PIK, and fees	\$8,906	\$11,128	\$11,327	\$11,063	\$11,430	\$11,752	\$12,503	\$11,463
Dividends	1,159	425	1,306	176	54	113	54	111
Other income	61	37	51	69	46	17	15	25
<b>Total investment income</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>11,599</b>
<b>Expenses</b>								
Interest and financing expense	4,110	4,228	4,413	4,269	4,320	4,331	4,364	4,100
Management fees	1,925	2,020	2,118	2,178	2,254	2,314	2,303	2,344
Incentive fees, net of waivers	-	175	1,034	-	-	-	244	-
Other expenses	1,107	1,145	984	1,360	1,105	1,006	1,223	937
<b>Total expenses</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>7,381</b>
<b>Net Investment Income</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>	<b>4,218</b>
Net realized gain (loss) on investments	12	(15,077)	(5,847)	(14,626)	6,298	(22,622)	(3,855)	(23,439)
Net unrealized appreciation (depreciation)	(1,279)	(17,395)	1,495	1,193	(21,955)	21,994	(392)	17,261
Tax benefit (provision)	-	(694)	66	731	(110)	1,345	(50)	1,371
<b>Net gain (loss) on investments, net of taxes</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>(4,807)</b>
<b>Net increase (decrease) in assets resulting from operations</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>(\$589)</b>
<b>Net investment income per share</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>\$0.26</b>
<b>Net realized gain (loss) per share</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>(\$1.47)</b>
<b>Net increase (decrease) in assets resulting from operations per share</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>(\$0.04)</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)

	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)	12/31/17 (audited)
Investments at fair value	\$371,351	\$391,059	\$455,390	\$448,927	\$439,421	\$483,261	\$503,722	\$499,939
Cash and cash equivalents	62,776	43,474	28,470	39,295	50,456	40,826	25,720	31,221
Other assets	1,803	2,774	4,618	4,943	4,323	3,770	3,422	3,435
<b>Total assets</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>	<b>\$534,595</b>
SBA debentures	\$148,871	\$148,736	\$148,596	\$164,012	\$163,858	\$168,705	\$168,554	\$168,400
2022 Notes	73,415	73,279	73,145	73,013	72,883	72,755	72,629	72,504
2022 Convertible Notes	51,085	50,998	50,913	50,829	50,746	50,665	50,584	50,505
Credit Facility	(727)	4,172	24,051	9,017	(1,021)	3,922	10,814	7,707
Other liabilities	11,405	6,259	5,039	5,650	4,138	12,493	12,079	13,592
<b>Total liabilities</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>312,708</b>
<b>Net assets</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>221,887</b>
<b>Total liabilities and net assets</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>	<b>\$534,595</b>
Number of portfolio investments	40	41	43	44	42	43	46	47
Leverage ratio-actual	1.82x	1.83x	1.62x	1.59x	1.44x	1.38x	1.42x	1.38x
Leverage ratio - regulatory	0.84x	0.86x	0.81x	0.72x	0.62x	0.60x	0.64x	0.61x
Average risk rating	1.85	1.84	1.82	1.82	1.83	1.95	1.91	1.91
Non-accrual loans at fair value	\$15,797	\$8,723	\$6,520	\$9,362	\$12,686	\$25,779	\$20,179	\$24,981

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

\* 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 – \$8.25 Nasdaq: CPTAL – \$24.59 Nasdaq: CPTAG – \$24.28
<b>Shares / Market Cap<sup>(1)</sup>:</b>	16.1 million / \$133.1 million
<b>Portfolio Fair Value<sup>(2)</sup>:</b>	\$371.3 million (excluding cash); \$435.9 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>	11.5%
<b>Annualized Distribution:</b>	12.1% implied annual distribution yield <sup>(4)</sup>
<b>Management Ownership<sup>(1)</sup>:</b>	Approximately \$11.3 million (8.5%)
<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 November 1, 2019. Total shares outstanding as of September 30, 2019.

(2) As of September 30, 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 November 1, 2019 closing price of \$8.25 / share.

(5) Please reference most recent Form 10-Q to be filed on or about November 4, 2019 for additional detail related to incentive fee.

# Capitala Finance Corp.

Common stock: Nasdaq:CPTA

Notes: Nasdaq:CPTAL

Convertible Notes: Nasdaq:CPTAG

Q3 2019