November 7, 2018

Zacks Small-Cap Research

Sponsored – Impartial - Comprehensive

Lisa Thompson
312-265-9154
lthompson@zacks.com

scr.zacks.com
10 S. Riverside Plaza, Chicago, IL 60606

Alcentra Capital (ABDC-NASDAQ)

ABDC: NAV Stabilizes and New Share Buy Back Could Add to Returns

We believe the stock should trade at $6.85 per share, at a dividend yield in line with its peers.

OUTLOOK

Alcentra Capital is a business development company (BDC) with a disciplined portfolio approach and the benefit of an affiliation with BNY Mellon, its single largest shareholder. The company's target market is the lower middle-market, which management believes traditional lenders underserve. ABDC shares, which provide 11.3% dividend, also trade at a 43% discount to the company's $11.08 NAV (net asset value) / share.

Current Price (11/06/18)	$6.37
Valuation	**$6.85**

SUMMARY DATA

52-Week High	**$8.88**
52-Week Low	**$5.63**
One-Year Return (%)	**-12.0**
Beta	**0.6**
Average Daily Volume (sh)	**76,532**
Shares Outstanding (mil)	**13.5**
Market Capitalization ($mil)	**$86**
Short Interest Ratio (days)	**1.0**
Institutional Ownership (%)	**33**
Insider Ownership (%)	**1**
Annual Cash Dividend	**$0.72**
Dividend Yield (%)	**11.3**
5-Yr. Historical Growth Rates	
Sales (%)	**23.6**
Earnings Per Share (%)	**-4.7**
Dividend (%)	**-8.3**
P/E using TTM EPS	**6.2**
P/E using 2018 Estimate	**6.7**
P/E using 2019 Estimate	**7.9**
Zacks Rank	**N/A**

Risk Level	**Below Average**
Type of Stock	**Small Value**
Industry	**Fin-SBIC&Commercl**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	9.9 A	10.6 A	9.1 A	10.9 A	40.6 A
2017	9.2 A	8.3 A	7.6 A	8.2 A	33.4 A
2018	8.2 A	7.3 A	6.6 A	6.4 E	28.4 E
2019					26.7 E

Adjusted NIL Per Share
(before non-recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2016	$0.41 A	$0.44 A	$0.35 A	$0.45 A	$1.66 A
2017	$0.34 A	$0.36 A	$0.34 A	$0.28 A	$1.32 A
2018	$0.27 A	$0.25 A	$0.22 A	$0.22 E	$0.93 E
2019					$0.86 E

Zacks Projected EPS Growth Rate - Next 5 Years % **N/A**

© Copyright 2018, Zacks Investment Research. All Rights Reserved.

KEY POINTS

- Alcentra Capital is a business development company (BDC) with a disciplined portfolio approach and the benefit of an affiliation with BNY Mellon.
- As of September 30, the company's $249 million portfolio was composed of 34 investments, comprised of 28 companies, five broadly syndicated loans (BSL), and one rated CLO debt instrument. It was invested 89% in debt and 11% in equity.
- The company targets the lower middle-market, which has been under-served by traditional lenders.
- To mitigate its risk, the company conducts substantial due diligence, seeks rigorous financial covenants and diversifies its investments across a broad range of sectors and portfolio companies. Its largest sector is healthcare services at 18% of the total investment portfolio.
- The weighted average yield on the company's debt portfolio was again 10.9% and the weighted average portfolio company leverage is 3.74 times EBITDA.
- At $6.37, the shares trade at a **43% discount to the company's $11.08 NAV** (net asset value) per share. NAV has declined from the $14.63 per share at the time of its May 2014 IPO. The company is actively working to revamp the portfolio and decrease the discount of the stock price to the NAV. At its current price, Alcentra's current dividend yield is 11.3%, above the average of 10.5%.
- Four debt investments in the portfolio are now on non-accrual: Southern Technical Institute, Black Diamond Rentals, Xpress Global Systems, and Show Media.
- Alcentra is suffering from increased competition in the lending market that is pushing down rates. It also has a number of investments that have gone sour. These investments have been written down to where there most could provide upside in the future. This quarter it cut its dividend from an initial $0.34 per quarter, to a more sustainable $0.18, and the stock price has reset to reflect that. The price may however have declined further than it should give the portfolio and its prospects.
- The company has a valuation below its peers, and a best-in-class management fee structure for investors. Our price target is $6.85, which would be a 10.5% yield in line with its peers. With a portfolio realignment, there is the potential for higher earnings, which could lead to an increased dividend in the future and thus further price appreciation.

WHAT'S NEW

Q3 2018 Earnings

Investors were pleased with Alcentra's third quarter report wherein NAV increased slightly showing a stabilization of the portfolio. Management has been working toward that goal and has been turning over the portfolio, albeit slowly and cautiously to achieve that end. It still believes there are several quarters to go before it is where it needs to be. Equally as important as the repositioning, is the authorization of another $10 million to be used for stock buybacks. Given the large discount of the stock price to NAV, buying back stock is now a riskless way to provide return to shareholders

For the third quarter of 2018, the company reported total investment income of $6.6 million versus $7.6 million last year, a decline of 13%. Net investment income was $3.0 million, or $0.22 per share versus $4.8 million and $0.34 per share last year.

Of the 28 portfolio companies, there were two write-downs this quarter totally $2.0 million: Tunnel Hill Partners by $0.4 million, and another $1.6 million of XPRESS Global Systems (XGS). Two positions were written up totaling $2.7 million: SAFE by $0.2 million and NTI National Technologies by $2.5 million. Since June 30, 2018, nine positions were sold for proceeds of $34 million. The portfolio value increased to $249 million from $246 million in Q2 2018.

Net asset value (NAV) was $149.8 million, or **$11.08 per share** as of September 30, 2018 versus $11.01 per share, on June 30, 2018. During Q3 the company received proceeds from repayments, loan dispositions and amortizations on investments of $4.6 million and invested $6.1 million in two positions.

Investments during the quarter were the following:

- Value-Based Care Solutions Group (since re-named Virence Health Technologies) - $6.0 million in L+8.125% 2nd lien secured debt

- Envocore - $0.06 million of preferred equity

Repayments, loan dispositions, and amortizations on investments during the quarter totaled $6.1 million, comprised of the sale of the Blue Mountain CLO and OZLM Funding IV Ltd CLO and various amortization payments from portfolio investments.

Subsequent Events

On October 4, 2018, Alcentra **paid a dividend of $0.18** per share to shareholders of record as of September 28, 2018.

On October 15, 2018, Alcentra sold Weight Watchers International for $1.9 million (Senior Secured L + 4.75%).

On October 16, 2018, Alcentra **sold Lumileds and Asurion**, LLC for $1.96 million and $3.1 million, respectively. Lumileds and Asurion were both senior secured loans at L + 5.00% and L +6.00%, respectively.

On October 17, 2018, Alcentra **invested $12.9 million in Impact Group** (L + 6.25% 1st Lien).

On October 19, 2018, **Acuity Technologies (fka QRC) repaid their debt** (subordinated notes) in full in the amount of $10.0 million.

On October 22, 2018, Alcentra **sold West Corporation and Mayfield Agency** ("Feeco") for $1.76 million and $1.98 million, respectively. Both loans were senior secured at L +3.50% and L + 8.50%, respectively.

On November 2, 2018, Alcentra **invested $4.5 million in Sandvine Corporation** (2nd Lien at L + 8.00%).

On November 2, 2018, **Security Alarm Financing Enterprises, L.P. ("SAFE") repaid their debt** (subordinated notes) for total proceeds of $10.4 million.

On November 5, 2018, the Company's Board of Directors declared a dividend of $0.18 per share for the third quarter of 2018, which is payable on January 3, 2019.

INVESTMENT PORTFOLIO

Alcentra has four investments on non-accrual:

Show Media, – a media, and advertising company based in Las Vegas that has been on and of the Watch List intermittently. It was **written down to zero** from an original $7.9 million. Show Media has an interactive digital network delivering custom brand oriented content and reaches 100 million taxicab passengers per year in the United States and China. We believe there is little hope of this investment coming back to par.

Southern Technical Institute has three campuses in Florida where it teaches healthcare through four programs to train certified nursing assistants: home health aide, phlebotomy technician, patient care assistant and hemodialysis technician. The value was **written down zero** last quarter from an original $15.8 million. The company is awaiting resolutions of issues outside of its control.

Black Diamond Rentals

. Black Diamond is Alcentra s only exposure to the energy sector. The market value of the investment in Black Diamond is $7.3 million and is now 2.9% of the portfolio. This represents a paper loss of $9.2 million dollars. Alcentra stated that Black Diamond is now in the process of exploring opportunities and as a result Alcentra expects its maturity date to be 12/31/2018. The company is based in Houston and owned by Basin Holdings based in NYC. It rents and services drill pipe, landing strings, heavy-weight drill pipe, drill collars, tubing, blow-out preventers and handling tools. Additionally, it offers drill pipe management, guidance, inspection and handling services as well as engineering to analyze well diagram, mud reports, runs hydraulics, slip crushing, landing string design, drill string design, torque and drag.

Xpress Global Systems

XGS is 40-year-old transportation company that serves the needs of the floor covering industry as a trucking company and logistics supplier. It is located in Chattanooga, Tennessee. The market value of the investment in XGS is $3.1 million, down from a cost basis of $5.8 million or 47%.

Three other companies are on the watch list: Alarm Capital, Conisus, and IGT.

Investment Mix

On September 30, 2018, $249 million was invested in 34 investments. The portfolio then was 62% senior secured first lien debt, 17% senior secured second lien debt, 10% mezzanine debt, and 11% equity investments and 1% CLO.

26.8% of the investments were fixed rate, with the balance floating rate, and the cost of company's average investment was $6.9 million. The value of the largest portfolio company, CGGR Operations, was $23 million. The largest industry sector is healthcare services at 18% of the portfolio.

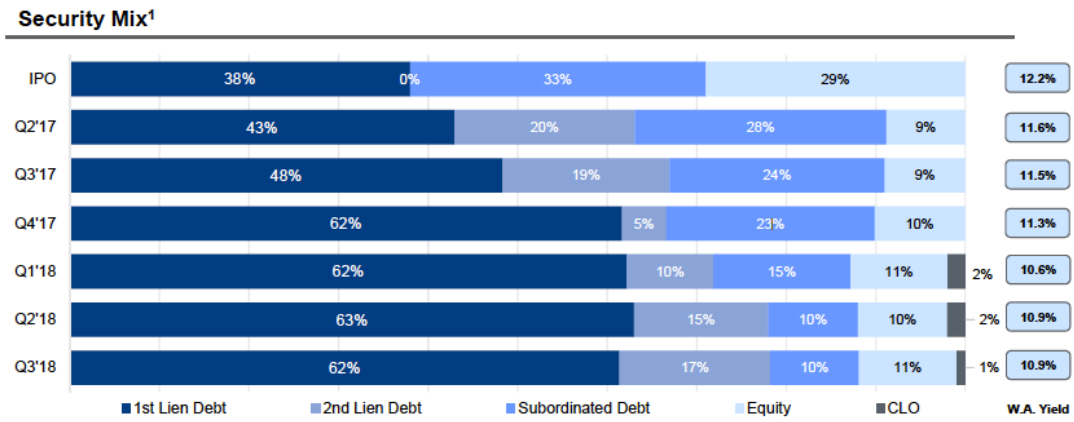
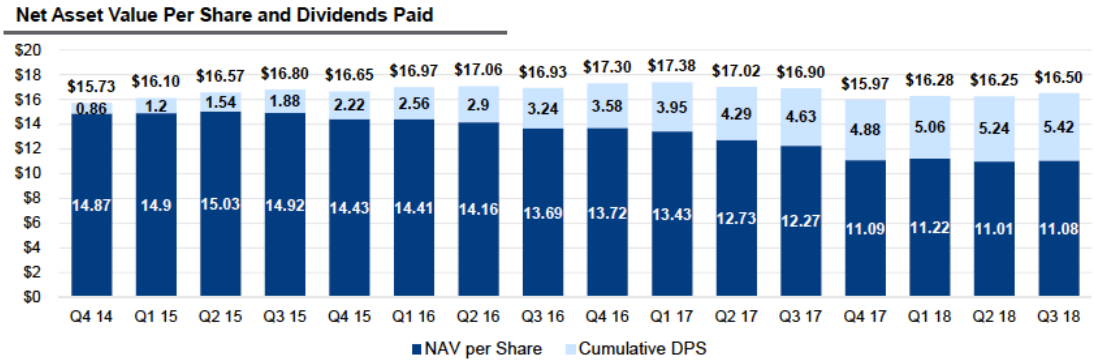


Table 1: Investments as of September 30, 2018

Company	Cost	Fair Value	$ Change	% Change
Acuity Technologies	10,000,000	10,000,000	-	0%
Asurion	3,088,000	3,089,070	1,070	0%
Battery Solutions	10,190,102	6,880,115	(3,309,987)	-32%
BayMark Health Services	6,935,712	7,000,000	64,288	1%
Black Diamond Rentals	**16,415,360**	**7,259,828**	**(9,155,532)**	**-56%**
CGGR Operations	22,860,130	23,049,999	189,869	1%
Champion ONE	7,331,185	7,010,643	(320,542)	-4%
Conisus	**12,677,834**	**6,554,225**	**(6,123,609)**	**-48%**
Envocore Holding	19,859,704	20,869,006	1,009,302	5%
Epic Healthcare Staffing	10,185,797	10,226,136	40,339	0%
FST Technical Services	15,336,407	15,007,246	(329,161)	-2%
Goldentree Loan Mgt CLO	1,947,170	1,919,696	(27,474)	-1%
Healthcare Associates of Texas	20,139,704	20,139,704	-	0%
IGT	1,481,712	326,789	(1,154,923)	-78%
Lugano	6,858,591	7,331,000	472,409	7%
Lumileds	2,018,035	1,965,358	(52,677)	-3%
Manna Pro Products	1,318,794	1,325,459	6,665	1%
Mayfield Agency Borrower	1,753,113	1,764,665	11,552	1%
Medsurant Holdings, LLC	8,696,546	8,729,396	32,850	0%
Metal Powder Products	500,000	719,047	219,047	44%
Alarm Capital	**5,485,401**	**1,023,999**	**(4,461,402)**	**-81%**
NTI	**16,723,146**	**21,230,540**	**4,507,394**	**27%**
Palmetto Moon	5,193,820	5,098,138	(95,682)	-2%
PharmaLogic Holdings	11,263,870	11,340,000	76,130	1%
Pharmalogics Recruiting	9,778,172	9,850,000	71,828	1%
Security Alarm Financing	9,996,769	10,104,611	107,842	1%
Show Media	**7,900,821**	**1**	**(7,900,820)**	**-100%**
Southern Technical Institute	**5,695,988**	**-**	**(5,695,988)**	**-100%**
Superior Controls	12,182,913	12,614,192	431,279	4%
Tunnel Hill	2,529,303	746,000	(1,783,303)	-71%
VVC Holding	5,941,617	6,000,000	58,383	1%
Weight Watchers Intl	1,956,746	1,950,670	(6,076)	0%
West Corporation	1,992,649	1,980,875	(11,774)	-1%
Xpress Global Systems	5,780,181	3,064,872	(2,715,309)	-47%
Total	280,240,436	248,636,951	(31,603,485)	-11%

DIVIDENDS

In order to maintain preferential tax treatment, BDCs such as Alcentra must distribute a minimum of 90% of their income to shareholders. Since August of 2014, the company had paid a regularly scheduled quarterly dividend of $0.34 but has cut that to $0.18. It expects the dividend to remain at that level for the foreseeable future. The $0.18 quarterly dividend equates to a $0.72 annual dividend and a current yield of 11.9%.



COMPETITION

The company competes primarily with traditional and alternative lenders that are also targeting the middle to lower middle markets. The other lenders it frequently sees looking at the same deals as it are OFS Capital Management, Fidus Investment Corp (FDUS), Triangle Capital Corp (TCAP) and Saratoga.

VALUATION

Chart 5. Wells Fargo BDC Index versus Alcentra Past 12 Months



Source: Yahoo! Finance

Alcentra's performance has declined faster than the BDC index due to its bad performance due to a number of troubled companies with write-downs and write offs. It has now has cut its regular quarterly dividend twice. As noted on the following table, on an NAV basis, BDC industry shares trade at an average 2.7% discount to share price. There is a wide valuation gap among the BDCs as shown below. Alcentra stock currently trades at a higher than average dividend yield of 11.3% versus the average at 10.5%, and the highest discount to NAV at 42.5%. Management is working to close that discount.

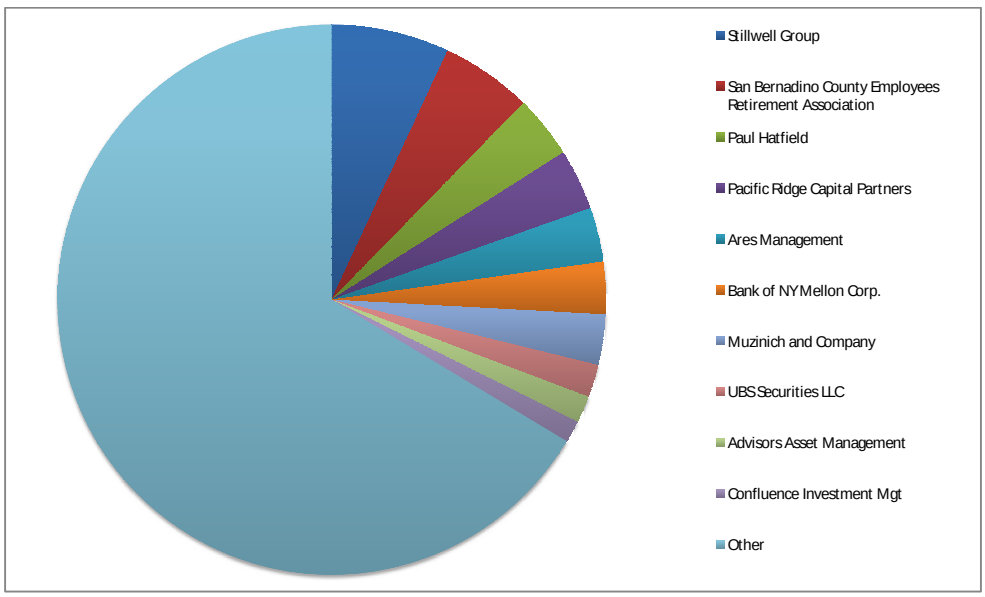
BDCs						Annualized		
Company	Ticker	Price	52-Week High	52-Week Low	Div.	Yield	NAV	Disc to NAV
Alcentra Capital	ABDC	$6.37	$9.01	$5.58	$0.72	11.3%	$11.08	42.5%
Apollo Investment Corp	AINV	5.41	6.18	4.95	$0.60	11.1%	6.47	16.4%
Ares Capital Corp	ARCC	17.43	17.59	15.03	$1.56	9.0%	17.16	-1.6%
BlackRock Capital Investm	BKCC	6.06	7.19	5.48	$0.72	11.9%	7.66	20.9%
Fidus Investment Corp.	FDUS	14.06	16.60	12.63	$1.56	11.1%	16.41	14.3%
Garrsion Capital Inc.	GARS	8.07	8.95	7.77	$1.12	13.9%	11.44	29.5%
Gladstone Capital Corp.	GLAD	9.32	9.92	7.80	$0.84	9.0%	8.86	-5.2%
KCAP Financial	KCAP	3.08	3.58	2.91	$0.40	13.0%	4.72	34.7%
Main Street Capital Corp.	MAIN	39.06	41.70	34.37	$2.28	5.8%	24.69	-58.2%
Newtek Business Services	NEWT	19.85	24.24	16.07	$1.68	8.5%	15.06	-31.8%
TriplePoint Venture Growth	TPVG	12.55	14.13	11.12	$1.44	11.5%	13.59	7.7%
Average					$1.22	10.5%	$12.61	2.7%

RISKS

We believe the company faces risks that confront the overall BDC sector. These include:

- **Interest rate risk:** We believe the company faces the risk of a rising interest rate environment, although management believes that as it continues to rebalance some of the equity in its portfolio to debt and continues to expand the debt portfolio, it could benefit from a potential increase in interest rates in terms of net investment income.
- **Credit risk:** Alcentra could make investments into companies that are not as creditworthy as management believes or some of the investments in its existing portfolio could experience deteriorating fundamental business results. Currently it has Black Diamond Rentals on its watch list.
- **Default risk:** Potential deterioration in the underlying fundamentals of a portfolio company or companies could lead to a default on loans that Alcentra expects repaid.
- **Dividend sustainability:** If the company experiences some deterioration in its underlying performance, it might be forced to reduce its dividend.
- **Competitive risk:** The company competes with alternative lenders such as other BDCs and, in some cases, with traditional lenders. Competition within its target lower middle market has increased and the company anticipates future deals will have lower yields.

OWNERSHIP



INCOME STATEMENT

Dollars in Millions	2017				2018							
	31-Mar-17	30-Jun-17	30-Sep-17	31-Dec-17	31-Mar-18	30-Jun-18	30-Sep-18	31-Dec-17E	2016	2017	2018E	2019E
Non-controlled, non-affiliated investments:												
Interest Income from portfolio investments	$7,004,677	$6,187,702	$5,374,814	$5,350,763	$5,742,386	$5,865,711	$5,676,759	$5,500,000	$25,178,890	$23,917,956	$22,784,856	$21,000,000
Paid in kind int inc. from portfolio investments	348,192	302,190	226,519	279,585	199,650	45,481	107,164	150,000	3,182,683	1,156,486	502,295	900,000
Other income from portfolio investments	609,965	587,782	377,071	653,286	1,507,304	611,812	94,668	94,668	2,475,976	2,228,104	2,308,452	2,000,000
Dividend income from portfolio investments	27,520	29,049	30,661	83,853	30,756	30,756	30,756	30,756	82,777	171,083	123,024	120,000
Non-controlled, affiliated investments:												
Interest income from portfolio investments	251,778	594,972	405,892	66,282	77,453	129,080	58,881	60,000	2,742,054	1,318,924	325,414	300,000
Paid in kind int inc. from portfolio investments	387,036	63,345	609,854	1,149,183	123,126	90,004	96,816	90,000	2,365,373	2,209,418	399,946	400,000
Other income from portfolio investments	-	-	-	-	-	-	-	-	2,352,766	-	-	-
From controlled, affiliated investments:												
Interest income from portfolio investments	405,835	573,069	411,262	275,243	500,890	481,106	488,036	488,036	1,566,173	1,665,409	1,958,068	2,000,000
Paid in kind int inc. from portfolio investments	166,445	-	174,448	343,236	-	-	-	-	655,907	684,129	-	-
Other income from portfolio investments	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL INVESTMENT INCOME	**$9,201,448**	**$8,338,109**	**$7,610,521**	**$8,201,431**	**$8,181,565**	**$7,253,950**	**$6,553,080**	**$6,413,460**	**$40,602,599**	**$33,351,509**	**$28,402,055**	**$26,720,000**
Yr-to-yr growth	-7%	-22%	-17%	-25%	-12%	-14%	-13%	-22%	19.7%	-17.9%	-14.8%	-5.9%
Costs and expenses:												
Management fees	1,249,569	1,229,648	1,230,961	1,265,171	1,234,863	1,036,122	943,360	962,019	5,209,684	4,975,349	4,176,364	4,385,182
% of Sales	14%	14%	16%	14%	15%	14%	14%	15%	13%	15%	15%	14%
Income-based incentive fee	653,911	-	-	-	-	-	(43,805)	-	3,255,167	638,244	(43,805)	(45,995)
	7%	0%	0%	0%	0%	0%	0%	0%				
Capital gains incentive fees	-	-	-	-	-	-	-	-	-	-	-	-
Professional fees	266,339	226,849	368,909	386,618	354,070	379,082	362,625	362,625	1,227,977	1,248,715	1,458,402	1,500,000
Valuation services	101,396	68,345	41,346	103,345	63,971	(10,038)	78,346	100,000	236,904	314,432	232,279	275,000
Interest and credit facility expense	1,526,907	1,513,067	1,549,462	1,845,488	1,694,887	1,745,485	1,705,992	1,705,992	5,657,154	6,434,924	6,852,356	6,600,000
Amortization of deferred financing costs	285,563	288,048	232,807	106,292	103,981	103,570	117,587	117,587	1,154,343	912,710	442,725	470,348
Director's fees	68,136	74,344	112,281	86,919	96,202	116,826	87,076	87,076	296,809	341,680	387,180	348,304
Insurance expense	64,481	60,102	57,232	57,233	55,988	56,519	57,076	56,519	264,209	239,048	226,102	240,000
Organization expense	-	-	-	-	-	-	-	-	-	-	-	-
Amortization of deferred note offering costs	98,410	105,418	111,726	158,214	126,694	119,267	97,478	97,478	193,357	473,768	440,917	389,912
Consulting fees	-	-	-	-	305,038	176,702	54,152	-			535,892	100,000
Other expenses	294,120	98,437	223,318	163,045	369,711	156,108	284,764	150,000	697,809	778,920	960,583	900,000
TOTAL EXPENSES	4,608,832	3,664,258	3,928,042	4,172,325	4,405,405	3,879,643	3,744,651	3,639,296	18,193,413	16,357,790	15,668,995	15,162,751
Waiver of income-based incentive fee	-	169,524	1,160,896	-	-	109,281	157,227	157,227	-	1,330,420	-	-
NET EXPENSES	**$4,608,832**	**$3,494,734**	**$2,767,146**	**$4,172,325**	**$4,405,405**	**$3,770,362**	**$3,587,424**	**$3,482,069**	**$18,193,413**	**$15,027,370**	**$15,668,995**	**$15,162,751**
NET INVESTMENT INCOME	**$4,592,616**	**$4,843,375**	**$4,843,375**	**$4,029,106**	**$3,776,160**	**$3,483,588**	**$2,965,656**	**$2,931,391**	**$22,409,186**	**$18,324,139**	**$12,733,060**	**$11,557,249**
% Change	-18.1%	-17.9%	1.2%	-34.2%	-17%	-28%	-47%	-27%	16.1%	-18.2%	-30.5%	-9.2%
Adjusted NII/share	**$0.34**	**$0.36**	**$0.34**	**$0.28**	**$0.27**	**$0.25**	**$0.22**	**$0.22**	**$1.66**	**$1.32**	**$0.93**	**$0.86**
% Change	-18%	-19%	-4%	-38%	-21%	-30%	-43%	-23%		**-21%**	**-30%**	**-8%**
Dividend per share	$0.37	$0.34	$0.34	$0.25	$0.18	$0.18	$0.18	$0.18	$1.36	$1.30	$0.72	$0.72
EPS	$0.08	-$0.38	-$0.11	-$0.96	$0.25	-$0.16	$0.23	$0.41	$0.65	-$1.37	$0.93	$0.86
NAV/share	$13.43	$12.73	$12.27	$11.06	$11.22	$11.01	$11.08	$11.12	$13.72	$11.06	$11.27	$11.40
Avg shares outstanding	13,438,800	13,612,059	14,245,220	14,245,220	14,198,651	13,753,054	13,530,129	13,517,234	13,496,128	13,928,869	13,749,767	13,517,234
Net Realized gain												
Non-controlled, non-affiliated investments	(1,049,239)	30,002	(10,477,819)	62,165	(14,815)	(10,108,277)	(38,921)	50,000	(4,018,220)	(11,434,891)		
Non-controlled, affiliated investments	-	-	72,164	(72,164)	-	(10,167,517)	(12)	-	11,019,205	-		
Controlled, affiliated investments	-	-	-	-	-	-	-	-	(11,282,968)	-		
Net realized gain from portfolio	(1,049,239)	30,002	(10,405,655)	(9,999)	(14,815)	(20,275,794)	(38,933)	50,000	(4,281,983)	(11,434,891)		
Net change in unrealized												
Non-controlled, non-affiliated investments	(1,116,201)	(8,084,209)	6,824,145	(2,217,007)	(333,426)	4,213,571	2,355,583	-	(10,390,732)	(4,593,272)		
Non-controlled, affiliated investments	(818,281)	(2,168,452)	(8,156,756)	(12,977,585)	(107,374)	9,319,907	(1,610,661)	-	(10,458,180)	(24,121,074)		
Controlled, affiliated investments	146,999	328,527	473	(360,522)	220,904	-	-	-	10,875,915	115,477		
Net change in unrealized	(1,787,483)	(9,924,134)	(1,332,138)	(15,555,114)	(219,896)	13,533,478	744,922	-	(9,972,997)	(28,598,869)		
Benefit for taxes on unrealized	(724,816)	(102,309)	5,282,934	(1,847,929)	(2,489)	1,019,717	(589,643)	-	635,580	2,607,880		
Net realized gain	(3,561,538)	(9,996,441)	(6,454,859)	(17,413,043)	(237,200)	(5,722,599)	116,346	50,000	(13,619,400)	(37,425,881)		
Net increase in Net assets	1,031,078	(5,153,066)	(1,611,484)	(13,368,270)	3,538,960	(2,239,011)	3,082,002	2,981,391	8,789,786	(19,101,742)		

BALANCE SHEET

	Sept 30, 2018	June 30, 2018	Qtr-Qtr Growth %	Sept 30, 2017	Yr-Yr Growth %
ASSETS					
Portfolio investments, at fair value					
Non-controlled, non-affiliated at fair value	217,130,492	212,917,961	2%	246,751,971	-12%
Non-controlled, affiliated at fair value	16,499,213	17,987,393	-8%	20,143,071	-18%
Controlled, affiliated at fair value	15,007,246	15,254,506	-2%	15,443,922	-3%
Cash	7,791,745	12,704,301	-39%	4,925,485	58%
Dividends and interest receivable	1,400,706	2,715,171	-48%	2,783,875	-50%
Receivable for investments sold	644,733	669,733	-4%	720,983	-11%
Deferred financing costs	1,521,603	419,191	263%	620,533	145%
Deferred tax asset	5,365,469	5,955,112	-10%	6,782,823	-21%
Income tax asset	614,781	644,319	-5%	796,241	-23%
Prepaid expenses and other assets	143,986	208,562	-31%	143,993	0%
TOTAL ASSETS	266,119,974	269,476,249	-1%	299,112,897	-11%
LIABILITIES					
Credit facility payable	54,457,145	58,553,273	-7%	59,783,273	-9%
Notes payable	54,049,274	53,963,795	0%	53,667,447	1%
Other accrued expenses and liabiliities	371,444	523,720	-29%	477,496	-22%
Directors' fees payable	78,500	36,125	117%	85,417	-8%
Professional fees payable	318,505	643,322	-50%	389,280	-18%
Interest and credit facility expense payable	1,342,528	1,158,173	16%	1,620,034	-17%
Management fee payable	1,712,974	926,841	85%	1,130,191	52%
Income-based incentive fees payable	1,251,180	1,294,985	-3%	1,294,985	-3%
Distributions payable	2,449,591	2,449,591	0%	4,843,375	-49%
Unearned structuring fee revenue	275,020	331,680	-17%	1,000,653	-73%
Total Liabilities	116,306,161	119,881,505	-3%	124,292,151	-6%
NET ASSETS					
Common stock	13,517	13,583	0%	14,245	-5%
Additional paid-in capital	201,748,407	202,161,682	0%	206,977,643	-3%
Accumulated net realized loss	(31,765,697)	(31,726,764)	0%	(12,604,552)	152%
Undistributed net investment income	7,215,213	6,699,149	8%	4,914,082	47%
Net unrealized appreciation on investments	(27,397,627)	(27,552,906)	-1%	(24,480,672)	12%
Total Net Assets	149,813,813	149,594,744	0%	174,820,746	-14%
Total Liabilities and Net Assets	266,119,974	269,476,249	-1%	299,112,897	-11%
Net Asset Value Per Share	**$11.08**	**$11.01**	1%	**$12.27**	-10%

CASH FLOW

Cash Flows from Operating Activities	Year 2016	March 31, 2017	June 30, 2017	Sept 30, 2017	Dec 31, 2017	Year 2017	March 31, 2018	June 30, 2018	Sept 30, 2018
Net increase in net assets resulting from operations	$8,789,786	$1,031,078	(5,153,066)	(1,611,484)	(13,368,270)	(19,101,742)	$3,538,960	(2,239,011)	3,082,002
Adjustments:									
Net realized (gain) loss from portfolio investments	4,281,983	1,049,239	(30,002)	10,405,655	9,999	11,434,891	14,815	20,275,794	38,933
Net change in unrealized (appreciation) depreciation of port inves	9,972,997	1,787,483	9,924,134	1,332,138	15,555,115	28,598,870	219,896	(13,533,478)	(744,922)
Deferred tax asset	117,597	(246,876)	13,423	(5,284,559)	1,847,861	(3,670,151)	2,489	(1,022,639)	589,643
Deferred tax liability	-	-	-	-	-	-	-	-	-
Paid in-kind interest income from portfolio investments	(6,203,963)	(901,673)	(365,536)	(1,496,157)	(1,286,667)	(4,050,033)	(322,776)	(135,485)	(203,980)
Accretion of discount on debt securities	(1,225,834)	(980,595)	(438,851)	(219,975)	(266,330)	(1,905,751)	(176,258)	(165,987)	(139,445)
Purchases of portfolio investments	(145,561,983)	(31,193,265)	(24,918,835)	(40,769,787)	(38,626,682)	(135,508,569)	(29,996,191)	(14,052,612)	(6,000,691)
Net proceeds from sales/return of capital of portfolio invest.	158,805,461	23,183,083	27,787,780	19,779,150	19,398,984	90,148,997	47,628,196	31,638,771	4,573,014
Amortization of deferred financing costs	1,154,343	285,563	288,048	232,807	106,292	912,710	103,981	103,570	117,587
Amortization of deferred note offering costs	193,357	98,410	105,418	111,726	158,214	473,768	126,694	119,267	97,478
(Increase) decrease in operating assets:									
Dividends and interest receivable	(633,435)	1,474,828	695,561	(1,713,624)	841,575	1,298,340	307,530	(1,080,401)	1,314,465
Receivable for investments sold	(2,139,463)	1,433,730	234,750	(250,000)	51,250	1,469,730	25,000	(25,000)	25,000
Income tax asset		(795,587)	223	(877)	47,833	(748,408)	79,077	25,012	29,538
Prepaid expenses and other assets	12,960	50,128	(158,786)	65,435	64,988	21,765	33,488	(163,045)	64,576
Increase (decrease) in operating liabilities:									
Payable for investments purchased	-	71,221	(71,221)	-	-	-	16,621,902	(16,621,902)	-
Other accrued expenses and liabilities	10,364	40,499	52,373	102,459	(29,907)	165,424	470,143	(394,012)	(152,276)
Due to affiliate	-	-	-	-	-	-	-	-	-
Directors' fees payable	57,975	(14,000)	(8,000)	12,417	(16,500)	(26,083)	3,333	(36,125)	42,375
Professional fees payable	(149,466)	85,846	(171,111)	142,678	159,175	216,588	3,483	91,384	(324,817)
Interest and credit facility expense payable	194,905	556,184	(431,423)	487,146	(371,243)	240,664	278,767	(369,385)	184,355
Management fee payable	(622)	1,249,568	(1,491,034)	70,066	134,981	(36,419)	(30,309)	(308,022)	786,133
Income-based incentive fees payable	989,864	(222,526)	(538,484)	(15,666)	-	(776,676)	-	-	(43,805)
Unearned structuring fee revenue	485,742	(64,825)	(59,817)	(50,024)	(275,000)	(449,666)	(64,670)	(329,303)	(56,660)
Income tax	(660,113)	(182,699)	-	-	-	(182,699)	43,149	(43,149)	-
Net cash used in operating activities	28,492,455	(2,205,186)	5,265,544	(18,670,476)	(15,864,332)	(31,474,450)	38,910,699	1,734,242	3,278,503
Cash Flows from Financing Activities:									
Issuance of common stock			10,853,602	-	-	10,853,602	-	-	-
Financing costs paid	(258,269)	(12,000)	(121,858)	(5,286)	-	(139,144)	-	(112,501)	(1,219,999)
Offering costs paid	(697,432)	(2,357)	(142,689)	(7,999)	(77,826)	(230,871)	-	(30,001)	(11,999)
Proceeds from credit facility payable	116,375,000	30,100,000	16,750,000	27,250,000	43,720,000	117,820,000	12,700,000	8,650,000	4,903,872
Repayments of credit facility payable	(140,746,465)	(22,300,000)	(28,550,000)	(2,600,000)	(13,800,000)	(67,250,000)	(47,000,000)	(5,500,000)	(9,000,000)
Proceeds from notes payable	15,000,000	-	-	-	-	-	-	-	-
Distributions paid to shareholders	(18,365,033)	(4,586,816)	(4,971,712)	(4,843,374)	(4,843,375)	(19,245,277)	(3,561,305)	(2,560,130)	(2,449,592)
Repurchase of common stock	(775,622)	(165,514)	-	-	(176,996)	(342,510)	(1,510,605)	(2,899,054)	(413,341)
Capital contributions received from partners	-	-	-	-	-	-	-	-	-
Cash distributions paid to partners	-	-	-	-	-	-	-	-	-
Net cash provided by (used in) financing activities	(29,467,821)	3,033,313	(6,182,657)	19,793,341	24,821,803	41,465,800	(39,371,910)	(2,451,686)	(8,191,059)
Increase (decrease) in cash and cash equivalents	(975,366)	828,127	(917,113)	1,122,865	8,957,471	9,991,350	(461,211)	(717,444)	(4,912,556)
Cash at beginning of period	4,866,972	3,891,606	-	3,802,620	4,925,485	3,891,606	13,882,956	13,421,745	12,704,301
Cash and Cash Equivalents at End of Period	3,891,606	4,719,733	(917,113)	4,925,485	13,882,956	13,882,956	13,421,745	12,704,301	7,791,745
Supplemental and non-cash financing activities:									
Cash paid during the period for interest	5,462,249	970,723	1,944,490	1,062,316	2,216,731	6,194,260	1,416,120	2,114,870	1,521,637
Accrued offering costs	2,485	2,485	-	-	-	2,485	2,485	-	-
Accrued distributions payable	4,586,816	4,971,712	(128,337)	-	(1,282,070)	3,561,305	2,560,130	(110,539)	-

HISTORICAL STOCK PRICE



DISCLOSURES

The following disclosures relate to relationships between Zacks Small-Cap Research ("Zacks SCR"), a division of Zacks Investment Research ("ZIR"), and the issuers covered by the Zacks SCR Analysts in the Small-Cap Universe.

ANALYST DISCLOSURES

I, Lisa Thompson, hereby certify that the view expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the recommendations or views expressed in this research report. I believe the information used for the creation of this report has been obtained from sources I considered reliable, but I can neither guarantee nor represent the completeness or accuracy of the information herewith. Such information and the opinions expressed are subject to change without notice.

INVESTMENT BANKING AND FEES FOR SERVICES

Zacks SCR does not provide investment banking services nor has it received compensation for investment banking services from the issuers of the securities covered in this report or article.
Zacks SCR has received compensation from the issuer directly or from an investor relations consulting firm engaged by the issuer for providing non-investment banking services to this issuer and expects to receive additional compensation for such non-investment banking services provided to this issuer. The non-investment banking services provided to the issuer includes the preparation of this report, investor relations services, investment software, financial database analysis, organization of non-deal road shows, and attendance fees for conferences sponsored or co-sponsored by Zacks SCR. The fees for these services vary on a per-client basis and are subject to the number and types of services contracted. Fees typically range between ten thousand and fifty thousand dollars per annum. Details of fees paid by this issuer are available upon request.

POLICY DISCLOSURES

This report provides an objective valuation of the issuer today and expected valuations of the issuer at various future dates based on applying standard investment valuation methodologies to the revenue and EPS forecasts made by the SCR Analyst of the issuer's business.
SCR Analysts are restricted from holding or trading securities in the issuers that they cover. ZIR and Zacks SCR do not make a market in any security followed by SCR nor do they act as dealers in these securities. Each Zacks SCR Analyst has full discretion over the valuation of the issuer included in this report based on his or her own due diligence. SCR Analysts are paid based on the number of companies they cover.
SCR Analyst compensation is not, was not, nor will be, directly or indirectly, related to the specific valuations or views expressed in any report or article.

ADDITIONAL INFORMATION

Additional information is available upon request. Zacks SCR reports and articles are based on data obtained from sources that it believes to be reliable, but are not guaranteed to be accurate nor do they purport to be complete. Because of individual financial or investment objectives and/or financial circumstances, this report or article should not be construed as advice designed to meet the particular investment needs of any investor. Investing involves risk. Any opinions expressed by Zacks SCR Analysts are subject to change without notice. Reports or articles or tweets are not to be construed as an offer or solicitation of an offer to buy or sell the securities herein mentioned.