



Investor Update
Q1 2017

PROPERTY OF CAPITALA GROUP

Disclaimer and Safe Harbor for Forward-Looking Statements

These materials and any presentation of which they form a part are neither an offer to sell, nor a solicitation of an offer to purchase, an interest in Capitala Finance Corp. (“Capitala Finance” or the “Company”).

These materials and the presentations of which they are a part, and the summaries contained herein, do not purport to be complete and no obligation to update or otherwise revise such information is being assumed. Nothing shall be relied upon as a promise or representation as to the future performance of the Company. Such information is qualified in its entirety by reference to the more detailed discussions contained elsewhere in the Company’s public filings with the Securities and Exchange Commission.

There is no guarantee that any of the estimates, targets or projections illustrated in these materials and any presentation of which they form a part will be achieved. Any references herein to any of the Company’s past or present investments or its past or present performance, have been provided for illustrative purposes only. It should not be assumed that these investments were or will be profitable or that any future investments by the Company will be profitable or will equal the performance of these investments.

The information contained herein has been derived from financial statements and other documents provided by the portfolio companies and/or the third party manager of such portfolio companies unless otherwise stated.

Past performance is not indicative of future results. In addition, there can be no assurance that unrealized investments will be realized at the expected multiples shown as actual realized returns will depend on, among other factors, future operating results of each of the Company’s current portfolio companies, the value of the assets and economic conditions at the time of disposition, any related transaction costs, and the timing and manner of sale, all of which may differ from the assumptions on which the Company’s expected returns are based. In many instances, the Company will not determine the timing or manner of sale of the Company’s portfolio companies.

The Company has determined its estimated net asset value in good faith based on information believed by the Company to be reliable as of March 31, 2017, but there can be no assurance that such estimated net asset value accurately reflects the fair value of the Company.

Statements included herein may constitute “forward-looking statements,” which relate to future events or our future performance or financial condition. Words such as “believe”, “intend”, “expect”, “project”, “anticipate” and “future” or similar expressions are intended to identify forward-looking statements. These statements are not guarantees of future performance, condition or results and involve a number of risks and uncertainties. Actual results may differ materially from those in the forward-looking statements as a result of a number of factors, including those described from time to time in the Company’s filings with the Securities and Exchange Commission. The Company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except as may be required by law.



Why Invest in CPTA?



Current distribution yield of ~9.9% based on current NAV

- NII covered distributions for 7 consecutive quarters



Covered by 9 research analysts, price target range of \$14-\$17 per share



Shareholder friendly BDC structure with monthly distributions, RIC election, permanent capital and asset diversification



Shareholder aligned management team

- External manager has waived \$3.7 million in incentive fees since Q4 2015
- Management owns ~9% of common stock



Focus on debt and equity investments in lower and traditional middle market companies

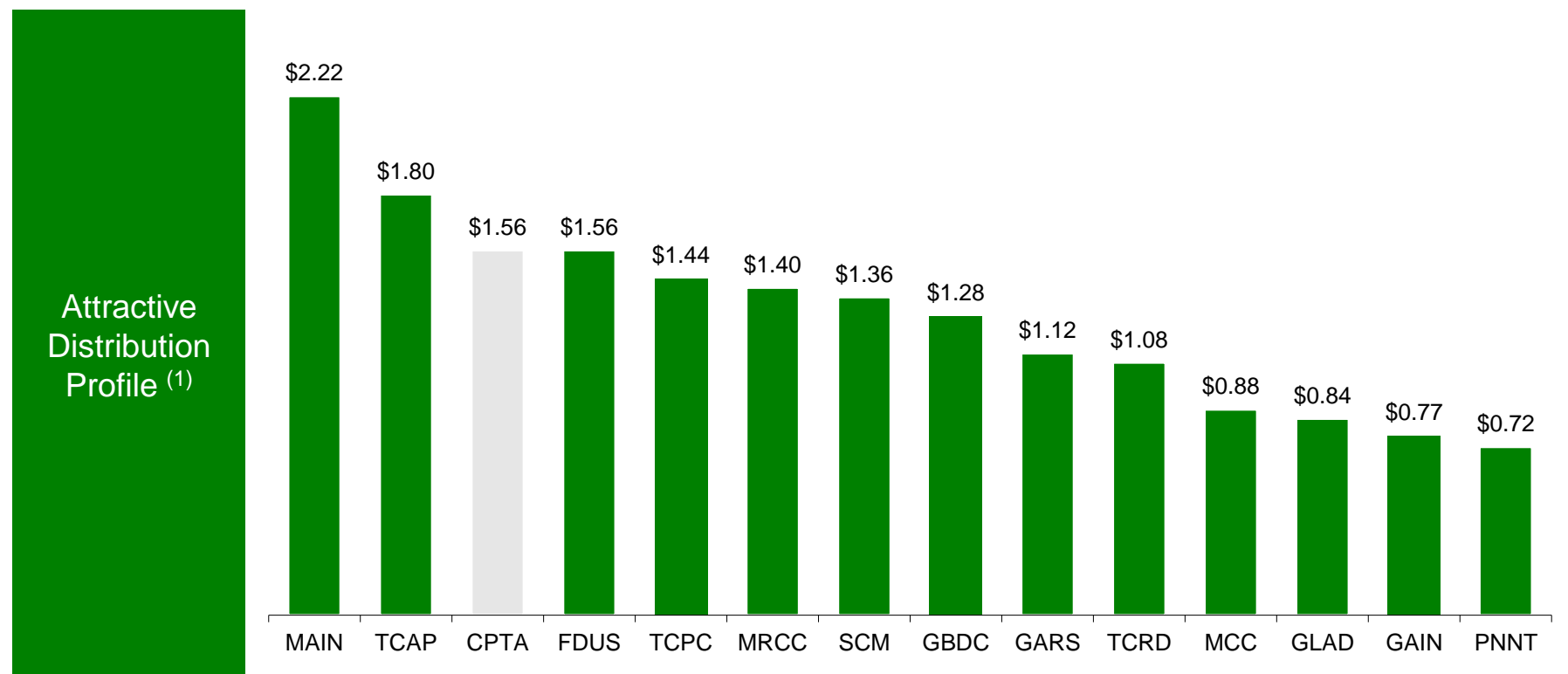
- Fair value of investments of \$532.5 million at quarter-end



Part of Capitala Group

- Managed by Capitala Investment Advisors, LLC
- Actively raising Capitala Private Credit Fund V, L.P.
- 19 years of providing capital to small businesses

Attractive Distribution Yield

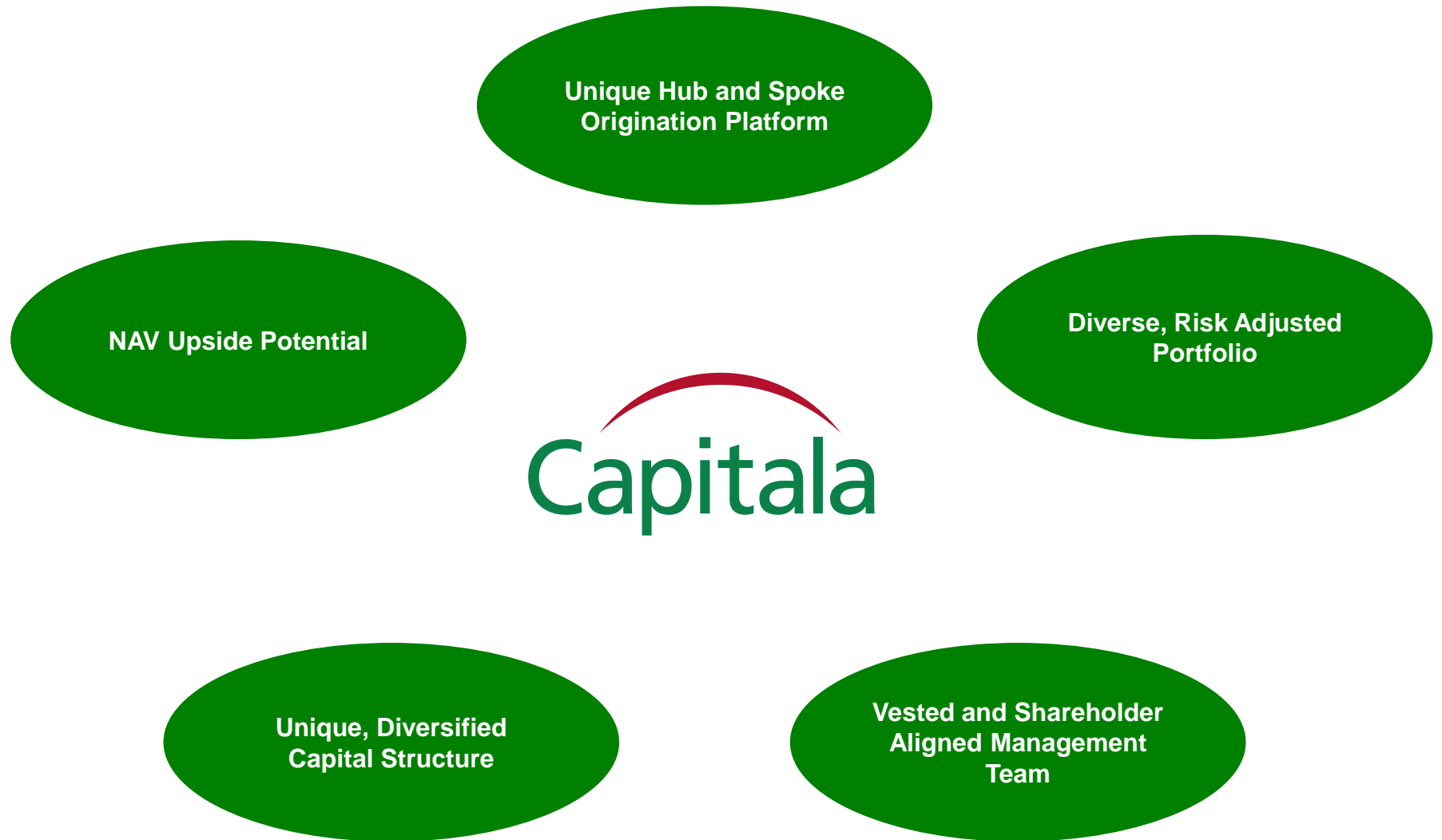


Key Takeaways

- No return of capital for tax years ended August 31, 2016, 2015, and 2014
- Since IPO, Capitala Finance has paid out over \$101.8 million in total shareholder distributions
- Distributions from realized capital gains have resulted in additional payments of \$10.9 million to shareholders

(1) As of March 31, 2017. Represents annualized monthly or quarterly distributions based on last reported period. Excludes impact of any special or one-time distributions.

The Capitala Finance Difference

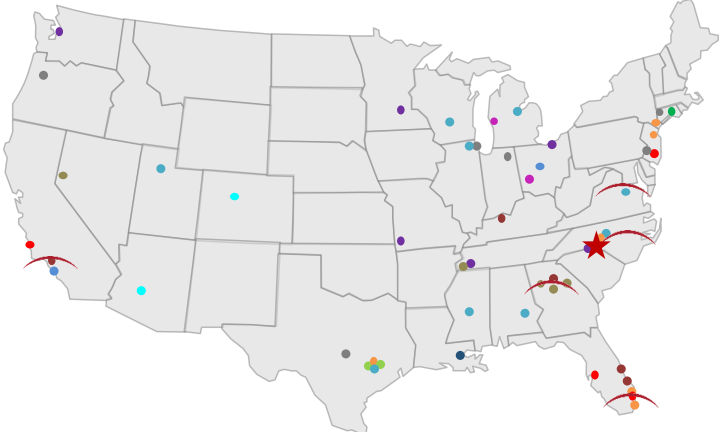


Unique Hub and Spoke Origination Platform

- Unique regionally focused business development offices provide access to superior risk-adjusted investment opportunities
- Demonstrated growth and consistently robust quarterly deployments, with over \$650 million deployed since IPO

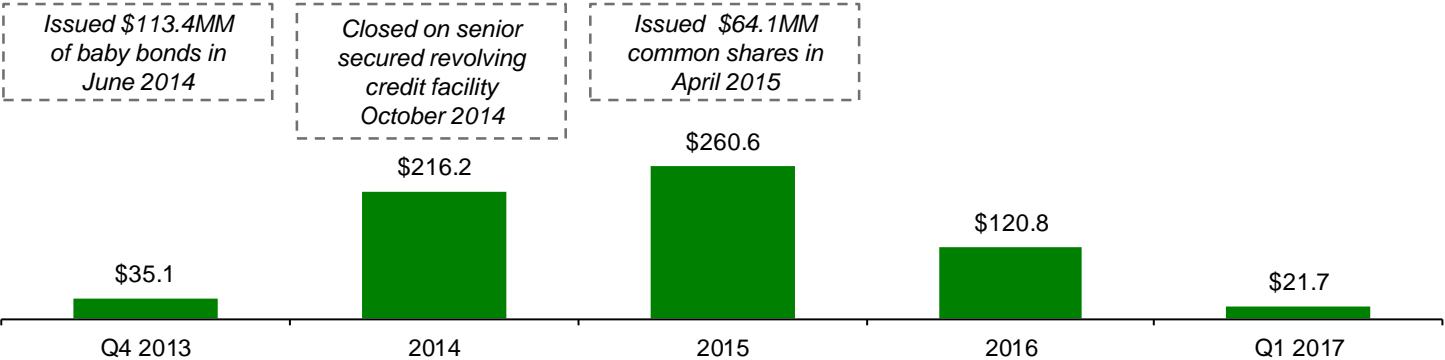
Expanding Business Development Footprint Yields Diverse Deal Flow

- ★ Corporate Headquarters
- Business Services (17%)
- Consumer Products (13%)
- Finance (8%)
- Information Technology (7%)
- Healthcare (5%)
- Building Products (4%)
- Industrial Equipment Rental (2%)
- ⤿ Regional Office
- Retail (13%)
- General Industrial (12%)
- Restaurant & Food (8%)
- Recreation, Leisure and Entertainment (6%)
- Energy Services (4%)
- Conglomerate (2%)



Deployment Summary⁽¹⁾

(\$ in millions)



	Q4 2013	2014	2015	2016	Q1 2017
# of Deployments ⁽²⁾	7	38	41	23	5
\$ of Deployments (New Issuer)	\$21.0	\$175.5	\$217.7	\$112.6	\$18.0
\$ of Deployments (Add-on)	\$14.1	\$40.7	\$43.0	\$8.2	\$3.7
Average Yield Deployed Capital ⁽³⁾	13.3%	11.8%	12.3%	13.2%	11.2%

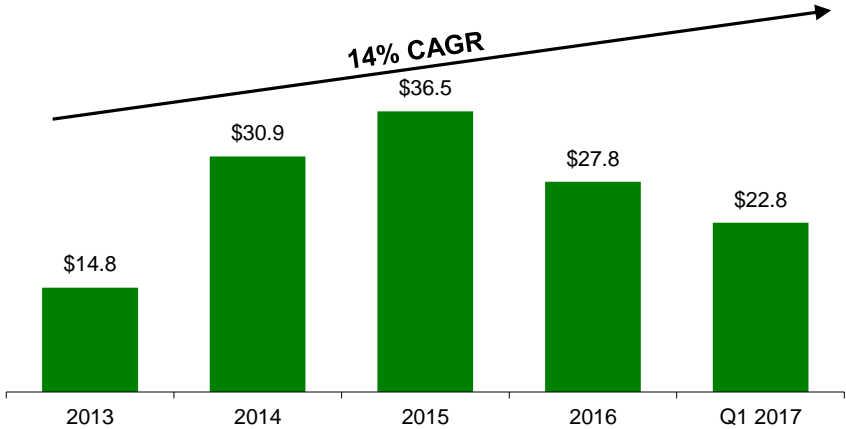
(1) Dollar amounts of deployments shown net of OID.
 (2) Represents number of unique deployments by security type (not by portfolio company).
 (3) Represents weighted average yield of yielding investments only, based on fair value.

Diverse, Risk Adjusted Portfolio

- Despite a competitive marketplace, Capitala Finance has maintained strict underwriting standards which result in conservative underlying leverage statistics
- Capitala Finance’s portfolio provides attractive risk adjusted yields compared to peers, with 13.2% portfolio wide weighted average yield on debt investments (1)
 - Weighted average EBITDA of \$22.8 million represents a 14% CAGR in portfolio EBITDA since Q4 2013
- Capitala Finance has demonstrated the ability to invest in meaningfully larger companies while maintaining consistent portfolio-level yield and leverage statistics

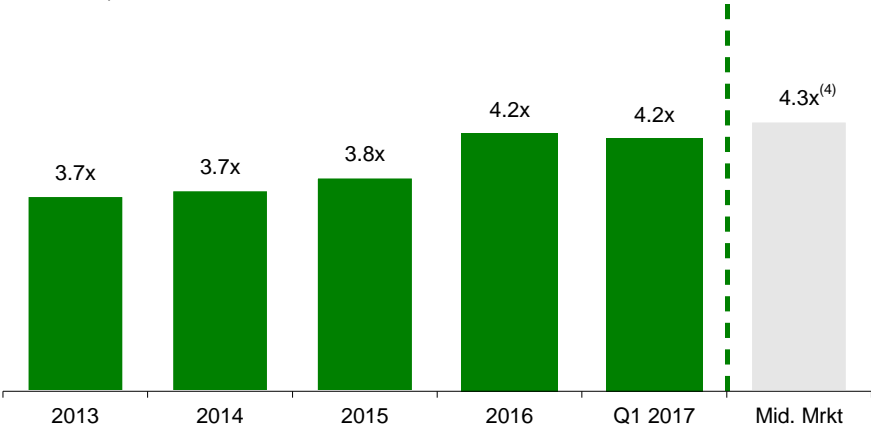
Portfolio Weighted Average EBITDA Over Time⁽²⁾

(\$ in millions)

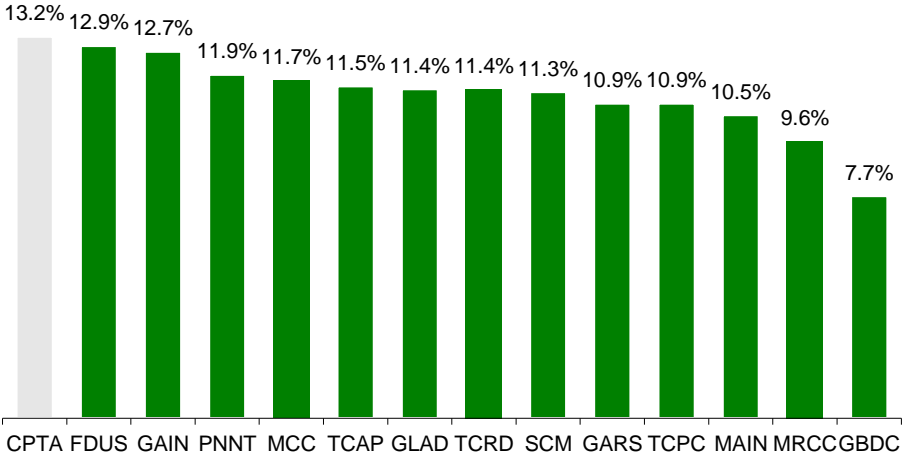


Portfolio Net Leverage Over Time⁽³⁾

(\$ in millions)



Comparison of Portfolio Debt Yields Against Peers (1)(5)



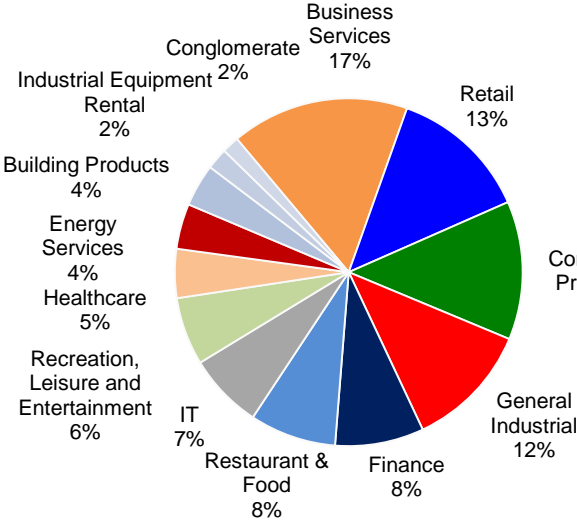
Note: Portfolio statistics as of March 31, 2017. Peer yields as of latest available reporting period.

(1) Weighted average yield excludes non-accrual investments; weighted average yield inclusive of the impact of non-accrual investments was 12.6%.
 (2) Includes both debt and equity investments, weighted by fair value.
 (3) Portfolio Net Leverage as used in this presentation, represents the net leverage of Capitala Finance portfolio companies, weighted by the fair value of the debt investment at the end of the reporting period. Portfolio Net Leverage excludes all equity investments, as well as companies with negative EBITDA and those that do not use EBITDA as a relevant metric in calculating leverage. Portfolio Net Leverage is calculated as net debt divided by adjusted EBITDA. Net debt is calculated as total debt minus cash, and excludes all debt which is subordinate to Capitala Finance’s investment.
 (4) “Middle market” leverage estimate provided by leading trade publication and includes companies with EBITDA of \$50 million or less and represents total investment leverage, not net of cash.
 (5) Peer group based on selected combination of market capitalization, investment mix and utilization of SBA funding.

Diverse, Risk Adjusted Portfolio

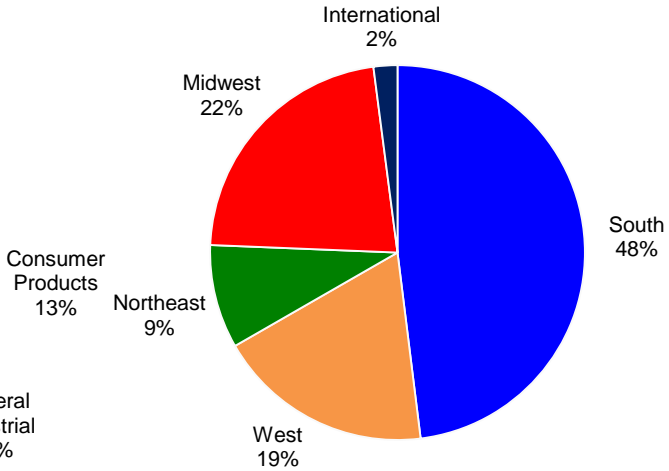
- Diversified ~\$532 million portfolio (excluding cash) across 51 companies, with 44% First Lien Debt, 11% Second Lien Debt, 26% Subordinated Debt, and 19% Equity

PORTFOLIO BY INDUSTRY



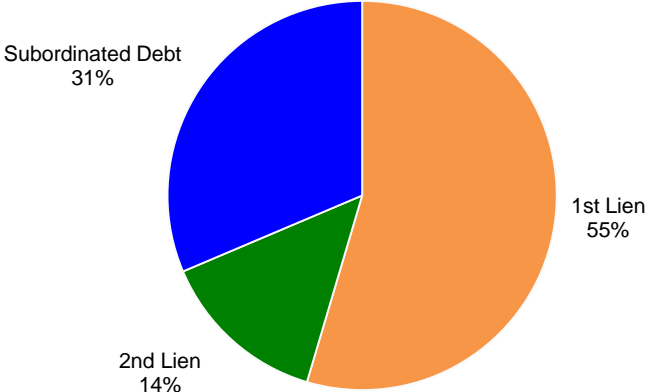
~\$532 million

PORTFOLIO BY GEOGRAPHY



~\$532 million

DEBT PORTFOLIO BY ASSET TYPE



~\$432 million

Note: Portfolio statistics as of March 31, 2017.

Vested and Shareholder Aligned Management Team

Fee waivers / investment positioning during economic downturn

- The Company's external manager has voluntarily waived \$3.7 million of incentive fees since Q4 2015
- External manager waived management fees on uninvested IPO proceeds at Capitala Finance level for the first year post-IPO (expired September 30, 2014)

Stock repurchase program

- Repurchased 4.6% of shares outstanding in 2015

Special distribution

- Paid \$0.50 special distribution in 2015

Management ownership and payment of fees for IPO

- Management team owns ~9% of the common stock and has made meaningful purchases in the open market since the IPO
- Management team rolled over \$10.0 million of invested capital into Company shares at IPO

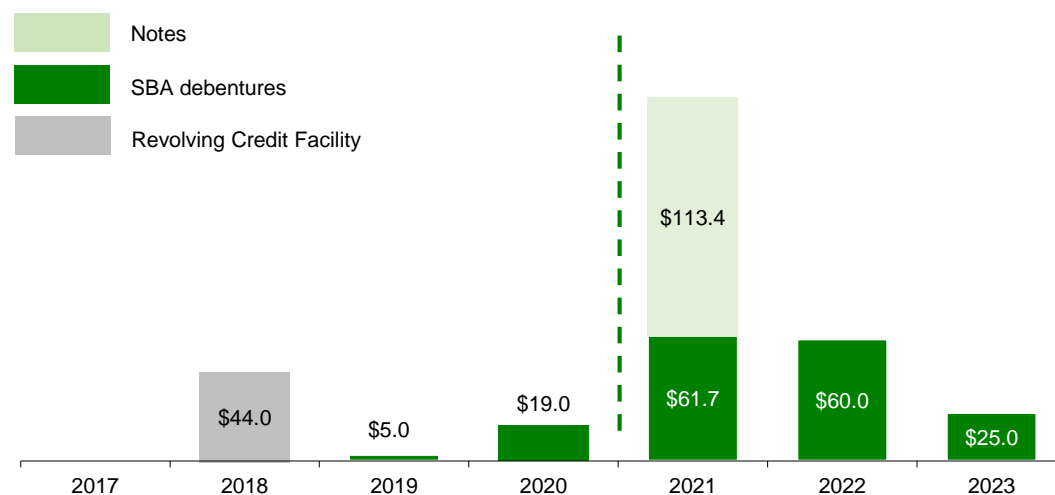
Unique, Diversified Capital Structure

- Stable liquidity and capital structure provided by SBA debentures and corporate notes with long-term maturities and fixed rates
 - Capitala Group principals have received four SBIC licenses, with a 10+ year track record
- Revolving credit facility provides attractively priced, shorter-term capital with an accordion feature that can grow with the borrowing base

Current Funding Overview

Facility	Interest Rate	Maturity	Amount Drawn (3/31/17)
SBA Debentures	3.29% fixed	2019 – 2023	\$170.7 million
Notes Payable	7.125% fixed	Callable June 2017 Matures June 2021	\$113.4 million
\$120 million Credit Facility	L+300 floating	October 2018	\$44.0 million

Notes Maturity Profile (\$ in millions)



- 85% of existing notes and debentures mature in 2020 or later
 - \$170.7 million of 10-year term SBA guaranteed debentures
 - \$113.4 million of 7.125% notes due in 2021
- Obligors for SBA debentures are 2 SBIC licensee subsidiaries; issuer is not an SBIC obligor

Note: As of March 31, 2017.

Unique, Diversified Capital Structure

- Capitala Finance’s unique, primarily fixed-rate liabilities combined with a growing mix of floating rate investments provide an attractive capital structure with limited downside risk to raising interest rates
- As March 31, 2017, Capitala Finance had limited financing exposure to interest rate changes
 - 87% of Capitala Finance’s liabilities are fixed rate and not subject to interest rate movements
 - 45% of Capitala Finance’s total debt investments are floating rate and will benefit from increasing interest rates

Interest Rate Sensitivity

(\$ thousands, except per share data)

Basis Point Change	Change in Interest Income	Change in Interest Expense	Increase / (Decrease) in Net Investment Income	Increase / (Decrease) in Net Investment Income per Share
+300 bps	\$6,218	(\$1,320)	\$4,898	\$0.31
+200 bps	\$4,315	(\$880)	\$3,435	\$0.22
+100 bps	\$2,220	(\$440)	\$1,780	\$0.11
-100 bps	(\$366)	\$439	\$73	\$0.00

Note: Assumes no change in portfolio investments or revolving credit facility borrowings as of March 31, 2017.
 Note: Per share amount calculated based upon actual shares outstanding at May 5, 2017.

NAV Upside Potential: Equity Portfolio Overview

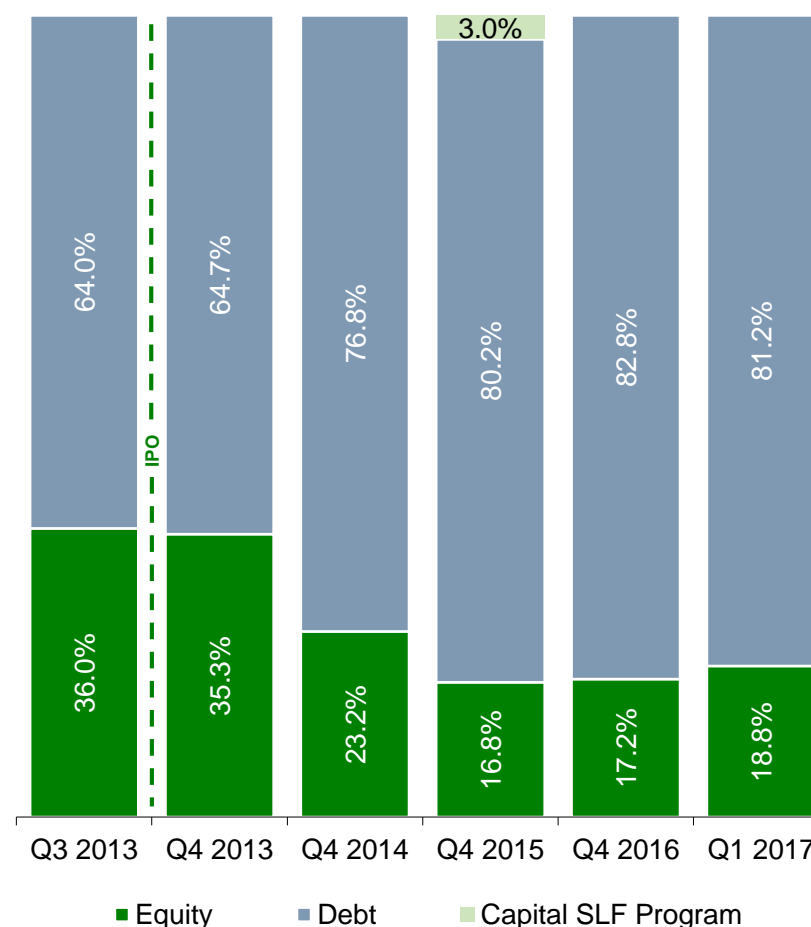
- 32 active equity investments comprising \$53.3 million of invested capital with an estimated fair value of \$100.3 million, representing 18.8% of total investments at fair value
- Capitala Finance has delivered on its stated strategy of rotating out of legacy equity positions, and continues to seek attractive equity investment opportunities

(\$ in thousands)

Current Equity Investments⁽¹⁾

Company	\$ Cost Basis	\$ Fair Value	% of Investments at Fair Value
Eastport Holdings, LLC*	\$4,733	\$18,148	3.4%
City Gear, LLC	1,269	11,029	2.1%
LJS Partners, LLC	1,525	8,581	1.6%
Western Windows Systems, LLC*	3,000	7,767	1.5%
US Well Services, LLC*	6,701	6,701	1.3%
B&W Quality Growers*	20	6,695	1.3%
Navis Holdings, Inc	1,001	6,486	1.2%
Nth Degree, Inc.*	2,728	6,321	1.2%
Brunswick Bowling Products, Inc*	3,453	6,139	1.2%
MJC Holdings, LLC ⁽²⁾	1,000	5,011	0.9%
GA Communications, Inc.	2,711	3,925	0.7%
Micro Precision, LLC	1,629	2,566	0.5%
Currency Capital, LLC*	2,000	2,000	0.4%
MMI Holdings, LLC	1,307	1,655	0.3%
Burke America Parts Group, LLC*	5	1,408	0.3%
Burgaflex Holdings, LLC*	1,504	1,307	0.2%
Taylor Precision Products, Inc.*	758	1,001	0.2%
Source Capital Penray, LLC	750	973	0.2%
Corporate Visions, Inc.*	1,575	666	0.1%
BigMouth, LLC*	361	602	0.1%
MTI Holdings, LLC	-	537	0.1%
Xirgo Technologies, LLC*	400	400	0.1%
Caregiver Services, Inc.	523	200	0.0%
Medical Depot, Inc.	-	136	0.0%
STX Healthcare Management Services, Inc.	-	93	0.0%
AAE Acquisition, LLC	17	-	0.0%
American Exteriors	-	-	0.0%
CableOrganizer Acquisition, LLC	1,394	-	0.0%
J&J Produce, Inc.	818	-	0.0%
Kelle's Transport Service, LLC*	3,456	-	0.0%
On-Site Fuel Services, Inc.	5,676	-	0.0%
Print Direction, Inc.	2,990	-	0.0%
Total	\$53,302	\$100,347	18.8%

Demonstrated Rotation Out of Equity Positions







Note: * represents equity investments made since IPO.

(1) Current equity position details as of March 31, 2017.

(2) The Company exited MJC Holdings, LLC on May 1, 2017, recognizing a \$4.5 million gain.

NAV Upside Potential: Demonstrated Track-Record of Equity Realizations

- Capitala Finance continues to generate meaningful internal rates of return (IRR) and realized gains through the monetization of equity investments

				
Investment Overview	<ul style="list-style-type: none"> On March 3, 2015 Capitala Finance sold 179,748 common shares in a secondary offering, recognizing \$4.0 million of net proceeds, representing a \$3.3 million gain⁽¹⁾ Sold 325,000 shares in the open market in the second quarter of 2015 for a realized gain of \$7.7 million Sold 95,252 shares in the open market during 3Q 2016 for realized gain of \$0.7 million 	<ul style="list-style-type: none"> Total investment of \$8.3 million for Class A Preferred and Common Stock Consideration of \$17.6 million in cash received upon exit in March 2015 \$9.3 million realized gain⁽²⁾ Total shareholder distributions received prior to realization of \$6.5 million 	<ul style="list-style-type: none"> On January 3, 2017, Capitala Finance exited its investment in Medical Depot, Inc. and received \$21.0 million for its equity and senior subordinated debt investments Repaid at par \$14.7 million for subordinated notes Received \$6.3 million for equity investment, netting a realized gain of approximately \$5.0 million 	<ul style="list-style-type: none"> On August 5, 2016, Capitala Finance sold its common equity investment in MTI for cash proceeds of \$10.6 million \$8.6 million realized gain on initial \$2.0 million investment In addition, Capitala Finance was repaid at par, \$8.0 million, in respect of its senior subordinated note
Total Gross IRR	<ul style="list-style-type: none"> Entered investment in December 2011 <u>Total Gross IRR of 72%</u> 	<ul style="list-style-type: none"> Entered Investment in April 2011 <u>Total Gross IRR of 41%</u> 	<ul style="list-style-type: none"> Entered Investment in October 2011 <u>Total Gross IRR of 31%</u> 	<ul style="list-style-type: none"> Entered Investment in August 2013 <u>Total Gross IRR of 77%</u>
Total MOIC	<ul style="list-style-type: none"> <u>Total cash-on-cash return of 6.4x</u> 	<ul style="list-style-type: none"> <u>Total cash-on-cash return of 3.1x</u> 	<ul style="list-style-type: none"> <u>Total cash-on-cash return of 4.7x</u> 	<ul style="list-style-type: none"> <u>Total cash-on-cash return of 5.3x</u>
<p>Capitala Finance Has Demonstrated an Ability to Successfully Rotate Out of Legacy Equity Positions and Provide Meaningful Realized Gains to Shareholders</p>				

(1) Please reference Form 8-K filed on March 3, 2015 for additional detail related to partial Boot Barn realization. Boot Barn returns include impact of \$0.4 million dividend received on April 17, 2014.

(2) Please reference recent press release on March 17, 2015 for additional details related to KBP monetization.

Financial & Corporate Data

Summary of Financial Performance

Statements of Operations

(\$ in thousands, except per share data)

	Three Months Ended:					
	3/31/17 (unaudited)	12/31/16 (unaudited)	9/30/16 (unaudited)	6/30/16 (unaudited)	3/31/16 (unaudited)	12/31/15 (unaudited)
Investment Income						
Interest, PIK, and fees	\$14,325	\$16,137	\$16,733	\$16,370	\$16,168	\$15,561
Dividends	477	365	574	574	1,279	729
Other income	13	12	50	47	2	257
Total investment income	14,815	16,514	17,357	16,991	17,449	16,547
Expenses						
Interest and financing expense	4,653	4,722	4,938	5,029	5,023	4,896
Management fees, net of waivers	2,514	2,539	2,619	2,702	2,728	2,812
Incentive fees, net of waivers	350	1,687	1,470	902	1,109	529
Other expenses	1,107	819	889	927	1,168	903
Total expenses	8,624	9,767	9,916	9,560	10,028	9,140
Net Investment Income	6,191	6,747	7,441	7,431	7,421	7,407
Realized gain (loss) from investments	4,846	2,132	(17,030)	(5,605)	(2,262)	(3,704)
Unrealized appreciation (depreciation)	(6,156)	(782)	7,576	5,431	(9,348)	(12,620)
Net gain (loss) on investments	(1,310)	1,350	(9,454)	(174)	(11,610)	(16,324)
Net increase (decrease) in assets resulting from operations	\$4,881	\$8,097	(\$2,013)	\$7,257	(\$4,189)	(\$8,917)
Net investment income per share	\$0.39	\$0.43	\$0.47	\$0.47	\$0.47	\$0.47
Realized gains/(losses), net, per share	\$0.31	\$0.13	(\$1.08)	(\$0.36)	(\$0.14)	(\$0.24)
Net increase (decrease) in assets resulting from operations per share	\$0.31	\$0.51	(\$0.13)	\$0.46	(\$0.27)	(\$0.57)
Distributions declared during quarter	\$0.39	\$0.39	\$0.47	\$0.47	\$0.47	\$0.47

Summary of Financial Performance

Statements of Assets & Liabilities

(\$ in thousands)

	3/31/17 (unaudited)	12/31/16 (audited)	9/30/16 (unaudited)	6/30/16 (unaudited)	3/31/16 (unaudited)	12/31/15 (audited)
Investments at fair value	\$532,478	\$541,639	\$503,780	\$595,117	\$599,741	\$592,456
Cash and cash equivalents	40,564	36,281	60,584	20,108	14,346	34,105
Other assets	7,635	6,495	5,636	5,420	7,258	6,257
Total assets	<u>\$580,677</u>	<u>\$584,415</u>	<u>\$570,000</u>	<u>\$620,645</u>	<u>\$621,345</u>	<u>\$632,818</u>
SBA debentures	\$167,940	\$167,789	\$167,640	\$178,982	\$178,822	\$180,663
Notes	110,558	110,413	110,270	110,129	109,991	109,855
Credit Facility	43,479	43,241	37,073	67,831	71,591	68,351
Other liabilities	9,221	12,390	6,640	6,161	3,522	5,147
Total liabilities	<u>331,198</u>	<u>333,833</u>	<u>321,623</u>	<u>363,103</u>	<u>363,926</u>	<u>364,016</u>
Net assets	249,479	250,582	248,377	257,542	257,419	268,802
Total liabilities and net assets	<u>\$580,677</u>	<u>\$584,415</u>	<u>\$570,000</u>	<u>\$620,645</u>	<u>\$621,345</u>	<u>\$632,818</u>
Number of portfolio investments	51	53	51	54	56	57
Leverage ratio-actual	1.32x	1.31x	1.30x	1.42x	1.43x	1.37x
Leverage ratio - regulatory	0.63x	0.63x	0.61x	0.71x	0.72x	0.68x
Average risk rating	1.99	1.96	1.89	1.81	1.84	1.83
Non-accrual loans at fair value	\$18,741	\$17,374	\$9,547	\$8,989	\$12,745	\$28,010

Capitala Finance Corp. – Public Issuer Overview

Exchange-Traded Issuances:	Common Stock – Nasdaq:CPTA Bonds – NYSE:CLA			
External Manager:	Capitala Investment Advisors, LLC			
Current Price / Share:	\$13.96 ⁽¹⁾ (0.89x price / book ⁽²⁾)			
Shares / Market Cap⁽¹⁾:	15.9 million / \$217.7 million			
Portfolio Fair Value⁽²⁾:	\$532.5 million (excluding cash); \$580.7 million gross asset value			
Investment Strategy:	To directly originate debt and selective equity investments in middle market companies			
Weighted Average Portfolio Debt Investment Yield⁽²⁾⁽³⁾⁽⁴⁾:	13.8% First Lien Debt	11.4% Second Lien Debt	13.1% Subordinated Debt	13.2% Total
Annualized Distribution:	9.9% implied annual distribution yield ⁽⁵⁾			
Management Ownership⁽¹⁾:	Approximately \$19.5 million (8.8%)			
Management Fee:	Base fee of 1.75% of gross assets			
Incentive Fee⁽⁶⁾:	(1) 20% of pre-incentive fee net investment income above an 8% hurdle and (2) 20% of cumulative capital gains			

(1) Based on the closing price as of May 5, 2017. Total shares outstanding as of March 31, 2017.

(2) As of March 31, 2017. Based on net asset value per share of \$15.71.

(3) Represents weighted average investment yield on debt investments only, based on fair value.

(4) Weighted average yield excludes non-accrual investments; weighted average yield inclusive of the impact of non-accrual investments was 12.6% for total portfolio.

(5) Calculated as annualized monthly distributions of \$0.13 / share divided by net asset value of \$15.71 / share.

(6) Please reference most recent Form 10-K filed on March 7, 2017 for additional detail related to incentive fee.

Corporate Information

Senior Management

Joe Alala, III
Chairman & CEO,
Capitala Finance Corp.

Jack McGlinn
COO & Treasurer,
Capitala Finance Corp.

Chris Norton
Chief Risk Officer,
Investment Advisor

Steve Arnall
Chief Financial Officer,
Capitala Finance Corp.

Mike Marr
Director – Portfolio,
Investment Advisor

Richard Wheelahan III
CCO & General Counsel
Capitala Finance Corp.

Research Coverage

FBR & Co.
Christopher Nolan

Janney
Mitchell Penn, CFA

Jefferies
John Hecht

JMP Securities
Christopher York

Keefe, Bruyette & Woods
Ryan Lynch, CPA

Ladenburg Thalmann
Mickey Schleien

Oppenheimer
Chris Kotowski

Stephens
Matt Schmid

Wunderlich Securities
Merrill Ross

Fiscal Year End

December 31

Independent Auditor

Ernst & Young LLP

Corporate Counsel

Eversheds Sutherland LLP

Securities Listings

Nasdaq:CPTA (common stock)
NYSE:CLA (notes)

Transfer Agent

American Stock Transfer and Trust

Corporate Headquarters & Website

4201 Congress St, Suite 360
Charlotte, NC 28209

704-376-5502

www.capitalagroup.com

Capitala Finance Corp.

Common stock: Nasdaq:CPTA

Notes: NYSE:CLA

Q1 2017