



GLADSTONE CAPITAL

Investor Presentation
for the Fiscal Quarter Ended
December 31, 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 or the SEC’s web site, 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 December 31, 2022):

- \$622 million portfolio at fair value diversified across 50 companies and 13 different industries
- Conservative asset mix with 91% of investments in secured loans, 72% 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 12.3%, which is modestly leveraged (0.9:1 debt/equity) to support GLAD's net investment income (NII) yield on net asset value which averaged 10.0% for the last four quarters

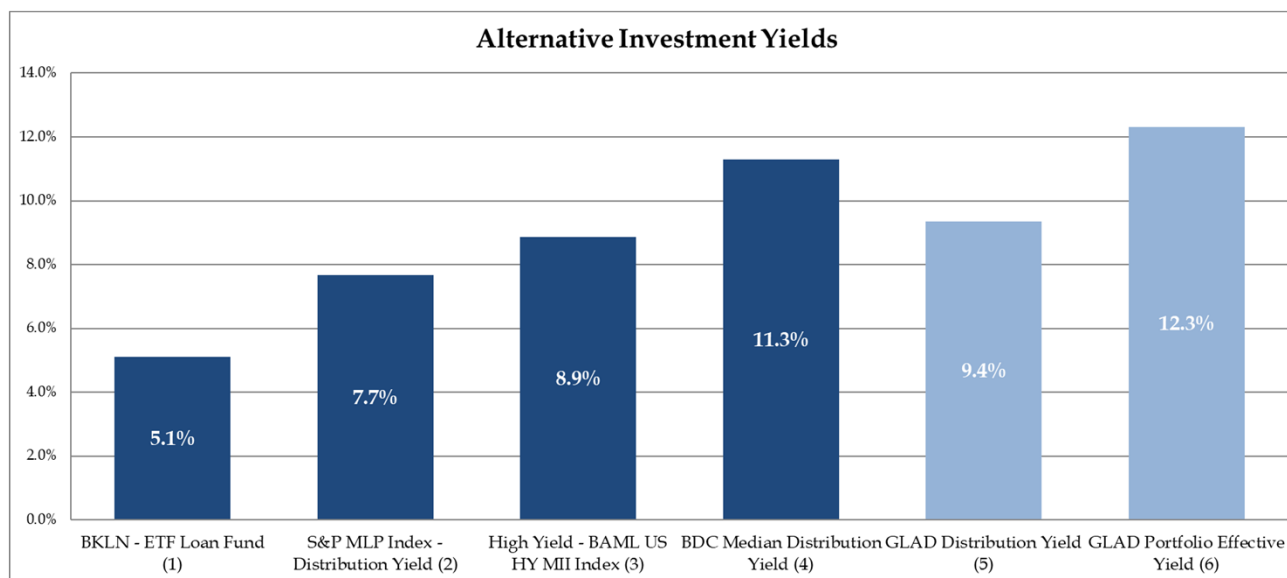
Why Invest in a BDC?

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 12/31/2022
(2) S&P MLP Index Dividend Yield – 12/31/2022
(3) BAML US High Yield Master II Index – Effective Yield 12/31/2022

- (4) Raymond James 3/2/2023 BDC Industry Investment Banking Weekly Newsletter
(5) GLAD's stock price as of 12/31/2022
(6) Reported in GLAD's [Press Release](#) dated February 6, 2023

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 (~72% of the portfolio at 12/31/22)

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 12/31/2022 Quarter Summary

Originations/Portfolio Activity:

- Originations totaled \$11 million during the quarter and represented add-on investments to existing portfolio companies while amortization, repayments, and exits totaled \$39 million, resulting in a net asset reduction of \$28 million for the period.
- Portfolio exits included the sale of equity investments in Targus and Leeds Novamark Capital which generated proceeds of \$7.9 million in addition to the repayment of our senior debt to R2i Holdings which contributed to the 35% drop in PIK income for the quarter.

Portfolio Yield / Net Investment Income (NII):

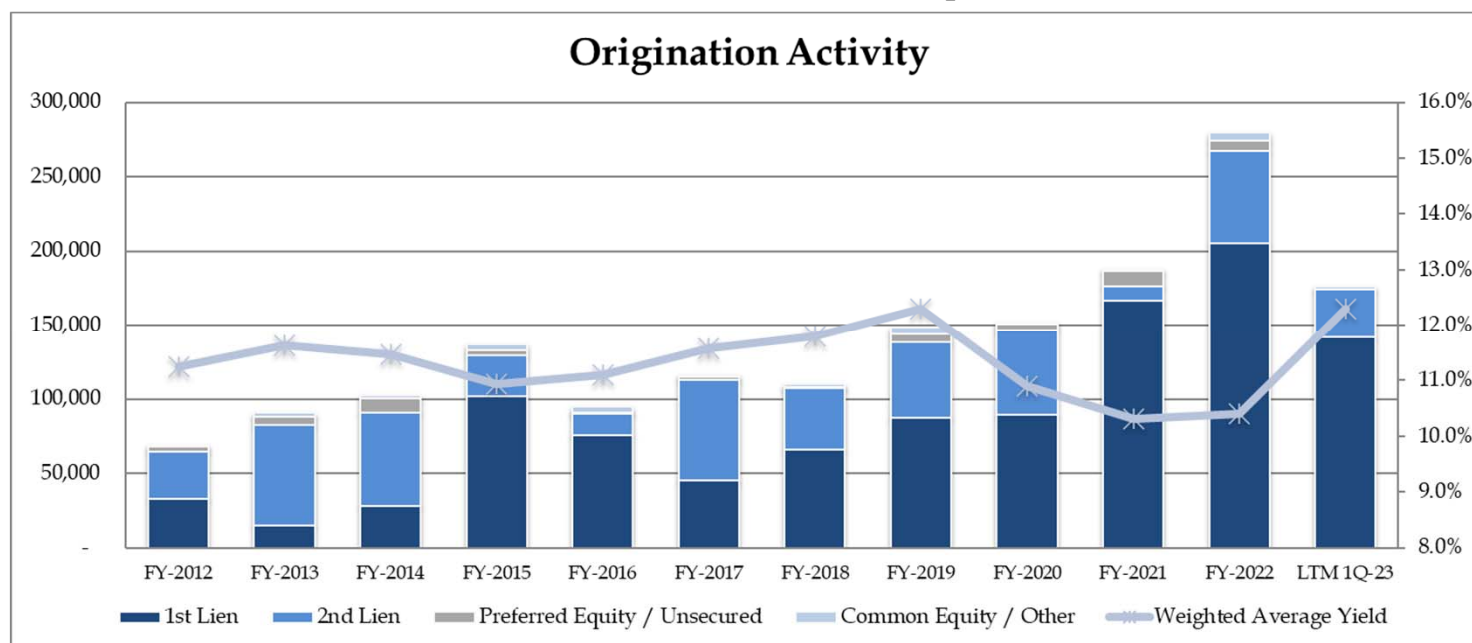
- Interest income for the quarter rose 18.0% to \$18.4 million as the weighted average yield rose with market rates to 12.3%, up 110 basis points from the prior quarter.
- Dividend and fee income rose to \$0.9 million with several year-end equity distributions which also contributed to the 21.0% rise in Total Investment Income which totaled \$19.3 million for the quarter.
- Total expenses increased by \$2.1 million compared to the prior quarter as net management fees increased by \$1.2 million with increased assets, higher incentive fees and absence of incentive fee credits and borrowing costs increased by \$0.9 million on higher bank borrowings and increased interest rates.
- Net investment income for the quarter rose \$1.2 million to \$8.7 million or \$0.25 per share, covering approximately 110% 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 91% of investments in secured loans, 72% in lower risk 1st lien loans and weighted average EBITDA leverage across core proprietary loan portfolio of 3.3x
- Depreciation of \$3.0 million for the quarter was primarily related to small moves in several equity positions with very little of the depreciation associated with stress or performance of the debt portfolio.

Gladstone Capital Origination Activity

- Originations for the quarter ended December 31, 2022 declined with overall market activity and net of exits and repayments resulted in a \$26 million decline in investments for the period.

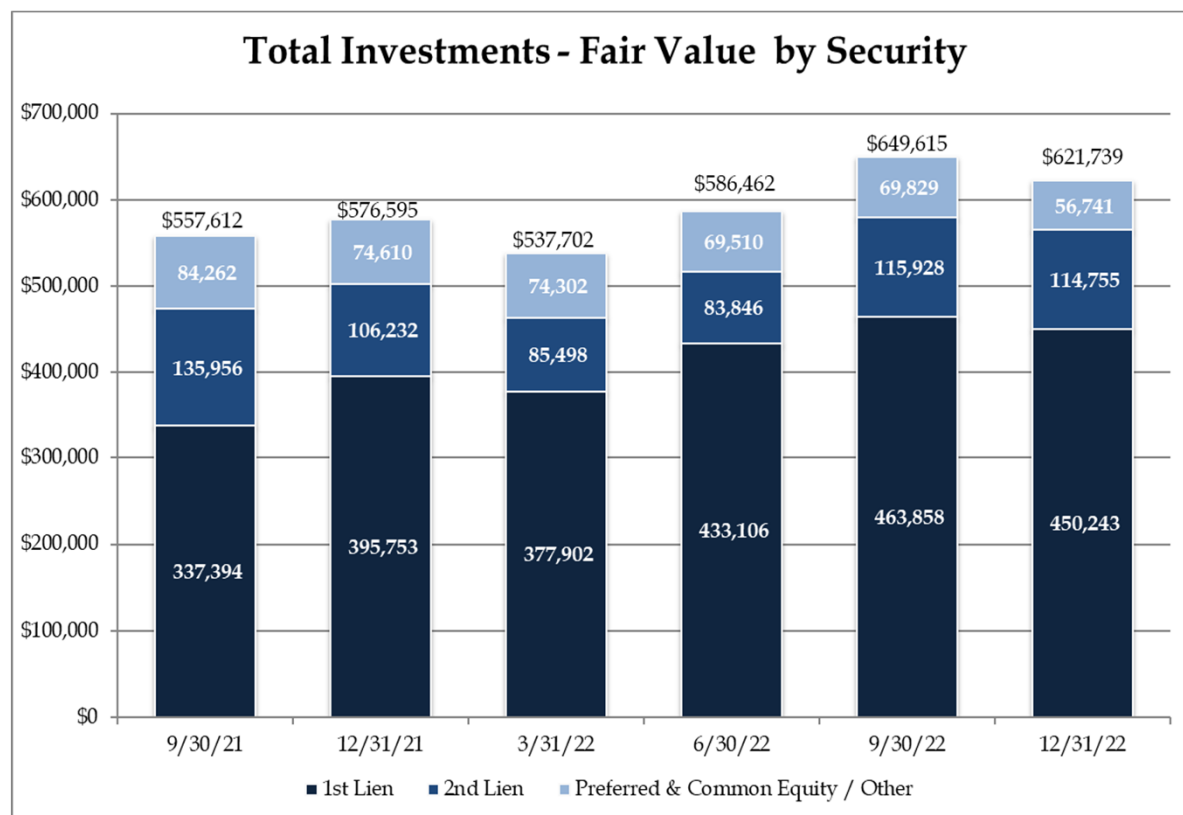


Gladstone Capital Quarterly Net Investment

	3/31/2021	6/30/2021	9/30/2021	12/31/2021	3/31/2022	6/30/2022	9/30/2022	12/31/2022
New Investments at Cost	\$ 72,000	\$ 37,992	\$ -	\$ 106,918	\$ -	\$ 48,717	\$ 59,619	\$ 2,416
Disbursements to Existing Portfolio Companies	-	15,200	27,551	3,876	10,775	18,565	26,428	10,963
Sales, Repayments, Other Exits at Cost	(47,912)	(54,428)	(2,791)	(96,799)	(50,858)	(6,292)	(21,801)	(39,183)
Net New Investments at Cost	\$ 24,088	\$ (1,236)	\$ 24,760	\$ 13,995	\$ (40,083)	\$ 60,990	\$ 64,246	\$ (25,804)
Number of New Portfolio Company Investments	3	3	0	6	0	4	4	0
Number of Portfolio Company Exits	3	3	1	5	2	0	1	2
Total Portfolio Companies	47	47	46	47	45	49	52	50

Gladstone Capital Portfolio Trends

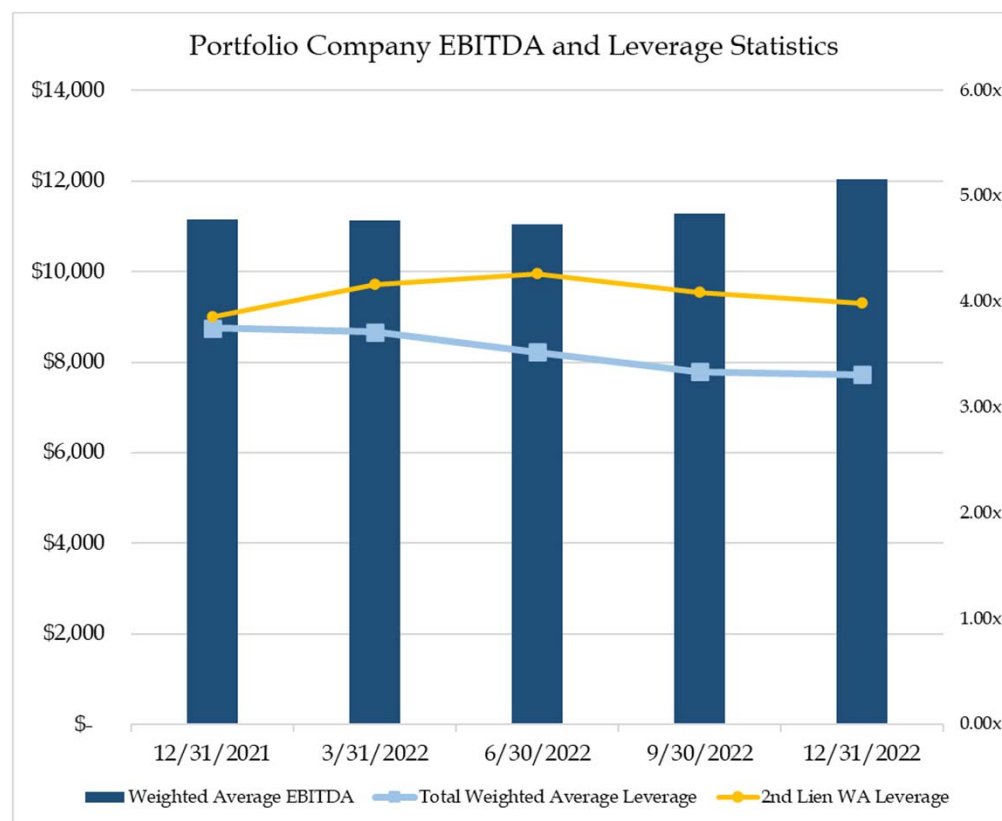
- Originations have outpaced portfolio exits and refinancings over the past several quarters, resulting in a modest \$45 million increase in total investments in the past four quarters.
- PE sponsor demand for flexible 1st lien/unitranche financing continues to drive new originations and we maintained 1st lien debt in excess of 70% of the portfolio.
- Approximately 90% of our loan portfolio is subject to floating rates with minimum LIBOR/SOFR floors.
- We continue to make equity co-investments in approximately half of our new originations to reseed the equity portfolio after the realized gains of the past year.
- The current portfolio valuation of \$621.7 million represents 97.0% of cost as of 12/31/2022.



	9/30/21	12/31/21	3/31/22	6/30/22	9/30/22	12/31/22
First Lien Debt	60.5%	68.6%	68.7%	73.9%	71.4%	72.4%
Second Lien Debt	25.0%	18.4%	15.9%	14.3%	17.8%	18.5%
Equity / Other	15.1%	12.9%	13.8%	11.9%	11.8%	9.1%

Portfolio Metrics

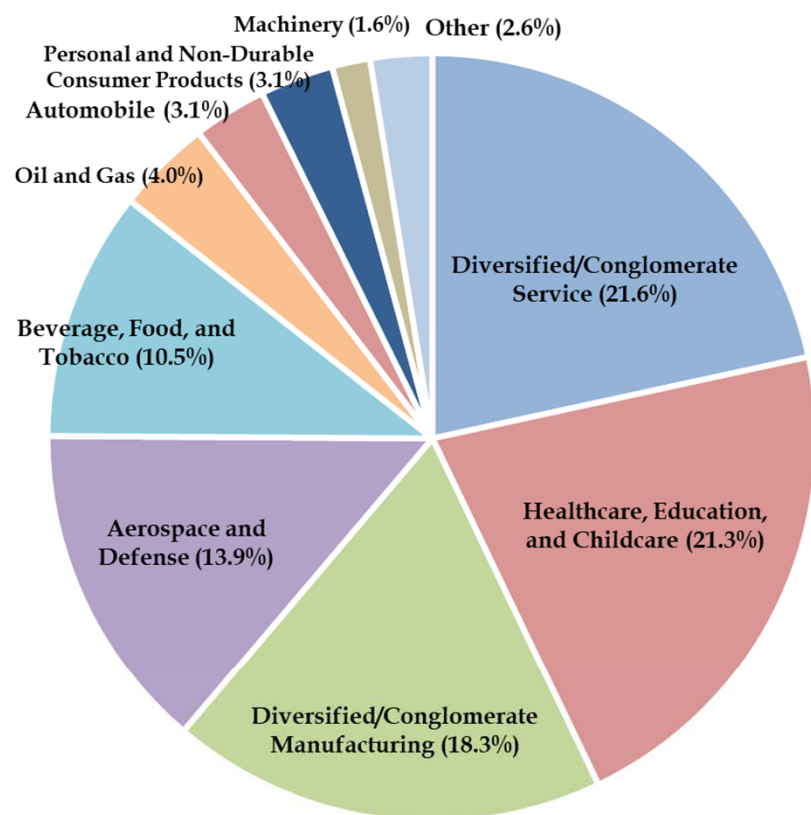
Consistent with GLAD's LMM focus, the core loan portfolio continues to represent companies with an average EBITDA of approx. \$12.0 million and an average leverage attachment point of 3.3x EBITDA



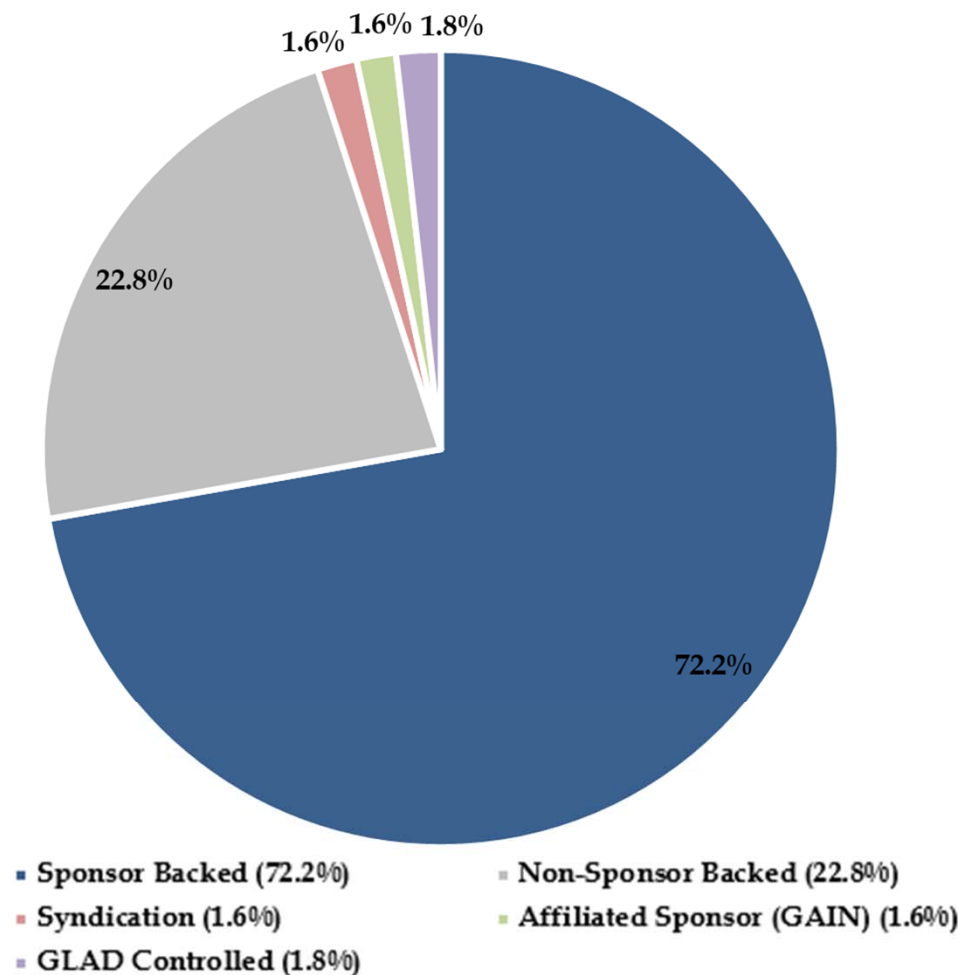
**For the purposes of this presentation, certain investments have been excluded from the data used to develop the above analysis. Those exclusions include investments: (i) originated as Syndications; (ii) co-investments with GAIN; (iii) investments under \$5 million; (iv) equity only investments; (v) two oil and gas investments that saw outsized impacts from COVID-19; (vi) investments with outsized TTM EBITDA that skew weighted average EBITDA; (vii) one investment with a de minimis TTM EBITDA relative to total debt skewing weighted average leverage; and (viii) 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 13 Industries - At 12/31/2022 Fair Value



Deal Source Composition - At 12/31/2022 Fair Value



Portfolio Composition

<i>Portfolio Characteristics As Of:</i>	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022
Total Portfolio - FV	\$ 537,703	\$ 586,462	\$ 649,615	\$ 621,739
# of Portfolio Companies	45	49	52	50
Average Investment Size - FV	\$ 11,949	\$ 11,969	\$ 12,493	\$ 12,435
Top 5 Investments % FV	29.5%	29.5%	26.9%	28.2%
WAVG Investment Yield**	10.2%	10.0%	11.2%	12.3%
1st Lien FV	\$ 377,902	\$ 433,106	\$ 463,858	\$ 450,243
2nd Lien FV	85,498	83,846	115,928	114,755
Equity / Other FV	74,303	69,510	69,829	56,741
Proprietary % of FV	95.7%	96.1%	97.1%	98.4%
Syndicated % of FV	4.3%	3.9%	2.9%	1.6%
Fixed Rate Debt % Cost	9.1%	6.9%	11.5%	8.6%
Variable Rate Debt % of Cost	90.9%	93.1%	88.5%	91.4%
Performing % FV (Debt)	100.0%	100.0%	100.0%	99.6%
Non-Performing % FV (Debt)	0.0%	0.0%	0.0%	0.4%
Accrued Potential Success Fees	\$ 12,100	\$ 4,400	\$ 4,700	\$ 4,000

***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



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

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

In Thousands, except per share data

	Three Months Ended			
	March 31, 2022	June 30, 2022	September 30, 2022	December 31, 2022
Income:				
Interest Income	\$ 12,962	\$ 12,593	\$ 15,567	\$ 18,367
Other Investment Income	4,298	1,191	372	927
Total Investment Income	17,260	13,784	15,939	19,294
Expenses:				
Fees to Advisor & Admin	4,749	2,916	3,837	4,977
Interest Expense	3,020	3,150	3,789	4,629
Operating Expense	796	771	836	963
Total Expenses	8,565	6,837	8,462	10,569
Net Investment Income (NII)	\$ 8,695	\$ 6,947	\$ 7,477	\$ 8,725
Weighted Average Shares*	34,304	34,304	34,492	35,207
NII Per WAVG Share	\$ 0.253	\$ 0.203	\$ 0.217	\$ 0.248
Realized/Unrealized Gains (Loss) per Share	\$ (0.011)	\$ (0.366)	\$ (0.069)	\$ (0.086)
Dividend Per WAVG Share	\$ 0.195	\$ 0.203	\$ 0.203	\$ 0.210
NAV Per Share	\$ 9.49	\$ 9.12	\$ 9.08	\$ 9.06
Return on Equity (NII)**	9.9%	9.9%	10.1%	10.0%
Portfolio at Fair Value	537,703	586,462	649,615	621,739
Debt***	214,736	277,456	339,407	306,064
Net Asset Value	325,467	312,921	315,487	324,326
Debt-to-Equity	68.5%	90.9%	109.5%	97.2%

*Total Shares outstanding at 12/31/2022 was 35,814,602

**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 12/31/2022 Quarter Summary

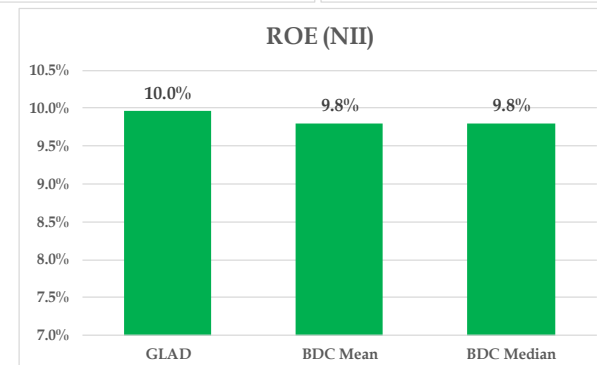
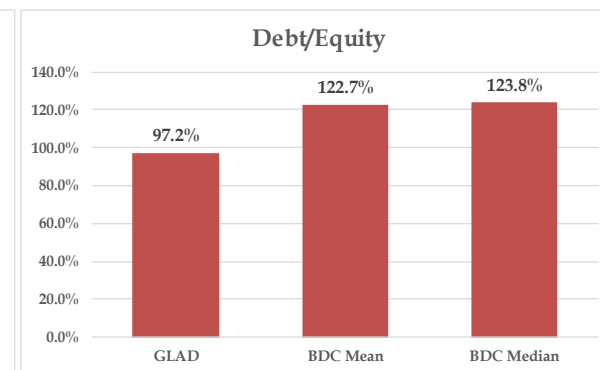
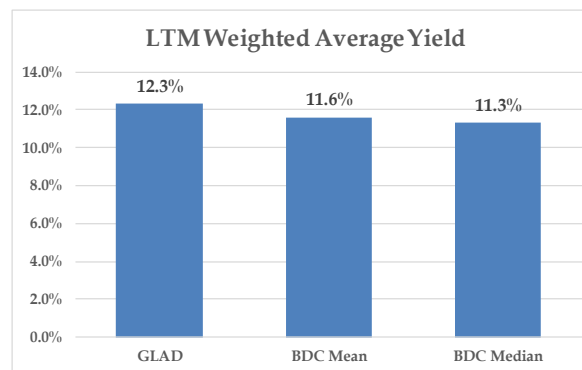
Capital Base and Liquidity

- Total Assets were \$640 million as of December 31, 2022, consisting of \$622 million in investments at fair value and \$18 million in cash and other assets.
- Leverage as of December 31, 2022 decreased to 97.2% of Net Assets which is well below the BDC industry average of 112.7%.
- Borrowing commitments under our line of credit were increased to \$245 million last quarter and we ended the quarter with borrowing availability of \$112 million as of December 31, 2022.

ROE Performance

- The portfolio generated an average ROE Yield (NII) of 10.0% for the twelve months ended December 2022.
- Based on the increases in NII with prevailing interest rates, the company increased the annual dividend to \$0.90 per share per year and NII earnings for the quarter covered dividends by 118%.
- With floating rate investments exceeding floating rate debts by approx. \$425 million and market rates on pace to be up at least 70 bps over the last quarter, we expect net interest income to continue to rise in the near term.

(1) BDC ROE Source: Raymond James BDC Industry Weekly Newsletters (3/2/2023)



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

Investment Adviser:
www.gladstonemanagement.com

Information on all Funds:
www.gladstonecompanies.com

Other Officers

Michael LiCalsi
General Counsel and Secretary

Jack Dellafiora
Chief Compliance Officer

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Other

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Transfer Agent:
Computershare Inc.

Auditors:
PricewaterhouseCoopers LLP

NASDAQ Listings

Common Stock Ticker: GLAD

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