



# Gladstone Capital Corporation

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*Financial and Portfolio Overview  
for the quarter December 31, 2013*

# Legal Disclaimer

*This presentation may include forward-looking statements. These forward-looking statements include comments with respect to our objectives and strategies, and the results of our operations and our business.*

*However, by their nature, these forward-looking statements involve numerous assumptions, uncertainties and opportunities, both general and specific. The risk exists that these statements may not be fulfilled. We caution readers of this presentation not to place undue reliance on these forward-looking statements as a number of factors could cause future company results to differ materially from these statements including those factors listed under the caption “Risk Factors” in our 10K and 10Q filings and our registration statement as filed 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 web site, [www.SEC.gov](http://www.SEC.gov).*

*Forward-looking statements may be influenced in particular by factors such as 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 relying on forward-looking statements to make decisions, investors should carefully consider the aforementioned factors as well as other uncertainties and events.*

*The Company undertakes no obligation to update the information contained herein to reflect subsequently occurring events or circumstances, except as required by applicable securities laws and regulations.*

# Overview

## Gladstone Capital Corporation

- Business Development Company (BDC) with publicly traded common stock (NASDAQ: GLAD) and preferred stock (NASDAQ: GLADP)
- Managed by Gladstone Management Corporation, an investment adviser registered with the SEC that manages more than \$1.4 billion in assets
- One of a family of funds known as The Gladstone Companies ([www.gladstone.com](http://www.gladstone.com))
- Primarily focused on investing in senior and subordinated debt of private U.S. businesses
- GLAD went public in 2001 and has never missed paying a dividend
- Common stock annual dividend is currently \$0.84 per share; paid monthly at \$0.07 per share
- Preferred stock annual dividend rate is 7.125% or \$0.1484 per share paid monthly

## Current Portfolio

- Over \$283 million at fair value as of December 31, 2013
- Invested in 52 companies across 26 states and 20 industries as of December 31, 2013

Disclaimer: Past performance is not an indication of future performance

# What is Gladstone Capital?

- Gladstone Capital Corporation is a BDC that primarily invests in senior and subordinated debt securities of small and medium-sized U.S. businesses backed by private equity sponsors and owner operators
- We also at times invest in preferred or common equity (or their equivalents) along side of debt investments which may provide our stockholders with long-term capital appreciation
- We seek to:
  - Achieve and grow current income from our debt investment portfolio
  - Provide stockholders with long-term capital appreciation in the value of our assets and generate capital gains from our equity co-investments
  - Invest in companies with profitable operations and successful track records led by strong management teams
  - Consistently pay monthly dividends to common and preferred stockholders

# What is a Business Development Company (BDC)?

- BDCs are publicly traded closed-end funds that enable investors to participate in high yielding private market investing while maintaining daily liquidity
- BDCs are regulated under the Investment Company Act of 1940 and by the SEC and have the following characteristics:
  - Diversification – BDCs must maintain certain asset diversification criteria
  - Transparency – Required annual and quarterly SEC filings
  - Fair Value – All investments are marked at fair value quarterly
  - Low Leverage - Maximum debt-to-equity ratio of 1:1
- BDCs have a regulated investment company tax structure
  - Eliminates corporate level income tax
  - Earnings and capital gains are passed through to investors (similar to a REIT)
  - BDCs must distribute at least 90% of taxable income

# Experienced Management Team

## David Gladstone, Chairman & CEO

- Over 25 years of experience investing in mid-sized and small private businesses
- Current Chairman and CEO of all four Gladstone public funds; these are public companies #7 - #10 in his career (*most recent IPO in January 2013*)
- Past Chairman of Allied Capital and American Capital while both were very profitable
- MBA from Harvard Business School; MA from American University; BA from University of Virginia

## Bob Marcotte, President

- More than 30 years of diversified financial markets experience including the last 12 years originating and managing middle market debt investments
- Past Executive Vice President and Co-Head of Asset Management with MCG Capital Corporation
- Prior experiences include investment banking at Goldman, Sachs & Co. and Merrill Lynch and lending at GE Capital and Mellon Bank
- BSBA from Georgetown University

## Terry Brubaker, COO

- More than 25 years experience in managing businesses
- Current COO of all four Gladstone public funds
- Past group VP of two operating divisions at James River (2,300 employees, \$440 million in revenue and 14 locations); past CEO of two businesses (800 employees, \$250 million in revenue and 4 locations)
- Formerly with McKinsey & Company
- MBA from Harvard Business School; BSE in Aeronautical Engineering from Princeton University

## Melissa Morrison, CFO

- Over 15 years experience in controller and SEC reporting and other accounting/finance roles in various middle market industries
- Formerly with PricewaterhouseCoopers and Cisco Systems
- BBA, magna cum laude at The College of William and Mary
- CPA in the Commonwealth of VA; member VSCPA and AICPA

**Our Adviser has over 35 professionals concentrating on sourcing, due diligence and portfolio management, with 15 exclusively focused on Gladstone Capital, and supported by 15 professionals in accounting, legal, compliance, treasury and reporting under Gladstone Administration.**

# Target, Sourcing, Due Diligence and Risk Management

## Target

- Focus on lower middle market companies in stable industries which demonstrate sustainable cash flow profile supportive of leveraged capital structure
- Companies with financial results in range of \$3-\$15 million in EBITDA
- Target investment positions of between \$8-20 million
- Industries where we believe opportunity exists include light and specialty manufacturing, industrial products and services, business and information services, added-value distribution/logistics and healthcare services
- Industries we typically avoid include housing, banking, high technology or venture capital, commodity or highly cyclical industries

## Sourcing

- Dedicated origination team across 4 regional offices to provide local support and responsiveness
- Regional coverage of designated middle market private equity firms, investment banks and other sources
- Leverage reputation and investor oriented financing approach to deliver added-value financing solutions

## Due Diligence

- Thorough multi-disciplinary approach – blending internal industry experience, onsite visits and management assessments, supplemented with third party quality of earnings reports, industry/management assessments, background checks, and customary legal and insurance investigations, etc.

## Risk Management

- Require board level participation which reinforces close relationship with management and equity holders
- Quarterly senior management and board review/valuations

# Target Market

## Why we target companies in the lower middle market...

### **Smaller companies typically offer a more compelling investment profile than larger ones because of:**

- Lower purchase price multiples despite the fact many have more attractive growth prospects than larger businesses
- Lower relative debt multiples and more attractive yield opportunities as they are below the investment profile of large commercial lenders and unable to access the capital markets
- Better asset collateral coverage and enhanced lender protective covenants
- Opportunity for equity co-investments to capitalize on growth and likely multiple expansion upon exit

# Examples of Investments in Private Businesses

- Small manufacturer of a product or a service business needs money to grow
- Banks will make short-term loans if the business has collateral and solid cash flow to support rapid loan amortization
- The business gets from us:
  - Management expertise to understand the business investment strategy,
  - A long-term loan in the amount needed to fund the plan and a repayment structure which is tailored to the cash flow profile of the business
  - The loan will carry a higher interest rate but the expected growth of the business and appreciation of the equity value of the business is generally greater
  - In some instances an equity co-investment further supporting the business plan
- We typically receive an attractive long-term loan that pays monthly interest that we can pass on as monthly dividends to our shareholders and may receive income and/or realized gains from associated common or preferred equity investments

# Typical Investment Structure

## Senior & Junior Debt (90%)

- Senior - variable interest rates subject to a minimum rate floor generating current cash payments of 8-10%
- Subordinated - variable rate with a floor or fixed rates with current cash payments of 12-15%
- 5-7 year term with limited amortization
- Typically includes 1<sup>st</sup> or 2<sup>nd</sup> lien on assets and borrower's stock, as well as, reasonable cash flow coverage of fixed charges
- Strong inter-creditor agreement that avoids blockage of interest payments
- Financial covenants including prudent leverage ratios
- Closing and/or success fees to enhance the return 2-3%

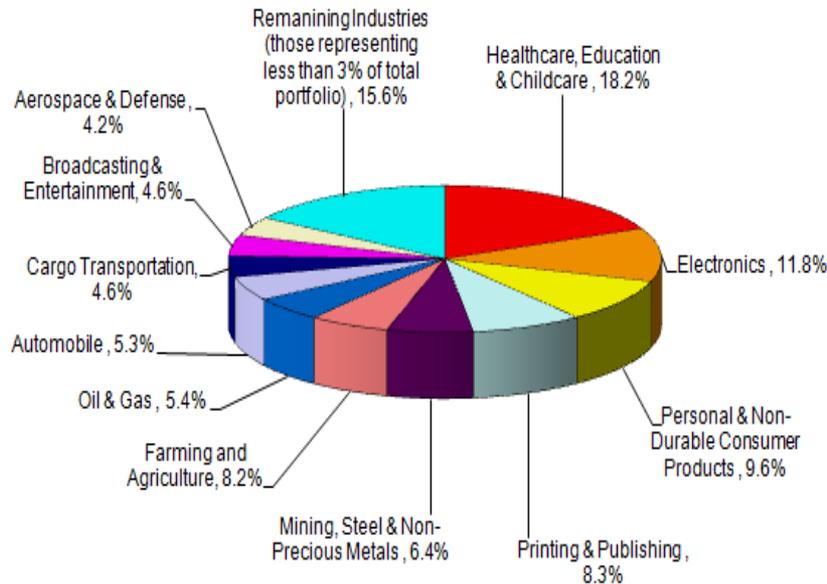
## Preferred & Common Stock (10%)

- Preferred stock
  - Dividend paid or accrued (6% -8% /yr)
  - Redemption required after 5 years or 6 months post debt maturity
- Common stock
  - May include additional investment option
  - Usually accompanied by a requirement that the borrower repurchase these
- Expected gross return on equity is 25% to 30%, depending on risk profile

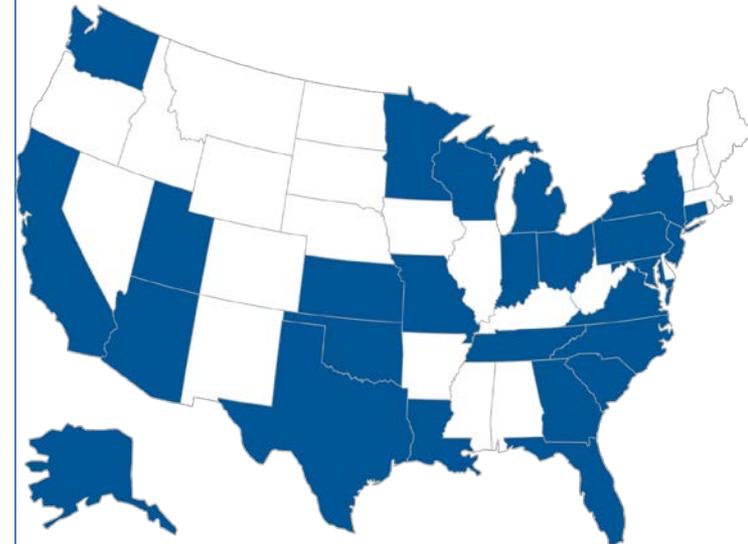
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# Industry and Geographic Diversification

**Diverse Portfolio with limited concentrations in any one company or industry at fair value**



**We have investments to businesses in states highlighted in blue**

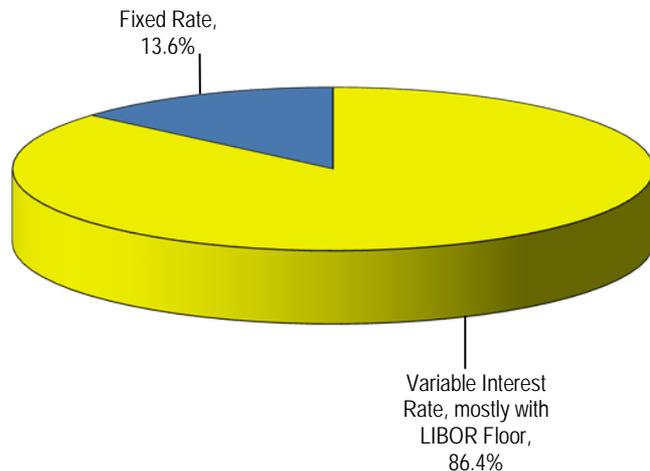


**As of December 31, 2013**

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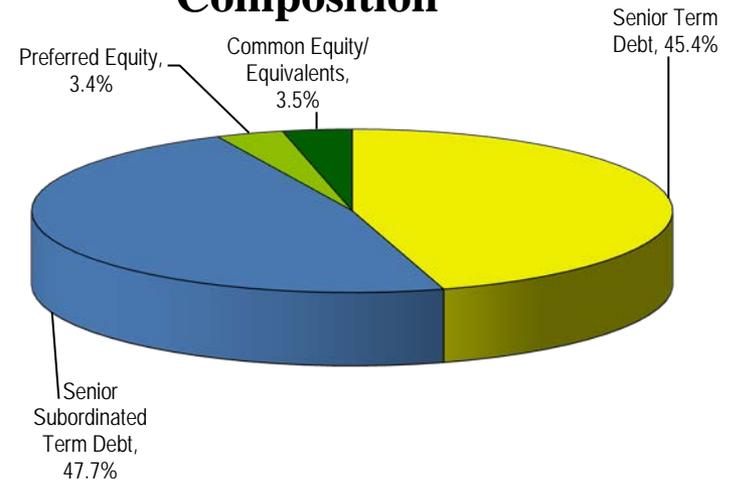
# Portfolio Composition and Success Fees

## Investment Interest Rate Composition\*



\*As of 12/31/2013 based on principal

## Investments Capital Structure Composition\*\*



\*\*As of 12/31/2013 based on fair value

- **Success Fees – An alternative to PIK**

- Unlike PIK, we generally record success fees upon receipt of cash (which limits our non-cash income).
- 47% of our interest bearing debt has associated success fees with an average contractual rate of 2.3% per annum.
- As of December 31, 2013, success fees payable upon a change of control approximated \$15.3 million, or about \$0.73 per common share.
- There is no guarantee that we will be able to collect all of the success fees, or have any control over their timing.
- If we accrued success fees as we would PIK, our weighted average yield on interest bearing assets would approximate 12.6% for the three months ended December 31, 2013.

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# Quarterly Financial Summary\*

	Three Months Ended			
	March 31, 2013	June 30, 2013	September 30, 2013	December 31, 2013
Interest Income	\$ 8,424	\$ 8,350	\$ 8,580	\$ 8,191
Other Investment Income	-	200	773	201
Total Investment Income	\$ 8,424	\$ 8,550	\$ 9,353	\$ 8,392
Expenses:				
Fees to Advisor & Admin	1,920	2,009	2,567	1,755
Interest Expense	802	756	766	615
Preferred Dividend Expense	686	686	686	686
Operating Expense	606	689	627	926
Total Expenses	4,014	4,140	4,646	3,982
Net Investment Income (NII)	4,410	4,410	4,707	4,410
Weighted Average Shares	21,000	21,000	21,000	21,000
NII Per Share	\$ 0.21	\$ 0.21	\$ 0.22	\$ 0.21
<b>Dividend Per Share</b>	<b>\$ 0.21</b>	<b>\$ 0.21</b>	<b>\$ 0.21</b>	<b>\$ 0.21</b>
Weighted Avg Yield**	11.6%	11.6	11.7	11.6
Gross Originations	\$ 9,008	\$ 10,031	\$ 19,300	\$ 44,881
Portfolio at Fair Value	267,480	255,270	256,878	283,206
Debt (LOC & Preferred Stock)	93,897	97,097	85,397	86,197
Net Asset Value (NAV)	285,430	281,153	295,091	301,462
<b>NAV Per Share</b>	<b>\$ 8.91</b>	<b>\$ 8.60</b>	<b>\$ 9.81</b>	<b>\$ 10.10</b>

\*\*weighted average yield on interest bearing debt investments

\*The financial information above is not comprehensive and is without notes, so readers should obtain and carefully review GLAD's Form 10-Q for the quarter ended December 31, 2013, as filed with the SEC on February 3, 2014, including the notes to the consolidated financial statements contained therein.

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# Our Debt Capital and Liquidity

- **Line of Credit**
  - \$137 million aggregate commitment from three lenders
  - Revolving period end date is January 19, 2016, with 11 month amortization period
  - Interest Rate: L+375 (~4.0%)
- **Mandatorily Redeemable Preferred Stock (7.125%)**
  - Unsecured term debt
  - \$38.5 million, consisting of 1.5 million shares at \$25 per share
  - Redemption date December 28, 2016
  - NASDAQ: GLADP
- **Weighted average leverage** during the latest quarter was 26% of investment assets (\$1 debt for every \$4 of assets)
- **Weighted average debt capital interest rate: 4.8%\***
- As of February 4, 2014, we had \$67 million in liquidity, or dry powder, consisting of \$6 million of cash and \$61 million of undrawn capacity on our line

\*Assumes LOC is fully drawn, blended rate as of 2/4/14 was 6.8% with only \$36.9 million drawn on LOC. Amortization of deferred financing fees excluded.

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# Gladstone Capital Statistics vs. Public Market BDCs

	GLAD <sup>(1)</sup>	BDC Median <sup>(1)</sup>
Price to Net Asset Value per Common Share	0.95x	1.01x
Debt to Common Equity	42%	52%
Common Dividend Yield	8.3%	8.9%
Total Market Value (Common Shares)(\$mm)	\$240	\$291
LTM Total Return <sup>(2)</sup>	24%	11%
Price/2013E EPS <sup>(3)</sup>	11.7x	11.1x
Institutional Ownership <sup>(4)</sup>	24%	26%

(1) Raymond James BDC Industry Weekly Newsletter, January 24, 2014

(2) Assumes dividends are reinvested

(3) Calendar year earnings estimates are FactSet mean EPS estimates

(4) As of 9/30/13 (most recently available)

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# Highlights

- **Management Expertise:** Operating team with a successful track record underwriting private businesses
- **Successful CEO:** Has a “brand name” reputation demonstrated by the success of ten public companies
- **Business Model:** Emphasis on deal flow from underserved lower end of the middle market including targeted PE firms, investment banks and other advisors
- **Conservative Underwriting:** Focused on the sustainable cash flow of small value-oriented businesses with lower relative debt levels better lender protections and more attractive yield opportunities
- **Primarily Focused on Growing Interest Income:** Interest income on our loans allow us to pay dividends to our shareholders

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# Why Own GLAD Common Stock?

- **High Monthly Dividends Paid from Cash Earnings:**
  - Common stock yield in range of 9.0 - 10.0% over last several quarters
  - Dividends have been 100% covered by cash earnings over the past 3 years
  - Paid 124 consecutive monthly common dividends (+ 8 quarterly ones prior to that) since IPO (over 12 years)
- **Strong Historical Annual (CAGR) Returns:** 19% for 1 year; 8% for 3 years and 14% over 5 years
- **Conservative Balance Sheet with Low Leverage:** Weighted average leverage during latest quarter at 26% of investment assets (\$1 debt for approximately every \$4 of assets)
- **Diversification:** Investments in multiple companies in various states and industries
- **Strong and Experienced Management:** Investment manager operating team of 60+ professionals with successful track record of investing in small and mid-size private businesses
- **Liquidity for Investors:** Common stock listed on NASDAQ: GLAD

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# Corporate Data

## Executive Officers

David Gladstone  
Chairman & CEO

Terry Lee Brubaker  
COO & Vice Chairman

Bob Marcotte  
President

Melissa Morrison  
CFO

## Independent Directors

Paul Adelgren  
Terry Earhart  
Michela A. English  
John Outland  
Anthony W. Parker  
John D. Reilly

## NASDAQ Listings

Common “GLAD”  
Preferred “GLADP”

## Website

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

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

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

## Investor Relations

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## Research Coverage

BB&T Capital Markets  
Vernon C. Plack

Hilliard Lyons  
Ross A. Demmerle

Janney Montgomery Scott  
J.T. Rogers

Keefe, Bruyette & Woods  
Troy Ward

## Other

Corporate Counsel:  
Bass, Berry & Sims, PLC  
K&L Gates LLP

Transfer Agent:  
Computershare

Auditors:  
PricewaterhouseCoopers LLP