



# GLADSTONE CAPITAL

---

Investor Presentation  
for the Fiscal Quarter Ended  
September 30, 2022

# Legal Disclaimer

**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 the investors section of 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

## 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) and today the investment team remains dedicated to the BDC's activities and performance and thus aligned with the BDC's investors
- Gladstone Capital is funded through publicly traded common stock (*Nasdaq: GLAD*) and is leveraged via various senior unsecured note issues and a bank revolving credit facility
- Managed by Gladstone Management Corporation, an SEC registered investment adviser that manages in excess of \$4.0 billion in assets across four publicly traded yield-oriented funds with significant insider equity holdings and a history of shareholder friendly actions to support fund distributions

## Investment Strategy:

- Target current yield investments in growth-oriented companies with proven cashflows, where capital flexibility is highly valued to support attractive investment yields
- Growth equity valuations support proportionately greater equity contributions and reduce the investment risk profile, while revenue growth also provides a path to organic deleveraging and multiple repayment options
- Majority of investments are backed by private equity sponsors, which provide institutional governance, strategic sector insight, experience managing leveraged balance sheets and investment capacity to support the business
- Leverage seasoned origination team to source, structure and pro-actively manage investments to mitigate losses

## Investment Profile (as of September 30, 2022):

- \$649 million portfolio at fair value diversified across 52 companies and 13 different industries
- Conservative asset mix with 89% of investments in secured loans, 71% in lower risk 1st lien loans and weighted average EBITDA leverage across core proprietary loan portfolio of 3.3x
- Attractive weighted average portfolio yield of 11.2%, which is modestly leveraged (1.1:1 debt/equity) to support GLAD's net investment income (NII) yield on net asset value which averaged 10.1% for the last four quarters

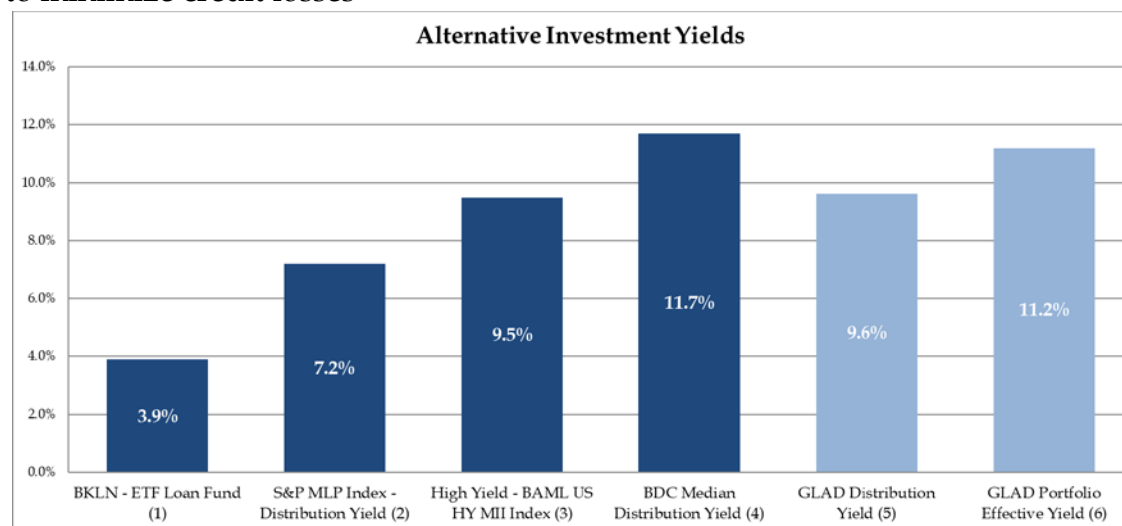
# Why Invest in a BDC?

BDCs are regulated by the SEC, which mandates asset diversity, investor transparency via quarterly SEC filings including fair value adjustments of all assets and limits financial leverage to a maximum of 2:1 debt to equity 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 9/30/2022

(2) S&P MLP Index Dividend Yield – 9/30/2022

(3) BAML US High Yield Master II Index - Effective Yield 9/30/2022

(4) Raymond James 10/20/2022 BDC Industry Investment Banking Weekly Newsletter

(5) GLAD's stock price as of 9/30/2022

(6) Reported in GLAD's Press Release dated November 14, 2022

# Gladstone Capital Strategy and Risk Management

## Investment Strategy:

- Originate secured debt investments in established 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 \$7-30 million
- Maintain industry and borrower diversity across added value businesses with revenue visibility or competitive barriers including specialty manufacturing, industrial or business services, or healthcare services, while avoiding financial services, early stage or high-tech companies, commodity or cyclical businesses

## Deal Sourcing:

- Origination team provides regional coverage of middle market PE firms, investment banks and other deal sources
- Leverage seasoned investment team and dedicated lower middle market focus to deliver an elevated level of expertise to 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 (~71% of the portfolio at 9/30/22)

## 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, quarterly third-party expert investment valuations which are subject to quarterly oversight by Gladstone Capital’s audit committee and independent board members

# Attractive Lower Middle Market Dynamics

## Why we target lower middle market (“LMM”) 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 translates into reduced financial leverage 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

- A PE Sponsor’s ability to scale LMM acquisitions and achieve their targeted equity returns often hinge on the support of a financing solution tailored to the business or deal framework which require a more experienced and responsive lender able to flex to the circumstances even if at a slightly higher financing cost
- The ability to provide simplified and expedient “one-stop” financing solutions serves to expedite transaction closing and reduce execution risk
- Regulations and shifting market conditions have curtailed commercial bank capacity to hold leveraged investments and scale diminishes their flexibility to respond to changing business conditions or LMM opportunities
- Most private debt funds focused on senior loans to larger borrowers (>\$10 million EBITDA) with higher minimum investment thresholds to achieve costs efficiencies and meet 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 9/30/2022 Quarter Summary

## **Originations/Portfolio Activity:**

- New investments totaled \$86 million during the quarter, which consisted of four new platform investments and several add-on investments to existing portfolio companies.
- Repayments and net proceeds amounted to \$22 million, resulting in strong net originations of \$64 million for the quarter.

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

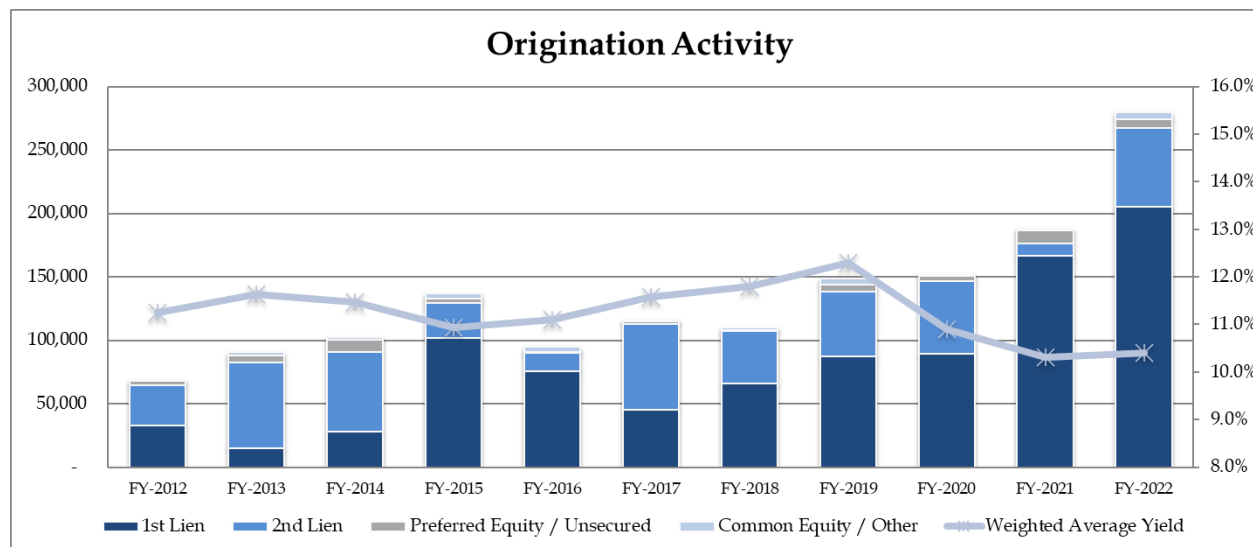
- Interest income for the quarter rose 23.6% to \$15.6 million as average earning assets increased \$47 million or 9.3% and the weighted average yield rose with market rates to 11.2%, up 120 basis points from the prior quarter.
- Fee and other income declined to \$0.4 million; however, total investment income increased \$2.2 million (15.6%) to \$15.9 million for the quarter.
- Total expenses increased by \$1.6 million compared to the prior quarter as net management fees increased by \$0.9 million with increased assets, higher incentive fees and absence of incentive fee credits and higher bank borrowings and interest rates increased borrowing costs by \$0.7 million.
- Net investment income for the quarter rose \$0.5 million to \$7.5 million or \$0.22 per share, covering 105% of the recently increased common stock distributions.

## **Portfolio Performance and Valuation:**

- Our portfolio continues to perform well with generally modest leverage metrics and favorable liquidity, and as such, we did not experience any payment defaults last quarter.
- Conservative asset mix with 89% of investments in secured loans, 71% in lower risk 1st lien loans and weighted average EBITDA leverage across core proprietary loan portfolio of 3.3x
- Depreciation for the quarter totaled \$2.3 million as the rise in a number of our equity positions was more than offset by yield driven discounts on several recently closed debt investments, the reduction in the appreciation of a legacy equity position in connection with a pending sale, and loan depreciation associated with a single credit's operating performance.

# Gladstone Capital Origination Activity

- New investment activity outpaced amortization and modest repayment activity during the September 30, 2022 quarter, resulting in a \$64 million increase in investments.
- Net originations climbed to a record level during FY'22 while continuing to favor 1<sup>st</sup> lien assets



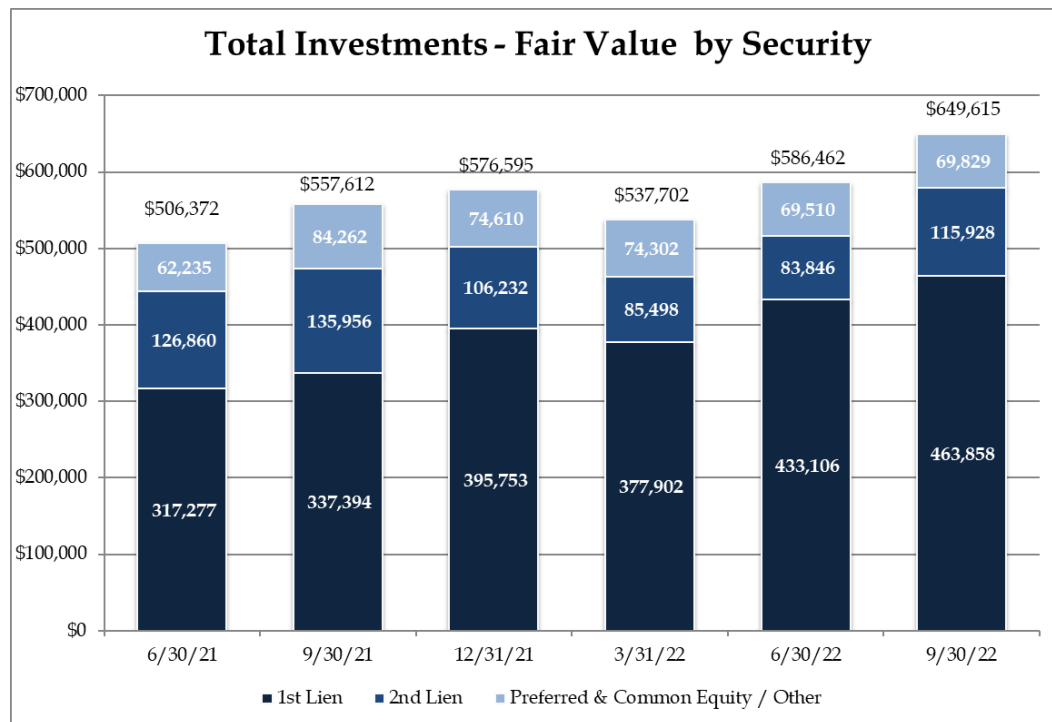
## Gladstone Capital Quarterly Net Investment

	3/31/2020	6/30/2020	9/30/2020	12/31/2020	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022
New Investments at Cost	\$ 19,000	\$ 53,500	\$ 20,650	\$ 29,000	\$ 72,000	\$ 37,992	\$ -	\$ 106,918	\$ -	\$ 48,717	\$ 59,619
Disbursements to Existing Portfolio Companies	10,792	2,177	1,252	98	-	15,200	27,551	3,876	10,775	18,565	26,428
Sales, Repayments, Other Exits at Cost	(26,405)	(17,084)	(22,635)	(34,142)	(47,912)	(54,428)	(2,791)	(96,799)	(50,858)	(6,292)	(21,801)
Net New Investments at Cost	\$ 3,387	\$ 38,593	\$ (733)	\$ (5,044)	\$ 24,088	\$ (1,236)	\$ 24,760	\$ 13,995	\$ (40,083)	\$ 60,990	\$ 64,246
Number of New Portfolio Company Investments	1	2	1	2	3	3	0	6	0	4	4
Number of Portfolio Company Exits	4	2	1	3	3	3	1	5	2	0	1
Total Portfolio Companies	48	48	48	47	47	47	46	47	45	49	52



# Gladstone Capital Portfolio Trends

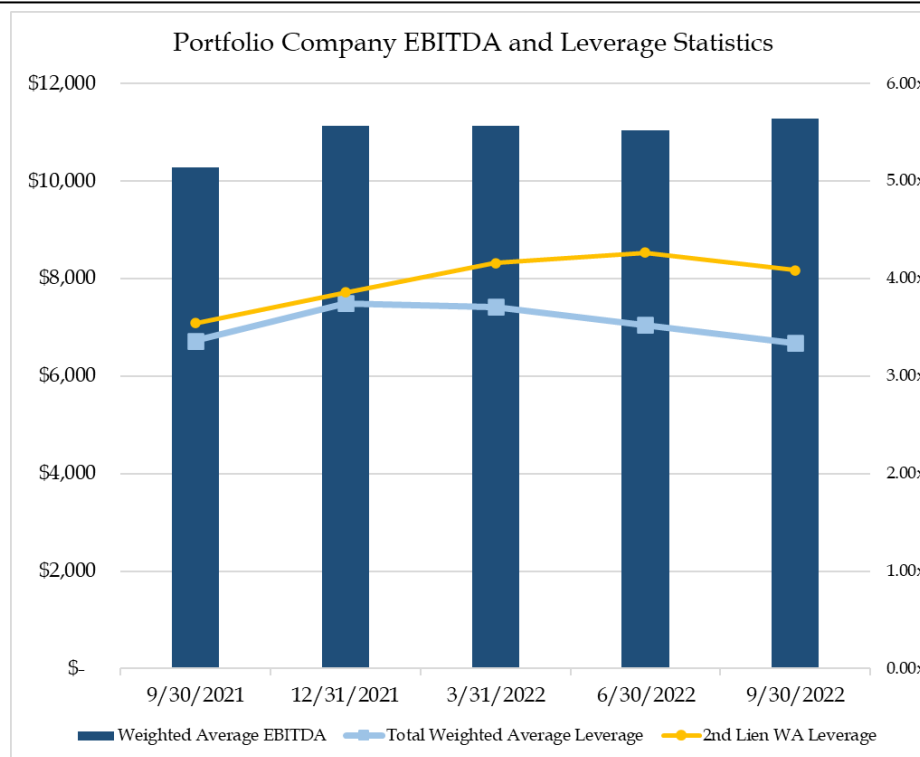
- Originations have outpaced portfolio exits and refinancings over the past several quarters, generating a net \$92 million increase in total investments in the past four quarters.
- PE sponsor demand for flexible 1<sup>st</sup> lien/unitranche financing continues to drive new originations lifting 1<sup>st</sup> lien assets to 71% of the portfolio at 9/30/22.
- 88.5% of our loan portfolio is subject to floating rates with minimum floors and, as of 9/30/22, LIBOR has risen above the average loan floor rates.
- We are continuing to make equity co-investments in approx. half of our new originations over the past year to reseed the equity portfolio after the realized gains of the past year.
- The current loan portfolio valuations represent 97.4% of cost, while equity investments have appreciated to 114% of cost as of 9/30/22.



	6/30/21	9/30/21	12/31/21	3/31/22	6/30/22	9/30/22
First Lien Debt	62.7%	60.5%	68.7%	70.3%	73.9%	71.4%
Second Lien Debt	25.0%	24.4%	18.4%	15.9%	14.3%	17.8%
Equity / Other	12.3%	15.1%	12.9%	13.8%	11.8%	10.8%

# Portfolio Metrics

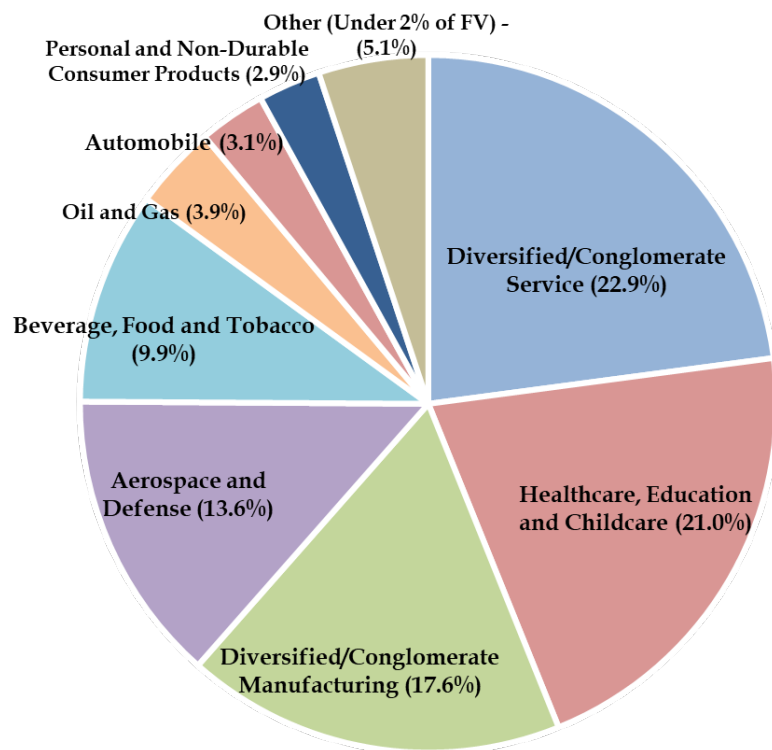
Consistent with GLAD's LMM focus, the core loan portfolio continues to represent companies with an average EBITDA of approx. \$11.3 million and an average leverage multiple of 3.3x EBITDA



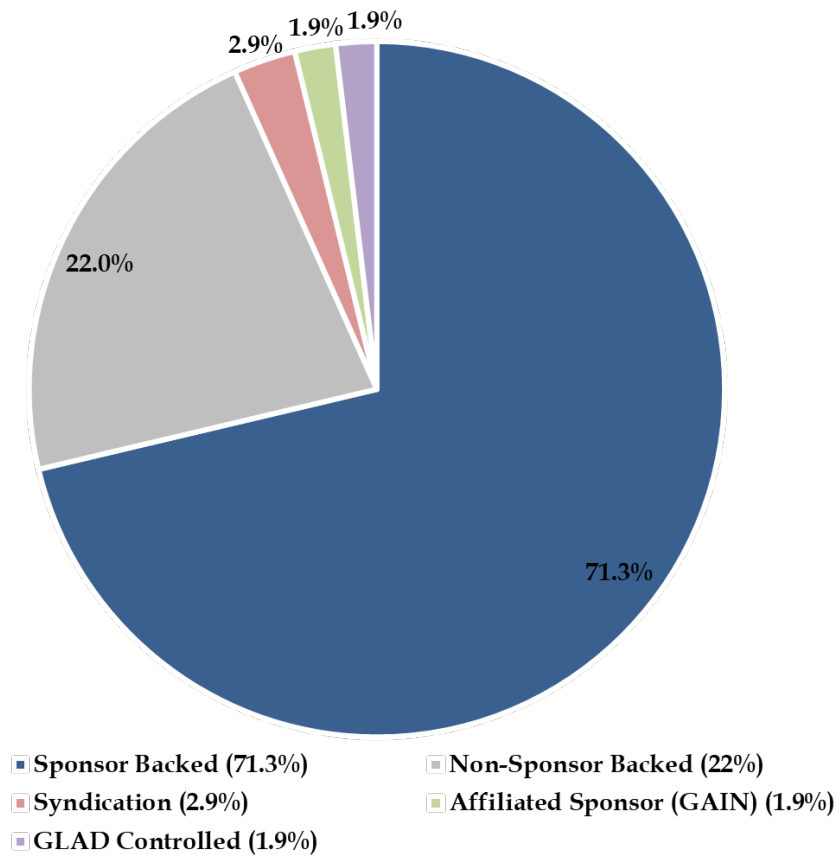
*\*For the purposes of this presentation, certain investments have been excluded from the data used to develop the above analysis. The average EBITDA excludes two outsized investments w/ EBITDA >\$50 million. The average leverage stats include ~91.5% of loans at FMV but exclude: (i) investments originated as Syndications; (ii) co-investments with GAIN; (iii) equity only investments; (iv) investments under \$4 million; and (v) three investments with a negative or de minimis TTM EBITDA. 2<sup>nd</sup> Lien WA leverage excludes one investment with leverage < 1.0x. Investment EBITDA and Leverage are weighted based on the size of the principal outstanding.*

# Industry and Deal Sources Are Diversified

**Portfolio Diversification Across 13 Industries - At 9/30/2022 Fair Value**



**Deal Source Composition - At 9/30/2022 Fair Value**



# Portfolio Composition

<i>Portfolio Characteristics As Of:</i>	December 31, 2021		March 31, 2022		June 30, 2022		September 30, 2022	
Total Portfolio - FV	\$	576,595	\$	537,703	\$	586,462	\$	649,615
# of Portfolio Companies		47		45		49		52
Average Investment Size - FV	\$	12,268	\$	11,949	\$	11,969	\$	12,493
Top 5 Investments % FV		26.3%		29.5%		29.5%		26.9%
WAVG Investment Yield**		10.3%		10.2%		10.0%		11.2%
1st Lien FV	\$	395,753	\$	377,902	\$	433,106	\$	463,858
2nd Lien FV		106,232		85,498		83,846		115,928
Equity / Other FV		74,610		74,303		69,510		69,829
Proprietary % of FV		95.5%		95.7%		96.1%		97.1%
Syndicated % of FV		4.5%		4.3%		3.9%		2.9%
Fixed Rate Debt % Cost		11.5%		9.1%		6.9%		11.5%
Variable Rate Debt % of Cost		88.5%		90.9%		93.1%		88.5%
Performing % FV (Debt)		100.0%		100.0%		100.0%		100.0%
Non-Performing % FV (Debt)		0.0%		0.0%		0.0%		0.0%
Accrued Potential Success Fees	\$	11,400	\$	12,100	\$	4,400	\$	4,700

*\*\*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



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



**AXIOS INDUSTRIAL GROUP** is a provider of scaffolding, insulation, coatings, surface preparation and specialty solutions for a broad range of industrial customers in support of turnaround, maintenance and capital projects.



**CAFÉ ZUPAS** is a healthy fast casual restaurant brand that serves house-made soups, salads and sandwiches from over 200 fresh ingredients.



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



**ENGINEERING MANUFACTURING TECHNOLOGIES, LLC** is a precision manufacturer of close tolerance metal components used in defense, industrial, and other end markets and applications.



**ENCORE DREDGING PARTNERS, LLC** is a premier mid-sized cutter suction and mechanical dredging services provider focusing on navigable waterways throughout the United States.



**FIX-IT GROUP LLC** is a provider of residential maintenance, repair, and replacement services.



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



**HH-INSPIRE ACQUISITION, INC.** is a plastic surgery and aesthetic center offering a comprehensive range of cosmetic surgeries and aesthetics treatments



**ITEN DEFENSE, LLC** is a leading provider of advanced composites and armor solutions used in personal protective equipment, aircraft, tactical vehicles, and maritime vessels.



**KARMAN MISSILE & SPACE SYSTEMS** is a premier manufacturer of flight-critical and high temperature assemblies and components for space and defense end-markets with significant content on the industry's most coveted platforms.



**MCG ENERGY SOLUTIONS, LLC** is a provider of SaaS-based energy trading, asset and risk management workflow automation software products to the energy sector.



**R2i HOLDINGS, LLC** is a leading national marketing agency that combines data and technology with creative design to build digital solutions.



**SALVO TECHNOLOGIES, INC.** provides an integrated suite of technologies to serve the security and defense, medical, industrial, semiconductor, commercial, and science and technology markets.



**WORKFORCEQA LLC** is a leading tech-enabled Third-Party Administrator ("TPA") of employee compliance solutions focused on regulated and safety-sensitive industries.



**XCEL HOLDINGS LLC** designs and markets high-quality, innovative equipment and apparel for the surfing, diving and paddleboarding categories.



# Quarterly Financial Summary

<i>In Thousands, except per share data</i>	Three Months Ended			
	December 31, 2021	March 31, 2022	June 30, 2022	September 30, 2022
Income:				
Interest Income	\$ 12,866	\$ 12,962	\$ 12,593	\$ 15,567
Other Investment Income	3,301	4,298	1,191	372
Total Investment Income	16,167	17,260	13,784	15,939
Expenses:				
Fees to Advisor & Admin	3,063	4,749	2,916	3,837
Interest Expense	3,007	3,020	3,150	3,789
Operating Expense	937	796	771	836
Total Expenses	7,007	8,565	6,837	8,462
Net Investment Income (NII)	\$ 9,160	\$ 8,695	\$ 6,947	\$ 7,477
Weighted Average Shares*	34,304	34,304	34,304	34,492
NII Per WAVG Share	\$ 0.267	\$ 0.253	\$ 0.203	\$ 0.217
Realized/Unrealized Gains (Loss) per Share	\$ 0.086	\$ (0.011)	\$ (0.366)	\$ (0.069)
Dividend Per WAVG Share	\$ 0.195	\$ 0.195	\$ 0.203	\$ 0.203
NAV Per Share	\$ 9.30	\$ 9.49	\$ 9.12	\$ 9.08
Return on Equity (NII)**	9.6%	9.9%	9.9%	10.1%
Portfolio at Fair Value	576,595	537,703	586,462	649,615
Debt***	251,138	214,736	277,456	339,407
Net Asset Value	323,853	325,467	312,921	315,487
Debt-to-Equity	81.4%	68.5%	90.9%	109.5%

\*Total Shares outstanding at 9/30/2022 was 34,734,796

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

\*\*\*Debt includes Line of Credit 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 9/30/2022 Quarter Summary

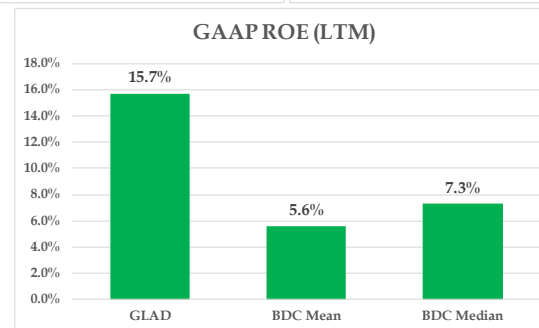
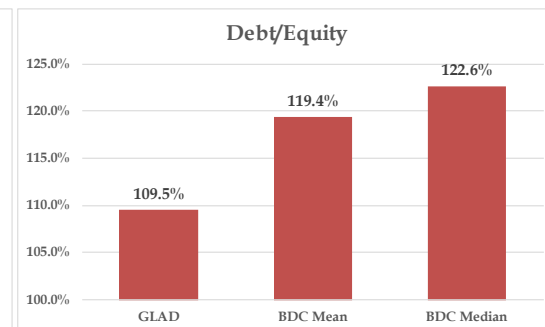
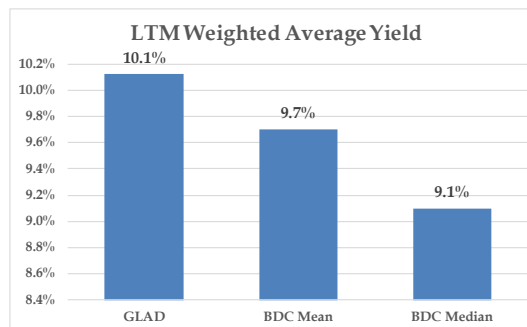
## Capital Base and Liquidity

- Total assets grew to \$661 million as of September 30, 2022, consisting of \$650 million in investments at fair value and \$11 million in cash and other assets.
- Leverage as of September 30, 2022 increased with new investment activity and now sits at 110% of Net Assets, while remaining below the BDC industry average.
- Borrowing availability under the line of credit rose with a \$50 million increase to the LOC (new commitment total of \$225 million) in September of 2022, and availability was further supplemented with an additional \$20 million bank commitment which closed in late October.

## ROE Performance

- The portfolio generated an average ROE Yield (NII) of 10.1% for the twelve months ended September 2022.
- The cumulative return on equity of 15.7% over the past year has outpaced average BDC returns. <sup>(1)</sup>
- With floating rate investments exceeding floating rate debts by approx. \$400 million and market rates on pace to be up 125bp this quarter, we expect net interest income to continue to rise over the near term.

(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 LLC**  
John Rowan

**Ladenburg Thalmann**  
Mickey Schleien

**Oppenheimer & Co.**  
Mitchel Penn

**Raymond James**  
Robert Dodd

## 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:**  
Kirkland & Ellis LLP

**Transfer Agent:**  
Computershare Inc.

**Auditors:**  
PricewaterhouseCoopers LLP

## NASDAQ Listings

**Common Stock Ticker: GLAD**

## Corporate Headquarters

1521 Westbranch Drive, Ste. 100  
McLean, VA 22102  
703-287-5800

**Other Locations:** Dallas, Los Angeles &  
New York