



May 8, 2017

## Capitala Finance Corp. Reports First Quarter 2017 Results

CHARLOTTE, N.C.--(BUSINESS WIRE)-- Capitala Finance Corp. (Nasdaq: CPTA) ("Capitala," the "Company," "we," "us," or "our") today announced its financial results for the first quarter of 2017.

### First Quarter Highlights

- ┆ Net investment income of \$6.2 million, or \$0.39 per share
- ┆ Net asset value per share of \$15.71 at March 31, 2017, compared to \$15.79 at December 31, 2016
- ┆ Originated \$21.7 million of investments during the quarter

### Management Commentary

Commenting on the Company's first quarter report, Joseph B. Alala, III, Chairman and Chief Executive Officer, stated, "We are pleased to report our results for the first quarter of 2017. Distributions were covered with net investment income while NAV was relatively unchanged as compared to the prior period. During the quarter, the investment advisor waived \$1.0 million of incentive fees, and a total of \$3.7 million since the waiver was announced in 2016. Our direct origination platform continues to provide a robust pipeline of investment opportunities. We are committed to underwriting quality risk adjusted investments and will not chase yield. From a liquidity standpoint, we are well positioned to fund investments that fit within our underwriting standards."

### First Quarter 2017 Financial Results

During the first quarter of 2017, the Company originated approximately \$21.7 million of new investments, and received \$33.0 million of repayments. First lien debt comprised 85% of investment activity during the quarter.

Total investment income was \$14.8 million for the first quarter of 2017, compared to \$17.4 million for the comparable period in 2016. Interest, fee and PIK income collectively were \$1.8 million lower in the first quarter of 2017 as compared to the same period in 2016. Dividend income was \$0.8 million lower in the first quarter of 2017 as compared to the same period in 2016, mainly due to \$0.5 million of income in 2016 from the recently wound down Capitala Senior Liquid Loan Fund.

Total expenses for the first quarter of 2017 were \$8.6 million, compared to \$10.0 million for the comparable period in 2016. The decrease of \$1.4 million is attributable to (1) a decrease in interest and financing expenses of \$0.4 million, (2) a decrease of \$0.2 million in management fees, and (3) a decrease of \$0.8 million in incentive fees, net of the waiver.

Net investment income for the first quarter of 2017 was \$6.2 million, or \$0.39 per share, compared to \$7.4 million, or \$0.47 per share, for the same period in 2016.

Net realized gains totaled \$4.8 million, or \$0.31 per share, for the first quarter of 2017, compared to net losses of \$2.3 million, or \$0.14 per share, for the same period in 2016. During the quarter, the Company realized a \$5.0 million gain related to Medical Depot, Inc. and \$0.2 million in net losses on the remaining portfolio.

Net unrealized depreciation totaled \$6.2 million, or \$0.39 per share, for the first quarter of 2017, compared to depreciation of \$9.3 million, or \$0.59 per share, for the first quarter of 2016. During the first quarter of 2017, net unrealized depreciation included \$5.0 million related to the realized gain on Medical Depot, Inc., while the remainder of the portfolio collectively depreciated by \$1.2 million.

The net increase in net assets resulting from operations was \$4.9 million for the first quarter of 2017, or \$0.31 per share, compared to a net decrease of \$4.2 million, or \$0.27 per share, for the same period in 2016.

### Investment Portfolio

As of March 31, 2017, our portfolio consisted of 51 companies with a fair market value of \$532.5 million and a cost basis of \$509.3 million. First lien debt investments represented 44.3% of the portfolio, second lien debt investments represented 11.4% of the portfolio, subordinated debt investments represented 25.5% of the portfolio, and equity/warrant investments represented 18.8% of the portfolio, based on fair values at March 31, 2017. On a cost basis, equity investments comprised 10.5% of the portfolio at March 31, 2017. The debt portfolio has a weighted average yield of 13.2% at March 31, 2017.

At March 31, 2017, we had debt investments in three portfolio companies on non-accrual status with a fair value and cost basis of \$18.7 million and \$30.7 million, respectively. At December 31, 2016, the fair value of the non-accrual investments was \$17.4 million, with a cost basis of \$29.5 million.

### **Liquidity and Capital Resources**

At March 31, 2017, the Company had \$40.6 million in cash and cash equivalents. In addition, the Company had SBA debentures outstanding totaling \$170.7 million with an annual weighted average interest rate of 3.29%, and \$113.4 million of fixed rate notes bearing an interest rate of 7.125%. At March 31, 2017, the Company had \$44.0 million outstanding and \$76.0 million available under its senior secured revolving credit facility, which is priced at LIBOR plus 3.0% and matures on October 17, 2018.

### **Subsequent Events**

On April 26, 2017, the Company received \$15.0 million for its second lien debt investment in Nielson & Bainbridge, LLC, repaid at par.

On May 1, 2017, the Company received \$5.5 million for its equity investment in MJC Holdings, LLC, resulting in a realized gain of \$4.5 million.

### **First Quarter 2017 Financial Results Conference Call**

Management will host a conference call to discuss the operating and financial results at 8:30 a.m. on Tuesday, May 9, 2017. To participate in the conference call, please dial 1-877-312-5507 approximately 10 minutes prior to the call. A live webcast of the conference will be available at <http://investor.CapitalaGroup.com>.

### **About Capitala Finance Corp.**

Capitala Finance Corp. is a business development company that invests primarily in first and second liens, subordinated debt and, to a lesser extent, equity securities issued by lower and traditional middle-market companies. The Company is managed by Capitala Investment Advisors, LLC. For more information on Capitala, or to automatically receive email notifications of Company financial information, press releases, stock alerts, or other corporate filings, please visit the [Investor Relations](#) section of our website.

### **About Capitala Group**

Capitala Group is a leading provider of capital to lower and traditional middle market companies, through its family of credit focused funds. Since 1998, Capitala Group's managed funds have participated in over 138 transactions, representing over \$1.3 billion of investments in a variety of industries throughout North America. Capitala Group manages both public capital (Capitala Finance Corp.) (Nasdaq:CPTA) and private capital (Capitala Private Credit Fund V, L.P. and CapitalSouth SBIC Fund IV, L.P.) for institutional and individual investors, and seeks to partner with strong management teams to create value and serve as long term partners. For more information, please visit [www.CapitalaGroup.com](http://www.CapitalaGroup.com).

### **Forward-Looking Statements**

This press release contains certain forward-looking statements. Words such as "believes," "intends," "expects," "projects," "anticipates," and "future" or similar expressions are intended to identify forward-looking statements. These forward-looking 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.

**Capitala Finance Corp.**

**Consolidated Statements of Assets and Liabilities**  
(in thousands, except share and per share data)

|   | As of          |                   |
|---|----------------|-------------------|
|   | March 31, 2017 | December 31, 2016 |
|   | (unaudited)    |                   |
| <b>ASSETS</b>   |                |                   |
| Investments at fair value   |                |                   |
| Non-control/non-affiliate investments (amortized cost of \$368,836 and \$391,706, respectively)   | \$ 364,260     | \$ 393,525        |
| Affiliate investments (amortized cost of \$56,043 and \$39,279, respectively)   | 78,454         | 61,464            |
| Control investments (amortized cost of \$84,407 and \$82,791, respectively)   | 89,764         | 86,650            |
| Total investments at fair value (amortized cost of \$509,286 and \$513,776, respectively)   | 532,478        | 541,639           |
| Cash and cash equivalents   | 40,564         | 36,281            |
| Interest and dividend receivable  | 5,994          | 5,735             |
| Trade Settlement Receivable   | 990            | -                 |
| Due from related parties  | 143            | 182               |
| Prepaid expenses  | 441            | 506               |
| Other assets  | 67             | 72                |
| Total assets  | \$ 580,677     | \$ 584,415        |
| <b>LIABILITIES</b>  |                |                   |
| SBA debentures (net of deferred financing costs of \$2,760 and \$2,911, respectively)   | \$ 167,940     | \$ 167,789        |
| Notes (net of deferred financing costs of \$2,880 and \$3,025, respectively)  | 110,558        | 110,413           |
| Credit Facility (net of deferred financing costs of \$521 and \$759, respectively)  | 43,479         | 43,241            |
| Due to related parties  | -              | 35                |
| Management and incentive fee payable  | 3,887          | 6,426             |
| Interest and financing fees payable   | 966            | 2,657             |
| Accounts payable and accrued expenses   | 147            | 536               |
| Written call option at fair value (proceeds of \$20 and \$20, respectively)   | 4,221          | 2,736             |
| Total liabilities   | \$ 331,198     | \$ 333,833        |
| Commitments and contingencies   |                |                   |
| <b>NET ASSETS</b>   |                |                   |
| Common stock, par value \$.01, 100,000,000 common shares authorized, 15,883,492 and 15,868,045 common shares issued and outstanding, respectively | \$ 159         | \$ 159            |
| Additional paid in capital  | 240,391        | 240,184           |
| Undistributed net investment income   | 22,973         | 22,973            |
| Accumulated net realized losses from investments  | (33,035)       | (37,881)          |
| Net unrealized appreciation on investments  | 23,192         | 27,863            |
| Net unrealized depreciation on written call option  | (4,201)        | (2,716)           |
| Total net assets  | \$ 249,479     | \$ 250,582        |
| Total liabilities and net assets  | \$ 580,677     | \$ 584,415        |
| Net asset value per share   | \$ 15.71       | \$ 15.79          |

**Capitala Finance Corp.**

**Consolidated Statements of Operations**  
(in thousands, except share and per share data)  
(unaudited)

|  | <b>For the Three Months Ended<br/>March 31</b> |                |
|--|--|----------------|
|  | <b>2017</b>                                    | <b>2016</b>    |
| <b>INVESTMENT INCOME</b>   |  |                |
| Interest and fee income:   |  |                |
| Non-control/non-affiliate investments  | \$ 9,638                                       | \$ 10,747      |
| Affiliate investments  | 1,044  | 1,363          |
| Control investments  | 1,988  | 2,854          |
| Total interest and fee income  | 12,670   | 14,964         |
| Payment-in-kind interest and dividend income:  |  |                |
| Non-control/non-affiliate investments  | 1,178  | 878            |
| Affiliate investments  | 231  | 95             |
| Control investments  | 246  | 231            |
| Total payment-in-kind interest and dividend income   | 1,655  | 1,204          |
| Dividend income:   |  |                |
| Non-control/non-affiliate investments  | 168  | 205            |
| Affiliate investments  | 29   | 29             |
| Control investments  | 280  | 1,045          |
| Total dividend income  | 477  | 1,279          |
| Interest income from cash and cash equivalents   | 13   | 2              |
| Total investment income  | 14,815   | 17,449         |
| <br><b>EXPENSES</b>  |  |                |
| Interest and financing expenses  | 4,653  | 5,023          |
| Base management fee  | 2,514  | 2,728          |
| Incentive fees   | 1,308  | 1,706          |
| General and administrative expenses  | 1,107  | 1,168          |
| Expenses before incentive fee waiver   | 9,582  | 10,625         |
| Incentive fee waiver   | (958)  | (597)          |
| Total expenses, net of fee waivers   | 8,624  | 10,028         |
| <br><b>NET INVESTMENT INCOME</b>   | <br>6,191                                      | <br>7,421      |
| <br><b>REALIZED AND UNREALIZED GAIN (LOSS) ON INVESTMENTS AND WRITTEN<br/>CALL OPTION:</b>                   |  |                |
| Net realized gain (loss) from investments:   |  |                |
| Non-control/non-affiliate investments  | 4,831  | -              |
| Affiliate investments  | 15   | (2,262)        |
| Total realized gain (loss) from investments  | 4,846  | (2,262)        |
| Net unrealized depreciation on investments   | (4,671)  | (9,348)        |
| Net unrealized depreciation on written call option   | (1,485)  | -              |
| Net loss on investments and written call option  | (1,310)  | (11,610)       |
| <br><b>NET INCREASE (DECREASE) IN NET ASSETS RESULTING FROM OPERATIONS</b>                                   | <br>\$ 4,881                                   | <br>\$ (4,189) |
| <br><b>NET INCREASE (DECREASE) IN NET ASSETS PER SHARE RESULTING FROM<br/>OPERATIONS - BASIC AND DILUTED</b> | <br>\$ 0.31                                    | <br>\$ (0.27)  |

|   |            |    |            |
|---|------------|----|------------|
| WEIGHTED AVERAGE COMMON STOCK OUTSTANDING - BASIC AND DILUTED | 15,873,655 |    | 15,785,943 |
| DISTRIBUTIONS PAID PER SHARE                                  | \$ 0.39    | \$ | 0.47       |

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