



# Investor Update

Q3 2017



Property of Capitala Group

# Disclaimer and Safe Harbor for Forward-Looking Statements

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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, 2017, 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.

# Corporate Information

## Senior Management

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

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

**Chris Norton**  
*Chief Risk Officer,  
Investment Advisor*

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

**Mike Marr**  
*Director – Portfolio,  
Investment Advisor*

**Richard Wheelahan III**  
*CCO & General Counsel  
Capitala Finance Corp.*

## Research Coverage

**Janney**  
Mitchell Penn, CFA

**Jefferies**  
John Hecht

**JMP Securities**  
Christopher York

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

**Ladenburg Thalmann**  
Chris Nolan

**Oppenheimer**  
Chris Kotowski

**Stephens**  
Matt Schmid

## 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)

# Investment Strategy

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## Target companies

- Focus on seasoned, smaller and lower middle-market companies in underserved capital markets / industries with a history of generating revenues and positive cash flows
- \$10 - \$200 million in annual revenue and \$5 - \$30 million in TTM EBITDA

## Investment size

- Generally \$10 to \$30 million
- Minority equity co-investments

## Investment focus

- Direct origination from proprietary corporate relationships, private equity sponsors and sell-side intermediaries
- Provide customized debt and equity financing solutions primarily to lower middle market companies
- Focus on first lien / unitranche, and to a lesser extent, subordinated debt, and equity

## Sources of returns

- Primarily current cash income with additional return from origination and structuring fees
- Potential upside through equity participation

# Favorable Organizational Structure

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## Business Development Corporation (BDC) Structure

- Regulated by Investment Company Act of 1940
- Asset diversification requirements
- Debt to equity (exclusive of SBA debt) limited to 1:1
- Permanent capital provides for long term investment horizon

## Regulated Investment Company (RIC)

- No entity-level taxation
- Pass-through capital gains to investors
- Efficient structure providing yield to investors

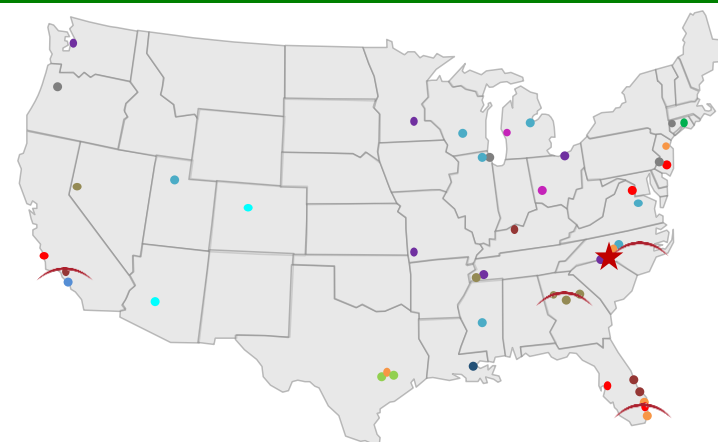
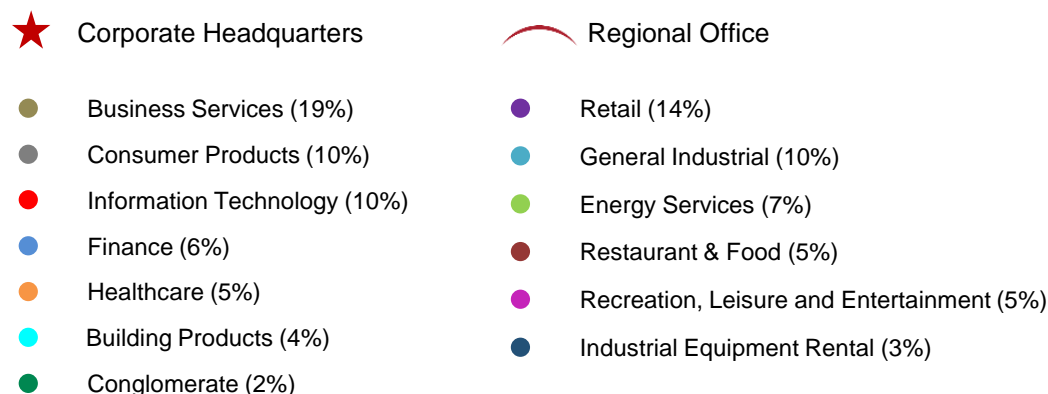
## Small Business Investment Company (SBIC) Subsidiaries

- Regulated by Small Business Administration (SBA)
- Access to low cost, long-term, fixed rate debt
- Debt exempt from leverage limit (SEC exemptive relief)

# Unique Hub and Spoke Origination Platform

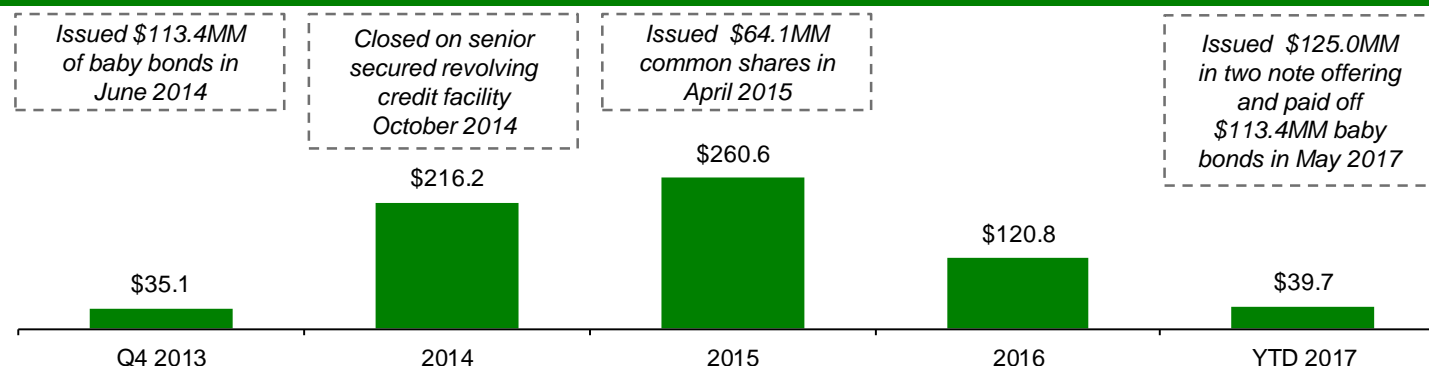
- Unique regionally focused business development offices provide access to superior risk adjusted investment opportunities
- Demonstrated growth and consistently robust quarterly deployments, with over \$670 million deployed since IPO

## Expanding Business Development Footprint Yields Diverse Deal Flow



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

(\$ in millions)



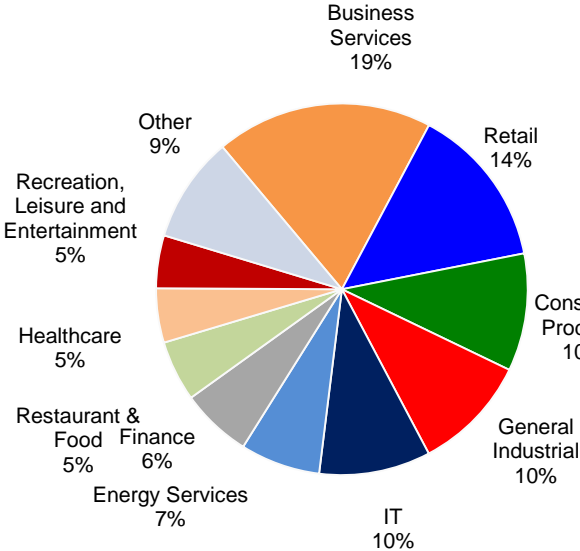
	Q4 2013	2014	2015	2016	YTD 2017
# of Deployments <sup>(2)</sup>	7	38	38	23	16
\$ of Deployments (New Issuer)	\$21.0	\$175.5	\$217.7	\$112.6	\$26.1
\$ of Deployments (Add-on)	\$14.1	\$40.7	\$43.0	\$8.2	\$13.6
Average Yield Deployed Capital <sup>(3)</sup>	13.3%	11.8%	12.3%	13.2%	10.5%

(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.

# Diverse, Risk Adjusted Portfolio

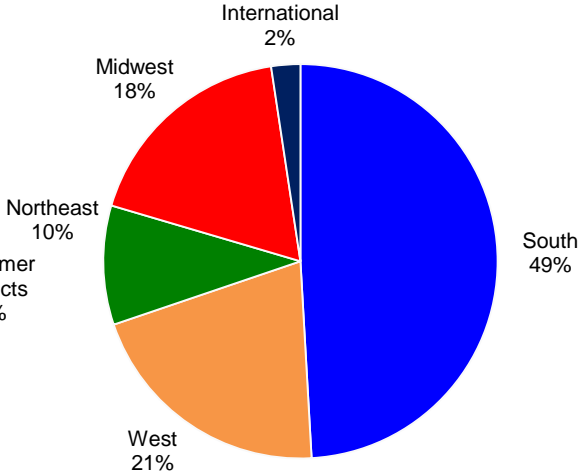
- Diversified ~\$471 million portfolio (excluding cash) across 46 companies, with 47% First Lien Debt, 7% Second Lien Debt, 22% Subordinated Debt and 24% Equity

**PORTFOLIO BY INDUSTRY (1)**



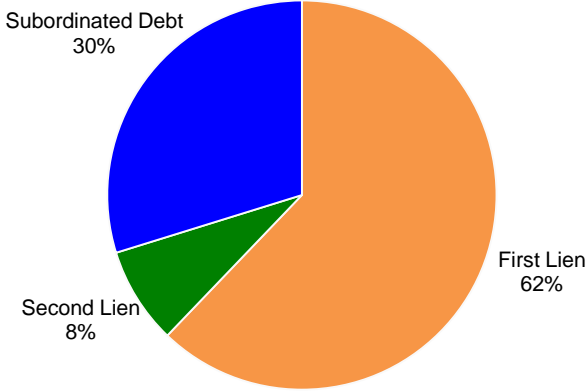
~\$471 million

**PORTFOLIO BY GEOGRAPHY**



~\$471 million

**DEBT PORTFOLIO BY ASSET TYPE**



~\$358 million

Note: Portfolio statistics as of September 30, 2017.  
 (1) Other includes Building Products (4%), Industrial Equipment Rental (3%) and Conglomerate (2%).

# Vested and Shareholder Aligned Management Team

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## 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)

## Stock repurchase program

- Repurchased 4.6% of shares outstanding in 2015

## Distributions

- Paid monthly
- Paid \$0.50 special distribution in 2015

## 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



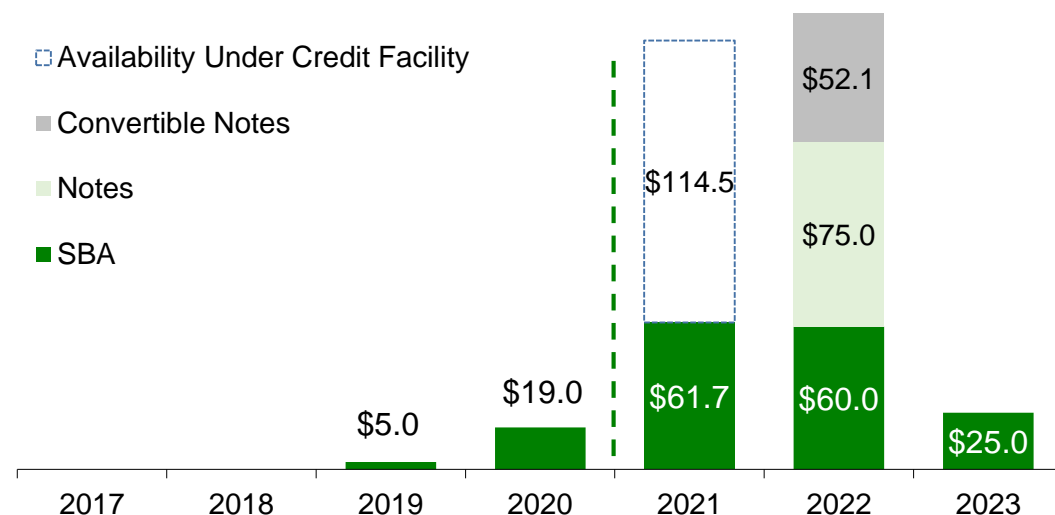
# Unique, Diversified Capital Structure

- 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 (9/30/17)
\$114.5 million Credit Facility	L+300 floating	June 2021	\$0.0 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)



Note: As of September 30, 2017.

- 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

# 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 September 30, 2017, Capitala Finance had limited financing exposure to interest rate changes
  - 100.0% of Capitala Finance's funded liabilities are fixed rate and not subject to interest rate movements
  - 41.8% of Capitala Finance's 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	\$4,314	\$0	\$4,314	\$0.27
+200 bps	\$2,858	\$0	\$2,858	\$0.18
+100 bps	\$1,401	\$0	\$1,401	\$0.09
-100 bps	(\$651)	\$0	(\$651)	(\$0.04)
-200 bps	(\$651)	\$0	(\$651)	(\$0.04)
-300 bps	(\$651)	\$0	(\$651)	(\$0.04)

Note: Assumes no change in portfolio investments or revolving credit facility borrowings as of September 30, 2017.

Note: Per share amount calculated based upon actual shares outstanding at November 3, 2017.

# NAV Upside Potential: Equity Portfolio Overview

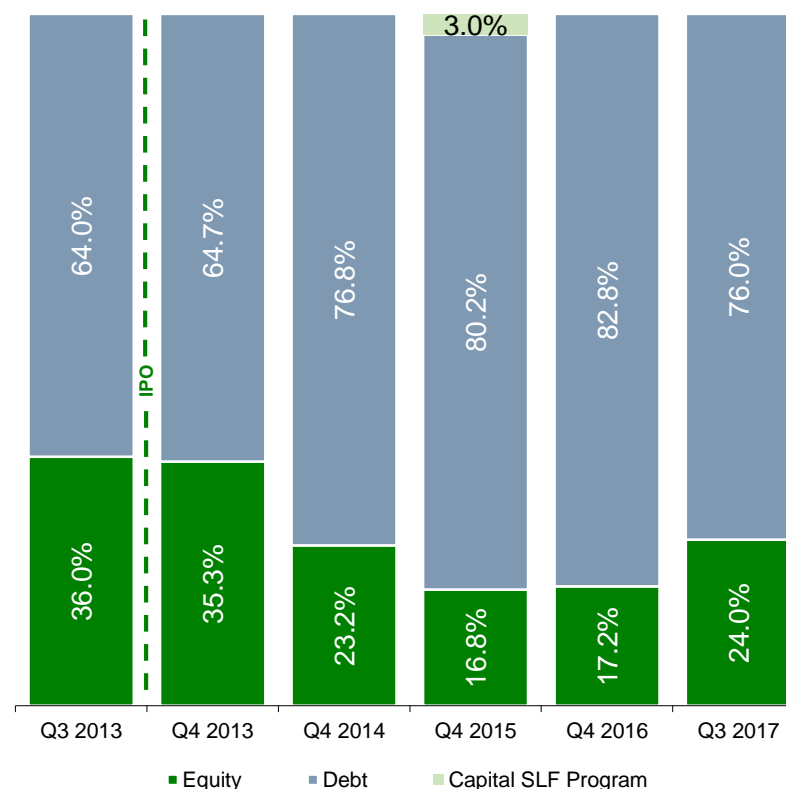
- 32 active equity investments comprising \$56.1 million of invested capital with an estimated fair value of \$113.1 million, representing 24.0% of total investments at fair value
- Capitala Finance continues to deliver on its stated strategy of rotating out of legacy equity positions, and to seek attractive 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	\$22,366	4.7%
US Well Services, LLC *	6,701	11,781	2.5%
City Gear, LLC	1,269	9,325	2.0%
Nth Degree, Inc. *	2,866	8,932	1.9%
LJS Partners, LLC	896	8,404	1.8%
Western Windows Systems, LLC *	3,000	7,452	1.6%
Sierra Hamilton Holdings Corporation *	6,958	6,958	1.5%
Navis Holdings, Inc	1,001	6,330	1.3%
Brunswick Bowling Products, Inc *	3,597	6,144	1.3%
B&W Quality Growers *	-	5,724	1.2%
GA Communications, Inc.	2,838	5,069	1.1%
Burke America Parts Group, LLC *	5	3,213	0.7%
Currency Capital, LLC *	2,000	2,000	0.4%
MMI Holdings, LLC	1,359	1,684	0.4%
Micro Precision, LLC	1,629	1,629	0.3%
Taylor Precision Products, Inc. *	758	1,184	0.3%
CIS Secure Computing, Inc.*	1,000	1,000	0.2%
Corporate Visions, Inc.	1,575	921	0.2%
BigMouth, LLC *	375	771	0.2%
Xirgo Technologies, LLC*	600	655	0.1%
Burgaflex Holdings, LLC *	1,504	627	0.1%
MTI Holdings, LLC	-	439	0.1%
CableOrganizer Acquisition, LLC	1,394	164	0.0%
Caregiver Services, Inc.	523	142	0.0%
Source Capital Penray, LLC	-	101	0.0%
STX Healthcare Management Services, Inc.	-	93	0.0%
AAE Acquisition, LLC	17	-	0.0%
American Exteriors	-	-	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%
Print Direction, Inc.	2,990	-	0.0%
<b>Total</b>	<b>\$56,081</b>	<b>\$113,108</b>	<b>24.0%</b>

## Demonstrated Rotation Out of Equity Positions







Equity Cost Basis					
20.1%	20.3%	14.2%	9.5%	8.9%	12.3%

Note: \* represents equity investments made since IPO.

(1) Current equity position details as of September 30, 2017.

# 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>
<b>Investment Overview</b>	<ul style="list-style-type: none"> <li>On March 3, 2015 Capitala Finance sold 179,748 common shares in a secondary offering, recognizing \$4.0 million of net proceeds, representing a \$3.3 million gain<sup>(1)</sup></li> <li>Sold 325,000 shares in the open market in the second quarter of 2015 for a realized gain of \$7.7 million</li> <li>Sold 95,252 shares in the open market during 3Q 2016 for realized gain of \$0.7 million</li> </ul>	<ul style="list-style-type: none"> <li>Total investment of \$8.3 million for Class A Preferred and Common Stock</li> <li>Consideration of \$17.6 million in cash received upon exit in March 2015</li> <li>\$9.3 million realized gain<sup>(2)</sup></li> <li>Total shareholder distributions received prior to realization of \$6.5 million</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>
<b>Total Gross IRR</b>	<ul style="list-style-type: none"> <li>Entered investment in December 2011</li> <li><b><u>Total Gross IRR of 72%</u></b></li> </ul>	<ul style="list-style-type: none"> <li>Entered Investment in April 2011</li> <li><b><u>Total Gross IRR of 41%</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>
<b>Total MOIC</b>	<ul style="list-style-type: none"> <li><b><u>Total cash-on-cash return of 6.4x</u></b></li> </ul>	<ul style="list-style-type: none"> <li><b><u>Total cash-on-cash return of 3.1x</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**

(1) Please reference Form 8-K filed on March 3, 2015 for additional detail related to partial Boot Barn realization. Boot Barn returns include impact of \$0.4 million dividend received on April 17, 2014.

(2) Please reference recent press release on March 17, 2015 for additional details related to KBP monetization.

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***Financial & Corporate Data***

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# Summary of Financial Performance

## Statements of Operations

(\$ in thousands, except per share data)

	Three Months Ended:					
	9/30/17 (unaudited)	6/30/17 (unaudited)	3/31/17 (unaudited)	12/31/16 (unaudited)	9/30/16 (unaudited)	6/30/16 (unaudited)
Investment Income						
Interest, PIK, and fees	\$11,641	\$12,203	\$14,325	\$16,137	\$16,733	\$16,370
Dividends	580	54	477	365	574	574
Other income	91	105	13	12	50	47
Total investment income	12,312	12,362	14,815	16,514	17,357	16,991
Expenses						
Interest and financing expense	4,585	5,488	4,653	4,722	4,938	5,029
Loss on extinguishment of debt	-	2,732	-	-	-	-
Management fees, net of waivers	2,417	2,505	2,514	2,539	2,619	2,702
Incentive fees, net of waivers	-	-	350	1,687	1,470	902
Other expenses	900	934	1,107	819	889	927
Total expenses	7,902	11,659	8,624	9,767	9,916	9,560
Net Investment Income	4,410	703	6,191	6,747	7,441	7,431
Realized gain (loss) from investments	(10,283)	4,687	4,846	2,132	(17,030)	(5,605)
Unrealized appreciation (depreciation), net of deferred taxes	120	(10,915)	(6,156)	(782)	7,576	5,431
Net gain (loss) on investments	(10,163)	(6,228)	(1,310)	1,350	(9,454)	(174)
Net increase (decrease) in assets resulting from operations	(\$5,753)	(\$5,525)	\$4,881	\$8,097	(\$2,013)	\$7,257
Net investment income per share	\$0.28	\$0.04	\$0.39	\$0.43	\$0.47	\$0.47
Net realized gains/(losses) per share	(\$0.65)	\$0.29	\$0.31	\$0.13	(\$1.08)	(\$0.36)
Net increase (decrease) in assets resulting from operations per share	(\$0.36)	(\$0.35)	\$0.31	\$0.51	(\$0.13)	\$0.46
Distributions declared during quarter	\$0.39	\$0.39	\$0.39	\$0.39	\$0.47	\$0.47

# Summary of Financial Performance

## Statements of Assets & Liabilities

(\$ in thousands)

	9/30/17 (unaudited)	6/30/17 (unaudited)	3/31/17 (unaudited)	12/31/16 (audited)	9/30/16 (unaudited)	6/30/16 (unaudited)
Investments at fair value	\$471,106	\$486,975	\$532,478	\$541,639	\$503,780	\$595,117
Cash and cash equivalents	52,307	76,867	40,564	36,281	60,584	20,108
Other assets	4,811	3,974	7,635	6,495	5,636	5,420
<b>Total assets</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>
SBA debentures	\$168,246	\$168,092	\$167,940	\$167,789	\$167,640	\$178,982
2021 Notes	-	-	110,558	110,413	110,270	110,129
2022 Notes	72,382	72,261	-	-	-	-
2022 Convertible Notes	50,430	50,363	-	-	-	-
Credit Facility	(1,096)	28,563	43,479	43,241	37,073	67,831
Other liabilities	11,955	10,537	9,221	12,390	6,640	6,161
<b>Total liabilities</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>Net assets</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>Total liabilities and net assets</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>
Number of portfolio investments	46	46	51	53	51	54
Leverage ratio-actual	1.32x	1.38x	1.32x	1.31x	1.30x	1.42x
Leverage ratio - regulatory	0.56x	0.66x	0.63x	0.63x	0.61x	0.71x
Average risk rating	1.94	2.01	1.99	1.96	1.89	1.81
Non-accrual loans at fair value	\$26,770	\$50,665	\$18,741	\$17,374	\$9,547	\$8,989

# 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 – \$8.08 Nasdaq: CPTAL – \$25.37 Nasdaq: CPTAG – \$25.10
<b>Shares / Market Cap<sup>(1)</sup>:</b>	15.9 million / \$128.8 million
<b>Portfolio Fair Value<sup>(2)</sup>:</b>	\$471.1 million (excluding cash); \$528.2 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)(4)</sup>:</b>	12.9%
<b>Annualized Distribution:</b>	12.4% implied annual distribution yield <sup>(5)</sup>
<b>Management Ownership<sup>(1)</sup>:</b>	Approximately \$15.2 million (11.8%)
<b>Management Fee:</b>	Base fee of 1.75% of gross assets
<b>Incentive Fee<sup>(6)</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 3, 2017. Total shares outstanding as of September 30, 2017.

(2) As of September 30, 2017.

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

(4) Weighted average yield excludes non-accrual investments; weighted average yield inclusive of the impact of non-accrual investments was 11.9% for total portfolio.

(5) Calculated as annualized monthly distributions of \$0.0833 / share divided by November 2, 2017 closing price of \$8.08 / share.

(6) Please reference most recent Form 10-Q filed on August 7, 2017 for additional detail related to incentive fee.



# Capitala Finance Corp.

Common stock: Nasdaq:CPTA

Notes: Nasdaq:CPTAL

Convertible Notes: Nasdaq:CPTAG

Q3 2017