

# STELLUS

## CAPITAL

INVESTMENT CORPORATION

## Investor Presentation

Second quarter ended June 30, 2021



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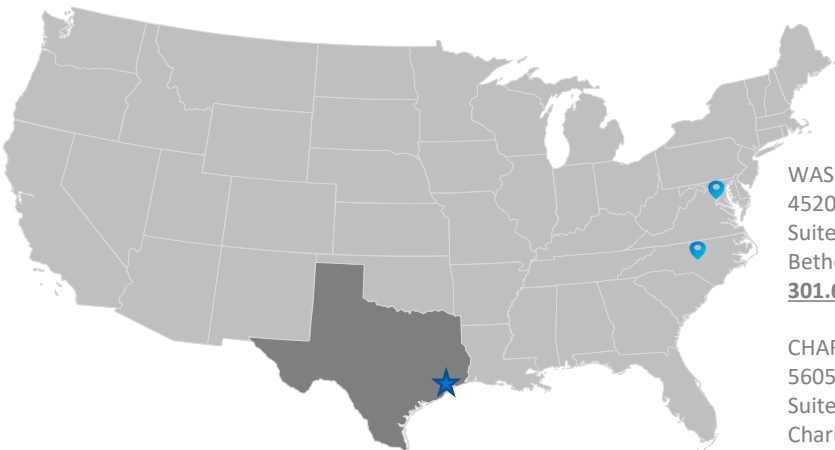
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## Stellus Capital Investment Corp. (NYSE: “SCM”)



HOUSTON, TX  
4400 Post Oak Parkway, Suite 2200  
Houston, TX 77027  
**713.292.5400**



WASHINGTON D.C. AREA  
4520 East West Highway,  
Suite 605  
Bethesda, MD 20814  
**301.634.3000**

CHARLOTTE, NC  
5605 Carnegie Boulevard,  
Suite 410  
Charlotte, NC 28209  
**704.409.3335**

# There are 46 Publicly-Traded BDCs ~ What is our Competitive Advantage?

## Strong Historical Portfolio Performance and Consistent Returns to Shareholders

### Strong History of Underwriting Credit

- Fair Value of investment portfolio of \$781.9 million as of June 30, 2021
  - ❖ Grown at a 3-year CAGR of 16.1%\*
- Achieving loan growth while practicing conservative lending
- Diversified portfolio by size of investment, industry and geography

### Favorable Performance Over Time

- In the top 10 of all publicly traded BDCs
- Stable portfolio performance throughout COVID-19

### Stable and Growing Dividend

- Increased the quarterly dividend from \$0.25 to \$0.27
- Presently paying monthly dividend of \$0.09
- Declared supplemental dividend of \$0.01 for July, August, and September 2021
- Annualized indicated dividend yield of 8.3%\*\*
- LTD dividends of \$11.41 to an IPO investor through June 30, 2021
- We have covered dividends from earnings since inception

### Performance and Stability / Trading at a Discount to NAV

- Net asset value per share was \$14.07 at June 30, 2021, an increase from \$14.03 at December 31, 2020
- Trading at approximately 0.92X to June 30, 2021 per share NAV\*\*

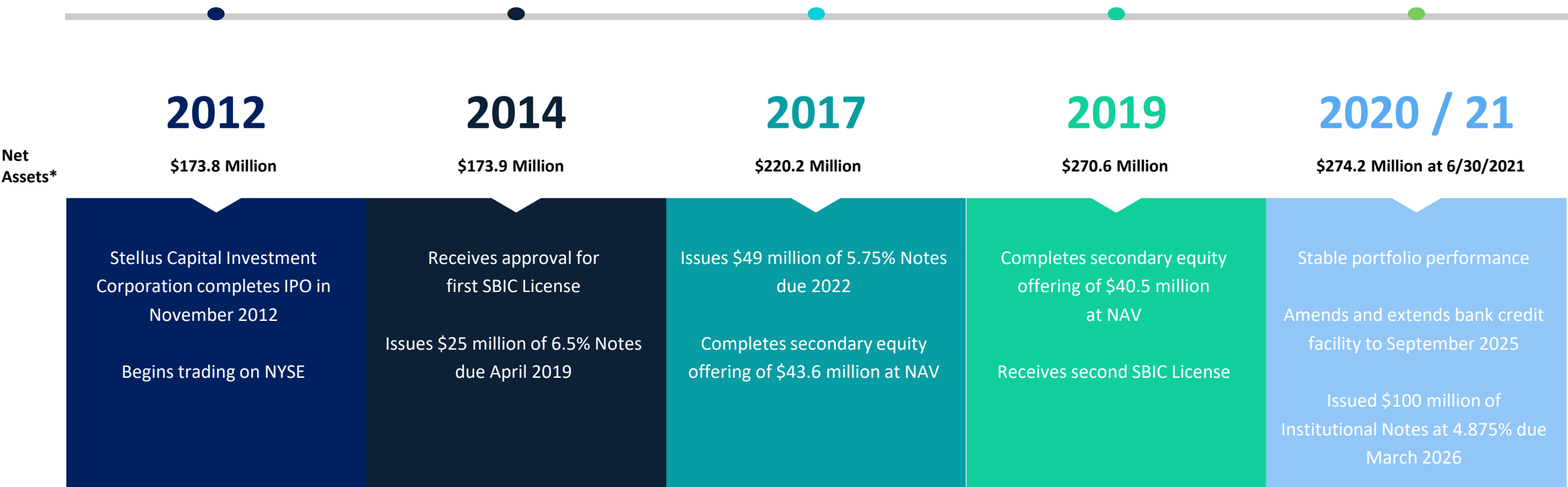


## COMPANY OVERVIEW:

Navigating Lower Middle  
Market Capital Solutions

# Stable Growth with Ample Access to Low-Cost Capital

Management team focused on maintaining asset quality, proper capital allocation, and operational excellence



\* Net Assets at December 31 unless otherwise noted



# SCM Provides Flexible Financing for Middle Market Companies

## Investment Type & Size

- Investment size between \$10 and \$30 million per transaction.
- Senior secured first lien, unitranche, split lien and second lien debt financings, often with corresponding equity investments.
- Underwriting capabilities up to \$50 million.

## Investment Focus

- Private companies generating between \$5 and \$50 million of EBITDA.
- Diverse industry sectors
- Capital is often used for acquisitions, growth capital, leveraged buyouts, and recapitalizations.
- Substantially all investments are in portfolio companies backed by high quality PE sponsors.

## Origination Focus

- Focus on originated loans, as opposed to broadly syndicated financings. Stellus is typically the sole lender in the tranches in which it invests. However, we are open to partnering with a small number of lenders in “club” deals.
- Companies headquartered (or with a majority of their operations) in the United States and Canada.

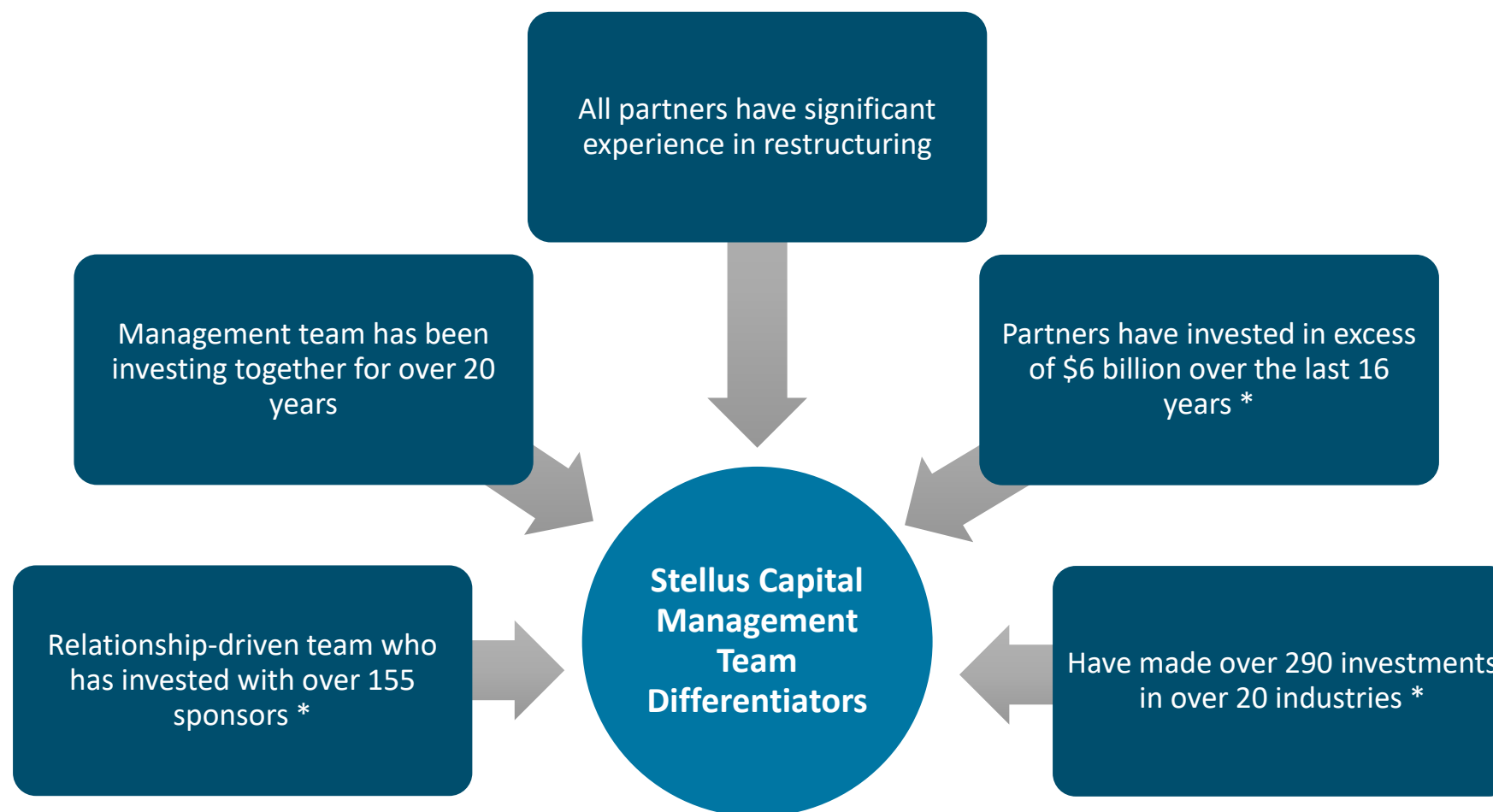
# Established Team and Institutional Platform

Stellus Capital Management’s\* investment committee members have backgrounds in private credit, private equity, corporate finance, restructuring, management consulting, and accounting.

TOTAL YEARS EXPERIENCE >	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5	10	15	20	25	30	35	40	PAST EXPERIENCE
Robert Ladd (65)   Chairman, President & CEO																								41	The D. E. Shaw group, Duke Capital Partners, Duke Energy North America, Arthur Andersen, First City Bancorporation
Dean D’Angelo (53)   Co-Head of Private Credit & Director																								29	The D. E. Shaw group, Allied Capital, Duke Capital Partners, Banc of America Securities, Coopers & Lybrand
Joshua Davis (49)   Co-Head of Private Credit																								26	The D. E. Shaw group, Duke Capital Partners, Milestone Merchant Partners, Arthur Andersen
Todd Overbergen (55)   Investment Committee Member																								31	The D. E. Shaw group, Duke Capital Partners, Arthur Andersen
Todd Huskinson (57)   Chief Financial Officer, Chief Compliance Officer & Secretary																								34	The D. E. Shaw group, Bearing Point, Arthur Andersen



# Diverse Sponsor Relationships and Investment Experience



# Diverse Financial Sponsor Relationships\*





Stellus Capital Management has one of the most experienced lower middle market investment teams in the marketplace with over 300 combined years of principal investing experience

**75**

Current Active  
Investments

**290+**

Cumulative Completed  
Investments

**\$6.6+**

Billion  
Invested Capital

[Select List of Investments Available Here](#)

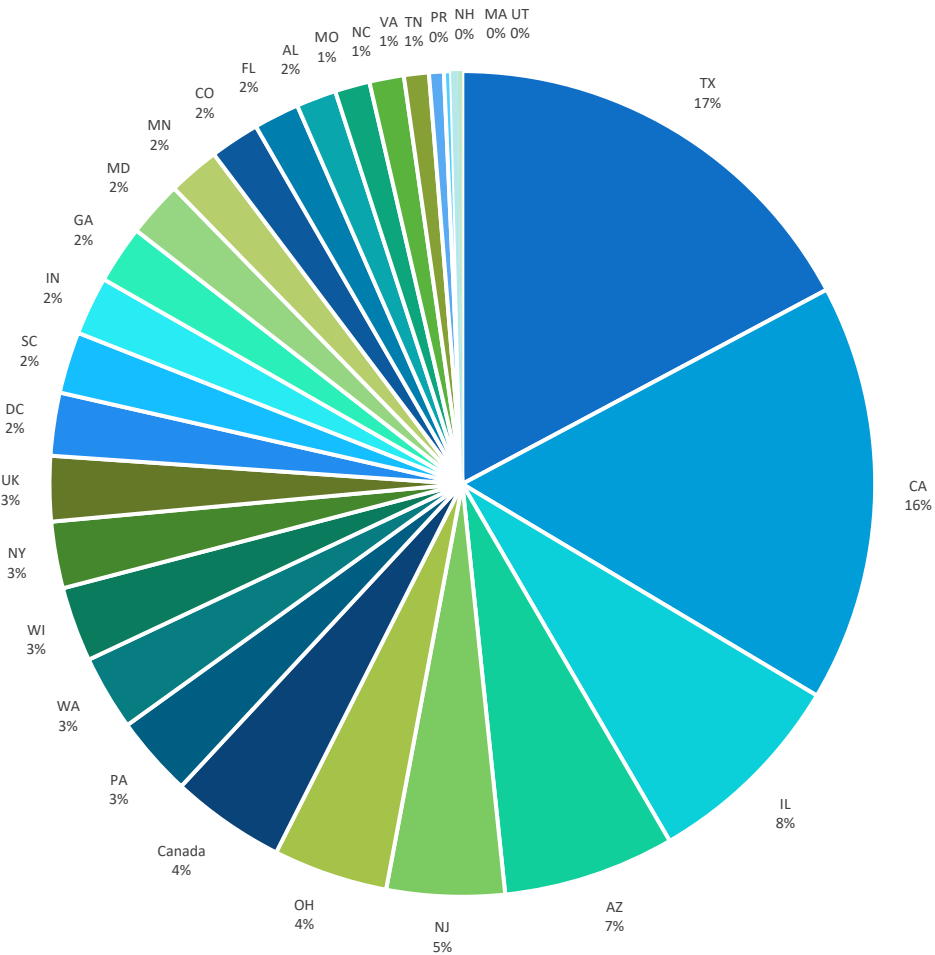
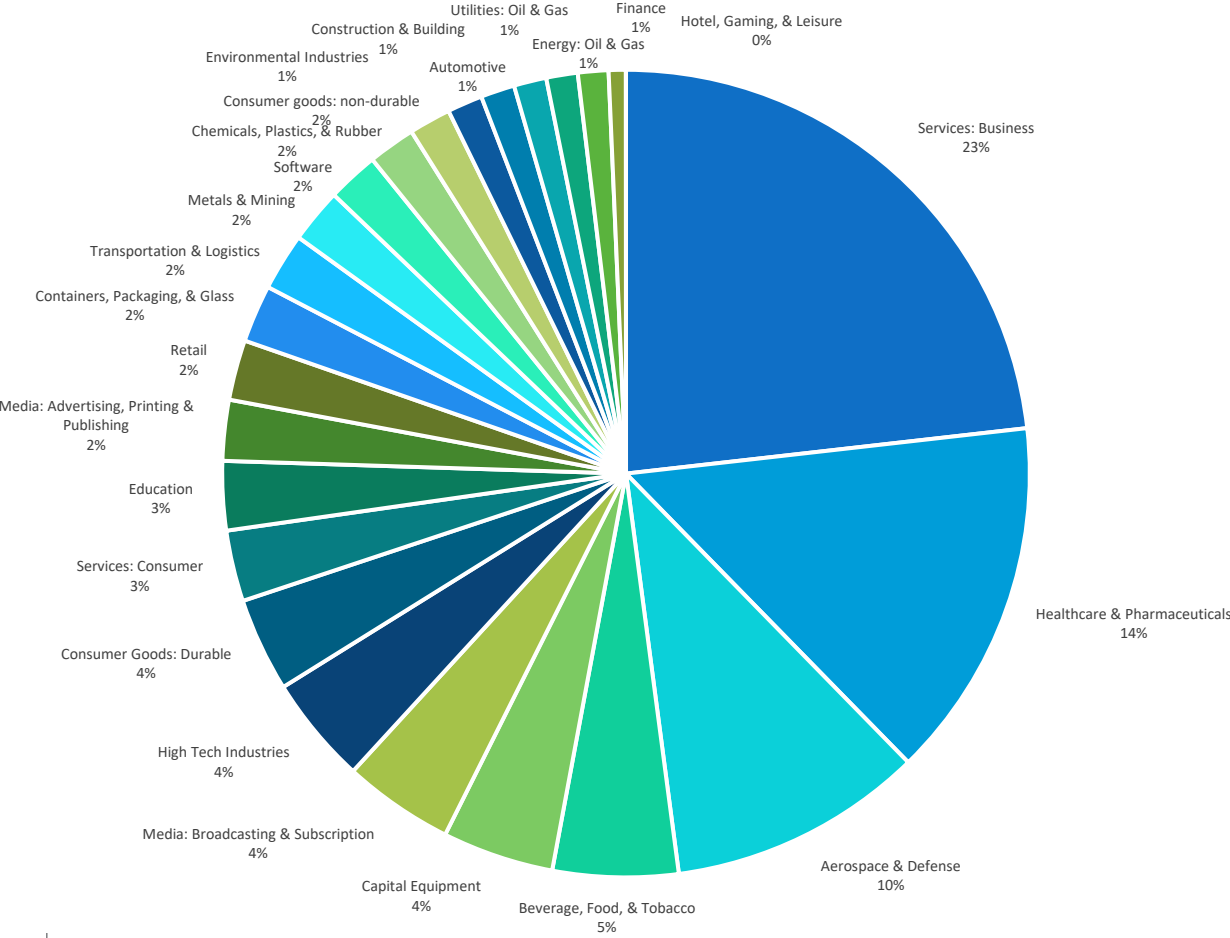
# Portfolio Statistics as of June 30, 2021

Diverse Portfolio / Low Exposure to Retail and Energy

No Geographic Concentration Over 20%

Industry Concentration

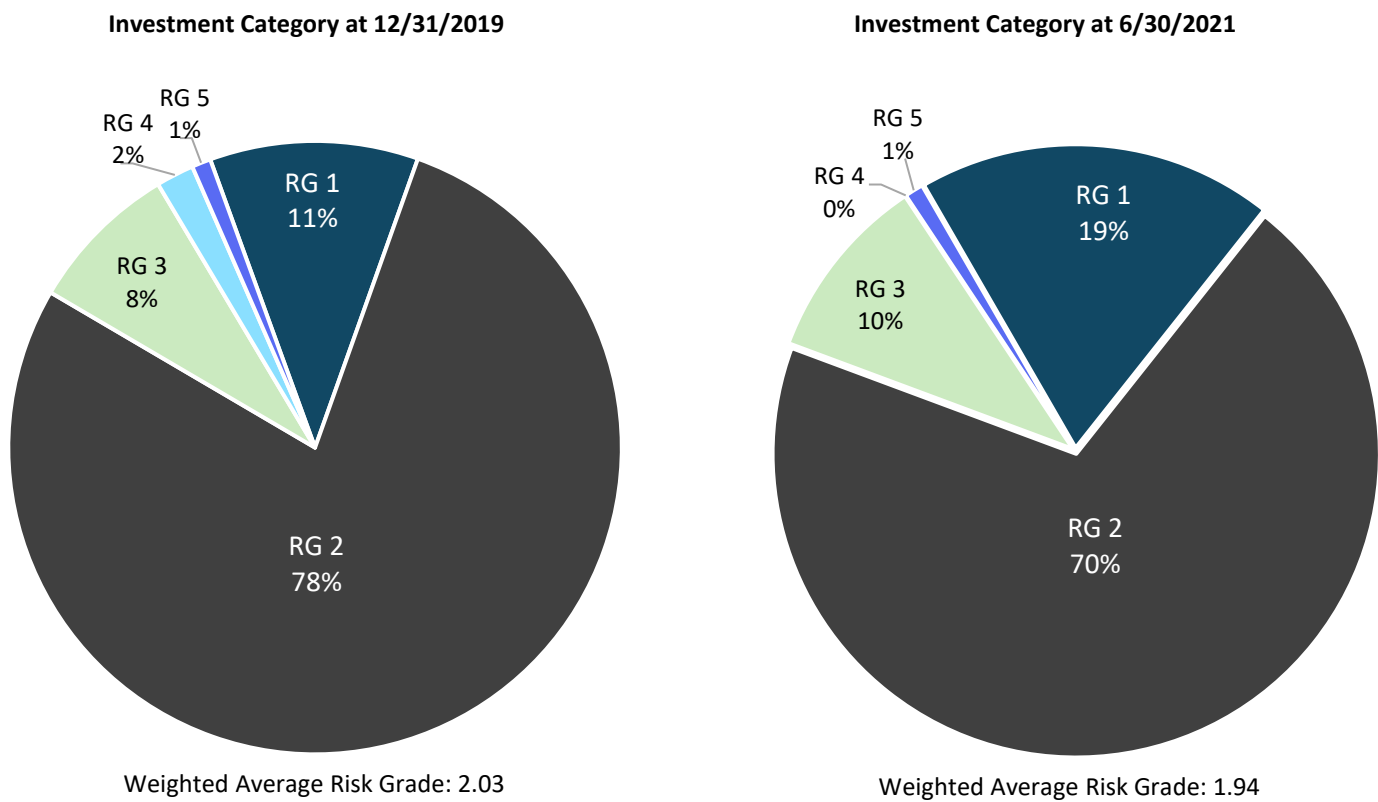
Geographic Concentration



Note: Percentages are based on market value

# Managing Risk: Resilient Portfolio Prior to and Throughout COVID-19 Pandemic

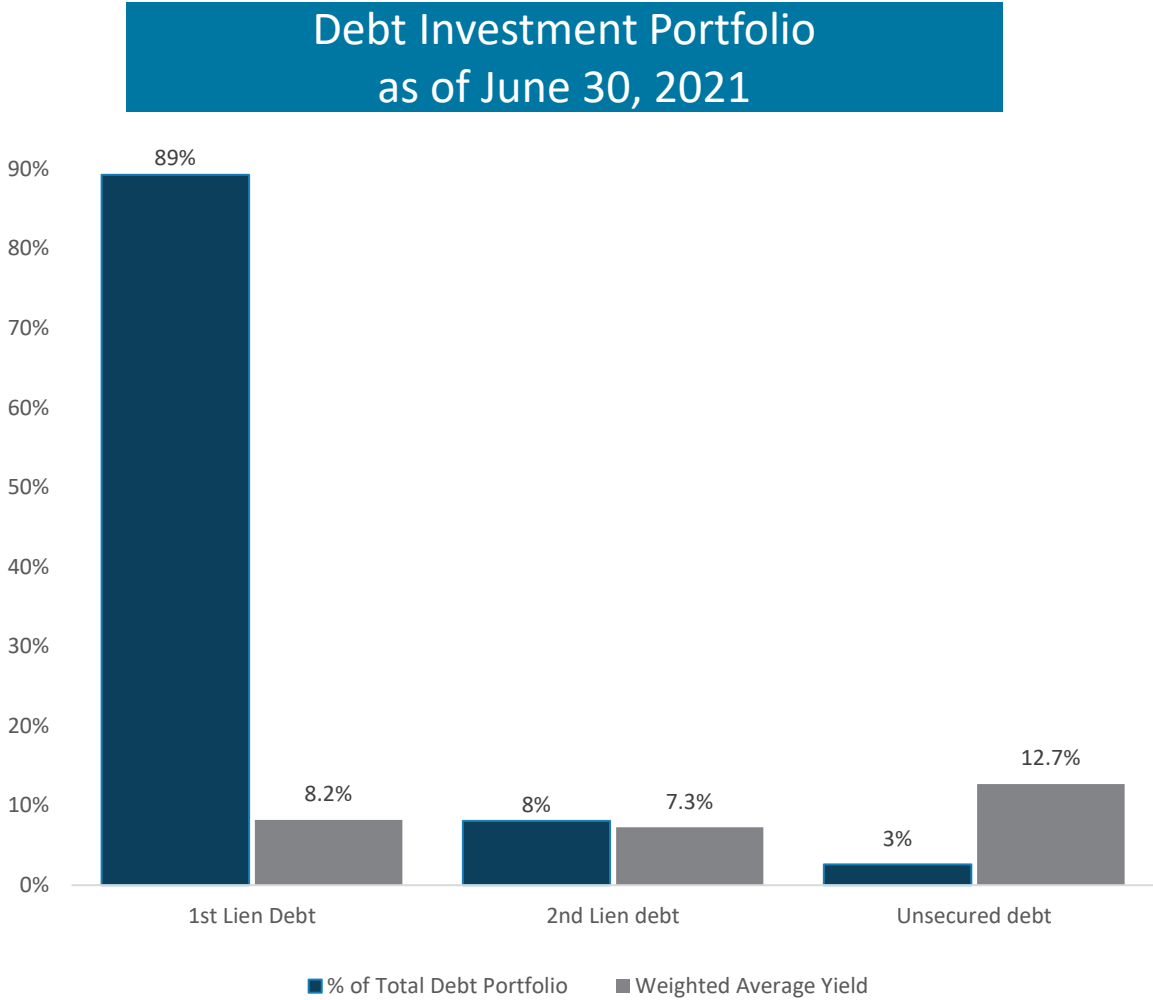
Over 90% of portfolio exceeding expectations or performing in accordance with plan



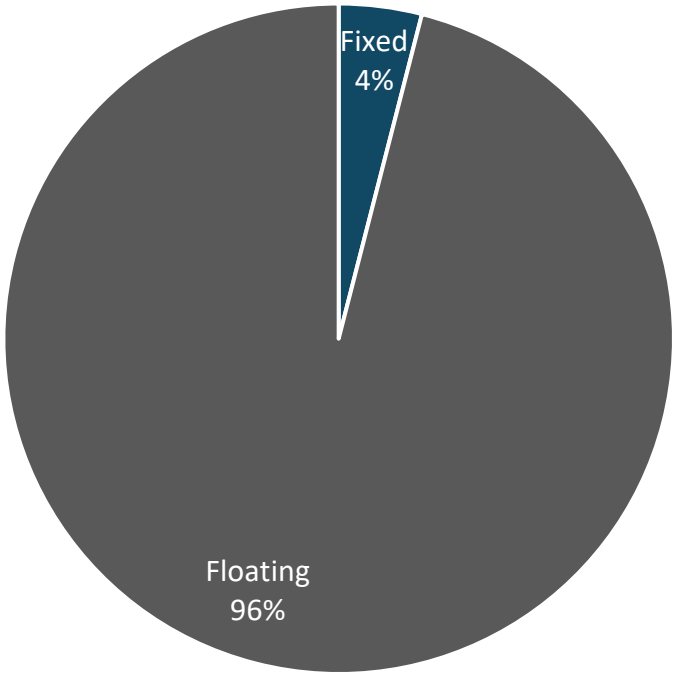
## Investment Category Definitions:

- 1 Exceeding expectations
- 2 Performing in accordance with plan
- 3 Requires closer monitoring (no loss of return or principal)
- 4 In workout (some loss of return; no loss of principal)
- 5 In workout (some loss of principal)

# Debt Portfolio is 89% 1st Lien



## Fixed vs. Floating Rate Debt Investments \*



*Compared to 93% Floating / 7% Fixed at 12/31/2020*

# Numerous Sources of Long-Term / Cost-Efficient Capital

FUNDING SOURCES	FACILITY/ISSUANCE SIZE	OUTSTANDING <sup>(2)</sup>	INTEREST RATE <sup>(3)</sup>	MATURITY
Syndicated Credit Facility led by Amegy <sup>(1)</sup>	\$230 million	\$192.6 million	LIBOR + 2.5%	September 18, 2025
SBIC I Debentures	\$150 million	\$150 million	3.41%	Varied <sup>(4)</sup>
SBIC II Debentures	\$100 million	\$84 million	1.73%	Varied <sup>(5)</sup>
Unsecured Notes	\$100 million	\$100 million	4.875%	March 30, 2026

<sup>(1)</sup> Amegy Bank credit facility closed on October 11, 2017 and was amended and extended in September 2020.

<sup>(2)</sup> Outstanding balances are all as of June 30, 2021

<sup>(3)</sup> Does not include amortization of loan fees.

<sup>(4)</sup> SBA debentures issued to SBIC I mature March 1, 2025 - March 1, 2029.

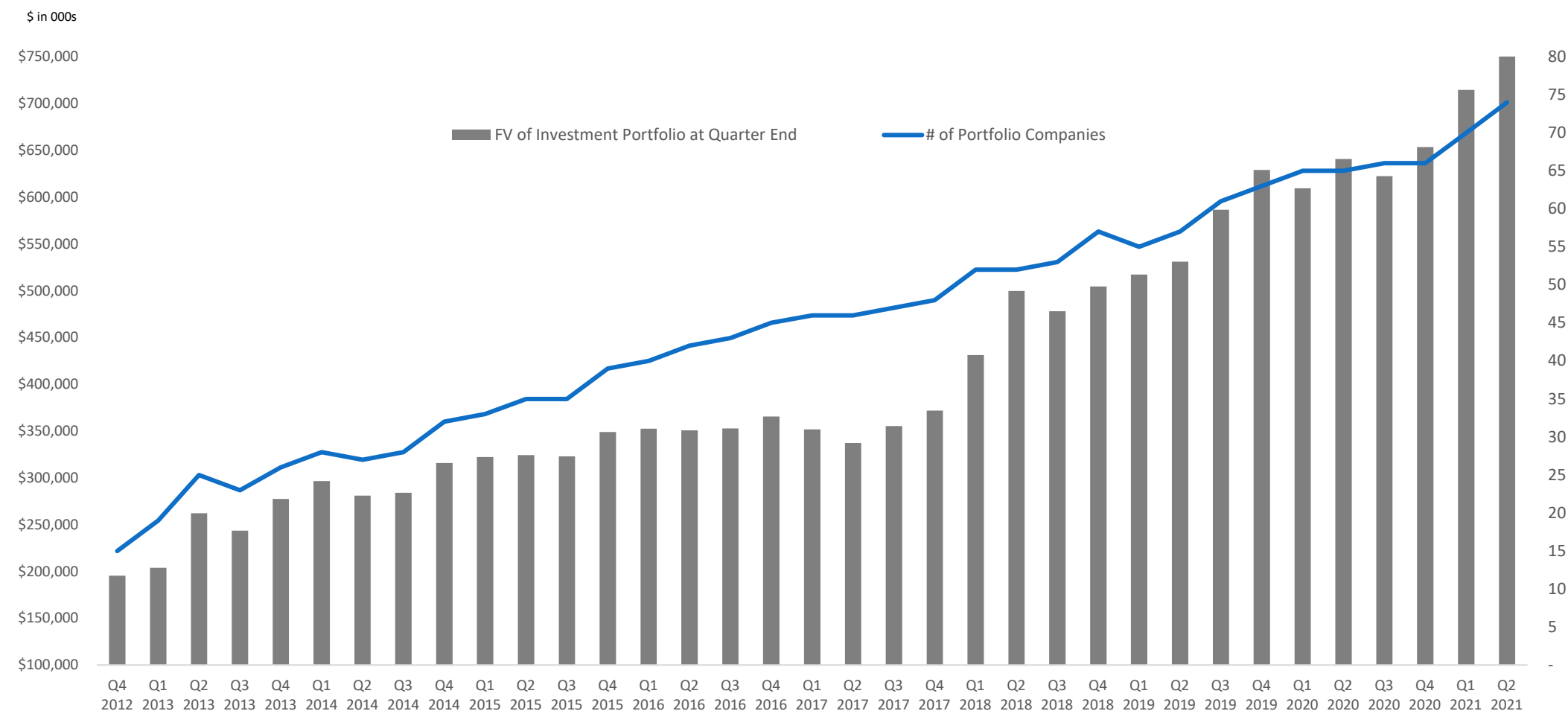
<sup>(5)</sup> SBA debentures issued to SBIC II mature March 1, 2030 - September 1, 2031.



# Financial Performance and Distributions

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# Investment Portfolio Growth Since IPO



# Second Quarter 2021 Overview

\$0.28  
NII per share

\$85.6 million  
New investment activity during the quarter

7.9%  
Weighted average yield on new investments

\$781.9 Million  
Investments at fair value at June 30, 2021

\$14.07  
NAV at June 30, 2021

## Seven New Initial Investment Fundings

New loan fundings were 100% 1<sup>st</sup> lien with a weighted average yield of 7.9%

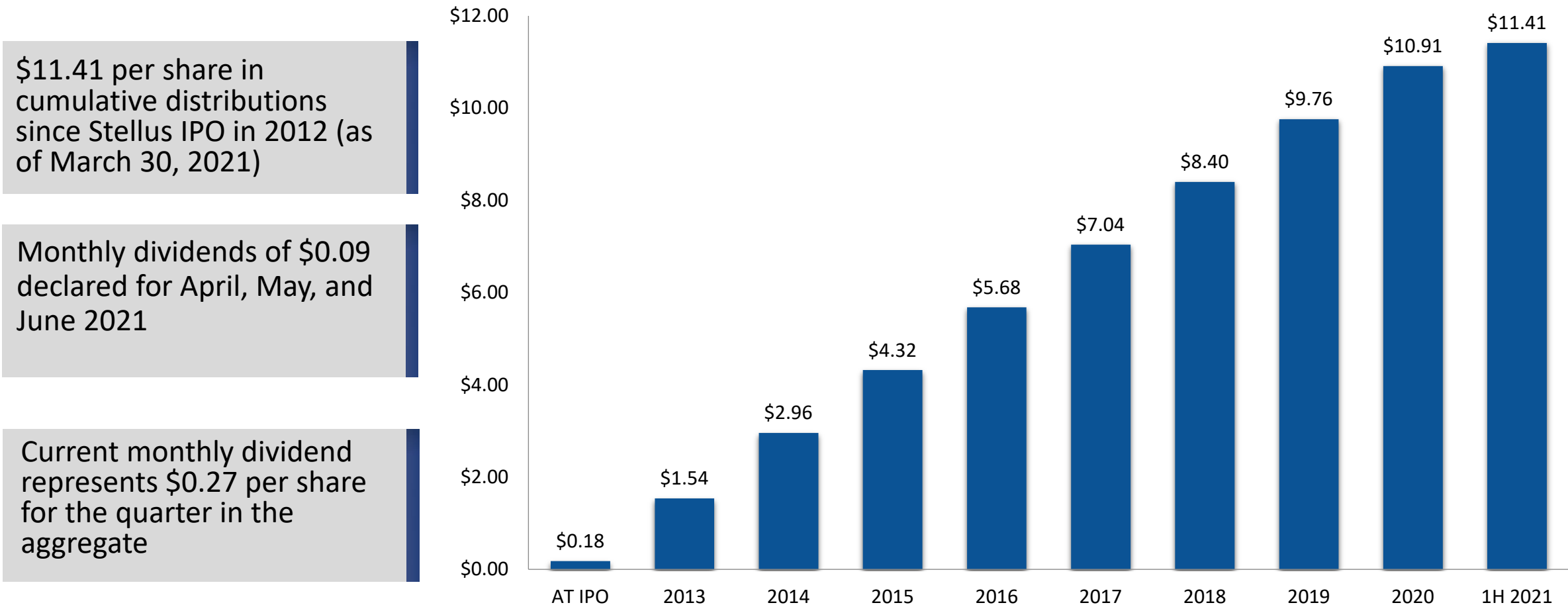
## Distributions

\$0.25 per share in the aggregate paid to stockholders in distributions throughout the quarter

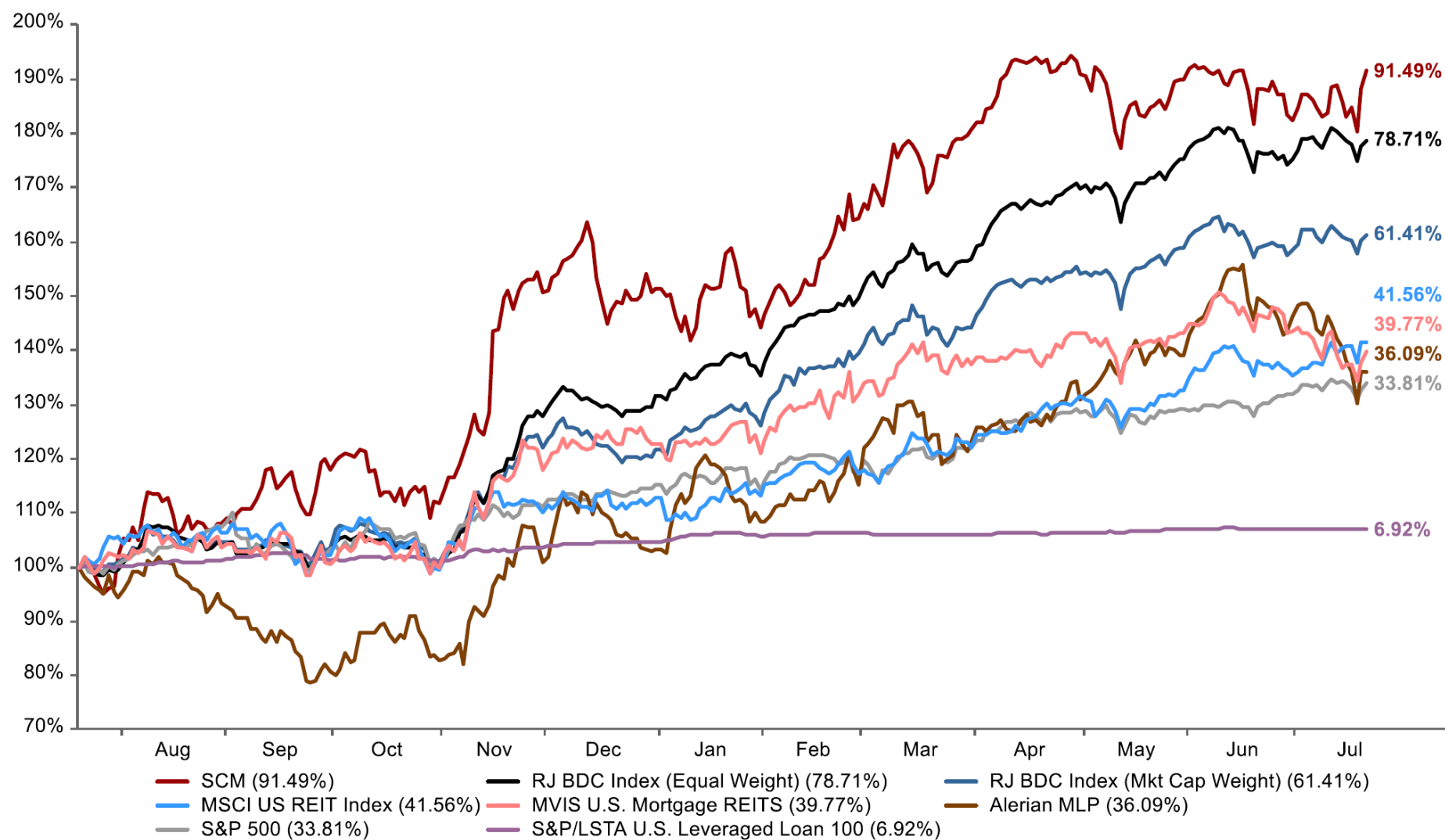
## Increased Regular Dividend Subsequent to Quarter End

Declared a regular monthly dividend for each of July, August and September for an aggregate of \$0.27 per share, which is an increase of \$0.02 for the quarter as compared to the prior quarter. In addition, the board has declared a supplemental dividend of \$0.01 for each of the months of July, August and September.

# Cumulative Distributions Declared per share Since IPO



# Comparative Total Return LTM



## Favorable Performance Not Reflected in Comparative Price to Book

(based on a 3-Year ROE)

- Stellus has delivered a 3-year average return on equity\* (ROE) of 9.8%
  - In the top 10 of all publicly traded BDCs
- BDCs performing at this level trade at an implied price to NAV of approximately 1.1x
- Stellus trades at a discounted price to NAV per share of 0.92x

# Stability and Growth Continued Throughout 2020

**2020**

**Future / Why Stellus**

## **Stable Portfolio**

Strong portfolio performance throughout the pandemic

In the second half of 2020, Stellus began to see a return to normalcy in activity, leveraging a low-cost of capital to see new loan originations begin to increase in Q3 2020

## **Sustainable Financial Structure and Shareholder Returns**

Extended and expanded capital structure

Maintained NAV Stability

Paid aggregate \$1.15 in distributions to shareholders

## **Achieve Higher than Peer ROE**

Over the past 3 years, SCM is in the top quartile of ROE\* performance across all BDCs



# Corporate Information

## Executive Officers

**Robert T. Ladd**  
Chairman, President &  
Chief Executive Officer

**W. Todd Huskinson**  
Chief Financial Officer,  
Chief Compliance Officer,  
Treasurer and Secretary

## Directors

**J. Tim Arnoult**<sup>1</sup>

**Bruce R. Bilger**<sup>1</sup>

**Dean D'Angelo**

**Robert T. Ladd**, Chairman

**William C. Repko**<sup>1</sup>

<sup>1</sup> Independent Directors

## Research Coverage

**Hovde Group**  
Bryce Rowe, 804-318-0969

**Keefe, Bruyette & Woods**  
Ryan Lynch, 314-342-2194

**Ladenburg Thalmann Financial Services**  
Christopher Nolan, 212-667-7136

**Oppenheimer Equity Research**  
Mitchel Penn, 212-667-6699

**Raymond James**  
Robert Dodd, 901-579-4560

## Share Information

Share Price**	\$12.97
Shares Outstanding	19,486,003
Market Capitalization	\$260M
Total Assets	\$804 Million
Total Stockholders' Equity	\$274 Million
NAV per share	\$14.07
Ratio of Price to NAV per share**	0.92X

## Dividends

Dividend Frequency	Monthly
Last Monthly Dividend	\$0.09
Annualized Indicated Yield**	8.3%

## Debt

Regulatory Leverage	1.07x
Total Leverage (incl. SBIC debentures)	1.92x

## Investment Committee

**Robert T. Ladd**  
Chairman, President & Chief Executive Officer

**Dean D'Angelo**  
Co-Head of Private Credit \*

**Joshua T. Davis**  
Co-Head of Private Credit \*

**W. Todd Huskinson**  
Chief Financial Officer, Chief Compliance Officer,  
Treasurer and Secretary

**Todd A. Overbergen**  
Investment Committee Member\*

## Service Providers

**Stock Transfer Agent- Broadridge Corporate  
Issuer Solutions, Inc.**

**Bond Trustee- US Bank National Association**

**Auditors- Grant Thornton, LLP**

**Counsel- Eversheds Sutherland, LLP**

**Investor Relations- The Equity Group Inc.**

## Securities Listing

Common Stock NYSE : SCM

## Corporate Headquarters

4400 Post Oak Parkway, Suite 2200

Houston, TX, 77027

Phone: 713-292-5400

# Appendix and Financial Supplements

# Financial Highlights

(\$ in millions, except data relating to per share amounts and shares outstanding)

	Q2-21		YTD-21	
	Amount	Per Share	Amount	Per Share
<b>Net investment income</b>	\$5.53	\$0.28	\$10.60	\$0.54
<b>Core net investment income<sup>(1)</sup></b>	5.84	0.30	11.22	0.58
<b>Net realized (loss) on investments</b>	(1.78)	(0.09)	(1.32)	(0.07)
<b>Loss on debt extinguishment</b>	-	-	(0.54)	(0.03)
<b>Total realized income<sup>(2)</sup></b>	3.75	0.19	8.74	0.45
<b>Distributions</b>	(4.87)	(0.25)	9.74	(0.50)
<b>Net unrealized appreciation (depreciation) on investments</b>	1.67	0.09	1.79	0.09
<b>Provision for taxes on unrealized gains on investments in taxable subsidiaries</b>	0.19	0.01	0.02	0.00
<b>Net increase in net assets resulting from operations</b>	\$5.60	\$0.29	\$10.54	\$0.54
<b>Weighted average shares outstanding</b>		19,486,003		19,486,003

- (1) Core net investment income, as presented, excludes the impact of capital gains incentive fees and income taxes, the majority of which are excise taxes. The company believes presenting core net investment income and the related per share amount is a useful supplemental disclosure for analyzing its financial performance. However, core net investment income is a non-U.S GAAP measure and should not be considered as a replacement for net investment income and other earnings measures presented in accordance with U.S GAAP. A reconciliation of net investment income in accordance with U.S GAAP to core net investment income is presented in the company's August 2, 2021 press release available under [Press Releases - Stellus Capital Management, LLC](#)

- (2) Total realized income is the sum of net investment income and net realized gains on investments, both U.S GAAP measures.

- (3) In 2020, fourth quarter dividends were declared in the third quarter.

# Portfolio Characteristics

(\$ in millions, except data relating to per share amounts and number of portfolio companies)

	As of June 30, 2021	As of December 31, 2020
Investments at fair value	\$781.9	\$653.4
Total assets	\$804.1	\$674.9
Net assets	\$274.2	\$273.4
Shares outstanding	19,486,003	19,486,003
Net asset value per share	\$14.07	\$14.03

	Quarter Ended June 30, 2021	Six Months Ended June 30, 2021
New investments	\$91.5	\$185.0
Repayments of investments	(24.8)	(58.4)
Net activity	\$66.7	\$126.6

	As of June 30, 2021	As of December 31, 2020
Number of portfolio company investments	76	66
Number of portfolio company debt investments	60	51
Weighted average yield of debt and other income producing investments <sup>(3)</sup>		
Cash	7.6%	7.8%
Payment-in-kind ("PIK")	0.1%	0.0%
Fee amortization	0.5%	0.5%
Total	8.2%	8.3%
Weighted average yield on total investments <sup>(4)</sup>		
Cash	7.2%	7.4%
Payment-in-kind ("PIK")	0.1%	0.0%
Fee amortization	0.5%	0.5%
Total	7.8%	7.9%

- (1) The dollar-weighted average annualized effective yield is computed using the effective interest rate for our debt investments and other income producing investments, including cash and Paid-In-Capital interest, as well as the accretion of deferred fees. The individual investment yields are then weighted by the respective cost of the investments (as of the date presented) in calculating the weighted average effective yield of the portfolio. The dollar-weighted average annualized yield on the Company's investments for a given period will generally be higher than what investors of our common stock would realize in a return over the same period because the dollar-weighted average annualized yield does not reflect the Company's expense or any sales load that may be paid by investors.
- (2) The dollar weighted average yield on total investments takes the same yields as calculated in the footnote above, but weights them to determine the weighted average effective yield as a percentage of the Company's total investments, including non-income producing loans and equity.

# Dividends Declared

## Paid Monthly

On July 20, 2021, the Company' Board of Directors declared a monthly dividend of \$0.09 per share for each of the months of July, August, and September 2021, which is \$0.27 per share in the aggregate for the second quarter.

In addition, the board has declared a supplemental dividend of \$0.01 for each of the months of July, August and September.

Please refer to the website regarding the U.S. federal income tax characteristics of our 2020 dividends. The information is posted under "Tax Information" (<https://www.stelluscapital.com/public-investors/tax-information/>).

### Summary of Second Quarter 2021 Regular Monthly Dividends

<b>Declared</b>	<b>Ex-Dividend Date</b>	<b>Record Date</b>	<b>Payment Date</b>	<b>Regular Amount per Share</b>	<b>Supplemental Amount per Share</b>	<b>Total Amount per Share</b>
7/19/21	7/30/21	8/30/21	8/13/21	\$0.09	\$0.01	<b>\$0.10</b>
7/19/21	8/31/21	9/15/21	9/15/21	\$0.09	\$0.01	<b>\$0.10</b>
7/19/21	9/29/21	10/15/21	10/15/21	\$0.09	\$0.01	<b>\$0.10</b>