



# GLADSTONE CAPITAL

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Investor Presentation  
for the Fiscal Quarter Ended  
June 30, 2021

*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) 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 (*including Nasdaq: GLADL*), and a bank revolving credit facility
- Managed by Gladstone Management Corporation, an SEC registered investment adviser that manages in excess of \$3.5 billion in assets across four publicly traded yield-oriented funds with significant insider equity holdings and 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 alternative repayment options
- Majority of investments are backed by private equity sponsors, which provide institutional governance, strategic sector insight, experience managing leveraged capital structure and significant invested equity to mitigate risk
- Leverage seasoned origination team to source, structure and pro-actively manage investments to mitigate losses

## **Investment Profile (as of June 30, 2021):**

- \$506 million portfolio at fair value diversified across 47 companies and 16 different industries
- Conservative asset mix with 88% of investments in secured loans, 63% 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 10.5%, which is modestly leveraged (0.72:1 debt/equity) to generate a distribution yield on net asset value of 9.2%

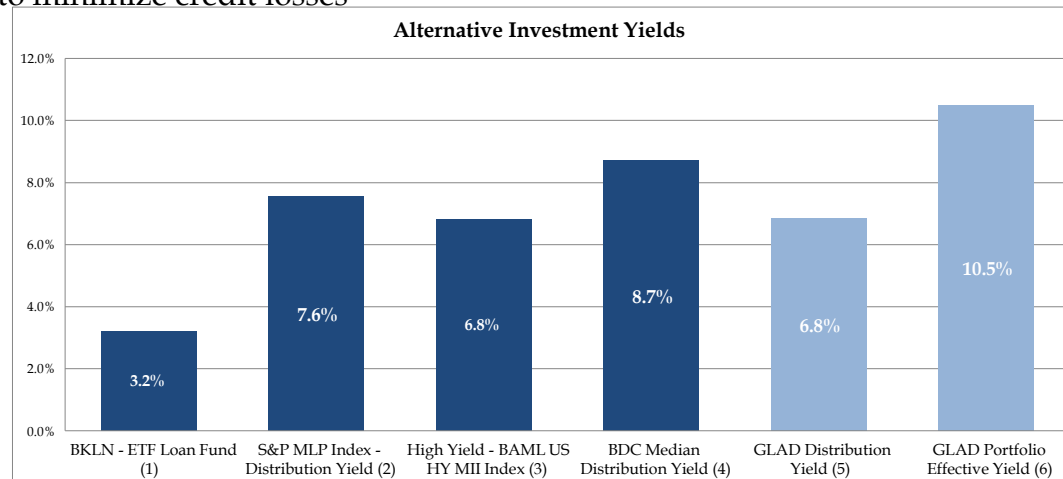
# Why Invest in a BDC?

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 6/30/2021  
(2) S&P MLP Index Dividend Yield - 6/30/2021  
(3) BAML US High Yield Master II Index - Effective Yield 6/30/2021

(4) Raymond James 7/29/2021 BDC Industry Investment Banking Weekly Newsletter  
(5) GLAD's stock price as of 6/30/2021  
(6) Reported in GLAD's Form 10-Q for the quarter ended 6/30/2021

# Gladstone Capital Strategy and Risk Management

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## **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 (~80% of the portfolio at 6/30/21)

## **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, and investments are subject to quarterly 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 (“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 closing and 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 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 6/30/2021 Quarter Summary

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## Originations/Portfolio Activity:

- Invested \$53.2 million during the quarter, including three new proprietary debt investments in the consumer products, healthcare, and energy sectors.
- Repayments and net proceeds totaled \$54.4 million, including the repayment of two proprietary investments at par and one syndicated investment, resulting in net originations of \$(1.2) million for the period.

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

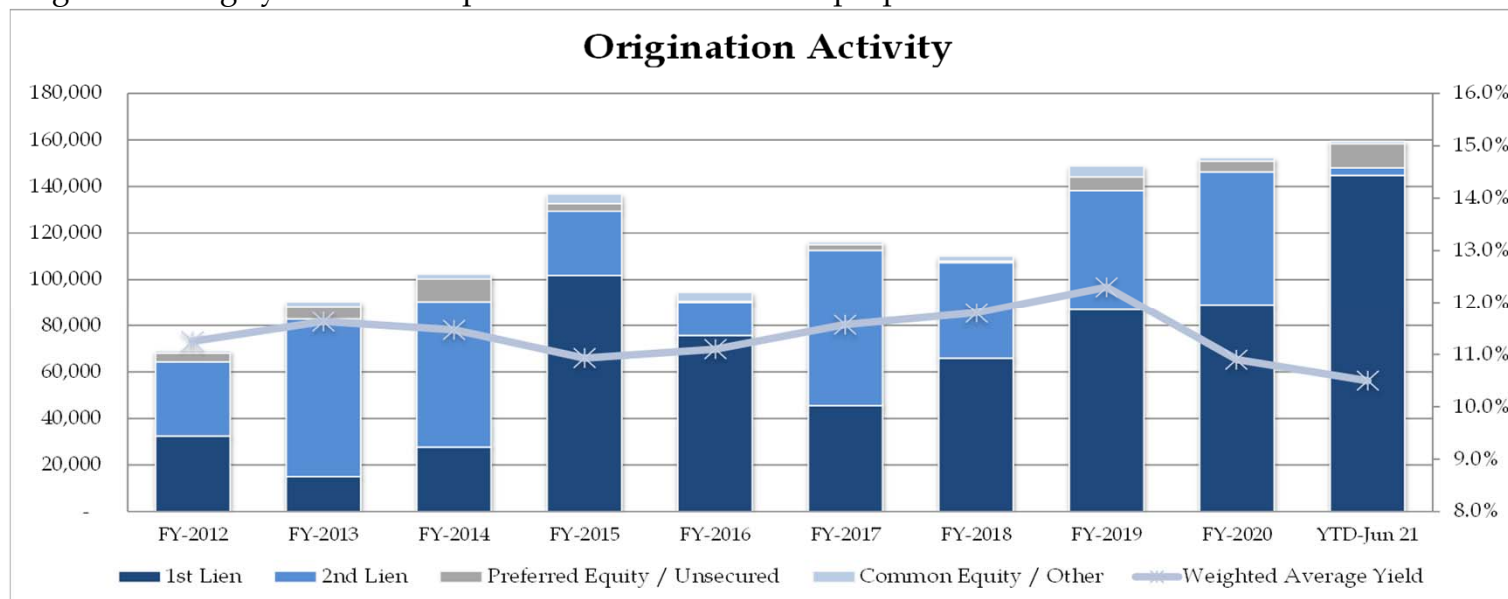
- Interest income increased to \$12.7 million vs. the prior quarter driven by the collection of \$0.6 million of past due interest.
- Prepayment fee income decreased quarter over quarter, however total investment income increased to \$13.7 million, which was up 6.1% from the prior quarter.
- Borrowing costs increased slightly on the quarter, however administration costs and expenses rose \$0.2 million which was associated with the renewal and extension of our bank line in the quarter.
- Net Investment Income rose to \$6.6 million, or \$0.20 per share which covered 100% of common stock distributions.

## Portfolio Performance and Valuation:

- Net Assets from Operations came in at \$18.0 million for the quarter, or \$0.53 per share, driven by \$11.4 million of net realized and unrealized gains for the quarter.
- Senior secured assets rose with the portfolio activity to 63% of the investment portfolio at fair value while the 2<sup>nd</sup> lien investments fell to 25%.
- Overall leverage performance improved as the core portfolio leverage decreased to 3.3x and there were no non-performing assets as one non-performing asset from the prior quarter was placed back on accrual status.

# Gladstone Capital Origination Activity

- Origination levels continue to outpace elevated refinancing activity for the LTM period.
- Weighted average yield was 10 bps lower due to increased proportion of 1<sup>st</sup> lien loans.



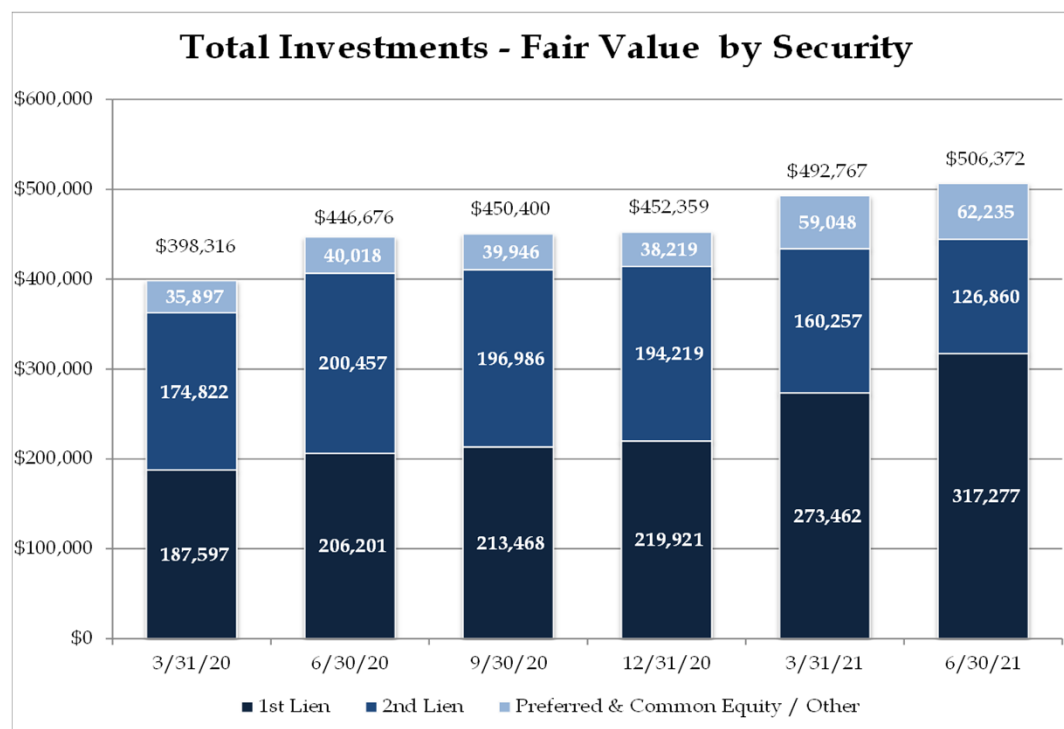
## Gladstone Capital Quarterly Net Investment

	6/30/2019	9/30/2019	12/31/2019	3/31/2020	6/30/2020	9/30/2020	12/31/2020	3/31/2021	6/30/2021
New Investments at Cost	\$ 58,000	\$ 13,000	\$ 38,000	\$ 19,000	\$ 53,500	\$ 20,650	\$ 29,000	\$ 72,000	\$ 37,992
Disbursements to Existing Portfolio Companies	1,150	11,743	4,535	10,792	2,177	1,252	98	-	15,200
Sales, Repayments, Other Exits at Cost	(41,850)	(28,827)	(12,631)	(26,405)	(17,084)	(22,635)	(34,142)	(47,912)	(54,428)
Net New Investments at Cost	\$ 17,300	\$ (4,084)	\$ 29,904	\$ 3,387	\$ 38,593	\$ (733)	\$ (5,044)	\$ 24,088	\$ (1,236)
Number of New Portfolio Company Investments	5	1	2	1	2	1	2	3	3
Number of Portfolio Company Exits	3	1	4	4	2	1	3	3	3
Total Portfolio Companies	53	53	51	48	48	48	47	47	47



# Gladstone Capital Portfolio Trends

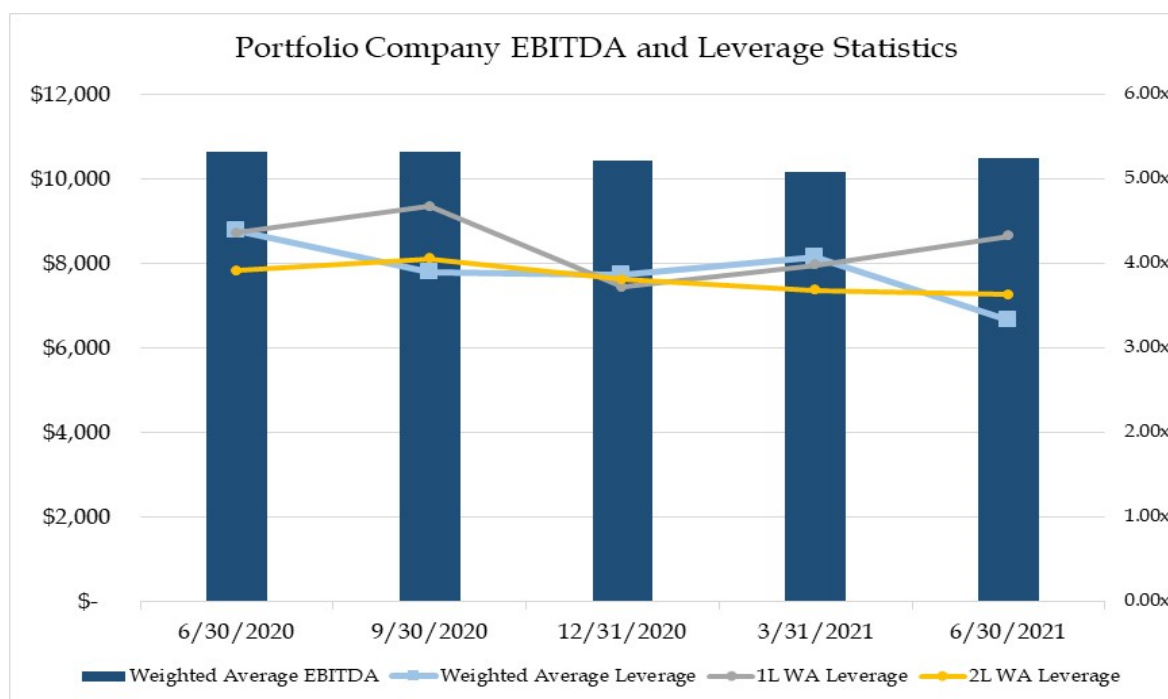
- Net originations over the last four quarters of \$17 million were driven by PE sponsor demand for flexible first lien/unitranche financing, partially offset by elevated repayment and exit activity.
- The bulk of the prepayments were second lien investments, contributing to the spike in first lien loans to 63% of total investments at fair value
- Equity investment appreciation on the quarter contributed more than \$13 million and lifted equity to 12.3% of the portfolio, offsetting proportional gains in 1<sup>st</sup> lien investments.
- Through June 2021 the portfolio has fully recovered all of the NAV decline reported in the March 31, 2020 quarter associated with the COVID-19 pandemic.



	3/31/20	6/30/20	9/30/20	12/31/20	3/31/21	6/30/21
First Lien Debt	47.1%	46.2%	47.4%	48.6%	55.5%	62.7%
Second Lien Debt	43.9%	44.9%	43.7%	42.9%	32.5%	25.0%
Equity / Other	9.0%	9.0%	8.9%	8.4%	12.0%	12.3%

# Portfolio Metrics

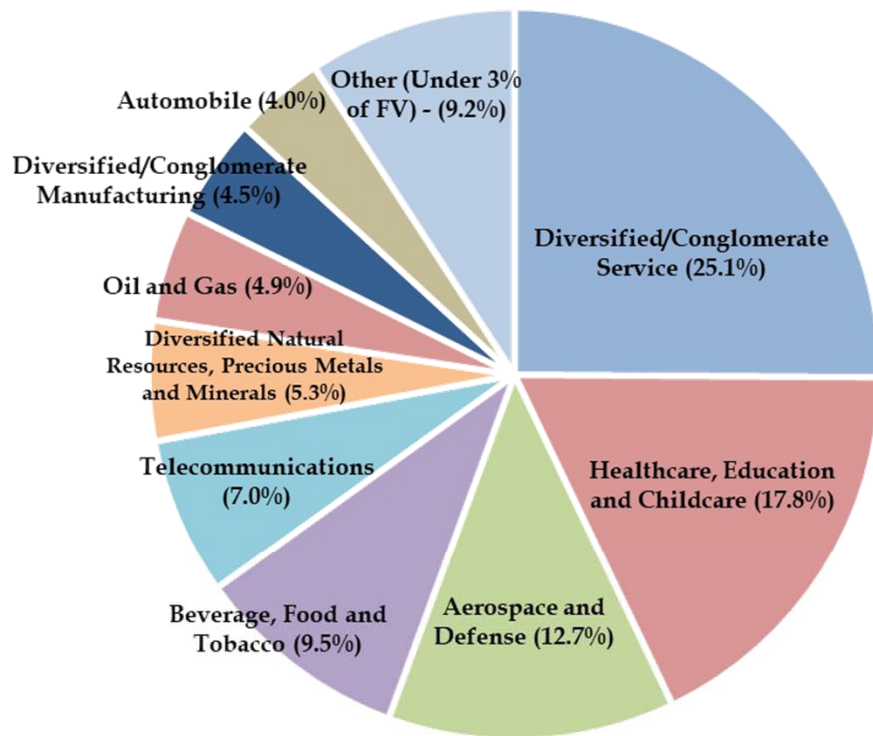
GLAD's core loan portfolio\* has an average EBITDA of \$10.5 million and consists of 74% in first lien and 26% in second lien loans and an average leverage multiple of 3.3x EBITDA



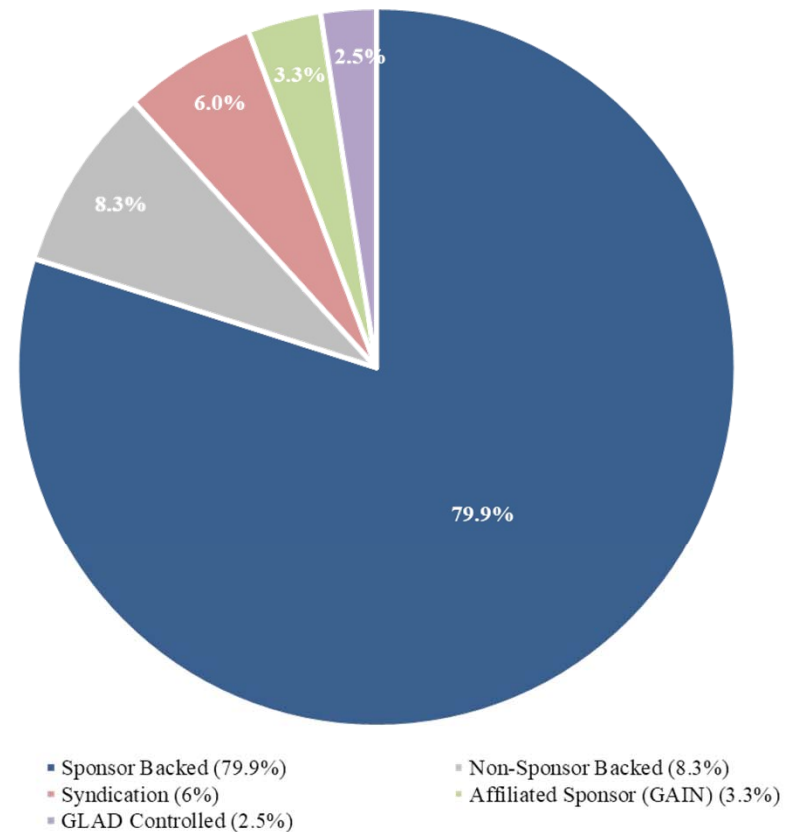
\*For the purposes of this presentation, the core loan portfolio excludes certain investments: (i) Broadly Syndicated Loans; (ii) co-investments with GAIN; (iii) residual investments under \$4 million; (iv) equity only investments; (v) one recently negative EBITDA business; (vi) two oil and gas investments that experienced outsized COVID-19 impacts; (vii) one investment with outsized TTM EBITDA (>10x average) which distorts weighted average EBITDA; and (viii) the 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 17 Industries - At 6/30/2021 Fair Value**



**Deal Source Composition - At 6/30/2021 Fair Value**



# Portfolio Composition

<i>Portfolio Characteristics As Of:</i>	<b>September 30, 2020</b>	<b>December 31, 2020</b>	<b>March 31, 2021</b>	<b>June 30, 2021</b>
Total Portfolio - FV	\$ 450,400	\$ 452,359	\$ 492,767	\$ 506,372
# of Portfolio Companies	48	47	47	47
Average Investment Size - FV	\$ 9,383	\$ 9,625	\$ 10,484	\$ 10,774
Top 5 Investments % FV	28.9%	28.8%	26.6%	26.8%
WAVG Investment Yield**	10.9%	10.8%	10.6%	10.5%
1st Lien FV	\$ 213,468	\$ 219,921	\$ 273,462	\$ 317,277
2nd Lien FV	196,986	194,219	160,257	126,860
Equity / Other FV	39,946	38,219	59,048	62,235
Proprietary % of FV	91.4%	92.9%	93.2%	94.0%
Syndicated % of FV	8.6%	7.1%	6.8%	6.0%
Fixed Rate Debt % Cost	21.9%	20.4%	13.2%	12.9%
Variable Rate Debt % of Cost	78.1%	79.6%	86.8%	87.1%
Performing % FV (Debt)	98.4%	98.4%	98.5%	100.0%
Non-Performing % FV (Debt)	1.6%	1.6%	1.5%	0.0%
Accrued Potential Success Fees	\$ 9,900	\$ 11,000	\$ 12,200	\$ 10,500

*\*\*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			
	September 30, 2020	December 31, 2020	March 31, 2021	June 30, 2021
Income:				
Interest Income	\$ 11,935	\$ 12,082	\$ 11,886	\$ 12,746
Other Investment Income	644	800	999	920
Total Investment Income	12,579	12,882	12,885	13,666
Expenses:				
Fees to Advisor & Admin	3,192	3,074	2,928	3,147
Interest Expense	2,400	2,568	2,822	3,057
Operating Expense	871	960	736	858
Total Expenses	6,463	6,602	6,486	7,062
Net Investment Income (NII)	\$ 6,116	\$ 6,280	\$ 6,399	\$ 6,604
Weighted Average Shares*	31,313	32,098	32,766	33,766
NII Per WAVG Share	\$ 0.195	\$ 0.195	\$ 0.195	\$ 0.196
Realized/Unrealized Gains (Loss) per Share	\$ 0.132	\$ 0.188	\$ 0.455	\$ 0.336
Dividend Per WAVG Share	\$ 0.195	\$ 0.195	\$ 0.195	\$ 0.195
NAV Per Share	\$ 7.40	\$ 7.61	\$ 8.11	\$ 8.52
Return on Equity (NII)**	10.8%	10.8%	10.2%	9.7%
Portfolio at Fair Value	450,400	452,359	492,767	506,372
Debt***	221,535	208,056	227,527	209,463
Net Asset Value	233,743	247,117	270,888	292,385
Debt-to-Equity	96.4%	85.9%	86.1%	71.6%

\*Total Shares outstanding at 6/30/2021 was 34,304,371

\*\*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 6/30/2021 Quarter Summary

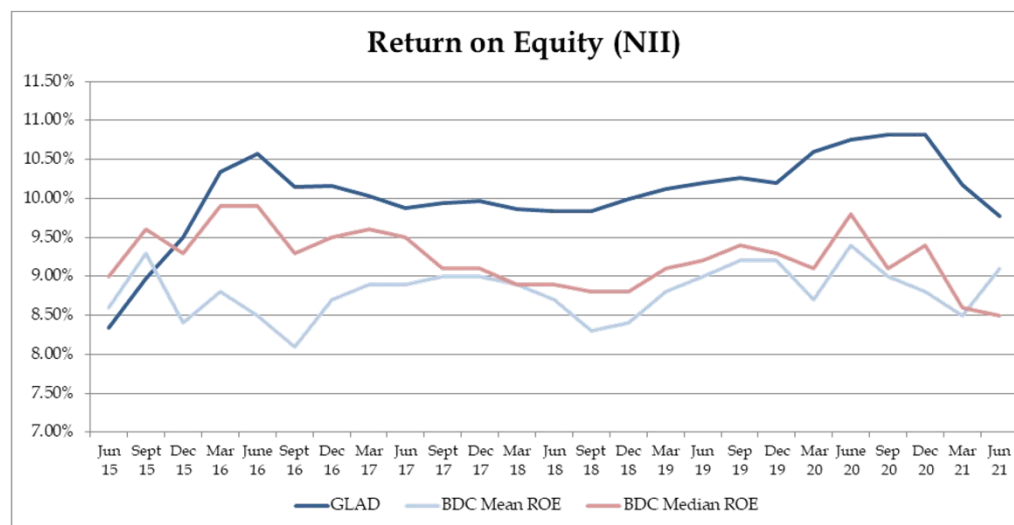
## Capital Base and Liquidity

- Liabilities declined to \$222 million as of 6/30/2021, consisting primarily of \$150 million of 5.125% senior notes due 2026 and \$38.8 million of 5.375% senior notes due 2024. Advances under our floating rate bank line of credit declined to \$23.0 million as compared to \$128.0 million as of 9/30/2020, which serves to limit any interest margin compression should floating rates rise.
- Total leverage declined during the quarter to 76% of Net Assets as investment growth was matched by net realized and unrealized portfolio appreciation of \$11.4 million and \$10.1 million of net proceeds from common shares issued under the Company's ATM program.
- As of 6/30/2021, we had in excess of \$130 million of availability on our recently renewed and extended bank rate line of credit to grow our investment portfolio and capitalize on our conservative leverage position to increase net interest income.

## 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

**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 Stock Ticker: GLAD**  
**5.375% 2024 Senior Notes: GLADL**

## Corporate Headquarters

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