



GLADSTONE CAPITAL

Financial and Portfolio Overview
for the Fiscal Quarter Ended

June 30, 2020

FINANCING FOR LOWER MIDDLE-MARKET COMPANIES

WASHINGTON
DC

— NEW
YORK

— DALLAS

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 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)
- As a BDC, the Company enables investors to participate in potentially high yielding private U.S. middle market investments while maintaining daily liquidity via the public stock market
- Managed by Gladstone Management Corporation, an SEC registered investment adviser that manages more than \$2.9 billion in assets, as of June 30, 2020, across four publicly traded funds
- Funding sources include publicly traded common stock (*Nasdaq: GLAD*), various senior note issues (*Nasdaq: GLADD and GLADL*), and a bank revolving credit facility
- Common stock annual distribution is currently \$0.78 per share; paid monthly at \$0.065 per share

Objective: “Delivering Distributions to Our Stockholders”

- Maintain common distributions from interest income generated by our secured loan portfolio
- Target investments in growth-oriented industries while maintaining portfolio industry diversity
- Invest in companies with proven cash flow and experienced management teams, which are backed by private equity sponsors or owner-operators with significant equity at risk

Investment Portfolio (as of June 30, 2020):

- \$447 million at fair value diversified across 48 companies and 18 different industries
- Conservative asset mix with 91.0% of investments in secured loans and 46.2% in lower risk 1st lien loans
- Weighted average portfolio yield of 10.9%

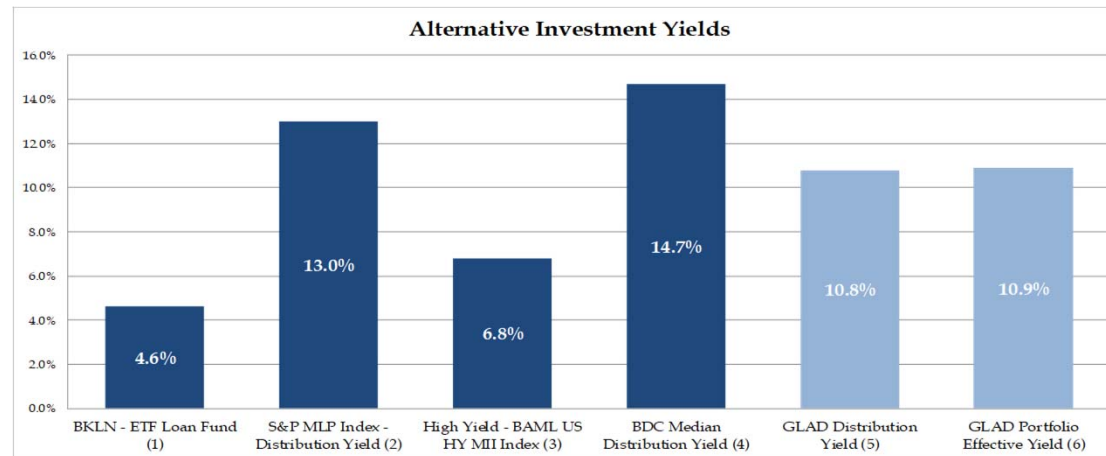
Why Invest in a BDC?

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 or appreciation 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 6/30/2020
(2) S&P MLP Index Dividend Yield - 6/30/2020
(3) BAML US High Yield Master II Index - Effective Yield 6/30/2020

- (4) Raymond James 7/24/2020 BDC Industry Investment Banking Weekly Newsletter
(5) GLAD's stock price as of 6/30/2020
(6) Reported in GLAD's Form 10-Q for the quarter ended 6/30/2020

Gladstone Capital Strategy and Risk Management

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 wide diversity of established added value businesses 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 manage investment risks while delivering investor-oriented financing solutions

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, external validation of quarterly investment valuations subject to ongoing Gladstone Capital board oversight

Attractive Lower Middle Market Dynamics

Why we target lower middle market companies

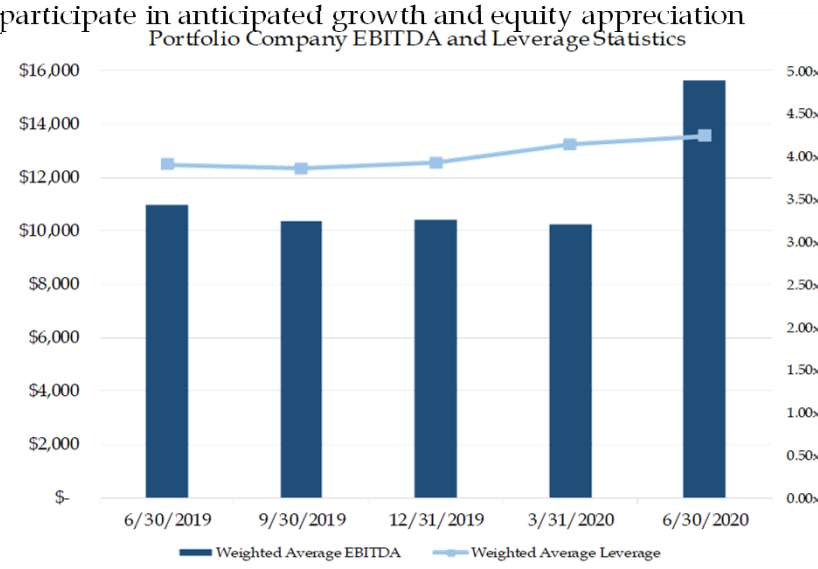
- Lower middle market companies typically sell for lower cash flow multiples, which translate into reduced debt financing requirements and lower leverage levels
- Greater industry diversity and more consistent flow of growth-oriented investment opportunities across the vast U.S. based lower middle market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

Trends Enhancing Opportunity for Non-Bank Lenders

- Ability to provide simplified “one-stop” financing solutions, and reduce repayment requirements or provide for follow-on funding to support a company’s growth objectives
- Regulations have curtailed commercial bank flexibility and appetite to hold leveraged investments
- Bulk of private debt funds focus on larger borrowers (>\$10 million EBITDA) with higher minimum investment thresholds

Lower Middle Market Portfolio Metrics

- Gladstone’s core proprietary loan portfolio* has a weighted average EBITDA of \$15.6 million and the weighted average leverage is 4.24x*
- Core portfolio consists of ~80% of total investments including 48% in first lien and 52% in second lien loans



*For the purposes of this presentation, certain investments have been excluded from the data used to develop the above analysis. Those exclusions include: (i) originated as Syndications; (ii) co-investments with GAIN; (iii) investments under \$4 million; (iv) equity only investments; (v) one negative EBITDA business and (vi) one restructured business. Additionally, investment EBITDA and Leverage are weighted based on the size of the principal outstanding.

Gladstone Capital 6/30/2020 Quarter Summary

Originations/Portfolio Activity:

- Invested \$56.5 million during the quarter, including \$30.0 million of second lien debt and \$23.5 million of first lien debt in two new proprietary investments.
- Exits and repayments totaled \$17.1 million, including the repayment of our proprietary investments in Travel Sentry and Canopy Safety Brands and our syndicated investment in DiscoverOrg.
- Proprietary loan originations in the last five quarters are consistent with lower middle market investment strategy of modest leverage (~3.5x EBITDA) while maintaining average yield (~11%).

Portfolio Yield / Net Investment Income (NII):

- Interest income increased 5.7% to \$11.6 million vs. the prior quarter with the increase in the average balance of interest-bearing investments.
- Prepayment fees, exit fees and dividend income fell in the quarter by \$0.4 million to \$0.1 million; however, total investment income increased to \$11.7 million, or 2.1% higher than the prior quarter.
- Borrowing costs were lower on the quarter with lower LIBOR rates and unused commitment fees; however, net management fees rose by \$0.9 million as deal closing fee credits increased and the incentive fee credit declined from \$1.6 million to \$0.4 million.
- Net Investment Income for the quarter ended June 30, 2020 decreased to \$6.1 million, or \$0.195 per share, and covered 100% of distributions.

Portfolio Performance and Valuation:

- The Net Increase in Net Assets from Operations was \$15.0 million for the quarter, or \$0.48 per share, driven by \$9.0 million of net portfolio appreciation from lower market-based spreads vs the prior quarter-end and the strong operating performers more than offset weakness in our energy and auto related investments.
- Senior secured assets fell with the portfolio activity during the quarter to 46.2% of our investment portfolio at fair value while the 2nd lien investments rose to 44.9%.

Gladstone Capital 6/30/2020 Quarter Summary

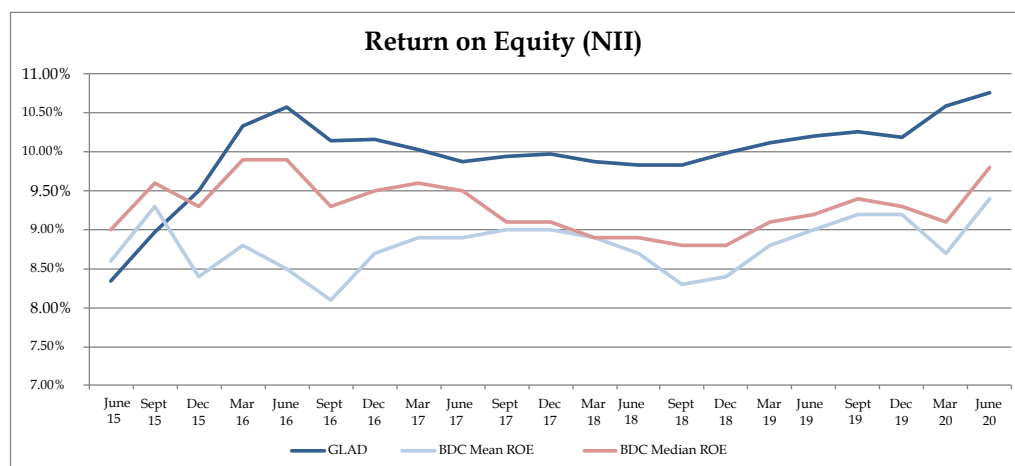
Capital Base and Liquidity

- Liabilities rose to \$231.0 million as of 6/30/2020, consisting of \$133.5 million in borrowings on our credit facility, \$57.5 million of our 6.125% 2023 senior notes, and \$38.8 million of our 5.375% 2024 senior notes.
- Leverage increased during the quarter to 102% of Net Assets.
- As of 6/30/2020, we had in excess of \$36 million of availability on our line of credit to grow our investment portfolio.

ROE Performance

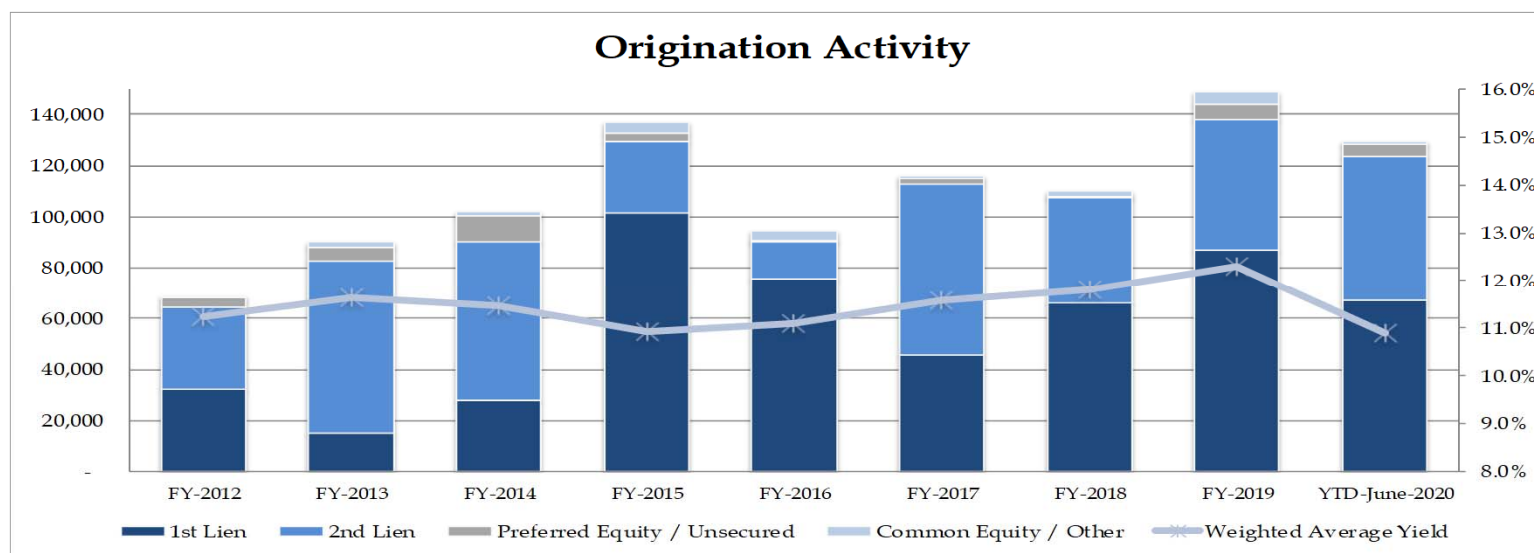
- Over the last 45 months, our portfolio's performance, as measured by NII / Average Net Assets, has consistently averaged ~10% and outpaced the average BDC returns ⁽¹⁾

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



Gladstone Capital Origination Activity

- Q3 2020 saw strong net new investment growth, driven by new proprietary investment origination and lower exits & repayments over the quarter.
- Weighted average yield was unchanged at 10.9% given interest rate floors in effect on floating rate assets.

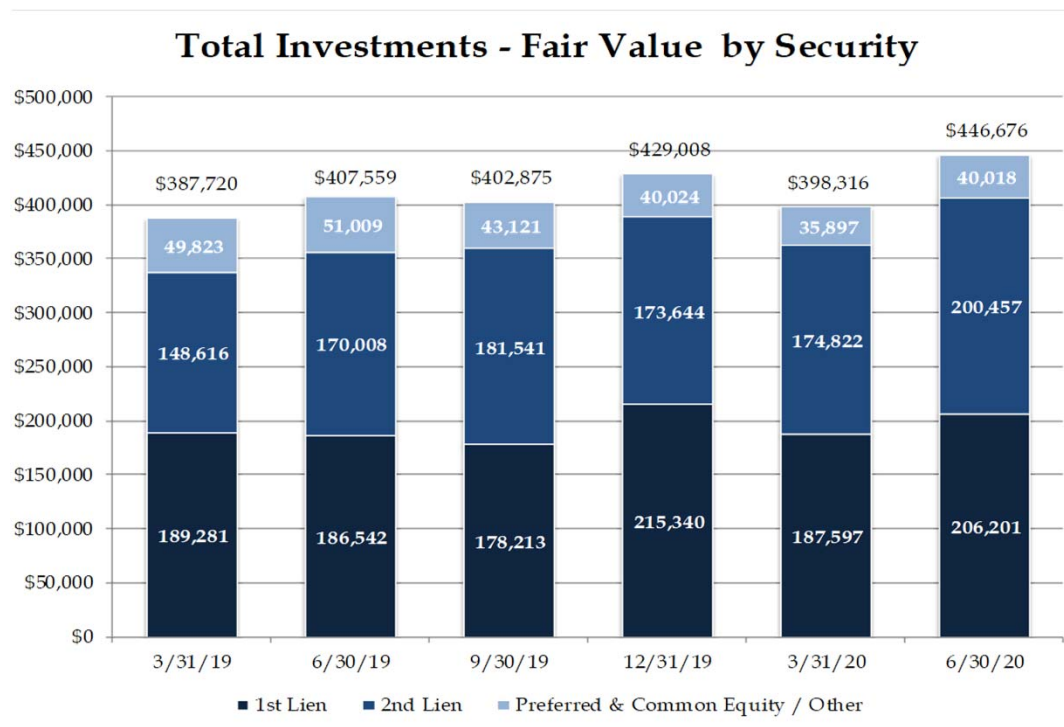


Gladstone Capital Quarterly Net Investment

	6/30/2018	9/30/2018	12/31/2018	3/31/2019	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020
New Investments at Cost	\$ 3,000	\$ 500	\$ 49,865	\$ 3,303	\$ 58,000	\$ 13,000	\$ 38,000	\$ 19,000	\$ 53,500
Disbursements to Existing Portfolio Companies	17,143	9,595	9,363	643	1,150	11,743	4,535	10,792	2,177
Sales, Repayments, Other Exits at Cost	(24,356)	(9,547)	(8,855)	(51,529)	(41,850)	(28,827)	(12,631)	(26,405)	(17,084)
Net New Investments at Cost	\$ (4,213)	\$ 548	\$ 50,373	\$ (47,583)	\$ 17,300	\$ (4,084)	\$ 29,904	\$ 3,387	\$ 38,593
Number of New Portfolio Company Investments	1	1	6	1	5	1	2	1	2
Number of Portfolio Company Exits	1	1	2	4	3	1	4	4	2
Total Portfolio Companies	50	50	54	51	53	53	51	48	48

Gladstone Capital Portfolio Trends

- Net originations over the last four quarters have averaged almost \$20 million per quarter supporting an increase in the core interest income and improved expense efficiencies.
- Originations have also supported a gradual increase in total investments except for the 3/31/20 quarter which dipped with the unrealized depreciation associated with the COVID-19 pandemic related sell-off.
- 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.



	3/31/19	6/30/19	9/30/19	12/31/19	3/31/20	6/30/20
First Lien Debt	48.8%	45.8%	44.2%	50.2%	47.1%	46.2%
Second Lien Debt	38.3%	41.7%	45.1%	40.5%	43.9%	44.9%
Equity / Other	12.9%	12.5%	10.7%	9.3%	9.0%	8.9%

Portfolio Composition

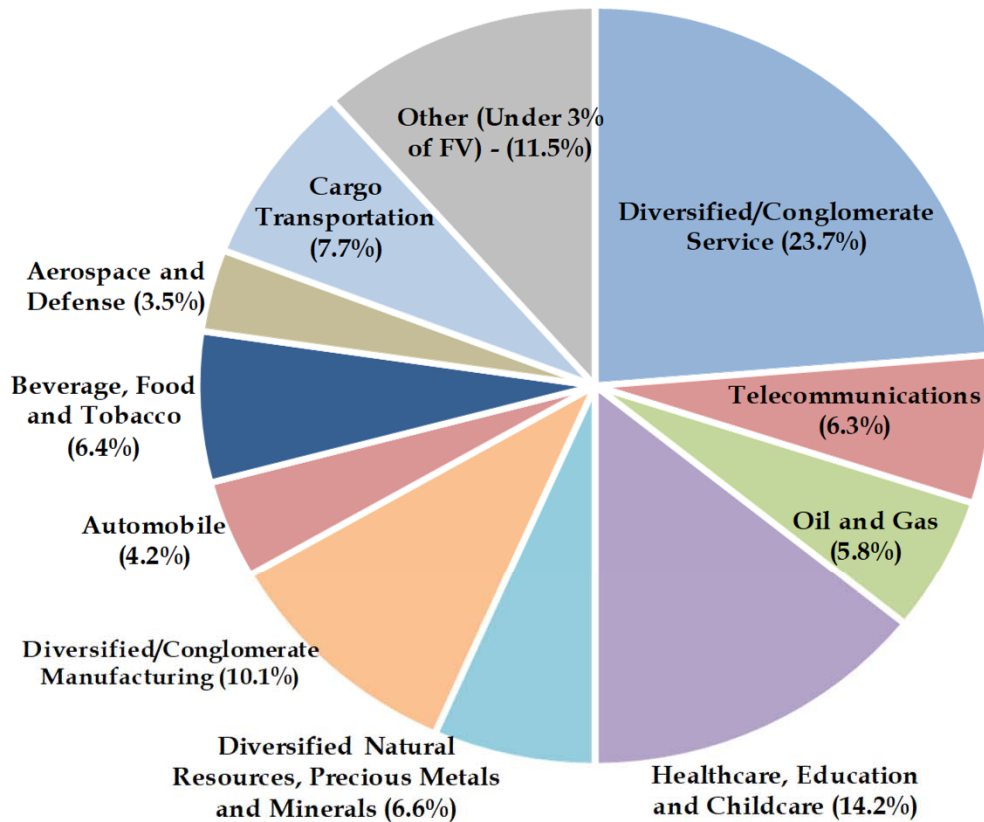
<i>Portfolio Characteristics As Of:</i>	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020
Total Portfolio - FV	\$ 407,559	\$ 402,875	\$ 429,007	\$ 398,316	\$ 446,676
# of Portfolio Companies	53	53	51	48	48
Average Investment Size - FV	\$ 7,690	\$ 7,601	\$ 8,412	\$ 8,298	\$ 9,306
Top 5 Investments % FV	32.1%	33.6%	31.8%	32.8%	30.2%
WAVG Investment Yield**	11.8%	12.5%	11.3%	10.9%	10.9%
1st Lien FV	\$ 186,542	\$ 178,213	\$ 215,340	\$ 187,597	\$ 206,201
2nd Lien FV	170,008	181,541	173,644	174,822	200,457
Equity / Other FV	51,009	43,121	40,024	35,897	40,018
Proprietary % of FV	88.1%	84.9%	90.5%	91.2%	91.6%
Syndicated % of FV	11.9%	15.1%	9.5%	8.8%	8.4%
Fixed Rate Debt % Cost	11.8%	12.2%	16.3%	16.3%	21.8%
Variable Rate Debt % of Cost	88.2%	87.8%	83.7%	83.7%	78.2%
Performing % FV (Debt)	99.4%	100.0%	100.0%	98.2%	98.4%
Non-Performing % FV (Debt)	0.6%	0.0%	0.0%	1.8%	1.6%
Accrued Potential Success Fees	\$ 6,100	\$ 6,200	\$ 7,300	\$ 7,500	\$ 8,800

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

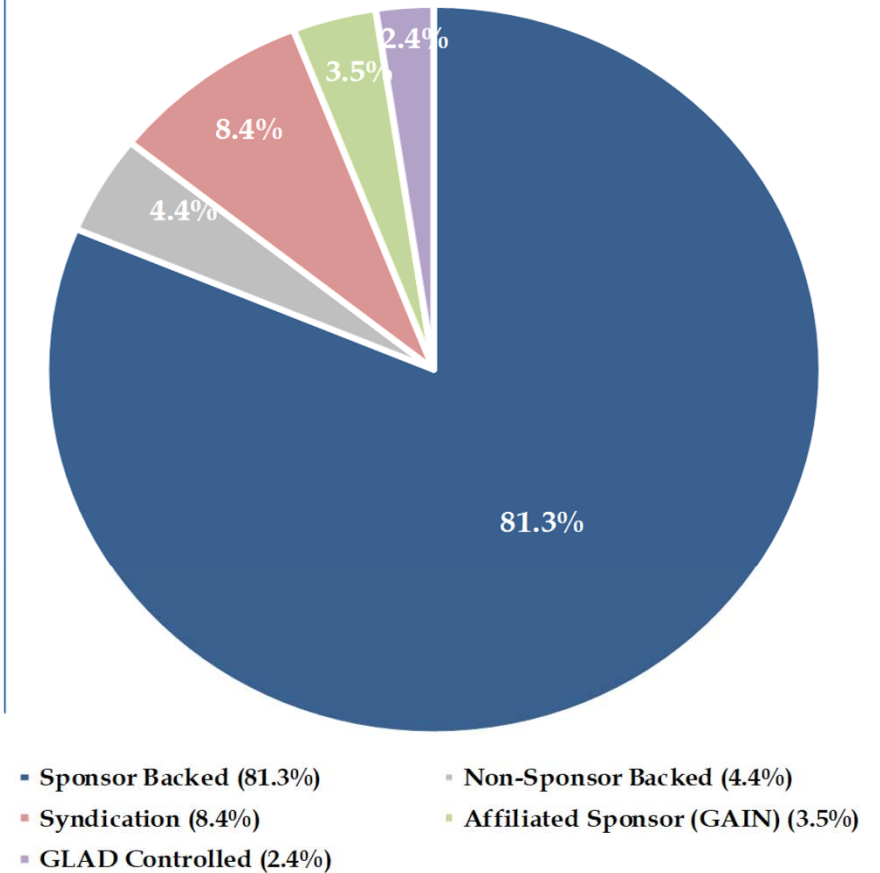
Note: \$'s are in (000's)

Industry and Deal Sources Are Diversified

Portfolio Diversification Across 18 Industries - At 6/30/2020 Fair Value



Deal Source Composition - At 6/30/2020 Fair Value



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				
	June 30, 2019	September 30, 2019	December 31, 2019	March 31, 2020	June 30, 2020
Income:					
Interest Income	\$ 11,162	\$ 11,818	\$ 11,456	\$ 11,002	\$ 11,628
Other Investment Income	1,724	900	703	490	101
Total Investment Income	12,886	12,718	12,159	11,492	11,729
Expenses:					
Fees to Advisor & Admin	2,953	2,820	2,304	1,420	2,300
Interest Expense	2,088	1,966	2,537	2,582	2,472
Preferred Dividend Expense	776	777	9	-	-
Operating Expense	856	791	892	943	874
Total Expenses	6,673	6,354	5,742	4,945	5,646
Net Investment Income (NII)	\$ 6,213	\$ 6,364	\$ 6,417	\$ 6,547	\$ 6,083
Weighted Average Shares*	29,491	30,273	30,543	31,145	31,193
NII Per WAVG Share	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.20
Dividend Per WAVG Share	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.21	\$ 0.20
Weighted Avg Yield**	11.8%	12.5%	11.3%	10.9%	10.9%
Return on Equity (NII)***	10.2%	10.3%	10.2%	10.6%	10.8%
Gross Originations	\$ 59,475	\$ 25,073	\$ 42,863	\$ 30,175	\$ 56,540
Portfolio at Fair Value	407,559	402,875	429,007	398,316	446,676
Debt****	165,401	173,171	184,346	185,635	227,210
Net Asset Value	246,186	249,330	250,789	217,923	226,797
NAV Per Share	\$ 8.23	\$ 8.22	\$ 8.08	\$ 6.99	\$ 7.27

*Total Shares outstanding at 06/30/2020 was 31,192,639

**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.

Why Own Gladstone Capital Stock?

Well established lender in attractive lower middle market arena

- Dedicated investment team focus on LMM opportunities supported by an advisor team of more than 60 experienced professionals
- Attraction of lower middle market debt investment profile as less competitive niche which supports higher yields at lower leverage levels with more consistent deal flow
- Disciplined investment oversight contributing to ROE of over 10% and consistently exceeds average BDC performance (*BDC ROE Source: Raymond James BDC Industry Weekly Newsletters*)

Conservative Business Model

- Reduced credit risk profile with proprietary portfolio of direct originated secured investments (approx. 50% senior loans) with real covenant protection and below market EBITDA leverage profile
- History of shareholder friendly behavior, including manager fee reductions and incentive fee credits to support continuing shareholder distributions
- Annual distribution yield of 10.7% as of June 30, 2020
- Management dedicated to fund performance and aligned economically with shareholders as insiders own >5% of our common stock

Prospect for the growth of Net Interest Income & Distributions

- Track record of prudent asset growth and increasing core interest earnings to preserve/grow distribution capacity which we believe will be bolstered by more favorable COVID-19 impacted market conditions in the near term

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

Investment Adviser:
www.gladstonemanagement.com

Information on all Funds:
www.gladstone.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

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
6.125% Series 2023 Senior Notes:
GLADD

Corporate Headquarters

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