Zacks Small-Cap Research

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Alcentra Capital Corp. (ABDC-NASDAQ)

ABDC: Discount to NAV Plus Healthy Dividend Yield; Initiating Coverage

Current Recommendation	**Buy**
Prior Recommendation	N/A
Date of Last Change	11/05/2015
Current Price (11/04/15)	$11.79
Six- Month Target Price	**$13.00**

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 is under served by traditional lenders. ABDC shares, which provide 11.5% dividend yield, trade at a significant discount to the company's $15.03 NAV (net asset value) / share, despite positive NAV trends. NAV has grown to $15.03 per share from $14.63 per share at the time of the company's May 2014 IPO.

SUMMARY DATA

52-Week High	**$14.44**
52-Week Low	**$10.01**
One-Year Return (%)	**0.9**
Beta	**0.57**
Average Daily Volume (sh)	**51,428**
Shares Outstanding (mil)	**14**
Market Capitalization ($mil)	**$159**
Short Interest Ratio (days)	**0.4**
Institutional Ownership (%)	**42**
Insider Ownership (%)	**5**
Annual Cash Dividend	**$1.36**
Dividend Yield (%)	**11.53**
5-Yr. Historical Growth Rates	
Sales (%)	**N/A**
Earnings Per Share (%)	**N/A**
Dividend (%)	**N/A**
P/E using TTM EPS	**8.5**
P/E using 2015 Estimate	**8.6**
P/E using 2016 Estimate	**8.5**

Risk Level	**Average**
Type of Stock	**Small-Value**
Industry	**Fin-Sbic&Commrl**

ZACKS ESTIMATES

Revenue
(in millions of $)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013	3 A	3 A	2 A	3 A	11 A
2014	4 A	7 A	6 A	7 A	24 A
2015	8 A	9 A	9 E	9 E	34 E
2016					37 E

Earnings per Share
(EPS is operating earnings before non recurring items)

	Q1 (Mar)	Q2 (Jun)	Q3 (Sep)	Q4 (Dec)	Year (Dec)
2013					
2014		$0.28 A	NA	$0.23 A	$1.09 A
2015	$0.37 A	$0.47 A	$0.26 E	$0.27 E	$1.37 E
2016					$1.39 E

Pro forma

Disclosures begin on page 15

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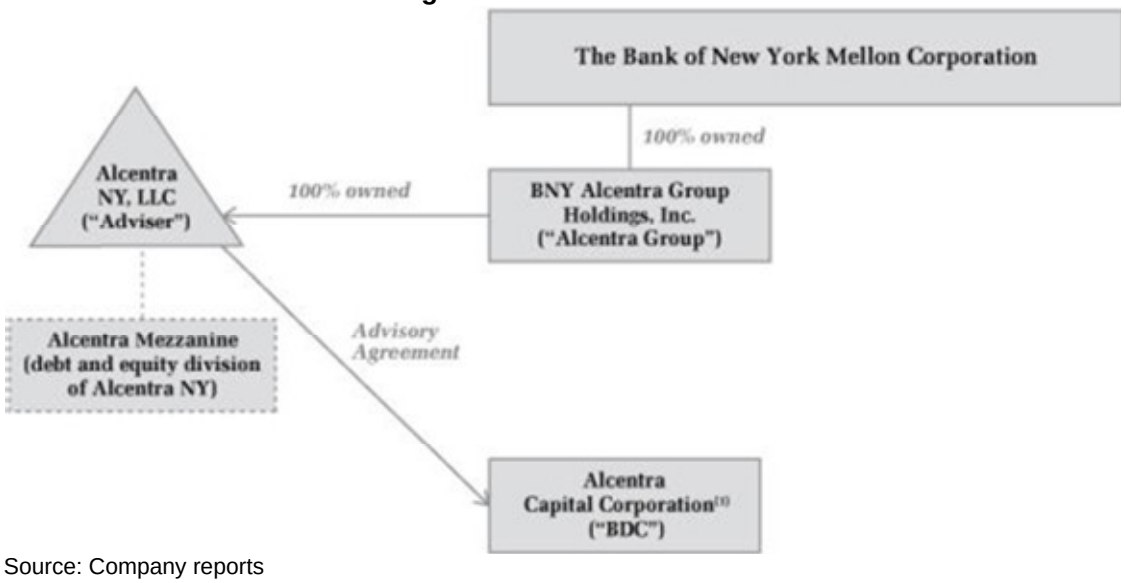
KEY POINTS

- 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 roughly $259 million portfolio is invested in 28 companies, with about 77% in debt and 23% in equity. Alcentra plans to rebalance to a higher proportion of debt to mitigate risk.
- The company believes its target lower middle-market is under served by traditional lenders, particularly as the recent credit market contraction and regulatory changes have reduced the availability of funds to this market from 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. No one sector comprises more than 20% of the total investment portfolio.
- The weighted average yield on the company's debt portfolio is 12.1%, up from 11.9% in the first quarter of 2015.
- At $11.79, the shares trade at a significant 21.6% discount to the company's $15.03 NAV (net asset value) / share, despite the positive NAV trends. NAV has grown to the above noted $15.03 per share from $14.63 per share at the time of its May 2014 IPO.

OVERVIEW

Alcentra Capital Corporation is a business development company (BDC) operating under the Investment Company Act of 1940. It was formed in 2013 to continue and grow the BDC business of BNY Mellon-Alcentra Mezzanine Partners. It is managed by Alcentra NY, an SEC registered investment adviser that is part of BNY Alcentra Group Holdings. According to the company, BNY Alcentra Group Holdings is a leading manager of sub-investment grade credit assets focused on investments in the U.S. and Europe. Alcentra Group's overall investments comprise a portfolio of about $23 billion, ranging over 75 investment vehicles and accounts, many of which are managed by Alcentra NY. BNY Mellon (BK-not rated) is the company's administrator and single largest shareholder, providing back office support administrative services.

Organizational Structure



Source: Company reports

Investment Adviser – Alcentra NY

Alcentra NY manages the company's investment activities, as noted. Alcentra NY's parent, the Alcentra Group, was formed in 2002 through the merger of Barclays Bank Plc's asset management division with that of UK-based Imperial Credit Industries. It was acquired by BNY Mellon in January of 2006 and is the specialist high risk debt management arm of BNY Mellon's asset management operation.

The publically traded Alcentra Capital Corporation pays Alcentra NY a management fee and an incentive fee, although Alcentra NY waives these fees in quarters where performance falls below certain thresholds tied to the company's targeted 9.0% dividend payment. Alcentra NY's investment professionals have worked together for more than eight years and have collectively invested more than $500 million in lower middle-market companies. The company's CEO Paul Echausse was a founder of Alcentra Mezzanine in 1998. He oversees the company's Investment Committee, whose members each have a minimum of 20 years of investment experience.

Alcentra invests in growth companies that generally have generated growth of 2x-3x GDP or have an upcoming growth catalyst. For the most part, the companies in which Alcentra invests need capital to fund their growth initiatives or to implement a change of ownership structuring including launching an LBO. Alcentra provides customized debt and equity financing solutions to lower middle-market companies. These companies generally rely on BDCs such as Alcentra and other alternative financing sources for much of their financing requirements. The companies to which Alcentra lends generally have revenues of between $10.0 million and $100.0 million and EBITDA of between $5 million and $15 million. The company's loans to any one individual company generally range from $5 million to $15 million. For example, the $15.5 million loan that Alcentra announced in September 2015 to PharmaLogic Holdings Corp. is likely at the high end of the company's loan range. Management believes that maintaining a cap on loans across a wide range of investment vehicles helps Alcentra diversify its risk profile. Similar to other BDCs, the company's goal is to drive risk-adjusted returns for its shareholders through the combination of dividends and capital appreciation.

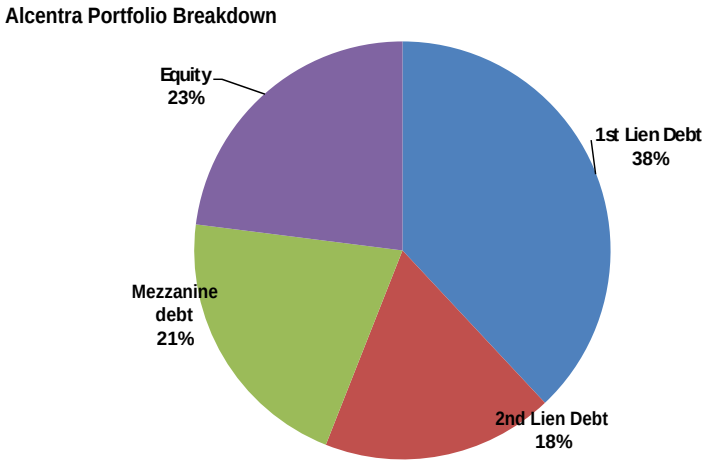
On May 14, 2014, Alcentra launched its IPO at $15.00/share, raising approximately $111 million. Immediately prior to the IPO, Alcentra acquired the investment assets of the BNY Mellon-Alcentra Mezzanine III portfolio, which comprised about $156 million in debt and equity investments. The company financed this acquisition for $64.3 million in cash and $91.5 million in ABDC shares. At the same time, the company also acquired approximately $29 million of debt and equity investments held by BNY Alcentra Group Holdings for $29 million in cash.

Benefit of BNY Mellon Relationship

BNY Mellon is Alcentra's administrator, as noted. It is a leading investment company that provides lending, investment management, investment services and wealth management services. It has a market capitalization of approximately $46.6 billion and roughly $28.5 trillion of assets under custody. BNY Mellon operates globally and has a presence in 35 countries. It had approximately $1.7 trillion of assets under management in its overall asset management businesses at year-end 2014. The company's affiliation with BNY Mellon gives it access to an extensive network, which Alcentra leverages to find attractive middle-market investment opportunities.

BNY Mellon also maintains a substantial Wealth Management business that provides investment advisory services to high net worth individuals and families. The Wealth Management group manages more than $200 billion of assets and operates 38 offices nationwide. BNY Mellon Wealth Management interacts with privately owned businesses, which is another source for Alcentra to uncover potential investment opportunities.

Investment Portfolio Structure



Source: Company reports

The company's roughly $259 million is invested in 28 companies, with about 38% of its portfolio consisting of first lien debt, 18% of second lien debt, 21% of mezzanine debt and 23% of equity investments. The company plans to reduce equity to about 10% - 15% of its total investment portfolio over time. The company intends this rebalancing towards debt versus equity because debt holders typically are repaid first in liquidation. At the end of June 2015, the company's average investment was roughly $8.8 million, with the largest investment about $16.5 million. About two thirds of the investments are fixed rate, with the balance floating rate.

Highlights of Companies in Alcentra Portfolio

	A2Z Wireless	Telecom	2015
	ACT Lighting	Distribution	2014
	Alpine Waste	Waste Services	2014
	American Addiction Centers	Rehabilitation	2014
	Aphena Pharma Solutions	Packaging	2014
	Bioventus	Healthcare	2014
	Choice Cable	Media	2014

Source: Company reports

Dividend History

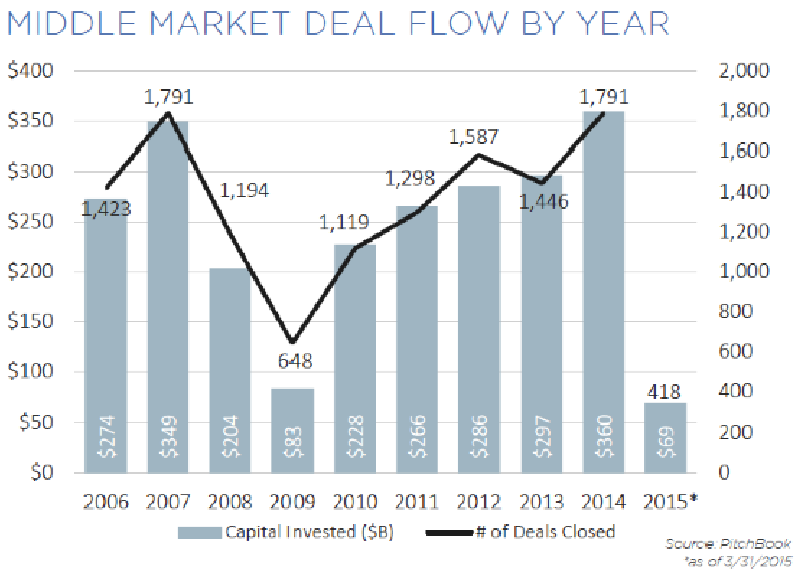
In order to maintain preferential tax treatment, BDCs such as Alcentra must distribute a minimum of 90% of their income to shareholders. The company targets a 9.0% dividend yield, which is in-line with the roughly 9.5% average BDC yield cited by Forbes. Based on its dividend history, with a regularly scheduled quarterly dividend of $0.34 since August of 2014, Alcentra has met that goal. The $0.34 quarterly dividend equates to a $1.36 annual dividend and a current yield of 11.4% based on the current price of ABDC shares.

Alcentra Dividend History

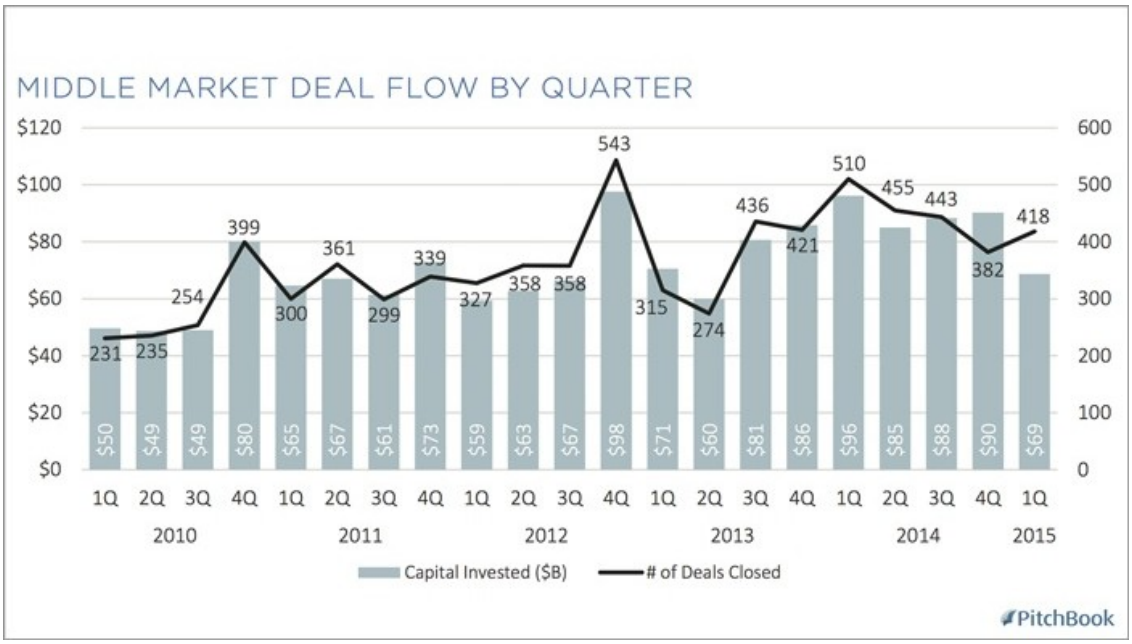
	Dividend	Share Price	Yield
Jun-14	$0.17	$12.22	6%
Aug-14	$0.34	$10.90	12%
Nov-14	$0.34	$11.77	12%
Mar-15	$0.34	$12.86	11%
May-15	$0.34	$13.13	10%
Aug-15	$0.34	$11.95	11%

Source: Company reports

TARGET MARKET



The company targets the lower middle-market for its lending activities, as it believes that companies in this market generally have less access to capital than larger firms have. A number of factors have also reduced the funds available for lending to this market. They include the recent credit market contraction, regulatory changes such as the 2010 Dodd-Frank Act, which increased regulatory oversight of lenders, and new international capital and liquidity requirements under Basel III. Thus, Alcentra believes that lower middle-market companies are relatively underserved by traditional lenders and that companies of this size, most of which are privately held, are generally less leveraged relative to their enterprise value than larger companies that have a greater range of financing options.



Middle market deal activity has been strong over the past few years, according to PitchBook. BDCs and other alternative lenders have stepped in to fill the void created as traditional lenders have reduced their exposure to the middle market or exited altogether. BDCs were created as part of the Small Business Investment Incentive Act of 1980 and are not constrained by the same lending guidelines that regulate commercial banks and other traditional lenders. According to the Fordham Urban Law Journal, one of the primary purposes of the Small Business Investment Incentive Act is to allow BDCs to raise funds from both public and private sources in order to help facilitate the flow of capital to small businesses. Loans by BDCs increased to $55 billion in 2014 from $17 billion in 2010, according to Deloitte LLP. In total, the loan market for the middle market was roughly $360 billion in 2014, according to *Pitchbook* estimates.

COMPETITION

The company competes primarily with traditional and alternative lenders that are also targeting the middle to lower middle markets. Although there is intense competition, there is also significant demand for capital among companies in this market, as noted. Management also believes that its experienced investment team creates a competitive advantage for the company. Members of the investment committee collectively have 60+ years of investment experience. In the aggregate, they have invested more than $500 million in debt and equity securities, primarily in lower middle-market companies.

Moreover, management also views its affiliation with the BNY Mellon as another competitive advantage, particularly given BNY Mellon's extensive network of long-term relationships with private equity firms, middle-market senior lenders and managements of privately owned businesses, as BNY Mellon's Wealth Management group interacts on an ongoing basis with privately-held businesses and their management teams.

The company believes that it has a differentiated investment strategy versus peers, which is to focus on growth companies. Alcentra also has a track record. Based on analysis from independent third parties, it has written up its portfolio for five consecutive quarters. Management attributes this primarily to its focus on growth companies. For the past two quarters, the company also did not need to waive any portion of its management fee in order to fund its dividend.

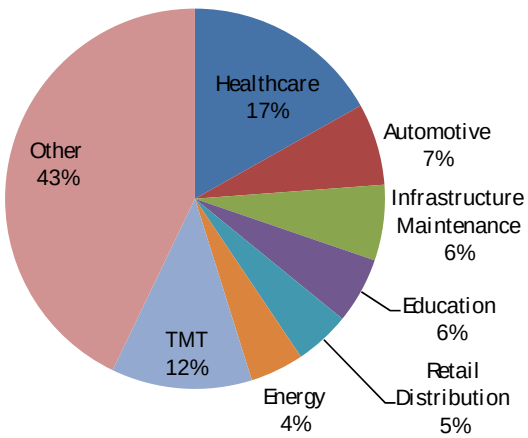
RISK MITIGATION STRATEGY

Management believes the industry sectors that it targets – primarily healthcare, defense, business services, energy, TMT and logistics –have a greater proportion of growth companies seeking capital. The majority of its investments are in companies that are headquartered in the U.S. Alcentra's goal is to generate interest of about 8% to 10% on senior term loans and 12% to 15% on mezzanine investments. In the second quarter of 2015, the weighted average yield on the company's holdings was roughly 12.1%, up sequentially from 11.9% in the first quarter of 2015.

Alcentra invests in companies that are generally highly leveraged. In fact, if their debt were rated, the majority would probably be rated below-investment grade. Because the company primarily invests in privately-held lower-middle-market companies, its investments are also relatively illiquid. Moreover, roughly 22% of the income the investment portfolio generates was non-cash as of December 31, 2014, which also effectively increases Alcentra's exposure to credit risk. The company has indicated that it is paring its PIK interest, as it benefits from what management perceives as an improving M&A landscape for lower middle market companies.

According to management, the company is generally a long-term investor and structures its investments accordingly, using long-term sources of capital to fund its investing activities. Loans generally have maturities of 5-7 years. Alcentra also strives to position itself as a partner to management teams of companies in which it invests, often taking board seats and providing operational advice. This is consistent with the overall mandate for BDCs, which are not passive investors. Rather, a BDC is required to make available "significant managerial assistance" to According to the Fordham Urban Law Journal, once a BDC has invested in a company… it must also "make available significant managerial assistance." Because a BDC seeks long-term capital appreciation on its investments, "it is in the best interests of the business development company to provide guidance and counsel to the investee company and to help the investee company establish objectives, policies and corporate strategy."

Alcentra Portfolio Composition by Sector



Source: Company reports

To mitigate its risk, the company diversifies its investments across a number of sectors, as illustrated above. For example, the company's largest sector exposure is healthcare, which comprises less than 20% of its portfolio. We believe regulations mandate that no single investment can account for more than 25% of a BDC's total holdings and Alcentra appears to be well within that limit. Alcentra has only about 4% of its portfolio exposed to the current difficulties facing the energy sector. The company also seeks debt investments with financial covenants such as minimum EBITDA, total debt/EBITDA and fixed charge coverage. The company also conducts substantial due diligence before making an investment, including

frequently hiring a consultant to interview a range of customers, suppliers and competitors. Only a roughly 2% to 4% of the investments it reviews lead to actual investment, according to the company.

Once the investment has been made, Alcentra maintains frequent interaction and discussion with management teams to monitor its investments. Alcentra management attends investee company meetings including board of director meetings and often commissions independent market information, including from consultants.

LEVERAGE

Currently, BDC regulations limit leverage to a maximum of 1.0x their equity value, although there have been discussions to raise that to 2.0x, according to Forbes. Alcentra's debt-to-equity ratio was well below the 1.0x threshold, at 0.38x at the end of June 2015. The company has indicated that its targeted leverage ratio is in the 0.65-0.75x range. The company's asset coverage ratio – net assets plus debt divided by debt – was 3.6x at June 2015.

The company raised $40 million of unsecured notes in the second quarter of 2015 and used the proceeds to pay borrowings under its revolver. For the June quarter, the company's weighted average leverage in its debt portfolio was 3.3x EBITDA.

MANAGEMENT

President / Chief Executive Officer With more than 20 years of leveraged finance experience, CEO Paul Echausse heads the company's management and investment teams. He is responsible for sourcing new transactions, executing deals and monitoring investments on an ongoing basis. He sits on the company's Investment Committee. Separately, he also is chairman of the board of privately-held Grindmaster Cecilware Corporation and also sits on the boards of several portfolio companies, including FST Technical Services, DRC and Battery Solutions, as well as on the boards of Emerald Waste Services, EB Brands. Prior to joining Alcentra, he was president of Kisco Capital Corporation, which was affiliated with the family office of the Kohlberg family. Before that, he was COO of IBJS Capital Corporation and prior to that, Assistant Division Head of Southeast Banking for the Bank of New York.

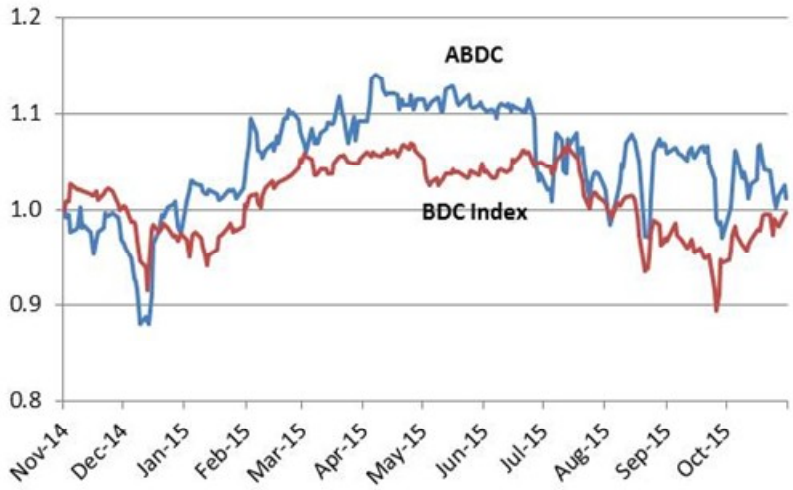
Chief Accounting Officer Ellida McMillan, the company's Chief Accounting Officer, came to Alcentra in 2013. Before Alcentra, she consulted with CFO executive services firm Tatum Partners and was a corporate controller at KBC Financial Holdings prior to that. Before joining KBC, she was an associate director of Fixed Income Derivatives at Bear Stearns, having commenced her career at Arthur Andersen

Global Chief Investment Officer Paul Hatfield, Alcentra's Global Chief Investment Officer, has extensive investment experience. He sits on both the European and U.S. Investment Committees. He focuses on the firm's investment policy, portfolio positioning and risk management activities. He also helps manage risk at the firm and fund level. He has been at the company for more than 12 and was one of its early portfolio managers. Prior to Alcentra, he was a Senior Analyst for Intermediate Capital Group's CDO operations and at Deutsche Bank before that.

VALUATION

Generally, shares of BDCs have been under pressure in recent months, reflecting concerns about interest rates, the high-yield market, credit risk and dividend sustainability, among other factors. Over the past year, ABDC shares have advanced by about 1% on an adjusted basis versus -0.4% for shares of other BDCs*, as illustrated below. We believe the sector overhang could continue to constrain ABDC shares in the near to medium-term. Nevertheless, at $11.79, the shares trade at a significant 21.6% discount to the company's $15.03 NAV (net asset value) / share. At the current price, we believe the risk / reward ratio could be attractive for investors seeking dividend income who have a higher than average risk tolerance and longer time horizon.

ABDC Relative Share Performance vs. Other BDCs



Source: Company reports, Yahoo Finance, Zacks

On valuation metrics such as EV / forward revenue and P/E, ABCD shares appear to trade in-line to below those of peers. As noted, on an NAV basis, the shares trade at a discount. Although there is a fairly wide valuation gap among the BDCs shown in the table below, ABDC's discount is steeper than the average, despite the growth of its NAV to the above noted $15.03 per share from $14.63 per share at the time of its May 2014 IPO.

We initiate coverage with a Buy rating and $13 price target on the shares. While this implies only 10% upside, as noted we remain cautious on near-term share price appreciation for the sector. However, we believe the combination of dividend income and share price upside can provide attractive returns for shareholders, with sector multiple expansion expected over time.

*Based on Yahoo Finance adjusted closing prices. BDC market cap weighted index comprises shares of American Capital, Apollo Investment Corp., Ares Capital Corporation, BlackRock Kelso Capital Corp., Fifth Street Finance, Garrison Capital Inc., Gladstone Capital Corp., KCAP Financial, Inc., Main Street Capital, Newtek Business Services Corp. and Triangle Capital Corporation.

Alcentra Peer Analysis

Company	Ticker	11/3/2015 Price	52-Week High	52-Week Low	Revenue ($M) 2014A	Revenue ($M) 2015E	Revenue ($M) 2016E	EPS 2014A	EPS 2015E	EPS 2016E
American Capital	ACAS	12.88	16.10	11.92	471	673	799	0.65	1.07	1.16
Apollo Investment Corp.*	AINV	5.60	8.37	5.26	434	400	411	0.96	0.86	0.88
Ares Capital Corporation	ARCC	15.48	17.68	11.01	989	1,010	1,050	1.43	1.49	1.58
BlackRock Kelso Capital Corp.	BKCC	9.51	9.79	5.88	134	125	139	0.91	0.90	0.99
Fifth Street Finance**	FSC	5.91	8.97	5.53	294	282	282	0.99	0.83	0.83
Garrison Capital Inc.	GARS	13.94	15.48	13.30	50	53	58	1.31	1.64	1.62
Gladstone Capital Corp.**	GLAD	8.73	9.41	7.25	37	38	41	0.87	0.83	0.85
KCAP Financial, Inc.	KCAP	5.10	7.86	4.25	41	46	45	0.58	0.67	0.66
Main Street Capital	MAIN	30.36	33.15	26.08	141	165	188	2.20	2.17	2.32
Newtek Business Services Corp	NEWT	16.78	19.95	12.61	132	22	30	0.45	1.94	1.77
Triangle Capital Corporation	TCAP	17.28	25.26	15.41	105	118	134	2.08	2.06	2.22
TriplePoint Venture Growth BDC	TPVG	10.91	15.59	9.95	25	40	55	1.30	1.51	1.70
Alcentra Capital Corp.	*ABDC*	*11.79*	*14.44*	*10.01*	*24*	*34*	*35*	*$1.09*	*$1.37*	*$1.39*

	(Discount)/Premium to NAV	Yield	Mkt Cap ($M)	EV / Revenue 2014A	EV / Revenue 2015E	EV / Revenue 2016E	P/E 2014A	P/E 2015E	P/E 2016E
American Capital	-36.7%	-	3,506	6.7x	5.2x	4.4x	19.8x	12.0x	11.1x
Apollo Investment Corp.*	-30.1%	14.3%	1,326	6.2x	3.3x	3.2x	5.8x	6.5x	6.4x
Ares Capital Corporation	-7.9%	9.8%	4,868	8.2x	4.8x	4.6x	10.8x	10.4x	9.8x
BlackRock Kelso Capital Corp.	-9.9%	8.8%	710	7.1x	5.7x	5.1x	10.5x	10.6x	9.6x
Fifth Street Finance**	-38.7%	12.2%	906	6.2x	3.2x	3.2x	6.0x	7.1x	7.1x
Garrison Capital Inc.	-8.8%	10.0%	234	4.2x	4.4x	4.0x	10.6x	8.5x	8.6x
Gladstone Capital Corp.**	-8.0%	9.6%	184	4.8x	4.9x	4.5x	10.0x	10.5x	10.3x
KCAP Financial, Inc.	-26.7%	16.5%	189	5.8x	4.1x	4.2x	8.8x	7.6x	7.7x
Main Street Capital	39.0%	7.1%	1,518	15.6x	9.2x	8.1x	13.8x	14.0x	13.1x
Newtek Business Services Corp.	1.0%	11.2%	173	1.1x	7.9x	5.8x	37.3x	8.6x	9.5x
Triangle Capital Corporation	11.7%	12.5%	575	8.9x	4.9x	4.3x	8.3x	8.4x	7.8x
TriplePoint Venture Growth BDC	-25.0%	13.2%	181	11.2x	4.5x	3.3x	8.4x	7.2x	6.4x
Alcentra Capital Corp.	-21.6%	*11.5%*	159	9.8x	4.6x	4.5x	10.8x	8.6x	8.5x
Average	-11.7%	10.4%		7.2x	5.2x	4.6x	12.5x	9.3x	8.9x

* March YE ** Sept.
Source: Company reports, Yahoo Finance, Zacks

INSIDER HOLDINGS

The company's largest shareholders are BNY Mellon, which holds a roughly 22.7% stake, and Kemper Corporation (KMPR-not rated), which holds another 8.2%. Insiders own 4.5% of the company's shares.

Alcentra Large Shareholders

	Stake (%)
BNY Mellon	22.7%
Kemper Corporation	8.2%
Paul J. Echausse	0.5%
Paul Hatfield	4.0%
Executive officers & directors total	4.5%

Source: Company reports

RECENT NEWS

The company announced that it would report results for the third quarter of 2015 on November 9, 2015 after market close.

On October 1, 2015, Alcentra announced that it had provided capital to Graco Supply and Integrated Services.

On September 30, 2015, Alcentra announced that it had provided $15.5 million to PharmaLogic Holdings Corp. to refinance a portion of PharmaLogic's debt and support an acquisition.

On August 11, 2015, the company Alcentra announced that it had increased its revolver from $115 million to $135 million.

On March 10, 2015, the company's board elected David Scopelliti as an SVP to replace Scott Gold as an officer of Alcentra Capital Corporation. David Scopelliti has more than 25 years of leveraged finance experience.

FINANCIAL HISTORY

For the second quarter of 2015, Alcentra generated total investment income of $8.5 million versus pro forma $7.4 million generated in the same quarter of 2014. The company generated net investment income of $4.6 million or $0.34/share. Investment income in 2Q15 included $1.2 million of PIK (paid-in kind noncash) income and $0.3 million of dividend income. As noted, the company is reducing the level of PIK interest its portfolio generates.

Alcentra invested $31.25 million in debt and equity securities during the period, including investments in three new companies, against proceeds from repayments and amortizations of $16.6 million. This equates to net increased originations of $14.6 million. Management expects originations in the back half of 2015 to be up compared to the first half, reflecting an improved M&A backdrop for lower middle market companies. The net asset value / share was $15.03, up from $14.63 at the company's IPO.

The company noted that its average portfolio investment was approximately $9.8 million at fair value and that it had no non-performing loans in its portfolio. One investment remained on the company's watch list, although management believed that the performance of the investee company was improving. Show Media, which the company is monitoring closely, accounts for less than 2% of Alcentra's portfolio and it paid cash interest to Alcentra in the second quarter 2015.

Balance Sheet and Liquidity

At the end of the second quarter 2015, Alcentra had cash of $3.8 million, with $38 million drawn under its revolver. At the time of its IPO, Alcentra secured an $80 million revolving credit agreement from ING Capital that had an accordion feature enabling credit of up to $160 million. The company has subsequently increased the revolver to $135 million and the accordion feature to $250 million. At the same time, Alcentra also extended the maturity of the facility to August 2020 from the original maturity of May 2018.

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.

- **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 could increase.

PROJECTED INCOME STATEMENT AND BALANCE SHEET

Alcentra Capital Consolidated Statements of Operations ($)

	1Q14*	2Q14*	3Q14	4Q14	2014	1Q15	2Q15A	3Q15E	4Q15E	2015E	2016E
Non-controlled, non-affiliated investments:											
Interest income from portfolio investments	1,392,791	2,637,559	2,000,127	3,404,275	9,434,752	4,157,559	4,286,969	4,389,856	4,495,213	17,329,597	17,745,507
Paid-in-kind interest income from portfolio investments	373,338	665,371	142,614	1,181,867	2,363,190	735,724	1,166,440	1,194,435	1,223,101	4,319,700	4,423,372
Other income from portfolio investments	105,089	544,872	882,879	(566,816)	966,024	659,896	295,386	302,475	309,735	1,567,492	1,605,112
Dividend income from portfolio investments	251,752		374,660	201,860	828,272	-	302,874	310,143	317,586	930,603	952,938
Non-controlled, affiliated investments:											
Interest income from portfolio investments	725,012	939,717	968,009	1,133,912	3,766,650	1,219,056	988,949	1,012,684	1,036,988	4,257,677	4,359,861
Paid in-kind income from portfolio investments	195,383	399,355	411,491	537,378	1,543,607	611,499	631,046	646,191	661,700	2,550,436	2,611,646
Other income from portolio investments	21,176	766,907	947	2,020	791,050	28,358	20,527	21,020	21,524	91,429	93,623
From controlled, affiliated investments:		-	-		-			-	-	-	-
Interest income from portfolio investments	514,320	714,505	698,620	544,233	2,471,678	575,980	582,229	596,202	610,511	2,364,923	2,421,681
Paid in-kind income from portfolio investments	406,120	299,196	209,415	231,673	1,146,404	198,781	206,077	211,023	216,087	831,968	851,935
Other income from portfolio investments	10,482	433,573	172,425	1	616,481	37,800	27,043	27,692	28,357	120,892	123,793
Total investment income	**$3,995,463**	**$7,401,055**	**$5,861,187**	**$6,670,403**	**$23,928,108**	**$8,224,653**	**$8,507,540**	**$8,711,721**	**$8,920,802**	**$34,364,716**	**$35,189,469**
Management fees	699,473	524,548	925,477	1,056,912	3,206,410	1,148,005	1,219,963	1,249,242	1,279,224	4,896,434	5,013,948
Income-based incentive fee	-	-	763,550	202,509	966,059	1,807,567	397,028	406,557	416,314	3,027,466	3,100,125
Capital gains incentive fees	-	-	-	-	-	-	434,217	444,638	455,310	1,334,165	1,366,185
Professional fees	79,327	88,885	141,252	576,051	885,515	189,386	170,549	174,642	178,834	713,411	730,533
Valuation services		-	162,700	213,705	376,405	122,905	100,010	102,410	104,868	430,193	440,518
Interest and credit facility expense	40,947	299,401	305,790	420,581	1,066,719	605,888	1,067,118	1,092,729	1,118,954	3,884,689	3,977,922
Amortization of deferred financing costs		-	194,683	132,152	326,835	183,487	195,770	200,468	205,280	785,005	803,845
Directors' fees		80,000	26,916	85,692	192,608	38,000	76,191	78,020	79,892	272,103	278,633
Insurance expense		-	-	183,882	183,882	69,535	68,006	69,638	71,309	278,489	285,172
Organization expenses		180,953	31,302		212,255			-	-	-	-
Other expenses		20,799	87,936	(108,735)		84,173	129,339	132,443	135,622	481,577	493,135
Total expenses	819,747	1,194,586	2,639,606	2,762,749	7,416,688	4,248,946	3,858,191	3,950,788	4,045,606	16,103,531	16,490,016
Waiver of income-based incentive fee	-	-	(1,374,118)	(643,752)	(2,017,870)	(1,001,467)	-	-	-	(1,001,467)	(1,025,502)
Net expenses	819,747	1,194,586	1,265,488	2,118,997	5,398,818	3,247,479	3,858,191	3,950,788	4,045,606	15,102,064	15,464,514
Net investment income	**$3,175,716**	**$6,206,469**	**$4,595,699**	**$4,551,406**	**$18,529,290**	**$4,977,174**	**$4,649,349**	**$4,760,933**	**$4,875,196**	**$19,262,652**	**$19,724,956**
Adj NII / share	$0.23	$0.46	$0.34	$0.34	$0.86	$0.37	$0.38	$0.35	$0.36	$1.43	$1.46
Dividends / share	-	$0.18	$0.34	$0.34	$0.86	$0.34	$0.34	$0.34	$0.34	$0.34	$0.34
EPS	-	$0.28	-	$0.23	$1.09	$0.37	$0.47	$0.26	$0.27	$1.37	$1.09
NAV / share	$14.63	-	-	$14.87	$14.87	$14.90	$15.03	$15.05	$15.07	$15.07	$15.09
Avg shrs out	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766	13,516,766

*Pro forma

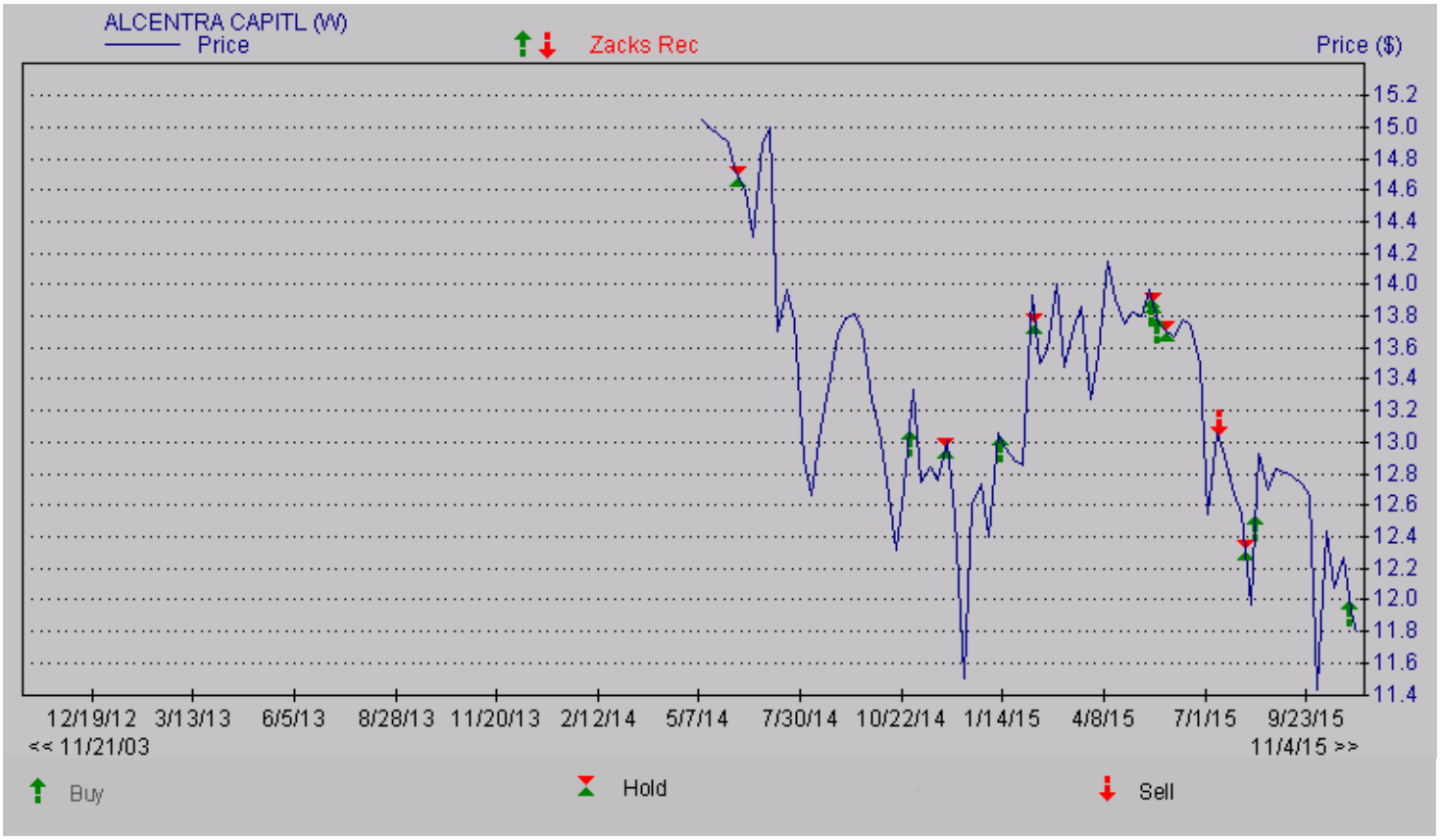
Alcentra Capital Consolidated Statements of Assets and Liabilities ($)

	31-Dec-13	30-Sep-14	31-Dec-14	31-Mar-15	30-Jun-15
Portfolio investments*					
Non-controlled, non-affiliated investments*	63,987,210	121,161,355	167,325,100	173,433,992	189,074,441
Non-controlled, affiliated investments*	35,037,384	59,927,161	61,253,192	63,435,406	66,136,367
Controlled, affiliated investments*	25,941,243	33,127,224	30,055,562	30,158,773	30,078,391
Total of portfolio investments*	**$124,965,837**	**$214,215,740**	**$258,633,854**	**$267,028,171**	**$285,289,199**
Cash	729,431	19,196,748	10,022,617	3,962,318	3,806,606
Dividends and interest receivable	736,223	941,221	1,417,500	762,380	1,249,225
Receivable for investments sold	-	263,373	4,753	-	-
Due from Limited Partners	6,635	-			
Deferred financing costs	-	1,434,391	1,986,520	1,803,033	1,719,764
Deferred note offering costs			25,743	227,642	1,040,510
Prepaid expenses and other assets	350,000	169,202	128,388	73,205	36,444
Total Assets	**$126,788,126**	**$236,220,675**	**$272,219,375**	**$273,856,749**	**$293,141,748**
Credit facility payable	15,000,000	26,939,154	62,499,154	56,954,490	38,054,738
Notes payable			-	5,936,000	40,000,000
Payable for investments purchased	-	39,753	8,717	-	-
Other accrued expenses and liabilities	326,696	1,013,775	539,417	153,821	287,044
Due to affiliate	10,989	-			
Directors' fees payable	-	60,245	85,692	38,000	75,250
Professional fees payable	-	155,775	409,628	362,551	518,261
Interest and credit facility expense payable	15,614	314,708	216,476	154,693	780,522
Management fee payable	715,014	314,910	615,668	1,148,005	1,219,963
Incentive fee payable			-	806,100	1,203,128
Capital gains incentive fees payable					434,217
Distributions payable	168	4,595,700	4,595,700	4,595,700	4,595,700
Unearned structuring fee revenue			517,339	494,381	575,759
Income tax liability			45,272	1,690	187,738
Deferred tax liability			1,697,004	1,856,987	2,078,371
Capital contributions paid in advance	80,218	-	-	-	-
Total Liabilities	**$16,148,699**	**$33,434,020**	**$71,230,067**	**$72,502,418**	**$90,010,691**
Total Net Assets	110,639,427	202,786,655	200,989,308	201,354,331	203,131,057
Total Liabilities and Net Assets	126,788,126	236,220,675	272,219,375	273,856,749	293,141,748
Net Asset Value Per Share	-	$15.00	$14.87	$14.90	$15.03

*At fair value

Source: Company reports, Zacks

HISTORICAL ZACKS RECOMMENDATIONS



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