

COMPANY UPDATE
Key Metrics

| | |
|----------------------------------|----------------|
| GLAD - NASDAQ (as of 09/29/17) | \$9.50 |
| Price Target | NA |
| 52-Week Range | \$7.33-\$10.12 |
| Shares Outstanding (mm) | 26.1 |
| Market Cap. (\$mm) | \$248 |
| 3-Mo. Average Daily Volume (000) | 112.2 |
| Institutional Ownership | 15.5% |
| Total Debt/Equity | 64.9% |
| TTM ROE | 15.5% |
| Net Asset Value Per Share | \$8.38 |
| Price/Net Asset Value | 113.4% |
| Dividend Yield | 8.8% |
| Price/LTM Net Investment Income | 7.0x |

Net Investment Income Per Share FY 9/30

| | 2016A | Prior 2017E | Curr. 2017E | Prior 2018E | Curr. 2018E |
|------|--------|----------------|----------------|----------------|----------------|
| 1Q | \$0.21 | \$0.21 A | \$0.21 A | \$0.21 | \$0.21 |
| 2Q | \$0.21 | \$0.21 A | \$0.21 A | \$0.21 | \$0.21 |
| 3Q | \$0.21 | \$0.21 A | \$0.21 A | \$0.21 | \$0.21 |
| 4Q | \$0.21 | \$0.21 | \$0.21 | \$0.21 | \$0.21 |
| Year | \$0.84 | \$0.84 | \$0.84 | \$0.84 | \$0.84 |
| P/NI | 11.3x | | 11.3x | | 11.3x |

Numbers may not add due to rounding

Net Asset Value Per Share FY 9/30

| | 2016A | Prior 2017E | Curr. 2017E | Prior 2018E | Curr. 2018E |
|----|--------|----------------|----------------|----------------|----------------|
| 1Q | \$8.38 | \$8.36 A | \$8.36 A | \$8.33 | \$9.15 |
| 2Q | \$7.92 | \$8.33 A | \$8.22 A | \$8.33 | \$9.15 |
| 3Q | \$7.95 | \$8.33 | \$8.38 A | \$8.33 | \$9.16 |
| 4Q | \$8.62 | \$8.33 | \$9.14 | \$8.33 | \$9.16 |

Company Description: Headquartered in McLean, Virginia, Gladstone Capital Corporation operates as a business development company which requires the company to pay out at least 90% of earnings to shareholders. GLAD provides cash flow-based loans to privately held lower middle market businesses based in the U.S.

Gladstone Capital Corp.

GLAD -- NASDAQ – Neutral – 3

Completes Preferred Stock Offering

- GLAD completed the offering of 1.8 million shares of 6.00% Series 2024 Term Preferred stock. Shares of the security trade under the ticker GLADN.
- The offering generated \$45.0 million in gross proceeds and \$43.3 million in net proceeds.
- Underwriters have a 30-day option to purchase 270,000 additional shares to cover any overallocments.
- The company plans to use the net proceeds plus approximately \$17.7 million in drawdowns from its credit facility to redeem all outstanding shares of its 6.75% Series 2021 Term Preferred Shares.
- We estimate that annual dividend and interest savings resulting from the redemption will be approximately \$0.7 million under current market conditions.
- We do not expect these savings to initially result in bottom line benefits. GLAD does not currently generate sufficient net investment income to cover common dividends and its external manager has been taking a shareholder friendly approach by waving fees to ensure coverage. However, the redemption will accelerate GLAD's ability to cover dividends organically.
- The prospectus for the offering also disclosed that GLAD made a new investment of \$12.5 million in El Academies and its loan to SourceHOV, LLC was paid off for net proceeds of \$4.8 million, resulting in a \$0.2 million realized loss.
- In addition to accounting for the foregoing, we have made other revisions to our model as deemed appropriate.
- We are retaining our FY2017 and FY2018 net investment income per share estimates at \$0.84.
- We reaffirm our Neutral rating.

Note Important Disclosures on pages 4-5
Note Analyst Certification on page 4

SUITABILITY

Our suitability rating on GLAD is 3 on our scale of 1 to 4 (1 = most conservative, 4 = most aggressive). Factors contributing to our suitability rating include the company's market capitalization, liquidity and trading volume, diversity of revenues and the geographic diversification of its footprint.

RISKS AND CONSIDERATIONS

Gladstone Capital is exposed to various risks including:

- **Economic Risk** – A widespread economic downturn could weaken the credit quality of GLAD's portfolio companies which could lead to higher than expected write downs and limit future growth opportunities in the small and medium sized companies GLAD invests in.
- **Interest Rate Risk** - A rise in interest rates could place stress on GLAD's portfolio companies and eventually affect their ability to pay. Additionally, as interest rates rise, GLAD's high dividend may lose appeal and lead to lower demand for the stock.
- **Investment Criteria Risk** - Failure to invest in securities that will support the dividend and future growth of GLAD could eventually lead to dividend cuts.
- **Sector Rotation** – The share price of the company's common stock may be vulnerable to any sector rotation that might occur.

GLOSSARY

Regulated Investment Company (RIC): As regarded by the Internal Revenue Service. By following a few requirements, the most important of which is paying out at least 90% of taxable income (ordinary income plus short-term capital gains), the company does not pay federal income tax. This *avoids double taxation*. A typical company distributes common dividends out of net income (after-tax). Taxes are paid again by the shareholder upon receipt of a dividend. Sometimes a RIC will report income taxes paid. Any amount of taxable income greater than 90% but less than 98% not paid to shareholders is subject to a 4% excise tax and a 35% rate on any taxable income retained. There may be some instances where it is in the RIC's best interest to retain income in spite of paying the taxes.

Business Development Company (BDC): Structure provided in the Investment Company Act of 1940. Basic requirements: 1) Qualifying assets – 70% of total assets must be small private U.S. companies. 2) Asset coverage – assets must cover the company's borrowings by at least 200% or debt to equity cannot exceed 1. 3) Significant managerial assistance – BDCs must offer to provide guidance to its portfolio companies.

Non-Diversified Company: May have investments exceeding 5% of total assets or an equity interest in a company exceeding 10%.

| | GLADSTONE CAPITAL CORPORATION | | | | | | | | | | GLAD:NEUTRAL | | |
|---|-------------------------------|----------|----------|----------|----------|----------|----------|----------|----------|----------|--------------|-----------|-----------|
| | 12/31/15 | 3/31/16 | 6/30/16 | 9/30/16 | 12/31/16 | 3/31/17 | 6/30/17 | 9/30/17 | 12/31/17 | 3/31/18 | FY 2016 A | FY 2017 E | FY 2018 E |
| \$ Thousands, Except for Per Share Data | | | | | | | | | | | | | |
| Income Statement Analysis | | | | | | | | | | | | | |
| Investment Income: | | | | | | | | | | | | | |
| Total Interest Income | 9,184 | 8,668 | 8,253 | 9,111 | 8,633 | 8,588 | 9,629 | 10,009 | 10,009 | 34,895 | 35,216 | 36,859 | 41,519 |
| Total Other Income | 876 | 788 | 1,591 | 638 | 1,341 | 205 | 3 | 500 | 500 | 3,163 | 3,893 | 2,049 | 3,800 |
| Total Investment Income | 10,060 | 9,456 | 9,844 | 9,749 | 9,974 | 8,793 | 9,632 | 10,509 | 10,509 | 38,058 | 39,109 | 38,908 | 45,319 |
| Expenses: | | | | | | | | | | | | | |
| Base Management Fee | 1,528 | 1,362 | 1,369 | 1,426 | 1,378 | 1,359 | 1,480 | 1,544 | 1,544 | 6,888 | 6,685 | 5,761 | 6,420 |
| Incentive Fee | 1,118 | 1,064 | 1,187 | 1,145 | 1,293 | 1,070 | 1,116 | 1,223 | 1,223 | 4,083 | 4,514 | 4,702 | 5,361 |
| Administration Fee | 336 | 277 | 287 | 282 | 300 | 286 | 272 | 297 | 297 | 1,033 | 1,182 | 1,155 | 1,313 |
| Interest Expense | 785 | 633 | 648 | 833 | 556 | 587 | 904 | 869 | 869 | 3,828 | 2,899 | 2,916 | 3,794 |
| Dividends on Preferred Stock | 1,029 | 1,029 | 1,029 | 1,029 | 1,029 | 1,029 | 1,029 | 1,029 | 1,029 | 4,116 | 4,117 | 4,117 | 4,118 |
| Other General and Administrative | 891 | 1,026 | 913 | 701 | 910 | 623 | 727 | 920 | 920 | 3,294 | 3,531 | 3,180 | 3,965 |
| Expenses Before Credits from Advisor | 5,687 | 5,391 | 5,433 | 5,417 | 5,466 | 4,954 | 5,526 | 5,881 | 5,881 | 23,242 | 21,928 | 21,830 | 24,970 |
| Portfolio Company Fee Credit | (65) | (169) | (319) | (230) | (649) | (434) | (261) | (249) | (249) | (1,399) | (783) | (1,035) | (1,035) |
| Senior Syndicated Loan Fee Waiver | (33) | (22) | (17) | (20) | (13) | (9) | (100) | (15) | (15) | (118) | (92) | (137) | (60) |
| Incentive Fee Waiver | (288) | (661) | (160) | (320) | (37) | (1,077) | (914) | (585) | (585) | (1,367) | (1,429) | (2,613) | (1,304) |
| Total Expenses | 5,301 | 4,539 | 4,937 | 4,847 | 4,767 | 3,434 | 4,253 | 5,032 | 5,032 | 20,358 | 19,624 | 17,487 | 22,571 |
| Net Investment Income | 4,759 | 4,917 | 4,907 | 4,902 | 5,207 | 5,359 | 5,379 | 5,477 | 5,477 | 17,700 | 19,485 | 21,421 | 22,747 |
| Realized & Unrealized Gain (Loss): | | | | | | | | | | | | | |
| Total Net Realized Gain/(Loss) | 15,380 | (5,521) | (84) | (2,621) | (3,448) | 45,000 | (23,000) | - | - | (34,176) | 7,154 | (3,426) | - |
| Net Unrealized Gain/(Loss) | (28,843) | (5,535) | 693 | 18,414 | (843) | (748) | 807 | - | - | 24,960 | (15,271) | (784) | - |
| Net Dec. Inc. in Net Assets from Operations | (8,704) | (6,139) | 5,516 | 20,695 | 916 | 4,656 | 6,163 | 5,477 | 5,477 | 8,484 | 11,368 | 17,211 | 22,747 |
| Balance Sheet | | | | | | | | | | | | | |
| Assets: | | | | | | | | | | | | | |
| Total Investments At Cost | 372,887 | 372,220 | 366,226 | 381,801 | 348,988 | 374,906 | 405,903 | 417,064 | 417,064 | 410,244 | 381,801 | 417,064 | 434,731 |
| Unrealized Gain/(Loss) | (73,196) | (78,792) | (78,000) | (59,687) | (60,742) | (61,389) | (60,400) | (60,400) | (60,400) | (44,353) | (59,687) | (60,400) | (60,400) |
| Total Investments At Fair Value | 299,691 | 293,428 | 308,226 | 322,114 | 288,246 | 313,517 | 345,503 | 356,664 | 356,664 | 365,891 | 322,114 | 356,664 | 374,331 |
| Cash & Cash Equivalents | 13,806 | 5,802 | 5,022 | 6,152 | 5,780 | 5,014 | 7,002 | 7,002 | 7,002 | 3,808 | 6,152 | 7,002 | 7,002 |
| Other Assets | 14,786 | 11,770 | 12,302 | 8,912 | 10,626 | 10,106 | 8,840 | 8,840 | 8,840 | 12,783 | 9,912 | 8,840 | 8,840 |
| Total Assets | 328,283 | 311,000 | 325,550 | 337,178 | 304,652 | 328,637 | 361,345 | 372,506 | 372,506 | 382,482 | 337,178 | 372,506 | 380,173 |
| Liabilities & Shareholders Equity: | | | | | | | | | | | | | |
| Borrowings At Fair Value (\$170M Line) | 57,500 | 57,300 | 73,300 | 71,300 | 27,987 | 53,989 | 59,624 | 67,047 | 67,047 | 127,300 | 71,300 | 67,047 | 69,578 |
| Mandatory Redeemable Preferred Stock | 61,000 | 61,000 | 61,000 | 61,000 | 59,448 | 59,536 | 59,536 | 59,536 | 59,536 | 61,000 | 61,000 | 59,536 | 59,536 |
| Total Borrowings | 118,500 | 118,300 | 134,300 | 132,300 | 87,435 | 113,525 | 119,160 | 126,583 | 126,583 | 188,300 | 132,300 | 126,583 | 129,114 |
| Other Liabilities | 13,313 | 7,496 | 5,736 | 3,671 | 3,832 | 2,442 | 2,502 | 2,503 | 2,503 | 2,738 | 3,671 | 2,503 | 2,503 |
| Total Liabilities | 131,813 | 125,796 | 140,036 | 135,971 | 91,267 | 115,967 | 144,362 | 129,086 | 129,086 | 191,038 | 135,971 | 129,086 | 131,617 |
| Shareholders' Equity (Net Assets) | 196,470 | 185,204 | 185,514 | 201,207 | 213,385 | 212,670 | 216,983 | 243,419 | 243,419 | 191,444 | 201,207 | 243,419 | 268,556 |
| Total Liabilities & Shareholders' Equity | 328,283 | 311,000 | 325,550 | 337,178 | 304,652 | 328,637 | 361,345 | 372,506 | 372,506 | 382,482 | 337,178 | 372,506 | 380,173 |
| Share & Per Share Data: | | | | | | | | | | | | | |
| Common Shares Outstanding (000) | 23,432 | 23,386 | 23,344 | 23,344 | 25,518 | 25,880 | 25,880 | 26,280 | 26,280 | 21,132 | 23,344 | 26,280 | 27,880 |
| Average Diluted Shares (000) | 22,687 | 23,413 | 23,364 | 23,344 | 24,431 | 25,576 | 25,880 | 26,080 | 26,080 | 21,067 | 23,202 | 25,492 | 27,080 |
| Net Investment Income Per Share | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.84 | 0.84 | 0.84 | 0.84 |
| Dividends | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.21 | 0.84 | 0.84 | 0.84 | 0.84 |
| Net Investment Income Payout Ratio | 100% | 100% | 100% | 100% | 99% | 100% | 101% | 100% | 100% | 100% | 100% | 100% | 100% |
| Earnings Per Share | (0.38) | (0.26) | 0.24 | 0.89 | 0.04 | 0.18 | 0.24 | 0.21 | 0.21 | 0.40 | 0.49 | 0.68 | 0.84 |
| Net Asset Value Per Share | 8.38 | 7.92 | 7.95 | 8.62 | 8.36 | 8.22 | 8.38 | 9.26 | 9.26 | 9.06 | 8.62 | 9.26 | 9.27 |
| Performance Ratios: % | | | | | | | | | | | | | |
| Interest Income / Avg. Investments at Cost | 9.33% | 9.36% | 8.75% | 9.44% | 9.37% | 9.62% | 9.66% | 9.65% | 9.65% | 8.81% | 9.22% | 9.57% | 9.76% |
| Interest Expense / Avg. Borrowings | 2.04% | 2.15% | 2.06% | 2.49% | 2.01% | 2.37% | 3.12% | 2.80% | 2.80% | 2.42% | 2.18% | 2.57% | 2.98% |
| Total Expenses / Total Investment Income | 52.69% | 48.00% | 50.15% | 49.72% | 47.79% | 39.06% | 44.16% | 47.88% | 47.88% | 53.49% | 50.18% | 44.94% | 49.81% |
| Annualized Total Expenses / Avg. Assets | 5.97% | 5.68% | 6.20% | 5.89% | 5.66% | 5.06% | 5.26% | 5.24% | 5.24% | 5.82% | 5.32% | 5.13% | 5.46% |
| Return on Avg. Assets | -2.65% | -1.97% | 1.69% | 6.14% | 0.30% | 1.42% | 1.71% | 1.47% | 1.47% | 2.22% | 3.37% | 4.62% | 5.83% |
| Return on Avg. Equity | -4.43% | -3.31% | 2.97% | 10.29% | 0.43% | 2.19% | 2.64% | 2.25% | 2.25% | 4.43% | 5.65% | 7.07% | 8.80% |
| Balance Sheet Ratios | | | | | | | | | | | | | |
| Assets/Equity | 1.67X | 1.68X | 1.75X | 1.68X | 1.43X | 1.55X | 1.67X | 1.53X | 1.53X | 2.00X | 1.68X | 1.53X | 1.51X |
| Total Debt to Equity | 0.60X | 0.68X | 0.75X | 0.68X | 0.43X | 0.56X | 0.67X | 0.53X | 0.53X | 0.98X | 0.53X | 0.61X | 0.47X |
| Net Debt to Equity | 0.53X | 0.61X | 0.70X | 0.63X | 0.38X | 0.51X | 0.52X | 0.49X | 0.49X | 0.96X | 0.63X | 0.49X | 0.47X |

Source: Company reports and Hilliard Lyons estimates.

Additional information is available upon request.

Analyst Certification

I, Andrew W. Stapp, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject company(ies) and its (their) securities. I also certify that I have not been, am not, and will not be receiving direct or indirect compensation in exchange for expressing the specific recommendation(s) in this report.

Important Disclosures

Hilliard Lyons' analysts receive bonus compensation based on Hilliard Lyons' profitability. They do not receive direct payments from investment banking activity.

Gladstone Commercial Corp. (GOOD-\$22.27), Gladstone Investment Corp. (GAIN-\$9.49), and Gladstone Land Corp. (LAND-\$13.62) share the same management and board as Gladstone Capital Corp.

Hilliard Lyons acted as a manager or co-manager of an offering of securities of Gladstone Capital Corp. in the past 12 months.

Hilliard Lyons has received investment banking compensation from Gladstone Capital Corp. in the past 12 months.

Investment Ratings

Buy - We believe the stock has significant total return potential in the coming 12 months.

Long-term Buy - We believe the stock is an above average holding in its sector, and expect solid returns to be realized over a longer time frame than our Buy rated issues, typically 2-3 years.

Neutral - We believe the stock is an average holding in its sector, is currently fully valued, and may be used as a source of funds if better opportunities arise.

Underperform - We believe the stock is vulnerable to a price set back in the next 12 months.

Suitability Ratings

1 - A large cap, core holding with a solid history

2 - A historically secure company which could be cyclical, has a shorter history than a "1" or is subject to event driven setbacks

3 - An above average risk/reward ratio could be due to small size, lack of product diversity, sporadic earnings or high leverage

4 - Speculative, due to small size, inconsistent profitability, erratic revenue, volatility, low trading volume or a narrow customer or product base



| | Hilliard Lyons Recommended Issues | | Investment Banking Provided in Past 12 Mo. | |
|---------------------|--------------------------------------|-----------------------|---|-------------------|
| | # of | % of | | |
| <u>Rating</u> | <u>Stocks Covered</u> | <u>Stocks Covered</u> | <u>Banking</u> | <u>No Banking</u> |
| Buy | 40 | 32% | 10% | 90% |
| Hold/Neutral | 77 | 62% | 8% | 92% |
| Sell | 8 | 6% | 0% | 100% |

As of 6 September 2017

Other Disclosures

Opinions expressed are subject to change without notice and do not take into account the particular investment objectives, financial situation or needs of individual investors. Employees of J.J.B. Hilliard, W.L. Lyons, LLC or its affiliates may, at times, release written or oral commentary, technical analysis or trading strategies that differ from the opinions expressed here.

J.J.B. Hilliard, W.L. Lyons, LLC is a multi-disciplined financial services firm that regularly seeks investment banking assignments and compensation from issuers for services including, but not limited to, acting as an underwriter in an offering or financial advisor in a merger or acquisition, or serving as placement agent in private transactions.

The information herein has been obtained from sources we believe to be reliable but is not guaranteed and does not purport to be a complete statement of all material factors. This is for informational purposes and is not a solicitation of orders to purchase or sell securities. Reproduction is forbidden unless authorized. All rights reserved.