



INVESTOR UPDATE

Q2 2020



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 June 30, 2020, 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 CAPITALA FINANCE CORP?

- Part of Capitala Group, a \$3.0 billion SEC-registered asset management firm headquartered in Charlotte, NC, investing debt and equity capital in the lower middle market (“LMM”) ⁽¹⁾
- Strategic partnership with Mitsui & Co. provides global reach and capabilities ⁽²⁾
- Focus on underserved lower middle market
- Direct origination capabilities across 7 offices ⁽³⁾
- Vested and aligned management, currently owning 8.6% of CPTA shares outstanding ⁽⁴⁾
- Unique capital structure, positioned to benefit from rising rates
- NAV upside through equity/warrant appreciation



(1) Reflects cumulative deployed capital since inception plus available liquidity and committed capital as of June 30, 2020.

(2) See press release dated October 28, 2019 for additional detail.

(3) Includes New York office, which is Mitsui USA headquarters.

(4) Total shares outstanding as of June 30, 2020.

Capitala Group

Products for Individuals

Capitala Finance Corp.

NASDAQ:
CPTA

NYSE: CPTAG

NYSE: CPTAL

Products for Institutions

Commingled Funds and Institutionally Owned Permanent
Capital Vehicles

Capitala
Specialty
Lending Corp.

Capitala Private
Credit Fund V,
L.P.

Capitala Growth
Fund I⁽¹⁾

(1) CapitalSouth SBIC Fund IV, L.P.

➤ Capitala Group provides flexible financing for lower middle market companies

OBJECTIVE

- Provide first lien and unitranche debt financing, with corresponding equity/warrant co-investments

INVESTMENT SIZE

- Up to \$75.0MM
- Capitala and affiliates targeted hold size of up to \$40.0MM, acting as required lender

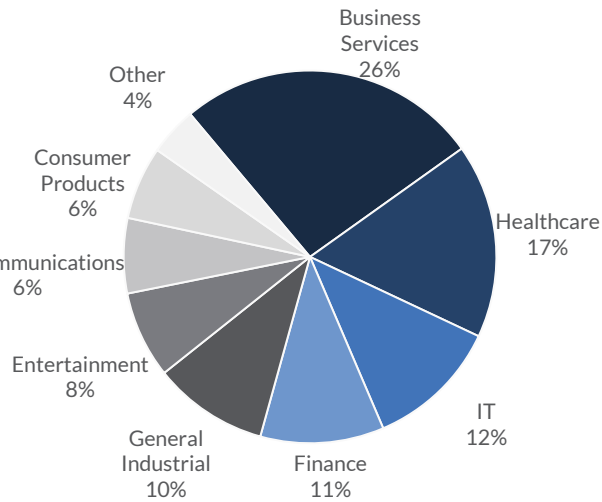
INVESTMENT FOCUS

- Lower middle market companies with EBITDA of \$4.5MM to \$30.0MM
- Diverse industry sectors including business services, general industrial, government, healthcare, software and specialty finance
- Typical transactions include providing financing for leveraged buyouts, acquisitions, recapitalizations, growth opportunities and bridge loans
- Directly originated transactions rather than broadly syndicated financings
- We have developed long-term relationships with lower middle-market companies, management teams, financial sponsors, lending institutions and intermediaries

GEOGRAPHY

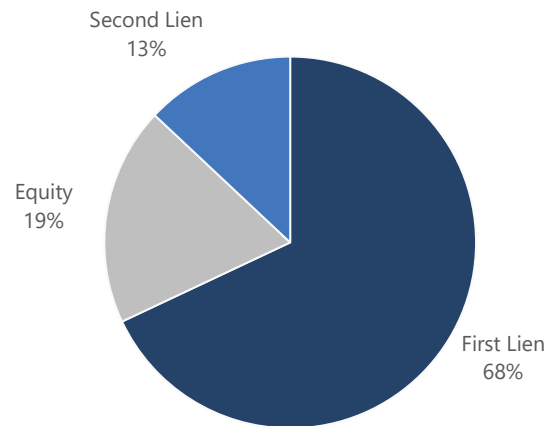
- United States and Canada

PORTFOLIO BY INDUSTRY⁽¹⁾



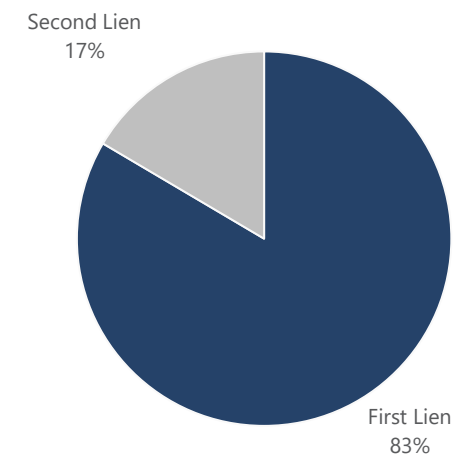
~\$287 million

TOTAL PORTFOLIO BY ASSET TYPE



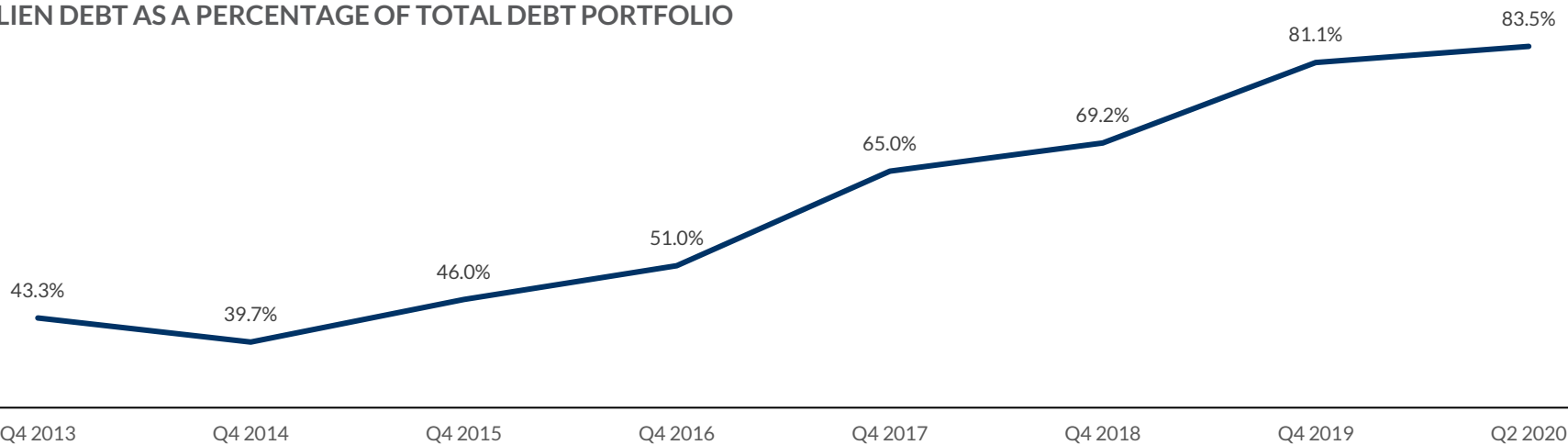
~\$287 million

DEBT PORTFOLIO BY ASSET TYPE



~\$232 million

FIRST LIEN DEBT AS A PERCENTAGE OF TOTAL DEBT PORTFOLIO



Note: Portfolio statistics represent fair value as of June 30, 2020.

(1) Other includes Retail (2%), Energy Services (1%) and Restaurant & Food (1%).

Recent Deal Summary						
Company	Closing Date	Description	Debt Security	Debt Amount ⁽¹⁾	Yield	Equity Co-Invest Amount ⁽¹⁾
J5 Infrastructure Partners, LLC	Dec 2019	Telecom	First Lien	\$7.0MM	L+6.5%	N/A
Rapid Fire Protection, Inc.	Nov 2019	Security Systems Services	First Lien	\$6.6MM	9.2% ⁽²⁾⁽³⁾	\$0.5MM
Chief Fire Intermediate, Inc.	Nov 2019	Security Systems Services	First Lien	\$8.1MM	L+7.0%	\$0.9MM
HUMC Opco, LLC	Aug 2019	Healthcare	First Lien	\$5.0MM	9.0%	N/A
Jurassic Quest Holdings, LLC	May 2019	Entertainment	First Lien	\$10.6MM	L+7.5%	\$0.4MM
Seitel, Inc.	Mar 2019	Data Services	First Lien	\$5.0MM	L+8.3%	N/A
RAM Payment, LLC	Jan 2019	Finance	First Lien	\$9.2MM	11.2% ⁽²⁾⁽³⁾	\$0.9MM
Freedom Electronics, LLC	Dec 2018	IT	First Lien	\$6.3MM	9.1% ⁽²⁾⁽³⁾	\$0.2MM
Chicken Soup for the Soul Holdings, LLC	Dec 2018	Entertainment	First Lien	\$13.0MM	L+8.5%	N/A
U.S. BioTek Laboratories LLC	Dec 2018	Healthcare	First Lien	\$7.0MM	9.3% ⁽²⁾⁽³⁾	\$0.5MM
Summary						
Lien Type				Amount	Percent of Total	
First Lien				\$77.8MM	95.8%	
Subordinated				N/A	0.0%	
Equity				\$3.4MM	4.2%	

* Denotes investment repaid at par.

(1) Amounts as of closing.

(2) Represents a last-out position in a unitranche term loan.

(3) Represents the blended yield for total investments at entry.

- Management team owns 8.6% of the common stock and has made meaningful purchases in the open market since the IPO
 - Management currently owns 1,385,272 shares with a market value of \$3.0 million ⁽¹⁾

- The Company's external manager has voluntarily waived \$4.0 million of incentive fees since Q4 2015
 - \$0.3 million in 2019

- Since IPO, Capitala Finance Corp. has distributed ~\$154 million through regular and special distributions

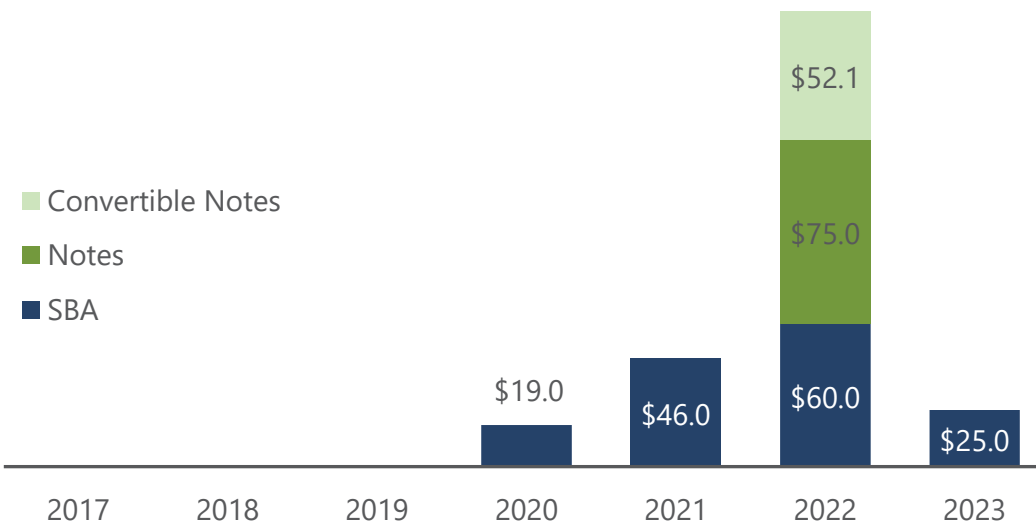
Note: As of June 30, 2020.

(1) Based on the closing price as of July 31, 2020.

CURRENT FUNDING OVERVIEW

Facility	Interest Rate	Maturity	Amount Drawn (6/30/20)
▪ SBA Debentures	3.16% fixed	2020 - 2023	\$150.0 million
▪ Convertible Notes Payable	5.75% fixed	May 2022	\$52.1 million
▪ Notes Payable	6.00% fixed	May 2022	\$75.0 million

NOTES MATURITY PROFILE (\$ in millions)



- 93% of existing notes and debentures mature after 2020
 - \$150.0 million of SBA guaranteed debentures
 - \$127.1 convertible and fixed rate notes due in 2022



- Obligor for SBA debentures is an SBIC licensee subsidiary; issuer is not an SBIC obligor

	% Fixed Rate	% Variable Rate
Investment Portfolio	45%	55%
CPTA Borrowings	100%	0%

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	\$2,245	\$0	\$2,245	\$0.14
+200 bps	\$1,051	\$0	\$1,051	\$0.07
+100 bps	\$275	\$0	\$275	\$0.02
-100 bps	\$0	\$0	\$0	\$0.00
-200 bps	\$0	\$0	\$0	\$0.00
-300 bps	\$0	\$0	\$0	\$0.00

Note: Assumes no change in portfolio investments or revolving credit facility borrowings as of June 30, 2020.

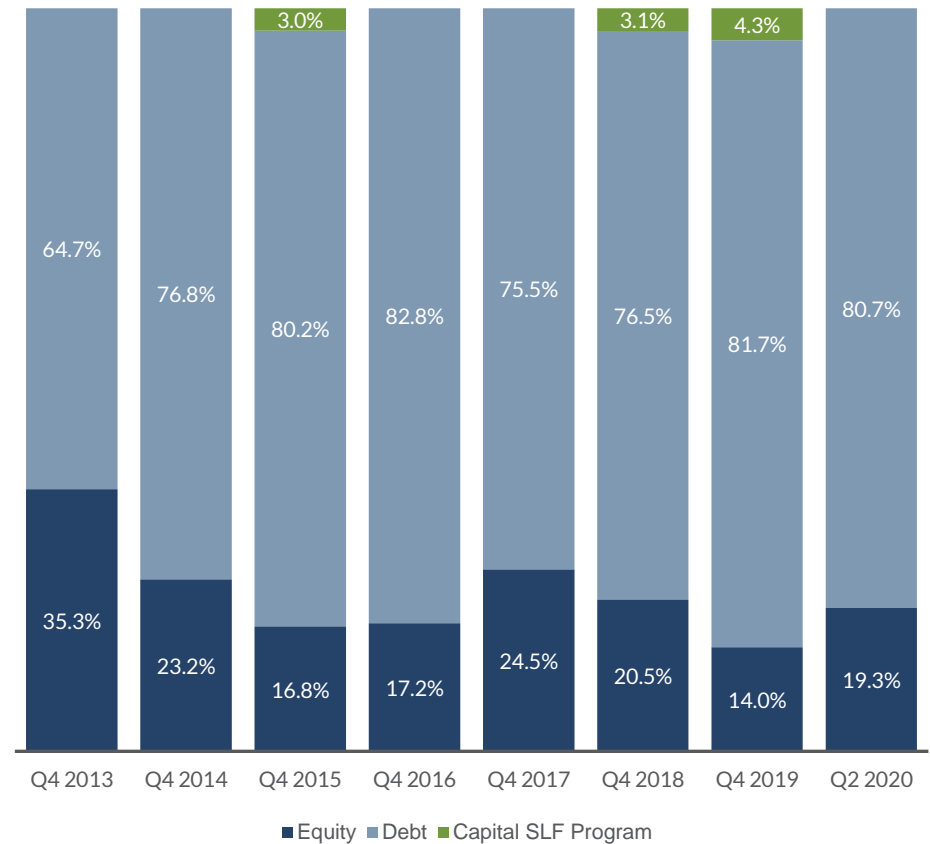
Note: Per share amount calculated based upon actual shares outstanding at June 30, 2020.

Current Equity Investments⁽¹⁾

(\$ in thousands)

Company	\$ Cost Basis	\$ Fair Value	% of Investments at Fair Value
Eastport Holdings, LLC	\$3,263	\$15,545	5.4%
Alternative Biomedical Solutions, LLC	6,018	5,218	1.8%
Vology, Inc.	5,215	5,108	1.8%
GA Communications, Inc.	3,479	3,939	1.4%
American Clinical Solutions	3,198	3,198	1.1%
LJS Partners, LLC	1,661	3,061	1.1%
CIS Secure Computing, Inc.	1,000	2,550	0.9%
RAM Payment, LLC	962	2,331	0.8%
Burke America Parts Group, LLC	5	2,118	0.7%
MMI Holdings, LLC	1,623	1,970	0.7%
City Gear, LLC	-	1,810	0.6%
Currency Capital, LLC	2,000	1,258	0.4%
Navis Holdings, Inc	1,000	959	0.3%
Sierra Hamilton Holdings Corporation	6,958	928	0.3%
Rapid Fire Protection, Inc.	500	848	0.3%
Xirgo Technologies, LLC	600	799	0.3%
Taylor Precision Products, Inc.	758	758	0.3%
3 Bridge Solutions, LLC	1,100	709	0.2%
MicroHoldco, LLC	838	670	0.2%
Corporate Visions, Inc.	1,575	667	0.2%
US Well Services, Inc.	7,471	589	0.2%
U.S. BioTek Laboratories, LLC	619	199	0.1%
Freedom Electronics, LLC	182	139	0.0%
Burgaflex Holdings, LLC	1,865	-	0.0%
Chief Fire Intermedate, Inc.	913	-	0.0%
Jurassic Quest Holdings, LLC	480	-	0.0%
Nth Degree, Inc.	6,088	-	0.0%
Total	\$59,372	\$55,371	19.3%

Demonstrated Rotation Out of Equity Positions



Equity Cost Basis

15.2%	12.7%	9.0%	8.3%	11.1%	11.6%	14.3%	19.5%
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(1) Current equity position details as of June 30, 2020.

Statements of Operations

(\$ in thousands, except per share data)

	Three Months Ended:							
	6/30/20 (unaudited)	3/31/20 (unaudited)	12/31/19 (unaudited)	9/30/19 (unaudited)	6/30/19 (unaudited)	3/31/19 (unaudited)	12/31/18 (unaudited)	9/30/18 (unaudited)
Investment Income								
Interest, PIK, and fees	\$6,994	\$7,005	\$9,177	\$8,906	\$11,128	\$11,327	\$11,063	\$11,430
Dividends	-	25	409	1,159	425	1,306	176	54
Other income	5	44	48	61	37	51	69	46
Total investment income	6,999	7,074	9,634	10,126	11,590	12,684	11,308	11,530
Expenses								
Interest and financing expense	4,885	3,826	4,371	4,110	4,228	4,413	4,269	4,320
Management fees	1,666	1,757	1,904	1,925	2,020	2,118	2,178	2,254
Incentive fees, net of waivers	-	-	-	-	175	1,034	-	-
Other expenses	1,057	1,504	1,457	1,107	1,145	984	1,360	1,105
Total expenses	7,608	7,087	7,732	7,142	7,568	8,549	7,807	7,679
Net Investment Income	(609)	(13)	1,902	2,984	4,022	4,135	3,501	3,851
Net realized gain (loss) on investments	(13,285)	968	1,156	12	(15,077)	(5,847)	(14,626)	6,298
Net unrealized appreciation (depreciation) on investments	16,994	(43,395)	(3,127)	(1,279)	(17,395)	1,495	1,193	(21,955)
Tax benefit (provision)	-	-	-	-	(694)	66	731	(110)
Net gain (loss) on investments, net of taxes	3,709	(42,427)	(1,971)	(1,267)	(33,166)	(4,286)	(12,702)	(15,767)
Net increase (decrease) in assets resulting from operations	\$3,100	(\$42,440)	(\$69)	\$1,717	(\$29,144)	(\$151)	(\$9,201)	(\$11,916)
Net investment income (loss) per share	(\$0.04)	(\$0.00)	\$0.12	\$0.18	\$0.25	\$0.26	\$0.22	\$0.24
Net realized gain (loss) per share	(\$0.82)	\$0.06	\$0.07	\$0.00	(\$0.94)	(\$0.36)	(\$0.91)	\$0.39
Net increase (decrease) in assets resulting from operations per share	\$0.19	(\$2.62)	(\$0.00)	\$0.11	(\$1.81)	(\$0.01)	(\$0.57)	(\$0.74)
Distributions declared during quarter	\$0.00	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25	\$0.25

Statements of Assets & Liabilities

(\$ in thousands)

	6/30/20 (unaudited)	3/31/20 (unaudited)	12/31/19 (audited)	9/30/19 (unaudited)	6/30/19 (unaudited)	3/31/19 (unaudited)	12/31/18 (audited)	9/30/18 (unaudited)
Investments at fair value	\$287,266	\$321,227	\$362,532	\$371,351	\$391,059	\$455,390	\$448,927	\$439,421
Cash and cash equivalents	95,226	56,431	62,321	62,776	43,474	28,470	39,295	50,456
Other assets	3,019	2,423	2,484	1,803	2,774	4,618	4,943	4,323
Total assets	\$385,511	\$380,081	\$427,337	\$435,930	\$437,307	\$488,478	\$493,165	\$494,200
SBA debentures	\$149,242	\$149,117	\$148,994	\$148,871	\$148,736	\$148,596	\$164,012	\$163,858
2022 Notes	73,836	73,693	73,553	73,415	73,279	73,145	73,013	72,883
2022 Convertible Notes	51,352	51,261	51,172	51,085	50,998	50,913	50,829	50,746
Credit Facility	-	(1,165)	(1,165)	(727)	4,172	24,051	9,017	(1,021)
Other liabilities	6,026	5,220	6,670	11,405	6,259	5,039	5,650	4,138
Total liabilities	280,456	278,126	279,224	284,049	283,444	301,744	302,521	290,604
Net assets	105,055	101,955	148,113	151,881	153,863	186,734	190,644	203,596
Total liabilities and net assets	\$385,511	\$380,081	\$427,337	\$435,930	\$437,307	\$488,478	\$493,165	\$494,200
Number of portfolio investments	37	41	43	40	41	43	44	42
Leverage ratio-actual	2.64x	2.72x	1.87x	1.82x	1.83x	1.62x	1.59x	1.44x
Leverage ratio - regulatory	1.21x	1.25x	0.86x	0.84x	0.86x	0.81x	0.72x	0.62x
Average risk rating	2.00	2.21	1.92	1.85	1.84	1.82	1.82	1.83
Non-accrual loans at fair value	\$23,886	\$42,926	-	\$15,797	\$8,723	\$6,520	\$9,362	\$12,686

<h2>Senior Management</h2> <p>Joseph B. Alala, III Chairman & Chief Executive Officer</p> <p>Steve Arnall Chief Financial Officer & Chief Operating Officer</p> <p>Peter Sherman Chief Risk Officer- Investment Advisor</p> <p>Kevin Koonts Chief Accounting Officer & Chief Compliance Officer</p>		<h2>Fiscal Year End</h2> <p>December 31</p>
<h2>Board of Directors</h2> <p>Joseph B. Alala, III</p> <p>M. Hunt Broyhill</p> <p>R. Charles Moyer*</p> <p>H. Paul Chapman*</p> <p>Larry W. Carroll*</p>		<h2>Independent Auditor</h2> <p>Ernst & Young LLP</p>
<h2>Research Coverage</h2> <p>Janney Mitchel Penn, CFA</p> <p>JMP Securities Christopher York</p> <p>Jefferies John Hecht</p> <p>Ladenburg Thalmann Chris Nolan</p>		<h2>Corporate Counsel</h2> <p>Eversheds Sutherland LLP</p>
		<h2>Securities Listings</h2> <p>Nasdaq: CPTA (common stock) Nasdaq: CPTAL (notes) Nasdaq: CPTAG (convertible notes)</p>
		<h2>Transfer Agent</h2> <p>American Stock Transfer and Trust</p>
		<h2>Corporate Headquarters & Website</h2> <p>4201 Congress St, Suite 360 Charlotte, NC 28209</p> <p>704-376-5502 www.CapitalaGroup.com</p>

* Represents independent directors.

Exchange-Traded Issuances:	Common Stock – Nasdaq: CPTA Notes – Nasdaq: CPTAL Convertible Notes – Nasdaq: CPTAG
External Manager:	Capitala Investment Advisors, LLC
Current Price / Share⁽¹⁾:	Nasdaq: CPTA – \$2.19 Nasdaq: CPTAL – \$20.55 Nasdaq: CPTAG – \$20.27
Shares / Market Cap⁽¹⁾:	16.1 million / \$35.2 million
Portfolio Fair Value⁽²⁾:	\$287.3 million (excluding cash); \$385.5 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⁾:	10.3%
Management Ownership⁽¹⁾:	Approximately \$3.0 million (8.6%)
Management Fee:	Base fee of 1.75% of gross assets
Incentive Fee⁽⁴⁾:	(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 July 31, 2020. Total shares outstanding as of June 30, 2020.

(2) As of June 30, 2020.

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

(4) Please reference most recent Form 10-Q to be filed on or about August 4, 2020 for additional detail related to incentive fee.

Capitala Finance Corp.

Common stock: Nasdaq:CPTA

Notes: Nasdaq:CPTAL

Convertible Notes: Nasdaq:CPTAG

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