



# GLADSTONE CAPITAL

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Investor Presentation  
for the Fiscal Quarter Ended  
December 31, 2020

*FINANCING FOR LOWER MIDDLE-MARKET COMPANIES*

# Legal Disclaimer

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**Forward-Looking Statements:** This presentation may include “forward-looking statements” within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. These forward-looking statements may include comments with respect to our objectives and strategies, and the results of our operations and our business.

These forward-looking statements inherently involve numerous risks, assumptions, and uncertainties, both general and specific. The risk exists that these statements may not be fulfilled. Although these statements are based on information available to us as of the date of this presentation, which we believe is reasonable, we caution readers of this presentation not to place undue reliance on these forward-looking statements as a number of known and unknown factors could cause future results to differ materially from these statements, including those factors listed under the caption “Risk Factors” in our Form 10-K and Form 10-Q filings, our registration statement, and other filings we may make with the Securities and Exchange Commission, all of which can be found on our web site at [www.GladstoneCapital.com](http://www.GladstoneCapital.com) or the SEC’s web site, [www.SEC.gov](http://www.SEC.gov).

Forward-looking statements may be influenced in particular by factors such as the overall impact of the COVID-19 pandemic and other health emergencies, fluctuations in interest rates and stock indices, the effects of competition in the areas in which we operate, and changes in economic, political, regulatory and technological conditions. We caution that the foregoing list is not exhaustive. When considering forward-looking statements when making decisions, investors should carefully consider the aforementioned factors as well as other uncertainties and events.

**Past or Present Performance Disclaimer:** This presentation includes information regarding our past or present performance. Please note, past or present performance is not a guarantee of future performance or future results. We undertake no obligation to update the information contained herein to reflect subsequently occurring events or circumstances, except as required by applicable securities laws and regulations.

\*\*Amounts in tables and charts in thousands, except for share and per share amounts and as otherwise stated.

# Gladstone Capital Overview

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## Background:

- Founded in 2001, Gladstone Capital was one of the first business development companies (BDC) focused on making loans to lower middle market U.S. businesses (\$3-15MM of EBITDA) with a dedicated investment team, which continues to be focused on the BDC's activities and performance while remaining aligned with the BDC's investors
- Funding sources include publicly traded common stock (*Nasdaq: GLAD*), which is leveraged via various senior note issues (*including Nasdaq: GLADL*), and a bank revolving credit facility
- Managed by Gladstone Management Corporation, an SEC registered investment adviser that manages \$3.0 billion in assets across four publicly traded funds with significant insider equity holdings and history of shareholder friendly actions to support fund distributions

## Investment Strategy:

- Target investments in growth-oriented industries with proven cashflows, where capital flexibility is highly valued to support attractive investment yields
- Growth equity valuations can support proportionately greater equity contributions, further insulating investment risk profile, while revenue growth provides path to organic deleveraging and alternative repayment options
- Majority of investments are backed by private equity sponsors, which bring institutional governance, experience managing leveraged capital structure and significant equity at risk
- Leverage seasoned origination team to source, structure and pro-actively manage investments to mitigate losses

## Investment Profile (as of December 31, 2020):

- \$452 million portfolio at fair value diversified across 47 companies and 18 different industries
- Conservative asset mix with 91.5% of investments in secured loans, 48.6% in lower risk 1st lien loans and weighted average EBITDA leverage across core proprietary loan portfolio of 3.86x
- Attractive weighted average portfolio yield of 10.8%, which is modestly leveraged (0.86:1 debt/equity) to generate a distribution yield on net asset value of 10.2%

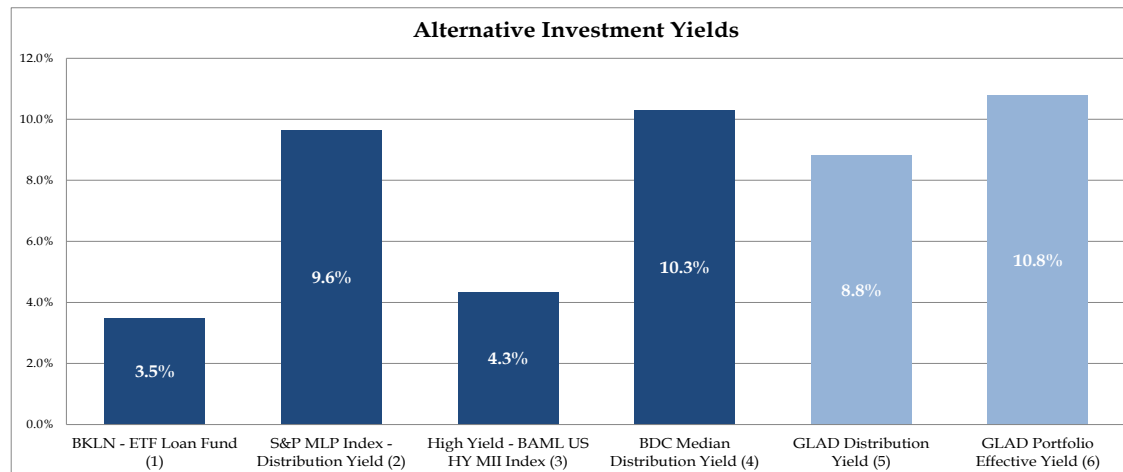
# Why Invest in a BDC?

BDCs are regulated by the SEC, which mandates asset diversity, transparency via annual and quarterly SEC filings and fair value adjustments and limits financial leverage to a maximum of 2:1 debt leverage.

BDCs typically operate as regulated investment companies for tax purposes and pay no corporate income taxes, provided they distribute at least 90% of taxable income and all earnings and gains are passed through to investors.

## Investment Profile

- **Competitive returns** - Current yields typically exceed other yield-oriented investment alternatives
- **Limited interest rate risk** - Distributions backed by floating rate loans supporting increased distributions as interest rates rise
- **Credit protection** - Distributions generated by a diversified portfolio of secured loans
- **Investment liquidity** - Established public equity market for common stock
- **Experienced credit managers** - Experience and capital base structured to manage loan portfolio through various business cycles to minimize credit losses



(1) PowerShares Exchange-Traded Fund Trust II - Senior Loan Portfolio (BKLN) - Yield 12/31/2020  
(2) S&P MLP Index Dividend Yield - 12/31/2020  
(3) BAML US High Yield Master II Index - Effective Yield 12/31/2020

(4) Raymond James 1/28/2021 BDC Industry Investment Banking Weekly Newsletter  
(5) GLAD's stock price as of 12/31/2020  
(6) Reported in GLAD's Form 10-Q for the quarter ended 12/31/2020

# Gladstone Capital Strategy and Risk Management

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## **Investment Strategy:**

- Originate secured debt investments in lower middle market companies with sustainable margins/cash flows and favorable growth characteristics, which can support a leveraged capital structure
- Target companies with operating cash flow (EBITDA) of \$3-15 million and investments of \$8-30 million
- Open to diverse array of established added value businesses with revenue visibility or competitive barriers including specialty manufacturing, industrial or business services, software or information services, added-value distribution or logistics and healthcare services, while avoiding financial services, early stage or high-tech companies, commodity or highly cyclical businesses

## **Deal Sourcing:**

- Origination team organized to deliver regional coverage of middle market private equity firms, investment banks and other deal sources
- Leverage seasoned investment team and dedicated lower middle market focus to provide an elevated level of expertise needed to structure and win investor-oriented financing solutions and actively manage ongoing investment portfolio risks
- Highly selective screening process where under 5% of deals reviewed ultimately close and the bulk of investments are backed by private equity (>80% portfolio at 12/31/20)

## **Due Diligence:**

- Thorough multi-disciplinary “equity like” underwriting approach – blending internal industry experience, onsite visits and management assessments, supplemented with third party financial reviews, industry assessments, management background checks, and legal and insurance investigations, etc.

## **Risk Management:**

- Gladstone Capital requires board level participation in portfolio companies to monitor operating performance and outlook to proactively manage risk profile
- Ongoing senior management reviews, majority of investments are valued by third party experts quarterly and subject to oversight by Gladstone Capital’s audit committee and independent board members

# Attractive Lower Middle Market Dynamics

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## Why we target lower middle market companies

- Greater industry diversity and more consistent flow of growth-oriented investment opportunities across the vast array of U.S. based businesses
- Lower middle market companies typically sell for lower cash flow multiples, which translate into lower leverage levels and better asset collateral coverage
- Smaller investment size attracts less competition from larger funds or commercial banks which supports more attractive investment returns at lower relative leverage levels
- More receptive to equity co-investments, providing an opportunity to selectively participate in anticipated growth and equity appreciation

## Trends Enhancing Opportunity for Non-Bank Lenders

- Growth oriented businesses, when combined with PE sponsor's investment plan to scale the business to generate equity appreciation, often drives the desire for tailored financing solution from a more experienced and responsive lender able to flex with the business objectives albeit at a higher cost
- The ability to provide simplified and expedient "one-stop" financing solutions serves to reduce execution risk
- Regulations have curtailed commercial bank capacity to hold leveraged investments and scale diminishes their flexibility to respond to changing business conditions or opportunities
- Bulk of private debt funds focused on senior loans to larger borrowers (>\$10 million EBITDA) with higher minimum investment thresholds to achieve costs efficiencies and deployment objectives of their institutional investor base

**LMM investment strategy can provide attractive investment upside  
and is well suited for non-bank investment flexibility**

# Gladstone Capital 12/31/2020 Quarter Summary

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## **Originations/Portfolio Activity:**

- Invested \$29.9 million during the quarter, including two new first lien proprietary debt investments in the healthcare and marine maintenance sector.
- Repayments totaled \$34.1 million, including the repayment of a proprietary investment and two previously restructured syndicated investments.

## **Portfolio Yield / Net Investment Income (NII):**

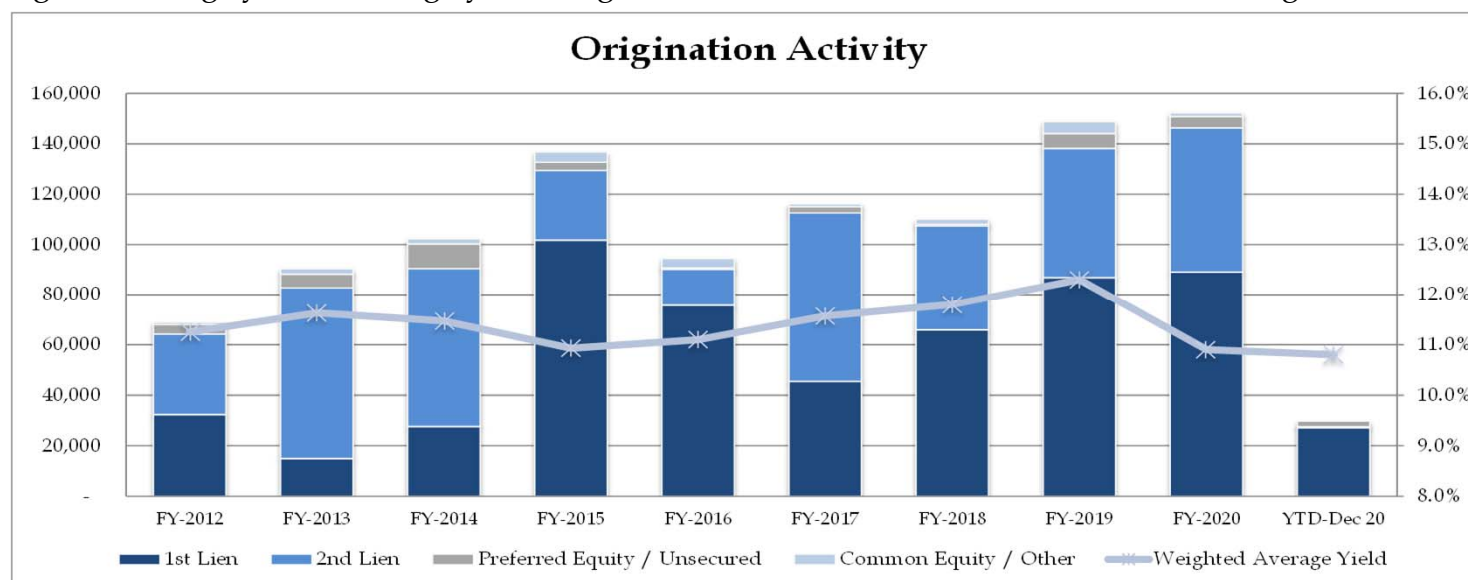
- Interest income increased 1.2% to \$12.1 million vs. the prior quarter, with a small increase in the weighted average interest-bearing investment balance.
- Dividend income increased with calendar year-end, contributing to lift total investment income to \$12.9 million, or 2.4% higher than the prior quarter.
- Borrowing costs increased on the quarter by \$0.2 million with the closing of \$100 million senior notes due 2026 and reduced level of lower cost floating rate borrowings pending the call of our higher costs senior notes due 2023 completed in January.
- Net Investment Income increased to \$6.3 million, or \$0.195 per share, and covered 100% of distributions.

## **Portfolio Performance and Valuation:**

- The Net Increase in Net Assets from Operations was \$12.3 million for the quarter, or \$0.38 per share, driven by \$6.0 million of net portfolio appreciation on the quarter.
- Senior secured assets rose with the portfolio activity to 48.6% of the investment portfolio at fair value while the 2<sup>nd</sup> lien investments fell to 42.9%.
- Overall leverage performance was stable to improved as core leverage decreased to 3.86x and non-performing assets were unchanged at 1.6% of assets at fair market value.

# Gladstone Capital Origination Activity

- Repayments/exits offset originations and appreciation so net assets were unchanged for the 12/31/20 quarter.
- Weighted average yield was largely unchanged as Libor floors are in effect across the floating rate asset base.



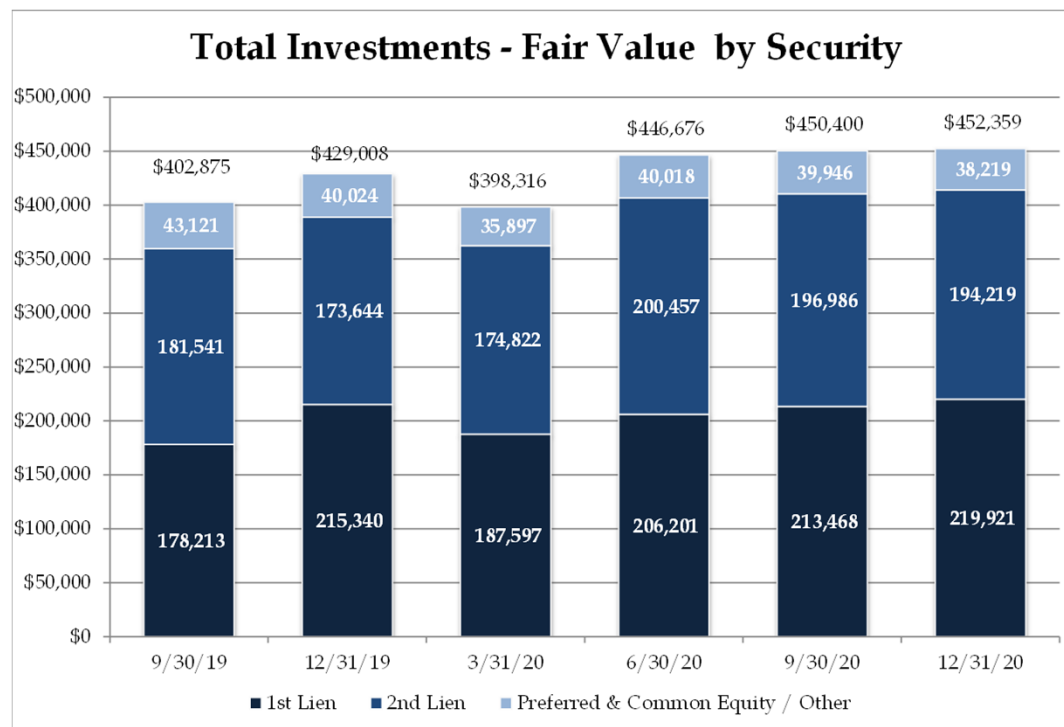
## Gladstone Capital Quarterly Net Investment

	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020
New Investments at Cost	\$ 49,865	\$ 3,303	\$ 58,000	\$ 13,000	\$ 38,000	\$ 19,000	\$ 53,500	\$ 20,650	\$ 29,000
Disbursements to Existing Portfolio Companies	9,363	643	1,150	11,743	4,535	10,792	2,177	1,252	98
Sales, Repayments, Other Exits at Cost	(8,855)	(51,529)	(41,850)	(28,827)	(12,631)	(26,405)	(17,084)	(22,635)	(34,142)
<b>Net New Investments at Cost</b>	<b>\$ 50,373</b>	<b>\$ (47,583)</b>	<b>\$ 17,300</b>	<b>\$ (4,084)</b>	<b>\$ 29,904</b>	<b>\$ 3,387</b>	<b>\$ 38,593</b>	<b>\$ (733)</b>	<b>\$ (5,044)</b>
Number of New Portfolio Company Investments	6	1	5	1	2	1	2	1	2
Number of Portfolio Company Exits	2	4	3	1	4	4	2	1	3
<b>Total Portfolio Companies</b>	<b>54</b>	<b>51</b>	<b>53</b>	<b>53</b>	<b>51</b>	<b>48</b>	<b>48</b>	<b>48</b>	<b>47</b>



# Gladstone Capital Portfolio Trends

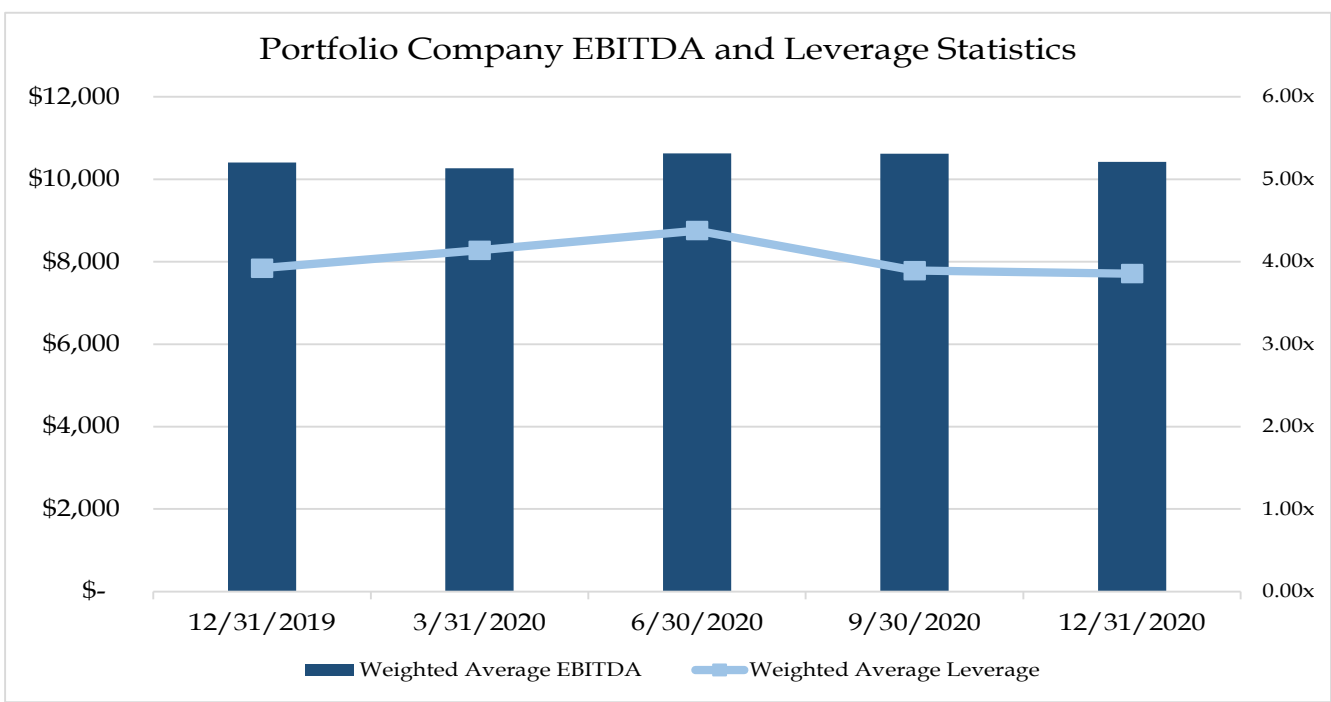
- Net originations over the last four quarters of \$36.2 million supporting an increase in the core interest income and improved expense efficiencies.
- The combination of larger unitranche investments and smaller second lien investments to larger businesses has enabled GLAD to maintain first lien loans in the range of 45-50% of total investments and secured debt investments in excess of 90% of total investments.
- Through December 2020 the portfolio has recovered just under 70% of the unrealized depreciation reported in the March 31, 2020 quarter associated with the COVID-19 pandemic.



	9/30/19	12/31/19	3/31/20	6/30/20	9/30/20	12/31/20
First Lien Debt	44.2%	50.2%	47.1%	46.2%	47.4%	48.6%
Second Lien Debt	45.1%	40.5%	43.9%	44.9%	43.7%	42.9%
Equity / Other	10.7%	9.3%	9.0%	9.0%	8.9%	8.5%

# Portfolio Metrics

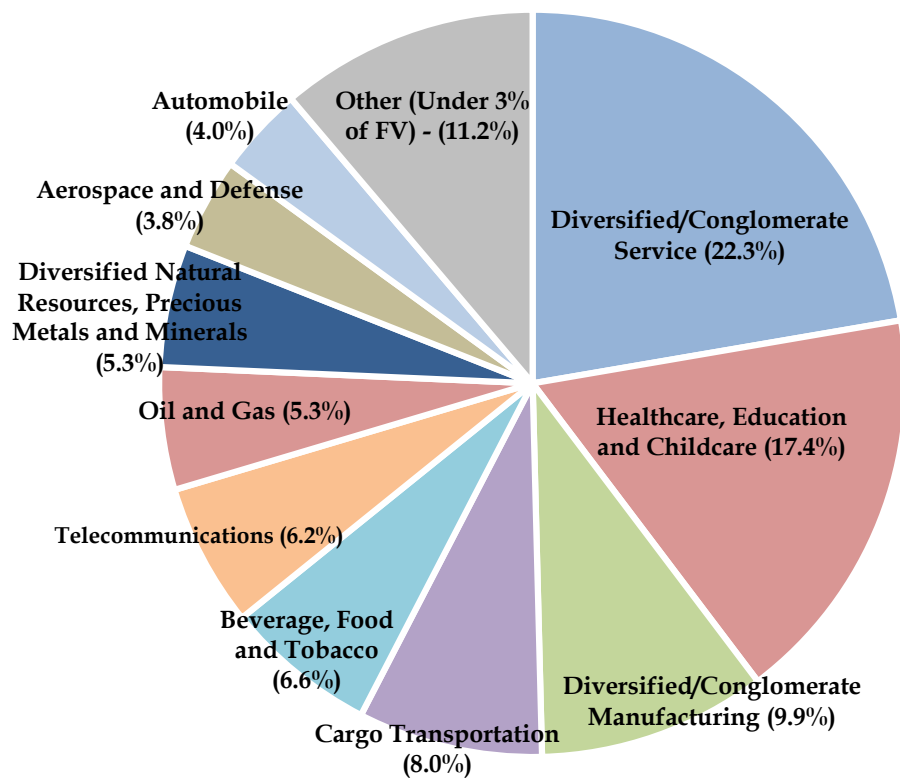
GLAD's core loan portfolio\* has a weighted average EBITDA of \$10.4 million and consists of 57% in first lien and 43% in second lien loans with a weighted average leverage multiple of EBITDA of 3.86x



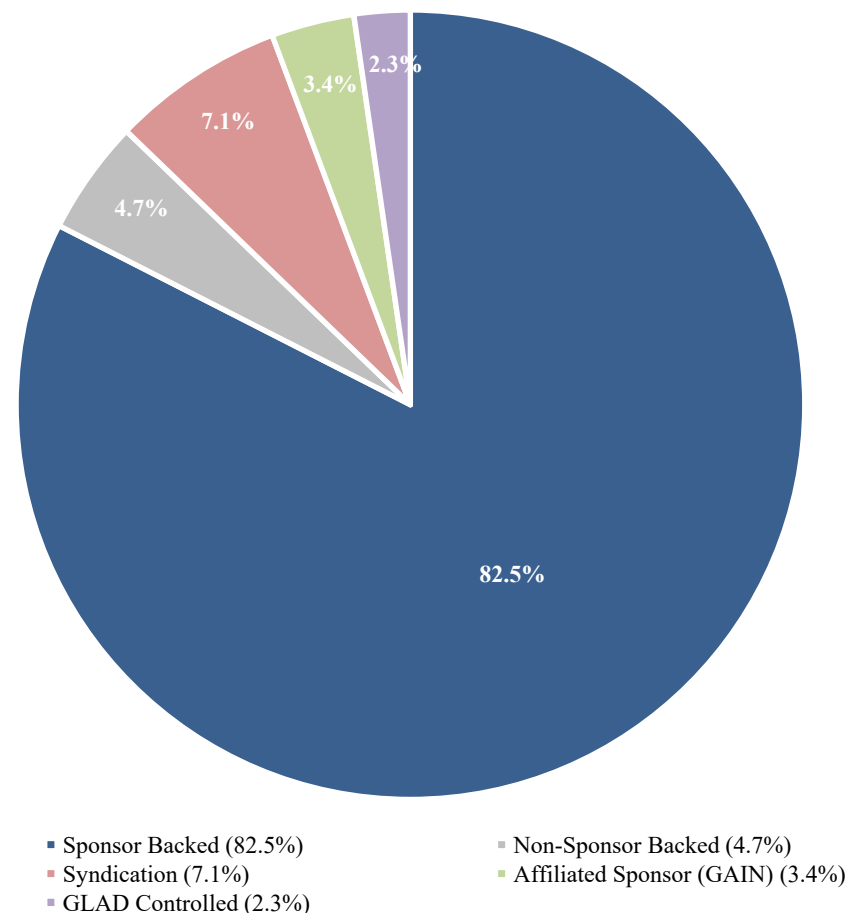
\*For the purposes of this presentation, certain investments have been excluded from the data used to develop the above analysis. Those exclusions include investments: (i) originated as Syndications; (ii) co-investments with GAIN; (iii) investments under \$4 million; (iv) equity only investments; (v) one negative EBITDA business; (vi) two oil and gas investments that saw outsized impacts from COVID-19; (vii) one investment that has grown dramatically greater than our average has been removed for the last three quarters to avoid skewing leverage lower; and (viii) and recently restructured LWO Acquisitions Company LLC. Additionally, investment EBITDA and Leverage are weighted based on the size of the principal outstanding.

# Industry and Deal Sources Are Diversified

**Portfolio Diversification Across 18 Industries - At 12/31/2020 Fair Value**



**Deal Source Composition - At 12/31/2020 Fair Value**



# Portfolio Composition

<i>Portfolio Characteristics As Of:</i>	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
Total Portfolio - FV	\$ 429,007	\$ 398,316	\$ 446,676	\$ 450,400	\$ 452,359
# of Portfolio Companies	51	48	48	48	47
Average Investment Size - FV	\$ 8,412	\$ 8,298	\$ 9,306	\$ 9,383	\$ 9,625
Top 5 Investments % FV	31.8%	32.8%	30.2%	28.9%	28.8%
WAVG Investment Yield**	11.3%	10.9%	10.9%	10.9%	10.8%
1st Lien FV	\$ 215,340	\$ 187,597	\$ 206,201	\$ 213,468	\$ 219,921
2nd Lien FV	173,644	174,822	200,457	196,986	194,219
Equity / Other FV	40,024	35,897	40,018	39,946	38,219
Proprietary % of FV	90.5%	91.2%	91.6%	91.4%	92.9%
Syndicated % of FV	9.5%	8.8%	8.4%	8.6%	7.1%
Fixed Rate Debt % Cost	16.3%	16.3%	21.8%	21.9%	20.4%
Variable Rate Debt % of Cost	83.7%	83.7%	78.2%	78.1%	79.6%
Performing % FV (Debt)	100.0%	98.2%	98.4%	98.4%	98.4%
Non-Performing % FV (Debt)	0.0%	1.8%	1.6%	1.6%	1.6%
Accrued Potential Success Fees	\$ 7,300	\$ 7,500	\$ 8,800	\$ 9,900	\$ 11,000

*\*\*Weighted average yield on interest bearing debt investments (excludes non-accruals and reserves on interest receivables)*

*Note: \$'s are in (000's)*

# Representative Portfolio Investments



**NETFORTRIS CORP.** delivers cloud communications solutions that enable people to work, collaborate, and deliver customer service where and when business calls.



**BELNICK, INC.** is a distributor of branded furniture and sells to major e-commerce retailers and directly to consumers through its own furniture websites.



**WADECO SPECIALTIES, INC.** provides production well chemicals to oil well operators used for corrosion prevention; separating oil, gas and water once extracted; bacteria growth management; and conditioning water utilized for hydraulic fracturing.



**VACATION RENTAL PROS** is an innovative vacation home property management and rental reservation system with over 2,000 properties under exclusive management across the United States.



**CIRCUITRONICS, INC.** is a premier electronic manufacturing services company focused on the design and production of specialized printed circuit board assemblies and related services.



**EL ACADEMIES, INC.** owns and operates early childhood education centers in the United States.



**SEA LINK INTERNATIONAL** is a Tier 2 manufacturer and supplier of automotive lighting components and Intermediate Bulk Container "IBC" valves.



**DEFIANCE STAMPING COMPANY** is the leading manufacturer of axle nut and washer systems for the heavy truck ("Class 8") industry in North America.



**VISION GOVERNMENT SOLUTIONS, INC.** is a leading provider of land parcel management software technology and appraisal services to local government organizations.



**GRAYMATTER**

**GRAYMATTER** is a leading provider of operational technologies and Industrial IoT consulting services to the manufacturing, water and energy industries in North America.



**LIGNETICS, INC.** manufactures and distributes branded wood pellets which are used as a renewable fuel for home and industrial heating, animal bedding, moisture absorption products, and firelogs and fire starters.



**ANTENNA RESEARCH ASSOCIATES, INC.** designs and manufactures radio frequency based antenna sub-systems and integrated antenna systems for military and commercial customers.



**ARC DRILLING, LLC** is a leading provider of electrical discharge machining services to the industrial gas turbine and aerospace markets, handling over 200,000 parts annually.



**R2I HOLDINGS, LLC** is a leading national marketing agency that combines data and technology with creative design to build digital solutions.



**AG TRUCKING, INC.** is a regional food grade liquid and dry bulk carrier based in Goshen, Indiana whose services are critical to their customer's ability to maintain tight production schedules.



**THE MOCHI ICE CREAM COMPANY** is a 106-year old producer of specialty frozen desserts and is the product leader in the mochi ice cream category.

# Quarterly Financial Summary

<i>In Thousands, except per share data</i>	Three Months Ended				
	December 31, 2019	March 31, 2020	June 30, 2020	September 30, 2020	December 31, 2020
<b>Income:</b>					
Interest Income	\$ 11,456	\$ 11,002	\$ 11,628	\$ 11,935	\$ 12,082
Other Investment Income	703	490	101	644	800
<b>Total Investment Income</b>	<b>12,159</b>	<b>11,492</b>	<b>11,729</b>	<b>12,579</b>	<b>12,882</b>
<b>Expenses:</b>					
Fees to Advisor & Admin	2,304	1,420	2,300	3,192	3,074
Interest Expense	2,537	2,582	2,472	2,400	2,568
Preferred Dividend Expense	9	-	-	-	-
Operating Expense	892	943	874	871	960
<b>Total Expenses</b>	<b>5,742</b>	<b>4,945</b>	<b>5,646</b>	<b>6,463</b>	<b>6,602</b>
<b>Net Investment Income (NII)</b>	<b>\$ 6,417</b>	<b>\$ 6,547</b>	<b>\$ 6,083</b>	<b>\$ 6,116</b>	<b>\$ 6,280</b>
Weighted Average Shares*	30,543	31,145	31,193	31,313	32,098
NII Per WAVG Share	\$ 0.21	\$ 0.21	\$ 0.20	\$ 0.20	\$ 0.20
Dividend Per WAVG Share	\$ 0.21	\$ 0.21	\$ 0.20	\$ 0.20	\$ 0.20
Weighted Avg Yield**	11.3%	10.9%	10.9%	10.9%	10.8%
Return on Equity (NII)***	10.2%	10.6%	10.8%	10.8%	10.8%
Gross Originations	\$ 42,863	\$ 30,175	\$ 56,540	\$ 22,728	\$ 29,752
Portfolio at Fair Value	429,007	398,316	446,676	450,400	452,359
Debt****	184,346	185,635	227,210	221,535	208,056
Net Asset Value	250,789	217,923	226,797	233,743	247,117
NAV Per Share	\$ 8.08	\$ 6.99	\$ 7.27	\$ 7.40	\$ 7.61

\*Total Shares outstanding at 12/31/2020 was 32,490,392

\*\*Weighted average yield on interest bearing debt investments (excludes non-accruals and reserves on interest receivables)

\*\*\*Return on Equity (NII) defined as: LTM net investment income divided by LTM average net assets

\*\*\*\*Debt includes Line of Credit, Preferred Stock, and Long Term Debt

Note: The financial information above is not comprehensive and is without notes, so readers should obtain and carefully review GLAD's Forms 10-K and 10-Q for the corresponding reporting periods as filed with the SEC.

# Gladstone Capital 12/31/2020 Quarter Summary

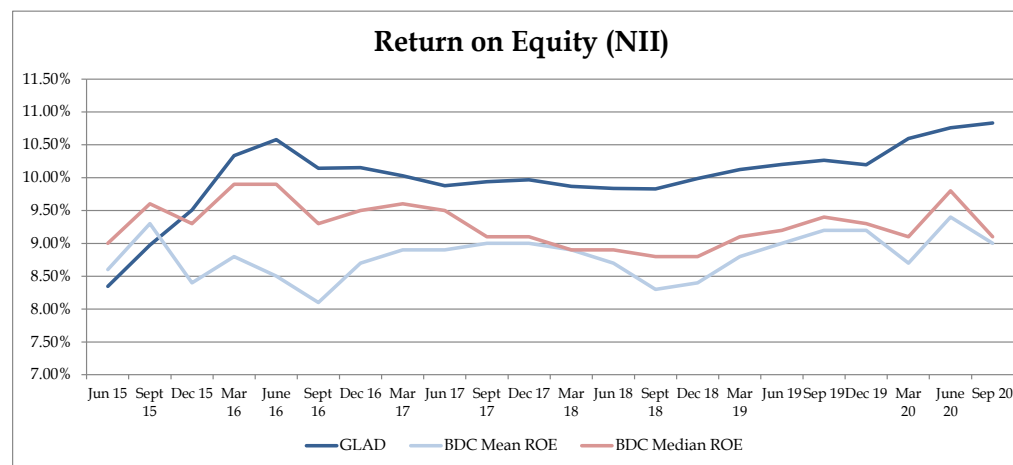
## Capital Base and Liquidity

- Liabilities declined to \$212 million as of 12/31/2020, consisting of \$16 million in borrowings on our credit facility, \$57.5 million of 6.125% 2023 senior notes, \$38.8 million of 5.375% 2024 senior notes and \$100 million of 5.125% 2026 senior notes. In January 2021, we voluntarily redeemed the 2023 notes in full with credit facility borrowings.
- Leverage decreased slightly during the quarter to 86% of Net Assets with the net unrealized portfolio appreciation and \$7.4 million of net proceeds of common shares issued under the Company's ATM program.
- The Company's credit position improved with the increase in investment income which lifted interest income and fixed charge coverage to 3.2x.
- As of 12/31/2020, we had in excess of \$100 million of availability on our line of credit to grow our investment portfolio.

## ROE Performance

- Over the last 45 months, our portfolio's performance, as measured by NII / Average Net Assets, has consistently averaged ~10% and outpaced the average BDC returns. <sup>(1)</sup>

*(1) BDC ROE Source: Raymond James BDC Industry Weekly Newsletters*





# Corporate Data

## Executive Officers

**David Gladstone**  
Chairman & CEO

**Terry Lee Brubaker**  
Vice Chairman & COO

**Bob Marcotte**  
President

**Nicole Schaltenbrand**  
CFO & Treasurer

## Research Coverage

**Janney Montgomery Scott**  
Mitchel Penn

**Ladenburg Thalmann**  
Mickey Schleien

**Wedbush Securities**  
Henry J Coffey, Jr.

## Websites

**Gladstone Capital:**  
[www.gladstonecapital.com](http://www.gladstonecapital.com)

**Investment Adviser:**  
[www.gladstonemanagement.com](http://www.gladstonemanagement.com)

**Information on all Funds:**  
[www.gladstonecompanies.com](http://www.gladstonecompanies.com)

## Other Officers

**Michael LiCalsi**  
General Counsel and Secretary

**Jack Dellafiora**  
Chief Compliance Officer

## Investor Relations

1521 Westbranch Drive, Suite 100  
McLean, VA 22102  
(703) 287-5893  
[capital@gladstonecompanies.com](mailto:capital@gladstonecompanies.com)

## Other

**Corporate Counsel:**  
Proskauer Rose LLP

**Transfer Agent:**  
Computershare Inc.

**Auditors:**  
PricewaterhouseCoopers LLP

## NASDAQ Listings

**Common Ticker: GLAD**  
**5.375% Series 2024 Senior Notes:**  
GLADL

## Corporate Headquarters

1521 Westbranch Drive, Ste. 100  
McLean, VA 22102  
703-287-5800  
**Other Offices:** Dallas & New York