

# FLEXIBLE CAPITAL FOR THE MIDDLE MARKET

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## Investor Presentation

Quarter ended March 31, 2020

**STELLUS**  
CAPITAL  
INVESTMENT CORPORATION

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

**WASHINGTON D.C.  
AREA**  
4520 East West Highway,  
Suite 630  
Bethesda, MD 20814  
301.634.3000.

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

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## Business Development Company (BDC)

- Publicly traded business development company (NYSE: “SCM” )
- Investment portfolio of \$610 million as of March 31, 2020
- Externally managed by Stellus Capital Management, LLC, a registered investment advisor with approximately \$1.5 billion in AUM as of March 31, 2020 across the platform.

## Provides Direct Investment to the Middle Market

- First lien, second lien, unitranche, mezzanine debt and equity
- \$10 to \$30 million targeted investment size
- Investing in companies with EBITDA of \$5 million to \$50 million

## Experienced Cohesive Team

- Investing together in middle market credit for more than a decade
- Offices in Houston, Washington, D.C. area and Charlotte
- Compliance-oriented culture and robust management infrastructure

## Strong Origination Platform and Selective Investment Process

- Closed over 270 direct lending transactions since 2004 with more than 155 different financial sponsors\*
- Over 700 middle market opportunities reviewed over the last twelve months and closed approximately 2% of the deals reviewed

## Long Term Shareholder Focus

- Total of \$10.10 dividends paid LTD for an IPO investor
- Incentive fee subject to a total return requirement and an 8% hurdle rate

\* Includes transactions closed by the management team prior to forming Stellus Capital Management.

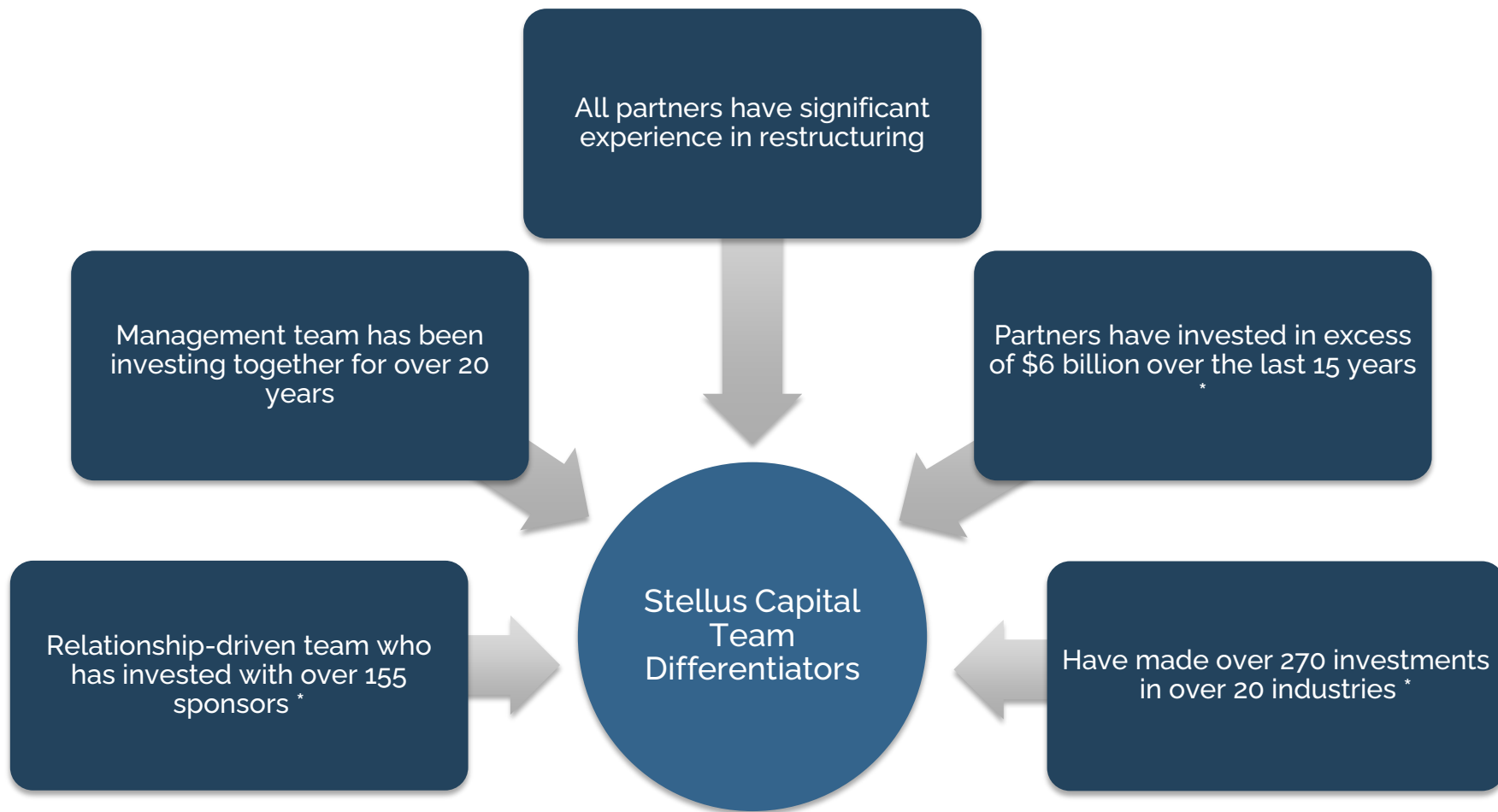
# Established Team and Institutional Platform

Stellus Capital Investment Corporation investment committee members have over 155 years of total experience, which includes 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 (64)   Chairman, President & CEO																								40	The D. E. Shaw group, Duke Capital Partners, Duke Energy North America, Arthur Andersen, First City Bancorporation
Dean D'Angelo (52)   Co-Head of Private Credit * & Director																								28	The D. E. Shaw group, Allied Capital, Duke Capital Partners, Banc of America Securities, Coopers & Lybrand
Joshua Davis (47)   Co-Head of Private Credit * & Director																								25	The D. E. Shaw group, Duke Capital Partners, Milestone Merchant Partners, Arthur Andersen
Todd Overbergen (54)   Head of Energy *																								30	The D. E. Shaw group, Duke Capital Partners, Arthur Andersen
Todd Huskinson (56)   Chief Financial Officer, Chief Compliance Officer & Secretary																								32	The D. E. Shaw group, Bearing Point, Arthur Andersen

\* Stellus Capital Management, LLC

# Stellus Capital Differentiators



\* Includes transactions closed by the management team prior to forming Stellus Capital Management

SCM provides flexible financing for middle market companies.

## Objective

- Provide first lien, second lien, unitranche and mezzanine debt financing, with corresponding equity co-investments

## Investment Size

- Up to \$30 million

## Investment Focus

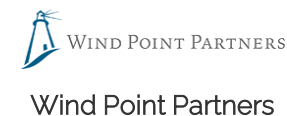
- Middle market and small cap companies with EBITDA of \$5 million to \$50 million
- Predominantly private companies
- Numerous industry sectors including business services, energy, general industrial, government, healthcare, software, and specialty finance
- Typical transactions include providing financing for leveraged buyouts, acquisitions, recapitalizations, growth opportunities, rescue financings, distressed or turnaround situations, and bridge loans
- Directly originated transactions rather than broadly syndicated financings
- We have developed long-term relationships with middle-market companies, management teams, financial sponsors, lending institutions, and intermediaries, and have completed financing transactions with more than 155 equity sponsors

## Geography

- United States and Canada



# Diverse Financial Sponsor Relationships \*



\*Logos represent certain private equity firms that members of Stellus Capital have worked with in the past. Inclusion of a firm's logo in this list does not imply that such firm endorses Stellus Capital, its members or advisory services or the Fund. Stellus Capital has no formal sourcing relationships with these firms and cannot guarantee that it will receive opportunities from these firms in the future.

# Balance Sheet

(\$ in 000's except per share data)	Q1 2020		FY 2019		FY 2018	
	Unaudited		Audited		Audited	
<b>Assets</b>						
Cash	\$	35,025	\$	16,133	\$	17,467
Investment Portfolio (at fair value)		609,544		628,948		504,483
Other Assets		4,487		3,432		4,337
Total Assets	\$	649,056	\$	648,513	\$	526,287
<b>Liabilities</b>						
Credit Facility	\$	209,111	\$	160,511	\$	98,237
Notes Payable		48,057		47,974		47,642
SBA Debentures		157,715		157,544		146,388
Total Funded Debt	\$	414,883	\$	366,029	\$	292,267
Other Liabilities		9,255		11,913		9,175
Total Liabilities	\$	424,138	\$	377,942	\$	301,442
Total Stockholder Equity		224,918		270,571		224,845
Total Capitalization	\$	649,056	\$	648,513	\$	526,287
NAV Per Share	\$	11.55	\$	14.14	\$	14.09

# Income Statement and Distributions

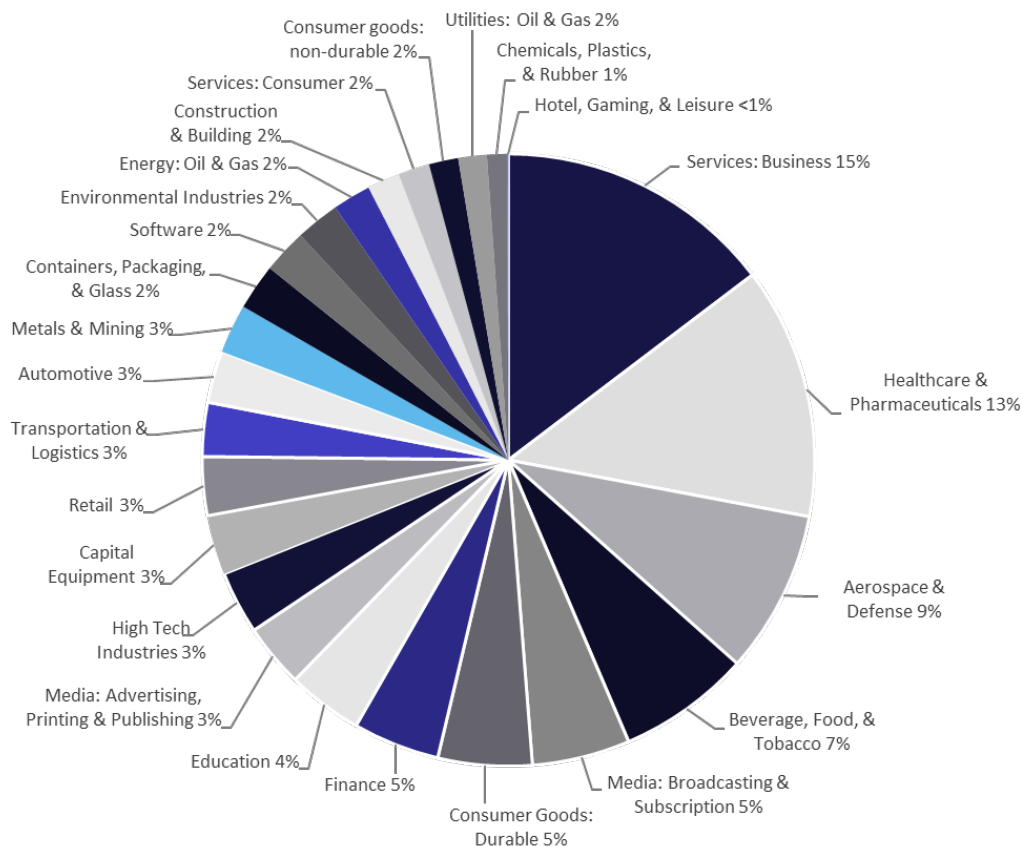
(\$ in 000's except ratios and share data)

	Q1 2020 Unaudited	Q1 2019 Unaudited	FY 2019 Audited	FY 2018 Audited
Total Investment Income	\$ 15,261	\$ 13,835	\$ 58,912	\$ 53,266
Interest expense and debt financing fees	\$ 4,292	\$ 3,675	\$ 14,976	\$ 12,339
Operating Expenses	\$ 5,414	\$ 4,651	\$ 19,793	\$ 17,934
Income Tax Expense	\$ 197	\$ 13	\$ 904	\$ 275
Capital Gains Incentive (Reversal) Fees	\$ (881)	\$ 1,162	\$ 800	\$ 81
Net Investment Income	\$ 6,239	\$ 4,334	\$ 22,439	\$ 22,637
Core Net Investment Income <sup>(a)</sup>	\$ 5,555	\$ 5,509	\$ 24,143	\$ 22,993
Net Realized Gain	\$ 1,297	\$ 10,246	\$ 19,566	\$ 5,273
Net Unrealized Loss	\$ (51,505)	\$ (4,426)	\$ (15,500)	\$ (1,647)
Benefit (Provision) for taxes	\$ 29	\$ (12)	\$ (67)	\$ (68)
Change in Net Assets	\$ (43,940)	\$ 10,142	\$ 26,438	\$ 26,195
Weighted Average Shares Outstanding	19,429,480	16,351,032	18,275,696	15,953,571
Net Investment Income Per Share (NII)	\$ 0.32	\$ 0.27	\$ 1.23	\$ 1.42
Core NII per Share <sup>(a)</sup>	\$ 0.29	\$ 0.34	\$ 1.32	\$ 1.44
Net Increase (Decrease) in Net Assets Per Share	\$ (2.26)	\$ 0.62	\$ 1.45	\$ 1.64
Realized Income Per Share	\$ 0.39	\$ 0.89	\$ 2.30	\$ 1.75
Distributions Per Share (Regular)	\$ 0.34	\$ 0.34	\$ 1.36	\$ 1.36

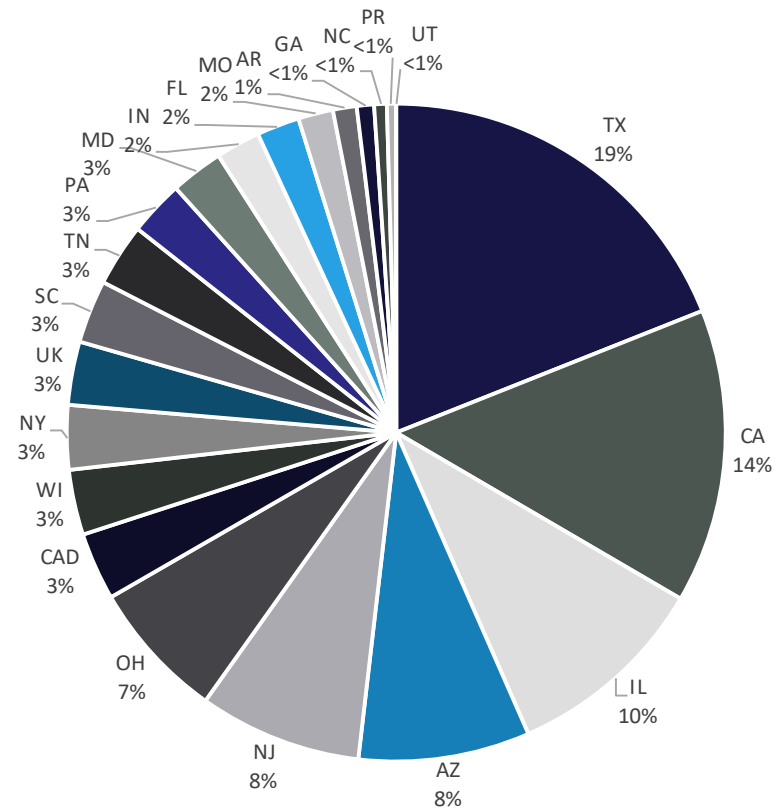
(a) Core net investment income, as presented, excludes the impact of capital gains incentive fees and income taxes

# Portfolio Statistics as of March 31, 2020

## Industry Concentration

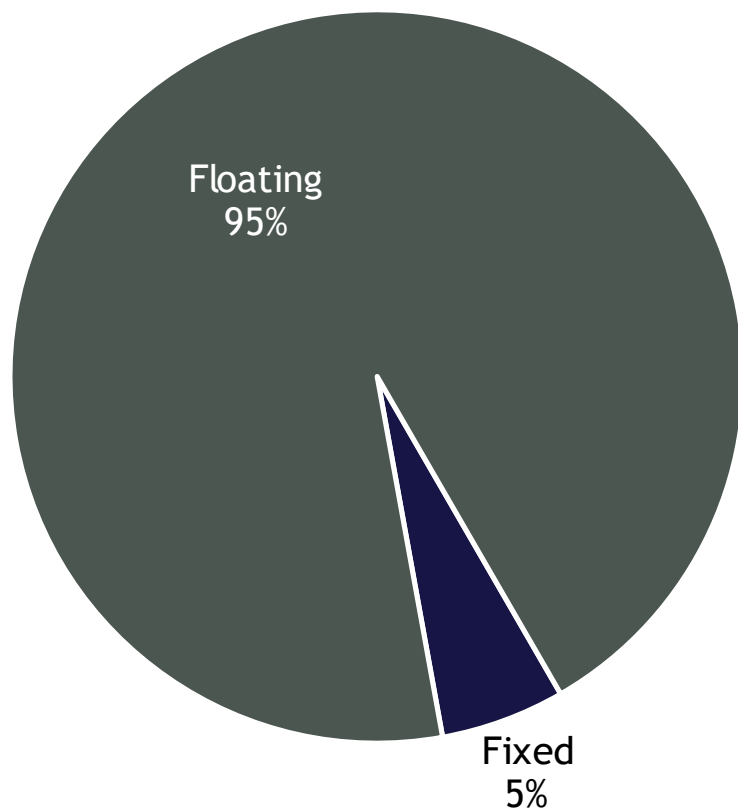


## Geographic Concentration

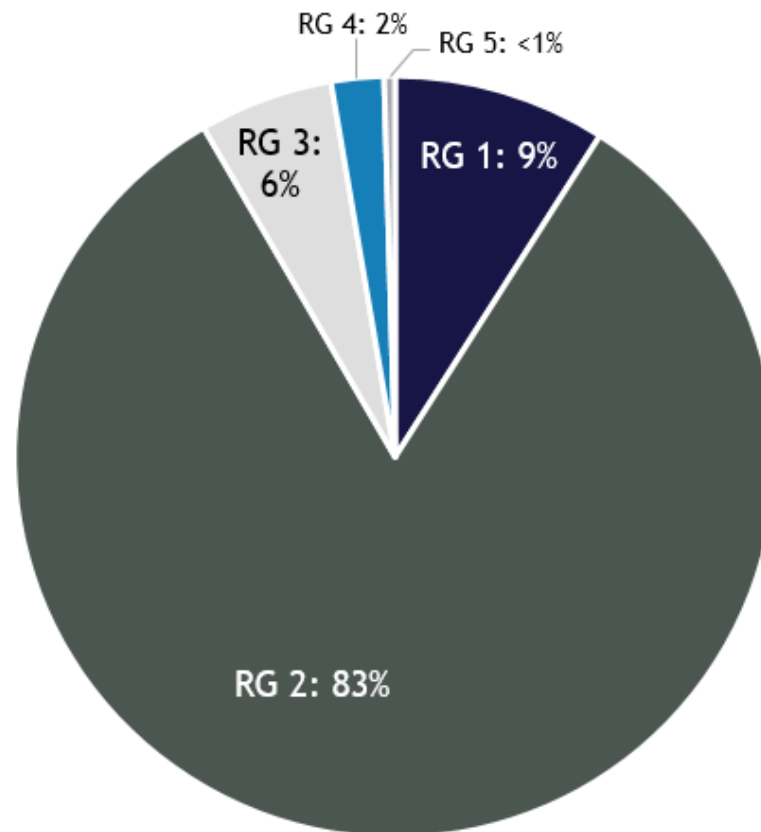


Note: Percentages are based on Market Value

## Fixed vs. Floating Rate Debt Investments \*



## Risk Grade

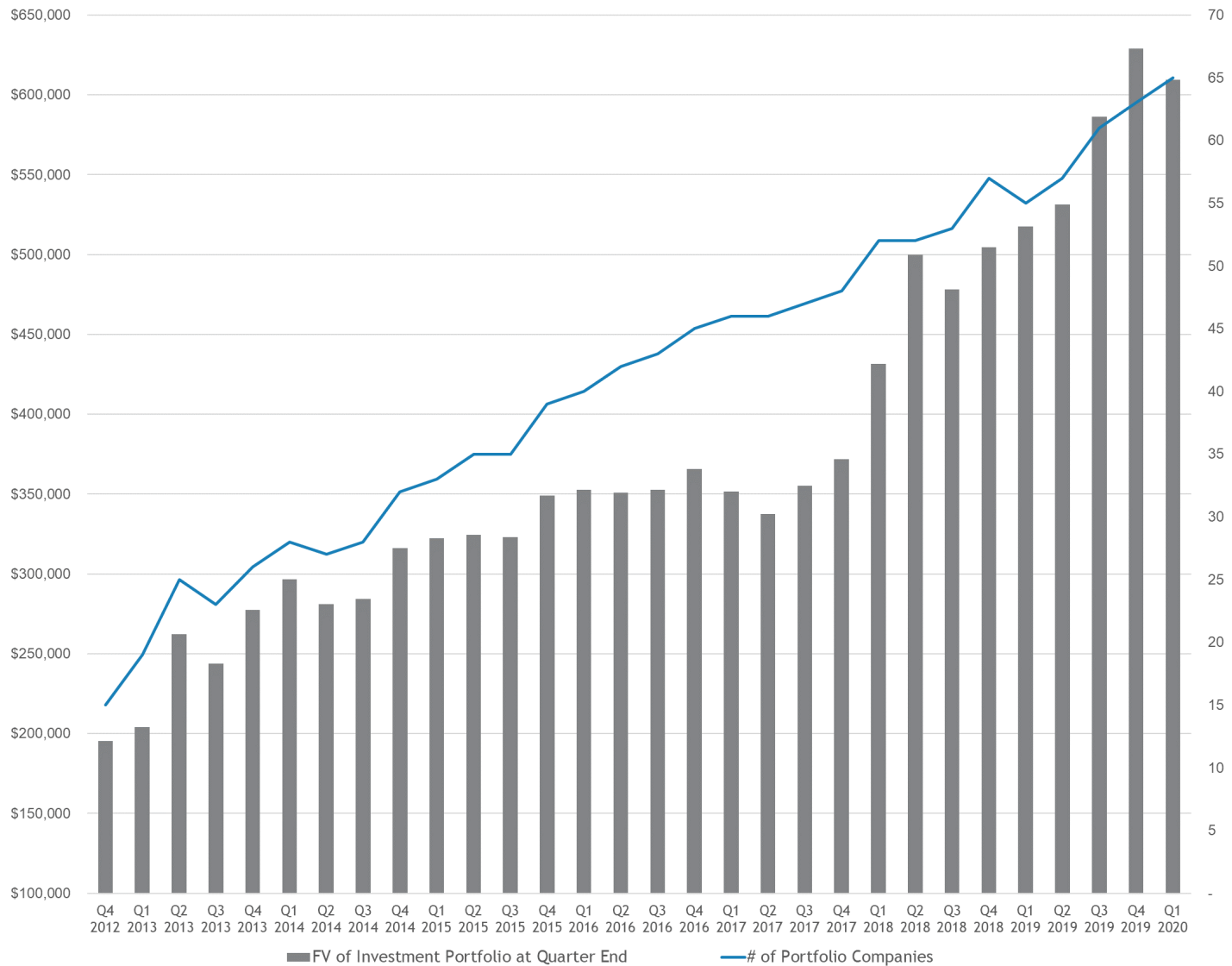


\* Subject to LIBOR floors. The weighted average interest rate floor on floating rate loans was 1.19% as of March 31, 2020

### Risk Grade Definition:

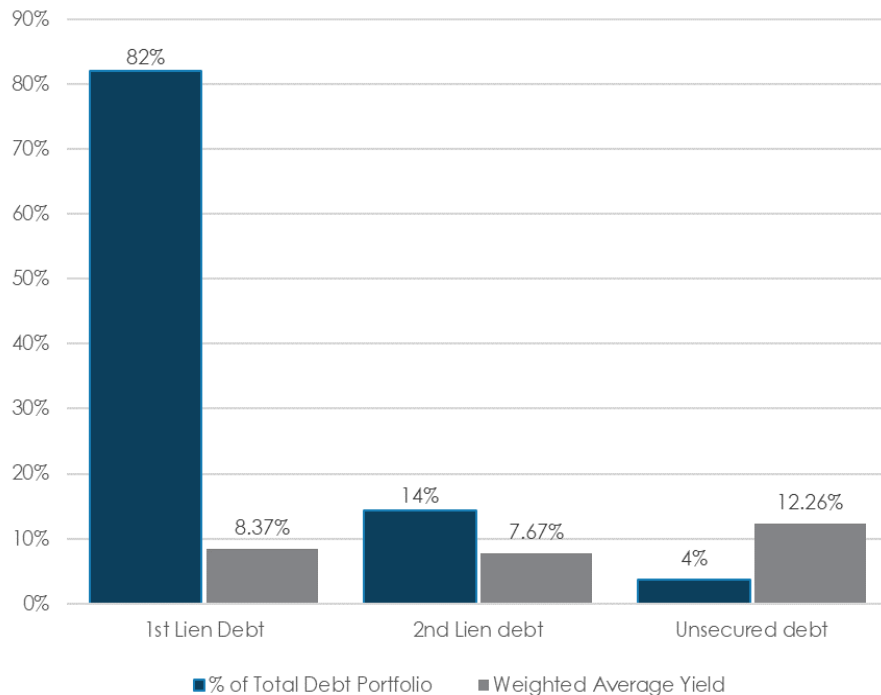
1 - Exceeding expectations; 2 - Performing in accordance with plan; 3- Requires closer monitoring (no loss of return or principal); 4 - In workout (some loss of return; no loss of principal); 5 - In workout (some loss of principal)

# Investment Portfolio Growth (\$'s in 000's)



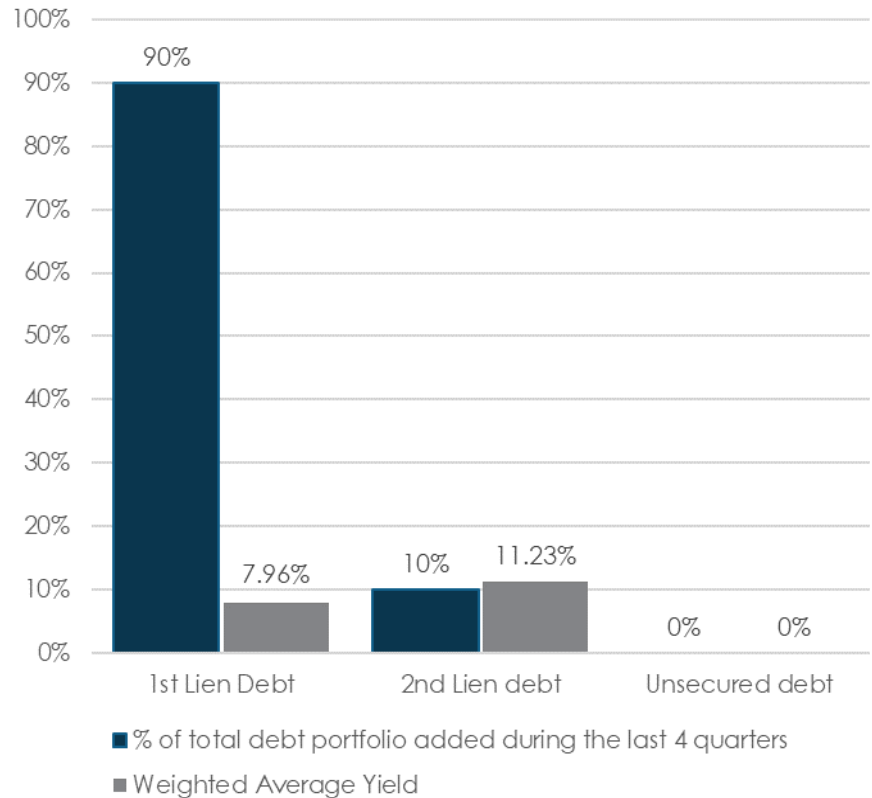
# Weighted Average Yields

## Debt Investment Portfolio as of March 31, 2020



Note: Reflects percentage of total debt investments at accreted cost.

## New Debt Investments in the Last Four Quarters \*



\* Includes follow-on fundings for existing portfolio companies.

# Diversified Funding Sources as of March 31, 2020

Diverse sources of long-term, cost-efficient capital

FUNDING SOURCES	FACILITY/ISSUANCE SIZE	OUTSTANDING	INTEREST RATE <sup>(3)</sup>	MATURITY
Syndicated Credit Facility led by Amegy <sup>(1)</sup>	\$230 million	\$205 million (As of 5/15/20)	LIBOR + 2.75%	October 10, 2021
SBIC I Debentures	\$150 million	\$150 million	3.41%	Varied <sup>(2)</sup>
SBIC II Debentures	\$20 million	\$11 million (As of 5/15/20)	2.17%	March 25, 2030
Unsecured Notes	\$48.9 million	\$48.9 million	5.75%	September 15, 2022

<sup>(1)</sup>Amegy Bank credit facility closed on October 11, 2017, as amended.

<sup>(2)</sup>SBA debentures issued to SBIC I mature March 1, 2025 - March 1, 2029

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



## Executive Officers

Robert T. Ladd  
Chairman, President &  
Chief Executive Officer

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

## 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  
Head of Energy \*  
\* Stellus Capital Management, LLC

## 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

## Service Providers

Stock Transfer Agent- Broadridge  
Corporate Issuer Solutions, Inc.

Bond Trustee- US Bank National  
Association

Auditors- Grant Thornton, LLP

Counsel- Eversheds Sutherland,  
LLP

## Research Coverage

Janney  
Mitchel Penn, 410-583-5976

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

Ladenburg Thalmann Financial  
Services  
Christopher Nolan, 212-409-2068

Oppenheimer Equity Research  
Chris Kotowski, 212-667-6699

Raymond James  
Robert Dodd, 901-579-4560

National Securities Corporation  
Bryce Rowe, 212-417-8243

## Securities Listing

Common Stock NYSE : SCM  
2022 Notes NYSE: SCA

## Corporate Headquarters

4400 Post Oak Parkway, Suite 2200  
Houston, TX, 77027  
Phone: 713-292-5400